



## Department of Social Development and World Peace Office of International Justice and Peace

### **Background on Debt** **February 2007**

*So it is to be hoped that... the process of debt cancellation and reduction for the poorest countries will be continued and accelerated.*

-- Pope Benedict XVI, January 8, 2007

#### **ISSUE**

Heavy debt burdens continue to draw precious government resources away from critical investments in health care, education, water and other sectors necessary to improve lives in the poorest countries. Debt burdens also impede the ability of governments to respond to crises such as HIV/AIDS, natural disasters and civil strife.

#### **BACKGROUND**

Many poor countries have begun to see their debts reduced through the Heavily Indebted Poor Countries (HIPC) initiative that was adopted in 1996 and expanded in 1999 in response to successful advocacy by the global Jubilee 2000 movement, in which the Catholic Church played a major role. However, as implementation of the HIPC program progressed, it became increasingly apparent that the amount of debt relief provided was insufficient for the kind of “fresh start” that countries needed in order to address deep-seated poverty.

USCCB and CRS have consistently made important contributions to the debt cancellation effort that offers new hope to some of the world’s poorest and most forgotten people. It has always been a key aspect of USCCB and CRS policy that the losses incurred by the international financial institutions from the debt cancellation not be offset by reductions in new assistance to poor countries. USCCB urged that debt cancellation result in new and real resources to poor countries.

A major breakthrough occurred in the July 2005 Summit of leaders of the major industrialized countries plus Russia (the G8). They announced a proposal to cancel 100% of the debt owed by about 18 HIPC countries (eventually as many as 42 HIPC’s) to the International Development Association (IDA) of the World Bank, the African Development Fund (AfDF), and the International Monetary Fund (IMF). The G8 called for the major donor countries to reimburse the IDA and AfDF for losses from debt cancellation. (The IMF will finance its costs mainly from internal resources.)

The G8 proposal was accepted by all member countries of the World Bank, IMF and AfDF at their recent annual meetings. The IMF gave final approval to the proposal in December 2005, and the World Bank gave approval in January 2006. In response to efforts by USCCB and the Church, the World Bank agreed to reduce the timeframe for granting debt relief to countries that qualified after July 1, 2006. This decision reversed previous policy that would have required qualifying countries to wait up to 15 months before receiving debt relief. The AfDF gave its approval in mid-2006.

Congress appropriated \$950 million for IDA in the FY06 Foreign Operations (ForOps) bill, which is sufficient to satisfy the U.S.’s initial commitment to finance a share of the cost of the new debt cancellation to the international financial institutions. To assure that the U.S. can continue to meet its

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financial commitment, it is essential that the Congress provide \$950 million for IDA in spending measures for FY07 (See Backgrounder on Development Assistance).

A major goal of USCCB has been to promote fairness in country eligibility so that all of the poorest countries that have heavy debt burdens are included in the new debt cancellation. The G8 proposal is limited to HIPC countries. An appropriate standard would be to include all poor countries with debt burdens sufficient to qualify for grants (rather than loans) from IDA. World Bank analysis shows that non-HIPC countries eligible for grants have debt burdens at least as heavy as the HIPCs.

The G8 meeting to be held in Germany this year will give the world's richest countries an opportunity to evaluate the progress that has been made in fulfilling the promise made in July 2005. USCCB will be monitoring developments carefully.

Another USCCB goal is to include debt owed to the Inter-American Development Bank (IDB), the largest creditor of Latin American HIPC countries. USCCB has worked closely with Congressional offices in drafting a bill that supports the debt cancellation in the G8 proposal, but also authorizes cancellation of IDB debt and urges the U.S. Treasury to work to expand the group of eligible countries. The Administration has supported cancellation of HIPC country debt owed to the IDB. They agreed to provide debt cancellation to Honduras, Nicaragua, Bolivia, Guyana, and Haiti.

In addition to these efforts at the multilateral level, USCCB has been supporting efforts to help Liberia get out from beneath a heavy "debt overhang" that prevents that country, and its democratically elected government, from attracting investment to stimulate the economy and provide better health care and education for its citizens. Support for prompt debt relief for Liberia may need Congressional action at some point. USCCB is monitoring this possibility.

## **ACTION REQUESTED**

After many years of sustained advocacy on the part of USCCB, CRS and other advocates, the world's wealthier nations, and the financial institutions over which they hold significant influence, have made the right decisions on how to proceed in cancelling poor country debt. However, these initiatives require funding so that new resources can be made available to invest in health and education in poor countries. Supporting the required funding is substantially the task that lies ahead.

USCCB and CRS commend the Administration for its leadership in bringing about a new debt cancellation agreement. USCCB and CRS will seek opportunities to:

- Advocate with the Congress for appropriation of \$950 million for IDA for FY 2007;
- Encourage the Administration to work for:
  - (1) implementation of the IDB debt cancellation agreement; and
  - (2) extension of the program to all poor countries entitled to grant financing from IDA.

## **RESOURCES**

See the letters on Catholic Campaign Against Global Poverty website of the USCCB and CRS at [www.usccb.org/globalpoverty](http://www.usccb.org/globalpoverty). **For more information contact:** Gerry Flood, 202-541-3167; [gfflood@usccb.org](mailto:gfflood@usccb.org); and Fr. Andrew Small, OMI, 202-541-3153; [asmall@usccb.org](mailto:asmall@usccb.org)