WikiLeaks Document Release

http://wikileaks.org/wiki/CRS-RL33073
February 2, 2009

Congressional Research Service

Report RL33073

Debt Relief for Heavily Indebted Poor Countries: Issues for Congress

Martin Weiss, Foreign Affairs, Defense, and Trade Division

April 18, 2007

Abstract. This report addresses the HIPC debt burden and the various debt relief initiatives, both bilateral and multilateral, that have been implemented and proposed. Following a brief background and a discussion of the economic literature on debt relief, this report addresses: (1) previous U.S. debt relief initiatives; (2) multilateral debt relief through the HIPC program; (3) the June 2005 G8 proposal for 100% debt cancellation; and (4) congressional action.

WikiLeaks

Order Code RL33073

CRS Report for Congress

Debt Relief for Heavily Indebted Poor Countries: Issues for Congress

http://wikileaks.org/wiki/CRS-RL33073

Updated April 18, 2006

Martin A. Weiss
Analyst in International Trade and Finance
Foreign Affairs, Defense, and Trade Division

Prepared for Members and
Committees of Congress

Debt Relief for Heavily Indebted Poor Countries: Issues for Congress

Summary

In recent decades, the rapid growth in poor country debt has emerged as a key foreign policy concern. Many analysts believe that this debt burden is an impediment to economic growth and poverty reduction. Others contend that for the poorest countries, other factors such as weak political and economic institutions, are a greater impediment to growth than the debt burden.

There have been many efforts to help reduce poor country debt. In 1988 a group of major creditor nations, known as the Paris Club, agreed for the first time to cancel debts owed to them instead of refinancing them on easier terms as they had done previously. In 1996, the International Monetary Fund (IMF), the World Bank, and the regional development banks agreed to allow a portion of debts owed to them by a select group of countries to be cancelled. This effort is known as the Debt Relief Initiative for Heavily Indebted Poor Countries (HIPC). In June 2005, the Group of Eight (G8) nations agreed to further deepen debt relief and proposed 100% cancellation of all multilateral debt for countries that have finished the HIPC program. Several pieces of legislation (H.R. 1130 and S. 1320) also have been introduced that could extend debt relief to an even larger group of countries. As introduced, the G8 proposal raises four possible concerns:

- **Scope of Debt Cancellation** — The proposed agreement is limited to the IMF, the World Bank, and the African Development Bank. Several other development banks are major creditors and are not included in the proposal.
- **No Net New Assistance** — The proposed agreement specifies that HIPC countries that receive debt reduction will have their total assistance flows reduced by the amount of debt forgiven. This money will then be reallocated among all low-income countries.
- **Funding is Not Assured** — The agreement promises that G8 countries will compensate the development banks for any debt relief they provide. However, future contributions to the development banks are not guaranteed.
- **Future Commitments are Unspecified** — The agreement commits G8 members to cover the cost of debt relief for countries that may later enter the HIPC process. Depending on which, if any, countries are added, the potential cost of debt relief may rise significantly.

No congressional appropriations are required at this time to implement the G8 proposal. However, additional U.S. funds may need to be appropriated in the future to fund higher levels of HIPC debt relief.

This report will no longer be updated. For information on the current status of the G8 debt relief proposal, see CRS Report RS22534, *The Multilateral Debt Relief Initiative*, by Martin A. Weiss.

http://wikileaks.org/wiki/CRS-RL33073

Contents

Introduction 1

Background 2

The Economic Debate over Debt Relief 4
Debt Overhang: Theory 4
Debt Overhang: Evidence 5

U.S. Bilateral Debt Relief 6

Multilateral Debt Relief: The Heavily Indebted Poor Countries Program 10
Eligibility 10
HIPC Stages 11
Decision Point 11
Completion Point 11
Financing HIPC Debt Relief 12
HIPC Trust Fund 12
IMF Gold 13
Current Status of HIPC 13

The 2005 G8 Proposal for 100% HIPC Debt Forgiveness 14
Key Details of the Agreement 17
Potential Concerns 18
No Net Resource Gain 18
Limited Debt Cancellation 18
Multilateral Development Bank Compensation is Not Guaranteed . . . 18
Future Cost May Rise 19
Proposed Legislation 20
Multilateral Debt Relief Act of 2005 20
Jubilee Act of 2005 20

Appendix 1: World Bank Debt and Poverty Ratings 22

Appendix 2: U.S. Debt Reduction Agreements FY1990-FY2005 25

Appendix 3: HIPC External Debt Profile 29

Appendix 4: Non-HIPC Countries Eligible for 100% World Bank Grant Assistance 31

http://wikileaks.org/wiki/CRS-RL33073

List of Tables

Table 1. External Debt as a Percentage of GDP (Period Average) 3
Table 2. Summary of the HIPC Program 12
Table 3. HIPC Countries and Their Status 14
Table 4. World Bank Debt Categories 22
Table 5. World Bank Debt Ratings 23

http://wikileaks.org/wiki/CRS-RL33073

http://wikileaks.org/wiki/CRS-RL33073

Debt Relief for Heavily Indebted Poor Countries: Issues for Congress

Introduction

At the June 2005 Group of Eight (G8)[1] finance ministers meeting, member nations agreed on a financing plan for 100% debt relief for countries that complete the International Monetary Fund (IMF) and World Banks' Heavily Indebted Poor Countries (HIPC) debt relief program. If the proposal is fully implemented, 18 countries that have completed the HIPC program would receive complete and immediate forgiveness of their multilateral debts, approximately $40 billion. An additional 20 countries are eligible for debt relief, but are currently implementing pre-requisite economic reforms. If all of the 38 HIPC-eligible countries receive debt cancellation, total debt relief would be approximately $55.6 billion. According to the proposal, creditor nations will provide additional funding for the World Bank and the African Development Bank (AfDB) to fund their debt relief. IMF debt relief will be funded by the remaining proceeds of a 1999 sale of IMF gold reserves.

To date, the Bush Administration has not requested new funds to contribute toward the U.S. share of the G8 debt relief proposal. Congress, however, is currently considering appropriations for the World Bank and the AfDBs' concessional lending facilities and, although none of this funding has been specifically earmarked for HIPC, it appears that the administration would like to use some of this funding for the increased debt relief. There are also two pieces of legislation (H.R. 1130 and S. 1320) that if enacted would allow for higher levels of debt relief than is provided for in the G8 proposal.

This report addresses the HIPC debt burden and the various debt relief initiatives, both bilateral and multilateral, that have been implemented and proposed. Following a brief background and a discussion of the economic literature on debt relief, this report addresses: (1) previous U.S. debt relief initiatives; (2) multilateral debt relief through the HIPC program; (3) the June 2005 G8 proposal for 100% debt cancellation; and (4) congressional action.

---

[1] The Group of Eight nations are the United States, the United Kingdom, Japan, France, Germany, Canada, Italy, and Russia. Russia, not normally included in the finance ministerial meetings, was included during the June 2005 meetings. For this report, the term G8 refers to country meetings including Russia, the term G7 refers to meetings of the remaining seven.

Background

In recent decades, the rapid growth in poor country debt has emerged as a key foreign policy concern. As early as 1967, the United Nations Conference on Trade and Development (UNCTAD) argued that debt service payments in many poor nations had reached "critical situations."[2] Since then, and notably in the last ten years, there has been pressure exerted on national bilateral creditors and multilateral lenders (such as the International Monetary Fund or the World Bank) by non-governmental organizations (NGOs) and several Western nations for creditors to cancel all debts owed to them by the poorest and least developed countries. In a speech to the United Nations in 2002, UK Chancellor of the Exchequer Gordon Brown challenged developed nations to help build "a virtuous circle of debt relief, poverty reduction and sustainable development for the long term" for the world's poorest countries.[3] According to U.S. Secretary of the Treasury John Snow, debt has been "locking these poorest countries into poverty and preventing them from using their own resources [for development]." Requiring repayment of the debt is, he added, "morally wrong."[4]

Much of the recent debt relief momentum has been spurred by the Jubilee (formerly the Jubilee 2000) debt campaign. Initially launched in 1996, the Jubilee campaign's mission is to convince major creditor nations to cancel the unpayable debts of the poorest countries under a fair and transparent process.[5] The international campaign is spearheaded primarily by various Catholic and Protestant organizations that have had longstanding involvement in debt relief issues and includes numerous high-profile supporters such as Sir Bob Geldof, an Irish rock singer and activist, and Bono, lead singer of the Irish band U2.

Debt relief proponents often maintain that poor country debt is illegitimate, or according to Bono, "immoral and unjust."[6] This claim rests on the so-called "odious debt" argument. Odious debt is normally considered to be debt which benefits ruling elites in a borrowing country (through graft and corruption) but has little or no benefit for the general population. Debt critics question whether successor regimes should be obligated, under international law, to repay money that was stolen, wasted, or otherwise used in ways having little benefit for their people. Although the odious debt concept has gained popularity in the NGO community, it has not been endorsed by any international legal or financial body. Moreover, there is almost no likelihood that debts incurred through World Bank or IMF projects could be legally determined to be odious, since they were undertaken for nominally development-related projects.

---

[2] William Easterly, "Debt Relief: Think Again," *Foreign Policy*, November 2001.

[3] Speech given by Gordon Brown at the United Nations General Assembly Special Session on Children, May 10, 2002. Speech is available at [http://www.hm-treasury.gov.uk/Newsroom_and_Speeches/Press/2002/press_46_02.cfm].

[4] Quoted in Paul Blustein, "Debt Cut Is Set for Poorest Nations — Deal Would Cancel $40 Billion in Loans," *The Washington Post*, June 12, 2005.

[5] More information on the Jubilee campaign is available at [http://www.jubilee2000uk.org/].

[6] Quoted in One Campaign Press Release, June 11, 2005. The press release is available at [http://www.one.org/node/76].

http://wikileaks.org/wiki/CRS-RL33073

Nonetheless, many agree that high levels of debt are a major burden for the poorest countries and that any effort to promote economic growth and reduce poverty needs to address the HIPC debt burden.

The poor country debt burden is indeed staggering. For the 38 International Development Association (IDA)[7] countries that have been designated as the most Heavily Indebted Poor Countries, total external debt rose from $19.7 billion in 1975 to a peak of $222 billion in 1995, a major increase over other developing countries.[8] Table 1 compares debt as a percentage of gross domestic product (GDP) for three tiers of poor countries: HIPCs, other IDA countries, and other lower middle income countries.[9] (See **Appendix 1** for information on the World Bank debt and poverty classification systems.)

Table 1. External Debt as a Percentage of GDP (Period Average)

Country category	1980-1984	1985-1989	1990-1994	1995-2000
HIPC	38%	70%	120%	103%
Other IDA countries	21%	33%	38%	33%
Other lower-, middle-income countries	22%	30%	27%	26%

Source: World Bank.

In the 1980s and early 1990s, as the debts of the poorest countries increased rapidly compared to other low-income countries, several debt relief efforts were introduced. In 1988, a group of major creditor nations, known as the Paris Club,[10] agreed for the first time to cancel debts owed to them instead of refinancing them on easier terms as they had done until then.

In 1996, the International Monetary Fund, the World Bank, and the regional development banks agreed to allow a portion of debts owed to them to be cancelled

[7] The International Development Association (IDA) is the World Bank's concessional lending facility, and provides grants or loans to the 81 poorest countries at below market rates. Eligibility for IDA assistance is determined by a country's "relative poverty," defined as Gross National Product (income) per person below an established threshold, currently US$825 per year.

[8] World Bank, *Global Development Finance*, 1999.

[9] The World Bank defines a lower middle income country as one with a per capita gross national income (GNI) of between $826 and $3,255.

[10] The Paris Club comprises 19 permanent members, all major international creditor governments: Austria, Australia, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, Norway, Russia, Spain, Sweden, Switzerland, United Kingdom and the United States. Other creditors are allowed to participate in negotiations on an ad-hoc basis. See CRS Report RS21482, *The Paris Club and International Debt Relief*, by Martin A. Weiss.

http://wikileaks.org/wiki/CRS-RL33073

as well, and created the Debt Relief Initiative for Heavily Indebted Poor Countries (HIPC). At the meeting of the G8 finance ministers on June 11, 2005, member nations extended debt relief and committed themselves to cancelling permanently all remaining multilateral HIPC external debt, providing up to $55 billion in additional debt relief. According to the proposal, the 18 countries that have completed the HIPC program would receive immediate debt relief (worth $40 billion at face value). Countries that are in the middle of the program, or have not yet begun, would receive total debt relief upon completion of the program. If the remaining 20 countries complete the HIPC program, total debt relief could exceed $55 billion.

There are several root causes of the HIPC debt burden. A 1999 IMF study concluded that the rise in HIPC debt had its origins in weak macroeconomic policies, a lack of economic structural reform, and poor debt management practices on the part of debt-stressed countries, as well as adverse trade shocks and political factors such as war, famine, and social strife.[11] The debt problem was compounded by the willingness of creditor nations and multilateral institutions to provide loans and accept risks that the private sector would not. William Easterly, formerly a World Bank economist and currently a professor at New York University, points out that between 1979 and 1997, the IMF and World Bank provided more financing to HIPCs than other countries of their income level, despite HIPC countries' often poor economic policies.[12]

http://wikileaks.org/wiki/CRS-RL33073

The Economic Debate over Debt Relief

Among economists, the likely success of debt relief in spurring meaningful economic reform or make substantial inroads against poverty is often questioned. Critics maintain that money to fund debt relief must be transferred from other resources and there is a risk that donors will take all or some of these resources from other parts of their foreign assistance budgets. If this occurs, overall resources for promoting development may not increase, or may increase by less than the amount of debt relief provided. Moreover, many analysts argue that there are foreign aid activities, such as additional investments in the legal, financial, education, or public health systems that may have a greater impact on promoting economic growth and providing resources for poverty reduction activities than debt relief. A second problem is determining whether the actual debt load is itself so big as to impede growth and development. Advocates of debt relief argue that such a "debt overhang" must be relieved if a country is to resume growth.

Debt Overhang: Theory. Most debt relief is grounded in the "debt overhang" theory which holds that the accumulation of a large stock of debt will frighten off potential lenders and investors. It originated in the 1980s and was based

---

[11] Christina Daseking, and Robert Powell, "From Toronto Terms to the HIPC Initiative: A Brief History of Debt Relief for Low Income Countries," *International Monetary Fund Working Paper WP/99/142*, 1999.

[12] William Easterly, "How Did Heavily Indebted Poor Countries Become Heavily Indebted? Reviewing Two Decades of Debt Relief," *World Development*, October 2002, vol. 30 (10), pp. 1677-1696.

on the largely positive economic growth that several heavily indebted countries experienced following a 1989 debt relief initiative known as the "Brady Plan," named after then-U.S. Treasury Secretary Nicholas Brady.[13] The theory suggests that if investors expect a country's debt level to impair its ability to repay its loans, they will not invest out of a concern that the government may resort to distortionary measures, such as expanding the money supply (which promotes inflation) or raising taxes on their profits to finance debt payments.[14] Even if the debt is not being serviced, the theory suggests that it is still an impediment to economic growth because of the effect the large debt stock has dissuading private investors.

When a large stock of external debt is present, creditor countries could continue to lend at concessional rates in the hope that continued aid will spur economic growth and that the recipient country will one day be able to repay its debts. According to the debt overhang theory, however, it is better to forgive the debts, either entirely or to some reduced "sustainable" level so that investor confidence will be restored. It is presumed that at a "sustainable" level debtor nations would be able to make some debt payments to their creditors without sacrificing economic growth.

Debt Overhang: Evidence. A 2002 study of 93 developing countries between 1969 and 1998, and a follow-up study of 61 countries over the same time period, were cited as strong support for the debt-overhang theory. The first study found that external debt began to have a negative impact on growth when its net present value[15] exceeded 160% to 170% of exports and 35% to 40% of GDP. Study simulations suggest that doubling the average stock of external debt in these countries would slow down annual per capita growth by ½% to 1%. The second study found that doubling a country's average external debt level would reduce growth of both per capita physical capital and productivity by almost 1%. The studies concluded that large debt stocks negatively affect growth by slowing both the accumulation of physical capital and productivity, often at the expense of investment.[16]

Although the debt overhang theory may be true in general, several new studies have argued that it does not hold for HIPC countries. One study points to two key

http://wikileaks.org/wiki/CRS-RL33073

---

[13] Walter Molano, "From Bad Debts to Healthy Securities? The Theory and Financial Techniques of the Brady Plan," *Business and the Contemporary World*, VIII, 1997, No. 3-4.

[14] Paul Krugman, "Financing vs. Forgiving a Debt Overhang." *Journal of Development Economics*, vol. 29, 1988, pp. 253-268; and Jeffrey Sachs, "The Debt Overhang of Developing Countries," in Guillermo A. Calvo and others, eds., *Debt Stabilization and Development, Essays in Memory of Carlos Dias Alejandro*, Oxford, U.K.: Basil Blackwell, 1989.

[15] Net Present Value (NPV) of a country's total debt is the discounted sum of all future debt-service obligations (interest and principal). This measure takes into account the degree of concessionality of a country's debt stock. Whenever the interest rate on a loan is lower than the market rate, the resulting NPV of debt is smaller than its face value.

[16] Catherine Pattillo, Helene Poirson, and Luca Ricci, "External Debt and Growth," *IMF Working Paper No. 02/69*, April 1, 2002; and Catherine Pattillo, Helene Poirson, and Luca Ricci, "What Are the Channels Through Which External Debt Affects Growth?," *IMF Working Paper No. 04/15*, January 1, 2004.

differences between the Brady and HIPC countries.[17] In contrast to the Brady countries, there never was a significant amount of private investment in the HIPC countries, and the HIPC countries have never suffered a negative net flow of resources because inflows of foreign aid are typically more than sufficient to cover debt payments.[18] Moreover, debt relief that the HIPC countries have received has not been sufficient to allow them access to private sector credit markets.

Thus, rather than a debt overhang, some argue that lack of institutional capacity (legal, political, educational, health, etc.) are the HIPCs' major impediments to economic growth, and that in the absence of additional funds dedicated for debt relief, other forms of targeted assistance may be more effective in boosting economic growth than debt relief. If the economies of countries grew, they argue, the debt would not be a problem. Instead of forgiving debts, creditor nations may be able to help the poorest countries by helping to improve their domestic institutions, expand their export sectors, and by providing greater market access for their goods.

http://wikileaks.org/wiki/CRS-RL33073

U.S. Bilateral Debt Relief

U.S. bilateral debt relief is accomplished two ways. One is through legislation enacted by Congress granting authority to the President to cancel country debt obligations.[19] The second is through the Paris Club. The Paris Club is the major forum where creditor countries renegotiate official sector debts. By definition, 'Official sector' debts are those that have been either issued, insured, or guaranteed by creditor governments. A Paris Club 'treatment' refers to either a reduction and/or renegotiation of a developing country's Paris Club debts. The Paris Club includes the United States and 18 other permanent members, the major international creditor governments. Besides the United States, the permanent membership is composed of Austria, Australia, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, Norway, Russia, Spain, Sweden, Switzerland, and the United Kingdom. Other creditors are allowed to participate in negotiations on an ad-hoc basis.

By contrast, a separate informal, voluntary group of private sector participants meets to renegotiate some of the developing country debt they are owed. The London Club, a parallel, informal group of private firms, meets in London to

---

[17] Countries receiving assistance through the Brady Plan were Argentina, Brazil, Bulgaria, Costa Rica, the Dominican Republic, Ecuador, Ivory Coast, Jordan, Mexico, Nigeria, Panama, Peru, the Philippines, Poland, Russia, Uruguay, Venezuela and Vietnam.

[18] Serkan Arslanalp and Peter Blair Henry, "Helping the Poor to Help Themselves: Debt Relief or Aid," *National Bureau of Economic Research Working Paper 10230*, January 2004.

[19] The Federal Credit Reform Act of 1990 stipulates that Congress must be involved in any official debt relief negotiations. The President must notify Congress of any debt rescheduling or reduction. Congressional appropriation of the net present value of debt to be reduced is also required. Finally, the Secretary of State is required to notify the committees of jurisdiction 30 days prior to any debt relief agreement (P.L. 95- 424, Section 603(a)).

renegotiate commercial bank debt. Unlike the Paris Club, there is no permanent London Club membership. At a debtor nations request, a London Club meeting of its creditors may be formed, and the Club is subsequently dissolved after a restructuring is in place.

The Paris Club does not exist as a formal institution. It is rather a set of rules and principles for debt relief that have been agreed on by its members. Five 'principles' and four 'rules' currently govern Paris Club treatments. Any country that accepts the rules and principles may, in principle, become a member of the Paris Club. Yet since the Paris Club permanent members are the major international creditor countries, they determine its practices.

The five Paris Club 'principles' stipulate the general terms of all Paris Club treatments. They are: (1) Paris Club decisions are made on a *case-by-case* basis; (2) all decisions are reached by full *consensus* among creditor nations; (3) debt renegotiations are applied only for countries that clearly need debt relief, as evidenced by implementing an International Monetary Fund (IMF) program and its requisite economic policy *conditionality*; (4) *solidarity* is required in that all creditors will implement the terms agreed in the context of the renegotiations; and (5) the Paris Club preserves the *comparability of treatment* between different creditors. This means that a debtor country cannot grant to another creditor a treatment on more favorable terms than the consensus reached for Paris Club members.[20]

While Paris Club 'principles' are general in nature, its 'rules' specify the technical details of Paris Club treatments. The 'rules' detail (1) the types of debt covered — Paris Club arrangements cover only medium and long-term public sector debt and credits issued prior to a specified "cut-off"date; (2) the flow and stock treatment;[21] (3) the payment terms resulting from Paris Club agreements; and (4) provisions for debt swaps.[22]

Since the Paris Club is an informal institution, the outcome of a Paris Club meeting is not a legal agreement between the debtor and the individual creditor countries. Creditor countries that participate in the negotiation sign a so-called 'Agreed Minute.' The Agreed Minute recommends that creditor nations collectively sign bilateral agreements with the debtor nation, giving effect to the multilateral Paris Club agreement.

Prior to U.S. involvement, Paris Club members began providing outright debt cancellation in 1988. Previously, debt treatments involved rescheduling of debts on increasingly concessional terms. At the 1988 Toronto meeting of G7 finance

---

[20] For more information on Paris Club principles and rules, see [http://www.clubdeparis.org]

[21] The flow treatment provides a method for the debtor country to progress through temporary balance of payments difficulties. Stock treatment specifies what portion of a country's 'stock' of debt is covered by the Paris Club agreement.

[22] A debt swap is a transaction in which a company, or in the case of the Paris Club, a country, exchanges debt for other assets, such as foreign aid, equity, or local currency debt.

http://wikileaks.org/wiki/CRS-RL33073

ministers, it was agreed that Paris Club members would extend to some countries up to one-third forgiveness of their bilateral debts.[23]

Over the next decade, the Paris Club gradually increased the amount of debt that it would be willing to write off from 33.33% in 1988 to 90% in 1999.[24] There are currently two Paris Club debt cancellation options, "Naples" terms for non-HIPC IDA countries and "Cologne" terms for HIPC countries (see box). These terms are named after the cities where they were negotiated by G7 countries.

Paris Club Debt Cancellation

Naples Terms — Naples Terms, agreed at the December 1994 G7 meeting in Naples, Italy, are the Paris Club's terms for cancelling and rescheduling the debts of very poor countries. A country may receive Naples terms treatment if it is eligible to receive IDA loans. Under Naples Terms, at least 50% and up to 67% of eligible debt may be cancelled.

Cologne Terms — Cologne Terms were created at the June 1999 G7 meeting in Cologne, Germany, for HIPC countries only. Cologne Terms allow for higher levels of debt cancellation than Naples Terms. Under Cologne terms, up to 90% of eligible debts can be cancelled. Several countries, including the United States, have agreed to go beyond Cologne terms to provide 100% bilateral HIPC debt relief.

http://wikileaks.org/wiki/CRS-RL33073

The United States joined Paris Club debt forgiveness negotiations in 1994, under authority granted by Congress in 1993 (Foreign Operations Appropriations, section 570, P.L. 103-87). Annually re-enacted since 1993, this authority allows the Administration to cancel various loans made by the United States. These may include U.S. Agency for International Development (USAID) loans, military aid loans, Export-Import Bank loans and guarantees, and agricultural credits guaranteed by the Commodity Credit Corporation.

Between 1990 and 2005, the United States forgave $23.1 billion in foreign debt owed to the United States, only a small part of which — $3.14 billion — was reduced via the Paris Club.[25] Debt has also been reduced through various legislative measures and congressionally authorized U.S. bilateral negotiations. These include (Appendix 2 provides U.S. bilateral debt relief data):

- **Section 411 Debt Relief.** Under Section 411 of the Agricultural Trade Development and Assistance Act of 1954 (PL 83-480; 7 USC sec. 1736e), Congress authorized the President to cancel

---

[23] Many Paris Club policy decisions are decided during periodic finance ministers meetings of the G7 countries.

[24] More information on Paris Club debt treatment options is available at the Paris Club Website: [http://www.clubdeparis.org/].

[25] U.S. Treasury Department and the Office of Management and Budget. U.S. Government Foreign Credit Exposure as of December 31, 2003, Part I, p. 19.

concessional food aid loans to poor and indebted countries under an IMF or World Bank economic program.

- **Section 572 Debt Relief.** Under Section 572 of the Foreign Operations, Export Financing, and Related Appropriations Act for Fiscal Year 1989 (P.L. 100-461, 22 USC 2151), the U.S. President was authorized to forgive debt during fiscal years 1990 and 1991 from concessional development assistance loans to African and other poor and indebted countries that maintained an economic reform program with the IMF or the World Bank.

- **Enterprise for the Americas Initiative (EAI).** The Enterprise for the Americas (EAI) Initiative supports trade, investment and economic growth in Latin America and the Carribean. Debt reduction legislation in support of the EAI Initiative was enacted in 1990 to forgive U.S. food aid loans for EAI countries that did not meet the necessary criteria for Section 411 debt relief (P.L. 102-549, Enterprise of the Americas Act of 1992, which added part IV to the Foreign Assistance Act of 1961; 22 USC 2430 et seq.) and in 1992 for USAID and Export-Import Bank debt (P.L. 102-429, Export Enhancement Act of 1992, which added Section 12 to the Export-Import Bank Act of 1945; 12 USC 635-6).

- **Conservation of Tropical Forests.** The Tropical Forest Conservation Act of 1998 (TFCA) (P.L. 105-214, which added part V to the Foreign Assistance Act of 1961; 22 USC 2431 et seq.) authorizes the President to request debt relief for low and middle-income countries with tropical forests to support conservation of endangered forests.[26]

- **Debt Swaps under the SEED Act.** The Support for East European Democracy (SEED) Act of 1989 (P.L. 101-170, USC 5401 et seq.) authorized debt relief to support Eastern European countries as they progressed towards democracies with free-market economies.

- **Special Debt Reduction Programs.** The U.S. government has reduced the debts of Egypt, Poland, Jordan, and Pakistan for various national security reasons. Each of these debt relief activities was provided pursuant to special legislation.

[26] See CRS Report RL31286, *Debt-for-Nature Initiatives and the Tropical Forest Conservation Act: Status and Implementation*, by Pervaze A. Sheikh.

http://wikileaks.org/wiki/CRS-RL33073

Multilateral Debt Relief: The Heavily Indebted Poor Countries Program

For much of their history, the international financial institutions (IFIs) argued that since they were lenders of last resort, providing assistance to poor countries that could not borrow money from the global financial markets, they required preferred creditor status. This means that the World Bank and the IMF would be paid first in the event that borrowers ran into financial difficulties, and that debts owed to them would not be reduced under any circumstances. Forgiving their debts, they argued, would diminish their resources available for other poor and developing countries and set a bad example for other indebted countries as they undertook often painful, albeit economically crucial, reforms. This is the so-called "moral hazard" problem with debt relief. Some creditors argue that by providing debt relief, they are creating a "moral hazard" by convincing borrowers that they need not worry about repayment.

Despite initial reservations, and at the G8's request, the World Bank and the IMF created the HIPC debt relief program in 1996 to reduce some multilateral debt in conjunction with bilateral debt forgiveness. According to the IMF and the World Bank, the goal of the HIPC program would be to help the poorest and most indebted countries meet their "current and future external debt service obligations in full, without recourse to debt rescheduling or the accumulation of arrears, and without compromising growth."[27]

In 1999, the program was expanded to provide deeper, faster, and broader debt relief. Initially, the HIPC program determined that a debt service-to-exports ratio[28] of 250% was determined to be sustainable. Moreover, it took a minimum of six years for borrowers to qualify for debt relief. Critics charged that this ratio was too high and the time-frame too long. When the program was redesigned in 1999, the debt service-to-exports ratio was reduced to 150%, and the time period was shortened. The HIPC program was also modified to include a greater focus on poverty reduction efforts. Countries receiving debt relief were now be required to use money freed up by debt relief for poverty reduction as specified in a Poverty Reduction Strategy Paper (PRSP) approved by its lenders.

Eligibility

There are three criteria for HIPC eligibility. A country must:

- Be a low-income country eligible to borrow only from the World Bank's concessional facility, the International Development Association.[29]

http://wikileaks.org/wiki/CRS-RL33073

---

[27] International Monetary Fund and World Bank, *The Challenge of Maintaining Long-Term External Debt Sustainability*. Washington, D.C., April 20, 2001.

[28] Debt service is the sum of interest payments and repayments of principal.

[29] Middle-income countries borrow from the World Bank's market-rate lending facility, the International Bank for Reconstruction and Development (IBRD).

- Have a strong record of policy performance, evidenced by a strong track record of economic reforms under World Bank and IMF-sponsored programs; and

- Possess a debt burden that is unsustainable (greater than 150% debt service-to-exports ratio) after bilateral debt relief has been applied.

In 1996, at the start of the program, the World Bank and the IMF designated 41 countries as potentially HIPC-eligible. Comoros was added in 2001. Of these 42 countries, Angola, Kenya, Vietnam, and Yemen were later removed after additional IMF/World Bank debt analysis determined that they could reach debt sustainability through bilateral debt relief.

Many critics argue that the four excluded countries, as well as many others, should be eligible for relief. They maintain that the debt sustainability analysis used to determine HIPC eligibility relied on overly optimistic assumptions with respect to GDP and export rates in deciding country eligibility. An official review of the HIPC program in 2003 concurred with this assessment and called for more realistic economic projections in determining HIPC eligibility.[30] It has also been asserted that the eligibility criteria were based on political and cost factors, rather the actual amount of debt relief a country may need to be able to successfully pay off a given level of debt.[31]

HIPC Stages

HIPC debt relief is divided into two stages: decision point and completion point. Pre-decision point HIPC countries do not receive any debt relief.

Decision Point. In order to reach the decision point, a country must establish a three-year track record of good economic performance under existing IMF and World Bank lending arrangements. During the three-year period, the debtor country receives debt reduction from Paris Club official creditors on Naples Terms (67% net present value reduction). Other bilateral and commercial creditors are expected by Paris Club members to offer at least similar treatment. At the decision point, staffs of the World Bank and IMF carry out a debt sustainability analysis to determine whether bilateral Paris Club debt reduction (at Naples Terms) is sufficient for the country to reach the 150% target ratio. If it is not, the IMF and World determine how much multilateral debt relief is required and the country enters the second phase of debt relief.

Completion Point. If a country enters the second stage, it must establish a further track record of good economic policies and implement its poverty reduction strategy. During the period between the decision point and the completion point, a

---

[30] Madhur Gautam, "Debt Relief for the Poorest: An OED Review of the HIPC Initiative," *The World Bank*, 2003.

[31] Bernard Gunther, "Does the HIPC Initiative Achieve its Goal of Debt Sustainability?" *United Nations University/World Institute for Development Economics Research Discussion Paper 2001/100.*

http://wikileaks.org/wiki/CRS-RL33073

debtor country receives bilateral debt rescheduling under Cologne Terms (90% to 100% debt relief) and interim assistance is provided by the multilateral creditors. Once the World Bank and IMF determine that a country has reached the completion point, it receives full and irrevocable debt relief of the amount determined at the decision point. **Table 2** summarizes the HIPC program.

Table 2. Summary of the HIPC Program

Stated Objective	To bring the country's debt down to a sustainable level (150% of debt to exports), and free up resources for higher spending aimed at poverty reduction
Qualification Criteria	1) IDA-only countries 2) Strong record of policy performance 3) Unsustainable levels of debt after the use of traditional mechanisms
Debt Sustainability Targets	A ratio of debt service to exports of 150%
Timing of Debt Relief	Interim debt service relief after the decision point (up to 60% of total), total irrevocable debt relief at completion point.
Decision Point: Performance Criteria	Three-year track record of macroeconomic stability and policy reform plus implementation of interim or full Poverty Reduction Strategy Paper (PRSP)
Completion Point: Performance Criteria	Maintenance of macroeconomic stability; Completion of PRSP and one-year of PRSP implementation; performance benchmarks for structural and social reforms

Financing HIPC Debt Relief

HIPC Trust Fund. The World Bank provides its debt relief through the IDA-administered HIPC trust fund. The trust fund has two components. The first is for funds provided to reimburse IDA for HIPC debt relief. The second uses contributions from donors to support HIPC debt relief provided by eligible regional multilateral creditors. Individual nations, including the United States, have also made pledges and contributed to the fund. As of the end of February 2005, bilateral contributions to the HIPC trust fund totaled $2.97 billion.[32]

The United States initially pledged $600 million to the HIPC trust fund. This pledge was fulfilled with contributions in FY2001 and FY2002. In 2002, the Bush administration pledged an additional $150 million for the HIPC trust fund to fund remaining costs. In FY2004, Congress appropriated $74.6 million for the HIPC trust fund. A funding gap of $75.6 million remains. Other large contributors to the trust

[32] "Heavily Indebted Poor Countries (HIPC) Initiative — Statistical Update," *International Monetary Fund and International Development Association*, April 11, 2005.

http://wikileaks.org/wiki/CRS-RL33073

fund include the United Kingdom ($261 million), Germany ($232 million), Japan ($219 million), France ($187 million), and the Netherlands ($174 million).

IMF Gold. The IMF initially funded its share of HIPC debt relief through an interim arrangement that drew on the resources of the IMF's Enhanced Structural Adjustment Facility (ESAF), the predecessor to the IMF's current concessional lending facility, the Poverty Reduction and Growth Facility (PRGF). In order to create a permanent facility to finance the IMF's HIPC participation, the IMF and several major contributors designed a plan in the late 1990s to sell some IMF gold reserves. When the IMF was originally created, member nations were required to contribute a percentage of their quota in gold.[33] Although, the international financial system is no longer based on a gold standard, the IMF continues to hold this gold in its reserves and values it at around $48 an ounce, significantly less than the current market price of $438 per ounce.[34] The IMF currently holds 103.4 million ounces of gold that are valued on its balance sheet at about $9 billion. At current market prices the IMF's holdings amounts to around $45.3 billion.

Fearing disruption of the international gold market, the Clinton Administration and several members of Congress strongly objected to any plans to sell IMF gold.[35] A compromise was reached at the September 1999 IMF annual meetings authorizing off-market transactions in gold of up to 14 million ounces to help finance IMF participation in the HIPC program. Between December 1999 and April 2000, transactions involving a total of 12.9 million ounces of gold were carried out between the IMF and two members, Brazil and Mexico, that had financial obligations to the IMF. Gold was sold to Brazil and Mexico at the then-market price and profits were placed in a special IMF HIPC account. At the same time, the IMF accepted back the gold sold to Brazil and Mexico in settlement of their financial obligations to the Bank. The balance of the IMF's holdings of physical gold remained unchanged although its usable resources shrank.[36]

Current Status of HIPC

To date, 18 of the 38 HIPC-eligible countries have completed the HIPC program, eleven countries have reached their decision point, and nine are in pre-decision point status (**Table 3**).[37]

---

[33] CRS Report RL32364, *The International Monetary Fund: Organization, Functions, and Role in the International Economy*, by Jonathan E. Sanford, Martin A. Weiss.

[34] Price quoted on August 23, 2005 [http://goldprice.org/index.html].

[35] For example, see "IMF Gold Sales in Perspective," Joint Economic Committee. August 1999. Available at [http://www.house.gov/jec/imf/gold/gold.pdf].

[36] The IMF may hold gold as an asset but it cannot lend gold nor can it use gold as security for borrowing funds. See Jonathan E. Sanford, "IMF Gold and the World Bank's Unfunded HIPC Mandate," *Development Policy Review*, January 2004.

[37] HIPC documents are available at [http://www.imf.org/external/np/hipc/index.asp].

http://wikileaks.org/wiki/CRS-RL33073

Table 3. HIPC Countries and Their Status

Completion point	Decision point	Pre-decision point
Benin	Burundi	Burma
Bolivia	Cameroon	Cote d'Ivoire
Burkina Faso	Chad	Central African Republic
Ethiopia	Congo, Dem. Rep. of	Comoros
Guyana	Gambia	Laos
Ghana	Guinea	Liberia
Honduras	Guinea-Bissau	Somalia
Madagascar	Malawi	Sudan
Mali	São Tomé & Principe	Togo
Mauritania	Sierra Leone	
Nicaragua	Congo, Rep. of	
Niger		
Rwanda		
Senegal		
Tanzania		
Uganda		
Zambia		

Source: International Monetary Fund and World Bank.

Appendix 3 displays debt statistics for all HIPC countries. Countries with major debt obligations to the United States are: the Democratic Republic of Congo ($1.66 billion), Sudan ($1.65 billion), Somalia ($592.7 million), Cote d'Ivoire ($327.7 million), and Liberia ($363.3 million).

The 2005 G8 Proposal for 100% HIPC Debt Forgiveness

According to a 2004 IMF study, significant additional donor support and structural reforms are necessary for HIPC countries to reach debt sustainability. The study found that HIPC completion point countries had more robust economic policies and institutional frameworks than other HIPC countries but they still fared poorly when compared to other developing countries. In addition their debt management

http://wikileaks.org/wiki/CRS-RL33073

capacity remained weak.[38] Many argue that these countries need additional donor support for other reasons as well, in areas such infrastructure, education, and AIDS prevention. Other similar research, as well as NGO pressure, led in 2004 to active discussions proposing 100% multilateral debt relief for HIPCs and other poor indebted countries.

Discussion of 100% debt relief began in earnest among the G8 nations at the February 5, 2005 finance ministers meeting in London. At the meeting, ministers announced their "willingness to provide as much as 100% multilateral debt relief."[39] Moreover, ministers intended to work with the African Development Bank and the World Bank "to bring forward proposals ... to achieve this [additional debt relief] without reducing the resources available to the poorest countries through these institutions."[40]

Central to the multilateral debt cancellation debate was whether to compensate the international financial institutions for the amount of debt they would write off. U.S. officials had reportedly argued that the cost of multilateral debt relief could be borne by the institutions themselves without compromising new assistance. The World Bank's IBRD resources have increased steadily over the past several years, and many argued that some of this money could be diverted to provide IDA debt relief without harming the bank's financial situation.[41] Other creditors, including Great Britain, believed the institutions should be compensated for their debt forgiveness so as not to possibly weaken the credit standing of the World Bank and force it to raise borrowing rates to IBRD borrowers.[42]

On July 11, 2005, G8 finance ministers compromised on a plan to cancel all remaining HIPC multilateral debt.[43] The compromise was that the multilateral development banks would receive new money from creditor nations to offset their debt reductions and the IMF would absorb the cost of debt relief using internal resources, principally the remaining proceeds of the 1999 off-market gold transactions with Brazil and Mexico. New gold sales had been proposed during the 2005 discussion but, like earlier proposals, were strongly opposed by the gold industry, the Bush Administration, and many Members of Congress.[44]

---

[38] Yan Sun, "External Debt Sustainability in HIPC Completion Point Countries, *IMF Working Paper WP/04/160*, September 2004.

[39] "G7 Finance Ministers Conclusions on Development," London, February 5, 2005.

[40] Ibid.

[41] For example, see Sony Kapur, "World Bank (IBRD) Resources and Debt Cancellation," *Jubilee USA Network*, January 2005.

[42] Elizabeth Becker and Richard W. Stevenson, "U.S. and Britain Agree on Debt Relief for Poor Nations," *New York Times*, June 10, 2005.

[43] The full text of the G7 Finance Ministers' Conclusions on Development is available at [http://www.hm-treasury.gov.uk/otherhmtsites/g7/news/conclusions_on_development_110605.cfm].

[44] For a discussion of new proposals for IMF gold sales, see Jonathan E. Sanford, "IMF Gold
(continued...)

http://wikileaks.org/wiki/CRS-RL33073

According to British Chancellor of the Exchequer, Gordon Brown, "We are presenting the most comprehensive statement that finance ministers have ever made on the issues of debt, development, health and poverty." He further added that the agreement represents a "new deal between the rich and poor of the world."[45] U.S. Treasury Secretary John Snow called the agreement "an achievement of historic proportions."[46]

According to officials at the meeting, the cost of forgiving this debt will be $16.7 billion — the net present value of payments that the IFIs would have received from the HIPCs between now and 2015. Of this, the United States reportedly agreed to pay up to $1.75 billion over the next ten years in compensation to the development banks over the next ten years to fund the debt relief.[47] According to British and German officials, Britain will pay $700 million to $960 million, and Germany will pay $848 million to $1.2 billion to offset future lost repayments to the World Bank and the African Development Bank.[48]

Reaction from poor countries not included in the debt deal was critical. Many have long argued that debt relief benefits countries that have poor economic performance and that are less willing to service their debts than other developing countries. Some countries, such as Kenya, are ineligible for debt relief, yet suffer from many of the same economic constraints as many HIPC countries and are servicing their debts. "Those faithful in servicing their debt like Kenya are being ignored while HIPCs who have failed to service the debt are getting more attention. This is not good for Africa," asserted Kenyan Planning and National Development Minister Peter Anyang Nyongo.[49]

Both IMF Managing Director Rodrigo Rato and World Bank President Paul Wolfowitz cautiously welcomed the proposal but stressed the importance of providing debt relief without diverting resources from other developing countries. According to Mr. Rato, although International Monetary Fund member countries are committed to canceling debts of the world's poorest nations, debt relief should be carefully designed and implemented. He stressed that there is a "clear consensus" among IMF directors that writing off the debt should not affect the fund's ability to

http://wikileaks.org/wiki/CRS-RL33073

---

[44] (...continued)
and the World Bank's Unfunded HIPC Deficit," *Development Policy Review*, vol. 22, No. 1, January 2004, pp. 31-40. For U.S. resistence to IMF gold sales, see "Congress, Bush will block IMF gold sales," *United Press International*, April 4, 2005.

[45] "G8 finance ministers agree on debt relief for poor nations," *Associated Press*, June 11, 2005.

[46] Ibid.

[47] Ed Johnson, "G-8 Pact Slashes $40 Billion in Debt Relief," *Associated Press*, June 12, 2005.

[48] Ibid.

[49] Quoted in Shapi Shacinda and Mateus Chale, "Africans cheer G8 debt relief plan, want more done," *Reuters*, June 11, 2005.

continue to lend to poor countries.[50] Mr. Wolfowitz has also voiced support for the proposal.[51] However, several World Bank concerns with the proposal were reported in the press. These will be discussed below.

Key Details of the Agreement

If fully implemented, the agreement would result in immediate 100% cancellation of the remaining debts of 18 countries that have reached HIPC completion point ($40 billion) from the International Monetary Fund, the World Bank, and the African Development Bank, and total cancellation of $55.6 million if all HIPC-eligible countries complete the program. Decision point and pre-decision point countries would be eligible for 100% debt cancellation upon their completion of the HIPC program. Key features of the agreement are:

- World Bank and AfDB debt cancelled under the proposal will be deducted from gross country allocations and redistributed among all available countries.
- The amount of the redistributed assistance that the 18 completion point countries receive will depend on how they compare with other World Bank or AfDB countries. That they meet the economic targets to reach completion point should serve as assurance that they will receive some portion of the redistributed assistance under the proposal.
- The World Bank and the AfDB would receive additional contributions to offset "dollar for dollar" the principal and interest payments of forgiven debts. Additional funds would be made available immediately to cover the full costs during the next three years , covering current replenishment periods.[52]
- For the period after this, donors commit to cover the full costs for the duration of the cancelled loans by making additional contributions to the World Bank and the African Development Bank over the next 10 years.

The Bush Administration has not requested any new funds to cover debt relief during IDA-14 or AfDF-10. Reportedly, the intention is to finance the U.S. share of IDA and AfDF debt relief by early encashment of regular U.S. appropriated contributions.[53] Early encashment is the immediate disbursement of appropriated

[50] "IMF chief says debt relief must be well designed," *Reuters*, August 3, 2005.

[51] "Wolfowitz, in Nigeria, Praises G-8 Debt Plan," *World Bank*, June 13, 2005.

[52] Both IDA and the African Development Fund (AfDF), the AfDB's concessional lending facility are funded by three-year replenishments. IDA-14 and AfDF-10 are the most recent replenishment agreement, and both cover FY2006-FY2008.

[53] Comments by Gerry Flood, Counselor, Office of International Justice and Peace, U.S. (continued...)

http://wikileaks.org/wiki/CRS-RL33073

funds that are normally disbursed over a given period of time. This means that either more contributions will be asked for later to replace funds used by early encashment or IDA aid will shrink in the future unless higher contribution levels are appropriated. Donors also committed to finance debt relief for any new countries that enter the HIPC program, either among the nine countries that have not yet reached the decision point, or any new countries that the program accepts.

Potential Concerns

Since the proposal was released, several critiques of it have been published by various debt relief-related NGOs.[54] Four potential areas of concern are:

No Net Resource Gain. The proposed agreement specifies that HIPC countries that receive debt reduction will have their gross assistance flows reduced by the amount of debt forgiven. Many would prefer that any debt relief be additional to current assistance. This is based on the belief, which is supported by some, that according to recent research, one-for-one changes in debt service payments and official aid flows have no net effect on economic growth. In this view, any potential economic growth due to the increased resources provided by debt relief may be negated by a decrease in total net assistance.[55]

Limited Debt Cancellation. As proposed, the agreement only covers one regional development bank, the African Development Bank. Although the majority of HIPC countries are African, several are not, and many owe debt to the other regional banks, such as the Inter-American Development Bank or the Asian Development Bank. There are also many smaller sub-regional development banks to which the HIPCs are indebted.

Multilateral Development Bank Compensation is Not Guaranteed. The proposed agreement to compensate the IFIs only covers the next three years, through the completion of the most recent replenishments of the World Bank and the African Development Bank's concessional lending facilities. Future assistance to the development banks, compensating them for their debt relief, is not assured. The agreement states that "donors will commit to cover the full costs for the duration of the cancelled loans, by making contributions additional to *regular* replenishments" (emphasis added). However, there is no regular replenishment amount for either institution. Every three years, donor nations meet and decide how much to fund the institutions' concessional lending facilities. Since there is no baseline level of assistance, it may be impossible to know if the funds for debt relief are additional to

---

[53] (...continued)
Conference of Catholic Bishops, June 27, 2005.

[54] "Devilish Details: Implications of the G7 Debt Deal" *European Network on Debt and Development*, June 14, 2005; "G8 Debt Cancellation Deal: An Incomplete, Yet Positive Step Forward," *50 Years is Enough*, June 21, 2005; and "G8 cancellation of World Bank, IMF debt: 'step forward,'" *Bretton Woods Project*, June 13, 2005.

[55] Henrik Hanson, "The Impact of Aid and External Debt on Growth and Investment," Paper presented at the Wider Conference on Debt Relief, Helsinki, August 2001.

http://wikileaks.org/wiki/CRS-RL33073

the amount of funding that the multilateral development banks would normally receive.

The World Bank has expressed two additional concerns over the proposed debt relief terms. These are contained in an internal World Bank presentation that was leaked to the press.[56] First, although the World Bank will write off the debt owed it immediately, promised donor contributions to cover the cost of this debt relief will be spread out over the next decade. Since the agreement includes no binding future commitment to cover donor contributions during this period, the World Bank is concerned that donor countries may not be committed to compensating the World Bank for all of the debt payments it would have received from the debt relief recipients. Second, many concessional loans from the development banks have terms lasting up to forty years but the proposal only specifies repayment of lost debt payments for ten years. Theoretically, the Bank would lose 30 years' worth of repayments under the proposal.

In response, the World Bank has suggested donor countries either make legal commitments now for the extra money needed to finance the debt relief or allow creditor countries to receive debt relief over time by relieving payments as they come due rather than wiping out the entire stock of debt immediately. This would have the same effect on net flows to debt relief recipients without the World Bank assuming a potentially unfunded liability by cancelling all debts owed to it immediately. For the United States, making a legal commitment to finance additional debt relief would require congressional action.

Future Cost May Rise. Depending on which countries are added, the cost of HIPC may increase. When the HIPC program was designed in 1996, a two-year sunset clause was included to limit the countries eligible for debt relief to those that have reached decision point as well as to prevent HIPC from becoming a permanent facility. Since then, the sunset clause has been repeatedly extended. In September 2004, the World Bank and IMF Boards agreed again to extend the sunset clause by two years, through 2006.[57] The Boards also extended the sunset clause to IDA-only and PRGF-eligible countries that have not yet benefitted from HIPC relief.

In April 2006, the World Bank released a list of eleven countries that currently meet the HIPC income and indebtedness criteria and may wish to be considered for HIPC debt relief. The list includes seven countries previously identified as HIPCs (Central African Republic, Comoros, Cote d'Ivoire, Liberia, Somalia, Sudan, and Togo) and four new countries (Eritrea, Haiti, the Kyrgyz Republic, and Nepal). Three additional countries, Bhutan, Lao PDR, and Sri Lanka, also meet the HIPC criteria but do not wish to partake in the initiative. If HIPC debt relief is provided to

[56] Alan Beattie, "Bank Warns of Shortfall from G8 Debt Plans," *Financial Times*, August 2, 2005.

[57] "Note on the Status of Implementation of the HIPC Initiative and Further Considerations on an Operational Framework for Debt Sustainability in Low-Income Countries," Development Committee (Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund On the Transfer of Real Resources to Developing Countries), September 29, 2004.

http://wikileaks.org/wiki/CRS-RL33073

all eleven countries, the total cost is estimated at $21 billion, broken up among various creditors. The cost to bilateral Paris creditors is estimated at $10.2 billion, while the cost to the IMF and the World Bank would be $2.4 billion and $2.9 billion respectively.[58]

Several analysts have proposed extending the HIPC program to countries eligible for grant assistance from the World Bank. In November 2004, the World Bank created a framework to assess the level of debt burden necessary to qualify for 100 % grant assistance instead of loans.[59] Under the new "debt distress" framework, 47 countries are projected to receive grant financing, 42 of which will receive 100% of their IDA assistance in grants. The 47 countries eligible for grant assistance include 29 HIPC and 18 non-HIPC countries. According to one analyst, the debt burden of these 18 countries is comparable to those receiving HIPC assistance and they may be worthy of receiving debt relief under HIPC. This would mean an 18-country increase in the size of the HIPC program, and increase the amount of debt relief provided by an additional $31.8 billion in nominal debt relief. (**Appendix 4** provides debt information for the 18 additional countries.)

http://wikileaks.org/wiki/CRS-RL33073

Proposed Legislation

Several Members of Congress have introduced legislation in the 109th Congress that would extend debt relief to a larger group of countries than is already covered by HIPC.

Multilateral Debt Relief Act of 2005. Introduced by Senator Mike DeWine on June 28, 2005, the Multilateral Debt Relief Act of 2005 (S. 1320) would authorize the necessary funding to implement the June 2005 G8 debt relief and authorize the Secretary of the Treasury to instruct the U.S. Executive Director of each international financial institution to use the voice and vote of the United States to reach an agreement among the other shareholder nations to permanently cancel 100% of the debts owed to each institution by all HIPC countries.

The proposed legislation also expresses the sense of Congress to expand the list of countries eligible for debt relief. If enacted, the act would request that the Secretary of the Treasury pursue additional bilateral and multilateral debt relief (including the Inter-American Development Bank) for each of the 47 countries that are eligible for World Bank grant assistance.

Jubilee Act of 2005. Introduced by Representative Maxine Walters on March 3, 2005, the Jubilee Act of 2005, is a much broader piece of legislation, with higher costs. If enacted, H.R. 1130 would amend the International Financial Institutions Act to require the Secretary of the Treasury to commence immediate

---

[58] "Heavily Indebted Poor Countries (HIPC) Initiative - Listing of Ring-Fenced Countries that Meet the Income and Indebtedness Criteria at End-2004," *IMF and World Bank Development Committee*, April 14, 2006.

[59] "Debt Sustainability and Financing Terms in IDA 14: Further Considerations on Issues and Options" *International Development Association*, November 2004.

efforts, within the Paris Club, the International Monetary Fund, the World Bank, and other international financial institutions to:

- Cancel all debts owed to each institution by 50 eligible poor countries while limiting any waiting period before receipt of debt cancellation to one month from the date of an eligible poor country's application for it. If implemented, this immediate debt cancellation would inhibit the World Bank and the IMF from seeking economic reforms from creditor countries in exchange for the given debt relief.

- Encourage the government of each eligible poor country to allocate at least 20% of its national budget, including the savings from such debt cancellation, for the provision of basic public health care, education, and clean water to its citizens.

Unrelated to debt relief, the Jubilee Act of 2005 would also set forth requirements for establishing a framework to improve transparency regarding each international financial institution's activities; and require the availability on the Treasury Department's website of all U.S. Executive Directors' remarks at Bank or Fund meetings.

http://wikileaks.org/wiki/CRS-RL33073

Appendix 1: World Bank Debt and Poverty Ratings

Indebtedness is measured by the World Bank primarily using two debt service ratios: the ratio of the present value of total debt service to gross national income (PVGNI) and the ratio of the present value of total debt service to exports of goods and service (PV/XGS). According to the Bank, these ratios reflect two of most important aspect of a country's ability to service its debts: gross national income, since this is the broadest measure of a country's total income, and exports, since these are the revenue generating mechanism for debt service (exports provide foreign reserves which are needed to service debt).

If any of the 136 countries that the World Bank collects debt data on exceeds a critical value: 80% for the debt service to GNI ratio, or 220% for the debt service to exports ratio, the country is classified as severely indebted. A country is classified as moderately indebted if both of its debt ratios are three-fifths or more of the critical value (48% for the debt service to GNI ratio and 132% for the debt service to exports ratio) and less indebted if its debt ratios are below the three-fifths thresholds.

The World Bank also breaks out countries based on their level of income. Countries are classified as low income if their 2003 GNI per capita is $765 or less. Middle income countries are a much larger grouping including countries with GNI per capita between $766 and $9,385. By combining these two sets of indicators, the poorest and most indebted countries can be identified.

Table 4. World Bank Debt Categories

Income classification	PV/GNI greater than 80% or PV/XGS greater than 220%	PV/GNI less than 80% but greater than 48% and PV/XGS less than 220% but greater than 132%	PV/GNI less than 48% and PV/XGS less than 48%
Low-income: GNI per capita less than $765	Severely Indebted Low-Income Countries (SILICs)	Moderately Indebted Low-Income Countries (MILICs)	Less Indebted Low-Income Countries (LILICs)
Middle-income: GNI per capita between $766 and $9,385	Severely indebted middle-income countries (SIMICs)	Moderately indebted middle-income countries (MILICs)	Less indebted middle income countries (MILICs)

Source: World Bank, 2005 Global Development Finance.

http://wikileaks.org/wiki/CRS-RL33073

Table 5. World Bank Debt Ratings
(HIPC countries are highlighted)

Severely indebted low-income	Severely indebted middle-income	Moderately indebted low-income	Moderately indebted middle-income	Less indebted low-income	Less indebted middle-income
Angola	Argentina	Benin	**Bolivia**	Bangladesh	Albania
Bhutan	Belize	**Burkina Faso**	Cape Verde	Equatorial Guinea	Algeria
Burundi	Brazil	Cambodia	Chile	**Ghana**	Armenia
Central African Republic	Bulgaria	**Cameroon**	Colombia	Haiti	Azerbaijan
Chad	Croatia	**Ethiopia**	El Salvador	India	Barbados
Comoros	Dominica	Kenya	Honduras	Lesotho	Belarus
Congo, Dem. Rep. of	Ecuador	**Madagascar**	Hungary	**Mali**	Bosnia and Herzegovina
Congo, Rep. of	Estonia	**Mauritania**	Jamaica	**Mozambique**	Botswana
Cote d'Ivoire	Gabon	Moldova	Lithuania	Nepal	China
Eritrea	Grenada	Mongolia	Malaysia	**Nicaragua**	Costa Rica
Gambia, The	**Guyana**	**Niger**	Mauritius	**Senegal**	Czech Republic
Guinea	Indonesia	Nigeria	Paraguay	**Tanzania**	Djibouti
Guinea-Bissau	Jordan	Pakistan	Phillippines	Vietnam	Dominican Republic
Kyrgyz Republic	Kazakhstan	Papua New Guinea	Poland	Yemen	Egypt
Lao PDR	Latvia	Solomon Islands	Russia		Fiji
Liberia	Lebanon	**Uganda**	Slovak Republic		Georgia
Malawi	Maldives	Uzbekistan	Sri Lanka		Guatemala
Burma	Panama		St. Lucia		Iran
Rwanda	Peru		St. Vincent and the Grenadines		Macedonia
São Tomè and Principe	Samoa		Tunisia		Mexico

http://wikileaks.org/wiki/CRS-RL33073

Severely indebted low-income	**Severely indebted middle-income**	**Moderately indebted low-income**	**Moderately indebted middle-income**	**Less indebted low-income**	**Less indebted middle-income**
Sierra Leone	Serbia and Montenegro		Turkmenistan		Morocco
Somalia	Seychelles		Venezuela		Oman
Sudan	St. Kitts and Nevis				Romania
Tajikistan	Syria				South Africa
Togo	Turkey				Swaziland
Zambia	Uruguay				Thailand
Zimbabwe					Tonga
					Trinidad and Tobago
					Ukraine
					Vanuatu

Source: World Bank, 2005 Global Development Finance.

http://wikileaks.org/wiki/CRS-RL33073

Appendix 2: U.S. Debt Reduction Agreements FY1990-FY2004

(in U.S. $ millions)

Country	Date	572 Debt	411 Debt	EAI/ TFCA	Special Legislation	Paris Club/ HIPC	SEED	Total
Europe and the Middle East								
Bosnia	1999						24.0	**24.0**
Egypt	1990				6,998.1			**6,998.1**
Iraq	2005				3,914.2			**3,914.2**
Jordan	1995, 1997				698.4			**698.4**
Poland	1991				2,464.7			**2,464.7**
Yemen	2001					2.5		**2.5**
Yugoslavia	2002						538.4	**538.4**
Latin America								
Argentina	1993			3.8				**3.8**
Belize	2001			11.3				**11.3**
Bolivia	1991-2002	339.6		30.7		138.5		**508.8**
Chile	1991			30.6				**30.6**

http://wikileaks.org/wiki/CRS-RL33073

Country	Date	572 Debt	411 Debt	EAI/ TFCA	Special Legislation	Paris Club/ HIPC	SEED	Total
Colombia	1992			31.0				**31.0**
El Salvador	1992, 2001			484.8				**484.8**
Guyana	1991-2004	76.3	40.3			45.9		**162.5**
Haiti	1991, 1995		98.9			8.3		**107.2**
Honduras	1991-2000	333.9	108.9			146.0		**588.8**
Jamaica	1991, 2004			326.8				**326.8**
Nicaragua	1991-2003	259.5	24.8		3.3	102.1		**389.7**
Panama	2003-2004			20.9				**20.9**
Peru	1998, 2001			190.9				**190.9**
Uruguay	1992			3.7				**3.7**
Africa								
Benin	1989, 1991	29.8						**29.8**
Burkina Faso	1991	2.4						**2.4**
Cameroon	1990 - 2001	61.4				92.9		**154.3**

http://wikileaks.org/wiki/CRS-RL33073

Country	Date	572 Debt	411 Debt	EAI/ TFCA	Special Legislation	Paris Club/ HIPC	SEED	Total
Central African Republic	1995, 1998					6.9		**6.9**
Congo, Rep. of	1996					10.7		**10.7**
Congo, Dem. Rep. of	1989- 2002	54.1				1,538.8		**1,592.9**
Cote D'Ivoire	1990- 1998	17.9				220.4		**238.3**
Ethiopia	2001-2002					66.0		**66.0**
Ghana	1989- 2002	83.7	95.8			11.3		**190.8**
Guinea	1989-2001	4.5				126.7		**131.2**
Kenya	1990-1991	85.9	102.0					**187.9**
Madagascar	1990-1991	5.6	53.4			8.5		**67.5**
Malawi	1989, 1991	29.5	2.2					**31.7**
Mali	1989	5.1						**5.1**
Mauritania	2000					7.1		**7.1**
Mozambique	1991-2002		52.9			53.6		**106.5**
Niger	1990-2001	6.9				12.6		**19.5**

http://wikileaks.org/wiki/CRS-RL32113

Country	Date	572 Debt	411 Debt	EAI/ TFCA	Special Legislation	Paris Club/ HIPC	SEED	Total
Nigeria	1989	64.8						**64.8**
Rwanda	1998, 2001					2.4		**2.4**
Senegal	1991-2001		34.5			18.7		**53.2**
Sierra Leone	2002					71.4		**71.4**
Tanzania	1990-2001	79.7	59.1			35.3		**174.1**
Togo	1991	7.4						**7.4**
Uganda	1990-1998	8.6	16.3			0.9		**25.8**
Zambia	1991-2001	172.8				414.6		**587.4**
Asia								
Bangladesh	1991	291.6		0.6				**292.2**
Pakistan	2003-2004				1,471.5			**1,471.5**
Philippines	2002			8.4				**8.4**
Thailand	2001			11.5				**11.5**
World total		**2,021.0**	**689.1**	**1,155.0**	**15,550.2**	**3,142.1**	**562.4**	**23,119.8**

Source: The Department of the Treasury and the Office of Management and Budget, U.S. Government Foreign Credit Exposure As of December 31, 2004.

http://wikileaks.org/wiki/CRS-RL33073

Appendix 3: HIPC External Debt Profile

(2003, in U.S. $ millions)

Country	Total debt owed to the United States	Total external debt	External debt (PV) to exports of goods and services (PV/XGS)	External debt (PV) to gross national income (PV/GNI)
Benin	0.0	1,828	151%	28%
Bolivia	1.8	5,684	157%	38%
Burkina Faso	0.0	1,845	178%	19%
Burma	0.0	7,318	187%	—
Burundi	0.0	1,310	2,182%	150%
Cameroon	46.2	9,819	185%	53%
Central African Republic	10.0	1,328	1,319%	155%
Chad	0.0	1,499	254%	45%
Comoros	0.0	288	289%	79%
Congo, Dem. Rep.	1,656.3	11,170	625%	150%
Congo, Rep.	64.0	5,516	404%	368%
Cote d'Ivoire	327.7	12,187	176%	90%
Ethiopia	70.1	7,151	135%	24%
Gambia, The	0.0	629	202%	90%
Ghana	21.9	7,957	85%	38%
Guinea	126.7	3,457	225%	59%
Guinea-Bissau	0.0	745	594%	246%
Guyana	35.4	1,447	78%	84%
Honduras	108.1	5,641	106%	54%
Lao PDR	0.0	2,846	356%	91%
Liberia	363.3	2,567	1,630%	646%
Madagascar	41.2	4,958	138%	31%
Malawi	0.0	3,134	393%	108%

http://wikileaks.org/wiki/CRS-RL33073

Country	Total debt owed to the United States	Total external debt	External debt (PV) to exports of goods and services (PV/XGS)	External debt (PV) to gross national income (PV/GNI)
Mali	0.0	3,129	124%	42%
Mauritania	0.0	2,360	153%	73%
Mozambique	0.0	4,930	118%	38%
Nicaragua	96.8	6,915	98%	40%
Niger	10.3	2,116	148%	26%
Rwanda	1.3	1,540	615%	57%
São Tomé and Principe	0.0	338	770%	314%
Senegal	7.6	4,418	96%	36%
Sierra Leone	51.9	1,612	632%	118%
Somalia	592.7	2,838	—	—
Sudan	1,652.1	17,496	550%	120%
Tanzania	0.0	7,516	132%	22%
Togo	0.0	1,707	203%	91%
Uganda	0.0	4,553	170%	33%
Zambia	273.2	6,425	372%	121%
Total	**5,558.6**	**168,217**		

Source: World Bank, 2005 Global Development Finance.

http://wikileaks.org/wiki/CRS-RL33073

Appendix 4: Non-HIPC Countries Eligible for 100% World Bank Grant Assistance

(2003, in U.S. $ millions)

Country	Total debt owed to the United States	Total external debt	External debt (NPV) to exports of goods and services (PV/XGS)	External debt (NPV) to gross national income (PV/GNI)
Afghanistan	103.7	—	—	—
Angola	105.1	9,698	117	102
Bhutan	0.0	422	252	74
Cambodia	398.5	3,139	107	70
Eritrea	29.7	635	333	47
Georgia	39.6	1,935	122	43
Haiti	16.6	1,308	83	29
Kenya	53.8	6,766	162	43
Kosovo	—	—	—	—
Kyrgyz Republic	0.0	2,021	221	98
Lesotho	0.0	706	80	47
Moldova	58.2	1,901	146	95
Mongolia	0.0	1,472	140	95
Samoa	0.0	365	209	122
Solomon Islands	0.0	186	176	60
Tajikistan	19.3	1,166	112	77
Timor-Leste	—	—	—	—
Tonga	0.0	84	74	40
Total	**824.5**	**31,804**		

Source: World Bank, 2005 Global Development Finance.

http://wikileaks.org/wiki/CRS-RL33073