



# TRANSITION RECOMMENDATIONS

**Agency:**

U.S. Department of Treasury/International Affairs Division

**Focus Areas:**

Policy towards multilateral development banks and the IMF; Poor country debt relief; sustainable and responsible lending for poor countries

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Organizations endorsing these recommendations include:



**About Jubilee USA Network:** Founded in 1997, Jubilee USA is an alliance of 75 religious denominations, human rights, labor, environment, and development organizations working to build the political will for poor country debt cancellation and more responsible lending policies of international financial institutions.

# Summary

## **I. Statements by President-elect Obama and Vice President-elect Biden on debt cancellation**

“Debt forgiveness has to be a priority. You’ve got countries – in Sub Saharan Africa, 44% of its GDP is taken up in debt servicing. It is a crushing blow. So I will work with other countries in the developed world as well as multinational organizations to ensure we are moving rapidly towards loan forgiveness.” —President-elect Barack Obama, ONE.org On the Record video, 2008

## **II. Recommended First 100 Days Agenda**

1. Immediate debt cancellation for Haiti.
2. Support Liberia’s efforts to reach an agreement for debt cancellation from its commercial creditors.
3. Ensure that the U.S. meets its commitment to fund current debt relief programs by including full funding for the World Bank’s International Development Assistance (IDA) program in first budget request and by requesting funding to begin repayment of U.S. arrears to IDA.
4. At the ministerial meeting of the G-20 in London in March 2009, announce U.S. support for discussion of proposals tabled by the host government (the UK) on sustainable and responsible lending.
5. Urge Congress to condition its support for IMF gold sales on IMF reform and the use of a portion of the money to fund debt relief.
6. Create an International Debt Office for Inter-Agency Coordination by Executive Order.

## **III. Recommended Top Policy Issues 2009-2012**

1. Poor Country Debt Relief — Efficient Implementation of the Current Debt Relief Program; Full Funding for U.S. Debt Relief Commitments; and Expanding Access to Additional Poor Countries.
2. Reform IMF/World Bank Policy Conditionality.
3. Address Odious and Illegitimate Debt.
4. Promote Responsible Lending and Stop Vulture Funds from Preying on Impoverished Countries.

## Statements by President-elect Obama and Vice President-elect Biden on debt cancellation

“Debt forgiveness has to be a priority. You’ve got countries – in Sub Saharan Africa, 44% of its GDP is taken up in debt servicing. It is a crushing blow. So I will work with other countries in the developed world as well as multinational organizations to ensure we are moving rapidly towards loan forgiveness.” —President-elect Barack Obama, ONE.org On the Record video, 2008<sup>1</sup>

The President-elect and Vice-President-elect have demonstrated leadership in efforts to alleviate global poverty, including debt relief for poor countries. As Senators, both were original co-sponsors of the Jubilee Act for Responsible Lending and Expanded Debt Cancellation (S. 2166 / H.R. 2634) in the 110th Congress. This legislation:

- Requires the Secretary of the Treasury to work within the Paris Club of bilateral creditors and within the multilateral development banks to expand access to debt cancellation to 24 additional poor nations that need debt relief to meet the Millennium Development Goals;
- Urges that more resources be devoted to grants for the world’s poorest countries;
- Requires greater transparency in the transactions of IFIs, including a policy of maximum disclosure in project and loan documents;
- Urges the development of a binding framework for more responsible lending practices in the future;
- Limits the policy conditions required of countries going through the debt relief process to those ensuring that money released by debt relief is used transparently and accountably to address poverty; and
- Directs the Government Accountability Office (GAO) to undertake an audit of “odious, onerous, or illegal” lending by the World Bank, IMF, and the U.S. government in specific countries.

The U.S. House of Representatives passed H.R. 2634 on April 16, 2008 with a bi-partisan majority of 285-132. On June 24, 2008 the Senate Foreign Relations Committee passed S. 2166 with 26 co-sponsors, including seven Republican Senators and one Independent.

Also, in 2005, Senator Biden played a critical leadership role to ensure Senate support for the G-8 agreement that created the Multilateral Debt Relief Initiative (MDRI).

In addition to his record of support in the U.S. Senate, President-elect Obama made several specific commitments in support of poor country debt relief on the campaign trail and in his campaign policy papers.

In his platform on global poverty, President-elect Obama stated “The poorest countries in the world suffer under the weight of an enormous burden of external debt. Resources are flowing out of the least developed countries to creditors in the rich world, when these resources are desperately needed for health care, education, and infrastructure. We have seen that multilateral debt relief can be effective – 30 countries have seen their debt stocks reduced by almost 90 percent – but more relief is needed. Barack Obama wants to

<sup>1</sup> ONE.org On the Record campaign. Video online at <http://www.youtube.com/watch?v=8puAo2A8BZ8&eurl=http://www.onevote08.org/ontherecord/obamaupdated.html>

see 100 percent debt cancellation for the world's heavily-indebted poor countries. He is committed to living up to the promise to fully fund debt cancellation for Heavily-Indebted Poor Countries (HIPC). An Obama administration will also dedicate itself to preventing a future in which poor countries face pressing debt burdens again. He will press for reforms at the World Bank to ensure that poor countries receive grants rather than loans, and that countries have the resources they need to respond to the external shocks that threaten to derail economic progress. And as president, Barack Obama will lead a multilateral effort to address the issue of 'odious debt' by investigating ways in which 'loan sanctions' might be employed to create disincentives for private creditors to lend money to repressive, authoritarian regimes."<sup>2</sup>

On IMF/World Bank reform, President-elect Obama commits to "lead Efforts to Reform the IMF and the World Bank. The International Monetary Fund (IMF) and the World Bank have contributed in important ways to an era of tremendous openness and global growth since 1945, but both institutions face crises of governance and are in need of modernization and reform. As president, Barack Obama will lead an effort in the G-8 to achieve a new consensus on the missions of the IMF and the World Bank, while at the same time securing necessary changes in how both institutions are governed to reflect the increasing influence of middle-income countries."<sup>3</sup>

In his platform on policy towards Latin America, President-elect Obama says: "We have seen that multilateral debt relief can be effective – 30 countries have seen their debt stocks reduced by almost 90 percent – but more relief is needed. Barack Obama wants to see 100 percent debt cancellation for the world's Heavily-Indebted Poor Countries, including Bolivia, Guyana, Haiti, Honduras, Paraguay, and St. Lucia."<sup>4</sup>

<sup>2</sup> Obama for America, "Strengthening our common security by investing in our common humanity," November 2007.

<sup>3</sup> Ibid.

<sup>4</sup> Obama for America, "A New Partnership for the Americas," June 2008.

# Recommended First 100 Days Agenda

The First 100 days present an opportunity for the new administration to highlight its commitment and support for poor country debt relief, responsible lending, and World Bank/IMF policy reform. The following goals can be achieved by the executive branch without new Congressional authority or action. These simple steps would be a powerful signal that the new administration is committed to addressing international debt and the need for more responsible lending policies while upholding the budgetary commitments made by the current administration.

Suggested elements of the first 100 days agenda include:

- 1. Immediate debt cancellation for Haiti.** Haiti is one of the poorest countries in the western hemisphere and has been paying \$1 million in debt service every week despite an escalating food crisis and four devastating hurricanes in 2008. Haiti is not scheduled to receive debt cancellation until it reaches completion point under the Heavily Indebted Poor Countries (HIPC) program. Despite Haiti's desperate circumstances, completion point was recently pushed back a further six months to mid-2009. The Obama Administration should instruct U.S. Executive Directors on the Boards of the World Bank and the Inter-American Development Bank to support immediate debt cancellation and immediate progress to "completion point" for Haiti. If this is not possible, the Obama administration should call for a moratorium on payments by Haiti to these institutions until completion point is reached.
- 2. Support Liberia's efforts to reach an agreement with its commercial creditors.** Much of Liberia's commercial debt is held by vulture funds, investment funds which buy debt from the original lender for pennies on the dollar and then sue for an amount far exceeding the purchase price in an attempt to collect enormous profits. Liberia currently faces 10 litigating creditors that are suing for an amount equivalent of almost 20% of Liberia's GDP. The World Bank is working on a Debt Reduction Facility arrangement to buy back Liberia's debt from its commercial creditors. The Obama administration should continue to support these efforts and do everything possible to finalize the buy-back of Liberia's commercial debt. As a minimum financial commitment, it should uphold the Bush Administration's commitment of at least \$5 million toward the buyback, which has already been authorized by Congress.
- 3. In the President's budget request, ensure full funding for the World Bank's International Development Assistance (IDA) program, including beginning payment of U.S. arrears to IDA, so that the U.S. meets its commitments to fund debt relief under the Heavily Indebted Poor Country (HIPC) program and the Multilateral Debt Relief Initiative (MDRI).** Debt relief is an efficient and effective form of foreign assistance. It is essential that the U.S. uphold its financial obligation to existing debt relief programs. The Treasury Department has made a budgetary request of \$140 million to cover costs related to HIPC/MDRI in FY09. Jubilee fully supports this request. In the President's budget request for FY10, the administration should again ensure full funding of IDA and begin to allocate funds to pay down its arrears to the World Bank. The U.S. is currently \$386 million in arrears on its obligations to IDA.
- 4. At the ministerial meeting of the G-20 in London in March 2009, announce U.S. support for discussion of proposals tabled by the host government (the UK) on sustainable and responsible lending.** The first ministerial meeting will be held in London in March and will be chaired

by the UK. The UK has tabled a proposal to discuss sustainable and responsible lending. At this meeting, the administration should announce its support for discussion of sustainable/responsible lending. Without significant progress towards responsible lending, the achievements of debt cancellation will be in jeopardy and global South countries will be more likely to face unsustainable and irresponsible debt burdens.

**5. Urge Congress to condition the sale of IMF gold for administrative costs on IMF reform and**

**the requirement that an equivalent amount of gold sales be used to fund debt relief.** Following an agreement reached by the IMF Board with U.S. support in spring 2008, the Bush Administration sent a request to Congress for authorization of IMF gold in late 2008. President-elect Obama should support efforts in Congress to condition gold sales on IMF reforms, especially relating to the IMF's policies toward poor countries, and to authorize an equivalent additional amount of gold sales for a trust fund to finance poor country debt relief.

**6. Create an International Debt Office for Inter-Agency Coordination by Executive Order.**

While the U.S. has recognized debt cancellation as a critical aspect of our foreign aid initiatives, responsibility for debt-related issues is fragmented and diffuse. Currently, responsibilities are divided between the Office of Management and Budget, U.S. Treasury, and the Department of State. Communication and coordination between these institutions can be challenging and inefficient. A new interagency office on debt cancellation, which would be responsible for facilitating inter-agency cooperation within the US government to promote more transparent and responsible lending practices, could facilitate efficient coordination of debt cancellation initiatives and accelerate progress toward the cancellation of developing country debt. Consistent U.S. debt cancellation policies facilitated by this office would enable more collaborative work with European partners and developing nations. This office would also be the primary instrument for outreach, coordination and collaboration with institutions outside the administration, including members of Congress, the United Nations Independent Expert on Debt and non-governmental organizations (NGOs).

# Recommended Top Policy Issues 2009-2012

## **1. Poor Country Debt Relief – Efficient Implementation of the Current Debt Relief Program; Full Funding for U.S. Debt Relief Commitments; and Expanding Access to Additional Poor Countries**

### **Background**

Impoverished countries in Africa, Latin America, and Asia have struggled under the crushing burden of unjust international debts for decades. In the mid 1990s, Jubilee campaigners and partners across the globe united to bring international attention to the debt crisis. This pressure led to a series of commitments from the United States government, other G-8 nations, and international financial institutions to provide debt relief for some of the world's poorest countries.

Since the creation of the IMF/World Bank Heavily Indebted Countries Initiative (HIPC) in 1996, more than 30 nations have received some form of debt relief. 33 nations have reached "completion point" in the HIPC Initiative and have received 100% cancellation of eligible debt stock. Congress has demonstrated its support for bilateral and multilateral debt relief through legislation and appropriations in 1999, 2001, 2003, 2005, and 2008.

At the G-8 Summit in 2005 the Multilateral Debt Relief Initiative (MDRI) was created. This initiative made it possible for the first time to achieve 100 % debt stock cancellation for qualifying debts owed by eligible poor nations to the IMF, the World Bank, and the African Development Bank. To date, 23 nations have seen their debts to the IMF, World Bank and African Development Bank cancelled under the terms of the MDRI.

Still, the 66 most impoverished countries in the world (those eligible for support only from the International Development Association arm of the World Bank, or so-called "IDA-only" countries) have paid more than \$230 billion since 1996 to service their foreign debt, an amount exceeding the grants these countries have received from donor governments over the same period. Even with the progress made on debt relief in the past 11 years, the reality is that the majority of the poorest nations in the world are still mired in a debt crisis.

Debt cancellation is important because it frees resources that are desperately needed for poverty reduction programs in the world's poorest countries. As a result of poor country debt cancellation to date:

- Mozambique is able to provide free immunization to its children
- Burkina Faso increased funding for clean water by 26%. Over a million additional people have access to clean, safe water near their homes
- School fees were eliminated in Burundi. An additional 300,000 children were enrolled in classes a year later
- Nigeria's president committed 10% of the money saved to the fight against HIV/AIDS
- Ghana improved basic infrastructure, including rural roads, while increasing expenditures on education and health care

**Policy Recommendations: Administrative**

**1. Ensure the efficient implementation of the current debt relief program (HIPC/MDRI)**

- Ensure that those countries eligible for the HIPC/MDRI initiatives do not face excessive delays in receiving their relief.
- Focus on winning immediate debt cancellation for Haiti. A recent report on the Heavily Indebted Poor Countries debt relief initiative produced for the annual meetings of the World Bank and IMF announced that the likely date for Haiti to receive debt relief has been pushed back six months from ‘last quarter 2008’ to ‘first half 2009’.<sup>5</sup> Haiti is paying \$1 million a week in debt repayments despite an escalating food crisis and four hurricanes in late 2008.
  - Political appointee with direct responsibility: Deputy Assistant Secretary for IDA and Debt

**2. Ensure full funding for existing U.S. debt relief commitments**

- Include full funding for IDA and coverage of U.S. arrears in the President’s budget request to Congress so that the U.S. meets its commitments to fund debt relief under HIPC and the MDRI.
  - Political appointee with direct responsibility: Deputy Assistant Secretary for IDA and Debt

**3. Expand debt relief to all countries that need it to meet the Millennium Development Goals (MDGs)**

- Negotiate a multilateral agreement at the Paris Club of bilateral creditors, multilateral development banks and the IMF to create a path to debt cancellation for the 24 remaining countries with “IDA only” status at the World Bank and a per capita income of less than \$3 per day that are not eligible for current debt relief programs.
  - Political appointee with direct responsibility: Assistant Secretary for International Affairs; Deputy Assistant Secretary for IDA and Debt
- Urge Congress to condition the sale of IMF gold for administrative costs on IMF reform and the requirement that an equivalent amount of gold sales be used to fund debt relief. The Bush administration submitted a request for Congressional authorization of gold sales late in 2008. President-elect Obama should support efforts in Congress to condition gold sales on IMF reforms, especially relating to IMF policies toward poor countries, and to authorize an equivalent amount of gold sales for a trust fund to finance poor country debt relief.
  - Political appointee with direct responsibility: Deputy Assistant Secretary for International Monetary Policy

**Policy Recommendations: Legislative**

**1. Pass the Jubilee Act for Responsible Lending and Expanded Debt Cancellation Introduced in the 110th Congress,**

The Jubilee Act for Responsible Lending and Expanded Debt Cancellation (H.R. 2634/ S. 2166) would expand debt cancellation to impoverished countries that need it to fight poverty, promote responsible lending and require an audit of odious, illegal and onerous loans. The Jubilee Act builds on the historic achievements on debt relief of the past decade and addresses policy challenges that have emerged. The legislation:

<sup>5</sup>See Heavily Indebted Poor Countries Initiative: Status of Implementation report, World Bank and International Monetary Fund, 12 September 2008.

- Calls on the U.S. Treasury Department to negotiate a multilateral agreement for debt cancellation for up to 24 additional poor countries that need cancellation to meet the Millennium Development Goals (MDGs). These are all very poor countries with “IDA only” status at the World Bank and a per capita income of less than \$3 per day;
- Includes strong safeguards to ensure that the money freed up by debt cancellation is used to combat extreme poverty in qualifying countries. In order to qualify, countries must meet strict criteria regarding public financial management and transparency and must report annually on how the money is used. Countries that violate human rights, have an excessive level of military expenditures, or have poor records on terrorism or narcotics control would not qualify for cancellation;

The Jubilee Act has received broad bi-partisan support in Congress. The House version (H.R.2634) was introduced by Rep. Waters (D-CA) and Rep. Bachus (R-AL). The Senate version, (S.2166) was introduced by Sen. Casey (D-PA), Sen. Lugar (R-IN) and Sen. Dodd (D-CT). The House of Representatives passed the bill by a 285-132 vote on April 16, 2008 and the Senate Foreign Relations Committee reported the bill out on June 24th, 2008.

The Jubilee Act is under consideration for Senate passage by unanimous consent, but it is currently being blocked by one Senator — Sen. Tom Coburn (R-OK).

### **Policy Recommendations: Budgetary Implications**

- 1. Ensure the efficient implementation of the current debt relief program (HIPC/MDRI).** In 2008 the final costs of covering current debt relief programs was \$30 million. The Treasury Department has made a budgetary request of \$141 million to cover costs related to HIPC/MDRI in 2009 and \$145 million in 2010. This increase is largely to cover the costs of debt cancellation for the Democratic Republic of Congo which has significant debt, when it becomes eligible for the MDRI. Jubilee fully supports these requests and emphasizes the need to fully fund current international debt relief programs.
- 2. Ensure full funding for existing U.S. debt relief commitments.** In the President's budget request, ensure full funding for IDA, including arrears. Currently, the U.S. is \$386 million in arrears on its obligations to IDA. President-elect Obama's first budget request should include full funding for IDA, including payment of arrears, so that the U.S. meets its commitments to fund debt relief. In 2008 the funds allocated to IDA amounted to \$942 million. The Department of Treasury has requested \$1.235 billion in 2009 and \$1.332 billion in 2010 for IDA. Jubilee USA supports this request.
- 3. Expand debt relief to more countries.** *Bilateral Debt.* Upon conclusion of international negotiations and a new debt deal in two or three years, Jubilee USA expects that there will be nine additional countries eligible for immediate debt relief. The cost to the United States to cancel its portion of the debt owed by those nine countries is estimated to be \$119 million. This estimate assumes, as is expected, that Vietnam will not opt in to the agreement in order maintain its credit rating. The total cost to the United States for all 24 countries would be approximately \$957 million. Spread over nine years, this amounts to an average annual cost to the U.S. of \$106 million. It should be emphasized that the actual time period for all 24 countries to qualify may be longer than nine years, in which case the annual average costs would be lower.

*Multilateral Debt.* The overwhelming majority of the debts owed by the countries made eligible for debt relief by the bill are held by the World Bank, IMF, and other multilateral lenders. In total, for all 24 IDA-only countries not currently eligible for debt cancellation, it would cost about \$24 billion to cancel the World Bank debt and another \$11 billion for debt owed to regional development banks. Jubilee USA Network has identified resources within the IMF and World Bank which are additional – the sale of IMF gold, the use of excess International Bank for Reconstruction and Development (IBRD) reserves, and increased allocation of IBRD/International Finance Corporation (IFC) net income to IDA – that could fund the majority of the multilateral cancellation envisioned in the Jubilee Act. While we strongly believe that these additional internal resources of the international financial institutions can and should be used, the U.S. may need to increase its contribution to IDA to cover the costs. Even in this scenario, the costs involved would be modest. For the nine countries expected to initially qualify, assuming Vietnam does not opt in, we estimate that the U.S.’ fair share of additional annual contributions to IDA following an agreement would be \$235 million per year for three years.

## 2. Reforming IMF/World Bank Conditionality Policies

### Background

The current HIPC debt relief program requires nations to implement a series of strict economic policy requirements before receiving debt cancellation. Jubilee USA supports requirements that encourage full transparency, accountability and poverty reduction. However, many of the conditions the IMF and World Bank attach to debt relief are controversial because an increasing body of evidence suggests that many IMF conditions harm, rather than help, those most in need.

A growing number of analysts including the Center for Global Development<sup>6</sup> have criticized the IMF in particular for being overly stringent in its requirements that poor countries have low inflation, pay down domestic debt, limit spending on public sector salaries for doctors and teachers, and maintain high currency reserves. In the case of Nicaragua, the IMF required the country to use the majority of its debt relief proceeds to bolster its foreign currency reserves and pay down its domestic debt. As a result, Nicaragua was able to free up only a few million dollars of its debt cancellation monies for social investment as of late 2006.<sup>7</sup> Nicaragua was also required to privatize electricity as a condition of debt relief. Following privatization, electricity prices rose by 200%, pricing the poor out of the market, and blackouts became frequent.

Conditionality for debt relief should be limited to requirements that ensure transparency, accountability and poverty reduction. In the short term, we urge the President-elect to push for reforms in IMF policies toward impoverished countries to reduce harmful conditionality and ensure greater policy space to allow poor countries to invest sufficiently in their development.

### Policy Recommendations: Administrative

- 1. No financial sector liberalization.** Given the financial crisis, IMF programs should not demand or

<sup>6</sup>Goldsborough, David, “Does the IMF Constrain Health Spending in Poor Countries? Evidence and an Agenda For Action,” Center for Global Development, July 2007

<sup>7</sup>Acevedo, Adolfo “Nicaragua: The “Millennium Development Goals” (MDGs) and the IMF program,” p. 9-11, 2006. Available: [http://www.choike.org/documentos/ifis\\_odm\\_fmi\\_nicaragua.pdf](http://www.choike.org/documentos/ifis_odm_fmi_nicaragua.pdf).

encourage financial sector liberalization. Countries must be free to employ capital controls and other modes of regulation to capital accounts in order to buffer extraordinary capital outflows and inflows. According to the latest data, capital flows from Western financial institutions to emerging markets plunged from \$900 billion to a mere \$56 billion this year (6% of last year's amount). Clearly, this hemorrhaging of financial resources legitimizes capital account and exchange rate regulations as well as other measures by the state to intervene in national financial markets in the same manner that Western countries, like the United States, already have.

- 2. Let developing countries pursue expansionary macroeconomic policies.** Countries must be free to pursue expansionary economic policies. It does not make sense to pursue restrictive policies to redress inflation caused by currency devaluations that are largely unrelated to any domestic policy. Similarly, in a time of global recession, countries must be free to run fiscal deficits in order to build national demand and meet important social needs. Most inflation in developing countries is a result of imported or exogenous sources of inflation in global commodity markets. In the global financial crisis and world economic recession, tightening fiscal-monetary policies is not only the very opposite of what the G-7 countries have been doing but it is also clearly unjustifiable in terms of development. The theoretical rationale behind the IMF's macroeconomic targets regarding inflation and fiscal deficit levels must be re-examined.
- 3. The IMF should not impede public spending through budget caps.** Specifically, the IMF must not impede countries from expanding government spending—free from any overall budget caps or overly restrictive fiscal deficit targets—on activities primarily involving domestic inputs including services such as healthcare and education. Increased domestic spending in health and education is especially important in times of recession, as low-income countries are even less able to afford essential services. The potential risks of IMF signaling increased national macroeconomic instability to donor agencies is all the more apparent in the context of the global financial crisis. Consequently, it is important to drop the IMF's overly restrictive macroeconomic targets such as inflation below 5% and fiscal deficits below 3%.
- 4. IMF policies need to generate decent work.** The IMF must address the crisis in economic inequality, which is at the root of the current financial crisis. In both developed and developing countries, worker productivity has steadily increased while real wages have failed to keep pace. The IMF must abandon policies that choke off job creation; and should instead be supportive of macroeconomic and labor market initiatives designed to promote jobs founded on the International Labor Organization (ILO) concept of Decent Work. Further, there should be a strong commitment to the provision of publicly financed public services, performed by public employees.
- 5. Transparency and access to information at the IMF is vital.** Transparency and the right to access information must be strengthened at the IMF. Disclosure of IMF draft policy papers, technical assistance reports, and Executive Board documents – such as the minutes of Board meetings – is imperative to facilitating informed participation by external stakeholders in national economic decision-making and to ensuring citizens' ability to hold their governments accountable.
- 6. Participation must be expanded.** IMF practices must change to ensure national, democratic decision-making over policymaking. The operational process of IMF Mission Teams that visit countries to review loan agreements or conduct annual surveillance (Article IV reports) must facilitate open and informed consultations with a wide range of external stakeholders, not just with the Ministry of Finance and the Central Bank. Stakeholders should include all relevant government ministries (including health and

education), independent economists and academic specialists, national civil society and labor unions. In particular, parliamentarians should have the right to view and discuss every loan program document before they are signed by the national finance ministries and central banks. These broad and meaningful consultations should occur before a country's macroeconomic policies are set.

- Political appointee with direct responsibility: Deputy Assistant Secretary for International Monetary Policy

### **Policy Recommendations: Legislative**

- 1. Urge Congress to condition authorization of IMF gold sales on IMF reform.** The new administration will need to submit a request to Congress for authorization for gold sales very early in 2009. The administration should support efforts in Congress to condition authorization of gold sales on reforms, especially of the IMF's dealings with poor countries
- 2. Support language in the current Congressional authorization for IDA-15.** The House Financial Services Committee has authorized US participation in IDA-15 along with several conditions, including that World Bank assistance not come with conditions except for those that relate to participation, transparency, and accountability. The US Treasury department should work to implement this language. In 2011, IDA will be again up for replenishment: officials should work with Congressional advocates to win authorization of IDA with further reforms of World Bank conditionality policy in the context of IDA-16.

### **Policy Recommendations: Budgetary**

There are no known budgetary implications of these policy recommendations.

### 3. Addressing Odious and Illegitimate debt

#### Background

There is a growing legal and political interest in the concepts of odious and illegitimate debt. Notably, the U.S. government-led push for cancellation of Iraq's debt highlighted the odious nature of the previous Iraqi government. Although the decision to provide cancellation was ultimately made on the basis of debt sustainability, the debate surely raised the profile of the odious debt issue.

In October 2006 Norway became the first government to unilaterally cancel specific debt claims on the grounds that the loans in question represented "failed development policy". Meanwhile, calls for comprehensive audits of debts suspected to be odious or illegitimate have been raised throughout the global South, with civil society in numerous countries initiating citizens' debt audits. In 2007, Ecuador became the first government to convene an official debt audit commission, to assess the legitimacy of historical lending to Ecuador.

At the multilateral level the issue of odious debt has been the subject of recent papers by UNCTAD<sup>8</sup> and the World Bank<sup>9</sup> and is part of the work program of the UN Independent Expert on Foreign Debt and Human Rights.

#### Policy Recommendations: Administrative

**1. Support audits of developing country debt.** There is a growing call by developing country civil society groups and governments to enact audits of previous loans. The U.S. administration should cooperate with requests for documents related to loans from countries undertaking an audit

- Political appointee with direct responsibility: Assistant Secretary of the Treasury for International Affairs

**2. Support UN, Paris Club, and World Bank processes to further explore and develop consensus on the concept of odious and illegitimate debts.** State department and Treasury department officials should support processes in UNCTAD, the UN Human Rights Council, and the Paris Club to undertake further study and research into the concepts of odious and illegitimate debt.

- Political appointee with direct responsibility: Deputy Assistant Secretary for IDA and Debt; State department officials; Representative to the Paris Club

#### Policy Recommendations: Legislative

**1. Jubilee Act.** Support call for debt audits by the GAO as included in the Jubilee Act.

#### Policy Recommendations: Budgetary

There are no known budgetary implications of these policy recommendations.

<sup>8</sup> Robert Howse. "The Concept of Odious Debt in Public International Law." UNCTAD, July 2007.

<sup>9</sup> "The Concept of Odious Debts: some considerations." The World Bank, September 2007.

## 4. Promoting Responsible Lending and Stopping Vulture Funds

### Background

The current financial crisis and the third world debt crisis which began in the late 1970s both share a similar cause: reckless lending. In the case of the current crisis, most observers agree that the sub-prime mortgage industry extended too many risky, irresponsible loans and these practices became an underlying cause of the financial crisis we face today. Likewise, in the late 1970s, commercial lenders extended credit to developing nations with scant regard for their capacity to repay or the quality of the loan, a practice that led to the third World debt crisis of the 1980s.

Following the Third World debt crisis and decades of campaigning by NGOs, by the late 1990s, some poor countries began to get debt relief. But little progress has been made on more structural reforms to change the practices of lending and borrowing globally. The current crisis is a clarion call to advocates and policymakers that these mistakes must not be repeated.

In this moment of crisis, the need for strong, binding standards on lending and borrowing by governments, international financial institutions, and commercial lenders has never been greater. But even before the current crisis, there was growing official recognition and discourse on the need for policies for more sustainable and/or responsible financing in a range of multilateral venues – including the OECD, the G-8, the G-20, UNCTAD, and the IMF/World Bank. But to date, the discourse and debate on the issue of sustainable/responsible lending/borrowing has been largely focused on the quantity rather than the quality of lending, and the discussion has tended to focus nearly exclusively on the challenge to debt sustainability presented by China's increased role in lending in Africa. While this is no doubt a significant issue, there is much more to be done on responsible lending. The need for a global, binding set of rules to ensure responsible lending and borrowing is urgent.

While working towards the adoption of a global framework for responsible lending which will take several years, immediate action is necessary to address vulture funds which seek to make a profit by suing poor countries saddled with debt.

While the international community was extending debt relief to some impoverished countries, a new form of business emerged to speculate in and profiteer from poor country debt in default. This profiteering comes at the expense of the citizens of these indebted countries – some of the poorest in the world – as well as taxpayers in countries like the United States, who have been supporting the cost of debt relief.

Vulture funds operate by attempting to buy debt at a steep discount and take legal action to seek repayment of the original amount and more. They often target impoverished countries' debt which has not been cancelled or restructured according to HIPC or MDRI terms. Firms call this capitalizing, but debt campaigners consider this “vulture fund” activity. Vulture fund activity has increased in the past three years with the provision of debt cancellation, as vulture funds seize on the opportunity presented by resources newly freed or about to be released by debt relief. Vulture funds have filed a large and growing number of lawsuits against HIPCs.

The Jubilee USA Network, along with other groups in the U.S., the UK and across Africa, Asia, and Latin America, is increasingly monitoring the activity of vulture funds and working to publicize and curtail their activity.

### **Policy Recommendations: Administrative**

**1. At the ministerial meeting of the G-20 in London in March 2009, announce U.S. support for discussion of proposals tabled by the host government (the UK) on sustainable and responsible lending.**

The first ministerial meeting will be held in London in March and will be chaired by the UK. The UK has tabled a proposal to discuss sustainable and responsible lending. At this meeting, the administration should announce its support for discussion of sustainable/responsible lending. Without significant progress towards responsible lending, the achievements of debt cancellation will be in jeopardy and global South countries will be more likely to face unsustainable and irresponsible debt burdens.

- Political appointee with direct responsibility: Deputy Assistant Secretary for IDA and Debt

**2. Support Liberia's efforts to reach an agreement with its commercial creditors.** The World Bank is currently working on a Debt Reduction Facility arrangement for Liberia to buy back Liberia's debt from its commercial creditors. Liberia currently has 10 litigating creditors with claims worth \$130 million --17.8 % of Liberia's GDP.<sup>10</sup> The US should continue its support for this commercial debt buy-back and uphold the current U.S. commitment of at least \$5 million towards the necessary funding package.

- Political appointee with direct responsibility: Deputy Assistant Secretary for IDA and Debt

**3. Achieve support for tough new regulations and legislation to curb the practices of vulture funds which are undermining the benefits of debt relief to poor countries.**

- Political appointee with direct responsibility: Assistant Secretary for International Affairs

### **Policy Recommendations: Legislative**

**1. The Stop VULTURE Funds Act (H.R. 6796) is a bill in the House of Representatives that would prevent vulture funds from making excessive profit off the debt of the world's poorest nations.**

The legislation:

- Makes it illegal for any private creditor holding defaulted sovereign debt to use litigation in a U.S. court, or the threat of such a lawsuit, to achieve payment of more than the total amount paid for the debt plus 6% simple interest from the date the debt was acquired from a qualified poor country. This 6% represents a standard, internationally accepted interest rate in debtor-creditor arrangements. Firms or individuals violating this law would be fined an amount equal to the sum they sought to achieve through profiteering litigation.
- Makes it unlawful for persons or companies based in the U.S. to engage in vulture behavior anywhere in the world. Ultimately, this bill seeks to curtail vulture activity by cutting off as many profiteering avenues as possible.
- Mandates that before taking legal action in a U.S. court to collect sovereign debt, a creditor must register this claim in writing with the U.S. Treasury and with the government of the country being sued, including how much was paid for the debt. The country being sued would be entitled to discovery and could investigate the substance of all claims. This is essential because Vulture Funds tend to operate in a very secretive manner, both in corporate formation, and in their daily behaviors. In some cases, the vultures file suits without notifying the debtor country.

### **Policy Recommendations: Budgetary**

There are no known budgetary implications of these policy recommendations.

<sup>10</sup> HIPC Status of Implementation Report – see under 7.