

**Testimony by Neil Watkins, National Coordinator, Jubilee USA Network,
to the House Financial Services Committee, November 8, 2007,
Hearing on the Jubilee Act for Responsible Lending and Expanded Debt Cancellation of
2007 (H.R. 2634)**

I'd like to thank Chairman Frank and Ranking Member Bachus, who together with Congresswoman Waters have been long-time champions of debt cancellation, and all the members of the committee for the invitation to share this testimony today. I come before you today as a representative of Jubilee USA Network. Jubilee USA is an alliance of more than 80 religious denominations, faith-based networks, development agencies, and labor, environment and community organizations working to generate the political will for more responsible lending and cancellation of unjust debts to fight poverty in Africa, Asia, and Latin America. Founded in 1997, Jubilee USA is the US arm of the global Jubilee debt cancellation movement. We are grateful for this committee's leadership in addressing the crisis of international debt and for many of its members' long-time support for the campaign for cancellation of impoverished country debt.

I. Debt Relief Efforts To Date

Impoverished countries in Africa, Latin America, and Asia have been struggling under the crushing burden of unjust international debts for decades. In the mid 1990s, Jubilee campaigners and partners across the globe, including members of this committee, united to bring attention to the debt crisis at an international level. 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 nations.

Since the creation of the IMF/World Bank Heavily Indebted Poor Countries Initiative (HIPC) in 1996, more than 30 nations have now received some form of debt relief. 22 nations have reached "completion point" in the HIPC Initiative and have received 100% cancellation of eligible debt stock.

In the United States, support for the debt relief provided to date has been bi-partisan and has come from both the legislative and executive branches. Congress has demonstrated its support for bilateral and multilateral debt relief through legislation and appropriations for debt relief initiatives for heavily indebted low-income countries in 1999, 2001, and again in 2003.

The Bush administration played a critical and leading role in creating the Multilateral Debt Relief Initiative at the G-8 Summit in 2005. President Bush himself highlighted the efficacy of debt relief in his State of the Union speech this year, stating "let us continue to support the expanded trade and debt relief that are the best hope for lifting lives and eliminating poverty."

Where previously only partial debt relief had been available, the Multilateral Debt Relief Initiative agreed to at the 2005 G-8 summit made possible for the first time 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, 22 nations, including 18 in Africa, have seen the majority of their debts to the IMF, World Bank, and African Development Bank cancelled under

the terms of the MDRI. In March of this year, the InterAmerican Development Bank (IDB) joined the MDRI, and four Latin American nations have now received MDRI benefits from the IDB.

The twenty-two countries which have reached the completion point, and thus have benefited from 100% debt stock cancellation of qualifying debts include Benin, Bolivia, Burkina Faso, Cameroon, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Malawi, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Sao Tome and Principe, Senegal, Sierra Leone, Tanzania, Uganda, and Zambia. An additional ten countries have reached “decision point” in the HIPC Initiative, and have begun to receive partial debt service relief. These countries are Afghanistan, Burundi, the Central African Republic, Chad, the Democratic Republic of the Congo, the Republic of Congo, the Gambia, Guinea, Guinea-Bissau, and Haiti. Eight more countries remain potentially eligible for the HIPC Initiative but have yet to enter the program: Comoros, Côte d’Ivoire, Eritrea, Liberia, Nepal, Somalia, Sudan, and Togo.¹

How much debt has been cancelled to date? According to the most recent updates from the IMF and World Bank, debt relief committed under the HIPC Initiative and the MDRI to date is expected to reduce the debt stock of the 32 post-decision point HIPCs by a total of \$96 billion.²

Debt relief fights global poverty efficiently and effectively by reducing the amount of debt service that nations pay each year to creditors. In 2006, the 19 post-completion point countries saved \$559.4 in debt service payments thanks to the MDRI.³ In 2007, annual debt service savings from the MDRI for the 22 post-completion point counties are expected to be \$1.3 billion, equivalent on average to 1% of these countries’ GDP.⁴ Cumulative debt-service savings under the MDRI to post completion-point countries is expected to reach \$21.1 billion.⁵

II. The Impacts of Debt Relief

Debt relief is delivering results in the fight against poverty. Total poverty-reducing expenditures in countries that have received debt relief have increased from \$5.8 billion in 2000 to an estimated \$17 billion in 2006, or from 7% to 9% of GDP on average.⁶

Citing 2005 World Bank research, the NGO Debt AIDS Trade Africa (DATA) found that for every dollar freed up from debt service, African governments have increased social spending by two dollars.⁷

¹ World Bank, “Debt Relief At A Glance,” www.worldbank.org/debt, updated October 2007.

² International Development Association (IDA) and International Monetary Fund (IMF), “Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) – Status of Implementation,” August 28, 2007, p. 9.

³ IDA and IMF, “Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) – Status of Implementation,” August 21, 2006, p. 64

⁴ IDA and IMF 2007, p. 7.

⁵ IDA and IMF 2007, p. 8.

⁶ IDA and IMF 2007, p. 7 and 69.

⁷ DATA Report 2007, citing IDA and IMF, “Update on the Assessments and Implementation of Action Plans to Strengthen Capacity of HIPCs to Track Poverty-Reducing Public Spending,” April 12, 2005.

The impacts are most apparent at the country level. Thanks to the most recent round of debt relief under the MDRI in 2006:

- Cameroon is using its savings of \$29.8 million for national poverty reduction priorities, including infrastructure, social sector and governance reforms;
- Ghana is using the \$57.9 million in savings from 2006 in the energy and water sectors, for the rehabilitation of essential major highways and feeder roads in the main agricultural areas, as well as in education, health, and development of information and communication technology;
- Honduras is using its \$27.6 million in 2006 savings for anti-poverty programs including the elimination of fees for public schools;
- Uganda is using its \$57.9 million savings from 2006 on improving energy infrastructure to ease acute electricity shortages, as well as primary education, malaria control, healthcare and water infrastructure (specifically targeting the poor and under-served villages); and
- Zambia is using its savings of \$23.8 million under the MDRI in 2006 to increase spending on agricultural projects, such as smallholder irrigation and livestock disease control, as well as to eliminate fees for healthcare in rural areas.⁸

I had the opportunity to see firsthand the impact of debt relief in Zambia earlier this year when I helped lead a delegation of a dozen Jubilee USA supporters to Zambia. On our first day in Zambia, we drove South of the capital Lusaka to a town called Siavonga, to witness the impacts of debt relief firsthand.

After a long, bumpy ride through the Zambian countryside, we arrived at the Siavonga Rural Health Clinic. As we toured the clinic, Grace Chibanda, a pharmacist, showed us the pharmacy, which was full of Anti-Retroviral drugs for HIV/AIDS. “Debt relief is a good thing,” Grace told us. “It is getting medicines for people who didn’t have it before.”

In April 2006 with the proceeds from debt relief, the Zambian government abolished “user fees” in all rural health clinics in Zambia. This meant that where costs may have deterred the poorest from coming into the clinic, now care was free. Nurses and doctors we talked with confirmed that they had seen an increase in patients since April. It was inspiring to see the impacts of debt relief firsthand and to know that debt relief is improving the lives of many Zambians in need.

There are similar success stories elsewhere in Africa. In Tanzania, debt relief has helped nearly 2 million children access primary education. As former President Benjamin Mkapa explained in a letter to Jubilee Debt Campaign in 2004,

When I became President of Tanzania in 1995, our country was witnessing a serious deterioration of basic services, and a high and unsustainable debt burden. One of my first priorities was to reverse these trends by increasing government revenue and seeking debt relief...In 2001, Tanzania was granted significant debt relief. As promised, this was directed to the priority sectors of education, health, water, rural roads and HIV/AIDS, enabling us to increase resources for poverty reduction by 130 per cent.

⁸ IDA and IMF 2006, p. 64.

We have already witnessed tremendous successes. The primary school population has increased by 66 per cent – the greater part of an extra two million children - and the shortfall in the enrolment of girls has been eliminated. We have built 45,000 classrooms, 1,925 new primary schools and over 7,500 homes for teachers in partnership with their communities; between 2000 and 2004, we recruited 37,261 new teachers, and retrained another 14,852. The pass rate in the Leaving Examination doubled in two years.

Much has been attained in other sectors as well. For instance, hospitals are being rehabilitated and refitted with diagnostic equipment; the previous shortage of basic drugs is now history; and the rate of immunisation has reached 83 per cent. We are now introducing the Hepatitis vaccine and this will save 20,000 – 25,000 lives annually.”⁹

As supporters and advocates of debt cancellation, we are encouraged by reports of positive impacts of debt relief on the ground. Arguments that resources freed up by debt cancellation would be diverted to military spending or corruption have not been borne out in practice.

That said, it is clear that we must continue to be vigilant to assure that proceeds from debt cancellation reach the most impoverished people, who lack access to health, education, or other essential services.

As we look for best practices to assure good use of released funds, we can examine successful models already in place. In Uganda, extra resources from debt relief are channeled through the Poverty Action Fund, which is overseen by representatives from government, national NGOs, churches, unions and international organizations. In Nigeria, the new Virtual Poverty Fund plays a similar role. These models can and should be replicated in other nations.

Moreover, we must support civil society and parliaments in their efforts to hold their governments accountable. Civil society and parliamentarians are especially well placed to assure accountability from national governments regarding the use of funds released by debt relief. While in Zambia, I saw firsthand the powerful role played by civil society groups such as Civil Society for Poverty Reduction, Jubilee Zambia, and others in pressuring the government to be more transparent and accountable for use of aid, debt relief, and new borrowing. Civil society is working in partnership with reform-minded parliamentarians in Zambia to put forward an agenda to make the budgeting process more transparent and participatory and to involve civil society in monitoring the implementation of poverty reduction programs financed by the national budget.¹⁰ These efforts and others like them should be embraced and promoted by all those who advocate debt cancellation and responsible lending and borrowing.

⁹ Letter from Tanzanian President Benjamin Mkapa to Jubilee Debt Campaign, 2004.

¹⁰ Honorable Given Lubinda, Zambian MP, “Making Debt Work – The Zambian Challenge,” Speech to Jubilee Prayer Breakfast, October 16, 2007, Washington, DC.

II. The Unfinished Agenda: Extending the Promise of Debt Cancellation

Debt cancellation now has a ten year record of success. We now know that debt relief – together with development assistance and trade policy -- is one of several critical tools with which to fight poverty.

But the reality is that even after the debt cancellation provided to date, the world's most impoverished nations continue to send \$100 million *each day* to the United States government, other wealthy nations, the IMF, the World Bank, and other creditors.¹¹ It is time to extend the promise of debt cancellation to additional countries that require it to fight extreme poverty – provided these nations meet strict eligibility criteria and prove their ability to utilize released funds well.

Since 1996 and the launch of the HIPC Initiative, the governments of the world's most impoverished 66 countries have paid more than \$230 billion 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 sad reality is that *the majority of these nations are still mired in a debt crisis*.

A January 2007 study by the UK charity Christian Aid examined data for 41 low-income countries that have **not** yet reached completion point in the HIPC Initiative (this group includes countries at decision point, and some pre-decision point countries, as well as more than other 20 low income countries not currently eligible for HIPC Initiative). The report found that only 10 of these countries have seen their annual payments on foreign debt decrease by more than 25% over the past 11 years. The majority of the countries examined – 23 of the 41 -- are actually paying **more** on debt servicing as a percentage of gross national income than they were 11 years ago. For the remaining 8 countries, debt service payments have decreased by less than 25%.¹²

It is these impoverished, low-income nations that have not yet reached completion point, and dozens of others that have been completely excluded from debt relief to date that the Jubilee Act for Expanded Debt Cancellation and Responsible Lending of 2007 would help.

While the HIPC Initiative and MDRI have made a difference in a number of countries, it is important to put the amount of cancellation provided by these initiatives in the proper context: The overall debt stock of low-income countries currently stands at about US\$ 426 billion, more than 4 times the amount cancelled under HIPC/MDRI. The annual debt service arising from this stock is estimated at US\$ 32.6 billion.¹³ Middle income countries, which also have large populations living in poverty, face an even more severe crisis which Jubilee USA believes should be addressed as well, though they are beyond the scope of the current legislation.

¹¹ Oxfam International, "The World is Still Waiting," Oxfam Briefing Paper #103, p. 4.

¹² Christian Aid, "Enough is Enough: The debt repudiation option," January 2007, pp. 9 -10.

¹³ Bernards Mudho, "Report of the independent expert on the effect of economic reform policies and foreign debt on the full enjoyment of all human rights," Report to the UN Human rights Council, Document #A/HRC/4/10, January 3, 2007.

A growing number of NGOs, governments and analysts are coming to the conclusion that debt cancellation should be expanded. As independent expert Bernard Mungai explained earlier this year in a report commissioned for the United Nations: “There...is a need for further comprehensive solutions to the debt problems of poor countries, including further debt relief by other multilateral institutions and for permanent solutions to the problems of bilateral and commercial debts.”¹⁴

Expanded debt cancellation forms a critical part of efforts to meet targets that the United States and nearly every other nation in the world have set to halve extreme poverty within the next 7 years. Halfway to 2015, the world is still falling short of meeting the Millennium Development Goals. The World Bank and the United Nations have estimated that anywhere from \$45-75 billion annually will be needed globally if we are to achieve the MDGs. Much of this can be committed from additional aid, but additional debt cancellation is critical as well.

Debt cancellation also makes our development assistance more effective. As Jeffrey Sachs and his team pointed out in the 2005 United Nations Millennium Project *Investing in Development* report, “Dozens of heavily indebted poor and middle-income countries are forced by creditor governments to spend large proportions of their limited tax receipts on debt service, undermining their ability to finance vital investments in human capital and infrastructure. In a pointless and debilitating churning of resources, the creditors provide development assistance with one hand and then withdraw it in debt servicing with the other.”¹⁵

The UK government has already begun to extend debt cancellation to non-HIPC, low income countries that can prove their ability to use the released resources well.

As Chancellor of the Exchequer and current British Prime Minister Gordon Brown explained in January 2006, “Empowerment of the poor will be a false hope until the decades-old debt crisis is fully resolved. In December [2005], 100% multilateral debt relief was finally achieved for the first 19 highly indebted poor countries - and, despite prior worries, with no extra conditionality. In Britain's view, all 67 of the poorest countries should secure debt relief. By paying our share of their debt service, we will unilaterally lead debt cancellation for up to another 30 countries, and I will urge others to follow.”¹⁶

The United Kingdom is currently delivering debt service relief under the “United Kingdom Multilateral Debt Relief Initiative.” Under this program, the UK government goes beyond countries eligible for HIPC and pays its share (10%) of debt service payments owed to the concessional lending arms of the World Bank (IDA) and African Development Bank (AfDF) by low-income, IDA-only countries with suitably strong public expenditure management systems. Eight non-HIPCs currently qualify for UK MDRI: Armenia, Cape Verde, Georgia,

¹⁴ Ibid.

¹⁵ UN Millennium Project. 2005. *Investing in Development: A Practical Plan to Achieve the Millennium Development Goals*. New York.

¹⁶ Brown, Gordon. “Our final goal must be to offer a global new deal,” *The Guardian*, January 11, 2006.

Moldova, Mongolia, Nepal, Sri Lanka, Vietnam.¹⁷

The Jubilee Act would extend the promise of debt relief to well-governed nations who need cancellation to meet the Millennium Development Goals.

The Jubilee Act builds on the UK initiative, using the same group of impoverished nations – those eligible for “IDA-only” assistance from the World Bank -- as the pool of potentially eligible countries. The Act would make 24 additional low-income nations not currently eligible for the HIPC/MDRI initiatives potentially eligible for debt cancellation from the United States and the international financial institutions, provided they meet human rights, public financial management, and budget transparency criteria and demonstrate their ability to use the money well. To benefit, countries would also have to engage interested parties, including a broad cross-section of civil society groups, in the spending allocation process and produce an annual report on this spending, making it publicly available and easily accessible. Countries would be excluded from receiving the debt cancellation under the Jubilee Act if they:

- have an excessive level of military expenditures;
- have repeatedly provided support for acts of international terrorism;
- fail to cooperate on international narcotics control matters; or
- engage in a consistent pattern of gross human rights violations.

Civil society analysts have long complained that the criteria for eligibility for the HIPC Initiative fails to take into account the critical factor: poverty. By focusing on the debt-to-export ratio as one of the main eligibility determinants, the current debt relief initiative misses the boat. By contrast, the approach outlined by the UK government and in the Jubilee Act makes the main factors a country’s per capita income and its ability to use released funds to fight poverty. By removing a country’s debt burden as a determinant of eligibility, the Jubilee Act corrects the problem inherent in previous debt relief efforts when countries with less debt (whom, it might be argued, borrowed more responsibly) did not benefit, while highly indebted countries did.

Based on provisions in the act, we estimate that initially 9 nations would become eligible under the terms of this legislation -- Georgia, Cape Verde, Samoa, Vietnam, Kenya, Mongolia, Lesotho, Moldova, and Vanuatu. Up to 15 additional nations could benefit if they meet requirements around human rights, public financial management, and budget transparency.

What would debt cancellation mean for these countries?

Let’s take Kenya as a case study. Kenya has a \$7 billion debt and pays hundreds of millions each year in debt service while 1.3 million people are living with HIV/AIDS and many lack adequate treatment.

I had the opportunity to visit Kenya in early 2007 and to walk through Kibera, the large slum surrounding Nairobi. I was devastated by the level of poverty I saw there. It was truly shocking to think that amidst all the wealth in the world, the grinding poverty that exists in Kibera continues unabated.

¹⁷ Correspondence from Christa Rottensteiner, Debt and IMF Team Leader at the UK Department for International Development, September 2007.

Unlike my trip to Zambia, however, I wasn't able to visit a clinic and observe the hopeful and impressive results of debt relief. This is because Kenya is not eligible for debt relief under the current program. This despite the fact that in Kenya, according to the Kenya Debt Relief Network, the 2005/2006 budget has allocated some 22% of government expenditure (112 billion Kenyan Shillings) to debt servicing. This amount is equivalent to the budgets of six other Ministries - Health (30 billion), Roads (28 billion), Water (10 billion), Agriculture (8 billion), Transport (11 billion) and Finance (25 billion).

Debt cancellation is a proven tool that has the potential make a real difference for countries like Kenya. It is the right thing to do. It is also a good investment in the security and image of the United States abroad.

III. Reforming the Process and Moving towards Responsible Lending

As we expand debt cancellation, however, we must pay attention to the lessons of the past 11 years and make changes accordingly in the way debt cancellation is delivered – and crucially, how future lending is provided.

That is why the Jubilee Act is not just about expanding eligibility for debt cancellation to additional nations. It is my view that if we merely expand debt relief without addressing the serious problems plaguing the current initiative and getting the future lending question right, we will not see the benefits we are hoping for.

End Harmful Conditionality

First, it is urgent that we address some of the serious failures of the debt relief process to date. Foremost among them are the harmful economic conditions that impoverished nations must adhere to in order to advance to completion point in the HIPC Initiative.

In order to advance to completion point, HIPC's have to meet 10-20 different "trigger conditions." These generally include reforms of public expenditure management and governance, meeting health and education targets, and so-called "structural reforms" which include instructions on how to run various sectors of the economy or government, including enforcing privatization of select industries or utilities; and trade and financial sector liberalization through removal of tariffs or deregulation. Beyond these specific HIPC conditions, all HIPC's must progress with a Poverty Reduction Strategy Paper (PRSP) and have the IMF certify that they are "on-track" with an IMF "Poverty Reduction and Growth Facility" (PRGF) loan. The requirement to be on track with the IMF is critical: if the IMF declares a country "off track," it cannot reach completion point, and its interim debt relief is suspended.¹⁸

PRGF loans include many conditions such as maximum levels of inflation and public spending, levels of currency reserves, and limits on public wage bills. These requirements give the IMF power to set levels of spending in a range of sensitive sectors for impoverished countries. A

¹⁸ Jubilee Debt Campaign (UK), "Cut the Strings: Why the UK government must take action now on the harmful conditions attached to debt cancellation," London: October 2006.

growing number of analysts have criticized the IMF for being overly stringent with their requirements for low inflation, limited public spending, and high currency reserves. In fact, in their PRGF programs in 2005, Burundi, Democratic Republic of Congo, Congo and Sierra Leone all had targets for their 2005 budget deficits which were lower (as a percentage of GDP) than the US or UK managed to achieve that year. For countries like these that need to ramp up spending to fight AIDS, provide education, and clean water, IMF recommendations have become a straightjacket.¹⁹

Research by the Jubilee Debt Campaign (UK) found that in order to access debt cancellation under the HIPC Initiative:

- Zambia had to privatize its national bank in the face of parliamentary and public opposition. IMF policies also forced it to restrict public sector spending through a wage and hiring freeze, leaving it unable to employ 9,000 teachers;
- Nicaragua had to privatize electricity. Electricity prices rose by 200%, pricing the poor out of the market, and blackouts became frequent.
- Sierra Leone has had to prepare for privatization of 24 state enterprises, including water, power, and telecommunication.²⁰

I had the opportunity to travel to Nicaragua in November 2006 when I saw firsthand the impacts of electricity privatization there. I visited a rural community of 350 people called Ramon Garcia. The people of Ramon Garcia told me their story of struggle with Union Fenosa, the Spanish company that took over electricity in Nicaragua. When I met with community leaders in Ramon Garcia, they told me that they had recently been without electricity for 6 months due to a broken transformer in the area. During that time, members of the community called the company every day and it wasn't until they marched and protested at the company's regional office in Matagalpa that the company came in and replaced their transformer. But it only lasted 3 days because the replacement was faulty as well. The community called again and again. Finally, they decided to raise money to buy their own transformer. Through this whole time, Union Fenosa continued sending bills to the citizens of Ramon Garcia.

What I saw in Ramon Garcia underlines the plight faced by rural communities across the globe that need access to electricity, water, health, and education. Fundamentally, in no small part due to the fact that these communities consume relatively little electricity, corporations don't make much money by serving them. So they don't pay attention to their needs. Given this reality, it would seem irresponsible for the IMF and World Bank to require nations to privatize such industries as a condition of debt relief.

Sadly, privatization has been an all too frequent requirement of debt relief. An analysis of IMF and World Bank documents conducted by Jubilee Debt Campaign (UK) in 2006 found that of the 29 countries that had gone or were going through HIPC at the time of the study, 19 had to privatize state enterprises to get debt relief.²¹ Regardless of one's views on the efficacy of

¹⁹ Ibid, p. 9.

²⁰ Ibid, p. 4

²¹ Ibid, p. 6. See also Jubilee Debt Campaign (UK), "Tightening the chains or cutting the strings? The status of HIPC conditionality in 2006," September 2006. This paper analyzes and lists specific IMF and World Bank loan documents which outline conditions related to privatization.

privatization, our argument is that these policies should not be requirements for debt cancellation. Countries should be allowed to make their own development choices, in collaboration with civil society and parliaments, about sensitive issues like these.

In 2005, G-8 leaders met in Gleneagles, Scotland, and seemed to agree that developing countries should have more policy space and autonomy to make economic choices for themselves. The G-8 said: “It is up to developing countries themselves and their governments to take the lead on development. They need to decide, plan, and sequence their economic policies to fit with their own development strategies, for which they should be accountable to all their people.”²²

A growing number of governments and intergovernmental bodies, including the United Kingdom, the European Commission, and Norway, are raising concerns about the harmful impacts of economic policy conditionality, joining civil society groups from across the globe that have raised similar concerns for more than two decades.²³

While the type of economic conditionality described above should not be required as a condition of debt cancellation in the future, it is vital that funds released by debt cancellation are used transparently in the fight against poverty. We need to distinguish between harmful conditionality and legitimate requirements for transparency – by both governments who receive debt cancellation and the international financial institutions that are making loans. We must also work to ensure that money released by debt cancellation be spent to fight poverty.

The Jubilee Act would prohibit specific harmful economic and policy conditions while insisting on transparency and accountability. The prohibited harmful conditions include user fees for primary health care and education, increased cost for the poorest for clean drinking water, measures that compromise workers’ rights, and IMF constraints on government spending for essential health care and education.

Address the Practices of ‘Vulture Funds’

A second serious challenge to the debt relief process to date has been the fact that a number of commercial creditors, especially distressed debt or “vulture” investors, are clawing back some of the limited gains of debt relief.

The existence of vulture funds is not a wholly new phenomenon. In the late 1990s, Elliot Associates successfully sued the government of Peru and won \$55 million. But as a growing number of Heavily Indebted Poor Countries (HIPC)s have received debt cancellation, vulture fund suits are coming more frequently now. Suddenly these nations have more access to cash freed up by debt cancellation – and thus look more attractive to opportunistic vulture funds.

²² G-8 Communiqué, July 8, 2005.

²³ The UK government adopted a policy against requiring privatization and trade liberalization as a condition of its aid in 2005. The Norwegian government has a similar policy based on its 2005 Soria Moria declaration. See. e.g., Benedicte Bull et al, “The World Bank and IMF’s use of Conditionality to Encourage Privatization and Liberalization: Current Issues and Practices,” report prepared for the Norwegian Ministry of Foreign Affairs as a background for the Oslo Conditionality Conference, November 2006.

An August 2007 report by IMF and World Bank staff found that 11 out of 24 poor countries approached said they were involved in litigation by commercial or vulture creditors worth a total of \$1.8bn with 46 creditors.²⁴

The most recent and visible vulture fund case has been that of Donegal International, Limited vs. the government of Zambia. In 1979, Zambia purchased agricultural equipment and services from Romania on credit. Being unable to service this debt, in 1999 Zambia and Romania agreed to liquidate this debt for \$3.28 million. But before Zambia could seal the deal, a vulture - Donegal International - swooped in.

Donegal International, Limited is registered in the British Virgin Islands. Its only business is to pursue the Zambian debt. Donegal's sole director is Michael Sheehan, who owns a company called Debt Advisory International, based in Washington DC. Mr. Sheehan bought this debt for \$3.28 million and later sued the Zambian government for \$55 million. On April 24th, the British High Court ruled that the government of Zambia would have to pay Donegal some \$15 million. This represents over 40% of what Zambia is projected to save in debt relief delivered through HIPC and the MDRI in 2007.

It is important to note that vulture creditors are not the only creditors that are taking advantage of or “free-riding” on debt relief: other creditors, including non-Paris Club official creditors, smaller multilateral creditors, and quasi-commercial lenders, must also be addressed and encouraged to cancel their claims on impoverished countries.

A number of these creditors are suing African countries. Research by Matthew Martin, Director of UK-based Debt Relief International, found that 14 countries in Africa have been have been subject to legal actions by commercial creditors, vulture funds, and others since 1999. The debtor governments have almost always lost.

Consider the human cost of these lawsuits. In Niger, for instance, the government spent more than half of what it spent on health and education combined on lawsuits (US\$76.5 million) in one year.

At this very moment, Cameroon, Democratic Republic of Congo, Republic of Congo, Uganda, Sierra Leone, Nicaragua, Honduras and Liberia are facing judgments to pay, pending suits, or the threat of litigation from vulture funds or other commercial creditors.²⁵ Action is needed now so that what happened to Zambia will not happen to other nations.

The Jubilee Act calls on the Secretary of the Treasury to collaborate with appropriate government agencies to stop the practices of vulture funds by designing legal remedies to curtail vulture fund activity; by providing legal support to countries being sued by vulture funds; and by providing technical assistance to advise governments likely to be targeted by vulture funds. These measures represent a critical first step to address this problem.

²⁴ Larry Elliott, “Vultures in pursuit of £1bn threaten debt-relief deal,” *The Guardian*, October 22, 2007 citing figures in IDA and IMF 2007.

²⁵ IDA and IMF 2007, p. 95.

Ultimately, even more will be required. First, the World Bank's Debt Relief Facility should be expanded to buy back at risk debt for pre-decision point countries, and it should allow countries to return for additional support. Second, because more than two-thirds of the lawsuits brought against indebted countries by vulture funds and other commercial creditors are heard in courts in the United States or United Kingdom, the United States should take the lead by outlawing profiteering by vulture funds in US courts.

Establishing a Framework for Transparent, Responsible Lending

One of the greatest challenges facing nations that have received debt cancellation under existing initiatives is the range of new lenders which threaten to send countries that benefit from debt relief back into unsustainable debt. To ensure that this doesn't happen, the Jubilee Act calls on the Secretary of the Treasury to:

- Provide that the external financing needs of low-income countries are primarily met through grants rather than new lending;
- Develop and promote policies to ensure that *all* creditors work together to preserve the gains of debt relief;
- Promote the adoption of a legal framework, binding on *all* creditors, and overseen by an independent body with significant input from affected communities to guarantee that no future creditor can take advantage of debt relief through the terms of their new lending (known as free-riding) and to ensure that free-riders would pay their share of future debt relief made necessary in part by their irresponsible lending.

These measures are critical to ensure that debt relief does not need to be repeated and that countries can get on a path to sustainable growth and development.

Responsible Finance, Odious Debt, and Debt Audits

The Jubilee Act also calls on the Secretary of the Treasury to “support the development of responsible financing standards in which creditors and aid/loan recipients alike adhere to standards to assure transparency and accountability to citizens, human rights, and the avoidance of new odious debt...”

Any effort to put ensure more responsible lending in the future should begin with an examination of past practices. This is imperative in order to learn from past errors and ensure more responsible and productive lending and borrowing policies moving forward.

Many of the debts of impoverished nations are odious or illegitimate in nature – they are debts accrued by undemocratic regimes or that did not benefit the population. Often these loans were irresponsibly made by the United States and other creditors – for example, as a way to win allegiance and support during the Cold War.

There is growing awareness of the problem of odious, illegal, onerous, and illegitimate debt from civil society, academics, legal scholars, governments and international institutions. In October 2006, Norway became the first creditor to accept co-responsibility for past lending mistakes and cancelled the debts of 5 nations on the grounds that the loans reflected poor development policy.

In August 2006, the World Bank published its first ever study of the concept of odious debt, though civil society have criticized the paper because of its dismissive tone and the lack of a robust peer review process. UNCTAD has just published a similar paper which finds that there are often strong grounds to make the case that a debt is odious. The paper concludes that there is no obvious legal forum for the adjudication or settlement of claims of odiousness but that such claims might appropriately be raised in bilateral or multilateral negotiations on debt relief, or they could be adjudicated in the context of arbitration or domestic litigation.²⁶

The Jubilee Act addresses the problem of odious and unjust debts by requiring the Comptroller General of the US to undertake audits of debt portfolios of previous regimes in countries where there is accepted evidence of odious, onerous or illegal loans, such as the Democratic Republic of Congo and South Africa. Such audits should consider debts owed to the World Bank, IMF, and other multilaterals, as well as export credit debts owed to governments, and commercial creditors, and assess whether or not past investments produced the intended results. Furthermore, such audits would investigate the process by which the loans were contracted, how the funds were utilized and their product, and determine whether US and/or international laws were violated in the process. The audits should be planned and executed in a transparent and consultative manner, engaging Congressional bodies and civil society groups in the countries in question. This audit is a critical first step among a range of efforts needed to address failed policies of the past and move towards greater responsibility in lending.

Thank you for your attention.

²⁶ World Bank, *"The Concept of Odious Debt: Some Considerations,"* Discussion Draft, September 7, 2007. UNCTAD, *"The Concept of Odious Debt in Public International Law,"* Discussion paper 185, September 2007.

CV
NEIL WATKINS

PROFESSIONAL EXPERIENCE

Jubilee USA Network, Washington, DC, January 2005 – Present

National Coordinator

- Raise the annual operating budget, and create the annual fundraising strategy with the Board of Directors (Coordinating Committee).
- Envision a strategy for growth of the organization and of the debt cancellation movement in the United States, with the aim of achieving definitive debt cancellation for countries, and work collaboratively with and on behalf of the members of the Network Council, Jubilee South, and other partners to take us there.
- Serve as lead spokesperson and representative of Network before government agencies, Congress, policymakers, and the media. Testified before the Africa and Global Health Subcommittee of the House Committee on Foreign Affairs on “The Impact of Vulture Funds in Africa” in May 2007.
- Provide leadership and management oversight of Jubilee's operations and supervision of an empowered staff team
- Work to cultivate and manage an active Coordinating Committee to ensure compliance with Jubilee's fiduciary duties; meet and exceed program, fundraising, and organizing goals; undertake effective institutional planning and functional staff/board collaboration; and ensure that the mission, vision, and values are embodied in all processes of the organization.

Jubilee USA Network, Washington, DC: October 2003 – December 2004

Outreach and Communications Coordinator

- Conceived, developed, and implemented Jubilee USA campaigns and organizing strategies.
- Led campaign communications work including writing monthly e-newsletter; maintained contact with Network Council members and local organizers; and oversaw website content and education and action materials.
- Performed outreach to Jubilee allies, engage new constituencies, and represented the Network at local, national and international public fora, conferences, and events.
- Developed and implemented media and external communications strategy, maintained relationships with reporters, wrote and distributed media materials, and served as organizational spokesperson.

Center for Economic Justice, Washington, DC: May 2000 – October 2003

Campaign Coordinator

- Developed and implemented campaign strategy, working closely with international partners, U.S. Network members, and CEJ colleagues.
- Directed media outreach for the campaign by serving as lead media spokesperson, organizing press conferences, promoting international and U.S. Network members for media interviews, and writing and distributing press releases and other promotional materials.
- Planned and conducted outreach to religious institutions and communities, labor unions, foundations, socially responsible investors, and locally elected officials to encourage their support for resolutions for World Bank reform.
- Oversaw design and write content for website, campaign listserves, and other public education materials.
- Delivered presentations at national and international conferences, meetings, and skillshares.

- Represented organization in coalitions and networks including the Jubilee USA Network, and the Religious Working Group on the IMF/World Bank.

Center for Economic and Policy Research (CEPR), Washington, DC: December 1999 – May 2000

Research Associate

- Wrote and edited briefing papers, fact sheets, and other educational and outreach materials on international economic policy issues relating to the World Bank, IMF, and international debt.
- Provided research support for co-Directors, including for books and newspaper/periodical articles.
- Wrote, edited, and designed CEPR press releases and public relations materials.

Preamble Center, Washington, DC: October 1997 – December 1999

Research Associate/MAI Project Coordinator

- Organized several debates and press events on globalization, the IMF and World Bank, and Social Security attended by members of the media, the public interest community, and academics.
- Co-authored several briefing papers, including “A Survey of the Impacts of IMF Structural Adjustment in Africa: Growth, Social Spending, and Debt Relief,” and “Recent Experience with International Financial Markets: Lessons for the Free Trade Area of the Americas (FTAA).”
- Spoke on globalization at conferences and on college campuses.

RESULTS, Washington, DC: June – August 1997

Global Legislative Intern

- Wrote and coordinated the production of a World Bank information/action packet used by Results activists from six countries in advocacy meetings with Bank Executive Directors and Vice Presidents. Supported grassroots volunteers with information and action plans as they lobbied Congress to support microcredit, village banking for the poor, World Bank reform, and other initiatives.

Environment and Development Action (ENDA), Dakar, Sénégal: December 1996 – May 1997

Intern, Habitat and Environment Team

- Worked with team on sustainable sanitation project and women's community savings bank in Dakar region. Wrote and edited articles in French/English about environmentally sustainable housing and sanitation issues for two ENDA publications.

EDUCATION

Georgetown University, School of Foreign Service, Washington, DC: 1998

B.S. in International Affairs; Culture and Politics Division, Certificate in African Studies.
Cum laude; Recipient of Annual African Studies Award

Université Cheikh Anta Diop, Dakar, Sénégal (West Africa): 1996 – 1997

Faculté des sciences économiques et juridiques (School of Economics and Law)

LANGUAGE

French (written and spoken proficiency)

Wolof (limited conversational)