

JUBILEE ACT FOR RESPONSIBLE LENDING AND
EXPANDED DEBT CANCELLATION OF 2008

APRIL 10, 2008.—Committed to the Committee of the Whole House on the State of
the Union and ordered to be printed

Mr. FRANK of Massachusetts, from the Committee on Financial
Services, submitted the following

R E P O R T

together with

ADDITIONAL VIEWS

[To accompany H.R. 2634]

[Including cost estimate of the Congressional Budget Office]

The Committee on Financial Services, to whom was referred the bill (H.R. 2634) to provide for greater responsibility in lending and expanded cancellation of debts owed to the United States and the international financial institutions by low-income countries, and for other purposes, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

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AMENDMENT

The amendment is as follows:

Strike all after the enacting clause and insert the following:

SECTION 1. SHORT TITLE.

This Act may be cited as the “Jubilee Act for Responsible Lending and Expanded Debt Cancellation of 2008”.

SEC. 2. FINDINGS.

The Congress finds the following:

(1) Many low-income countries have been struggling under the burden of international debts for many years.

(2) Since 1996, when the Heavily Indebted Poor Countries Initiative (HIPC) was created, more than 30 nations have seen some form of debt relief totaling approximately \$80,000,000,000.

(3) Congress has demonstrated its support for bilateral and multilateral debt relief through the enactment of comprehensive debt relief initiatives for heavily indebted low-income countries in—

(A) title V of H.R. 3425 of the 106th Congress, as enacted into law by section 1000(a)(5) of the Act entitled “An Act making consolidated appropriations for the fiscal year ending September 30, 2000, and for other purposes”, approved November 29, 1999 (Public Law 106–113; 113 Stat. 1501–311) and the amendments made by such title;

(B) title II of H.R. 5526 of the 106th Congress, as enacted into law by section 101(a) of the Act entitled “An Act making appropriations for foreign operations, export financing, and related programs for the fiscal year ending September 30, 2001, and for other purposes”, approved November 6, 2000 (Public Law 106–429; 114 Stat. 1900A–5); and

(C) title V of the United States Leadership Against HIV/AIDS, Tuberculosis, and Malaria Act of 2003 (Public Law 108–25; 117 Stat. 747) and the amendment made by such title.

(4) In 2005, the United States and other G–8 nations reached an agreement to provide cancellation of 100 percent of the debts owed by eligible poor nations to Paris Club members, the IMF, the World Bank, and the African Development Bank. The Inter-American Development Bank reached an agreement in early 2007 to provide similar treatment.

(5) The 2005 agreement led to the creation of the Multilateral Debt Relief Initiative (MDRI). As of April 2007, 22 nations 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 2007, the Inter-American Development Bank announced it would provide full debt cancellation to 5 Latin American countries on MDRI terms.

(6) Resources released by debt relief efforts to date are reaching the poor. Cameroon is using the \$29,800,000 of savings it will gain from the MDRI in 2006 for national poverty reduction priorities, including infrastructure, social sector and governance reforms. Uganda is using its \$57,900,000 savings in 2006 on improving energy infrastructure to try to ease acute electricity shortages, as well as primary education, malaria control, healthcare and water infrastructure (specifically targeting the poor and under-served villages). Zambia is using its savings of \$23,800,000 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.

(7) While debt cancellation has a record of success, there remains an unfinished agenda on international debt. There are a number of challenges to both the effective reduction of poverty and inequality and the achievement of broader debt cancellation.

(8) 2007 is an important year to address the unfinished agenda on international debt as the global Jubilee debt campaign has declared 2007 a “Sabbath year”, 7 years after the historic Jubilee 2000 campaign.

(9) A critical issue which needs to be addressed on debt is the way that non-concessional lenders stand to gain financially from lending to poor countries that have benefited from debt relief without having paid for past debt relief or

facing the prospect of paying for the future relief of unsustainable and irresponsible new lending. In these cases, the gains of debt relief for poor debtor countries are at risk of being eroded. This takes the form of new lending to countries that have received debt cancellation from countries including China.

(10) It is also essential that all lenders and borrowers accept co-responsibility and learn from past mistakes—as evidenced by the debt crisis itself—by making more productive investment choices and engaging in more responsible lending and borrowing in the future. In October 2006, Norway became the first creditor to accept co-responsibility for past lending mistakes and cancelled the debt of 5 nations on the grounds that the loans reflected poor development policy.

(11) 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. Many impoverished countries that have received debt cancellation under the HIPC and MDRI initiatives have done so at a high social cost, because they have had to implement economic policy conditions such as privatization of public utilities and other basic services, adhere to budget ceilings imposed by the IMF, and comply with other harmful requirements. Some of these policies have had the effect of limiting fiscal space for productive investment and threatening growth and human development. Several countries currently eligible for debt cancellation under the HIPC or MDRI programs are facing extended delays in receiving cancellation because they are struggling to comply with such requirements from the IMF and World Bank.

(12) There is also an urgent need to look beyond the constraints of current debt relief initiatives to address the need for expanded debt cancellation. The current initiatives allow countries to qualify for relief based on economic criteria rather than human needs. A January 2007 report by the United Nations Human Rights Council found that eligibility for debt cancellation should be expanded to cover all low-income countries.

(13) The government of the United Kingdom has proposed that qualification for the MDRI be extended to the 67 nations which qualify for assistance exclusively from the International Development Association. To be eligible for cancellation, countries must meet requirements pertaining to public financial management, anti-corruption measures, and budget transparency.

(14) Since debt cancellation is an essential component of the United States development assistance strategy and the United States has been able to lead the debt cancellation efforts of the international community by example, the United States should continue to work to improve and expand initiatives in this area.

(15) The United States has been a leader in supporting debt relief efforts to date and should continue to work to improve and expand initiatives in this area.

SEC. 3. CANCELLATION OF DEBT OWED BY ELIGIBLE LOW-INCOME COUNTRIES.

Title XVI of the International Financial Institutions Act (22 U.S.C. 262p–262p–8) is amended by adding at the end the following:

“SEC. 1626. CANCELLATION OF DEBT OWED BY ELIGIBLE LOW-INCOME COUNTRIES.

“(a) **IN GENERAL.**—The Secretary of the Treasury shall commence immediate efforts, within the Paris Club of Official Creditors, the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (World Bank), and the other international financial institutions (as defined in section 1701(c)(2)), to negotiate an agreement to accomplish the following:

“(1) Cancellation by each international financial institution of all debts owed to the institution by eligible low-income countries, and, to the extent possible, financing the debt cancellation from the ongoing operations, procedures, and accounts of the institution.

“(2) Cancellation by the United States of all debts owed to it by eligible low-income countries.

“(3) Ensuring that any waiting period for the enhanced debt cancellation is not excessive.

“(4) Ensuring that the provision of debt cancellation to eligible low-income countries is not followed by a reduction in the provision of any other development assistance to the countries by international financial institutions and bilateral creditors.

“(5) Encouraging the government of each eligible low-income country to allocate at least 20 percent of its national budget towards poverty-alleviation programs such as the provision of basic health care services, education services, and clean water services to all individuals in the country.

This subsection shall not be interpreted to authorize the Secretary of the Treasury to enter into an agreement to accomplish any of the foregoing without express congressional authorization to do so.

“(b) ESTABLISHMENT OF FRAMEWORK FOR CREDITOR TRANSPARENCY.—The Secretary of the Treasury shall commence immediate efforts, within the Paris Club of Official Creditors, the International Monetary Fund, the World Bank, and the other international financial institutions (as so defined), to ensure that each of the institutions—

“(1) continues to make efforts to promote greater transparency regarding the activities of the institution, including credit, grant, guarantee, and technical assistance operations, following a policy of maximum disclosure; and

“(2) supports continued efforts to allow informed participation and input by affected communities, including translation of information on proposed projects, provision of information (including draft documents) through information technology application, oral briefings, and outreach to and dialogue with community organizations and institutions in affected areas.

“(c) ESTABLISHMENT OF FRAMEWORK FOR RESPONSIBLE LENDING.—The Secretary of the Treasury shall commence immediate efforts to—

“(1) develop and promote policies to ensure all creditors, with no distinction, will contribute to preserving the gains of debt relief for low-income debtor countries;

“(2) provide that the external financing needs of low-income countries are met primarily through grant financing rather than new lending;

“(3) seek the international adoption of a binding legal framework on new lending that—

“(A) guarantees that no creditor can take or expect to take financial advantage of acquired or newly awarded debt relief through the terms and rates of such lending to beneficiary countries;

“(B) is binding on all creditors, whether multilateral, bilateral or private;

“(C) foresees, as a sanction for creditors who violate it, an equitable share in the burden of the losses from any future debt relief needed by the sovereign debtor to whom lending was irresponsibly provided;

“(D) provides for decisions on irresponsible lending to be made by an entity independent from the creditors; and

“(E) enables fair opportunities for the people of the affected country to be heard; and

“(4) support the development of responsible financing standards where 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, while encouraging the development of renewable energy and helping countries to transition away from dependence on oil.

“(d) GAO AUDIT OF DEBT PORTFOLIOS OF COUNTRIES WITH QUESTIONABLE LOANS.—

“(1) IN GENERAL.—The Comptroller General of the United States shall undertake an audit of the debt portfolios of previous governments in countries such as the Democratic Republic of Congo and South Africa, where there is significant evidence that odious, onerous, or illegal loans were made to the government. Each such audit shall—

“(A) consider debt owed to the World Bank, the IMF, and the other international financial institutions (as so defined), export credit debts owed to governments, and debts owed to commercial creditors, and assess whether or not past investments produced the intended results;

“(B) investigate the process by which the loans were contracted, how the funds were used, and determine whether United States or international laws were violated in the contraction of these loans, and whether any of the loans were odious or onerous; and

“(C) be planned and executed in a transparent and consultative manner, engaging congressional bodies and civil society groups in the countries.

“(2) REPORT.—Within 2 years after the date of the enactment of this section, the Comptroller General of the United States shall prepare and submit to the Committees on Financial Services and on Foreign Affairs of the House of Representatives and the Committees on Banking, Housing, and Urban Affairs and on Foreign Relations of the Senate a report that contains the results of the audits undertaken under paragraph (1).

“(e) AVAILABILITY ON TREASURY DEPARTMENT WEBSITE OF REMARKS OF UNITED STATES EXECUTIVE DIRECTORS AT MEETINGS OF INTERNATIONAL FINANCIAL INSTITUTIONS’ BOARDS OF DIRECTORS.—The Secretary of the Treasury shall make available on the website of the Department of the Treasury the full record of the remarks of the United States Executive Director at meetings of the boards of directors of the

International Monetary Fund, the World Bank, and the other international financial institutions (as so defined), about cancellation or reduction of debts owed to the institution involved, with redaction by the Secretary of the Treasury of material deemed too sensitive for public distribution, but showing the topic, amount of material redacted, and reason for the redaction.

“(f) REPORT FROM THE COMPTROLLER GENERAL.—Within 1 year after the date of the enactment of this section, the Comptroller General of the United States shall prepare and submit to the Committees on Financial Services and on Foreign Affairs of the House of Representatives and the Committees on Banking, Housing, and Urban Affairs and on Foreign Relations of the Senate a report on the availability of the ongoing operations, procedures, and accounts of the IMF, the World Bank, and the other international financial institutions (as so defined) for canceling the debt of eligible low-income countries.

“(g) ANNUAL REPORTS FROM THE PRESIDENT.—Not later than December 31 of each year, the President shall submit to the Committees on Financial Services and on Foreign Affairs of the House of Representatives and the Committees on Foreign Relations and on Banking, Housing, and Urban Affairs of the Senate a report, which shall be made available to the public, on the activities undertaken under this section, and other progress made in accomplishing the purposes of this section, for the prior fiscal year. The report shall include a list of the countries that have received debt cancellation, a list of the countries whose request for debt cancellation has been denied and the reasons therefor, and a list of the countries whose requests for debt cancellation are under consideration.

“(h) ELIGIBLE LOW-INCOME COUNTRY DEFINED.—In this section, the term ‘eligible low-income country’ means a country—

“(1) that is eligible for financing from the International Development Association but not the World Bank, and does not qualify for debt relief under the Enhanced HIPC Initiative (as defined in section 1625(e)(3)) and under the Multilateral Debt Relief Initiative;

“(2) that has transparent and effective budget execution and public financial management systems which ensure that the savings from debt relief are spent on reducing poverty;

“(3) the government of which does not have an excessive level of military expenditures;

“(4) the government of which has not repeatedly provided support for acts of international terrorism, as determined by the Secretary of State under section 6(j)(1) of the Export Administration Act of 1979 (50 U.S.C. App. 2405(j)(1)), or section 620A(a) of the Foreign Assistance Act of 1961 (22 U.S.C. 2371(a));

“(5) the government of which is cooperating on international narcotics control matters; and

“(6) the government of which (including its military or other security forces) does not engage in a consistent pattern of gross violations of internationally recognized human rights.”.

SEC. 4. LIMITATION ON CONDITIONALITY OF DEBT RELIEF FOR ELIGIBLE LOW-INCOME COUNTRIES.

Title XVI of the International Financial Institutions Act (22 U.S.C. 262p–262p–8) is further amended by adding at the end the following:

“SEC. 1627. LIMITATION ON CONDITIONALITY OF DEBT RELIEF FOR ELIGIBLE LOW-INCOME COUNTRIES.

“(a) IN GENERAL.—The Secretary of the Treasury shall commence immediate efforts within the Paris Club of Official Creditors, the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (World Bank), and the other international financial institutions (as defined in section 1701(c)(2)), to ensure that debt cancellation is provided to eligible low-income countries (as defined in section 1626(h)) without any conditions except requiring the government of such a country to—

“(1) take steps so that the financial benefits of debt relief are applied to programs to combat poverty (in particular through concrete measures to improve economic infrastructure, basic services in education, nutrition, and health, particularly treatment and prevention of the leading causes of mortality) and to redress environmental degradation;

“(2) make policy decisions through transparent and participatory processes;

“(3) adopt an integrated development strategy to support poverty reduction through economic growth, that includes monitorable poverty reduction goals;

“(4) implement transparent policy making and budget procedures, good governance, and effective anticorruption measures;

“(5) broaden public participation and popular understanding of the principles and goals of poverty reduction, particularly through economic growth, and good governance;

“(6) promote the participation of citizens and nongovernmental organizations in the economic policy choices of the government; and

“(7) produce an annual report disclosing how the savings from debt cancellation were used, and make the report publicly available and easily accessible to all interested parties, including civil society groups and the media.

“(b) ANNUAL REPORTS TO THE CONGRESS.—Not later than December 31 of each year, the President shall submit to the Committees on Financial Services and on International Relations of the House of Representatives and the Committees on Foreign Relations and on Banking, Housing, and Urban Affairs of the Senate a report, which shall be made available to the public, on the activities undertaken under this section, and other progress made in accomplishing the purposes of this section, for the prior fiscal year.”.

SEC. 5. SENSE OF THE CONGRESS.

It is the sense of the Congress that to further the goals of debt reduction for low-income countries, in addition to the efforts described in this Act, the United States should pay off outstanding arrearages of \$595,800,000 to the International Development Association and regional development banks, and become current on all debt reduction efforts, including those carried out by the International Development Association and under the Enhanced Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative.

PURPOSE AND SUMMARY

H.R. 2634, the “Jubilee Act for Responsible Lending and Expanded Debt Cancellation of 2008,” authorizes the Secretary of the Treasury to commence immediate efforts to negotiate with the Paris Club and the international financial institutions to establish an agreement that provides full cancellation of the debts of eligible low-income countries, including those owed to the United States. Provisions of the bill stipulate that the agreement shall finance debt cancellation from the ongoing operations and accounts of the international financial institutions in a timely way and without a reduction in any other development assistance to the countries by these institutions or bilateral creditors. They also stipulate that the Secretary shall work to require the government of each eligible low-income country to allocate the savings from debt cancellation towards poverty-reducing expenditures, and engage a broad cross-section of civil society groups in determining how the funds should be allocated. The legislation requires an annual public report disclosing how the savings from debt cancellation were used. It also requires that, once a multilateral agreement is reached, Congress will have to authorize it.

The legislation requires the Secretary of the Treasury to commence efforts to achieve multilateral agreements on creditor transparency and responsible lending. In addition, the Secretary of the Treasury shall promote greater transparency regarding the operations of the international financial institutions by, for instance, disclosing to the public a maximum level of information and supporting enhanced participation of, and input by, communities affected by these operations.

The legislation defines eligibility for debt cancellation and requires that debt cancellation to eligible low-income governments is not conditioned on any agreement by such a government to implement policies except those explicitly outlined in the bill, such as those that foster transparent and participatory policies to achieve poverty reduction through economic growth; ensure sound budget procedures, good governance and effective anticorruption measures;

and produce and disclose to the public an annual report disclosing how the savings from debt cancellation were used.

The legislation requires Government Accountability Office (GAO) audits of the debt portfolios of countries where there is evidence that odious, onerous, or illegal loans were made to the government, and a GAO report financing sourcing for debt cancellation. The legislation requires annual reports from the President on the progress toward achieving debt cancellation and requires that the Treasury Department make public its comments in the international financial institutions' boards of directors as they pertain to debt cancellation.

Finally, the legislation expresses the sense of the Congress that to further the goals of debt reduction for low-income countries, in addition to the efforts described in this Act, the United States should pay off outstanding arrearages of \$595.8 million to the multilateral development banks and debt reduction efforts.

BACKGROUND AND NEED FOR LEGISLATION

This Committee has for a number of years worked in a very bipartisan way on the issue of debt relief for the world's poorest countries as an essential component in the overall effort to help alleviate the desperate poverty and misery that exists in many parts of the world. Reducing debt and freeing resources from debt service for investment in basic human needs are not just a moral or humanitarian imperative; they can be good economic policy. Debt reduction can complement development assistance by reducing the overhang of debt permanently. By contributing to a more sustainable debt profile, carefully designed debt reduction can help improve the capacity of governments to meet the needs of their people. It can help create a more attractive environment for private investment and improve the conditions for sustainable development in general.

Millions of the world's poor live in countries where crushing foreign debt obligations, almost exclusively to official bilateral and multilateral creditors, stand in the way of economic growth and poverty reduction. While there has been much progress made here, there are still millions of children and other vulnerable people in Africa, Latin America and Asia—in the poorest countries in the world—who continue to go without food, sanitation, or basic medical care. By directing the Administration to begin advocacy within the international community to provide complete debt cancellation for an additional group of the world's poorest countries, the Committee believes that H.R. 2634, the Jubilee Act for Responsible Lending and Expanded Debt Cancellation of 2008, reflects the compassion and understanding that good policy calls for.

HIGHLY INDEBTED POOR COUNTRIES INITIATIVE (HIPC)

The international financial institutions such as the International Monetary Fund (IMF) and the World Bank used to object to the idea that any debts owed to them should be forgiven at all. But in 1996, at the urging of the G8, the World Bank and the IMF launched the first "Highly Indebted Poor Countries Initiative (HIPC)," which identified 41 of the world's poorest countries—many of them in Africa, many ravaged by AIDS—for debt relief in order

to help alleviate the suffering and misery of millions of the world's most vulnerable people.

The HIPC Initiative was the first coordinated effort to include all creditors, particularly the international financial institutions, in addressing the debt problems of poor developing countries. The goal of the original HIPC Initiative was solely to bring countries' debts to "sustainable" levels, which was defined mainly in terms of the net present value of a country's debt in relation to its exports.

As a condition of receiving debt relief under the initial HIPC program, a country had to establish a 6-year record of macroeconomic policy reform under existing IMF and World Bank lending arrangements before it received any relief. Once the World Bank and IMF determined that a country had successfully established a satisfactory track record of policy reform implementation, their overall debt burden was reduced to a "sustainable" level, meaning that in the future, it was assumed that they would be able to make debt payments on time and without rescheduling.

This approach of making desperately impoverished countries continue debt service payments on a so-called "sustainable" level of debt was viewed by many as misguided on both theoretical and practical grounds. Not only did this approach pay little attention to the negative human consequences of a government's continued payments on its remaining debt, but a government's ability to pay back its "sustainable debt" was also based on overly optimistic, often flawed assumptions by the international financial institutions about a country's future economic growth, external trade dynamics, and the availability of financial resources.

THE "ENHANCED" HIPC INITIATIVE

In response to widespread criticism of the original program, in June 1999 at the G-7 summit in Cologne, Germany, the World Bank and IMF endorsed proposals to modify the HIPC Initiative. The "enhanced" HIPC Initiative represented a major advance over the original HIPC program, promising much more debt relief, more rapidly, and to more countries. Also, in response to concerns that the original Initiative was insufficiently linked to poverty reduction, the modified HIPC incorporated a new framework to strengthen the poverty focus of development programs and to promote country ownership, transparency and civil society participation in their design and implementation.

This Committee worked very closely with the Administration to assure that the Enhanced HIPC Initiative included 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 three-year national Poverty Reduction Strategy approved by its lenders.

Before the HIPC Initiative, eligible African countries were, on average, spending slightly more on debt service than on health and education combined. Now they have markedly increased their spending on health, education, and other social services, and, on average, such spending is more than 5 times the amount of debt-service payments.

MULTILATERAL DEBT RELIEF INITIATIVE (MDRI)

Despite these gains, after nearly a decade of HIPC, many of the participating countries continued to suffer under excessive debt burdens. Thus, in 2005, the G8 countries agreed to tackle this residual debt through the MDRI by canceling 100 percent of debts owed by the HIPC countries to the IMF, the World Bank and the African Development Fund. In March 2007, the Inter-American Development Bank has agreed to cancel the debts of the five Latin American countries.

In fact, most of these countries are servicing their obligations, but only because the multilateral institutions have offered them new grants and loans to help them repay their old ones. Many have argued that the current cycle of defensive lending—in which a chunk of new money lent by the World Bank is sent straight back to Washington as debt-service payments on old debt—is absurd. This recycling of funds keeps up appearances on the balance sheets of the Bank and the Fund, making bad loans look better than they really are. But it is also complicated and inefficient, consuming the time and energy of creditors and debtors. It is far better to write off the debts altogether, cleaning up the accounts for both creditors and debtors alike.

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 highlighted the efficacy of debt relief in his 2007 State of the Union speech, stating “let us continue to support the expanded trade and debt relief that are the best hope for lifting lives and eliminating poverty.”

Under the MDRI agreement, no additional net assistance is provided because any savings from forgiven multilateral debt service obligations will be netted out of future International Development Association (IDA) flows to that country. So the effect on cash flow for debtor countries would be neutral because the World Bank will simply net out any debt service from new IDA credits to each country.

PURPOSE AND NEED FOR LEGISLATION

Debt cancellation is a proven means to reduce poverty. In recent years, recipient governments have invested released funds in health care, education, infrastructure, job creation and economic development programs. Debt relief under two international initiatives has helped reduce significantly the debt burden of heavily indebted poor countries in Africa and freed up additional resources for poverty-reducing and social expenditures

Before the HIPC Initiative and the MDRI, eligible countries were, on average, spending slightly more on debt service than on health and education combined. To date, 23 countries have reached their completion points and have received irrevocable debt relief. Ten other countries have reached the first step in the process and are receiving interim relief on its debt service falling due. Together, these countries have increased markedly their expenditures on health, education and other social services and, on average, such spending is about five times the amount of debt-service payments.

H.R. 2634, THE JUBILEE ACT FOR RESPONSIBLE LENDING AND
EXPANDED DEBT CANCELLATION OF 2008.

This legislation instructs the Secretary of Treasury to commence negotiations within the international financial institutions to negotiate comprehensive debt cancellation for an additional 24 of the world's poorest countries that are not already eligible for the debt cancellation approved under the current initiatives. The bill explicitly states that the Act authorizes the Secretary of the Treasury to commence immediate efforts to negotiate an agreement, but it does not authorize the implementation of any agreement. Once a multilateral agreement is reached, Congress will have to authorize it by law.

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.

EXPANDED DEBT CANCELLATION FOR QUALIFIED COUNTRIES

Some members of the committee have wondered why additional debt cancellation is necessary when so much debt relief is already being provided under HIPC and the more recent Multilateral Debt Relief Initiative. Others have long argued that the eligibility criteria for the HIPC Initiative fails to take into account one key critical factor—poverty. That is, the HIPCs do not include all the poorest countries, just the ones that are both poor and heavily indebted. The disparity of treatment between HIPC countries and non-HIPC countries became clear when the World Bank and IMF conducted an examination of so-called “debt sustainability” in the poorest countries, the so-called IDA-only countries, which are only allowed to receive from the World Bank funds from their most concessionary arm. The primary objective of the exercise was to determine which countries should receive their future IDA financing either wholly or partially in the form of grants.

When the exercise was conducted in 2005, it showed that 42 countries were at sufficiently high risk of debt distress to be eligible for grant financing, instead of the usual loans. The list included 29 HIPC countries plus 18 other countries. This meant that there were 18 non-HIPC countries rated as having a risk of debt distress equal to or greater than the HIPC countries. Like the HIPC countries, now they were going to get some grants going forward. But

unlike the HIPCs, they would get no debt relief. One recent study showed that when using a debt-poverty ratio, there are 30 countries that are both poorer and more indebted than the least poor and least indebted eligible HIPCs.

H.R. 2634 addresses this concern by bringing deep debt relief within the reach of virtually all of the world's poorest countries. Some will note that the IDA-only criterion for eligibility under the bill will capture some countries with relatively low levels of external debt. But all of these countries are ones with very high levels of poverty, and thus they need to maximize the amount of resources that they can marshal to promote human development and move toward the millennium development goals for reducing poverty.

CONDITIONS AND REQUIREMENTS

Over the last five years there has been a growing international consensus that economic conditionality often does more harm than good. The 2005 Commission for Africa report stated that the "use of policy conditionality associated with external assistance should be strongly reduced." The United Kingdom also recently withheld a portion of its IDA contribution in protest against some of the conditions imposed by the World Bank on poor countries.

Still, aid to developing countries nearly always comes with conditions attached, which countries seeking debt forgiveness are under particular pressure to adopt. Even if some reforms are necessary to ensure that money will not be misappropriated, many conditions impose specific, often harmful economic policies on developing countries.

Twelve years after the inception of HIPC in 1996, many advocates point to evidence that shows that a number of conditions and macroeconomic reform requirements that attach to both debt relief and lending from the IMF and World Bank sometimes undermine and even negate the benefits of debt cancellation. In particular, policies that force countries applying for debt relief to adhere to strict IMF fiscal and monetary targets, privatize key industries, liberalize their markets, and remove subsidies for sensitive commodities like gasoline and cooking oil have been shown to hurt the poorest and most vulnerable people in these countries.

The requirement that the countries seeking debt relief stay on track with a Poverty Reduction and Growth Facility (PRGF) loan from the IMF is of particular concern. PRGF loans include macroeconomic policy conditions such as maximum inflation targets and public spending limits, specific levels of currency reserves that must be attained, and caps on public wages. These conditions give the IMF the power to dictate spending levels in a number of sensitive sectors, which in some cases can undermine democratic processes within a country.

H.R. 2634 mandates that debt cancellation be provided to eligible low-income countries without any conditions except those that are explicitly outlined in the bill. These conditions include a requirement that governments of each country ensures that the financial benefits of debt relief are applied to programs to combat poverty; adopts an integrated development strategy to support poverty reduction through economic growth, that includes monitorable poverty reduction goals; makes policy decisions through transparent

and participatory processes; adopts sound budget procedures, good governance and effective anticorruption measures; and produces and disclose to the public an annual report disclosing how the savings from debt cancellation were used.

The Committee notes that while it supports the adoption by countries of an integrated development strategy to support poverty reduction, it also believes countries should have the necessary flexibility to independently change its strategy in light of changing economic circumstances, or in response to adjustments made to national development plans by democratically elected parliaments.

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 nations back into unsustainable debt. To ensure that countries that benefit from debt relief do not fall back into unsustainable debt, 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.

The Jubilee Act also calls for greater transparency in lending. The legislation calls on the Department of Treasury to commence immediate efforts to encourage Paris Club creditors, the International Monetary Fund and the World Bank to promote greater transparency regarding their activities and follow a policy of maximum disclosure and support continued efforts to allow greater participation and input by affected communities and institutions in affected areas.

FINANCING OF DEBT CANCELLATION AND COST TO THE UNITED STATES

This legislation only provides authorization for the Secretary of the Treasury to commence immediate efforts to negotiate a multilateral agreement on debt cancellation, but it does not authorize the implementation of any agreement. Since the Committee explicitly withholds authorization for any future agreement that might be reached, there should be no budgetary impact associated with this Act. The following section provides estimates on what future costs might be, contingent on the timing and scope and nature of any future agreement.

Bilateral Debt: The budgetary cost to forgive the U.S. bilateral debts of the 24 countries that could potentially qualify for debt cancellation under the Jubilee Act is estimated at approximately \$700 million to \$1 billion, spread over 9 years (2009–2017), or an average annual appropriation of \$106 million.

International Monetary Fund Debt: The 24 countries potentially covered under the Act owe a total of roughly \$2 billion to the IMF.

There is growing support for selling a portion of the IMF's gold holding to pay for some IMF debt forgiveness, as well as to bolster the World Bank's soft-loan arm. This approach provides purely additional funds and does not require any additional contributions.

The IMF's gold reserves are the third largest in the world after the United States and Germany. The IMF currently holds 103.4 million ounces of gold that are valued on its balance sheet at about \$9 billion. At the current market prices of about \$913/ounce, the IMF's gold holdings amount to roughly \$94 billion. In 1999, it re-valued 12.9 million ounces of the gold in off-market transactions as a way to fund the HIPC debt cancellation.

An internal IMF staff report presented to the board in 2005 shows that selling a small portion of the fund's gold to pay for debt relief need not cause disruption to the market if the sale is well managed. By adhering to the terms of the 1999 Central Bank Gold Agreement, which governs future sales of gold by central banks, the IMF could raise the required resources without causing market volatility or hurting gold-producing countries. The report also stresses the need to make clear that a sale would not be the first stage in an ongoing disposal of the IMF's gold—and that it would retain large holdings for prudential reasons.

The World Gold Council, a body representing gold-mining companies, also voiced conditional support for the sale of some IMF gold to help pay for the Fund's share of debt relief, saying it would prefer any sales to be conducted under the auspices of the Central Bank Gold Agreement to avoid disruption to the market.

The Administration has indicated support for a proposal to sell a small portion of the IMF's gold holdings in order to help fund IMF operations. The Committee believes some additional gold sales would be appropriate to help finance debt relief for additional poor countries that are not already eligible for the debt cancellation approved under the current initiatives.

The Fund needs near universal support (an 85 percent majority of voting power) from the IMF Executive Board to engage in the sale or use of its gold reserves. The IMF is required under U.S. law to gain support from the U.S. Congress before selling any IMF gold.

World Bank Debt: The 24 countries potentially covered under the Act owe a total of roughly \$24 billion to the World Bank. While the cost to cancel the multilateral debts that eligible countries owe to the World Bank by eligible countries is much greater, the cost to the United States would be less because the World Bank has the financial capacity to responsibly mobilize a share of its large reserves and/or transfer funds from the annual net income of the IBRD or IFC to cover the costs of cancellation without any impact on the World Bank's ability to lend or its credit rating. In fact, the World Bank Board of Directors recently considered a Capital Adequacy Report which recognized that the Bank's current equity to loans ratio is significantly higher than what is necessary to cover risk and generate sufficient income. The report also identifies a \$10 billion "capital buffer" that could be mobilized to fund debt cancellation.

African Development Bank and Asian Development Bank Debt: The 24 countries potentially covered under the Act owe a total of roughly \$11.1 billion to the African Development Bank and Asian

Development Bank. While some costs could be borne by the institutions themselves, the remaining burden would be shared among other donor governments.

DEBT AUDITS

The Jubilee Act also addresses the problem of odious and unjust debts (debts accrued by undemocratic regimes or that did not benefit the population) by requiring the Comptroller General of the U.S. 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 U.S. and/or international laws were violated in the contraction of these loans. This is imperative in order to learn from past errors and ensure more responsible and productive lending and borrowing moving forward. 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.

HEARINGS

The Committee on Financial Services held a legislative hearing entitled “H.R. 2634, the Jubilee Act for Responsible Lending and Expanded Debt Cancellation Act of 2008” on November 8, 2007. The following witnesses testified:

- Mr. Neil Watkins, National Coordinator, Jubilee USA Network
- Ms. Emira Woods, Co-Director, Foreign Policy in Focus, Institute for Policy Studies
- Mr. Gerald F. Flood, Counselor, Office of International Justice and Peace, U.S. Conference of Catholic Bishops
- Mr. Aldo Caliarì, Director, Rethinking Bretton Woods Project, Center of Concern

COMMITTEE CONSIDERATION

The Committee on Financial Services met in open session on April 3, 2008, and ordered H.R. 2634, the “Jubilee Act for Responsible Lending and Expanded Debt Cancellation Act of 2008,” as amended, favorably reported by a voice vote.

COMMITTEE VOTES

Clause 3(b) of rule XIII of the Rules of the House of Representatives requires the Committee to list the record votes on the motion to report legislation and amendments thereto. No record votes were taken in conjunction with the consideration of this legislation. A motion by Mr. Frank (MA) to report the bill, as amended, to the House with a favorable recommendation was agreed to by a voice vote.

During the consideration of the bill, the following amendment was considered:

An amendment by Mr. Frank (MA), No. 1, a manager's amendment making various technical and substantive changes, was agreed to by a voice vote.

COMMITTEE OVERSIGHT FINDINGS

Pursuant to clause 3(c)(1) of rule XIII of the Rules of the House of Representatives, the Committee has held hearings and made findings that are reflected in this report.

PERFORMANCE GOALS AND OBJECTIVES

Pursuant to clause 3(c)(4) of rule XIII of the Rules of the House of Representatives, the Committee establishes the following performance related goals and objectives for this legislation:

H.R. 2634 authorizes the Secretary of the Treasury to commence immediate efforts to negotiate with the Paris Club and the international financial institutions to establish an agreement that provides full cancellation of the debts of eligible low-income countries, including those owed to the United States. The Secretary shall work to require the government of each eligible low-income country to allocate the savings from debt cancellation towards poverty-reducing expenditures, and engage a broad cross-section of civil society groups in determining how the funds should be allocated.

NEW BUDGET AUTHORITY, ENTITLEMENT AUTHORITY, AND TAX EXPENDITURES

In compliance with clause 3(c)(2) of rule XIII of the Rules of the House of Representatives, the Committee adopts as its own the estimate of new budget authority, entitlement authority, or tax expenditures or revenues contained in the cost estimate prepared by the Director of the Congressional Budget Office pursuant to section 402 of the Congressional Budget Act of 1974.

COMMITTEE COST ESTIMATE

The Committee adopts as its own the cost estimate prepared by the Director of the Congressional Budget Office pursuant to section 402 of the Congressional Budget Act of 1974.

CONGRESSIONAL BUDGET OFFICE ESTIMATE

Pursuant to clause 3(c)(3) of rule XIII of the Rules of the House of Representatives, the following is the cost estimate provided by the Congressional Budget Office pursuant to section 402 of the Congressional Budget Act of 1974:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, April 9, 2008.

Hon. BARNEY FRANK,
*Chairman, Committee on Financial Services,
House of Representatives, Washington, DC.*

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 2634, the Jubilee Act for Responsible Lending and Expanded Debt Cancellation of 2008.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Michelle S. Patterson.

Sincerely,

ROBERT A. SUNSHINE
(For Peter R. Orszag).

Enclosure.

*H.R. 2634—Jubilee Act for Responsible Lending and Expanded
Debt Cancellation of 2008*

H.R. 2634 would require the Secretary of the Treasury to begin negotiations to cancel debt owed by eligible low-income countries to the United States and to certain global organizations, such as the International Monetary Fund and the World Bank. Agreements to cancel debt could not be finalized without authorization from the Congress. The bill also would require the Secretary to promote within the international community transparent lending processes and responsible financing policies for the benefit of debtor nations.

Because the Congress must approve any agreements to cancel bilateral or multilateral debts, CBO estimates that enacting H.R. 2634, by itself, would have no budgetary impact.

H.R. 2634 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act and would not affect the budgets of state, local, or tribal governments.

The CBO staff contact for this estimate is Michelle S. Patterson. This estimate was approved by Peter H. Fontaine, Assistant Director for Budget Analysis.

FEDERAL MANDATES STATEMENT

The Committee adopts as its own the estimate of Federal mandates prepared by the Director of the Congressional Budget Office pursuant to section 423 of the Unfunded Mandates Reform Act.

ADVISORY COMMITTEE STATEMENT

No advisory committees within the meaning of section 5(b) of the Federal Advisory Committee Act were created by this legislation.

CONSTITUTIONAL AUTHORITY STATEMENT

Pursuant to clause 3(d)(1) of rule XIII of the Rules of the House of Representatives, the Committee finds that the Constitutional Authority of Congress to enact this legislation is provided by Article 1, section 8, clause 1 (relating to the general welfare of the United States) and clause 3 (relating to the power to regulate interstate commerce).

APPLICABILITY TO LEGISLATIVE BRANCH

The Committee finds that the legislation does not relate to the terms and conditions of employment or access to public services or accommodations within the meaning of section 102(b)(3) of the Congressional Accountability Act.

EARMARK IDENTIFICATION

H.R. 2634 does not contain any congressional earmarks, limited tax benefits, or limited tariff benefits as defined in clause 9 of rule XXI.

SECTION-BY-SECTION ANALYSIS OF THE LEGISLATION

Sec 1. Short title

Title of the bill: the “Jubilee Act for Responsible Lending and Expanded Debt Cancellation of 2008”

Sec. 2. Findings

The Findings of the bill: (1) outline the record of success under the Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative, as well as the unfinished agenda on international debt, including effective implementation of existing commitments and the need for a broader debt cancellation program; (2) review the strong Congressional leadership in supporting previous bilateral and multilateral debt relief efforts; (3) express concern about the harmful impacts of some of the economic policies imposed on poor countries as a condition for receiving debt relief; (4) discuss appropriate conditionality; and (5) raise the critical issue of new non-concessional loans to countries that have benefited from debt relief.

Sec. 3. Cancellation of debt owed by eligible low-income countries

This section requires the Secretary of the Treasury to commence immediate efforts, within the Paris Club and international financial institutions, to negotiate an agreement to provide full cancellation of the debts of eligible low-income countries, including those owed to the United States.

The Act requires the Secretary of the Treasury to ensure, to the extent possible, that the international financial institutions finance debt cancellation from the ongoing operations, procedures, and accounts of each institution, and ensure that any waiting period for the enhanced debt cancellation is not excessive.

The Secretary of the Treasury shall work to ensure that the provision of debt cancellation to eligible low-income countries is not followed by a reduction of any other development assistance to the countries by international financial institutions and bilateral creditors.

The Secretary shall also work to require the government of each eligible low-income country to allocate the savings from debt cancellation towards poverty-reducing expenditures, and engage a broad cross-section of civil society groups in the allocation determination process.

The Act requires an annual public report disclosing how the savings from debt cancellation were used.

The Act authorizes the Secretary of the Treasury to commence immediate efforts to negotiate an agreement, but it does not explicitly authorize the implementation of any agreement. Once a multilateral agreement is reached, Congress will have to authorize it.

Establishment of framework for creditor transparency

The Secretary of the Treasury shall commence immediate efforts to continue to promote greater transparency regarding the activities of the international financial institutions, including credit, grant, guarantee, and technical assistance operations, following a policy of maximum disclosure; and support continued efforts to allow informed participation and input by affected communities, including translation of information on proposed projects, provision of information (including draft documents) through outreach and dialogue with community organizations and institutions in affected areas.

Establishment of framework for responsible lending

The Secretary of the Treasury shall commence immediate efforts to seek the international adoption of a binding legal framework on new lending that (A) guarantees that no creditor can take or expect to take financial advantage of acquired or newly awarded debt relief through the terms and rates of their new lending to beneficiary countries; (B) is binding on all creditors, whether multilateral, bilateral or private; (C) foresees, as a sanction for creditors who violate it, an equitable share in the burden of the losses from any future debt relief needed by the sovereign debtor to whom lending was irresponsibly provided; (D) provides for decisions on irresponsible lending to be made by an entity independent from the creditors; and (E) enables fair opportunities for the people of the affected country to be heard.

The Secretary of the Treasury shall support the development of responsible financing standards where 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, while encouraging the development of renewable energy and helping countries to transition away from dependence on oil.

The Secretary of the Treasury shall also commence immediate efforts to provide that the external financing needs of low-income countries are met primarily through grant financing rather than new lending.

GAO audit of debt portfolios of countries with questionable loans

The Comptroller General of the United States shall undertake an audit of the debt portfolios of previous governments in countries such as the Democratic Republic of Congo and South Africa, where there is significant evidence that odious, onerous, or illegal loans were made to the government. The Comptroller General of the United States shall prepare and submit to the relevant congressional committees a report that contains the results of these audits within 2 years after the date of the enactment of this section.

Availability on Treasury Department Website of remarks of U.S. executive directors at meetings of international financial institutions' boards of directors

The Secretary of the Treasury shall make available on the website of the Department of the Treasury the full record of the remarks of the United States Executive Director at meetings of the boards of directors of each international financial institution about cancellation or reduction of debts owed to the institution involved, with redaction by the Secretary of the Treasury of material deemed too sensitive for public distribution, but showing the topic, amount of material redacted, and reason for the redaction.

Report from the Comptroller General

Within 1 year after the date of the enactment of this section, the Comptroller General of the United States shall prepare and submit to Congress a report on the availability of the ongoing operations, procedures, and accounts of the IMF, the World Bank, and the other international financial institutions for canceling the debt of eligible low-income countries.

Annual reports from the President

Not later than December 31 of each year, the President shall submit to the relevant congressional committees a public report on the progress made in accomplishing the purposes of this section, including a list of the countries that have received debt cancellation, a list of the countries whose request for debt cancellation has been denied and why, and a list of the countries whose requests for debt cancellation are under consideration.

Eligible low-income country defined

The term "eligible low-income country" is defined as a country that (1) is eligible for financing only from the International Development Association and has not already qualified for debt relief under HIPC and MDRI; (2) has transparent and effective budget execution and public financial management systems which ensure that the savings from debt relief are spent on reducing poverty; (3) does not have an excessive level of military expenditures; (4) has not repeatedly provided support for acts of international terrorism, as determined by the Secretary of State and defined under U.S. law; (5) is cooperating on international narcotics control matters; and (6) is not engaging in a consistent pattern of gross violations of internationally recognized human rights, including through its military or other security forces.

Sec. 4. Limitation on conditionality of debt relief for eligible low-income countries

The Secretary of the Treasury shall commence immediate efforts within the Paris Club of bilateral creditors and within the international financial institutions to ensure that the provision of debt cancellation to eligible low-income governments is not conditioned on any agreement by such a government to implement policies except those explicitly outlined in the bill, such as those that foster transparent and participatory policies to achieve poverty reduction through economic growth; ensure sound budget procedures, good governance and effective anticorruption measures; and produce and

disclose to the public an annual report disclosing how the savings from debt cancellation were used.

Annual reports to the Congress

Not later than December 31 of each year, the President shall submit to the relevant congressional committees a public report on the progress made in accomplishing the purposes of this section.

Sec. 5. Sense of the Congress

This section expresses the sense of the Congress that to further the goals of debt reduction for low-income countries, in addition to the efforts described in this Act, the United States should pay off outstanding arrearages of \$595.8 million to the multilateral development banks and debt reduction efforts.

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3(e) of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (new matter is printed in italic and existing law in which no change is proposed is shown in roman):

INTERNATIONAL FINANCIAL INSTITUTIONS ACT

* * * * *

TITLE XVI—HUMAN WELFARE

* * * * *

SEC. 1626. CANCELLATION OF DEBT OWED BY ELIGIBLE LOW-INCOME COUNTRIES.

(a) *IN GENERAL.*—*The Secretary of the Treasury shall commence immediate efforts, within the Paris Club of Official Creditors, the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (World Bank), and the other international financial institutions (as defined in section 1701(c)(2)), to negotiate an agreement to accomplish the following:*

(1) *Cancellation by each international financial institution of all debts owed to the institution by eligible low-income countries, and, to the extent possible, financing the debt cancellation from the ongoing operations, procedures, and accounts of the institution.*

(2) *Cancellation by the United States of all debts owed to it by eligible low-income countries.*

(3) *Ensuring that any waiting period for the enhanced debt cancellation is not excessive.*

(4) *Ensuring that the provision of debt cancellation to eligible low-income countries is not followed by a reduction in the provision of any other development assistance to the countries by international financial institutions and bilateral creditors.*

(5) *Encouraging the government of each eligible low-income country to allocate at least 20 percent of its national budget towards poverty-alleviation programs such as the provision of*

basic health care services, education services, and clean water services to all individuals in the country.

This subsection shall not be interpreted to authorize the Secretary of the Treasury to enter into an agreement to accomplish any of the foregoing without express congressional authorization to do so.

(b) ESTABLISHMENT OF FRAMEWORK FOR CREDITOR TRANSPARENCY.—The Secretary of the Treasury shall commence immediate efforts, within the Paris Club of Official Creditors, the International Monetary Fund, the World Bank, and the other international financial institutions (as so defined), to ensure that each of the institutions—

(1) continues to make efforts to promote greater transparency regarding the activities of the institution, including credit, grant, guarantee, and technical assistance operations, following a policy of maximum disclosure; and

(2) supports continued efforts to allow informed participation and input by affected communities, including translation of information on proposed projects, provision of information (including draft documents) through information technology application, oral briefings, and outreach to and dialogue with community organizations and institutions in affected areas.

(c) ESTABLISHMENT OF FRAMEWORK FOR RESPONSIBLE LENDING.—The Secretary of the Treasury shall commence immediate efforts to—

(1) develop and promote policies to ensure all creditors, with no distinction, will contribute to preserving the gains of debt relief for low-income debtor countries;

(2) provide that the external financing needs of low-income countries are met primarily through grant financing rather than new lending;

(3) seek the international adoption of a binding legal framework on new lending that—

(A) guarantees that no creditor can take or expect to take financial advantage of acquired or newly awarded debt relief through the terms and rates of such lending to beneficiary countries;

(B) is binding on all creditors, whether multilateral, bilateral or private;

(C) foresees, as a sanction for creditors who violate it, an equitable share in the burden of the losses from any future debt relief needed by the sovereign debtor to whom lending was irresponsibly provided;

(D) provides for decisions on irresponsible lending to be made by an entity independent from the creditors; and

(E) enables fair opportunities for the people of the affected country to be heard; and

(4) support the development of responsible financing standards where 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, while encouraging the development of renewable energy and helping countries to transition away from dependence on oil.

(d) GAO AUDIT OF DEBT PORTFOLIOS OF COUNTRIES WITH QUESTIONABLE LOANS.—

(1) *IN GENERAL.*—The Comptroller General of the United States shall undertake an audit of the debt portfolios of previous governments in countries such as the Democratic Republic of Congo and South Africa, where there is significant evidence that odious, onerous, or illegal loans were made to the government. Each such audit shall—

(A) consider debt owed to the World Bank, the IMF, and the other international financial institutions (as so defined), export credit debts owed to governments, and debts owed to commercial creditors, and assess whether or not past investments produced the intended results;

(B) investigate the process by which the loans were contracted, how the funds were used, and determine whether United States or international laws were violated in the contraction of these loans, and whether any of the loans were odious or onerous; and

(C) be planned and executed in a transparent and consultative manner, engaging congressional bodies and civil society groups in the countries.

(2) *REPORT.*—Within 2 years after the date of the enactment of this section, the Comptroller General of the United States shall prepare and submit to the Committees on Financial Services and on Foreign Affairs of the House of Representatives and the Committees on Banking, Housing, and Urban Affairs and on Foreign Relations of the Senate a report that contains the results of the audits undertaken under paragraph (1).

(e) *AVAILABILITY ON TREASURY DEPARTMENT WEBSITE OF REMARKS OF UNITED STATES EXECUTIVE DIRECTORS AT MEETINGS OF INTERNATIONAL FINANCIAL INSTITUTIONS' BOARDS OF DIRECTORS.*—The Secretary of the Treasury shall make available on the website of the Department of the Treasury the full record of the remarks of the United States Executive Director at meetings of the boards of directors of the International Monetary Fund, the World Bank, and the other international financial institutions (as so defined), about cancellation or reduction of debts owed to the institution involved, with redaction by the Secretary of the Treasury of material deemed too sensitive for public distribution, but showing the topic, amount of material redacted, and reason for the redaction.

(f) *REPORT FROM THE COMPTROLLER GENERAL.*—Within 1 year after the date of the enactment of this section, the Comptroller General of the United States shall prepare and submit to the Committees on Financial Services and on Foreign Affairs of the House of Representatives and the Committees on Banking, Housing, and Urban Affairs and on Foreign Relations of the Senate a report on the availability of the ongoing operations, procedures, and accounts of the IMF, the World Bank, and the other international financial institutions (as so defined) for canceling the debt of eligible low-income countries.

(g) *ANNUAL REPORTS FROM THE PRESIDENT.*—Not later than December 31 of each year, the President shall submit to the Committees on Financial Services and on Foreign Affairs of the House of Representatives and the Committees on Foreign Relations and on Banking, Housing, and Urban Affairs of the Senate a report, which shall be made available to the public, on the activities undertaken under this section, and other progress made in accomplishing the

purposes of this section, for the prior fiscal year. The report shall include a list of the countries that have received debt cancellation, a list of the countries whose request for debt cancellation has been denied and the reasons therefor, and a list of the countries whose requests for debt cancellation are under consideration.

(h) **ELIGIBLE LOW-INCOME COUNTRY DEFINED.**—In this section, the term “eligible low-income country” means a country—

(1) that is eligible for financing from the International Development Association but not the World Bank, and does not qualify for debt relief under the Enhanced HIPC Initiative (as defined in section 1625(e)(3)) and under the Multilateral Debt Relief Initiative;

(2) that has transparent and effective budget execution and public financial management systems which ensure that the savings from debt relief are spent on reducing poverty;

(3) the government of which does not have an excessive level of military expenditures;

(4) the government of which has not repeatedly provided support for acts of international terrorism, as determined by the Secretary of State under section 6(j)(1) of the Export Administration Act of 1979 (50 U.S.C. App. 2405(j)(1)), or section 620A(a) of the Foreign Assistance Act of 1961 (22 U.S.C. 2371(a));

(5) the government of which is cooperating on international narcotics control matters; and

(6) the government of which (including its military or other security forces) does not engage in a consistent pattern of gross violations of internationally recognized human rights.

SEC. 1627. LIMITATION ON CONDITIONALITY OF DEBT RELIEF FOR ELIGIBLE LOW-INCOME COUNTRIES.

(a) **IN GENERAL.**—The Secretary of the Treasury shall commence immediate efforts within the Paris Club of Official Creditors, the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (World Bank), and the other international financial institutions (as defined in section 1701(c)(2)), to ensure that debt cancellation is provided to eligible low-income countries (as defined in section 1626(h)) without any conditions except requiring the government of such a country to—

(1) take steps so that the financial benefits of debt relief are applied to programs to combat poverty (in particular through concrete measures to improve economic infrastructure, basic services in education, nutrition, and health, particularly treatment and prevention of the leading causes of mortality) and to redress environmental degradation;

(2) make policy decisions through transparent and participatory processes;

(3) adopt an integrated development strategy to support poverty reduction through economic growth, that includes monitorable poverty reduction goals;

(4) implement transparent policy making and budget procedures, good governance, and effective anticorruption measures;

(5) broaden public participation and popular understanding of the principles and goals of poverty reduction, particularly through economic growth, and good governance;

(6) *promote the participation of citizens and nongovernmental organizations in the economic policy choices of the government; and*

(7) *produce an annual report disclosing how the savings from debt cancellation were used, and make the report publicly available and easily accessible to all interested parties, including civil society groups and the media.*

(b) *ANNUAL REPORTS TO THE CONGRESS.—Not later than December 31 of each year, the President shall submit to the Committees on Financial Services and on International Relations of the House of Representatives and the Committees on Foreign Relations and on Banking, Housing, and Urban Affairs of the Senate a report, which shall be made available to the public, on the activities undertaken under this section, and other progress made in accomplishing the purposes of this section, for the prior fiscal year.*

* * * * *

ADDITIONAL VIEWS

H.R. 2634, the “Jubilee Act for Responsible Lending and Expanded Debt Cancellation of 2008,” authorizes the Secretary of the Treasury to negotiate with the Paris Club and international financial institutions a debt relief agreement for certain low-income countries that have not received debt relief under previous programs. Such an agreement is expected to include bilateral and multilateral debt cancellation for low-income countries that are eligible for International Development Association assistance. Once negotiated, implementation would require Congressional approval.

The Jubilee Act will build on the immensely successful debt relief efforts begun more than a decade ago under the Heavily Indebted Poor Countries (HIPC) initiative and continued in the “Enhanced HIPC” and the Multilateral Debt Relief Initiative (MDRI). In countries where debt relief has been completed, national debt has been reduced by two-thirds and spending on reducing hunger and improving health, education, and social services now is four times greater than the amount of previous debt payments. The Jubilee Act would build on these successes. By doing so, it would serve United States national interests by helping to combat the poverty that breeds unrest and instability and creates the conditions that allow dictators and terrorists to thrive. Paying for the U.S. share of the expected first round of debt relief under the Jubilee Act would cost no more than 50 cents apiece for every man, woman, and child in this country.

The bill reported by the Committee on Financial Services makes a number of important improvements to the introduced version: establishing conditions for receipt of the debt reduction, breaking debt relief into a two-step process—negotiation, followed by implementation—and deleting language that would be either controversial or duplicative of other legislation. It also contains a “Sense of Congress” section expressing the view that while pressing forward on new debt-relief programs, the U.S. should become current in its existing debt relief obligations, which are currently \$600 million in arrears.

SPENCER BACHUS.
JUDY BIGGERT.

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