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NEWS RELEASE

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Coalition of Canadian CSOs Highlight the Weaknesses of Canadian Debt Proposal

Ottawa, February 2, 2005 – A coalition of Canadian civil society organizations criticized the Government of Canada's proposal for debt relief noting it actually doesn't cancel any debts and only starts to address the needs of the poorest countries.

"The package announced by the Government of Canada this morning won't fully meet the needs of the poorest countries because it only covers debt servicing for a maximum of ten years up to 2015 and doesn't lead to full debt cancellation at all," says John Mihevc, of KAIROS: Canadian Ecumenical Justice Initiatives and Chair of the Halifax Initiative Coalition.

While the Halifax Initiative welcomed the government's commitment to advance new proposals to deal with the debt of the poorest countries and to consider non-HIPC poor countries in its proposal, at the moment it is a limited initiative offered only to a very limited number of countries. It forces other potentially eligible countries to jump through hoops of conditionality dictated by the World Bank and IMF to qualify.

Even in the best possible situation with all countries qualifying and all donors contributing their share, the proposal leaves poor countries who qualify with at least 70 percent of their debts remaining at the end of the initiative in 2015. The reality is that this is a very short-term measure, with the greater amount of current debts remaining, poor countries will be back on the debt treadmill. The stated goal of the initiative is to advance the Millennium Development Goals (MDGs). But even if MDGs were to be achieved, an estimated more than 900 million people will live in absolute poverty in 2015, many in debt stressed poor countries.

"We need a permanent solution to the debt problem, but instead Canada has essentially fallen into line with the British proposal championed by Gordon Brown in the face of clear concerns that civil society groups in Canada and internationally have expressed regarding its weaknesses," says Gerry Barr, President and CEO of the Canadian Council for International Co-operation (CCIC)

The Canadian proposal echoes the British in that the initiative may end without anything being done to finally cancel the debts of the poorest countries. After 2015 these countries would then have to resume payments on their multilateral debts unless an assessment at the time was to lead to an extension of the program. Debtor countries face the uncertainty that changes in governments or policies among creditor nations could presumably suspend or change their participation in this program at any time.

Canada had recently led internationally on debt issues by pushing for cancellation through its Canadian Debt Initiative that cancels debts owed to Canada, by cancelling \$750 million owed by Iraq and in calling for the moratorium on debt. But the proposal announced today has Canada following, rather than leading.

"Canada can still play a leadership role by calling for a truly innovative and comprehensive solution to debt and resources for development. We call on Minister Goodale to use the opportunity of the G7 to push for genuine debt cancellation instead of halfway measures that do not address the unsustainable burden of debt shouldered by the poorest countries. 100% debt cancellation is not unrealistic; it is absolutely necessary," says Molly Kane, Executive Director of Inter Pares and co-chair of the Africa Canada Forum.

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Backgrounder.

The Halifax Initiative Coalition have been in contact with the Government of Canada for the past ten years and have played a central role in debt discussions over this time.

In our latest correspondence with Minister Goodale (sent Friday January 28, 2005 and available on the Halifax Initiative's website www.halifaxinitiative.org) the coalition called on the Government of Canada to show leadership by pushing for a genuine and permanent solution to the debt crisis facing the poorest countries. By drawing on multiple financial tools available to G7 countries.

The letter states, "as of June 30, 2004 the World Bank had US\$3.5 billion in loan loss provisions and US\$24 billion worth of retained earnings. Our research, along with that of others, clearly demonstrates that the use of some of these reserves would not undermine the financial integrity of the World Bank as the Bank is backed up by its 184 member countries and is recognized in financial markets for its prudent lending policies."

Another option highlighted is the proposals by Presidents Chirac and Lula da Silva for raising revenue including options such as taxes on international financial transactions, arms purchases and carbon emissions.

The letter says, "Canada could play an invaluable role by brokering a package of measures allowing each G7 Minister an opportunity to contribute to a truly innovative and comprehensive solution to debt and resources for development."

In anticipation of any movement toward the UK proposal, Canadian groups highlighted that "any new ODA spending by Canada for debt servicing must be additional to annual increments to ODA of 12% over the years 2005 through 2007 and 15% over the years 2008 through 2015, needed to meet the 0.7% of GNI target by 2015."

With the Canadian Debt Proposal Announced today, Minister Goodale seems to have moved away from his welcome questioning of the benefits of forcing countries to comply with structural adjustment proposals developed in Washington rather than allowing countries to develop their own development paths based on local conditions.

The letter highlighted, that after his trip to Africa last year Minister Goodale said the IMF and the World Bank "need to become more sensitive to local conditions, especially with respect to structural reform conditionality" and noted how "many low-income countries would benefit from moving away from reliance on IMF resources and traditional staff-led conditionality ..."

The proposal also appears quite small in lieu of the \$750 million the Canadian Government has offered to Iraq.

The Halifax Initiative is a coalition of Canadian environmental, development, labour, faith-based and human rights non-governmental organizations. The Coalition was formed in 1994 to work together to transform the international financial system and its institutions to achieve environmental sustainability, poverty eradication and an equitable redistribution of wealth.