



## FACT SHEET

# Latin America's Debt and the Inter-American Development Bank

Latin American and Caribbean countries are struggling with very high levels of poverty and income inequality. Two in five people in Latin America live in poverty. Millions of people across the hemisphere do not have access to safe water, adequate housing, education and basic health care services. Yet many Latin American and Caribbean countries are burdened by high levels of foreign debt, which severely limits the resources available to their governments to invest in clean water, schools, health care, and the prevention and treatment of HIV/AIDS. Much of this debt is held by the Inter-American Development Bank (IDB). As long as impoverished countries in the region must make debt service payments to the IDB, they will be unable to achieve the Millennium Development Goals (MDGs) and begin to reverse the stark conditions of poverty faced by their citizens. That is why Jubilee USA Network is calling for debt cancellation ahead of the IDB Annual Meetings in Brazil in April 2006.

### **The IDB: The Bank the G-8 Left Behind**

Under the terms of the debt cancellation deal that was announced by world leaders in the summer of 2005, 14 nations in Africa and 4 nations in Latin America were promised 100% cancellation of their debts to the International Monetary Fund (IMF), the World Bank, and the African Development Fund in 2006. This deal established an important precedent and will release nearly \$1 billion annually in funds to fight poverty in these nations. But the G-8 deal did not include the cancellation of the debts owed to the IDB by the Latin American nations in the agreement. Therefore Latin American countries that qualify for the G-8 debt deal – Bolivia, Guyana, Honduras and Nicaragua – will pay almost \$1.4 billion in debt service over the next five years to the Inter-American Development Bank. With debt cancellation this money could be used to fight poverty and provide education and health care. In addition, other impoverished countries not part of the G-8 deal in Latin America and the Caribbean - such as the Dominican Republic, Ecuador, Haiti and Peru - are also heavily burdened by unjust and unpayable debts to the IDB.

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### **Why Cancel Debt in Latin America?**

#### Debt Takes Money from Social Services

- Consider the case of Honduras. 70% of Hondurans live below the poverty line and a staggering 81% do not have access to clean drinking water. In 2003, Honduras made \$363 million in debt service payments, which is nearly one-third of the government's revenue for that year. That same year Honduras spent twice as much on debt service as on public health. The G-8 debt deal means that the country will see US \$1.53B of its debt burden cancelled. But in 2006, Honduras is scheduled to send \$80 million in debt service payments to the IDB. This is money that could be spent on health care, education or clean water.
- In Ecuador, 56% of the population lives below the poverty line. Though not classified by the IMF and World Bank as a Heavily Indebted Poor Country (HIPC) and not eligible for the G-8 deal, Ecuador holds an extremely high level of foreign debt. Ecuador spent six times as much on debt service as on public health in 2002, and nine times as much on debt service as on public education between 2000-02. Moreover, the IDB is its single largest creditor, holding 18% of the total external debt. In 2006, Ecuador will pay more than \$200 million to the IDB, money that could go towards fighting poverty.

#### Much of Latin America's Debt is Odious

Jubilee campaigns across Latin America and the Caribbean say that much of the debt in the region is odious in nature. Under international legal precedent, a debt is considered odious when creditors knowingly lent to undemocratic or illegitimate regimes and the funds did not benefit the population. In Haiti, for example, the IDB lent \$290 million to

the two repressive Duvalier regimes. Meanwhile, in Argentina, the IDB lent \$1.6 billion to the military junta responsible for the death or disappearance of more than 30,000 innocent people between 1976 and 1983. Civil society groups in Argentina intend to convene a debt tribunal on such odious lending. Jubilee USA believes that lenders like the IDB should accept co-responsibility for bad lending decisions which led to odious debts.

- The debt of Nicaragua is a good example of an odious debt. Much of Nicaragua's current debt burden was incurred under the Somoza family's military regimes, with the most notorious dictator being Anastasio Somoza Debayle. Somoza Debayle's rule between 1967-79 was marked by political repression of media and opposition voices, deteriorating economic conditions, and embezzlement of international aid funds. Somoza Debayle was forced to flee amid popular unrest in 1979. Despite these circumstances, between 1961 and 1979 the IDB lent \$321.6 million to Nicaragua. Yet Nicaragua has been compelled by the IDB and other international financial institutions to continue paying interest on this odious debt.

### ***Does debt relief work?***

If debts are cancelled, how can we be sure proceeds reach those who need it most? The record of debt relief so far is encouraging. The four Latin American countries in the HIPC Initiative have seen increases in spending on anti-poverty initiatives as a result of partial multilateral debt relief granted prior to 2005. Funds toward poverty alleviation increased in Bolivia and Guyana by six and eight percent of government revenue respectively. In Honduras, debt cancellation meant three extra years of schooling for children. With 100% debt cancellation from the IDB, even more resources could be freed up to fight poverty in Latin America and the Caribbean.

### ***The Inter-American Development Bank, Indigenous Peoples and the Environment***

The IDB lends more than \$9 billion a year and it undertakes projects and programs intended to foster social and economic development, the majority of which are structured as loans. But the IDB has also been challenged by environmental and human rights groups for the impact of its loans on indigenous people and the natural environment. While the IDB is guided by certain environmental and social principles in its lending programs, in practice, environmental NGOs and others argue, IDB projects seldom comply with either the Bank's own weak lending guidelines, much less the more stringent guidelines suggested by indigenous leaders, other affected communities, or global civil society. Examples of problem projects at the IDB include the Camisea natural gas pipeline project in Peru and the Cana Brava hydroelectric dam project in Brazil. In both instances the Bank overlooked the environmental costs of the projects, interrupted livelihoods and forced displacement of several indigenous communities without adequate consultation or consent. However, as a result of pressure from civil society, the IDB is currently engaged in revising its environmental policy and accountability mechanism. It is also introducing an indigenous peoples' policy for the first time. Thus as we advocate for debt cancellation we must be aware of the impacts of IDB projects and partner with organizations that are working to ensure effective safeguard policies are put in place.

### ***What is Jubilee USA calling for?***

1. The Jubilee USA Network calls for the definitive cancellation of all debts in Latin America and the Caribbean which impede human development and progress towards the Millennium Development Goals (MDGs). Jubilee USA Network also supports the establishment of a just process to identify and cancel odious and illegitimate debts.
2. As the Annual meetings of the IDB approach in April 2006, and as a limited first step towards achieving definitive cancellation of Latin America and the Caribbean's debt, Jubilee USA calls for the immediate and total cancellation of the debts owed by Bolivia, Guyana, Haiti, Honduras and Nicaragua to the Inter-American Development Bank (IDB). Debt cancellation should be enacted without economic conditions - and urgently - as delays to debt cancellation cost lives. Moreover, to avoid future debt crises we call for a move away from new loans to grants.

For more information, and to take action, see [www.jubileeusa.org](http://www.jubileeusa.org).

Sources: Bank Information Center [www.bicusa.org](http://www.bicusa.org), European Network on Debt & Development (forthcoming) [www.eurodad.org](http://www.eurodad.org), Inter-American Development Bank [www.iadb.org](http://www.iadb.org), United Nations Economic Commission for Latin America & the Caribbean [www.eclac.cl](http://www.eclac.cl), United Nations Human Development Report 2005 <http://hdr.undp.org/statistics/>, World Bank World Development Indicators [www.worldbank.org](http://www.worldbank.org).