

CANADA'S TRACK RECORD

DEBT OF DEVELOPING COUNTRIES

What is public debt?

Public debt is the total amount of money a government owes. Since World War II, developed countries and international institutions (e.g. International Monetary Fund and World Bank) have lent money to developing countries. This contributed to a high level of indebtedness for recipient countries. Debt payments include the principle (original amount) and interest on the loan.

Why is debt a problem?

- Between 1970 and 2002, the poorest African countries received \$294 billion in loans, paid back \$298 billion in interest and principal, but still owe more than \$200 billion in late penalties and interest.
- Debt of developing countries grew almost 4 fold from 1980 to 2001.

Today, millions of people go without access to health care or education as their governments instead spend money to service enormous external debts. In some countries, almost half of all government spending goes towards interest payments on debt – not including paying the loan back!

What do we need?

DEBT CANCELLATION

Developing countries need debt cancellation to afford the necessary social programs to achieve the Millennium Development Goals (e.g. universal primary education, reduce child mortality, etc). Debt cancellation must extend to all countries that need it.

- In 2005, the G8 –of which Canada is part- planned to only reduced large amounts of debt for 24 of 41 eligible countries in need.

Dropping the debt must have no strings attached. Tough economic reforms have been shown to increase unemployment, poverty and instability. Citizens suffer and loans become more difficult to pay back.

Why should Canada act?

Imagine the improvement in the quality of life of millions if money was redirected from debt servicing to health care or education, for instance. Canada pledged to make this a reality by committing itself to the Millennium Development Goals.

How well is Canada doing?

We have been a leader in debt cancellation. Canada:

- Supports “equity of treatment”, which drops the debt of otherwise ineligible countries.
- Provides relief for developing countries until their debt is manageable (Heavily Indebted Poor Countries initiative).
- Cancels the debt of selected countries that have successfully used debt *relief* to reduce poverty (Canadian Debt Initiative).

Canada must continue to be a vocal supporter of immediate debt cancellation. It's time for action to make poverty history!

To learn more about Canada's record on debt cancellation, visit the websites

www.makepovertyhistory.ca/e/aim2.html

www.fin.gc.ca/news05/05-008e.html

www.nsi-ins.ca/english/publications/cdr/2005/default.asp