<u>USG Leadership in the Creation of the</u>
<u>Multilateral Debt Relief Initiative (MDRI)</u>

-- The IMF recently announced its implementation of the MDRI for 19 countries, 17 of which have reached Completion Point under the Heavily Indebted Poor Countries (HIPC) initiative. The 19 countries will receive debt relief of about $3.3 billion from the IMF. As a result of the MDRI, these countries will be able to increase spending on priority areas such as health care and education, in order to reduce poverty. The World Bank and the African Development Bank should formalize their participation in the MDRI later this year. All told, debt reduction under the MDRI will amount to approximately $55 billion.

-- The IMF's participation in MDRI was a direct product of USG economic and financial leadership. Without the USG, these proposals would not be a reality today, and HIPC countries would still be facing the prospect of making future payments of $55 billion.

-- The MDRI was originally proposed by the United States in 2004 to put into action the President's stated desire at the G7 Summit at Sea Island to support debt sustainability for the poorest countries through debt relief and grant financing. The President wanted to provide these countries with a way out from unsustainable debt burdens and a way forward towards a better future for their citizens.

-- Through U.S. leadership and working actively with our U.K. partners, the multilateral financial institutions will provide 100% debt relief to qualified countries in 2006.

Thanks to our forceful intervention, the IMF Board found all but one of the countries that have reached the HIPC completion point (17 out of 18) eligible for immediate implementation of the 100% debt forgiveness this year. Twenty other low-income countries will be eligible for the 100% forgiveness as they meet completion point requirements under the HIPC Initiative. (Note: The one eligible country not immediately qualifying for IMF forgiveness under the MDRI is Mauritania; the IMF will work with Mauritania in the months ahead to help them qualify; often they failed to meet two of three performance criteria for MDRI).

-- Furthermore, the United States led the G7 countries in committing to offset foregone debt repayments by these countries to the World Bank and African Development Bank "dollar for dollar" over the duration of the canceled loans.

-- The USG also secured landmark commitments at the multilateral development banks (International Development Association or IDA, African Development Fund and Asian Development Fund) to increase the use of grant financing instead of loans. This represents a significant step toward putting poor countries on sound fiscal footing over the long-term.

-- The United States has kept to its HIPC Initiative commitment by providing contributions to the multilateral development banks (MDBs) to maintain their financial capacity. To date, the United States has contributed over $1 billion to the MDBs to compensate for HIPC Initiative debt relief costs of which roughly $350 million has been provided to the World Bank. (Note: Through the IDA-14 replenishment, the U.S. will contribute $345 million which is targeted to offset foregone repayments resulting from the Enhanced HIPC Initiative. In addition, since 2001, the U.S. has contributed $675 million to date to the HIPC Trust Fund). On top of this, the United States has provided $3.1 billion in (nominal) bilateral debt reduction to HIPCs over time (including debt relief both prior to and through the Enhanced HIPC Initiative).

U.S. Contributions to Development and Poverty Alleviation:

-- President Bush has committed the United States to being a full partner with developing countries in widening the circle of prosperity and achieving the Millennium Development goals.

-- No other country can match our record in this regard. We are the world's largest donor of official development assistance, including emergency humanitarian relief; the biggest provider of private charitable funding; and the chief source of private financial flows (imports, direct investment and remittances) to the developing world.

-- The U.S. has provided consistent, bold leadership on development and poverty reduction by: pioneering innovative new approaches to achieve sustainable economic development; responding to humanitarian crises; facilitating cessation or prevention of conflict and supporting reconstructing of war-torn countries; and assisting developing countries' efforts to increase economic growth, especially through expanded trade and private financial flows.

-- The U.S. approach to development assistance builds on the Monterey Consensus, articulated at the International Conference on Financing for Development in Monterey, Mexico in March 2002, in which all nations, developing and developed, agreed that developing countries are the driving force of their own growth and development.

-- The Monterey Consensus calls on developing countries to adopt sound economic and social policies that will help them mobilize resources from all sources public and private, foreign and domestic. The U.S. and other developed nations undertook to support those efforts through an open trading system, private capital flows and additional development assistance.

Official Development Assistance - Overview

-- The United States is the world's largest donor of official development assistance (ODA). Since 2000, the United States has nearly doubled ODA from $10 billion to $19.7 billion in 2004 (OECD/DAC).

-- During the same period, ODA from the rest of the Group of 7 (G7, which also includes Great Britain, France, Japan, Italy, Germany and Canada) increased from $30 billion to $38 billion.

-- Top U.S. ODA recipients included: Iraq ($3 billion), Afghanistan ($0.8 billion), Egypt ($0.7 billion), Ethiopia ($0.4 billion), and Sudan ($0.4 billion).

-- U.S. ODA to Africa, the world's poorest continent, more than tripled to $3.5 billion from 2000 to 2004.

Major USG Development Initiatives

-- In 2005, President Bush committed to double assistance to Africa by 2010. He announced five initiatives designed to directly improve the lives of all Africans, particularly the poorest and most vulnerable. These include programs to: address hunger and humanitarian emergencies; improve education, especially for girls; reduce the incidence of malaria deaths; enhance the continent's global competitiveness; and support women's justice and empowerment.

-- The U.S. has pledged a total of $510 million in earthquake relief and reconstruction efforts to assist the people of Pakistan and to support Pakistani government relief efforts. This total includes $300 million in humanitarian relief and reconstruction assistance, $110 million in military support for relief operations, and at least $100 million anticipated from U.S. private contributions to the South Asia Earthquake Relief Fund.

-- USAID and other U.S. government agencies launched a $656 million comprehensive Tsunami Relief and Reconstruction program. When added to the funds spent by the Department of Defense on emergency recovery assistance and relief aid, as well as food aid provided by USDA, U.S. government assistance totals $841 million. This makes us the largest bilateral donor to the tsunami response effort.

-- In 2004, the U.S. disbursed $1.4 billion for HIV/AIDS. We remained the largest donor to the Global Fund (GF), disbursing $459 million or 31% of the total contributions in 2004. We contributed another $352 million to the GF in 2005.

-- The U.S. approach to development seeks to use countries' own good performance to catalyze economic growth and poverty reduction. Perhaps no single U.S. development initiative better demonstrates the U.S. approach than the Millennium Challenge Account (MCA), which directs new aid to those countries that rule justly, invest in people, and encourage economic freedom.

-- MCA is already funded at $4.23 billion (FY 2004-06). To date, we have concluded five Compacts (with Madagascar, Cape Verde, Honduras, Nicaragua, and Georgia) totaling over $900 million. Two others (Armenia,

$236 million and Vanuatu $66 million) await signature. We expect to approve six additional Compacts in 2006.

-- President Bush's Middle East Partnership Initiative (MEPI) is funding programs that help put in place the building blocks for democratic changes in 15 countries of the Middle East and in the Palestinian territories. To date, the U.S. Congress has committed almost $300 million to MEPI over four fiscal years. This is in addition to the bilateral economic assistance the United States provides annually to countries in the region.

-- We have taken the lead in working with donors, including the multilateral development banks, to mobilize over $1.1 billion for Haiti's reconstruction and to improve donor coordination through the Haiti Donors' Core Group.

Other Resources for Development

-- ODA is dwarfed by other potential resources that developing countries can and should tap for their own development such as international trade, foreign direct investment, remittances and domestic savings.

-- The U.S. provides more such private financial flows to the developing world than any other single country on earth.

-- There is perhaps no more powerful engine for development than trade. In 2004, the developing world earned $ 3.6 trillion from exports of goods.

-- U.S. net imports from developing countries in 2004 totaled $394 billion, 70% of the G7 total.

-- Foreign direct investment (FDI) drives economic growth by transferring knowledge and technology, creating jobs, boosting productivity, enhancing competitiveness and stimulating entrepreneurship. In 2004, developing countries received $232 billion in net FDI inflows, nearly three times what they received in ODA.

-- Remittances - the hard-earned money that workers send to family and friends in developing countries - amounted to some $126 billion in 2004. Of this total, $30 billion came from the United States.

-- Private American citizens, institutions and corporations are extremely generous to those in need. For example, in response to the tsunami disaster, the total for U.S. private donations as estimated by the Center for Philanthropy at Indiana University is more than $1.5 billion.

-- According to the OECD, in 2004, U.S. NGOs provided $6.8 billion of the total $15 billion in private giving to developing countries provided by OECD member nations in 2004. (Note: This figure does not represent all charitable contributions.)

Trade and Development

-- The Doha Round of the World Trade Organization represents the single most important opportunity in a generation to enhance global economic growth and alleviate poverty. The United States has and will continue to play a leadership role.

-- The United States has made ambitious proposals across the board, including in agriculture. The U.S. agriculture proposal is real and credible, requiring deep cuts in tariffs and the total elimination of trade-distorting subsidies -- -down to zero within 15 years -- resulting in a fundamental reform of our farm sector.

-- The United States is already one of the most open markets, with average agricultural tariffs of 12% versus the allowed global level of tariffs of 62%, and with 90 percent of developing country agricultural imports entering duty free.

-- Under the African Growth and Opportunity Act (AGOA), U.S. imports from sub-Saharan Africa increased by over 50 percent from 2000 to 2004. In 2004, imports from Africa under AGOA totaled about $36 billion. About 98 percent of all imports from AGOA-eligible countries entered the U.S. duty free in 2004.

-- The United States is proud to lead the world in providing aid for trade aimed at helping to create the legal, administrative and physical infrastructures needed for developing countries to participate fully in the market openings we hope to achieve in the Doha Round. At Hong Kong, we announced a doubling of our contributions over the next five years from the current level of roughly $1.3 billion to $2.7 billion annually. Developing countries now need to prioritize trade in their development plans to maximize this opportunity.

Background Information on MDRI

-- In June 2005, the G8 countries proposed that the International Monetary Fund, the International Development Association (IDA) of the World Bank, and the African Development Bank's African Development Fund (AfDF) all cancel 100% of their claims on countries that reach the completion point under the Heavily Indebted Poor Countries (HIPC) Initiative. The IMF began implementation of the MDRI in January 2006, to the 17 countries deemed immediately eligible under the HIPC completion point criteria, plus Cambodia and Tajikistan, which qualified for IMF MDRI relief due to the IMF's need to meet its principle of 'uniformity of treatment' Technically speaking, the IMF is giving MDRI debt relief to all countries with per-capita income less than $380/year plus those HIPCs above the income threshold. This equates to completion point countries plus Cambodia and Tajikistan. (Mauritania, the only eligible post-Completion Point country to not qualify immediately, may qualify for MDRI once it meets certain IMF requirements related to Mauritania's data misreporting.) The World Bank and AfDF are expected to approve the MDRI later in 2006 for countries that have met completion point. An additional 20 countries at present will be eligible for MDRI once they reach HIPC completion point.

-- MDRI debt relief covers the full stock of debt owed to the Fund at end-2004 that remains outstanding at the time the country qualifies for such relief. There is no provision for relief of debt disbursed after January 1, 2005, or for reimbursement of payments made after January 1, 2005. The debt of the 19 countries that received IMF relief in January 2006 totaled roughly $3.5 billion. (Note: this assumes a $/SDR exchange rate of 1.5)