



## DEBT RELIEF WORKS: THE IMPACTS OF DEBT CANCELLATION IN AFRICA AND LATIN AMERICA

"Peter Chibize wiped the dust off a bench with a handkerchief and waited, agonizing over how he would convince the doctor to give him free treatment for his chest pains, headache, and bad cough. He had delayed his visit to the Nangongwe clinic in Southern Zambia because he could not pay medical fees until excruciating pain finally forced him to make the 12 mile walk from his village.

"Next," a nurse shouted from the consultation room and the 67-year old nervously rose. Soon he was beaming when he was told that he did not have to pay for his treatment."

"It was like a dream to me," Chibize said. "Not to pay anything when you visit a clinic is amazing."  
– As reported by *Reuters*, April 13, 2006

In early 2006, with proceeds from debt relief it had just received, the southern African nation of Zambia removed "user fees" at rural health clinics. Prior to debt relief, local citizens like Peter Chibize had to pay the equivalent of \$1 or more just to see a doctor, which made it impossible for them to access much needed care. With the removal of the user fees, thousands of people like Peter in Zambia have gained access to medical care for the first time.

### DEBT RELIEF: AN EFFECTIVE TOOL TO FIGHT POVERTY

Lack of access to health care, education, and clean water means millions of the world's poorest suffer in extreme poverty. Large debts run up by dictatorial regimes long gone from power has left dozens of poor countries crushed by unpayable debts.

But under pressure from the global Jubilee debt cancellation movement, world leaders at the G-8 summits in 1999 and again in 2005 agreed to cancel billions in unpayable poor country debt, freeing up billions of dollars towards investment in social services.

To date, 26 countries in Africa and Latin America have seen most of their debts cancelled. The United States and other rich countries have helped to provide more than \$100 billion in debt cancellation to promote economic development and poverty-reduction programs in the developing world.<sup>1</sup>

### OVERALL IMPACTS

After 10 years of debt relief, the results are in. And millions of people like Peter Chibize across Africa and Latin America are benefiting from poor country debt relief.

- According to the World Bank, countries that have received debt cancellation have seen a **75% increase in spending on social services.**<sup>2</sup>
- Debt relief has had a direct impact on **reducing child mortality.** According to the World Bank, "the poor experience improvements in the socio-economic conditions when their countries have received debt cancellation."<sup>3</sup>
- Debt cancellation has been shown to improve progress towards **achieving universal primary education.** According to a study by the World Bank, after debt cancellation, drop-out rates for primary school students in countries that received relief decreased significantly.<sup>4</sup>



A young girl in Ghana has access to water thanks to debt cancellation

## COUNTRY CASE STUDIES

### Burundi

In Burundi, a small east African Nation, more than 80% of the population lives on less than \$1 a day and almost 60% is illiterate.<sup>5</sup> Because of debt relief, Burundi will be able to save up to \$50 million a year in 2009.<sup>6</sup> These funds are enabling Burundi to:

- Devote more resources to building health centers in rural areas and promoting free health care to expectant mothers and children under five.<sup>7</sup>
- Increase funding for education, with a push to recruit more teachers, build more schools and provide better education materials.<sup>8</sup>
- Improve food security and increase access to potable water.<sup>9</sup>



Thanks to debt cancellation, this project, supported by funds from debt relief, involves the reconstruction and rehabilitation of federal highways to provide better access for agricultural producers in Nigeria

### Nigeria

Nigeria has been able to use their debt savings towards strengthening infrastructure, which helps citizens access health care, food and education.

- For example, debt cancellation has supported projects for irrigation and the reconstruction and rehabilitation of federal highways linked to agricultural areas.<sup>10</sup>
- They have also worked to ensure that women's rights and gender equality are mainstreamed through regional forums on gender.<sup>11</sup>

### Ghana

30% of Ghana's population lives on less than \$1 a day.<sup>12</sup> But debt cancellation provided to Ghana has helped enable the government to increase spending on poverty reduction dramatically since the country entered the debt relief program.

- Debt relief helped to reduce Ghana's poverty rate from 40 to 29% between 1999 and 2006.<sup>13</sup>
- Relief helped increase enrollment in primary school to 91% of students by 2006.<sup>14</sup>
- With debt relief, schools which had previously operated under trees were moved into new classrooms, classroom congestion was reduced, and the quality of teaching and learning was improved.<sup>15</sup>
  - A SEND Foundation study found that a total of 836 HIPC funded projects were undertaken from 2002-2005 in 42 resource-poor districts in Ghana in the areas of education, health, water, and sanitation.<sup>16</sup>
  - Debt relief has financed the development of 268 new classrooms, 36 new clinics, 10 new hospital wards, and 87 water boreholes.<sup>17</sup>

### Nicaragua

Nicaragua is the largest country in Central America and also the second poorest, after Haiti.<sup>18</sup>

- Nicaragua used its savings to increase investment in health by \$54.3 million and in education by \$121 million in 2007 and 2008.<sup>19</sup>

## **Tanzania**

Tanzania struggles with high rates of HIV/AIDS, illiteracy, and a high infant mortality rate of 69 deaths for every 1000 births.<sup>20</sup> Yet, the country was one of the first nations in Africa to receive debt cancellation in 2001. In Tanzania:

- Debt relief has increased the number of children in schools by over 50%. In addition, almost 2,500 new schools have been built as well as 28,000 new teachers recruited.
- With debt relief savings in 2002 and 2003, Tanzania built 31,825 classrooms and the number of primary schools increased from 11,608 in 2000 to 12,689 in 2003, a net increase of 1,081 schools. Also in these two years, 17,851 new Grade A teachers were recruited and 9,100 science-teaching kits were supplied. The pass rate in primary school exams rose from 19.3 percent in 1999 to 40.1 percent in 2003.
- With proceeds from debt relief, Tanzania has increased funding for poverty reduction by 130 percent over the last six years.<sup>21</sup>

## **HOW DEBT RELIEF WORKS**

How do we ensure funds freed up by debt cancellation get to the people who need it most?

In order to qualify for debt relief and cancellation, countries must go through a rigorous process called the Heavily Indebted Poor Countries (HIPC) Initiative of the World Bank. Countries have to meet strict criteria around public financial management, transparency, and have to detail how they plan to utilize funds freed up by debt cancellation.

Many countries, including Ghana, Tanzania, Nicaragua, Uganda, and Nigeria have established “Virtual Poverty Funds” – a tracking system for revenues released by debt relief and other revenues within the context of the country’s full budget. Some countries such as Cameroon and Honduras have taken a different approach and track debt relief resources by setting up separate funds with independent oversight including civil society and independent actors.<sup>22</sup>

Civil society groups in the poorest countries also play a critical role in holding their own governments to account for how they use the proceeds from debt relief. Groups in countries like Zambia, Tanzania, Ghana, and Nigeria monitor government use of debt relief funds and engage in advocacy with government officials to ensure debt relief reaches those who need it most. Civil society in the United States and elsewhere help support calls from civil society in beneficiary countries when it is needed to ensure accountability.

## **THE UNFINISHED AGENDA**

Debt relief is not a silver bullet, nor is it always perfectly delivered.

While there has been significant progress in poor countries that are benefiting from debt relief towards better public financial management and budget tracking, intensified efforts to help civil society engage with their governments to ensure greater transparency and accountability are clearly needed. More regular reporting, and independent monitoring of the impacts of debt relief and its uses, would also be extremely helpful – currently nearly all the literature and analysis on the topic comes from the IMF, World Bank, or poor countries themselves.

Jubilee USA Network is supporting legislation in Congress – the Jubilee Act -- that would (1) make the way debt relief is delivered even more effective and beneficial to the poorest people and (2) expand eligibility for debt cancellation to up to 22 additional impoverished nations that need relief to fight poverty in their countries.

The Jubilee Act would expand debt cancellation to an additional 22 poor countries that have been excluded from debt relief to date, if these countries meet strict criteria around transparency, public financial management, and use of the funds. The legislation would also create a framework for responsible lending, so countries won’t get back into debt in the future.

## REFERENCES

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