



issue brief

What Is It?

Comprehensive approach to reduce the external debt of the world's poorest, most heavily indebted countries.

Over the last few years, there has been a worldwide movement calling to cancel the debts poor countries owe to their creditors (developed country governments, commercial banks, and international financial institutions, such as the World Bank and the International Monetary Fund).

Why Should I Care?

Excessive debt was hindering poor countries' development. Since these countries spent all their funds repaying their debts, it was impossible for them to allocate money for health and education. In other words, these countries couldn't earn their way out of debt and needed help to start again.

How did countries accrue so much debt? Much of the debt in the poor countries that qualifies for debt relief dates back to the 1970s and 1980s. Many developing countries had borrowed money to fund domestic projects during the time when commodity prices were high. They thought that the high prices and earnings from export would be sustained. But the oil-price shock and a global recession in the late 1970s and early 1980s caused commodity prices to fall into an extended slump and these countries found themselves with huge debt repayments. Through the 1980s and early 1990s, international financial institutions (IFIs) continued to fund policy reforms in the hope that these countries could grow their way out of trouble. But, for a number of reasons, including policy decisions of the governments involved, the expectations of increased growth didn't come true.

What Is the International Community Doing?

The World Bank and the International Monetary Fund have been at the forefront of debt relief initiatives. In 1996, the two organizations launched a program to ease the crippling debt burden of some of the world's poorest countries.

What Is the International Community Doing? (cont.)

Through the HIPC Program (the Debt Initiative for Heavily Indebted Poor Countries), the Bank and the IMF have been working to cancel more than two-thirds of the debt of poor countries that qualified for this program. In return, the countries promised to redo their budgets and put more money toward improving health, education and other social sectors and to work to reach the Millennium Development Goals (youthink.worldbank.org/issues/mdgs/).

Also, at the G8 Summit held in July 2005, leaders of the world's 8 richest countries (who are also the biggest donors) proposed to cancel all the (multi-lateral) debt of 18 of the poorest countries in the world.

Now, after this proposal the world leaders need to figure out how to go about canceling this debt.

The Bank and the IMF can't just erase the debt these countries owe them because then they would use most of their financial resources to fund this debt relief and cease to exist (see youthink.worldbank.org/about/inside.php for more information). So G8 leaders need to find a way to fund this debt relief.

How does HIPC work?

- As of August 2005, 38 countries can qualify for HIPC assistance.
- That is, the money that might have been used to repay their huge debts can instead be used for health, education and other social services.
- 32 of the countries are in Sub-Saharan Africa.
- 18 countries are currently receiving irrevocable debt relief. These countries have finished the reforms they agreed on when they entered into HIPC.
- 10 countries are receiving interim debt relief. These countries are in the process of introducing reforms they agreed on as part of the HIPC process.
- The remaining 10 countries that qualify for HIPC but haven't been able to enter into this process because of social difficulties such as civil and cross-border conflict, governance problems, etc.

IT'S A FACT

What did they do with funds saved by HIPC debt relief?

Ghana constructed 509 new classroom blocks for basic level education in all districts. Savings from HIPC funds also helped to provide micro-credit to about 43,000 farmers, as well as funding 563 sanitation and 141 water projects.

Senegal developed community-based health care services to create and strengthen basic community health services in rural areas.

LEARN MORE

Check out these sites to learn more about debt relief.

Action Aid
www.actionaid.org

African Forum and Network for Debt and Development
www.bicusa.org

The Bank Information Center
womenandaids.unaids.org

Debt, AIDS, Trade, Africa
www.data.org

Debt Relief International
www.development-finance.org

Make Policy History Campaign
www.makepovertyhistory.org

What Can I Do?

If you live in a developed country, learn how much money your government gives through bilateral and multilateral assistance, and lobby your government to give more. View official development assistance (ODA) levels by country on the Organisation for Economic Co-operation and Development (OECD) website (www.oecd.org).

If you live in a developing country, learn how much money your government receives in development assistance (at the OECD site) and take action to ensure government funds are properly spent