



Debt Relief: A Millennium Gift for Global Health

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The debt burden on impoverished and developing countries affects public health and exacerbates economic inequities that prevent countries from investing in the health sector. Under carefully defined conditions, such countries would benefit from debt cancellation. Lessons learned from the 20-year-old debt crisis suggest ways in which such a situation may be prevented from recurring in the future. M&GS 2000;6:98-102.

Debt cancellation will help reduce the inequality that exists between the richest and poorest nations. In its 1999 Human Development Report, the United Nations Development Programme (UNDP) analyzed long term trends in world income distribution. It showed that the gap in national income between the richest and poorest country in 1820 was about 3-1. By 1992, the gap had widened to 72-1.

Social indicators also reveal huge inequalities (Table 1). Even more telling, those nations classified by the World Bank and International Monetary Fund (IMF) as Highly Indebted Poor Countries (HIPCs) have indicators considerably worse than the developing country average. Life expectancy in the HIPCs is 12 years lower than in other developing countries; almost one half of the total populations of these countries lack access to clean water and sanitation. The under-five mortality rate is 156 per 1,000 live births, a figure that translates into 3.4 million deaths annually, most of which result from

easily preventable diseases [1]. One of the starkest measurements of inequality is median age at death (i.e. the age below which half of all deaths occur in a year). In Europe this is 75 years, while in sub-Saharan Africa, which contains the vast majority of the HIPCs, it is a mere five years [2].

Debt and Health

Many highly indebted poor countries are effectively bankrupt and are only able to pay a proportion of the interest payments that are actually due. Arrears accumulate, building a debt mountain that can never be paid back. Health is affected by this situation in two important ways. First, scarce government revenue is diverted away from health and other social sectors and into repayments for foreign creditors. Second, an unsustainable debt burden has a deleterious effect on prospects for long term economic growth.

Public Expenditure Effects

Many HIPCs are paying more than 20% of their government budgets to foreign creditors. In some countries, far higher proportions are transferred to rich nations. Oxfam shows that in Mozambique in 1997 debt repayments absorbed about half of government revenue--more than twice the amount

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spent on health in a country where there are 190,000 child deaths and 10,000 maternal deaths every year, most for want of basic drugs and access to health services. A UNICEF-UNDP study has shown that six HIPCs in sub-Saharan Africa spend more than one third of the national budget on debt servicing, while spending between 4% and 11% on basic social services [1].

Nevertheless, the IMF has argued that since HIPCs generally receive more in new grants and loans than they pay out in debt repayments (in the technical jargon there is a "net resource transfer" from rich nations to HIPCs) they should be able to devote more resources to basic human needs. This argument is flawed for several reasons, but most fundamentally because it implies that poor countries should keep on the debt treadmill of borrowing more money or using grant aid to pay off old debts. Furthermore, the actual net resource transfer is very small (somewhere in the region of \$10 per capita per year) and declining--totally insufficient in the face of the vast human crises hitting poor countries [3].

A recent study by the Center for International Development at Harvard University [3] shows that if one looks simply at how much HIPCs pay the rich in debt repayments and balance this amount against new loans from creditors, there is actually a net resource transfer from poor to rich countries. This is only balanced out by highly concessional loans from the International Development Association of the World Bank and by grants from bilateral donors. But the study shows that the reality is more complex than this "accounting balance" suggests:

"The debt burden falls heavily on the budget, and therefore on line ministries (such as the health ministry) while grants frequently finance extra budgetary activities established by donors. In fact, since the governments are bankrupt, donors often attempt to establish these extra budgetary programs precisely so that they will not be drawn into the fiscal insolvency of the government. The result is profound de-institutionalization of public activities, with a government that

remains insolvent and illiquid, and a bilateral donor process that supports non-governmental activities in lieu of an effective state" [3].

The situation is also highly unstable, with new loans and grants frequently not coming in time to fill the gaps left by debt repayments. Financing gaps like these, however, lead the IMF to suspend disbursements of new loans and to order other creditors and donors to do the same, dramatically worsening budget problems (and "proving" that the IMF was right to order a suspension of financial flows). "A long period of default, followed by difficult negotiations to restart lending, transpires. During this period, government services collapse, institutions such as hospitals or cold-chains for delivery of vaccines, break down" [3].

Rippling Health Effects

The squeeze placed on public expenditure levels by high debt repayments has other effects for the health sector. Financial instability, insecurity, and extreme shortages of resources severely disrupt planning and management. Many HIPCs are spending less than \$10 per capita per year on health; some are spending less than \$5. In such situations, attempts to build national health systems become futile: short term thinking dominates and there are few incentives and opportunities for ministries to move away from traditional patterns of resource allocation and decision making.

While capital and non-wage recurrent costs are sometimes covered by foreign donors, the salaries of health professionals tend to come from the government budget, and so a high level of debt repayments can hit personnel hard. A low level of government expenditure also increases the likelihood that user charges will be levied on patients, often leading to further impoverishment and more episodes of ill health for poor households. Finally, the health sector suffers disproportionately from the foreign exchange shortages provoked by debt (repayments usually have to be made in hard currency) because it needs to import large amounts of supplies (e.g., drugs and machinery) for essential

Table 1. Inequalities in social indicators.

Indicator	Industrialized Countries	Developing Countries	HIPCs
Child Mortality Rate (per 1000 live births)	7	96	156
Life Expectancy	78	63	51
Literacy Rate	98	71	55

Source: Oxfam (1999)

Jubilee 2000

The high-profile campaign for debt relief for impoverished countries has continued into the new millennium. Led by an international coalition of aid agencies, churches, and civil society organizations from more than 50 countries, Jubilee 2000 has mobilized a global call for the cancellation of the unpayable debt of the world's poorest countries by the end of the year 2000.

Health professionals have played a major role in highlighting the problems caused by the debt burden. In the UK, the British Medical Association, MEDACT, and other medical leaders have declared their support for Jubilee 2000. In 1998 the World Medical Assembly passed a resolution demanding debt cancellation. This is not surprising, as debt has had huge implications for health and health systems in poor countries.

Creditor nations at the G7 Summit in Cologne in June 1999 were surrounded by a 10-km human chain of 50,000 Jubilee 2000 supporters. The final opportunity in the year 2000 for the campaign to get nearer to its objectives will be at the next G7 Summit, in Okinawa, Japan in July.

maintenance and the day-to-day running of services.

The other major impact on health is transmitted through the effects of debt on economic growth. An unsustainable debt burden severely constrains growth by undermining levels of public and private investment. Without equitable economic growth, there are few prospects for eradicating poverty and the diseases of poverty. While the debts of HIPC's have risen 7.4% annually since 1980, their economies have only grown by 1.1% per year. Rich nations have committed themselves to reducing the incidence of world poverty by half by the year 2015. To achieve this aim in sub-Saharan Africa (the region that contains most of the HIPC's), the economic growth rate would need to accelerate considerably. Debt reduction could help achieve this acceleration.

The Deal on the Table

At the G7 Summit in Cologne in June 1999, creditors agreed to cancel \$100 billion of the \$350 billion debt mountain owed by the 52 most indebted and poor countries. What really matters, however, is the extent to which interest payments (and thus pressure on government budgets) are reduced. The G7 governments claim that 36 countries will benefit from the measures on which consensus was reached in Cologne, with 28 countries expected to qualify for debt cancellation by the end of 2000. According to an analysis by the Jubilee 2000 coalition in the UK, however, 15 of the 36 countries can expect to pay more in interest payments after the application of the Cologne terms than they do now: "World Bank and IMF staff may try to 'frontload' debt cancellation for a few countries so that

debt repayments do not rise in the short term, but this is just a rearrangement of the debt and it is clear that these countries will gain little or nothing" [4].

A relative "winner" from the G7's new package is Zambia, which should see annual repayments cut by nearly 50%. Nevertheless, even after debt reduction Zambia will still pay more on servicing its debt than it does on health and education combined. This in a country where life expectancy is due to sink to a medieval 33 years (due to the AIDS crisis), where child mortality rates are rising, and where the number of people living below the poverty line has increased by 1.6 million over the last decade.

The lack of generosity with regard to debt cancellation stems directly from the methods used by economists at the IMF and the World Bank to assess levels of debt sustainability. The principle indicator of whether a country could or could not pay its debts was obtained by dividing the amount paid in debt service by the amount gained from revenues from exports. If the total paid in debt service was more than 20-25% of the revenues from exports, the debt was deemed unsustainable and the country became due for debt relief. As well as being arbitrary, ungenerous, and contrary to historical precedent (after World War II German debt payments were capped at 3.5% of revenue from exports; British payments at 4%), the IMF/World Bank indicator is not sensitive to the real problems that debt is causing--precisely because it does not take into account the demands placed by debt servicing on the government budget. The Cologne agreement only marginally lowered the stringency of these targets, and it made them no more sensitive to a debtor country's real social situation.

Other analysts have turned the question around completely and have argued that a government should be able to use its revenues first to provide the minimal needs of its population (for example, for very basic health care and education), and then, with what is left over, to make a start on paying its debts to creditors. The British aid agency Cafod has shown that if such a principle were applied at least 10 African nations would need total debt cancellation [5].

What Next?

The Cologne deal is not the final offer. President Clinton raised the stakes at the end of September by promising to cancel 100% of the \$6 billion in debts owed to the US. While this is actually only a small amount--far bigger sums are outstanding to other bilateral creditors, to the World Bank, and to the IMF--the gesture is important. In December, the

UK followed suit. The leaders of the other G7 nations should be encouraged to make complete write-offs.

Very few nations are likely to have received substantial debt relief by the end of the millennium year, and many face delays of several years before getting any benefits from the Cologne agreement. Those in civil society who are campaigning for deeper and faster debt relief face an uphill struggle, even though the force of public opinion has moved political will fast and far since the campaign started [see sidebar, "Jubilee 2000"].

Benefits for Developing Countries

Writing off unsustainable debt will act as a stimulus to growth, freeing civil servants from endless debt negotiations and allowing them to concentrate on running their countries. A lessening of macro-economic instability will assist the long term development of health systems. Potentially, if the debt relief is deep enough, substantial new resources will be released for health and education.

Macro-economic instability and poverty often go hand in hand with a lack of political freedom and corruption. Questions are often raised about whether any new resources that are released will be used wisely by poor countries. Such questions must be answered on a case-by-case basis, depending upon the state of political and social institutions in debtor countries. On this issue, as well, the Jubilee 2000 campaign has had some positive effects. Civil society organizations in poorer nations have taken up the call for debt relief and have also demanded greater accountability from their governments.

For example, in Uganda, which was the first country to get debt relief in 1998, the government set up a Poverty Action Fund into which it channelled the \$40 million gained from debt reduction. The Fund is monitored by Parliament with the participation of civil society, and the government is required to publish in national and local newspapers where and how the money is going to be used. In Tanzania, a "debt relief account" has been set up. Funds from this account will be used to finance education, health, water, infrastructure, and agricultural projects. The account is to be audited and monitored every two months by a joint committee comprised of donors, creditors, the government, NGOs, the business community, the media, and members of parliament.

Where conflict and social instability flourish and there are few demands for accountability, creditors may have to use their financial clout to exert leverage on where the money goes. Nevertheless, there must be a spirit of partnership in the debt cancellation process; rich nations should not use the

prospect of debt relief to bully poor countries into meeting unsuitable economic demands. Unless countries have a sense of ownership over how money is allocated and which policies are implemented, the benefits from debt relief cannot be fully realized; in certain cases these benefits may even be undermined by the imposition of harsh conditions.

Some opponents of debt cancellation argue that it would cost too much. In fact, the costs are relatively small. The worst-case scenario for creditors is that all the debt owed to them by the world's poorest countries is cancelled. This is not likely and, in any event, is not even the ultimate goal of the Jubilee 2000 coalition, which recognizes that some debtor countries can afford to make some repayments. The total cost in real terms is projected to be about \$71 billion spread among roughly 20 countries over 20 years--or, on average, about \$177.5 million per country per year, a very small fraction of government spending and an almost vanishing fraction of these countries' GDPs. Moreover, this short term financial "sacrifice" will eventually reward the giver, as social conflicts in poor countries diminish in response to increasing economic well being and as the enormous burden of infectious diseases (which can easily be spread globally) is lifted through investment in public health programs.

Lessons From the Debt Crisis

The global debt crisis has taught us, first, that the poorest countries are marginalized within the international financial system, and that the rules are set against them. Their collapse does not threaten stockmarkets in London, Tokyo, or New York, and they do not have huge nuclear arsenals, so their economic plight is ignored more easily than that of the "tiger economies" in East Asia or the turbulent Russian economy.

The crisis has also taught us that reckless lending and borrowing must be contained if we are to prevent high levels of debt from being rebuilt. Civil society has a role in monitoring conditions, policies, and outcomes in both lending and borrowing countries (in Uganda, for example, the NGO debt network is already having great success in monitoring the loans offered to the country and in putting pressure on parliamentarians to refuse unproductive loans). One might also argue, however, that there is a need for an effective insolvency procedure at the global level, which can deal with the bankruptcy of whole countries as opposed to insolvency of individual firms. Some have called for an internationalizing of the Chapter 9 bankruptcy laws that apply to US municipalities [6]. An independent arbitration panel would be needed to assess the claims of both creditors

and debtors and look at issues such as capacity to pay. This would be an improvement on the present situation, where the creditors alone determine how much the debtors should be paying, absolving themselves of the need to account for reckless lending.

We have learned how fragile and dependent the health sector is on the state of the macro-economy. This essay has not looked at the economic reforms (structural adjustment programs) that creditors have leveraged onto poor countries, but these, too, have had implications for health and the effects have not looked particularly good. Economic policy makers have to be made aware of the effects of macro-economic change (whether caused by debt or structural adjustment) for health and the health sector, possibly by integrating a health impact assessment process into the policy making cycle.

Debt has been a disaster for the world's poorest countries and for the health of their people. The world's richest nations could not offer a better millennium gift than debt cancellation.

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