



story

Reducing Debt in Africa

Over the last few years several non-governmental organizations (NGOs) from around the world have been advocating for the international community to cancel all the debt that poor countries owe to foreign creditors.

Check out what some NGOs' critics are saying on the Jubilee USA site (www.jubileeusa.org).

These demands were last repeated during the 2004 Spring Meetings of the World Bank and the International Monetary Fund.

Back in 1996, the international community decided to give these countries a fresh start by forgiving a large portion of their debt. The World Bank, the IMF and other international lenders agreed to cancel more than two-thirds of the outstanding debt to countries that qualified for a program called the Highly Indebted Poor Countries Initiative (HIPC).

In return, these countries promised to redo their budget and put more money toward improving health, education and other social services.

Most Countries Receiving Debt Relief are in Sub-Saharan Africa

Currently 24 countries in Sub-Saharan Africa have started to receive some debt relief: Benin, Burkina Faso, Cameroon, Chad, Democratic Republic of Congo (DRC), Ethiopia, The Gambia, Ghana, Guinea, Guinea-Bissau, Madagascar, Malawi, Mauritania, Mali, Mozambique, Niger, Rwanda, São Tome and Príncipe, Senegal, Sierra Leone, Tanzania, Uganda and Zambia.

When governments decide to participate, they pledge to introduce a series of key changes in return for debt relief that are designed to encourage sustainable economic growth to help reduce poverty. These include introducing sound macro-economic policies, creating a sound legal system, establishing a reliable and accountable financial system. Detailed plans are formulated to improve the access and quality of public services and to improve the quality of life for the poor.

When a country makes this pledge and is accepted into the scheme, it is called the “decision point” and debt relief is granted. Once the pledged reforms are achieved—the “completion point”—they are granted debt relief.

Overall, 38 countries are participating in the HIPC program.

Examples of How HIPC Can Help

Tanzania received \$3 billion in debt relief and has been able to increase education spending and eliminate school fees for elementary school education. Almost overnight, an estimated 1.6 million kids returned to school.

Mozambique increased health spending by \$13.9 million. Half a million children are now being vaccinated against tetanus, whooping cough and diphtheria. This increased the percentage of vaccinated kids to 80 percent in the last 2 years. \$10 million is being spent on putting electricity into rural schools and hospitals, and rehabilitating infrastructure following the floods. \$3.2 million is being used to increase the number of girls attending school, and scores of new primary schools are being built.

How Did Countries Accumulate So Much Debt?

Traditionally, most of these countries have been exporting commodities (explain). In the 1970s and 1980s commodity prices were high and many had borrowed money to fund domestic projects. They thought that high commodity prices and earnings from export would be last and that eventually they would be able to repay their debt.

But the oil-price shock and a global recession in the late 1970s and early 1980s caused commodity prices to fall. As a result, these countries found themselves with huge debt repayments.

LOOK IT UP

Types of Debt

Total external debt is debt owed to nonresidents repayable in foreign currency, goods or services. It is the sum of public, publicly guaranteed and private nonguaranteed long-term debt, use of IMF credit and short-term debt. Short-term debt includes all debt having an original maturity of one year or less and interest in arrears on long-term debt.

Long-term debt is debt that has an original or extended maturity of more than one year. It has three components: public, publicly guaranteed and private nonguaranteed debt.

Public and publicly guaranteed debt comprises the long-term external obligation of public debtors, including the national government and political subdivision (or an agency of either) and autonomous public bodies and the external obligations of private debtors that are guaranteed for repayment by a public entity.

Private nonguaranteed external debt consists of the long-term external obligations of private debtors that are not guaranteed for repayment by a public entity.

Official development assistance is grants and loans that donors (the governments of rich countries) give to developing countries. According to a United Nations agreement, these donor governments agreed to contribute of 0.7% of their gross national product.

Forgiveness and Growth

Unsustainable debt is a symptom of a bigger problem of low economic growth, says Vikram Nehru, the World Bank official who is leading debt relief experts. Solving the debt crisis in these countries won't eliminate poverty by itself, Nehru added.

But it must be part of a more comprehensive development strategy, which includes good governance (and eliminating corruption), building strong public institutions and promoting growth.

There are other external reasons why a country may become heavily indebted. For example, unexpected natural disasters such as droughts and floods, or war or civil unrest can have serious consequences for some poor countries. However, the Bank and the international development community provide all sorts of assistance to help countries in such need.

THINK ABOUT IT

What do **governance and corruption** have to do with debt relief? Read about corruption on Youthink!
(youthink.worldbank.org/issues/corruption)

Why does **growth** matter for debt relief? Read about development and trade on Youthink!
(youthink.worldbank.org/issues/corruption and youthink.worldbank.org/issues/trade)