



**THE CAMPAIGN TO MAKE
POVERTY HISTORY**
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DEBT CANCELLATION

For decades, many impoverished countries were spending billions of dollars each year repaying debts to donor countries and international financial institutions. Many of these loans were given for political reasons during the Cold War to prop up particular governments, and in many cases, were wasted by corrupt and unaccountable regimes. These large debts became a serious impediment to poverty reduction and economic development. Countries began taking on new loans to repay old ones.

For the world's most impoverished countries, the cost of debt overshadowed their ability to provide access to clean water, education and basic healthcare.

- Some countries spent as much as 25-30% of their annual budgets serving their debt, more than was spent on education and healthcare combined.
- Debt makes it difficult to trade with poorer nations, as they do not have the income to purchase U.S. goods.
- Debt cancellation would help ensure funds were used for poverty reduction, ultimately decreasing poor countries dependence on foreign aid.

While the debt crisis is far from over, the U.S. and other industrialized countries did take action to relieve debt burdens in many of the most impoverished countries and these commitments have proven effective. Debt relief has been extended through two initiatives:

1. the Highly Indebted Poor Country (HIPC) Initiative and
2. the Multilateral Debt Relief Initiative (MDRI).

Both programs include 40 of the most impoverished countries in the world. The HIPC Initiative, started

in 1996 and further enhanced in 1999, cancels most bilateral debt and some multilateral debt after countries adopt IMF and World Bank supported economic and governance reform programs. The

HIPC process is designed to ensure that the assistance is directed to country-owned poverty alleviation priorities. Despite the debt relief provided by HIPC, substantial debts still remained in many countries striving to meet the Millennium Development Goals.

At the 2005 G8 Summit, G8 leaders, led by the U.S. and the U.K., took further action to broaden debt relief by adopting the Multilateral Debt Relief Initiative. For those countries that have completed the HIPC process, the MDRI agreement provides 100 percent debt cancellation of eligible debts that are owed to the World Bank, IMF and the African Development Bank.

Debt Cancellation Works

- Tanzania has used its savings from debt relief to increase education spending and eliminate school fees. Almost overnight, an estimated 1.6 million children enrolled in school. By 2003, 3.1 million additional children were attending school.
- Mozambique used its debt service savings to vaccinate children against tetanus, whooping cough and diphtheria, as well as build and electrify schools.
- Nigeria is using the \$750 million in debt service savings from 2006 to train and recruit new teachers.
- Cameroon used its debt savings to launch a national HIV/AIDS plan for prevention, education, testing and mother-to-child transmission abatement.