



Jubilee Debt Campaign's *Debt and...* briefings, produced with different partners, explore the impact of debt on real lives. They argue that 'unpayable' debts, which a country cannot afford whilst meeting basic human needs, and 'illegitimate' debts, which arose from unfair or irresponsible lending, should be cancelled.

◀ Chipapa Rural Health clinic, Zambia. Rural health fees were scrapped in 2006, following debt cancellation.

# Debt and Public Services

In many of the poorest countries, the provision of decent, accessible public services – delivered by a qualified and properly paid workforce – is threatened by huge debt burdens and damaging policies demanded by creditors. Every day 4,000 children die from diarrhoea, a disease of dirty water, and 1,400 women die in pregnancy or childbirth. In developing countries, public services can mean the difference between life and death.

The debt crisis has its origins in the 1970s and 1980s, when rich governments and companies lent huge sums to developing countries, often knowingly to corrupt regimes and to serve their own political or commercial ends. Whilst there have been major steps forward in cancelling debt, in response to campaigner pressure, the rich world has still not taken full responsibility for these 'illegitimate' debts and the ensuing debt crisis. On the contrary, as debt burdens grew over the last 30 years, creditors told impoverished countries to cut their public spending in order to 'balance the books' and keep up with debt payments. Today, debt drains poor countries of resources that could otherwise be

spent on vital public services. Where debt has been cancelled, countries have invested in public services, extending healthcare, education, water, sanitation and electricity to millions more people.

## Debt and under-investment

In 2005, developing countries paid out \$1.4 billion every day in servicing external debts. The poorest countries – those with an average daily income of less than \$2.40 per person – spent over \$100 million every day. Meanwhile, public services in these countries are, in general, disastrously under-funded, with services for

**"It was like a dream to me. Not to pay anything when you visit a clinic is amazing... I will announce at the village as soon as I arrive that the fees have been scrapped."**

Peter Chibize from Shamatuli village in southern Zambia, speaking to Reuters

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## Guyana: paying its own way

In Guyana, debt relief so far has paid for new hospitals and clinics; yet there are ongoing problems with maintaining, and in particular staffing these.

Working conditions are described by the Guyana Public Service Union as “deplorable” and it is estimated that seven out of ten public sector workers are paid so little that they fall below the official poverty line. The result, according to Patrick Yarde, President of the Union, is “significant staff shortages. The rates of resignations are far in excess of the ability to recruit people, because of poor pay and working conditions.”

Guyana has had significant cancellation of debts to most rich governments, the World Bank and the International Monetary Fund. But the majority of Guyana’s debt was to the Inter-American Development Bank (IADB). In early 2007, a deal was agreed to cancel the debts of Guyana, Bolivia, Honduras, Nicaragua and Haiti, to the IADB. But, after arguing by creditors, this deal only cancels old debts at the expense of aid and cheap loans. This means Guyana will be over \$5 million worse off!

Moreover, a few commercial creditors are currently refusing to give any relief at all on old debts owed by Guyana. As the Guyana Public Service Union points out, Guyana is still in need of serious investment in the pay and conditions of public sector workers. All creditors need to recognise this and cancel debts, on top of aid commitments.

### Fact:

Meeting the Millennium Development Goal to halve the number of people without access to clean water would cost \$4 billion a year, less than 10% of what the poorest countries pay in debt service.

**“Dozens of heavily indebted poor and middle-income countries are forced by creditor governments to spend large proportions of their limited tax receipts on debt service, undermining their ability to finance vital investments in human capital and infrastructure. In a pointless and debilitating churning of resources, the creditors provide development assistance with one hand and then withdraw it in debt servicing with the other.”**  
United Nations Millennium Project

women and girls particularly lacking. Kenya, for instance, is not eligible for multilateral debt relief, but spent more on servicing debt than on health care in 2006/7. The United Nations Development Programme reports that Burundi spent more than twice as much on paying debts as on health and education combined in 2004.

But the need for increased investment in public services is urgent: more than one billion people worldwide have no access to clean water; 11 million children die each year from infectious diseases; 40 million people are living with HIV and AIDS; and despite some progress in education, 80 million children in developing countries are not going to school, whilst millions more suffer from a severe shortage of teachers and facilities.

Oxfam estimates that to meet the Millennium Development Goals on health, education, water and sanitation would require an extra \$47 billion to be invested in these services each year: this is just 9% of the amount the developing world spends annually on servicing debt.

## Debt and privatisation

Debt undermines public services not simply by causing under-investment. It has also driven privatisation of services, which has often been disastrous. Creditors, as a condition of agreeing new loans or relief on old debts – including those of dubious legitimacy – have often required countries to privatise state enterprises, such as state water

and power companies. But the lack of infrastructure and the lack of a regulatory framework for overseeing what are in effect private monopolies, means that the result has often been sky-rocketing prices, which the poorest people are unable to afford, and severe shortages of supply.

Private ownership of the water supply is illegal in developed countries like the Netherlands. Nevertheless, in order to get debt relief, Nicaragua had to privatise its electricity supply and Tanzania had to privatise the water supply in its largest city. The results were disastrous, leading to tripling of costs and electricity blackouts in Nicaragua, and decreased water quality and access in Tanzania. Tanzania has already revoked the private contract concerned, whilst in May 2007, Nicaragua’s newly elected President announced that he was considering doing the same.

## Debt, wages and conditions

The lack of funding for public services and the policies demanded as conditions of loans and debt relief have hit the pay and conditions of public sector workers particularly badly. The provision of decent public services depends on having a well-trained, well-equipped workforce. But where the pay and conditions leave public sector workers effectively living below the poverty line, teachers, nurses, doctors and other vital workers are driven to find work in other sectors or other countries, and recruiting new workers becomes an ever-greater struggle.

The problem is not simply that the need to service debt limits the government’s available resources; a limit on public sector wages is often a specific requirement of debt relief and new loans. For instance, in 2004 the IMF required Zambia to freeze public sector wages, meaning that the country was unable to employ around 9,000 newly qualified teachers. This was at a time when Zambia’s debt payments to the IMF alone were more than its entire education budget, in a country where 40% of women cannot read and write. After protests, the IMF



▲ Roxie Phirir has worked as a clerical worker in Zambia for 31 years. She describes public sector working conditions as poor and says that the pay is often not enough to support a family, let alone save for the future.

relaxed this condition slightly, but its latest agreement with Zambia still places a cap on public sector wages as a condition of donor support. Similarly, Honduras had to cut public sector wages by 30%, imposing severe restraints on the delivery of essential services.

## Making a difference

After debts have been cancelled, the impact on public services has been resolutely positive. Irrevocable debt cancellation gives government predictable, guaranteed resources for many years, which means they can confidently invest in recurring costs like public sector salaries.

Repeated studies have shown a marked increase in investment in public services after debt cancellation: one independent study of ten African countries getting debt relief showed a 40% increase in education spending and a 70% increase in health spending in just four years. A recent World Bank study showed increased social spending across the board after

**“The provision of basic education, the presence of elementary medical facilities, the availability of resources... these non-market facilities require careful and determined public action.”**

Amartya Sen, Nobel Prize winner in Economics

### Fact:

Debt relief has funded the recruitment or retraining of 62,000 teachers in Tanzania.

debt cancellation, with the impact for education particularly marked. Local monitoring and strong union and civil society demands for investment in public services has helped to see money spent on, for instance:

- Abolishing primary school fees in Ghana, increasing enrolment by 16% in one year;
- Providing medicine and educational materials in Nicaragua;
- Generating energy in Rwanda and Tanzania;
- Building water systems in Guyana and Mali;
- Recruiting staff for rural health clinics, combating HIV/AIDS, promoting anti-malaria and immunisation programmes, and improving access to safe water in Benin;
- Giving more than 5,000 community teachers a monthly stipend in Mali.

## Zambia: the vultures swoop

Zambia went through years of what Finance Minister Ng’andu Magande described as “sacrifice” before receiving debt cancellation. According to the Civil Servants and Allied Workers Union of Zambia, donor-imposed conditions included wage freezes, cuts in government services, spending limits on social welfare, health and education, and privatisation of state enterprises. These policies were deeply controversial, often opposed by unions, civil society organisations and even parliament. After meeting many of the conditions – and pressuring creditors to abandon others – Zambia finally got cancellation of about 93% of its external debt. The government announced new investments including 4,500 more teachers and around 800 new medical personnel.

But Zambia was then targeted by a so-called ‘vulture fund’, a private company which had bought up an old debt which Zambia owed to Romania. The company, Donegal International, had bought the debt for just over \$3 million; it then took Zambia to court demanding \$55 million, alleging that this was the full value of the debt. As Patrick Mazila of the CSAWU comments, “Just when Zambia was celebrating the country’s qualification for a huge debt write-off, it has been thrown into yet another colossal foreign debt. This development has thrown into doubt the gains projected to be achieved as a result of debt cancellation.”

After fighting the case in the courts, Zambia saw the claim reduced from \$55 million to \$15 million. But this is still nearly 40% of the projected savings from debt cancellation in Zambia’s 2007 budget. We are calling for the UK and other countries to introduce regulation to prevent private companies from suing indebted poor countries in this way, and for legal and financial assistance to help those already at risk.

**Fact:**

Nepal's debt payments are seven times its education budget. It currently has one teacher for every 180 children.

**Where next?**

Of course, there is further to go. Serious problems with salaries and working conditions can remain even after debt cancellation has funded improved public service infrastructure. For instance, unions in both Mozambique and Guyana report that debt cancellation savings have been used to build new schools and clinics – but that continuing low salaries mean that workers are still being driven out of the public sector. This is compounded by problems with creditors – particularly private banks and investment funds – which are refusing to participate in debt cancellation initiatives.

Furthermore, multilateral debt relief is not available for countries with extremely high poverty levels, like Kenya, Vietnam, and Indonesia, because the ratio of debt to exports is below an arbitrary threshold set by the World Bank, rendering their debt 'sustainable'. Meanwhile, many countries – including Burundi, Liberia, Haiti and Nepal – are told that they are eligible for debt cancellation but first have to spend years meeting often damaging conditions, as well as paying back accrued interest which totals much more than the original amount borrowed.

Jubilee Debt Campaign, Oxfam and UNISON are arguing that there needs to be much more extensive debt cancellation, with the proceeds invested in public services, across Africa, Latin America and South and Central Asia.

Produced by Jubilee Debt Campaign in association with:



▲ Girls in Taboye school, Mali. Debt relief of \$7 million was invested in education in Mali from 2004-2005.

We are therefore calling for:

- Full cancellation of all illegitimate and unpayable debts, without externally-imposed conditions and without attributing this to aid budgets.
- Open and accountable use of the proceeds of debt cancellation, which respects the demands of unions, debt campaigners and other citizen organisations for increased investment in public services.
- A fair, open and comprehensive framework for resolving the debt crisis, which takes account of the origin of debts as well as their impact.

**Sources:** Civil Servants & Allied Workers Union of Zambia, Jubilee USA, Government of Ghana, *Global Development Finance 2006*, Guyana Public Service Union, Government of Kenya, *HIPC Status of Implementation Report 2006*, *Human Development Report 2006*, Oxfam, Government of Tanzania, UNISON, WaterAid, Zambia Finance Ministry.

**Take action:**

You can make a difference by urging the UK government to do its part to end the debt crisis and invest in decent public services in impoverished countries. Visit these websites for the latest information and campaign actions:  
[www.jubileedebtcampaign.org.uk](http://www.jubileedebtcampaign.org.uk)  
[www.oxfam.org.uk](http://www.oxfam.org.uk)  
[www.unison.org.uk/international](http://www.unison.org.uk/international)

**About us:**

Jubilee Debt Campaign is part of a global movement working to alleviate extreme poverty through the cancellation of unjust and unpayable poor country debts. It is a UK coalition of about 200 national organisations and local groups, supported by thousands of individuals.

**Jubilee Debt Campaign**

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