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Is Debt Relief Good for the Poor? The Effects of the HIPC Initiative on Infant Mortality

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How much does debt relief contribute to economic development in poor countries? There has been considerable pressure to provide debt relief to low income countries, reflected in the Heavily Indebted Poor Countries (HIPC) initiative. But there is little evidence of an impact on development goals, such as economic growth, health, education or poverty reduction – while a few studies find positive effects, many find none, and some authors have questioned the effectiveness of the funds channeled through the HIPC initiative.

The empirical challenge is to separate the effects of debt relief (which may work through indirect channels and can have lags of unknown length), from all the other influences. And the analysis is further complicated by the fact that annual development indicators other than GDP are typically not available.

This study uses infant mortality (IMR) as an indicator of the effects of debt relief under the HIPC initiative on the lives of the poor because infant mortality is highly sensitive to changes in socio-political conditions and highly concentrated among poor regions and households. Changes in the IMR can be used, therefore, to assess whether the HIPC Initiative affected the poorest segment of the population.

The econometric approach consists of isolating the effect of the HIPC Initiative on infant mortality by comparing the timing of the decision point with annual mortality data from a cross-country household panel dataset covering 29 low income countries. The decision point marks the initiation of economic and political reforms that must be satisfactorily implemented before reaching the completion point, when debt relief is granted irrevocably.

The paper also explores possible channels through which debt relief under the HIPC initiative can affect the lives of the poor. Debt relief creates fiscal space for public spending, which would otherwise have been used to service debt. But, as is well-known, social outcomes are only weakly related to public expenditures: outcomes depend equally on access, quality, and efficiency of public social service delivery.

The results give strong evidence that the infant mortality rate decreases once countries pass the decision point of the HIPC initiative. The results are robust and are not affected by changes in the specification, nor by the inclusion of additional explanatory variables. Part of the decrease in infant mortality is related to improvements in the quality of institutions and policies, to increases in aid flows, and to the lower risk of armed conflict in post-decision-point countries but, even controlling for these factors, the infant mortality rate decreases in HIPC countries after the decision point, suggesting that the poor experience improvements in the socio-economic conditions that go beyond the indicators used in the analysis.

The effectiveness of the debt relief will, therefore, also depend on whether it leads to economic and political reforms that improve service delivery. The conditionality built into the HIPC process aims to strengthen the link between debt relief, poverty reduction, and social services so that countries experience improvement in basic service provision that goes beyond higher expenditure. An additional benefit is that other donors and NGOs might be encouraged by the decision point to increase their involvement in HIPC countries – for instance, in programs that focus directly on health, such as vaccination campaigns.

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The conditionality incorporated into the HIPC process can also have a positive influence on macroeconomic stability and growth, both of which affect poverty and health. (Macroeconomic stability is one of the conditions stipulated both for the decision point and the completion point.) The results here show that changes in GDP are related to the HIPC process and have an effect on the infant mortality rate, although causality is not clear and would have to be studied in detail.

Since infant mortality is strongly concentrated among poor regions and households, the evidence that the HIPC initiative is associated with a decline in infant mortality suggests that the same effect is likely to be found for other measures of well-being of the poorest part of the population. The effect is partly explained by increases in aid, as measured by net aid transfers, but there is more to the story: likely explanations, which require further research, are improvements in public service delivery and macroeconomic stability, caused by the conditionality integral to the HIPC initiative. For this reason, conditional debt relief as a complement to more traditional forms of aid can play an important role in helping countries achieve sustainable development and improving the lives of the poor.