

Why debt burdens are holding back the fight against poverty

This article is written by David McNair, ONE's Executive Director for Global Policy.

The problem

The world is far off track to meet its goal of ending extreme poverty by 2030. In fact, global progress to end extreme poverty “has grinded to a halt” over the past few years, driven largely by the aftershocks of the COVID-19 pandemic and Russia’s invasion of Ukraine. COVID-19 alone pushed about 70 million people into extreme poverty in 2020, the largest single-year increase since 1990. Nearly 1 in 4 people now live in countries where inflation is outpacing wage growth.

If you are one of these people, it’s likely that you’re living in the crosshairs of multiple, compounding crises. Over 820 million people don’t have sufficient food. 22% of children globally (and 32% in sub-Saharan Africa) are stunted, which significantly impedes their cognitive development and lifetime earnings. 1 in 5 people live in countries that are in, or are near, debt distress – placing them on the brink of default, which makes it more difficult for countries to marshal the funds to provide vital resources or borrow new money. And countries that are the most vulnerable to climate shocks also tend to be the most susceptible to unsustainable debt levels. Across these dimensions, women and girls shoulder the brunt of inequities: they are significantly more likely to be impoverished, undernourished, or displaced by climate disasters than their male counterparts.

One way that countries can fund programs to address these crises is by taking on debt. This isn’t always a bad thing – but in the face of compound crises, countries are struggling to make their payments. Global debt is now \$45 trillion higher than pre-pandemic levels as many countries borrowed money to mitigate the worst impacts of COVID-19. But with sluggish recovery, 56% of African countries are now bankrupt or at high risk of debt distress, with soaring costs of debt repayment: African countries owe US\$69 billion in 2023, which was more than all of the aid to the continent combined in 2021.

African countries are already spending more on debt servicing than healthcare. But in the face of potential default, many countries are forced to make impossible choices about spending in order to make their payments.

For example, Ghana has cut its health spending by nearly half in recent years as the cost to service its debts has surged. As a result, 41,000 nurses, most of whom are women, are unemployed despite a profound shortage of healthcare workers. In 2022, 80% of Nigeria’s revenues were spent on debt service; leaving just 20% to be spent on agriculture, health, and education combined. In 2023, 143 countries – home to 85% of the global population – could implement austerity measures that undermine the capacity of governments to provide education, healthcare, social protection and other public services. Globally, these cuts target programs could total up to \$7.8 trillion over the next five years.

This is widening an existing gulf in how countries provide care, and in turn, intensifying inequalities. In the past decade, the world has made great progress in rolling out social protection schemes that support safe housing, food security, disability care, maternity benefits, and other programs. But just 10% of the measures announced since 2010 were in low-income countries; two-thirds were in high- and upper-middle income countries.

Overall, 17.4% of people in Africa are covered by at least one social protection program, less than half the global rate. Social protection schemes are vital in both direct and indirect ways – for example, by extending state-sponsored healthcare to informal workers, the majority of whom are women, who can’t secure it from formal employment.



Figure 1 healthcare spending in Africa is dwarfed by debt repayments © ONE campaign

This isn't just a matter of poverty – it also perpetuates gender inequality. When governments can't provide these services due to shrinking budgets and austerity measures, women and girls pick up the tab. Their unpaid domestic labour, three times that of men and boys, often compensates for inadequate public spending and limited social services.

For example, women and girls spend a collective 200 million hours every day gathering water, which could be alleviated with greater investments in water and sanitation. Women's unpaid work in the poorest countries unjustly absorbs economic shocks and underwrites austerity measures.

Towards a new financial system

This great divergence is a clarion call for a new global financial system. In some ways, this echoes the past. It was in the aftermath of World War II that leaders of rich countries came together and established the framework for modern development aid, epitomized by the Bretton Woods Institutions of the World Bank and the International Monetary Fund.

But these institutions are not fit for purpose to address the current scale of inequality or provide financing to transition energy systems and meet human development needs – requiring \$1 trillion a year by 2025 and \$2 trillion by 2030.

There are solutions that could unlock financing at scale, like reforming the Multilateral Development Banks and taking urgent steps to address the debt crisis. Doing so would require thinking big – by global leaders, by a galvanised and motivated public – and a mass movement focused on addressing the greatest challenges we face.



Figure 2 a new international financial system is required for the C21 © ONE campaign

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