

BRIEF

Prioritizing debt relief conditional on investing in human capital

The Research Consortium for School Health and Nutrition¹, an initiative of the School Meals Coalition

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Today, debt is a central issue for rich and poor countries

Even before the war in Ukraine, global food prices had reached an all-time high. Supply chains that had already been severely disrupted by the COVID-19 pandemic were almost pushed to breaking point by the climate-related extreme weather events of 2021. Then, when the Ukraine war broke out, the price of key commodity crops, fuel, and fertilizer skyrocketed in ways unseen since the 2008 fuel, food and finance crisis. Today some 48 countries are experiencing a food and fertilizer balance of payment crisis of around USD 9 billion, and 60% are defaulting or at risk of default.

These challenges come as economic growth in OECD countries is showing signs of recovery after pandemic lockdowns, against a background of roaring inflation and interest rates. Meanwhile in low- and lower-middle-income countries the specter of hunger has re-emerged, and half of the 345 million people projected to experience food insecurity in 2023 are children: the same children who missed out on up to two years of education due to pandemic-related school closures, and the same children who will grow up to bear the full brunt of the rapidly growing climate emergency. Caught between three convergent crises – COVID-19, conflict, and climate change – the world finds itself urgently seeking solutions to protect the health, education, and future of its young people.

Amid converging global crises, debt relief offers a solution that favors both the rich and poor

For rich and poor countries alike, the top issue is debt. The soaring interest rates only make this worse. This is not the time to ask OECD countries to find new cash for development funding, but what if they were to explore innovative mechanisms to expand financing pathways, such as through debt relief?

Even before COVID-19, debt pressures were intensifying across a large group of developing countries. The pandemic has exaggerated those pressures, with reduced growth cutting revenues and governments taking on more debt. Over half of IDA-eligible countries qualifying for the Debt Service Suspension Initiative (DSSI) are now assessed as being at high risk of debt distress, or in debt distress. Many middle-income countries are also dealing with serious debt pressures. In 2020 and again in 2021, low- and lower-middle-income countries allocated around USD 45 billion in debt service payments. Those payments

¹ The [Research Consortium for School Health and Nutrition](#) is the evidence-generating arm of the School Meals Coalition. The Research Consortium supports an independent, global network of researchers with a small Secretariat based at the London School of Hygiene and Tropical Medicine.

crowd-out spending in key areas. On average, 14% of government revenue² is directed to debt servicing in DSSI countries, though in many countries the share is far higher. In 2023, the World Bank debt service projection data suggest that 23 DSSI countries are expected to spend more on debt servicing than on education (as a GDP percentage expenditure), 52 countries to spend more on debt servicing than on health, while 15 countries are expected to spend more on debt servicing than their health and education expenditures combined³.

A focus on conditional debt relief offers some significant advantages over other traditional approaches. In the current financial crunch, investments targeted at creating human capital are among the first investments to be crowded out, and there have been dramatic reductions in access to conditional and unconditional grants. Negotiations for comprehensive debt relief arrangements are cumbersome and time consuming, and typically have time scales measurable in decades.

Forgiving this debt would allow the funds destined for debt service payments to instead help finance key public investments in the human capital development sectors. This is the concept behind the Global Partnership for Education “Debt2Ed” debt-swap financing tool for education and the World Food Programme debt-swap approach to food security: there is therefore precedence but not yet sufficient scale. This was essentially the thinking that drove the Heavily Indebted Poor Countries (HIPC) initiative. When it was introduced, HIPC aimed to reduce the claims of two groups of creditors: the Paris Club of bilateral creditors and multilateral financial institutions. Today, there is greater expansion of lending through private creditors in the form of sovereign bond purchases, bank loans and commodity credits, as well as a greater role for China, which services more than a third of global debt. But the principle remains much the same, and the opportunity is at a similar scale as the challenge: debt servicing due this year from DSSI countries is around USD 30 billion⁴. Debt swaps and relief would allow OECD countries to invest by forgoing future dollars, for which payment is in any event particularly uncertain, rather than needing to invest hard cash now.

Conditioning relief on investment in human capital

A central question when considering debt relief is the use to which the freed-up debt servicing capital will be put. On the part of the donor it is important that the funds can be tracked into a perennial and, ideally, irreversible benefit, and at the same time provide a long term and equitable investment in the future of the nation. On the part of the recipient it is important that the investment is in an aspect of development that the country identifies as a major priority.

An investment in Human Capital creation can satisfy these two perspectives. Investing in human capital – the sum of a population’s health, skills, knowledge and experience – can strengthen a country’s competitiveness in a rapidly changing world. Human capital matters for people, economies and societies, and for global stability. And it matters over generations. Up to half of a countries’ wealth is attributable to

² Hung, T. (2022) *The G20’s unfinished business: Don’t let debt do us part*. Available at: <https://www.atlanticcouncil.org/blogs/new-atlanticist/the-g20s-unfinished-business-dont-let-debt-do-us-part/>

³ Watkins, K. (2020) *Delivering debt relief for the poorest*. Available at: <https://www.imf.org/external/pubs/ft/fandd/2020/08/debt-relief-for-the-poorest-kevin-watkins.htm>; and World Bank DSSI Service Projection Data for 2023.

⁴ World Bank (2022) *Global Economic Prospects*. Washington, DC: World Bank. doi: 10.1596/978-1-4648-1758-8.

human capital.^{5,6} Yet human capital levels remain far too low in many low and middle-income countries. Low-income countries in Africa account for 25 out of the 30 countries with the lowest Human Capital Index rankings.⁷ The Human Capital Index score for Africa puts the region at 40% of its potential.⁸ Investments which can promote health, schooling, and learning have the potential to realize the full potential of human capital, providing a high-return investment with returns accumulating in perpetuity. A well-nourished, healthy and educated population is the foundation for growth and economic development.⁹ Gross domestic product (GDP) in Africa could be 2.5 times higher if the benchmarks for health and education were achieved.

Prioritizing investment in school children and adolescents so that they achieve their full potential

The pandemic has made an already bad situation worse. The World Bank estimates that the share of 10-year-old children living with 'learning poverty', unable to read or write, has increased from 53% to over 70%. UNICEF data suggests that the share of children gaining foundational literacy skills at the right age has fallen from an already low 30% to less than 10%.

Building human capital depends on high quality education, already a major goal of developing nations. And good health and nutrition are also required for children and adolescents to grow and to be able to participate and learn in school. Evidence suggests that improved child wellbeing can improve both access to schooling as well as learning outcomes directly. These two outcomes can be captured in a unified metric – Learning-Adjusted Years of Schooling¹⁰ – which is the education pillar of the World Bank Human Capital Index. Children who are well nourished learn better, and as adults they earn more and are more productive. That transformation carries through to the next generation with the improved nutrition and health of their own children, contributing to break the intergenerational cycle of malnutrition and creating a long-term cycle of economic growth and progress.

Investing in Human Capital is a goal shared by countries at all income levels

Debt relief conditioned on investments in human capital could enable countries to put the fundamental conditions in place to prosper. Human capital investments can achieve both long-standing development agendas and build more resilient economies, reducing financial risk in the future.

⁵ Hsieh C.-T. and Klenow P.. (2010). "Development Account." *American Economic Journal: Macroeconomics* 2(1):207-23.

⁶ Angrist, Noam, Simeon Djankov, Pinelopi K. Goldberg, and Harry A. Patrinos. "Measuring human capital using global learning data." *Nature* 592, no. 7854 (2021): 403-408.

⁷ World Bank. 2019. *Africa Human Capital Plan*. Available at: <http://pubdocs.worldbank.org/en/562231555089594602/HCP-Africa-Plan.pdf>

⁸ Lange G.-M., Wodon _Q., and Carey _K._(2018). "The_Changing_Wealth_of_Nations_2018:_Building a Sustainable Future." World Bank.

⁹ Gatti, R.V., Kraay, A.C., Avitabile, C., Collin, M.E., Dsouza, R. and Dehnen, N.A.P. 2018. *The Human Capital Project (English)*. Washington, DC, World Bank Group. Available at: <http://documents.worldbank.org/curated/en/363661540826242921/The-Human-Capital-Project>

¹⁰ Filmer, Rodgers, Angrist, Sabarwal. Learning-Adjusted Years of Schooling (LAYS): Defining a new macro measure for education. *Economics of Education Review*. 2020, 77. <https://doi.org/10.1016/j.econedurev.2020.101971>

A particularly promising human capital investment is school meals, with evidence showing large and scalable impacts on health, schooling, and learning.^{11,12} The school closures in response to the COVID-19 pandemic caused a global crisis in the education sector and saw 370 million children worldwide lose access to their daily school meal. In parallel, an additional 100 million people were pushed below the USD 1.90 poverty threshold in 2020, with the increase in poverty concentrated in the Africa region. These concurrent events highlighted the need to build-back education systems that can deliver health services which keep children safe.

In response, 80 countries have committed to the School Meals Coalition, established at the 2021 UN Food Systems Summit, with the specific goals of restoring national school meals to pre-pandemic coverage by 2023, and to reach another 73 million of the most in-need children, who had not previously been reached, by 2030. This estimate includes 40 million children in crisis or humanitarian settings, 29 million children in stable low- and lower-middle-income countries, and 4 million children in need of school feeding in middle-income countries.

It is important to emphasize that the members of this Coalition include countries at all levels of development: the USA, China and Cuba, 35 countries from Africa, the European Union and the African Union, as well as 94 stakeholders, including NGOs, IFIs and UN agencies. They have already partially achieved their first goal, with the coverage of school meals in 2022 reaching 418 million children daily, exceeding the pre-pandemic level, although making least progress where it is needed most.

Notably, the lion's share of the funding for school meal programmes is borne by national governments. Programmes in middle- and high-income countries are almost universally supported through domestic budgets, and even in low-income countries 38% of programmes are self-reliant. Moreover, the proportion of costs of school meals relative to education budgets decreases rapidly as per capita income increases, so building human capital is more effective the longer it continues.

What action needs to be taken

The International Monetary Fund (IMF) and the World Bank could make programme financing contingent on commercial debt restructuring. This happened in 2021 in Ecuador.¹³ There could be a case for focusing on countries - such as Zambia, Ethiopia, Malawi, Mozambique, Cameroon, Chad and Sri Lanka - where extreme debt distress makes restructuring more likely. In many cases a comprehensive programme is better than a project-by-project approach; HIPC is a good example of a programme level approach that directly helped finance large-scale human capital investments. But context is important and the specific approach should not be a deal breaker.

If debt relief is viewed as a potential source of new and additional financing, the 80 countries that are members of the School Meals Coalition should take a decision on its approach. One option is to advocate for debt swap arrangements under which debt service is directed into local currency investment in other

¹¹ Alderman, Harold, Daniel O. Gilligan, and Kim Lehrer. "The impact of food for education programs on school participation in northern Uganda." *Economic Development and Cultural Change* 61, no. 1 (2012): 187-218.

¹² Aurino, Elisabetta, Aulo Gelli, Clement Adamba, Isaac Osei-Akoto, and Harold Alderman. "Food for thought? Experimental evidence on the learning impacts of a large-scale school feeding program." *Journal of Human Resources* 58, no. 1 (2023): 74-111.

¹³ World Bank (2022) *International Debt Statistics 2022*. Washington, DC: World Bank. doi:10.1596/978-1-4648-1800-4.

areas or, if it is for education, through mechanisms like the Global Partnership for Education Debt2Ed financing tool.

Loan forgiveness for smart human capital investments could be a new and improved way forward. The cost of not investing in human capital is substantial, estimated at over \$63 billion¹⁴, while the cost of resourcing school meals for 73 million children in need is just \$4.7 billion¹⁵ - a small fraction of the cost of inaction.

There is an overwhelming case for converting debt into human capital investments - and a focus on school meal programmes is a compelling proposition. The climate movement has already made a strong case for the debt-to-human-capital conversion, and school meals are a key part of the climate agenda because of their inter-dependence with local food systems, and their responsiveness to the multiple SDG goals set out by the UN Secretary General: including direct benefits to health, education, food security, biodiversity, food sovereignty and regenerative agriculture. Furthermore, this is an exceptionally strong natural fit with the Multilateral Development Bank (MDB) Evolution agenda. Acting now to invest in school meals offers both substantial immediate benefits and long-run returns.

¹⁴ This estimate is based on the contribution of human capital in high-income versus low-income countries, a difference of 18 percentage points (Angrist et al. 2021). This share of wealth attributed to human capital is multiplied by average high-income country wealth based on World Bank data in 2022 of \$48,225. If we assume investment in human capital, such as school meals, enables 10% catch up from low to high income countries and multiply by 73 million children in need of school meals, we estimate \$63 billion in returns or cost of inaction.

¹⁵ Bundy, Donald A.P., Linda Schultz, , Stéphane Verguet, Noam Angrist, and Kevin Watkins. "The investment case for school health and nutrition: memo #4 to inform the Global Education Forum"