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THIRD-WORLD DEBT RELIEF: Indebtedness just a symptom of poverty

Vikram Nehru - For the Journal-Constitution
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Many of the poorest countries of the world today are shackled by the debts they accumulated nearly three decades ago. The oil price shock and global slowdown in the late 1970s and early 1980s cut economic growth rates in the developing countries, many of them having borrowed heavily in expectation of a lasting commodity price boom.

Through the 1980s and early 1990s, lending continued to fund policy reforms in the hope that these countries could grow their way out of trouble. But, for a number of reasons, including policy decisions of the governments involved, the expectations of increased growth failed to materialize. By the mid-1990s, 42 nations, identified as the world's most severely indebted low-income countries, faced a massive crisis.

A way had to be found to ease the burden on these countries and to give their economies the breathing room to grow again. In 1996, the World Bank and the International Monetary Fund launched a debt relief program called the Heavily Indebted Poor Countries initiative. Since that time, 27 countries --- representing two-thirds of the world's most heavily indebted poor nations --- have qualified for debt relief worth \$53 billion over the next 20 years.

Spending on poverty reduction in these countries had increased to 8 percent of national income in 2003 from 6 percent in 1999. At about \$9 billion, this additional spending on poverty reduction represents about three-and-a-half times the amount spent on debt service by these countries.

This is a good start, and much more is yet to be done, but it must be recognized that debt relief is not a cure-all for poor countries.

The reduction of debt in low-income countries, on its own, will neither guarantee debt sustainability, nor ensure growth and poverty reduction. Debt relief must be part of a more comprehensive development strategy.

Strong economic growth and effective public institutions remain essential to cutting poverty in developing countries. A high debt burden is, in many cases, really a symptom of a deeper development problem confronting low-income countries, rather than the actual disease.

That is not to say we should not treat the symptom; bringing down the fever is often essential in treating the disease. But the challenge in places like Africa is to produce growth, which requires not just debt relief, but good policies, supported by effective and predictable aid flows, and open markets for exports.

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Several nongovernmental organizations have called for 100 percent debt forgiveness for the world's poorest countries, with the belief that this in itself is the key to poverty reduction. But unless complete debt relief for the poorest nations is matched with an equivalent injection of funds by wealthier nations into the international financial institutions, such a step will in effect only shrink the pool of resources available for other developing countries that are home to the majority of the world's poor.

In addition, total debt forgiveness for a small group of poor countries also would be unfair to those developing countries that have managed their finances prudently.

Developing countries need to improve governance, stamp out corruption, enhance the capacity of public institutions and boost economic growth. At the same time, the rich nations need to support them by delivering more and better aid, by opening their own markets, and by boosting their economic growth. Together, these are the most critical steps toward reducing poverty and preventing future debt crises.

Vikram Nehru is the manager of the Heavily Indebted Poor Countries initiative at the World Bank.

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Should impoverished Third World countries be excused from paying their debts? Send your e-mail to issue@ajc.com, where it will be posted online. Please include full name, city or county of residence and daytime phone. (Phone numbers will not be published.)

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