

Letter to the World Bank

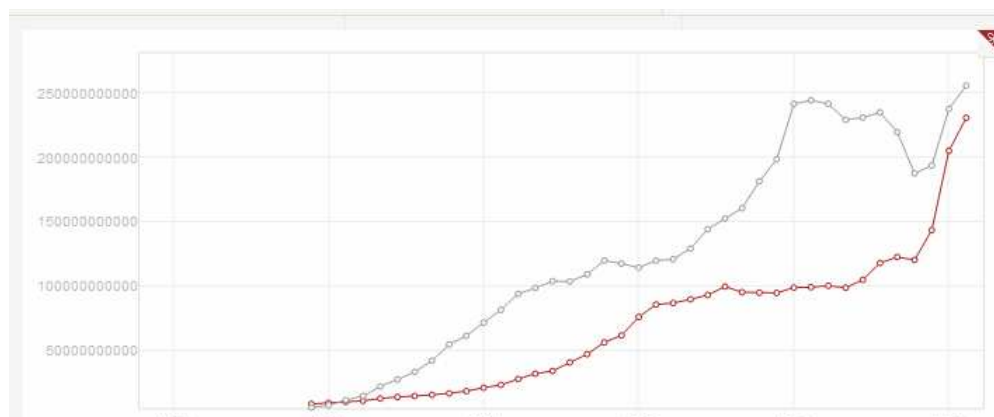
Dear World Bank.

I am writing to express my opinion on the ever pressing issue of third world debt. In this letter I will attempt to express my thoughts on: how the problem of third world debt came about and what effects it is having on the HIPC's (heavily indebted poor countries), what countries are doing to get out of it and what my overall opinion is. Five countries which are in a bad financial state at the moment are: Mali, Sierra Leone, Afghanistan, the Central African Republic and Niger.

The problem of third world debt has come from MEDCs (more economically developed countries) lending money to LEDCs (less economically developed countries) to help them develop and build new industries in the hope that with the money the LEDCs make from their new exports and industries the MEDCs can be paid back. However it did not work out and the LEDCs could not afford to pay their lenders back and because of the interest rates they fell into further debt and became HIPC's. I believe this happened because many of the loans taken out by the LEDCs were taken out by previous rulers and dictators and the money was often wasted and the debt passed on to the present leaders. I also believe that the lenders often knew that the rulers were corrupt and would waste the money and saw it as an opportunity to exert their own political influence abroad - political, financial or strategic. Loans were also charged at ridiculously high interest rates which meant that even if the LEDCs developed they could not afford to pay the MEDCs back. These interest rates have now hit such an extreme that for the poorest countries in the world (approximately 60), \$550 billion has been paid in both principal and interest over the last three decades, on \$540bn worth of loans, and yet there is still a \$523 billion dollar debt burden. Now for every \$1 the developing world receives in grants \$13 is paid in debt repayments. This debt is now taking its toll on the countries sending them into further poverty and a lower standard of life. For example look at the graphs below.. it shows a definite link between the life expectancy and the rising total external debt of the Congo Republic.

The debt which these countries possess is having a crippling effect on their growth and development economically and socially. However the debt is only set to get worse. If countries can't keep up their payments interest will continue to build and the countries will be forced to borrow from other countries to pay off that interest giving them more debt. Also if governments are not stable (as is the case in lots of third world countries) civil unrest and political dissatisfaction will distract the country

from wealth creation. If you look at the graph below it shows that debt has been getting worse for even



slightly more developed countries such as India and Brazil and that it's set to only get worse.

Debt reduction has been delayed for many years because governments have been unwilling to admit they have made bad loans, and it is only pressure by Jubilee 2000 and other groups that has made governments finally start to try to think of a solution. There are numerous theories of how third world countries could free themselves of debt, the most popular theories are: rescheduling the debts, debt swaps and cancelling the debts. Rescheduling the debts is when the terms of the debt are changed so that more time is allowed for the debt to be repaid (without added interest). Debt swapping is a theory which the organisation UNICEF child relief have come up with. It involves UNICEF and international banks making a deal where some of the money that poor countries owe to the banks is not paid to the banks but are paid to UNICEF. Instead of the money, the banks receive tax deductions. UNICEF then collects the debt repayments in local currency and then spends this money on programmes to help the children inside that country. Cancelling third world debt is just writing off all the debt owed, it is the theory that many governments are currently considering using. However this gives the HIPC's no incentive to change as they might feel that there is always a "get out of jail free card" option available to them.

In conclusion I think that debt in poorer countries needs to be solved rapidly, otherwise the longer they stay in debt the harder it will be to get out. That would make development almost impossible and developed countries will have to continue to fund them. I believe that rescheduling the debt is the best option to solving third world debt as the countries are allowed to pay back the debt when they are ready so it does not halt their development but still pay the lenders back.

Yours Sincerely

Fred Warren