

CFVG International Finance April 2005

Dr. Michel Henry Bouchet

# Third World Debt Relief:

## Is Indebtedness a symptom of poverty?

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G9:




Nguyen Dinh Kien  
Pham Quoc Bao  
Trinh Dang Khanh Toan  
Truong Quang Cam  
Le Quoc Hung



# Fact & figures

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- Most of the poorest countries are shackled by debts
- The poor are poorer, the gap between poor and rich are much higher than ever before
- By mid 1990, 42 countries were identified as world's most severely indebted, faced a massive crisis
- Spending on poverty reduction increase to 8% of GDP in 2004 from 6% of GDP in 1999

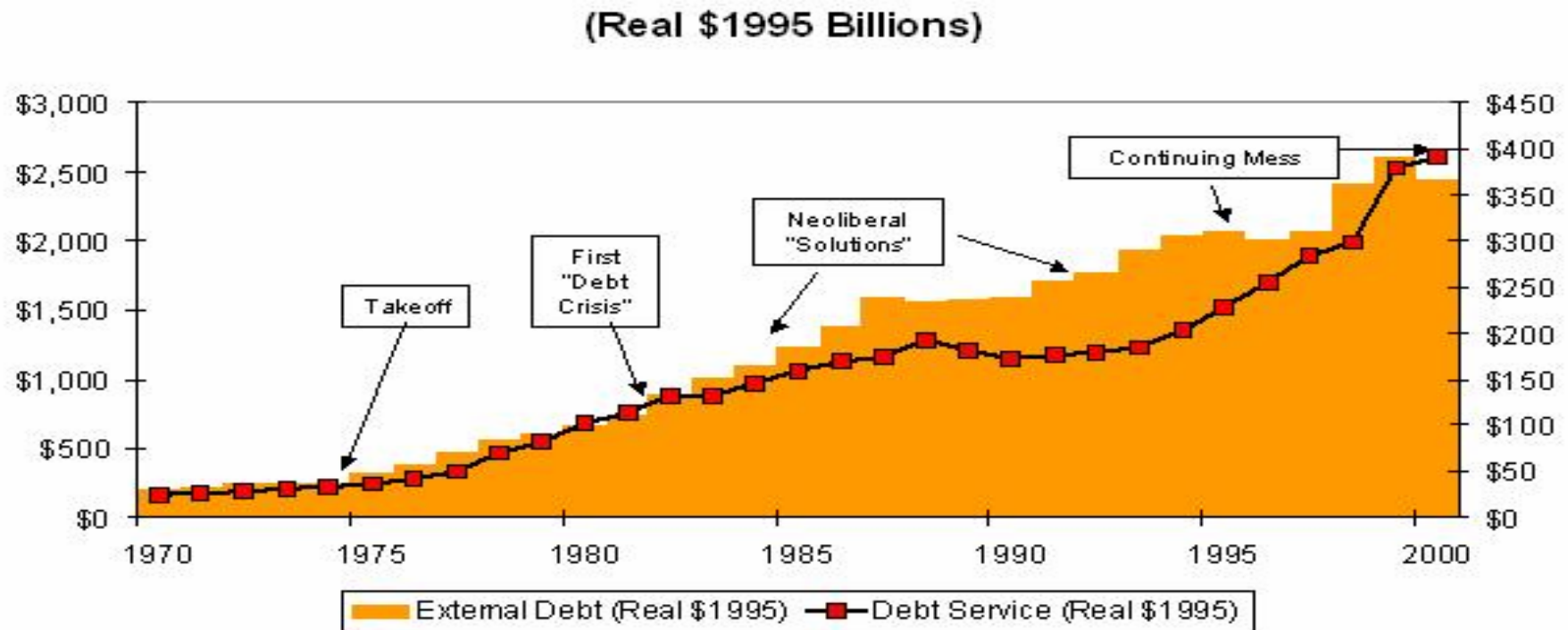


*“Two million children  
will die needlessly  
between now and  
the next meeting in  
April”*

2005 UK G7 2005 UKG

# Third World Debt: History & Trend

Chart 1.1. Third World Foreign Debt and Debt Service, 1970-2000



Source: World Bank (2002) data, JSH analysis

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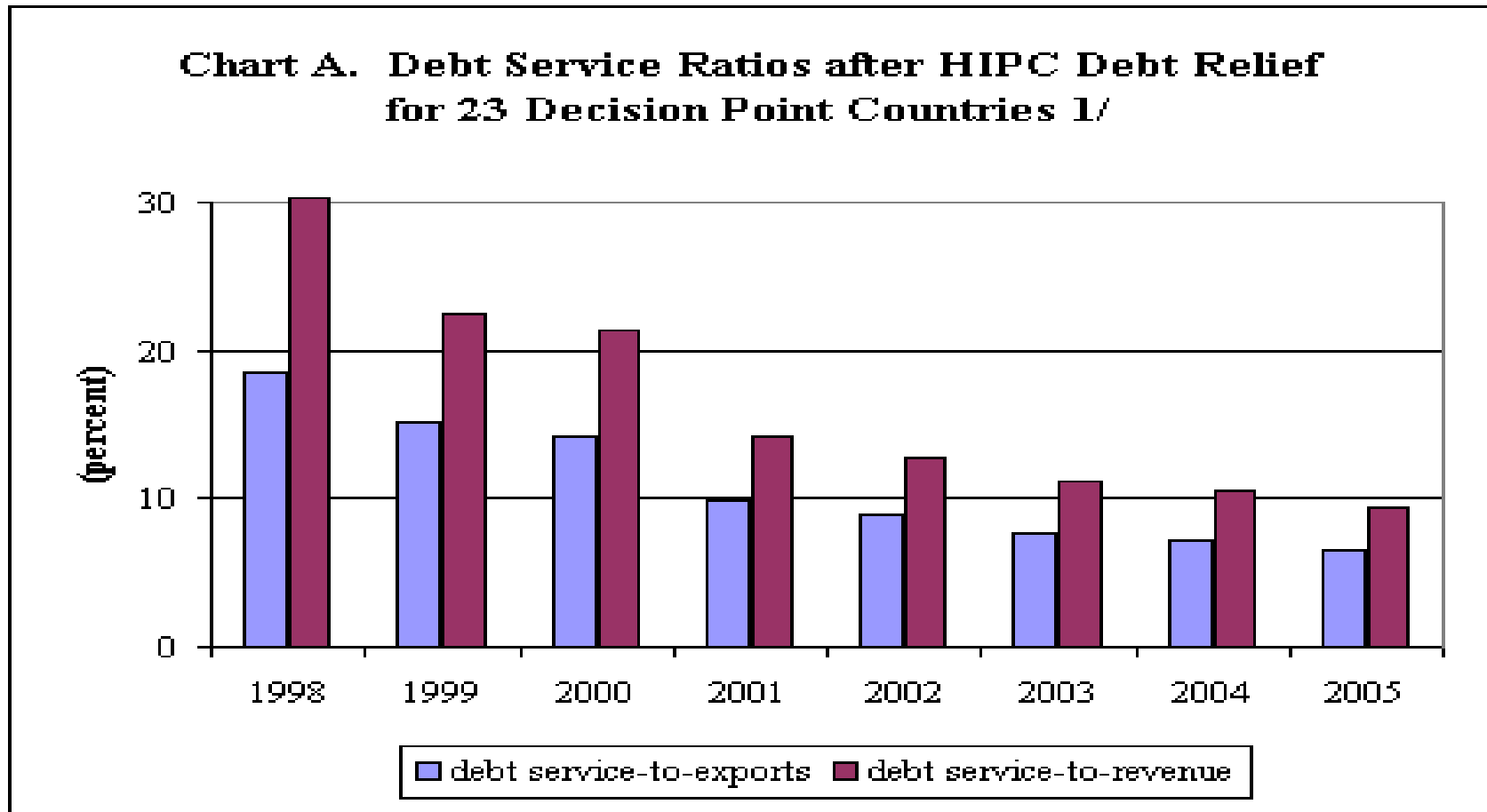


# Debt relief program

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- Launch by World Bank and IMF from 1992
- G7 is also the key participant
- 27 countries were qualified for debt relief
- Full package of \$53 Billion in over 20 years

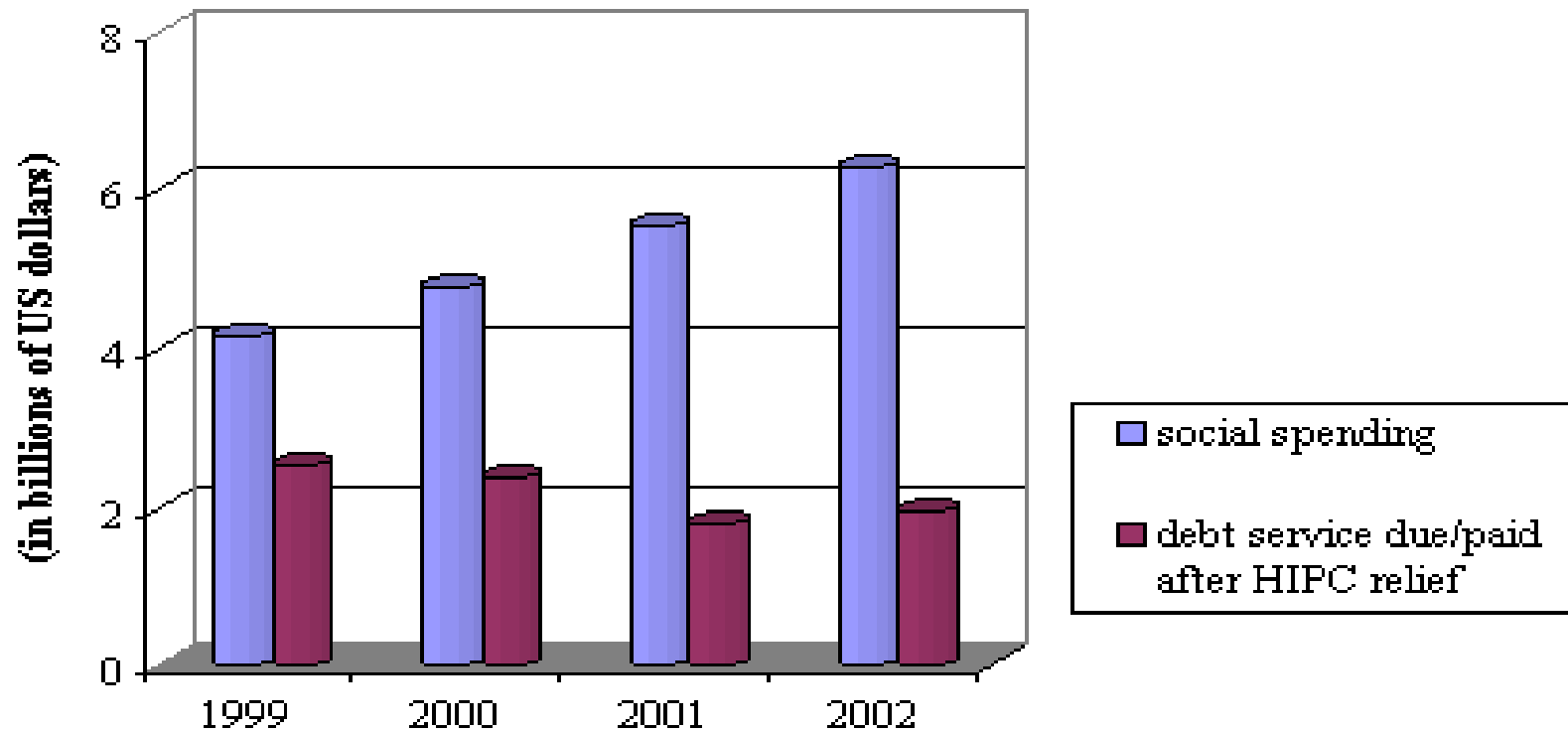
# The effect of debt relief on HIPC



Sources: HIPC country documents; and World Bank and IMF staff estimates.  
1/ Simple averages.

# The effect of debt relief on HIPC

**Chart B. Social Spending and Debt Service Due after HIPC Relief for 23 Decision Point Countries**





# Debt relief program: Key issues

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- Not a cure-all for poor countries
- Treat the symptom
- A fish or a fishing-rod
- Why not remove all the debt



# Developed countries should

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- Deliver more and better aid
- Open their own market for emerging countries
- Debt conversion



# Developing countries should

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- Improve governance
- Stamp out corruption
- Debt re-structure
- Boost economic growth