

## **Third World Debt Forgiveness**

**Ken Petress**

Requests for immediate and voluntary debt forgiveness by international lenders have been requested by the United Nations, leaders of nations with burdening debt, and from global non-government agencies. Poignant claims are made that many third world nations saddled with enormous debt have little opportunity to advance economically, socially, or politically due to their debt and, in fact, are regressing into irrecoverable poverty, social chaos, and disease in great part due to their enormous debt servicing. This debt, for the most part, was extended at these nations' formal request by the International Monetary Fund [IMF], the World Bank [WB], USAID, and private international banks. There have been scores of nations who, after natural disasters, wars, revolutions, terrorist attacks, and strict fiscal management promises have repaid their loans in full and on time and have gotten their houses in order. These repaying efforts have validated the practice of massive loans for national recovery. There are, however, dreadful cases where loans were inappropriately made and others where repayment is unlikely due to mismanagement of loans and personal and national scandals. This article offers some insight into the problematic side of international loans.

The WB, IMF, and private banks loan funds with the assumption that these loans will be repaid. It seems, in some cases, less care was taken to investigate whether or not these nations would be able to repay loans they applied for. Individuals or corporations that apply for loans seem to be more carefully scrutinized prior to loans' approval and disbursement than have been many nations wanting to borrow funds. The fault here lays at the lenders' sloppiness or incompetence. There has never been a literal total national default and so no one really has a clear idea about how to deal with a nation that declares bankruptcy. Nations do not put up collateral for their loans; perhaps this is an idea worth considering although what that collateral would be, who would certify its worth, and what scheme could be devised to enforce repayment is problematic.

Too often, proposed projects requiring huge sums of money are applied for and granted with insufficient background checks on recipients of such funds, those whom such projects will impact, and on the nations in which such projects are planned. Some of these funded projects have been disasters from the start such as a dam project in Mali where a dam was constructed without having hydrologists examine the

geological and agricultural consequences and without discovering that the people of Mali had no way of using the electricity produced nor the agricultural equipment needed to deal with newly produced irrigation patterns the dam was to produce. When the project was partially completed, it was discovered that the nation's people had little need for massive hydroelectric power and they had no idea how to harness such energy. Millions of dollars were thus wasted as the project was terminated prior to completion.

Another project was funded helping farmers grow crops that would better feed their people. In one case, the crop planted was one the people would not eat; it was a cultural sensitivity issue that should have been uncovered with minimal direct contact with people knowledgeable of the culture involved. The crops were left to rot since no one wanted it and no one knew how to export it to other areas that may have consumed it.

Unbelievably, a project for a hog farm was proposed for a Muslim nation. Even elementary student are aware that Muslims do not consume pork. Fortunately this project was terminated – after approval for funding – prior to its implementation.

Projects in Liberia, Indonesia, Syria, Ethiopia, Bangladesh, Sri Lanka, Brazil, Italy, and Spain have all fallen to corruption, mismanagement, lavish over spending, and/ or endless delays due to political infighting among national factions in loan receiving nations. It seems that too little oversight is built into project loans. Nations who take out loans ought to have to open themselves to close, frequent scrutiny to check that funds are appropriately spent. This error, too, lies at the loaners' feet.

If loans were made in good faith; loan applicants were properly and thoroughly investigated as to repayment probability; and appropriate oversight was put in place; such loans should be repaid in full. The only exception here would be a massive national disaster that would render repayment impossible – at least temporarily -- where interest should be waived and the balance deferred until national stability and recovery can be accomplished.

If loans were made without proper care to determine repayment likelihood; where prudent oversight was missing or carelessly handled, such loans should be forgiven and the lenders stuck with the losses. Such losses would, hopefully teach lessons in prudent loaning. It is unethical to lend money to anyone who can be clearly seen as unable to repay such loans; many large lending entities seem to do this cavalierly.

It is far better not to offer loans to nations unable to repay them or whose political, economic, and social conditions portend repayment troubles and make these nations struggle than it is to loan them huge sums of money that will cripple their opportunities for recovery and place the people in those nations in positions of defaulting on loans or extending such loans so long as to bankrupt their treasuries due to extended and overbearing interest amounts. Nations are not entitled to loans; they must be earned and borrowing nations must conform to behaviors that ensure lenders of possible repayment.