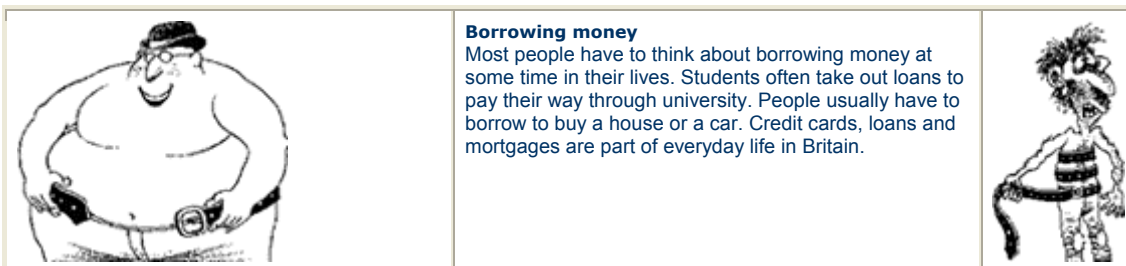


# SCIAF factsheets

## debt...

"Whatever the detailed history of today's debt-ridden countries, those who could be blamed least, the poorest people in the poorest countries, have suffered most." Cardinal Basil Hume



### Repaying the loan

When you borrow money you arrange to pay it back over a fixed time. You also have to pay interest. For example, you borrow £3,000 to buy a car and you agree to pay it back at 14% interest over 3 years. Every month you pay £120 until the debt is paid.

### Why do countries borrow money?

They want to build roads, dams, and schools or invest in new industries.  
They want to buy more than they can afford with the money they have earned from exports.

### Who lends countries money?

Other countries. When one government owes another government money it is called bilateral debt.  
Banks. This is called commercial debt.  
The World Bank and the International Monetary Fund, using money from a number of different countries. This is called multilateral debt.

Those who borrow money are called debtors. Those who lend are called creditors. Some Third World debt is bilateral, and a very little is commercial. Most Third World debt is owed to the World Bank and the IMF.

What poor countries in Africa spend on debt repayments each year could save the lives of 3m children and prevent 1m cases of malnutrition. **UNDP Human Development Report, 1997**

### What is the World Bank?

An international bank that lends money to countries for development programmes.

### What is the International Monetary Fund?

Otherwise known as the IMF, it lends money to countries with short-term cash-flow problems. In return, countries have to carry out economic reforms.

### What's the story behind loans to the Third World?

In the 1970s the price of oil trebled, making oil-producing countries very rich. They deposited their profits in Western banks to earn interest. In order to pay interest, the banks had to make money. They loaned money to Third World countries at very low interest rates. The banks and governments of Europe, Japan and the USA did not look too closely into how the money was being used. They assumed they would be repaid.

### Earn less but pay more

In the 1980s when recession hit the industrialised world, they raised interest rates, including rates on loans to the Third World. At the same time Third World countries were not earning so much money from their exports, the price of everything was going down. They were earning less, but having to pay more.

In 1994 Africa's bilateral debt to Britain was less than £5 billion. People in the UK spend about £5 billion on sweets and chocolate every year.

In 1993 rich countries took back £3 in debt repayments for every £1 given in aid. Jubilee 2000, Debt cutter's handbook

### Can't pay, won't pay?

Third World countries found it difficult to pay even the interest on their debts, never mind the original capital. The debt grew and grew. Today there are 41 countries classified as Heavily Indebted Poor Countries (HIPC). Even though they have been

paying interest their debt now stands at \$215 billion, though in 1980 it was only \$55 billion (UNDP Human Development Report, 1997). These countries don't earn enough to be able to pay back all their debts.

**Who's losing out?**

When the IMF offers loans it expects economic reforms to take place. These changes are called Structural Adjustment Programmes (SAPs). SAPs usually mean severe cutbacks in public spending. School fees are introduced and charges are made for visits to health clinics. Companies are privatised, often leading to job losses. Good land is used for crops for export, in order to earn foreign currency and food prices for local people rise. It is people who are already poor who lose out most.

**Is anybody doing anything about debt?**

The rich countries realise that these debts cannot all be paid. The World Bank and IMF are attempting to reduce the levels of debt so that what is left is payable. One important scheme is called the HIPC (Heavily Indebted Poor Countries) initiative. The problem is that this process is very slow and much more needs to be done.

**What is SCIAF doing?**

SCIAF supports an organisation of expert economists in Brazil. This organisation comes up with new ideas and suggestions on how rich countries can reduce Third World debt and make trade fairer for the world's poorest people. They then try and persuade the World Bank, IMF and rich governments to adopt their ideas.

SCIAF supports many development projects which help the poorest people in Africa, Asia and Latin America. Many of these people have been badly affected by Third World debt. SCIAF helps them by providing health care, medicines, job training and a chance to go to school.

SCIAF is still campaigning for the debts of the poorest countries to be cancelled. Much has been achieved already but more needs to be done.

"Should we really let our people starve so that we can pay our debts?" **Julius Nyerere, former president of Tanzania**

"Christians will have to raise their voice on behalf of the poor of the world, proposing the Jubilee (in the year 2000) as an appropriate time to give thought ... to reducing substantially, if not cancelling outright, the international debt which seriously threatens the future of many nations." **Pope John Paul II, Tertio Millennio Adveniente.**

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