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DAY

'Help' That Never Reaches Those in Need

■ Third World: Without fiscal supervision, debt forgiveness exacerbates problem economies.

By HILTON L. ROOT

Many Third World countries are struggling to stay afloat because the burden of past debt crowds out investment for the future. Fully one-fifth of the tax revenue of the poorest countries is used solely for debt service. The 41 most heavily indebted poor countries, with a total population of 696 million people, owe $200 billion—8% of the $2.3 trillion owed by all developing countries.

President Clinton recently signed legislation that provides bilateral debt relief to the world's poorest countries in the hope that other donor nations will be similarly compassionate.

This sympathetic endeavor is a grand gesture to start the new millennium. Yet when the toasting is over, the successful promotion of economic growth will require measures to prevent a recurrence of past mistakes. Debt relief alone will do little to alter the plight of the world's most impoverished nations.

Although dependence on export commodities renders many of the world's poorest countries highly vulnerable to exogenous shocks, much of their current debt could have been avoided. Loans were often put to uses that enriched leaders but produced few social returns and made repayment difficult. Forgiving such loans without eliminating the poor management practices that contributed to the problems in the first place will provide little permanent relief. Worse yet, it deprives donors of the limited leverage they have to promote policy reform.

Supporters of debt redemption cite two justifications in its defense: First, forgiving the debts will give governments more resources to devote to social priorities, such as poverty reduction, education and health services. The legislation signed by Clinton specifies that budgets of eligible countries must be scrutinized to ensure that the proper social spending priorities have been established.

Second, because much of the debt was incurred by dictators who funneled foreign assistance funds into Swiss bank accounts, why should the world's poor shoulder the burden of repaying borrowing from which they did not benefit?

With the gap between rich and poor countries growing, no issue is more urgent to global security than endemic poverty. A lasting solution must address the institutional factors that allowed these suffocating debts to proliferate in the first place. Sadly, just as aid allows governments to reduce domestic expenditures on designated social priorities, so too can debt forgiveness permit the diversion of new resources toward less worthy causes such as military expansion.

Governments of the most heavily indebted countries often lack the technical expertise to perform basic administrative services or properly allocate budgeted resources. Institutional weaknesses such as corrupt, over-centralized bureaucracies, dysfunctional judiciaries and an absence of budgetary supervision prevent governments from achieving their commitments to equitable growth. Simply looking at a country's budget will not tell outsiders whether health care expenditures go toward primary care for the poor or elite facilities for government cronies. Moreover, if countries do not have reliable water, safe drainage and regular garbage collection, no matter how much money they put into their health systems, the poor will benefit little.

Unfortunately, during the past decade, many heavily indebted countries downsized their civil service because it was easier to cut expenses than to collect taxes needed to provide adequate service. What little administrative capability remains is concentrated in central cities rather than in rural districts, where the majority of the world's poor population lives. To overcome these weaknesses, governments must improve their tax systems. But, again, this is politically more difficult than cutting costs, and there are risks to incumbent leaders because when citizens pay taxes they demand more from government.

A lack of budgetary discipline is another fault line in the governance structure of heavily indebted countries. Indeed, many of the world's poorest countries do not have audited accounts. The best are maybe seven to 10 years in arrears. Nigeria and Zimbabwe treat media disclosure of government performance as criminal. Even the democratizing countries on the list of those to be forgiven, such as Tanzania, Ghana and Kenya, lack elementary budgetary discipline. Uganda's budget tells the lenders exactly what they want to hear, but as soon as the fiscal year starts, funds are reallocated by presidential fiat, and money originally earmarked for health and education is diverted to unmonitorable security and police services.

Uganda is no exception. After announcing a medium-term budgetary framework, Kenyan President Daniel Arap Moi disregarded it, asking, "Why would I be interested in the medium term if I do not even know what will happen tomorrow?"

A successful turnaround requires civil service capacity, budgetary supervision and political accountability. Unless the plan for debt relief leads to fundamental reform of these Third World states, redemption simply will be the source of empty self-congratulations among the world's rich—and a tax holiday for kleptocrats.

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