

14 Economic interactions and flows

Loans

Many countries provide loans for developing countries. The main pattern is a transfer from richer countries to poorer countries. However, the definition of a loan is that it is a transfer of money or skills that requires repayment over a set time. Every year the World Bank lends over US\$24 billion to developing country governments to fund projects for economic development and poverty reduction.

In many poor countries, economic and social infrastructure such as electricity, gas, transportation and communications services is underdeveloped. In addition there may be issues related to population growth, environmental degradation, disease and conflict. To address these issues, the Millennium Development Goals (MDGs) have been set as common goals, and individual countries have launched a range of measures to achieve them (see also chapter 2). Most of these goals, such as poverty reduction, universal primary education and environmental sustainability, are planned to be reached by 2015.

In theory, official development assistance (ODA) loans promote efficient use of the borrowed funds, since they require repayment and the donor is unlikely to provide loans for projects likely to fail. Moreover, they place a relatively small financial burden on the donor government as they are paid back over time.

Gross domestic product (GDP) – the value of all final goods and services produced within a nation in a given year. The measure is relatively easy to compute and use compared with the GNI.

Gross national income (GNI) – the value of goods and services produced within a country, together with the balance of income and payments from or to other countries; now used in preference to gross national product (GNP).

Case study: Japan and loans

Japan's loan policy can be divided into bilateral aid, in which assistance is given directly to a developing country, and multilateral aid, which is provided through international organizations. Japanese loans are given with an interest rate that varies from 0.01% for the least developed countries to 1.7% for upper-middle-income countries, with a repayment period of between 15 and 40 years.

Types of loan provided by Japan

- 1 Project loans** – to finance projects such as roads, power plants, irrigation, water supply and sewerage facilities.
- 2 Engineering services (E/S) loans** – to finance the survey and planning stages of a project (a feasibility study).
- 3 Financial intermediary loans (two-step loans)** – to promote small- and medium-scale enterprises in manufacturing and agriculture; known as two-step loans because there are two or more steps before the end-beneficiaries receive the funds.

- 4 Structural adjustment loans (SALs)** – to improve economic policies and implement structural adjustment for overall economies.
- 5 Commodity loans** – to support the balance of payments and economic stability of recipient countries; often used to import commodities such as industrial or agricultural machinery and raw materials, fertilizer and pesticides.
- 6 Sector program loans (SPLs)** – to support development policies in prioritized sectors of developing countries. Local currency (counterpart) funds are utilized for public investments for sector-specific improvements.

Most Japanese aid is offered to countries in Asia, although some is offered elsewhere. Good examples of projects include the following.

- Small-scale irrigation management in eastern Indonesia. Eastern Indonesia has a long dry season and low annual rainfall. As a result, agricultural productivity is low and the region is the poorest in

- Indonesia. Loans have been provided to develop irrigation, extend farming technology and introduce agricultural water management, thereby increasing productivity and reducing poverty.
- Mass rapid transport system in Delhi. This project aims to improve the infrastructure for economic growth by helping construct a subway line, and elevated and surface railroads. The system is

expected to carry 2.26 million passengers a day, and will reduce traffic congestion and improve air quality.

- Integrated reforestation in Tunisia. Much of Tunisia is semi-arid. Forest cover has been reduced by natural disasters and overlogging. A loan has been given to support forest maintenance, replanting, and constructing water and soil conservation facilities including reservoirs.

Debt repayment

(See also chapter 2, page 47, The impact of aid and debt relief.)

External debt refers to the part of a country's total debt that is owed to creditors outside the country. The creditors can include national governments, international organizations such as the World Bank and the IMF, and multinational companies. Those in debt can include national governments, companies and individuals. External (or foreign) debt is different from public debt, which is the money or credit owed by any government, organization or individual to others in the same country.

Debt can be expressed in terms of (a) debt to GDP ratio or (b) foreign debt to exports ratio.

Rank	Country	External debt (US \$ million)	External debt per capita (US\$)
1	USA	13 450 000	42 343
2	UK	9 088 000	150 673
3	Germany	5 208 000	63 350
4	France	5 021 000	78 453
5	Netherlands	2 452 000	146 826
22	China	347 100	259
24	Turkey	253 200	3288
25	India	232 500	201
26	Brazil	216 100	1091
28	Mexico	177 000	1594
80	Jamaica	11 550	4125
88	Kenya	7,729	198
99	Zimbabwe	5,821	529
107	Ethiopia	4,229	49.7
161	Haiti	428	47.5

Table 14.1 Selected levels of debt (CIA World Factbook, 2010)

There is concern that many poor countries have borrowed more money than they can pay back. The figures in the table suggest that external debt might not just be related to poor countries. There are a number of reasons why debts have accumulated. These include:

To research

Visit <http://www.odakorea.go.kr> and click on "Korea's ODA at a glance" to see how Korea has changed from a recipient of loans to a donor, and to investigate its plans for the future.

To do:

Study Table 14.1.

- Identify the country with the largest debt (i) in absolute terms and (ii) per person.
- Identify the countries with the lowest debt (i) in absolute terms and (ii) per person.
- Approximately how many times larger is the USA's total debt compared with (a) China's (b) Kenya's and (c) Haiti's?
- Comment on the figures shown in the table.