

**Individual, Business and Society:
Tradeoffs, Choices and Accountability**

**Drop the Debt? Dilemmas Confronting the Design
Of Development Aid and Debt Relief**

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Case Abstract

More than a billion people live in extreme poverty – on less than \$1 a day. Absolute poverty around the world and global income inequality across countries is an important concern to most individuals. The World Bank as well as most high-income countries provide development aid to middle and low-income countries. Such aid is designed in large part to foster long-term economic growth. In addition, the International Monetary Fund (IMF) features prominently in country lending programs designed to improve short-term macroeconomic stability.

Both the World Bank and IMF have however been subject to sharp recent criticism. The development loans that the World Bank and IMF made back in the 70s and 80s did not generate the economic growth they were designed to promote. Consequently, the vast majority of countries that borrowed during this period failed to generate the government tax revenue necessary to repay their loans. In 1996, the World Bank and IMF thus announced a debt relief/restructuring program named the “Highly Indebted Poor Countries” debt relief initiative, or “HIPC” initiative. This initiative was designed to provide debt relief to some poor countries, provided that they put in place reforms and anti-poverty programs.

The HIPC proposal was immediately controversial. Many critics argue that the HIPC initiative is insufficiently generous and overly conditional. How can the high-income countries withhold debt relief, they ask, when thousands of children a *day* are dying from disease and malnutrition in these countries? Others argue that, historically, most

development aid has been wasted. The benefits of debt relief, they argue, would accrue to unintended benefactors, and would thus be similarly wasted.

Based on several readings and tables, this case is designed to help students get a sense of the magnitudes of outstanding debt of poor countries, to evaluate the dilemmas confronting recent proposals to offer debt relief to poor countries, and to consider the extent to which wealthy nations should help poor ones.