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# Debt Relief for the Poorer Developing Countries

*George C. Abbott\**

Since August, 1982, when the Mexican debt crisis first hit the international headlines, attention has been focused primarily on the problems of the world's largest debtors. Very little has been written so far on the debt problems of the poorer developing countries which, in fact, make up the vast majority of the non-oil developing countries. This imbalance suggests that either these countries do not have a debt problem, which is clearly not the case, or their debts are of a lower international order. Or to put it differently, some debts are more important than others, which is an equally dubious proposition.

All foreign debts are a burden on the economy of the debtor country. In the case of the poorer developing countries, the size of the debt belies its true burden. One assumes, for example, that because the debt is quantitatively small in global terms, it is not a threat to world peace and stability, or that it can be safely ignored while the international community gets on with more important matters.

Nothing could be further from the truth. In recent years, the economic performance and prospects of the poorer countries have deteriorated markedly. Growth rates are down, and exports have stagnated. So, too, has the net inflow of resources. In many cases it has actually become negative since debt service payments exceed net inflows of capital for developmental purposes.<sup>1</sup> If nothing is done to address this problem, it will obviously get worse. These countries will then find themselves facing the awful dilemma of having to choose between debts and development. For many of them that point has already been reached. The current level of international indebtedness in the poorer developing countries is thus a very real problem.<sup>2</sup>

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<sup>1</sup> See, *Debt Problems of Developing Countries. Official Development Assistance and Related Debt Service. Scope for Further Debt Relief in Favor of the Least Developed and Other Poorer Developing Countries*, Report by the UNCTAD Secretariat, Geneva, Statistical Annex Doc. TD/B/C.3/195 (December 14, 1984) [*hereinafter* Statistical Annex].

<sup>2</sup> See Abbott, *Debt and the Developed Countries*, in 2 *DEVELOPED POLICY REVIEW* 181-9 (1984).

The purpose of this article is to try to reduce the imbalance which has crept into the literature, by focusing on the debt problems of the poorer developing countries. The article traces briefly the nature, growth, and dimensions of foreign indebtedness and its effects on their economic and social development. The article then discusses some of the measures which have been taken to reduce poorer developing country foreign debt levels. In particular, the contribution of Retroactive Terms Adjustment (RTA), a package of measures which was devised and introduced by the Trade and Development Board of the United Nations Conference on Trade and Development (UNCTAD) in 1978 specifically for the benefit of the poorer developing countries, is evaluated. Finally, the article addresses the question of what next, and concludes that a major new initiative is needed.

### *The Poorer Developing Countries*

There are several ways of classifying the poorer developing countries. For purposes of this article, the term will be used to refer to those countries with per capita incomes of under U.S.\$1000. In 1980, a total of 77 countries fell into this category. These are shown in Table 1. Of them, 51 countries located almost exclusively in Africa and Asia, had per capita incomes of less than U.S.\$500. Haiti is the only developing country in the Western Hemisphere in this category. Another category, (identified by an L in Table 1), is the so-called least developed countries. This group includes 36 countries, and contains the poorest of the poor as well as some of the most populous countries in the world. It is also the group which is generally targeted as being in urgent need of assistance and for which special programs have been implemented.<sup>3</sup>

In terms of economic performance, the statistics for these countries make depressing reading. Table 2 of the Statistical Annex of Document shows that between 1980 and 1983, average growth rates for the least developed countries fell by 0.1% per annum.<sup>4</sup> Exports fell, on average, by 8.2% per annum over the same period, while their terms of trade deteriorated to the tune of 6.7% per annum. There were, of course, significant variations in the performance of various regional and country groupings. Countries in Africa did particularly badly. Their exports, for example, fell on average, by 8.5% per annum, and their terms of trade by 8.0% per annum over the years in question.<sup>5</sup>

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<sup>3</sup> In 1981, for example, the United Nations Conference on the Least Developed Countries held in Paris adopted a substantial new program of action for the 1980's. For the full text of this program, see, UNITED NATIONS THE LEAST DEVELOPED COUNTRIES, annex 125-57 (1985).

<sup>4</sup> *Id.*

<sup>5</sup> Statistical Annex, *supra* note 1, at 4 (Table 2).

TABLE 1. LIST OF COUNTRIES WITH PER CAPITA GNP OF UNDER \$1,000 IN 1980

Afghanistan* (L)	Ghana*	Rwanda*(L)
Angola*	Guinea* (L)	Samoa (L)
Bangladesh* (L)	Guinea-Bissau* (L)	Sao Tome and Principe* (L)
Belize	Grenada	Senegal*
Benin* (L)	Guyana	Sierra Leone* (L)
Bhutan* (L)	Haiti* (L)	Solomon Islands*
Bolivia	Honduras	Somalia* (L)
Botswana (L)	India*	Sri Lanka*
Burkina Faso* (L)	Indonesia*	Saint Christopher and Nevis
Burma*	Kenya*	Saint Lucia
Burundi* (L)	Lao People's Demo- cratic Republic* (L)	Saint Vincent and the Grenadines
Cape Verde* (L)	Lesotho* (L)	Sudan* (L)
Cameroon	Liberia*	Swaziland
Central African Republic* (L)	Madagascar*	Thailand
Chad* (L)	Malawi* (L)	Togo* (L)
Comoros* (L)	Maldives* (L)	Tonga*
Congo	Mali* (L)	Vanuatu
Cuba	Mauritania*	Yemen* (L)
Democratic Kampuchea*	Morocco	Uganda* (L)
Democratic Yemen* (L)	Mozambique*	United Republic of Tanzania* (L)
Dominica	Nepal* (L)	Zambia
Djibouti* (L)	Nicaragua	Zaire*
El Salvador	Niger* (L)	Zimbabwe
Equatorial Guinea* (L)	Nigeria	
Egypt	Pakistan*	
Ethiopia* (L)	Papua New Guinea	
Gambia* (L)	Philippines	

Note: An asterisk (\*) indicates a country with per capita income under \$500, while (L) indicates a least developed country.

Source: Statistical Annex, *supra* note 1 at 3.

### *Characteristics and Dimensions of Indebtedness*

It is against this steadily deteriorating picture that one must view the recent rise in the group's foreign indebtedness. Data provided in Table 2 shows that between 1980 and 1983, the total disbursed debts of the poorer developing countries rose by 10.6% per annum, while Official Development Assistance (ODA), the "true aid" element of total resource flows, rose by 7.2% per annum. Total debt service payments increased, on average, by 9.1% per annum. The corresponding figure for service payments on ODA debts was 6.6% per annum. The effect of these movements was to reduce the net inflow of ODA by some 14.5% over the period 1980 to 1983.

There were variations within the overall picture but the story was

generally the same. Net ODA flows declined by 14.5% per annum for countries with per capita income of less than \$1000. For those with per capita incomes of less than \$500, the annual fall was 16.6%. In terms of the different regional groupings, the overall fall in percentage terms ranged from 22.8% for countries in Asia with per capita incomes of less than \$500, to 10.5% for the same income group in Africa. A more detailed analysis of total disbursed debts and debt service payments of the poorer developing countries for 1975, and 1980 to 1983 is given in Table 2.

The first point to make about the data in Table 2 is that the disbursed debts and debt service payments of the poorer developing countries account for less than one-third of the total debts and debt service payments respectively, of the developing countries as a whole. Secondly, they are spread over a large number of countries. In this respect the picture differs markedly from that of the major debtor countries where debts and debt service payments are heavily concentrated in about a dozen countries. Thirdly, most of the debts of the poorer developing countries are public sector debts, i.e., they are mainly "government to government" debts. Qualitatively, therefore, they are easier to service. About 70% of these debts are owed to the governments of the Development Assistance Committee (DAC) of the Organization of Economic Cooperation and Development (OECD). This is the conventional picture of these countries' indebtedness.

However, as Table 2 shows, their total indebtedness increased more than threefold between 1975 and 1983. Most of this was accounted for by non-concessional flows, which increased from \$22 billion in 1975 to \$98 billion in 1983. In percentage terms, the proportion of non-concessional flows increased from 36% to 51% in 1983. Consequently, non-concessional flows are now the main source of resource flows to these countries. The effect of this shift to borrowing on harder terms is reflected in the rising cost of servicing their debts. Total service payments in fact rose from \$6 billion in 1975 to \$20 billion in 1983. The amount due in respect of non-concessional lending amounted to \$16 billion.

The conventional pattern of resource flows to these countries has clearly changed in two important respects. First, net inflows of ODA loans have fallen dramatically. Second, the shift to harder term loans has resulted in a major upsurge in debt service payment. These are shown in Table 2 as having risen from \$6 billion in 1975 to \$20.4 billion in 1983. The impact of these developments on their economies was particularly severe during the recent world recession. Total debts as a percentage of GNP, for example, rose from 24% to 27% between 1980 and 1982 for the group. In the case of the least developed countries, the proportion reached 44% in 1982. In fact, all the main indicators show that the debt problem deteriorated markedly during this period, and that compared

TABLE 2. TOTAL DISBURSED DEBT AND DEBT SERVICE  
1975 AND 1980-1983

	1975	1980	\$ billion	
			1982	1983 a/
Developing countries with per capita GNP in 1980 of under \$1,000 b/				
I. Total disbursed debt	61.7	143.7	175.5	194.2
By terms and source of lending:				
Official development assistance	39.4	77.7	88.4	95.8
Bilateral	32.8	57.3	63.1	..
DAC	21.3	37.0	39.6	41.2
Multilateral	6.6	20.4	25.4	..
Non-concessional	22.3	66.0	87.1	98.4
Export credits	9.8	28.5	34.6	37.6
Other official	4.8	15.3	21.4	23.7
Financial institutions	7.7	22.2	31.1	37.1
II. Debt service	6.0	15.7	20.9	20.4
of which: concessional	1.6	3.3	3.7	4.0
Memo items:				
Developing countries with per capita GNP in 1980 of under \$500 c/				
Total disbursed debt	41.7	83.8	98.6	107.8
of which: concessional	30.2	55.7	62.8	67.8
Total debt service	3.2	7.1	8.3	9.0
of which: concessional	1.1	2.2	2.4	2.5
Least developed countries d/				
Total disbursed debt	7.3	21.4	26.2	28.6
of which: concessional	6.2	14.6	18.1	19.5
Total debt service	0.6	1.2	1.4	1.5
of which: concessional	0.2	0.5	0.5	0.6
Major ODA recipients e/				
Total disbursed debt	31.7	57.9	67.3	74.5
of which: concessional	24.7	41.6	44.0	48.7
Total debt service	2.4	5.7	7.8	7.6
of which: concessional	0.8	1.8	2.3	2.2

Source: UNCTAD secretariat estimates based on OECD, *External Debt of Developing Countries, 1983 Survey*, Paris, 1984; World Bank, *Debtor Reporting System*, in Statistical Annex, *supra* note 1 at 2 (as amended).

Note: Two dots (..) indicates that the data are not available.

a/ Estimates

b/ As listed in Table 1.

c/ Countries marked by an asterisk in Table 1.

d/ Countries followed by the letter L in Table 1.

e/ Egypt, India, Indonesia and Pakistan.

with 1975, the poorer developing countries were a lot worse off.<sup>6</sup>

The position is unlikely to improve in the medium term. Figures

<sup>6</sup> *Id.*, Table 3, at 5.

from the OECD show that gross disbursements of bilateral ODA loans from all sources are not increasing.<sup>7</sup> Moreover by 1987, the poorer developing countries will face an accumulated debt of \$44 billion on ODA loans alone. 90% of this debt will be owed to the DAC countries, and in terms of the distribution of debtors, 70% of it will be owed by countries with annual per capita incomes of less than \$500. A more pertinent statistic though, is that annual debt service payments will exceed \$3 billion in 1987. Between 1980 and 1982 they averaged \$1.8 billion. In other words, within the space of five years, annual service payments will have risen by \$1.2 billion.<sup>8</sup>

Another important statistic is that by 1987 interest payments on bilateral ODA loans will exceed \$1 billion annually, or about one-third of the total debt service on ODA loans. Ten years ago, the equivalent proportion was less than 10%. This rapid build-up in the current cost of servicing their "cheap" loans is a good indication of the nature of the debt problem facing the poorer developing countries. As the cost of borrowing to service existing loans rises, the proportion of the outstanding debt which actually gets repaid falls sharply, and with it any prospect of them ever being able to repay their foreign debts. Poorer developing countries are in fact locked into a situation of having to run faster each year in order to remain in the same place.

Faced with this situation, poorer developing countries have been forced to change their basic debt management strategy. Rather than attempt to amortize their debts, they concentrate on rolling them over.<sup>9</sup> This does not, of course, solve the problem. It simply pushes it into the future, and increases the cost of finally amortizing the debt. By 1987, they will need at least \$1 billion in new money in order to prevent any further deterioration in their external position. The conventional picture has clearly broken down. It can no longer be assumed that the situation will correct itself, or that the problem does not have serious long-term implications for the stability and well-being of the international economy.

### *Debt Relief Measures*

Over the last decade or so there has been a fundamental change of attitude on the part of the creditor countries regarding the debt problem. They now accept that it is caused by a number of factors, some (if not most) of which are beyond the control of the debtor countries. More to

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<sup>7</sup> *Id.*, Table 4, at 6.

<sup>8</sup> *Id.*

<sup>9</sup> To roll over a debt is to pay only the current costs of servicing that debt (i.e., interest charges).

the point, they are more sympathetic to the plight of the debtor countries and, equally, more receptive to the call for relief.

To this end, they have implemented a series of multilateral relief operations.<sup>10</sup> It is not possible to discuss these in any detail in the space of a short article, but three aspects are worth mentioning. First, the main forms of debt consolidation have been rescheduling and refinancing. More radical options like debt cancellation or default have not been countenanced or encouraged. Second, consolidation has taken place within a multilateral framework and dictated mainly by the creditors' interests. Consequently, factors such as equity of treatment and burden-sharing have played a decisive role in determining the amount of relief granted. Third, debt relief has always been regarded as an *ad hoc* exercise and has been accompanied by a variety of requirements and obligations on the debtor to return to solvency as quickly as possible.<sup>11</sup>

Although negotiations are conducted within a "multilateral framework," they are not strictly speaking, multilateral. The creditor countries usually meet beforehand and agree on a common negotiating position, including the terms and conditions to be imposed on the debtor countries. The actual negotiations are conducted between the debtor country on one side and the creditor countries as a group on the other. There is very little scope for bilateral negotiations or deals with individual creditor countries. Whatever is offered, is sold as a package deal.

Also, multilateral lending institutions such as the World Bank, are not allowed to engage in debt rescheduling exercises. This excludes a major proportion of the poorer countries' debt from consideration for relief, given that these institutions are some of the largest providers of funds to the poor countries. It also denies poorer countries the use of a multilateral forum in which they can enhance their bargaining power as well as exert some influence and leverage on the outcome. Under existing arrangements, the only leverage which they seem to have is that debt relief is often the only realistic option to default. Ironically, this is also one of the principal conditions which the creditors regard as a prerequisite for entering into debt relief negotiations.

The other pre-condition which creditor countries insist on, is that debtors must implement an effective program of economic stabilization measures which is supported by a stand-by agreement with the IMF.<sup>12</sup> This has, however, proved counter-productive in a number of instances. Not only is upper tranche financing relatively "hard;" IMF debts cannot

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<sup>10</sup> For a good survey of recent relief operations, see INT'L MONETARY FUND Occasional Paper 25, *Recent Multilateral Debt Restructurings with Official and Bank Credits* (1983).

<sup>11</sup> See, G. ABBOTT, *INTERNATIONAL INDEBTEDNESS AND THE DEVELOPING COUNTRIES*, ch. 5 (1979).

<sup>12</sup> INT'L MONETARY FUND, *supra* note 10, at ch. 4-5.



be rescheduled. Consequently, many debtor countries have found themselves in a double-bind, and have to repeat the exercise in order to recover lost ground. Indeed, another major irony of debt relief operations is that it is very difficult to get on the bandwagon, but once you are on, you are almost certainly assured of getting more than one ride.

Between 1975 and 1985, for example, a total of 144 debt relief agreements were signed by 42 developing countries. Of these only 8 were single negotiations. The rest were divided between 34 debtor countries. Togo and Zaire topped the list with 7 agreements each, while Liberia, Madagascar, Senegal and the Sudan each had 6. Not all of the other countries listed in Table 1 had their debts renegotiated, but those that did signed an average of 3 agreements over the period.<sup>13</sup> Most of these debts have been renegotiated within the framework of the Paris Club.

### *The Paris Club*

The Paris Club is an informal gathering of creditors which meets from time to time to consider requests from debtor countries for relief on their public guaranteed debts. It has no fixed membership nor insitutional structure. As its name implies, the Club meets in Paris and its meetings are usually chaired by a high-ranking official of the French Treasury. It does not have any agreed upon procedures or written set of rules. Rather, its procedures and practices have evolved over the last thirty years. Each case is decided on its merits, and although the terms of rescheduling may vary from case to case, the Club tries to apply principles of equity, fairness and comparability of treatment as well as to distribute the burden of relief equitable amongst its members.<sup>14</sup>

Since the Paris Club started operations in 1956, both the number of debtors seeking relief and the amount of debts consolidated have grown steadily each year. During the 1970s, the number of debt reschedulings averaged about three a year. Since 1983, the average has risen to over 16 a year. In 1985 alone, no less than 21 agreements, providing \$18 billion in debt relief, were concluded. Ten years earlier, the equivalent amount of relief provided by the Paris Club barely exceeded \$1 billion.<sup>15</sup>

Table 3 gives a summary of multilateral debt renegotiations concluded between 1975 and 1985. These are broken down into two categories, namely, debts renegotiated under Paris Club arrangements, and commercial bank debts. The latter category accounted for by far the larger proportion of total debts renegotiated. This is due to the recent debt crisis and the need to reschedule massive amounts of commercial

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<sup>13</sup> *Multilateral Debt Renegotiations, 1975-85*, 97 THE COURIER 88, (May-June 1986).

<sup>14</sup> See generally, A. Rieffel, *The Role of the Paris Club in Managing Debt Problems*, in PRINCETON ESSAYS IN INTERNATIONAL FINANCE SERIES 161 (1986).

<sup>15</sup> INT'L MONETARY FUND News Survey 298 (Sept. 30, 1986).

TABLE 3. MULTILATERAL DEBT RENEGOTIATIONS, 1975-1985.

Number of debtor countries	Number of renegotiations 1975-1985	\$ billion US											
		1975-1981		1982		1983		1984		1985		Commercial Banks	Commercial Banks agreed in principle
42	144	9.5a	10.1	.6	1.7	10.6	41.1	3.9	8.8	5.9	86.9	26.4	
24b	77	3.2	1.9	.4	.2	3.2	2.6	2.0	1.6	2.0	6.0	1.0	
17c	59	3.0	1.1	.4	.1	2.1	.1	.5	.3	.9	.3	.2	

Note a) Includes debt relief granted to India (\$436 million), Pakistan (\$263 million) and Turkey (\$4,696 million) under aid consortium agreements.

b) Countries with per capita incomes of less than \$1000 in 1980.

c) Countries with per capita incomes of less than \$500 in 1980.

Source: Table compiled from data provided on Dossier on "Debts and Development" published in THE COURIER, Africa — Caribbean — Pacific — European Community, No 97 — May/June 1986, p.88.

bank debts. In 1985, this reached a record level of \$87 billion with another \$26 billion agreed in principle, but not completed in 1985.

As the figures show, the poorer developing countries account for a very small proportion of the commercial debts which have been renegotiated. The reason for this is well-known. As a group they are regarded as a poor risk. Their credit-rating was not, in fact, high enough to enable them to take advantage of all the surplus oil funds floating around. Consequently, they were not as heavily indebted to the commercial banks as the richer developing countries. The \$6 billion exception in 1985 is made up almost entirely of commercial bank loans renegotiated by the Philippines.

As regards debts renegotiated within the Paris Club, the picture is virtually the same. Although the amount of relief renegotiated has expanded quite considerably in recent years, this can be attributed to the effect of the debt crisis and the requests for relief of major debtors like Argentina, Brazil, Mexico and Yugoslavia. In 1985, these four debtors received relief totalling almost \$4 billion under Paris Club arrangements. The poorer developing countries have not shared in this expansion. The amount of relief which they received remained more-or-less stable at \$2 billion per annum between 1982 and 1985.<sup>16</sup>

Of the poorer developing countries, those with per capita incomes of less than \$1000 in 1980 fared the best. The 17 members of this group, all of which are located in Africa, received virtually all the relief negotiated by the poorer developing countries between 1975 and 1982. In subsequent years their share fluctuated, but it averages out at about half the total. Although most observers would consider this pretty good going, Chandra Hardy takes the view that:

The Paris Club mechanism has not been effective in easing Africa's debt difficulties. The procedures adopted by the Paris Club place strict limits on the definition of the debt eligible for debt relief. Consequently, more than half of the debt service due is not considered eligible. Furthermore, relief is, when provided, on only a small part of the remaining debt: and since the amount of relief is usually insufficient to ease the liquidity problem for more than a year or two, this arrangement has led to repeated rescheduling.<sup>17</sup>

### *Retroactive Terms Adjustment*

The poorer developing countries also received relief under Retroactive Terms Adjustment (RTA), a program of measures introduced in 1978 specifically for their benefit. RTA arose out of a pledge given by the developed countries at the United Nations Conference on Trade and De-

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<sup>16</sup> *Multilateral Debt Renegotiations*, *supra* note 13.

<sup>17</sup> Hardy, *Africa's Debt Burden and Its Consequences*, 97 THE COURIER 68 (May-June 1986).

velopment in Nairobi, Kenya in 1976, to respond constructively to requests for relief from the poorer developing countries experiencing debt problems. The least developed and the most severely affected countries were targeted as the two groups most in need of relief.<sup>18</sup>

The precise terms of this pledge were officially sanctioned and incorporated into a resolution of the Trade and Development Board in March, 1978 (The "Resolution").<sup>19</sup> *Inter alia*, the Resolution called on the developed donor countries to adopt measures to readjust the terms of past bilateral Official Development Assistance (ODA) loans to bring them into line with current ODA terms, or to take other "equivalent measures" as a means of improving the net flow of official development assistance.<sup>20</sup> Under the terms of the Resolution, the donor countries were free to decide who would benefit from relief, and what form this should take, as well as the role of RTA in its own aid policy.<sup>21</sup>

When it was introduced, RTA was hailed as a major international initiative to help the poorer developing countries to reduce the level of their indebtedness and enhance their development prospects, by increasing the net flow of resources. In other words, it was going to strike at the root of the problem. Its principal provisions are therefore worth a close look. Before RTA, the average grant element of ODA bilateral loans by DAC countries was 89.3%. The grant element recommended under RTA was 90%.<sup>22</sup> The scope for retroactive adjustment of terms was thus effectively limited to .7%, hardly what one would call a major breakthrough. This aspect of its operation was in fact largely symbolic.

RTA did, nevertheless, provide a major psychological boost for the poorer developing countries. Until then, the creditor countries were firmly against any form of debt relief, particularly cancellation of outstanding obligations. They placed great store on the legal sanctity of contracts and international obligations, and relief was given sparingly and only in exceptional cases. RTA changed that. The developed countries were now prepared as a matter of policy to grant relief, including a cancellation of debts owed by the two target groups. RTA was in fact a euphemism for debt relief. A major battle had been won!

As implemented, RTA raised a number of questions. For example,

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<sup>18</sup> Resolution 94 (IV) of the United Nations Conference on Trade and Development, (May 31, 1976).

<sup>19</sup> For the full text, see Resolution 165 (S-IX), Debt and Development Problems of Developing Countries-Resolutions and Decisions Adopted by the Trade and Development Board at its Ninth Special Session, 494th meeting, March 11, 1978.

<sup>20</sup> *Id.*, § A(4).

<sup>21</sup> *Id.*, § A(5) and B.

<sup>22</sup> *Monetary and Financial Issues: Review of Implementation and Further Action That May Be Required Pursuant to Trade and Development Board Resolution 165 (X-IX) Part A*, TD/234/Add:1 (May 15, 1979).

the nature of "equivalent measures" was not defined. It was left to the creditors to decide what exactly these measures were, and what forms they would take in each case. In practice, they took the following forms: (a) conversion of past ODA bilateral loans to grants; (b) cancellation of past debts for a specific period of time; (c) waiving of interest payments; (d) refinancing and/or rescheduling; and (e) conversion to local cost and/or local currency payments.

TABLE 4. NOMINAL VALUE OF RTA MEASURES TAKEN WITH RESPECT TO ODA DEBT

		\$US million				
		Nominal Value		Nature of measures taken		
	Total	of which: least developed	Debt cancellation	Waiving of interest payments	Refinancing/ rescheduling	Conversion to local cost aid or local currency payments
DAC members						
Australia	0.2	..	0.2	..	—	—
Austria	5.7	.0	4.4	1.3	—	—
Belgium	15.1	2.1	—	2.2	12.9	—
Canada	220.5	218.1	188.1	30.0	2.4	—
Denmark	94.5	93.5	94.5	—	—	—
Finland	70.3	35.0	70.3	..	—	—
France	125.1	125.1	100.2	24.9	—	—
Germany, Fed. Rep. of	2072.6	2072.5	1772.6	300.0	—	—
Italy	71.4	66.8	71.4a	—	—	—
Japan	147.3	56.3	56.3a	91.0	—	—
Netherlands	349.3	192.9	159.0	190.3	—	—
New Zealand	3.5	—	3.5	..	—	—
Sweden	285.4	104.4	247.3	38.1	—	—
Switzerland	69.2	13.5	69.2	..	—	—
U.K.	1941.5	240.5	692.2	52.5	—	1196.8
U.S.A.	691.0	691.0	—	—	—	691.0
Total DAC	6162.6	3911.7	3529.2	730.3	15.3	1887.8
<hr/>						
Non-DAC						
Luxembourg	0.3	0.3	0.3	—	—	—

Note: (a) including interest payments.

Source: TC/B (XXX) CRP.3, 25 March 1985, Debt and Development Problems of Poorer Developing Countries and, in particular, of the Least Developed Countries: Review, Pursuant to Board Decision 289 (XXVIII), of the Implementation of Section A of Board Resolution 165 (S-IX). Table 1 p.4 (as amended).

Given the nature and diversity of each creditor's aid program, it is virtually impossible to establish the equivalence of these measures *vis a vis* each other not only within, but also between different donors' programs. It is difficult, therefore, to compare and quantify the relative costs to respective creditors, or more importantly, the benefits to the recipients. Further, the Resolution was couched in such a way as to include the widest possible country coverage while at the same time giving donors flexibility in the choice of beneficiary countries. Consequently,

there has been considerable variation regarding both the number and category of beneficiary countries and the amount of relief granted.

The figures in Table 4 must therefore be read with some caution. Notwithstanding, they show that the total value of debt relief granted under RTA amounted to \$6.2 billion. Of this, the least developed countries received \$3.9 billion making them the main beneficiaries of the scheme. West Germany was the principal contributor closely followed by the United Kingdom. Between them, these two countries contributed 65% of all relief granted. The other creditors trailed a long way behind, revealing some interesting inconsistencies. For example, 50% of all bilateral ODA loans owed to DAC countries are held by the United States. However, the amount of relief granted was only \$691 million, or 11.2% of the total. On the other hand, the United Kingdom, with about 5% of the debt, granted 32% of the relief.

Also, Table 4 shows that relief granted by the United States took the form of local currency payments. This allowed the debtor countries to service their debts in local currencies, thereby eliminating the so-called transfer problem. It also enabled the United States government to build up a local currency account which could then be used for any number of purposes in the debtor country. The United Kingdom employed a rather different technique. It provided the equivalent exchange of the local cost of financing specific projects in foreign exchange. The two cannot really be compared.

Debt cancellation, which includes the conversion of past loans to grants, was the most popular measure taken. It accounted for 58% of the value of all relief granted. The United States is the most significant omission in this category. Apparently there are several procedural and legislative difficulties which have to be overcome before the funds for implementing RTA can be appropriated. Although the U.S. obtained authority to undertake RTA on certain types of loans to benefit the least developed countries on a case-by-case basis, Congress has not yet appropriated the funds to implement this authority. There is no evidence that it is in a hurry to do so.

In all, 58 poorer developing countries benefited from debt relief granted under RTA. Most of them in fact received relief from more than one creditor country.<sup>23</sup> However, not much is known about the basis on which the beneficiary countries were selected, since the actual decision of which countries to include (or exclude) was left entirely up to the creditor countries. As a group, the least developed countries received the most relief, mainly in the form of debt cancellation. "Other measures" were reserved for the other beneficiaries.

Within this broad pattern there were several notable exceptions

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<sup>23</sup> Information provided by UNCTAD Secretariat, Geneva.

from individual creditors' programs. West Germany and the United Kingdom for example, took no action in favor of Ethiopia and Uganda, two of the poorest of the least developed countries, principally on account of their violations of human rights. After the overthrow of Amin, they changed their policy and Uganda was given debt relief. Disparity of treatment appears to be even greater in respect of the most seriously affected countries. France and West Germany appear to have taken no action in favor of these countries, and in the case of the United States, no information is available as to what action has been taken and which countries benefited. All that is known is that local currency accounts have been established in 9 countries. On the other hand, some of the smaller creditor countries have gone beyond the strict remit of RTA and extended relief, albeit on a selective basis, to other developing countries.<sup>24</sup>

Thus, the concept of RTA seems to have been subject to a wide range of interpretation and practices. These do not readily reduce themselves to a quantifiable measure, so it is not possible to compare and evaluate each donor's program properly. Within the limits of the data, some countries like West Germany and the United Kingdom have done considerably more to implement RTA than others. Among the latter, the United States stands out. With the most debt owed to it, it seems to have done the least to implement RTA. This is not only a strange inversion of priorities, it makes nonsense of the donor's basic claim and requirement for equity and fairness in sharing the burden of debt relief.

It is not easy, therefore, to say exactly what RTA has achieved. The amount of relief granted is very small compared with the level of debts outstanding, debt service payments or other standard criteria used for assessing debt burdens. Looked at from the creditors' side, the amounts involved are also insignificant in terms of their aid program. Consequently, those DAC countries that considered RTA additional to current aid disbursements (principally the smaller donors) were faced with a marginal increase in commitments which was hardly enough to disrupt their domestic economy. Other creditors simply accommodated the relief under RTA within their current aid budgets, thereby eliminating any additional budgetary costs or loss of resources.

### *A New Initiative is Needed*

RTA has clearly not resulted in any major increase in the net flow of resources to the poorer developing countries. Nor has RTA succeeded in

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<sup>24</sup> See *Debt and Development Problems of Poorer Developing Countries and, in Particular of the Least Developed Countries: Review Pursuant to Board Decision 289 (XXVIII) of the Implementation of Section A of Board Resolution 165 (S-IX)*, Doc. TD/B (XXX) CRP.3, UNCTAD (March 25, 1985).

reducing their current levels of international indebtedness. Whatever gains were achieved have long since been whittled away by the increasing cost of aid and the acute shortage of concessional aid funds. Levels of indebtedness are now generally higher than they were from 1975 to 1977, the period chosen as the base for RTA operations. There is an urgent need for a new initiative not only to recapture lost ground but also to add fresh momentum to the development process in these countries.

With a few notable exceptions, the developed countries do not appear to have committed themselves fully to RTA. The freedom and flexibility of action which they reserved for themselves, have been used mainly to restrict their activities and involvement in the scheme. Consequently, the benefits of RTA have been kept to a minimum. Even when taken at face value, \$6.2 billion appears positively miserly when set alonside some of the huge amounts of debts which have been renegotiated by some of the principal debtor countries.

Also, the creditor countries regard RTA as a limited exercise and have strenuously resisted calls to extend the scope of its activities and range of benefits. Similarly, requests to convert it to an on-going process, or at least to repeat the exercise, have not been entertained.<sup>25</sup> However, having accepted both the principle and practice of Multi-Year Rescheduling Agreements (MYRA) with respect to debts owed by the richer developing countries, creditor countries stand on RTA is inconsistent and unsustainable. Further, it creates unnecessary international ill-will and suspicion on the part of the poorer developing countries, who regard the actions of the donor countries as a callous disregard for their plight. There are, for example, more than sixty proposals presently offered for reducing the debt problems of the richer developing countries.<sup>26</sup> This number of proposals is indicative of the widespread international interest and desire to get to grips with this problem. However, there is no comparable enthusiasm and commitment in respect of the debts of the poorer developing countries.

The developed countries can, and must, do more to help poorer developing countries get their debts under control. The United States, being by far the largest single creditor, has a particular duty and responsibility in this task. It is not enough to insist on legal rights and entitlements. For the sums involved, such an approach seems unnecessarily legalistic and "hard-nosed." More importantly, the United States is losing a glorious opportunity to use its influence and leverage to secure major economic, social and foreign policy objectives in this part of the

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<sup>25</sup> See *Implementation of Trade and Development Board Resolution 165 (X-IX) on the Debt and Development Problems of Developing Countries*, Doc. TD/B/856, UNCTAD, (July 15, 1981).

<sup>26</sup> Some of those are listed in D. LOMAX, *THE DEVELOPING COUNTRY DEBT CRISIS 255-80* (1986).



world. It already uses foreign aid as an arm of its foreign policy to the developing countries. Debt relief is in fact the other side of this coin. If it is politic to use foreign aid in this way, surely it is equally politic to use debt relief to achieve the same ends.

Among other things, such a scheme would help to dispel the notion that debt relief is a give-away or that the United States would suffer a loss of resources, and end up rewarding the debtor's profligacy and domestic economic mismanagement. It will also impose a cost in the beneficiary as that debt relief would be tied to the achievement of specific reforms and policy objectives. This would have the added advantage of integrating debt relief into the debtors overall debt management strategy. At present the two seem to have very little in common.

This argument has been fully developed elsewhere and need not be repeated here.<sup>27</sup> The main point is, that the United States and other DAC creditor countries need to undertake a fundamental rethink of their existing policy on debt relief to the poorer developing countries. At present, debt relief is regarded as a last resort. No attempt is made, for example, to relate it to performance criteria, or what is happening elsewhere in the domestic economy or the wider context of the world economy. Negotiations are conducted in a crisis environment and each side is concerned principally with what it can "get away with." Invariably, each side comes away dissatisfied and suspicious of the other's motives. The question which the creditors must now ask themselves is, "is it really worth the hassle?"

With a more positive approach, creditor countries could achieve a lot more. Instead of seeking to minimize their losses, they should capitalize on the real advantages which debt relief can contribute towards improving international economic relations between the developed and developing countries. Creditor countries could, for example, use debt relief to breathe fresh life and direction into the so-called North-South dialogue, or to "clear the decks" of the massive backlog of outstanding debts, and give the poorer countries a fresh start on the road to long-term growth and development.

At present, the creditor countries seem to be getting the worst of all possible worlds. Their *ad hoc* approach does not really reach the root of the debt problem and is often counter-productive. Also, the amount of relief is too little and too late. There is a story told of an American who went into a saloon and ordered "whisky all round and a glass of water for the Indian." Although, the story is probably apocryphal, it epitomizes the view which many poorer developing countries hold about the way their debt problems are regarded by the developed countries. It is a view which urgently needs to be changed.

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<sup>27</sup> See G. ABBOTT *supra* note 9, at ch. 5-6.