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August 19, 1987

To: Members of the Committee of the Whole for the Development Committee

From: The Acting Secretary

Subject: Proposals for Enhancing Assistance to Low-Income Countries Facing Exceptional Difficulties

There is attached for consideration by the Committee of the Whole a paper prepared jointly by the staffs of the Fund and the Bank in response to the request by the Development Committee at its meeting of April 10, 1987, that the Fund and the Bank make proposals for action, at its next meeting, to address the problems of countries facing expectional difficulties. This paper also provides a basis for the review requested by Ministers of the ongoing efforts of the Fund, the Bank, and bilateral agencies designed to assist the poorest countries to implement growth programs.

Mr. Hino (ext. 8379) or Mr. M. Bell (ext. 8676) is available to answer technical or factual questions relating to this paper prior to the Committee meeting scheduled for Tuesday, September 9, 1987.

The Bank's Committee of the Whole will consider the attached paper (including appendices to be circulated shortly) on Tuesday, September 1, 1987.

Att: (1)

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Proposals for Enhancing Assistance to Low-Income Countries Facing Exceptional Difficulties

(Prepared by the staffs of the International Monetary Fund and the World Bank)

August 19, 1987

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Proposals for Enhancing Assistance to Low-Income Countries Facing Exceptional Difficulties

I. Introduction

Many low-income countries saw a significant deterioration in their external positions and growth prospects in the late 1970s and early 1980s, with the onset of the debt crisis, progressive worsening in their terms of trade, and the slowdown in growth in industrial countries, exacerbating the often negative impact of weak and rigid domestic economic policies. In responding to these changing circumstances, countries adjusted by reducing their external current account deficits, but many sustained a decline in per capita income that began to be reversed only in 1984, with modest improvement thereafter.

The principal focus of this paper is on low-income countries that face exceptional difficulties, where the prospects for reviving sustainable growth are limited without significant enhancement of domestic policy formulation and external financial assistance. These countries face similar problems: major macroeconomic imbalances and structural distortions, declining per capita GDP, imports, investment, and consumption; severe external financing constraints associated with structural weakness in the balance of payments (including dependence on a few primary commodities), deteriorating terms of trade, and diminishing net capital inflows. Moreover, many of them have a level and structure of external debt that imposes heavy demands on their foreign currency earnings, and some have large arrears on debt service payments.

A number of the low-income countries have recognized the need to redirect their policies. Some have made substantial progress, but a few have reversed their adjustment efforts partly because of adverse external developments and inadequate financial support, and have curtailed debt service payments unilaterally. Deepening reform efforts, and extending them to other countries, will require perseverance by these countries and special efforts by the international community to provide the large external financing requirements associated with the adoption of strong growth-oriented adjustment programs.

The international community is responding to the challenge facing low-income countries, as indicated by the following: (a) creation in 1985 of the Special Facility for Africa; (b) the entry into force of the third Lomé Convention; (c) agreement in 1986 on the eighth replenishment of IDA; (d) establishment in 1986 of the IMF's Structural Adjustment Facility (SAF); and (e) beginning in 1987, the extension by the Paris Club of the maturities and grace periods of some debt reschedulings. Several other proposals to provide additional debt relief and quick disbursing assistance have been made by a number of governments and agencies. The Venice Economic Summit in June 1987 welcomed these and other proposals, including the possibility of lower interest rates on existing debt, and a significant increase in the resources for SAF-related lending. In an informal, exploratory meeting in July 1987, sponsored jointly by the World Bank and the IMF, representatives of major industrial countries and the European Community reaffirmed that a broad range of financing options to provide special assistance, especially for heavily indebted low-income countries, should be pursued, both through additional, quick-disbursing concessional assistance and through measures to provide concessional debt relief.

The final act of the recent UNCTAD VII reflects a consensus of both developed and developing countries on proposals regarding resource flows, debt and related matters. The act recognizes that the implementation of major reforms in low-income countries needs to be accompanied by additional financing on concessional terms, as well as by appropriate debt restructuring arrangements based on a realistic assessment of debtors' financial situations. In this regard it welcomed the proposed tripling of the resources of the SAF and urged donors to meet expeditiously their commitments to IDA-8. In view of the complexity of the debt crisis, it urged the formulation of cooperative debt strategies implemented with flexibility within the context of medium-term development policies and programs, including for the poorest countries, primarily in Sub-Saharan Africa, the possibility of extended terms and lower interest rates. The act also focused on measures to improve aid effectiveness and to enhance aid coordination and, in particular, welcomed the increasing cooperation between the IMF and the World Bank.

This paper proposes steps to increase the amount and effectiveness of resource flows to low-income countries facing exceptional difficulties and undertaking strong economic adjustments. The paper emphasizes:

a. that countries seeking such assistance need to deepen and sustain credible medium-term adjustment programs;

b. that tripling the resources available in association with the IMF's Structural Adjustment Facility (SAF) would be an efficient and appropriate means of providing additional assistance;

c. that there is an additional need to enhance bilateral and multilateral official development assistance (ODA), in particular through a substantial increase in the level of quick-disbursing policy-based assistance;

d. that official creditors might consider extending relief by granting concessional interest rates on existing debt and by retroactive terms adjustment on ODA loans for countries undertaking adjustment efforts supported by the Bank and the IMF;

e. that commercial banks might consider more innovative solutions to the limited number of countries where the debt owed to banks is significant;

f. that the World Bank proposal to assist low-income debt-distressed countries with adjustment programs would be an effective means to channel additional external resources to these countries, particularly through increased cofinancing of policy-based operations;

g. that mechanisms to coordinate exceptional financial assistance could be strengthened through the wider use of policy framework papers (PFPs).

II. Deepening policy reforms

A number of countries have made considerable progress in improving efficiency and competitiveness by redirecting resources into more productive uses and by reducing macroeconomic imbalances. In this regard, major efforts have been made to improve the structure of incentives. Steps have been taken to liberalize exchange and external trade regimes and more appropriate exchange rates have emerged. Agricultural incentives have been increased, resulting in some improvement in rural earnings relative to urban wages. A number of governments have reduced fiscal deficits, and in some cases public enterprises have been liquidated, privatized, or--if retained under public ownership--streamlined. Other measures have aimed at improving public investment and expenditure programs, liberalizing domestic trade, and strengthening institutional capacity to formulate and sustain the reform process.

The experience of selected countries in Sub-Saharan Africa illustrates the progress achieved. 1/ Real effective exchange rates depreciated by almost one half between 1981-83 and 1986. In the public sector, the ratio of central government fiscal deficits to GDP in 1986 was less than 4 percent, one third of previous peak levels. The reduction was achieved in part through better public enterprise performance and restraints on civil service wages and employment. With respect to incentives for the private sector, farm prices have on balance risen in real terms during the 1980s, on average more than 5 percent per year for export crops. As a result, farmers' terms of trade, compared to urban wage earners, are estimated to have improved substantially (of the order of 15 percent per year).

Despite the substantial reform progress described above, a number of countries have not yet adopted adjustment programs and some governments have wavered in their commitment to sustain and deepen reform efforts. It is also clear that in many countries with adjustment programs, actions have been insufficient in several key reform areas. It is essential that a strengthened commitment to adjustment should complement enhanced assistance if countries are to raise growth and

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1/ The discussion in this paragraph covers selected low-income countries with severe debt problems in Sub-Saharan Africa that are undertaking adjustment programs. A more detailed review of the progress of reforms in this group of countries is presented in Appendix I.

improve the capacity for sustained development while moving toward medium-term balance of payments viability.

Governments receiving increased assistance should consider initiating reforms where appropriate and building on progress already achieved. In addition to pursuing sound demand management policies, governments should pay particularly close attention to policies designed to dismantle controls and improve incentives further, to privatize activities such as agricultural marketing, and to remove intraregional trade barriers. Delivery of essential public services would be enhanced through more careful attention to targeting, efficiency, and assuring that minimum operational expenses are met, in part through cost sharing. Elimination or scaling-back of low-priority projects would be supplemented by a more systematic effort to restructure, and increase the efficiency of, all major public expenditure programs. Increasing the poverty alleviation content of public expenditure programs is also an essential element of long-term adjustment, which would reduce its social cost and improve its long-term sustainability.

The policy framework paper (PFP) represents a potentially effective instrument for such governments to formulate, adopt, and implement realistic and credible medium-term adjustment programs, and to attract adequate donor support. It is a document that contains the government's policy objectives and intentions, 1/ reviewed by the Boards of the World Bank and the IMF, together with an assessment of the external financial support required. In its PFP, the government diagnoses the country's short-term economic difficulties and long-term development problems. On this basis, the government defines the objectives of its macroeconomic and structural adjustment policies (including sectoral policies and institutional reforms) to be pursued over a three-year period, identifying the programs and policies designed to meet these objectives, and designating the priorities in implementing them (including an indication of the time phasing of action).

The PFP also provides governments with the opportunity to discuss the nature of the long-term constraints to development (for example, population growth, human capital, social and economic infrastructure, domestic saving and investment) and the potential and likely sources of accelerated medium-term growth (for example, the supply-side response to envisaged adjustment measures). The evolution of key economic variables, especially investment and consumption, over the medium term,

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1/ The PFP originated in the context of the use of the resources of the IMF's Structural Adjustment Facility (SAF). It is a document prepared by the authorities of an eligible member requesting a SAF arrangement, with the joint assistance of the staffs of the World Bank and the IMF and is reviewed by the Boards of both institutions. From the establishment of the SAF in March 1986 through July 1987, PFPs for 18 of the 60 SAF-eligible countries had been reviewed by both Boards; in 16 of these countries the IMF had also approved SAF loans.

is likely to be of particular importance in this exercise. Consideration of these issues may require discussion of alternative medium-term scenarios identifying additional financing requirements, including terms, consistent with higher growth, continued adjustment, and medium-term debt-servicing capabilities.

In addition to laying out clearly the framework for the adjustment program, the PFP process has the further advantage of providing estimates of the external concessional assistance, including debt relief, required from donors to help carry out the agreed reform program. Because these estimates are established within a consistent policy framework, they provide a useful means to direct aid resources to countries undertaking policy reform and to ensure that aid from various sources is provided in a timely manner on a consistent and coordinated basis. As such, it can be used as a basic instrument in helping coordinate assistance, as discussed in Section VIII.

III. Financing requirements of SAF/IDA-eligible countries

The additional external resources required to support strong growth-oriented adjustment programs in SAF/IDA-eligible low-income countries during 1988-90 are considerable. Based on a country-by-country assessment, it is estimated that the gross financing needs associated with credible adjustment programs would be about \$25 billion per year (SDR 20 billion at current exchange rates), if all of the countries were to adopt such programs. Based on the outlook for growth in the industrial countries and prospective developments in commodity prices, it is estimated that if the programs are fully implemented, these countries could achieve real GDP growth of 4 percent per annum, on average, during the period 1988-90. At the same time, it is expected that the balance of payments position would strengthen over the three-year period.

New and existing ODA commitments and rescheduling on terms similar to those in the past have been assumed to provide some \$20 billion annually. This would require a substantial increase in flows from bilateral and multilateral sources from the level of recent years. 1/ Slightly less than \$3 billion is expected to remain available under the existing SAF after 1987 (equivalent to about \$1 billion annually if

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1/ The estimates take account of financing that will become available as a result of the IDA-8 replenishment and increasing the resources of the African Development Bank, but may not reflect the effects of accelerated disbursements.

fully disbursed by 1990). A financing requirement of about $4 billion per year would remain. 1/

Most SAF-eligible low-income countries could absorb additional finance although the amount varies greatly depending on particular circumstances. The low-income countries that face exceptional difficulties have very large financing gaps, while the requirements of other low-income countries are considerably smaller. Additional efforts on the part of the international community will need to be tailored to the different circumstances of the individual countries. Sections IV-VII describe means of enhancing resource flows to low-income countries needing additional assistance, focusing on the group of countries that face exceptional difficulties. Many of the countries facing exceptional difficulties have severe debt problems, which are the exclusive focus of the proposal in Section VII.

IV. Enhancing the IMF's Structural Adjustment Facility (SAF)

It has been proposed that the resources available to low-income countries in association with the SAF should be increased to about SDR 9 billion from the present level of about SDR 2.7 billion. The additional resources would be made available over a three-year period from January 1, 1988 on the same terms as those available under the SAF at present (repayments over 10 years, including 5 1/2 years' grace, at an interest rate of 0.5 percent). This proposal is intended to mobilize resources to cover a major part of the estimated financing requirement identified above.

The resources are expected to be contributed by a number of countries. It is hoped that all industrial countries, as well as oil-exporting and other middle-income countries that are in a position to contribute, would do so. Also, it is intended that all contributions would be additional to existing concessional sources of finance.

The proposal to increase the resources associated with the SAF responds to calls made over time in various forums, including the Development Committee and the Interim Committee, for expansion of the resources available in connection with the facility. In the first review of experience with the SAF, Executive Directors of the IMF welcomed the indications of strong support for the initiative given by the leaders of the major industrial countries at the Venice Summit, and urged management to explore all possible options to secure additional resources to enhance the SAF.

1/ The Bank's earlier report "Financing Adjustment with Growth in Sub-Saharan Africa, 1986-90," discussed by the Development Committee in 1986 had stressed that the effectiveness and spread of growth-oriented adjustment programs were threatened by inadequate financial support and that low-income Sub-Saharan Africa would need some $2.5 billion in additional concessional resources per year during 1986-90.

An enhanced SAF is an appropriate channel for additional concessional resources, especially to countries with exceptional difficulties, for several important reasons.

First, a sound macroeconomic environment is indispensable for reviving or sustaining the development efforts of the low-income countries. The SAF provides a framework for countries to design and implement growth-oriented programs based on structural reform and sound macroeconomic policies within a multiyear perspective. By explicitly incorporating structural reform, as well as macroeconomic measures, into a coherent economic framework, the SAF provides the policy setting necessary for growth-oriented adjustment to proceed while moving toward external viability and normalizing relations with creditors. To this end, programs to be supported by the SAF would aim at ensuring the accumulation and maintenance of an adequate level of foreign exchange reserves. This would enable countries to sustain consistent policies to foster growth and to maintain timely external payments, even in the face of unexpected adverse external developments.

Second, the IMF is well placed to promote sound policies, through the established and continuing policy dialogue (for example through IMF-supported programs, Article IV consultations, and the provision of technical assistance) that it has had with the low-income countries. This role has been underscored by the reliance placed on the IMF's assessment of the adequacy of economic policies by the Paris Club, commercial banks, bilateral aid agencies, and export credit agencies.

Third, the SAF requires a pooling of the expertise of the IMF and the World Bank. The collaborative underpinning of the SAF--based on coordination between the IMF and the World Bank, and the potential for conferring with donors in preparing PFPs--makes it well suited to the resolution of macroeconomic and structural problems, as well as the task of identifying and mobilizing financing required.

Fourth, it is important that resources should be made available in a timely manner and in an appropriate form once a country has embarked on a program of policy reform. The IMF has the capacity to respond in this way, for instance, as was demonstrated during the onset of the debt crisis in the 1980s.

Finally, the SAF incorporates mechanisms for monitoring progress in policy implementation and the use of resources with respect to expectations under the program. Under existing arrangements, SAF loans are disbursed annually at the beginning of each of three program years. The annual disbursements become available once an arrangement for the 12-month program has been approved by the Fund. Performance during a program year is monitored by means of benchmarks, some of which are quantified, that reflect the programs' key policy actions, objectives, targets, and policy goals. Although disbursements are not directly related to the observance of benchmarks, financial benchmarks are usually specified on a quarterly basis, and deviations from the benchmarks provide a signal to a government that policy adjustments may be necessary. Policy discussions with the IMF and the World Bank prior to the subsequent annual program provide an opportunity to assess whether additional policy adjustments may be necessary.

The resources available under the enhanced SAF will be considerable but growing assistance from other sources will be vital. This is essential given that the total financing requirement for many eligible countries during 1988-90 may be very large in relation to their IMF quotas; indeed, in some cases these requirements may be several multiples of IMF quota over the three-year period. Financial support under the enhanced SAF would be made available once the IMF has approved the member's program formulation on the basis of the PFP, and it has been determined that financial resources from all sources (including SAF-related borrowing) are available in amounts and forms sufficient to meet a country's balance of payments requirements.

The use of the resources of the enhanced SAF may be tailored to meet the special needs of individual countries, and to reflect the strength of the effort made in addressing their structural imbalances. The principles governing access to the resources of the enhanced SAF will be considered by the Executive Board of the IMF in due course.

The conditions, program content and monitoring procedures that will be associated with loans under the enhanced facility will also need to be considered carefully. The basic objective of programs would not change--the aim would be to support growth-oriented structural reform and a sustainable medium-term balance of payments--and the central instrument would continue to be the policy framework paper (PFP).

The SAF initiative is designed to mobilize additional resources, and to complement and enhance other actions that have been agreed upon or are under consideration by the international community, including the measures described in subsequent sections. <u>It is critical to reach an early conclusion on the discussions currently under way so that the operation of the enhanced SAF can begin by January 1, 1988</u>.

V. <u>Official development assistance</u>

1. <u>World Bank</u>

Under IDA-7, the Association committed some $9.7 billion in credits to low-income countries during fiscal year 1985-87, of which 36 percent was for Sub-Saharan Africa. In addition, in 1985 the Special Facility for Africa was created specifically to support low-income countries with credible adjustment programs, and through this program, close to $2 billion, contributed by 20 donors including the World Bank, has been or will be committed to support adjustment efforts in 25 countries in Sub-Saharan Africa. The $1.2 billion (excluding Special Joint Financing) provided through the Special Facility for Africa, brought the share of Sub-Saharan Africa in total concessional lending by the World

Bank to 43 percent. A substantial share of these resources have been used to support adjustment programs in low-income countries, which is shown by the fact that commitments to African countries that now have agreed PFPs doubled between fiscal year 1984-85 and fiscal year 1986-87. For these countries, the share of adjustment-related quick-disbursing assistance has risen substantially to about 60 percent of total commitments by IDA (including the Special Facility for Africa) over the same period; as a result, disbursements are increasing even faster.

At the end of 1986, the donor community pledged $12.4 billion in resources for IDA-8, which is particularly noteworthy given the highly constrained budgetary situations of many donors. It is expected that a minimum of 45 percent of IDA-8 will be allocated to Sub-Saharan Africa, and as much as one half if the adjustment process proceeds satisfactorily. The strong emphasis on adjustment lending will continue in IDA-8, and it is the intention that at least $3.0-3.5 billion of IDA-8 resources will be used in support of adjustment programs in conjunction with the IMF's SAF.

The IDA-8 Resolution has now been approved by the Board of Governors, and replenishment will become fully effective when notifications of the deposit of an instrument of commitment are received from donors representing 80 percent of replenishment resources. Pending full effectiveness, an advance contribution scheme requiring notification from donors representing 20 percent of replenishment resources is being established to get commitment authority for IDA-8 in place as soon as possible. Several donors have completed the legislative steps required for full notification and the Association is urging notification as soon as possible.

It is important that governments should provide notification to make the advance contribution scheme effective as rapidly as possible, and to make IDA-8 itself fully effective as soon as possible thereafter.

2. Other multilateral development assistance

The severe structural problems faced by many of the low-income countries are also being addressed through an effort on the part of other multilateral agencies to channel part of their financial assistance toward countries that are implementing effective policy reform, through both project and nonproject lending.

The European Community is the sixth largest donor to Sub-Saharan Africa and the second largest multilateral donor. Although its disbursements have grown less rapidly than those of the other major multilaterals, it has recently announced an initiative to accelerate its disbursements to highly indebted low-income countries with adjustment programs. In particular, the program would increase the level of its import-financing sectoral operations up to 20 percent of its aid to a particular country.

Since 1983, the African Development Bank (AfDB) Group has also undertaken nonproject operations, devoting about 8 percent of its lending to this purpose in 1986. The Asian Development Bank (AsDB) devoted about 10 percent of its commitment in 1986 to nonproject lending.

Because of the size of its concessional lending window (the African Development Fund--AfDF), the African Development Bank is a particularly important regional funding institution in providing concessional assistance to low-income countries facing exceptional difficulties. The AfDF devoted 6-7 percent of its lending under its fourth replenishment to sectoral and structural adjustment operations. The proposed fifth replenishment of the AfDF will provide the potential for increasing its concessional policy-related lending, while it intends to increase such lending to 10-15 percent of overall operations, or about $100-140 million per year during 1987-91. The level will depend in part on the size of the replenishment--a larger replenishment will allow a larger share to be devoted to policy-based lending. Outside of Africa, the fifth replenishment of the concessional window of the AsDB was agreed in 1987 for $3.6 billion over the next four years, which could provide an important source of concessional resources to support policy reform in low-income Asian countries.

An early conclusion on a substantial fifth replenishment of the AfDF would enable it to make a positive contribution to the adjustment process in its member countries. It would also be desirable for the regional development banks to undertake more policy-based operations, especially in association with the World Bank and the IMF.

3. The bilateral donors

Although total net bilateral aid flows increased in nominal terms between 1980 and 1986, there was a trend decline in aid flows expressed in constant prices and exchange rates. For low-income Sub-Saharan Africa, the record on bilateral ODA disbursements was better for the period 1982-85: on a gross basis, aid flows rose by about 7 percent per year in volume terms, reaching $4.9 billion in current prices in 1985. But in 1986 provisional estimates indicate a decline in volume terms of 12 percent. Moreover, the past increase in aid flows to Sub-Saharan Africa has to be viewed in the context of the diminishing use of nonconcessional flows and adverse external conditions and prospects.

As the financial difficulties of the low-income countries have increased, the bilateral agencies have come to recognize the desirability of changing the nature and focus of their financial assistance for the low-income countries. This was reflected in the conclusions of the OECD/DAC High-Level Meeting in 1986, which called for: (a) increased policy-based lending; (b) larger amounts of quick-disbursing assistance; (c) cooperation among donors and recipients to ensure the formulation and adherence to productive investment programs; and (d) more effective aid coordination. More specifically, a number of initiatives have already been taken by individual donors which indicate the possibility of a major shift toward adjustment-related, quick-disbursing assistance. France, the United Kingdom, and the United States have developed a variety of fast-disbursing instruments in support of policy reforms. Within the framework of the Special Facility for Africa, six "joint financiers" (Belgium, Germany, Japan, Saudi Arabia, Switzerland, and the United Kingdom) have agreed to support a number of World Bank-financed structural and sectoral adjustment projects. In its 1987 budget, the Federal Republic of Germany earmarked about $200 million for commodity aid and adjustment financing, with the latter slated especially for Africa.

In view of these recent developments, a substantial increase in the share of adjustment-related, quick-disbursing assistance in bilateral ODA programs is probable. However, in view of the resource needs of countries facing exceptional difficulties that are undertaking major adjustment programs, bilateral agencies may have to consider a further increase in the volume of their aid flows, especially through cofinancing with multilateral agencies. Given the budgetary constraints likely to be faced by donor governments, it may be necessary for donors to develop criteria for reallocating aid budgets 1/ in order to increase resources to the poorest countries. Although a large rise in concessional resources is assumed through a modest increase in bilateral ODA flows, together with the envisaged enhancement of multilateral flows, rescheduling arrangements, and the SAF, there are a few cases of extreme need in which it may be necessary to turn to bilateral donors for additional support.

It is important that increased bilateral donor support should be consistent with the adjustment and growth objectives of the recipient and sufficiently quick-disbursing to meet the financing needs of the country. <u>Therefore, bilateral donors might consider (a) increasing their policy-based assistance to low-income countries facing exceptional difficulties, particularly by associating such assistance with IMF-supported programs and cofinancing with the World Bank; and (b) basing their operations--both project and nonproject--on a policy framework and financing requirement, for example, as delineated in the PFP</u>.

VI. Alleviation of the external debt service burden

In recent years, official creditors have provided debt relief to a large number of low-income countries, including in particular the Sub-Saharan African countries. In the case of ODA loans, many creditors have undertaken retroactive terms adjustment. Additional relief has come from bank debt reschedulings. Although these measures may have been adequate for many low-income countries with less severe external

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1/ For instance, the World Bank has devised criteria and guidelines for "graduating" countries from concessional assistance, and in the case of the middle-income countries, from Bank lending.

financial imbalances, a lasting resolution of the debt-servicing difficulties of the countries with exceptional difficulties may require more concessional or innovative approaches. Various proposals to this end are outlined in this section.

1. Paris Club rescheduling

Paris Club reschedulings for the poorest, most heavily indebted countries have generally been more comprehensive than those for other countries. For many low-income countries, the rescheduling of current debt service and arrears has been as high as 100 percent of principal and interest. 1/ Moreover, in cases of repeated debt reschedulings, creditors have frequently agreed to reschedule previously rescheduled debt, including, on occasion, arrears on interest due as a result of previous consolidations.

Official creditors have become increasingly concerned that, for some of the poorest, most heavily indebted countries, repeated reschedulings have not led to a fundamental improvement in the countries' external debt situation, but only to a temporary closing of external financing gaps. Comprehensive reschedulings have sharply curtailed actual service payments on official debt but they have contributed to a rapid growth in the overall level of indebtedness and future debt service. During 1979-85, for example, capitalized interest added about $1 billion to Zaire's debt, or about 20 percent of its total debt at end-1985. 2/ Extensive discussion in 1986 and the first half of 1987 led to broad agreement that exceptional relief for the poorest and most heavily indebted countries would be essential. The creditors have begun to provide more concessional rescheduling by extending maturities and grace periods for countries that, on a case-by-case basis, are judged to meet the criteria of low-income, heavy indebtedness, and adequate adjustment effort. Creditors agreed in mid-1987 to go beyond traditional limits and rescheduled the debt service of Zaire, Mauritania, and Uganda with a final maturity of 15 years, and in two

1/ To encourage export credit agencies to restore or maintain cover, short-term debt has frequently been excluded from reschedulings, and in recent years the "cutoff date" fixed in the original rescheduling agreement has been maintained in successive agreements, thereby excluding loans contracted after rescheduling began.

2/ Capitalization of interest through Paris Club rescheduling has increased Zaire's debt by about as much as new net long-term borrowing. The market-related terms of this rescheduled debt have almost entirely offset the concessionality of the new borrowing. From end-1976, when rescheduled Paris Club debt accounted for 48 percent of the total, the average grant element rose from 15 percent to only 17 percent at end-1985, even though net new borrowing has had a grant element of 39 percent during recent years. The repayment profile of Zaire's debt, which was already fairly compressed, has remained almost unchanged since 1975, despite substantial concessional borrowing.

other cases (Mozambique and Somalia), they extended the final maturity to 20 years with 10 years of grace.

Legal and budgetary obstacles have been cited by some creditors as obstacles to reducing interest rates on debt originally contracted on commercial terms to below-market levels. Longer repayment periods, as described above, will help to alleviate debt-servicing burdens in the 1990s, but they will have no additional impact on debtors' external positions relative to conventional rescheduling during the period 1988-90. For instance, estimates show that without a substantial reduction in interest rates, Zaire's stock of debt will continue to rise relative to GDP and only minor improvements in the overall balance of payments could be expected. 1/ The structure and average terms of debt vary, but if longer term external viability and independence from exceptional finance is to be achieved in the low-income countries facing exceptional difficulties, concessions on interest rates may be needed.

Where the circumstances and adjustment efforts of a country facing exceptional difficulties warrant it, official creditors may wish to support proposals for reducing interest rates on existing debt.

2. Retroactive terms adjustment

Official donors have undertaken extensive conversions of ODA loans to grants, particularly to the least developed countries (LLDCs) and to some other low-income countries. In addition to outright conversion, other equivalent actions have included the cancellation of annual ODA debt service as it falls due, and the extension of additional grants to cover ODA debt service. In some cases (e.g., Canada) the cancellation of debt service has been explicitly linked to the adoption of adjustment programs supported by the World Bank or the IMF.

Official donors might consider converting all remaining outstanding ODA loans to grants (or taking equivalent action) for any countries facing exceptional difficulties in association with the adoption of adjustment programs. Where legal or budgetary difficulties prevent outright conversion, donors could consider making commitments over a

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1/ Recent Fund staff estimates relating to Zaire (EBS/87/86) illustrate the potential impact of concessional rescheduling. The extension of grace and maturity periods without interest concessions would allow a small improvement in the overall balance of payments and a reduction in the debt service ratio by 7 percentage points by 1992 relative to a baseline projection. However, the stock of debt relative to GDP would continue to rise. The introduction of concessions sufficient to reduce by about one half the average interest rate would result in a large improvement in Zaire's overall balance, a 17 percentage point reduction in the debt service ratio by 1992, and the progressive reduction in the stock of external debt relative to GDP, although not in absolute terms.

specific period (e.g., the three-year horizon covered by a policy framework paper) to take equivalent actions, including those mentioned above. Where there is an expectation on the part of the donors that the conversion would be accompanied by policy measures by the debtor, these should be consistent with and coordinated under the same mechanisms as other forms of assistance.

3. Commercial banks

While debt owed by low-income developing countries to commercial banks is a relatively small part of their total external debt, such debt forms a significant proportion of the total in a limited number of countries, many of which face exceptional difficulties. Medium-term nonguaranteed bank claims on 60 SAF-eligible countries (excluding China and India) are estimated to amount to about $6-10 billion in 1986, equivalent to about 30-50 percent of these countries' export receipts and 8-12 percent of their total debt. A further $5-7 billion is outstanding in bank claims guaranteed by industrial country governments and in short-term debt, largely trade-related. Thirty six SAF-eligible countries have encountered debt servicing problems since 1983, and have rescheduled current maturities and/or accumulated external payments arrears to commercial banks. Given that the low-income countries with exceptional difficulties are unlikely to regain market access in the medium term, or to be able to service additional borrowing, other means of alleviating the debt burden should be sought.

Actions taken by commercial banks to lower the debt service burden of the bank debt of the low-income countries have been very limited. Interest rate spreads charged on bank debt have been cut substantially in recent years, but bank agreements have typically maintained an interest rate above their funding cost (LIBOR). Banks have also written down claims on some developing countries that have experienced debt-servicing difficulties, but such internal write-offs or provisioning by banks, do not alter the country's repayment obligations and full interest continues to be charged on the face value of the loans and on the unpaid interest.

Future debt service burdens could be reduced through the repurchase of loans at a discount either via debt-equity schemes or debt buy-backs. The potential for debt-equity conversions in low-income countries may be restricted by the limited investment opportunities available. A debt buy-back by the authorities at a discount, financed by concessional assistance from official creditors, has been agreed in principle by banks for one low-income country (Bolivia) in association with an IMF program. The precise mechanism (e.g., auction, tender, price, amount) under which the bank debt might be repurchased has not been specified, but participation would be voluntary. The banks have insisted that the repurchases be financed by donated resources so as not to divert other resources from debt servicing.

Commercial banks have not so far agreed to concessional forms of rescheduling. They have agreed to a buy-back scheme in one case and might consider extending such schemes to other low-income countries facing exceptional difficulties. In the light of the difficult circumstances of some of these countries, in the limited number of cases where bank debt represents a significant part of the total, commercial banks might consider generous and imaginative solutions.

VII. World Bank proposal to increase assistance to debt-distressed countries

Virtually all low-income countries need additional concessional resources, and there have been several special efforts by donors to increase these resources, as discussed above. But some countries facing poor economic prospects and severe debt problems are likely to need relatively more resources. Although many of the countries with severe debt problems are implementing adjustment programs, they have to date benefited from relatively slower growth in ODA disbursements than other low-income countries implementing adjustment programs. To help meet the overall external financing requirements of these debt-distressed countries during 1988-90, the World Bank is proposing a special program of assistance to be financed in a flexible fashion through a variety of measures, including concessional debt relief; accelerated disbursement from IDA-8 resources; and increased cofinancing of adjustment operations by bilateral and other multilateral donors. The enhanced SAF, which this proposal would complement, could provide additional resources to the countries covered by this program.

The program would cover low-income (IDA-eligible), debt-distressed countries with adjustment programs, primarily in Sub-Saharan Africa. The concept of debt distress combines a variety of short- and long-term factors, which are often manifested in the inability to sustain a debt service ratio (DSR) above some manageable threshold, which could vary up or down, depending on country circumstances. 1/ The adjustment criterion would involve implementation of a comprehensive adjustment program, which is likely to be based on an IMF- and/or World Bank-supported adjustment operation.

Of the several low-income countries that could be considered debt distressed, over 20 are in Sub-Saharan Africa, some two thirds of which

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1/ The definition of the DSR used here is total debt service as a ratio to export earnings (goods and all services). A feasible threshold for the DSR depends on a country's overall capacity to service debt (including ODA receipts, private transfers, workers' remittances, as well as the growth potential of exports of goods and nonfactor services) and on the level of imports considered necessary to facilitate adjustment and assure minimum growth.

are implementing adjustment programs. 1/ The general plight of these debt-distressed countries, as illustrated by the problems and prospects of several debt-distressed countries in Sub-Saharan Africa, is described in Appendix II. Obviously, the composition of this group of countries can be expected to evolve as conditions change and, in some cases, as better information on their debt situation emerges.

1. External resource requirements 2/

The estimate of the financing requirements for the World Bank's proposed special program of assistance has been based on 14 of the largest low-income debt-distressed countries with adjustment programs in Sub-Saharan Africa. Needs are defined as the additional external resources (both aid and debt relief) required to meet two objectives: a minimum debt relief program to maintain debt service payments at a manageable level, and a more comprehensive program to restore import growth. When defined uniformly across a group of countries, these objectives provide a standard, consistent, and comparable framework for

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1/ To draw up an initial list of debt-distressed countries to estimate possible requirements of the program, a fairly high cutoff point for the manageable debt service ratio has been used. On the basis of projected debt service before rescheduling, the following countries would have a debt service ratio of 30 percent or more during 1988-90: Benin, Comoros, Equatorial Guinea,* The Gambia,* Ghana,* Guinea-Bissau,* Liberia, Madagascar,* Mali,* Mauritania,* Mozambique,* Niger,* São Tomé and Principe,* Senegal,* Somalia,* Sudan, Tanzania,* Togo,* Uganda,* Zaire,* and Zambia. Sierra Leone* would also exceed the threshold SDR unless it reduces its high level of short-term debt, which is unlikely. Comparable analysis of low-income countries outside of Sub-Saharan Africa indicates that at least three others would also qualify as debt distressed on this proxy: Bolivia,* Burma, and Guyana. (Asterisks indicate the country is currently implementing an adjustment program. Underlined countries are used as the basis of estimating overall external resource requirements.)

2/ Appendix III explains the methodology used and gives detailed country results. A list of the countries used to estimate requirements is given in the previous footnote. Zambia has been retained in the analysis of needs despite the recent suspension of its adjustment effort.

estimating the aggregate needs for those countries. 1/ The estimated requirements for 1988-90, as well as for 1991-2000, are calculated by a comprehensive rescheduling model, which has the following basic assumptions: annual rescheduling through 1993 of all debt outstanding at the end of 1985 (or 1986, depending on available data); conventional rescheduling on terms recently applied to many of these countries; aid flows currently in sight (or projected to grow at 2 percent annually in real terms); exports projected in the context of the current depressed world market prospects; and no new nonconcessional borrowing (other than conventional rescheduling of interest). 2/

For the period of the proposed program, Tables 1 and 2 summarize the external financing requirements, which are expected to average about $1.5 billion annually during 1988-90, after conventional rescheduling along the lines of the recent past (which would in itself provide debt relief of about $1.4 billion per year). Within this amount, over $0.7 billion would be required to finance the minimum debt relief program (this amount will not, however, achieve a 25 percent debt service ratio in all countries; to do so would require an additional $0.2 billion). An additional amount of some $0.8 billion would be needed to support the resumption of import growth and to achieve modest per capita income growth. 3/ The financing requirements of these 14 countries represent some 35-40 percent of the global requirements presented in Section III.

These aggregate estimates for the debt-distressed countries with adjustment programs mask considerable diversity among the countries and are sensitive to the underlying assumptions; some countries are more

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1/ For purposes of estimating the financing requirements of these countries, the manageable level of debt service has been set at 25 percent of export earnings, which is slightly less than the debt service actually paid by these countries in 1985 in a context of constrained imports. Growth of per capita import volume has been set at 1 percent per year from the low 1985 base. In applying the proposed program to a specific country, however, the manageable level of debt service and the import growth target could be adjusted to correspond to country circumstances and prospects (for example, depending on the degree of import compression in the 1980s).

2/ External financing requirements for these countries cannot be estimated with precision because of the large number of variables, the poor quality of available data, and the uncertainty of forecasts. Nor is country diversity fully taken into account by defining objectives uniformly. There is also the possibility that more (or fewer) countries may become eligible for special assistance.

3/ During the long term (1991-2000), the situation would worsen on present trends (assuming there is no conventional rescheduling after 1993), leading to a financing gap of over $5 billion per year. The long-run problem is treated more extensively in Appendix III and various financing options are explored in Appendix IV.

severely debt distressed than others, and will need correspondingly more concessional debt relief and assistance from creditors and donors. This diversity illustrates the importance of a case-by-case approach in meeting their needs.

2. Proposals for a special program of assistance

The objective of the special program of assistance is to meet the financing needs of the debt-distressed countries to enable them to service their debts and to restore their per capita import capacity. It would achieve this both by reducing scheduled debt service obligations to more manageable and sustainable levels and by providing additional quick-disbursing assistance. In addition to meeting urgent financing needs, the program would aim to strengthen policies to reduce the need for this special assistance over the longer run.

The special program of assistance is designed to combine support in a flexible manner from a wide diversity of sources to help meet financing needs of countries with particularly severe debt problems. Eligibility for low-income, debt-distressed countries with adjustment programs would be decided on a case-by-case basis, taking into account the special requirements and opportunities of different countries. As an international effort, the program would require the active participation and timely collaboration of creditors, donors, African governments, and multilateral institutions on a wide range of cases and issues. However, the composite package of support can be tailored to give each participant ultimate flexibility in deciding the form and extent of assistance in each case. Each contributor to the program would allocate its own resources to eligible countries on a selective basis, according to its own criteria and particular situation vis-à-vis the debt-distressed country.

To facilitate implementation of the program, bilateral donors and creditors would be free to contribute through alternative options, designed to facilitate their participation in light of their own legislative, budgetary, and political requirements. For instance, some governments may prefer to contribute more cofinancing than to provide concessional debt relief. Ideally, the different contributions should be similar in their impact on the debt-distressed country. And the objective in all cases is to obtain a level of concessionality in the overall package of debt relief and assistance that will make possible adjustment that is consistent with a restoration of growth in per capita incomes and consumption.

The assistance to these countries under the program would be financed through an appropriate and flexible mix of resources from various contributors. This package of assistance would combine additional concessional debt relief and increased ODA disbursements from both existing and new commitments, and would take into account access to the enhanced SAF resources. To the extent possible, the program aims to minimize the need for large additional appropriations, recognizing that substantial resources will be necessary to finance IDA-8, achieve the enhancement of the SAF, and obtain interest rate concessions agreed in Paris Club arrangements. However, it would provide an appropriate channel for the effective use of new concessional aid that appears likely to be provided by a number of bilateral agencies. Financing through IDA-8 and the SAF would, of course, be highly complementary. The possible contribution of each of the proposed measures is summarized below (annual averages, 1988-90, in millions of U.S. dollars):

Concessional debt relief	100-400
- retroactive terms adjustment	
- lower interest rates	
Increased IDA flows	250-400
- increased IDA-8 commitments	
- higher share of adjustment lending	
Cofinancing of adjustment operations	300-500

Increased resources under the enhanced SAF could also be a key source of financial support, as indicated in Section IV.

a. Concessional debt relief

Two components of a possible concessional debt relief program would have an impact during 1988-90: retroactive terms adjustment for outstanding official development assistance, and interest rate concessions on rescheduled nonconcessional bilateral debt. Net additional debt service savings from retroactive terms adjustment are, however, quite small after rescheduling, about $200 million over the three years or about $65 million per year (which is less than 5 percent of the overall financing gap). Lowering interest rates on rescheduled nonconcessional debt by Paris Club creditors could provide substantially more relief. To illustrate, an across-the-board reduction by one half would lower debt service obligations by about $350 million per year during 1988-90 (which is almost a quarter of the gap). The actual amount of interest rate reductions, however, would depend on the particular economic situation of individual debt-distressed countries and on the special constraints of creditor governments. Some debt-distressed countries might require substantially lower (even zero) interest rates on rescheduled debt, while a few could probably afford to pay relatively high interest rates on rescheduled debt in some years and still achieve debt service ratio and import targets, provided all new borrowing is on highly concessional terms. Some creditor governments may find it more difficult than others to accord relief through reduced interest rates on rescheduled nonconcessional debt. Because of these uncertainties, the total relief from these two debt relief measures could be estimated in the range of $100-400 million.

b. Increased IDA flows

A special increase in concessional funding efforts for low-income debt-distressed African countries could have two main components: (i) a modest increase in planned IDA-8 commitments to these countries by reprogramming allocations within the overall share intended for Africa; and (ii) a sharp increase in disbursements resulting from a substantial rise in the share of adjustment-related quick-disbursing assistance.

The current IDA-8 lending program allocates about $1,150 million annually to the 14 largest low-income debt-distressed African countries with adjustment programs. Under the proposal, this would be increased by about $200-250 million annually. Current lending programs already provide for a substantial share of adjustment-related lending for the 14 debt-distressed countries, averaging almost $450 million in commitments annually, or not quite 40 percent on average of total IDA lending to these countries. Current disbursement projections assume that the 14 countries would receive about $950 million annually, of which $750-800 million would come from IDA and $150-200 million from the Special Facility for Africa (direct contributions only). The share of SALs and other adjustment-related lending in total World Bank lending to these countries should be at least equivalent to the levels already realized in 1987, which was almost two thirds for the 14 debt-distressed countries eligible under the Special Facility for Africa. Together, these two measures would probably yield additional IDA disbursements of $250-400 million annually compared to projected disbursements based on current programming. While long-term growth will eventually require a major increase in public investment, including economic and social infrastructure and human resource development, the proposed increase in World Bank-financed adjustment lending is justified by the extreme gravity of the balance of payments problems of debt-distressed countries and by the special role played by the World Bank in policy dialogue with the governments.

c. Accelerated disbursement of bilateral and other multilateral ODA

The share of adjustment financing in development assistance from other sources remains very low. While food aid and technical assistance usually are fast-disbursing, the bulk of current ODA flows finances slow-disbursing traditional projects. A number of initiatives have been taken by individual donors which indicate the possibility of a major shift toward adjustment-related, quick-disbursing assistance (see Section V). It should be feasible to accelerate this trend and further increase flows of bilateral and other multilateral adjustment financing to the 14 debt-distressed African countries by about $300-500 million annually, which is equivalent to about 15 percent of non-World Bank ODA flows to these countries. This would require that non-World Bank ODA donors increase their average annual commitments of adjustment financing by perhaps $400-600 million annually.

Although some of this additional adjustment financing will be organized by individual donors themselves, the World Bank is prepared to continue to facilitate increased adjustment financing by organizing most of its structural and sectoral adjustment operations in the form of cofinancing instruments. Experience of the Special Facility for Africa has shown substantial volumes of quick-disbursing bilateral aid can be mobilized through cofinancing of adjustment programs.

d. Additional structural adjustment facility funding

On the basis of current policies (total access up to 63.5 percent of quota) if SAF loans were approved by the Fund, then SAF financing for these 14 debt-distressed countries could amount to $1.1-1.2 billion, (part of which will already have been drawn before 1988-90 for some countries); the tripling of SAF-related resources could give these countries potential access to substantial additional resources.

3. Implementation mechanisms

The design of a mechanism to implement the proposed special program of assistance would draw on the experience of existing aid coordination and cofinancing mechanisms and utilize the evolving PFP as the basic coordinating document. A key element could be periodic multidonor consultation meetings patterned on those for the Special Facility for Africa, which would determine country eligibility and review the adjustment financing programs envisaged by the World Bank and other donors. This consultation process would also enable donors to familiarize themselves better with the policy objectives and implementation problems of World Bank-financed adjustment programs and give them the opportunity to comment and advise on the effectiveness of these programs. Within this overall cofinancing arrangement, however, donors would continue to decide on a case-by-case basis to provide concessional debt relief and to cofinance adjustment lending operations for eligible countries.

Setting up the cofinancing mechanisms would require: establishing a program of adjustment financing requirements (prepared by the recipient governments with the assistance of multilateral institutions and other donors based on the financing requirements associated with a growth-oriented PFP analysis); reorienting donor programs to increase the share of quick-disbursing assistance in support of adjustment; negotiating cofinancing framework agreements between the World Bank and other donors (bilateral and multilateral); and holding periodic multidonor consultation meetings to review the program, to discuss allocations, and to monitor performance. Close collaboration between the World Bank and the Paris Club would assure better integration of concessional debt relief with additional adjustment financing.

VIII. Mechanisms to coordinate exceptional assistance

The report presented to the Development Committee last year on "Improving the Effectiveness of Aid Coordination in Sub-Saharan Africa" reviewed the wide diversity of existing aid coordination mechanisms. It pointed out the significant increase in the intensity of aid coordination since 1982, the expanding role of Consultative Groups and Roundtables, and the development of local aid coordination arrangements (especially experiences with Joint Monitoring Committees (JMCs) and ad hoc sector meetings). 1/

The report recognized that existing aid coordination mechanisms need to be improved in several important respects. It discussed the need to give the recipient country the primary role in aid coordination, the need to strengthen the joint aspect of Joint Monitoring Committees, the need for more comprehensive Consultative Groups and Roundtables to support medium-term programs of adjustment for growth, and the need for donors to accept the discipline of aid coordination and respect agreed investment priorities and strategies.

Bilateral donors have also noted the need to improve the quality of their assistance in the conclusions of the OECD/DAC High-Level Meeting in 1986 which encouraged greater bilateral donor participation in the preparatory work for meetings to allow for a fuller exchange of views on key policy issues; greater concern with identifying technical assistance needs; more systematic processing of the conclusions of Consultative Groups and Roundtables; and measures to ensure effective follow-up on donor statements of aid intentions and recipient statements of policy intentions.

The particular needs of countries facing exceptional difficulties make it important that arrangements for coordinating assistance should be strengthened to ensure that sufficient resources can be mobilized in a timely fashion to support reform programs. There is the need for the country to formulate a medium-term adjustment program identifying financing requirements for both the period covered by the medium-term program and, in greater detail, for the immediately following 12 months. In doing this, it could benefit from the joint assistance of the World Bank and the IMF, calling on the key aid agencies where appropriate. This program could form the basis of the presentation to the coordinating group, and since much of the assistance being sought for these countries is quick-disbursing and policy-related, it is important to ensure that donors provide assistance within a coherent

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1/ Joint Monitoring Committees have been established in several Sub-Saharan African countries to help assure aid coordination activities on a local level between major aid group meetings. They are chaired by the recipient governments, with functions ranging from simply providing a forum for an exchange of information between donors and the host country to handling sector aid coordination meetings.

framework. To the extent possible, coordination should take place on an annual basis, timed, where feasible, to coincide with the recipient's policymaking cycle. This would allow a regular review of policy implementation and actual aid flows, together with the preparation of a policy package and financial requirements for the following 12 months. In particular, this would facilitate regular monitoring of donor and creditor financial support associated with the reform program. In some cases, practices within existing coordination arrangements may already reflect these features, and in others only minor modifications may be necessary. There may also be a few exceptional cases, where established coordinating mechanisms are not yet in place, in which an urgent need to initiate reform programs and financial flows necessitates special donor meetings on an extraordinary basis.

To help countries establish credible, medium-term adjustment programs, which can be used to help coordinate assistance in support of these programs, the IMF and the World Bank can assist governments in formulation of policy framework papers (PFPs), as discussed in Section II. Within the framework of development objectives, policy reform, and overall resource requirements provided by the PFPs, governments and donor agencies can then undertake specific detailed discussions on their individual operations. The PFP has begun to be used more widely to coordinate IMF and World Bank assistance to low-income countries, and offers the potential for more widespread use by bilateral agencies and multilateral institutions. The PFP would contribute to the effectiveness of the coordination of aid and policy commitments as it becomes more widely used by donors as a basic document in planning their programs of assistance.

Table 1. External Financing Requirements of a Minimum Debt Relief Program 1988-90

(Annual averages in billions of U.S. dollars)

a.	Total debt service obligations before debt rescheduling	4.46
b.	Reduction in debt service obligations from conventional debt rescheduling	1.41
c.	Debt service obligations after rescheduling (a.-b.)	3.05
d.	Debt service obligations at or below the debt service ratio (DSR) of 25 percent of export earnings	2.33
e.	Additional debt relief and/or concessional assistance necessary to achieve DSR target (c.-d.)	0.72 1/

Source: World Bank staff estimates. (Tables III-1 and III-2, Appendix III). Figures may differ slightly because of rounding.

1/ This figure assumes that when some countries in some years exceed either the DSR of the import target, the surplus is netted out of the aggregate total for the group as a whole. Without such deductions, the gross requirements of countries that cannot achieve the debt service target would rise to $0.87 billion, or an increase of $150 million (compare column 12 to column 14 in Table III-1).

Table 2. Overall External Financing Requirements of a Combined Debt Relief and Import Capacity Rehabilitation Program, 1988-90

(Annual averages in billions of U.S. dollars)

a.	Annual import requirements to achieve modest growth 1/	12.92
b.	Debt service obligations after conventional rescheduling	3.05
c.	Total foreign exchange needs (a.+ b.)	15.97
d.	Projected export earnings	9.33
e.	Expected disbursements of development assistance (without the proposed program), of which:	5.29
	new ODA	4.07
	SAF (present level)	0.17 2/
	existing pipeline	1.05
f.	Other new capital flows	-- 3/
g.	Total foreign exchange available (d.+ e.+ f.)	14.62
h.	Net estimated external financing gap (c.-g.)	1.35 4/
i.	External financing gap of deficit countries only, divided as follows:	1.53 5/
	(1) Additional debt relief and concessional assistance needed to cover debt service in excess of target DSR	0.72
	(2) Supplementary concessional assistance (in addition to (1)) needed to achieve target import growth	0.81

Source: World Bank staff estimates (Tables III-1 and III-2, Appendix III).

1/ These import requirements have been calculated by assuming that import volume grows one percent faster per year than population, starting from the 1985 import level. Under appropriate circumstances, this rate of per capita import growth could be expected to be associated with a similar rate of growth in per capita income and consumption.
2/ This assumes that a SAF is approved for all countries in 1987. The recent IMF decision to raise second-year access to the SAF to 30 percent of quota could increase the estimate in the table for funding from existing SAF resources by an average of about $100 million per year in 1988-90.
3/ Any significant amount of nonconcessional borrowing would immediately raise debt service ratios to even more unmanageable levels in the 1990s. Consequently, all future capital flows should be on highly concessional terms.
4/ This figure assumes that when available resources of some countries in some years exceed requirements, the surplus is netted out of the aggregate total for the group as a whole. This would imply, of course, that creditors and donors were willing and able to allocate additional debt relief and assistance strictly according to needs as defined by these targets.
5/ Without deductions for surplus countries, the gross requirements of countries with a deficit would be US$1.53 billion (see column 8 of Table III-2). If the targets are treated independently, the requirements of countries that cannot achieve one or the other target would rise even more, to $1.70 billion (compare column 7 to the sum of columns 10 and 11 in Table III-2).