

**FOR  
AGENDA**

SM/85/62

CONTAINS CONFIDENTIAL  
INFORMATION

February 20, 1985

To: Members of the Executive Board

From: The Acting Secretary

Subject: Developing Countries' Indebtedness to Official Creditors

Attached for consideration by the Executive Directors is a paper on developing countries' indebtedness to official creditors, which has been scheduled for discussion on Wednesday, March 20, 1985. A supplement containing background material will be issued shortly.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Ms. Dillon (ext. 8313) or Ms. Puckahtikom (ext. 8315).

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Department Heads

INTERNATIONAL MONETARY FUND

Developing Countries' Indebtedness to Official Creditors

Prepared by Exchange and Trade Relations Department

(In consultation with other departments)

Approved by C. David Finch

February 20, 1985

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## I. Introduction

This paper describes the major developments with regard to official multilateral debt renegotiations during 1983-84 and identifies certain issues that have arisen. 1/ The framework for debt renegotiations is described in Section II, and recent trends in multilateral reschedulings are summarized in Section III. The question of comparability of treatment among various groups of creditors--Paris Club creditors, other official creditors, banks, and suppliers--is discussed in Section IV, along with the related question of the rescheduling of debts of the private sector. Issues concerning possible multiyear reschedulings by official creditors are delineated in Section V, and Section VI discusses the problem of countries with prolonged debt service difficulties.

A supplement to this paper (SM/85/62, Supp. 1) provides a more extensive discussion of recent developments, a glossary of terms, and a section describing the experience of four countries that rescheduled non-guaranteed suppliers credits. Tables documenting the recent experience with official multilateral reschedulings and descriptions of each of the rescheduling agreements concluded since end-1982 are provided in appendices to that supplement.

## II. Framework of Official Multilateral Debt Renegotiations

Official multilateral debt renegotiations deal with the rescheduling of payments to service the debt owed to, or guaranteed by, the governments or the official agencies of the participating creditor countries. They are normally, though not exclusively, undertaken under the aegis of the Paris Club. The rescheduling exercise brings together the debtor country and all official creditors that accept the procedures and spirit of the Club. Invitations are sent to individual creditor countries by the Chairman of the Paris Club in consultation with the debtor country and on the basis of a breakdown by creditor of service on external debt that is supplied beforehand by the debtor to the Paris Club Secretariat. 2/ Creditor countries attending the meeting sign the

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1/ Official multilateral debt renegotiations that took place in the period 1975-1982 are described in Part I of "External Debt Servicing Problems--Background Information" (SM/83/46, 3/9/83) and in "Survey of Official Multilateral Renegotiations, 1975-1980" (SM/80/274, 12/30/80).

2/ Under recently instituted procedures described in "Notification to the Fund of Requests for Renegotiation of External Debt Received by the Paris Club" (SM/84/236, 10/24/84), upon the Fund staff being informed of rescheduling requests that have been received by the Chairman of the Paris Club, and with the concurrence of the Executive Director of the debtor country in question, a notification is issued to the Fund Executive Directors informing them that a rescheduling request from the debtor country has been received by the Paris Club.

Agreed Minute unless the amounts owed to them that are covered by the rescheduling agreement are less than a prescribed amount (the "de minimis" level) in which case they attend as observers.

The Agreed Minute sets out the broad terms of rescheduling that the participants recommend to their respective government to be incorporated in the subsequent bilateral agreements between the debtor and each creditor country; the bilateral agreements form the legal basis for the debt rescheduling. Interest rates on the rescheduled debt are set in the bilateral agreement, and the date by which such agreements would have to be signed is specified in the Minute.

To achieve a durable improvement in the debtor's payments position, official creditors have held the view that, concurrent with debt restructuring, the debtor must take adjustment measures to restore its financial viability. For this purpose, creditors require, as a precondition for the initiation of debt renegotiations with a Fund member country, the conclusion of an upper credit tranche arrangement with the Fund. In addition, when creditors agree to consider additional debt relief in the future, the debtor is asked to have such a Fund-supported program in place for the subsequent rescheduling.

### III. Recent Experience in Official Multilateral Debt Renegotiations

The emergence of widespread payments difficulties in recent years was reflected in a record number of countries seeking debt relief from official creditors, sometimes on an unparalleled scale, and in a sharp increase in the number seeking successive reschedulings. During the period 1983-84, 23 debtor countries that are Fund members obtained 29 official debt reschedulings, up sharply from an average of some 4 reschedulings per year during the 8-year period since 1975. The recent agreements involved 12 countries that had not had a previous rescheduling in the past 10 years, including some net oil exporting and several middle income countries. For the other 11 debtor countries, their reschedulings in 1983-84 represented successive approaches to official creditors. The majority of rescheduling countries in the recent period were African, although all major geographic areas were represented.

Over recent years, two important developments in official debt reschedulings have taken place. First, official creditors have shown considerable flexibility in responding to the rescheduling needs of a large and diverse group of debtor countries. Efforts to assure adequate debt relief while minimizing potential repercussions on the pattern of trade finance have led to greater differentiation in the rescheduling terms and conditions accorded to countries in varying circumstances. Thus, for three countries (Romania [1983], Mexico [1983], and Yugoslavia [1984]) the coverage of reschedulings was narrower than the usual

Official Multilateral Debt Reschedulings, 1975-1984 1/

--Overview--

Debtor Country 2/	Date of Agreement Mo./Day/Yr.	Amount Rescheduled (In millions of U.S. dollars)	Type of Debt Consoli- dated 3/	Consoli- dation Period (months)	Proportion of due Payments Rescheduled 4/ 5/ (In percent)		Terms 4/ 6/ Grace Maturity (In years)	
					Prin.	Int.		
Chile I	5/06/75	230	PI	12	70	70	2	8
Zaire I	6/16/76	270	PA	18	85	--	1	7 6/12
Zaire II	7/07/77	170	PI	12 7/	85	85	3	8 6/12
Sierra Leone I	9/15/77	39	PIA	12	80	80	1 6/12	8 6/12
Zaire III	12/01/77	40	I	6	--	75	3	9
Turkey I	5/20/78	1,300	PIAt	13	80	80	2	6 6/12
Gabon I	6/20/78	63	Ap	...	...	...	...	...
Peru I	11/03/78	420	P	12	90	--	2	6 6/12
Togo I	6/15/79	260	PIA	21	80	80	2 9/12	8 3/12
Turkey II	7/25/79	1,200	PIAs	12	85	85	3	7 6/12
Sudan I	11/13/79	487	PIA	21	85	85	3	9 6/12
Zaire IV	12/11/79	1,040	PIAtAr	18	90	90	3 6/12	9
Sierra Leone II	2/08/80	37	PIA	16	90	90	4 2/12	9 8/12
Turkey III	7/23/80	3,000	PIAtArR	36	90	90	4 6/12	9
Liberia I	12/19/80	35	PI	18	90	90	3 3/12	7 9/12
Togo II	2/20/81	232	PI	14	85	85	4	8 6/12
Madagascar I	4/30/81	140	PIAt	18	85	85	3 9/12	8 3/12
C.A.R. I	6/12/81	72	PIA	12	85	85	4	8 6/12
Zaire V	7/09/81	500	PIR	12	90	90	4	9 6/12
Senegal I	10/12/81	75	PI	12	85	85	4	8 6/12
Uganda I	11/18/81	30	PIA	12	90	90	4 6/12	9
Liberia II	12/16/81	30	PI	18	90	90	4 1/12	8 7/12
Sudan II	3/18/82	80	PIA	18	90	90	4 6/12	9 6/12
Madagascar II	7/13/82	107	PIAt	12	85	85	3 9/12	8 3/12
Romania I	7/28/82	234	PIA	12	80	80	3	6
Malawi I	9/22/82	25	PI	12	85	85	3 6/12	8
Senegal II	11/29/82	74	PI	12	85	85	4 3/12	8 9/12
Uganda II	12/01/82	19	PI	12	90	90	4 6/12	8
Costa Rica I	1/11/83	200	PIA	18	85	85	3 9/12	8 3/12
Sudan III	2/04/83	536	PIAtAr	12	100	100	5 6/12	15
Togo III	4/12/83	300	PIAR	12	90	90	5	9 6/12
Zambia I	5/16/83	375	PIAt	12	90	90	5	9 6/12
Romania II	5/18/83	736	P	12	60	--	3	6
Mexico I	6/22/83	2,000 8/	PIAt	6	90	--	3	5 6/12
C.A.R. II	7/08/83	13	PIA	12	90	90	5	9 6/12
Peru II	7/26/83	466	PI	12	90	90	3	7 6/12
Ecuador I	7/28/83	142	PI	12	85	85	3	7 6/12
Morocco I	10/25/83	1,489	PIA	16	85	85	3 9/12	7 3/12
Malawi II	10/27/83	26	PI	12	85	85	3 6/12	8
Niger I	11/14/83	36	PI	12	90	60	4 6/12	8 6/12
Brazil I	11/23/83	2,695	PIA	17	85	85	4	7 6/12
Zaire VI	12/20/83	1,497	PIAR	12	95	95	5	10 6/12
Senegal III	12/21/83	72	PI	12	90	90	4	8 6/12
Liberia III	12/22/83	17	PI	12	90	90	4	8 6/12
Sierra Leone III	2/08/84	25	PIAtR	12	90	90	5	10
Madagascar III	3/23/84	89	PIAR	18	95	95	4 9/12	10 3/12
Sudan IV	5/03/84	269	PIR	12	100	100	6	15 6/12
Ivory Coast I	5/04/84	356	PI	13	100	50	4	8 6/12
Yugoslavia I	5/22/84	500	P	12	100	--	4	6 6/12
Peru III	6/05/84	704	PI	15	90	90	4 11/12	8 5/12
Togo IV	6/06/84	75	PIR	16	95	95	4 10/12	9 4/12
Jamaica I	7/16/84	105	PIAp	15	100	50	3 11/12	8 5/12
Zambia II	7/20/84	253	PIR	12	100	100	5	9 6/12
Mozambique I	10/25/84	404	PIA	12	95	95	5	10 6/12
Niger II	11/30/84	26	PI	14	90	50	4 11/12	9 5/12
Liberia IV	12/17/84	17	PI	12	90	90	5	9 6/12
Philippines I	12/20/84	750	PIA	18	100	60	4 9/12	9 3/12

Sources: Agreed Minutes of debt reschedulings; and staff estimates.

1/ Excludes debt renegotiations conducted under the auspices of aid consortia and official debt reschedulings which involved non-Fund members.

2/ Roman numerals indicate, for each country, the number of debt reschedulings in the period beginning 1975.

3/ Key: P - Principal, medium- and long-term debt  
 PI - Principal, debt of all maturities  
 I - Interest, medium- and long-term debt  
 It - Interest, debt of all maturities  
 A - Arrears on principal and interest, medium- and long-term debt  
 As - Arrears on principal and interest, short-term debt  
 At - Arrears on principal and interest, debt of all maturities  
 Ap - Arrears on principal, medium- and long-term debt  
 Ar - Arrears on previously rescheduled debt  
 R - Previously rescheduled debt

4/ Terms for current principal and interest due on medium- and long-term debt.

5/ In most instances, some portion of the remaining amount was also deferred for a shorter period.

6/ Grace and maturity are defined to begin at the end of the consolidation period.

7/ Interest payments consolidated for the first half of this period only.

8/ Initial estimate: final estimate is likely to be significantly lower.

practice of official creditors and the grace and maturity periods were shorter than average. At the same time, for debtor countries facing acute debt servicing difficulties that have had repeated reschedulings, increasingly official creditors extended terms and conditions which can be considered exceptional to normal Paris Club standards.

A second discernible recent development has been a greater differentiation in rescheduling terms for different types of obligations, e.g., as between arrears and current maturities, principal and interest, and debt that has or has not been rescheduled previously. <sup>1/</sup> In particular, relatively harder terms and shorter repayment periods have been applied to arrears, especially arrears on previously rescheduled debt (PRD). Given that a broadened coverage of debt under consolidation has become increasingly difficult to avoid for debtor countries with prolonged difficulties, such differentiation in terms can help to strengthen rescheduling standards in that exceptional efforts by creditors are to be matched by special efforts of the debtor country to regularize as soon as feasible certain overdue obligations to which creditors attach priority. These main developments as they affect the basic features of the rescheduling agreements are highlighted below and elaborated in the supplement to this paper.

#### 1. Coverage of debt consolidation

Official debt reschedulings typically cover both principal and interest payments on medium- and long-term loans falling due during the consolidation period. Also, payments already in arrears have been rescheduled in many cases. Creditors have adhered strictly to the fundamental principle of not rescheduling service on short-term debt, in order to soften the impact of rescheduling on access to trade financing. In the past ten years only Sudan (1983) obtained, on a very exceptional basis, a rescheduling of current maturities on short-term debt. However, short-term debt in arrears has been rescheduled on a case-by-case basis for a small number of countries, mainly those with repeated reschedulings. Also, official creditors have established the principle that service on debt that has been rescheduled once will not be rescheduled again, and such reschedulings had in practice been quite rare until the last two years. Nonetheless, symptomatic of the acute debt servicing difficulties faced by several countries, PRD was rescheduled on eight occasions during 1983-84 involving primarily countries that were undertaking at least their third rescheduling.

#### 2. Consolidation period and cutoff date

The length of the consolidation period has continued to be one year for the majority of reschedulings; for a few recent cases it was longer, up to 18 months, coinciding with the period covered by a Fund

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<sup>1/</sup> Current maturities comprise all principal and interest falling due in the consolidation period (see glossary of terms in the supplement to this paper).

arrangement. Creditors have responded to a request from the debtor country for a consolidation period longer than 12-18 months by agreeing in principle to consider the restructuring of debt service due in a specified future period (goodwill clause), subject to fulfillment by the debtor country of specified conditions. <sup>1/</sup> Fifteen countries had more than one debt renegotiation during the last 10 years, and the cumulative consolidation period for these countries ranged from 2 years to as long as 5 years.

Debt service on loans contracted after a specified date (the cutoff date) is excluded from the rescheduling and, in order to facilitate the granting of new export credits and cover, creditors are reluctant to change the cutoff date for subsequent reschedulings. Over the past two years the interval between the cutoff date and the beginning of the consolidation period tended to lengthen for those countries that had not had recent reschedulings, ranging in most cases from three to nine months. For countries that had had previous reschedulings, official creditors agreed to a change in the cutoff date on ten occasions during 1983 and early 1984 and the new cutoff date was set at between zero and six months before the beginning of the more recent consolidation period. Since May 1984, however, five countries have obtained successive reschedulings and in none of these cases was the cutoff date changed. It might be noted that, in five of the ten earlier cases where the cutoff date was changed, there was a significant break between the most recent and the previous consolidation period.

### 3. Repayment terms

The repayment terms for rescheduled debt service have traditionally tended to vary with the types of debt concerned. Typically, the easiest terms are accorded to current maturities, with some 85 percent of total payments due being rescheduled over seven to nine years (including a three- to four-year grace period). More stringent terms are often applied to arrears, particularly those on short-term debt, with substantial repayments of arrears frequently being required during the grace period for rescheduled current maturities.

Differentials in terms across types of debt have widened in recent years, particularly as between current maturities and arrears, with a majority of cases involving harder terms for arrears than in the past, primarily for countries without successive reschedulings. Also, three agreements involved no rescheduling of interest due during the consolidation period, and in one case the rescheduling of arrears was confined to principal only. In about half of the agreements that covered previously rescheduled debt, the debt service on PRD was already in arrears and exceptionally stringent terms were provided; for the other half, however, where the reschedulings involved current maturities on PRD, the terms were broadly similar to those on other current maturities.

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<sup>1/</sup> For details, see Section I of the supplement to this paper.



The differentiation in terms as between debtor countries also sharpened over the last two years. For countries with successive reschedulings, the rescheduling terms were often eased considerably in virtually all dimensions. In some instances, such countries were granted grace and maturity periods significantly longer than the normal Paris Club practice (about five and over ten years, respectively). Also, on average, about 90 percent of their current maturities were rescheduled on a medium-term basis <sup>1/</sup> (compared with about 80 percent for countries that had not had recent reschedulings); including amounts deferred for shorter periods, the effective rescheduling was 98 percent for those with successive reschedulings against 87 percent for the others. In some cases, the coverage of debt consolidated was extended to include PRD and short-term debt in arrears.

These overall developments are evident in the repayment profiles. As in the past, the average repayment profile for current maturities was more stretched out than that for arrears (Chart 1). However, the average profile for arrears was clearly more frontloaded in 1983-84 than in earlier years. Also, for those debtors requiring successive reschedulings, average repayment profiles (particularly for arrears) were considerably flatter than for other countries (Chart 2).

#### IV. Comparability of Treatment

As a key element in effective debt relief operations, official creditors attach importance to the principle of comparable treatment for all creditors and for all types of debt, with the exception of obligations owed to multilateral institutions. Concern with regard to comparable treatment arises not only from the desire to achieve an equitable burden sharing across creditors, but also from the need to ensure an appropriate balance between financial support from all creditors and the adjustment efforts of the debtor countries themselves. This question has received increased emphasis in recent years as a number of countries have sought debt relief and other exceptional financing in substantial amounts or for prolonged periods and both official and private creditors have recognized the need to ensure that their efforts are well-integrated into an overall financing plan for the debtor.

The Agreed Minutes governing Paris Club reschedulings have long contained a provision that the debtor will accord to each of the participating creditor countries a treatment no less favorable than that which it may accord to any other creditor country, including nonparticipants, for the consolidation of debt of comparable terms. Moreover, from the early 1970s, in line with the growing importance of private lending to developing countries, it became increasingly common for Agreed Minutes to incorporate an "initiative" clause whereby the debtor undertakes to

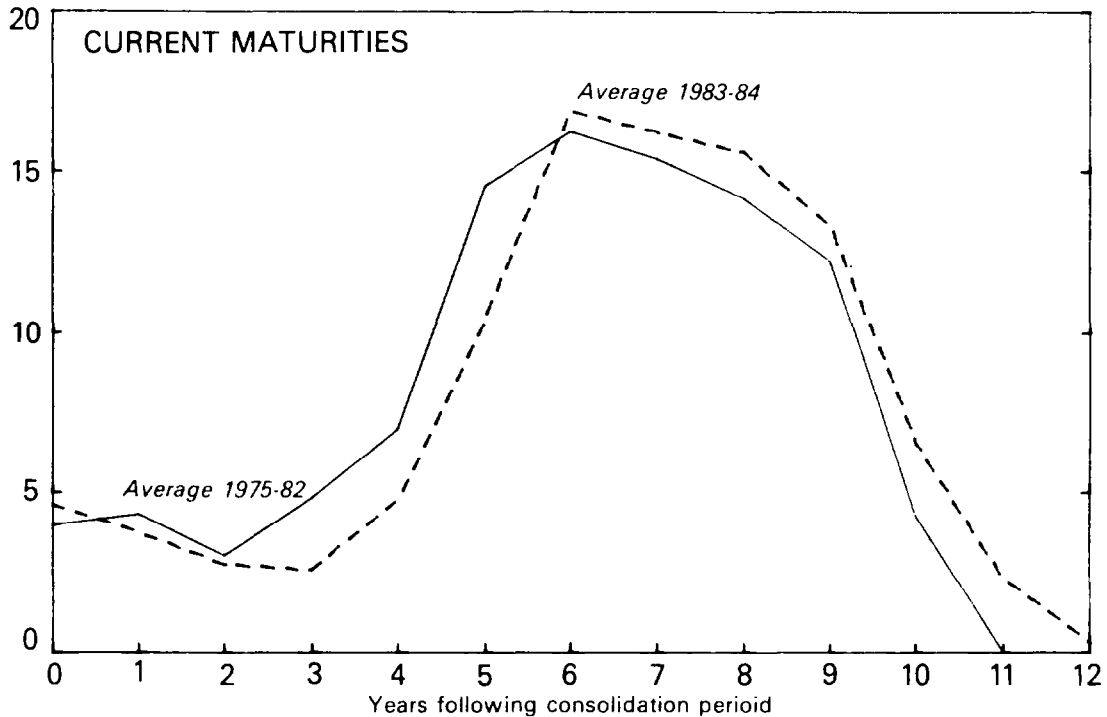
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<sup>1/</sup> Excluding the agreement for Romania (1983), which covered principal only.

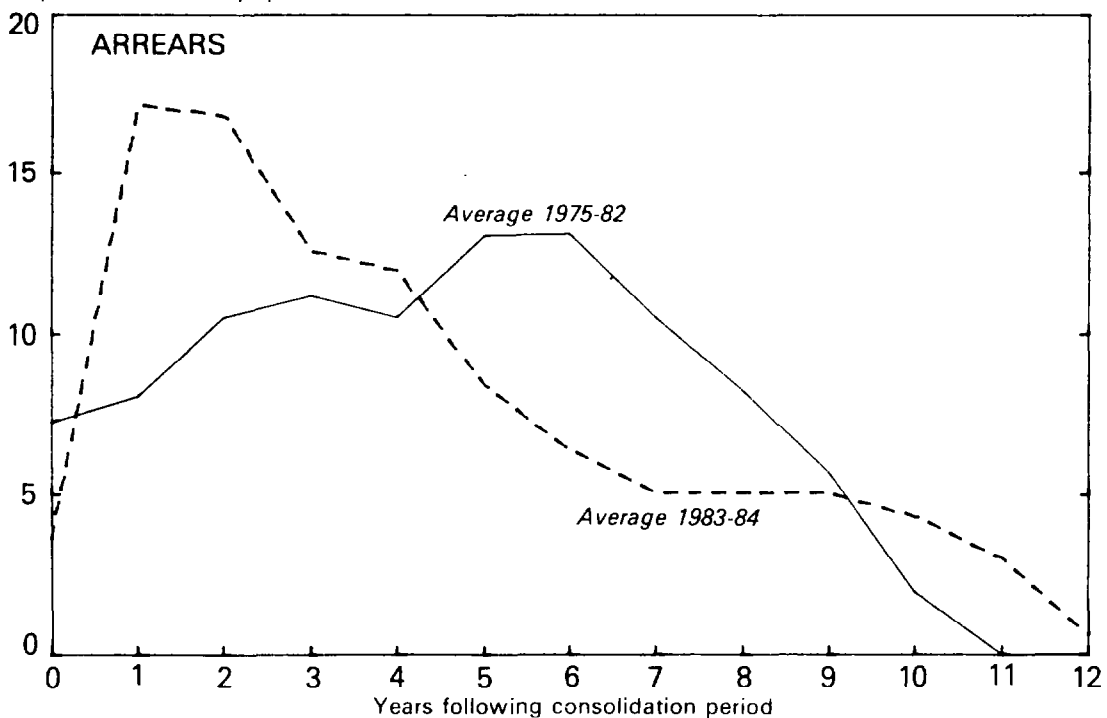
CHART 1

# OFFICIAL MULTILATERAL DEBT RENEGOTIATIONS, 1975-82 AND 1983-84 AVERAGE REPAYMENT SCHEDULE

In percent of total repayments



In percent of total repayments



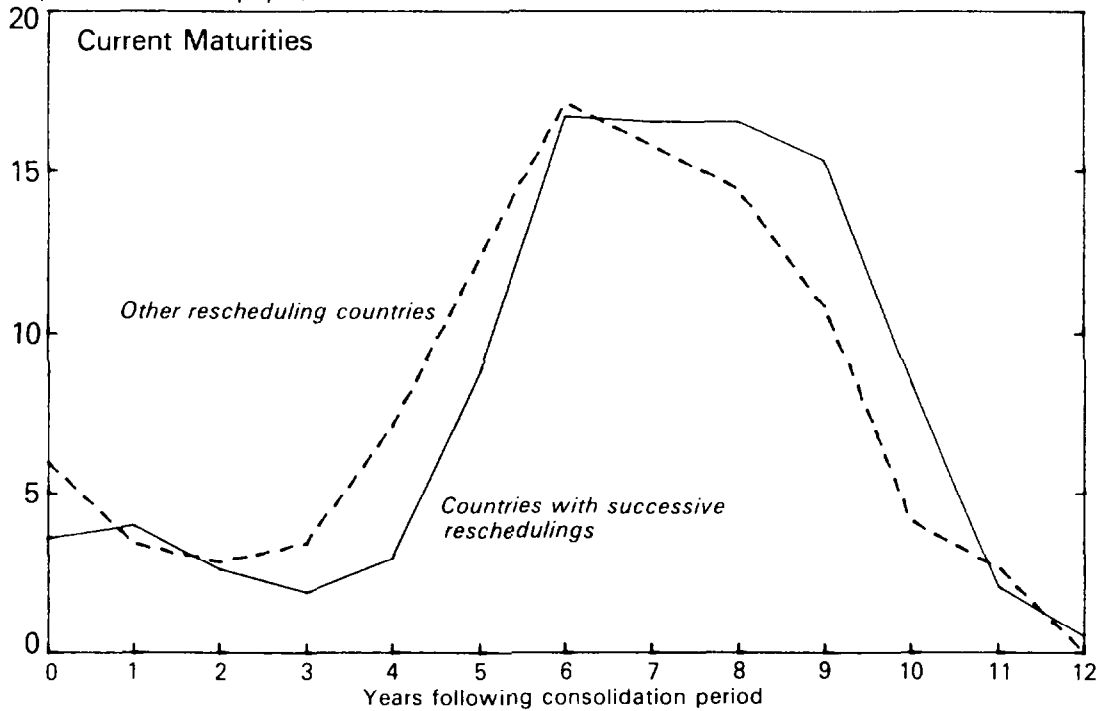
Sources: Agreed Minutes of debt reschedulings; and Fund staff estimates.



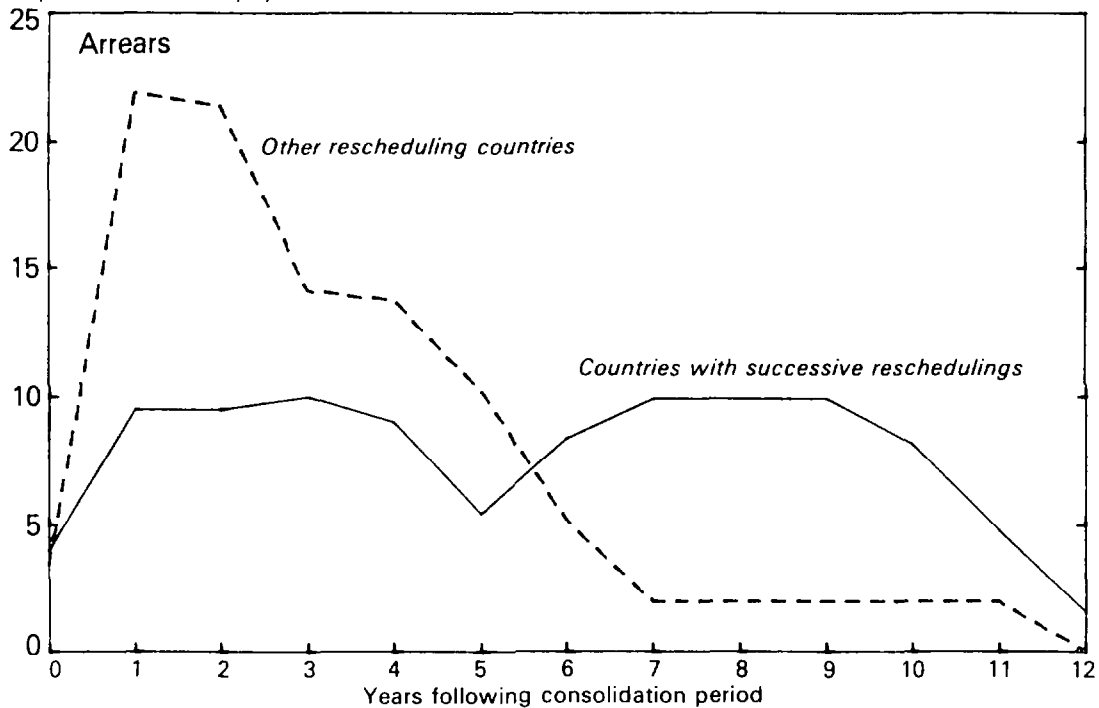
CHART 2

# COUNTRIES WITH SUCCESSIVE RESCHEDULINGS, 1983-84 AVERAGE REPAYMENT SCHEDULE UNDER DEBT RENEGOTIATIONS

In percent of total repayments



In percent of total repayments



Sources: Agreed Minutes of debt reschedulings; and Fund staff estimates.



seek to secure from public and private external creditors a comparable rescheduling for credits of comparable maturity. This initiative clause is now a standard feature of Agreed Minutes, and since the mid-1970s it has included a specific reference to banks. Reference to nonguaranteed suppliers was first made in the May 1983 agreement for Romania, and since July 1983 an explicit reference to suppliers has also become a standard feature of the initiative clause. Official creditors have underscored the importance they attach to these comparability provisions by introducing into any goodwill clause a stipulation that the completion of effective arrangements with other creditors, along the lines described in the initiative clause, will be a precondition for a subsequent rescheduling. Such a stipulation was included in 15 out of 18 goodwill clauses incorporated in Agreed Minutes during the past two years, in marked contrast to the earlier period when goodwill clauses rarely referred explicitly to arrangements with other creditors.

Issues that have arisen concerning comparability of treatment with nonparticipating official creditors, banks, and suppliers are discussed in the following sections, as are certain questions that have arisen in the context of special mechanisms for the restructuring of debt of the private sector.

#### 1. Nonparticipating official creditors

As noted above, with regard to creditor countries, Agreed Minutes specify not only that the debtor will seek a rescheduling on comparable terms from nonparticipating official creditors, but that the debtor, in fact, will not accord to any creditor country treatment more favorable than that accorded to each participating country for the consolidation of debts of comparable term. This is a strong and precise provision, and Paris Club creditors have, on a number of recent occasions, emphasized the importance they attach to the debtor obtaining comparable treatment from other official creditors. Moreover, failure of the debtor country to comply with these provisions has in practice influenced Paris Club creditors' attitudes toward the terms of subsequent reschedulings.

In this connection, Paris Club creditors have noted that they welcome participation in Paris Club meetings by all creditors that are prepared to accept the practices and principles of the Club. In particular, no distinction is made between debts owed to developing country governments and those owed to other governments, and a number of developing countries have participated as creditors in recent Paris Club meetings. <sup>1/</sup> Paris Club creditors have also reaffirmed recently that comparability provisions apply to all types of debt, including untied concessional development assistance and loans repayable in commodities. While recognizing

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<sup>1/</sup> As early as 1975 the Agreed Minute for Chile specifically noted that the comparability provisions applied as well to other Latin American countries.

the diverse legal frameworks governing the activities of lending agencies in different countries, Paris Club creditors have noted that it is not the form the restructuring of debt service obligations takes, e.g., rescheduling versus refinancing, but rather the effective debt relief actually provided that is relevant for assessing comparable action.

## 2. Banks

The importance official creditors attach to the conclusion of comparable rescheduling agreements with a country's bank creditors is indicated by the specific references to banks both in the initiative clause and, more recently, in the goodwill clause. The banks, similarly, have often required implicitly or explicitly that countries which approach them for a rescheduling also seek debt relief from official creditors. Each group may, however, attach less importance to this provision in cases where debt service falling due to the other group is small. Each instance of official rescheduling during the past two years has been preceded or followed by parallel discussions on a bank debt restructuring, except in one case where there was no medium- and long-term debt to banks. Banks, on the other hand, have restructured debts for six countries that did not intend to seek a multilateral rescheduling from official creditors.

While comparability of treatment with bank creditors, as with non-participating official creditors, is a relatively long-established Paris Club principle, differences between official and bank creditors in terms of the structure of lending, market environment, and regulatory provisions render it somewhat more difficult to define what does or should constitute comparable treatment as between bank and official creditors and to make an assessment, ex ante or ex post, of whether that comparability has been achieved.

It has been a general practice of the Paris Club to reschedule part of both principal and interest falling due during the consolidation period. Banks, on the other hand, have almost without exception rescheduled only principal although they have in a number of cases agreed in addition to provide specified amounts of new credits. As a starting point for assessing comparable effort, official creditors look at a ratio for each creditor group calculated as (a) principal and interest rescheduled plus new money provided, divided by (b) total principal plus interest due. Banks, on the other hand, look at the percentage increase in exposure (principal outstanding) when considering requests for new money and apportioning those amounts among themselves. These two approaches to burden sharing can give different indications, since the former implies that relief provided should be proportional to debt service falling due while the latter assumes that the share of each creditor in a country's debt should remain constant. Comparable effort, as measured by the ratio used by official creditors, would tend to imply a larger percentage increase in exposure for creditors that had lent at higher interest rates. Also, when new money is sought on a

concerted basis, both groups of creditors focus as well on the absolute magnitudes involved. The scope of export credit cover assistance has been a significant consideration in a number of recent instances where, on a case-by-case basis, official creditors provided additional trade credits and insurance for a few debtor countries rescheduling their official debt service obligations. 1/

It is recognized that in most cases there are additional factors that need to be taken into account in any assessment of comparable action. There may, for example, be differences in consolidation periods and with regard to the amount and treatment of arrears. There are also differences with respect to the coverage of debt of the private sector and of short-term debt, although the practices of official and bank creditors appear to be converging in these respects. While official creditors have traditionally rescheduled debt service on obligations of both the public and the private sectors in debtor countries, until recently most bank rescheduling agreements covered only public sector maturities. During the past two years, however, bank rescheduling agreements have covered private sector debt in nearly half of the cases. Both banks and official creditors traditionally have resisted rescheduling short-term debt because of the adverse consequences for trade finance. Recently, official export credit agencies have shown increased flexibility in standing ready to maintain cover on short-term export credits, provided that the debtor has not sought a rescheduling of this type of debt and that sound adjustment policies are in place. Similarly, banks have recently demonstrated increased willingness to reach understandings on the maintenance of short-term trade facilities and interbank deposits.

Given differences in practices, any standardized ratios or formulae can capture only partially the range of factors that need to be taken into account in an assessment of comparability of treatment. The different objectives of and constraints faced by various creditor groups, as well as the need to maintain autonomy of decision making for each creditor group, also argue against a mechanistic approach. In order to facilitate the rescheduling process, both official creditors and banks are seeking to improve communication between them and understanding of the procedures and constraints under which each operates. In this connection, and on an ad hoc basis, the Fund staff might have a useful role in clarifying the technical aspects involved. Increased and more timely provision of data by both banks and official creditors would also facilitate judgments concerning appropriate burden sharing and comparability of treatment.

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1/ See "Export Credit Cover Policies and Payments Difficulties" (SM/84/272, 12/18/84).



3. Nonguaranteed suppliers <sup>1/</sup>

Another aspect of comparability of treatment that has received increased attention is that vis-a-vis nonbank commercial creditors, generally referred to as nonguaranteed suppliers since these creditors comprise mainly private suppliers of goods and services without the guarantee of official creditor agencies. As noted above, explicit reference to suppliers has since mid-1983 been incorporated in the initiative and goodwill clauses of Paris Club Agreed Minutes.

Assuring comparability of treatment with nonguaranteed suppliers raises, however, complex practical issues. The primary problems are lack of data and the absence of an established framework within which a multilateral or collective approach to rescheduling could take place. Frequently there is a very large number of suppliers, each with relatively small claims, located in various countries with different legal constraints. Also, individual suppliers may not consider themselves to be in a position to provide a rescheduling on terms comparable to banks or official creditors, since their financial position is not structured to allow for a significant portfolio of financial assets. On the other hand, the terms of the original transaction may have already incorporated a significant risk premium.

The majority of countries that have had recent Paris Club reschedulings have not, in fact, sought a generalized refinancing/rescheduling of nonguaranteed suppliers credits. In most cases the necessary statistics are nonexistent or severely deficient and the amounts involved are believed to be small. Although some countries may have sought a bilateral restructuring of amounts due to key suppliers, especially when arrears had accumulated, little information is generally available publicly on the terms and conditions of such arrangements. Debtor countries may, moreover, feel compelled to keep current with suppliers so as to maintain trade and credit flows, especially for essential imports, and to avoid facing a higher implicit markup on import costs owing to delays in payments.

A number of countries (e.g., Peru, Sierra Leone, and Zaire) have attempted to secure terms comparable to the Paris Club from their nonguaranteed suppliers on a bilateral basis. The experience so far suggests that a positive outcome depends on a high degree of cooperation and discipline among creditors. In several instances, the agreed terms involved relatively shorter grace and maturity periods than those granted by either the Paris Club or the commercial banks.

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<sup>1/</sup> A more extensive discussion of the treatment of nonguaranteed suppliers credits is provided in Section III of the supplement to this paper.

In recent experience, a multilateral approach to debt rescheduling with nonguaranteed suppliers has been taken by only two countries, Romania (1982) and Nigeria (1984). For Romania, the rescheduling negotiations with nonguaranteed suppliers took place in tandem with the rescheduling discussions with the Paris Club and the banks, and proved particularly difficult since they involved a large number of creditors with widely divergent interests. In the discussions with Nigeria, the nonguaranteed suppliers were for the first time represented by an advisory committee with the services of an investment banking firm and agreement was reached relatively speedily. It appears that a similar approach could well be adopted by a few other countries, for instance, the Ivory Coast in its current discussions with the group of suppliers known as Abidjan Club.

A few of the debtor countries for which service on official debt has been rescheduled in the recent past have adopted a unilateral approach to consolidating debt owed to suppliers (for instance, Turkey in 1980, Costa Rica 1983, and Mexico 1983). These countries established refinancing procedures and defined instruments with which obligations to suppliers were to be settled, and essentially set rescheduling terms and conditions without multilateral discussions with the suppliers concerned. Although the provision of a range of options under certain of these schemes made them somewhat more palatable to creditors, the overall financial results, from the debtors' perspective and over the longer term, are likely to be less desirable than in those cases where creditors and debtor have had the opportunity to work out a mutually satisfactory solution to the financing problems in a cooperative manner. Moreover, this approach raises a dilemma for official creditors in that, while they seek comparable treatment with nonguaranteed suppliers, they will not accept a unilateral debt rescheduling (see Section VI).

Overall, the limited recent experience suggests that the issue of comparability of treatment with nonguaranteed suppliers would need to be addressed for those debtor countries where such claims are large relative either to other types of debt or to the debt servicing capacity of the country. However, there are practical and technical complications, including foremost the lack of an effective channel of communication and a reliable information base, that need to be resolved on a case-by-case basis. Even debtor countries' best efforts may well not result in broad comparability, and a certain degree of flexibility in approaches will be necessary.

#### 4. Debt owed by the private sector

The Paris Club, generally and as a matter of course, reschedules the debts of the private sector in the debtor country on the same terms and conditions as are applied for public sector debt. Official creditors are, however, the only creditor group that has well-established procedures for addressing private sector debt service. Until recently,

most bank rescheduling agreements covered only debt of, or guaranteed by, the public sector in the debtor country. Furthermore, as noted in the preceding section, the majority of rescheduling countries have not attempted to establish procedures to address systematically nonguaranteed suppliers credits owed by either the public or private sectors.

The absence of generalized procedures for the restructuring of private sector debt may, at least in part, reflect the fact that in the past debt servicing difficulties were generally of a scope and nature that could be dealt with through the rescheduling of public sector debt. (Indeed, the Paris Club tradition of including private sector debt under the terms of Agreed Minutes was dictated primarily by concerns regarding equitable burden sharing among official creditors, who might have very different distributions of claims as between the public and private sectors.) However, in some countries, particularly in Latin America, private sector debt had grown rapidly in the years immediately preceding the current period of widespread debt servicing difficulties. Such borrowing was generally relatively short term and was often induced--sometimes intentionally--by the exchange rate, interest rate, and other policies pursued by the authorities. When the pace of international lending slowed abruptly in 1982, these countries were faced not only with heavy service obligations on private debts but also with a situation where essential policy adjustments, particularly the correction of substantially overvalued exchange rates, posed a threat to the liquidity and even the solvency of a large number of private sector firms. In these circumstances, several governments introduced schemes to require or induce the private sector to reschedule its debts in accordance with specified minimum terms; these schemes generally incorporated a preferential exchange rate, and sometimes special domestic credit arrangements, for the servicing of foreign debts thus rescheduled. Also, interest payments on rescheduled debts were sometimes given priority under an exchange allocation system.

While the Paris Club stands ready to reschedule private sector debts under its procedures, official creditors are not prepared to accept rescheduling terms set unilaterally by the debtor country, under either voluntary or compulsory rescheduling schemes. Moreover, exporters are normally instructed by official export credit insurance agencies that acceptance of these terms will result in a cancellation of their insurance in respect of the associated claim. Experience has shown, however, that the existence of such schemes can be compatible with a regularization of payments to official creditors if the debtor country also seeks a Paris Club rescheduling and if private sector debts to official creditors restructured on multilaterally-negotiated terms remain eligible for the preferential exchange rate and other incentives made available to domestic debtors under the more general scheme.

The assessment of the liquidity or solvency of the local borrower at the time of a rescheduling is of particular importance under Paris Club procedures. When the bilateral agreements are negotiated, the

debtor and creditor governments identify which private borrowers are incapable of repaying their debts in local currency. For private debt determined to be in default at the time of the conclusion of the bilateral agreement, the guarantee is executed and the debt is not subject to rescheduling. If, however, the private sector borrower is determined to be able to meet his obligations in local currency, the debt service is rescheduled and the debtor government normally assumes responsibility for repayments in foreign currency according to the schedule stipulated in the Agreed Minute.

Argentina provides an example of a case where a unilateral rescheduling of private debt was eventually followed by a Paris Club rescheduling after problems that had arisen vis-a-vis official creditors were resolved. In late 1982, the Argentine authorities established mandatory medium-term rescheduling provisions for about US\$10 billion of private sector debts covered by an exchange rate guarantee of the Central Bank. Initially Argentina did not seek a Paris Club rescheduling, official creditors did not accept the instruments formalizing this unilateral rescheduling, and arrears accumulated. In early 1984, the new Argentine Government announced its intention to request a Paris Club meeting and subsequently, after receiving an expression of concern from official creditors, exempted official and officially guaranteed debt from the mandatory rescheduling terms. These amounts were restructured by the Paris Club under the terms of the Agreed Minute of January 1985, with private debtors remaining entitled to cancel their obligations by paying to the Central Bank the corresponding amount in local currency at the guaranteed exchange rate.

Problems have, however, been encountered when a country has not sought a multilateral official rescheduling. In February 1983 Mexico announced a special program for the settlement of private sector obligations to foreign suppliers. <sup>1/</sup> For debts incorporated in this program, the domestic borrower could cancel his obligation at the controlled exchange rate of the day a corresponding local currency deposit was constituted. The foreign creditor could choose to accept the transfer of this deposit to his name, with payment in foreign currency to be made under a schedule that was to be announced later. Alternatively, the local debtors could settle their obligations at the parallel rate or enter a queue to obtain foreign exchange at the controlled rate. Mexico, which had remained current throughout on public sector obligations to official creditors, did not intend to seek a rescheduling of service on official credits. Moreover, since the scheme was a voluntary one which had the effect of reducing the commercial risk of the foreign creditor, the Mexican authorities did not consider it to be a unilateral rescheduling. Subsequently, however, in the context of Mexico's efforts to secure new credits and export cover, official creditors underscored the importance they attached to multilateral agreement on any payments

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<sup>1/</sup> Details of the FICORCA scheme are provided in Section III of the supplement to this paper.

deferral or rescheduling, and in June 1983 a special meeting of official creditors rescheduled on a multilateral basis obligations of the Mexican private sector. The agreement covered only principal and applied to amounts falling due between April 1982 and December 1983; the local debtor was entitled to effect his payment at the controlled exchange rate.

Similar issues have arisen more recently with respect to a Venezuelan scheme under which amortization and interest on private sector debt can be effected at a preferential exchange rate, provided the debt is rescheduled with seven years' maturity and meets certain other conditions. Official creditors are actively engaged in discussions with the Venezuelan authorities and are carefully monitoring developments with respect to similar schemes in other countries.

#### V. Multiyear Rescheduling

As discussed in a companion paper on "Developing Countries' External Indebtedness to Commercial Banks" (SM/85/61, 2/20/85), a number of countries have in recent months reached agreements with their bank advisory groups on the rescheduling of maturities falling due over a period of several years. The primary objective of such multiyear restructuring arrangements (MYRAs) has been to facilitate a return to normal debtor/creditor relationships, that is, to move away from a concerted approach to new lending and to re-establish independent decision making by market participants. MYRAs have generally been considered to be appropriate and feasible only in cases where the debtor country has made significant progress in its domestic and external adjustment efforts and is seen to be firmly committed to policies that would ensure that the need for net external financing, if any, would not exceed the amounts that could reasonably be expected to be forthcoming on a spontaneous basis. In such cases, however, the amortization profile on existing debt might be such that the refinancing of that debt would require an annual rate of gross new commitments that could not reasonably be expected to be handled by normal market mechanisms. In such situations, a MYRA, by providing a clearer planning horizon for creditors and investors, as well as the debtor government, could facilitate the return to spontaneous financing. These considerations had been laid out in the Managing Director's presentation to the International Monetary Conference in Philadelphia on June 4, 1984.

On June 9, 1984, after Mexico had initiated discussions with its bank creditors on a multiyear arrangement, the heads of state of seven industrial nations issued at the conclusion of their meeting in London a communique which reconfirmed the need to respond "flexibly case-by-case" to the debt problems of developing countries and stated that particular importance was attached, inter alia, to:

in cases where debtor countries are themselves making successful adjustment efforts to improve their position,

encouraging more extended multiyear rescheduling of commercial debts and standing ready where appropriate to negotiate similarly in respect of debts to governments and government agencies.

To date, bank advisory committees have endorsed multiyear restructuring proposals for Ecuador, Mexico and Venezuela. Discussions have also been initiated on possible bank multiyear agreements for Brazil and Yugoslavia.

Official creditors have yet to discuss, in the context of a formal request for a MYRA, the criteria for and possible form of an official multiyear restructuring. It is, therefore, premature to speculate on the approach that might be adopted either in general or in a particular case. Official creditors did, however, in a summing up of a special meeting requested by the Yugoslav authorities, and held under Swiss auspices in November 1984, note that:

despite the positive results achieved in recent years...in the effort of achieving full normalization of external liquidity flows, a partial consolidation of Yugoslavia's external debt may still be necessary for several years. They expressed willingness to remain involved in this process within the context of the Yugoslav medium-term program supported by the IMF. They stood ready to convene the "debt consolidation group" to work out the initial stage of the debt restructuring which will come into effect when a satisfactory arrangement has been reached between Yugoslavia and the International Monetary Fund.

The granting of extended consolidation periods, while at variance with recent trends, would not seem in and of itself to pose important procedural difficulties for official creditors, as the Paris Club has practices and precedents which could provide for such an approach. One technique that could be applied is to grant a conditional further rescheduling. Under this approach, which has been used in eight agreements during the past 10 years, creditors agree at an initial meeting to provide rescheduling in one or more subsequent years, with the rescheduling to take effect automatically without a further meeting of creditors, provided certain conditions are met. The percentage to be rescheduled and other terms are set at the outset for the full prospective consolidation period. The conditions for the rescheduling to take effect in subsequent years normally include a requirement that a new Fund arrangement be in place or that the conditions under which a country can purchase during successive years of a two- or three-year Fund arrangement have been established. This technique of a conditional further rescheduling has not, however, been used since 1981 in view of creditors' experience with this approach. Of the eight agreements that included such provisions, in only four cases were the conditional reschedulings actually effected. In one case the country's

balance of payments improvement was sufficiently rapid that the authorities decided to forego the second year of the agreement. In three cases, understandings had not been reached with the Fund by the date the further conditional rescheduling was to have taken effect.

An alternative approach is the goodwill clause under which creditors agree in principle to meet to consider a further rescheduling provided, *inter alia*, that a Fund arrangement is in place. Creditors introduced a variation of this approach in a 1983 agreement for Peru, in that the goodwill clause specified at the outset the grace period and maturity to be applied to a subsequent rescheduling but left the percentage to be rescheduled and other conditions to be determined at a meeting prior to the time the second year's rescheduling was to take effect. Variations on this "improved goodwill clause" could also provide a vehicle for granting extended consolidations within traditional Paris Club procedures. (In the event, Peru subsequently requested and obtained a longer grace period and maturity for the second year's rescheduling.)

While official creditors have demonstrated their willingness to consider somewhat longer consolidation periods, they have adhered firmly to the principle that an upper credit tranche arrangement with the Fund be a prior condition for each year's rescheduling to be agreed or to take effect. To agree in the context of a MYRA to reschedule amounts due in future years without requiring that a Fund arrangement be in place would constitute the first departure from this principle for a Fund member country since the early 1970s. Thus, the central question for official creditors in considering the possibility of granting a multiyear rescheduling is not the length of the consolidation period, but whether to depart from this principle and, if so, how to ensure that rescheduling is associated with sound economic policies in the debtor country. In considering any request for a multiyear rescheduling, official creditors will of course have available information on the range of monitoring arrangements that have been worked out in the bank agreements, including the provisions for enhanced surveillance.

The question of whether, and under what circumstances, official creditors might want to grant a multiyear arrangement has yet to be decided. In some of the cases for which multiyear bank arrangements have been discussed, e.g., Mexico, Brazil, and Venezuela, banks account for a preponderant share of the debt service due over the next few years. The banks have not required parallel official action as a precondition for the bank MYRAs for Mexico and Venezuela and both of these countries have indicated that they do not intend to seek a rescheduling from official creditors. Official debt is more important for Ecuador and Yugoslavia, and banks in their discussions with Ecuador have indicated that a condition for each year's tranche of the bank

rescheduling to take effect automatically would be that official creditors agree to reschedule at least 85 percent of principal and interest due (as compared to 100 percent of principal being rescheduled by the banks). Official creditors will want to decide, given the circumstances of each case, whether an official response would contribute to achieving the objective of a normalization of debtor/creditor relationships. There is no reason to presume that such an analysis would indicate that banks and official creditors should necessarily provide extended consolidation periods for the same group of countries, or even that the responses of banks and official creditors would be similar in terms of either form or time frame. The fundamental question is to determine the type of response that could be expected to best contribute to the objective of restoring normal access, to both banking credits and official export credits and guarantees, for countries that had established a record of adjustment.

Whether an official MYRA would contribute importantly to the restoration of normal access to private unguaranteed credits would depend upon the size and service profile of official debt, i.e., whether official debt service was of such a magnitude as to generate substantial uncertainty as to the debtor countries' ability to service its debts without recourse to exceptional financing. An official MYRA could facilitate more normal access to official export credits and guarantees, provided that the cutoff date for loans on which debt service was to be rescheduled was firmly fixed at the outset. This would, however, be equally true if the cutoff date were fixed firmly at the outset of a series of annual reschedulings, although a MYRA might provide more confidence in this regard. While a MYRA could be viewed as a means to encourage export credit agencies to reopen or expand export credits and cover, that issue could as well be addressed directly by the relevant agencies. Indeed, most export credit agencies seem to have some kind of limit on their exposure to individual countries, and an increase in exposure that is acceptable to the agency could be the result of a combination of rescheduling service on existing debt and providing a certain amount of new export credits; alternatively, debt service payments could be made as scheduled, permitting a larger amount of new export credits consistent with the same acceptable exposure increase.

In considering the trade-offs between rescheduling and new credits or guarantees, it should be noted that export credits and guarantees constitute the main part of official claims on most of those developing countries for which MYRAs are currently being discussed by the banks. The rescheduling of guaranteed export credits under a MYRA would entail an undertaking by official creditors to indemnify banks and suppliers from on- or off-budget resources throughout the consolidation period. Efforts by governments to provide a parallel response to bank MYRAs might mobilize more total financing for the debtor country (or the same financing at a lower immediate budgetary cost to the creditor country) if such efforts were to take the form of new export credit guarantees as demand arises for them.



## VI. Cases of Prolonged Debt Servicing Difficulties

As noted in Section III, the number of Paris Club agreements involving cases of successive reschedulings increased sharply in 1983-84. Eight of the 23 Fund member countries for which official debt service was rescheduled in 1983-84 have had at least three reschedulings in recent years, and four countries have had four or more reschedulings. This increasing incidence of repeated rescheduling should, however, be viewed more as a cumulative development than as a new phenomenon. Indeed, all seven of the countries that obtained official debt reschedulings over the five years 1976 through 1980 subsequently had at least two more reschedulings, and of these seven only Turkey did not seek a further rescheduling of maturities due in 1984. In addition, two countries (Madagascar and Senegal) that obtained official reschedulings for the first time in 1981 have subsequently had two further Paris Club meetings, bringing to nine the total number of countries with three or more reschedulings during the past 10 years. For each of these nine countries the cumulative consolidation period exceeded three years, and for five countries it was five years or more (Chart 3). <sup>1/</sup> It might be noted, furthermore, that of the 23 countries that obtained reschedulings in 1983-84, Fund area department staff expect about 80 percent to seek further official reschedulings in 1985-86, and in a number of cases there is a distinct possibility that further reschedulings may be requested in the years beyond 1986.

In considering whether this increasing incidence of prolonged debt servicing difficulty and successive reschedulings might signal a need for new approaches or for modifications to debt rescheduling practices, it is useful to take a relatively long historical perspective. The experience with official multilateral debt reschedulings over the 1960s and the first half of the 1970s was reviewed in two earlier papers prepared by the Fund staff; both of those papers had sections on the problems of repeated reschedulings. <sup>2/</sup> Over the 15 years 1961 through 1975 there were 29 multilateral official debt rescheduling agreements for Fund members; these agreements, however, involved only 10 debtor countries. In no case did the country require less than two agreements and two years of rescheduling; the average cumulative consolidation period was four years and for three countries the cumulative consolidation period exceeded five years.

Argentina and Brazil were two of these 10 countries that had repeated reschedulings, and in both cases almost 20 years elapsed between the end of their previous series of consolidation periods and their

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<sup>1/</sup> The effective consolidation period for most of these countries would be even longer if the rescheduling of arrears could be taken into account.

<sup>2/</sup> "Multilateral Debt Renegotiations--Experience of Fund Members, 1971-1974" (SM/74/228; 9/25/74) and "Multilateral Debt Renegotiations--Experience of Fund Members" (SM/71/204; 8/6/71).





recent rescheduling requests. Turkey received a five-year consolidation followed by a further three-year consolidation of those previously rescheduled debts, and then did not approach its official creditors again until 10 years after the end of that extended consolidation. For Peru the hiatus between consolidation periods was seven years, and six years elapsed between the 1965-66 and 1972-75 consolidations for Chile. Apart from long consolidation periods, none of these countries received exceptional rescheduling terms. Yet all five were able to reverse their debt servicing difficulties and remain current on their obligations for extended periods. In all of these cases amounts due under previous rescheduling agreements had been completely repaid before the onset of more recent debt servicing difficulties, permitting the conclusion that the more recent reschedulings reflected new developments rather than the failure of earlier reschedulings to address the previous debt servicing problem adequately. These five cases provide evidence that the need for successive reschedulings and long consolidations is not, in and of itself, evidence that very exceptional assistance is needed or warranted to resolve a country's debt servicing difficulties. Indeed, it might be expected that external payments difficulties severe enough to cause a country to seek debt relief would not, in general, be resolvable in a period of 12 to 18 months, even with a strong adjustment effort. Any case for exceptional approaches to debt relief must, therefore, be formed not on the basis of the growing incidence of repeated reschedulings, but on an analysis of the magnitude and the nature of a country's payments difficulties, the prospects for and costs of substantial further adjustment, and the possibilities for other forms of financing.

For Indonesia and Ghana, two of the cases of repeated reschedulings during 1961-1975, creditors did decide to provide debt relief on truly exceptional terms. <sup>1/</sup> For both countries creditors eventually rescheduled all outstanding official debt over a period of about 30 years. Although neither Indonesia nor Ghana has approached its official creditors for a further rescheduling, the results in terms of the subsequent development of the countries' economies were mixed. The Indonesian experience would indicate that a comprehensive debt restructuring introduced as a complement to a fundamental and sustained redirection of policies can help provide the basis for resumption of growth with financial stability. (Oil also helped, but other oil producers experienced debt servicing

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<sup>1/</sup> The other three countries that obtained multilateral debt relief during these 15 years were Democratic Kampuchea, India and Pakistan. The agreements for Democratic Kampuchea covered two years and involved only France and the Federal Republic of Germany as creditors. On five occasions over 1969-1977 the Aid Consortium for India decided to provide concessional assistance in the form of debt relief. Most provisions were to be negotiated bilaterally, with the multilateral agreements specifying only that relief should equal a given percentage of debt service due (ranging from 20 percent to 45 percent in various years) and setting a minimum grant element. The Consortium for Pakistan provided assistance in refinancing maturities that had been deferred on an interim basis after the separation of Bangladesh.

difficulties in recent years.) In the case of Ghana, on the other hand, considerable economic difficulties were encountered during much of the 10 years' grace period. More recently, the 1983 and 1984 Paris Club agreements for the Sudan provided for the consolidation of 100 percent of principal and interest, including that on previously rescheduled debt, with 15 years' maturity and a grace period in excess of five years; one half of the interest due in 1983 and 1984 on the amount rescheduled was capitalized and consolidated together with other payments.

The experience of these three countries that received exceptional terms, combined with that of the five countries that had repeated reschedulings but resolved their problems without exceptional terms, would indicate that the need for new approaches and procedures should be analyzed on a case-by-case basis to ensure both that exceptional assistance is, in fact, required and that it is tailored with a view to the nature of the problem and its eventual resolution. In this context it might be noted that, while most of the repeat reschedulers in the earlier years were among the largest and more diversified economies in the developing world, seven of the nine countries with three or more reschedulings in recent years were relatively low-income, African countries.

As noted in Section III, official creditors have in recent years responded flexibly to the needs of countries facing prolonged debt servicing difficulties. For the nine countries that have had three or more reschedulings in the period since 1975, the most recent agreements all provided effective debt relief equal to between 95 and 100 percent of principal and interest falling due in the consolidation period, and for five countries agreements have covered service on previously rescheduled debt. Official creditors have, moreover, demonstrated their willingness to provide, through successive agreements, long effective consolidation periods, and they have lengthened grace periods and maturities to about five and 10 years, respectively, in most recent agreements for countries with three or more reschedulings.

The flexibility already being exercised in dealing with cases of prolonged debt servicing difficulties has resulted, in some exceptional cases, in the actual debt service burden being reduced to but a very small fraction of scheduled obligations. In such cases there is, therefore, virtually no scope for further financing through debt relief. Moreover, other approaches dealing mainly with existing debt, such as debt forgiveness or retroactive terms adjustment (as under UNCTAD's Trade and Development Board Resolution 165 (S-IX) of March 1978), also would not provide additional financing. Any further assistance to those countries that exhibit a fundamental disequilibrium in their external accounts even after the virtual elimination of the immediate burden of past borrowing would, therefore, have to take the form of new bilateral or multilateral aid flows. In this context, it may be noted that Paris Club participants view debt relief as a means to assist debtor countries in temporary debt servicing difficulties and not as an

instrument for the provision of concessional assistance. The position maintained by official creditors is that concessional assistance should be sought directly or through an appropriate forum such as Consultative Group meetings.

While neither longer grace periods and maturities nor such alternative approaches as terms adjustment and debt forgiveness would provide significant additional financing in the period immediately ahead, they would of course alter the debt service profile faced by the country over the medium term. Such approaches, if taken in support of a major and credible reorientation of economic policies in the debtor country, could both signal and encourage confidence that the country will be in a position to meet its debt service obligations. This, in turn, would facilitate the restoration of the country's access to official and private credits. Absent such a reorientation of policies, however, it is unlikely that even a far-reaching restructuring of the service profile on existing debt would induce confidence in the country's ability to service any new credits.

