
Debt problems of developing countries



UNITED NATIONS

PC
336.36091724
UNI

8.50
440
UNITED NATIONS CONFERENCE ON TRADE
AND DEVELOPMENT

Geneva

Debt problems of developing countries

Report by the UNCTAD secretariat



UNITED NATIONS
New York, 1972

NOTE

The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatsoever on the part of the United Nations Secretariat concerning the legal status of any country or territory or of its authorities, or concerning the delimitation of its frontiers.

PC

336.3609 724

UN

35633
18.5.77

[Signature] 20/7/90
25/7/77

[Signature]
27/7/90

TD/118/Supp.6/Rev.1

UNITED NATIONS PUBLICATION
Sales number : E.72. II.D. 12

Price : \$U.S. 1.00
(or equivalent in other currencies)

CONTENTS

	<i>Paragraphs</i>	<i>Page</i>
Explanatory notes and abbreviations		iv
Summary	1-11	1
<i>Chapter</i>		
I. The debt problem	12-43	3
A. Establishing an economic context in which to evaluate debt-servicing problems	22-31	5
B. Appropriate policies in borrowing countries	32-36	8
C. Indicators of the debt-servicing burden	37-43	9
II. Debt and debt-servicing: past trends and the outlook for the future	44-58	12
III. Remedial measures	59-86	19
A. Altering the volume and terms of assistance	60-61	19
B. Debt renegotiation	62-69	20
C. Recent experience in debt relief	70-74	21
D. Towards new policies and new standards	75-81	23
E. Institutional aspects	82-86	25

Annex

<i>Table</i>	
1. Debt outstanding in 1969 (including undisbursed) and debt service thereon	27
2. Service payments on external public debt as percentage of exports of goods and services, 1965-1969	29

EXPLANATORY NOTES

The following symbols have been used in the tables throughout the present report: Three dots (...) indicate that data are not available or are not separately reported.

A dash (—) indicates that the amount is nil or negligible.

An oblique stroke (/) indicates a financial year, e.g., 1964/65.

Use of a hyphen (-) between years e.g., 1963-1965, signifies the full period involved, including the beginning and end years.

Details and percentages in tables do not necessarily add to totals, because of rounding.

References to dollars (\$) are to United States dollars, unless otherwise indicated.

The term "billion" signifies a thousand million.

ABBREVIATIONS

DAC	Development Assistance Committee (of OECD)*
GDP	Gross domestic product
GNP	Gross national product (at market prices)
IBRD	International Bank for Reconstruction and Development (World Bank)
IDA	International Development Association
IMF	International Monetary Fund
OECD	Organisation for Economic Co-operation and Development

* The members of this Committee are as follows: Australia, Austria, Belgium, Canada, Denmark, Federal Republic of Germany, France, Italy, Japan, Netherlands, Norway, Portugal, Sweden, Switzerland, United Kingdom of Great Britain and Northern Ireland, United States of America and the Commission of the European Communities.

SUMMARY

1. The rise from 1965 to 1969 in service payments on the official and officially guaranteed debt of 80 developing countries outpaced the advance in gross flows of new capital in these categories, so that the net transfer of resources declined slightly over this period. If account is taken of increases in the prices of goods and services financed by these flows, the decline in the net transfer in real terms was of the order of 15 to 20 per cent over the period 1965 to 1969. There was a significant drop in the transfer of resources to some of the lowest income countries—certain African countries, India and Pakistan.

2. A substantial number of countries have been compelled to seek renegotiation of debt during recent years. There are some other countries which, while they have not encountered the kind of circumstances of imminent crises that would alone have qualified them for debt relief, have nevertheless found themselves seriously hampered by the encroachment of debt service on import capacity in the face of inadequate export growth and stagnating flows of concessional assistance.

3. In the light of the targets set for the Second United Nations Development Decade, and on cautious assumptions regarding the means of attaining them, it appears that the pressure of the debt problem may increase during the 1970s and that a larger number of countries may be faced with difficult situations than in the 1960s.

4. This would call for vigorous efforts in developing countries to improve debt management and in particular to maintain careful control over the accumulation of new debt in a manner that would ensure that new obligations were undertaken only for projects of high priority and that debt servicing requirements were brought into a reasonable relationship with foreign exchange availabilities.

5. An important feature of any new approach to the debt problem should be a recognition of the fact that the solution of this problem is inextricably linked with the achievement of the development goals to which the international community is committed. Thus far the view has generally prevailed that debt relief should be limited to exceptional and critical cases, that the relief provided should be the minimum needed to permit a resumption of debt service payments, and that any cost to the creditors resulting from postponement of such payments should be paid for through additional interest at commercial rates. With few exceptions, the relationship between debt relief and aid has not been acknowledged.

6. A determining factor in the magnitude and extent of the debt problem during the 1970s will be the volume of official development assistance provided. Achievement of the target set in the International

Development Strategy for The Second United Nations Development Decade for such assistance—0.7 per cent of the GNP of donor countries—is vital if the number of critical situations is to be minimized.

7. Careful consideration should be given to the recommendations of the Commission on International Development (Pearson Commission) on the debt problem, namely:

“1. Debt relief operations should avoid the need for repeated reschedulings and seek to re-establish a realistic basis for development finance;

“2. When it is necessary to set limits on new export credits, equal attention should be given, where there is a sound development programme, to the possible need for concessional external assistance;

“3. Aid-giving countries should consider debt relief a legitimate form of aid and permit the use of new loans to refinance debt payments, in order to reduce the need for full-scale debt negotiations;

“4. The terms of all official development assistance loans should henceforth provide for interest of no more than 2 per cent, a maturity of between 25 and 40 years, and a grace period of 7 to 10 years.”¹

8. In particular, “short-leash” policies should be modified, and settlements should be of a character that permit debtor countries to plan ahead with a reasonable sense of security.

9. Considerable benefit could follow from the inclusion in loan agreements of a “bisque clause” whereby the debtor would, under certain conditions, be accorded some pre-agreed measure of relief, such as the postponement or waiving of amortization and interest payments.

10. Debt relief should not be limited to crisis situations. Renegotiations of debt, on concessional terms where necessary, should be regarded as open for consideration in any case where, after reasonable domestic policies have been adopted, the burden of debt service clearly makes severe demands on savings or import capacity. Such factors as a constant or declining trend in *per capita* consumption, or an inadequate rate of growth of foreign exchange availabilities owing to sluggish exports, stagnant capital inflows, or both, should be taken as a *prima facie* justification for consideration of debt relief.

11. The level of present and prospective debt service obligations should be examined within some suitable multilateral framework in conjunction with the question of the volume and terms of new capital flows, and both should be mutually adjusted in the manner best calculated to achieve the requisite net transfer of resources. In addition, there may be a need for new institutional arrangements, or new institutional machinery, to conduct debt negotiations on a more systematic basis and to formulate standards and procedures to be applied in such negotiations, so that wide discrepancies do not develop in the treatment of countries in roughly similar situations, as appears to have occurred in the past.

¹ See *Partners in Development: report of the Commission on International Development* (London, Pall Mall Press, 1969), pp. 166-167.

Chapter I

THE DEBT PROBLEM

12. The indebtedness of developing countries has become a matter of growing concern to the international community. During the 1960s, the total external public indebtedness of 80 developing countries grew at an average annual rate of 14 per cent, and at the end of 1969 stood at about \$59 billion.² During the same period, service payments on account of interest and amortization increased at an average annual rate of 9 per cent and total service payments amounted to \$5 billion in 1969 and are estimated at \$5.9 billion in 1970.³ These rates of increase compare with annual growth rates of 6.6 per cent for exports and about 5 per cent for incomes in the developing countries as a whole, indicating that debt service payments are claiming an ever increasing share of the export earnings and incomes of these countries.

13. Particularly disturbing is the fact that notwithstanding an increase in disbursements of official grants and loans (including publicly guaranteed loans) from \$8.8 billion in 1965 to \$10.2 billion in 1969, the net transfer of resources after allowing for repayment of amortization and interest declined from \$5.4 billion to \$5.2 billion, as shown in table 1. And in this brief span of four years amortization and interest payments rose from 39 per cent of the inflow in 1965 to 49 per cent in 1969. Moreover, if account is taken of increases in the prices of the goods and services which are normally financed by financial flows, the decline in the net transfer of official and officially guaranteed grants and loans in real terms was of the order of 15 to 20 per cent over the period 1965-1969. The decline in the net transfer of resources in current and constant prices is particularly disturbing when account is taken of the fact that, on the whole, the largest declines occurred in the lowest-income countries in Africa, and in India and Pakistan.

14. During the same period, a number of developing countries experienced such acute difficulty in meeting their debt-servicing obligations

² World Bank—International Development Association, *Annual Report 1971* (Washington, D.C.), p. 50. (In a foot-note IBRD defines external public debt as "all debt [including private debt] that is repayable to external creditors in foreign currency with an original or extended maturity of more than one year, and that is a direct obligation of, or has repayment guaranteed by, the central or local government, a political sub-division or agency of either, or an autonomous public body, in the debtor country".)

³ *Ibid.*

Chapter II

DEBT AND DEBT SERVICING : PAST TRENDS AND THE OUTLOOK FOR THE FUTURE

44. The total public external indebtedness of 80 developing countries rose from \$21.6 billion in 1961 to \$59.3 billion in 1969, an almost three-fold expansion. Table 2 shows the distribution of this increase among the principal geographic regions. In the western hemisphere, which in 1961 accounted for 41 per cent of total debt outstanding, debt accumulated during the period at a slower pace than in other areas, with the result that the Western Hemisphere's share in total debt outstanding fell to 30 per cent of the total in 1969.⁷ In South Asia, East Asia and the Middle East, on the other hand, indebtedness mounted at a particularly rapid rate, and the combined share of these areas in total debt outstanding rose from nearly 33 per cent in 1961 to about 44 per cent in 1969. The debt of the other areas grew at roughly the same rate as the average for all countries.

45. The composition of outstanding debt by loan category also varied from region to region. In the western hemisphere, indebtedness to private creditors accounted for 38 per cent of the area's total debt in 1969. In the Middle East this proportion was as high as 50 per cent, while in South Asia debt to private creditors amounted to only 8 per cent of the total (see annex table 1).

46. Debt-service payments made by the 80 developing countries increased from \$2.3 billion in 1961 to \$5.0 billion in 1969. As may be seen from table 2, the experience of the various regions differed in this respect also. Debt-service payments originating in the western hemisphere, which accounted for more than half of the total in 1961, increased between 1961 and 1969 at an annual rate of only 7 per cent. Debt-service payments originating in East Asia and Southern Europe increased approximately at the same rate as total payments. In the case of South Asia and the Middle East, payments increased at a rate comparable to that of the total during the period 1961-1965 but then accelerated during the period 1965-1969. Whereas in 1961 debt-service payments originating in Africa accounted for 7.4 per cent of the total, these payments increased at a particularly rapid rate and in 1969 accounted for 14.5 per cent of the total.

⁷ For the country coverage of geographic regions, see the foot-notes to table 2.

Chapter III

REMEDIAL MEASURES

59. In considering the steps that are necessary when a country's debt situation reaches the point at which remedial measures are required, it is important to take into account whatever further action the debtor country itself may take to improve its debt situation both in the immediate future and in the longer run. It was pointed out above (see paras. 32-36) that debtor countries have the responsibility of following policies that will avoid the emergence of debt problems—in so far as this is within their control and is consistent with reasonable development policies. If debt problems do nonetheless emerge, it is necessary for the debtor country to review its past actions, with a view to determining what alterations in its own policies might be appropriate, and to ensuring that past policy errors, if any have indeed occurred, will not be repeated. In such cases, however, appropriate measures on the part of creditor countries may also be required.

A. ALTERING THE VOLUME AND TERMS OF ASSISTANCE

60. It follows from the discussion in chapter I that, for external assistance to play its full role in the development process, policies should be directed toward the attainment of two basic objectives: first, achievement of a continuing net transfer of resources that is adequate in terms of development goals, and secondly, to ensure that future debt-service payments do not rise above the levels consistent with a net transfer of resources adequate for future needs. Policies that achieve a satisfactory net transfer initially at the cost of creating excessive debt-service obligations later on are not truly remedial, as they inflate future capital requirements to unattainable levels and make the recipients over-dependent on the availability of new loans. Similarly, if a country's debt-servicing obligations are kept at "manageable" long-run levels by severe limitations on new borrowing, its development programme may be adversely affected and its ability to meet even reasonable amounts of debt service may be endangered.

61. While in principle it is always possible to deal with a case of debt-servicing difficulties by adjusting the volume and terms of new flows, in practice this may not be feasible in all cases given the politically determined ceiling on new gross disbursements. If the servicing obligations arising out of existing indebtedness are not too great, and the terms of new lending are sufficiently soft, the situation may be eased through

ANNEX

TABLE 1

Debt outstanding in 1969 (including undisbursed) and debt service thereon ^a
(Millions of dollars)

	Outstand- ing debt	Percent- age of regional Total	Percent- age of item Total	Total debt service 1970-1975	Percent- age of regional Total	Percent- age of item Total
<i>Africa</i>						
Total official	7 134.4	77.7	16.5	3 298.1	67.8	16.6
Bilateral official	5 492.5	59.8	17.3	2 673.5	55.0	18.3
Multilateral	1 641.9	17.9	14.4	624.6	12.8	12.0
Total private	2 048.8	22.3	12.7	1 565.8	32.2	11.6
TOTAL	9 183.5	100.0	15.5	4 863.9	100.0	14.6
<i>East Asia</i>						
Total official	5 239.8	68.9	12.1	2 313.7	53.8	11.7
Bilateral official	4 022.0	52.9	12.6	1 753.6	40.8	12.0
Multilateral	1 217.8	16.0	10.7	560.1	13.0	10.7
Total private	2 369.4	31.1	14.6	1 938.9	46.2	14.7
TOTAL	7 609.2	100.0	12.8	4 302.6	100.0	12.9
<i>Middle East</i>						
Total official	2 439.2	50.0	5.6	1 472.6	48.9	7.4
Bilateral official	2 035.5	41.7	6.4	1 213.8	40.3	8.3
Multilateral	403.7	8.3	3.5	258.8	8.6	5.0
Total private	2 444.0	50.0	15.1	1 535.8	51.0	11.3
TOTAL	4 883.2	100.0	8.2	3 008.4	100.0	9.0
<i>South Asia</i>						
Total official	12 681.1	91.8	29.4	4 528.7	81.7	22.8
Bilateral official	9 977.2	72.2	31.4	3 686.6	66.5	25.2
Multilateral	2 703.9	19.6	23.8	842.1	15.2	16.2
Total private	1 127.8	8.2	7.0	1 011.7	18.3	7.5
TOTAL	13 808.9	100.0	23.3	5 540.4	100.0	16.6
<i>Southern Europe</i>						
Total official	4 700.7	75.5	10.9	2 567.3	64.7	12.9
Bilateral official	3 550.2	57.0	11.2	1 982.6	50.0	13.6
Multilateral	1 150.5	18.5	10.1	584.7	14.7	11.2
Total private	1 527.5	24.6	9.4	1 399.5	35.3	10.3
TOTAL	6 228.2	100.0	10.5	3 966.8	100.0	11.9

TABLE 1 (continued)

Debt outstanding in 1969 (including undisbursed) and debt service thereon ^a
(Millions of dollars)

	Outstand- ing debt	Percent- age of regional Total	Percent- age of item Total	Total debt service 1970-1975	Percent- age of regional Total	Percent- age of item Total
<i>Western hemisphere</i>						
Total official	10 948.1	62.2	25.4	5 650.0	48.3	28.6
Bilateral official	6 722.1	38.2	21.1	3 311.1	28.3	22.6
Multilateral	4 226.0	24.0	37.2	2 338.9	20.0	44.9
Total private	6 670.2	37.9	41.2	6 046.7	51.6	44.6
TOTAL	17 618.3	100.0	29.7	11 696.7	100.0	35.0
<i>80 developing countries</i>						
Total official	43 143.5	72.7	100.0	19 835.6	59.4	100.0
Bilateral official	31 799.7	53.6	100.0	14 626.5	43.8	100.0
Multilateral	11 343.8	19.1	100.0	5 209.1	15.6	100.0
Total private	16 187.7	27.3	100.0	13 544.0	40.6	100.0
TOTAL	59 331.2	100.0	100.0	33 379.6	100.0	100.0

Source: World Bank—International Development Association, *Annual Report, 1971*.

^a Country coverage as in table 1 in the text. The notes given on specific geographic areas in that table apply also to the present table.

TABLE 2

**Service payments on external public debt as percentage of exports of goods
and services, 1965-1969**

<i>Area/Country</i>	<i>1965</i>	<i>1966</i>	<i>1967</i>	<i>1968</i>	<i>1969</i>
<i>Africa</i>					
Botswana ^a	3.5	3.3	5.4	6.7	3.3
Burundi	2.3	2.2	2.5	3.0	3.6
Cameroon ^a	3.2	4.0	4.0	3.5	3.3
Central African Republic ^a				4.2	5.5
Chad ^a			2.9	11.5	9.9
Dahomey ^a	4.9	6.3	5.2	7.0	3.8
Ethiopia	4.9	7.6	9.5	9.2	10.6
Gabon ^a	5.0	5.4	5.8	8.0	8.2
Ghana	18.8	6.5	7.2	12.3	9.9
Guinea ^a				8.9	
Ivory Coast	4.2	4.7	7.0	5.8	4.9
Kenya ^b	5.5	5.7	6.8	6.9	5.8
Lesotho	1.4	2.4	1.2		
Liberia ^a	8.6	6.0	6.0	6.8	6.4
Madagascar ^a		3.8	8.7	6.1	5.8
Malawi	5.5	5.6	5.7	6.3	5.3
Mali	11.8	11.8	16.1	14.5	23.2
Mauritania ^a	1.2	1.0	1.5	1.7	2.9
Mauritius	2.3	3.2	3.5	6.6	3.1
Morocco	4.7	6.8	6.6	7.2	8.5
Niger ^a	1.7	1.9	1.5	3.6	7.0
Nigeria	3.3	5.4	5.1	6.2	6.2
Rhodesia (Southern)	4.4	1.9	3.2	3.7	2.7
Rwanda ^a			6.8	2.5	
Senegal ^a	1.9	2.1	2.3	2.3	3.4
Sierra Leone	6.1	7.6	8.7	6.1	7.0
Somalia	1.4	2.1	2.1	1.9	1.4
Sudan	5.7	6.5	5.4	7.1	9.3
Swaziland ^a	3.9	3.4	3.4	3.3	2.7
Tanzania ^b (United Republic of)	4.4	3.7	4.8	6.7	6.3
Togo	2.3	1.3	2.4	4.0	
Tunisia	7.4	14.2	20.1	22.4	20.4
Uganda ^b		4.4	5.5	8.4	9.7
Upper Volta ^a	3.4	3.7	4.5	7.5	8.7
Zaire	1.4	1.8	1.9	2.9	3.1
Zambia	4.2	2.1	2.3	2.7	2.0
<i>East Asia</i>					
Indonesia	11.0	9.1	7.0	9.1	5.9
Korea (Republic of)	2.7	3.6	5.6	7.5	12.4
Malaysia	1.2	1.4	2.1	2.1	2.2
Philippines ^c	5.3	6.3	7.2	5.3	5.5
Singapore	0.1	0.1	0.1	0.3	0.4
Thailand	3.2	2.9	3.7	3.2	3.3

TABLE 2 (continued)

**Service payments on external public debt as percentage of exports of goods
and services, 1965-1969**

<i>Area/Country</i>	1965	1966	1967	1968	1969
<i>Middle East</i>					
Iran ^d	8.6	7.6	7.8	10.5	13.8
Iraq	0.5	0.8	0.8	1.4	1.9
Israel	21.4	20.3	14.5	16.2	16.5
Jordan	1.0	1.4	1.5	1.8	2.8
Syrian Arab Republic			6.8	7.5	8.8
<i>South Asia</i>					
Afghanistan	7.9	8.9	16.6	16.6	20.0
Ceylon	2.0	2.8	3.4	7.1	8.3
India ^e	16.5	19.8	22.6	20.3	22.0
Pakistan	11.0	12.9	16.8	19.4	21.7
<i>Southern Europe</i>					
Cyprus	1.5	1.4	2.3	2.0	1.9
Greece	3.1	3.5	4.6	4.4	4.6
Malta	0.5	0.8	1.2	1.2	1.4
Spain	2.1	1.8	1.8	2.1	3.1
Turkey	24.5	17.6	14.7	15.9	16.7
Yugoslavia ^f	14.0	13.1	12.1	13.0	14.6
<i>Western hemisphere</i>					
Argentina	20.1	25.3	26.8	27.2	23.9
Bolivia	4.7	4.7	5.8	5.5	5.6
Brazil ^g				20.9	17.9
Chile	15.3	13.2	12.4	16.0	15.9
Colombia	14.4	16.5	14.0	12.8	11.2
Costa Rica	10.3	12.0	11.9	12.1	10.5
Dominican Republic	19.3	12.6	7.2	7.8	8.7
Ecuador	6.3	6.4	6.3	8.3	10.4
El Salvador	3.6	3.6	2.6	2.6	3.2
Guatemala	5.0	5.5	9.8	8.5	8.7
Guyana	4.1	3.9	4.3	3.5	3.5
Honduras	2.4	2.1	2.0	1.7	2.3
Jamaica	1.9	2.0	2.5	3.3	3.1
Mexico	24.7	21.2	21.5	25.1	22.4
Nicaragua	4.3	5.3	6.1	6.7	9.1
Panama	2.5	2.3	2.3	2.5	2.5
Paraguay	6.6	5.4	7.2	9.4	8.8
Peru	6.8	9.7	10.6	22.0	13.8
Trinidad and Tobago	1.9	2.0	1.9	1.5	2.1
Uruguay	6.7	12.3	20.3	19.2	18.8
Venezuela	1.6	2.7	2.0	2.0	2.0

Source: World Bank—International Development Association, *Annual Report*, 1971.

- ^a Exports of goods only.
- ^b Includes one third of the debt service of the East African Community.
- ^c Excludes debt service on publicly-guaranteed debt of the private sector.
- ^d Consortium exports of oil valued at posted price.
- ^e Includes debt service on some non-guaranteed private debt.
- ^f Excludes debt service on non-guaranteed debt of the "social sector" contracted after 31 March, 1966.
- ^g Includes debt service on some unguaranteed private debt.

35033
(8 577)