# IV Effects of the Pyramiding of Multilateral Debt Service

## A Build-Up of Arrears to Other Creditors

To a large degree, debt service payments to multilaterals by all severely-indebted countries are being financed increasingly by a rapidly growing level of *arrears* in payments to other creditors (mainly bilateral and private) as shown in table 5.

**Table 5 Growth in Developing Country Debt Service Arrears (billions of US dollars)**

| | 1987 | | | 1992 | | |
|---|---|---|---|---|---|---|
| | Interest | Principal | Total | Interest | Principal | Total |
| All LDCs: | 20.8 | 37.0 | 57.8 | 43.2 | 65.0 | 108.2 |
| SILICs: | 6.9 | 15.0 | 21.9 | 11.7 | 20.4 | 32.1 |
| SIMICs: | 12.6 | 17.3 | 29.9 | 26.9 | 34.6 | 61.5 |

Arrears to all categories of creditors have increased between 1987-92 although arrears to bilateral creditors and private creditors have increased the most rapidly while arrears to multilaterals have grown at a slower pace indicating that pre-emptive debt service to multilaterals is occurring at the expense of arrears exacerbation especially to bilateral official creditors. Overdue payments (of interest and principal) owed to *private* creditors by SILICs grew from $4.9 billion to $8.2 billion in between 1987-92 while in the case of SIMICs they grew from $17.4 billion to $47.7billion over those five years. Arrears to *official* creditors over the same period grew from $17.1 billion to $23.9 billion in the case of SILICs and from $ 12.5 billion to $13.8 billion in the case of SIMICs with bilateral creditors accounting for around 85-90% of these amounts.

**Arrears to the IMF:** As shown in Table 6, protracted arrears to the IMF barely existed at the beginning of the 1980s and were confined to one country. During the second half of the 1980s they rose rapidly, to reach a peak of SDR 3.6 billion at the end of 1991 (of which over 90% were more than 1 year overdue). Since then, they have fallen slightly, to SDR 3 billion at the end of March 1993.[3] Since 1989, rises in arrears for other countries more than offset the clearance of arrears by Guyana, Honduras and Panama, and only Peru's clearance in 1993 enabled a net reduction in arrears.



*From: Multilateral Debt: An Emerging Crisis?*
*FONDAD, The Hague, 1994, www.fondad.org*

**Table 6 Arrears to IMF as at year-end**

| | SDR millions | | | Number of Countries | |
|---|---|---|---|---|---|
| | Total | < 1 Year | > 1 Year | < 1 Year | > 1 Year |
| 1981 | 34.4 | 11.9 | 22.5 | 19 | 1 |
| 1982 | 29.3 | 6.1 | 23.3 | 15 | 1 |
| 1983 | 60.3 | 36.4 | 24.0 | 13 | 1 |
| 1984 | 178.2 | 144.8 | 33.5 | 21 | 3 |
| 1985 | 621.1 | 502.6 | 118.6 | 21 | 4 |
| 1986 | 1035.6 | 678.4 | 357.2 | 15 | 6 |
| 1987 | 1752.4 | 781.1 | 971.3 | 19 | 7 |
| 1988 | 2611.9 | 888.6 | 1723.3 | 7 | 10 |
| 1989 | 3099.4 | 640.2 | 2459.1 | 3 | 11 |
| 1990 | 3420.8 | 467.1 | 2953.7 | 6 | 9 |
| 1991 | 3624.5 | 356.8 | 3267.5 | 4 | 9 |
| 1992 | 3595.6 | 203.3 | 3392.3 | 10 | 10 |
| Mar 1993 | 3010.2 | 176.8 [a] | 2868.6 [a] | 6 [a] | 9 [a] |

[a] end-February 1993: estimated
Source: IMF documents

**Arrears to the World Bank:** Aggregate data on arrears to the World Bank are available only for payments more than three months overdue while data disaggregated by country are available only for those more than six months overdue (i.e. in 'non-accrual status'). Table 7 shows arrears rising consistently from FY 1988 (with $790 million in non-accrual status), peaking in FY 1991 ($ 1,783 million in non-accrual). However, in FY 1992 they fell to $1,607 million. Arrears first began to fall in FY 1992, when Nicaragua, Panama and Sierra Leone became current. In March 1993, Peru cleared its arrears, but the former Yugoslav Republics of Macedonia and Bosnia-Herzegovina have since fallen into protracted arrears. As of June 30, 1993 a total of nearly $1.3 billion was overdue for more than six months from six countries (Congo, Iraq, Liberia and Syria in addition to the two already mentioned). Protracted arrears to IDA remain negligible. On June 30, 1993, they totalled $39 million and were owed by Afghanistan, Congo, Haiti, Liberia, Somalia and Syria. This was more than double the amount of $18 million in arrears in FY1988.

3 Almost all of the overdue amounts are owed on non-concessional facilities: only SDR 8.5 million was overdue on SAF loans in March 1993, though this has risen from under SDR 1 million in mid-1992 and could be expected to rise faster in future years as more repayments become due.



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**Table 7 Arrears to IBRD and IDA, 1987-92 (end of fiscal year, June, millions of US dollars)**

| | 1988 | 1989 | 1990 | 1991 | 1992 |
|---|---|---|---|---|---|
| Afghanistan | – | – | – | – | 1 |
| Congo | – | – | – | – | 39 |
| Guatemala | – | – | 27 * | 69 | 67 |
| Guyana | 24 | 34 | – | – | – |
| Haiti | – | – | – | – | 3 |
| Honduras | – | 69 | – | – | – |
| Iraq | – | – | – | 14 | 25 |
| Liberia | 33 | 55 | 93 | 114 | 150 |
| Nicaragua | 137 | 166 | 195 | 226 | – |
| Panama | 63 | 141 | 203 | 201 | – |
| Peru | 317 | 496 | 760 | 856 | 923 |
| Sierra Leone | 5 | 7 | 10 | 12 | – |
| Socialist FR Yugoslavia** | – | – | – | – | 16 *** |
| Somalia | – | – | – | – | 8 |
| Syria | 105 | 162 | 257 | 309 | 399 |
| Zambia | 106 | 174 | 263 | – | – |
| Total Overdues | | | | | |
| > 6 Months | 790 | 1304 | 1780 | 1795 | 1615 |
| > 3 Months | 792 | 1311 | 1808 | 1801 | 1632 |

Notes: – less than $1 million
* in non-accrual from July 2, 1990. Total overdue here as at June 30, 1990
** arrears owed by Bosnia-Herzegovina, Macedonia, Montenegro, Serbia
*** overdue by between 3 and 6 months.
Sources: World Bank Annual Reports, 1988-92.

**Arrears to other Multilaterals:**[4] Arrears to most other multilaterals have risen sharply since the mid-1980s: in 1985, apart from Egyptian arrears, they were virtually zero. They peaked at over $3 billion in 1989, and are still above $2.5 billion. Total arrears to the AfDB rose from under $100 million in 1988 to over $400 million in 1992. Arrears to the IDB rose to over $500 million by 1990, before falling sharply with the clearance of Peru's arrears. There have been no significant arrears to the AsDB. Arrears to EC institutions now exceed $250 million, and those to the OPEC Fund are almost $200 million. But the worst affected have been Arab institutions, due to arrears from Egypt,

4 The following data on arrears to other multilaterals should be treated with extreme caution. With the exception of the African Development Bank, they are taken from the World Bank DRS system. They may therefore represent underestimates, since some debtor countries do not report their multilateral arrears fully to the World Bank.

Somalia and Sudan; arrears to them peaked at more than $2 billion in 1989, before falling to just over $500 million in 1991 after Egypt cleared most of its arrears.

## The Reduction of Net Transfers to Developing Countries

The impact of multilateral financial transactions with indebted developing countries on net transfers of real resources[5] is portrayed below. The net effect of multilateral lending operations to the developing world in the recent past has resulted in a desultory level of net transfers at a time when the multilateral system should perhaps have been compensating for negative net transfers on other creditor accounts. Table 8 shows that net debt-related transfers from multilaterals to the developing world as a whole collapsed between 1982-92 from $13.9 billion to $2.4 billion. Over the last three years net transfers to SILICs on all debt accounts have totalled a negative $4.6 billion, while to SIMICs the equivalent negative net transfer has been $45 billion, with over a third of that real resource outflow being accounted for by the multilateral system.

Multilateral net transfers to SIMICs have been negative since 1987 with multilaterals having extracted a total of nearly $16 billion from these countries between 1987-92 (see table 9). Even in SILICs where the external resource situation has been regarded as desperate, the net transfer impact of the multilateral system has been to deliver an insignificant amount annually in the last 5-6 years. But, although multilateral net transfers to SILICs fell sharply in the mid-1980s, they have never been negative. From their nadir in 1991 (when total net transfers from multilaterals to all SILICs fell sharply to a mere $253 million) they had recovered by 1992 to $1,744 million which was 45% higher than in 1982. SILICs received $7.1 billion of cumulative net transfers from multilaterals in 1987-92 – or less than $1.2 billion a year.[6]

5 It is often argued by multilateral institution managements that it is a fallacy to focus on net transfers but to focus instead on the net resource flows (i.e. on the principal account excluding interest payments). That self-serving argument needs to be debunked decisively. What matters for severely-indebted countries are not the finer points of a theoretical debate on the difference between current and capital account transactions but the loss of real resources at a time when their need to retain such resources has rarely been more critical. To debt-distressed developing countries money is money – whether it is paid back for principal (capital account) or interest (current account).

6 However, this is not the complete picture. It excludes the growing amounts of multilateral grants from the EC, the UN and the World Bank's "fifth window". Estimated total net transfers (based on OECD's data for DAC transfers and World Bank debt data) including grants from multilateral institutions to all developing countries fell from a peak of $18 bn in 1983 to a negative $3 bn in 1987, before rising again to $5 bn in 1992. Since the bulk of grants went to low-income countries, the picture for SILICs is probably about $1.5 bn a year more positive than for debt-related transfers.



*From: Multilateral Debt: An Emerging Crisis?*
*FONDAD, The Hague, 1994, www.fondad.org*

**Table 8 Net Transfers on Multilateral Debt Account* (billions of US dollars)**

| | 1982 | 1985 | 1988 | 1992 | 1982-92 |
|---|---|---|---|---|---|
| **All Developing Countries** | | | | | |
| Net Transfers on All Debt Accounts | 6.44 | – 26.74 | – 34.69 | – 3.57 | – 213.67 |
| Net Transfers on Multilateral Bank Debts | 8.76 | 6.76 | 1.47 | 4.65 | 53.97 |
| *Net Transfers on Non-Concessional MBD* | *5.44* | *2.58* | *– 3.19* | *– 1.45* | *5.74* |
| *Net Transfers on Concessional MBD* | *3.32* | *3.48* | *4.66* | *6.10* | *48.23* |
| Net Transfers on IMF Debt | 5.18 | – 3.08 | – 7.84 | – 2.24 | – 18.1 |
| Sub-Total (NTMD) | 13.94 | 3.68 | – 6.37 | 2.41 | 35.87 |
| Net Transfers on Other-Debt Accounts | – 7.50 | – 30.42 | – 28.32 | – 5.98 | – 249.5 |
| **Severely Indebted Low-Income Countries (SILICs)** | | | | | |
| Net Transfers on All Debt Accounts | 4.27 | 1.21 | 2.23 | – 2.28 | 11.90 |
| Net Transfers on Multilateral Bank Debts | 1.03 | 1.22 | 1.13 | 1.74 | 13.84 |
| *Net Transfers on Non- Concessional MBD* | *0.19* | *0.31* | *– 0.53* | *– 0.21* | *– 1.65* |
| *Net Transfers on Concessional MBD* | *0.84* | *0.91* | *1.66* | *1.95* | *15.49* |
| Net Transfers on IMF Debt | 0.19 | – 0.32 | – 0.45 | 0.00 | – 2.00 |
| Sub-Total (NTMD) | 1.22 | 0.90 | 0.68 | 1.74 | 11.84 |
| Net Transfers on Other-Debt Accounts | 3.05 | 0.31 | 1.55 | – 4.02 | 0.06 |
| **Severely Indebted Middle-Income Countries (SIMICs)** | | | | | |
| Net Transfers on All Debt Accounts | – 6.34 | – 24.80 | – 19.47 | – 17.37 | – 187.31 |
| Net Transfers on Multilateral Bank Debts | 2.10 | 1.07 | – 0.61 | – 1.54 | 3.18 |
| *Net Transfers on Non-Concessional MBD* | *1.94* | *1.00* | *– 0.72* | *– 1.56* | *2.26* |
| *Net Transfers on Concessional MBD* | *0.16* | *0.07* | *0.11* | *0.02* | *0.92* |
| Net Transfers on IMF Debt | 1.72 | 0.34 | – 1.93 | – 2.01 | – 0.66 |
| Sub-Total (NTMD) | 3.82 | 1.41 | – 2.54 | – 3.55 | 2.52 |
| Net Transfers on Other-Debt Accounts | – 10.16 | – 26.21 | – 16.93 | – 13.82 | – 189.83 |

* This table reflects Net Transfers only on External Debt Accounts. It does not factor in net transfers from other resource flows such as those emanating from grant aid or foreign direct or portfolio investments in equities. It is therefore a partial reflection of the overall net transfer situation. Nevertheless the table reflects how serious a drain on scarce real resources the debt crisis has resulted in.



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**Table 9 The Cumulative Impact of Multilateral Creditors on Net Transfers of Real Resources between 1987-92 (billions of US dollars)**

| | Non-Concessional Accounts | | | | Concessional Accounts | | | |
|---|---|---|---|---|---|---|---|---|
| | IBRD | Other | Total | IMF | IDA | Other | Total | TOTAL |
| All LDCs | −20.2 | +3.7 | −16.5 | −14.4 | +21.9 | +9.3 | +31.2 | + 0.3 |
| SILICs | − 5.5 | +3.7 | − 1.8 | − 1.9 | + 8.3 | +2.5 | +10.8 | + 7.1 |
| SIMICs | − 4.9 | −1.1 | − 6.0 | −10.3 | + 0.3 | +0.1 | + 0.4 | −15.9 |

These figures emphasise a critical point which is often obscured when multilateral institutions trumpet the amount of new lending they have done each year. The reality is that in 1992, the multilateral development banks (excluding the IMF) as a whole made lending commitments of nearly $50 billion to all developing countries, to achieve disbursements of about $34 billion but net transfers of only $4.6 billion.

*The multilateral development banking system thus has to lend more than 10 times the amount of net transfers it effects to the developing world because of the high and mounting debt-service obligations that developing countries have to make to these banks to keep the system functioning.*

The amount of SDRs purchased by all developing countries from the IMF increased by about $4.4 billion equivalent in 1992 (after averaging about $9 billion in the previous two years) but debt service payments to the IMF (in the form of repurchases and charges) amounted to over $6.6 billion resulting in the IMF withdrawing over $2.2 billion from the developing world.

In 1992 all developing countries together paid-back to multilaterals (the development banks and the IMF) in the form of debt service a total of about $36 billion. In the case of SILICs the net transfer situation relative to total lending is better than for other developing countries because of the high proportion of concessionality in multilateral lending (though for many SILICs even that is not sufficient). Total multilateral lending (including that of the IMF) to SILICs in 1992 amounted to over $5.4 billion with disbursements of $4.7 billion but net transfers of only $1.3 billion (after taking IMF repayments into account). By contrast, while multilaterals made commitments of nearly $32 billion to SIMICs and disbursed over $10 billion, they withdrew nearly $14 billion by way of debt service (including debt service to the IMF) resulting in a substantial flow of real resources from these countries to the multilateral development banks and the IMF.

The pattern of multilateral debt accretion which has occurred over the last decade of debt crisis management raises fundamental questions about the impact and implications of fast-disbursing multilateral lending operations –

especially for structural and sectoral adjustment. The economic outcomes of these loans and the programmes they financed have not yet generated the levels of sustainable growth required, nor sufficiently enhanced export earnings, to cover the additional debt service burdens imposed, as quickly as had been anticipated when these loans were made. The following numbers illustrate that point crudely. Between 1980-87 the outstanding stock of multilateral (including IMF) debt to sub-Saharan Africa increased by some $25 billion, most of it applied to lending for structural or sectoral adjustment. Between 1987-92, the debt stock increased by roughly a further $16 billion. Yet by 1992 the total GNP of that region was $24 billion *lower* than in 1980, and total export earnings from that region were $2.8 billion *lower* than in 1980, while total debt service obligations to multilateral institutions (including the IMF) were about $2.4 billion *higher*; having increased from under $1 billion in 1980 to nearly $3.4 billion in 1992.

Put differently, the trajectory of fast-disbursing multilateral lending to severely-indebted developing countries was forced onto a higher plane in the 1980s in the name of adjustment but actually used for continued debt-servicing to other creditors. That lending did not yield the economic pay-offs which were anticipated in terms of an economic turnaround in sufficient time. As a consequence debtors who borrowed heavily from multilateral institutions in the 1980s now find themselves squeezed in a classic 'timing trap' – i.e. their debt service payments on earlier borrowings now have to be met before the gains from economic reform have been fully captured. The refinancing provided by the multilateral system for this transitional period has simply compounded the problem, enlarged it and deferred it.

Clearly the burdens are not as onerous for debtor countries in the midst of a turnaround which are now enjoying a resurgence of capital and trade credit inflows. That is now the case for most of the major debtor countries of Latin America. They are exceptionally onerous for some of the SILMICs (like Jamaica) and even more so for SILICs in Africa whose response to adjustment ministrations (which were based on neoclassical paradigms unsuited to their structural constraints) has been either absent or excruciatingly slow. For these countries, refinancing of multilateral obligations is already being done with soft credits now refinancing hard loans; but the extent to which such refinancing can be engaged in is severely constrained by the absolute shortage of concessional multilateral resources.



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## Trends in The Accumulation of Multilateral Debt – Disaggregated by Institution

**The International Monetary Fund (IMF):** Debt owed by developing countries to the IMF rose by 60% between 1982-92. After almost doubling between 1982-86, it fell back sharply between 1987-88 before rising again after 1989. SIMIC debt to the IMF has quadrupled between 1982-92 to represent 21% of total multilateral debt in 1992. However, SILIC obligations to the IMF rose by only 41%, falling as a proportion of their total outstanding debt stock from 38% to only 14% by 1992. As a result, the burden of IMF debt service for SILICs peaked in 1986, and had fallen by 30% in nominal dollar terms by 1992, to account for only 13% of their multilateral debt service. In contrast, SIMIC debt service to the IMF in 1992 was eleven times the amount in 1982, and accounted for a much higher proportion (27%) of their total multilateral debt service. Nevertheless, seven of the nine countries currently most affected by service to the IMF are low-income countries. How they will fare in the future is difficult to say because projected debt service figures for the next five years were not made available to the author. The country with the highest burden of debt service to the IMF in 1991 was Uganda, whose repayments to the IMF exceeded 20% of its total export earnings in 1991. In the case of Argentina, Bangladesh, Bolivia, Ghana, Madagascar, Malawi, Tanzania and Zambia, debt service to the IMF exceeded 5% of their total earnings from exports in 1991.

**The World Bank Group (IBRD and IDA):** Debt owed by developing countries to the IBRD more than trebled (an average rise of 12.5% annually) between 1982-92. The peak period of growth was 1985-87, i.e. during the years that the Baker Plan was in operation before it became defunct. Since then it has risen by only 5% a year. Much of the change in outstanding stock levels (expressed in terms of US dollars) was due to movements in exchange rates rather than increased lending by the IBRD. Net flows of resources from IBRD have fallen by an average of $2.5 billion a year since 1988. The stock of debt owed by SIMICs to the IBRD almost quadrupled during the decade, while that of SILICs rose by 120%. Again, however, trends have changed sharply since 1987 with the debt obligations of SIMICs to the IBRD growing much more slowly than between 1982-86 and the debt obligations of SILICs actually falling by 13%. As a result, at the end of 1992, IBRD debt accounted for only 16% of SILIC multilateral debt, compared to 48% of SIMIC multilateral debt. One explanation for the declining trend in IBRD debt for SILICs is the relative decline in income and creditworthiness of many developing countries, particularly those in Sub-Saharan Africa, many of which have become ineligible to borrow from the IBRD in the course of the



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decade. In the early 1970s, 24 sub-Saharan countries were eligible to borrow from IBRD. By 1992, this number had shrunk to six.[7]

In 1992, debt service payments made by SIMICs to the IBRD were five times higher than in 1982, accounting for 46% of their total debt service to multilateral institutions while in the case of the SILICs debt service payments to the IBRD were four times higher in 1992 than a decade before and pre-empted 49% of their debt service to multilaterals, reflecting the greater concessionality of other SILIC debt on which repayment burdens are less onerous. The individual countries seriously affected by their debt obligations to the IBRD in 1992-94 are Bolivia, Cameroon, Colombia, Côte d'Ivoire, Guyana, Honduras, Jamaica, Kenya, Morocco, Nicaragua and Tanzania, for all of whom debt service to IBRD exceeds 5% of their 1991 export earnings.

IDA lending also grew rapidly (by almost 3.5 times) after 1982, particularly for the SILICs (in whose case outstanding debt to IDA increased by 3.8 times). Though debt owed to IDA now accounts for 19% of total multilateral debt of all developing countries and 39% of the multilateral debt of SILICs at the end of 1992, its concessionality prevents it from being a part of the multilateral debt problem.

In 1992 debt service payments to IDA accounted for less than 2% of all multilateral debt service payments made by developing countries, and 7% of the multilateral debt service payments made by SILICs. Very few individual countries face problems servicing IDA debt although, as noted earlier, six countries are in arrears for more than six months (at least three of these countries could afford to clear their arrears immediately but are not doing so for political rather than economic reasons). The annual debt service due to IDA between 1992-94 exceeded 5% of the 1991 level of export earnings only for Burundi, Guinea-Bissau and Uganda.

**The African Development Bank Group (AfDB and AfDF):** The African Development Bank Group has expanded its lending faster than any other major multilateral institution since 1982. Outstanding amounts of debt owed to both the hard-window African Development Bank (AfDB) and the soft-window African Development Fund (AfDF) were almost twelve times higher in 1992 than a decade ago. Of this rapidly increased total, more than $3 billion was owed to the hard window by SILICs. The resulting debt service payments to the AfDB have also risen much too fast, outstripping the capacity of African

7 Part of the problem with comparisons between 1982 and 1992 is that some debtor countries have moved from the SIMIC to the SILIC category (e.g. Nigeria) in the course of the decade while others have graduated out of the severely indebted category (e.g. Chile) while yet others have entered these categories during the decade. Nonetheless, the broad trends indicated by the aggregate numbers still tell a valid story despite these technical complications which need to be recognised and appreciated.

borrowers to meet their repayment obligations on schedule and resulting in a rising level of arrears to the institution. If that trend continued, it would threaten the financial standing of that institution. Though outstanding debt owed to the AfDB Group is an insignificant 2% of the total amount owed to multilateral institutions, it accounts nevertheless for 15% of the multilateral debt service of all SILICs (most of which are African) and for 17% of the multilateral debt service of African debtors. But the present numbers represent only the thin end of a larger wedge. Scheduled debt service obligations to the AfDB will virtually double by the mid-1990s. The problem is already acute for four African SILICs with debt service payments to the African Development Bank and Fund already exceeding 10% of export earnings in Burundi and Guinea-Bissau, and 5% in Sao Tome & Principe, and Uganda. In all cases except Sao Tome, it is the payments due to the hard-window of the AfDB debt that are mainly responsible for the problem which borrowers now face.

Unlike the World Bank and IDA, the AfDB was a relative late-comer in financing structural adjustment with most of its lending during the decade being for projects in countries which were already evidently uncreditworthy when much of this lending took place. On the face of it, this would suggest that this particular multilateral institution (i.e. its management, Board and shareholders) had learnt very little from the lessons of the debt crisis even when it was at its most intense. But, to an extent, the increase in AfDB lending was implicitly encouraged by OECD creditor countries, the World Bank and IMF. Despite the fact that its non-regional donors were unwilling (or unable) to provide the level of concessional resources which that institution needed to support the financing needs of its particular clientele, its participation was nevertheless actively sought in the 'financial programming packages' that were being put together by the IMF and World Bank between 1985-90 to support programmes of structural and sectoral adjustment throughout low-income Africa.

As noted earlier, these programmes have not worked in achieving a turnaround in debtor economies within the time-span originally anticipated. This was partly because they were inherently flawed in design and misconceived in intent, and partly because the debtor countries concerned were both reluctant and unable to implement these programmes as intended. The unfortunate result is that African SILICs are now saddled with much larger multilateral debts (owed to both the AfDB, World Bank and IMF) than their still fragile economies can possibly service; and yet they have little choice. The outcome poses a challenge both for the AfDB's debtors who have borrowed much more than they can reasonably hope to repay (given their obligations to other multilaterals as well as bilateral and private creditors), and for the institution in coping with the consequences of too large a proportion of non-performing assets on its balance-sheet.

**The Asian Development Bank & Fund (AsDB and AsDF):** The AsDB is not a significant part of the multilateral debt problem. Though the stock of debt owed to it by its Asian borrowers is now six times the level of 1982, it accounts for only 7% of total multilateral debt owed by all developing countries and less than 2% of the multilateral debt owed by SILICs. The Philippines was its largest debt-distressed borrower upto 1990 and the AsDB had nearly 13% of its total portfolio exposed in that country. But, the Philippines is no longer classified as a SIMIC. None of the countries which remain seriously affected by multilateral debt service problems owe large amounts to the AsDB, nor are debt service payments due to that institution likely to exceed 5% of the export earnings of any of its borrowing countries during 1992-94. However, the AsDB has large portfolio exposures in two large Asian countries (India and Indonesia) which are 'sailing close to the wind' in terms of their total debt exposures although the response of these economies to structural reforms has been encouraging so far. Providing the present trajectories in the revival and growth of these economies hold, they should avoid falling into a debt trap during the 1990s. If these reform efforts falter or fail, however, then the likelihood of these countries becoming severely-indebted will increase exponentially.

**The Inter-American Development Bank (IDB and FSO):** Unlike the AfDB, the IDB was fortunate (though for perverse reasons) to have avoided the problem of a massive increase in its loan portfolio during a decade when most of its borrowers were severely afflicted by the debt crisis. The stock of outstanding debt owed by Latin American and Caribbean borrowers to the IDB has grown relatively slowly in 1982-92, by only 2.4 times, although the IDB is the fourth largest multilateral creditor of developing countries. Moreover, 1992 debt service payments to the IDB exceeded $3.6 billion, more than five times the level of 1982 and over 10% of total multilateral debt service, making IDB debt service the third largest drain on developing country foreign exchange. Obligations to the IDB pose particularly onerous burdens for many SIMICs, accounting for 15% of their total obligations compared to only 4% for SILICs. Almost all of this is accounted for by the IDB hard loan window. The soft-loan window of the IDB, the Fund for Special Operations (FSO), is much smaller than in other multilateral institutions. It accounts for less than 10% of the outstanding stock of debt owed to IDB and 2% of the debt service payments due with both proportions falling. Problems in meeting their IDB debt obligations are confined to only five of its lower-income, smaller severely-indebted members. Scheduled 1992-94 debt service payments to the IDB were more than 10% of 1991 export earnings for Bolivia and Guyana, and more than 5% for Ecuador, Honduras and Nicaragua.

claims to those of multilateral agencies to enable a greater proportion of debt servicing be diverted to multilateral creditors through the 1990s – i.e. will bilateral and private creditors consider a much larger volume of cancellations and conversion of their claims than has hitherto occurred?

- Given the urgency of restoring positive multilateral net transfers to a wider group of SILICs and SIMICs what needs to be done by way of: (i) reducing multilateral debt service burdens through the 1990s; (ii) increasing multilateral disbursements; and (iii) increasing the concessionality of the multilateral lending mix for both SILICs and SIMICs?
- How should multilateral institutions and their managements be made more accountable for the consequences of their own actions?
  [At present any default on the part of the management or staff of these agencies – in, for example, misdesigning investment projects and adjustment programmes, misconstruing and misunderstanding the nature of debtor economies, engaging in imprudent over-lending or under-lending etc. – is paid for either by the debtor countries through enforced even if unaffordable debt service or by other creditors who have to tolerate higher levels of defaults, cancellations and arrears in order for multilateral debt service to be pre-emptively financed. No mechanisms are in place for multilateral lenders who err in their credit judgements to bear directly the costs of those errors.[8] That omission has, in part, led to the problem of multilateral over-lending which multilateral agency managements are understandably reluctant to have dealt with in the same way, and with the same sanctions and penalties, as they often advocate for other creditors].

These issues and questions need to be systematically and thoroughly addressed as a matter of the international public interest. In raising them for consideration as part of an international agenda for reform of multilateral institutions in the 1990s this paper eschews further detailed discussion of these questions and issues at this juncture – although the time for such discussion is perhaps overdue! Instead attention is turned to what might be done in the immediate future to ameliorate the growing burden of multilateral debt and to reverse some of the trends that would make its

8 Multilateral agency managements are becoming increasingly defensive about this issue. They have, through their lives created mechanisms and bureaucracies for insulating themselves, almost perfectly, from bearing any of the costs of mismanagement. Unlike their counterparts in private banks who are occasionally subject to the discipline of the marketplace, or in bilateral agencies who are often subject to the cruder discipline of politics, senior managers in multilateral agencies have effectively become answerable to no clear or singular authority. When discipline is attempted to be imposed on them the usual reaction is a playing of one lobby against another within the institution. The issue of accountability in the management of multilateral financial institutions is one which demands urgent political attention on the part of the leadership of the international community.



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