

Conclusions

The foregoing pages have attempted to establish why there is already a serious multilateral debt problem affecting several countries, especially African SILICs. That problem will grow larger as the 1990s unfold and the volume of commitments made between 1989-93 to finance adjustment and investment are translated into disbursements and outstanding loans on which debt service payments must be made. In all probability the multilateral debt crisis will widen beyond the countries that are presently affected in Africa, Central America and the Caribbean to engulf some countries in Eastern Europe and the Former Soviet Union and, if present reform efforts do not succeed, possibly some countries in Asia as well.

The following facts are disconcerting enough in telling the story:

- Debt service payments from all developing countries to multilaterals have increased more than five-fold over twelve years from less than \$7 billion in 1980 to over \$36 billion in 1992. They will probably exceed \$42 billion by the mid-1990s and \$50 billion by 1999.
- Debt service payments to multilaterals by all severely-indebted countries (SILICs and SIMICs) which were just about \$3 billion in 1980 had climbed to nearly \$17 billion in 1992.
- Arrears to the multilateral system which were negligible in 1980 grew to over \$9 billion in 1991 before dropping to around \$7.3 billion in 1992 with the clearance of large arrears by Guyana, Peru and Zambia to the IMF and other multilateral creditors during that year.
- At the beginning of 1993, eleven countries were overdue by more than 6 months on debt service payments to the IMF for an amount of over \$4.6 billion.
- In mid-1993, six countries were in arrears by more than six months to the World Bank for an amount of \$1.3 billion.
- At the end of 1992, twelve countries were in arrears by more than six months to the African Development Bank for an amount of over \$300 million.
- In the case of ten countries, scheduled multilateral debt service for 1992-94 exceeds 20% of their actual 1991 export earnings although eight of these countries were current on their debt service to multilaterals. In thirty-four other countries it exceeded 10% of export earnings.
- Net transfers from multilaterals to all developing countries were negative between 1987-89 and averaged about zero between 1987-92. Multilateral

net transfers were mildly positive for SILICs but highly negative for SIMICs.

The problem of multilateral debt has risen for a variety of reasons explained in this paper some of which have to do with default on the part of the multilaterals themselves. In African SILICs multilateral institutions – and in particular the Bretton Woods twins – through the 1980s have played an overwhelmingly dominant role, not merely as lenders of last resort but virtually as instruments of neo-colonial governance (on behalf of their OECD shareholders) in sub-Saharan Africa with unchallenged sway over determining the direction and thrust of economic policy and of public investment in most of the countries of that region.³⁶

Contrary to experience elsewhere, much multilateral lending during the 1980s for adjustment as well as for investment in Africa has not worked as well or as quickly as had originally been anticipated. A number of explanations have been provided for that outcome by the multilaterals – most of which unfortunately attempt to lay the blame elsewhere, but mainly on their borrowers. Some of the arguments are true while others are reminiscent of false arguments made by the global commercial banks to explain their disastrous bout of lending to the developing world in the 1970s. In the process their hapless borrowers have accumulated large multilateral debts which have proven unproductive but which must be repaid by them nevertheless.

Commercial banks and many bilateral creditors have already paid a price (for too large an amount of misguided lending) through rescheduling, refinancing, reduction and discounting of their claims on developing countries. Bilateral creditors will keep doing so for some time to come. Whether that price has been large enough or fair enough in comparison to the price that their borrowers have had to pay in terms of their development being reversed for over a decade will remain a matter of argument for a long time.

But the multilateral institutions are now attempting to draw the cloak of preferred creditor status around themselves for protection against paying any price whatsoever. Their main argument is that debts due to them cannot be reduced or relieved to any significant degree but must be repaid on time. To do otherwise would simply impose more difficult burdens on both their

36 In other regions their roles have not been quite as overwhelming and pervasive, with the more advanced Asian countries choosing to borrow less and less from the multilateral system. In economies in transition (i.e. in Eastern Europe and FSU) it is clear that the multilaterals are being pressed by their OECD shareholders to play a role that they are ill-equipped for with the probability increasing that multilateral involvement there may create unmanageable and unserviceable multilateral debt burdens within the foreseeable future.

borrowing members as well as their donor-members since ultimately they must bear the cost of whatever actions multilaterals have taken. The penalties for not doing so are heavy for their borrowers. Moreover the multilaterals argue that, since their members, through their representatives on multilateral boards, have been aware of the actions taken, and indeed have often instigated them, the issue of holding the multilaterals themselves (i.e. their managements and staff) responsible or accountable for outcomes does not arise.

Given the myriad ways in which multilateral managements and staff have become adept at sedating and concealing essential information from their Boards, that argument does not have much merit.³⁷ To the extent possible, multilaterals have attempted to deal with the growing difficulties that SILIC borrowers face in meeting debt service obligations to them by making extraordinary demands on bilateral donors to cover them despite the other demands they continue to make on bilateral resources for co-financing, replenishing their soft-loan windows, augmenting the capital bases of their hard windows, and providing technical assistance funds connected with multilateral lending operations.

Nevertheless the multilaterals have realised in private what they remain reluctant to acknowledge or to have discussed openly in public – that a serious multilateral problem does exist (which they must bear a large part of the responsibility for creating) and it is growing. The actions taken by some multilaterals (in particular the IMF and World Bank) to deal with the problem of arrears to them, and of large negative net transfers for a prolonged period, is testimony to that implicit acknowledgement. But, as this paper makes clear these actions do not go far enough.

There is no clear strategy apparent within each institution, nor across the multilateral system as a whole, for arresting and reversing present trends which indicate that the problem may worsen considerably if the rosy scenarios for borrowers' economic and export performance (on which most such lending has been justified) fail to materialise. Clearly there are no soft options. But the cancerous growth of the problem does suggest that perhaps the time is now overdue to re-examine the financial and developmental role of multilateral institutions more thoroughly, rather than have each of these institutions take on a multitude of disparate tasks each time a new crisis breaks. Opportunistic responses to exigencies – which have become the *modus operandi* of most of these institutions – result in unnecessary

³⁷ The strategy that multilateral managements have employed in dealing with their Boards is known in the vernacular as the “mushroom theory of management” i.e. to keep their Executive Directors in the dark and bury them in horse manure (an evocative and accurate allusion to the sheer weight of useless documentation that Executive Directors' offices are inundated with).

competition and duplication of multilateral efforts (along with unhealthy squabbles such as those that arise frequently between the IMF and World Bank as well as between the World Bank and regional development banks) which are rendering them unmanageable and ineffectual.

The multilateral system is on a treadmill where all the multilateral development banks must run faster to increase their lending and disbursement levels not to promote development through real resource transfers but simply to ensure that burgeoning debt service obligations to them are met. Had multilateral lending been as successful and productive as it was expected to be when appraisal reports were presented to multilateral Boards, the problem would not have arisen. But, sadly, multilateral institutions have proven to be as fallible (and perhaps in some cases even more fallible) than their commercial counterparts. The prospective pyramiding of multilateral debt needs to be moderated and reversed before more damage is done. In turn, such reversal may mean reducing and confining the financing role of multilaterals to only those areas and activities which commercial institutions and capital markets are, for whatever reason, unwilling to lend or provide equity for.

A strategy to contain the growth of the multilateral debt problem must obviously meet several conflicting demands not all of which can be easily accommodated. It must, for example:

- achieve a reduction in multilateral debt stocks and debt service payments (especially from SILICs and SILMICs) without compromising the financial standing of multilateral institutions – particularly those that rely on borrowings from international capital markets for the bulk of their loanable resources;
- reduce extraordinary demands on donor budgets to levels which are affordable and sustainable;
- achieve a higher level of concessionality in the mix of outstanding multilateral debt obligations owed by all low-income and lower-middle-income countries and not just those which are debt distressed;
- compel both borrowing member country governments and multilateral managements to become more responsible and accountable for their actions and to bear directly the costs of their own misjudgments and errors; [At present the cost of errors and misjudgements on the part of multilateral managements and staff are borne almost entirely by their borrowers, and now to an increasing extent, by donors whose bilateral aid budgets are being raided and pre-empted for meeting multilateral debt service.]
- avoid compromising the legitimate interests of other types of creditors through absolute pre-emption;
- avoid encouraging ‘moral hazard’ and ‘free rider’ problems;

- involve closer cooperation and coordination of multilateral exposure monitoring and control in all developing countries and especially in those which are severely debt-distressed or likely to become so; [This is something that multilaterals have lamented did not occur in the case of commercial bank and export credit agency lending to the developing world but they themselves have been remiss in not doing it either.]
- avoid relying on endless and counterproductive repetition of the sanctity of preferred creditor status in determining the choice of strategy and tactics and acknowledge that the preferred creditor status of multilaterals must be respected in a *relative* rather than an absolute sense. [To a degree the tedious reliance of multilaterals on repetition of the preferred creditor *mantra* is quaintly reminiscent of earlier times when commercial banks were basing their case for repayment on the same repetitive arguments about the sanctity of contracts regardless of the circumstances].

Clearly when these demands are listed, they reveal that a strategy for reducing multilateral debt which attempts to strike a reasonable balance among conflicting constraints is not going to be easy to derive and implement. But, as this paper suggests, it is not impossible. The first step in designing and implementing such a strategy must, however, be explicit acknowledgement on the part of multilaterals that while they must remain 'preferred creditors' they cannot be 'exempt creditors'. In other words, multilateral institutions must now be as willing to consider the same range of debt stock and debt service reduction (DDSR) tactics in dealing with their own debt as they have been in suggesting the adoption of these tactics by other types of creditors. Clearly the design and implementation of these tactics, as well as the degree to which they can be taken in the case of multilateral institutions, will be quite different from either private commercial creditors, or bilateral creditors. But multilaterals cannot any longer keep stonewalling against consideration of all of these options – the five main ones of which have been dealt with at length in this paper.

In addition, the set of measures which some of these institutions have already taken, can and must be: (a) extended to other institutions where they are necessary (in particular the African Development Bank); and (b) further developed and expanded within the institutions where they were invented in the first place. How this might be done has also been suggested – on an institution-by-institution basis in this paper.

Finally, it needs to be said that the aim of this paper is not to present any final or global solutions to the multilateral debt problem. Finding holy grails cannot be the aim of pragmatic analysts living in the real world even if it is an attractive quest to the imaginative mind. Instead, the paper attempts to suggest that there are a wider range of options and possible solutions for

making the multilateral debt problem more tractable – all of which will need to be further examined in greater detail and developed in a tailor-made fashion to suit the circumstances of individual multilateral institutions and their borrowers.

If the paper serves to make multilateral managements less defensive, less complacent, more open-minded and more concerned about finding a way out of the present situation with its attendant dangers – and less prone to tediously repeating self-serving justifications and rationalisations for why multilaterals cannot compromise their positions and do more by way of providing relief to debt-distressed borrowers than they already have – it will have more than served its purpose.

Over the past five years, multilaterals have made major contributions towards getting other creditors – private and bilateral – to acknowledge the dead-ends which some of their strategies have been leading to and to take bolder and more imaginative action.

To the multilaterals one can now only say: *‘Physicians it is now time to heal thine selves!’*