O'Neil of the North–South Institute described to us some innovative examples of debt reduction that Canadian banks could consider—options such as selling or donating debt to non-profit development agencies which would then receive payments on that claim in local funds to invest in projects in the debtor country. Others agree that these are useful possibilities as long as the various types of debt swaps and sales are carefully monitored to see that they in fact serve public interest and development goals, and do not just provide an easy and attractive exit alternative for banks.

Relying on market responses and good will actions by banks is unlikely, however, to be more than a small part of a solution, so governments will have to use their leverage as well. The churches' taskforce recommended that banks not receive any more generous tax treatment of their loan–loss reserves (tax savings from which are estimated at more than $3 billion to date) unless and until they actually write off the loans. They argued that, in general, banks should only get added tax benefits if the debtor country also benefits. But recognizing also that the requirement to maintain reserves is a cost to the banks as well as to the Canadian treasury, these regulations should be reviewed to see that they are appropriate and do not discourage new bank lending to countries which need it. For example, it can be asked whether, if the Brady plan is in fact working as intended, a "model" country like Mexico should still be on the Superintendent's list of problem countries.

We agree that banks cannot be expected to act as charitable institutions and that there is flexibility in the system now for voluntary debt concessions. The response of Canadian government officials has been cool to the idea of using ostensibly "neutral" tax and regulatory regimes to try to encourage banks to choose specific measures which will benefit developing countries. Nonetheless, we believe there is a place for appropriate government inducements and multilateral concertation to bring about a much more beneficial reduction of commercial debt, and encouragement of new private flows, than has so far occurred. The World Bank has recently observed that: "It may be desirable to differentiate among various debt instruments when mandating loan loss reserve requirements. One possibility is more favourable regulatory treatment of fresh credits extended in connection with officially supported financing programs." The Bank added that G–7 governments have formed "an informal group to review the tax, accounting and regulatory environment to seek ways to reduce the impediments to debt and debt service reduction schemes. Some changes have already occurred in tax, accounting and regulatory rules affecting debt restructurings in major creditor countries . . ."(26)

(26) *World Debt Tables 1989–90*, Vol. I, p. 4 and 28.