

not solely or even primarily responsible for underdevelopment, its successful management could encourage investment flows and promote renewed economic growth.

To each type of debt or category of debtor country, there is a corresponding strategy for reducing the effects of the debt burden.

## ODA Debt

Following debt forgiveness programs aimed at the poorest countries in the 1970s, Canada announced additional debt forgiveness plans aimed at sub-Saharan Francophone countries at the Francophone Summit in Québec City in 1987, and then at Vancouver's Commonwealth Summit the same year, for sub-Saharan Commonwealth countries. Most recently, Canada applied the same measure to the Caribbean Commonwealth countries. Following Canada's lead, a number of other donor countries, including the U.K., the F.R.G. and France, have also forgiven the ODA debt owed to them by numerous sub-Saharan countries.

## The Commercial and the Official Debt

The year 1985 marked a turning point in the international debt strategy. U.S. Treasury Secretary James Baker invited the commercial banks and the International Financial Institutions (IFIs) to extend, on a case-by-case basis, new loans to the developing countries, in conjunction with the implementation of economic reforms by the debtor countries.

This strategy was confirmed at the Tokyo and Venice Summits of 1986 and 1987. Pending the introduction of structural reforms, it called for the IMF and the multilateral development banks to play a key role in the development plans of the indebted countries, and for governments to urge the commercial banks to adopt a more generous credit policy.

The Toronto Economic Summit of 1988 endorsed proposals for the concessional treatment of the debts of the poorest countries, coming before the Paris Club for debt rescheduling. Under the "Toronto terms," individual creditor countries could choose from among a menu of policy options, including partial elimination of the debt, rescheduling of repayments over a longer period of time, or rescheduling with concessional interest rates. The "Toronto terms," which initially benefited only the less developed countries (LDCs) of sub-Saharan Africa, were extended in May 1990 to Bolivia. This approach alone, however, cannot by itself resolve the basic problem of indebtedness among LDCs.

## The Brady Plan

In March 1989, U.S. Treasury Secretary Brady proposed a plan under which the World Bank and the IMF would agree to provide resources to the debtor countries, to facilitate debt reduction operations by the commercial banks.

Simply stated, the Brady Plan offers a method to fund debt reduction operations by commercial banks, through the use of financing from the IFIs and other contributors such as Japan. Commercial banks negotiate, with the debtor country, a package of options which may contain various combinations of debt reductions, debt service reduction and new money. Access to IFI financing is obtained by the indebted country through commitment to structural adjustment or other policies aimed at re-establishing economic viability. Creditor governments are also required to continue to reschedule or restructure their official debts to the Paris Club. Each package is country specific (in line with the "case-by-case" principle).

The Brady Plan has already benefited Mexico, Costa Rica, the Philippines, Venezuela and Morocco, and may benefit other middle-income countries like Poland. In Mexico, the Brady Plan has had a very positive effect on economic recovery.

Commercial banks, while agreeing with the need to deal with the problem of indebtedness, have nevertheless been lukewarm in their support of the plan and especially reticent to supply new forms of medium- and long-term bank credit.

## The Houston Summit and the Debt Problem

At the Houston Summit, the Brady Plan's achievements are expected to be reviewed, together with other elements of the strengthened debt strategy. Canada continues to emphasize that debt reduction is no substitute for economic growth. The debtor countries need to continue to implement structural adjustment policies based on a balanced tax system, respect for market forces, encouragement of foreign investment, savings, and the return of flight capital. The private sector in these countries should also play a major role in economic growth and development.