

IFAD. In addition, increased OPEC support for IDA as well as for the African Development Bank could help to bridge important multilateral funding gaps.

## **The Commercial Banks**

The commercial banks were aggressive in seeking to make loans to the developing countries during the 1970s and early 1980s. While there are differences of opinion as to how much damage the banks have suffered to date, no one contends that they have been unscathed. They have large non-performing loans on their books. They are continually pressed to provide new funds for loan reschedulings to uncreditworthy countries. Further, in most countries they have had to increase substantially their provisioning reserves against loans to some borrowing countries, a process that has inevitably been costly. The banks will have to carry an increasing share of the cost of handling the debt problem.

One way for the commercial banks to reduce the burden for indebted developing countries would be to cap or even reduce interest rates. Unfortunately because of the uneven levels of provisioning that are required in different OECD countries, it is difficult to develop a co-ordinated approach to this possible method of debt relief. The Canadian government should press for international agreement on a reasonable level for general provisions by banks in OECD countries.

Another, albeit marginal, mechanism for reducing Third World debt is for the commercial banks to swap debt for an equity interest in corporations in the debtor country. Debt-equity swapping arrangements would appear to offer a means to alleviate somewhat the commercial debt problem in some debtor countries. Newly privatized enterprises in certain countries could be attractive investment prospects. The benefits of the debt-equity swap mechanism would not be applicable to all countries. Nevertheless, where it is applied, by reducing the debt load at the margin, it reduces the overall debt repayments. As another means of increasing the flows of much-needed capital to debtor countries, the commercial banks should increase their use of the World Bank cofinancing mechanism.

## **The Creditor Governments**

Creditor governments, while supportive of efforts to resolve the debt problem of Third World countries, have so far remained more or less in the background.

Over the long term, the most constructive step that OECD countries, including Canada, could take to reduce the debt problem