

Although there is still latitude for debt reduction under existing Paris Club and IDA programmes, according to the Organization for Economic Co-operation and Development (OECD): "It is unlikely . . . that they would be sufficient to ease the difficulties being experienced by some LLDCs in generating enough foreign exchange to service their external debt, given the size of their multilateral debt and debts to official creditors who do not participate in Paris Club negotiations." The problem is that multilateral debt presently cannot be reduced and some bilateral creditors (mainly the former Soviet Union, China and Arab countries) do not participate in Paris Club negotiations. For the poorest developing countries (LLDCs), in 1992 some 38% of outstanding debt was multilateral and a further 28% was held by non-OECD creditors. According to the OECD, these "creditors do not participate in Paris Club negotiations and the possibilities for restructuring this debt and the mechanisms required are issues that remain to be addressed."³⁴

Given the inability of a number of LDCs to benefit from commercial debt and debt-service reduction, along with Paris Club relief, there are only two approaches to increase the resource inflow to (or decrease the resource outflow from) these countries. Multilateral creditors could increase the pace of lending to these countries and/or official debt reduction could be undertaken. Multilateral lenders such as the IMF and World Bank have chosen the first option, arguing that they should be exempted from participating in debt reduction programmes. The Fund notes that debt reduction would be inconsistent with its role as a short-term creditor which extends loans to countries on a revolving basis. Furthermore, it argues that it is a privileged creditor, given its role as lender of last resort. The World Bank argues that its ability to borrow funds at attractive rates in international markets would be harmed by reduction programmes related to debt owed to it, resulting in higher credit costs to borrowing countries.³⁵

Certainly, both the Fund and the World Bank have increased their lending to developing countries since the beginning of the debt crisis, in essence rolling-over outstanding payments in much the same way that the commercial banks did to protect their outstanding claims in the early 1980s. This problem is best illustrating by looking at the example of the SILICs in 1990. This group of debtors was scheduled to make payments of US \$7.6 billion on long-term debt that year. Actual payments, however, amounted to only US \$2.0 billion or 26.1% of scheduled payments. More illustrative, however, is the fact that multilateral

³⁴OECD (1994), p. 73.

³⁵Powell (1990), p. 20.