

These Brady Plan proposals acknowledged the need to combine the objectives of the debt strategy and of development policies. The very size of the debt overhang was such that most countries would not be able to "grow out of their debt problem" and therefore, in the right circumstances, it was desirable to use multilateral funds to help reduce debt obligations. At the same time, the Brady Plan proposals sought to reduce or reverse the transfer of risk from private to public institutions resulting from commercial bank efforts to reduce their exposure.

The Brady Plan proposals also recognized that the debtors had to adopt policies to attract both direct and indirect investment and that debt/equity swaps could be a useful component of such a strategy. Other debt conversion mechanisms, such as debt buybacks or debt for nature/child development, have now also become more common. The World Bank estimates that nearly US\$45 billion of debt has been converted in one manner or another. So far these mechanisms have been applied largely to the commercial debts of larger developing countries.

Those countries that have instituted vigorous adjustment programs and benefited from the Brady Plan have been rewarded with an improved economic outlook.

There has been a major return of flight capital to Mexico, for example, and Venezuela, Chile and Mexico have all been able to tap international capital markets for small bond issues. This new creditworthiness will also support efforts to attract new direct investment.

The commercial debt of the poorest countries is small in absolute terms, and the Brady Plan itself will not bring major benefits to them. Neither an early return to international capital markets nor major new investments are likely for the smaller, low-income countries, although the return of private flight capital could have a significant impact on investment levels.

Measures to assist the poor, debt-distressed countries will therefore have to emphasize grant or highly concessional external finance and in all likelihood, a higher degree of debt reduction as appropriate. The World Bank has instituted a mechanism to convert loans at market rates to highly concessional terms for countries who have become eligible. Also, US\$100 million of World Bank repayments have been put aside to fund commercial debt reduction for the poorest, at these highly concessional rates.

At the Toronto Economic Summit in 1988, summit leaders recommended that the Paris Club of creditor countries adopt new measures for the debt of the poorest countries, now known as "Toronto Terms." These provide for either debt or debt-service reduction or extended repayment periods for official bilateral debt. At the Houston Economic Summit in July 1990, leaders asked the Paris Club to continue to review additional measures and the implementation of "Toronto Terms" for the poorest countries. This fall the U.K. and the Netherlands have made specific, new proposals for significant debt reduction for eligible low-income countries. Agreement was also reached at Houston to ask the Paris Club to review options for lower middle-income countries. Since then the Paris Club has decided to provide additional relief to lower middle-income countries including extended