



## Economic and financial relations with developing countries

The manner in which heavy external debt burdens continued to constrain development in a large number of countries remained a serious concern on the multilateral agenda. Since the issue of developing-country debt first emerged as a major problem in 1982, the strategy of growth-oriented adjustment adopted by the international community has made important progress. The threat to the world financial system, while still present, has been reduced considerably, and several of the most heavily indebted countries have adopted reform programs needed to lay the basis for sustained economic growth.

Despite these positive developments, however, events in 1987 and early 1988 indicated that finding a solution to the problem of the debt of developing countries would take longer than was originally envisaged. While declining international interest rates, strengthening commodity prices and other factors enabled some developing countries to reduce their debt burdens, others continued to experience economic difficulties. Uneven international economic growth, continuing protectionist trends in major economies, and increased reserves held by commercial banks against their loans to major sovereign borrowers exacerbated fears that international economic conditions and an insufficient flow of new resources to developing countries would undermine attempts by those countries to "grow out of their debts."

Efforts were accordingly made to strengthen international debt strategy during the year. For middle-income countries, the focus of work was on further development of the case-by-case market-oriented strategy, broadening the "menu of options" available to banks through such innovations as the Mexican bond-debt swap plan and the Bolivian debt-repurchasing plan. The World Bank continued to play an important role, both in providing policy advice and in mobilizing financial resources. By the end of March, final agreement was close on a General Capital Increase for the World Bank of \$74.8 billion (US), a move that would permit increased lending to heavily indebted countries. Similar progress could not be reported for another major financial institution of importance to the major debtors in Latin America — the Inter-American Development Bank (IADB). Negotiations remained stalled on a major resource increase for the IADB, largely because of disagreements over the role of donors. On the retirement of IADB President Ortiz Mena, Canada supported the election of Enrique Iglesias as the new head of the Bank. Canada also encouraged the President to elaborate reforms that would allow

the Bank to play its full role in the region. At the end of the year, the challenge remained to find new ways to reduce debt burdens to manageable levels without lessening incentives to reinforce adjustment programs or jeopardizing the flow of new resources on which the future prosperity of developing countries largely depends.

The international community devoted considerable attention to the difficult and slow process of economic recovery in sub-Saharan Africa. The Economic Summit in Venice (June 1987) recognized the threat that debt posed for the very fragile economies in the region, and summit leaders agreed that special measures were needed. The results were encouraging. At the Paris Club, where official debt is rescheduled, longer grace and repayment periods were offered to the poorest debtors. Agreement was reached in December 1987 on an Enhanced Structural Adjustment Facility through which the IMF would make available an additional \$6 billion special drawing rights (SDR) to poorer countries pursuing economic adjustment programs. Canada is contributing \$300 million SDRs to this facility. Canada also committed itself to providing \$355 million (US) to support World Bank/International Development Association (IDA) structural adjustment lending in poorer, debt-distressed countries in sub-Saharan Africa. This was part of an international effort in which the World Bank mobilized some \$6.7 billion (US) in bilateral resources to support economic adjustment in Africa. Finally, the IDA-8 replenishment of \$12.4 billion (US) became effective.

Canada also announced a number of specific bilateral measures for Africa. At the Francophone and Commonwealth summits, the government stated its intention to forgive \$672 million of official development assistance debt from 13 sub-Saharan countries. This was a follow-up to Canada's undertakings at the Thirteenth Special Session of the UN on Africa (May 1986) to ease the debt burdens of sub-Saharan Africa. As part of the government's new aid strategy, the share of bilateral assistance going to Africa will increase to 45 per cent.

Despite this international effort in which Canada was active, it was clear that African recovery would continue to require great energy and resources. A special UN Advisory Group on Financial Flows for Africa, in its February 1988 report, stressed the extent of the continuing crisis in Africa and outlined further steps that might be taken.

The year under review was a major one for the development of Canadian aid policy. In May 1987, the House of Commons Standing Committee on External Affairs and International Trade (SCEAIT) presented its report on Canada's official development assistance policies