

immediately threatening to Northern financial interests. A recent report by the United Nations Conference on Trade and Development (UNCTAD) documents the chronic decline of the world's 42 poorest nations as economic growth rates lag behind soaring populations. These countries' share of world exports was only 0.3% in 1988 compared to 1.4% in 1960. Their external debt doubled from 1982 to 1988 to US\$69 billion. The debt of Sub-Saharan Africa reached 369% of the value of its exports in 1988. The UNCTAD report concluded, as have many others, with a call for increased aid flows and further large-scale debt cancellation.

1. Phasing Out Aid Debt

In 1978 an UNCTAD-sponsored initiative in which Canada participated led to some initial conversions of ODA loans to grants at the time. But ten years later the need for a more comprehensive approach to debt forgiveness has become apparent. Much of this will have to be accomplished by political decision. In low-income Africa, for example, fully 85% of the long-term debt is owed to official creditors, both bilateral and multilateral. Canada moved to an all-grant ODA program in 1986 and subsequently cancelled a total of \$672 million in ODA debts owed by 13 Commonwealth and Francophone countries in Africa. Canada also took a leadership role in supporting special measures to assist Africa within the United Nations system and the IFIs, as well as through its own bilateral aid programs. As Table 3 shows, from 1980 to the end of 1988, Canada accounted for 35% of debt forgiveness to Sub-Saharan Africa, amounting to 25% of the approximately US\$3 billion of debt forgiven to all developing countries. In March of this year, Prime Minister Mulroney announced that the \$182 million aid debt of Commonwealth Caribbean countries would also be cancelled, although as we observed earlier the actual cash cost of providing this relief was only about \$12 million.

The scope for further ODA debt forgiveness by Canada is quite limited, and the government, unwisely we think, has given up its leverage on bilateral debt concessions by not applying any conditionality such as we have recommended on page 26. The benefits to debtor countries from this kind of relief have been small in any event because of the highly concessional nature of ODA loans. The present value of these loans is only a fraction of their nominal face value. The cost to the Canadian treasury of forgiving \$854 million in CIDA loans since 1987 is probably under \$80 million. Even if all donors' aid loans to low-income Africa were written off, the region's debt overhang would be reduced by only about 8% and its debt service obligations by less.