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United Nations Conference on Trade and Development

TRADE AND DEVELOPMENT BOARD
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Geneva, 5 September 1977

REPORT OF THE INTERGOVERNMENTAL GROUP OF EXPERTS ON THE
EXTERNAL INDEBTEDNESS OF DEVELOPING COUNTRIES

(Geneva, 18 - 22 July 1977)

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INTRODUCTION

1. The United Nations Conference on Trade and Development, in its resolution 94 (IV) on debt problems of developing countries, requested the Trade and Development Board at its ministerial session to review the action taken in pursuance of that resolution and requested the Secretary-General of UNCTAD to convene an intergovernmental group of experts to assist as necessary in that task.

2. The Intergovernmental Group of Experts on the External Indebtedness of Developing Countries met in Geneva from 18 to 22 July 1977 and held a total of four meetings.

3. The Group had before it the following documents prepared by the UNCTAD secretariat and expressed its appreciation to the secretariat for their preparation:

- TD/AC.2/2 - Private bank lending to developing countries
- TD/AC.2/3 - Recent developments in the external debt of developing countries:
and Add.1 A statistical note
- TD/AC.2/4 - Some aspects of the impact of inflation on the burden of debt of developing countries
- TD/AC.2/5 - Review of policy issues and developments in the field of external indebtedness of developing countries since the fourth session of UNCTAD

Chapter I

REVIEW OF DEBT RELIEF OPERATIONS SINCE THE FOURTH SESSION OF THE CONFERENCE

4. The Group considered progress made pursuant to paragraph 1 of Conference resolution 94 (IV) and developments in debt relief since the fourth session of the Conference.
5. Experts from the developed market-economy countries stated that their countries had a sympathetic attitude to the debt servicing problems of developing countries.
6. These experts noted that there had been few requests for debt relief since UNCTAD IV: two had been negotiated in the framework of aid consortia and one had been negotiated in a creditor club. They felt that no clear lessons could be drawn but that the scarcity of cases was notable in itself. In their view, these cases had been solved in a satisfactory manner. In this context, these experts felt that existing mechanisms, such as aid consortia and international development finance institutions, were also functioning to respond to requests for assistance related to countries' overall development problems.
7. Experts from the developing countries felt that the small number of cases of debt relief since UNCTAD IV was due to the inadequacy of the present arrangements for this purpose. The existence of ad hoc consortia for only a few individual countries, the absence of any permanent international institution competent to receive requests for debt relief and the absence of any internationally accepted guidelines for debt reorganization were all factors leaving developing countries dissatisfied with the existing machinery. They added that developing countries had had to make great sacrifices in their development efforts in order not to default on debt servicing. It was noted that not all the relief operations since Nairobi had sprung from Conference resolution 94 (IV) but, in fact, had followed from earlier actions. In addition, these few individual short-term ad hoc relief operations could not be seen as any substitute for long-term across-the-board measures.
8. Experts from developing countries further stated that the scope of the review of debt questions by the Group of Experts should include consideration of sub-paragraphs (d), (e) and (f) of paragraph 10 of Conference resolution 98 (IV). They recalled that the Conference at Nairobi had specifically called upon the developed countries to give immediate and favourable consideration on a top priority basis to relieving the debt burden of the least developed, most seriously affected, developing land-locked and island developing countries. They maintained that the implementation of the relevant sub-paragraphs of paragraph 10 of resolution 98 (IV) should be accorded high priority in generalized debt relief measures which would be

considered by the ministerial session of the Trade and Development Board. They held that the proposals and recommendations formulated by the Group of Experts in the course of its review of the issue should take due note of the need for urgent action in this field.

9. It was the understanding of the experts from developed market-economy countries that the mandate of the Group was based on resolution 94 (IV). They stated that the resolution requested the Secretary-General of UNCTAD to convene the Group to review action taken pursuant to that resolution. Most of the experts from developed market-economy countries therefore believed that the issue of resolution 98 (IV) was clearly outside the mandate of the Group. They emphasized, moreover, that resolution 98 (IV), sub-paragraphs 10 (d), 10 (e) and 10 (f), had already been addressed by the Trade and Development Board at its sixteenth session, the result being the adoption by the Board of decision 149 (XVI).

10. The experts from the socialist countries of Eastern Europe pointed out that there was deep concern in their Group over the debt problems of the developing countries. The heavy burden of debt service payments hampered the economic development of these countries and these problems spilled over into the international arena, affecting international trade, monetary and financial relationships. The problems of the developing countries sprung from the years of colonial rule and the position had been made even worse recently by the recession and chronic inflation in the developed market-economy countries. They also felt that policies of transnational corporations compounded the problem. Therefore the socialist countries of Eastern Europe did not share responsibility for the present debt situation of developing countries. In their view, the solution could be found only by taking a wide approach involving a restructuring of international relations, putting them on a fair and equitable basis. They noted that the credit policies of the socialist countries of Eastern Europe were such that they did not give rise to debt problems like those existing between developing countries and developed market-economy countries. The socialist countries of Eastern Europe strongly objected to any attempt by developed capitalist countries to use debt problems as a means of additional political pressure on, and interference in the affairs of, debtor countries. They also emphasized that they had not participated in the Conference on International Economic Co-operation (CIEC) and were not committed to the outcome of that conference.

Chapter II

REVIEW OF PROPOSALS IN THE AREA OF DEBT

11. Experts from developing countries and developed market-economy countries commented on various proposals submitted to the Conference on International Economic Co-operation (CIEC). One proposal, dealing with immediate and generalized measures of debt relief, had been submitted by the Group of 19 developing countries. Another, submitted by Sweden, called for a general political commitment to provide additional ODA resources - in the form of direct CDA debt relief and/or equivalent measures - in order to contribute to the alleviation of the existing debt burden of the least developed and most seriously affected developing countries. Two other proposals before CIEC related to future debt problems, of which one had been submitted by the Group of 19 developing countries and the other by the European Economic Community (EEC) and the United States.^{1/}

A. Proposals for immediate and generalized debt relief

12. Experts from developing countries expressed the view that economic events of the last few years had seriously worsened the development prospects of developing countries. The current-account deficits of most developing countries had nearly tripled from 1973 to 1976, while prospects for achieving internationally agreed developmental objectives had been severely affected. These developments had been caused not by domestic mismanagement or unduly expansionary development policies but by the insufficient income from their exports, the worsening of the terms of trade and the combination of world recession and inflation, all of which were entirely outside their control. These deficits had been recognized as the counterparts of structural surpluses enjoyed by several developed countries, and there was consensus that the need was to finance these deficits and not to attempt to eliminate them by deflationary policies - policies that would not only erode further the developing countries' economic prospects but which also, by limiting their capacity to import, would consequently damage severely the strength of the recovery from the world recession.

13. Certain categories of developing countries which relied mainly on official aid transfers had been particularly affected by these events and their prospects for growth had become bleak; some of them were actually experiencing falls in real per capita income levels. These countries were suffering from acute debt servicing

^{1/} For texts of these proposals, see the annex to the report of the Conference on International Economic Co-operation, circulated to the General Assembly in A/31/478/Add.1.

difficulties and the problem was clearly one affecting development and reflecting the need for urgent generalized debt relief to reduce their crippling burden, together with an increase in the level of transfer of resources. A generalized approach was imperative, as the debt problems of these developing countries had generalized causes and could not be treated as individual cases of debt crisis or default, which was the traditional framework of debt relief operations. The present extraordinary situation required an exceptional response.

14. Some other objections to debt relief had been raised from time to time. It had been said that it would involuntarily affect the distribution of aid, benefiting those most in debt. But as long as net aid transfers were positive, donors could always give debt relief while, if they so wished, maintaining the same level of net transfer by reducing total gross aid. However, it was true that the form of aid might be affected. But it was entirely consistent with the objectives of international financial co-operation that the form of ODA transfers should in general reflect the priorities of the recipients and not be imposed by donors.

15. It was also sometimes argued that debt relief would affect adversely the creditworthiness of developing countries. Most developing countries that relied on ODA did not at present enjoy substantial access to capital markets and it would be quite irrational if reduction of their debt burden reduced their creditworthiness. On the contrary, it should improve it, as these countries would then be in a better position to absorb and service new loans. As regards other developing countries, there was no reason in logic or practical experience why debt relief to a most seriously affected or least developed country on its official debt should adversely affect the credit rating of a completely unrelated country. It was also sometimes argued that "easy availability of debt relief" would lead to a misuse of borrowed resources. However, developing countries themselves were as interested as donor countries in using the resources available to them - both domestic resources which formed the bulk of total investment, or borrowed ones - in as productive a way as possible. There was thus no reason why a once-for-all operation to meet the present extraordinary situation should lead to the misuse of external resources that might be borrowed in the future.

16. The experts from developing countries added that other developing countries, which enjoyed access to private capital markets, had obtained financing and maintained their creditworthiness by servicing their debt even when that had started to impinge on their development objectives. They wished to emphasize that debt relief was not being proposed in this case. Instead, the problem was to ensure that the volume and terms of the financial flows to those countries were

appropriate to their development requirements, and in particular to ensure that long-term development needs did not have to be financed by short-term borrowing. In the last few years that was precisely what had happened - developmental expenditure with long gestation periods had had to be financed with loans with maturities of three to five years, thus creating bunching problems and temporary liquidity shortages. Proposals had therefore been made to consolidate and reschedule the commercial debts of interested developing countries. These proposals had been initially dismissed as wholly unnecessary, but recently the problem had been widely recognized and a consensus had emerged on the need for official intermediation to provide finance to countries in such a situation. It had to be reiterated, however, that it was external factors, and not "bad management", which had led to the tripling of current-account deficits of most developing countries and their greatly increased need for external finance. Consequently, access to intermediaries, including official intermediaries, should not be made dependent on special "conditionality" but should be readily available in appropriate volume and on appropriate terms. In particular, the volume must be large enough to cover roll-over requirements, and maturities must be long-term.

17. To meet this critical situation the experts from developing countries reiterated the proposal of the developing countries on urgent measures to mitigate the burden of existing debt together with a strengthened system of international financial co-operation to safeguard the development programmes of developing countries from external shocks which would reduce the need and frequency of debt reorganization. This proposal is set out in annex I.

18. Most of the experts from the developed market-economy countries emphasized that debt relief had to be assessed and accorded on a case-by-case basis, since there were wide differences in the situations of the developing countries. It was noted that the debt of the poorer countries was particularly concentrated in a few countries, and many experts felt that general measures unrelated to individual need would be inequitable. Some experts also felt that proposals calling for generalized debt relief might raise difficulties for developing countries relying on international capital markets for financial resources.

19. The experts from the developed market-economy countries stated that they were acutely conscious of the needs of the poorer of the developing countries, but many of them felt that these countries' problems were developmental in nature rather than problems of indebtedness and that solutions appropriate to the nature of the problems should be sought. The view was expressed that what were often referred to as debt problems were really balance-of-payments problems, involving many variables,

including domestic management. It was also noted that the higher income countries, which relied upon private capital markets, had made great efforts to increase their export earnings and that they would maintain their creditworthiness and continue to receive commercial lending.

20. The expert from Sweden emphasized the importance his country attached to the work of the Group of Experts in view of the mounting debt problems of the developing countries. He felt that further work in this area should focus more on action and policy decisions than on continued analysis. He emphasized the need for a sufficiently broad, long-term and development-oriented perspective, where the debt problem would be seen in the light of balance-of-payments developments and development needs. In this context, recalling the Swedish proposal in CIEC, he felt the case for immediate relief on ODA debt for the poorest countries was still valid. He observed that by now most ODA to the poorer countries was in the form of grants or highly concessional loans and that it would be a logical step to apply this new perspective to past ODA loans, i.e. by means of debt relief actions.

B. Features to provide guidance in future operations relating to debt problems

21. With regard to proposals for future debt reorganization for interested developing countries, the experts from the developing countries noted that this issue was related to paragraph 2 of Conference resolution 94 (IV). They stated that detailed proposals by developing countries on future guidelines had been submitted to the Conference on International Economic Co-operation. The proposals were reiterated by the experts from developing countries and presented to the Group as they appear in annex II. The proposal addressed itself to general objectives of debt reorganization, procedure for the initiation of international action, procedure for analysis of the country's long-term economic situation, guidelines for reorganization operations and institutional arrangements for reorganization operations. Agreement, however, could not be reached in CIEC on the draft resolution submitted by the Group of 19 at the Conference but, together with their proposal on immediate and generalized debt relief, it formed part of the record of that Conference, which had been transmitted to appropriate bodies within and outside the United Nations system for further consideration. In their view, a consensus needed to be reached on the following elements:

- (a) initiation procedures for debt reorganization;
- (b) principles and procedures for the reorganization; and
- (c) institutional arrangements.

Once agreement was reached on these elements, detailed guidelines for future debt reorganization could be worked out through the permanent machinery of UNCTAD.

22. This proposal on guidelines for future debt reorganization, together with the proposal on immediate and generalized debt relief, was imperative to ensure the viability of the development prospects of developing countries and constituted a major step towards facilitating the process of establishing a new international economic order.

23. The experts from the developed market-economy countries felt that present institutional arrangements performed well in safeguarding the interests of both creditor and debtor countries. They pointed out that, in recognition of the problems some developing countries faced, the United States and the European Economic Community had tabled at CIEC a paper entitled "Draft resolution on features which could provide guidance in future operations relating to debt problems pursuant to UNCTAD resolution 94 (IV)". The proposal recognized the importance of externally borrowed funds as a supplemental source of financing for economic growth. It then set out features which could contribute to the solution of financial problems which might unduly hamper progress towards economic development. In the proposal, it was considered essential to distinguish between situations involving default or imminent default on debt service, on the one hand, and those situations of a longer-term nature, on the other hand, which involved structural, financial and transfer of resources problems and where an adverse structure of the balance of payments might hamper development.

24. Features were identified in the proposal to provide guidance in dealing with the situation of default or imminent default in creditor clubs. Action would be at the request of the debtor and would incorporate features to ensure equitable and efficient treatment of the debtor country and the strengthening of its underlying balance-of-payments situation, while at the same time safeguarding the legitimate interests of both creditors and debtors.

25. As outlined in the proposal, the second type of situation allowed more scope for timely and appropriate internal and external adjustment measures. At the request of the recipient concerned, these cases would be considered expeditiously in an appropriate forum on an individual basis, with a view to providing aid in forms better adapted to the balance-of-payments needs of the recipient in the period of difficulty foreseen. The recommended procedures for dealing with such situations were intended to take into account the development considerations of developing countries and had inter alia the following elements:

- the developing country concerned would, before the problem had reached crisis proportions, request an examination by the World Bank or another appropriate multilateral development finance institution mutually agreed upon;
- if, after examination of the request, further steps seemed necessary, the institution would analyse the economic situation of the country;
- if the institution found that the development prospects of the country in question were seriously hampered, it would contact the aid donors to discuss urgently the country's need;
- donor countries and the recipient country would take the conclusions of the institution's analysis into serious consideration;
- where the analysis led to broad agreement that the developing country was encountering long-term financial difficulties impinging unduly on its development progress, donor countries would, to the best of their abilities, enhance assistance efforts directed toward increasing the quantity of aid in appropriate forms and improving its quality, in response to the developing country, for its part, demonstrating its willingness to take corrective measures on its own behalf, in so far as it was able.

26. The experts from the developed market-economy countries considered the United States-EEC paper submitted at CIEC as constituting a significant and constructive proposal. A majority of these experts viewed the proposal as being fully responsive to the mandate of resolution 94 (IV), and as a practical and realistic response to the present debt situation of the developing countries. Many experts emphasized the relevance to the MSA and least-developed countries of the remedial measures proposed to deal with situations of a longer-term nature.

27. The experts from the developed market-economy countries regretted that it had not been possible to reach agreement at CIEC on this proposal. The expert from Sweden expressed the hope that it would be possible to find an acceptable compromise on the basis of both the United States-EEC text and the proposal of the Group of 19. In his view, both proposals contained many useful elements that could be incorporated into such a compromise.

Chapter II

CONCLUSIONS

28. The experts agreed that international co-operation on the means through which debt problems of developing countries were resolved was one of the most important tasks before the international community. Solution and prevention of such problems was in the common interest of both creditor and debtor countries. The experts from the developed market-economy countries and the developing countries agreed that both creditor and debtor countries should co-operate in a multilateral framework in order to take prompt action to relieve developing countries facing debt problems. The experts from the developing countries stressed that the solution of the debt problems of these countries should be under conditions which avoided disruption of their development programmes and ensured the achievement of internationally accepted development objectives consistent with the International Development Strategy. The experts from developed market-economy countries stressed that the treatment of debt servicing difficulties required appropriate policies by both creditor and debtor countries. The experts from the socialist countries of Eastern Europe noted that a positive and effective solution to the problems of external indebtedness of developing countries could be found only within the framework of a restructuring of the entire system of international economic relations on a democratic and equitable basis.

29. During the discussions, the Intergovernmental Group of Experts acknowledged that there remained major divergencies among the various groups on the nature of the situation and the merit of the various proposals to deal with the problems related to the external indebtedness of the developing countries. All experts from developed market-economy countries considered the United States-EEC paper submitted at the Conference on International Economic Co-operation (CIEC) as being fully responsive to the mandate of Conference resolution 94 (IV) and as being a practical and realistic response to the current debt situation of developing countries. In addition, attention was also drawn to the Swedish proposal submitted at CIEC, and one expert from the developed market-economy countries felt that the case for ODA debt relief measures in favour of the poorest countries was still valid. The experts from the developing countries expressed their conviction that the proposals of these countries on immediate and generalized debt relief, and on future debt reorganization for interested developing countries, which are annexed to this report, provided the most adequate solution to their external debt problem. In addition, they expressed the view that more specific terms of reference would expedite further work of the Intergovernmental Group of Experts. The experts from

the socialist countries of Eastern Europe stressed that credit relationships between socialist countries and developing countries were of a special nature. Accordingly, the socialist countries of Eastern Europe were prepared to collaborate with interested developing countries, on a bilateral basis and in the light of each specific situation, in seeking mutually acceptable solutions to monetary and financial problems.

30. The Intergovernmental Group of Experts is convinced of the need for international co-operation in this field. The Group agreed that, if the Trade and Development Board, at the first part of its ninth special session, confirmed the arrangements for a second session of the Group, it would be appropriate for the Board to consider the agenda for that session in the light of the present report of the Group.

Chapter IV

ORGANIZATIONAL MATTERS

(a) Election of officers (Agenda item 1)

31. At its first meeting on 18 July 1977, the Intergovernmental Group elected Mr. M.H. Khan (Pakistan) as its Chairman, Mr. A. Chekhutov (USSR) as its Vice-Chairman and Mr. H.P. Wiesebach (Federal Republic of Germany) as its Rapporteur.

(b) Adoption of the agenda and organization of work (Agenda item 2)

32. The Intergovernmental Group considered its agenda on the basis of the provisional agenda drawn up by the UNCTAD secretariat (TD/AC.2/1) and amended it to read as follows (TD/AC.2/6):

1. Election of officers.
2. Adoption of the agenda and organization of work.
3. Questions arising out of Conference resolution 94 (IV) and relevant proposals and recommendations.
4. Other business.
5. Adoption of the report of the Intergovernmental Group.

(c) Membership^{2/} and attendance^{3/}

33. The following States members of the Intergovernmental Group were represented: Bangladesh; Belgium; Bolivia; Canada; Chile; Czechoslovakia; Egypt; France; German Democratic Republic; Germany, Federal Republic of; Ghana; India; Jamaica; Japan; Netherlands; Nigeria; Pakistan; Sudan; Sweden; Switzerland; Union of Soviet Socialist Republics; United Kingdom of Great Britain and Northern Ireland; United States of America; Venezuela; Yugoslavia; Zaire.

34. The following other States members of UNCTAD also sent representatives: Algeria; Mexico; Philippines; Tunisia; Turkey.

35. The Department of Economic and Social Affairs of the United Nations was represented at the session.

36. The following specialized agency was represented at the session: International Monetary Fund.

^{2/} In addition to the States listed in paragraph 31, the following other States are members of the Intergovernmental Group: Honduras, Hungary, Iran.

^{3/} For the list of participants see TD/AC.2/INF.1.

37. The following intergovernmental organizations were represented at the session: African Development Bank; European Economic Community; Inter-American Development Bank; Organisation for Economic Co-operation and Development.

(d) Adoption of the report of the Intergovernmental Group (Agenda item 5)

38. At its closing meeting, on 22 July 1977, the Intergovernmental Group adopted its draft report (TD/AC.2/L.1), with amendments, and authorized the Rapporteur to complete it as appropriate.

Annex I

Proposal of developing countries on immediate and
generalized debt relief

As an extraordinary and one shot operation, relief on official debt should be provided forthwith by developed countries to all most seriously affected, least developed, developing land-locked, developing island countries,^{a/} and other interested developing countries in order to alleviate their existing debt burden, to restore the momentum of growth lost during the recent economic crisis and to facilitate the achievement of the International Development Strategy target.

To this end:

(a) Official Debts

1. Bilateral Debt owed to developed countries

- (i) The least developed, developing land-locked and developing island countries should have their official debts converted into grants.
- (ii) Other most seriously affected countries should receive the same treatment as above, or as a minimum, should have their outstanding official debts recomputed at the present IDA terms.
- (iii) Debt relief should also be provided by developed bilateral creditors and donors to other developing countries seeking relief.

2. Multilateral

Multilateral development finance institutions are invited to commit new resources in an appropriate form within their lending policies and practices which should continue to respond increasingly to the needs of the developing countries.

(b) Commercial Debts

- (i) International agreement should be reached to consolidate debts of interested developing countries and to reschedule payments over a period of at least 25 years.

^{a/} It is understood that countries experiencing similar geographical difficulties and which have been qualified as semi-land-locked would benefit of the same treatment.

- (ii) The consolidation of commercial debts and the rescheduling of payments should be achieved by the funding of the commercial debts of the interested developing countries.
- (iii) A financial facility to refinance the burdensome short-term loans contracted in recent years should be established for the use of interested developing countries, perhaps under the aegis of the World Bank and the IMF.

Annex II

Proposal of developing countries on future
debt reorganization for interested
developing countries

Integral to the creation of a New International Economic Order is the necessity of giving a new orientation to procedures of the reorganization of developing countries' debt owed to developed countries towards a development approach. To this end, there is an obvious need to redesign and reorient operations such as those of the aid consortia and the creditor clubs in the context of international co-operation for development.

General objectives of debt reorganization

- (i) Policies with regard to debt reorganization should be considered in the overall context of internationally agreed development targets and national development objectives which call for an increased net transfer of resources to developing countries within the framework of international financial co-operation.
- (ii) Debt reorganization in certain circumstances should be recognized as an appropriate means of increasing untied and quickly disbursable resource transfers to developing countries in order to meet their development needs and goals.
- (iii) It should be recognized that often debt problems indicate a need for augmented financial flows on appropriate terms in addition to debt reorganization.
- (iv) Debt relief should not be restricted to cases of so-called debt crisis since this penalizes countries that have been forced to abort their development programmes in order to service their external debts. Thus, ways and means must be found for developing countries to initiate international action at an early stage of emerging difficulties.
- (v) Mitigation of debt service difficulties on terms and conditions which are consistent with an orderly development process in developing countries is in the interest of both debtor and creditor countries. It should contribute to increase the capacity of the debtor countries to discharge their debt service liabilities over the longer run consistent with their development objectives.

(vi) Debt reorganization should be carried out within an institutional framework that would ensure the application of the principles of international financial co-operation and protect the interests of debtors and creditors equitably.

Debt reorganization should be carried out within the framework of these general objectives. Principles and procedures should be established to regulate the entire process of debt reorganization in all its stages.

Procedure for the initiation of international action

The procedure governing the initiation by a developing country of international action should contain three fundamental elements:

First, the procedure should confirm that it is the exclusive right of the debtor country to initiate the process of reorganization. It should not in any way open the possibility of international surveillance or a priori analysis.

Second, it should result in action at an early stage, well before the problems of the developing country have reached crisis proportions and have damaged its development plans.

Third, whenever the developing country initiates the process for international action according to agreed principles and procedures, developed creditor and donor countries will participate in the reorganization and commit themselves to contribute the necessary resources warranted by the economic analysis and the development objectives of the country. Multilateral development institutions participating in the reorganization operation would be invited to commit additional resources in an appropriate form to help meet those objectives.

It follows from the above that it will be necessary to establish agreed principles that would entitle a country to initiate a reorganization operation within the framework outlined above.

Procedure for analysis of the country's long-term economic situation

Having initiated the renegotiation operation, the next step is the preparation of detailed analyses of the country's long-term economic situation. At the forefront of these analyses will be the protection of the country's development goals and strategy within the broader context of the International Development Strategy and the New International Economic Order. Such analyses will respect the socio-economic objectives and the development priorities established by the country.

Included in these analyses will be five key elements:

First, there will be estimates of long-term capital requirements and projected availabilities as well as debt projections.

Second, an examination will be made of the extent to which factors operating in the international economy may have contributed to the current developmental and financial problems of the country.

Third, a similar examination will be carried out of the extent to which changes in international policies may have contributed to the current and prospective situation.

Fourth, the analyses will also take into account the internal economic situation of the country including relevant policies within the context of the country's development plan.

Fifth, based on the net capital flows required by the country in the pursuit of its development strategy within the context of internationally agreed targets, those combinations of additional development finance, debt reorganization and national and international policy actions will be indicated that would most quickly restore the country back to its development path and increase its long-term capacity to service its debt obligations.

Guidelines for reorganization operations:

Guidelines should be established for such reorganization operations. They should be consistent with the spirit and content of the International Development Strategy and the New International Economic Order. Specifically, these guidelines should include, inter alia, the following elements:

- First: Creditor and debtor countries should ensure that reorganization would be completed expeditiously in order to reduce to the minimum any uncertainties associated with them.
- Second: Measures to be adopted should be consistent with an accepted minimum rate of growth of per capita income.
- Third: International and national policy actions to be adopted should be consistent with the socio-economic objectives and priorities of the country's development plan, and should be conducive to restoring the country to its development path as quickly as possible.
- Fourth: The provision of new flows and the terms of debt renegotiation should be on a long-term basis consistent with the country's long-term financial and developmental needs as reflected in the analysis.
- Fifth: The terms and conditions of rescheduling the official and commercial debts should be no harsher than the softest terms prevailing for the same kind of loans at the time of reorganization.

Sixth: Provisions should be included to facilitate additional flows or accelerated repayments if the analysis proved either too optimistic or too pessimistic with respect to the pace of the country's recovery.

Institutional arrangements for reorganization operations

An appropriate and permanent institutional machinery should be provided for, which will have the authority to convene, organize and supervise reorganization operations in accordance with internationally agreed principles and procedures.

Implementation of the agreement

With a view to implementing the present agreement, and working out the necessary details with respect to the principles entitling a country to initiate the procedure outlined above and to propose the institutional machinery, the Joint Ministerial Committee of the Board of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (Development Committee) in consultation with UNCTAD, is invited to present its recommendation in 1977. The necessary institutional machinery should be established in the course of 1977.