EXTERNAL FINANCIAL FLOWS TO DEVELOPING COUNTRIES WITH REFERENCE TO THE CARIBBEAN: TRENDS AND ISSUES by DINESH DODHIA (COMSEC)

Paper presented at
The Conference on Financing Development in the Caribbean
Sam Lord's Castle, Barbados.
December 4 to December 8, 1989

CONFERENCE ON FINANCING DEVELOPMENT IN THE CARIBBEAN

[illegible] Caribbean is sponsored by Commonwealth Secretariat, Regional Programme of Monetary Studies and The Central Bank of Barbados.

Cooperating and supporting institutions: CARICOM, Caribbean Development Bank, Economic Commission for Latin America and the Caribbean, Commonwealth Fund for Technic Cooperation, Canadian International Development Agency and The World Bank.

CONFERENCE ON FINANCING DEVELOPMENT IN THE CARIBBEAN
4-8 December 1989

EXTERNAL FINANCIAL FLOWS TO DEVELOPING COUNTRIES WITH PARTICULAR REFERENCE TO THE COMMONWEALTH CARIBBEAN: TRENDS AND ISSUES

Dinesh Dodhia
(Commonwealth Secretariat)

CONTENTS

CONFERENCE ON FINANCING DEVELOPMENT IN THE CARIBBEAN
4-8 December 1989

EXTERNAL FINANCIAL FLOWS TO DEVELOPING COUNTRIES WITH PARTICULAR REFERENCE TO THE COMMONWEALTH CARIBBEAN: TRENDS AND ISSUES

Dinesh Dodhia
(Commonwealth Secretariat)

EXECUTIVE SUMMARY

External financial flows to developing countries fell very sharply in the early 1980s. In real terms they have remained stagnant over the past three years, at about half the 1981 level, indicating that there has so far been no turnaround. Commercial bank lending and export credits, the main reasons for the fall, continue to remain low, while private foreign investment has only recently recovered to the levels just above those prevailing at the turn of the decade. Official development assistance, while rising significantly in nominal terms, fell in real terms for the third successive year in 1988 to reach the lowest level in the 1980s. Only non-concessional official development finance (because of consolidation of interest arrears in debt schedulings and enhanced bilateral and multilateral lending) has shown significant growth recently although the share of such flows remains small in relation to other flows. In fact, taking account of interest and other investment income flows, overall net financial transfers to developing countries continue to remain substantially negative. As a consequence, in many countries domestic investment has hardly recovered, constraining future growth prospects. In aggregate, Commonwealth Caribbean countries have not been immune from this fall-off in external financial flows (which in nominal terms are estimated during 1985-1987 to have averaged at less than one half of the amounts prevailing during 1981-1984) and some of them (especially the larger ones) suffer from substantial net negative transfers.

The issue facing the international community therefore is how to ensure that financial transfers are consistent with the investment and growth needs of developing countries. Measures are required to improve all types of financial flows as well as, where appropriate, reduce outstanding stock of debt or debt service. For the Caribbean policymakers specific issues which require attention are: tapping of both concessional and non-concessional resources from countries with fast expanding budgets of aid and other development finance particularly Japan (which so far they do not seem to have significantly tapped); ensuring that premature graduation of five OECS countries from IDA and Bahamas, Barbados and Trinidad and Tobago from IBRD does not take place; expansion of CDB capital; promoting greater selectivity in export credit finance to match project needs; considering the possibilities of utilising private finance for public projects; persuading the IFC to set up a Caribbean Enterprise Fund, similar in scope to one in Africa to support small and medium sized projects; utilisation of new borrowing techniques by

the most creditworthy countries to reduce costs and encouraging multilateral agencies to co-finance or to use guarantees in case of countries with difficulties of access to the international capital markets; encouragement of portfolio investment through development of stock markets including a regional market and an equity fund; ensuring that Paris Club menu approach to official debt is extended to debt-distressed countries outside of sub-Saharan Africa, including Guyana; urging speedy implementation of Brady initiative on commercial debt, including for countries such as Jamaica; and calling on the Bretton Woods institutions to extend ESAF support to countries like Jamaica with large official indebtedness and also to set aside a portion of ESAF/IDA funds to support commercial debt buybacks by low-income debt-distressed countries such as Guyana.

EXTERNAL FINANCIAL FLOWS TO DEVELOPING COUNTRIES WITH PARTICULAR REFERENCE TO THE CARIBBEAN: TRENDS AND ISSUES

Dinesh Dodhia
(Commonwealth Secretariat)

I. OVERVIEW

(a) Net Flows

According to the OECD, total net financial flows to developing countries, in current dollar terms, after declining sharply from the peak of $138 billion in 1981 to $83 billion in 1986, rose for two consecutive years to $96.9 billion in 1987 and to $103 billion in 1988 (see Table 1).[1] When adjustments are made for inflation and the changes in the dollar exchange rate however, flows in the three years, 1986-1988, remained almost constant, at about one half of the 1981 level, indicating that the revival in real flows has yet to take place.

2. Private flows, in particular commercial bank lending as well as export credits, were largely responsible for the dramatic decline in overall flows to developing countries during the 1980s. By contrast, official development assistance (ODA), after a drop in 1982-83, has been rising steadily in nominal terms although since 1985 these flows have declined in real terms and in 1988 were at the lowest level in the 1980s. Flows of non-concessional official development finance (ODF), while rising strongly during the 1980s, were also lower in real terms than those in 1985. Overall the share of private flows which comprised over one half of the total flows in 1980-81, fell to less than a third of the total in 1988, while ODA flows comprised almost one half and non-concessional ODF about 15 per cent of the total, compared to around 30 per cent and 6 per cent respectively in 1980-81.

3. Alternative estimates by the IMF, which are based on national balance of payments statistics however indicate a continuing sharp fall in total external financial flows to developing countries throughout the 1980s from $139 billion in 1981 to $55 billion in 1988 (see Table 2). The IMF expects a significant improvement in 1989 ($72.4 billion) and 1990 ($83.4 billion), due primarily to enhanced official flows. There was a particularly steep decline in external financing to the fifteen heavily indebted middle-income countries (HICs) from $111 billion in 1981 to $5.2 billion in 1985 largely because of the collapse in private commercial bank lending. After some improvement in 1986 and 1987, financing has fallen back again from $16.3 billion in 1987 to $9.3 billion in 1988, this time primarily from official sources partly because of what they perceived as slippages in adjustment efforts by debtor countries. According to the IMF, HICs would benefit from the revival of flows in 1989 and 1990.

---

[1] Excluding Taiwan which has experienced massive fluctuations in short-term flows (+$12 billion in 1987, - $6 billion in 1988) related largely to expectations regarding exchange rate movements.

4. As far as the 12 countries of the Commonwealth Caribbean are concerned (see Table 3), estimates based on OECD data indicate that net flows to the region have been subject to wild gyrations: about $780 million in 1981; $1330 million in 1983; $510 million in 1984; and $1480 million in 1987. However, net flows to the region are to a significant extent inflated by the offshore direct investment activities in the Bahamas. If such flows are excluded, the region's net flows, which averaged around $560 million during 1981-1984, were only about $230 million annually during 1985-1987. This fall-off of financial flows in 1984-87 was largely accounted for by Jamaica where overall annual flows were roughly half of those in 1981-84, Barbados and Guyana which suffered a decline of about a third, and Trinidad and Tobago where positive flows turned into negative amounts of roughly similar order to magnitude. By contrast, flows to all the OECS countries (except St Lucia) and Belize registered gains, which in most cases were very sharp; in real terms however the effect would be less significant.

(b) **Debt and Net Transfers**

5. World Bank estimates indicate that total developing country external indebtedness, after rising continuously from $815 billion in 1983 to $1170 billion in 1987, fell to $1160 billion in 1988 (see Table 4). The estimates, especially over the last few years, reflect both a much slower growth in all debt-creating flows (compared to non-debt-creating flows such as official transfers and private direct investment) as well as significant amounts of debt conversions, which served in 1988 to reduce outstanding debt. World Bank estimates, however, project further increases, albeit at a much slower rate, in indebtedness in 1989 ($1174 billion) and 1990 ($1202 billion).

6. Growth in indebtedness and persistent high interest rates also meant that interest payments by developing countries increased sharply during the early 1980s. While these payments fell somewhat between 1985 and 1987 (following the general easing of interest rates) they rose again markedly from $64.3 billion in 1987 to $78.5 billion in 1988, despite a reduction in debt outstanding in that year, as world interest rates moved up again. The World Bank projects no change in the amount of interest payments in 1989, but a further increase to $83 billion in 1990. Since 1983 interest payments abroad have exceeded net debt-creating inflows into developing countries and by a larger margin each year, with the result that net transfers on debt-creating flows have been transformed from net inflows to net outflows (See Table 4). In 1988 they amounted to $66.5 billion and on a cumulative basis over a six-year period (1983-1988), $222 billion. It is estimated that 1989 and 1990 would add close to another $100 billion to the cumulative figure of net transfers abroad. Such negative net transfers are heavily concentrated in the HICs which made a cumulative transfer abroad of $170 billion over 1983-1988 and are expected to make a further transfer of $60 billion during 1989-1990.

7. The UN Secretariat works on a much broader definition of net transfers which includes inflows of official transfers (grants) and private direct investment as well as outflows of profits and dividends and private capital by residents. For a sample of [illegible] countries for which data are available, these estimates also indicate a growing net transfer abroad of the order of $34 billion in 1988 ($115 billion over the period 1984-1988). The transfer abroad from HICs was much higher; these countries generally do not receive grants. They are also the countries which experienced a substantial

capital flight.[1]

8. As far as the 12 Caribbean countries are concerned, their indebtedness is estimated to have risen from about $4.9 billion in 1981 to around $8.8 billion in 1987 (Table 4). Taking account of interest payments by them on their long term debt, the net transfer to them turned from a positive of around $520 million in 1981 to a negative of about $350 million in 1987. Moreover, these transfer figures are underestimated as they do not include data on interest payments on short term debt, which is not readily available. Even when net transfers are calculated on a more comprehensive basis as the UN does, they indicate that these transfers have fallen very sharply from around $650 million in 1980/1982 to less than $250 million in 1985 and perhaps close to nil or negative figures in 1986/1987. Negative net transfers have been in fact a feature of the Bahamas throughout the 1980s, Barbados since 1984, and Jamaica, Trinidad and Tobago and Belize since 1986. By contrast the OECS countries have continued to enjoy positive net transfers.

9. The economic significance of the concept of net negative transfers is that it measures the balance of real resources (goods and non-factor services) which a country is exporting in excess of imports in order to service its debt and meet its obligations on investments received earlier. At an advanced stage of development (such as that in South Korea), countries could be expected to accommodate such transfers as reliance on external capital flows declines. What is clearly perverse at present is the premature nature of such transfers. Even for countries with positive transfers, the smaller the size of such transfers, the less the resources that are available for domestic investment for future growth, given especially the difficulties of curtailing their already low levels of consumption. The main issue facing the international community and a challenge facing developing countries - in this context the Caribbean economies - is how to ensure that financial transfers are consistent with these countries' investment and growth needs; in particular what measures could be taken to improve receipts of all types of financial flows as well as, where appropriate, reduce their outstanding stock of debt or debt service.

II. MAJOR TYPES OF FLOWS

(a) Official Development Assistance

(i) Global trends

10. As pointed out above, with flows of private financing and export credits declining sharply during the 1980s, ODA has increasingly assumed a larger and more critical share, around 50 per cent in 1988. In current dollar terms, total ODA receipts of developing countries, after falling between 1981 and 1983, have since then been rising steadily and reached $51 billion in

---

1 Estimates by the World Bank suggest that capital flight from HICs amounted to $50 billion over a three-year period 1980-1982 or roughly $16-17 billion per annum. Since the outbreak of the debt crisis and resort to adjustment measures by these countries, the amounts were reduced to $28 billion over the period 1983-1987 or $5-6 billion per annum. There are signs, however, that capital flight, which bottomed out in 1986, has been rising for the last two years, although the levels are far below those of the early 1980s.

1988. Part of the increase, especially since 1985, can be accounted for by the fall in the value of the dollar, which increases the dollar valuation of non-dollar flows. In real terms (which also takes account of inflation), ODA receipts by developing countries have in fact been falling since 1985. In 1988 these were at their lowest level in the 1980s, some 6 per cent below the 1981 level (see Table 1).

11. The decline is largely attributable to a contraction in ODA from Arab (oil producing) countries, which has fallen even in nominal terms from some $10.9 billion in 1980 to $2.3 billion in 1988. Aid from the USSR and East European countries rose from $2.8 billion in 1980 to $4.9 billion in 1988 but remains very small in relation to ODA provided by DAC. The latter has been rising at the rate of 2.3 per cent per annum in real terms during 1983-1988, with 1988 in particular registering a sharp increase of 6.7 per cent (to $44.3 billion).

12. The overall DAC average however, masks conflicting trends among individual donor countries (see Table 5). Countries registering the sharpest annual real increases have been Finland (16.4 per cent), Italy (15.4 per cent), Canada (6.9 per cent), Denmark (5.8 per cent) and Japan (5.5 per cent) reflecting these countries' commitments to substantially increase ODA. By contrast, some countries recorded annual declines, i.e. Austria (-4.7 per cent), Belgium (-3.8 per cent), Australia (-1.6 per cent), Britain (-1.4 per cent), United States (-0.5 per cent) and New Zealand (-0.2 per cent).

13. Moreover, total ODA from DAC members has virtually stagnated throughout the decade at around 0.35 per cent of their combined GNP or at about half the UN target of 0.7 per cent of GNP. Norway, Netherlands, Denmark and Sweden continue to stand out as countries with the highest ODA/GNP ratios. Among the seven largest industrialised countries, the United States and Britain have witnessed a significant deterioration in their aid performance (in the case of US from 0.24 per cent of GNP in 1975/79 to 0.20 per cent in 1980/87 and Britain from 0.45 per cent to 0.32 per cent). Aid ratios of Canada and West Germany in 1988 (0.50 and 0.39 per cent respectively) have been the same as those that prevailed in 1975/79. By contrast, France and Italy have shown dramatic improvements in their aid performance (France from 0.32 per cent to 0.50 per cent and Italy from 0.18 per cent to 0.59 per cent respectively). In the case of Japan, while the overall ratio has improved from 0.23 per cent in 1974/79 to 0.32 per cent in 1988, this still remains below the DAC average. By 1992, however, Japan intends to raise the share of its ODA in total DAC ODA to a level commensurate with the share of Japan in DAC GNP (i.e. to the DAC average). Consequently, it is expected that Japan would soon overtake the US as the largest donor.

14. Aid from donor countries do not necessarily mirror ODA receipts of developing countries. This is in part because the timing of donor contributions to multilateral agencies and that of disbursements by these multilateral agencies to developing countries can vary considerably.[1] Nonetheless, it is interesting to note that the share of multilateral aid in total ODA receipts of developing countries has virtually remained unchanged over the 1980s at around a quarter of the total.

---

[1] Moreover part of both bilateral and multilateral assistance is not actually received by developing countries (e.g. technical assistance provided in donor countries, costs of administering aid programmes etc.).

15. There have, however, been major shifts in the position of different multilateral agencies as providers of concessional assistance (see Table 6). On the one hand, the shares provided by UN agencies fell from 36 per cent in 1981 to 33 per cent in 1981, by EEC agencies stagnated around 18 per cent and by Arab agencies fell from 5 per cent to 1 per cent. On the other hand, the share provided by major international financial institutions (i.e. the soft arms of the World Bank and regional development banks) rose sharply from 35 per cent in 1981 to 48 per cent in 1987 with the World Bank Group's (IDA's) share rising from 24 per cent to 35 per cent. The Asian and African Development Banks also increased their shares, but the share provided by the Inter-American Development Bank fell very sharply from over 5 per cent in 1981 to just over 1 per cent in 1987.

(ii) Trends in aid to the Caribbean economies

16. With regard to the aid flows to the 12 Caribbean economies, in 1985 these were virtually unchanged from the 1981 level and in 1987 only 10 per cent higher. In real terms, these flows showed a decline of 28 per cent between 1981 and 1987. As a consequence, ODA receipts by Caribbean economies did worse than the receipts of developing countries as a whole, with their share in total ODA receipts of developing countries falling from 0.82 per cent to 0.65 per cent between 1981 and 1987.

17. The Bahamas, Barbados, Dominica, Guyana and St Lucia saw nominal declines in their aid receipts. Increases in real ODA receipts were recorded by Belize, Grenada, St Kitts, St Vincent and Trinidad and Tobago, with Jamaica and Antigua registering declines in real terms. The position of Trinidad and Tobago reflects a major change from being a net donor in 1981 to being a net receiver in 1987.

18. With regard to the main sources of ODA for the Commonwealth Caribbean, bilateral aid has been becoming more important, while multilateral aid has been stagnating or falling. Among bilateral sources, aid from Canada, United States and West Germany have shown steadily increasing proportions, whereas the share of Britain, the previous principal donor, has been falling. Canadian assistance has been widely distributed throughout the Caribbean whereas US assistance has concentrated on Antigua and Barbuda, Belize, Grenada and Jamaica, principally for geo-strategic reasons. The main beneficiaries of West German assistance have been Trinidad and Tobago and, to a lesser extent, Jamaica (see Table 7).

19. As for multilateral concessional flows, net disbursements from the IBRD to Caribbean countries (including Haiti and Dominican Republic) rose from an average of about $23 million during 1981-1985 to $34 million during 1986-1988. On average both gross disbursements and net transfers were also about $10 billion higher during 1986-1988 compared to the annual levels prevailing during 1980-1985 (see Table 8). By contrast, concessional flows from the Inter-American Bank have contracted sharply. Net disbursements fell from an average of $75 million during 1980-1985 to less than $35 million during 1986-1988 primarily as a result of a sharp decline in gross disbursements. Net transfers were even lower at an average of $25 million during 1986-1988 compared with an annual level of about $68 million during

1980-1985. The concessional flows from the Caribbean Development Bank have also contracted significantly. Net disbursements averaged just over $3 million during 1984-1986 compared to $18 million during 1981-1983 while net transfers were only $0.7 million compared to $17 million over the same period. While there was a marked revival of flows in 1987, preliminary indications suggest that both net disbursements and net transfers were negative in 1988.

(iii) Issues for developing countries as a whole

20. The above raises important issues concerning ways of increasing aid as well as about the geographical distribution of such assistance. There is clearly a need for each donor to adopt the most effective means for expanding its own aid programme. All donor governments which have declared a timetable for reaching the 0.7 per cent target could adopt the practice of setting intermediate targets to achieve their stated objectives, while for other donors, including those which have accepted the target without commitment to any timing, various self-imposed targets may be helpful. As a minimum, these latter donors need to avoid any decline in ODA/GNP ratios, as has been occuring in some countries, so that their aid at least keeps pace with their economic growth.

21. Political, strategic and commercial considerations weight heavily in bilateral aid allocations (although multilateral aid is allocated on developmental grounds mainly to low-income countries). For example, Israel and Egypt each receive about 4 per cent of total DAC aid. Such considerations are likely to acquire even greater significance following the profound changes taking place in Eastern Europe where western governments have offered aid and other assistance in support of political reforms in these countries. However, there are indications that the concessional amounts so far earmarked by donors for some of these countries do not represent additional money but are coming out of their normal aid budgets, with obvious adverse implications for aid flows to developing countries. It is therefore vitally important that developing countries utilise every possible opportunity to urge the donors that assistance given to East European countries is not at their expense. Indeed, there is a strong case that part of the savings made from defence expenditure as a result of reduced East-West tensions could easily be spent in providing assistance to East European countries, as well as, perhaps also in enhancing support to developing countries.

22. As for allocation amongst developing countries themselves, there is a strong body of opinion which considers that aid be reallocated to low-income countries and within the low-income group towards sub-Saharan African countries. A recent World Bank report argues that if 1990s is to be a better decade than the 1980s for sub-Saharan African countries, a 4 per cent per annum growth in real ODA to them would be required to achieve a GDP per capita growth of 1 per cent per annum. As for the possibilities of reallocating aid within the low-income group, it has to be recognised that this process has already been under way over the last 10-15 years, with sub-Saharan Africa's share in DAC ODA rising from 23 per cent in 1975/76 to 31 per cent in 1986/87 while South Asia's share has fallen from 23.5 per cent to 14.2 per cent over the same period. Prospects of further reallocation within the group must therefore be considered limited as a significant proportion of the population of large countries of Asia remain in absolute poverty and the domestic resources of these countries are too limited to make the major social

investments required to provide even minimum acceptable standards. Curtailment of concessional assistance to countries such as India could also prevent them from achieving a blend of concessional and non-concessional flows at an overall cost, which would not result in creating unmanageable debt-servicing difficulties in future years.

23. Given the limited reallocation possibilities within the low-income group itself, and also that DAC ODA flows to low-income countries as a group (those with 1983 per capita income below $700) comprised only about 54 per cent of their total ODA disbursements in 1986/87, it would seem highly desirable that a reallocation of ODA should take place from middle-income to low-income countries on developmental grounds. But there are several limitations on the extent to which this can be undertaken, which are particularly relevant to the Caribbean economies.

(iv) Issues for the Caribbean

24. There are strong arguments which suggest that the criteria of per capita income as applied particularly by multilateral agencies in determining eligibility for and allocation of aid may be misplaced especially in relation to small economies like those in the Caribbean, in particular the OECS states. Their graduation from IDA has been temporarily postponed (up to 1990), while these countries gain full creditworthiness for market-related IBRD funds. However, the size of these economies pose severe limitations on the economies of scale they can foster and the degree of structural transformation they can achieve, without having access to concessional assistance over a significant period of time to build up their physical and social infrastructure. Continued efforts therefore would be required to ensure that premature graduation of OECS countries from IDA does not take place, a task which would be greatly facilitated if the size of the ninth replenishment of IDA (IDA-9), covering the period July 1990-June 1993, currently under discussion, is substantially higher in real terms than that of IDA-8 ($12.3 billion).

25. Moreover, a shift of ODA from other middle income countries facing problems of indebtedness and structural adjustment such as Jamaica, can also be highly disruptive. Aid-dependence of Jamaica is particularly high, about 9 per cent of GNP in 1985/87. Indeed, if countries like Jamaica which have built up a large amount of non-concessional debt particularly with multilateral agencies are to see their way through their current difficulties, additional concessional assistance for structural adjustment would seem to be highly desirable. In particular, efforts need to be made to secure access for such countries to the concessional resources of IMF's Structural Adjustment Facility/Enhanced Structural Adjustment Facility currently restricted to IDA-eligible countries only. This task could be made easier by securing additional contributions to these facilities from donors. (See also below).

26. While the above efforts need to be continued, a question that the Caribbean policymakers need to ask is whether tactically they would not be better off arguing for greatly enhanced regional soft-arm funds such as those for the IADB and CDB, which unlike IDA and ESAF, would not include claimants from low-income Africa and Asia which are much poorer than the Caribbean economies. But in the final analysis, given the overall paucity of multilateral concessional assistance, the Caribbean economies need to look increasingly for bilateral concessional resources, especially from countries

with the fast expanding budgets from which they have so far tapped few resources. With some of the West European countries in this category likely to be increasingly preoccupied with the needs of East European economies, it would seem that Japan needs to be the central focus of attention. There is also a greater onus on countries like Canada and Britain, with traditional ties with the Caribbean, to ensure that aid flows to these economies are not squeezed disproportionately.

(b) Non-concessional Official Development Finance

(i) Global Trends

27. Non-concessional official development finance (ODF), though relatively small compared with ODA, has been one of the few sources of finance which has shown a significant increase during the 1980s, Table 1). Such flows rose from about \$8.7 billion in 1981 to \$16.0 billion in 1988, to comprise about 15 per cent of the total flows in 1988 compared with only about 6 per cent in 1981.

28. A strong rise in bilateral disbursements (from \$3 billion in 1981 to \$8 billion in 1988) mainly represent the capitalisation of substantial amounts of interest arrears in debt consolidations, in particular of export credits, as a result of action in the Paris Club (some \$2 billion of interest arrears was capitalised in 1988), as well as disbursements of untied non-concessional loans by the Japanese Export-Import (Jexim) Bank under Japan's recycling programme. Multilateral disbursements also rose strongly between 1981 (\$5.7 billion) and 1984 (\$8.2 billion), but then fell back up to 1987 (\$6.8 billion) only to recover to \$8 billion in 1988. The bulk of the non-concessional multilateral lending is accounted for by the IBRD (the World Bank), the decline on whose flows continued in 1988. Flows from regional banks however, after falling from 1984 and 1987, recovered sharply in 1988 to more than offset the decline in flows from the IBRD (see Table 6).

(ii) Trends for the Caribbean

29. As far as the flows of non-concessional official development finance to the 12 Caribbean economies are concerned, unlike the worldwide trend, these have fluctuated very sharply reflecting both the bilateral and multilateral lending cycles particularly to Jamaica, but also to Barbados and Guyana. Overall, these flows were down from an average of £214 million during 1980-1982 to \$84 million in 1987.

30. IBRD gross disbursements to Caribbean countries (including Haiti and Dominican Republic) have fallen from an average of about \$110 million during 1981-1985 to about \$64 million during 1986-1988 (Table 8). Because of rising principal and interest repayments, net disbursements turned from a positive \$86 billion to a negative \$12 billion and net transfers from a positive \$46 million to a negative \$96 million over the same period. Gross disbursements, net disbursements and net transfers from the Inter-American Development Bank to Caribbean countries (including Haiti and Dominican Republic) rose very strongly from 1981 to 1987, but in 1988 both gross and net disbursements were down very significantly (\$65 million and \$26 million respectively) and net transfers turned from a positive of \$35 million in 1987 to a negative of \$18 million in 1988. Gross disbursements, net disbursements and net transfers from the Caribbean Development Bank, after showing significant improvement up

to 1986, have also fallen back, with estimated negative net disbursements of $1.4 million and negative net transfers of $9.8 million in 1988.

(iii) Issues

31. The principal issue therefore concerns ways to improve both bilateral and multilateral non-concessional flows. As for improving bilateral non-concessional flows, capitalisation of interest arrears in debt reschedulings can continue to ease the financial strain facing many developing countries (see below). In addition, increased official bilateral non-concessional flows especially from Japan and other surplus countries, can also play a significant role in enlarging financial flows to developing countries. Under Japan's so-called Nakasone programme announced in 1987, disbursement of $20 billion over three years (ending March 1990) was expected, with $8 billion as government contributions to international institutions, $3 billion as concessional aid, and $9 billion as non-concessional bilateral flows channelled through Jexim Bank. Roughly two-thirds of the Jexim Bank allocation was earmarked for co-financings with the World Bank and other multilateral agencies, in order to avoid international criticism that Japan was utilising its untied lending mainly for the benefit of Japanese companies. It is unclear so far as to how much of its commitments have been disbursed by Japan and as to whether the Caribbean economies have tapped this growing source of finance. It is clearly important that they do so particularly for commercially viable projects. It is also important that on the completion of its current programme in 1990, Japan embark on a further substantial programme of recycling. More generally, it is necessary that other industrial countries also make additional efforts to supplement lending from the multilateral agencies in order to sustain vital resource flows for growth-oriented adjustment in debtor countries.

32. The size of non-concessional lending by multilateral development institutions depends largely on their capital bases. Agreement on an 80 per cent increase in the World Bank capital to $171.4 billion which was reached last year, has allowed the Bank to expand its commitments in 1989 although at a lower end of planning range set by the Bank.[1] If the IBRD is to reverse the trend of being a net receiver of funds from developing countries,[2] it is imperative that commitments should rise sharply and amounts disbursed more rapidly.

33. Among the regional development banks, an increase of 200 per cent in the case of the African Development Bank in 1987 has already permitted it to embark upon a lending programme over a five year period, twice the size of the previous such programme. A general capital increase for the Asian Development Bank (AsDB) is scheduled for 1990 although the size of the increase and the

---

1 In the Bank's fiscal year 1988/89, which runs from 1 July to 30 June, commitments were $16.4 billion compared to $14.8 billion in 1987/88 and $14.2 billion in 1986/1987.

2 Net transfers (i.e. net flows minus interest payments) from the Bank have been negative since 1986/87. These are $-3 billion in 1986/87, $-3.5 billion in 1987/88 and $-4.7 billion in 1988/89.

speed with which it would be agreed, will essentially depend on the resolution between the US and Japan of their future voting rights in the Bank, where at present both hold equal shareholdings, but where in future Japan, as a surplus country, is expected to contribute much more strongly.

34. From the point of view of the Caribbean, agreement earlier this year on a $26.4 billion capital increase for the Inter-American Development Bank (IADB), is more significant. This would enable it to make commitments of $22.5 billion over 1990-1993, roughly double the current programme. The agreement marked the end of a three-year dispute between the United States and Latin American members, which had greatly hampered IADB's operations. In place of the current practice of approval of loans by a simple majority vote (which gave Latin American countries as a group sufficient power to approve them without concurrence by the US), a complex procedure has been instituted which would in effect give the US, with the support of one or more members, power to delay loans.

35. The size of the capital and the lending capacity of the CDB, which lends exclusively to the Caribbean economies, is also crucial in determining the future course of non-concessional lending to these economies. While the admission of Italy and West Germany as members will up to 1991 relieve the shortage of loanable funds, substantial increase on its current capital of $50 million would be required if it is to ensure that it does not start the 1990s with a serious liquidity crisis.

36. From the Commonwealth Caribbean perspective, another major issue is again that of graduation which deny countries with very high per capita incomes access to IBRD resources. While compared to IDA graduation, procedures are more flexible and there is a phase-out period once a country reaches a GNP per-capital benchmark, there is still no assurance that these countries will continue to have adequate access to capital markets upon graduation nor can self-sustaining development be assured. The Bahamas and Barbados are likely to face the question of imminent graduation from IBRD within a short period of time. Trinidad and Tobago, after a considerable period of uncertainty however, has however gained access to IBRD resources.

37. A further major issue facing multilateral institutions generally is the proportion of lending they should devote to structural adjustment lending. The World Bank is currently devoting about 25-30 per cent of its total lending for this purpose, although for individual countries there are no formal limits. The agreement on the capital increase of IADB also requires the Bank to devote about 25 per cent of its lending for adjustment loans. However, because of IADB's need to develop expertise in this area, such loans for the first two years would be used to co-finance World Bank sector adjustment loans. Debates are also going on currently in the AsDB and the CDB on the role that they should play in structural adjustment. While structural adjustment is an important current need which can provide fast disbursing assistance to countries in severe difficulties, it would seem that these institutions should not lose sight of their primary role as investment lenders, without which further growth and development may be jeopardised.

38. With the decline in general purpose external lending to developing countries as well as constrained domestic public finances, another important question that the international institutions and developing country policymakers need to address is the role that private finance can play for

public projects such as power generation, water supply, etc. The World Bank has already set up a pilot project in Pakistan for the purpose of attracting such project finance, a process that needs further encouragement (see annex for details).

(c) Export Credits

39. Net export credit finance to developing countries fell very sharply from an average of $16 billion in 1980-1982 to about $5 billion during 1983-1985 and turned negative in 1986 and 1987. However there was a modest revival in 1988 (a positive $3 billion) (see Table 1). The main reason for the decline was a sharp downturn in medium to long-term credits from DAC countries (which fell from $13 billion in 1981 to a negative $5 billion in 1987), principally as export credit agencies removed cover from a number of severely indebted countries in arrears and seeking reschedulings, and also as most developing countries curtailed or restructured their investment programmes. In 1988 while the figure for DAC medium and long term credit was still a negative $1 billion, it appears to reflect an end to the continuing decline. There were larger gross borrowings by several countries in Latin America, North Africa and the Middle East. DAC short-term credits suffered a decline during 1983-1984, but since then have revived at an average of about $3-4 billion during 1985-1988 as both debtors and creditors gave greater priority to servicing of short-term credits. Export credit flows to the Caribbean economies have followed this general worldwide trend falling from a positive $140 million in 1981 to a negative $50 million in 1987 although it is not as yet clear whether they have shared in the modest worldwide revival of 1988 (see Table 3).

40. For countries that had not experienced severe debt servicing difficulties, the export credit agencies have generally maintained a very open stance and while policies in some cases were tightened in the immediate aftermath of 1982 (following the Mexican debt crisis), they were subsequently liberalised as it became apparent that the spread of the difficulties had been contained. Credit and cover policies have also been quite open for countries that have had Paris Club reschedulings, provided that they had good records of adjustment policy implementation, prompt conclusion of bilateral agreements under previous reschedulings and regular payments of amounts under them (for example, in the case of Cote d'Ivoire, no agency has so far gone off cover); they have been though more restrictive where countries were implementing previous Paris Club agreements or where creditor governments believed that export credits on commercial terms were an inappropriate form of support for heavily indebted low-income countries. For other severely indebted countries, agencies have generally continued to maintain a very cautious or restrictive stance, although in virtually all cases they have remained open for short-term cover provided the country continued to service short term debt regularly.

41. The impact of export credit cover policies depends not only on whether agencies are open or closed, but where they are open, on the range of instruments used and the restrictiveness with which they are applied. Most typically they have reopened slowly in the market, with a low ceiling and/or a low transaction limit and frequently with reduced percent cover and special security requirements. If payments experience is found to be good, these restrictions have been loosened and sometimes eliminated. Moreover, although most liberalisations have taken place on a case by case basis, agencies or their governments have occasionally taken decisions to affect a broad group of

countries. For example, the US Eximbank has introduced a new graduated system of premiums with the intention of remaining open in more countries.

42. While the supply of credit still remains an operative constraint for some countries, the critical problem in the revival of export credits lies on the demand side. In many debtor countries adjustment has fallen disproportionately on investment as these countries have sought general purpose balance of payments and budget support, including debt relief, to maintain levels of public and private consumption, while sources available to finance sound investment projects have remained untapped. Even countries where agencies remain wide open, have been reappraising or restructuring their investment programmes and often making early repayments. Another factor disuading increased take up of export credits appears to have been their financing terms. Their repayment periods often do not match with the requirements of projects, an issue to which they paid little attention to in the past as general purpose balance of payments assistance was readily available. In addition, progressive reduction in subsidised rates of export finance have also led some creditworthy borrowers to seek other more competitive sources of finance. The strong development of mixed credits - which combines export credit with aid for the purpose of winning export contracts - may have also led borrowers to obtain the best possible terms on finance. A further important factor seems to have been a distinct preference among many agencies for providing credit and cover to public sector or public sector guaranteed borrowers. This practice may not be conducive to supporting the private sector requirements for export credits, particularly at a time when many governments are putting emphasis on the role of the private sector in generating growth and investment.

43. A reorientation of public sector expenditures towards investment in adjustment programmes by developing countries could be expected to lead to a stronger recovery in export credit finance. In that event, increased capacity within export credit agencies to assess projects, or greater reliance by them on multilateral development banks for project assessment, could be of assistance in ensuring that the financing terms are compatible with the profitability of the project. Export credit agencies themselves would need to be more innovative in raising long term finance at a reasonable cost that is compatible with the needs of the projects. In this respect, agencies which are separately incorporated and borrow directly from the markets such as the Swedish and Canadian agencies are better placed through the utilisation of newer market techniques, to have the full efficiency of the markets being translated directly from investors to borrowers. Even other agencies, such as the UK's ECGD have been in the forefront in seeking ways to reduce the impact on their balance sheets of bank-financed export credits by creating new capital market products (consisting either a portfolio of a single country export credits or a more divertified portfolio) attracting a full range international retail and institutional investors. Such vehicles could be used to generate specifically tailored financing proposals conducive to developing country needs, while enabling the different risks involved to be priced and assessed separately.

44. A much stronger catalytic role by the World Bank as well as regional development banks through co-financings with export credit agencies can contribute to a substantially enhanced flow of export credit finance to developing countries, including the provision of such credits to the private sector. A step in this direction is a recent initiative by the World Bank

involving the provision of loans to financial intermediaries in developing countries for on-lending to entities importing from countries which have provided export credits. The objective is to help countries restore normal relations with export credit agencies. Export credit agencies themselves could play a major role in providing limited recourse financing for privately sponsored public projects (see annex on project finance).

45. From the developing countries - in this respect the Caribbean economies'-perspective, the above considerations highlight the critical importance of a good track record in the dealings with export credit agencies, as well as of the need to shop around as agencies differ in their openness to different developing countries, in the financing terms they provide, including their innovativeness in raising finance at appropriate terms, and in the support they provide to the private sector.

(d) Direct Foreign Investment

46. Direct investment from OECD countries to developing countries fell very sharply from $17 billion in 1981 to an average of about $10 billion during 1984-1986. Since then, it has recovered to a flow of about $19-$20 billion in 1987-1988. As for sources of such growth, direct investment by Japan increased from an average of $2.1 billion in 1982-1983 to $7.4 billion in 1987, while investment by United States, which had fallen during 1982-1986 period, rebounded sharply to reach a record $8 billion in 1987 (see Table 9). However, the destination of these flows remains very uncertain because about one-half of them are channelled through offshore financial centres. In addition, the OECD estimates that Asian countries have been the main beneficiaries, with direct investment to them rising from an average of about $3 billion during 1982-1986 to $7.4 billion in 1987, principally from Japan. The Latin America and Caribbean region also saw significant improvements in direct investment flows. However, the rise partly reflects the growing importance of debt-equity conversions, which tend to inflate the figures for equity flows (while reducing the overall stock of debt). The rise in direct investment flows to the HICs which include many Latin American countries (from an average of about $3.7 billion annually over 1983-1986 to $5.6 billion in 1987 and $8.4 billion in 1988) contain a significant growth in debt-equity conversions.

47. Aggregate foreign investment flows to the Commonwealth Caribbean economies have been subject to wild gyrations being a positive $660 million in 1983, a negative $350 million in 1985, and a positive $630 million in 1987. Most of it in fact reflects offshore activities in the Bahamas. If such investment into Bahamas is excluded then, aggregate OECD direct foreign investment flows to the Caribbean economies since 1983 have been negative. The larger countries account for all of this negative flow; OECS countries by contrast have continued to attract positive flows, albeit at a lower level, than in the early 1980s.

48. Most Caribbean economies have always had fairly liberal regimes welcoming foreign investment, while many other developing countries, with previously unfavourable environment for foreign investment, have made numerous policy changes, including provision of special incentives, to attract such investment. However, careful observation suggests that direct investment cannot be regarded as a substitute for other forms of private finance. Direct investment, private lending and export credits all have tended to move

together, reflecting market perceptions of a country's creditworthiness, growth and export potential. Economic fundamentals have been much more important than specific inducements: growth, financial stability, absence of exchange controls governing essential imports and remittances, a realistic exchange rate, strong domestic savings and investment.

49. Nevertheless, countries can to some extent, take advantage of the fact that direct foreign investment is not homogeneous and different companies have different motivations. Some are looking for large and rapidly growing internal markets; but the small size of the Caribbean markets clearly pose severe limitations. Mining and oil companies are influenced by world market conditions and local raw material availability as well as specific contractual and tax regimes applicable in the sector, while export-oriented manufacturers would be largely concerned with labour costs and productivity. The Caribbean economies may have a considerable potential, especially in relation to the skill-intensive exports, given the preferential access arrangements it enjoys in relation to the North American and European markets.

50. There are also many variants of foreign investment that are not directly reflected in the statistics of foreign investment flows. These do not involve foreign equity in the conventional sense but may ensure in different ways that returns from financial flows and contractual obligations to foreign collaborators are directly related to project performance. In the oil sector (and similar arrangements exist in the mining sector) for example, there are arrangements which involve production or revenue sharing as well as service contracts and concessions. Even in other sectors - manufacturing, agriculture and tourism - these arrangements are replicated to some extent in the form of licensing arrangements for technologies, management contracts for marketing or engineering and franchise arrangement relating payments to results. Joint ventures also offer a wide variety of possibilities for combining minority foreign with local, private or government, equity and provide foreign investors against political or even economic risks. In this respect, foreign private investment in large public infrastructure projects, often referred to as build-operate-transfer (BOT) projects, may also offer some possibilities (see annex).

51. The difficulties in attracting foreign investment raise questions generally about the catalytic role which the international and national official agencies can play in enhancing these flows. The IFC has continued to expand its direct lending under its recently completed five-year programme to catalyse equity flows from other sources but, to play a substantially enhanced role in the 1990s, it would require a major increase in its current capital of $1.3 billion. It has initiated a preliminary review of a possible capital increase. An increase in capital from $1.3 billion to $1.5 billion would allow it to sustain an annual growth rate of new investment over 1992-94 of 15 per cent per annum, while an increase to $2 billion would permit a 20 per cent annual growth.

52. For the Caribbean economies, however, the IFC's role in the past has been very limited because of the minimum size of investment it supports. It usually requires a minimum IFC investment of $1 million in a project of $4 million, to justify IFC's administrative costs. Last year, however recognising the difficulties this had caused in funding small and medium sized projects for the African region, it set up an Africa Enterprise Fund (AEF) concentrating on projects whose total cost would not exceed $5 million, with

AEF meeting up to 40 per cent of the costs. However, there is no equivalent of an African Enterprise Fund in the Caribbean. A Caribbean Enterprise Fund (CEF) to support small and medium sized projects could go some way to meeting an important gap and in promoting foreign direct investment.

53. The AEF is a useful adjunct to the African Project Development Facility (AfDF) established in 1986, which helps in project identification and development, but has found it difficult to find funding for many of the projects so identified. A CEF would similarly provide a useful adjunct to the Caribbean Project Development Facility which has been in existence for many years now. For the period 1989-1992, the Facility has been able to secure funding to extend its services as planned to six central American countries. It has also established an office in Barbados to help increase private investment in the Eastern Caribbean.

54. Regional development banks also need to play a more active part in promoting private sector development and foreign investment financing. An Asian Finance and Investment Corporation with participation of the Asian Development Bank and industrial country private sector financial institutions is being formed. The IADB already has a private sector arm, established in 1986, the Inter-American Investment Corporation (IAIC), for supporting small and medium-scale firms, but so far the institution has not been very active. There is need to give sustained support to IAIC's activities. National agencies such as UK's Commonwealth Development Corporation and their counterparts in other industrial countries can also do much to catalyse private sector foreign investment in developing countries. OPIC in the US, for example, has been instrumental in setting up an Africa Growth Fund as well as a similar fund for the East European countries. There is no reason why similar initiatives cannot be taken to support investment in other regions.

55. Apart from official agencies taking and catalysing direct equity participation in developing country projects, increased provision of insurance against non-commercial risks for foreign investors in developing countries would also be helpful. The Multilateral Investment Guarantee Agency (MIGA), which became operational in December last year and provides insurance for non-commercial risks, will to some extent facilitate provision of cover to investors from countries without national schemes or to multinational companies which have difficulties in securing guarantees under national schemes. But MIGA's activities would invariably be limited by its capital which is very small ($1.08 billion) in relation to the global nature of its operations.

56. As for national schemes, Japan, in a recent initiative, has announced that it is to increase, on a case-by-case basis, its underwriting of investment (including debt-equity swaps and portfolio investment) by private Japanese companies in about 50 countries regarded as high investment risks. Given the difficulties of attracting investment in such countries, special measures by all major industrial countries may serve to provide additional motivation to companies to undertake new investments in the indebted countries.

(e) <u>Portfolio Investment</u>

57. As compared to direct investment, portfolio investment is a relatively small financial flow. A recent estimate by the IMF suggested that

portfolio investment, treated as a residual financial flow, peaked in 1980 at $1.8 billion. However this type of estimate is unsatisfactory as it fails to capture the importance of the rapid growth of country equity funds in recent years. During 1984-87 the number of developing country funds with initial size of over $5 million has more than doubled and around $1.5 billion has been mobilised by them. Among the countries for which funds have been provided included Brazil, India, Korea, Malaysia, Mexico, Philippines, Taiwan and Thailand. These are typically "closed end" funds where the number of shares is fixed; a specific amount of money is raised and then invested in a country's stock market. For the investors, country funds provide a means to enter a market where this is impossible to enter it directly (e.g. Korea, Taiwan), but there is usually a large pent up demand and shares have usually traded at a high premium. Even where markets are relatively easy to enter directly (e.g. Malaysia, Thailand), the appeal to investors of country funds probably lies in the expertise of their management in choosing among internationally non-familiar stocks. For the host country, the appeal of country funds relative to other forms of portfolio investment lies in the fact that the closed-end character of country funds guarantees a stabilising influence in market as they do not represent hot money, and that these funds are explicitly concerned with diversification of shareholdings and have no interest in acquiring dominant shares.

58. Since 1986 there has also been a growth of a number of diversified funds also. Their main purpose is to protect the investor from the vagaries of investing in one country alone as well as make his shareholding more liquid. The IFC's Emerging Markets Growth Fund was a pioneer in 1986 (which earned a 50 per cent return for its shareholders in the first year and expanded its capital from $80 million to $133 million). In 1987 the $100 million privately sponsored Templeton Fund followed. In 1988 the $100 million Asian Development Equity Fund sponsored by the Asian Development Bank was launched. This year Commonwealth Finance Ministers gave a go ahead for the establishment of a Commonwealth Equity Fund, which would invest in Commonwealth stock markets, including those in the Caribbean. The success of the Commonwealth initiative can be a spur to the development of regional funds including one in the Commonwealth Caribbean. While in the short to medium term the growth of portfolio investment through such funds could only be limited, in the long run they could bring substantial benefits to the host country in terms of both the development of domestic financial markets as well as of wooing a whole class of the new institutional investors in developed countries, such as pension funds and life assurance companies, whose aim is not to seek control of domestic enterprises but rather to maximise the returns on their investments.

(f) International Financial Markets

59. The total value of borrowings on the international capital markets by all countries on a gross commitment basis, after falling during the recession years, 1982-1983, has been rising rapidly ever since and reached a record of $452 billion in 1988. Both the bond market and syndicated credits grew rapidly and were dominated by corporate borrowers and banks from developed countries. Prime sovereign borrowers shifted to shorter segments of the market, such as Euro-commercial paper, which offer more competitive pricing to top rate borrowers. But the majority of developing countries were not able to take advantage of these opportunities because of their lack of market access on creditworthiness grounds.

60. Overall, amounts raised by developing countries fell continuously from $49.5 billion in 1981 to $19.5 billion in 1986. After a revival in 1987 ($26.3 billion), they were again down by some 14 per cent in 1988 to $22.4 billion (see Table 10). The decline in syndicated credits (loans from banks) account for practically all of the fall-off in lending in developing countries, from $46.1 billion in 1981 to $15.5 billion in 1988 although such credits still remain the main form of borrowing by developing countries. Recent differences (i.e. during 1986-1988) in lending by banks, however, are accounted for changing amounts of credits extended by commercial banks in the context of debt restructuring agreements and IMF supported programmes for some HICs. Excluding such managed loans, lending by banks has been fairly stable around $10-12 billion. Utilisation of bond markets, which have generally been accessible to the more creditworthy developing countries has also, on the whole, shown remarkable stability during the 1980s. These countries raised an average of about $4 billion during 1981-1988, including during 1986-1988. Since 1982 the most creditworthy developing countries, have also been making use of the international borrowing facilities. Initially they were all underwritten; but with the advent, in the mid-1980s, of eurocommercial paper and other non-underwritten facilities they have started recently to use these facilities too. During 1986-1988 developing countries raised about $3 billion annually through various borrowing facilities and in the last two years more than half the amount was raised through non-underwritten facilities. Of all the financing (excluding managed loans) raised by developing countries during 1986-1988, about two-thirds was accounted for by six Asian countries - China, India, Indonesia, Malaysia, South Korea and Thailand.

61. In the Caribbean, four countries - the Bahamas, Barbados, Jamaica and Trinidad and Tobago - have raised funds in the international capital markets (see Table 11). It totalled $469 million in 1981, averaged $229 during 1982-1985, reached $461 in 1986 and again averaged about $150 million in 1987-1988. The amounts raised have varied with the requirements of individual countries and the market assessments of their creditworthiness. For example, Trinidad and Tobago has been a borrower in every year throughout the 1980s, with its borrowings from year to year showing considerable fluctuations, varying largely with its borrowing needs. Barbados has also borrowed in every year since 1985 while the Bahamas has borrowed once since 1982. Jamaica, whose position may have been affected by creditworthiness considerations, has since 1981 only managed to raise one loan ($30 million in 1987). The main instrument for borrowings has been bank loans; in fact prior to 1983 all borrowings were through such loans. But, since 1983 issuance of bonds have become much more significant, particularly foreign bonds which unlike Eurobonds need to conform to the securities registration requirements of the host countries. For instance, the entire $119 million raised in capital markets by Barbados and Trinidad and Tobago in 1988 was through the issuance of foreign bonds. Only one Eurobond has so far been issued; a $50 million issue by Trinidad and Tobago in 1983. No Caribbean country has so far been reported as having used the borrowing facilities, even those which are underwritten.

62. On a net disbursement basis, OECD estimates indicate that international bank lending (including managed lending) has averaged only $5 billion over 1986-1988, compared to about an average of $21 billion over 1983-1985, and $49 billion in 1981 (see Table 1). Net bond lending has averaged around $1-1.5 billion over the last two years, a figure not too dissimilar to 1980/1981; however the figure is less than half of the 1985-86

levels indicating that some of the recent issues may have in fact been used to refinance redemptions of earlier bonds. For the 12 Caribbean economies, net disbursements on account of bank and bond lending, after being negative in some of the earlier years, have in fact remained positive since 1985 (see Table 3).

63. Despite net positive disbursements by banks to developing countries in 1988, data collected by the Bank for International Settlements shows that in 1988 there was, in fact a $22.6 billion <u>decline</u> in developing country liabilities to the BIS-area reporting banks. When adjusted for movements of the dollar exchange rate, the decline was $13.2 billion. This was in part a result of net repayments being often ahead of schedule for some debtors (e.g. Malaysia and Korea), but it mostly reflected a net reduction in claims initiated by the banks themselves through measures such as loan sales, debt equity swaps, other conversions, write-offs, etc. In this respect the US banks were the most aggressive, reducing their claims in a fifteen-month period, July 1987-September 1988, by over $20 billion, more than half of which was represented by a reduction in claims on the HICs.

64. The above discussion makes clear that openings for voluntary new borrowings on the international capital markets are limited to only a few countries; amongst them the Bahamas, Barbados and Trinidad and Tobago. The first two have benefited from their activities as offshore centres and there is no reason why they could not make more intensive use of international bond markets as well as borrowing facilities. Trinidad and Tobago is undertaking major structural reforms, and the resumption of multilateral lending which has already occurred together with appropriate co-financing by commercial banks, can help the country to maintain strong access to markets whilst extending maturities and reducing the cost of borrowing. There are also a number of countries which are without debt serving difficulties but have difficulty in access, amongst them some of the OECS countries and Belize. For them co-financing and use of guarantees can provide a suitable method of raising capital for commercially viable projects. Finally, for countries with severe debt serving difficulties e.g. Jamaica and Guyana, a wider menu of options is vital and this should include debt conversions, as well as concerted new lending where appropriate.

III. THE DEBT PROBLEM AND FINANCIAL FLOWS

65. The question of financial flows is inextricably linked to the problem of debt. As pointed out above, debt carries large interest charges, which have been the main reason for the net negative or low transfers to developing countries, and consequently also for the level of domestic investment in them.

(a) Debt and Commercial Creditors

66. Following the Mexican debt crisis in 1982, commercial debt restructuring together with some concerted new lending anchored on an IMF-supported programme, particularly for the main heavily-indebted middle-income countries, came to be seen as essential in resolving what was then seen as largely a temporary liquidity crisis. Increasing recognition that stabilisation measures involved heavy costs in terms of output forgone, led the then US Treasury Secretary James Baker in 1985, to launch an initiative calling for growth-oriented adjustment with greater assistance from both commercial banks and multilateral development institutions, including the

World Bank, to support structural reforms. However, the initiative did not generate the amount of additional private flows needed to support it.

67. According to IMF estimates, total commitments during 1986-1988 under concerted lending arrangements amounted to $16.3 billion, of which almost $15 billion was actually disbursed, or about one quarter of the interest payments to financial markets. Debtor country data, collected by the World Bank, however, indicate that only about $4 billion in net financing was provided by commercial bank creditors, with the result that the effective refinancing ratio (net disbursements to interest payments received) for 1986-1988 was only 7.6 per cent (12.0 per cent if arrears are included). Official creditors provided about $15.3 billion in new lending, equivalent to about 64 per cent of interest payments they received from borrowing countries.

68. Nonetheless, during 1986-1988, the amount of commercial bank debt restructured almost doubled ($83 billion annually) over the 1982-1985 level although the number of agreements fell from an average of 19 during 1982-1985 to 12 in 1986-1988. The average length of the consolidation period was extended from an average of 2 years in 1982-1985 to 6.5 years in 1988; average maturities lengthened from approximately 9 years to 19 years; and the average spread over LIBOR was reduced from 1.8 per cent to 0.8 per cent. In the Caribbean, Jamaica rescheduled its debt of $165 million in 1983, $195 million in 1985 and $365 million in 1987 which was a multiyear rescheduling agreement covering maturities up to March 1990. Trinidad and Tobago also rescheduled in November 1988 covering debt of $470 million of maturities up to August 1992. Guyana's debt reschedulings, by contrast, were deferred as its arrears mounted and as it became ineligible to draw IMF and World Bank funds.

69. Apart from larger amount of debts that was rescheduled, since 1984, and especially in the last year, there has been dramatic growth in the secondary market for developing country debt as bankers have sold, mainly to third parties, some of this debt at a discount. The total value of all transactions (including interbank trading) in those markets is estimated at nearly $43 billion in 1988 (compared to a total of $25 billion over the four years 1984-1987). The total amount of debt conversions - transactions that actually reduced external debt - is estimated at over $21 billion (compared to $8.2 billion in 1987 and $5.0 billion during the whole of 1984-1986). Four countries - Brazil, Mexico, Chile and Argentina - have accounted for over 90 per cent of the total conversions. Formal debt equity swaps, largely for private corporate restructuring, constituted the largest portion of market activity (almost 42 per cent of the total in 1988). Informal conversions to fund local subsidiaries, which have become popular since 1987, constituted another 23 per cent. Exit bonds, which substitute bank debt for low-coupon long-term bonds and which allow banks to free themselves from obligations to participate in concerted lending, became very significant in 1988, constituting about 22 per cent of the total. The residual, roughly 13 per cent, comprised official debt buybacks (e.g. Bolivia) and conversions to domestic debt including debt swaps for environmental protection (see Table 12). In the Caribbean, the only country which has launched a debt conversion (all debt equity) programme is Jamaica. The IMF has estimated that about $4 million was converted in 1988. Further, in December 1988 10 applications for $102 million were accepted but only about $1.5 million is reported so far to have been converted.

70. Despite its growing importance, voluntary debt reduction has remained small both in relation to the total debt of developing countries and particularly to the magnitude of the problems of net transfers and low investment facing them. The net value of debt reduction, taking into account the conversion from one type of debt instrument (usually loans) into another (usually bonds), amounted to $17 billion in 1988. Moreover, because of the large amount of debt equity conversions, the impact on these countries' total net external liability position was much less. A rough estimate by the World Bank, taking into account the increase in debt and equity investment liabilities, puts the net reduction in external liabilities at $8.5 billion or 40 per cent of the retired debt.

71. To encourage the process of voluntary debt reduction, a new debt initiative was launched by the US Treasury Secretary, Nicholas Brady, in March this year. In addition to the case-by-case approach and support for viable adjustment programmes (under the Baker Plan), the initiative entails a more explicit role for the IMF and the World Bank. Under the guidelines set up in the IMF and the World Bank, both institutions would provide funding for debt or debt service reduction via debt buybacks and exchange of old debt for new collateralised bonds at a discount or new par value bonds with reduced interest rates. From the IMF and the World Bank, up to 25 per cent of extended credits or adjustment loans can be set aside for debt reduction operations. In addition, up to 40 per cent of the debtor country's IMF quota or the equivalent amount from the World Bank can be provided to back up interest payments on the new discounted and/or par value reduced interest rate bonds traded for commercial bonds. Arrangements incorporating the new policy by the Fund on debt reduction have already been concluded with Costa Rica, Mexico, the Philippines and Venezuela.

72. However, about $29 billion already committed under the Brady Plan (by the IMF, the World Bank and Japan) can support no more than a very partial reduction of debt and debt-service. According to the UN Secretariat, at the April 1989 average secondary market price of 36 pence per dollar of debt, such funding could reduce commercial debt by some $80 billion, and reduce interest payments to private creditors by 36 per cent if the entire $29 billion were applied to the debt of 15 HICs. However, because $29 billion would be provided as additional loans at non-concessional interest rates, the reduction in interest payments could be only 13.5 per cent for the 15 HICs and much less if the $29 billion were spread amongst all eligible 39 countries as envisaged under the Brady Plan. In this context, a WIDER Group headed by Dr Witteveen, has suggested a reduction of a third ($125 billion) of the commercial debt of HICs which would require resources of about $50 billion; the Group proposes an establishment of an IMF Trust Fund with voluntary contributions from surplus countries. At the official level, France is reported to have proposed a setting up of a multilateral guarantee fund for debt reduction under IMF/World Bank auspices, a proposal which has so far not been received favourably by other major countries as it implies a transfer of risk from the private to the official sector.

73. It is also questionable whether significant debt reduction could be achieved under the current negotiating framework which relies on a decentralised voluntary process and gives too great an opening for each individual bank to hold out (the so-called free rider problem), hoping that somebody else (other banks, the IMF, Japan, etc.) will bear the losses. This optimism of free-rider banks would not be misplaced because in the past

official institutions have supplied some of the money needed to meet interest payments to them. Moreover, US banks are loath to report book losses, and larger among them have better access to debt-equity swaps which offer a cheaper and less costly way of divesting debt.

74. There are also a number of regulatory, taxation and accounting issues that need to be considered by creditor countries if debt reduction is to be successful. While the higher levels of provisioning established or required in most creditor countries are positive developments as they cushion the banks from possible losses, these in themselves are not sufficient to transfer some of these loan-loss provisions into debt or debt service reduction. It is therefore important that while tax concessions continue to be granted when loan-loss provisions are made, banks should retain these concessions only if they participate in the debt/debt-service reduction schemes as under the Brady Plan. This would both encourage provisioning and discourage free-riding. It is also important that all creditor countries should exclude loan-loss provisions from capital or, as a minimum, make no exceptions to the Basle agreement which defines by 1992 a uniform maximum level to be included in capital.

75. There is also concern that banks would become even less willing to provide new loans which may be necessary to meet the foreign exchange requirements for new investments, vital for growth-oriented adjustment. Without giving seniority status to such loans, from the banks' viewpoint, these loans would become an indistinguishable part of the existing stock of debt which is trading at a significant discount. To overcome these difficulties, Spain was proposed setting up a new EEC Fund to guarantee loans to the indebted countries implementing reform programmes - a proposal which is under study in the EEC Commission. The Chairman of the US Federal Deposit Insurance Corporation has also proposed setting up an international insurance fund that would ensure future loans of those banks which agreed to participate in the debt or debt-service reduction under the Brady Plan. But the US Treasury does not support the plan which is seen as providing protection to the banks. There are other ways of providing some degree of seniority to such loans, such as the use by the World Bank of its various guarantee facilities or of lender of record techniques, under which the Bank's name is given on the parallel loan paper which is then sold off to commercial banks without recourse to the World Bank. From the viewpoint of the lenders the fact that the Bank is the lender of record should provide added assurance against a risk of non-payment or delayed payments by borrowers. Regional banks could also support such operations.

76. While the current debt reduction efforts are concentrated mainly on the middle-income countries who owe most of their debt to commmercial creditors, it is also important that steps are taken to eliminate the commercial bank indebtedness of low-income debt-distressed countries which can ill-afford the market-related funds of the IMF and IBRD to support debt reduction operations. For these countries, apart from aid donors who for example in the case of Bolivia supported a debt buyback scheme at a steep discount, active consideration needs to be given as to whether a portion of SAF/ESAF and IDA funds should not be used to support such buyback operations.

(b) Debt and Official Creditors

77. Debt restructuring of official debt, of both middle-income and low-income countries, has also intensified since 1982. An average of $7.5 billion of developing country debt owed to official creditors was restructured

during 1982-1985. The figure rose to $28.2 billion in 1987, fell to $8.8 billion in 1988, and for the period January-May 1989 alone has risen again to $12.4 billion. With the exception of 1986 when most of the debt so restructured was for sub-Saharan countries, the bulk in other years involved other countries. Three quarters of the amount restructured during 1988-May 1989 was accounted for by 4 countries - Brazil, Philippines, Mexico and Nigeria.

78. Consolidation periods continue to be short (12-18 months), although during 1988-1989 several middle-income countries have enjoyed consolidation periods longer than average (e.g. 36 months for Mexico, 28 months for Brazil). All countries except Cameroon, Mexico and the Philippines, had 100 per cent of both interest and principal consolidated. Ten years maturity with 5 years grace had also become common for virtually all the countries.

79. For debt-distressed low-income countries (which owe most of their debt to official creditors) such maturity and grace periods had already become a norm. But continuing severe debt-servicing difficulties led the 1987 Venice Economic Summit of the seven largest industrial countries to ask the Paris Club to extend, on a case-by-case basis, repayment terms to 20 years with a grace period of 5 years. Following the Toronto Economic Summit in 1988, the Paris Club adopted, also on a case-by-case basis, a menu approach under which all concessional debt would be rescheduled with 25 years maturity and 14 years grace and for non-concessional debt, creditors could choose between one or combination of the following three options: (a) cancelling one-third of eligible maturities and rescheduling the balance with 14 years maturity and 8 years grace at market-related interest rate, (b) adopting 25 years maturity with 14 years grace at market-related interest rate and (c) rescheduling debt at 14 years maturity and 8 years grace at an interest rate below the market rate. In early 1988 Venice terms were extended to Niger, Malawi, and also Togo but with slightly shorter maturity of 16 years. Between October 1988-May 1989 the menu approach had been extended to eight countries - all in sub-Saharan Africa.

80. There are several issues in relation to official debt relief which also have major implications for Caribbean indebted countries. The 1988 Toronto/Paris Club menu approach has so far not benefited non-African low-income countries. In fact, in May 1989 Guyana, despite its severe difficulties, received only the Venice terms (20 years maturity, 5 years grace). There is a clear need to broaden out the debt relief to cover debt-distressed low-income countries outside sub-Saharan Africa. There is also a need to lengthen the consolidation periods to put debt restructuring on a more stable footing. Aid debt cancellation by some major donors such as the US and Japan, can also make significant contribution to debt relief. More significantly, Paris Club debt relief would need to be additional to other aid commitments, for otherwise it would represent a diversion of aid away from other mainly low-income countries whose requirements for concessional finance are equally, if not more, important if they are to tackle the vast development problems facing them.

81. Apart from the debt owed to official bilateral creditors, many of the low-income countries are heavily indebted to, and some in severe arrears with the multilateral agencies which do not reschedule debt owed to them. For example, in 1988 nearly $35 billion of the $80 billion of official debt of sub-Saharan Africa was owed to multilateral agencies. In the Caribbean, in

the case of Guyana nearly $0.5 billion of the total $1.3 billion was owed to multilateral agencies - about $102 million to the IMF and $96 billion to the IBRD. Even some middle-income countries face similar problems. For example, Jamaica owed nearly 36 per cent out of its total debt of $5 billion to multilateral agencies in 1988.

82. As for countries in arrears to the IMF, negotiations are under way to help them and progress has been made in some cases (e.g. Guyana) to initiate 'shadow' Fund-monitored adjustment programmes that would trigger bridging finance from some donors under the leadership of one key donor (Canada in the case of Guyana) to enable them to settle overdue obligations to, and consequently resume borrowing from, different financial institutions. It is to be hoped that this approach, whereby a country moves towards normal relations with all its creditors, will be more widely applied, and receives wider and sympathetic support from the donor community.

83. For other low-income countries not in arrears but with heavy indebtedness to the Fund at market-related interest rates, the support available from the SAF/ESAF would to a considerable extent enable them to refinance their market-related Fund debt at concessional rates. But it is vital that there is substantial and continuing support if they are to succeed in promoting growth-oriented adjustment. There is, also, a question of severe indebtedness to the Fund of middle-income countries like Jamaica, which have borrowed at market-related terms, but whose debt-servicing to the Fund has become a major problem. If this were not to develop with a serious crisis, as pointed out above, it would seem that the coverage of ESAF should be extended to severely indebted middle income countries owing a major part of their debt to official institutions.

84. With regard to the IBRD debt of low income countries which were formerly eligible for IBRD loans but have regressed to IDA only status, about 10 per cent of the IDA reflows is currently being used to offset a part of their interest payment obligations. In FY 1989 IDA reflows amounting to $101 million were used to assist 10 countries (eight in sub-Saharan Africa plus Bangladesh and Bolivia) to partially offset their total 1989 interest payments. While a welcome development, this facility should be extended to all the countries potentially eligible to receive such support and would be of particular value to Guyana in the Caribbean.

IV. MAIN ISSUES FOR CONSIDERATION FOR CARIBBEAN POLICYMAKERS

85. There has been no real turnaround in financial flows to developing countries, which after falling sharply in the early 1980s, have remained stagnant in real terms over the past three years. The Caribbean economies have shared this general decline in net flows which even in nominal terms were less than half the levels of the early 1980s. In fact, taking account of interest and other investment income outflows, net financial transfers abroad by developing countries, have since 1983 continued to increase. As a consequence, domestic investment has hardly recovered, constraining future prospects of growth. Measures are therefore required to improve all types of financial flows to developing countries as well as, where appropriate, reduce outstanding stock of debt or debt service.

86. Specific issues requiring attention by Caribbean policymakers are:

- the need to tap both concessional and non-concessional resources from countries with fast expanding budgets of aid and other development finance, particularly Japan.

- the importance of ensuring that premature graduation from IDA of five OECS countries and from IBRD of Bahamas, Barbados and Trinidad and Tobago does not take place; also of supporting expanded regional soft-arm funds of IADB and CDB.

- the need for a capital increase for the Caribbean Development Bank.

- the importance of maintaining regular access to the capital markets by countries such as the Bahamas, Barbados and Trinidad and Tobago to preserve creditworthiness, and utilisation by them of newer techniques of borrowing to reduce costs; the need also for encouraging the World Bank to utilise B-loan and guarantee programmes for countries with difficulties of access to capital markets.

- the need to urge the Paris Club to extend the menu approach to debt-distressed low-income countries outside sub-Saharan Africa including Guyana; the donors to provide expanded support for such countries in arrears to the international financial institutions to clear them; and the IMF and World Bank to set aside a portion of ESAF/IDA funds to encourage buybacks of their commercial indebtedness.

- the need also to call upon the various partners involved to speedily implement the Brady plan on voluntary debt reduction; and the IMF to extend ESAF support to middle-income countries such as Jamaica with large official indebtedness.

- the need to promote stable economic environment for promoting private foreign investment, as well as to support small and medium-sized projects in the Caribbean by calling upon the IFC to establish a Caribbean Enterprise Fund, similar in scope to the one in Africa.

- importance of developing Caribbean stock markets including a regional market and equity funds to attract portfolio investment.

- the need to tap the export credit agency finance wisely and selectively to match project needs.

- the desirability of considering possibilities of financing public projects with private finance.

PROJECT FINANCE

Project finance refers to a specific technique in which the backers - private or institutional investors and financing banks - take every risk on an untried scheme or a new company for the sake of a future income. In short, they have no recourse except to the project itself, although all projects require some form of limited guarantees in order to be able to develop an acceptable credit structure without recourse, to specific sponsors. The benefits of such limited recourse financing to the sponsors are off-balance sheet financing and improved equity returns as a result of being able to finance the project on a higher leverage.

Whilst extensively used during the last two centuries, project finance fell into relative disuse this century and virtually disappeared during the 1970s and 1980s as all sorts of large projects were financed either directly by governments or indirectly with the support of sovereign guarantees. Recently, however, with the decline in other forms of finance, project finance has returned to favour. In particular, the global trend towards reduced public sector involvement and increased privatisation, has meant that what once may have been regarded as public utility projects - water supply, power generation, etc. - are now thought of as suitable for private finance. Private finance for public projects, however is still more debated than practised. Eurotunnel represents a true limited recourse project, as it is exposed to all the classic project risks including completion and market risks.

However, because of difficulties and uncertainties of designing such projects in developing countries, several variants have appeared, the most common of which is usually described as a BOT (build-operate-transfer) project (although this is a misnomer as the Euro tunnel project also involves sponsors to build, operate and eventually transfer ownership rights back to the governments of Britain and France). While providing many of the benefits to the host country of a true limited recourse financing, this variant involves absorption of some of the market and operating risks: generation of revenues relies not only on market factors, but also incorporate some support from host government while attractive equity returns are designed to encourage foreign investment. While various projects have been advanced in developing countries for such BOT finance, only one project so far has got off the ground (in Thailand). There are considerable operational problems which include complex legal and contractual negotiations between the various parties involved as well as the high cost of finance to cover the insurance premium on the loans.

These problems suggest a much stronger role for the World Bank as well as export credit agencies in supporting and promoting such projects. A step in this direction has already been taken by the World Bank in Pakistan where it has initiated a pilot scheme for energy development through the establishment of a private sector energy development fund (PSEDF) funded by itself and other multilateral and bilateral agencies. The PSEDF would provide up to 30 per cent of the cost of BOTs, which would be lent to the government under sovereign guarantee for onlending to BOT projects. At least 25 per cent of financing would be provided in equity form, while the remaining 45 per cent would be in the form of supplier credits - commercial loans or export credits - as limited recourse financing. In return the government would guarantee the performance of its agencies to buy energy and to ensure local infrastructure is in place. PSEDF has also created standby facilities to support cost overruns which are not the fault of the joint venture companies, and to finance the cost of any force majeur. In addition, the World Bank is considering providing standby loans in syndication with commercial banks to cover debt service to creditors in cases of force majeur and contractor or operator default and also syndicating loans with local banks for providing short term finance during the project implementation stage.

As for export credit agency support for limited such projects, the lead has been taken by Britain's ECGD, which now accepts some sort of liability on the commercial viability of such projects but the extent of the covers is restricted. It puts a cash limit of £70 million on its exposure for any single project; limits the commercial risk to only 60 per cent of the total, leaving the lending banks to shoulder the remaining 40 per cent; and insists that each bank takes at least 10 per cent of the risks on its books to encourage them to examine any potential project with the greatest degree of scrutiny. It remains to be seen how much use will be made of ECGD's new covers or of the new policies which may be developed by other agencies.

BOT structure can clearly be of most interest to countries open to the possibility of private interests in their infrastructure. But for this to succeed it is important that such countries find ways of accessing local funds for use in BOT projects. Local capital markets need to be strengthened, which should include establishment of financial instruments to fund long-term projects, of an active secondary trading market and of an institutional framework for gathering, analysing and reporting on the performance of existing enterprises.

	$ billion					Per cent of total		
	1981	1985	1986	1987	1988	1981	1985	1988
I. Official Development Finance (ODF)	45.6	49.0	56.1	62.0	67.0	33.1	58.5	65.1
1. Official development assistance (ODA)	36.9	37.4	44.3	48.4	51.0	26.8	44.6	49.6
of which: Bilateral	29.0	28.9	34.8	38.3	40.0	21.1	34.5	38.9
Multilateral	7.9	8.5	9.5	10.1	11.0	5.7	10.1	10.7
2. Other ODF	8.7	11.6	11.8	13.6	16.0	6.3	13.8	15.5
of which: Bilateral	3.0	3.7	4.0	6.6	8.0	2.2	4.4	7.8
Multilateral	5.7	7.9	7.8	7.0	8.0	4.1	9.4	7.8
II. Total Export Credits	17.6	4.0	-0.6	-0.7	3.0	12.8	4.8	2.9
1. DAC Countries	16.2	3.4	-0.8	-1.0	2.6	11.8	4.1	2.5
of which: Medium & Long-Term	13.3	0.2	-3.8	-5.1	-1.0	9.7	0.2	-1.0
Short-term	2.9	3.2	3.0	4.1	3.6	2.1	3.8	3.5
2. Other countries	1.4	0.6	0.2	0.3	0.4	1.0	0.7	0.4
III. Private Flows	74.5	30.8	28.2	35.6	32.9	54.1	36.8	32.0
1. Direct investment (OECD)	17.2	6.6	11.3	20.2	19.0	12.5	7.9	18.5
of which: Offshore centres	4.1	3.7	6.8	12.0	..	3.0	4.4	..
2. International bank lending	52.0	13.6	5.0	5.6	4.7	37.8	16.2	4.6
of which: Short-term	22.0	12.0	-4.0	5.0	..	16.0	14.3	..
3. Total bond lending	1.5	4.8	3.3	1.0	1.6	1.0	5.7	1.5
4. Other private	1.8	2.9	5.3	5.5	4.0	1.3	3.5	3.9
5. Grants by non-governmental organisations	2.0	2.9	3.3	3.3	3.6	1.6	3.5	3.5
Total Net Resource Flows (I, II & III)	137.7	83.8	83.7	96.9	102.9	100.0	100.0	100.0

	At 1987 prices and exchange rates				
Memorandum items					
Total net resource flows	188.9	119.4	96.3	96.9	96.0
Total ODA receipts	50.6	53.3	51.0	48.4	47.6
Non-concessional ODF	12.0	16.5	13.5	13.6	14.9
Private flows	102.2	43.9	32.4	35.6	30.7
Total DAC ODA	35.1	41.9	42.2	41.5	44.3

[a] Excluding Taiwan.

Source: OECD Press Release, Press/A(89)29, Paris, 16 June 1989.

TABLE 2

DEVELOPING COUNTRIES: EXTERNAL FINANCING, 1981-90
(in $ billion)

	1981	1982	1983	1984	1985	1986	1987	1988	Projected 1989	1990
Official transfers	13.1	12.4	12.9	13.1	16.0	17.4	16.8	17.4	17.4	17.4
Direct investment, net	13.2	12.5	8.9	9.7	9.1	8.9	12.3	17.3	15.5	17.9
Reserve-related liabilities	6.9	10.6	7.8	4.5	-0.7	-3.3	-5.3	-3.7	0.7	4.7
Net credit from IMF	6.6	6.9	11.0	4.7	-	-2.7	-5.9	-5.0	1.0	5.0
Liabilities constituting foreign authorities' reserves	0.3	3.6	-3.2	-0.2	-0.7	-0.5	0.6	1.3	-0.4	-0.4
Long-term borrowing from official creditors, net	29.4	33.7	35.5	34.1	24.6	28.8	22.5	17.8	28.9	31.2
Other net external borrowing;	76.3	52.1	28.8	15.7	14.8	10.9	14.0	6.0	9.9	12.2
Total	138.9	121.3	93.3	77.1	63.8	62.7	60.3	54.8	72.4	83.4
Memorandum										
Net borrowing from commercial banks	91.5	49.4	28.3	13.5	5.9	-3.0	4.6	-9.3	8.8	9.3
Exceptional financing	12.0	23.6	40.3	40.5	33.8	48.9	50.3	50.8	51.7	36.8
of which: Arrears	5.5	13.3	13.5	3.9	-11.3	8.0	0.7	11.8	4.1	-6.4
Reschedulings	3.7	5.5	24.7	33.4	41.9	37.4	49.1	37.6	42.9	37.6

Source: World Economic Outlook, October [illegible].

TABLE 3

NET RESOURCE FLOWS TO THE COMMONWEALTH CARIBBEAN
(BASED ON OECD DATA)

		US$ million				Per cent of total		
		1981	1985	1986	1987	1981	1985	1987
I.	Official Development Finance (ODF)	517.6	540.5	542.8	419.1	66.2	86.2	28.3
(1)	Official Development Assistance (ODA	303.6	304.8	331.5	335.8	38.9	48.6	22.7
	of which: Bilateral	187.7	238.8	252.5	255.7	24.0	38.1	17.3
	Multilateral	115.9	65.8	78.9	80.1	14.8	10.5	5.4
(2)	Non-concessional ODF	213.9	235.8	211.6	83.5	27.4	37.6	5.6
	of which: Bilateral	123.5	127.5	57.2	-50.8	15.8	20.3	-3.4
	Multilateral	90.5	108.3	154.2	134.3	11.6	17.3	9.1
II.	Total Export Credits	139.4	4.3	57.1	-178.1	17.8	0.7	12.0
	of which: Official	49.8	72.1	54.1	-57.5	6.4	11.5	3.9
	Private officially guaranteed	89.6	-67.8	2.8	-120.6	11.5	-10.8	-8.1
III.	Private Flows							
(1)	Direct Investment	307.5	-347.4	395.4	628.0	39.4	-55.4	42.4
(2)	Other (including commercial bank and bond lending	-133.7	501.7	238.1	553.0	-17.1	80.0	37.4
	Total Net Resource Flows (I, II & III)	781.3	626.8	1179.0	1479.5	100.0	100.0	100.0

TABLE 4

DEVELOPING COUNTRIES AND CARIBBEAN ECONOMIES:
DEBT OUTSTANDING AND NET TRANSFER OF FINANCIAL RESOURCES

	Developing Countries					Estimated	Projected		12 Caribbean Countries				
	1983	1984	1985	1986	1987	1988	1989	1990	1983	1984	1985	1986	1987
Debt disbursed & outstanding	815.5	851.3	962.6	1052.9	1170.8	1160.4	1174.0	1202.0	6.80	6.57	7.43	8.40	8.82
Net transfer on debt-creating flows[1]	-0.9	-21.0	-37.2	-42.7	-54.0	-66.5	-43.6	-53.3	0.18	0.03	0.06	-0.07	-0.43
Net transfer on all flows[2]	-0.7	-9.6	-25.5	-20.7	-25.6	-32.5	..	..	0.34	0.26	0.22	-0.13	0.10
of which: transfer through official flows[3]	28.6	25.8	16.3	12.7	8.7	8.0	..	..	..	..	..	..	..
Transfer through direct investment[4]	-2.8	-2.4	-1.0	-1.3	-0.4	4.0	..	..	..	..	..	..	..
Transfer though private credit[5]	-26.5	-33.0	-40.9	-32.1	-34.7	-46.0	..	..	..	..	..	..	..

1 Net flows through all (official and private) borrowings by developing countries less interest payments on all debt, as estimated by the World Bank.

2 A sample of 98 countries for which data is available to the UN.

3 Grants as well as net official credit (including IMF credit) less interest paid (including IMF charges).

4 Direct investment (net of reinvested earnings) less net dividends and other income.

5 Net private credit inflow (including arrears on interest and principal and outflows of capital by residents) less interest paid.

Sources: World Bank, World Debt Tables, United Nations Department of International Economic and Social Affairs and estimates by the author.

TABLE 5

ODA PERFORMANCE OF DAC COUNTRIES IN RECENT YEARS

Net Disbursements

	$ million			Per cent of GNP				Annual average % change in volume 1982/83-1987/88
	1988 actual	1987 actual	1988 at 1987 prices & exchange rates	1975/79 average	1980/84 average	1987	1988	
Australia	1091	627	893	0.51	0.48	0.34	0.46	-1.6
Austria	302	201	290	0.22	0.29	0.17	0.24	-4.7
Belgium	592	685	577	0.54	0.56	0.48	0.39	-3.8
Canada	2340	1885	2085	0.50	0.45	0.47	0.50	6.9
Denmark	922	859	868	0.72	0.76	0.88	0.89	5.8
Finland	610	433	546	0.18	0.29	0.49	0.59	16.4
France [incl. DOM/TOM]	6959	6525	6709	0.59	0.72	0.74	0.73	2.4
France [excl. DOM/TOM]	4777	4489	4605	0.32	0.47	0.51	0.50	3.5
Germany	4700	4391	4527	0.39	0.46	0.39	0.39	-1.8
Ireland	57	51	54	0.15	0.20	0.19	0.20	-1.6
Italy	3012	2615	2875	0.11	0.20	0.35	0.37	15.4
Japan	9134	7454	8058	0.23	0.31	0.31	0.32	5.5
Netherlands	2231	2094	2142	1.83	1.01	0.98	0.98	2.1
New Zealand	104	87	87	0.39	0.28	0.26	0.27	-0.2
Norway	988	890	926	0.83	0.97	1.09	1.12	4.9
Sweden	1534	1375	1390	0.86	0.85	0.88	0.87	1.4
Switzerland	615	547	586	0.20	0.27	0.31	0.32	4.7
United Kingdom	2615	1871	2256	0.45	0.37	0.28	0.32	-1.4
United States	9777	8945	9456	0.24	0.24	0.20	0.20	-0.5
Total DAC	47583	41535	44325	0.34	0.36	0.34	0.35	2.3

1 At current prices and dollar exchange rates.

2 At 1987 exchange rates and prices

Source: OECD, DAC Press Release, A(89)29, Paris, 16 June 1989.

TABLE 6

CONCESSIONAL AND NON-CONCESSIONAL FLOWS
FROM MULTILATERAL AGENCIES
(US $ million)

Net disbursements	1981	1982	1983	1984	1985	1986	1987
Concessional Flows							
Major Financial Institutions							
IDA	1918	2363	2336	2492	2599	3327	3530
IBRD	88	58	47	41	34	4	
IDB	438	366	365	438	351	283	121
African Development Fund	90	122	158	111	210	272	374
Asian Development Fund	146	177	223	304	393	416	514
IFAD	75	104	144	170	270	286	-
Sub-total	2756	3190	3272	3556	3857	4588	(4840)
United Nations							
WFP	542	595	630	679	779	649	720
UNDP	790	714	617	596	635	769	786
UNHCR	437	366	356	397	418	386	-
UNWRA	170	235	211	191	187	187	207
UNICEF	214	204	246	244	279	326	364
UNTA	210	196	253	217	295	254	314
UNFPA	129	113	122	119	127	101	106
Other UN	356	332	304	319	327	380	426
Sub-total	2848	2755	2739	2763	3047	3052	(3300)
Other institutions	475	39	35	17	29	29	(36)
Total Above	6079	5984	6046	6336	6933	7669	(8176)
EEC	1440	1143	1215	1287	1407	1659	1747
Arab Funds	407	398	314	147	133	144	(106)
Total concessional	7926	7525	7575	7770	8472	9472	(10029)
Non-Concessional Flows							
Major Financial Institutions							
IBRD	3603	4534	5117	5628	5041	5418	4395
IFC	510	291	166	127	94	156	208
IDB	643	832	957	1550	1398	1224	928
African Development Bank	70	115	145	110	235	282	-
Asian Development Bank	390	473	550	513	400	364	-
Others	16	13	9	14	306	290	-
Sub-total	5232	6258	6944	7942	7474	7734	6450
EEC	241	320	202	84	152	190	140
Arab Funds	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	241
Total non-concessional	5716	6626	7226	8213	7912	7787	(6830)

Source: OECD, Development Co-operation, 1988 Report.

TABLE 7

SOURCES OF BILATERAL ODA TO THE COMMONWEALTH CARIBBEAN COUNTRIES - 1987
(US $ million)

	USA	Canada	West Germany	UK	Nether-lands	Japan	Other	Total
Antigua & Barbuda	2.0	1.2	-	1.5	-	0.1	-	4.8
Bahamas	-	-	-	-	0.1	-	-	0.1
Barbados	-	2.3	0.5	0.5	0.7	0.1	-	4.2
Belize	13.0	5.2	0.1	3.2	-	-	-	21.5
Dominica	-	2.1	0.3	1.3	-	0.2	-	5.1
Grenada	3.0	5.2	0.4	1.0	0.1	0.1	-	10.0
Guyana	8.0	4.8	0.1	1.0	0.2	0.8	-	14.9
Jamaica	89.0	24.4	10.4	4.7	6.4	3.3	7.8[1]	146.4
St Kitts & Nevis	-	1.7	-	2.2	-	-	-	4.0
St Lucia	-	3.8	0.1	1.8	-	0.2	-	6.0
St Vincent & Grenadines	2.0	1.4	-	1.6	-	0.2	-	5.3
Trinidad & Tobago	-	0.2	31.5	0.2	0.2	0.2	0.1[2]	32.8
Total	117.0	52.3	43.4	19.0	7.7	5.2	7.9	255.1

1 Includes Italy ($4.4 million), Norway ($2.6 million), Belgium ($0.6 million), Switzerland ($0.1 million) and Australia ($0.1 million).

2 Switzerland.

TABLE 8

FLOWS FROM SELECTED MULTILATERAL AGENCIES TO CARIBBEAN COUNTRIES[1]
$ million

	CONCESSIONAL			NON-CONCESSIONAL		
	Gross Disburse-ments	Net Disburse-ments	Net Trans-fers	Gross Disburse-ments	Net Disburse-ments	Net Trans-fers
World Bank:IDA/IBRD						
1981	29.0	25.0	21.3	87.5	74.5	50.0
1982	15.0	12.6	9.2	173.0	156.4	124.7
1983	26.3	26.0	24.9	104.6	81.4	38.5
1984	30.5	30.1	28.7	84.3	49.1	1.4
1985	22.3	21.7	20.0	104.9	69.3	16.2
1986	33.2	32.5	30.4	43.1	-14.0	-85.4
1987	50.2	49.3	46.5	89.1	18.0	-60.8
1988	22.5	21.4	18.7	75.7	-10.9	-95.8
Inter-American Development Bank						
1981	84.6	84.4	79.6	7.9	5.9	4.0
1982	77.1	76.3	70.0	13.3	11.3	7.8
1983	75.2	74.2	67.6	34.8	32.0	27.2
1984	72.0	69.5	62.0	31.8	28.7	25.1
1985	77.0	72.1	63.5	86.1	79.8	67.2
1986	43.0	36.0	26.3	82.5	76.4	52.3
1987	35.0	27.0	17.2	86.7	73.4	35.0
1988[2]	52.0	41.8	30.3	65.3	25.9	-17.7
Caribbean Development Bank						
1981	28.7	28.3	26.8	13.1	11.2	9.3
1982	13.5	13.0	11.2	8.2	6.0	3.6
1983	15.0	14.6	12.5	4.3	0.3	-1.9
1984	4.0	3.3	0.2	5.8	4.4	2.2
1985	3.9	2.6	-0.4	10.2	8.6	6.2
1986	5.7	4.1	0.9	13.5	11.6	9.0
1987	13.3	10.5	7.2	10.2	5.8	1.2
1988[2]	3.9	-1.7	-6.0	6.3	-1.4	-9.7

1 In addition to the Commonwealth Caribbean countries, also includes Haiti and Dominican Republic.

2 Provisional

Source: World Bank

TABLE 9

MAJOR SOURCES OF DIRECT INVESTMENT
TO DEVELOPING COUNTRIES
($ billion)

	Average 1978-79	1981	Average 1982-83	1984	1985	1986	1987
Canada	0.4	0.3	0.3	0.5	0.1	0.1	-0.1
France	0.5	1.1	0.7	0.3	0.6	0.6	0.7
Germany	0.9	1.4	0.9	0.7	-0.1	0.4	0.7
Italy	0.3	0.1	0.6	0.4	0.4	0.3	0.4
Japan	1.7	3.9	2.1	1.7	1.0	3.1	7.4
Netherlands	0.3	0.4	0.1	0.4	0.5	0.2	0.3
Norway	X	X	0.1	X	X	X	X
United Kingdom	0.8	2.3	1.4	2.1	2.1	1.9	1.9
United States	6.8	6.5	3.9	4.4	0.9	3.1	8.0
Other Countries	1.0	1.2	1.0	0.8	1.0	1.6	0.9
Total OECD	12.7	17.2	11.1	11.3	6.6	11.3	20.2

Source: OECD, Financing and External Debt of Developing Countries, 1988 survey.

TABLE 10

FUNDS RAISED BY DEVELOPING COUNTRIES[i] IN THE INTERNATIONAL CAPITAL MARKETS

	Amount (US$ billion)			Share of the Asian Six[ii] percentage		
	1986	1987	1988	1986	1987	1988
Total	19.5	26.3	22.4	64.6	44.1	55.9
excluding managed loans(iii)	19.5	16.7	16.9	64.6	69.5	64.5
Loans	11.9	20.1	15.5	66.4	40.8	48.4
excluding managed loans[iii]	11.9	10.5	10.3	66.4	78.1	72.8
Bonds	4.3	3.1	4.2	67.4	74.2	61.9
Borrowing Facilities[iv]	3.2	2.1	2.4	62.5	52.3	57.0

(i) Excludes Greece, Turkey, Portugal, Malta, East European countries, and South Africa.

(ii) China, India, Indonesia, Malaysia, South Korea, Thailand.

(iii) New money in the form of syndicated credits provided under the umbrella of rescheduling packages and IMF-supported programmes.

(iv) Includes both committed medium-term facilities - multi-component facilities, note issuance facilities and other international facilities underwritten by banks - as well as euro-commercial paper and other non-underwritten facilities.

Sources: OECD: Financial Market Trends (various issues), Financial Statistics (various issues).

TABLE 11

FUNDS RAISED BY CARIBBEAN ECONOMIES IN THE INTERNATIONAL FINANCIAL MARKETS
(US$ millions)

	1981	1982	1983	1984	1985	1986	1987	1988
Total	469.3	119.0	317.5	262.9	215.9	461.5	180.8	119.0
of which:								
Bahamas	177.3	16.5	-	-	-	125.0	-	-
Barbados	50.0	-	-	-	44.2	99.8	45.5	40.1
Jamaica	196.2	-	12.6	-	-	-	30.0	-
Trinidad & Tobago	45.8	102.5	304.9	262.9	171.7	236.7	105.3	78.9
International Loans								
Total	469.3	119.0	267.5	95.5	75.0	401.7	75.5	-
of which:								
Bahamas	177.3	16.5	-	-	-	125.0	-	-
Barbados	50.0	-	-	-	25.0	40.0	45.5	-
Jamaica	196.2	-	12.6	-	-	-	30.0	-
Trinidad & Tobago	45.8	102.5	254.9	95.5	50.0	236.7	-	-
Foreign Loans								
Total	-	-	-	60.0	21.1	-	-	-
of which:								
Trinidad & Tobago	-	-	-	60.0	21.1	-	-	-
International Bonds								
Total	-	-	50.0	-	-	-	-	-
of which:								
Trinidad & Tobago	-	-	50.0	-	-	-	-	-
Foreign Bonds								
Total	-	-	-	107.4	119.8	59.8	105.3	119.0
of which:								
Barbados	-	-	-	-	19.2	59.8	-	40.1
Trinidad & Tobago	-	-	-	107.4	100.6	-	105.3	78.9

Sources: OECD, Financial Market Trends (various issues), Financial Statistics (various issues).

TABLE 12

SECONDARY MARKET FOR DEVELOPING COUNTRY DEBT(i)

(US$ billions)

		of which: Debt Conversions					
Year	Total Trading(i)	Total	Debt Equity	Informal	Exit Bonds	Buy Backs	Other
1984	2.0	0.8	0.8	-	-	-	-
1985	4.0	2.1	1.8	-	-	-	0.3
1986	7.0	2.2	1.5	-	-	-	0.7
1987	12.0	8.1	3.4	3.5	0.0	-	1.2
1988	42.8	21.1	8.8	4.8	4.7	0.6	2.1

(i) All transactions, including interbank trading.

Source: World Bank.