

# **WIDER WORKING PAPERS**

**A Proposal for “COoperative Relief  
of Debt in Africa” (CORDA)**

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WP 60

August 1989

*World Institute for Development Economics Research  
of the United Nations University*

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A proposal for

**“COoperative Relief of Debt in Africa” (CORDA)<sup>+</sup>**

by

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<sup>+</sup> Paper prepared at the request of Commission Justice et Paix - Belgique and translated from French by Vicky Barham. The authors thank R.H. Green for his comments.

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## I. MOTIVATION AND GUIDELINES

For the last fifteen years the economic situation in sub-saharan African countries has undergone continuous deterioration, and has reached the point where not only their prospects of future development but also their ability to maintain reasonable living standards for a large fraction of the population are seriously compromised. During the years 1973-80 the Gross Domestic Product of this region grew, in constant prices, at the low annual rate of 3.2 %, exactly half of the growth rate during the years 1965-1973 (6.4 %) ; this is barely greater than the mean annual rate of population growth. The situation in Africa has further deteriorated during the 1980s as, for most of these years, real Gross Domestic Product growth has been negative.<sup>1</sup> On the other hand, per capita investment in 1987 was below what it was in the mid-1960s while, as measured against its 1980 level, it has gone down by one-third. According to the World Bank, the chronic debt problems of Africa justify today the term 'crisis': "the development process in these countries has stalled. The effects will be measured not simply in terms of falling average living standards but of the relapse into poverty of large sections of the populations."<sup>2</sup>

The problems which sub-saharan Africa faces today, as well as the challenges which it must overcome if it is to lay the foundations of longlasting economic, social and political development, are numerous and highly complex. Certain of these difficulties are structural, and are either a legacy of its recent or distant past, or are due to the pursuit of inappropriate devel-

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<sup>1</sup>World Bank, *Report on World Development - 1987*, Washington, 1987, Table 2.1, p. 18.

<sup>2</sup>World Bank, *World Debt Tables, 1987-88*, Vol, 1; p. ix.

opment strategies during the last decades. In contrast, other difficulties are obviously linked to the unfavourable international environment which has confronted Africa for most of the last ten years.

Even if their predicament differs in many respects from that of the African nations, the countries of the Carribean have also been faced with an unfavourable international climate: the fall in world prices for bauxite and sugar has had the same disastrous effects on the economies of Jamaica and Guyana, respectively, as the plunge in the price of many primary goods has entailed with respect to the macroeconomic equilibria of many sub-saharan African nations. These perturbations are evident both at the level of budgetary equilibrium (bear in mind that a large fraction of the revenue of these governments comes from the taxation of exports) and at the level of the external accounts.

The burden of the foreign debt currently represents one of the crucial parameters determining the short, medium and long-term perspectives of many African, Caribbean and Pacific (ACP) countries. For many of them, the foreign debt has become impossible to manage: servicing the interest on the debt is no longer possible, except by imposing intolerable social costs on the population, thereby threatening the fragile consensus on which the political stability of these states depends. Furthermore, the absence of any likelihood of a real improvement in the international climate makes such sacrifices not only difficult to bear, but also pointless and unacceptable from the standpoint of equity.

Given the intractable situation in which its ACP partners are currently imprisoned, the European Community can hardly ignore its responsibilities.

The pronounced interdependence of the Community and the ACP countries is evidenced by the facts that more than 60 % of the trade of ACP nations is with countries belonging to the Community, that more than 5 million jobs in the Community exist because of the economic links between the EEC and the ACP nations, and that the Community holds an important fraction of the debt of these countries.<sup>3</sup> Furthermore, European governments are obliged to bail out private lenders experiencing difficulties. In this respect, it must be stressed that 1983 was the last year in which there was a net flow of funds from private lenders to countries in sub-saharan Africa. Since 1984, the repayments of the principal have on average exceeded new loan disbursements by private creditors by approximately half a billion dollars annually.<sup>4</sup>

Our proposal seeks to provide a solution to the problem of the foreign debt of the ACP countries which will simultaneously stop, and even reverse, the constant decline of the *net* flow of external resources to them (in particular, bilateral finance and private capital flows) while enabling them to contemplate investment programmes at levels compatible with sustained long-term growth. At the heart of this proposal is the recognition of the fact that any realistic long-term solution to the problem of the debt of the ACP countries necessarily requires that it be entirely written off. With regard to the particular responsibilities of the members of the EEC with respect to the ACP nations, this proposal suggests that European nations seize the initiative and absorb the financial costs of an operation seeking to discharge the entirety of the medium and long-term public (and publicly guaranteed)

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<sup>3</sup>Assemblée Paritaire A.C.P.- C.E.E., *Document de travail AP/179*, 11 August, p.3.

<sup>4</sup>World Bank, *World Debt Tables*, Vol. 1, p. 6.

debt of ACP nations, with the exception, however, of the debt owed to multilateral organisations (such as the World Bank, the International Monetary Fund and the International Fund for Agricultural Development).

The proposed mechanism for writing off the debt is based on the principle of a *multilateral solution* to the ACP debt problem. In essence, the recommendation proposes an *overall* transfer, from the countries of Europe to those of the ACP, equal to the *estimated* present value of the total debt of the latter. As the transfer would be multilateral, the problems of equity which inevitably result from bilateral write off procedures are avoided. Indeed, it is important not to neglect the fact that there are enormous variations between the ACP nations not only with respect to the *size* but also the *structure* of their respective debts. Insofar as the size is concerned, a bilateral write off would be of obvious advantage to the most heavily indebted countries (such as Nigeria, the Ivory Coast and Zaire) rather than to those nations whose access to the credit market during the 1970s was severely restricted, or which were particularly prudent and well-advised in their macroeconomic management policies. Insofar as the structure is considered, a bilateral write off of the public debt of the ACP countries (with the exception of the debt owed to multilateral organisations) would favour, firstly, those countries for which a significant part of the debt is owed to private creditors, and thus bears a high interest rate and, secondly, those countries who have accumulated a large debt in the form of official development assistance or bilateral government loans (such as Zaire, Senegal, Sudan, Togo, the Central African Republic, etc.). This consequently discriminates a third group of countries, such as Rwanda, Botswana, Lesotho and Swaziland, whose debt has been contracted largely with multilateral

organisations.

The goal of this proposal is a *fair* write off of a major part of the medium-term and long-term foreign debt of the ACP countries considered together. At the same time, the mechanism proposed seeks to have a leverage effect, thereby stimulating the flow of new capital towards these countries. This leverage effect appears as a necessary complement to the proposed transfer and confers on it a crucial role in financing the development process. In effect, the data show that, for many countries, the remission of the entirety of their debt would not enable them to forego the need for new loans to finance their trade deficit; this is evident from the fact that their current account deficit exceeds the annual flow of interest payments.

Finally, the proposal has a dimension of risk-sharing, destined to relieve debtor nations of some part of the risks resulting from uncontrollable fluctuations in the international economic environment, and which affect their ability to meet their foreign repayment obligations.

## II. THE CORDA PROPOSAL

1. At present, there should be a net flow of resources (capital) from the industrialised countries to developing nations, and not in the reverse direction as has been the case in recent years. This resource flow is necessary to finance investment projects leading to development; furthermore, it could (and should) take the form of programmes of aid to the poorest populations. Both these considerations will be of continued relevance for many years.

To assert that the balance of payments should result in net transfers

towards developping countries implies that, in the absence of a write-off or aid-financed reimbursement of the existing debt, their indebtedness will continue to increase. And to assert that such a situation ought to continue for many years implies that any self-financed form of reimbursement must be postponed until the distant future - thereby rendering the present value of the repayments (and likewise of the debt) of little value.

Accepting this point of view, in a spirit both of realism and of international solidarity, implies the desirability of large debt write-offs. Indeed, perverse effects which slow down development and reduce export growth result from the mere existence of a debt for which the reimbursement is endlessly deferred. In many cases, the stabilisation programs (budgetary contraction, real devaluation, import liberalisation) adopted - either willingly or by necessity - to correct these disequilibria have failed. In other cases, costly adjustments, which will eventually benefit the creditors, have been slowed down due to the existence of the debt.<sup>5</sup>

To accept such undesirable effects, while at the same time recognising that the present value of the debt *is and should be* markedly less than its face value, is to let an accounting illusion impose real costs. It is far preferable to eliminate the illusion, and stare reality in the face ; in other words, one should investigate the means of writing-off, or carrying out a realistic restructuring, of Third World debt.

2. The statement that resources should be transferred from industrialised to developing countries is valid at the *global* level. It does not necessarily apply to the relationship between a particular debtor and a particular

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<sup>5</sup>See *NBER Reporter*, Winter 1987-8, 3-5, and the references cited there.



creditor. (Similarly, a tax policy which seeks to transfer wealth from rich to poor taxpayers does not exempt particular poor debtors from repaying their bankloans). This is why any realistic effort to address the problems linked to the Third World debt requires an overall approach, within which the relationship between particular debtors and creditors must receive a fair treatment, compatible with the desired direction of overall flows.

This point of view opposes that which condemns a global approach on the grounds that it increases the risk of financial disorder, and in contrast favours the pragmatic, case-by-case approach currently pursued.

It remains to specify what is meant by a "global approach". Seeking to globalize excessively breeds inaction, due to a lack of consensus. *The form of globalisation which we propose would be operational at an intermediate level: that of the relationship between the members of the EEC and the ACP countries* (sub-saharan Africa other than South Africa, the Caribbean, and the Pacific). These two groups of countries entertain a privileged relationship, and are accustomed to negotiating as equals (Lome Agreements). The total debt owed or guaranteed by the governments of ACP countries has a face value of 100 billion ecus, which is slightly less than 3 % of the consolidated national income of the 12 member countries of the EEC. A realistic evaluation of the present value of this debt would lie between 1 % and 2 % of the national income of the 12 countries. We believe it possible for the members of the EEC to provide a global solution to the debt problem of the ACP nations without needing to obtain a world-wide consensus (which is always difficult).

To the extent that such a solution implies a net flow of resources from

the industrialised to the ACP nations over several years, it is equivalent to a substantial remission of the debt (in present value). Our stance is both clear and straightforward: *the EEC can, and should, aim at relieving entirely the ACP countries of their debt within a few years.*

3. Remission of the entirety of the debts of the ACP countries does not imply the remission of the debts for which each ACP country is individually liable, nor the unilateral abandonment of the claims on the ACP countries held by every member nation of the EEC.

*From the point of view of the ACP countries,* one must ensure that the aid (in this case, the aid inherent in the remission of the debt) benefits those who are the most needy, as well as those who can most effectively direct its usage to promote development. The countries for which these criteria are most obviously satisfied are not necessarily the most indebted. In particular, the existence of a heavy debt load typically implies the existence of natural resources which has inspired the confidence of private creditors, whereas difficulties in ensuring the service of the debt casts doubt on the ability to manage well the resources borrowed to pursue development.

*With respect to creditors,* both private and public, one must ensure equitable treatment (neither more nor less). On the one hand, the technical formula for the remission of the debt should not transform funds which are destined to aid the Third World into indirect subsidies to creditors. On the other hand, a particular EEC member should not be required to make a larger contribution (to the remission of the debt of the ACP nations) simply because that country has in the past responded more generously to the requests for loans. This requires the definition of a reasonable present

value for each claim, which is technically the more complex aspect of our proposal.<sup>6</sup>

4. Before describing our proposal in detail, we must mention a third series of considerations. An initiative by the EEC to remit the entirety of the debt of the ACP countries would represent a significant transfer (of around 1.5 % of their consolidated national incomes), even if spread over several years. It is essential that this transfer be put to the best possible uses - for the struggle against poverty as well as for the promotion of development or the financing of foreign trade . The pursuit of these goals requires *value judgements* concerning, notably, levels of poverty and forms of development ; it also requires *technical evaluations*, notably, with respect to the ability to reimburse, and with respect to the appropriate levels and forms of public assistance, or in other words, the appropriate economic policies to follow. Who should exercise these judgements, and who should undertake these evaluations?

Objections are raised regularly with respect to the *conditionality clauses imposed by creditors*: these clauses accentuate the dependency of the developing countries with respect to the industrial nations. Some do not hesitate to speak of a new form of colonialism. The most obvious danger resides in the application of value judgements or economic models based on the economics of industrialised countries (and used by the multilateral organisations which they dominate financially) to developing countries to

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<sup>6</sup>We will not discuss here the controversial issue of the legitimacy of the claims, raised by some in view of the usurious character of certain interest rates, of the excessive charges for certain services, etc. We wish to defend a clear and simple global proposal, and so avoid diverting attention to matters of secondary importance.

which they may not be directly applicable - either because the political and social stakes are misperceived, or because the structure of these economies are misunderstood. This danger must be avoided.

5. The preceding considerations have led us to retain a global proposal which we initially present in a *simplified form* - indeed, so simplified as to not be directly implementable - which clearly reveals the guiding principles. After arguing in favour of this proposal with respect to its principles, we suggest ways to overcome certain practical difficulties. We are thereby led to a more complex formulation of the proposal, but we hope it will nonetheless remain intelligible to non-specialists.

We have given this proposal the latin name **CORDA**: “COoperation pour le Règlement des Dettes ACP - COoperative Relief of Debt in ACP countries” - to underline the 'cordial', and not merely technical, nature of the undertaking.

### **Simplified Proposal**

- (i) The 12 member nations of the EEC purchase, at market value, the entirety of the debt owed, or guaranteed by the public authorities of the ACP countries,<sup>7</sup> with the exception of the debt owed to multilateral organisations (IMF, World Bank, ...).
- (ii) The countries of the EEC share between them the cost of these purchases (including the cost of the repurchase of their own claims) in proportion to their respective national incomes.

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<sup>7</sup>The countries of sub-saharan Africa, with the exception of South Africa, the countries of the Caribbean, and the countries of the Pacific, who are participants in the Lome Agreements.

(iii) The countries of the EEC make a gift of the claims thus acquired to an organisation run by the ACP nations, the CORDA organisation, endowed with the following responsibilities :

- to write off, for each debtor nation, that part of the debt corresponding to the difference between the face value and the (market-determined) repurchase price ;
- to collect the payments of interest and the amortisation of the non-written off part of the debts, and to devote this income to the struggle against poverty and to the promotion of development in all of the ACP countries;
- to pursue, as principal creditor of the ACP countries and in collaboration with all the multilateral organisations concerned (IMF, World Bank,...), all measures which will contribute to the financing of the trade and the development of ACP countries.

(iv) the attainment of point (i) will be spread over three or four years; the attainment of point (iii) will be the result of a gradual transfer of authority, taking place over five to ten years, and complemented by a programme of technical assistance to the organisation CORDA; this assistance will be supplied by the appropriate bodies of the EEC (FED, BEI, ...).

6.a. In its simplified form, the CORDA proposal combines two features: (i) the repurchase, at 'market value', of the ACP debt ; (ii) the remission of the entirety of this debt, to the joint profit of the ACP countries, but with only a partial remission for any individual debtor nation.

Together, these two features have the effect of *ending all flows of capital from the ACP countries to the rest of the world due to past loans*. Overall,

the debts are written-off. The proposal is equitable with respect to creditors, whether private or public, european or non-european, because the repurchase is at 'market value' (explained in detail below). By making this gift to the countries of the ACP as a group, for their collective benefit, and without regard to the degree of indebtedness of each country, the proposal wishes to be just with respect to the ACP nations, and potentially respectful of a desire to privilege the poorest of them. The partial remissions from which each debtor benefits reflect only their effective level of indebtedness and the fact that, by means of bilateral agreements, it would have been *theoretically* possible for them to restructure the debt. The proposal requires that EEC member countries augment their development assistance, but by only a moderate level with respect to their own incomes. The fact that this programme would result in the total remission of the debts of the ACP countries provides a powerful motivation for members to participate, because the cooperative character of the undertaking makes the assistance by each country particularly effective. Out of concern for realism, we explain below how certain aspects could (or should) be modified.

The first feature (i) is not new. It is incorporated in various recent proposals prepared by eminent experts, such as Professor Stanley Fischer's (MIT and IMF) proposal to create an International Debt Discount Corporation (IDDC)<sup>8</sup> and the proposal put forward by James D. Robinson III (President-Executive Director of the American Express Company) to create an Institute of International Debt and Development ( $I^2D^2$ )<sup>9</sup> Both the

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<sup>8</sup>For further details, see S. Fischer, "Resolving the International Debt Crisis" *NBER Working Paper 2373*, September 1987.

<sup>9</sup>See J.D. Robinson III, "A Comprehensive Agenda for LDC Debt and World Trade Growth", *AMEX Bank, Review Special Paper 13*, March 1988.

IDDC and  $I^2D^2$  would be charged with the purchase of the debt of the developing countries, at 'market value', which they would write off by (at least) some fraction of the difference between the face and market values. The service on the non-written off debt would cover the cost of the loans taken out by the IDCC or the  $I^2D^2$  to finance their purchases.

The distinctive character of the CORDA proposal is due to the second feature: the purchase would be paid for by gifts made by *all of the countries of the EEC, to all of the ACP nations*. (As we point out below, an intermediate formulation, combining gifts and financing, is also possible.) This second feature reflects two concerns: to intensify development assistance by reestablishing the appropriate direction of capital flows (from the industrialised countries to the LDCs); and to place in the hands of the ACP countries the joint management of the transfers between ACP debtor countries (who are continuing to service the non-written off portion of their debt) and the ACP beneficiaries (amongst whom these revenues are shared); this management includes establishing a set of priorities for the distribution of these funds, the eventual specification of conditionality clauses, etc...<sup>10</sup>

This second feature is a fundamental innovation with respect to previously proposed solutions to the problem of the ACP debt. Once the written off debts are transferred to the CORDA organisation, *all reimbursements by debtor countries are clearly of direct benefit to the ACP nations themselves*. If, subsequently, a debtor country seems too overburdened to be able to as-

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<sup>10</sup>In contrast,  $I^2D^2$  would be made up of "a group of large, non-communist industrialised countries" which would take care of the management ("with certain rights of veto for the principal stockholders") with the collaboration of the IMF and the World Bank.

sure the service initially agreed upon, this predicament would be evaluated *with regard to the needs of the other ACP countries*, and not with regard to the rights of the original creditors. All relations of power between debtor and creditor are eliminated. It would be up to the CORDA organisation, run by the ACP countries, to institute a policy reflecting the principle "from each according to their means, to each according to their needs".

**6.b.** An important dimension of the proposal concerns the commitment by the EEC to gradually endow the institution running CORDA with the technical competence necessary to manage its assets, to facilitate new financing, to evaluate the economic policies of the ACP countries, ... We do not wish to propose a particular institutional structure ; the Assemblée Paritaire ACP-EEC might be asked to make the necessary choices. We limit ourselves to issuing a general warning : a new body should not be expected to be more efficient than existing ones - such as the delegation of the ACP to the EEC, the BAD or the FED.

Out of desire for clarity, we wish to specify that the purchase of the outstanding debt would include the debt held (directly or indirectly) by the public authorities of EEC member nations. These debts would in principle be repurchased at the same price as those held by third parties (private creditors, or public authorities of non-EEC countries). This repurchase programme is independent of the financial contribution of each country (in proportion to its national income) to the financing of the undertaking.

Statistics which would permit us to calculate precisely the share of the debt of the ACP nations (other than that owed to the IMF and World Bank) held by public authorities in EEC countries are not available. That share is



doubly significant. In the first place, it reduces by an equal amount the outflow of resources necessary to implement our proposal. In the second place, it serves as a point of departure and a lever to encourage the cooperation of the other creditors in the programme. Cross-linking various sources (an approximate procedure), we estimate that the share of the ACP debt held by EEC public authorities - the remission of which will not involve any financial outflow - is at least 30 % of the total debt; and we estimate that the proportion of the debt directly or indirectly controlled by EEC countries, and thus able to serve as the launching pad for the CORDA programme, is at least 40 %.<sup>11</sup>

With respect to the debts owed to multilateral organisations (in particular, the IMF), we do not suggest that these be included in the CORDA programme since these organisations attempt to maintain a net transfer flow towards the developing countries. To pursue this goal in a sometime restrictive regulatory framework is not always easy. We do not wish to leap to conclusions with respect to the structure of cooperation between these organisations and CORDA; but we presume that cooperation would be possible - even if the multilateral organisations are to lose the initiative with respect to conditionality.

7. The idea of a 'repurchase at market value' of the debts of the ACP nations is straightforward and attractive in principle, but not easy to put into practise. A first approach would be to use the "secondary markets", and to simply undertake to buy-back the entirety of a country's debt on

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<sup>11</sup>The difference of around 10 % is due to the claims held by financial institutions located in EEC countries, where regulations with respect to depreciation and capitalisation can facilitate cooperation with the programme.

this market. This approach is unrealistic, as it is unlikely that all debt owners would spontaneously decide to sell their claims. More realistically, one can imagine a group representing the member countries of the EEC making a public tender-akin to a take-over-bid. The group would announce its intention to buy all, or any part, of this debt, at the price specified in the public tender. The main problem is then to know what this price should be. The price in the secondary markets may serve as an initial indicator - but once the public tender is published, this market is no longer independent (if the public tender is unconditional, the secondary market price cannot fall below the price of the public tender).

To the best of our knowledge, the prices in the secondary markets for ACP debts are at best indicative, since they reflect a small volume of transactions, and indeed do not exist at all except for a small number of countries (see Table 1). The information reflected in these prices should nonetheless not be ignored. In fact, the secondary markets for the debt of some Latin American states are markedly more active, and consequently the prices are more significant. If these prices are graphed vis-a-vis an elementary measure of the ability to repay (in this case, the ratio of the debt to the annual value of exports) the correlation obtained is not very strong ( $R^2 \approx 0.25$ ) but the relationship is not entirely meaningless. The attempt to account for the prices on secondary markets solely through the debt/export ratio does not get us very far : only 25 % of the variance in the prices is explained. Bringing in additional variables improves the fit. Thus L.O. Laney accounts for 62 % of the variance using two composite variables an indicator of the economic situation (which is the most significant), and

a “socio-structural” indicator.<sup>12</sup>

A regression in the appendix shows that the “Country Credit Rating” variable built by Institutional Investors in London, combining scores from about one hundred international banks, is enough to explain about 60 % of the variance in secondary market prices. The curve showing this relation is reproduced in Figure 1, with the identification of African countries. These countries are located on both sides of the curve, which thus appears as applicable to them as to others, including those for which the secondary market is more important. Adding other variables (none of which is individually significant), some 70 % of the variance is explained. Such a result may be considered satisfactory, in light of random elements in those prices. The gradual accumulation of data should permit more precise estimates. And similar studies, of which we are unaware, probably exist.

We do not propose to base a public tender on the prices observed in secondary markets. Rather, *we propose to organise a public tender based on prices agreed upon by EEC and ACP countries, and representatives chosen from amongst the other creditors* (including the private banks and multilateral organisations). The prices chosen would reflect:

- the prices observed in secondary markets
- the prices suggested by regression analyses
- the part of its debt that a country can service without reducing its imports below that level which is necessary to guarantee a minimum level of subsistence to its people.

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<sup>12</sup>See L.O. Laney, “The Secondary Market in Developing Country Debt: Some Observations and Policy Implications”, *Federal Reserve Bank of Dallas Economic Review*, July 1987, 1 - 12.

The goal of the discussion between these parties would be to combine realistically these three considerations, which are of course interdependent. Remark that the ACP nations have a collective interest not to underestimate the repayment capacity of a particular country, as these repayments will be distributed amongst them all. And if the members of the EEC have a collective interest to (re)purchase the debt at the lowest possible price, the member countries which hold the debt will seek to assure that it is not undervalued arbitrarily, and so will the non-EEC creditors.

Once the price is fixed, the public tender would proceed as follows. The EEC group offers to purchase at this price the debt of an ACP country, other than that held by the multilateral organisations. It announces its intention to make a gift of this debt to the CORDA organisation, which is responsible to the ACP nations, and proposes to CORDA (which has final decision-power) a mechanism for (partially) writing off that debt (in principle, by the difference between the face value and repurchase price). Each debtor country undertakes not to negotiate, without the concurrence of CORDA, the bilateral rescheduling of its debt, and not to treat more favourably those creditors which refused the public tender (an 'equal treatment' or 'most favoured nation' clause). Of course, the debtor country must itself obtain the agreement of residual third-party creditors, but in this project it will benefit from the institutional and moral support of CORDA.

These measures provide third-party creditors with an incentive to accept the public tender<sup>13</sup>, or at least should prevent them from insisting upon repayments greater than those required by CORDA, or agreed by the

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<sup>13</sup>See also Robinson, *op. cit.*, p. 34.

ACP countries. It is evident that carrying out the programme successfully will be easier if the EEC countries themselves hold a large fraction of the debt and/or rapidly acquire such a fraction following the response to the public tender - which requires that the price be fixed realistically. (Should some creditors prefer to retain their claims, while nonetheless accepting to receive service on the same terms as CORDA, the programme would not be compromised.)

The principles outlined above must still be modified to take account of the heterogeneity of individual claims. These may differ with respect to the currency in which they are denominated, the maturity, and the interest rate. The terms of the public tender would have to take account of such elements: this is an additional technical problem, but not a major one.

8. Once the debts have been acquired by the EEC nations and are transferred to CORDA, it would be appropriate to restructure and consolidate the non-written off portion of the debt of each debtor country. This requires determining a realistic repayment schedule, fixing interest rates and choosing the currencies in which to denominate the restructured debt. These three elements are interdependent, indeed are jointly used in calculating the present values which serve to determine the rate of write-off. Consequently, CORDA will need to include all these variables in simultaneous negotiations.

With respect to the interest rates, we believe that fixed rates would be preferable to floating rates. A world-wide rise in interest rates entails an increase in costs for the indebted LDCs, due to environmental changes which they cannot influence. Interest rate uncertainty is a supplementary burden for debtors; in general, floating rates serve to provide security for creditors

who are market-financed. In the framework of the CORDA proposal, where the interest payments are simply redistributed between the ACP countries, floating rates are also a source of uncertainty for the beneficiaries. Stipulating fixed interest rates is thus beneficial to all parties.

In the same spirit, it would seem opportune to restructure the non-written off debt so that it is denominated in currencies reflecting both the export earnings of the debtor country, and the import needs of the ACP nations - thereby minimising the total risk borne by the two parties. CORDA should seek the technical collaboration necessary to ensuring the efficient management of these risks. The technical assistance of the EEC would initially be very helpful, the medium-term objective being to develop an independent technical competence.

The capacity of an ACP country to meet the service on the non-written off portion of its debt may be difficult to foresee, as it depends upon the growth of its national product, of its export and import prices, etc. It would thus be reasonable, and desirable, to define a *benchmark level of service*, linked to a forecast of the evolution of relevant economic variables. Changes in the level of service actually required, whether more or less, would then be linked to the differences between the realised and forecast values of these variables. As CORDA would have obtained the claims to the debt without issuing bonds, it could agree to concessions without itself encountering financial constraints. The only consequence would be a reduction in the level of intra-ACP transfers. The situation of each of these countries, relative to the benchmark forecast, should also be taken into account in deciding upon eventual adjustments. This is both a crucial and an original feature of the CORDA proposal.

The determination of the benchmark level of service, or in other words the rate of write-off for the debtor country, may be problematic. We have advanced two arguments in favour of a write off corresponding to the difference between the face value and the repurchase price: this takes account, realistically, of the initial situation, and eliminates incentives to seek parallel bilateral agreements. This suggestion finds further support to the extent that the rate write-off reflects the debtor country's ability to repay its debts without reducing imports. But it must be stressed that it is only a suggestion, intended to stimulate further debate.

The most serious problems concern the future more than the past. We know that the financial needs of the ACP countries are not limited to the service of their debts. Of course, providing aid equal to the market value of all outstanding debts represents an important act of support, and would have a nonnegligible effect on their current predicament. But the need for, or desirability of, new financing should not be excluded. The CORDA organisation would always have the option of capitalising or mortgaging some part of its income, to enable it to serve as a financial intermediary in seeking new market finance. Its position would normally be more favourable than that of individual countries, due to the inherent diversification in the risk structure of its income. It could thus take a leadership role in financing development. The choice at issue here is the relative efficiency of using CORDA's revenues to provide direct financing or to provide intermediation. There is no reason, a priori, to constrain this choice.

To give some idea of the amounts under consideration, it should be pointed out that the non-written off part of the debt would be worth some tens of billions of ECUs, and its service several billions of ECUs annually

(say, between 3 and 5 billion). This creates considerable scope for action.

9. Another delicate issue concerns the choice or the establishment of what we have called "the CORDA organisation". In giving CORDA the entirety of the debts acquired by them, the countries of the EEC would demonstrate considerable confidence in this organisation. Is this suggestion reasonable?

The least that can be said is that this suggestion is not lacking in audacity. It is indeed a wager with respect to the capacity of the ACP countries to organise collectively the management of their finances, and to master both the *technical problems* (financial management and economic analysis) and the *ethical issues* (relating to debtors as well as to the use of the funds). It also represents a decisive step to end the dependence of these countries on the industrialised nations.

A gradual transfer of the financial resources and decision-making authority would seem natural. We believe it useful to adopt specific solutions for specific issues, such as:

- (i) the initial negotiations (with the debtor nations) over the rate of write off and the terms of the restructuring of the debt;
- (ii) the allocation of the revenues amongst the ACP countries;
- (iii) the choice of development projects, of the goals of economic policy and, eventually, of conditionality clauses;
- (iv) the decisions with respect to subsequent concessions, and the problem of reinsurance.

For each point, various approaches are possible. Notably, the gradual transfer of authority might be tied to the structure of decision-making



(equal power at the beginning, strongly dominated by the ACP countries in the long run) or to the amounts managed (the gift to CORDA of the consolidated debts being spread over a few years). In either case, this progression should correspond to the emergence of an autonomous management ability by the ACP countries. We suggest an 'audacious' transfer plan. Specifically, we suggest as a basis for discussion:

- (i) an initial ACP-EEC negotiation in which both parties have equal weight;
- (ii) an allocation formula chosen by the ACP countries only;
- (iii) close technical collaboration over the choice of projects and economic policy goals, with decisions initially being taken jointly and a gradual transfer of the majority of the decision-making power to the ACP countries;
- (iv) similar technical collaboration with respect to concessions and reinsurance, but with decision-making power belonging to the ACP nations from the beginning .

10. An attractive feature of our proposal is that, at every level, it is amenable to partial (and/or gradual) realisation. The first step is naturally to establish whether or not the member nations of the EEC would be willing to finance the CORDA project. We evaluate the cost as being approximately equal to 1.5 % of the consolidated national income of the 12 countries - with a margin of error, at this stage, of 0.5 % (thus, the cost would fall between 1 and 2 % of the combined national incomes, depending on the price set for the public tender, and its success).<sup>14</sup> This is both quite a lot and relatively

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<sup>14</sup>See the figures in Appendix Table I, columns (3) and (5). The Foreign Debt statistics used in that table come from the World Bank. R.H. Green has called our attention to the fact that these figures underestimate the foreign debt of ACP countries, for several reasons: Angola, an ACP country,

little. It is relatively little, in terms of effort required of the EEC countries, given the present predicament, and medium term prospects, of the ACP nations; and it is relatively little, given that it brings a constructive end to the problem of the ACP debt. But it is quite a lot relative to the amounts which the countries of the EEC annually devote to helping the ACP nations, amounts which are currently around 0.15 % of national income, i.e., ten times less. This current level of aid is sufficient to cover the annual interest and amortisation of the market value of the ACP debt, but not its entire repurchase over a few years.

To some extent, the merit of the CORDA proposal is that it forces the EEC countries to confront this reality. We are in favour of an *increase in aid* of the order of 1/3 to 1/2 % of national income of the twelve for three or four years. We have suggested that this burden be shared amongst the member nations in proportion to their respective national incomes; but a more progressive division, reducing the contribution of those EEC countries with a per capita income less than the mean (and conversely), would of course be even more natural. Nonetheless, this consideration remains essentially secondary, given the enormous gap between the average per capita income in the EEC and in the ACP countries, a gap which clearly justifies the proposed increase in aid. It is probable that certain countries would undertake a partial substitution between the CORDA programme and their

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is not a member of the World Bank; unpaid interest service, or unpaid service of commercial loans and short-term loans, are not included; the coverage is only partial, for commercial loans; for several ACP countries, the systematic assessment of the debt, as practised under conditions of acute crisis, has not yet taken place - yet, Latin American experience has revealed underestimation in case of such assessment. R.H. Green assesses the likely underestimation at some 30 to 45 billion dollars.

existing aid programmes, even were we to suggest otherwise; nonetheless, this should not be viewed as a hindrance to the realisation of the entirety of the programme.

If experience shows that the programme in its present form is overly ambitious, a partial realisation is possible:

- (i) either by limiting the project to the debts of the poorest countries;
- (ii) or by partially financing the purchase with aid, and partially via the capital market;
- (iii) or by spreading the project over a greater number of years;
- (iv) or by involving in the project only those EEC countries who join voluntarily (while leaving open the possibility for other countries to join).

In the appendix (Table 1) the ACP countries are classified with respect to income per capita, and their debts are indicated. The 27 countries described as being of "low income" (in 1985, less than 400 dollars per capita) owe approximately 40 % of the total ACP debt; within this group the debt is fairly evenly distributed. (In contrast, the 22 countries of "medium income" - from 400 to 1600 dollars per capita - owe over half the debt; two of them alone, Nigeria and the Ivory Coast, are responsible for a third of the total of ACP debt). Were the programme to be pursued only partially, priority should obviously be given to the poorest nations.

It is of course possible that some ACP countries may not wish to participate in the project; this does not in any way compromise its viability.

### III CORDA VERSUS ALTERNATIVES

In explaining the CORDA proposal, we have introduced a series of refinements to the initial simplified formulation. These refinements, technically indispensable, in no respect modify the spirit of the proposal; they assure its realism, and increase its effectiveness. Other amendments are no doubt necessary to make its actual realisation possible; we do not pretend to have presented a proposal which would not require revision; this was not our goal.

We hope to have established our liminal claim: *the countries of the EEC can supply a global solution to the problems linked to the indebtedness of the ACP countries*. If a better solution can be found, we would rejoice in this. But we believe that *one must start from the principle that we are able to provide a solution*, and pursue the discussion on this basis. The issue of whether or not there exists the political will to pursue such a global solution remains open. We do not hesitate to propose setting up ambitious goals for political negotiation. This is a matter of ethical choice.

Still, we must raise a final issue, namely that of the attractiveness of CORDA in comparison with alternative approaches to debt relief, or alternative uses of a similar budget.

We have explained, in Section II.3 above, why a proposal like CORDA is more appealing than straightforward debt write-off: the more indebted nations are not necessarily those in greatest need, or those best able to make effective use of development aid; there is no reason why a relief program should fall entirely on the shoulders of the outstanding creditors, or be

limited to the extent of their benevolence. These arguments do not require further elaboration.

A deeper question is the following: would a similar contribution of some 35 to 70 billion ECU's by EC 12 foster development in the ACP countries more effectively, if it were allocated to traditional aid programs, in support of specific projects, without regard for the debt situation?

Several arguments point to the superiority of CORDA in comparison to that alternative.

It should be remembered that CORDA does not call for writing off the debt of individual ACP countries; it calls instead for transferring to the group of all countries ownership of the claims on individual countries corresponding to the EC initial investment. The use of these claims to finance development projects is a key component of the proposal. Thus, the EC contribution is allocated to development programs in ACP countries. The proposal entails no restrictions, in comparison to traditional aid programs, concerning the allocation of funds.<sup>15</sup>

The distinctive feature of CORDA is that it funnels the aid through the channel of a cooperative debt relief, so that the funds serve two purposes. At first stage, they serve to clear up the debt situation. At a second stage,

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<sup>15</sup>It could be suggested that the cost of CORDA includes, in addition to the purchase of the debt at market value, the capital loss resulting for EC creditors from the difference between book value and market value on their present holdings of ACP debt. That capital loss will indeed need to be written off, through suitable budgetary accounting. But that is an accounting matter, bringing the books in agreement with economic reality. It should not be confined with a net transfer, available for financing new projects.

they are allocated to development projects. True, this spreads over time the final use of the funds. But time is needed anyhow to line up worthy projects, so that no additional constraint is imposed. This double use of the same funds may look like a free lunch - but of course it is not, because the first stage use is permitted by the fact that the funds are made available at once (in advance of the expenditures on projects). In this way, the relative advantage of Europe over Africa in financial intermediation is put to a good use.

In addition, CORDA has some distinctive merits.

Thus, an increase in EC aid to the ACP countries, outside of a global solution to the debt problem, would de facto include an element of transfer in favour of these countries' creditors, to the extent that aid improves the service prospects and market value of the debt. By insisting on equal treatment among all creditors, CORDA guarantees that the aid goes entirely and definitely to the ACP countries themselves - for final allocation to development projects by the CORDA organisation.

Next, CORDA organises the aid in a transparent way, and reduces uncertainty at several levels. By immediately writing-off the difference between the nominal value and the purchase price of a country's debt, CORDA clarifies that country's financial position. The excess burden of the debt is gone, and the country may consider new commitments on a healthier, less equivocal basis.

Another merit built into CORDA is the clear definition, for each country, of the term structure of its entitlements and obligations. The latter

correspond to the service of the remaining, restructured debt. The former corresponds to the initial debt write-off and to the participation in CORDA revenues, in accordance with an openly preannounced allocation scheme. Early knowledge of that term structure should prove helpful to development planning.

In the European Community itself, the “announcement effects” could be significant. The prospect of handling globally the debt situation of countries with which Europe entertains a privileged relationship, in the framework of a long-term cooperative program with immediate impact, would give content to the concept of a “Marshall Plan for Developing Countries” and provide a strong motivation for implementing it.

Finally, the cooperative aspect of CORDA avoids the standard drawback of debt relief plan; namely, the “moral hazard” danger that lucky debtors (or debtors-to-be) feel encouraged to pursue laxist financial and economic policies. Because relief is to be the benefit of the group of all countries, not of individual debtors, the moral hazard danger is sharply reduced.

We may thus conclude that CORDA has distinctive merits of its own, besides bringing a global solution to the debt problem without constraining in any way the final allocation of aid to development programs. Sursum CORDA!

## APPENDIX

### 1. EVALUATION OF THE MARKET VALUE OF THE ACP DEBT CONSIDERED FOR (RE)PURCHASE<sup>1</sup>

The debt under consideration is the *total* foreign debt of the ACP countries, *with the exception* of the debt owed to the AID, World Bank and IMF. The countries concerned are the 43 African nations, and the 14 countries of the Caribbean and the Pacific who are signatories of the LOME III agreements.

Table 1, which lists these 57 countries in increasing order with respect to GNP per capita, summarises the following data:

- . GNP per capita (column 1), expressed in \$ 1985 (Source A);
- . total debt as a % of exports, inclusive definition, i.e., including the debt owed to the IDA, World Bank and IMF, (column 2) - 1986 data (Source B);
- . face value of the total debt (column 3) - defined as public and private long-term debt (regardless of whether or not it is guaranteed by the public sector - the non-guaranteed portion represents only 4% of the total) owed to official or private creditors, as well as the short term debt, *with the exception* of the debt owed to the IDA, World Bank and IMF. (Source B. Millions of \$) - 1986 data;
- . Secondary market indicative prices, expressed as a percentage of the face value, for the countries for which such prices are available (column

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<sup>1</sup>We wish to thank Claudine Collin for her efficiency in the collection of the data, as well as its statistical and econometric treatment.



4) (Source C). These are the prices observed in December 1987;

market value, estimated using a hypothetical average price rate (column 5). The hypothetical average price is the weighted average of the 13 available individual prices (column 4), the weights being the respective shares in the total debt (column 3) of the 13 countries under consideration. This average price of 31.6% is applied to the face value of the debt of the 44 countries for which secondary market prices are not available. For the 13 other countries, the market value is calculated directly, multiplying the face value by the observed prices.

Table 1: ACP Foreign Debt (1986) - estimated market value\*

	GNP / capita	Total debt as % of exports g/s	Face value of total non-IMF, WB, IDA debt Million \$	Secondary market val- uation as % of face value	Total non-IMF, WB, IDA debt estimated secondary market value
	(1)	(2)	(3)	(4)	(5)
<i>Low income countries (100-400 \$1985 GNP/capita)</i>					
01. Ethiopia	110	260.5	1556	...	491
02. Burkina Faso	150	286.5	478	...	151
03. Mali	150	692.1	1354	...	428
04. Malawi	170	395.1	498	72.5	361
05. Guinea-Bissau	180	1906.8	246	...	78
06. Zaire	170	321.1	5242	21.0	1101
07. Burundi	230	336.8	365	...	115
08. Gambia	230	290.4	202	...	64
09. Togo	230	264.0	737	59.0	435
10. Madagascar	240	820.7	2267	45.0	1020
11. Comoros	240	561.0	137	...	43
12. Niger	250	393.3	1180	...	373
13. Benin	260	364.7*	731	...	231

14. Central African Rep.	260	236.4	333	...	105
15. Rwanda	280	185.9	244	...	77
16. Somalia	280	975.3	1190	...	376
17. Kenya	290	235.8	2893	...	914
18. Tanzania	290	864.3	3016	...	953
19. Sudan	300	1145.7	6918	6.0	415
20. Guinea	320	...	1298	...	410
21. San Tome & Principe	320	800.0*	74	...	24
22. Sierra Leone	350	339.0	440	...	140
23. Senegal	370	369.0*	2301	56.5	1300
24. Ghana	380	291.3	1087	...	343
25. Zambia	390	326.1	3905	18.0	703
26. Chad	...	188.3*	146	...	46
27. Uganda	...	271.5	563	...	176
<b>SUBTOTAL</b>			<b>39401</b>		<b>10875</b>

(\*)Sources

- A. World Bank: Report on World Development, 1987.
- B. World Bank: World Debt Tables, 1987-1988.
- C. Solomon Brothers, 1987; Indicative Prices for Less Developed Country Bank Loans - average of supply prices and demand prices - 14/12/1897

Table 1: (suite)

	GNP / capita	Total debt as % of exports g/s	Face value of total non-IMF, WB, IDA debt Million \$	Secondary market val- uation as % of face value	Total non-IMF, WB, IDA debt estimated secondary market value
	(1)	(2)	(3)	(4)	(5)
<i>Lower-middle income countries (400-1600 \$1985 GNP/capita)</i>					
28. Mauritania	420	387.1	1591	...	503
29. Cape Verde	430	...	108	...	34
30. Lesotho	470	56.9	118	...	37
31. Solomon Is.	430	85.8*	65	...	20
32. Liberia	470	260.8	865	7.5	65
33. Guyana	500	431.4*	947	...	299
34. Ivory Coast	660	293.4	9245	48.0	4438
35. Western Samoa	660	307.3	55	...	18
36. Swaziland	670	66.2	172	...	54
37. Papua-New Guinea	680	192.4	2105	...	665
38. Zimbabwe	680	145.8	1984	..	627
39. Dominican Rep.	790	232.1	2824	24.0	678
40. Nigeria	800	309.1	20129	30.5	6139
41. Cameroon	810	132.1	2972	...	939
42. Botswana	840	34.9	227	...	72
43. Saint Vincent	850	...	30	...	9

44. Vanuatu	880	224.4*	119	...	38
45. Jamaica	940	285.7	2752	34.5	950
46. Grenada	970	88.0	51	...	16
47. Mauritius	1090	72.9	352	...	111
48. Rep. of the Congo	1110	494.4	3387	...	1070
49. Belize	1190	85.8	3	...	32
<b>SUBTOTAL</b>			<b>50201</b>		<b>16814</b>

*Upper-middle income countries (1600-7070 \$1985 GNP/capita)*

50. Fiji	1710	75.6	357	...	113
51. Gabon	3670	128.9	1524	72.0	1098
52. Barbados	4630	81.8	531	...	168
53. Trinidad & Tobago	6020	98.7	1396	...	441
54. Bahamas	7070	15.3*	238	...	75
<b>SUBTOTAL</b>			<b>4046</b>		<b>1895</b>

*Countries with unknown GNP revenue*

55. Seychelles	...	89.2*	103	..	33
56. Djibouti	...	...	114	...	36
57. Equatorial Guinea	...	...	138	...	43
<b>SUBTOTAL</b>			<b>335</b>		<b>112</b>

<b>TOTAL</b>		<b>.94003</b>			<b>29686</b>
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## 2. ACP EXTERNAL DEBT AND EEC MACROECONOMIC DATA - 1986

Table II compares the face value and the estimated market value (see Table I) of the total external debt (other than IDA, World Bank and IMF) of the 57 ACP countries with various macroeconomic aggregates of the 12 EEC member countries, and also with the flow of official development aid.

**TABLE II**

Ratio of ACP debt and	Face value of debt	Estimated market value of debt
GDP of EEC countries (%)	2.72	0.86
total EEC public expenditure (%)	5.60	1.77
current income of EEC public authority	6.24	1.97
official development assistance of the EEC and EEC countries		
to all LDCs (%)	800.00	252.00
vis-a-vis ACP countries (%)	2318.00	732.00
EEC budget for expenditures (%)	261.57	82.63

### Source of data:

- . EEC aggregates: European Economy (1986 data)
- . All LDCs : EEC official development aid: set of LDCs: "OECD, co-operation for development, 1987 Report", p. 64; 1985-86 data, 1985 exchange rates;
- . ACP countries - EEC Documents, 1984. 1983 data, indexed on the US investment goods price index 1986.

### **3. SECONDARY MARKET PRICE FOR THE DEVELOPPING COUNTRIES'EXTERNAL DEBT - ECONOMETRIC APROACH**

To estimate the secondary market value of the external debt of the 44 ACP countries for which indicative debt prices are not published, we have used (in Table 1) the weighted mean of the prices quoted for of the 13 countries for which those prices were available.

This initial approach can be refined by proceeding in two stages.

A. - Search for the determinants of the market prices and the econometric estimation of the relationship linking the prices to these determinants, based on a sample including all the LDCs for which a price is published.

B. - Utilisation of the relationship found to estimate the market price for the ACP countries for which it is not published.

#### **A. Econometric estimation**

The sample includes 29 LDCs (see footnote to Table III) - for which both the secondary market price *and* data for all the explanatory variables considered in Table 3 are available. The explanatory variables taken into consideration in our preliminary estimations are the following: debt as a % of exports of goods and services, number of renegotiations of the external debt between 1976 and 1986, value of the renegotiated debt as a % of the total debt, GNP per capita, relative importance IMF credit and, finally, the country credit risk rating as evaluated by a sample of international banks (the variables are described in a footnote to Table III). In a more systematic implementation of this approach, other variables should also be included (in

particular, socio-political and economic variables - see Laney, op. cit.) so that the results of the estimations, reported in Table 3, are in effect only illustrative of the approach.

Table III shows that a relatively large part of the market price variance can be explained with a restricted number of explanatory variables; not all of the variables are significant at the usual levels. Only the ratio 'debt/exports' and the 'country risk rating' are strongly significant. The most interesting result is that the 'country risk' variable dominates the 'debt as % of exports' variable (and the other variables also). In fact, the 'debt as % of exports' variable is no longer significant when the 'country risk' variable is introduced (see equations 1 to 3; this is also the case for alternative specifications not reported in Table 3). This is not surprising when one recalls that banks evaluate a country's credit risk with reference to such variables as the debt-export ratio, GNP/capita, etc.

It is for this reason that in the final equation reported in Table 3, 'credit risk', considered as a summary variable, is used as the only explanatory variable of the secondary market price for the debt. On its own, it explains 60 % of the variation of the discount rates for the 29 countries included. Further, Figure 1, below, clearly illustrates the strength of the association between the two variables. In this Figure, one also observes that the observations for the ACP countries do not differ from the other observations - as was suggested by the non-significance of the binary variable ACP in the estimations reported in Table 3. This is why we retain this very simple relationship (equation 4 in Table 3) to illustrate the second step of our approach.



## **B. Estimation of the market price for the debt of those ACP countries with an unpublished discount rate**

For 44 countries, no secondary market price is published, and for 30 of these a 'country-risk' rating is not available either. An estimate of the market price could therefore be calculated only for 14 countries. These estimated values were used, together with the 13 published discount rates, to calculate a weighted average price designed to serve as the hypothetical price for the 30 countries for which neither the secondary market price nor the 'credit rating' are published.

On the basis of this procedure, one obtains a value of 35.4 % for the average market price (versus 31.6 % for the calculation using only the 13 observed prices). The value of the total ACP debt (other than IMF, IDA, and World Bank) on the secondary market is thus estimated at \$ 33.2 billion (versus 29.7 billion for the first type of calculations).

**TABLE III**

**Estimation of the secondary market price for the debt of some developing countries**

In the equations summarised below, the dependent variable is COTE (or log COTE). The first line indicates the value of the coefficients; the second line the value of the t-statistic.

Specif.	Constant	DETXBS	NRENEG	VRENEG	GNPCAP	IMFDET	ACP	RATING	R <sup>2</sup>	SEE
1 loglin	2.820 (1.090)	-0.220 (-0.970)	-	-0.240 (-0.450)	-0.050 (-1.170)	-0.050 0.350	1.290 (-0.190)	0.680 (4.850)	0.480	
2 loglin	5.590 (2.240)	-0.590 (-2.690)	-0.270 (-1.400)	-	0.240 (1.210)	-	-	-	0.410	0.650
3 loglin	1.170 (0.790)	-0.180 (-1.030)	-	-	-	-	-	1.130 (5.640)	0.700	0.460
4 lin.	0.950 (0.133)	-	-	-	-	-	-	1.900 (6.550)	0.600	1.500

Countries included: Algeria, Argentina, Bolivia, Brasil, Chile, Colombia, Costa Rica, Ivory Coast, Dominican Rep., Ecuador, Gabon, Guatemala, Honduras, Jamaica, Liberia, Malawi, Mexico, Nicaragua, Nigeria, Panama, Peru, Philippines, Poland, Sudan, Turkey, Uruguay, Venezuela, Yugoslavia, Zambia.

Variables:

COTE: discount rate on the secondary market for the country's external debt (bank loans) - December 1987, percentage of the face value.

Source: Salomon Brothers.

DETXBS: total debt as % of exports of goods and services.

Source: World Bank, World Debt Tables.

NRENEG: Number of renegotiations of the foreign debt, with respect to private and official creditors, between 1976 and 1986.

Source: IMF, International Capital Markets, Appendix V, December 86 and January 88.

GNPCAP: GNP per capita (in \$1985)

Source: World Bank, World Development Report, 1987, Appendix, Table 1.

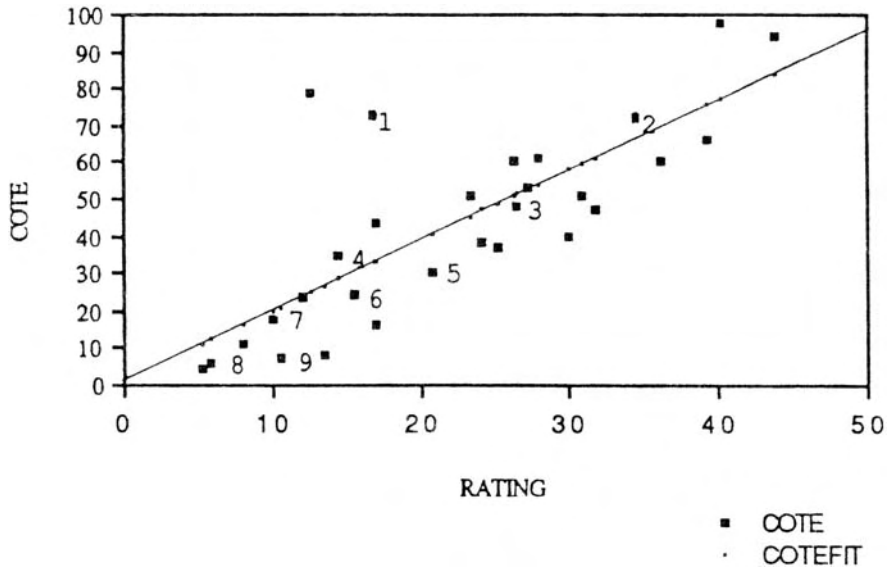
IMFDET: IMF credit as % of total debt.

Source: World Bank, World Debt Tables.

ACP: Dummy variable: = 1 when the country belongs to the ACP, group = 0 when the country does not belong to the ACP group

RATING: "Country Credit Rating" published by Institutional Investors; Sept. 1987 data. Weighted average of evaluations of around one hundred international banks; data available for around one hundred countries.

Figure 1: Relationship between secondary market price (COTE) and country risk rating (RATING)



Key: 1. Malawi; 2. Gabon; 3. Ivory Coast; 4. Jamaica; 5. Nigeria; 6. Dominican Republic; 7. Zambia; 8. Sudan; 9. Liberia.

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