Debt Relief for the Poorest Countries: Why Did It Take So Long?

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Debt relief for the poorest countries was first seriously proposed in 1987; yet it is a much bigger issue in 1999. From a UK perspective, this article looks at the politics and economics of debt relief over the past 12 years, tries to explain why it took so long to get going, and draws some conclusions about international initiatives.

Heavily indebted countries: the 1980s crises

International debt problems hit the headlines in 1982, when Mexico had to reschedule its debts. Mexico was swiftly followed by others in Latin America and elsewhere. The cause of the problems lay in the unwise lending of many commercial banks (egged on by the authorities in industrial countries in their efforts to recycle the surpluses of oil producers in the 1970s) and the unwise or corrupt use of these loans by so many of the borrowing governments. This crisis commanded the attention of the financial authorities, in the G7, IMF and elsewhere, both because of the potential impact on output, jobs and political stability in the debtor countries and, even more, because of the dangers to many of the world's largest banks, and the banking system. Exposure to the debtors by many banks, especially in the United States, but also to a lesser extent in the UK and the rest of Europe, was several times total bank capital. The debt strategy in the 1980s bought time for the banks to rebuild their capital, cut their exposures and set aside realistic provisions.

For the major debtors, the bulk of their external debt was owed to Western banks by governments or government guaranteed agencies. The workouts involved giving advice to, and trying to impose conditions on, the debtor countries through the IMF and the World Bank; and also — once the danger to the banking system was over — employing market solutions, including

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debt/equity swaps, debt sales and bond-backed debt writedowns.

Throughout the 1980s, there was a lively debate on how far the debtors were simply illiquid, or insolvent. Were they failing to service their debts in full on their own because they were mismanaging their economies, or refusing to give debt servicing a proper priority or unwilling to impose crippling burdens on themselves? For much of the decade, the conventional wisdom was that the debtors were illiquid but solvent if given enough time to pay. Detailed analysis on optimistic assumptions about the future showed that debt burdens could fall to manageable levels. This analysis was reinforced by the problems faced by all the lenders — banks (and the governments which were believed to stand behind them), governments themselves through their export credit agencies and the official institutions (the IMF and the development banks) — in admitting to themselves and the world that the debts were no longer worth their face value.

The markets, however, told a different and more accurate story. By 1987 the rapidly growing secondary market in sovereign debt was signalling very clearly that lenders should not expect to get all their money back. In May 1987, for example, Brazilian debt traded at 75 per cent of face value, Polish debt at 45 per cent and Zambian debt at 20 per cent. Citibank led the way in 1987 in announcing large provisions against its sovereign debt and it was followed by many others. This demonstration of a stronger financial position of banks signalled the end of the systemic concerns about the banking system, and opened the way to a negotiated writedown of the big debtors' obligations, including through the Brady bonds initiative launched in 1989, and hence a return to the markets by the debtors.

The poorest countries

At one level, the causes of severe debt problems in very poor countries[1] were similar: poor use of borrowed funds and imprudent lending. At another level, there were profound differences. In many cases, the debt burden — in relation to some measure of the size of the economy — was greater than in the case of Brazil, Mexico etc; and the greater poverty of the very poor countries and their governments made eventual repayment in full even less credible. Moreover, the bulk of the debts of the poorest countries were owed to OECD governments,[2]

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1. Defined at the time as countries with an income of under $500 a head.

2. Loans that turn out badly usually mean poor decisions by both lenders and borrowers. The banks that lent heavily to the big Latin American and other debtors acknowledged their mistakes by putting in place better risk management systems, including more realistic pricing. Much of the lending to poor countries which became the excessive debt burdens of the 1980s and 1990s stemmed from exports by OECD countries of capital goods and (to a much lesser extent) arms: finance was provided by banks against explicit government guarantees by the

government agencies, or international financial institutions, not to the private sector. So market solutions could play only a small role in dealing with the private sector debt: the major solution had to be found in negotiation between governments (creditors and debtors) and the international institutions.

Negotiations on debts owed to governments were held in the Paris Club, a grouping of creditors under the chair of the French Trésor. When debtors were judged, usually in the view of the IMF (a participant in the negotiations), to be making an effort to reform and repay, the Paris Club would reschedule debts arising from past export credit guarantees and aid loans. Rescheduling meant extending the term of the debt, giving grace periods and adjusting interest rates — but for many years the Paris Club stuck to the principle that loans had to be repaid in full, and without concessional interest rates (technically, this meant no cut in the net present value of the debts).

As the 1980s wore on, with more and more reschedulings at the Paris Club, it became increasingly evident — not least to the Swedish and UK senior negotiators — that there were quite a number of poor countries who would never be able to repay in full and for whom the effort to pay in full would be damaging. The same conclusion was reached by analytical work in the Treasury and the Bank of England and quickly accepted by Nigel Lawson, the then Chancellor of the Exchequer. His memoirs (Lawson, 1992) describe the inception of his 1987 initiative to reduce the cost of servicing the debt owed by the poorest countries in sub-Saharan Africa.

The first initiative

Lawson's initiative contained three elements: converting official aid loans to grants (which the UK had done for most recipients years earlier); allowing longer repayment periods of up to twenty years; and reducing the rate of interest on the outstanding debt by one-third. The initiatives were to be available only for debts owed to governments and would benefit only countries following IMF programmes: there was a strong (and in my view correct) conviction that helping heavily indebted countries with poor policies (such as Nigeria for most of this period) would be pointless, since excessive indebtedness was only one of a number of factors damaging such economies.

The new element in the UK initiative was the below-market interest rate: for the first time, a cut in the net present value of debt was proposed. There was no science behind the proposed cut of one-third, no calculation of individual capacities to pay: it was a judgment reflecting both the need to do something significant and the recognition that the other creditors would be unlikely to

export credit agencies (ECGD of Britain, Coface of France, Hermes of Germany, ExIm of the US etc), who were slower to learn the lessons.

support more at that stage. The UK had to get the support of other creditors in the Paris Club, partly because decisions were taken by consensus, but really because a unilateral cut by the UK would have resulted in a redistribution of debt interest payments away from the UK to other creditors — which would have been politically difficult and would not have benefited the debtors.

At the political level, it was the new element in the initiative, the cut in interest rates, that aroused the most hostility. It was wrong to let countries off paying; IMF conditionality would be undermined; the habit would spread to middle-income debtors; the creditors could not afford the cost; the sanctity of contracts was threatened — these were the main arguments used by the countries opposed to the initiative.

The more thoughtful critics pointed out that there was no necessary connection between cutting debt service due from a country and any improvement in that country's economy or in the relief of poverty. These countries, it was noted, were not paying their debts in full anyway, so little would change in reality. Moreover, many of them were receiving sizeable amounts of aid, often substantially greater than their debt service, so that cutting debt service, if accompanied by an equal cut in aid, would accomplish nothing. There was no academic research which showed clear evidence of a causal link between debt service and economic performance, confirming some people's view that of all the many problems facing these very poor countries, debt was but a small element and the international community should focus on other issues.

There was much, as Lawson points out, that was self-serving about some of these arguments. It was difficult, for example, to maintain that the initiative was both an unacceptable change in the rules of the game and that it would have no effect on the debtors; or that the cost would be hard to meet for the creditors and at the same time worth little to the debtors. But the fact that many countries were already not paying in full, and that they were big aid recipients, meant that it was very difficult to put figures on the likely benefits of the initiative, to know how much would be additional or where any benefits accrued. Moreover, for many of the most indebted countries, the cash flow problems of servicing debt — which can be reduced by rescheduling — are the most immediate concern; it may take some years before countries reach a position where the debt overhang becomes a major impediment to economic performance. This is not an argument against substantial debt writedown, but it may explain why it took so long to become a top priority.

The problems of the poorest countries were also highlighted by an initiative launched by Michel Camdessus in 1987, soon after he took over as Managing Director of the IMF. At the Venice G7 Summit in 1987 he put forward a plan for a new, highly concessional, longer-term IMF lending window for very poor countries: the Enhanced Structural Adjustment Facility. With finance for the concessional interest rates provided by grants from the richer countries' aid budgets, this initiative was launched as an imaginative response to the deep-seated problems of the poorest countries, and the increasing difficulty the IMF had in lending short-term at market rates to uncreditworthy countries. In reality, the initiative was at least as much aimed at ensuring that existing IMF loans to these countries — arrears on which were beginning to mount — could be refinanced over longer periods and at much lower rates, and to ensure that the Fund could continue to do business in these countries. This initiative confirmed the need for action to reduce debt, but postponed until the mid-1990s the pressure on the IMF to join in effective and comprehensive debt relief.

Diplomacy

Nigel Lawson launched his debt initiative at the IMF Interim Committee meeting in April 1987. Although the meeting was not open to the press, full speeches were immediately released. He had previously alerted the Europeans at Ecofin and the G7, as a matter of courtesy. It would have been possible to have consulted the other G7 members before the launch, but their likely negative reaction would have made that unwise, since genuine consultation implies a willingness to shift ground. Politically, an initiative with little prior warning is much better news value, particularly, as Lawson records in his memoirs, by upstaging the French, long-time champions of developing countries.

In the course of 1987 and 1988, UK lobbying for the initiative took place in official committees, particularly the Paris Club; at ministerial meetings (especially the Venice G7 Summit, the Commonwealth Finance Ministers, the IMF/World Bank Annual Meetings); bilaterally, particularly with other G7 countries at finance and foreign minister level; and with occasional articles in the press. Debt relief for the poorest was now a subject where the UK took the lead, and others were on the defensive. The initiative was aimed at persuading the Paris Club collectively to give more debt relief, under IMF conditions, to heavily indebted poor countries. The Paris Club was attended by negotiators under instruction from senior finance ministry officials. The key grouping here was (and is) the G7 finance ministry deputies, meeting frequently and with little or no publicity. Opposition to the Lawson initiative was widespread, with only France and Canada offering qualified support.

For some of the opponents, in particular Germany, high principles were at stake. For others, including the Americans, there were technical and legislative difficulties: the initiative required governments (and their export credit agencies) to admit to past mistakes, and because of the nature of government accounting (not in the UK) to provide extra expenditure to write down past debts. The reality was, of course, that the bad loans had been made years ago and should have had provisions made against them at the time, as supervisory agencies encourage banks to do. Finance ministries, charged with controlling the fiscal deficit and government spending, intensely dislike proposing higher expenditure. Moreover, the US invoked Congress as a reason for playing only a very limited part in the initiative. As always in negotiation with the US Administration, it was very hard to tell whether the Congress really would have opposed full US involvement or whether, as happened on a number of occasions, the Administration used Congress as a convenient excuse. The Japanese too were strongly opposed: an unwillingness to own up to past mistakes, together with the fact that much of their aid was in the form of what were intended to be soft loans, led to their doctrine that debt relief meant no new money.

The politics of debt relief made more progress than the economic and financial arguments. Heads of government found opposing the UK initiative uncomfortable, and at the G7 Summit in Toronto in 1988 agreement was reached on the ‘Toronto Terms’. This conceded the principle of debt relief for the poorest countries, though the US, the largest and richest member of the G7, claimed it could not go beyond very long-term rescheduling. Three options were agreed, for the creditors to choose from: long-term rescheduling; lower interest rates (as proposed by the UK); and partial writedown of the stock of debt (a helpful addition by the French). Once the G7 had reached agreement, there was soon a full multilateral accord in place at the Paris Club, and the first countries began to benefit later in 1988.

More initiatives

In 1989, the new US Administration, led by Treasury Secretary Nicholas Brady and his deputy David Mulford, decided it was time to launch an initiative to help Latin American countries (and US banks) with their still serious debt problems. This plan involved, in effect, writing down part of the debts owed to banks in return for some IMF and World Bank lending. While not always enthusiastically welcomed, the plan was agreed to within a few months and then put into practice later the same year — a sharp contrast with the slow progress on relieving the debts of the poorest countries. It was clear that the driving force behind the Brady plan was US national interests in Latin America and domestically, and had nothing to do with the principle of debt relief established in the Toronto Terms.

Over the following years, there was a welter of proposals and some agreements on extending the Toronto terms and making them more concessional. Landmarks include: the Trinidad Terms, proposed by John Major at the 1990 Commonwealth Finance Ministers’ Meeting in Trinidad (Powell, 1990); the London Terms agreed at the 1991 London G7 Summit; the Naples Terms agreed at the 1994 Naples G7 Summit; and the Lyon Terms agreement at the 1996 Lyon G7 Summit. At Lyon, the reduction in net present value had risen to 80 per cent, having started at a third or less in the Toronto Terms. And increasing emphasis was put on stock-of-debt relief, offering the possibility of exit from endless debt negotiations.

All the initiatives for the poorest countries provided for debt relief on government loans at the Paris Club, and there were also agreements on private debt reduction. The IMF and the multilateral development banks, in particular the World Bank, were very concerned to keep their preferred creditor status (i.e. to remain above the Paris Club and the private sector in the seniority of debts) and fended off any suggestions that they too should provide debt relief. As time went on, the proportion of debt and debt service owed to these international financial institutions rose, because they had been active in negotiating programmes, there was a resurgence of interest in economic reform in many countries, and other lenders had cut back on business with what were mostly uncreditworthy countries.

Against this background, Kenneth Clarke, the then UK Chancellor of the Exchequer, launched his initiative in 1994 to extend debt relief to multilateral debt. The Dutch and the Nordic states also pressed for this extension, calling on the IMF and the World Bank and others to play their part in getting debt levels down. Initial reactions were adverse, especially from some key IMF shareholders, with echoes of the G7 reaction of the previous decade: it was not necessary, a bad precedent, not affordable, it would damage IMF conditionality — plus, especially from the Germans, the statement that the IMF is a monetary institution and so should not get involved with debt relief.

The World Bank, traditionally the softer of the two Bretton Woods institutions and newly headed by James Wolfensohn, was the first to accept the need for wider debt relief, including on its own loans. But it needed to move with the IMF in a joint effort, partly because the IMF's loans, even after the introduction of the new ESAF, were shorter-term than the Bank's and hence repayments were larger. After a characteristically messy period with the two institutions out of step and hissing at each other in private and in public, the IMF, under pressure from many of its shareholders including the US, decided it was better to fight its corner, and limit its costs, from within.

Heavily-indebted Poor Countries (HIPC) initiative

At the 1996 Annual Meetings, and urged on by the G7 from Lyon, the IMF and the World Bank jointly proposed the HIPC initiative with the aim of reducing the debt burdens of all eligible countries to sustainable levels, provided that strong reform programmes were pursued. The 41 HIPC countries as defined by the World Bank account for little more than 1% of world GNP, and some 12% of the world's population. This initiative built on earlier ones, with the more ambitious aims of being comprehensive, i.e. covering all of a country's eligible sovereign debt, and being tailored to the particular circumstances of each country. A detailed description is contained in Boote and Thugge (1999).

It is worth noting that the IMF and World Bank staffs played a key role throughout the 1980s and 1990s in the debt workouts and initiatives, partly as participants in the Paris Club. Through their surveillance, advice and lending programmes, they were better informed than almost anybody else about the conditions in these countries and the effects of debt overhang. Many of the individuals in the institutions had come to the conclusion that debt reduction was needed. This was not the policy of some key shareholders and therefore not of the IMF and World Bank management, but the staff played important roles behind the scenes in giving support to the UK and other initiatives. (*Per contra*, had the staff analyses showed these initiatives to be seriously flawed, that would have been very damaging.)

The HIPC initiative was soon agreed, despite a good deal of argument about funding, which continues, between shareholders and with the managements of the IMF and World Bank — the speed in large part due to the fact that their costs would be met by the institutions themselves. As Clare Short has pointed out (1999), this reduces the money available to lend at concessional rates to other poor countries.

Uganda was the first country to benefit, followed by Bolivia, Mozambique, Guyana and Mali, with debt stocks reduced in total by some $2.5 billion. But falls in commodity prices, the small number of countries benefiting, the length of time others will have to wait, and the very limited extent of the gains for those who do benefit — all this led to increasing calls for much more generous debt relief, more quickly and for closer links to poverty reduction.

1999 initiatives

With a change of government, and a G7/G8 Summit in Cologne in June 1999, the German government led by Chancellor Gerhard Schröder launched an initiative to speed up the implementation of the HIPC plan (Schröder, 1999), and broaden debt relief. This has been followed by the US and several other governments also pledging greater generosity. ‘Cologne Terms’ have now been added to those listed above.

Outside the official channels, and drawing together many, in particular Christian, groupings and NGOs, is the continuing campaign for Jubilee 2000 whose aims have been summarised both as a ‘debt-free millennium for one billion people’ and, rather differently, as getting rid of unpayable debt. This campaign emphasises the moral case for debt relief, stressing the extreme poverty of those affected, the reasons why present governments and peoples may not be responsible for debts incurred in earlier years, and the benefits of lower debt payments for health and education programmes. The Jubilee 2000 campaign has reached out very successfully in many countries, and it was an important factor in the widespread government initiatives in the run-up to

Cologne. The main difference between the campaign and the official response lies in the scale of debt relief, and in the extent to which it should be conditional on a country's economic policies and performance. Recent work by the World Bank (Collier and Dollar, 1999) confirms that aid is only effective in countries with sound policies. The same conclusion surely applies to debt relief.

Twelve years after the UK launched its first initiative, 1999 is set to see a further substantial increase in debt relief. What have been the obstacles and what lessons can be learnt from this example about international economic initiatives?

The obstacles to debt relief

My main impression, looking back over 12 years, is of the amount of time and effort needed to achieve a modest and sensible series of reforms. At a technical level, there were two main obstacles. The first was that the Paris Club of creditors operated by consensus (though it took some time after the 1987 initiative was launched even to get a majority in the Paris Club in favour). The second obstacle, already touched on, was the reluctance of governments to acknowledge losses on past debts and, given the antiquated nature of accounts in many countries (not the UK), provide the addition to government expenditure that was needed to write down the debt or debt service.

There was, of course, a more basic set of obstacles, since the technical difficulties were set aside later. The initiative challenged the principle of full repayment of debts ('They hired the money, didn't they?' a phrase often quoted by bankers and by governments opposed to debt relief, but coined by Calvin Coolidge about the debts incurred by Britain and others during World War I) — a principle that was at odds with the practice of domestic bankruptcy courts and, at the international level, with a few post-war debt writedowns, notably that in Indonesia in 1970. But this principle had become established in the course of the 1980s when dealing with the large, mainly Latin American, debtors; and the fear of contagion — of the poor countries' tail wagging the Latin American dog — was frequently cited in the early days of the initiative. The argument was, of course, dropped from 1989 when the Brady plan led to writedown for the big debtors.

Politically, the initiative on debt of the poorest countries did not, at least at first, command much respect among most of the G7. The countries that would benefit — quite a lot in the British Commonwealth — were small, very poor and both politically and economically, for instance in trade terms, negligible in the world economy. Moreover, there was no obvious, high profile crisis that demanded attention: why not go on rescheduling as before?

The attitude of the United States was, as ever, crucial to the success of the initiative. In the last two decades, their leadership role in the G7, IMF and

World Bank has been clear: their initiatives — for example, the Brady plan on debt — usually went through quickly; other countries' initiatives, if not supported by the US, failed or, as in the case of the UK debt initiative, took a very long time. Over time, the attitude of the US on debt shifted, first with the Brady plan and then with the overwhelming political need to write down debt in Poland and Egypt; and under the Clinton Administration the US came to be a supporter of the HIPC initiative, with a strong attachment (partly from Polish experience) to long IMF conditionality. The shift in the US stance came about partly because the Treasury team (Summers and Rubin) were more sympathetic to debt relief, but also because US NGOs took up the issue in the 1990s and were influential with the Clinton Administration and in Congress.

The debt initiatives were taken forward by political more than economic arguments. NGOs like Oxfam and Christian Aid welcomed the principle of debt relief for the poorest while pressing hard for faster and more generous action. Indeed, the UK Government encouraged them to put their arguments in countries like Germany and Japan whose governments were most hostile to the initiative. The political arguments impinged more on prime ministers and presidents, who felt increasingly uncomfortable defending their finance ministries' and central banks' negative views towards debt relief. It is no accident that most of the decisions at G7 level to advance debt relief were taken at the Summits in Toronto, London, Naples, Lyon and Cologne by leaders who wanted their summit venue recorded.

The IMF's role

The IMF has often been identified as a source of opposition to debt relief. As mentioned earlier, for much of the period, and particularly while debt relief proposals were limited to the Paris Club, the IMF played a helpful and supportive role — and it was of course in their interests to do so, since the more generous were the Paris Club creditors, the greater the chance that the IMF would get its own money back.

It had long been IMF practice to lend to the poorest countries (mainly in Africa) as part of an economic programme agreed with the country. Although the sums concerned were sometimes modest, other official flows — aid and export credit and Paris Club rescheduling — were dependent on an IMF programme being in place, which gave the governments of these countries big incentives to sign up to IMF programmes. Add in some wishful thinking on all sides, sometimes corrupt or seriously incompetent governments, natural disasters, and civil strife and the result was all too often that a country was saddled with excessive debts (including to the IMF) and little to show for it. Some, like Sudan and Zaire, refused to pay; others, like Uganda, struggled on.

The IMF's initial response in 1987, the new concessional lending window, was described above. By 1994, when Kenneth Clarke led the push for the IMF and World Bank to find a way of reducing their own claims, the role of these institutions' debt in the total debt of the countries concerned was sizeable. Aid ministries were complaining, with some justification, that their money, intended to help the poor, was being used to service IMF debts.

The IMF management, when asked to join in providing relief on IMF debts, displayed all the reluctance of the other creditors: it would set a very bad precedent, it would be difficult to limit contagion, the IMF could not afford the cost, economic analysis (and here the Fund staff deployed their formidable talents) did not show conclusive damage from debt overhang, etc. But with pressure from the US, the UK and others, and with the World Bank out in front, the Fund decided in early 1996 that it had to join in.

Costs and benefits of the UK initiative

For UK ministers, the initiative was popular at home, giving Nigel Lawson a rare rave review in *The Guardian*, as well as approval by *The Financial Times*. It was popular with the poor and heavily indebted countries, and with the Commonwealth generally; indeed, successive UK chancellors frequently used Commonwealth meetings as the launchpad for new initiatives. When the initiatives brought results, from 1988 onwards, and through the London, Naples and Lyon terms, this too brought political gains for British chancellors.

For the poorest countries, the initiative provided extra incentives for better policies and more hope for the future. And it provided a few more resources for other types of government expenditure — but only a few, because the debt relief was not generous, because these countries had many other problems to cope with as well as a debt overhang, and because the debt would otherwise have been rescheduled indefinitely.

The cost in financial terms to the UK was limited. Since the great majority of the debt that was written down, or serviced at lower interest rates, was unrecoverable, the direct cost of the initiative was negligible (Hillyard, 1998). In 1987 the UK decided to make a contribution (worth about £20 million a year) to the IMF's ESAF facility, a subscription that helped to make the debt initiative credible.

The only substantial cost for the UK was the opportunity cost, in terms of other initiatives forgone. On the international circuit, and especially at G7 Summits, there are a strictly limited number of initiatives that can be pursued at any one time: nuclear safety in Ukraine; trade liberalisation; preservation of rain forests; saving whales; untying aid — medium-sized countries like the UK have to be highly selective to have a good chance of winning. Successful initiatives typically require intensive lobbying of other governments and concessions to big players: allowing the US a soft option; debt relief for Egypt (despite a weak IMF programme) pressed by the US; extension to some marginal Francophone countries pressed by the French; long qualifying periods and tough criteria in the HIPC initiative to satisfy the Germans. Political credit, too, has to be spread about: hence the Toronto, London, Naples, Lyon and Cologne terms.

Conclusions

With the benefit of hindsight, it is worth asking how the UK and others who supported more debt relief could have been more successful, sooner. A more generous starting point (relief of a half rather than a third, say); an earlier focus on writing down debt stocks; an alliance with the French — all these might well have helped a little. But the main problem was overcoming finance ministry opposition in the US, Japan and Germany, and earlier success would have required a bigger political push and more effective NGO pressure in these countries. Moreover, it took some years before aid ministries and development lobbyists, who tended initially to see debt relief as an unwelcome claim on limited aid budgets, threw their full weight behind the campaign. Indeed, a number of countries (including those with large aid budgets like Japan and France and with higher Paris Club exposure) criticised the UK initiatives as a cheap way of gaining headlines. In the UK, the further debt initiatives in the period 1997–9, backed up by more money from the tax-payer, have had more credibility.

It is also worth asking what there is to stop the problems of excessive borrowing and poor use of the funds from occurring again. It is clearly not enough to rely on restraint by export credit agencies (whose excessive lending to poor countries helped create their problems): even today, despite UK and other efforts, there is no agreement among the main creditors on eliminating export credits for non-productive expenditure in poor, highly-indebted countries. The main bulwark against excessive debts being run up by poor countries lies in their growing appreciation of their own self-interest, reinforced by limits in IMF programmes on external borrowing.

The existence of a large number of desperately poor and unsuccessful countries — even though a small part of the world economy — rightly aroused humanitarian sympathy. But more than that, their existence was a standing reproach to the Washington consensus that liberal free enterprise economic policies offered the best chance of success. Action on debt removed one obstacle, which Western governments had helped create, but still left many others.

From this outline of debt initiatives, the following lessons can be drawn for international initiatives in general:

(i) get the analysis and the solutions right, but don't expect this to persuade others;

(ii) get the US Administration onside as soon as possible;

(iii) never underestimate the inertia in public policy-making, the reluctance to admit past mistakes, and the time it takes to change minds;

(iv) where self-interest is not sufficient motive, as in the case of the influence of poor heavily indebted countries on the G7, develop strong political pressures;

(v) be prepared to share the credit for success;

(vi) be prepared to put up some money: it helps the credibility of the initiative.

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