Percy S. Mistry

African Debt Revisited
Procrastination or Progress?

FONDAD

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Forum on Debt and Development (FONDAD)

FONDAD is an independent policy research centre established in the Netherlands to provide policy-oriented research on North-South problems, primarily international financial issues. It seeks to stimulate the adoption of realistic and necessary measures to solve the debt and development problems of developing countries. Through its international network of experts and its contacts in the worlds of finance, policy research, politics, and the media, FONDAD aims to provide factual background information and practical strategies to policymakers, and other interested groups.

The Author

Percy S. Mistry is Senior Fellow, International Finance, at Queen Elizabeth House, Oxford University, United Kingdom, and Chairman of Oxford International Associates. In the 1970s he worked at the World Bank and IFC in several technical and managerial capacities in Africa and Asia and, between 1981-87, served in a high-ranking position as Senior Financial Advisor (de facto Chief of Staff) to the Bank's Senior Vice-President, Finance. In 1978-81 he was Managing Director of a prominent, private corporate and government advisory group in Hong Kong. He is a Consultant and Adviser on debt, development, privatization and adjustment to several multilateral institutions (the World Bank, UNDP, UNCTAD, the Commonwealth Secretariat among others) and to bilateral governments (especially those of the Nordic countries) undertaking assignments in several African countries, in Brazil, the Caribbean and China (on long-term reform of the financial system). At Oxford he has directed three major research projects on: domestic resource mobilization in Africa; the role of external finance in African adjustment; and privatization experience in several Commonwealth countries, and has published extensively on these subjects.

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The tables have been derived from two sources: (1) World Debt Tables (WDT), 1989-90 & 1990-91; and (2) Financing & External Debt ofDeveloping Countries 1989 & 1990 OECD Surveys. WDT does not include figures for Angola, Libya and, upto 1985, for Mozambique. OECD figures have therefore been used to supplement WDT data. Data captured by WDT are usually in error on: (a) short-term debt and debt service; (b) movement between debt classified as private and later as bilateral when ECAs in creditor countries have paid out on their guarantees; (c) the effects of debt swaps and Paris Club reschedulings; (d) interest arrears. These shortcomings result from weak debt recording in African countries. After years of technical assistance provided by various sources to improve the quality of African debt data, the recording systems remain highly imperfect. WDT figures could be off-the-mark by ± 10%.

Preface

When we asked Percy Mistry to write a compelling policy paper about Africa's lingering debt crisis to stimulate political action, he wholeheartedly accepted. He considered it an interesting challenge because, like FONDAD, he was convinced that it is, most of all, *political action* that is lacking in coming to terms with the need for rapid and large-scale debt reduction programmes for Africa. As Mistry puts it: "...the stark reality remains that for Africa and particularly for its poor what has been achieved still amounts to marginal trimming of the remote outer branches of the problem and not hacking away at its roots. Debt relief, though much to be appreciated and further encouraged, is still being provided to Africa on a 'too little, too late' basis."

This in-depth study on African debt has already proven to be a solid and convincing document. It served as a crucial background paper to an unprecedented conference on 8-9 July 1991 in Abidjan which brought together a remarkable group of African and Northern parliamentarians with leading specialists in the field. At this 'North-South Roundtable on African Debt Relief, Recovery and Democracy', a comprehensive action plan for African debt relief, as advocated by Mistry, was adopted (see the Appendix). The Roundtable was co-sponsored by Parliamentarians for Global Action and the African Development Bank, in cooperation with the Friedrich Ebert Foundation and the Forum on Debt and Development. In his opening address John Langmore, President of Parliamentarians for Global Action, praised the quality of Mistry's paper: "The causes and dimensions of the African debt crisis have been comprehensively described and incisively analysed in the excellent paper prepared for this Roundtable by Percy Mistry."

The strength of this study lies in Mistry's singular capacity to present thoroughly researched but rather 'dull' facts and figures in an elegant and provocative manner. He also points to facts which are contrary to media-created notions: like the idea that African countries do not service debts, or that the debt problem of Africa is mainly with official creditors (governments and multilateral institutions) and not with commercial creditors (mainly banks). As Mistry reveals, African countries have paid back over $180 billion between 1983-90. This amount exceeds by over $40

billion the total outstanding debt of Africa at the end of 1982! Mistry also shows that Africa's commercial debt problem is not at all negligible. At the end of 1990, Africa owed nearly $100 billion to private creditors. That represents 37% of the total amount of $270 billion owed by Africa.
Mistry's appeal to legislators and policy-makers to agree on a comprehensive debt strategy for Africa (and other developing countries) which involves banks, creditor nations and multilateral institutions, deserves wide attention and support. Some of Mistry's opinions are clearly controversial, but one cannot dismiss his forceful arguments for dealing much more seriously and responsively with Africa's debt problem: "The export of real resources from Africa by way of debt service has increased from about 3% in 1980 to 6% in 1989 and a projected 8% in 1990. That is indefensible in a continent where per capita incomes are still declining from levels which are abysmal."

Jan Joost Teunissen
Director FONDAD
November 1991

I Background to the African Debt Crisis

1.01 The debt crisis, or perhaps more accurately, debt cancer[1] that has spread across Africa in the last decade, needs little introduction. Much has already been said about the causes, consequences and costs – economic, social, human and ecological – of that affliction and about the structural adjustment and economic reform measures which have been taken to cope with it on a continental scale. The reasons which gave rise to excessive African indebtedness in the 1970s and early 1980s, and which caused it to balloon from $140 billion when the crisis emerged in 1982 to over $270 billion in 1990, have been amply documented elsewhere.[2] It would be redundant to go into them at length again here.

1.02 Suffice it to say that Africa's over-indebtedness is not attributable, as many creditors would have it, merely to poor governance, rapacious and corrupt leaderships, protracted civil wars in too many countries on the continent; no democratic checks and balances on government borrowing and spending, excessive population growth, and the stubborn pursuit of economic policies which contributed to the relentless impoverishment of a rich continent for over two decades. All of these factors have indubitably

1 It is odd to continue referring to a phenomenon which has lasted for over eight years as a crisis. It is more like a cancer because the debt disease has spread to virtually every corner of the continent; it has had a debilitating effect on the life of Africa's economies, and it is proving singularly resistant to cure by the remedies which have been attempted thus far.

2 For a detailed account of how the African debt crisis arose and developed readers are referred to: (1) "African Debt: The Case for Relief for sub-Saharan Africa" by Percy S. Mistry, Oxford International Associates, 1988; (2) "The External Debt of sub-Saharan Africa: Origins, Magnitude and Implications for Action" by Kathie L. Krumm, World Bank Staff Working Papers #471, July 1985; (3) "African Debt: The Search for Solutions" by Tony Killick & Matthew Martin, UNARP Briefing Paper no.1, June 1989. The causes, effects and possible solutions to the African debt crisis were the subject of an earlier Conference on "The Challenge to Recovery & Growth: Finding Solutions to Africa's External Debt" sponsored by the African Development Bank and held in London on April 18-19, 1988. The Collected Papers presented at that Conference provide useful source material, as do a host of country economic reports, special reports and working papers published by the UN Economic Commission for Africa, the World Bank and the International Monetary Fund. These are too numerous to single out for special mention.

played a major part. But Africa's crisis has been severely exacerbated by several other reasons as well, including:

(a) *thoughtless and irresponsible over-lending by private and official creditors,* during the commodity boom of the 1970s, without which irresponsible over-borrowing by African governments on this scale could not possibly have occurred;

(b) the *persistence of negative real interest rates during most of the 1970s* in global financial markets caused by lax monetary and fiscal policies in industrial countries which made it economically rational for developing countries to borrow externally (rather than save or attract equity investment) for development and consumption;

(c) the targetting of developing countries in general, and oil-exporting countries in particular, as major export markets to be provided with too-easy credit to *facilitate the adjustment of industrial countries to the two oil-shocks* (of 1973 and 1979);

(d) the *global monetary shock of 1979-81,* which aimed at ridding the world of inflation but had the collateral impact of inducing a deep and long recession, particularly in debt-ridden developing countries where the recession lasted for 70 months instead of 16 in the OECD world, and which caused commodity markets and prices to collapse;

(e) over-reliance on external savings between 1979-83 by *African governments' unwillingness to increase domestic savings and cut domestic consumption* in the erroneous belief [encouraged in some instances (e.g. Zambia) by the international financial institutions –IFIs] that the commodity price collapse would be short-lived;

(f) a *prolonged and devastating drought* between 1981-84 which severely impaired the continent's agricultural and cash crop production and resulted in extensive damage to output and to the financial structure of Africa's fragile economies;

(g) the emergence of *high, positive real interest rates throughout the 1980s* which compounded Africa's debt servicing and debt accumulation burdens;

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(h) volatile exchange rate movements throughout the 1980s with US dollar depreciation between 1985-90 resulting in increasing the dollar value of Africa's outstanding debts, over a half of which were denominated in currencies or composites which appreciated against the US dollar;

(i) *repeated official and private reschedulings,* often on punitive terms in the early years of the debt crisis, which resulted in further increasing the outstanding level of debt while providing temporary, but totally insufficient, cash-flow relief;

(j) *poor and impractical advice by IFIs and official creditors* on the extent of debt relief African governments needed to negotiate and how they might adjust, coupled with poor management by the same governments of external debt records, policies and priorities resulting in several missed opportunities to improve their situations;

(k) the *building up of egregious arrears* which creditors have tolerated to a point of doing more damage to restoring disciplined debtor-creditor relationships than if more sensible action to reduce debt and debt service burdens had been taken by them in the first place; and last, but definitely not least,

(l) *protectionism in the world's markets* for agricultural products and low-technology manufactures, which makes it particularly difficult for African countries to diversify and increase exports to hard currency markets, thus making it doubly difficult for them to earn their way out of the debt trap.

1.03 Several attempts have been made to explore the impact of these and other reasons more fully on the premise that unless the causes for Africa's predicament are properly understood, appropriate solutions will be impossible to design. It would be unproductive to revisit here what has been covered already elsewhere. There is now ample appreciation of the causes and the implications of Africa's debt burdens among its creditors, in the international community at large, and among quite a few (though unfortunately not yet all) of its governments. Indeed that has been the principal reason for creditors and donors having exerted considerable effort to deal with the problem much more seriously and responsively at least since 1987-88.

1.04 Success in achieving a durable solution has been elusive not because Africa's situation is inadequately appreciated or because there is lack of consensus on what the problems are and where the solutions lie. All creditors, even the reluctant and occasionally obstructive private banks, appear to agree that Africa's debt problem, *and particularly that of the low-income countries south of the Sahara,* needs special attention. It is generally accepted that the sub-Saharan debt problem is different to those of middle-income developing countries in North Africa, Latin America, Eastern Europe and the Middle-East. It is comparatively small *in absolute dollar terms.* Sub-Saharan debt is *less than a ninth* of the total external debt of all developing countries. But, in *relative* terms it has crippled, and unless tackled will continue impairing, the ability of African economies to reverse steadily declining per capita incomes. It is not widely appreciated that annual debt service burdens remain excessively onerous although *actual* payments of principal and interest by low-income countries in sub-Saharan Africa in 1990 were less than 37% of *scheduled* debt service (after repeated rescheduling). Yet, even at that reduced level they accounted for over 8% of the region's estimated GNP in 1990 and 28% of export earnings; implying that scheduled payments would have absorbed 22% of total sub-Saharan output and nearly 70% of its export earnings in that year!

1.05 If the causes and consequences of Africa's chronic over-indebtedness are so widely understood, what then is the problem? Why has movement towards a solution for reducing debt and debt servicing burdens to levels which fall within Africa's capacity to repay, and still leave enough by way of resources for investment and growth, been so slow and painful ? Why have African governments, their creditors and other external interlocutors not been able to act in a more resolute and meaningful fashion to reduce debt, as an essential precondition to achieving the modest 1% per capita income growth target which has become the standard by which low-income Africa's recovery efforts are now gauged? And why, after grant flows to Africa have increased from $6 billion in 1982 to nearly $12 billion in 1990, after debts totalling nearly $7 billion have been cancelled, and a further $1 billion swapped or converted in one way or another, have Africa's outstanding obligations continued to climb inexorably upwards ?

1.06 There are several answers to these questions. All of them shed some light on reasons for the glacial pace of progress which leaves Africa vulnerable to its immense potential remaining unrealized. But they leave a

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sense of dissatisfaction that the obstacles which remain cannot be overcome more quickly and decisively. Taken together they reflect poorly on the intentional, or inadvertent, inability of different "actors" in creditor countries – politicians, academic economists, senior government policy-makers, aid officials, treasury officials, export credit agency (ECA) officials, and so on – to exert the same enthusiasm and political will, as displayed in other instances closer to home, in relegating the African debt crisis to history; thus enabling countries on that benighted continent to get on with confronting the future without being dragged down by the debilitating encumbrances of the past. They also reflect the abject inapplicability and failure of the Paris Club debt rescheduling exercise which, though intended to help, may actually have seriously hurt Africa's debt situation and its prospects for recovery.

1.07 It is not easy, for instance, to explain the contrast between the urgency with which *politicians and governments in the industrial world,* and the Paris Club, responded to the crisis of Eastern Europe in the last two years and their negligent, almost desultory foot-dragging over the debt crises of Africa and Latin America over the last eight. Having repeatedly said that there were no public resources to devote to dealing with the debt problem, they found the money – over $13 billion – almost instantly to capitalize a new European Bank for the reconstruction of Eastern Europe; a bank whose *raison d'être* remains in doubt. Similarly the Paris Club, after repeatedly claiming that there was no political inclination in OECD countries, to go beyond the Toronto terms (explained later) applicable to Africa's low-income countries, turned around and recently concluded far more generous agreements with Poland and Egypt.

1.08 The reasons for the slow rate of progress in coming to terms with the clear need for rapid and large-scale debt reduction programmes for Africa – and low-income Africa in particular – are many. They include, among others: (a) perennial (and unjustified) concern on the part of creditors, especially commercial banks, that debt reduction for Africa on the scale necessary – no matter how justified it might be[3] – would serve as a precedent

3 This type of blanket concern about potential portfolio contamination contravenes the bankers' own insistence that each debtor case be treated on its own merits (the case by case approach). In Africa the case can clearly be made for most low-income countries that debt reduction on a large scale, with the burden of such reduction being shared by both official as well as commercial creditors, is absolutely necessary. That case has been made in all too many instances not by the governments themselves but by agencies like the World Bank and IMF.

for similar action to be taken elsewhere and thus weaken the bargaining position of banks in exerting pressure to maintain debt service flows from the developing world at unrealistically high levels; (b) the unfortunate reality that Treasury and ECA officials in OECD countries continually ride roughshod over the more intelligent, knowledgeable and sensitive views of their counterparts in aid ministries; (c) concern on the part of creditor governments, and of some people in the IFIs, that debt reduction would further exacerbate "moral hazard" by rewarding bad policies and behaviour on the part of debtors;[4] (d) the popular belief that debt reduction would release the pressure on forcing a more disciplined approach to overall resource management in African countries; (e) rather than helping disabled economies to recover debt reduction would only serve to line, to an even greater extent than now, the pockets of corrupt African leaders and civil servants in countries where graft has now become endemic; and finally (e) African governments have been insufficiently enthusiastic about embracing donor-advocated structural adjustment and policy reform prescriptions to justify large scale debt reduction.[5]

4 A corollary of this belief (and one which is unproven in reality) is that a tight, short-leash approach to debt relief, doled out grudgingly year by year in elaborate, expensive and tediously repetitive Paris Club reschedulings, provides greater and more effective leverage to creditors and IFIs in getting African governments to change the course of their economic policies and to endure with the consequences of such change.

5 This reason needs to be examined more carefully and seriously. In several African countries there is evidence emerging that governments have been cautious about proceeding with Bank and Fund adjustment prescriptions NOT because they enjoy being recalcitrant, or because they find such reforms to be politically difficult or administratively unworkable, but because the prescriptions are not resulting in the advertised cures. Exchange rate changes are not inducing switching effects at the pace anticipated. The lack of supply-side responses to changes in relative prices are leading to unstoppable cycles of inflation and continuous devaluation. Similarly resort to positive real interest rate policies in highly inflationary environments are causing a collapse in investment without any evidence of reviving savings. Swift trade liberalization is resulting in sharply widening current account deficits as imports race ahead of exports, and so on. Unless more credible and workable prescriptions are developed and applied, creditors should take a more realistic view about tying debt relief so closely to the speed of acceptance of untried and untested reform packages monitored by the Bank or IMF which have unintended and deleterious economic effects. A related point is the oft-repeated claim, particularly by the World Bank, that countries which have adopted reform packages are now performing better than countries which have not. The evidence, however, does not support such a clear cut conclusion. It is not clear whether these countries are performing better because of the reforms themselves or whether because their acceptance of reform has suddenly opened access to external financing which has enabled essential imports to be financed thus triggering growth. Also, the indicators of relative performance show such marginal improvements in the reforming vs non-reforming economies that they could easily be shown to be swamped by the fundamental inaccuracies inherent in the basic data available on African economies. Most of all this argument ignores the fact that reductions in actual (rather than scheduled) debt service payments from present levels could, in several instances, go a long way to improving economic performance even without significant policy change.

1.09 None of these reasons ring true. Africa has, unfortunately, had to unilaterally "take" debt relief that should have been, but was not, "given" by running up levels of arrears which make a mockery of contractual arrangements and of the rescheduling process. In doing so it has paid a heavy price in terms of: a virtual cessation of normal trade credit; less assistance from donors for urgently needed commodity import and investment financing than it might otherwise have obtained; and a punitive premium of 30-40% on the price of goods that Africa imports.[6] As a consequence, prospects for recovery and sustainable development have been compromised even further. The shortage of imported inputs and intermediates – caused by the unavailability of trade credit and the absorption of scarce foreign exchange by exorbitant import price premia – inhibits better levels of agricultural output and of industrial capacity utilization from being achieved.[7] In the face of evidence to the contrary, the reasoning inherent in the reluctance of creditors to move expeditiously with debt and debt service reduction invariably leads to the mindless riposte that debt relief and reduction would not solve all the problems that Africa confronts. Nobody has ever suggested that it would. But, it is evident that if Africa's debt crisis were to be resolved once and for all, by reducing debt service burdens to around half of their actual (not scheduled) levels, the chances are now much greater than they have been for two decades that African recovery and growth would occur and could be sustained. Moreover, debt reduction on the scale necessary, would remove the last excuse that recalcitrant African governments might make in not embracing economic and political reforms more enthusiastically and speedily. The real costs to creditors in providing such relief are relatively small, but the potential gains to African debtors are so large as to make the risk worth taking.

6 This fact was established in a recent study undertaken by the World Bank, the findings of which were incorporated in a Working Paper entitled: "Does Africa pay more for its Imports - Yes".

7 The relationship between imports and growth in the African context is the most easily accepted, but the least understood, tenet of development faith. Evidence over the last 10 years shows no particular link between the value or volume of aggregate imports and of growth. Much more needs to be learnt about the structure and quality of imports relative to the productive capacity characteristics of particular African economies in order to be more certain about the link between increased import capacity, improved investment and growth performance.

1.10 With that introduction to a difficult and contentious subject the remainder of this paper considers in the sections which follow: the broad dimensions and characteristics of African debt and debt service; specific problems related to official *bilateral* debt and its rescheduling; the growing problems of meeting debt service obligations to *multilateral* institutions, particularly the IMF and World Bank; and the implications of not being able to clear the overhang of debt owed to *privat*e creditors. The paper discusses the initiatives which have been taken and those which are presently being considered, to reduce the African debt burden further in each of these different types of debt categories and highlights areas where more could be done. It concludes that just as war is too important to be left only to generals, debt is too important to be left only to Treasury and ECA officials from creditor countries, and to IFIs, to deal with. Its resolution requires more consciousness and commitment on the part of politicians in the developed world because the solutions now lie in the realm of politics rather than that of economics and finance.

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II African Debt: Dimensions and Characteristics

2.01 The disbursed and outstanding debt of Africa stood at just over $270 billion at the end of 1990. Its size and pattern of growth is shown in the following table with snapshots of debt outstanding at end-1982, when the debt crisis emerged; 1986, when it became clear that urgent action was needed on relieving the debt burden of low-income countries in the sub-Saharan region and 1990. The table shows separately the debt burdens of: (a) North Africa comprising five middle-income countries viz. Algeria, Egypt, Libya, Morocco and Tunisia; [8] and (b) Sub-Saharan Africa comprising forty-five countries, excluding Namibia (no data) and South Africa. Egypt accounted for nearly half of North Africa's indebtedness in 1990; while Nigeria[9] accounted for nearly a fifth of sub-Saharan obligations. The dimensions and characteristics of North African and sub-Saharan debt are quite distinct and need to be treated differently.[10]

2.02 Table 1 shows quite clearly that African debt, in both of its two sub-regions, has ballooned since 1982 although there has been very little new borrowing for development investment since then. Debt has kept growing more rapidly in sub-Saharan Africa between 1986-90 than in North Africa, even though this period was one in which the debt problems of the low-income sub-Saharan countries were supposed to be receiving special attention with the application of the Venice terms in 1987 and Toronto terms in 1988. Whereas all categories of debt have increased relatively slowly for North African debtors between 1986-90, the sub-Saharan region has experienced particularly rapid growth in debt obligations to

8 Of these only Egypt and Morocco are severely debt-distressed while Algeria is classified as "moderately debt-distressed" in the debt-speak of the World Bank and WDT.

9 Nigeria, Cote d'Ivoire and Zambia together account for nearly a third of sub-Saharan debt. Till 1987 Nigeria was classified as a middle-income country. After a decade of negative income growth it is now a low-income country, though it is still treated like a middle-income debtor when it comes to debt reduction or relief.

10 Like Poland, and for the same political reasons, Egypt has now received more favourable treatment from the Paris Club for its role in the recent Gulf War sooner than the needier and more distressed sub-Saharan economies including, in particular, Nigeria. Half of Egypt's debt to OECD creditors (nearly $22 billion) was cancelled.

TABLE 1 GROWTH OF THE AFRICAN DEBT BURDEN 1982-90
(Amounts in Billions of US Dollars)

		1982	1986	1990(E)
NORTH AFRICA:				
Total Debt Disbursed & Outstanding (DOD):		67.80	91.68	107.19
of which:	Official Bilateral DOD:	27.20	39.14	48.35
	Official Multilateral DOD:	6.36	10.56	13.99
	Private: LT Guaranteed (LTG):	22.26	27.51	29.61
	Private: LT Unguaranteed (LTU):	0.85	1.40	1.47
	Private Short-Term (STD):	11.13	12.91	13.77
	Total Private DOD:	34.24	41.82	44.85
SUB-SAHARAN AFRICA:				
Total Debt Disbursed & Outstanding (DOD):		72.48	115.40	162.87
of which:	Official Bilateral DOD:	20.35	41.40	64.59
	Official Multilateral DOD:	15.46	28.51	42.88
	Private: LT Guaranteed (LTG):	23.10	26.20	32.22
	Private: LT Unguaranteed (LTU):	3.89	5.36	7.31
	Private Short-Term (STD):	9.73	13.94	15.30
	Total Private DOD:	36.72	45.50	54.83
CONTINENTAL AFRICA:				
Total Disbursed & Outstanding Debt (DOD):		140.28	207.08	270.06
of which:	Official Bilateral DOD:	47.55	80.54	112.94
	Official Multilateral DOD:	21.82	39.07	58.87
	Private: LT Guaranteed (LTG):	45.36	53.71	61.83
	Private: LT Unguaranteed (LTU):	4.74	6.76	8.78
	Private Short-Term (STD):	20.86	26.85	29.07
	Total Private DOD:	70.96	87.32	99.68
INTEREST ARREARS DUE:				
for	North Africa:	0.46	2.17	4.90
	Sub-Saharan Africa:	0.83	2.76	7.99
	Continental Africa:	1.29	4.93	12.89

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official creditors. That region's outstanding indebtedness to bilateral creditors grew by over $23 billion between 1986-90 despite cancellations of concessional debt while its indebtedness to multilateral creditors grew by a further $14 billion. In the latter case, obligations to the World Bank (and its soft-loan affiliate, IDA) grew by over $8 billion, while those to other multilateral creditors (mainly the African Development Bank and EEC) grew by a further $6 billion. Debt owed to the IMF actually fell by about $600 million. The IMF, as we shall see later, extracted a significant quantum of net resources from sub-Saharan Africa between 1986-90 resulting in other creditors effectively financing debt service payments to that agency.

2.03 Table 1 also highlights the weakness of a generalized oversimplification which has become too readily accepted as orthodoxy. It is now acknowledged as a commonplace that the debt problems of middle-income debtors (in North Africa and elsewhere) are largely with commercial creditors (mainly banks) while those of sub-Saharan Africa are mainly with official creditors (chiefly OECD governments). Taking the sub-Saharan region as a whole (including Nigeria and Cote d'Ivoire), the proportion of debt owed to private creditors (including short-term debt) is nearly 34% while in the case of North Africa it is 42%; not that great a difference. In absolute terms the amount of debt owed to private creditors by sub-Saharan countries at the end of 1990 was considerably larger than for North Africa; $55 billion vs $45 billion respectively. North Africa's largest debtor, Egypt (1989 per capita income of $640) owed more of its debt to official creditors (69%) than sub-Saharan Africa's largest debtor, Nigeria (1989 per capita income of $250) which owed private creditors 54% of its total debt. Nigeria and Cote d'Ivoire between them owed private creditors over $28 billion at the end of 1990, or over 50% of the total amount owed by the sub-Saharan region to private creditors. Excluding these two countries, the rest of sub-Saharan Africa owed private creditors nearly $27 billion or 24% of a total debt of $115 billion; a proportion that is larger than generally recognized.

2.04 Other noteworthy features are the relative shifts in proportions of debt due to different categories of creditor between 1982 and 1990 for both sub-regions in Africa. The exposure of private creditors in North Africa's total debt structure declined moderately from over 50% in 1982 to just under 42% in 1990, while in the case of sub-Saharan Africa the shift was much more pronounced; it fell from nearly 51%[11] to below 34%. The same was true for offsetting increases in exposure on the part of bilateral and multilateral creditors. In North Africa, bilateral exposure grew from 40% in 1982 to nearly 45% in 1990 while multilateral exposure grew from 9% to 13%. In sub-Saharan Africa bilateral exposure grew more rapidly, from 28% in 1982 to nearly 40% of total debt in 1990, while multilateral exposure over the same period grew more modestly than is commonly thought i.e. from 21% to 26%.

2.05 In examining the reasons for these shifts, three essential features need to be borne in mind: (a) only multilateral banks provided Africa with substantial amounts of new money on the long-term debt account between 1982-90;[12] (b) bilateral governments, particularly from OECD countries, of course substantially stepped up their grant flows to sub-Saharan Africa, and even more to Egypt, between 1982-90 – but, on their debt accounts, most of the increase reflects the impact of repeated reschedulings with interest being capitalized and compounded rather than flows of new money; and (c) though private creditor exposure increased by $10 billion over the 1982-90 period for North Africa and by $18 billion for sub-Saharan Africa (the increase being concentrated almost entirely in Nigeria and Cote d'Ivoire) this again did not represent flows of net new money but the impact of reschedulings. In fact, a considerable amount of the new money provided by the multilaterals to Africa between 1982-90 has gone into financing debt service payments to private creditors, and between 1986-90, to the IMF.

2.06 In relative terms Africa's debt burden worsened considerably between 1982 and 1990 as the continent's output stagnated and exports fell with the relative performance of the two sub-regions being markedly different as Table 2 shows. North Africa's debt ratios deteriorated (vulnerable as they are to movements in world energy prices which collapsed in the late 1980s) throughout the previous decade but did not fare

11 It must be asked here whether it was ever justifiable, sensible or even remotely responsible for private creditors to have accounted for such a large proportion of total exposure (private exposure in sub-Saharan Africa amounted to nearly $37 billion in 1982) in the developing world's poorest and most backward region in 1982.

12 Multilateral exposure in sub-Saharan Africa would probably have been even larger had soft-loan resources from IDA not been so tightly constrained in the 1980s as a result of: delays in the US fulfilling its contractual obligations under IDA-6; and refusing to agree to expand IDA-7 resources at all in real terms.

quite as badly as those for sud-Saharan Africa. For the latter region the debt/GNP ratio deteriorated from under 39% in 1982 to over 110% in 1990 whilst the debt/exports ratio nearly doubled from 188% to over 345%. These 1990 ratios are much worse than those for the other two heavily indebted regions of the developing world: Latin America (48% and 261% respectively) and Eastern Europe (50% and 140% respectively). Comparatively they indicate the urgency of reducing debt burdens of low-income countries in Africa by significant amounts in acknowledgement of the region's reduced economic circumstances and capacity.

2.07 Seen from an African debtor's point of view, debt crisis "management" in Africa between 1982-90 can only be judged to have failed dismally. Creditors, however, often express a more positive opinion about the achievements of the period. The international financial system did not

TABLE 2 DEBT BURDEN RELATIVE TO ECONOMIC & EXPORT CAPACITY
(Amounts in Billions of US Dollars)

	1982	1986	1990(E)
NORTH AFRICA:			
Total Outstanding Debt:	67.80	91.68	107.19
Total GNP:	121.86	135.72	137.89
Total Exports:	47.95	35.05	45.59
Debt/GNP Ratio:	55.64 %	67.55 %	77.74 %
Debt/Exports Ratio:	141.40 %	261.57 %	235.12 %
SUB-SAHARAN AFRICA:			
Total Oustanding Debt:	72.48	115.40	162.87
Total GNP:	187.94	154.25	147.65
Total Exports:	38.63	35.13	47.20
Debt/GNP Ratio:	38.57 %	74.81 %	110.31 %
Debt/Exports Ratio:	187.62 %	328.49 %	345.06 %
CONTINENTAL AFRICA:			
Total Outstanding Debt:	140.28	207.08	270.06
Total GNP:	309.80	289.97	285.54
Total Exports:	86.58	70.18	92.79
Debt/GNP Ratio:	45.28 %	71.41 %	94.58 %
Debt/Exports Ratio:	162.02 %	295.07 %	291.02 %

collapse. Creditors did not have to take as hard a hit in financial and economic terms as they had originally feared. Only a handful of weak creditor banks went under. Creditor economies pulled out of the recession of 1980-82 within 16 months to enjoy nearly eight subsequent years of sustained growth. Debtor economies, on the other hand, were sucked into a deeper and longer recession than anyone could have imagined. Sub-Saharan GNP (in current dollars) kept falling from over $200 billion in 1980 to a nadir of under $133 billion in 1987 before staging a weak recovery to an estimated $143 billion in 1990. Between 1982-90, Africa's external debt doubled. In North Africa it grew by less than 60%. South of the Sahara it increased by over 225% when donors were attempting to ensure that the opposite happened. As will become evident in the next section of this paper, debt service payments also ballooned; as did interest arrears. With regional GDP and exports falling, this resulted in a much more onerous debt burden in 1990 than in 1982, relative to Africa's (and particularly sub-Saharan Africa's) capacity to repay.

2.08 Unlike debtor countries in the Western Hemisphere, Africa did receive positive net transfers throughout the 1980s largely because of expanded grant aid flows, especially food aid and emergency relief. Whereas, net transfers from all sources of external finance (including net private foreign investment and net official loans and grants) to countries in the Western Hemisphere, for example, were negative throughout the 1980s net transfers for sub-Saharan Africa were significantly positive throughout – thanks largely to expanded official bilateral grant flows.[13] Net transfers *from all external sources* to Africa amounted to $23.4 billion in 1981 but averaged less than $8 billion between 1982-90 even though official grants increased from $7 billion in 1981 to nearly $14 billion in 1990. For sub-Saharan Africa, *annual average net transfers* from all sources of $11 billion in 1981-82 fell to less than $6 billion in 1983-85 before recovering to $12.6 billion between 1986-90. During the decade, official grants to sub-Saharan Africa increased steadily from $6 billion in 1981 to nearly $12 billion in 1990.

13 For the Western Hemisphere (including the Caribbean) net transfers aggregated a negative $120 billion for the 1983-90 period on all financial accounts and $150 billion on the debt flows account. By comparison aggregate net transfers for Africa as a whole amounted to a positive $60 billion for 1983-90, while for sub-Saharan Africa they amounted to a total of nearly $81 billion thus implying that North Africa actually suffered an aggregate outward net transfer of nearly $21 billion in that period.

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2.09 It is difficult to see these levels of grant assistance being sustained, leave alone increased in real terms, in the face of new competing claims in other parts of the Second and Third worlds. The impressively large positive net transfer figures for sub-Saharan Africa (which arise partly because a steadily increasing amount of scheduled debt service has simply not been paid and arrears have been permitted to build-up), raise serious questions about why sub-Saharan economies have not yet responded to the debt relief and adjustment ministrations of creditors. They strengthen arguments which suggest that further debt relief through reduction will therefore not solve the structural problems of Africa's low-income economies which are inhibiting a supply response commensurate with the external assistance effort. Part of the reason may well be that too large a part of expanded grant assistance has been provided for food aid, emergency relief and to support debt service payments to multilateral agencies rather than to finance development investment for growth.

III African Debt Service Burdens

3.01 The situation regarding Africa's debt stocks tells one part of the story; the difference between scheduled debt service obligations and actual payments tell another. Obviously the expansion of debt stocks has a commensurate impact on debt service obligations but not necessarily to the same proportionate extent. The effect of increases in debt stocks on contractual debt service burdens depends on both the concessionality of outstanding debt and the terms of reschedulings that have taken place. Table 3 shows the concessionality of debt for the two main sub-regions to be quite different. In North Africa concessional debt (mainly for Egypt) is confined largely to bilateral debt; in sub-Saharan Africa the concessionality of multilateral debt (63%) exceeds that of bilateral debt (44%), taking 1990 debt stocks as the reference point.

3.02 Contrary to media-created notions in the public mind that developing countries do not service debts, African countries have paid back over $180 billion between 1983-90 or an average of over $22.6 billion each year. Cumulative debt service paid so far thus exceeds by over $40 billion the total outstanding debt of Africa at the end of 1982. As might be expected the patterns of debt service are distinct for the two major sub-regions of the continent. In North Africa, private creditors received over 68% of total debt service payments between 1983-90 (even though private debt stocks represented just over 50% of the region's debt stocks in 1982 falling to less than 42% at the end of 1990). By comparison, bilateral creditors collected only 20% of debt service payments, much lower than the proportion of the debt stock they were owed which averaged 42% over the period. Multilateral creditors took 12% of service payments relative to an average 24% of the debt stock owed to them. To a large degree, *the relief offered by bilateral debt reschedulings and by new money flows from multilateral institutions to North African debtors, was absorbed by maintaining debt service flows to private creditors.* It did not result in net development benefits to the debtor countries. But even with receipts from official creditors being used to repay private creditors two of the five North African countries incurred arrears on their debt service payments over the decade (Egypt and Morocco) with Egypt running up egregious interest arrears between 1985-90.

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TABLE 3 AFRICA'S ACTUAL DEBT SERVICE 1983-90

(Amounts in Billions of US Dollars)

	1983	1984	1985	1986	1987	1988	1989	1990(E)	83-90(E)
NORTH AFRICA:									
Total Debt Service (TDS):	11.24	10.92	11.08	12.11	12.61	12.43	14.01	15.69	100.09
of which: Bilateral (BDS):	1.52	1.77	2.28	2.95	2.12	2.64	3.37	3.53	20.18
Multilateral (MDS):	0.53	0.74	1.06	1.45	1.77	1.92	1.88	2.28	11.63
Private (PDS) :	9.19	8.41	7.74	7.71	8.72	7.87	8.76	9.88	68.28
SUB-SAHARAN AFRICA:									
Total Debt Service (TDS):	8.56	10.50	11.75	10.47	8.87	10.06	9.25	11.75	81.21
of which: Bilateral (BDS):	1.13	1.38	2.05	1.64	1.53	1.90	1.57	3.11	14.31
Multilateral (MDS):	1.45	1.84	2.15	3.15	3.29	3.60	3.60	4.04	23.12
Private (PDS):	5.98	7.28	7.55	5.68	4.05	4.56	4.08	4.60	43.78
CONTINENTAL AFRICA:									
Total Debt Service (TDS):	19.80	21.42	22.83	22.58	21.48	22.49	23.26	27.44	181.30
of which: Bilateral (BDS):	2.65	3.15	4.33	4.59	3.65	4.54	4.94	6.64	34.59
Multilateral (MDS):	1.98	2.58	3.21	4.60	5.06	5.52	5.48	6.32	34.75
Private (PDS):	15.17	15.69	15.29	13.39	12.77	12.43	12.84	14.48	112.06

3.03 Sub-Saharan Africa, despite its abject poverty and obvious underdevelopment, serviced payments amounting to over $81 billion between 1983-90, (about $8 billion more than its outstanding debt stock in 1982). Nonetheless it has run up a high level of arrears. Over those eight years, private creditors accounted for 54% of cumulative debt service payments. Though the stock of debt owed to private creditors fell from nearly 51% of the sub-Saharan total in 1982 to under 34% in 1990 private creditors still accounted for 40% of debt service in the latter year. Bilateral creditors collected only three-fifths ($14.3 billion) of the amount of cumulative debt service payments collected by the multilaterals ($23.1 billion) even though they accounted for half as much again of the amount of outstanding debt in 1990. Debt service payments by sub-Saharan debtors to bilateral creditors fluctuated by ± 25% around a mean of $1.6 billion per year throughout the 8-year period while they rose steadily to multilateral creditors from under $1.5 billion in 1983 to over $4 billion in 1990. Payments to private creditors on the other hand fell from a peak of over $7.5 billion in 1985 to an average of under $4.2 billion for 1988-90. *Multilateral debt service burdens are now among the most onerous and least tractable (in terms of renegotiability) for the sub-Saharan countries,* a point which will be revisited later. Finally, the ratio of actual to scheduled debt service has deteriorated sharply over the decade. Countries in sub-Saharan Africa serviced 80% of their scheduled obligations in 1982, 77% between 1983-85, 50% between 1986-87 and less than 40% between 1988-90.

TABLE 4 AFRICA'S INTEREST ARREARS 1983-90

(Amounts in Billions of US Dollars)

	1983	1984	1985	1986	1987	1988	1989	1990(E)	83-90(E)
NORTH AFRICA:									
Total Debt Service (TDS):	11.24	10.92	11.08	12.11	12.61	12.43	14.01	15.69	100.09
Total Interest Arrears:	0.66	0.93	1.26	2.17	1.96	2.23	3.45	4.39	17.05
of which: Egypt:	0.66	0.87	1.14	2.07	1.80	2.12	3.29	4.21	16.16
Morocco:	0.00	0.06	0.12	0.10	0.16	0.11	0.16	0.18	0.89
SUB-SAHARAN AFRICA:									
Total Debt Service (TDS):	8.56	10.50	11.75	10.47	8.87	10.06	9.25	11.75	81.21
Total Interest Arrears:	0.95	1.32	1.98	2.77	4.70	6.52	7.43	7.99	33.66
of which: Cote d'Ivoire:	0.05	0.01	0.01	0.02	0.11	0.45	0.83	1.05	2.53
Nigeria:	0.01	0.06	0.08	0.07	0.76	1.05	0.52	1.10	3.65
Sudan:	0.38	0.62	0.90	1.23	1.79	2.25	2.87	3.43	13.47
Zambia:	0.08	0.05	0.17	0.16	0.35	0.52	0.86	1.12	3.31
CONTINENTAL AFRICA:									
Total Debt Service (TDS):	19.80	21.42	22.83	22.58	21.48	22.49	23.26	27.44	181.30
Total Interest Arrears:	1.61	2.25	3.24	4.94	6.66	8.75	10.88	12.38	50.71

3.04 The next sections discuss in detail the specific characteristics of, and problems posed by, debt owed to bilateral, multilateral and private creditors.

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IV Africa's Bilateral Debt & Debt Service 1983-90

4.01 At the end of 1990, official bilateral creditors were owed nearly $113 billion by African debtors. Of that amount, OECD creditors were owed about $88 billion (or over 78% of the bilateral total). CMEA (East Bloc) creditors accounted for $8.6 billion (8%), OPEC (mainly Arab) governments for $12.6 billion (11%) and other developing country creditors (the most significant being Brazil, China and India) for the remaining $3.7 billion (3%). The five North African countries owed creditor governments $48.4 billion (with Egypt alone accounting for nearly $28 billion) while the forty-five sub-Saharan countries owed a total of $64.5 billion. The proximate creditor breakdowns for each sub-region are shown in the table below. In North Africa, OECD creditors accounted for over 75% of bilateral exposure in 1990 (compared to 66% in 1982), CMEA for 7% (vs 8%), OPEC for 16% (vs 22%) and other developing country creditors for the remaining 2% (vs nearly 5%). In sub-Saharan Africa, OECD creditors accounted for nearly 80% of outstanding bilateral debt stock (vs 72% in 1982), CMEA for 8% (vs 11%), OPEC for 8% (vs 10%) and other creditors for the balance of 4% (vs 7%). The increase in exposure of OECD creditors is due, in large part, to the build-up effect of successive Paris Club rescheduling exercises in both sub-regions. *About 45-50% of the non-concessional debt owed to OECD creditors by countries in low-income Africa represents interest capitalized by the Paris Club; an amount that accounts for nearly $20 billion of debt outstanding at the end of 1990.*

4.02 European countries (in particular the big four – Germany, France, the UK and Italy) account for the largest proportion (72%) of total OECD claims in sub-Saharan Africa. The United States and France have the largest exposures in North Africa.[14] Japan is owed about 12% of sub-Saharan and about 17% of North African obligations. In the CMEA group, the Soviet Union is by far the largest creditor. Prior to German unification,

14 The distribution of official bilateral debt among different creditors has also been analysed in "The Problem of Official Debt owed by Developing Countries" by Percy S. Mistry, published by the Forum on Debt & Development (FONDAD), August 1989.

East Germany was the next largest but these claims have now become part of a united Germany's portfolio. Of the OPEC creditors, Saudi Arabia and Kuwait are the largest with Algeria, Iran, Iraq and Libya featuring prominently.

TABLE 5 THE AFRICAN BILATERAL DEBT BURDEN 1982-90
(Amounts in Billions of US Dollars)

	1982	1986	1990(E)
NORTH AFRICA:			
Total Debt Disbursed & Outstanding (DOD):	67.80	91.68	107.19
of which: Official Bilateral DOD:	27.20	39.14	48.35
OECD:	17.86	31.50	36.48
CMEA:	2.06	0.95	3.43
OPEC:	5.94	6.15	7.59
OTHER:	1.34	0.54	0.86
SUB-SAHARAN AFRICA:			
Total Debt Disbursed & Outstanding (DOD):	72.48	115.40	162.87
of which: Official Bilateral DOD:	20.35	41.40	64.59
OECD:	14.66	31.90	51.58
CMEA:	2.22	4.28	5.19
OPEC:	1.99	3.72	4.97
OTHER:	1.48	1.50	2.85
CONTINENTAL AFRICA:			
Total Disbursed & Outstanding Debt (DOD):	140.28	207.08	270.06
of which: Official Bilateral DOD:	47.55	80.54	112.94
OECD:	32.52	63.40	88.06
CMEA:	4.28	5.23	8.62
OPEC:	7.93	9.87	12.56
OTHER:	2.82	2.04	3.71

4.03 The bilateral debt of North Africa has grown by 77% between 1982-90 while in sub-Saharan countries it has more than tripled, largely as a result of repeated (mainly Paris Club) reschedulings on inappropriate terms. In North Africa, Egypt has rescheduled twice (1987 and 1991) with official bilateral creditors in the Paris Club. The last such rescheduling was on the most generous terms so far accorded to any African debtor and

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more generous than the terms accorded to the most debt-distressed low-income country. Morocco has rescheduled five times (1983, 1985, 1987, 1988 and 1990). Of the forty-five sub-Saharan countries for which debt records are available, thirty-three have rescheduled their debts with creditors at least once; eighteen have rescheduled at least thrice. Six middle-income countries (Botswana, Djibouti, Mauritius, the Seychelles, Swaziland and Zimbabwe) have not rescheduled their debts between 1983-90 while another six low-income countries (Burundi, Comoros, Ghana, Kenya, Lesotho and Rwanda) have also managed to avert rescheduling. Five of these are either severely or moderately debt-distressed (Burundi, Comoros, Ghana, Kenya and Zimbabwe).

4.04 Bilateral creditors of North African countries have (except in the case of Egypt) received debt service on scheduled or rescheduled terms; but the opposite is true for sub-Saharan debtors. Against scheduled payments (after rescheduling) of $6 billion due to their bilateral creditors in 1989 sub-Saharan debtors paid only $1.27 billion – 21% of the amount due.[15] In 1990, the ratio was estimated to be an even lower 19%. The World Bank observed in its annual commentary on the debt situation of sub-Saharan Africa at the end of 1990:

"Multilateral institutions receive preferred treatment, and with few exceptions (four countries) they were fully serviced in 1989. Bilateral creditors were last in line, receiving about 20% of the debt service due to them, while private creditors were paid almost one-third".

4.05 Table 6 highlights the *actual* debt servicing performance of African countries in meeting bilateral obligations over the last eight years. It shows how the bilateral debt burden has grown annually and reflects the extent of concessionality in the structure of bilateral debt. It also shows that debt service payments made by North African countries to their bilateral creditors have risen steadily throughout the period from $1.5 billion to over $3.5 billion between 1983-90 representing an increase in the proportion of total debt service absorbed by bilateral creditors from 13.5% in 1983 to 22.5% in 1990. At the same time the outstanding bilateral debt stock of North Africa has grown much less quickly than for sub-Saharan Africa (reflecting the large proportion of amortization payments made on

15 World Debt Tables 1990-91, Vol.I Analysis & Summary, pg 89 Table A6.1.

TABLE 6 AFRICA'S BILATERAL DEBT SERVICE 1983-90

(Amounts in Billions of US Dollars)

	1983	1984	1985	1986	1987	1988	1989	1990(E)
NORTH AFRICA								
Total Debt Service (TDS):	11.24	10.92	11.08	12.11	12.61	12.43	14.01	15.69
Bilateral Debt Service (BDS):	1.52	1.77	2.28	2.95	2.12	2.64	3.37	3.53
of which Principal Payments:	0.72	0.92	1.34	1.73	1.48	1.47	1.88	2.02
Interest Payments:	0.80	0.85	0.94	1.22	0.66	1.17	1.49	1.51
Memo: Bilateral DOD:	28.42	31.38	36.71	39.14	47.29	48.32	47.57	48.35
of which Concessional BDOD:	15.40	15.49	17.23	18.90	21.70	22.14	22.46	22.97
SUB-SAHARAN AFRICA:								
Total Debt Service (TDS):	8.56	10.50	11.75	10.47	8.87	10.06	9.25	11.75
Bilateral Debt Service (BDS):	1.13	1.38	2.05	1.64	1.53	1.90	1.57	3.11
of which Principal Payments:	0.48	0.55	0.99	0.73	0.61	0.66	0.52	1.54
Interest Payments:	0.65	0.83	1.06	0.91	0.92	1.24	1.05	1.57
Memo: Bilateral DOD:	23.47	25.15	29.28	41.40	51.24	51.88	56.54	64.59
of which Concessional BDOD:	13.96	14.86	17.18	20.14	24.07	25.21	25.34	26.83
CONTINENTAL AFRICA:								
Total Debt Service (TDS):	19.80	21.42	22.83	22.58	21.48	22.49	23.26	27.44
Bilateral Debt Service (BDS)	2.65	3.15	4.33	4.59	3.65	4.54	4.94	6.64
of which Principal Payments:	1.20	1.47	2.33	2.46	2.09	2.13	2.40	3.56
Interest Payments:	1.45	1.68	2.00	2.13	1.56	2.41	2.54	3.08
Memo: Bilateral DOD:	51.89	56.53	65.99	80.54	98.53	100.20	104.11	112.94
of which Concessional BDOD:	29.36	30.35	34.41	40.07	45.77	47.35	47.80	49.80

schedule) but the concessionality of North Africa's bilateral debt profile has diminished slightly from 54% in 1983 to 47% in 1980 (though there remains a high element of concessionality in Egypt's bilateral debt stock).

4.06 In the case of sub-Saharan Africa the opposite has occurred. Bilateral debt service has fluctuated around $1.6 billion annually with such payments being a residual derived from total debt service affordability and meeting payments to preferred and private creditors. The 1990 estimates

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for bilateral debt service are preliminary but seem exceptionally high and likely to be subject to downward correction when finalized. As a result of continuous rescheduling and the inability of sub-Saharan debtors to meet principal and interest payments on schedule the bilateral debt stock has grown more rapidly than in North Africa. Somewhat surprisingly, it also shows diminishing concessionality in its structure – from 60% concessional in 1983 to less than 42% in 1990. This feature reflects the build-up of rescheduled debt and capitalized interest on non-concessional terms coupled with the cancellation of some concessional debt.

4.07 The figures derogate the efficacy of the initiatives taken between 1986-90 to relieve sub-Saharan debt and debt service burdens. The only real relief seems to have been provided by sub-Saharan Africa unilaterally incurring arrears through lack of repayment capacity rather than through malign intent or the deliberate use of an arrears strategy to achieve a negotiating advantage with creditors. As shown earlier, total debt service payments account for nearly 8% of the region's GNP and absorb nearly half of aid grant inflows. Although bilateral creditors receive a quarter of total debt service payments, that still means that they extract 2% of regional GNP and 7% of exports. These ratios are relatively high compared to bilateral take-outs from other debtor regions. The inescapable conclusion is that the initiatives taken to relieve sub-Saharan Africa's bilateral debt burdens so far have not worked in reducing its contractual bilateral debt and debt service burdens to affordable levels over the medium-term. They have helped to alleviate cash-flow problems temporarily through arrears rather than through agreed relief. That temporary relief has been provided in a sub-optimal manner imposing heavy administrative and management costs on sub-Saharan governments and forcing senior African policy-makers to focus on day-to-day foreign exchange allocation rather than permitting them to deal with the more important issues of reviving long-term development.[16]

4.08 **The Paris Club:** The main vehicle for relief from meeting contractual bilateral debt service obligations has been the Paris Club rescheduling

16 For a thorough exposition of this point and for a discussion of how Paris Club procedures serve to achieve the wrong outcomes readers are referred to a forthcoming book entitled "Africa's Debt Negotiations; No Winners" by Dr. Matthew Martin, Chapter 3.

which involves participation by all OECD creditors and Brazil. The terms offered by the Paris Club are provided on the condition that other bilateral creditors also reschedule obligations due for the consolidation period on terms which are at least as generous (although there is little evidence to support the view that this is what actually happens). In North Africa, Paris Club reschedulings for Morocco have upto now been on inappropriate terms; greater flexibility would clearly have been beneficial. As observed above, the recent rescheduling for Egypt has broken new ground in going well beyond Toronto terms; it strengthens the argument that the Club's actions are politically motivated rather than being based on objective financial and economic considerations and criteria.

4.09 In sub-Saharan Africa the result of Paris Club reschedulings, made on unrealistically harsh terms between 1983-86 and then progressively eased but much too slowly, has been to create a mountain of unserviceable debt while providing immediate cash-flow relief which has quickly become ephemeral. The failure of the Paris Club to reschedule sub-Saharan debt on terms in keeping with the realities and circumstances facing those fragile and structurally weak economies is reflected in the extraordinarily high rate of arrears on bilateral debt which OECD creditors have had to accept. In retrospect it appears almost as if the Paris Club implicitly decided not to be realistic in its rescheduling agreements for the region, in order to avoid being pressed into making similar concessions for other (and in their view) less deserving debtors. It then compensated for that lack of realism by tolerating arrears of a relative magnitude which would earlier have been unthinkable for other debtors to risk incurring. In adopting such an implicit strategy (whether unintentionally or inadvertently) the Paris Club has probably encouraged the adoption of a deliberate arrears strategy by middle-income debtors (such as Brazil and Costa Rica) since 1987 to obtain negotiating advantage. Thus it has perhaps done more long-run damage to the sanctity of sound debtor-creditor relationships than would have occurred had the Club adopted a more reasonable posture on debt relief in the first place.

4.10 The fundamental weakness in the operations of the Paris Club is manifested in its arcane protocols and procedures which are profoundly inimical to the interests of debtors, or indeed to the achievement of sensibly negotiated outcomes. These have been discussed and criticised at length

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elsewhere. In the case of sub-Saharan debtors, however, the Paris Club's actions (especially between 1983-88) have been particularly harmful in exacerbating a bad situation. Treasury and ECA officials representing their own debt-collection interests at the Club's meetings have overridden or ignored the advice of the aid officials in their own governments and have taken insufficient account of discussions at Consultative Group (CG) Meetings. Moreover, in the Paris Club, the World Bank (a far more knowledgeable and involved agency than the IMF on sub-Saharan economies and their debt relief needs) is merely an observer while the IMF has a seat at the table owing to a peculiar (and perhaps once correct) belief on the part of the Club's members that the Bank is "soft" on the debt relief and reduction issue while the IMF can be relied on to be a firm disciplinarian in favour of maximizing debt service extraction. Such an assumption is probably no longer valid. But even when it was, its application has made the Club less effective and more harmful than it might have been in sub-Saharan Africa. *There is a powerful case to be made for shifting the focus of debt relief decisions for countries in that region to the CG forum, in which debtor countries have a better opportunity to present their case and creditor representatives have a wider perspective on the issue, with the Paris Club merely ratifying such decisions.*

4.11 The Paris Club first emerged in the 1960s to reschedule the debts of isolated countries. In the absence of another alternative, it moved swiftly and decisively in 1982-83 to complement the operations of the IMF in containing the debt crisis and co-ordinating the actions of bilateral creditors in the arrangement of voluntary and involuntary financing packages for the larger middle-income debtors. It appears now, with the benefit of hindsight, that its structure, supporting secretariat and modus operandi were perhaps particularly ill-suited to dealing with a large and generalized debt problem affecting more than half of the developing world – and particularly ill-suited to understanding or dealing properly with the debt relief needs of sub-Saharan Africa. Original Club reschedulings (of only principal repayments on export credits) in the 1960s were based on extending repayments of scheduled payments for a specific period of time (the consolidation period) on maturities comparable with medium-term export credits – 7 years with 3 years of grace. In the late 1970s and early 1980s when more sub-Saharan countries needed to reschedule their debts these terms were relaxed to permit the consolidation of: contractual interest along with principal for the entire face value of eligible maturities; and government-to-government loans as well as export credits. Repayment maturities were lengthened to a standard 10 years with 5 years of grace. In 1984-85 an attempt was made to accommodate multi-year reschedulings but this practice soon ceased. Interest payments were rescheduled on previously hard terms (or even harder terms if those were prevailing in the market at the time).

4.12 The Paris Club has required, as a precondition of eligibility for bilateral rescheduling, (and as its criterion of an adequate adjustment effort by the debtor seeking relief) that debtor countries have in place an agreed economic reform and adjustment programme monitored by the IMF (not even the World Bank would do as a substitute). In 1987-88 this precondition created a serious impediment for several sub-Saharan countries seeking bilateral debt relief. Between 1983-86 an average of 13 agreements a year were negotiated by sub-Saharan countries with official bilateral creditors, dropping to an average of 9 agreements in 1987-88. In September 1988, twelve sub-Saharan countries were unable to service their debts and were waiting to renegotiate them with the Paris Club with consolidation periods on previous agreements having expired for more than six months and with these countries accruing penalty charges on overdue obligations – charges that were not normally consolidated in Club agreements. Nor, as a result of denied access, could these countries obtain access to other forms of external finance, including disbursements of bilateral ODA. [17]

4.13 Patently unrealistic rescheduling terms for most sub-Saharan countries were tenaciously adhered to between 1983-88 by the Paris Club despite considerable evidence (and repeated but very softly couched warnings by the World Bank) that they were leading to a rapid build-up of nonconcessional bilateral obligations which were well beyond the capacity

17 See, World Debt Tables, 1988-89, Vol. I Analysis & Summary, pg xliv and xlv. This ugly and damaging feature of Paris Club preconditionality, tied in with IMF programmes that were proving particularly difficult to negotiate at the time (largely because of a lack of realism in the IMF's conditionality which later, was fortunately moderated), led the World Bank to suggest "a shadow adjustment programme for countries in arrears with a major portion of ODA disbursements, simultaneous with a settlement of arrears and a Paris Club rescheduling, at the end". (WDT op cit, pg xxxix)

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of these debtor economies ever to repay.[18] Following announcement of the Baker Plan[19] in October 1985 the Paris Club became more sensitive to the criticisms of its rescheduling practices. But it took twenty months of foot-dragging till the G-7 Economic Summit in Venice in 1987 paved the way for extending repayment maturities to 20 years with 10 years grace (often referred to as Venice terms) for "countries facing specially difficult situations". A year later, recognizing that this relaxation was little more than an empty gesture, the June 1988 G-7 Economic Summit in Toronto resulted in the Club's changing a cardinal precept that had governed its reschedulings since inception. It resulted in consensus that, instead of every OECD creditor in the Paris Club applying standard terms universally, creditors could for the first time choose among a menu of options in rescheduling the debts of the poorest countries.

4.14 Under **Toronto Terms,** rescheduled *concessional* debt was to be cancelled in full or in part and/or the balance to be repaid with a 25-year maturity including 14 years of grace. Moratorium interest charges would be at least as low as the interest rates charged on the loans at the time of original signing. For *non-concessional* debt, three supposedly equivalent rescheduling options were defined by the Paris Club and adopted, at the World Bank-IMF Annual Meetings in Berlin later that year, by creditors:

Option A. Partial Writedowns: One-third of eligible maturities could be cancelled and the remainder rescheduled over a 14 year period with 8 years grace. Moratorium interest would be based on market rates in different creditor countries.

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18 These warnings were conveyed in several special reports on Africa, in the World Bank's annual commentary on the debt situation of developing country contained in the covering text of the World Debt Tables for the years 1986-91, in several Consultative Group Meetings held between 1986-90 and in specific country economic and sector reports. They were also echoed in the annual reports of UNCTAD and UNECA over the same period.

19 Though often ignored by most students of the Third World debt crisis, Secretary (then of the Treasury) James Baker III, included a special section of his Plan for dealing with the debt of low-income countries in sub-Saharan Africa calling for: (a) redirection of IMF Trust Fund reflows to be directed to addressing the financing needs of low-income debtors; and (b) for the IMF and Bank to take a joint approach in support of comprehensive programmes of policy reform. Mr. Baker made an offer to "seek resources in support of such a far reaching approach if other other donors were prepared to make equitable contributions". In fact, this announcement resulted in the creation of the IMF's Structural Adjustment Facility (SAF) and its "enhanced" variant ESAF to which the US did not, in fact, make any contribution leaving it entirely to other donors to carry the burden.

Option B. Extended Maturities: A 25 year maturity with 14 years grace could be applied to all reschedulable debt with base moratorium interest being charged at prevailing market rates.

Option C. Reduced Interest Rates: Moratorium interest rates on rescheduled debt could be charged at either 3.5% below, or one-half of, the prevailing market rate in the creditor country concerned, whichever gave the smaller reduction, with repayment maturities of 14 years and 8 years grace. [The provision referring to "3.5% or half" appears to have been watered down since to "somewhat below market rates"].

4.15 The Toronto terms are applied by the Paris Club only to low-income, debt-distressed countries that have an acceptable ongoing Fund or Bank supported adjustment programme. Upto March 1991, 18 low-income African countries had rescheduled with the Paris Club on Toronto terms. The total amount rescheduled under these terms was just over $5 billion. The first 15 of these reschedulings saw creditor choices evenly distributed among the three options: resulting in 30% of the consolidations being rescheduled using Option A; 36% using Option B and 34% Option C. France, Finland and Sweden usually chose Option A, Belgium, Japan, the Netherlands, Spain and the US have usually chosen Option B while Australia, Canada, Germany, Italy, Norway, Switzerland and the UK have exercised Option C. Though these options are intended to be "equivalent" in their debt relief effects, they are not.[20] Option B is clearly inferior to the other two in offering less real relief.

4.16 What difference have the Toronto terms made after all the fuss that was generated in achieving them and their heralding by the Paris Club as a major breakthrough for low-income debtor countries? Unfortunately, not much! The cash flow savings in actual debt service as a result of these reschedulings have amounted to a mere $100 million annually because: (a) the concessions do not apply to the entire stock of debt but only to maturities falling due within a consolidation period of generally no more than 18 months; (b) the Venice terms already allowed the rescheduling of all principal and interest on a prolonged basis; (c)

20 See "The Problem of Official Debt owed by Developing Countries", by Percy S. Mistry, op cit. para 3.14.

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criteria for cutoff dates and for previously rescheduled debt are sufficiently strict as to inhibit the full extent of intended relief from being realized; and (d) the Toronto terms do not apply to Nigeria which is a low-income severely debt distressed country nor to some middle-income countries (like Cameroon, Cape Verde, Congo, Cote d'Ivoire, Gabon, Senegal and, in North Africa, Morocco) where there is a strong case for more generous treatment by the Paris Club.[21] Calculated against scheduled debt service burdens, had the original contractual terms been honoured, the relief is much greater – probably over $5.5 billion – but it is hypothetical to look at savings from scheduled levels for most of these low-income countries. Also with more than one-third of the total amount being rescheduled using Option B the reduction in the present value of future debt obligations on restructured debt is about 15% instead of the 33% that would result if creditors chose one of the other two options.

4.17 The World Bank has calculated that if creditor countries choose the same options as before, and if Toronto terms are applied repeatedly (as they will need to be as future maturities fall due) to all low-income countries in Africa by Paris Club creditors then: (i) projected debt service savings would amount to $310 million in the year 2000; (ii) the present discounted value of debt service savings for the period 1989-2000 would amount to under $1.85 billion; (iii) annualized as a share of 1988 debt service this would result in a saving of under 2.5%; and (iv) the total amount of debt reduced by 2000 would be just over $2 billion. Assuming that Toronto terms were also adopted by other non-OECD creditors then the discounted value of savings would rise to $2.7 billion (or an annualized 3.4% of debt service saved) with total debt reduction by 2000 of nearly $3 billion.[22] These amounts, though seemingly large, do not make much of a dent in the sub-Saharan debt problem – a point which has been belatedly recognized, two years after the Toronto Summit and which has resulted in two new proposals being tabled.

4.18 The first of these was introduced by British Prime Minister **John**

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21 See World Debt Tables (WDT) , 1990-91, Vol. I. pg 94.

22 See WDT, 1989-90, Vol. I; pp 47-48 for these calculations.

Major (when still Chancellor of the Exchequer) at the meeting of Commonwealth Finance Ministers in Trinidad in September 1990. Known in current "debtspeak" as the *Trinidad Terms* they involve applying to the low-income severely debt distressed countries the following measures: (a) rescheduling the entire stock of debt in a single stroke, instead of the present tedious process of renegotiating it tranche by tranche for maturities falling due in 15-18 month intervals; (b) increasing from one-third to two thirds the amount of relief provided by cancellation of outstanding debt stock; (c) capitalizing all interest payments (at market rates) on the remaining one-third debt stock for a period of five years and requiring phased repayment with steadily increasing payments of princiapl and interest in line with export and output growth in the debtor economy; and finally (d) stretching repayments of the remaining one-third debt stock over a period of twenty-five years with a flexible repayment schedule.

4.19 This proposal has been discussed at length in the Paris Club, enjoined as it was to come up with modifications to the unsatisfactory Toronto package for consideration at the 1991 G-7 Economic Summit in London. Contrary to expectations, however, neither the Major proposal nor any derivative of it was approved at that Summit. The US government was unable to reach agreement with European creditors pushing for universal acceptance of Trinidad Terms despite the willingness of the latter to agree (against their better judgement) to US sponsored debt reduction proposals for two other middle-income debtors which were far more generous than those extended to African countries upto now and far less defensible on grounds of equity or economic rationality. Those exceptional actions clearly suggest that the agenda for debt relief and rescheduling is driven more by political than economic and financial considerations. The terms extended by the Paris Club to Poland and Egypt – neither of which are low-income debtors – earlier this year, fell between the Toronto and Trinidad terms creating expectations that this type of compromise was what the Paris Club may indeed propose as the next breakthrough. Adopted unchanged, the Trinidad Terms would mean a reduction in the eligible debt stock of the poorest sub-Saharan countries of about $18 billion. That would be increased to $34 billion if all low-income African countries were to become eligible. It could result in lowering scheduled debt service payments to levels approaching the

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present level of actual payments on bilateral debt service depending on the flexibility that was applied in phasing the repayment schedule.

4.20 The Major proposal would be substantially enhanced if it reduced the level of interest rates applied to the residual rescheduled debt stock to intermediate, below market levels for the lowest income countries, with some flexibility for higher rates to be applied to countries less distressed. Trinidad terms go a long way towards meeting most of the objectives, and addressing many of the difficulties, that have been raised in connection with previous Paris Club rescheduling practices and with the Toronto terms. They represent a significant departure from business-as-usual by a weighty creditor country and have gained the approval of EEC creditors. By themselves Trinidad Terms would not go far enough in solving the debt problem of low-income sub-Saharan Africa; they would deal with only one-quarter of the total debt service burden which these countries presently have to bear. But their adoption would represent a significant positive step towards a more comprehensive solution. The announcement in October 1991 by the British Prime Minister at the Commonwealth Heads of Government Meetings in Harare, Zimbawbe, that the UK would proceed unilaterally in applying Trinidad Terms to its own claims on 20 Severely Indebted Low-Income Countries was a significant breakthrough. Hopefully other OECD creditors will swiftly emulate the UK's encouraging example so that Trinidad Terms become the norm for all creditors in the Paris Club as soon as possible.

4.21 The *second,* and more far-reaching proposal, was made by the Dutch Development Co-operation Minister **Jan Pronk** at the Second UNO Conference on the Least Developed Countries in Paris in September 1990. Elegant in its simplicity, and likely to be extremely effective in its impact were the Paris Club inclined to consider it seriously, the Pronk proposal is for all creditor countries collectively to cancel all bilateral official debt (concessional as well as non-concessional) to those least developed countries which are severely debt-distressed and other low-income countries pursuing acceptable economic reform programmes. Applied in its strictest sense (only the LLDCs) the Pronk proposal would result in the cancellation of about $40 billion in outstanding debt stocks and save on scheduled annual debt service of $3-4 billion; but actual debt service savings would be in the region of about $1.5 billion. It would be extremely easy to administer involving the least amount of administrative fuss and complexity. For that reason, if no other, it is likely to be eschewed by the Paris Club which prefers its solutions to be complicated, often to the point of incomprehensibility.

4.22 For Africa, acceptance of Trinidad Terms would represent a major step forward. In some countries under extreme stress (Ethiopia, Sudan, Somalia, Mozambique etc.)[23] they could even prove to be a way-station for eventual acceptance of the Pronk proposals . The debt relief impact of Trinidad terms in Africa would be considerably enhanced if some variant of the Toronto terms – on the Poland/Egypt lines already approved – were to be applied to the bilateral debt of the continent's *middle-income* debt-distressed countries. Japan is fiercely opposed to debt write-offs and could prove to be the most recalcitrant opponent of any such proposal. It is not clear that the OPEC countries (especially in view of the costs to them of the Gulf War and the present financial predicament of Kuwait) are in a particularly debt-forgiving mood either. Nor is it clear that the CMEA countries or other developing country creditors see themselves as being able to afford the luxury of cancelling their claims. Peculiarly enough, Brazil has already taken a very large hit on Poland (nearly $2 billion in write-offs) where it was the second largest bilateral creditor. Its exposure in countries such as Angola and Mozambique remains high. Whether some accommodation needs to be made for countries such as these (India is another significant creditor to Africa about to slide into a debt crisis of its own) by way of offset arrangements needs to be carefully considered. Whatever the outcome, initiatives on reducing the burden of bilateral debt and debt service, while absolutely necessary, will not suffice by themsleves in alleviating Africa's crippling debt service burdens. They will simply be one piece, though an important one, in a mosaic which will require multilateral and private creditors to take equivalent action in sharing the burden of reductions in Africa's debt and debt service.

23 Providing of course that they could be persuaded to put their domestic houses in order and pursue rigorous reform programs without disruption by fratricidal conflict within the foreseeable future.

V Africa's Multilateral Debt & Debt Service 1983-90

5.01 Africa's multilateral debt at the end of 1990 amounted to nearly $59 billion of which the bulk ($43 billion or 73%) was concentrated in the sub-Saharan region and of which $25 billion was on concessional terms. The bulk of concessionality was concentrated in the sub-Saharan region ($21.3 billion). The table below shows the growth of multilateral debt in Africa between 1982-90. Multilateral debt comprises three distinct components: (a) debt owed to the International Monetary Fund (IMF), which in Africa has become a subject of considerable controversy; (b) debt owed to the World Bank which comprises both its non-concessional (IBRD) and concessional (IDA) windows and which has also aroused controversy given the Bank's intense involvement with structural adjustment and economic reform programmes in Africa; and (c) debt owed to other multilateral agencies. The latter category includes in particular: (i) the African Development Bank (AfDB) and its affiliated soft-loan window (AfDF) which together account for about 50% of the "other multilateral category" in sub-Saharan Africa; (ii) multilateral agencies such as International Fund for Agricultural Development (IFAD) and the Islamic Development Bank (IsDB); (iii) a host of Arab and Arab-OPEC multilateral banks and funds: such as the Arab Fund for Economic & Social Development, the Arab Monetary Fund, the OPEC Special Fund, BADEA/ABEDA (the Arab Bank for Economic Development in Africa) and other similar but smaller institutions; and finally, (iv) a growing presence of EEC institutions, in particularly the European Development Fund (EDF) and the European Investment Bank (EIB). Each of these types of multilateral debt are discussed separately below.

5.02 **IMF Debt:** Debt owed to the IMF is relatively low where it should be the highest i.e. in the middle-income countries of North Africa and too high where it should be the lowest i.e. in the low-income countries of sub-Saharan Africa. In the former, the IMF has been inhibited by lending for policy reform, especially in Egypt, which has had access to levels of bilateral assistance (especially from the United States and motivated by political rather than economic factors) enabling it to evade IMF/World

TABLE 7 AFRICAN MULTILATERAL DEBT 1982-90

(Amounts in Billions of US Dollars)

		1982	1986	1990(E)
NORTH AFRICA:				
Total Debt Disbursed & Outstanding (DOD):		67.80	91.68	107.19
of which:	Official Multilateral DOD:	6.36	10.56	13.99
	Concessional:	(2.53)	(3.17)	(3.65)
	IMF:	1.25	1.41	1.14
	IBRD/IDA:	2.58	6.01	7.91
	Other:	2.53	3.14	5.04
SUB-SAHARAN AFRICA:				
Total Debt Disbursed & Outstanding (DOD):		72.48	115.40	162.87
of which:	Official Multilateral DOD:	15.46	28.51	42.88
	Concessional:	(6.30)	(12.47)	(21.31)
	IMF:	4.93	7.03	6.42
	IBRD/IDA:	7.09	14.79	23.15
	Other:	3.44	6.69	13.31
CONTINENTAL AFRICA:				
Total Disbursed & Outstanding Debt (DOD):		140.28	207.08	270.06
of which:	Official Multilateral DOD:	21.82	39.07	58.87
	Concessional:	(8.83)	(15.64)	(24.96)
	IMF:	6.18	8.44	7.56
	IBRD/IDA	9.67	20.80	31.06
	Other:	5.97	9.83	18.35

Bank adjustment discipline.[24] Consequently the IMF's presence in Egypt, where it should be prominent more than anywhere else on the continent, is minimal. It has a higher profile in Morocco and no profile at all in Algeria, Libya or Tunisia. In sub-Saharan Africa IMF operations have had

24 Egypt is a prime example of the embarassing double standards employed by the creditor community (and particularly by the United States) when it comes to applying political rather than economic peformance criteria to development financing, to pressures for policy reform or access to adequate debt relief.

destabilizing effects on debt service as well as on adjustment performance. Africa's outstanding obligations to the IMF and the pattern of flows from it are portrayed in Table 8.

5.03 It shows at a glance why the problem with IMF debt arises. At a time when the Fund is exerting considerable – many African would argue too much – influence over the course of economic policies and direction in African countries it has actually been extracting resources from these countries at an unconscionable rate rather than contributing positively to them. African debtors are thus in double jeopardy. They do not receive any net funding for swallowing the Fund's bitter prescriptions as is commonly thought; they actually pay heavily for that privilege! Between 1983-90, the Fund's operations have resulted in a substantial net transfer of resources from Africa amounting to a cumulative $4.6 billion. Of that amount over $3.1 billion has been extracted from sub-Saharan Africa. Apart from Morocco, North African countries have generally chosen not to deal with the IMF. Unlike sub-Saharan countries, they have been able to exercise a choice. The Fund's effectiveness and moral authority in advocating debt relief on the part of all other creditors is obviously put at risk when net financial transfers between it and Africa continue to be substantially in the wrong direction.

5.04 The IMF is clearly sensitive about this issue though it has chosen not to recognize the validity of the net transfer argument. Constitutionally the Fund is not in the business of assuring positive net transfers to its borrowers over the medium and long-term. Its function is to deal with exigencies, provide emergency financing until external account imbalances have been corrected and economic stability and/or adjustment is achieved, and then to withdraw, which of course makes a negative net transfer inevitable within a short time of the Fund's entry. But sub-Saharan Africa is a fundamentally different situation in which the general normative argument does not apply. Indeed the nature and structure of a generalized debt crisis throughout the developing world, which the IMF has arguably done much to exacerbate by its actions in the 1983-86 period, require a different approach to be taken in assessing the case.

5.05 The Fund was quite wrong in getting as heavily involved in sub-Saharan Africa as it did with inappropriate upper-tranche facilities on the erroneous assumption that it was dealing with a temporary crisis of liquidity. That was not even true in the case of Latin American debtors at the time. It was evident at the outset that low-income Africa was not suffering from a liquidity crisis but a deeply rooted structural one. Though balance of payments support was urgently needed, it was evident even then

TABLE 8 AFRICA'S IMF DEBT & DEBT SERVICE 1983-90

(Amounts in Billions of US Dollars)

	1983	1984	1985	1986	1987	1988	1989	1990(E)
NORTH AFRICA								
Use of IMF Credit (Outstandings)	1.27	1.30	1.45	1.23	1.38	1.05	1.01	0.88
IMF Purchases (Capital Inflows)	0.12	0.19	0.22	0.04	0.21	0.15	0.18	0.15
IMF Repurchases (Repayments):	0.04	0.08	0.20	0.41	0.41	0.31	0.28	0.30
IMF Charges (Interest Payments):	0.08	0.08	0.10	0.09	0.08	0.08	0.08	0.07
Total IMF Debt Service (Outflows):	0.12	0.16	0.30	0.50	0.49	0.39	0.36	0.37
IMF Net Transfers (In-Out)	0.00	0.03	- 0.08	- 0.46	- 0.28	- 0.24	- 0.18	- 0.22
SUB-SAHARAN AFRICA:								
Use of IMF Credit (Outstandings)	5.95	6.01	6.73	7.03	7.57	7.00	6.38	6.42
IMF Purchases (Capital Inflows)	1.62	0.95	0.74	0.74	0.68	1.03	0.87	0.73
IMF Repurchases (Repayments):	0.40	0.59	0.77	1.22	1.22	1.22	1.31	1.00
IMF Charges (Interest Payments):	0.34	0.40	0.40	0.47	0.33	0.28	0.28	0.27
Total IMF Debt Service (Outflows):	0.74	0.99	1.17	1.69	1.55	1.50	1.59	1.27
IMF Net Transfers (In-Out)	0.88	- 0.04	- 0.43	- 0.95	- 0.87	- 0.47	- 0.72	- 0.54
CONTINENTAL AFRICA:								
Use of IMF Credit (Outstandings)	7.22	7.31	8.18	8.26	8.95	8.05	7.39	7.30
IMF Purchases (Capital Inflows)	1.74	1.14	0.96	0.78	0.89	1.18	1.05	0.88
IMF Repurchases (Repayments):	0.44	0.67	0.97	1.63	1.63	1.53	1.59	1.30
IMF Charges (Interest Payments):	0.42	0.48	0.50	0.56	0.41	0.36	0.36	0.34
Total IMF Debt Service (Outflows):	0.86	1.15	1.47	2.19	2.04	1.89	1.95	1.64
IMF Net Transfers (In-Out)	0.88	- 0.01	- 0.51	- 1.41	- 1.15	- 0.71	- 0.90	- 0.76

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that the Fund did not have the kind of resources at hand in 1983 which were suitable for low-income Africa. The obvious answer would have been to expand the World Bank's soft loan window, IDA, and require it to play a much larger role in the early days of the African debt crisis. But the IMF (and its more powerful shareholders) found that option to be anathema at the time. As a result the Fund went headlong into Africa with the wrong resources and the wrong approach thus locking itself into financing the long slow process of adjustment and recovery in Africa. It cannot be permitted to withdraw its resources at the rate it has been doing in the last eight years. It has now been provided with SAF and ESAF resources which offer better terms but it has been particularly slow and obstructive (in terms of its conditionality) in deploying them; on the grounds that prospective recipients are unwilling to subject themselves to tough Fund discipline.

5.06 Emerging evidence suggests, however, that the kind of discipline and programmes which the Fund is attempting to force through in Africa may, in several instances, be counter-productive rather than helpful in facilitating sustainable economic adjustment and recovery. Moreover, in some countries (like Zambia) its recent behaviour seems to imply that the Fund is more interested in extricating itself from a difficult situation by putting its own debt collection interests ahead of the country it is ostensibly supposed to be helping. Too large a proportion of grant flows to Africa, representing extraordinary efforts on the part of bilateral donors, are being diverted to service obligations to the IMF. Too little is being left over to permit the servicing of other categories of debt or, more importantly, to permit the financing of essential imports for sufficient investment and minimum levels of consumption in African countries. The Fund therefore needs to act swiftly to reduce the total debt service payments which low-income, debt-distressed African countries are obliged to make by: (a) offsetting repurchases of SDRs from upper tranche facilities with equivalent purchases from concessional facilities like SAF and ESAF on a low conditionality basis for at least the next ten years; and (b) reducing immediately the special and regular rate of charges levied on those facilities. A neater option would be to have a special, limited emission of SDRs to write off obligations due to the Fund by low-income African countries. But that proposal has been objected to on somewhat spurious grounds which overplay arguments about the inflationary impact of such a measure.

5.07 The steps the Fund has taken to refinance the upper tranche obligations of African countries on concessional terms through SAF and ESAF have clearly not been effective enough in reducing debt service obligations to the Fund. Though use of Fund credit amounted to less than 4% of total outstanding debt, annual payments to the Fund in 1989 and 1990 by low-income African countries accounted for nearly 20% of total debt service. Much more needs to be done by the IMF to contribute to more equitable sharing of the debt relief burden, although again that is not an argument that the Fund has ever been prepared to accept. However, in Africa, as a large part of the problem of very rapid debt accretion between 1982-90 has been due, directly or indirectly, to the Fund's previous actions there is a powerful raison d'être for the Fund to be more forthcoming in helping to ameliorate the African debt burden rather than subscribing to it. Yet as the World Debt Tables for 1990-91 report . . .

" The total resources available to all eligible countries under (SAF & ESAF) amount to SDR 8.7 billion. . . . After four years of SAF operation, by the end of July 1990, SAF arrangements had been approved for 20 countries in sub-Saharan Africa. The total amount committed for these countries was SDR 1.1 billion of which SDR 661 million was disbursed. At the end of September 1990, 11 ESAF arrangements had been approved for African countries. The total ESAF resources committed to these countries for the three-year period amounted to SDR 1.3 billion, of which SDR 770 million has so far been disbursed. "

5.08 The arguments which the Fund would make to defend such performance are well known. The fact remains, however, that the Fund is not sensitive enough to the serious problems which its overly rigid posture is creating. It is undoubtedly true that many constraints operate on the Fund which do not afflict other creditors. But these constraints are not as binding as one is often led to believe. In that connection it should also be recalled that SAF and ESAF maturities and grace periods, while generous in comparison with the Fund's non-concessional facilities, are still inappropriate for African countries. Refinancing of upper tranche Fund obligations should be done on IDA terms, or at the very least, on Trinidad terms.

5.09 In 1990 a mechanism was created to deal with the problem of a few countries (such as Zambia, Sierra Leone, Sudan) which had built up large and chronic arrears in their payments to the IMF. This has commonly come to be known as the "rights approach" and involves freezing Fund arrears as of a certain date while reinstituting normal operational relationships

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between the IMF and the country concerned but without the Fund disbursing any new money. During a 3-4 year period of time the country services all current obligations to the Fund (including the interest payments on frozen arrears) and adheres to a Fund-monitored programme. Each year the country builds up "rights" to accessing the Fund's concessional facilitities until at the end of the period the Fund disburses a sufficient quantum of ESAF funds to clear the frozen arrears. This approach has broken the impasse that formerly existed in the Fund's dealings with deeply debt-distressed countries such as Zambia which were in large arrears. But it has the major disadvantage of such countries bearing the burden of unaffordable annual interest service charges to the Fund on large arrears balances. It results in other financiers effectively financing the Fund's debt service rather than in increasing net resource flows to the country. To make the rights approach more effective something more needs to be done about the interest on arrears involving both a reduction in the amount of interest charged on arrears and its capitalization. So far the rights approach has been experimented with only in Zambia and experience over the first tentative stages indicates that interest relief on frozen arrears will be absolutely essential for the approach to succeed. Unless such relief is provided quickly other agencies and donors will be increasingly reluctant to make extraordinary efforts to close financing gaps for programmes in countries where the rights approach is applied simply because too large of proportion of their grants will be pre-empted by the IMF thus also resulting in repeated programme failure.

5.10 **World Bank Debt:** The obligations of African debtors to the World Bank Group arouse considerably less passion than those of the Fund, despite the increasing criticism that the Bank has come under for its association with Fund-type adjustment programmes in the 1980s. Two reasons account for this attenuated reaction. First, the World Bank (or more specifically IDA) remains the single largest source of concessional finance available to low-income African countries. Second, thanks to the terms of IDA credits, net transfers between the Bank and Africa remain positive and large. At the end of 1990, African countries owed the World Bank $31 billion, or about 12% of their total debt. The proportion was higher for sub-Saharan Africa (14%) than for North Africa (8%). Of that amount nearly $16 billion was accounted for by IDA, almost all of it concentrated in countries South of the Sahara. World Bank exposure (in dollar terms) has *tripled* between 1983-90 in both

TABLE 9 DEBT & DEBT SERVICE OWED TO THE WORLD BANK 1983-90

(Amounts in Billions of US Dollars)

	1983	1984	1985	1986	1987	1988	1989	1990(E)
NORTH AFRICA								
IBRD (Outstandings)	2.30	2.27	3.38	4.71	6.23	6.01	6.25	6.89
IDA (Outstandings)	0.76	0.85	0.91	0.95	0.99	1.00	1.01	1.02
Total World Bank DOD:	3.06	3.12	4.29	5.66	7.22	7.01	7.26	7.91
IBRD Debt Service:	0.32	0.38	0.48	0.69	0.91	0.86	1.00	1.19
IDA Debt Service:	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Total WBG Debt Service:	0.33	0.39	0.49	0.70	0.92	0.87	1.01	1.20
IBRD Net Transfers:	0.16	0.27	0.22	0.16	- 0.07	- 0.19	- 0.16	- 0.05
IDA Net Transfers:	0.13	0.09	0.04	0.03	0.02	0.01	0.10	0.04
Total WBG Net Transfers:	0.29	0.36	0.26	0.19	- 0.05	- 0.18	- 0.06	- 0.01
SUB-SAHARAN AFRICA:								
IBRD (Outstandings)	3.86	3.96	5.28	7.04	9.28	8.42	8.42	8.38
IDA (Outstandings)	4.36	5.06	6.10	7.75	10.11	11.46	12.98	14.77
Total World Bank DOD:	8.22	9.02	11.38	14.79	19.39	19.88	21.40	23.15
IBRD Debt Service:	0.44	0.53	0.62	0.87	1.07	1.31	1.23	1.53
IDA Debt Service:	0.04	0.06	0.08	0.09	0.11	0.13	0.13	0.14
Total WBG Debt Service:	0.48	0.59	0.70	0.96	1.18	1.44	1.36	1.67
IBRD Net Transfers:	0.27	0.30	0.03	0.03	- 0.07	- 0.73	- 0.39	- 0.41
IDA Net Transfers:	0.60	0.72	0.80	1.31	1.57	1.57	1.57	1.96
Total WBG Net Transfers:	0.87	1.02	0.83	1.34	1.50	0.84	1.18	1.55
CONTINENTAL AFRICA:								
IBRD (Outstandings)	6.16	6.23	8.66	11.75	15.51	14.43	14.67	16.27
IDA (Outstandings)	5.12	5.91	7.01	8.70	11.10	12.46	13.99	15.79
Total World Bank DOD:	11.28	12.14	15.67	20.45	26.61	26.89	28.66	31.06
IBRD Debt Service:	0.76	0.91	1.10	1.56	1.98	2.17	2.23	2.87
IDA Debt Service:	0.05	0.07	0.09	0.10	0.12	0.14	0.14	0.15
Total WBG Debt Service:	0.81	0.98	1.19	1.66	2.10	2.31	2.37	3.02
IBRD Net Transfers:	0.43	0.57	0.25	0.19	- 0.14	- 0.92	- 0.55	- 0.46
IDA Net Transfers:	0.73	0.81	0.84	1.34	1.59	1.58	1.67	2.00
Total WBG Net Transfers:	1.16	1.38	1.09	1.53	1.45	0.66	1.12	1.54

From: African Debt Revisited: Procrastination or Progress?
FONDAD, The Hague, 1992, www.fondad.org

the North African and sub-Saharan regions. Part of that growth is explained by an exchange rate effect following the significant depreciation of the US dollar between 1985-89 but substantial additional lending, mainly in the form of rapidly disbursing adjustment support loans and credits, also took place. Table 9 portrays annual movements in World Bank lending and debt service between 1983-90.

5.11 Outstanding levels of World Bank debt to North Africa have been relatively stagnant since 1987 (Egypt and Morocco account for two-thirds of it) and net transfers to the region have actually been modestly negative since then. IDA balances reflect outstandings on credits committed prior to 1980; there has been no new IDA lending to the region since then. New IBRD lending will need to grow to offset increasing levels of debt service payments by North African countries to the World Bank; this will happen when Brady deals are completed for Morocco and, conceivably, for Egypt. World Bank management appears aware of the need to avert any debt servicing problems from arising by adjusting lending levels to ensure balanced or mildly positive net transfers. Like the IMF, the Bank publicly pretends not to accept the validity of arguments suggesting that maintaining positive net transfers to borrowers is a sound policy in its own right. In practice, it keeps a much sharper (and more sensitive) eye on net transfers resulting from its operations than its sister institution.

5.12 Nigeria and Cote d'Ivoire accounted for $5 billion of the $8.4 billion in IBRD loans outstanding to sub-Saharan Africa at the end of 1990. About $1.4 billion was owed by Kenya and Zimbabwe. The remaining $2 billion was owed by several low-income, debt-distressed African countries which are now eligible for borrowing only from IDA and for which the IBRD debt servicing burden has become excessively onerous. The table above indicates clearly that net transfers on IBRD loans are significantly negative. This effect has been offset by timely action on the part of Bank management to increase IDA flows to the region, and to exert special efforts to co-ordinate other donor flows in association with IDA under its two Special Programmes for Africa. The net result has been a healthy positive net transfer for the sub-Saharan region as a whole although some acutely distressed countries (e.g. Zambia) do not yet receive positive net transfers of a magnitude which offsets their enormous debt service burdens and leaves enough over for investment and growth.

5.13 To alleviate the interest service burden on IBRD loans for the severely indebted low-income African countries, the World Bank, in September 1988, created a special facility (the "fifth dimension") funded by 10% of IDA reflows, the investment income on IDA donor encashments and special contributions by Norway and Sweden. Special allocations can be made from this facility to eligible borrowers in proportion to their annual interest payments on IBRD loans. The step taken by the World Bank to help cover interest payments on outstanding IBRD debt through this interest subsidy facility was timely and laudable. Initially it did not go far enough. When established the facility was not large enough to cover all IBRD interest obligations of all potentially eligible low-income African countries. It covered only 60% of the annual IBRD interest obligations due. In late 1990 the Bank took steps to expand coverage to 90% of interest due. But only a few of the eligible countries have benefitted from the facility.

5.14 In 1990 the total interest burden on IBRD loans owed by these countries was about $340 million while the number of supplemental credits approved under the facility by then (to only 8 out of 27 potentially eligible countries) amounted to $159 million. At present, the total annual debt service obligations of severely-indebted low-income countries on outstanding IBRD loans amount to nearly $750 million (including principal repayments). The facility will require expansion if it is to help cover the entire amount of interest and not simply 90% of the interest payments due. Secondly, it still leaves the residual obligation of clearing about $2 billion in outstanding IBRD principal most of which will fall due for amortization by low-income sub-Saharan countries within the next 5 years. Refinancing at the outset those residual principal obligations on IDA or grant terms (if bilateral donors were to contribute) would be a far superior option to exercise at the present time. For countries which have ongoing programmes financed by the Bank, what happens is that annual amortizations get refinanced as the Bank attempts to maintain positive net transfers with IDA financing taking into account repayments of principal on IBRD loans. But the way in which it is done still imposes larger debt service obligations over time than would arise if there was a clean-out of remaining balances on old IBRD loans up front.[25]

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25 Similar treatment needs to be extended to African Development Bank (AfDB) loans which continue to be disbursed to low-income recipients who are patently uncreditworthy to receive funding on such terms. The same applies to other multilaterals (such as those in the Arab-OPEC world) which have extended hard-window facilities because though outstanding debt stocks due to multilateral banks account for 20-22% of total African debt stocks, debt service payments to these creditors presently account for 30-35% of total service payments.

5.15 **Other Multilateral Debt:** Apart from the IMF and World Bank, other multilateral institutions (of the types indicated in paragraph 5.01) have begun to develop a larger profile on the continent and particularly in sub-Saharan Africa as the Table 10 shows. Unfortunately, no year-by-year breakdowns were available of the different institutions within the "other multilateral category" and judgements about the relative exposure of each are based on 1989 data (for which breakdowns are available). The table suggests that these multilateral institutions are becoming important sources of finance for Africa but they are increasing their exposure in a way which aggravates rather than alleviates the African debt burden. For instance, the AfDB continues to disburse non-concessional loans to countries like Zambia, which is already in arrears to the tune of *over $3 billion* to other creditors and is eligible for IDA only borrowing. It makes little sense for such countries to justify seeking relief from IBRD debt service only to take on more of the same type of debt from the AfDB!

5.16 Disbursements and outstandings from multilateral creditors other than the World Bank and IMF have been rising rapidly throughout the 1980s in both North and sub-Saharan Africa with the increases being particularly rapid in the latter region. In North Africa the sources of such funding are mainly the AfDB and the Arab/OPEC multilateral agencies with the EEC institutions playing a relatively insignificant role (particularly in Egypt). In sub-Saharan Africa, the AfDB accounts for about half of the "other" multilateral category. Its concessional resources (through its soft loan window AfDF) account for about 50% of that institution's total exposure in the region (compared with nearly 64% of World Bank exposure being IDA credits). Thus the AfDB is clearly lending relatively more by way of "hard" resources to sub-Saharan countries than their current financial circumstances could possibly justify and thus adding to the debt problem of the region.

5.17 There is an urgent need for larger replenishments of the AfDF to enable the concessional profile of AfDB in sub-Saharan countries to be similar to the World Bank's. There is also an urgent need for the AfDB to devise a similar interest subsidy facility as the World Bank has done to provide interest relief on its hard loan assets in the debt-distressed, low-income countries. As a second step AfDB loan amortizations need to be refinanced on AfDF terms over time in much the same way as the World

TABLE 10 DEBT & DEBT SERVICE OWED TO "OTHER" MULTILATERALS 1983-90

(Amounts in Billions of US Dollars)

	1983	1984	1985	1986	1987	1988	1989	1990(E)
NORTH AFRICA								
Non-Concessional DOD	0.69	0.75	0.84	1.02	1.28	1.61	2.16	2.63
Concessional DOD	2.00	2.00	2.11	2.12	2.19	2.32	2.38	2.41
Total "Other" DOD:	2.69	2.75	2.95	3.14	3.47	3.93	4.54	5.04
Non-Concessional Debt Service:	0.06	0.14	0.22	0.17	0.30	0.36	0.39	0.53
Concessional Debt Service:	0.04	0.04	0.04	0.08	0.05	0.08	0.08	0.13
Total Other Debt Service:	0.10	0.18	0.26	0.25	0.35	0.44	0.47	0.66
Non-Concessional Net Transfers:	0.08	0.07	0.03	0.36	0.20	0.30	0.11	0.11
Concessional Net Transfers:	0.09	0.00	0.05	0.03	0.06	0.02	0.15	0.10
Total "Other" Net Transfers:	0.17	0.07	0.08	0.39	0.26	0.32	0.26	0.21
SUB-SAHARAN AFRICA:								
Non-Concessional DOD	0.92	0.98	1.44	1.94	2.70	3.41	3.92	4.57
Concessional DOD	2.94	3.15	3.83	4.75	5.91	7.16	7.69	8.74
Total "Other" DOD:	3.86	4.13	5.27	6.69	8.61	10.57	11.61	13.31
Non-Concessional Debt Service:	0.10	0.14	0.14	0.25	0.32	0.39	0.38	0.69
Concessional Debt Service:	0.13	0.13	0.14	0.25	0.25	0.28	0.28	0.41
Total Other Debt Service:	0.23	0.27	0.28	0.50	0.57	0.67	0.66	1.10
Non-Concessional Net Transfers:	0.27	0.13	0.21	0.20	0.23	0.20	0.15	0.11
Concessional Net Transfers:	0.39	0.31	0.28	-0.18	-0.12	0.24	0.06	0.08
Total "Other" Net Transfers:	0.66	0.44	0.49	0.02	0.11	0.44	0.21	0.19
CONTINENTAL AFRICA:								
Non-Concessional DOD	1.61	1.73	2.28	2.96	3.98	5.02	6.08	7.20
Concessional DOD	4.94	5.15	5.94	6.87	8.10	9.48	10.07	11.15
Total "Other" DOD:	6.55	6.88	8.22	9.83	12.08	14.40	16.15	18.35
Non-Concessional Debt Service:	0.16	0.28	0.36	0.42	0.62	0.75	0.77	1.22
Concessional Debt Service:	0.17	0.17	0.18	0.33	0.30	0.36	0.36	0.54
Total Other Debt Service:	0.33	0.45	0.54	0.75	0.92	1.11	1.13	1.76
Non-Concessional Net Transfers:	0.35	0.20	0.24	0.56	0.43	0.50	0.26	0.22
Concessional Net Transfers:	0.48	0.31	0.33	-0.15	-0.06	0.26	0.21	0.18
Total "Other" Net Transfers:	0.83	0.51	0.57	0.41	0.37	0.76	0.47	0.40

Bank is attempting to do now, using IDA disbursements to offset IBRD principal repayments. As noted earlier, it makes no sense for the AfDB to keep lending and disbursing non-concessional resources to debt distressed sub-Saharan countries when the same countries are seeking almost total relief on their IBRD debt servicing obligations.

5.18 The EEC institutions account for about 20% of the "other" multilateral debt category (although it should be noted that EEC grant funding is now second only in size to IDA disbursements but it does not appear on the loan account), IFAD for a further 6% and the various Arab multilateral institutions make up the balance of 24%. IFAD funding is generally on relatively soft terms and does not pose a problem. About 60% of EEC lending is through the EIB on relatively hard terms but not enough is known about the tenor of such debt or of the difficulties being experienced by African countries in servicing it. The same is true of debt owed to Arab and OPEC multilateral agencies.

5.19 Suggestions on how such debt should be dealt with in the context of relief efforts by agencies such as the World Bank are difficult to make except to stress that the relief burden on multilateral debt should be shared proportionately by the institutions involved, including of course the IMF. This principle is the cornerstone of burden-sharing within the Paris Club structure and indeed within the London Club structure when relief is provided on commercial debt. Hence, even if creditors are treated differently *across categories,* acknowledging the seniority accorded to preferred creditors, there is no particular reason why the same underlying principle of equitable burden-sharing should not be applicable *within each category,* including the multilateral category, especially where rights of preferential treatment as creditors are supposedly equal for certain types of multilateral institutions (e.g. the IMF, IBRD and AfDB).

VI Africa's Private Debt & Debt Service 1983-90

6.01 As observed earlier, the African debt problem is often seen as one which concerns mainly official creditors yet Africa's obligations to private creditors are large and intractable. At the end of 1990, Africa owed nearly \$100 billion to private creditors. That represents 14% of the total amount of \$720 billion owed by all developing countries to private creditors. North African countries owed private sources \$45 billion while sub-Saharan Africa owed \$55 billion. Of the \$100 billion, about \$62 billion was in the form of long-term debt *guaranteed* by debtor governments, \$9 billion was *unguaranteed* long-term debt and \$29 billion was *short-term* debt originally extended as trade credit.[26] The annual private debt stock movements, debt service payments and net transfers on private debt accounts are shown in Table 11.

6.02 In terms of debt stocks, private debt of all kinds has grown slowly throughout Africa. That is hardly surprising. What is noteworthy, however, is the relatively large amount of debt service which private debt continues to absorb and the large outward net transfers to private creditors which have been financed from inward multilateral net transfers and bilateral grants. Private creditors have extracted a total of nearly \$30 billion from Africa between 1983-90 with most of the negative net transfers being from North Africa (\$21 billion) and a relatively small proportion (just over \$8 billion) from countries south of the Sahara. Negative private transfers from the sub-Saharan region have been concentrated in Nigeria and Cote d'Ivoire. The largest outflows and debt service burdens are accounted for by long-term *guaranteed* private debt.[27]

6.03 **London Club Debt:** Total London Club debt outstanding in Africa was an estimated \$24.3 billion at the end of 1990 with sub-Saharan Africa

26 About \$15 billion of this amount of short-term debt has been in arrears for over five years and should, effectively be classified as long-term though most commercial lenders refuse to permit that classification in the fear that it may compromise their prospects for recovering it.

27 In Africa this is not, as commonly thought London Club type debt owed mainly to commercial banks. Less than half the LTG debt is owed to banks, the remainder is owed mainly to private trade suppliers who arranged long-term credits for their previous sales of capital goods and project services in both North and sub-Saharan Africa.

From: African Debt Revisited: Procrastination or Progress?
FONDAD, The Hague, 1992, www.fondad.org

TABLE 11 DEBT & DEBT SERVICE OWED TO PRIVATE CREDITORS 1983-90

(Amounts in Billions of US Dollars)

	1983	1984	1985	1986	1987	1988	1989	1990(E)
NORTH AFRICA:								
Long-Term Guaranteed (LTG):	21.12	21.53	25.03	27.51	30.82	30.11	29.26	29.61
Long-Term Unguaranteed (LTU):	0.94	0.94	1.20	1.40	1.53	1.57	1.51	1.47
Short-Term (ST):	10.02	10.24	11.13	12.91	11.11	11.73	13.08	13.77
Total Private DOD:	32.08	32.71	37.36	41.82	43.46	43.41	43.85	44.85
LTG Debt Service:	7.89	7.07	6.60	6.34	5.61	6.57	7.61	8.45
LTU Debt Service:	0.27	0.25	0.27	0.31	0.37	0.32	0.36	0.37
Short-Term Debt Service:	1.03	1.09	0.87	1.06	2.74	0.98	0.79	1.06
Total Private Debt Service:	9.19	8.41	7.74	7.71	8.72	7.87	8.76	9.88
LTG Net Transfers:	- 2.28	- 1.21	- 1.57	- 1.06	- 1.19	- 0.62	- 3.45	- 4.32
LTU Net Transfers:	0.02	- 0.07	0.15	0.08	- 0.05	- 0.07	- 0.18	- 0.23
Short-Term Net Transfers:	- 1.64	- 1.33	- 0.30	0.18	- 2.10	- 0.07	0.17	- 0.11
Total Private Net Transfers:	- 3.90	- 2.61	- 1.72	- 0.80	- 3.34	- 0.76	- 3.46	- 4.66
SUB-SAHARAN AFRICA:								
Long-Term Guaranteed (LTG):	24.08	22.56	25.40	26.20	33.63	33.61	31.35	32.22
Long-Term Unguaranteed (LTU):	4.35	5.06	5.63	5.36	5.88	6.36	6.74	7.31
Short-Term (ST):	11.74	13.43	14.04	13.94	14.10	15.55	16.58	15.30
Total Private DOD:	40.17	41.05	45.07	45.50	53.61	55.52	54.67	54.83
LTG Debt Service:	4.11	5.00	5.33	3.57	2.21	2.64	2.39	2.77
LTU Debt Service:	0.93	1.06	1.31	1.34	1.34	1.30	1.14	1.14
Short-Term Debt Service:	0.94	1.22	0.91	0.77	0.50	0.62	0.55	0.69
Total Private Debt Service:	5.98	7.28	7.55	5.68	4.05	4.56	4.08	4.60
LTG Net Transfers:	- 0.32	- 2.31	- 3.01	- 1.28	- 0.43	- 0.57	- 0.98	- 1.82
LTU Net Transfers:	0.36	0.42	0.11	0.00	0.07	0.06	0.11	- 0.49
Short-Term Net Transfers:	- 0.95	- 1.53	0.89	1.35	2.66	0.76	- 0.50	- 0.96
Total Private Net Transfers:	- 0.91	- 3.42	- 2.01	0.07	2.30	0.25	- 1.37	- 3.27
CONTINENTAL AFRICA:								
Long-Term Guaranteed (LTG):	45.20	44.09	50.43	53.71	64.45	63.72	60.61	61.83
Long-Term Unguaranteed (LTU):	5.29	6.00	6.83	6.76	7.41	7.93	8.25	8.78
Short-Term (ST):	21.76	23.67	25.17	26.85	25.21	27.28	29.66	29.07
Total Private DOD:	72.25	73.76	82.43	87.32	97.07	98.93	98.52	99.68
LTG Debt Service:	12.00	12.07	11.93	9.91	7.82	9.21	10.00	11.22
LTU Debt Service:	1.20	1.31	1.58	1.65	1.71	1.62	1.50	1.51
Short-Term Debt Service:	1.97	2.31	1.78	3.61	3.24	1.60	1.34	1.75
Total Private Debt Service:	15.17	15.69	15.29	13.37	12.77	12.43	12.84	14.48
LTG Net Transfers:	- 2.60	- 3.52	- 4.58	- 2.34	- 1.62	- 1.19	- 4.43	- 6.14
LTU Net Transfers:	0.38	0.35	0.26	0.08	0.02	- 0.01	- 0.07	- 0.72
Short-Term Net Transfers:	- 2.59	- 2.86	0.59	1.53	0.56	0.69	- 0.33	- 1.07
Total Private Net Transfers:	- 4.81	- 6.03	- 3.73	-0.73	-1.04	- 0.51	- 4.83	- 7.93

owing about $15 billion and North Africa the remaining $9.4 billion. The African countries in which banks are most heavily exposed are Algeria ($5.5 billion), the Congo ($1 billion), Cote d'Ivoire ($2.8 billion), Morocco ($3.1 billion), Nigeria ($6.2 billion), Sudan ($1.4 billion). These six countries together account for over four-fifths of total commercial bank long-term exposure. Of these all except Algeria have had at least one rescheduling with their commercial bank creditors since 1983. Fourteen other African countries have also rescheduled their commercial bank debts; with forty commercial bank debt rescheduling agreements having been concluded in Africa since 1983. The net result has been a substantial extraction of resources by private creditors but a lesser rate of accretion of private debt than has occurred in the case of the Paris Club. The first phase of a deal under the Brady Initiative was concluded for Morocco in September 1990 under which all outstanding long-term debt plus previously rescheduled bankers' acceptances were restructured. Banks also provided waivers to make debt buybacks possible when Morocco has acquired the resources (which has not happened yet) to do so but no discount for Moroccan debt has yet been specified.[28] Nigeria has expressed interest in a Brady type agreement which would result in a deep discount buyback of about 60% of its debt but the banks are insisting on a rescheduling option which Nigeria fears would compromise its debt reduction prospects over the long-term.

6.04 The short-term debt exposure of commercial banks in Africa has risen from around $21 in 1983 billion to around $29 billion at the end of 1990. Such debt absorbs a significant amount of annual debt service in a laboured but unsuccessful effort on Africa's part to keep lines of trade credit open and expanding to avoid import strangulation. Short-term oustandings have increased from $10 billion to nearly $14 billion in North Africa (an increase of 38% over eight years) while in sub-Saharan Africa they have

28 Moroccan debt has been traded at between 38-45 cents in the last six quarters. Under the terms of the deal Morocco is free to set a price or organize an auction for its debt so long as the same offer is made to all banks each time a buyback is done. The second phase of the Brady deal was conditional on Morocco signing an EFF Agreement with the IMF after which banks have agreed to implement debt and debt service reduction (DDSR) provisions through an exchange of bonds for debt. Interest on the bonds would be enhanced with guarantees for payment by the World Bank but the principal of the bonds would not be collateralized. Banks not participating in buybacks or the bond exchange would agree to provide 15% of their existing exposure by way of new money.

increased from under $12 billion to over $15 billion (an increase of 30% over the same period). The service payments devoted to such debt have averaged about $1 billion annually in North Africa (with the exception of an unusual payment of $2.7 billion in 1987) throughout the 1983-90 period while in sub-Saharan Africa they have fallen from about $1 billion a year between 1983-86 to an average of $0.6 billion between 1987-90 due to an absolute constraint on foreign exchange availabilities. As observed earlier, a large part of short-term debt has been overdue for a considerable period of time in several sub-Saharan countries (Zambia and Sudan being cases in point with $5.3 billion classified as short-term debt dues or nearly one-third of total sub-Saharan short-term obligations). Such debt needs to be reclassified and cleaned out through deep discount debt buybacks of the kind that the World Bank is trying to achieve through its special commercial debt buyback facility for low-income debt distressed countries.

6.05 Not much is known about *unguaranteed* debt except that the outstanding amount of such debt is hardly insignificant ($9 billion in 1990; $7.3 billion of which was owed by sub-Saharan countries with Cote d'Ivoire alone accounting for $4.1 billion of that amount). What is surprising is that for an average outstanding level of about $7 billion in unguaranteed assumedly junior debt throughout the 1983-90 period, African countries have been expending an average of $1.5 billion on servicing it. This represents a much higher proportion of debt service to outstanding stock than for any other type of debt. Indeed such debt servicing by sub-Saharan countries has averaged about 65% of debt service payments to Africa's bilateral creditors whose claims are about seven times larger. Equally surprising, (but perhaps not when this level of debt service is taken into account) such debt has been generating positive net transfers between 1983-87 with transfers only turning negative in 1988. More needs to be known about the sources of unguaranteed private debt, its terms and those features of it which result in such disproportionately high debt service payments. Unfortunately, the recording of unguaranteed debt is notoriously bad throughout Africa and the necessary information is simply unavailable. But the debt service pattern on this item raises some disconcerting questions about the probity and equity of sub-Saharan debt servicing priorities.

6.06 In 1989 the World Bank established a special debt reduction facility (DRF) to diminish commercial debt and debt service burdens of the poorest debt-distressed countries, most of which are in sub-Saharan Africa. The DRF can provide outright grants to eligible low-income countries that are classified as "IDA only" recipients. Between 1990-92 the facility will make available $100 million from the Bank's net income to finance cash buybacks of outstanding commercial debt with a ceiling of $10 million for each applicant. The large discounts on the debt of such countries (often in excess of 90%) enable a small amount of cash funds to have a substantial impact on reducing private debt stocks and attendant debt service obligations with beneficial effects in the long-run by way of reopened access to short-term trade credits and a lowering of import premiums. As with all such facilities access is open only to those countries which have agreed to: (i) Bank or Fund prescribed adjustment programmes; and which also have (ii) credible debt management programmes which address the overall commercial debt problem and include agreement to substantial debt relief from official bilateral creditors. The Bank has also been willing to make technical assistance available to improve debt records and debt management – essential preconditions for effficient buybacks to take place.

6.07 Progress in using this facility has, however, been disappointing. As of now only one country – Niger – has benefitted from the DRF. In March 1991 Niger completed the buyback of its commercial bank debt (of $108 million) with resources provided by the DRF ($10 million), and supplemented by Switzerland ($3 million) and France ($10 million). But the price at which its commercial debt was bought seemed unjustifiably high suggesting that scarce resources were unwisely used.[29] Out of the 14 African

29 Niger's debt was purchased at 18 cents. The buyback offer was made in January 1991 contingent upon acceptance by creditors holding at least 70% of outstanding commercial debt of $111 million. In the event, 97% of that amount was cleared. The buyback included interest arrears as well as principal (which meant that creditors probably recovered 40-50% of their principal). There were two options offered to creditors: (i) an exchange of 60 day notes equal to 18% of the face value of debt plus interest arrears tendered; and (ii) an exchange of debt for long-term zero coupon notes guaranteed by US Treasury zero coupon bonds with the maturity of such notes being adjusted so that their price at the time of exchange would be 18% of the dollar amount tendered. Both types of notes were guaranteed by the BCEAO (the West African Central Bank for states in the CFA franc zone) — the recipient agent of the grant aid which financed the buyback. The 1986 Bolivian buyback was executed by the IMF at 11 cents when, just previously, Bolivian debt had been trading for between 4-7 cents; resulting in a few arbitrageurs making a very substantial profit on the transaction at the time. The Brady deal for Costa Rica resulted in a buyback of commercial debt and arrears also at 18 cents. Compared to these two deals, a price of 18 cents for Niger represents very poor value for money and casts considerable doubt on the professional competence and judgement which were exercised in this particular operation.

countries that had applied to use DRF at the end of 1990, only Mozambique seems to be close to the consummation of the DRF's second deal although early indications of the likely offer price (which is too openly known in the market) suggests that the buyback may again represent an inefficient use of resources. Moreover the fact that only two buybacks for African countries are likely to be completed nearly two years after the establishment of the DRF suggests that something is seriously wrong with the execution of what was, and still is, a good idea. The Bank observes that:

"... . Much of the delay in drawing the resources of the facility is due to the reluctance of banks to participate, in part to avoid setting precedents for other countries where their exposure is larger . . . ".

If that is indeed the case, then there is considerable justification for regulatory and tax authorities in the home countries of these banks to consider adopting measures such as the withdrawal and clawback of tax relief already provided against specific and general provisions for developing country debt and considerably less exertion of pressure on behalf of commercial banks in their negotiations with middle-income debtors – as for instance was exerted by OECD governments in pressing the case for commercial arrears clearance by Brazil. But the reluctance of banks is not the only reason. Private discussions with several governments of the eligible countries which have applied for DRF use suggest that the Bank's own internal guidelines, procedures and its appalling bureaucracy are at least as responsible for the absence of movement. Whatever the reasons for the DRF not being used to its full potential the Bank's management and its shareholders should be enjoined by the international community to exert maximum efforts in removing present obstacles for wider DRF use before the terminal date for (June 30, 1992) expires and the balances of its unused rersources revert to the IDA kitty.

6.08 Even if it is more efficiently and effectively utilized the DRF will not cater to clearing the commercial debt overhang (London Club and suppliers credits) for the bigger African debtors mentioned earlier. In their case the Brady Initiative also appears to have no particular appeal as the Nigerian case suggests. Clearly some action is necessary to deal with the overhang for this in-between group of debtors who are not catered for under any particular plan. An expanded version of the DRF with wider eligibility criteria is one option. A superior version of the Brady Plan which involves speedier and less cumbersome negotiating mechanisms with a little less volunteerism in inducing the right kind of behaviour on the part of banks and suppliers is another. What is more likely to work is a regionally specific version of the more global type of multilateral DRF which has been suggested so often before.[30] It is perhaps time to revive this idea as an adjunct facility for African middle-income debtors whose problems are unlikely to be solved until the end of the decade if the Brady Initiative plods on at its present pace of two deals per year when about thirty countries need its early application.

30 This type of DRF was suggested at various times between 1985-88 by Felix Rohatyn, Peter Kenen, Percy Mistry and James Robinson among others. For a detailed account of how such a DRF would operate see "Third World Debt: Beyond the Baker Plan" by Percy S. Mistry in The Banker, September 1987 issue.

VII Conclusions

7.01 This paper has considered at length: (a) the impact of the private and official rescheduling exercises which attempted to provide debt relief in the 1983-87 period; and (b) all the initiatives that have been taken to reduce Africa's bilateral, multilateral and private debt between 1988-90. It arrives at the inescapable conclusion that these efforts have not been effective in relieving DDS burdens sufficiently for African countries to have a reasonable chance of success in achieving structural adjustment, recovery or growth in the foreseeable future. Previous desultory approaches to debt relief need therefore to be abandoned in favour of more dramatic but absolutely necessary and long overdue action. Certainly without past efforts matters might well have been worse in the sense that arrears would have reached levels which would have caused a complete breakdown in debtor-creditor relationships much sooner. But they can hardly have been worse in the damaging economic and psychological effects that the failure of previous attempts has had on African debtors. It has resulted in a lost decade of development and a lost generation of people. These years of effort have clearly resulted more in procrastination than in progress. Creditors could have arrived much sooner at the conclusion that past efforts were merely token gestures rather than real relief measures. Optimists would argue that perhaps the value of such procrastination was to clear, at long last, reluctant official minds of the cobwebs that have ensnared them for so long and prevented lucid thinking. Pessimists would rebut that with the view that so much damage has been done in the eight years of dithering over debt that much more drastic action now needs to be taken than would have been necessary if things had been done right in the first place.

7.02 Such arguments are counterproductive because they focus on a past which cannot possibly be retrieved. The blame must be shared equally by creditors who should have known better and debtors who didn't know enough. The question now is what needs to be done in the next year or two so that Africa can indeed recover and have its income grow at the extremely modest target rate of 1% per capita per year. Some of the answers to it have been embedded in the discussion that has taken place in the main body of the paper. Before recapitulating them briefly it is as well to consider some fundamental features of the junction at which Africa seems to be at this rather critical moment in its economic and political history. They have a bearing on the actions that might be taken to provide further debt relief.

7.03 First, Africa – and particularly sub-Saharan Africa – is at a point where there is no longer much argument about the need for significant economic and political reform. It is almost universally accepted that African populations, if not yet their elites, are in favour of good economic policies and good political governance with the failed experience of half-baked experimentation with various discredited ideologies behind them. There is of course legitimate debate about which mix of policies is good and what, in the African context, would constitute good governance; but such disagreement is now on the plane of sensible intellectual debate rather than of previous, emotively rhetorical flourishes. It is clear that blind faith in the efficacy and applicability of IFI adjustment prescriptions has not been justified by actual experience with outcomes and that much more needs to be known about what policy prescriptions will work in Africa. But, accepting that fact, the real issue is how, with its present endowments of human capital and institutional social infrastructure, Africa can implement good policies and ensure good governance at every level of life. That issue needs to be much more seriously and honestly addressed by Africa itself and by the international community without everyone constantly being concerned about dancing on sensitive eggshells.

7.04 It is clear that most African countries do not have the human or institutional capacity to apply sound economic policies and to provide good governance. It is not at all clear how Africans, working together with the international community, can best bridge that yawning gap in mutually acceptable ways which do not offend a still insecure, but ever-present, sense of national pride and and do not threaten legitimate concerns about sovereignty – concerns which in the past have simply provided an excuse for African leaders, and the tiny elites which sustain them, to profit enormously at the considerable expense of their populations and countries. For any progress to occur in Africa that lack of clarity must be corrected sooner rather than later.

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7.05 Second, the creditor community – especially OECD and CMEA – must acknowledge the tremendous harm that their own ex- and neo-colonial machinations have done to crippling the capacity of independent Africa to sustain itself. The continent has, between 1960-89, been a large chessboard on which the games of super and sub-power rivalry (whether in terms of security, trade, aid and financial flows) involving the industrial nations have been played out; inducing and supporting precisely the type of indigenous leadership to emerge and thrive that is now universally reviled. Africa is not alone in this misfortune. The rest of the developing world has also had its fair share of Ceaucescus, Castros, Duvaliers, Marcoses, Noriegas and the like, whether supported by the West or the East. It is too easy for the creditor community therefore to walk away from the damage that it has contributed so much to doing on the grounds that it cannot be held responsible for the egregious domestic excesses of African leaderships and governments which have brought Africa to this parlous state.

7.06 In the amity that, with occasional lapses, pervades a world filled with the essence of superpower detente – whether or not it can be portrayed as the end of history – it is too easily forgotten that Africa has been a victim of previous global disharmony. It was caught, at an awkward moment when emerging from colonial rule, between two competing ideologies which were alien to African mores. The post-independence experience of trial, error and virtually continent-wide economic and political failure, has left a troubling and deep legacy of confusion – about individual and national identity, about what course to follow, and about whom to trust, in the present generation of cognizant adult Africans – that will take a couple of generations to clear. The generation born during or just before the debt crisis, and having suffered the enormous deprivations which that crisis has inflicted, is hardly likely to emerge from it with the sense of direction and confidence that is necessary for Africa to sustain incipient recovery.

7.07 Third, the relentless repetition of one failure of government after another and the monotonous repetition of one disaster after another on the African continent – whether natural or man-made – has finally resulted in the sense of fatigue and hopelessness taking hold in sympathetic aid quarters which so many in the international community had long feared. It coincides with the diversion of the world's attention, and its finite capacity for compassion, with the dislocating aftermaths of: the almost simultaneous disintegration of communist regimes of Eastern Europe; the Gulf War on the Kuwaiti, Palestinian and Kurdish nations; the continuous cycle of unrest and fragmentation in the Soviet Union and Yugoslavia; the emerging prospect of splintering in India; the devastating impact of successive cyclones in Bangladesh; the eruption of cholera epidemics in the Amazon basin, the simultaneous collapse of three regimes in the Horn of Africa – a region already confronted with an enormous problems of refugees and of looming famine, requiring emergency assistance of a sort which the world now finds itself in difficulty responding to. Under these circumstances, and with the past record in view there is neither the well of sympathy nor the energetic drive to support Africa in the same way as in the 1980s despite initiatives like those of Minister Pronk to create a Global Coalition for Africa. The general sense of people in the industrial world, and of officials in the international community, is that too much of what has been given to Africa has been wasted and there is no reason to believe that giving more would result in a different outcome.

7.08 Fourth, all of these negative influences seem to be converging on the African scene at a turning point when the prospects for, and African commitment to, achieving real and durable political and economic changes have probably never been better in the post-independence period. It may well be, though one fervently hopes it is not, that the African change of mind and heart has come about just a little too late to capture hearts and minds in the international community. And even if it has not, there is real doubt in the international community about Africa's capacity to put its own house in order regardless of the newly emerging African will to do so. Several years may have to pass before that judgement can be changed.

7.09 In the face of all these concerns it seems almost trite to revert to what can be done about the future course of debt relief and reduction. To summarize, for convenience, the conclusions reached in previous sections of the paper, the following steps emerge as the most critical:

A. **Bilateral Debt:** Two years ago the official world went through the same kind of euphoria which was witnessed with the discussion of Trinidad Terms and the Pronk proposal before the G-7 Economic Summit in July

1991. Pre-London Summit rumours suggested that the debt crisis in general, and the African debt crisis in particular, was about to be "resolved". Nothing would have been more gratifying had those rumours proven true. Unfortunately they were not. And, once again, it was the US government that prevented agreement from being reached on the Trinidad Terms for its own internal reasons. However other creditors remain hopeful that the US will eventually agree to the Major proposals in the coming months once internal problems with recent legislative complications are resolved. Surprisingly, the British government has taken the bold and helpful step of acting on Trinidad Terms unilaterally. Its action sets an excellent example for other creditors (in the Paris Club, the former CMEA and OPEC) to follow. But even the Trinidad Terms or the Pronk proposal would only address one part of the problem. Given the present reality of actual debt service being under 40% of scheduled debt service in sub-Saharan Africa, the acceptance of these proposals will make only a noticeable dent in that region's debt burden. They will, by no means, eliminate it. Hence a sense of realism needs to be restored about even the best scenario that is likely to emerge: i.e. unadulterated acceptance of the Trinidad Terms by the Paris Club, coupled perhaps with the extension of modified Toronto Terms for middle-income debt distressed countries in sub-Saharan Africa. Under this scenario, African debt could be reduced by between $20-30 billion with reductions in scheduled debt service of between $3-4 billion and but little reduction in present levels of actual debt service on bilateral obligations. By itself that would not be enough if current levels of debt service to multilaterals, and particularly to the IMF had to be sustained. Even if Trinidad Terms are employed, aggressive options for converting the residual one-third of official debt obligations through various kinds of debt swaps (intended to encourage privatization, protect the environment, enable special programmes of health and education to be launched and so on) need to be considered. Most of all, matters now need to be taken out of the hands of the Paris Club when it comes to providing bilateral debt relief for low-income countries and the responsibility transferred to established Consultative Groups.

B. **Multilateral Debt:** In this category the principal problem is that of IMF debt and the large net transfers from Africa to the Fund which have taken place throughout the 1983-90 period. Though the Fund is not the best placed institution to cope with problems of African adjustment and development it is now locked in to providing resources to Africa over the medium term. Over the long term the creditor community would be well advised to organize a gradual take-over of IMF exposure (and of its influence) by IDA. Till that happens, the international community must exert every form of pressure possible on the Fund's management and Board to reconsider the kinds of conditionality which block needed access by African countries to SAF and ESAF resources and to adopt a policy of "zero net transfers" to the region (and to individual countries in it) for at least the 1991-97 period by replacing debt service on Upper Tranche facilities with more readily accessible ESAF disbursements (in the same way as the World Bank attempts to cover IBRD debt service through enhanced IDA flows).

Second, the Fund's "rights approach" which is being applied to countries in egregious arrears needs to be modified to reduce the burden of interest charges on frozen arrears and to capitalize the interest due over the shadow programme period. Short of that, the IMF will vitiate the very objectives it is trying to achieve by pre-empting too much of the donor financing provided for its own coffers and leaving too little over to finance real adjustment. Third, the optimal solution to the IMF debt problem would be for the Fund's membership to agree to a special, limited one-time emission of SDRs (of about SDR 5 billion) to enable the IMF to write-off its debts to low-income, debt-distressed countries. That solution is not being considered for entirely spurious objections based more on irrational fears than on hard practicalities.

The World Bank's efforts to help African countries cope better with debt service burdens on IBRD loans are exemplary. But they could be improved by enabling an up-front reduction in IBRD obligations through appropriately structured IDA financing supplemented by donor resources. However, the World Bank's efforts are being diluted by the lending practices of the African Development Bank and other multilateral institutions which are contributing to an increase in the stock of non-concessional multilateral debt to low-income debt-distressed countries at the same time that the World Bank is attempting to alleviate it. That does not make much sense. The donor community should encourage AfDB management to create special facilities similar to those of the World Bank and for the same purpose while enjoining

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other multilaterals to lend more by way of concessional funds. It is clear that AfDF resources need to be expanded substantially for AfDB to offer a blend of resources which reflects the present IBRD/IDA blend rather than the much harder blend that AfDB is presently constrained to offer.

C. **Private Debt:** Insufficient progress is being made in reducing the overhang of Africa's commercial debt despite the creation of a special DRF by the World Bank. The present obstacles which prevent more rapid use of this Facility need to be removed and the DRF expanded to around $500 million, with an extension of its terminal date to 1995, to allow more time for debt reduction in the low-income countries. Experience with the Brady Plan in Morocco and Nigeria so far suggests that this initiative is likely to be of minimal relevance and applicability to Africa. It is simply too cumbersome slow and complicated to apply in the face of the general reluctance of commercial banks to abide by true "case-by-case" approaches to African countries for fear that they would result in the kind of measures which they feel would compromise their negotiating positions in Latin America and Eastern Europe. A DRF of the type proposed in the 1987-88 period, before the Brady Plan was announced, needs to be resurrected to address the special problems of private debt in Africa's middle-income debtor countries both North and South of the Sahara. More work needs to be done in the area of understanding why debt servicing is so high for private unguaranteed debt when common sense would dictate the opposite. But debt service payments diverted to this category of debt seem to be both unfair to official and guaranteed creditors as well as potentially improper. This trend needs to be swiftly corrected by remedies which penalize debtor countries more effectively for maintaining inappropriate debt-servicing priorities in the face of extreme pressures for improved management of debt and debt-service.

Debt Relief and Adjustment Success

7.10 No set of conclusions on the issue of further debt relief could be considered complete without connecting them to observations about the process and nature of the economic adjustment which such measures are intended to support. The observations offered here are extracted from another paper by the author presented earlier this year:[31]

". . . The debate about whether the right kind of structural adjustment for low-income Africa is indeed likely to be achieved with neo-liberal prescriptions has been continuing for some time. Essential arguments have been made in various documents issued by the Bank and Fund on one side and by the ECA, UNCTAD and large parts of the African and international academic communities on the other. Those arguments leave much to be desired from both empirical and conceptual perspectives. What is now perceptible is that the conceptual underpinning for structural adjustment in Africa seems to be shifting towards precepts concerned more with long-term development and away from those aimed at immediate stabilization. The notion (which has taken hold with confusing repetitiveness in obscure Bank-Fund jargon) – that structural adjustment is a unique medium-term 'in-between' phenomenon marking a sort of chronological mid-point between short-term stabilization and long-term development – is a peculiarly untidy, if all too convenient, one. It now needs to be abandoned. . . .

In substance, where low-income Africa is concerned, there seems to be no conceptual, practical or programmatic difference between what the Bank and Fund now refer to as "adjustment over the long term" and what previously used to be known more simply as "development". It may well be that a long, roundabout route has been taken to recognizing an elementary point – i.e. that the process of development involves more than making a series of efficient investments to improve physical and social infrastructure and to expand and diversify productive capacity for increasing output, employment and incomes. It also involves making continual policy and institutional adaptations to changes in internal and external circumstances which are now occurring at a much faster pace than before. That is what adjustment quite literally means. It is, in that sense, a process without end, not one which has some finite temporal dimension which can be stretched like elastic to suit the convenience of either the Bank or the Fund when it comes to fund-raising (or one's intellectual shortcomings when one is pressed to prove that what one is doing is working!). Continuous adjustment is inescapably an integral part of long-term development; it does not end when macroeconomic stability is achieved.

Low-income Africa may have the capacity to make physical and social investments in a static environment, if development were that easy. It lacks the capacity to make such investments in a dynamic environment because its weak structural endowments – which have been further eroded throughout the 1970s and 1980s – render it incapable of adapting as readily as external circumstances warrant. That rather simple observation, though made in a painfully laborious way, provides the

31 These paragraphs have been extracted from Prepared Remarks made at the Joint Symposium of The Association of African Central Banks (AACB) and The International Monetary Fund (IMF) held in Gaborone, Botswana under the auspices of the Bank of Botswana on February 25-27, 1991. The remarks were made by Mr. Percy S. Mistry, Discussant for Session 2 on "Africa's Adjustment & The External Debt Problem".

point of departure for assessing the implications of the way in which Africa's external finance and debt relief needs have been managed over the last decade. . . .

The view taken here is that the annual financial programming exercises which form the basis for financial gap plugging *and for consequent debt relief* – which today constitutes by far the largest component of external "financing" for Africa – are fundamentally flawed in two ways. First, they have an inherent bias towards underestimating the extent of transitional financing that is really needed for successful adjustment to occur and take hold in any given time period. Second, because these exercises are excessively sensitive to the practices and protocols of institutions offering debt relief – in particular the Paris Club – they are biased towards providing finance on the wrong terms, for too short a time. If one accepts the view expressed earlier – that structural adjustment and development in Africa are, for all intents and purposes, synonymous – then it becomes immediately obvious that focussing on new financing and debt relief on a short-leash basis for 18 months at a time is entirely inappropriate.

Apart from making the trajectory of long-term resource flows for development financing highly uncertain, such an approach has resulted in the embedding of a mentality of continuing crisis management in African governments. Apex level policy makers have become so absorbed with allocating the next week's foreign exchange availabilities that they have little time to focus on or manage the execution of programmes intended to address intermediate and longer term priorities. Moreover the rituals and procedures involved in negotiating debt relief, again especially with the Paris Club, have become so involved, arduous and repetitive that they absorb far more time, energy and are far more wasteful of scarce administrative resources than can possibly be justified by the gains which have so far accrued.

The picture which emerges is clear. . . . Africa's debt profile has changed with a larger proportion of debt due to preferred multilateral creditors (up from 18% in 1980 to 27% in 1990) to whom service obligations are nearly impossible to reschedule, and the costs of running arrears are far higher, than in the case of official bilateral or private creditors. It is also clear that despite repeated bilateral reschedulings for almost all severely indebted countries in Africa, after significant amounts of ODA debt cancellations . . . and attempts at other forms of commercial debt reduction such as buybacks and swaps, Africa's ability to meet its rescheduled payment obligations (after adjustment measures have been instituted) continues to deteriorate, not improve. The export of real resources from Africa by way of debt service has increased from about 3% in 1980 to 6% in 1989 and a projected 8% in 1990. That is indefensible in a continent where per capita incomes are still declining from levels which are abysmal.

These aggregates – which although they must be translated down to the country level for appropriately sensitive treatment of the debt problem – suggest quite clearly that, despite repeated measures to liberalize the terms of official debt relief and the efforts being exerted to reduce the burdens of private debt service, something is still wrong with the present debt management approach and its results. . . . the stark reality remains that for Africa and particularly for its poor what has been achieved still amounts to marginal trimming of the remote outer branches of the problem and not hacking away at its roots. Debt relief, though much to be appreciated and further encouraged, is still being provided to Africa on a "too little, too late" basis. It is not sufficient to help the adjustment efforts being made to take hold, nor to ameliorate Africa's trade credit problems, or the . . . premiums in import prices that Africa has to pay on the open market. . . .

The economic instability created in large part by the debt overhang also continues to pose a continuing threat of interminable devaluations and accompanying inflations. Together, these make it nearly impossible to regenerate domestic or foreign private investment to any significant degree. That, however, is not the only pernicious effect being experienced. . . . the effects of adjustment failure are resulting in significant financial dissavings and disintermediation by households which are now exercising their preference to hold net wealth in non-money forms. Paradoxically, this phenomenon is accompanied by an illusory liquidity balloon in many African economies caused by the build-up of effectively unusable parastatal deposits in the commercial banking system. Overall the signals being sent by the joint, but related, failure of both debt management and adjustment efforts are feeding back to discourage rather encourage domestic savings and investments – two forces which must be revived if Africa is to have any serious hope for climbing out of its predicament. . . ."

7.11 The specific suggestions embedded in this paper would, taken individually or as a whole, make a significant difference to providing further, and necessary, debt relief to Africa and facilitate prospects for returning to a trajectory of sustainable long-term development. Africa's debt service payments need to be reduced to levels of no more than 3% of GNP and 15% of exports. That means reducing total debt service from a level of around $27 billion for the continent to around $15 billion. In the specific case of sub-Saharan Africa it would mean reducing total debt service from around $12 billion to about $6 billion. That reduction will not be achieved by the Trinidad Terms or other measures taken in isolation. It will only be achieved by a comprehensive package of measures which addresses all forms of debt. As observed earlier, it is often argued that even with greater debt relief, the development problems of Africa are not going to be solved. That counter-argument to the case for debt relief misses the point and sidesteps the issue. No one has ever argued that debt relief is or can be an all-purpose panacea for curing all of Africa's ills. What is being argued is that, in most of the region's low-income countries, significantly greater debt relief than has been offered in the past is crucial to, indeed may even be a sine qua non for, any accompanying attempts at successful adjustment and recovery in those countries.

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The Need for a Comprehensive Debt Strategy in the 1990s

7.12 After nine years of debt crisis management, a comprehensive debt strategy has not yet emerged for any group of debtors. That is due entirely to the unwillingness of creditors and of the G-7 authorities to deal with the debt problem in other than a piecemeal fashion; with every incremental step for relief being at first stubbornly resisted and then reluctantly agreed only when there seemed to be no choice but to risk egregious arrears or outright default. That approach has been taken without any serious concern about its effects on the economic plight of the debtors or for global economic welfare. A full decade after Poland's ushering in the debt crisis, it is entirely appropriate to ask whether this might not be the right time to propose, as a logical extension to the stuttering Brady Plan and John Major's welcome proposals, tying the bits and pieces of these different initiatives together. The two-track approach which has been followed so far (Baker and then Brady dominating for one group and the Paris Club for the other) addresses quite separately, private and official creditors on the one hand, and low-income and middle-income countries on the other. This approach has required occasionally embarassing ad hoc improvisation when G-7 decides to favour one group of debtor countries for some expedient political reasons (e.g. Poland and Egypt) and, by the same token, to punish others using the Damoclean sword of debt as a tool for foreign policy leverage.

7.13 A more legitimate and by now long overdue approach would be to bring these different initiatives within the umbrella of a consistent and coherent framework based on more sensible criteris to determine which debtor country should be eligible for what kind of relief. Creditors and debtors must see the debt strategy as making some wholistic sense, so that debt relief and reduction can be more sensibly and predictably negotiated by all parties in a less protracted and expensive way. The compartmentalization of these issues (in the way the Baker/Brady Plans and the various successive Official Debt initiatives have done) has resulted in official debt not being properly addressed in middle-income countries; commercial debt being virtually ignored in low-income countries; and multilateral (IFI) debt being swept under the carpet in the case of both groups. This has resulted in endless and spurious arguments about burden-

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sharing which inhibit constructive reactions from creditors and make it difficult to arrive at sensible outcomes for debtors. The problem is best explained by the matrix shown below:

TABLE 12 MATRIX FOR A COMPREHENSIVE DEBT REDUCTION STRATEGY

Type of Creditor

Type of Debtor	Private/Commercial		Official			
			Bilateral		Multilateral	
	Banks	Others	Aid Agencies	ECAs*	IFIs	RDBs**
Middle-Income	London Club Baker Brady	NDW***	NDW	Paris Club	NDW	NDW
Low-Income	London Club	NDW	Paris Club	Venice Toronto Trinidad Pronk	NDW	NDW

* ECAs = Export Credit Agencies
** RDBs = Regional Development Banks
*** NDW = Not Dealt With.

7.14 The picture permits an immediate glimpse of where the holes are in the different debt initiatives (in seven out of the twelve different debtor/creditor combinations which are important). It is self-evident that for the debt problem to be dealt with sensibly, it is simply not possible to have twelve plans for dealing with each of these twelve different boxes; ergo the need for greater simplicity and comprehensiveness. The World Bank and IMF would do both debtors and creditors a signal service if they could convey that rather obvious point to their more powerful shareholders and push for a coherent framework within which all types of debt, particularly for the low-income countries, could be dealt with in a manner which, if not entirely satisfactory to all concerned, would at least be mutually acceptable as a compromise.

Appendix

THE ABIDJAN DECLARATION ON DEBT RELIEF, RECOVERY AND DEMOCRACY IN AFRICA

North-South Roundtable on African Debt Relief, Recovery and Democracy
Abidjan, Côte d'Ivoire, 8-9 July 1991

Organized by: Parliamentarians for Global Action and the African Development Bank, in cooperation with the Friedrich Ebert Foundation and the Forum on Debt and Development.

Parliamentarians from Africa and Northern countries met in Abidjan on 8 and 9 July 1991 to agree on a strategy of action to support African recovery, resolve the African human development crisis, reduce the excessive debt burdens, and strengthen African plans to democratize their societies. Legislators from different political parties, senior spokespersons on these issues, participated in this unprecedented two-day Roundtable, organized by Parliamentarians for Global Action and the African Development Bank, in cooperation with the Friedrich Ebert Stiftung and the Forum on Debt and Development. The meeting was honoured with the presence of President Masire of Botswana, Chairman of the Global Coalition for Africa.

The parliamentarians agreed that, above all, the promotion of democracy in Africa is the supreme goal. Democracy enjoys a long and cherished tradition in Africa derived from ancient African civilisations and inherited, with imperfection, by modern societies of the 20th century. The fundamental values of democratic life are universal to humanity as a whole. But no single kind of democracy is applicable to all societies, and no single culture enjoys exclusive insight into democratic truths. The African parliamentarians expressed their confidence that Africa can achieve its own democratic destiny indigenous to their unique cultures. Democracy in Africa, they believed, is integral to, not consequential upon, the democratic reforms sweeping elsewhere throughout the world. Colleagues from

Northern countries expressed equal confidence and strong support for that endeavour. African democracy must grow in African soil.

Within Africa, participants therefore concluded, democracy enjoyed primacy as the paramount value of their societies. It is not negotiable, or in any way subject to, other governmental policies. Economic reform, including structural adjustment programmes, must be fully transparent, answering to the interests and will of the African peoples. Conditionality, whether economic or political, must not be imposed, but rather agreed upon with the free consent of African leaders and citizenry. It should be applied only as a last resort to encourage and ensure the survival of democracy and protection of human rights. Popular participation, governmental accountability, and transparency of domestic policy are preconditions of good governance and sustainable development. Participants looked to the international community - sister nations and multilateral organizations together - to respect, encourage and support these features of civil society in Africa.

African parliamentarians appealed to the colleagues throughout the continent therefore to maintain the present course of democratic reform. Their societies must respect basic human rights, notably the role of women in national societies, ensure regular free and fair elections, and build strong and enduring political institutions that guarantee freedom of choice to the people. Societies must maintain constant vigilance against all forms and sources of corruption and against excessive military expenditure through, inter alia, free press and media. Such basic features must be constitutionally safeguarded, to ensure their long-term viability and protection against the corrosive blight of authoritarianism.

To this end, African parliamentarians agreed to form a task force, to be assisted by colleagues from the North, to monitor the progress of democracy in Africa in the 1990s. Such assistance, it was agreed, should include both technical and financial support through appeals to national governments, private agencies and international organizations.

Participants noted the link between democracy and development. Human rights, civil rights and economic rights are inalienable and indivisible. The tragic economic plight Africa faces today, one of the most dramatic failures in human history, is the result, to a large extent, of democratic failures of recent decades, both within Africa and in the decision making structure of the international community more generally. Without democracy, there can be no social stability for development. Without development, there can be no sustainable democracy. Freedom from want, freedom from fear, are the two cardinal tenets of democracy in Africa, as elsewhere.

The Roundtable was organized in the belief that a necessary feature of the resolution of the chronic debt crisis is political leadership. The central constraint to resolution is political passivity not technical complexity. When the G-7 leaders meet to decide the economic fate of the world for the next year the discrepancy between the human condition in Africa and elsewhere should be one of the top items on the international agenda.

Dealing with the African debt crisis, particularly for the lowest-income countries South of the Sahara, is among the most pressing development priorities which the international community confronts. Africa as a whole has suffered severe economic decline in the 1980's. Its collective GNP has shrunk from over $200 billion in 1980 to $140 billion in 1990. Per capita incomes have declined by 2.2% annually over the decade resulting in a cumulative decline of over 30%. As a consequence malnutrition levels have increased and, in many countries, infant mortality rates have also risen while essential expenditures on education and health have been reduced sharply.

In response to the African human development crisis, parliamentarians called for acceptance of a minimum goal for economic advance of 1% per capita per year. To achieve this annual increase, both domestic savings and external financial flows will be required. Parliamentarians noted that many African governments have already taken steps to increase their domestic savings. To complement and support this action it is essential that Official Development Assistance (ODA) from OECD countries be raised from past levels of 3% real growth per year to 5%, and that additional debt relief be provided immediately.

Debt is only one of the causes of the severe economic problems Africa is facing. Still, debt itself is an integral element in intensifying the vicious circle of Africa's decreasing performance and increasing marginalisation. Debt relief is a necessary precondition for solving these problems.

Despite the political and technocratic efforts made since 1986 to arrest and cure Africa's debt cancer, the actual results have been very disappointing. Despite the provision of progressively more generous terms for debt relief, the African debt situation is now much worse than it has ever been. Sub-Saharan Africa's debt has increased from $72.5 billion in 1982 to nearly $163 billion in 1990. African debt service accounted for only 4% of output in 1982 but 8% in 1990 and even those ratios obscure the fact that if Africa had met its scheduled obligations in 1990, debt service payments would have absorbed 15% of output and nearly 60% of the region's export income. Low-income Africa's debt problem is worse than that of any other developing region because of its much weaker capacity to repay.

At present levels of domestic savings and international commodity prices, low-income Africa cannot undertake essential reconstruction, modernization and expansion of its capital stock out of domestic resources to any significant degree. Foreign capital inflow is therefore needed to initiate economic recovery and to help sustain it thereafter. But such capital inflow will not take place until the present debt situation is satisfactorily dealt with. This is a necessary, though not sufficient, condition for progress to be made. Debt relief needs to be complemented by domestic efforts and policies dedicated to: the resumption of human resources development and economic growth; encouraging the participation of African citizens and its private sector to play a larger productive role in development; and improving social conditions.

As a first priority, decisionmakers in the industrialized countries should adopt a coherent debt strategy for Africa which would provide substantial relief for all types of African debt - owed to bilateral, multilateral and private creditors. Prompt action on providing debt relief for Poland and Egypt well beyond the Toronto Terms demonstrates that rapid and large scale debt reduction for low income Africa must be equally possible if the same political will is exercised.

As a second priority, emphasis should be put on support for the current democratization process in Africa. Democracy, developed in the African social and cultural context, is equally vital to the continent's development. An action plan is needed to seek internal and external support for African

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efforts to renew pluralism in their societies and to ensure the empowerment of ordinary citizens.

The Conference agreed on the following action programme.

ACTION PLAN ON DEBT

1. After almost 10 years of debt crisis management, a coherent framework for debt reduction and relief has not yet emerged. In order to facilitate prospects for returning to a trajectory of sustainable long-term development Africa's debt service payments must be reduced dramatically. Such a reduction can only be achieved by a comprehensive package which addresses all forms of debt: bilateral, multilateral, and private. The aim of the new debt strategy must be to restore growth and development, complemented by appropiate domestic policies of reform.

2. The Conference urges Heads of Governments and Finance Ministers to use the occasion of the London Economic Summit in July 1991 to agree to implement fully the "Trinidad Terms" as a next important step to reduce bilateral debt levels and as an expression of clear political will to substantially reduce African debt levels. The adoption of Trinidad Terms would represent a positive step towards a more effective solution. Subsequently the proposal of Dutch Development Cooperation Minister Jan Pronk to cancel all bilateral official debt to those least developed countries which are severely debt-distressed and to other low-income countries pursuing strong economic reform programmes, should be adopted. A two-thirds reduction in the stock of official bilateral debt of Sub-Saharan countries, proposed under the Trinidad Terms, should be the immediate objective of creditor governments. They should be prepared to increase this to the full stock (100%) of bilateral debt in particular cases where this may be justified to restore prospects for sustainable development.

3. Where only a two-thirds reduction in debt stocks is achieved, the Trinidad Terms should be enhanced either (a) by reducing interest rates applied to the residual rescheduled debt stock to intermediate, below market levels for the lowest-income countries, and/or (b) promoting the tradeability and conversion of residual official debt stocks through innovative mechanisms aimed at financing environmental, social and

selective privatization programmes of high development priority in low-income Africa. The total stock of debt should be reduced, rather than relief being provided in small tranches over very short consolidation periods. The Trinidad Terms should be extended to severely indebted countries (incl. Nigeria, Ivory Coast and Congo) not eligible under present criteria for access to such terms. Extended terms for debt relief should be introduced for other country groupings, which permit levels of debt reduction commensurate with their level of economic distress.

4. The Trinidad terms can be applied successfully only if necessary legislative instruments and budgetary appropriations in all creditor countries permit debt reductions on the basis of equal burden-sharing. The Conference calls on creditor governments and parliaments to establish such conditions. The G7 Summit and the IMF/WB Annual Meeting should agree that the budgetary costs of extending Trinidad Terms to low-income Africa would be additional to existing aid budgets. Except for donor countries which exceed the UN target of 0.7% ODA to GNP, debt reduction should not be financed out of existing aid budgets.

5. Debt relief negotiations are not simply a technical financial exercise but are an integral part of arranging funding for development. Therefore the working practices and procedures of the Paris Club should be changed in order to facilitate and expedite the negotiation of reduced levels of bilateral debt and debt service. In the case of African countries, debt relief negotiations should be conducted at Consultative Group meetings which are convened by the World Bank with the participation of the IMF to determine medium-term external financing requirements to support a particular country's economic reform programmes and development efforts. The Paris Club's role would be to ratify the substantive conclusions reached at Consultative Group meetings on the debt relief to be provided to individual debtors. Greater transparancy is needed in both Paris Club and Consultative Group meetings.

6. The Conference calls on IMF Member Governments to adopt a policy of "zero net transfers" to the region for at least the 1991-1997 period. Between 1986-90 the IMF has extracted over $3 billion by way of debt service collections from low-income countries in Sub-Saharan Africa. Debt service obligations to the IMF pre-empt too large a proportion of total debt

service to permit adequate payments to other creditors or the financing of essential imports. It is urgent to expand the facilities available for some African debtors to clear their arrears with the IMF, the costs of which should not be borne by aid budgets. The Fund's present exposure in low-income Africa should be wound down through means such as a one-time emission of a small amount of SDR's to permit a write-off of IMF claims, or a sale of a small fraction of the IMF's gold reserves to achieve the same objective. Given the long-term financing needs of low-income countries in Africa the Conference believes that the Fund's financing role in low-income Africa should be modified over the medium term although the IMF should continue to play a policy advisory role.

7. The World Bank's commendable efforts to help low-income African countries cope better with debt service burdens on IBRD loans, should be improved by (a) enabling an up-front reduction in IBRD obligations through appropriately structured IDA-financing; (b) expanded IBRD and IDA lending in countries such as Côte d'Ivoire, Nigeria and Senegal where net transfers from the Bank are negative; and (c) an expansion of IDA resources commensurate with Africa's urgent needs for expanded concessional financing from external sources. A similar approach should be adopted by the African Development Bank with Member Governments being willing to expand substantially the soft loan funds of the AfDB.

8. The private debt problem of African countries is underestimated and requires the urgent attention of banks and governments around the world. Although long-term commercial debt accounts for less than 16% of the stock of Sub-Saharan debt (excluding Nigeria) it absorbs nearly 30% of total debt service. Arrears on commercial bank loans also impair the access of African countries to trade finance. Commercial banks should therefore agree to debt reduction similar to debt reductions granted by governments. In addition to other measures taken to facilitate commercial bank reduction they should be more co-operative in using the Special Debt Reduction Facility set up by the World Bank to reduce commercial debts. The Conference calls on the Members of the World Bank Group to exert maximum efforts in removing internal operating obstacles for wider use of the Special Debt Reduction Facility before the terminal date of June 30, 1992. The resources of this facility should be expanded considerably to permit its use across all low-income African countries, and its tenure extended to 1995.

9. Creditor governments should stimulate a process of parallel debt reductions by both commercial banks and official creditors. Where necessary, regulatory and tax regimes in the home countries of creditor banks should be realigned so as to encourage banks to actually reduce debt against which extensive provisions have already been made. Tax relief provided to banks at the time that they provisioned against non-payment of debt owed by low-income African countries should be withdrawn if such debt is not cancelled within 3 years. Creditor governments should stimulate the funding of social and environmental programmes through debt conversions which employ commercial as well as official claims on the debtor governments.

10. We support again the call for all industrialized nations to set specific time-targets to provide at least 0.7% of their GNP by way of official development assistance before the end of the present decade. In particular, the OECD donor nations should commit themselves to expanding the resources available to IDA and the AfDF in order to permit these institutions to increase their net financial transfers to low-income Africa by at least 5% per year in real terms without compromising financial transfers to low-income countries in other developing regions. Return of flight capital and renewed private investment are also essential requirements for African recovery.

11. In making decisions on exchange rates and interest rates the G-7 should take into account the interests of the developing countries. In the current environment of low commodity prices and high interest rates, a significant reduction of interest rates would contribute to resolving the debt problem of Africa.

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