Percy S. Mistry

Resolving Africa's Multilateral Debt Problem

A Response to the IMF and the World Bank

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Noordeinde 107 A, 2514 GE The Hague, the Netherlands
Tel: 31-70-3653820 Fax: 31-70-3463939 E-mail: fondad@pi.net

The Author

Percy S. Mistry is Chairman of Oxford International Group, and serves on the boards of several corporations, including Oxford International Finance, Synergy Power Corporation, and the Industrial Credit and Investment Corporation of India. He was formerly Chief-of-Staff in the Finance Complex of the World Bank. He has been an Advisor on matters of debt, macroeconomic management and structural adjustment to several governments in Africa, Asia, and Europe, as well as a consultant for a variety of multilateral organisations. He was Chief Consultant of a three-volume study on economic integration in Southern Africa, and author of *Regional Integration Arrangements in Economic Development: Panacea or Pitfall?* (forthcoming).

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Director: Jan Joost Teunissen

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Abbreviations

ACP	Africa, Caribbean and the Pacific
AfDB	African Development Bank
AfDF	African Development Fund (AfDB's soft-loan window)
AOMIs	Arab and Other Multilateral Institutions
DRR	Debt Reduction and Relief
DW	Developing World
EC	European Commission
ECU	European Currency Unit
EIB	European Investment Bank
ESAF	Enhanced Structural Adjustment Facility
EU	European Union
G-7	Group of Seven (Canada, France, Germany, Italy, Japan, UK, US)
GNP	Gross National Product
GRA	General Resources Account (of the IMF)
HIPCs	Heavily-Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association (The World Bank's soft-loan window)
IFAD	International Fund for Agricultural Development
IFIs	International Financial Institutions (IMF and World Bank)
IMF	International Monetary Fund
MDBs	Multilateral Development Banks
MDF	Multilateral Debt Facility
MDRR	Multilateral Debt Reduction and Relief
MTF	Multilateral Trust Fund
NGOs	Non-Governmental Organisations
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
OPEC	Organisation of Petroleum Exporting Countries
SAF	Structural Adjustment Facility
SICOM	Special Independent Commission on Multilateral Debt
SDR	Special Drawing Right (in the IMF)
SILICs	Severely-Indebted Low-Income Countries
SSA	Sub-Saharan Africa
UNCTAD	United Nations Conference on Trade and Development
US	United States of America
WB	The World Bank
WBG	The World Bank Group

Preface

Implications of the rapidly growing multilateral debt of severely-indebted low-income countries are alarming. They were brought to public attention forcefully three years ago by Percy Mistry in his study *Multilateral Debt: An Emerging Crisis?* (published by Fondad in early 1994).

Since then, public concern about the growing multilateral debt overhang has snowballed. Various OECD governments (in particular the Nordic and British) have actively responded to distress signals on multilateral debt, calls for its reduction have featured prominently in the communiqués of subsequent G-7 Summits, and developing countries and non-governmental organisations (such as Eurodad, Novib and Oxfam) have mounted political pressure for substantial multilateral debt reduction and relief. While the World Bank and the International Monetary Fund have now proposed a special debt initiative for the heavily-indebted poor countries, Percy Mistry argues that their efforts are insufficient to deal with the multilateral debt problem in a satisfactory manner.

Mistry's present study of the problem, which includes his response to the most recent IMF/World Bank proposals, is most timely. In his usual thorough and undiplomatic manner, Mistry takes a detailed look at the figures and policies behind the multilateral debt crisis. He suggests compelling arguments for a new strategy to resolve the crisis. Even though one may disagree with Mistry's severe criticism of the World Bank and the IMF, it is hard to dismiss his passionate plea for handling the problem more effectively.

Hopefully, the analysis and critique presented in this book will inspire officials and independent experts as well as non-governmental organisations to increase their efforts in solving the crisis. Percy Mistry shows that, in the case of sub-Saharan Africa, the servicing of multilateral debt absorbs almost half of its total debt payments. In a large number of African countries, multilateral debt servicing is financed by extraordinary levels of bilateral grant aid flows. Such diversion of aid flows is illogical. It detracts from essential developmental, humanitarian and social infrastructural support thus further damaging Africa's recovery prospects.

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Jan Joost Teunissen
Director
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I The Multilateral Debt Crisis of the 1990s

Introduction

Two joint International Monetary Fund/World Bank papers (IMF/WB: 1996a,b) suggest that twenty countries, seventeen of which are in sub-Saharan Africa, may be affected by a serious multilateral debt problem. Eight[1] of these countries are now classified as having an unsustainable multilateral debt burden; twelve[2] others are acknowledged to be under possible stress, while two[3] obvious civil war-affected distress cases were not analysed because of data irregularities which made scenario projections for them difficult. Despite their intimidating sophistication, these analyses by the IMF and the World Bank (international financial institutions or IFIs) raise questions about whether their shifting positions on the extent of the problem and the moving goal-posts they use for cut-off criteria suggest an analytical bias toward down-playing the number of countries affected.

Contrary to the changing IFI position, more dispassionate observers suggest that a serious multilateral debt problem affects about thirty to thirty-five low-income countries, of which twenty-four to twenty-seven are in sub-Saharan Africa.[4] For the sake of argument, taking at face value the IFIs' last count of twenty affected countries, it is clear that the multilateral debt crisis of the 1990s affects more debtors than those (fifteen to eighteen) affected by the commercial bank (London Club) debt crisis of the 1980s, but fewer than the fifty to fifty-five countries affected by too large an overhang of bilateral (Paris Club) debt. Neither of these crises has been satisfactorily dealt with as yet. While the multilateral debt crisis of the 1990s differs from the commercial debt crisis of the 1980s in that it poses no threat to the stability of the international financial system, the need for a new strategy to resolve the crisis is imperative.

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1 Burundi, Guinea Bissau, Mozambique, Nicaragua, Sao Tome and Principe, Sudan, Zambia and Zaire.

2 Bolivia, Cameroon, Congo, Côte d'Ivoire, Ethiopia, Guyana, Madagascar Myanmar, Niger, Rwanda, Tanzania and Uganda.

3 Liberia and Somalia; Nigeria, while not experiencing civil war, can also be included in this category.

4 See for example Mistry (1993), Martin (1993 and 1996), UNCTAD (1993) and Non-Aligned Movement (1994).

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As Killick (1995) observes:

> 'There appears to be an overwhelming case for a new approach to the issue for low-income debtor-country governments seeking seriously to tackle their countries' basic economic weaknesses. The past (multilateral debt) refinancing strategy has not prevented the problem from growing, offers debtors no exit prospects, makes large claims on scarce bilateral resources, does not represent an even-handed distribution of burdens, results in geographical patterns of concessional aid allocation which are inefficient and inequitable, undermines the credibility of Bank and Fund attempts to induce improved policies through conditionality, and creates moral hazard dangers for the multilateral lenders themselves.'

Multilateral debt reduction and relief are now essential in order to re-ignite the process of balanced, sustainable development in sub-Saharan Africa. Multilateral debt service payments presently exceed, by a large multiple, the expenditures that African countries are able to make for human capital maintenance and development (e.g. on health, education and basic nutrition), for social safety nets or for ecological protection. They are therefore imposing significant additional human and environmental costs in countries where such costs, induced by the adjustment process itself, have already been unconscionably high (Oxfam: 1996).

It can legitimately be counter-argued that room still exists for many of these severely-indebted low-income countries to increase social and other priority expenditures by reducing unproductive expenditures; e.g. defence, internal security and foreign representation. Rapid declines in such expenditures have been occurring in any event over the last five years. They are now approaching a level where further cutbacks risk being internally destabilising and externally dangerous, given the political circumstances and border disputes which confront many African countries in their immediate neighbourhoods.

It is now widely accepted, with the support of empirical evidence, that multilateral debt service payments are having serious *crowding-out* effects on public and private investment resulting in growth and export earnings capacity being compromised (IMF/WB: 1996a; Martin: 1996) thus reinforcing the vicious cycle of adjustment failure in sub-Saharan Africa. Meeting such payment obligations is also imposing unnecessarily heavy pre-emptive burdens on the increasingly constrained bilateral aid programmes of several donor countries.

Yet because the IFIs have managed to persuade bilaterals to provide exceptional levels of grant aid for multilateral debt servicing between 1990-94, the *extraordinary* is now being taken for granted by the IFIs as being *ordinary* (IMF/WB: 1995a, 1995b, 1996b; Mistry: 1994). Expanded bilateral grant aid

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flows are being treated as normal external financing (i.e. the same as export earnings) which debt-distressed countries can rely on annually for meeting debt service payments in the sustainability calculations which the IFIs make (IMF/WB: 1995a, 1995b, 1996b). Such treatment of aid flows is illogical. It defeats the notion of *debt sustainability* (Martin: 1996; IMF/WB: 1996b). Reason would suggest that if aid flows are seen as normal external financing for severely-indebted low-income countries, the notion of debt sustainability, i.e. being able to meet debt service obligations *without* recourse to extraordinary financing, becomes an irrational circularity.

The IMF/World Bank Response

At the urging of leaders from the South, especially from the Non-Aligned Movement, and of influential European NGOs in the North, the last four G-7 Summits from Tokyo to Lyon have called for action to relieve the multilateral debt burdens of several heavily-indebted poor countries. Little progress was made by the International Monetary Fund and the World Bank in responding to these calls. While the need for effective multilateral debt reduction and relief (MDRR) is beyond dispute, over the last three years the IFIs have focused their efforts on opposing a systematic approach to MDRR. The U-turn attempted by World Bank staff in mid-1995, in proposing a Multilateral Debt Facility, represented a courageous shift in acknowledging (implicitly) that more needed to be done and in conceptualising a way forward. Since then, events have been accelerated by calls from the Development Committee in October 1995 for the IMF and the World Bank to put forward workable proposals for dealing with the multilateral debt crisis in a more effective manner. Nevertheless, the initial strategy of these two institutions was to minimise the extent and dimensions of the problem in an effort to convince major shareholding countries that there was no widespread multilateral debt problem as such. Their general line of reasoning comprised the following arguments:

(a) only eight heavily-indebted poor countries had a multilateral debt overhang;

(b) for these countries remedial action was already being taken by the IFIs;

(c) no further action was necessary;

(d) if such action was pressed on them it would result in:
- disincentives to provide further concessional resources,
- policy-reform retrogression,

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- severe moral hazard problems, and
- dire consequences for their financial integrity;

(e) as a consequence, creditworthy borrowing countries would suffer because of damage to the market credit rating of the IFIs.

These arguments were demonstrated to be false. In April 1995, there was a specific call from the Development Committee for the IMF/WB to come up with practical proposals for implementing multilateral debt reduction and relief. That call reflected growing official impatience in many OECD governments with what were seen as attempts on the part of the IFIs to obfuscate, procrastinate and, to the extent possible, impede progress on an urgent international initiative.

In July 1995, the World Bank produced an internal draft document proposing a Multilateral Debt Facility (MDF) which was leaked by members of the management and staff to NGOs and the international press. While the architecture of the MDF was ill-conceived and seriously flawed, the document did acknowledge that the multilateral debt problem was far larger, and affected more countries (at least 24), than was previously portrayed by the IFIs.

Subsequent embarrassment led the Development Committee in September 1995 to require the IMF/WB to present firm proposals for multilateral debt reduction and relief at its next meeting in April 1996. Both IFIs presented analytical papers to their Boards in March 1996, followed by a short paper to the Development Committee in April 1996 entitled, 'A Framework for Action to Resolve the Debt Problems of the Heavily Indebted Poor Countries' (for a summary of the initiative, see Annex 1).

In these papers, the IFIs have resiled from the World Bank's July 1995 analysis on the number of countries with a multilateral debt overhang and the extent of MDRR needed. Instead they proposed an MDRR framework based on six principles:

(1) targeting overall debt sustainability on a case-by-case basis focusing on the totality of a country's debt;

(2) establishing demonstrable policy performance on the part of debtors to achieve a sustainable outcome;

(3) designing new measures which build on existing mechanisms;

(4) requiring that any further action on the part of multilateral creditors should involve further actions by all creditors on the basis of broad and equitable participation;

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(5) preserving the financial integrity and preferred creditor status of the IFIs in order to protect their other borrowers;

(6) requiring bilateral aid donors to provide new external finance on appropriately concessional terms to enable pursuit of policy reform by heavily-indebted poor countries in order to establish an acceptable policy performance track record.

This new approach is, in substance, unprincipled. It represents another attempt on the part of the IFIs to continue side-tracking the more meaningful MDRR initiatives which have been proposed by various experts and organisations over the past few years.

In June 1996, the World Bank and IMF produced two more papers. The first reports on the status of World Bank participation in a new debt initiative. The second is a joint IMF/WB paper which attempts to establish the possible costs of the new debt initiative under different assumptions and their distribution among various categories of creditors.

The first paper suggests how a Multilateral Trust Fund (MTF) to provide relief on multilateral debt might be financed. It (a) reiterates the six self-serving principles for IMF/WB action presented to the April 1996 Meeting of the Development Committee; and (b) uses arguments to justify deflecting attention from the multilateral debt problem to a more generalised debt problem. These arguments are similar to ones which were used when the World Bank attempted to argue that there was no multilateral debt problem of significance to worry about.

The paper emphasises actions to be taken by other creditors instead of concentrating on what the multilaterals should do to ameliorate a problem which is, in part, of their own creation. It reiterates that the World Bank does not forgive or write-off debt. This is done to lay the foundation for creating a separate fund to pay the World Bank for what is going to be, inescapably, a write-off in the only sense that counts – i.e. the debtor simply cannot pay it back.

Arguing that instruments deployed by the World Bank for the new debt initiative should be effective, flexible and predictable and build on existing instruments for multilateral debt relief, the paper suggests augmenting present measures with: (i) supplemental IDA allocations to poor countries; (ii) using IDA grants instead of credits in exceptional instances; (iii) special allocations of IBRD net income to the Multilateral Trust Fund.

The second paper is the first serious attempt by the IMF/WB at quantifying what the costs of the new debt initiative are likely to be (see Annex 2). As with all the previous IMF/WB papers, it argues on the one hand for careful country-by-country analysis and treatment of affected heavily-indebted poor countries (HIPCs). But, on the other, it rests its case on meeting just one mechanical test for determining post-relief debt sustainability for all of the HIPCs. This paper leaves the same uncomfortable feeling as previous papers from these two organisations that the object of the exercise for the IMF/WB remains one of minimising the costs of providing MDRR and to delay for as long as possible the application of MDRR.

Both papers appear to be motivated by three reasons: (i) to reduce to an absolute minimum the number of countries to which MDRR has to be applied; (ii) to give both institutions a prolonged period of time to exert a short-leash policy-reform chokehold over the HIPCs and prove that their adjustment prescriptions will work if they are given sufficient time; and (iii) to provide a sufficiently long lead time for their own contributions to any future trust fund to be financed from allocations of their net income thus deflecting pressure to reduce immediately their reserves.

These concerns of the World Bank and the IMF might be acceptable if they did not result in doing more damage to the HIPCs whose recovery prospects remain severely compromised by their debt overhang and particularly their multilateral debt overhang. The longer remedies are postponed, the more expensive they will be for everyone to apply. Moreover, further delays in the application of MDRR will result in doing more damage to HIPC economies and delaying their eventual recovery.

The Need for an Alternative Approach

The IMF/WB calculations do not reveal other critical variables and assumptions which have been called for by dispassionate observers, such as for example: (i) assumptions about levels of aid flows during the interim period and thereafter; (ii) the connection between such flows and post-relief debt sustainability; and (iii) analysis of fiscal indicators of debt-service sustainability based on internal resource generation rather than aid flows.

Instead of adhering to a seriously flawed and unduly protracted six-year, two-stage qualification period before remedies under the envisaged new debt initiative can be triggered, the IFIs (or, better still, more dispassionate and independent analysts) should be asked to look at the relative merits and costs of providing front-loaded debt reduction and relief to HIPCs so that they can achieve post-relief debt sustainability within a time frame of three years or at most four. The political objective should be to provide a complete exit to HIPCs from the debt trap by the year 2000 at the latest. That would be more realistic and based less on guesswork and projections about outcomes too far into the future to be made with any degree of confidence.

Judging from the recent IMF/WB papers, the response of the IFIs remains obstructionist and disappointing. There seems to be a basic unwillingness on the part of these two institutions to take much bolder steps towards resolving an urgent problem. In the case of the IMF, it is particularly unfortunate that the debate on MDRR is being used, entirely inappropriately, as an opportunity to advance its own case for an expanded, self-funding Enhanced Structural Adjustment Facility (ESAF). This would not solve the multilateral debt problem, in fact, it may even add to the multilateral debt problem if ESAF's terms are not equivalent to those of IDA.

Based on the above mentioned six principles and supported by their own analysis, the IFIs offer no details as to how MDRR might be provided or how the funds required for MDRR would be mobilised, organised or applied in the case of each eligible country. Their behaviour so far suggests that the IFIs intend to employ the strategy and tactics of the Paris Club – which has procrastinated and delayed resolution of the bilateral debt problem for over twelve years with partial and ineffectual adjustments to reduction/rescheduling terms. The Paris Club's annual changes have resulted in much lower amounts of debt stock reduction than are essential for sustainable outcomes, as has been argued repeatedly by the IFIs themselves over the last four years. They have not resulted in improving the sustainability of debt servicing by the heavily-indebted poor countries nor have they had any effect on improving their prospects for economic recovery. The only countries in which such effects have been achieved are those in which substantial up-front debt stock reduction was resorted to – i.e. Poland and Egypt.

For the heavily-indebted poor countries (particularly those in Africa), the Paris Club has tolerated a *de facto* build-up of large arrears to levels which make substantial bilateral debt stock reduction inevitable. Thus the Paris Club has achieved *de facto*, what it has been reluctant to acknowledge *de jure* – effectively resulting in debtor countries viewing Paris Club debt as dead debt which does not need to be paid. Bilateral creditors have thus effectively made themselves *subordinated creditors* seemingly (but not entirely) by default. But the Paris Club has achieved this outcome in the least attractive way – i.e. by encouraging, through the wrong actions on its part, a breakdown of credibility and discipline in debtor-creditor relationships. In doing so it has seriously damaged the long-term integrity of debtor-creditor relations in the bilateral context and has cast a permanent pall on the future servicing of official bilateral debt obligations by poor developing countries.

With regard to multilateral debt, arrears have also been built-up in the case of the IMF and the African Development Bank although not yet to the same degree as arrears on bilateral debt. High arrears have been prevented in the case of the World Bank by refinancing through IDA, the fifth-dimension facility, and extraordinary grant support provided by bilateral donors to maintain debt service to the IFIs. For obvious reasons, multilateral creditors cannot afford to be as tolerant of arrears as bilateral creditors can; which would argue even more strongly in favour of properly structured and systematic MDRR as a matter of considerable urgency.

Given the likelihood that the IMF and World Bank will continue to act in ways which delay the right MDRR remedies from emerging, a different approach is needed. If real progress is to be achieved on MDRR, it should by now be clear to all shareholder governments that the IFIs cannot be expected to act against what they perceive to be their own vested institutional interests. Therefore, one crucial ingredient of a new approach would be that responsibility for coming up with an appropriate solution to MDRR is transferred from the IFIs to an independent, objective forum with no vested interest in the outcome. One other important element of a new approach should be that measures are taken to substantially reduce debt *stocks* rather than engage in repeated rescheduling of debt-service obligations. This point has been argued eloquently by the World Bank itself when it observed:

> 'The debt problem of the 1980s ... is by no means over for many severely-indebted low-income countries, most of them in Sub-Saharan Africa. ... many SILICs face an unsustainably large debt overhang, despite [various debt reduction initiatives]. ... The problem is not cash flow; most receive transfers far in excess of their actual debt service payments. Instead, the problem is their persistently large, and sometimes, growing debt stocks. For many SILICs, ... there is no viable alternative to debt stock reduction.'[5]

The following chapters will explore the dimensions of Africa's multilateral debt problem and suggest what might be done to alleviate this burden by outlining a new multilateral debt strategy.

5 World Bank, World Debt Tables 1994-1995.

II Overall Dimensions of Sub-Saharan Africa's Multilateral Debt Problem

Before going into Africa's debt in detail it is perhaps useful to put the African economic and debt situation in a global context as the comparative figures in Table 1 attempt to do. These comparative figures suggest that, as a part of the developing world, sub-Saharan Africa under-produces, is over-indebted, has too small a cushion of international reserves and accounts for too large a proportion (relative to its trade and GNP) of the developing world's current account imbalance.

In its debt structure it is heavily exposed to official creditors and particularly to multilateral creditors while being under-exposed to private creditors reflecting, by and large, the relentless erosion of its commercial creditworthiness. Related to its high proportion of multilateral debt is its extraordinarily high share of the developing world's arrears on external debt.

Table 1 Sub-Saharan Africa in the Developing World: 1994
(billions of US dollars except where indicated otherwise)

	Sub-Saharan Africa (SSA)	Developing World (DW)	SSA/DW (%)
Population (Millions)	579.00	4,690.00	12.34%
Gross National Product	255.00	4,770.00	5.34%
Exports	82.76	1,163.65	7.11%
Imports	87.86	1,182.11	7.43%
Reserves (1993)	14.97	396.22	3.78%
Current Account Imbalance	–10.64	–95.25	11.17%
Total Debt	**221.12**	**1,944.60**	**11.37%**
of which:			
Bilateral Debt	74.22	508.28	14.60%
Multilateral Debt	57.77	312.84	18.46%
Private Debt (LT+ST)*	69.27	1,087.91	6.37%
Total Arrears on Debt	**54.28**	**128.50**	**42.24%**
of which:			
Interest Arrears	19.86	35.56	55.85%
Principal Arrears	34.42	92.94	37.03%

*LT = Long-Term; ST = Short-Term

Source: Debtor Reporting System, The World Bank.

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The pre-emption of debt service by multilateral preferred creditors is obviously impinging severely on sub-Saharan Africa's ability to pay other creditors. Despite the increasing write-down of bilateral debt by creditor governments, sub-Saharan Africa has become excessively aid-dependent. There is no exit strategy in sight for the reduction of that dependence and the concomitant restoration of the continent's economic sovereignty – which has been ceded virtually in its entirety to donors, and especially to the IMF and the World Bank.

Africa's debt problems have been dealt with extensively in the literature over the past few years (see e.g. Husain and Underwood: 1991; Killick and Martin: 1989; Krumm: 1985; Lancaster: 1991; Mistry: 1991, 1989; OAU: 1987; UN: 1988, 1991). But, even as the dangers it poses have been recognised, failure to deal with the problem has resulted in its dimensions having grown relentlessly. The overall growth of sub-Saharan Africa's external debt is depicted in Table 2 below. Outstanding multilateral debt figures for individual countries are presented in Annex 3.

Table 2 Growth of Sub-Saharan Africa's External Debt: 1980-94
(billions of US Dollars)

	1980	1985	1990	1994
Total External Debt	**101.25**	**122.02**	**197.67**	**221.12**
SSA (excl. South Africa)	84.35	98.92	171.51	193.27
South Africa	16.90	23.10	26.16	27.85
Total Long Term + IMF Debt	**73.91**	**94.67**	**167.07**	**181.03**
SSA (excl. South Africa)	61.80	84.55	149.97	162.52
South Africa	12.11	10.12 *	17.10	18.51
of which:				
Bilateral Debt	**17.04**	**29.79**	**66.36**	**74.22**
Multilateral Debt	**10.59**	**23.40**	**43.82**	**57.77**
Multilateral Bank Debt	7.56	16.67	37.21	50.75
IMF Credit	3.03	6.73	6.61	7.02
Private Debt	**46.28**	**40.66**	**56.89**	**49.04**
SSA (excl. South Africa)	34.17	31.36	39.79	30.53
South Africa	12.11	9.30	17.10	18.51
Total Short-Term Debt	**27.34**	**27.35**	**30.60**	**40.09**
SSA (excl. South Africa)	22.55	14.37	21.54	30.75
South Africa	4.79	12.98	9.06	9.34

* Includes $812 million owed by South Africa to the IMF which was not captured by the Debtor Reporting System of the World Bank on which this Table is based.

Source: Debtor Reporting System, World Bank.

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Growth in Official Debt

As Table 2 suggests, whereas total sub-Saharan African debt has multiplied by 2.2 times over the last fifteen years, official creditors account for almost all of the growth in indebtedness. Bilateral debt has multiplied 4.4 times despite ostensibly generous write-downs and reschedulings – the full impact of which is barely discernible in the statistics on claims owed. But only a relatively small proportion (less than 20%) of bilateral debt is actually serviced by sub-Saharan countries. Multilateral debt has multiplied by a factor of 5.5 over the same period and a much higher proportion of it (about 90%) is serviced; mainly because the consequences of not servicing such debt are too serious for most countries without commercial creditworthiness to contemplate.

Within the multilateral category, the debt owed by sub-Saharan Africa (SSA) to the multilateral development banks (principally the World Bank and the African Development Bank) has increased by a multiple of over 6.7 times whereas debt owed to the IMF has increased by barely 2.3 times. In 1994, excluding interest in arrears, the IMF accounted for less than 3.2% of the region's total debt, suggesting that its influence in the region – which is disproportionate to the financial resources it provides (or, more accurately, extracts) – derives from the authority endowed to it by its G-7 membership as a policy-policeman rather than from the extent of its financial assistance, which is minuscule.

The bulk of multilateral debt (60%) at the end of 1994 was accounted for by eleven major borrowers which owe multilateral creditors more than $2 billion each: Côte d'Ivoire, Ethiopia, Ghana, Kenya, Nigeria, Senegal, Sudan, Tanzania, Uganda, Zaire and Zambia. A further seven countries owed multilateral creditors between $1-2 billion each: Cameroon, Guinea, Madagascar, Malawi, Mali, Mozambique and Zimbabwe. Together these eighteen debtor countries owed over 75% of SSA's total debt to multilateral institutions.

Growth in Private Debt

By contrast, SSA debt owed to private creditors (short-term and long-term) excluding arrears to bilateral and multilateral creditors (see Table 3 below) has stayed relatively stable in absolute dollar terms (at around US$67 billion including South Africa and $42 billion excluding it) but has fallen sharply as a proportion of total debt. In 1980, private creditors accounted for 72.5% of sub-Saharan Africa's total debt. In 1994 they accounted for less than 31.3% of the total. Taking South Africa out of the picture, the role of private creditors shrinks even more dramatically. For the rest of SSA whereas private creditors accounted for 67.3% of total debt in 1980, that proportion had fallen to under 23.8% by 1994.

Growth in Arrears

Although sub-Saharan debt, and particularly debt owed to official creditors, has grown rapidly over the last fifteen years, arrears have grown much faster rising from negligible amounts in 1980 to account for a very large share of total outstanding debt in 1994 (see Table 4). The growth in arrears, mainly to bilateral and private creditors, is attributable almost entirely to the pre-emptive servicing of multilateral debt.

Even so, arrears to multilateral creditors (including the IMF) by SSA debtors at the end of 1994, amounted to $5.61 billion against a multilateral debt portfolio of $57.8 billion. Of this amount arrears to the IMF alone reached $4.19 billion from an outstanding portfolio of $7.02 billion. Arrears to the two major multilateral banks (the World Bank and the African Development Bank) and their soft windows amounted to $1.01 billion with an estimated further $400 million in arrears owed to other multilaterals.

Thus SSA's arrears to the IMF amounted to nearly 60% of its outstanding portfolio in that region. Arrears to the other multilaterals (mainly the two development banks, Eurolateral institutions and other smaller multilaterals) accounted for just under 3% of their combined portfolio although the arrears levels for individual multilateral institutions varied widely between 2-25% of portfolio. This combination resulted in overall multilateral arrears amounting to 9.7% of the total multilateral portfolio. By implication, therefore, arrears to bilateral creditors thus amounted to $32.3 billion (or 43.5%) in a portfolio of $74.2 billion in bilateral claims. These figures indicate that the alarming growth of arrears being incurred by SSA, and their concentration among bilateral and private creditors, is a direct consequence of the pressures on SSA debtors to service multilateral debt, leaving them with inadequate resources to meet service payments on debts owed to other creditors.

Even so, arrears to the IMF are higher than to any other creditor perhaps accounting for the pressing need which that institution has felt to create more concessional facilities for these particular debtors. SSA's arrears to the IMF are owed by five countries. Four (Liberia, Somalia, Sudan and Zaire) suffer from domestic circumstances which appear to preclude debt servicing for the time being. The fifth, Zambia, failed to adjust between 1979-94 when the IMF increased its exposure in vain attempts to achieve a change in economic direction. Arrears to the IMF from that country alone amounted to $1.2 billion at the end of 1994.

Zambia's arrears were refinanced by funding from the IMF's Enhanced Structural Adjustment Facility (ESAF) when it successfully completed its rights accumulation programme at the end of 1995. That refinancing has resulted in scarce concessional funds being drawn down for the purpose of the IMF straightening out its own books.

From: Resolving Africa's Multilateral Debt Problem: A Response to the IMF and the World Bank
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Table 3 **Growth of Sub-Saharan Africa's Arrears: 1980-94**
(billions of US Dollars; excluding South Africa)

	1980	1985	1990	1994
memo:				
Gross Short-Term Debt	22.55	14.37	21.54	30.75
Net Short-Term Debt Outstanding	22.32	12.42	11.60	10.89
Interest Arrears	**0.23**	**1.95**	**9.94**	**19.86**
of which:				
Owed to Official Creditors	0.13	1.42	7.08	15.30
Owed to Private Creditors	0.10	0.53	2.86	4.56
Principal in Arrears	**1.14**	**4.40**	**17.90**	**34.42**
of which:				
Owed to Official Creditors	0.44	2.81	10.34	22.60
Owed to Private Creditors	0.70	1.59	7.56	11.82
Total Arrears	**1.37**	**6.35**	**27.84**	**54.28**
of which:				
Owed to Official Creditors	0.57	4.23	17.42	37.90
Owed to Private Creditors	0.80	2.12	10.42	16.38
Total Arrears/Total Debt	1.62%	6.42%	16.23%	28.09%
Official Arrears/Official Debt	2.32%	9.10%	16.82%	30.32%
Private Arrears/Private Debt	1.41%	4.84%	20.27%	39.55%

Source: Debtor Reporting System, The World Bank.

Growth in Multilateral Debt Service

Excluding South Africa, sub-Saharan Africa's multilateral debt now accounts for over 26% of the region's total debt and for nearly 40% of the region's GDP. The debt service burdens it imposes are a key source of controversy in debate about their actual or potential drag effect on Africa's long-awaited but yet-to-materialise recovery. SSA's annual multilateral debt service payments have increased four-fold from $971 million in 1980 to $3.95 billion in 1994 with the proportion of exports which these payments absorb having risen from just over 1% in 1980 to nearly 5% in 1994.[1]

1 Whether it makes sense to use a mechanistic interpretation of the debt service/exports ratio in the context of African severely-indebted low-income countries as a measure of debt service sustainability or as an indicator of the burdens imposed by a debt overhang is open to question as discussion in later parts of this study will suggest.

Multilateral debt service now accounts for over 45.6% of the region's total debt service. Table 4 below shows that multilateral debt service is now more than double the amount of bilateral debt service ($1.89 billion) actually paid and significantly larger than private (short and long-term) debt service ($2.83 billion) while Table 5 indicates how the pattern and structure of sub-Saharan Africa's debt service priorities have changed over the last fifteen years; more so than the structure of its outstanding debt obligations.

Prior to 1980, SSA was mainly dependent on private creditors. Commodity price windfalls and the exploitation of oil reserves in Africa led to a rash of syndicated loans to the continent from ill-informed and ill-prepared commercial banks between 1973-80. As Table 5 suggests, that pattern changed dramatically during the 1980s and has gone on changing through the 1990s.

Table 4 **Growth of Sub-Saharan Africa's External Debt Service: 1980-94**
(billions of US Dollars; excluding South Africa and Namibia)

	1980	1985	1990	1994
Total Debt Service	**8.92**	**10.96**	**10.71**	**8.68**
Bilateral Debt Service	0.90	1.65	2.76	1.89
Multilateral Debt Service	0.97	2.16	3.62	3.96
of which:				
Multilateral Bank Debt Service	0.40	0.99	2.43	3.37
IMF Debt Service	0.57	1.17	1.19	0.59
Private Debt Service (LT + ST)*	7.05	7.15	4.33	2.83
Memo:				
Interest Arrears 0.23	1.95	9.94	19.86	
of which:				
Owed to Official Creditors	0.13	1.42	7.08	15.30
Owed to Private Creditors	0.10	0.53	2.86	4.56

*LT = Long-Term; ST = Short-Term

Source: Debtor Reporting System, The World Bank.

Between 1980-1990, the IMF and the multilateral development banks (MDBs) stepped in to finance the partial bail-out of commercial banks, resulting in the proportion of IMF and MDB debt and debt service rising rapidly between 1980-90. Since 1990, the concessional windows of the MDBs have been bailing out the IMF, which has reduced its exposure in Africa sharply. The consequence has been a dramatic rise in the share of MDBs in both SSA's debt stocks and debt service. Although the increase in the share of

MDBs and their concessional windows began in 1980, it became particularly pronounced after 1990. In the meantime, the share of private creditors in Africa's debt profile has dropped significantly. In particular, Africa's access to short-term loans, mainly to finance trade transactions, has diminished precipitately; it has fallen well below levels necessary to lubricate the conduct of normal commerce and has forced Africa to rely even more heavily on the MDBs and bilateral donors for financing import support.

Table 5 Pattern of Sub-Saharan Africa's External Debt Service: 1980-94
(Percentages; excluding South Africa and Namibia)

	1980	1985	1990	1994
Total Debt Service	**100.00**	**100.00**	**100.00**	**100.00**
Bilateral Debt Service	10.09	15.05	25.77	21.77
Multilateral Debt Service	10.87	19.71	33.80	45.62
of which:				
MDB Debt Service	4.48	9.03	22.69	38.82
IMF Debt Service	6.39	10.68	11.11	6.80
Private Debt Service (LT + ST)*	79.04	65.23	40.42	32.61

*LT = Long-Term; ST = Short-Term

Source: Debtor Reporting System, The World Bank.

The Concessionality of Africa's Multilateral Debt

What is disconcerting about Africa's multilateral debt is that the debt service burden it imposes keeps growing inexorably even as the structure of such debt becomes seemingly more concessional. In 1980, less than 40% of sub-Saharan Africa's multilateral debt stock was on concessional terms. By 1994, the proportion of concessional multilateral debt had increased to over 70%. Yet the multilateral debt service burden has mushroomed, albeit at a slightly slower rate than the growth in debt stocks. Although multilateral debt increased by a factor of 5.5 between 1980-94, and concessionality increased by a factor of 1.75, the burden of multilateral debt service grew by a factor of 4.1 instead of the multiple of 3.1 (i.e. 5.5 divided by 1.75) that might have been expected. This is explained by the fact that concessional multilateral debt might not be quite as concessional, in US dollar terms, as its coupon rate (usually 1% or less) and long grace (typically around 10 years) and maturity periods (typically between 25-40 years) would suggest.

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The Exchange Rate Effect

Most (over 75%) of the concessional multilateral debt of sub-Saharan Africa is accounted for by debt owed to the World Bank's soft-loan window, IDA; the African Development Bank's soft window, AfDF; and the International Monetary Fund's concessional facilities, SAF and ESAF. All of this debt is denominated in SDRs. Much of the remaining concessional multilateral debt from the European Union or the European Investment Bank is denominated in ECU or European currencies. Only the concessional debt owed to Arab multilateral institutions is denominated in US dollars. The dollar (which is the principal currency earned by SSA from its exports) has experienced a long-term structural depreciation against the SDR and ECU over the past 30 years even allowing for the short-lived appreciation of 1982-85 and the exchange rate gyrations that take place every couple of years. Consequently, the effective average annual exchange-risk adjusted cost of this concessional debt in US dollars may be between 4-6% annually instead of the 1% or lower coupon rate which such debt nominally carries. The actual cost depends on: the specific parities prevailing when a particular debt was incurred, the effective duration of the loan, the length of its disbursement period, and the annual changes in exchange rate parities since it was committed and disbursed.

In addition, the residual principal value of the concessional debt which needs to be repaid has increased by between 30-45% in US dollar terms, adding a further burden to the limited debt servicing capacity of African countries. Thus, out of Africa's annual multilateral debt service burden of nearly $4 billion in 1994, about $500 million is probably attributable to the exchange rate effect on concessional debt; which results in such debt being much less concessional, and in some cases inadvertently becoming almost as expensive as market debt had it been borrowed in US dollars in the first place.

As a result, the effective grant element of concessional multilateral debt calculated in dollar terms is less than the 80% or so which is normally purported by aid donors. In reality it may be closer to between 40-50%. This raises the serious question of whether the poorest African countries should be victimised by technicalities governing multilateral concessionality in a world of floating exchange rates over which they have no influence, and the direction of which is governed largely by the macroeconomic policies of the G-7 countries. This is a question which requires a more careful answer than has so far been provided by the IMF and World Bank.

The foregoing paragraphs have attempted to outline the overall dimensions of sub-Saharan Africa's multilateral debt problem. The next chapter delves into its composition and characteristics in greater depth.

III The Composition and Characteristics of Multilateral Debt in Sub-Saharan Africa

The Principal Multilateral Creditors

Unsurprisingly, as Table 6 below indicates, most of the multilateral debt owed by sub-Saharan Africa is to: (i) the World Bank and its soft-loan window, the International Development Association (IDA); (ii) the IMF and its concessional structural adjustment facilities, SAF and ESAF; (iii) the African Development Bank (AfDB) and Fund (AfDF); (iv) the European Union (EU) under its various Lomé facilities and the European Investment Bank (EIB); and (v) other multilateral institutions which include various Arab-OPEC funded institutions and the International Fund for Agricultural Development (IFAD). Each of these components of multilateral debt and their patterns of growth are discussed in the paragraphs that follow.

Table 6 Growth of Sub-Saharan Africa's Multilateral Debt: 1980-94
(billions of US Dollars; excluding South Africa and Namibia)

	1980	1985	1990	1994
Total Multilateral Debt	**10.59**	**23.40**	**43.82**	**57.78**
World Bank (IBRD)	2.55	5.28	9.18	8.07
Int. Dev. Assn. (IDA)	2.58	6.11	15.79	25.16
Total World Bank Group	**5.13**	**11.39**	**24.97**	**33.23**
Af. Dev. Bank (AfDB)	0.43	0.96	3.16	5.70
Af. Dev. Fund (AfDF)	0.23	0.88	3.41	5.70
Total AfDB Group	**0.66**	**1.84**	**6.57**	**11.40**
Int. Mon. Fund (IMF)	3.03	6.22	5.31	3.29
SAF/ESAF	-.-	0.51	1.30	3.73
Total IMF/ESAF	**3.03**	**6.73**	**6.61**	**7.02**
Eur. Inv. Bank (EIB)	0.27	0.62	1.14	1.40
European Union (EU)	0.06	0.22	0.48	0.61
Total Eurolaterals	**0.33**	**0.84**	**1.62**	**2.01**
Other Multilaterals (NC)*	0.36	0.45	0.78	0.68
Other Multilaterals (C)*	1.08	2.15	3.27	3.47
Total Other Multilaterals	**1.44**	**2.60**	**4.05**	**4.12**

*NC = Non-Concessional; C = Concessional
Source: Debtor Reporting System, The World Bank.

From: Resolving Africa's Multilateral Debt Problem: A Response to the IMF and the World Bank
FONDAD, The Hague, 1996, www.fondad.org

The World Bank Group (WBG)

The World Bank Group has been the pre-eminent multilateral lender to sub-Saharan Africa since 1980. Surprisingly, its prominence in the region actually increased between 1980-94; despite the emergence, through the 1980s-90s, of the AfDB as a more significant regional actor and the growing presence of the IMF and other (mainly European and Arab-OPEC) multilateral actors. In 1980 the WBG accounted for 48.5% of total multilateral lending to SSA. By 1994 that proportion had increased to 57.5% giving the WBG a disconcertingly dominant hold in the region.

Judging its performance by the economic results achieved in SSA between 1985-95, it is arguable whether the WBG has employed that dominance to good effect; well-meaning though its intentions have been. Indeed, argument over that issue has supported an extensive specialised literature in its own right (Moseley *et al:* 1995). What is unarguable is that the WBG's pre-eminence as a lender has created an excessive dependency – on the WBG and on concessional assistance – on the part of too many African countries which find themselves locked in a patron-client relationship. Under that nexus, national economic sovereignty has been ceded almost in its entirety to the WBG – to the certain long-run detriment of these countries as well as of the WBG.

Overwhelming dominance as a creditor has permitted the WBG (along with the IMF) to become a virtually unchallenged monopoly in driving the adjustment and development agenda in SSA. As such, the WBG has become the victim of a fallacy of false expectations; which, perhaps it was more responsible than any other institution in generating for too long in Africa, relying more on exuberance than expertise in reaching prematurely optimistic judgements about adjustment outcomes. Since 1992 the WBG has become more cautious in the cold light of experience; albeit still intent on proving the unprovable – i.e. that its adjustment prescriptions for African countries have worked, are working, and will work even better in the future. The reality is that whatever has been achieved between 1985-95 in Africa – a dispassionate assessment of results would confirm that it is very little indeed – has been incommensurate with the effort, the resource inputs and the cost.

The unfortunate corollary is a legacy to Africa of a large burden of unserviceable multilateral debt which has not been as productive as was earlier hoped. The WBG's monopoly over the development and reform agenda has also created the now-familiar crisis of ownership over adjustment and policy reform programmes which WBG acknowledges (World Bank: 1989, 1994b, 1995b and IMF/WB: 1996a) as being partly responsible for compromising adjustment outcomes in more than a few instances.

At present the weight of influence which WBG carries in Africa is shared

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only by the IMF and that mainly in the domain of macroeconomic policy rather than of sectoral or project operations; in these latter areas the WBG still exerts eminent domain. Through its Special Programme for Africa which was originally intended to provide a donor-coordinating mechanism, the WBG now sets the agenda for virtually all donors, both multilateral and bilateral. Experience suggests that in the interests of Africa and itself, a somewhat lower profile on the part of the World Bank in SSA over the next decade might be warranted.

Of the WBG's total claims on SSA, there has been a dramatic shift away from IBRD loans (non-concessional, hard window) towards IDA (concessional, soft window) exposure over the last fifteen years. In 1980, the proportion of IBRD:IDA was almost 50:50. That proportion shifted slowly but steadily towards IDA between 1980-85 (in 1985 the ratio was 46:54) and then shifted much more dramatically in the same direction between 1985-94. In 1994 the IBRD:IDA ratio was 24:76. The main reason for the shift from non-concessional IBRD lending was that most of the countries in Africa which were partly creditworthy in 1980, and therefore eligible for IBRD lending, lost that status by 1984. Also, several countries formerly classified as middle-income (e.g. Côte d'Ivoire, Nigeria and Zambia), which were large borrowers from the WBG became low-income countries with the progressive deterioration of their economies and the consequent downward adjustment of their exchange rates.

In 1980, thirty countries in SSA were eligible for borrowing from the IBRD. By 1985 that number had fallen to eighteen, in 1990 to twelve and, by 1994, to just eight. This retrogression of development status in Africa contrasts with every other developing region in the world where the number of countries eligible for IBRD borrowing has increased and some have graduated from eligibility for WBG assistance altogether.

World Bank Group Debt and Adjustment in Africa

The shift towards concessional funding, coupled with a massive increase in the absolute volume of resources (see Table 6) pushed out by IDA to sub-Saharan Africa, coincided with the most intensive period of adjustment financing in Africa by the WBG. Slow-disbursing project and sector loans were replaced by fast-disbursing structural and sectoral adjustment loans. The latter – while providing resources more quickly and up-front to countries in urgent need of import support – required to be serviced much sooner, in larger quantities, than traditional project loans. The build-up of the WBG's claims on Africa, along with a concomitant build-up of other multilateral (and bilateral) claims, thus appears to be directly related to the speed and intensity of the (retrospectively overdone) shift to adjustment lending between 1985-95.

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This hypothesis is borne out by a simple comparison (which needs to be substantiated by more detailed analysis) of the increase in the debt and debt-service burdens of twenty-nine adjusting vs. eighteen non-adjusting countries in SSA, shown in Table 7 below. In the case of the adjusting countries, which were financed by a large volume of fast-disbursing multilateral loans and credits, the build-up of multilateral debt was significantly faster than in the non-adjusting countries.

Table 7 **The Multilateral Debt and Debt Service of Adjusting vs. Non-Adjusting Countries in Sub-Saharan Africa: 1980-94**
(billions of US Dollars; excluding South Africa and Namibia)

	1985	1994	Increase
Multilateral Debt	**23.40**	**57.77**	**138.6%**
of which:			
29 Adjusting Countries	17.40	45.83	163.2%
Strong Adjusters	10.54	25.19	139.0%
Weak Adjusters	6.86	20.64	200.1%
18 Non-Adjusting Countries	6.00	11.95	99.2%
Multilateral Debt Service	**2.16**	**3.96**	**83.3%**
of which:			
29 Adjusting Countries	1.64	3.70	125.6%
Strong Adjusters	1.11	1.87	88.3%
Weak Adjusters	0.53	1.83	251.9%
18 Non-Adjusting Countries	0.52	0.26	–100.0%*

* This reflects non-payment of debt service by several non-adjusting countries (e.g. Liberia, Somalia, Sudan, Zaire)

Source: Debtor Reporting System, The World Bank.

An earlier work (Mistry: 1994) observed that the pattern of multilateral (and particularly IFI) debt accretion which occurred between 1980-94 raised ethical, legal and moral questions about: (i) the debt servicing implications of adjustment and adjustment-related lending; and (ii) the appropriate sharing of burdens between creditors and debtors for highly conditional loans linked to policy-reform programmes that are designed, imposed and supervised largely by multilateral creditors, often against the judgement of debtor governments. The second question assumes particular significance when ownership of these programmes by debtors is absent (IMF/WB: 1996a) and given the failure of adjustment programmes to achieve what was intended in the time-frame originally envisaged. Adjustment in SSA has generated neither the levels of incremental growth, nor of incremental export earnings, which are necessary to cover the additional debt-servicing burdens imposed by an avalanche of fast-disbursing loans.

To illustrate that point using crude available numbers: Between 1980-94, sub-Saharan Africa's stock of debt owed to the multilateral development banks and the IMF increased by about $42.8 billion – with the rise between 1985-94 (the period of intense adjustment) accounting for $31.7 billion. Yet the nominal dollar GNP of SSA (estimated by the World Bank) was $20 billion (or 7.3%) lower in 1994 than in 1980 indicating a GNP loss in real terms that was higher than suggested by these figures. At the same time, the region's export earnings were $9.4 billion (or 10.2%) lower in 1994 than in 1980. Against these large declines in economic and debt servicing capacity, the MDB+IMF debt stock burden increased by 485% and the related debt-servicing burden increased by nearly 300%.

As the earlier work (Mistry: 1994) noted:

> 'Put differently, the trajectory of fast-disbursing multilateral lending to severely indebted low-income countries was forced onto a higher plane in the 1980s in the name of adjustment but actually used for continuing debt-service to other (private) creditors. That lending did not yield the economic pay-offs which were anticipated in terms of an economic turnaround in sufficient time. As a consequence, debtors which borrowed heavily from multilateral institutions in the 1980s now find themselves squeezed in a classic 'timing trap' – i.e. their debt service payments on earlier borrowings now have to be met before the gains from economic reform have begun to materialise. The refinancing provided by the multilateral system for this transitional period has, in the case of the African SILICs, simply compounded the problem, enlarged it and deferred it.'

Moreover, using the World Bank's terminology in differentiating between strong and weak adjusters (World Bank: 1994b)[1] the multilateral debt build-

1 It has to be said that this terminology, while illustrative and evocative, is problematic. There is no objective index or methodology for differentiating between these two categories, especially over time. The evidence as to which countries fall into which category is largely impressionistic and judgmental. The problem is further compounded by countries (like Ghana) which were strong adjusters at one moment in time, becoming weak adjusters later on especially when the policies pursued are seen by the government as not having been fruitful; or, like Uganda and Zambia, vice-versa when earlier weak adjustment is followed by greater commitment though not necessarily with much result. Moreover, the terminology implicitly implies that strong adjusters are invariably seen as those countries which are inclined to listen to the IMF and the World Bank while weak adjusters are those which are not as enthusiastically inclined. This means that even if a country pursues firm policies, which the IMF and the World Bank may disagree with, it would not be classified as a strong adjuster even though, in reality and outcome, the country might have deserved to be so classified. For this paper, the strong adjusters are identified roughly as: Côte d'Ivoire, Ghana, Kenya, Malawi, Mozambique, Senegal, Tanzania, Uganda, Zambia, Zimbabwe. The weak adjusters are: Benin, Burkina Faso, Burundi, Cameroon, CAR, Chad, Congo, Gabon, the Gambia, Guinea, Guinea Bissau, Madagascar, Mali, Mauritania, Niger, Nigeria, Rwanda, Sierra Leone and Togo. The non-adjusters include all the other countries in SSA.

up of weak adjusters is seen to be significantly faster than that of strong adjusters. At first glance that outcome appears anomalous. Further thought, however, suggests that it is plausible for countries which borrowed heavily from multilaterals to finance ambitious adjustment programmes – but which then abandoned them when they proved ineffective – to be saddled with a faster-growing burden of unproductive multilateral debt than those countries in which adjustment was perceived to have yielded earlier benefits. It is also possible that strong adjusters, because of the good-housekeeping seal of approval awarded by the IMF/WB, were able to attract more grant funding from bilateral donors in support of their programmes and needed to borrow less than the weak adjusters, many of which (like Cameroon, Gabon and Nigeria) were formerly either middle-income or oil-producing countries and might not have attracted grants on those grounds. These speculations need, however, to be supported by further investigation.

The Need for Writing-Off World Bank Claims

At the end of 1994, the IBRD (hard window) was owed $8.07 billion by twenty-five countries in SSA, seventeen of which were no longer eligible for IBRD borrowing on grounds of diminished creditworthiness. The eight countries (Botswana, Gabon, Mauritius, Namibia, Nigeria, South Africa, Swaziland and Zimbabwe) which were still eligible for IBRD borrowing, owed a total of $4.24 billion, of which nearly 78% ($3.29 billion) was owed by Nigeria and a further 13% ($556 million) was owed by Zimbabwe. The remaining debt, over 47% ($3.83 billion) was owed by uncreditworthy countries to which the servicing of that debt, at a cost of $850 million in 1994, was clearly unaffordable. In this group of countries, ineligible for further borrowing but still indebted to the IBRD, the main debtors were Cameroon, Côte d'Ivoire, Kenya and Zambia. Collectively these four countries owed the IBRD $3.09 billion, or 81% of the total due from presently IBRD-ineligible SSA borrowers. Three SSA borrowers (Liberia, Sudan and Zaire) were in arrears to the IBRD to the extent of nearly $300 million in principal and interest overdue for more than six months.

IBRD over-borrowing in SSA is a problem which, dollar-wise, is concentrated in six countries rather than affecting the sub-Saharan region as a whole. Yet the other nineteen countries, which together owed the IBRD the residual balance of $1.14 billion, can ill-afford – individually or collectively – to pay the $250 million annually which it costs to service this debt. Much of the interest burden of this debt for twelve to fifteen of these countries is covered by an IDA and donor financed facility (known in the vernacular as the fifth dimension) which subsidises IBRD debt service under strict conditionality depending on adjustment performance. But the burden remains considerable, relative to the size and export capacity of these small, fragile economies, as several recent individual country studies and the World Bank's own analysis, have shown (World Bank: 1995a; Government of Uganda: 1995; Oxfam: 1994; IMF/WB: 1996b).

Of the total multilateral debt service of $3.95 billion actually paid by SSA countries in 1994, the IBRD alone accounted for $1.76 billion or 44.6%. This amounted to 23.3% of SSA's total debt service when the IBRD accounted for less than 4.2% of the region's total outstanding debt stocks.

Looking at the IBRD's claims on SSA through the perspective of net transfers worsens the picture considerably. Between 1985-95, largely as a result of the shrinking population of eligible debtor countries in SSA, the IBRD extracted a total of $6.36 billion in financial resources from sub-Saharan countries.

Of course this was offset by a positive net transfer of $17.03 billion from IDA into SSA resulting in a positive net transfer from WBG to SSA of $10.67 billion over ten years. That, however, amounts to just $1.07 billion per year, spread over forty-five countries on the sub-continent; hardly a resource transfer achievement to be applauded in a developing region confronted by the problems that Africa faces.

In assessing the magnitude of IBRD's resource extraction and debt service pre-emption it is important to recall that SSA is, on average, able to pay less than a third of its scheduled annual debt service (disregarding arrears already built-up); thus explaining the build-up of its extraordinary level of arrears.

If arrears at the end of 1994 were to be cleared over five years, and SSA's debt service rendered current from 1996 onwards, the region's annual debt service between 1996-2000 would amount to around $37 billion per year (or about 45% of the region's total gross export earnings). This is an unsustainable level of debt servicing reflecting an unsustainable burden of debt stock relative to output and export capacity.

Bilateral and private creditors have clearly recognised that reality by permitting arrears to be built up in the first place without resorting to punitive sanctions against SSA debtors of any sort. There is of course, a virtual cessation (which is understandable) of access to commercial credit for trade or investment except for very few creditworthy countries. In Africa, every dollar counts, and the record suggests that the multilaterals in general, and the IBRD in particular, are not as yet being realistic in continuing to press for their claims on debt service to be met fully on schedule.

It is now apparent to almost every party other than the World Bank that some IBRD debt in sub-Saharan Africa will have to be written down. That measure will have market implications which need to be thought of and accommodated. But as later discussion will show, such a write-down is feasible, and may even be desirable, without incurring the spectre of dramatic repercussions (in terms of diminished credit ratings and increased cost of borrowings) which the WBG is wont to over-dramatise in attempting to avert what is inevitable.

The Problems of IDA

The World Bank's soft-loan window, IDA, was owed $25.16 billion by SSA debtors at the end of 1994 or nearly 44% of the total multilateral debt of SSA. Debt service due to IDA is now mounting rapidly. At the end of 1994, four countries (Liberia, Somalia, Sudan and Zaire) were in arrears to IDA for a total of $117 million in principal and interest overdue for more than six months. From an annual level of merely $22 million in 1980, debt service payments to IDA have reached $251 million in 1994 – a twelve-fold increase, and the highest increase for any individual creditor over the last fifteen years.

Annual debt service payments to IDA are projected to reach $575 million by the year 2000 and to increase at an average rate of over $80 million annually thereafter for the next ten years. Clearly, as repayments become due, IDA is no longer looking as concessional a bargain for Africa as it once seemed. IDA claims are more widely and evenly dispersed throughout SSA than IBRD claims since IDA is not constrained by creditworthiness but only by availability of resources.

IDA's eligibility and allocation criteria have resulted in more equitable distribution of resources than is the case for any other type of creditor or bilateral donor. However, the same criteria have resulted in large amounts of IDA being owed by war-torn, or recalcitrant non-performing countries in SSA (e.g. Burundi, Liberia, Rwanda, Sierra Leone, Somalia, Sudan and Zaire) which were once deemed reliable prospects.

At the end of 1994, outstanding IDA debt owed by SSA was concentrated in eleven countries: Ethiopia, Ghana, Kenya, Madagascar, Malawi, Senegal, Sudan, Tanzania, Uganda, Zaire and Zambia. Together these countries owed $15.63 billion or 62% of the total IDA debt outstanding in SSA. Of these, eight are perceived to be (but are not necessarily) strong adjusters while three countries are not adjusting, or indeed performing economically, at all.

IDA is a concessional facility whose resources are constrained. Access to it is therefore rationed. But – as explained earlier – IDA has not proven to be quite as concessional as once thought because of the exchange risk it passes on to countries which are basically dollar-earners. IDA was originally seen as the solution to the problems of many African debtor countries which could no longer afford IBRD loans. Now IDA has, somewhat surprisingly, become a problem in at least twelve SSA countries: Burundi, Guinea Bissau, Liberia, Madagascar, Mozambique, Sao Tome and Principe, Somalia, Sudan, Tanzania, Uganda, Zaire and Zambia.

The pressures imposed by outstanding IDA debt throughout SSA are not as immediately serious as those of IBRD debt in a more limited number of countries. And they can be handled more tractably. Rescheduling, deferring or cancelling IDA obligations has no market implications whatsoever. It does not require a write-down of income, provisions or reserves. It is a matter which can be negotiated largely among the affected debtor countries, the World Bank and those countries which donate funds to IDA.

Clearly, rescheduling or cancelling IDA obligations will lower the availability of future IDA reflows to its recipients. Those recipients, for as far ahead as the mind can see, are likely to be the same countries as those which are experiencing severe IDA debt servicing problems now. Therefore no third party is likely to be deprived as a result of the imaginative re-engineering or outright cancellation of IDA debt in those cases where it can be established that such options represent the *least worst* solutions to the problems which overindebted SSA countries face.

Moreover, a still-too-large amount of IDA allocations are directed to countries which are littoral powers with large defence budgets and pretensions towards nuclear power status (China, India and Pakistan). IDA funds are also being allocated to a number of smaller middle-income island economies whose financial circumstances no longer warrant the continuation of such concessional flows in view of the financing options they have available. If such flows were to be discontinued quickly, as they should be in a more rational world, a fairly significant amount of resources could be released for engineering multilateral debt reduction and relief in countries which needed it.

The International Monetary Fund (IMF)

The IMF, though not as large a creditor to SSA as other multilaterals, and understandably so because until recently it was supposed to provide only short or medium-term revolving resources, nevertheless plays an unusually significant role in inducing policy reform and adjustment in Africa. Unfortunately the IMF has been obstructing (by a tedious process of paralysis-through-analysis) the process of solutions being found and applied to the multilateral debt problem. It appears to be doing so on the grounds that such a measure would: (a) open a Pandora's Box of issues which it would rather avoid; and (b) exacerbate extant moral hazard problems with far reaching consequences for debtor indiscipline. At the end of 1994, the IMF was also the multilateral creditor with the largest arrears owed by SSA.

As observed, discussion of the Fund's role in Africa is often predicated on the notion that the Fund provides critically needed resources in large volumes; a notion belied by the facts. Although its new structural adjustment facilities (SAF and ESAF) were set up largely with Africa in mind they have not yet become channels for significant resource flows. At the end of 1994, the IMF's claims on SSA countries amounted to principal outstanding of $7.02 billion (of which $2.7 billion was in arrears) along with a further $1.5 billion in accumulated interest arrears. Taking interest arrears into account, the resulting $8.52 billion owed to the IMF amounted to just over 14% of SSA's total outstanding multilateral debt. Of this amount $3.73 billion was accounted for by the Fund's concessional facilities (SAF and ESAF) representing 44% of total obligations due to the IMF (including accumulated arrears).

There were nineteen sub-Saharan debtors to the IMF owing upper tranche (GRA) facilities amounting to $3.29 billion (or $4.79 billion if interest arrears were added) but just seven countries (Côte d'Ivoire, Liberia, Somalia, Sudan, Zaire, Zambia and Zimbabwe) owed a total of $2.89 billion representing 88% of total GRA funds outstanding. Of these, as noted earlier, five (Liberia, Somalia, Sudan, Zaire and Zambia) were in arrears for a total of $4.19 billion. In other words, 87% of the IMF's upper tranche outstandings (including accumulated charges) were in arrears at the end of 1994.

The IMF's concessional facilities were more widely distributed across thirty-one SSA debtors at the end of 1994. The largest debtors to SAF/ESAF were Ghana, Kenya, Mozambique, Senegal, Tanzania, Uganda and Zaire, which collectively owed $2.25 billion or over 60% of outstanding SAF/ESAF resources in SSA. Five other countries (Côte d'Ivoire, Malawi, Mali, Sierra Leone and Zimbabwe) owed SAF/ESAF a further $695 million or about 19% of the total. Of these debtors, Zaire was in arrears.

As in the case of the World Bank, the IMF's resources were lent mainly to induce policy reform and adjustment in SSA but with the same desultory results. The consequence has been a debt build up with no commensurate increase in repayment capacity. To an extent, the very creation of SAF and ESAF – partly to help the Fund recover its build-up of arrears from acutely debt-distressed countries and partly to provide the Fund with resources which it could lend on terms more geared to the needs of SSA – represented an acknowledgement that adjustment in SSA was proving elusive, and (assuming that it occurred at all) would take a much longer time than had earlier been anticipated.

Yet even with the creation of these facilities, the IMF has been unable to provide a positive transfer of resources to SSA over the last decade. Between 1985-94 the IMF extracted $4.41 billion from SSA during a decade when the region's needs for a positive transfer of resources from the multilaterals has never been greater.

Thus, between the World Bank and the IMF, the effective combined net transfer to SSA between 1985-94 was a mere $6.26 billion over ten years or $626 million annually; hardly the sum to justify the adjustment pressures which these two institutions have applied on countries in the region. These net transfer figures suggest that: (i) adjustment in SSA may have failed to materialise partly because it was not properly funded; and (ii) IMF/WB financial programming exercises underlying individual adjustment programmes were invariably recalibrated by making casual changes in elasticities when calculations of funding needs collided with the reality that these funds could not be mobilised – a premise which available research evidence supports (e.g. Martin and Mistry: 1994, 1996).

The African Bank Group (AfBG)

Apart from the Washington based IFIs, which together accounted for over 70% of SSA's multilateral debt in 1994, the AfBG is the next largest multilateral creditor to Africa accounting for nearly 20% of the region's multilateral debt with its claims on SSA debtors being evenly divided between its hard (AfDB) and soft (AfDF) loan windows. The AfBG accounted for about 12% of total multilateral lending in 1980, and increased to almost 15% in 1990. The largest increase in its share occurred between 1990-94 reflecting: (a) the swift and imprudent deployment of its excessive share capital increase in 1989; and (b) the smaller, but nonetheless significant, increase in the concessional resources made available to AfDF between 1988-93. Too-rapid build-up of AfDB's claims overstretched its nascent institutional capacity and adversely affected its balance-sheet; effects which became disconcertingly visible in the last three years (Mistry: 1993a, 1995b). As a result the AfDB lost its triple-A credit rating in international markets in 1995.

Two inter-connected problems with the quality of AfDB's asset portfolio concern: (a) its concentration in uncreditworthy countries; and (b) institutional persistence in disbursing non-concessional funds to severely-indebted low-income countries well after they had been re-classified by the IBRD as being uncreditworthy, and therefore ineligible for further hard-window lending. Perversely, as late as 1993 and 1994, the AfDB was disbursing hard money to many of the same countries which were applying for debt relief under the World Bank's fifth dimension facility. To an extent the donor community as a whole is at fault for this outcome. To begin with, donors provided AfDB with the wherewithal (through a capital increase) to mobilise precisely the wrong kind of (non-concessional) funds for sub-Saharan Africa at a time when it was clear that what was needed was a large increase in concessional funds. The donor community was content to channel those through IDA more than through the AfDF.

Second, the donor community and the AfBG's own management were both too anxious to have AfDB participate in adjustment financing – largely because without its participation the holes in adjustment financing packages

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would have been even larger than they actually were. That involved risks which, in retrospect, even the larger, more capable IFIs should have been more cautious in taking. It was hardly a risk which the AfDB knew how to take, nor could they cope with the financial consequences which resulted.

Whereas the IBRD's sub-Saharan African portfolio accounted for less than 7% of its total portfolio, IDA's for under 25%, and the IMF's for less than 9%, the AfDB's sub-Saharan portfolio accounts for 58% of its total loan assets while for the AfDF the corresponding figure is over 98%. The effect of that concentration has shown up in rapidly rising arrears, large-scale non-accruals of income and equally large provisions for loan losses. These have damaged AfDB's profitability and hence its ability to accumulate a sufficient level of reserves.

Until 1990, the AfDB had negligible arrears. At the end of 1994, 8.6% of the total AfDB loan portfolio was affected by arrears with the amount of arrears reaching $553 million (of which $230 million was principal and $323 million was accrued interest overdue) – an amount 84% larger than arrears to IBRD, which had a more sizeable portfolio. Total arrears were equivalent to nearly 10% of the AfDB's outstanding portfolio in SSA.

At the end of 1994, forty-four SSA debtors owed the AfDB about $5.7 billion of which 70% was owed by eight large borrowers: Cameroon, Congo, Côte d'Ivoire, Gabon, Nigeria, Zaire, Zambia and Zimbabwe. Seven of these countries are debt-distressed, and four of these are in arrears to the AfDB (Cameroon, Congo, Gabon and Zaire). All of the others, except Zimbabwe, had difficulty in servicing their debts to other creditors.

Worse still, the AfDB had $3.62 billion in undisbursed commitments to its SSA borrowers, compared to $1.72 billion in the case of IBRD (of which $1.11 billion is to Nigeria and $0.23 billion to Zimbabwe). The AfDB appears intent on fully disbursing these committed funds. Yet, contrary to its inclinations, the indications are that AfDB should reconsider whether these contractual commitments (which as a result of myriad loan covenant violations by debtors have almost certainly been abrogated) should be fully met or should, to the extent possible, be cancelled. If these undisbursed commitments are actually disbursed in the coming years, AfDB will end up with a larger loan portfolio than IBRD in sub-Saharan Africa, but it will be of much lower quality and with high risks of future arrears continuing to mount at an unacceptable rate.

The soft-loan window, AfDF, was owed over $5.7 billion by forty-six SSA debtors at the end of 1994 with eleven countries (Ethiopia, Guinea, Madagascar, Malawi, Mali, Mozambique, Senegal, Sudan, Tanzania, Uganda and Zaire) accounting for about half of that amount. AfDF credits (like IDA's) are effectively denominated in SDRs. They have therefore proven to be much less concessional (in US dollar terms) than their nominal terms sug-

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gest. At the end of 1994, an amount of nearly $34 million ($19 million in principal and $15 million in accrued interest charges) was in arrears to the AfDF with seventeen countries being in default but with only seven of these (Comoros, Madagascar, Niger, Rwanda, Senegal, Somalia and Zaire) accounting for 86% of the total arrears.

Unlike IBRD, the AfDB does not have the internal wherewithal within its own balance sheet to undertake the kinds of debt reduction or relief measures which many of its borrowers obviously require. For that reason, a solution to the multilateral debt problems caused by AfDB loans will require a different approach relying on different sources of funding external to the AfDB, or alternatively, on available uncommitted AfDF resources which may be provided in future replenishments.

Other Multilateral Institutions

With over 89% of the multilateral debt of sub-Saharan Africa being accounted for by the two IFIs and the African Bank Group (AfBG), other multilateral institutions (of which there are a large number) accounted for the residual of nearly 11%. These institutions fall broadly into two groups: (a) the Eurolaterals; and (b) Arab-OPEC funded multilateral institutions of which there are many (e.g. the Islamic Development Bank, the OPEC Fund, IFAD, etc.). Individually, each of the other multilateral institutions account for a relatively small amount of multilateral debt. Nonetheless, some of them have played a useful, often innovative, developmental role in a few select sub-Saharan countries. From the perspective of resolving the multilateral debt problem which the sub-Saharan region confronts, however, these institutions are inevitably marginal players although that attribute may not permit them to become free-riders.

Hopefully, they will subscribe to the types of debt reduction and relief measures which may be agreed eventually by the major multilaterals (or more importantly by their most influential shareholders) and act to reduce or reschedule their own obligations on a *pari passu* basis. Among them, the other multilaterals have outstanding claims on SSA debtors amounting to a total of $6.14 billion divided on a roughly 1:2 basis between the Eurolaterals, which account for 3.6% of SSA's total multilateral debt, and the Arab-OPEC/other institutions, which account for the remaining 7.1%. Each of these two groups is discussed below briefly.

The European Multilaterals

The Eurolaterals comprise mainly: (i) the Development Directorate (DG-VIII) of the European Commission (EC) which lends funds directly under

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various European soft-loan programmes; and (ii) the European Investment Bank (EIB) which is empowered to lend to developing countries under special arrangements negotiated under successive Lomé conventions and under bilateral agreements between the European Union (EU) and non-ACP developing countries (Mistry: 1994). At the end of 1994, the total amount of EC/EU loans outstanding (mostly on concessional or intermediate terms) amounted to $607 million, while EIB loans (mostly on intermediate or non-concessional terms) amounted to another $1.4 billion.

Distributed in small amounts over twenty-seven sub-Saharan countries, the larger EC/EU loans (together accounting for about 58% of the total) were concentrated in just five countries (Burundi, Kenya, Tanzania, Zaire and Zambia), with six more countries (Botswana, Ethiopia, Malawi, Rwanda, Sierra Leone and Uganda) accounting for a further 23% of total EC/EU outstandings. Whilst detailed information was not readily available, indications are that 6% of these loans (or a total of $34 million along with accumulated interest charges) were in arrears; especially those owed by Ethiopia, Tanzania, Zaire and Zambia.

Although EIB loans were also broadly distributed, across forty SSA countries, their pattern of concentration was different, with the majority of these (less concessional) loans being made either to: (a) countries which had previously been middle-income, and by that token more creditworthy, such as Cameroon, Congo, Côte d'Ivoire, Nigeria and Zimbabwe which together accounted for 38% of total EIB loans; or (b) in enclave projects (e.g. mining or corporate plantation agriculture in tropical beverages or sugar) in lower-income countries such as Ghana, Guinea, Kenya, Madagascar, Mauritania, Zaire and Zambia whose dedicated cash flows could in some way be sequestered to meet debt service payments. About 71% of the EIB's outstanding loans at the end of 1994 were concentrated in these twelve countries. Arrears on EIB loans exceeded $153 million with the largest overdues being owed by Burkina Faso, Cameroon, Ethiopia, Guinea, Kenya, Liberia, Nigeria, Somalia, Sudan, Tanzania, Zaire and Zambia.

Arab-OPEC and Other Institutions

The remaining $4.12 billion of sub-Saharan Africa's multilateral debt outstanding at the end of 1994 was owed mainly to Arab and other multilateral institutions (AOMIs). A detailed study of these debts and the individual institutions to which they are owed has recently been conducted under the auspices of UNCTAD.[2] As a result, rich analytical material now exists in a form

2 This information was compiled by a research team led by Matthew Martin. A confidential report was submitted by this team to UNCTAD in February 1996 but official clearance for its publication or citation had not been received at the time of this writing.

that was not readily available before. Regrettably, requirements of confidentiality preclude its divulgence for the time being. However, from other aggregate sources of debt data, it was clear that the bulk of the debt ($3.44 billion or over 83% of the total) provided by the AOMIs was concessional in tenor with only a small portion ($690 million) being non-concessional.

The concessional credits of AOMIs were distributed across virtually all sub-Saharan countries although 56% of the total ($1.92 billion) was concentrated in eleven countries (Burkina Faso, Guinea, Madagascar, Mali, Mauritania, Niger, Senegal, Somalia, Sudan, Zaire and Zambia). Non-concessional AOMI loans were owed by a slightly smaller number of SSA countries (thirty-five) but over 63% of the total amount ($437 million) was accounted for by nine countries (Cameroon, Chad, Mauritania, Senegal, Sudan, Tanzania, Uganda, Zaire and Zambia). Available information suggests that an amount of about $220 million (including overdue interest charges) is in arrears.

As in the case of the AfBG, such arrears have deleterious implications for the financial standing of many of the smaller AOMIs. That reality may reduce significantly their willingness, flexibility and internal ability to engage in the kind of multilateral debt reduction and rescheduling of residual balances which the circumstances of the majority of sub-Saharan debtors appear to warrant (Mistry: 1994). Again, as in the case of AfBG, sources of funding from outside these institutions themselves – possibly from their present shareholders or from other donor sources – may need to be made available in a pooled facility for the smaller AOMIs to participate fully in the kind of multilateral debt reconstruction exercises that will have to be organised.

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IV Options for Debt Reduction and the Selection of Countries

Existing Instruments

That multilateral debt reduction and relief is needed was recognised some time ago with multilaterals resorting to rescheduling and refinancing operations to ease the multilateral debt service burdens of borrowers who risked falling into protracted arrears. The need was explicitly recognised by the World Bank when it established, at the urging of Nordic governments, the fifth dimension facility in 1988 (Mistry: 1994). That facility subsidises 90% of the interest on IBRD loans being serviced by eligible severely-indebted low-income countries (SILICs) which are undergoing adjustment programmes and meet conditionality tests.

Since its establishment, the fifth dimension has provided special IDA allocations averaging $150-200 million annually to eligible countries to help them meet the bulk of their IBRD *interest* obligations. In 1995, supplemental IDA allocations of $186 million were provided to fourteen eligible countries to help them cover the bulk of their interest payments to IBRD. Discussion of a sixth dimension, designed to cover IBRD *principal* repayments, have been ongoing for some time but some of the problems such a facility poses have not yet been satisfactorily resolved. It appears unlikely that they will be (Mistry: 1994).

Similarly, the IMF's establishment of SAF, its subsequent efforts to fund ESAF-1 and ESAF-2 (by pre-empting a portion of budgeted aid flows) and its efforts to find the financing to entrench ESAF as a permanent facility in the IMF's armoury of instruments also reflect, in part, its implicit concern with the growing dimensions of the multilateral debt problem (Killick: 1995; Martin: 1996; Mistry: 1994). But the IMF's enchantment with a permanent ESAF also reflects its institutional desire to remain permanently involved in monitoring and supervising the macroeconomic affairs of SILICs by having assured access to development-type concessional funding of the kind that was not earlier envisaged as being part of the IMF's original or amended charter. Nevertheless, the odds are in favour of ESAF becoming permanently established with its interest-subsidy fund being financed through donor contributions, the sale of a small fraction of the IMF's gold reserves, or both (Killick: 1995; Martin: 1996; Mistry: 1994).

Although these special facilities which the Washington-based international financial institutions (IFIs) have now established acknowledge – by virtue of their existence – the presence of a multilateral debt problem, both the IMF and the World Bank appear to be attempting to use the problem opportunistically in a way which serves their own internal agendas. They appear to be more interested in minimising the extent of the problem and pointing to solutions designed to accommodate their institutional interests as creditors rather than meeting the legitimate needs of the affected heavily-indebted low-income countries. In that respect, their recent second-round analysis of the need for multilateral debt reduction and relief (MDRR) undertaken in 1996 (IMF/WB: 1996a,b), at the urging of the Development Committee, differs little in its motivation from the first-round analysis undertaken earlier (World Bank: 1994a; World Bank: 1995a; IMF/WB: 1995a,b) although it represents a substantive improvement in quality.

Alternative Options

Alternative options for multilateral debt reduction and relief hinge on whether they can be funded without: (a) damaging the financial standing of the multilaterals; and (b) imposing excessive additional burdens on bilateral donors – who are also IFI shareholder governments – by remaining within the existing envelope of ODA resource availability. This section quickly revisits the principal options available and refers to analyses in which they have been more fully dealt with.

Using the World Bank's Provisions and Reserves

Despite opposition from World Bank itself, other financial analyses (Hardy: 1995; Killick: 1995; Martin: 1996; Mistry: 1994, 1995a, 1995c; Vadera: 1995) conclude that it would be possible – without damaging the Bank's financial standing, risking any adverse impact on its credit rating or increasing its borrowing costs – to draw down on a fraction of its accumulated provisions, reserves and currency translation gains in writing down IBRD debt owed by the smaller African and other severely-indebted low-income countries (SILICs) whose circumstances justify multilateral debt stock reduction. The impact would be more difficult to absorb if the larger SILICs (such as Cote d'Ivoire and Nigeria) were to be included and could raise problems if the total amount of debt stock reduction charged against the IBRD's balance-sheet were to exceed $4-5 billion.

Using IDA Resources

As these resources have been donated in perpetuity from budgetary resources by OECD, Arab-OPEC, other developing countries, as well as the IBRD itself (from its profits), on a revolving basis, the options which exist in utilising IDA resources imaginatively to reduce debt burdens through a combination of: debt cancellation, rescheduling, and retroactive terms adjustment, are far greater than those available from the IBRD's resources which are mostly market-derived and market-sensitive. The principle of using IDA funds to a limited extent for multilateral debt reduction and relief (MDRR) has already been established with the creation of the fifth dimension facility.

The obvious cost in using IDA funds for MDRR involves the extinction (or further flay in the use) of funds that are supposed to revolve in the future to the benefit of poorer countries which would be the main beneficiaries of inter-temporal transfers. However, since the intended future beneficiaries are, in most instances, the same SILICs which are affected by an unsustainable multilateral debt burden, it would be justifiable to use a fraction of available IDA resources, and reflows from previous credits which have already begun revolving, to finance MDRR. Allowing for the use of up to 5% of total available IDA resources for this purpose would enable a further $5-6 billion to be applied to MDRR. Moreover, rechannelling IDA commitments away from larger semi-industrialised Asian countries, which no longer require such resources as urgently as other claimants with fewer external financing options, would release even more funds than are currently under discussion (see: Killick: 1995; Martin: 1996; Mistry: 1994, 1995a).

Using IMF Gold Reserves

This option too has been examined recently by independent analysts (Killick: 1995; Martin: 1996; Mistry: 1994, 1995a, 1995c). It has also been considered by IMF staff who appear inclined in favour of gold sales, but not to finance MDRR. A precedent for gold sales was set when the IMF's original Trust Fund (the precursor to SAF and ESAF) was established in the mid-1970s. The general conclusion of the more recent analyses of gold sales and their implications, is that it would be possible, perhaps even desirable, to sell or pledge between 10-15% of the IMF's ample gold reserves of 103 million ounces. These are still valued on the IMF's books at $35 per ounce and thus vastly understate – by 90% – the present market dollar value of these reserves. Such sales would raise between another $4-5 billion at present world market prices.

There is emotive political opposition from some influential shareholders of the IMF and from gold-producing countries (worried about price effects in the world gold market) to sell any IMF gold for any purpose. But there is no sound economic or financial reason for not doing so, taking a global welfare viewpoint. The sequestration of these reserves which presently earn no interest, and serve no useful purpose sitting in vaults, is difficult to justify on economic grounds. However, the uses to which the dollar proceeds of such gold sales may be applied are a matter of considerable contention (Killick: 1995; Martin: 1996; Mistry: 1994; Mountfield: 1996). The orthodox institutional view is that such proceeds should be applied to enhance the terms of ESAF thus making it more concessional or to provide bridge finance until ESAF is permanently endowed.

The less orthodox view (held by those outside of the multilateral system and by debtors) is that all or part of the proceeds should be used to directly finance reduction of the IMF's outstanding upper-tranche (GRA) debt stocks in SILICs with an unsustainable debt problem. As usually happens in the international financial system, the orthodox view is likely to prevail for now. While that would result in sub-optimal outcomes from the viewpoint of efficiency and achieving the necessary level of MDRR, it would still have a small indirect effect on providing some relief by enabling greater amounts of ESAF to be used for refinancing GRA debt and alleviating further the burdens of debt service by making ESAF's present terms more concessional (Clarke: 1995).

Issuing a New Allocation of SDRs

Although this option remains the most appealing conceptually, and would enable the necessary resources to be raised with no additional burdens on bilateral budgets or multilateral balance-sheets, it is powerfully opposed by influential shareholders of the IMF (notably Germany and Japan) on the grounds that it constitutes recourse to a potentially inflationary soft-option. Though a considerable amount of analysis has been carried out on the subject by a variety of authoritative sources, it remains a political non-starter for the time being (Killick: 1995; Martin: 1996; Mistry: 1994). Moreover, while a new SDR allocation would of itself be a relatively simple exercise, the use of such an allocation for MDRR would be more complicated requiring the establishment of a subsidy account which would require separate funding.

Resources within the African Development Bank System

Unlike the World Bank, the African Development Bank has few internal resources on which to rely for the reduction of its outstanding multilateral debt to sub-Saharan SILICs. The provisions and reserves of the hard-loan window of the African Bank are inadequate to accommodate the severity of its portfolio problems. They could not be drawn down to finance MDRR without severely impairing the financial integrity of that institution (Mistry: 1993a, 1995b). On the contrary, they need to be built-up substantially over a number of years before they reach levels comparable to those of the World

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Bank or the other regional multilateral development banks. Like IDA, the soft-loan window African Development Fund could deploy some of its resources for MDRR but it does not have any internal cushions (as does IDA), nor a sufficiently large base as yet of reflows to apply immediately for MDRR. It would need to allocate a portion of its future commitment authority, financed from the next AfDF replenishment (AfDF-7), for MDRR provided that donors were willing to contribute for such a purpose. This would, in effect, mean relying on the budgetary resources of donors to fund MDRR in the case of the African Development Bank. Application of the same 5% rule as for IDA (on the grounds that AfDF and IDA are equivalent facilities funded largely by the same donors) to AfDF resources would yield less than $350 million for MDRR purposes.

Incremental Bilateral Resources Provided by Donor/Shareholders

In addition to resources for MDRR available within the multilateral system, which together amount to between $13-15 billion, bilateral donors could channel the resources they presently use to cover multilateral debt service obligations for selected SILICs, more directly into a more organised facility for dispensing MDRR on a global rather than an institution-by-institution basis. Apart from the contributions made to multilateral soft-loan windows which have refinanced hard-window obligations, overtly or covertly, several bilateral donors have made special contributions to various debt relief facilities – such as for example the fifth dimension, or to individual country facilities such as the Uganda Multilateral Debt Fund (Martin: 1996). They have also made *ad hoc* annual contributions to help individual SILICs cover their multilateral debt service on a case-by-case basis. Bilateral contributions earmarked specifically for multilateral debt relief have been estimated at $2 billion (Martin: 1996) while bilateral contributions towards all kinds of debt relief have been estimated at $9 billion (Killick: 1995; Mountfield: 1996) annually depending on which kinds of contributions are counted as being for what purpose. Taking the $2 billion estimate as the benchmark for bilateral support would increase the total availability of resources for MDRR to between $15-17 billion; more than sufficient to deal with the multilateral debt overhang problem efficiently and up-front (Martin: 1996; Mistry: 1995a).

The Proposed Multilateral Debt Facility

The Multilateral Debt Facility (MDF) idea mooted, but presently put in abeyance, by the World Bank provides a sound conceptual model (in its broad outline but not in its detailed architecture) towards which the international community should move in attempting to resolve the multilateral debt overhang problem. Such a global facility is needed for MDRR to be applied on an equitable and objective basis without political considerations intruding excessively into MDRR decisions. It is also needed to address the critical problem of restoring the financial credibility of the African Development Bank as a creditor and of its borrowers as debtor-shareholders. To work well such a facility would need to be mirrored at the national level by a fund similar to that fashioned by Uganda to rationalise its overall debt service and prioritise its payments to multilateral creditors (Government of Uganda: 1995; Martin: 1996).

An MDF is essential to prevent the present, unsatisfactory piecemeal institution-by-institution approach from becoming entrenched as the only way out. That would result in sub-optimal outcomes which would drag out the crisis for much longer than is necessary. The present *ad hoc* approach damages debtor countries and compromises the financial stability of the multilateral institutions. It imposes intolerable annual demands on bilateral donors for grant assistance at levels which their present budgetary circumstances simply will not permit.

The problem with the original MDF was that its conceptual appeal was vitiated by the detailed design proposed which attempted to result in the World Bank having its cake and eating it too. The World Bank's presentation of the MDF appeared to suggest that it would deal with debt-stock reduction of $11 billion equivalent up-front, when in reality (reading the fine print) it resulted in covering only the debt service payments of twenty-four SILICs with unsustainable multilateral debt burdens for the next 15 years. In nominal terms, these amounted to reducing the multilateral debt stock by just $2.8 billion and covering related interest payments of $1.2 billion, i.e. a total of only $4 billion over 15 years.

The way in which the MDF was presented attempted to convince debtors and the international community that it would result in substantial MDRR up-front. At the same time it tried to placate the Bank's shareholders by convincing them that the MDF would not cost much and that payments to fund it could be made over a long period of time. These opposite messages created difficulties which resulted in the MDF tripping over itself when it was unveiled. The World Bank's attempt to be too-clever-by-half (Mistry: 1995a) resulted, unfortunately, in the baby being thrown out with the bath water when the Bank was confronted with a barrage of criticism, from within and without, triggered by misleading, premature global publicity about its, quite literally, half-baked proposal.

The type of MDF proposed by the World Bank would have been a sub-optimal, feeble response to the multilateral debt problem. But a more robustly constructed MDF, which was more candid about: what it intended to

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achieve, the amount of resources it would require for up-front debt stock reduction and longer-term debt service relief, and how it would be funded (Mistry: 1995a), might have received a more favourable reception and attracted greater global support. Such an MDF should still be the aim of the international community to achieve in dealing resolutely with the multilateral debt overhang.

The Selection of Countries

The World Bank's 1995 analysis – undertaken in connection with its temporarily frozen proposal for a Multilateral Debt Facility concluded that there were twenty-four countries in need of MDRR (World Bank: 1995a); of which eighteen were in SSA. By contrast, the January 1996 analysis of the problem by the IFIs (IMF/WB: 1996b) concludes that: there are eight countries with an unsustainable debt overhang, and another twelve countries which are possibly stressed; and three countries which are likely to need MDRR. The reference to the possibly stressed appears to be an attempt by the IFIs to square the analytical circle in reconciling their own internal differences of opinion; especially those between the staff of the Bank on the one hand, and that of the Fund on the other.

As the IFIs themselves acknowledge, there are problems with the methodology and assumptions used for assessing debt sustainability. These are recounted in the IFIs' analytical papers and in a useful recent report for the Group of 24 (Martin: 1996). As many of these problems, especially concerning the selective use of assumptions, were dealt with (Eurodad: 1995a,b; Hardy: 1995; Killick: 1995; Mistry: 1995a; Oxfam: 1996) in the context of the earlier 1995-IFI analysis (IMF/WB: 1995a,b) it would be tedious to repeat or examine them at length again here. Briefly, they concern the use of assumptions to derive conclusions which the IFIs appear to have started out with, rather than as judgements arrived at after genuinely impartial, unbiased inquiry.

They also concern: continually moving goal-posts when it comes to cut-off points for certain criteria (e.g. the debt-to-exports cut-off shifting from 200% to 225% to 250%, and the debt service-to-exports ratio cut-off shifting from 10% to 15%); the use of over-optimistic assumptions about future independent external private and public flows to SILICs which will make their debt service sustainable; what should be considered extraordinary and what is normal in taking such external flows into account; insufficient regard for the fiscal sustainability of debt service despite rhetorical flourishes in that direction; and disregard for levels of aid dependency in sub-Saharan African debtor economies which are already too high and which need to be reduced rather than increased simply to service multilateral debt.

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A careful review of the IFI analysis suggests that, in the end, the choice of which countries to place in which category is more a subjective than objective matter. This is mainly because attempts to draw out objective, unarguable indicators of sustainability through debatable projections for the next 10 years, on the basis of assumptions which do not relate to actual experience over the previous 5-10 years, are inevitably artificial and belaboured. Using that approach and methodology it is entirely possible to arrive at any conclusion one is predisposed to arriving at. It is possible, using the same evidence, but different interpretations, to arrive at different conclusions as Martin (1996) has demonstrated. The conclusions of different IFI analyses and those conducted by Martin (1996) and the author (for this study) are shown in Table 8 below.

These conclusions need to be interpreted carefully. The IFI analyses attempt to exclude as many countries as possible, unless the sustainability analysis overwhelmingly suggests otherwise. The Martin and Mistry judgements are inclusive to the extent that the analytical data suggest a need to err on the side of giving debtors rather than creditors the benefit of any analytical doubt. There are at least six sub-Saharan countries (Cape Verde, Comoros, Djibouti, Gabon, Gambia and Lesotho) on which no analysis is available other than the three countries which the 1996-IFI analysis classifies as not yet determined. Of these, three (Cape Verde, Comoros, Gabon) could be sufficiently debt-distressed to warrant the application of MDRR but detailed analysis is needed to confirm that preliminary judgement.

As noted earlier, the 1996-IFI analysis shows eight countries in need of definite MDRR and twelve countries in need of possible MDRR – with three additional countries whose debt sustainability has not yet been determined but which could fall into either the unsustainable or possibly stressed categories. The Martin analysis, using the same evidence as the IFIs, increases these numbers to eighteen with unsustainable debt burdens and ten which are possibly stressed respectively. The Mistry (current) analysis – which looks not only at the debt stocks/exports and debt-service ratios but also at fiscal sustainability and aid dependency ratios – concludes that: (a) twenty countries are in need of multilateral debt stock reduction combined with rescheduling of residual stock on intermediate terms; with (b) a further twelve countries which do not need debt stock reductions but require some form of multilateral debt rescheduling or refinancing to make their future debt service burdens more tractable. That analysis is disinclined to accept the possibly stressed category because it is an all-too-convenient IFI device to dodge the main issue, rather than an analytically respectable intermediate category. With very few differences, the Martin and Mistry analyses are virtually congruent, and are based on much the same information as used by the IFIs, but they lead to substantially different conclusions from those of the IFIs.

Table 8 **Countries in Need of Multilateral Debt Stock Reduction**

	WB/MDF Analysis 1995	IMF/WB Analysis 1996	Martin Analysis 1996	Mistry Analysis 1996
SSA:	Burundi	Burundi (U)	Burundi (U)	Burundi (U)
	Cameroon	Guinea Bissau (U)	Cameroon (U)	Cameroon (U)
	CAR	Mozambique (U)	Côte d'Ivoire (U)	Côte d'Ivoire (U)
	Côte d'Ivoire	Sao Tome (U)	Ethiopia (U)	Ethiopia (U)
	Eq. Guinea	Sudan (U)	Guinea Bissau (U)	Guinea Bissau (U)
	Guinea Bissau	Zaire (U)	Madagascar (U)	Liberia (U)
	Madagascar	Zambia (U)	Mozambique (U)	Madagascar (U)
	Mozambique		Sao Tome (U)	Mozambique (U)
	Niger	Cameroon (PS)	Senegal (U)	Nigeria(U)
	Rwanda	Congo (PS)	Somalia (U)	Sao Tome (U)
	Sao Tome	Côte d'Ivoire (PS)	Sudan (U)	Senegal (U)
	Sierra Leone	Ethiopia (PS)	Tanzania (U)	Somalia (U)
	Somalia	Madagascar (PS)	Uganda (U)	Sudan (U)
	Sudan	Niger (PS)	Zaire (U)	Tanzania (U)
	Tanzania	Rwanda (PS)	Zambia (U)	Uganda (U)
	Uganda	Tanzania (PS)		Zaire (U)
	Zaire	Uganda (PS)	Angola (PS)	Zambia (U)
	Zambia		Benin (PS)	
		Liberia (NYD)	Congo (PS)	Angola (R)
		Nigeria (NYD)	Kenya (PS)	Benin (R)
		Somalia (NYD)	Niger (PS)	Congo (R)
			Rwanda (PS)	Kenya (R)
			Sierra Leone (PS)	Malawi (R)
			Togo (PS)	Niger (R)
				Rwanda (R)
				Sierra Leone (R)
				Togo (R)
				Zimbabwe (R)
Other:	Bolivia	Nicaragua (U)	Guyana (U)	Guyana (U)
	Guyana		Honduras (U)	Honduras (U)
	Honduras	Bolivia (PS)	Nicaragua (U)	Nicaragua (U)
	Nicaragua	Guyana (PS)		
	Myanmar	Myanmar (PS)	Bolivia (PS)	Bolivia (R)
	Vietnam	Myanmar (PS)	Myanmar (PS)	Myanmar (R)

Key: U = Unsustainable Multilateral Debt Burden
PS = Possibly Stressed
R = Rescheduling of Residual Stock on Soft/Long Terms Needed
NYD = Not Yet Determined

Obviously the inclusion of large borrowing countries with a high proportion of their debt owed to private creditors, like Cote d'Ivoire and Nigeria, as candidates for multilateral debt stock reduction will raise major difficulties. So will the inclusion of difficult countries like Liberia, Somalia, Sudan and

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Zaire which do not attract much political sympathy from OECD donor countries. Moreover, there is a general antipathy to rewarding leaders of governments with debt stock reduction when evidence of excessive corruption and rent seeking is as rife as it is in most sub-Saharan countries. These concerns pose sensitive, contentious problems which cannot be easily resolved through the application of arbitrary judgement.

The history of debt crisis management since 1982 strongly suggests that the debt weapon has, more often than not, been used strategically as a political tool in the conduct of international economic relations between OECD donor/creditor countries and developing debtor countries especially where the treatment of official debt has been concerned. Perhaps the two most egregious instances of this phenomenon were the bilateral debt stock reduction agreements for Poland and Egypt. Moreover, rightly or wrongly, political conditionality has become increasingly intrusive in shaping relations between aid-donor and aid-recipient countries since the end of the Cold War.

It would therefore be sanguine to pretend that, in selecting sub-Saharan Africa countries eligible for multilateral debt reduction, politics will not play a strong part; it inevitably will. Hopefully, in the case of multilateral debt stock reduction, political considerations will be sensitively blended with economic ones and not overwhelm them. The consequences of using debt reduction as an incentive to prod debtor government behaviour in desirable directions of course carries the clear risk of damaging the interests of precisely those inhabitants whom aid and official debt were originally intended to protect – at least ostensibly. But that is not a new problem. It has to be dealt with pragmatically on a day-to-day basis in virtually every sub-Saharan African country.

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V A New Approach to the Multilateral Debt Overhang

Alternative Principles and Measures

While the World Bank and the IMF have recently produced papers on the proposed framework for resolving the multilateral debt problem of the heavily-indebted poor countries, they have failed to deal with the problem in an effective manner. Those interested in a more productive resolution of the growing multilateral debt problem should argue for a different approach, with a different set of principles, on which the framework for multilateral debt reduction and relief (MDRR) should be based.

1. Independence and impartiality in developing an equitable approach to MDRR which would result in sustainable debt servicing outcomes.

It is clear from what has been happening that the World Bank and the IMF (international financial institutions or IFIs) have too strong a vested interest in containing MDRR. They have demonstrated beyond any reasonable doubt that they are incapable of approaching the issue in an impartial and fair manner. They do not have either the inclination or the perspective which is needed for a solution which would be in the interests of affected heavily-indebted poor countries (HIPCs).

As involved parties in what is now effectively a dispute between HIPC debtors on the one hand and multilateral creditors on the other, it is perhaps inappropriate to expect the IFIs to be independent or impartial and to suppress their vested interests in arguing the MDRR case. Their record so far has borne out the genuine difficulty they are experiencing in this respect.

Accordingly, the Development Committee, in the interests of fairness and a genuinely independent approach, should establish a Special Independent Commission on Multilateral Debt (SICOM) headed by a high-ranking and internationally credible, former senior executive of the IFIs who is a public figure (e.g. Moeen Qureshi, the former Senior Vice-President for both Finance and Operations of the World Bank, a former head of IFC and also the interim Prime Minister of Pakistan) acceptable to HIPCs and IFIs. The head of SICOM should report directly to the Ministerial Development Committee through its Chairman and Executive Secretary and not to the heads of the two IFIs.

SICOM should have a time-bound life. It should be supported by a properly staffed independent secretariat comprising knowledgeable debt experts hired from outside the IFIs, along with staff seconded from the IFIs. It should:

(a) *undertake the required analyses of debt sustainability* (with information and analysis supplied by the IFIs) on an independent and impartial basis based on appropriate and exhaustive criteria to establish: (i) the specific countries eligible for MDRR; (ii) the amount of MDRR required for a sustainable outcome to be achieved in each such country; and (iii) to suggest specific MDRR measures which should be applied by each multilateral creditor in each eligible HIPC;

(b) *operate a properly funded global Multilateral Debt Facility* which would be financed by contributions mainly from the IFIs own resources with some supplementation by special grants from bilateral donors.

2. Adopt a case-by-case, institution-specific approach to multilateral debt reduction by eliminating unnecessary linkages between different multilateral creditors in designing and applying MDRR.

It is evident from what has been happening so far that forcing the IMF and World Bank to work jointly in developing an approach to MDRR has not worked satisfactorily. Of the two IFIs, the World Bank appears to be more inclined to proceed more rapidly towards an MDRR solution, albeit a sub-optimal one.

The IMF seems interested above all in securing the future of ESAF and reinforcing its role as *the* choke-holder of the short-leash for policy-reform in perpetuity. It appears much less concerned about the impact of a multilateral debt overhang in compromising the economic prospects of affected HIPCs.

Moreover, there is a strong argument for a case-by-case approach to the specific problems which the different multilateral institutions face. The nature of their facilities is different and their financial circumstances are different. It would be much easier to develop a case-by-case, institution-specific approach to MDRR, in the same way as the IFIs are proposing a case-by-case individual country approach to determining eligible HIPCs and their MDRR needs.

Those institutions which believe they face risks of an adverse market reaction to MDRR (i.e. the IBRD and AfDB) need to be treated differently to those which face no such risks. Similarly those institutions which do not borrow from markets (the IMF and the soft windows of the multilateral development banks) have more room to manoeuvre in designing their

MDRR responses. They can deploy an array of different instruments for providing debt reduction and relief.

A de-linked approach would thus enable progress on MDRR to be made more rapidly, and more sensibly, than an approach which relies on inappropriate notions of maintaining institutional solidarity within the multilateral creditor group and cross-conditional linkages which result in obstructing progress.

Moreover, a case-by-case approach in dealing with individual creditors would be symmetric with the case-by-case approach which the IFIs are arguing in favour of in dealing with the different debt problems being faced by different HIPCs.

3. A. Eliminate unnecessary cross-linkages between action on MDRR and action for further relief on the claims of other creditors.

B. Action to provide further debt reduction and relief by all creditors should be undertaken simultaneously not sequentially; with *pari passu* burden-sharing by all creditors from here on.

Linking action on MDRR to prior action on other types of debt is a retrogressive and inequitable principle which the IFIs have proposed in April 1996. It can only obstruct and further delay action on MDRR which has already been too long-delayed.

Other creditors did not link their earlier debt-reduction initiatives on what the IFIs did. As a matter of fairness, IFIs cannot require, simply on the basis of preferred creditor status, that other creditors should go even further before they are required to act. That principle defies both logic and propriety.

As other creditors have already provided debt reduction – albeit to an inadequate extent – the preferred position of the multilaterals has been preserved. The IFIs' status as creditors would continue to be preferred if, from here on, further debt reduction were provided by all categories of creditors on a *pari passu* basis; although the evidence suggests that multilateral creditors need to do proportionately more than other creditors in terms of debt stock reduction simply because they have not undertaken any such reduction so far.

Bilateral creditors have not only reduced debt stocks and tolerated a very large volume of arrears – thus providing *de facto* debt reduction which is much larger than that negotiated *de jure* – they have gone even further in providing grant financing to cover the multilateral debt service of many HIPCs with unsustainable multilateral obligations. It is therefore not up to the IFIs to dictate that bilateral creditors ought to be doing even more and to refuse to act before other creditors have done more.

Clearly, the further debt reduction actions proposed by the IFIs for the

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Paris Club and other bilateral creditors, are desirable and should be implemented. But there is no case – financial, legal or on any other basis – to make MDRR conditional on *prior* action being taken by other creditors for further reduction of their claims. Such conditionality is simply unacceptable.

Thus, while the Paris Club and private creditors should be encouraged through other fora to do as much as they can in providing further debt relief and in eliminating arrears – which have now risen to absurd proportions – they should not be required by the IFIs to act before MDRR can be applied.

4. A. Focus MDRR initially on debt stock reduction and not just on rescheduling or debt-service relief as proposed by the IFIs.

B. Use bilateral funds only to finance the MDRR efforts of the African Development Bank

C. Require MDRR provided by other multilaterals and the IFIs to be financed from their own resources.

For all the wrong reasons, what the IFIs seem to be ruling out altogether in their April and June 1996 proposals is any debt stock reduction on the grounds that this would compromise their financial integrity, hurt their credit ratings, increase their borrowing costs and thus damage the interests of other borrowing countries.

Thus they are concentrating only on refinancing, rescheduling and debt-service relief in their approach to providing MDRR. These are all sub-optimal ways of alleviating a debt overhang problem – as the IFIs have themselves argued on several occasions when urging bilateral and private creditors to undertake significant debt stock reductions.

None of the hypothetical arguments the IFIs make against reducing their own debt stocks through write-offs and partial write-downs are valid, as has been pointed out in a number of papers from credible independent sources.

Up to $10-12 billion of multilateral debt stock reduction can be financed by resources already available within the multilateral system (income, provisions, reserves, gold sales, soft-window funds) without any damage to the financial integrity of the IFIs or regional development banks.

Only in the case of the African Development Bank would the resources for MDRR need to come from outside that institution. They could be provided as part of the next two soft-loan window (AfDF) replenishments if donors so wished with special allocations to AfDF from their existing aid budgets for financing debt relief.

After multilateral debt stocks have been reduced sufficiently to eliminate the multilateral debt overhang, residual balances can be rescheduled with maturity and grace periods which would result in debt-service sustainability – without further reliance on external grant funding for this purpose. But rescheduling should only be resorted to after debt stocks have been reduced.

5. Arresting immediately the further growth of the multilateral debt overhang in affected HIPCs by putting interest on outstanding multilateral loans into non-accrual status immediately.

When it is acknowledged that up to 20 countries (and possibly 4-12 others) have a serious multilateral debt problem, it is odd that all of the analyses and projections of future debt-service obligations done by the IMF and the World Bank show these IFIs as collecting principal and future interest from countries which are obviously distressed by excess multilateral debt.

Under these circumstances it would be more appropriate for the IFIs to cease accruing interest on outstanding balances in affected HIPCs with immediate effect. That would certainly stop the multilateral debt problem from growing worse than it now is.

A policy of income non-accrual would be a useful start in applying partial MDRR immediately. Foregoing income on loans to over-indebted HIPCs would represent a significant immediate contribution by IFIs to MDRR and would reduce the total amount which may have to be written-off in the future. Such a measure would also release immediately a significant portion of bilateral grant resources which are being diverted for multilateral debt-service relief. These savings could then be applied to the reduction of principal balances owed to the African Development Bank.

The multilateral development banks already have non-accrual policies in place for loans to countries which are in arrears for more than six months. That policy could be extended easily to cover non-accrual on loans to countries which have been determined to have a serious multilateral debt overhang and whose arrears are being prevented simply by recourse to extraordinary grant funding.

6. Applying a time-limit to cleaning up the multilateral debt overhang.

From a political and practical perspective it would be useful for the G-7 states and for the IFIs to announce a politically evocative time bound limit (say the year 2000) for clearing up the multilateral debt overhang.

With a more serious approach on the part of the IFIs to MDRR and greater political will on the part of their major shareholders, such a deadline is feasible, practicable and desirable from the viewpoint of debtors and creditors.

It will help to concentrate minds, provide a major disincentive to the IFIs to persist with continued obfuscation and procrastination and provide an incentive for potentially eligible debtor countries to embrace and pursue policy-reform programmes with greater vigour and enthusiasm.

7. Ensuring that the preferred creditor status of IFIs is not used as an excuse by IFIs to assume exempt creditor status.

The IFIs have argued repeatedly that applying MDRR, and especially writing down debt, would affect their preferred creditor status. As long as the multilateral institutions write down less debt than other creditors and provide less overall debt relief, they will still remain preferred creditors.

Thus they are using the preferred status argument as an excuse to exempt themselves altogether from debt stock reduction. Also the IFIs stress their preferred status as if it were holy writ enshrined in their constitutions. Preferred creditor status is a matter of convention rather than constitution and conventions can be changed depending on circumstances.

There is, of course, no valid argument for compromising the preferred status of the IFIs which convention and market preference has endowed to them over several years. That status has been useful in bolstering their resource-mobilisation efforts. To the extent that they borrow from markets (and only the hard-windows of the multilateral development banks do that) the importance of such a convention cannot be underplayed.

But there is no basis for the IFIs to misconstrue, misrepresent or hide behind preferred creditor status to avert or forestall MDRR of the kind that is needed (i.e. up-front debt stock reduction) when that can be done without incurring any of the problems or risks which the IFIs exaggeratedly allege.

8. Combining a Global Multilateral Debt Facility with country-specific MDRR funds.

In addition to espousing the seven alternative principles outlined above – and pressing G-7 leaders as well as the Ministers who make up the Development Committee to accept them as the basis for building an MDRR framework – one should also press for the establishment of a global Multilateral Debt Facility (MDF) combined with country-specific MDRR funds (à la Uganda).

A global MDF, first conceptualised by the World Bank in July 1995, should be established and operated, but along lines quite different that those suggested by the World Bank itself (see Mistry: 1995). In addition, country-specific funds for HIPCs which are eligible for MDRR should also be established and should operate in tandem with the global MDF along the lines proposed by Martin (1996). The MDF should be funded mainly from the resources of the IFIs themselves. Top-up bilateral resources should be provided only to cover debt reduction offered by the African Development Bank.

Most importantly, the MDF should not be administered by the World Bank but by the Special Independent Commission on Multilateral Debt suggested above.

Conclusion

These eight alternative principles offer a more practicable and reasonable basis than the six principles suggested by the IFIs on which to build the framework for MDRR. They take more account of the real MDRR needs of debtors instead of viewing the problem exclusively from the perspective of the IFI creditors.

They also serve to redress the balance in what has so far been an asymmetric approach to MDRR dominated entirely by the views, preferences and vested interests of the IFIs with little account being taken of the legitimate needs and imperatives of the HIPCs. Although the indications are that the World Bank is prepared to move more expeditiously towards providing MDRR, it is being held back by the IMF. That institution seems to be running interference on all MDRR proposals until it has achieved its own self-serving objective of financing an expanded, self-sustaining ESAF.

It is clear from their most recent proposals that the IFIs are not moving the MDRR initiative forward and are still procrastinating in an attempt to protect their own positions. That is unacceptable. Responsibility for finding and implementing an appropriate solution to the multilateral debt problem which deals equitably with the legitimate interests of affected debtors and creditors alike – but which does not confuse the issue with unnecessary extraneous linkages – should therefore be shifted away from the IFIs and transferred to a more responsible and responsive independent body with the authority to devise and implement a solution which is fair and workable.

The above mentioned package of principles and measures represents the minimum set of requirements which a new approach to resolving the multilateral debt crisis must embody if the debt-development impasse facing sub-Saharan low-income economies is to be resolved. Absent these measures and absent a new multilateral debt strategy, it is difficult to imagine how African economies, blighted for over two decades by their own failures of economic management and those visited upon them by the failure of internationally imposed adjustment, can emerge from the shadows of recession, stagnation and retrogression onto the more illuminated pathways of sustainable recovery and growth, and to resume the momentum of long-term development.

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Annexes

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Annex 1 Summary of the New IMF/World Bank HIPC Initiative

Entry Point

First stage

- **Paris Club** provides flow rescheduling as per current Naples terms (67 percent reduction, on a present value basis).
- **Other** bilateral and commercial creditors provide at least comparable treatment.
- **Multilateral institutions** continue to provide adjustment support in the framework of Bank/IMF-supported adjustment program.
- **Country** establishes first track record of good performance.

Decision Point

Second stage

- **Paris Club** provides more concessional flow rescheduling including up to 90 percent debt reduction (as needed on a case-by-case basis).
- **Other** bilateral and commercial creditors provide at least comparable treatment.
- **A special Consultative Group** meeting is convened to agree on a financing plan and identify additional relief needed for the country to achieve debt sustainability at the completion point.
- **Donors and multilateral institutions** provide enhanced support.
- **Country** establishes a second track record of good performance under Fund and Bank programs.

Completion Point

- **Paris Club** provides deeper stock-of-debt reduction of up to 90 percent (as needed on a case-by-case basis).
- **Other** bilateral and commercial creditors provide at least comparable treatment.
- **Multilateral institutions** take such additional measures, as may be needed, for the country to reach a sustainable level of debt, each choosing from a menu of options, and ensuring broad and equitable participation.

Decision Point

- **Either** Paris Club stock-of-debt operation under Naples terms and comparable treatment by other creditors adequate for the country to reach sustainability - country not eligible for HIPC initiative.
- **Or** Paris club stock-of-debt operation (67 percent reduction of eligible stock-of-debt) not sufficient for the country's overall debt to become sustainable – country requests additional support under the HIPC initiative, and Executive Boards determine eligibility.

Source: *A Framework for Action to Resolve the Debt Problems of the Heavily Indebted Poor Countries: Report to the Managing Director of the IMF and the President of the World Bank to the Interim and Development Committees*, IMF/WB, 15 April 1996.

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Annex 2 The Costs of the New IMF/WB Debt Initiative

In June 1996, the IMF and the World Bank estimated the total cost of the new debt initiative at $5.6 billion. The distribution of further debt relief among bilateral and commercial creditors depends on how much additional relief these creditors are willing to provide. The following Table illustrates the various patterns of burden sharing based on different levels of additional debt reduction by other creditors.

Table A Burden Sharing Based on Varying Levels of Debt Reduction
(billions of US Dollars)

	Amount of Debt Reduction (in NPV* terms)		
Type of Creditor	**67%**	**80%**	**90%**
Total Cost	**5.6**	**5.6**	**5.6**
Bilateral	**0.0**	**2.3**	**3.5**
of which:			
Paris Club	0.0	1.9	2.9
Other Bilateral	0.0	0.4	0.6
Commercial	**0.0**	**0.1**	**0.1**
Multilateral	**5.6**	**3.2**	**2.0**
of which:			
World Bank	2.1	1.1	0.7
IMF	1.2	0.8	0.5
African Development Bank	1.2	0.7	0.4
Other Multilaterals	1.1	0.6	0.4

*NPV = Net Present Value

Three clear points emerge from this Table.

(1) It is clearly in the interest of multilateral creditors to press for additional debt reduction by other creditors since it reduces their burden to provide debt reduction and relief. This is the main reason why the multilaterals use the preferred creditor argument to shift the focus of debate from an exclusive concentration on multilateral debt reduction to a more generalised argument involving total debt reduction. In doing so, they take insufficient account of what other creditors have already done.

(2) Commercial creditors have very little to contribute to the new debt initiative. The inclusion of commercial creditors in the provision of further

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debt reductions would result in extreme complications, and heavily-indebted poor countries would be significantly better off if these creditors were excluded from the plan entirely. The effort involved would not be commensurate with the outcome achieved.

(3) Bilateral creditors (and mainly the OECD governments) must decide how much more they are willing to pay for additional debt reduction. These decisions will be determined by their own increasingly limited budgets as well as how much of the burden they want their multilateral instrumentalities to bear from their internal resources. Within the multilateral system, the capacity exists to bear the full cost of $5.6 billion (and even more if necessary) without the occurrence of any financial disruptions and market reactions.

The June 1996 IMF/WB paper is remiss in omitting to show exactly what the percentage NPV debt reduction contribution of the multilaterals, relative to other creditors, would be for each of the three options mentioned in Table A. The aggregate numbers suggest that it would be significantly less than the notional 67% provided under the Naples Terms by bilateral creditors. While this figure can be misleading (because Naples Terms are not applied to the entire outstanding stock of bilateral debt), what must be considered is that bilateral creditors have tolerated arrears which, if eventually forgiven, would imply a reduction higher than 67% NPV.

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Annex 3

Table B **Sub-Saharan Africa's Outstanding Multilateral Debt: 1980-94**
(millions of US Dollars)

Country	1980	1985	1990	1994
Angola	13.2	27.6	58.5	158.8
Benin	120.0	240.7	554.7	856.4
Botswana	84.3	225.2	391.7	501.6
Burkina Faso	156.3	282.2	565.0	926.6
Burundi	94.8	261.2	702.8	937.0
Cameroon	480.5	708.2	1414.3	1663.9
Cape Verde	17.2	54.6	87.0	123.9
C.A.R.	76.9	162.5	492.3	631.8
Chad	88.3	101.4	350.4	632.8
Comoros	21.2	69.1	113.9	142.2
Congo	140.0	342.4	580.5	717.3
Côte d'Ivoire	588.2	1871.6	3019.5	3694.9
Djibouti	2.3	39.1	89.6	128.0
Equatorial Guinea	18.8	27.2	73.2	119.6
Ethiopia	419.1	672.6	1243.8	2196.3
Gabon	54.8	93.8	449.6	543.6
Gambia	57.1	118.3	248.2	331.2
Ghana	384.0	1227.9	2583.2	3370.5
Guinea	164.8	288.1	729.6	1375.5
Guinea Bissau	30.4	105.7	274.4	369.0
Kenya	884.1	1840.1	2968.6	3158.3
Lesotho	46.5	147.7	306.0	452.1
Liberia	219.8	550.0	755.4	768.8
Madagascar	269.3	658.2	1377.3	1682.3
Malawi	299.0	650.5	1191.3	1699.3
Mali	212.1	498.4	978.2	1362.0
Mauritania	186.0	381.3	725.5	916.2
Mauritius	179.4	352.4	322.6	260.0
Mozambique	0.0	77.4	502.3	1265.9
Niger	158.7	351.7	784.5	887.6
Nigeria	570.5	1430.9	3733.2	4806.3
Rwanda	104.3	242.2	542.3	762.2
Sao Tome	10.6	21.5	76.4	166.6
Senegal	402.7	848.4	1677.6	2075.0
Seychelles	4.5	19.2	46.7	58.2
Sierra Leone	121.3	224.3	290.0	475.5
Somalia	177.0	564.3	912.9	937.8
Sudan	1065.0	1700.0	2678.9	3016.3
Swaziland	67.5	114.6	119.9	118.3
Tanzania	736.1	1166.7	2135.6	2855.2
Togo	151.3	369.4	650.5	763.1
Uganda	170.8	805.8	1571.5	2410.8
Zaire	695.0	1410.2	2449.5	2803.5
Zambia	844.1	1523.4	2366.5	2793.3
Zimbabwe	3.2	532.8	644.3	1864.9
Total	**10591.1**	**23400.8**	**43829.7**	**57780.0**

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