VII Conclusions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Debt Relief and Adjustment Success

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

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

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

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

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

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

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

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

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

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

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

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

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The Need for a Comprehensive Debt Strategy in the 1990s

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

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

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

TABLE 12 MATRIX FOR A COMPREHENSIVE DEBT REDUCTION STRATEGY

Type of Creditor

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

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

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

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