African Common Position on Africa's External Debt Crisis

Organisation of African Unity

I. Declaration of the Third Extraordinary Assembly of Heads of State and Government of the Organisation of African Unity on Africa's External Debt Crisis

We, the Heads of State and Government of the Organisation of African Unity, meeting at our Third Extraordinary Assembly in Addis Ababa, Ethiopia, from 30 November to 1 December, 1987, have examined in depth the African debt crisis with a view to adopting, on behalf of our governments and peoples, a common position in the spirit of solidarity and unity of our people. We are gravely concerned that Africa's external debt and excessive debt-service payment is a major impediment to the full implementation of the Africa's Priority Programme for Economic Recovery 1986-1990.

We have, since 1984, persistently urged the international community to address, in a comprehensive manner, the critical economic situation confronting our countries as a result of the mounting debt-service burden. Considering the seriousness of the external debt crisis, successive chairmen of the OAU have, since 1985, pleaded our case with our partners for the convening, as a matter of urgency, of an International Conference on Africa's External Indebtedness to provide a forum for international creditors and African debtor countries to discuss the debt problem with a view to arriving at appropriate emergency, short, medium and long-term concrete and comprehensive measures to alleviate the excruciating debt-service crisis that our countries are faced with.

We continue to believe that a viable debt strategy should take fully into account our economic and social development needs and, in particular, the need to mobilise the necessary resources required for the implementation of the United Nations Programme of Action for African Economic Recovery and Development 1986-1990, which was adopted by the 13th Special Session of the United Nations General Assembly.

We wish to recall solemnly that, for our part, the economic and social development of our peoples remains our primary objective. We reaffirm further that our external debt constitutes contractual obligations entered into individually by our Member States, and which they intend to honour. However, despite our willingness to pay, our present economic crisis, particularly the low level of our export earnings, makes it extremely difficult for us to honour our obligations. The problem of indebtedness is historically linked with that of development; its solution lies primarily in Africa's ability to engender real development. Consequently, developed countries and international financial institutions have the duty and responsibility to contribute to the solution of Africa's external debt problem through, in particular, a substantial increase in resource flows to African countries on concessional terms.

We believe that the debt crisis of Africa will only be solved by an overall and equitable approach within the framework of an integrated, co-operative, development-oriented strategy that takes into account the particular characteristics of the debt crisis in Africa. In view of the interdependence between the economies of the debtor and the creditor countries, the strategy for the solution of the debt problem will need to be based on co-operation, continuous dialogue, and shared responsibility, and should be implemented with flexibility in an environment of strengthened international co-operation, bearing in mind the General Assembly and UNCTAD Resolutions adopted in that respect.

In full solidarity with the Group of 77 and the Non-Aligned Movement, we reiterate our common position that a lasting solution to the external debt problem of developing countries can only be found within the framework of comprehensive and parallel actions in the major economic sectors, in recognition of the interdependence among the external debt issues, flow of development assistance, improved international trading system, improved commodity prices and the reform of the international monetary system.

We wish to recall that the present economic backwardness of our continent is the direct result of colonialism, the effects of which are still being felt. We reaffirm that the development of our continent is the primary responsibility of our governments and peoples. In fulfilling this responsibility, we adopted in 1985 the Africa's Priority Programme for Economic Recovery 1986-90. We have taken appropriate measures to implement the commitments we made individually and collectively in that programme. We have instituted reforms at great social and political costs to our peoples and governments. We have adopted economic reforms and structural adjustment measures that are aimed are redressing our present weak economic structure and have re-ordered our priorities and have also adopted strategies to facilitate an accelerated recovery and long-term development of our economies. However, our efforts are being undermined by the exasperating and excruciating debt service payments, the hostile international economic and political environment, including destabilisation acts of *Apartheid* South Africa against Southern African States and the failure of the international community to live up to its commitment to provide Africa with substantial increase in resources.

We note, with appreciation that governments of a few developed creditor countries have taken or announced measures to cancel debt owed to them by some African countries. We urge all governments of creditor countries to extend to all African countries and particularly, to the least developed and low-income countries these measures which should be implemented unconditionally, as a matter of urgency. We further urge the creditor countries, which have not yet done so, to emulate this example.

We, therefore, call upon the international community, in particular the developed countries, international and regional financial institutions and private commercial banks to take immediate measures, as set out in the African Common Position on Africa's External Debt Crisis, to alleviate the debt burden of our countries and, in particular, to reduce the stock of our debt in order to help our countries resume growth. Such measures should include:

(a) contributing to improved international economic environment that will be conducive to economic recovery and accelerated development, through, in particular, improved export prices for African primary commodities and the removal of protectionist, quota and tariff measures impeding the export of African raw materials, manufactured and semi-processed goods to developed countries and freezing of African funds in foreign banks;

(b) increase resource flows to Africa through:
- increase in bilateral assistance;
- increase in the grant element in the financing of International and Regional Financial Institutions;
- reduction in interest rates and extension of the repayment period and grace period of financial and commercial loans for all types of new loan;
- granting 50 years repayment and 10-year grace period for the repayment of all new loans;

(c) the total amount of the debt service of a debtor country should not exceed a reasonable and bearable percentage of its export earnings;

(d) conversion of all past official bilateral loans into grants;

(e) suspension of external debt service payments for a period of 10 years, starting from 1988, the scheduled date for the holding of the International Conference on Africa's External Debt;

(f) adoption of the following principles within the framework of the renegotiation of Africa's debt:
- payment of part of official bilateral debt in loan currency,
- reduction of real interest rates on existing loans;

(g) multi-year rescheduling of a minimum of 5 years should be the norm, with maturities of at least 50 years, 10 years grace period and at zero rate of interest.

With a view to having a constructive dialogue that should lead to the adoption and implementation of the measures embodied in the African Common Position on Africa's External Debt Crisis, we renew our call for the convening of an International Conference on Africa's External Indebtedness.

We mandate the Current Chairman of the OAU to bring the African Common Position on Africa's External Debt Crisis to the attention of the international community, with a view to convening an International Conference on Africa's External Indebtedness in 1988.

We request the Permanent Steering Committee, with the assistance of the Secretariat of the OAU, the Secretariat of the ECA, the ADB and ACMS to intensify the technical preparations for the international conference.

II. African Common Position on Africa's External Debt Crisis

Preamble

We, the Heads of State and Government of the Organisation of African Unity, meeting at our Third Extraordinary Assembly in Addis Ababa, from 30 November to 1 December, 1987, having examined in depth the African debt crisis, have adopted the following common position:

The magnitude of the debt of developing countries (1,020 billion US dollars) and the burden of the debt-servicing (250 billion US dollars) are a glaring manifestation of the imbalances currently existing in the international monetary and financial relations which, if not corrected, will continue to jeopardise future development prospects. Africa is the most impoverished continent in the world, with twenty-seven out of the world's thirty-seven least developed countries, and a constantly declining per capita income. At a time when Africa is involved in the implementation of Africa's Priority Programme for Economic Recovery (APPER) and the United Nations Programme of Action for Economic Recovery and Development (UNPAAERD), we are still in no position to mobilise adequate resources to honour our obligations. In the majority of our countries, the question is not that of a liquidity crisis but of solvency. Our Ministers of Finance and in solidarity with other members of the Group of 77 have continuously attempted to impress it upon the creditor countries and international financial institutions to view the debt crisis from the concept of shared responsibility.

Since the early 1980s, we have been concerned about the external debt situation of our countries. In 1984 our Ministers of Finance adopted the Addis Ababa Declaration on Africa's External Indebtedness which we endorsed. The escalating debt burden has progressively grown from bad to worse, to a point where the magnitude of the debt and debt-service obligations have threatened the very foundation of our economies. We have taken steps to improve and rationalise external debt management. We sought to address this serious problem by calling for an international conference on African external debt when adopting the Africa's Priority Programme for Economic Recovery during our Twenty-First Summit, July 1985. Since then, we have been trying to persuade the creditor countries and international financial institutions to sit together with us to find solutions to the excruciating debt problems of our countries. Despite our persistent efforts, our endeavours have not been responded to. We decided, during our Twenty-Third Summit, to meet in an Extraordinary Session to exchange views and adopt a common position on Africa's external indebtedness.

When we adopted Africa's Priority Programme for Economic Recovery 1986-1990 (APPER), we pledged "to take concrete actions and measures individually and collectively for the achievement of the economic development of our continent in unity and solidarity of African peoples and Member States". We reaffirm that the development of our continent is the primary responsibility of our governments and peoples. It is now recognised by all that we are living up to our commitments. We have instituted significant reforms at great social and political costs to our peoples and governments. We have re-ordered our priorities and adopted new strategies to facilitate an accelerated development of our economies. We have adopted economic reforms and structural adjustment measures. We have taken measures to improve our economic efficiency and our macro-economic management. We have rationalised our public sector and reduced the share of public expenditure as a proportion of GDP.

In response to the serious debt situation facing our countries, we immediately took radical policy measures aimed at the reduction in our current account balance of payments deficits in order to generate foreign exchange for debt service payments. The measures included drastic cuts in our imports and also sought to substantially increase our exports. Due to structural rigidities of our economies, worsening terms of trade, inelasticity of demand for our commodities and protectionist measures practised by the developed countries, most of the resources needed to honour our debt service obligations had to be to raised through reduction of imports which, in some cases, were as high as 55%. We have also reduced drastically our new commitments to external debt and have strengthened our debt management machinery. Despite these drastic measures, our debt service ratio continues to rise.

The general international economic environment in which we were carrying out these measures has continued to be unfavourable. The prices of our main export commodities have suffered a serious collapse resulting in a loss in our export earning in 1986 of more than US19 billion. Official development assistance to some countries has decreased and, to some others, has stagnated in real terms. The developed countries and international financial institutions have, in general, not lived up to their commitments entered into in UNPAAERED.

The magnitude of our debts, which we have to service from drastically reduced foreign exchange earnings, is estimated to have reached US$200 billion by the end of 1986. The greater part of this debt was simply the result of fluctuations in exchange rates and increases in interest rates based on decisions in which our countries did not participate in making and over which they had no control. In 1985 our debt-service obligations stood at about US$24 billion. The average debt-service ratio has reached over 40% per annum with many of our Member States having debt-service ratios exceeding 100%. Furthermore, our projections, based on the continuation of the current trend, indicate that unless comprehensive measures are taken to deal with the African debt issue by 1995, our total debt will reach US$313 billion, our annual debt repayment US$31 billion, and our debt-service ratio over 48%, with the debt-service ratio for some of our countries far exceeding 100%. By the year 2000, the situation is expected to be even more serious, out total debt-service on both short and long-term loans will reach about US$46 billion, and our debt-service ratio is projected to reach an average of about 72% of our export earnings, with ratios for some of countries far exceeding 100%. Most ominous still is the fact that this high level of indebtedness will be a reflection of past loans, capitalisation of interest arrears and accumulated charges, rather than new loans intended to promote development.

Clearly, this situation cannot be allowed to continue; yet current remedies are inadequate. Debt reschedulings, as currently carried out, while providing temporary relief, add to the medium and long-term debt problem. Official and commercial debt reschedulings are adding over a billion US dollars annually to the total African debt, as a result of service charges and higher interest rates arising from them. The substantial increase of reschedulings our countries had to go through is a further indication of the seriousness of the African debt problem. The excruciating debt-service burden is depriving our economies of resources needed not only for development but also in many countries for the survival of our peoples. The result of this devastating debt burden is that our economies are grinding to a halt and in many cases are actually regressing.

Our position has all along been that external debt is a commitment made individually by Member States and which they have to honour. We are also still convinced that the developed countries and international financial institutions have the duty and responsibility to contribute to the recovery of the economies of African States to enable the latter service their debts. It is also our considered view that current international strategies have failed to address the core of the African debt issue. We believe that to deal with the structural nature of the African debt, new and bold initiatives and measures have to be taken by the creditor community to deal with the African debt in a context that will allow the continent to implement its priority programme for economic recovery and development. In the absence of such a comprehensive approach, we might eventually find ourselves in a situation where we could no longer honour our debt obligations, inspite of all our good intentions.

We believe that the debt crisis of Africa will only be solved by an overall and equitable approach within the framework of an integrated, co-operative, development-based strategy that takes into account the particular characteristics of the debt crisis in Africa. The strategy for the solution of Africa's debt problem should be based on co-operation, continuous dialogue and shared responsibility, and should be implemented with flexibility in an environment of strengthened international co-operation, bearing in mind the UN General Assembly and UNCTAD Resolutions adopted in that respect.

It is with a spirit of international co-operation and interdependence that we are presenting this common position to the international community. We acknowledge, with appreciation, the efforts of some developed countries which have adopted measures to alleviate the debt burden of African countries and hope that more countries will follow their example. It is our hope that this common position will open a constructive dialogue between us and our partners.

PART I

Evolution, Magnitude and Structure of Africa's External Debt

(a) Definition

Africa's external debt is defined broadly as all its external financial obligations outstanding at a particular point in time. These financial obligations are those contracted either by the government or are guaranteed by the government for a public corporation, or are contracted directly by public corporation and by the private sector. This definition is understood to cover such items as principal on public and publicly guaranteed debts; long, medium and short-term commercial loans and credits; suppliers' credit; private non-guaranteed debts; undisbursed debts; obligations to multilateral institutions including the International Monetary Fund and the World Bank; arrears on interest; and other related payments.

(b) Evolution and Magnitude

The analysis of the evolution and magnitude of the debt indicates that Africa's total external debt increased from US$128 billion at the end of 1982 to US$169 billion by the end of 1985. The ratio of debt to GDP increased from 40% to 50%, and the ratio of debt to exports of goods and services increased from 194% to 260%, over the same period. The lack of up-to-date and adequate statistics on all African countries makes it difficult to estimate accurately the magnitude of Africa's external debt beyond 1985. However, at the end of 1986, Africa's total debt was estimated to be US$200 billion. This represented 45% of the Gross Domestic Product (GDP) and 293% of export earnings. The rise in the debt to export ratio shows that the growth in export earnings was exceeded by that of debt.

The total service obligations for all countries for which data were available increased from US$19.0 billion in 1982 to US$24 billion in 1985. For nearly all African countries, the debt service as a percentage of exports of goods and services is now well over 40% and in some cases it exceeds 100%. Given the bleak prospects in export expansion, the number of countries with the latter debt service ratio is expected to rise significantly by the end of 1995. By this date, the annual average debt service payments are expected to reach about US$31 billion or 48,0% of export earnings, with some of our countries far exceeding 100%.

The fact that debt service payments have increased faster than actual disbursements means that the net resource transfer has declined sharply and it did so from US$20 billion in 1978 to US$3 billion in 1985. As for commercial banks, there was a net resource transfer from Africa of US$3 billion in 1984 alone. The IMF also extracted more resources from Africa than it provided in 1986 and this situation persisted up to February 1987. The clear implication of these developments is that a large and increasing portion of Africa's export earnings and new disbursements are going into servicing debt, leaving little or nothing for rehabilitation and new investments required to fully implement Africa's recovery programme.

(c) Structural Changes in Africa's Debt

The developments mentioned above have been accompanied by structural shifts in Africa's external debt. First, there has been a shift from non-debt creating to debt-creating flows, particularly over the period from 1970 to 1982. Although this shift appears to have been reversed since 1982, the seeds for the debt-servicing crisis had already been sown. Of the debt outstanding, official sources constituted 63% at the end of 1978 and 47.0% by the end of 1983. Thus, there was a shift from official to private sources. Within official bilateral sources, concessional flows as a percentage of the total from this source declined from 84% in 1975 to 62% in 1985 for Sub-Saharan African countries only. This shift towards non-concessional debt was re-inforced by the fact that, while financial market sources accounted for 15% of the total debt in 1974, the share from this source rose to 36% by the end of 1985. However, the concessionality of debt appears to have increased between 1983 and 1985. This improvement has not been adequate enough to alleviate the debt-servicing problem of African countries. This notwithstanding, the above shifts implied the hardening of terms and conditions of new loans. For instance, the average interest rates on new lending increased from 5.0% to 10% between 1974 and 1985, while the grant element dropped from 32% to 16%, over the same period.

All the above mentioned adverse developments contributed to a situation where African countries were forced to reschedule their external debts at the Paris and London Clubs eighty-three times between 1979 and 1986.

PART II

Major Causes of Africa's External Debt Crisis

Several factors have combined to precipitate the African debt crisis. They are both external and domestic in nature, and the debt phenomenon initially manifested itself in the structural dis-equilibrium, between import requirements and export earnings which forced many African countries to resort to increased borrowing from external sources in order to meet the resource gap. As was indicated in APPER, the following are the major causes which have aggravated the external crisis.

(a) **External Causes:**

i) Decreased flows of concessional resources to African countries resulting in a dramatic shift in debt structure from concessional to non-concessional loans, with their hardened lending terms.

ii) The significant flight of capital and other resources resulting in net outflow of resources from Africa.

iii) Insistence of the creditor community that African countries meet their debt service obligations without consideration to their ability to do so.
iv) Unprecedented collapse of the prices of Africa's commodities and the consequential deterioration in terms of trade which have undermined Africa's capacity to service its debt.
v) Deteriorating terms of borrowing including sudden increases in the real interests paid on long term debts, particularly commercial loans, and reduced grace and repayments periods.
vi) Subsidies, mounting protectionist measures and restrictive business practices in the markets of the developed countries against exports from Africa.
vii) Strict conditionalities, high cost and short term nature of some IMF facilities.
viii) Activities of transnational corporations in African countries, especially inflated contracts, over-invoicing imports and under-invoicing of exports; manipulations of commodity prices and of transfer pricing; excessive transfer of profits and other capital gains; and their preference for external borrowing instead of bringing in new equity capital.
ix) Exchange rate fluctuations, especially the volatility of the US dollar *vis-a-vis* the other vehicle currencies, particularly as witnessed in the recent international financial monetary turmoil.
x) Consequence of the past reschedulings which only serve to increase the debt burden, since such reschedulings are done at market related interest rates.
xi) Aggressive economic destabilisation policies by external forces and freezing of African funds in foreign banks.
xii) Military, economic and political destabilisation by the racist South African regime against the Frontline and other independent States in Southern Africa.

b) **Domestic Causes:**
i) Rigidities in production structures, dependence on the export of a few raw materials and commodities and low complementarity of the African economies.
ii) Excessive reliance on external sources for financing development and balance of payments.
iii) Loan funds channelled to low-return projects.
iv) Inadequate external debt management capacity at the national level.
v) Excessive resort to budget deficit financing through external borrowing both for recurrent and developmental expenditures.
vi) Poor design, execution and monitoring of projects that lead to increased costs.
vii) Low-level of domestic resources mobilisation due to lack of appropriate incentives to encourage savings.

viii) Drought, natural calamities and environmental degradation, resulting in reduced food production and leading to increased food import bills.
ix) Economic dislocations that distort economic projections and necessitate diversion of resources, because of national disasters.
x) Inadequate negotiating capacity of African countries *vis-a-vis* complex international financial mechanisms with respect to debt contracting and renegotiations.
xi) Difficulties for African countries to adopt appropriate exchange rate policies.

PART III

Impact of External Debt of African Economies

The vast majority of African countries have adopted far-reaching measures to deal with the rapidly deteriorating external debt situation. Recovery and rehabilitation plans have been drawn up and follow-up mechanisms have been established by many Governments. Twenty-eight African countries accounting for three-quarters of Africa's population are implementing structural adjustment and reform programmes at considerable social costs, resulting in intolerable political pressures. These programmes, in the absence of adequate external resources to support them, have not achieved their objectives; rather they have imposed severe conditions and constraints on African economies, thus worsening the socio-economic conditions. The impact of external debt on African economies can briefly be summarised as follows:

i) **External Shocks:**
The impact of external shocks (such as variable interest rates, fluctuations in exchange rates of major currencies, increase in import bills and the decline in export earnings) was estimated to result in a loss of well over US$43 billion, particularly between 1980 and 1984. This means that African countries incurred heavy losses of foreign exchange greater than is indicated here, a development which seriously undermined the capacity of our countries to service their external debt and to implement their economic recovery programmes.

ii) **Reduction and Distortions in Growth Rates:**
As a result of mounting debt servicing obligations (principal plus interest) which presently stand at over US$24 billion annually, substantial resources are diverted from essential development projects for debt servicing. Agricultural projects, on which both APPER and UNPAAERD are anchored, cannot be implemented in the face of dwindling resources. These factors have significantly slowed down the rate of capital formation in African countries, many of which have registered stagnant or negative growth rates. This has been particularly so in rural areas where growth has hardly taken place.

iii) **Problems of Structural Adjustment and Policy Reforms:**
It is a fact that many African countries have not put in place wide-ranging structural adjustment programmes and economic reforms. However, these efforts are being thwarted by the diversion of resources to service debts, and their economies are, therefore, still unable to generate or sustain reasonable economic growth. This is being aggravated by the lack of additional resources, especially on concessional terms. Consequently, this situation has created serious problems in implementing economic policy reforms which would have engendered self-sustaining growth and recovery.

iv) **Disruption of the Social and Cultural Structures:**
Increasing external debt servicing obligations within the present international constraints will result in serious disruption of the present socio-economic, political and cultural structures. The 1980s have witnessed a further reduction in the living standards of African countries. This is explained partly by the curtailment of social and infrastructural investment programmes in the wake of net transfer of resources out of Africa through debt servicing. Mass unemployment and poverty, which were largely confined to rural areas, have now spread to most major urban centres thereby threatening the very foundation of the Africa social and cultural structures, retarding the effective development of human resources and reducing the level of involvement of the population in national development projects.

v) **Credit Worthiness:**
The credit-worthiness of many African countries has been put to severe test in the wake of mounting debt servicing obligations. Many African countries are experiencing great difficulties in borrowing on reasonable terms and conditions, at the very time when external resources are most needed.

PART IV

Measures to Alleviate Africa's External Debt Crisis

A. Measures to be Implemented by African Countries

We reaffirm our determination to implement at the national, regional and continental levels, all the measures likely to contribute to an effective solution of the debt problem,particularly those contained in APPER. In addition, we express our commitment to examine and implement, as appropriate, new or supporting measures as may be dictated by the growing burden of Africa's external debt and the for economic recovery and accelerated development.

More specifically,we propose to adopt and implement the following measures at the African level to deal with the external debt crisis:

i) The external management mechanisms at the national level should be strengthened with the active support of the international community, so as to enable all African countries to exercise more effective and centralised control of external borrowing by the public sector, and to monitor private sector borrowings. To this end, sub-regional and regional organisations, in particular the African Centre for Monetary Studies (ACMS), African Development Bank (ADB), the Economic Commission for Africa (ECA) and the Organisation of African Unity (OAU) are called upon to organise themselves, so as to contribute to a better harmonisation of African countries' positions and assist the Permanent Steering Committee in deciding upon the guidelines on which such positions should be based. They are also called upon to organise, in cooperation with UNCTAD, training workshops, courses and seminars on management of external debt for African countries.

ii) We fully recognise that no economy can achieve a fast and self-sustaining growth rate, if it depends entirely or largely on uncertain external resources. We hold the view that Africa's economic recovery and development will be enhanced largely by increased use of domestic resources. Therefore, we are determined to adopt appropriate policies and measures for domestic resource mobilisation, in accordance with the commitment made by Africa in its submission to the Special Session of the United Nationals General Assembly. We shall also continue our efforts to reduce inflation and improve efficiency in our economic and financial management. We, therefore, count on African countries with longer experiences in this area to be willing to assist others to launch new and more effective domestic resource mobilisation programmes. A change in policy and attitude should be introduced in African development planning, to ensure that we depend primarily on domestic resources for our economic recovery and growth. We reconfirm our commitment to intensify efforts to use more efficiently our domestic resources for development. To this end, concrete measures should be taken to improve the quality of investment in both the public and private sectors. Further, we should give adequate incentives to projects that generate or save foreign exchange, and should also formulate and implement programmes on the development and effective utilisation of human resources, with a view of increasing labour productivity and to promoting scientific and technological development.

iii) Within the framework of African solidarity, African countries with net surpluses should endeavour to invest part of these surplus funds in Africa through, for instance, participation in joint investment projects and the establishment of multinational companies. African Governments are urged to support and assist these multinational joint ventures, with a view to encouraging the expansion of such activities. As a long-term objective, another approach to this end is that sub-regional capital markets need to be developed as an effective mechanism for tapping African surplus funds currently invested abroad. We express satisfaction with the solidarity shown by other developing countries towards our economic development and take into account the real situation of the least developed countries.

iv) The system of incentives should be improved to encourage African public investors as well as individual private investors, to invest their resources in other African countries, either on a bilateral basis or through projects being implemented by existing sub-regional, regional and continental financial institutions. This would not only improve the liquidity of the borrowing country, but would also promote further cooperation as envisaged in the Lagos Plan of Action and Final Act of Lagos. The possibility of establishing an African investment guarantee scheme or company should be studied for this purpose.

v) African governments should adopt new measures aimed at increasing their trade through the existing sub-regional and regional payments and clearing arrangements and credit insurance in all intra-African trade transactions, thereby reducing the need for foreign exchange and hence external borrowing. This implies that the regional payments and clearing houses should find new ways of encouraging the use of these arrangements; and efforts aimed at facilitating the establishment of an African Monetary Fund should be pursued.

vi) Joint ventures among African countries provide new opportunities for developing Africa's capabilities for diversifying Africa's export base. Therefore, we intend to encourage African parastatal organisations through appropriate incentives, to participate in sub-regional and regional projects, especially these that directly contribute to the increase in exports. They should also play an increasing role in the identification and preparation of sound and economically viable investment projects in the Member States. In this regard, the ADB, as the Continental financial institution, should accord special attention to strengthening its role as a catalyst for mobilising financial resources to Africa.

vii) We commit ourselves to intensify intra-African cooperation and consultation through the exchange of information and harmonisation of positions on debt negotiations and reschedulings. The Permanent Steering Committee should, therefore, expedite its in-depth study of all aspects of establishing an African debtors Club which should serve as a forum for these matters.

viii) We direct the Secretary-General of the OAU, the Executive Secretary of ECA, the President of ADB, the Director-General of ACMS, to increase their efforts in collecting, disseminating information African indebtedness and in harmonising African position in this regard. The institutions should continue to assist the Permanent Steering Committee in monitoring the African debt situation. We urge all Member States to provide the Joint Secretariat of these institutions regularly with all available information on their external indebtedness.

B. Measures to be Implemented by the Developed Countries and International Financial Institutions

We note, with appreciation, that a few developed creditor governments have taken or announced measures to cancel debts owed to them by some African countries. We strongly urge that these measures be extended to all African countries, particularly the Least Developed Countries and low-income countries, and be implemented as a matter of urgency without imposing undue conditions. These developed creditor countries which have not yet done so are strongly urged to emulate this example.

However, other initiatives announced, such as those relating to debt rescheduling and interest rate reduction, would not be adequate to address the African debt problem, both in its nature and magnitude. The developed creditor countries are called upon to demonstrate the needed political will to implement the relevant resolutions of the United Nations General Assembly and UNCTAD on debt relief and transfer of resources, and to provide effective support and positive responses to Africa's economic recovery effort, as agreed in the UN Programme of Action for African Economic Recovery and Development 1986-1990. They are also invited to bring about a more appropriate international economic environment by increasing the growth rate of the world economy and by promoting a more equitable international monetary and trading system.

In order to alleviate the heavy debt burden of African countries and enable them devote a bigger share of their export earnings to development efforts, the ratio of their debt servicing to their export earnings should not exceed a reasonable proportion of their foreign exchange earnings. To this end, we urge the creditor countries and international financial institutions to adopt the following measures as a matter of urgency:

(1) Official Bilateral and Officially Guaranteed Loans:

i) Creditor countries are urged to waive the repayment of past loans by converting them into grants.

ii) We call upon the creditor countries to allow African countries to repay part of their bilateral debts in local currencies, which should be used for financing development projects and programmes under agreed conditions.

iii) The terms of officially guaranteed debts should be adjusted to the currently prevailing terms of the African Development Fund Credits.

iv) Developed creditor countries are urged to take urgent measures to consolidate non-ODA officially guaranteed debt and debt service payment due from January 1987 into long-term loans at lower interest rates, in real terms.

(2) Multilateral Loans:

The share in debt-service obligations of multilateral institutions has grown rapidly in many countries over the past few years and are expected to continue to grow; this situation clearly calls for action with respect to debt alleviation. At the same time, we recognise that multilateral institutions provide the best potential for increasing future financial flows to African countries. It is, therefore, essential that the potential be mobilised for the effective solution of the debt problem of African countries and for the resumption of economic recovery and growth.

Multilateral development institutions, including the World Bank Group, that provide long-term funds should ensure increasing and positive net flows to African countries at conditions compatible with their economic situation. These resources should, as a matter of priority, be directed to projects, sectoral programmes and quick disbursing non-project lending for recovery and development. This mode of financing will generally ease the pressure on balance of payments and strengthen economic growth, thereby increasing the capacity of African countries to service their debt. The concessionary windows of these institutions should play a much greater role in Africa. In view of the rising debt service burden from this category of loans, we urge these institutions to explore, as a matter of urgency, all possible ways and means for alleviating the African debt burden, including the creation of Special Funds to refinance maturing loans of African countries on more concessional terms.

With regard to the IMF, we are gravely concerned that it has become a net recipient of resources from Africa precisely at a time when net financial inflows to Africa are most critically needed. The IMF should, therefore, as a matter of urgency, accelerate its efforts to reverse the negative flow of funds from Africa. It is in this spirit that we support the initiative of the Managing Director of the International Monetary Fund to triple the resources of the Structural Adjustment Facility, even though this might not be adequate. The IMF should also seek innovative ways to increase net flows of its ordinary resources to Africa, at terms and conditions appropriate to African economies. As the cost of these funds also remain high, we call for the enlargement of the interest-subsidy facility and the softening of the conditions thereof, in order to lower the cost of IMF funds, especially to the low-income countries. In recognition of the severe hardships these low-income countries are going through, the IMF is strongly urged to grant these members with overdue obligations the benefit of lengthened or extended repurchase period of Fund resources as provided for in Article V, Section 7(g) of the Articles of Agreement. In addition, the following measures should be taken:

i) The IMF should urgently consider rescheduling the credits it has extended to developing countries in general and African countries in particular;
ii) Establishment of an additional mechanism for concessional financing in order to compensate developing countries for increase debt service payments arising from the increase in interest rates, without increasing conditionality;
iii) Conditionality applied by the multilateral institutions should be responsive to the growth and development needs of African countries.

(3) Commercial Loans:

We are seriously concerned that, in spite of the recognition of the serious situation of African countries, the commercial banks still impose stringent conditions on African countries during debt renegotiations. We, therefore, call for the following measures in respect of commercial loans:

i) The governments of industrialised countries should adopt appropriate regulatory measures to encourage their commercial banks to apply more flexible conditions, including lower interest rates, longer maturity and grace periods on rescheduling, and provision for loan losses.

ii) Commercial banks should adjust to lower level of interest rates and longer periods of amortisation that take account of funds available in African countries for debt repayments. Such funds should be assessed on the basis of overall resource requirements needed for countries to recover and resume normal growth.

iii) Commercial debts should be converted into transferable securities, with maturities of at least 25 years and at lower interest rates.

iv) Arrears on short-term loans should be converted into long-term loans as a way of debt relief.

(4) Reschedulings:

Official bilateral and commercial bank debt reschedulings have become a most widely used method of debt relief for African countries. During the period 1980 to 1986, not less than 22 African countries have negotiated debt rescheduling under the Paris and London Clubs. The large number of reschedulings within these few yeas, and their frequency, reveal a serious problem of debt servicing by many African countries. As was stated earlier, this indicates deep structural problems requiring more effective and comprehensive long-term solutions. Our experience, however, has shown that reschedulings do not in themselves provide real debt relief, but merely postpone debt service payments while at the same time increase the debt burden by applying market-related interest rates. The reschedulings also do not adequately deal with the issue of how the portion of the principal not rescheduled should be financed in future; nor do they always provide for rescheduling of previously rescheduled loans. Moreover, reschedulings carry heavy costs in terms of fees and additional interests on rescheduled debts.

We strongly urge that the rescheduling method adopted should be based on the development and investment needs of each country, as well as on a realistic assessment of the country's repayment capacity, taking into consideration expected growth of export earnings, import requirements, and expected financial inflows as well as budgetary situation. We specifically urge that:

i) in the event of the need to reschedule, multi-year rescheduling of a minimum of 5 years should be the norm, with maturities of at least 50 years, 10 grace and zero rate of interest;

ii) mechanisms should be explored whereby debt service payments agreed after rescheduling could be applied to effectively address both the interest rate and the principal; for example, the creation of Sinking or Redemption Fund to amortise the principal;

iii) the removal of the conditionality of implementation of stabilisation programmes with IMF in order to obtain debt relief from creditors;

iv) within the framework of debt rescheduling, the creditor countries should not require African debtor countries to adopt measures and economic doctrines that are incompatible with their economic and social systems;

v) individual creditor countries which are members of the Paris Club should be allowed to negotiate and grant better rescheduling terms to African debtor countries than those obtainable within the framework of the Club;

vi) previously rescheduled debts in general should be made eligible for further rescheduling to ease the debt servicing burden of the debtor countries;

vii) action should be taken to expedite the bilateral negotiations which follow, and which give validity to agreements reached in the multilateral fora; action should also be taken for improving the internal procedures and systems.

(5) Resources for Development:

One of the most critical aspects of the solution to Africa's external debt crisis is to increase the flow of external resources to the continent, especially on concessional terms. We, therefore, urge the developed countries to recognise the high degree of inter-dependence between Africa and the industrialised countries in addressing the African external debt problem. In particular, action should be taken to reverse the decline in net capital inflows to a number of African countries, especially since 1982; the stagnation of official development assistance (ODA); the contraction in financial inflows from commercial banks and foreign direct investment; and the net outflow of resources from Africa.

We, therefore, urge the international community to adopt the following measures as a matter or urgency:

i) Developed countries should take action to substantially reduce international rates of interest on existing and future loans. There should also be an agreed formula for stabilising exchange rates of the major currencies in which external debt is denominated; and where a debt burden increases as a result of the appreciation of the donor countries' currencies (exchange rate volatility) through no fault of the borrowers, that percentage of exchange rate appreciation should be treated as debt relief, so as to control the random growth of the borrowers' debt burden.

ii) For African countries, ODA continues to play an important role in their development efforts. Therefore, the internationally agreed target of 0,7% of the Gross National Product of industrialised nations should be implemented as a matter of priority preferably before 1990. To this end, there should be a substantial increase in quick-disbursing lending by the

Development Assistance Committee (DAC) countries as well as the East European countries.

iii) Creditor countries and multilateral development and financial institutions such as the World Bank and the IMF should adopt urgent measures to avoid their becoming net recipients of resources from Africa.

iv) The World Bank should raise the eligibility ceiling to enable more African countries to qualify for IDA resources. We urge that at least 50% of these resources should be set aside for assistance to Africa. Measures should be taken to complete the contribution under IDA-7 which are still outstanding. We are also concerned that the present US$12,4 billion level if IDA-8 resources is inadequate to meet the needs of African countries. We urge that the approval procedures and commitments should be speeded up, taking into account Africa's urgent needs for resources. Furthermore, we deplore the shortening of the repayment period for IDA loans from 50 years to 40 years for low-income countries, and from 50 years to 35 years for other IDA eligible countries. We, therefore, appeal to the World Bank to restore the earlier terms of IDA loans; that is, 10 years grace and 50 years repayment period and a service charge of 0,75%. We also call on the World Bank to review its practice of suspending disbursements to other Bank-funded projects, simply because of arrears on one project.

v) In order to ease the liquidity shortage experienced by developing countries, a new and substantial SDR allocation totalling not less than 15 billion SDRs should be agreed upon. The unconditional nature of SDRs should be assured and their allocations linked to the development needs of developing countries.

vi) The conditionality criteria of the international financial institutions should be substantially eased and any coordination between the IMF, the World Bank and other multilateral financial institutions should not lead to cross-conditionality.

vii) The capital of the World Bank should be doubled in order to enable the bank to increase its lending to levels commensurate with the needs of developing countries.

viii) there should be a predictable and higher replenishment of the resources of the International Fund for Agricultural Development (IFAD) through increase contribution by developed countries.

ix) The World Bank should re-establish the Special Facility for sub-Saharan Africa with additional resource commitments from donor countries.

x) We urge the countries and international financial institutions to contribute to the replenishment of the African Development Fund at an adequate level and to contribute also to funds existing in other African institutions.

(6) Improving African Primary Commodity Export Earnings:
The most critical aspect of Africa's external debt crisis continues to be the considerable reduction in Africa's export earnings as a result of the low prices of primary commodities which collapsed in 1980 and have continued since then to deteriorate steadily. African countries have lost huge amounts of revenue due to the deterioration in terms of trade and this has increased the need for external borrowing. We, therefore, call upon the international community to adopt and implement urgently, measures agreed to in the Final Act of UNCTAD VII, including in particular, the following measures:

i) Concrete efforts should be exerted to stimulate the growth of the world economy in order to improve the demand for Africa's exports and thus increase Africa's export earnings. Developed market economy countries should implement their commitments to halt and reverse protectionism and to eliminate the escalation of tariff and non-tariff barriers affecting exports of African countries.

ii) Developed countries should negotiate with the major producing countries with a view to stabilising the prices of the major export commodities at remunerative levels as well as the revision and strengthening of the existing commodity agreements and concluding new ones.

iii) Financing agricultural diversification programmes and projects by increasing investments in agriculture, including the use of private capital.

iv) Facilitating access of African products to world markets at sufficiently remunerative prices.

v) Industrialised countries should support new programmes for agricultural processing, including food production, not only for the domestic markets, but also for export and access to world markets for these products should be improved.

vi) More advanced technology should be made available to African countries at reasonable costs to facilitate the local processing of Africa's commodities and to take the necessary measures to encourage industrial and commercial partnership between African enterprises and those of the North.

vii) The Compensatory Financing Facility (CFF) of the International Monetary Fund (IMF) constitutes an additional source of income to compensate for short-falls in commodity earnings. We welcome the general review of the CFF to make it responsive to existing conditions in the world economic and trading environment, and we urge that such a review should take into account the serious short-falls in Africa's export earnings at a time when more resources are needed to finance the recovery programme. We, therefore, urge the IMF to increase substantially the resources available under this facility. At the same time, there should be a relaxation in the conditionality, so as to enable African countries to have timely access to these resources. We also urge the IMF to revoke the <cross-conditionality> requirement by which access to CFF is sometimes linked with the approval of Stand-by Agreements, and further appeal for the lengthening of the repayment period and the introduction of concessionality in the CFF especially for the poor African countries.

viii) The developed countries should take urgent action to allow an increased volume of Africa's exports into their markets especially agricultural processed and semi-processed goods.

ix) Developed countries should take urgent measures to eliminate subsidies they give to agriculture, which impede exports from African countries.

x) In order to alleviate the commodity export problem facing African countries, consultations should be instituted between African governments and the industrialised countries on policy issues relating to the disposal of national strategic stock-piles, production of other substitutes, with a view to safe-guarding the African exports which are now threatened by these developments. This should be done in the context of a policy framework which could encourage competitiveness of African exports.

xi) We welcome the possibility of the implementation of the Agreement on the Common Fund for Commodities following the signing of the agreement by some of the major industrialised countries, and other countries, thereby enabling all conditions required for its coming into operation to be fulfilled. We call upon the Secretary-General of UNCTAD to speed up the measures to bring the Common Fund into operation. At the same time, we urge that the coverage of the Common Fund be extended to include all African primary commodities.

xii) We urge the developed countries to establish a global scheme, parallel to the STABEX, that will ensure the stabilisation of earnings of all primary commodities.

(7) Measures to Support Efforts of the Least Developed and Other Disadvantaged Countries in Africa:

The debt problems of the least developed, landlocked, Sahelian, Island and the Frontline countries in Africa are indeed very serious and require special treatment in dealing with their external debt problems. We note that the Venice Summit gave recognition to the poorest countries, particularly those in sub-Saharan Africa, which are exceptionally difficult and deserve special treatment. In the LDCs in particular, the debt-service ratios are very high and a substantial portion of their export earnings goes to service their external debts. In addition, per capita incomes continue to be very low and, in some cases, declining; domestic savings are almost non-existent; the ability to attract external resources from commercial sources is highly limited; and investment opportunities are limited, both in the public and private sectors. In order to alleviate the problems of external debt of these countries, we call on the international community to implement, urgently, the measures contained in paragraphs 134-140 of the Final Act of UNCTAD VII:

i) While we greatly appreciate the cancellation of ODA debts and the adoption of other equivalent measures by some developed countries under the terms of UNCTAD's Trade and Development Board Resolution 165 (S-IX) of 1 March 1978, we feel that more needs to be done for the poorer and the LDCs in sub-Saharan Africa. Therefore, we earnestly urge other donor countries from both the OECD and the Socialist countries of Eastern Europe, which have not yet done so, to implement their commitments undertaken under this resolution to cancel the debts of all African Least Developed Countries, as defined by the United Nations without any discrimination in implementing the above resolution.

ii) Bearing in mind the structural adjustment and economic reforms being undertaken by these African countries, creditors should accord longer maturity and grace periods to their loans by granting credits on very concessional terms similar to ADF. All assistance to the LDCs should be in the form of grant.

iii) Suitable schemes, such as interest subsidies and refinancing on very concessional terms, should be considered as part of the debt relief package.

iv) Immediate implementation by the international community of the recommendations adopted during the evaluation of the Substantial New Programme of Action for the Least Developed Countries.

v) Donor countries should increase the transfer of financial resources to the LDCs on concessional terms in order to reach the target of 0,15% of the Gross National Product as agreed in UNCTAD VI. This would enable the recipient countries to stimulate economic growth and solve their debt problems. Special investment programme should be envisaged with non-debt-creating capital flows in order not to exacerbate an already difficult debt servicing situation.

vi) Special effort should be made on behalf of these countries with a view to cancelling all debts relating to endangered projects on account of external constraints and natural disasters.

vii) Donors should endeavour to finance project studies, designs and technical assistance in the form of grants as well as the total cost of social projects.

viii) Donor agencies should delete the cross-default clause used when a borrower country fails to meet date-limits of payment under a given project.

Conclusion

In putting forward the above-mentioned measures, we are convinced that the international community, especially the developed creditor countries and their commercial banks, as well as the multilateral institutions, will give them urgent and careful consideration, in recognition of the seriousness of Africa's external debt crisis. We stress that the solution to this crisis must be situated within the general context of Africa's accelerated socio-economic development, as the Priority Programme will come to an end in three years. We urge developed creditor countries and international financial institutions to envisage suspending Africa's External Debt Service obligations for a period of 10 years, starting from 1988, the date scheduled for the holding of the International Conference on Africa's External Debt.

The measures we have proposed in this Common Position are, indeed, the minimum that we feel are necessary to enable our countries recover and resume normal growth. We note, with appreciation, the mutuality of interests with our creditors, in terms of the objectives of African economic recovery for the resumption of normal growth and accelerated developments, and in particular the individual initiatives they have taken in this direction. It is important, therefore, that we, together with our creditors, intensify our efforts in this direction, in a spirit of North-South cooperation for development, within an appropriate forum that will be fully representative of the interest of all African debtor countries, the developed creditor countries, the private commercial banks and the multilateral institutions. Such a forum will facilitate frank and constructive dialogue that will take into account the various proposals, initiatives and actions on the part of Africa's creditors as well as the measures that are contained in the African Common Position. Furthermore, we believe that the elements of a new external debt strategy as defined in the Final Action of UNCTAD VII should be speedily implemented, so as to find a just, lasting and mutually acceptable solution to the external debt crisis of developing countries.

It is in this spirit of constructive dialogue, and with the objective of finding effective solution to the external debt crisis of African countries, that we renew our call for convening, in 1988, an International Conference on Africa's External Indebtedness.