Africa's Debt Problem

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Introduction — Escalation of Africa's External Debt Problem

First and foremost, let me pay my humble homage to the Government and people of the Arab Republic of Egypt and in particular, to His Excellency President Hosni Mubarak, current Chairman of the OAU, for organising two major seminars on Africa's external debt within a period of one month. First, from 2 to 3 August, we held an Afro-Latin American seminar on External Debt in Africa and Latin America and now we are once again assembled on the debt issues — this time focusing exclusively on Africa's debt issue. Indeed, this is reflective of the severity of the debt burden on the African economies and peoples. So excruciating are these burdens that they are like an albatross around the neck of our economies. The combination of rapidly rising debt burdens, dwindling export earnings due to the collapse of commodity markets and stagnating resource flows has continued to have its toll on the African economy and polity.

When the ECA, in collaboration with the OAU and ADB, organised the first ever held conference on Africa's external indebtedness from 18 to 20 June 1984, which ended with the adoption of the *Addis Ababa Declaration on Africa's External Indebtedness,* Africa's external debt was about US$150 billion. Four years later — by the end of 1988 — it had reached US$230 billion: an increase of 53,3%. ECA projections based on the continuation of the current trend indicate that by 1990 Africa's external debt will have increased to about US$260; billion' by 1995 to about US$300 billion; and, by the year 2000 to about US$550 billion. If these projects come to pass, it would mean that our indebtedness would have increased by almost fourfold within a period of one a half decades. Let me concretise more graphically the gravity of this development and the dire consequences of the danger looming ahead unless the debt problem is addressed in a comprehensive and imaginative manner. As of now, Sub-Saharan Africa's debt which was only US$6 billion in 1970, had increased to US$134 billion in 1988, i.e. about equal to its GNP and three-and-a-half times its export earnings. For Africa as a whole, external debt as a percentage of GDP, which was 57% in 1985, had risen to 88% three years later (1988) while the debt service ratio had risen from 28,6% of annual export earnings in 1985 to 40% in 1988. Let me further illustrate our situation by quoting a national experience. Nigeria is one of the largest debtor countries in Africa. It is a member of the Baker Fifteen. Its external debt is nearly equal to that of Venezuela but whereas Venezuela's total debt amounts to about 285% of its annual export earnings, that of Nigeria is about 370%. Yet Nigeria's per capita income is only a little more than 10% that of Venezuela.

African and international community's interest on the debt issue has been intensified since the ECA Debt Conference of 1984. A major political move to find solutions to the debt issue was made in the *African Common Position on Africa's External Debt Crisis,* adopted by the African Heads of State and Government in December, 1987 at their extraordinary summit which they devoted entirely to the debt problem. One of the main decisions taken by the Heads of State and Government was the call for an International Conference on Africa's debt crisis. Furthermore, the 25th Session of the Assembly of Heads of State and Government of the OAU, held during 24-26 July 1989, reaffirmed its call for an international conference on Africa's external debt to bring together international creditors and African borrowers to discuss the debt problem and arrive at appropriate solutions.

Structure and Characteristics of Africa's External Debt

Let us now examine briefly the structure and features of Africa's external debt. First, about 46% of Africa's debt of US$230 billion is owed by North African countries while the remaining 54% is owed by Sub-Saharan African countries. Secondly, 10-12 countries account for 70-75% of Africa's total debt. Thirdly, low-income African countries have an overall indebtedness (over 400% of exports of goods and services in 1988) considerably higher than that of the middle-income countries but because of the large share of concessional debt in their debt obligations, the ratios of debt service to exports of goods and services are relatively lower for Africa's poorest countries.

Fourthly, about 60% of Africa's debt is owed to official creditors – bilateral and multilateral in the ratios of two to one respectively. In contrast, only about 25% of Latin American debt is official. Even more important and significant feature is that for low-income Sub-Saharan African countries, official debt loom large – over 75%.

Fifthly, the phenomenal increase in debt and debt service obligations has been due largely to the combination of high rates of interests and the frequent rescheduling of debt not at the old concessional terms but at commercial rates and the capitalisation of non-liquidated service obligations also at commercial rates of interest. Although exact calculation of the impact of this interest rate phenomenon on Africa's total debt obligation is difficult to make, current estimates put it as being responsible for about one-third of the continent's total stock of debt. In other words, between US$70-80 billions is due not to additional borrowing but simply as a result of persistent high interest rates in the industrialised countries and the charging of commercial rates on rescheduled debt and debt service obligations.

Finally, because of the fact that both the World Bank and the IMF are not even able to reschedule debts owed to them, there has developed a reverse flow of resources from African countries to the IMF which amounted to over US$1,0 billion in 1987.

Africa's Diminishing Capacity to Service its Debt

This leads me to the third issue which we must address if we are to find a realistic and endurable solution to the African debt problem. What are the fundamental causes of Africa's inability or diminishing capacity to service its debt? Because it is only when we clearly identify these that we will get to the root causes of the debt crisis and, consequently, arrive at a just and durable solution.

Primary among the causes is the persistent economic crisis that has dogged Africa throughout the decade of the 1980s. No matter which indicators one turns to, the performance during the 1980s has been dismal – the growth in the productive sectors has been consistently weak and sometimes negative, drought and desertification have aggravated the crisis of environmental degradation, export performance has been poor but more devastating has been the collapse in commodity prices.

Indeed, it was in the face of the collapse of the commodity prices that many African countries resorted to heavy external borrowing to sustain levels of expenditure. Unfortunately, a high proportion of what was borrowed went to consumption and white-elephant projects, not without the connivance or even the encouragement of the creditors if one may add. But the point that we are making is that the debt crisis is primarily the by-product of the collapse in the commodity market. Therefore, a long term solution of the debt problem must also include addressing squarely the commodity problem. Indeed, over the years we at ECA have ceaselessly established this linkage between external debt problem and commodity price crisis. One hopes that the on-going study by the Secretary-General's African Commodity Highlevel Expert Group, under the chairmanship of Sir Malcolm Fraser, will grapple with this problem squarely.

The second fundamental cause of our increasing inability to service our debt is the persistence of our narrow productive base and of the colonial economic structure three decades after independence. We are today suffering from our failure to pursue rigourously the path of economic transformation mapped out in the Lagos Plan of Action and the Final Act of Lagos. One hopes that we have drawn the necessary lessons from that bitter experience. Now that all our countries and our Heads of State and Government have agreed upon the imperative necessity of delinking structural adjustment programmes from mere focus on external balances, financial balances and the price structure and instead linking structural adjustment programmes umbilically with socio-economic transformation as advocated in the *African Alternative Framework to Structural Adjustment Programmes for Socio-economic Recovery and Transformation* (AAF-SAP), we will not allow ourselves to be derailed once more. Once beaten, we much be thrice shy. Had we not been derailed from the pursuit of the LPA and FAL the course of our economic history in the 1980s would certainly have been different. And should we fail to remain loyal to AAF-SAP even after is unanimous approval by our Heads of State and Government we will not only have laid the foundation for the loss of the 1990s but the loss of an entire generation.

If diversification and the transformation of our economies and addressing the commodity price problems constitute both the long-term and medium-term solutions to our debt problems, there is no gainsaying the fact that we need immediate measures to reduce the stock of debt as it is now clearly beyond doubt that rescheduling are mere palliatives which in fact aggravate the problem in the long-run. What is needed is how we can reduce substantially the stock of debt.

Recent Responses from the International Community

A positive sign of recognition of the African debt crisis was the report on the mid-term review and appraisal of the United Nations Programme of Action for African Economic Recovery and Development (UN-PAAERD) in which the UN General Assembly recognised that "the external indebtedness of African countries has become one of the important factors constraining recovery and development in the continent, since debt servicing draws substantially on scarce financial resources that otherwise could be used for development purposes in the region" and called for specific measures to deal with the multilateral and commercial debt of Africa. It also stated that "the common position of Africa on addressing the problem of the continent on external debt adopted by the extraordinary summit at Addis Ababa in November and December 1987 should be taken account of and seriously considered by the international community".

It is most heartening to note that since last year, a distinct policy shift in the approach of the industrialised countries to the African debt crisis has emerged. The Toronto Summit of the Seven Most Industrialised Countries recognised the need to ease further the debt service burdens of the poorest countries that are undertaking internationally approved adjustment programmes. The Summit also agreed on the modalities for rescheduling of the official debt of these countries within a framework of comparability that allows official creditors to choose from a menu of options: concessional interest rates on short maturities, long repayment periods at commercial rates and partial write-off of debt service obligation during the consolidated period.

As a follow-up to the Toronto Declaration, the Paris Club agreed in June 1989 that creditors will have the right to choose from among the following options:

(i) cancellation of 33% of debt service covered by the agreement and rescheduling of the remainder with 18-year maturity and 8-year grace periods;
(ii) reduction of interest rates by 3-5 percentage points or 50%, whichever is less, and rescheduling with 14-year maturity and 8-year grace periods; or
(iii) extension of grace and maturity periods to 14 and 25 years respectively.

I must hasten to add that welcome as these measures are, the euphoria created by the Toronto Summit has not been sustained insofar as the actual debt relief hitherto announced involves only a meagre sum of $500 million over a ten-year period and a very limited number of countries. This is clearly negligible both in terms of countries that have benefited from the agreement and of the amounts involved, especially when viewed against Africa's annual debt service burden now standing at over $30 billion. Moreover, only very few countries have opted for option (iii), and because of the linkage with IMF/World Bank SAPs, not all eligible debtors will be able to benefit from the measures. In fact, option (iii) might even work against Africa because the measures would not lead to reduction in the stock of debt and future debt service but mere postponement at a higher cost.

A further policy shift came about following the Paris Summit of the Group of Seven Most Industrialised Countries which re-affirmed their resolve to implement debt relief measures as contained in the Toronto Declaration. In this context, the Government of the United States of America announced forgiveness of ODA loans to selected Sub-Saharan African countries undergoing market-oriented economic reforms as prescribed by the World Bank and IMF. Presently, the total of US loans to Sub-Saharan Africa is about $4,3 billion. This includes $743 million in development loans, $1,5 million from the US Export-Import Bank and $1,2 billion in government loans to buy surplus American farm products. It is, however, expected that only 16 countries implementing IMF/World Bank structural adjustment programmes would qualify for such debt relief.

A Revised Agenda for Negotiation

Where do we go from here in terms of the proposed International Conference on Africa's Indebtedness? I think the first place to start is to underscore that during the past two years, the international community has not only recognised that Africa has a debt problem, but are also willing to adopt some action, albeit limited, toward debt relief. There is a definite shift in attitude away from the insistence that "debts have to be paid" to a more sober approach, realising that many African countries are simply not in a position to service their debts. In particular, the passage of the foreign bill in 1988 by the US Congress removes a formidable obstacle towards finding a global solution to Africa's debt problem.

This leads me to believe, therefore, that the time for convening the proposed International Conference is now opportune and that the industrialised countries might now be willing to consider such a conference. Should this materialise, it is important for Africa to draw up a negotiating platform that is built upon the on-going debt initiatives having regard to its *Common Position of 1987*.

I therefore propose that in the light of both the African Common Position on Africa's External Debt Crisis and the existing initiatives, the agenda for the International Conference be re-structured to focus on the following issues:

(i) Agreement and commitment by all creditors to make a substantial reduction of the stock of debt and arrears on debt servicing and reduction in interest rates especially of the debt distressed countries. The "capping" of interest rates should also form part of this understanding;

(ii) Agreement by the Group of Seven to remove the restriction in resource inflows to Africa which arise out of linking debt relief to the implementation of the IMF/World Bank Structural Adjustment Programmes. This should be followed by acceptance of other non-IMF/World Bank Structural Adjustment Programmes and policy reforms which are being voluntarily implemented by some African countries as adequate for new debt relief programmes, particularly in the light of the newly adopted *African Alternative Framework to Structural Adjustment Programmes for Socio-economic Recovery and Transformation (AAF-SAP)*;

(iii) Recognition of the need to adopt comprehensive measures to resolve the African debt crisis involving the linkage between external debt relief, enhancement of the performance of the export sector, especially primary commodities and increased resource flows to Africa. These issues should be linked with the requirement for attaining a faster rate of growth and development to ensure a human-centred development process;

(iv) Specific assistance to African countries in their efforts to adopt sound development strategies and debt-management policies as well as in encouraging increased inflows of direct foreign investment;

(v) Agreement between creditors and African countries to limit debt service to no more than 10-15% of export earnings.

This revised agenda should also include the proposals that emerged from the last ordinary session (25th) of the Assembly of Heads of State and Government of the OAU. I refer in particular to the following proposals which our Heads of State and Government adopted on 25 July, 1989:

(i) that the World Bank should make at least 50% of the resources under IDA-Ninth Replenishment available to African countries to relieve their debt burden;

(ii) that the International Monetary Fund (IMF) and the World Bank should make resources available under the SAF, ESAP and the Sub-Saharan African Facility to countries with overdue debt service obligations to the two institutions, so that repurchases can be undertaken by the affected countries with the advantage of enjoying the relief inherent in those facilities;

(iii) that the developed countries establish a Special AID Consultative Group under the United Nations Economic Commission for Africa, with the active support of the World Bank, IMF and the African Development Bank (ADB);

(iv) that the donor and creditor countries provide financial assistance under the Special Aid Consultative Group to distressed African countries, and that the proceeds of the financial assistance should be used to effect debt service obligations to those institutions where debt cannot be rescheduled or written off;

(v) that an international debt purchasing institution or agency be established under the aegis of the IMF and the World Bank, to purchase the existing commercial bank debt of African countries at substantial discounts reflecting market rates, while the discounts so realised should be passed on to the obligators; and,

(vi) that these transactions should be financed partly with voluntary contributions from the developed countries and with uncommitted resources under the specialised facilities of the World Bank and the IMF, with low or not conditionality attached.

Conclusion

This revised agenda for negotiation between Africa and the creditor nations makes the proposed International Conference on Africa's External Indebtedness more urgent than ever before. Such a conference would offer the opportunity for a dialogue between African debtor countries and their creditors. Two years have already passes since Africa proposed such a conference. The longer the dialogue is delayed, the more intractable the African debt problem may become. We must avoid the traditional classic approach of giving too little too late. Quite clearly, the African case for special assistance has been established beyond any shade of doubt. What is now awaited is the positive response from the creditor community and a demonstration of goodwill on their part to agree to initiate a constructive dialogue to find durable solutions to the debt crisis of African countries. I do sincerely hope that this international seminar can pave the way and accelerate the process for the convening of such a conference.