Solution of Africa's External Debt Crisis Within A Framework of Recovery and Growth

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Introduction

Purpose of the Seminar

Although in the aide memoir on the Seminar the organisers have indicated the overall objective of the Seminar, I would like to elaborate on that objective as follows: Since Africa's proposal for an international Conference on Africa's External Indebtedness has not yet been accepted by all, and since the debt problem continues to pose really dangerous obstacles to the future economic development and political and social stability of the African countries, the main purpose of the Seminar can be regarded as threefold:

(i) to re-examine the validity and effectiveness of the contents of the Africa Common Position (ACP) on Africa's External Debt Crisis;[1]

(ii) to asses the effectiveness of the various proposals and measures taken so far at the international level to deal with the external indebtedness of the developing countries in general, and their relevance and effectiveness for Africa in particular; and

(iii) to consider the future course of action, as far as Africa is concerned, internationally and within the continent itself.

Although it is not specifically stated in the OAU aide-memoir on the Seminar, it is assumed that the whole of the Seminar exercise, especially Seminar papers and deliberations, should be as practical as possible. In particular, concentration should be on those measures and recommendations which are likely to find acceptance for implementation. In other words, some desirable ideas, which might commend themselves at theoretical levels, should not be given much space or time if there are no prospects of their implementation.

Timeliness of the Seminar

The Seminar is most timely for many reasons including the following:

(i) Many economic and political developments have taken place in the world since the adoption of the African Common Position in December 1987. The Seminar therefore offers a very good opportunity for a thorough review of those developments and their implications for the ACP;

(ii) in spite of much discussion about the debilitating effects of the external indebtedness of the developing countries.(LDCs) especially African countries, and in spite of many expressions of sympathy an promises of supportive measures by the creditor organisations and nations, the LDC debt situation continues to be a most serious problem for the economic and political future of the countries concerned. This is particularly so for the African countries because of, *inter alia*, their great fragility and very high degrees of external dependence of their economies. Consequently the developing countries need to work together even more closely any purposefully for the solution of their debt problem. As far as the African countries are concerned it should also be realised that some recent developments at the international level – for example the intensification of internal economic/political arrangements between the developed countries e.g US/Canada Trade Agreement; the increasing contacts between the Soviet Union and OECD countries and the latter's apparent willingness to support perestroika and glasnost through various forms of economic assistance; the EEC programme for establishing a single European market by 1992; the increasing attention on the megadebts of the Latin American countries; the Uruguay Round GATT Trade Negotiations which will continue to be dominated by negotiations between the developed countries;[2] etc. – might mean that Africa and its debt and other problems could be marginalised even more in the immediate years ahead in international discussions; and

(iii) the Seminar gives the African countries a good opportunity to consider, in greater detail, those internal measures which they could pursue more vigorously to ease their debt problems, in addition to providing a better framework for economic recovery and growth, than they were able to consider when formulating ACP. In that connection, an area of great importance is effective *economic cooperation* between African countries. It should also be recognised that while the debt situation is a most serious problem, African countries do face other urgent and very pressing economic and social problems. This demands, *inter alia*, that measures for dealing with the debt problem be pursued within a framework conducive to the general economic and social development of these countries. Moreover that is the only way of solving Africa's debt problem in the long-run. Therefore to concentrate on direct debt relief measures only would be neither sensible nor appropriate.

One other preliminary point: no attempt has been made in this paper to categorise the African debtor countries on the basis of the seriousness of their debt situations. The World Bank has undertaken such categorisation by grouping African countries into those seriously "debt distressed" and others. I believe that all African countries, and most certainly those of Sub-Sahara, are "debt distressed". Use of the limited available statistics, as the World Bank has done in that exercise, can be very misleading in these matters. More appropriate is examination of all economic and social circumstances and problems of the country, and its requirements in the form of additional external resources and other measures of support, if the prevailing and emerging economic and social problems – e.g. unemployment, food shortages, threats to the natural environment, the external debt, etc. – are to be dealt with effectively. When that approach is used, then it becomes clear that the kind of categorisation undertaken by the World Bank serves no useful purpose whatsoever *if* the main aim of the categorisation exercise is to provide a realistic guide for assessing the urgency and country needs for external support. Indeed, it is strongly urged that African countries should not allow themselves to be divided into groups in their struggle for an appropriate solution to the debt and other serious development problems facing them. Moreover, African countries should also be aware of the fact that the creditor countries should also be aware of the fact that the creditor countries should also be aware of the fact that the creditor countries and organisations are in no hurry to find a solution to this debt problem: in fact some of the creditors may feel that the existence of the debt is a valuable tool for maintaining their influence and political leverage on Africa. It is now quite clear that the whole debt situation has many political implications, almost all negative. And it is partly for that reason that the debt problem demands, in addition to economic arguments, political strategies by the African countries on a collective basis.

This paper is structured as follows: part I examines, in statistical terms, the present African debt situation — its magnitude, structure and distribution; part II discusses the impact of this debt on the African economies; part III assesses Africa's total resource requirements for debt relief within a framework of recovery and growth; part IV examines the proposals made so far at the international level to deal with the debt problem of LDCs in general, and the relevance and likely effectiveness of those proposals or measures as far as Africa is concerned; and part V looks at the future on the basis of the experiences of the last few years in this area, the current discussions at the international level on the debt issue, as well as other considerations of relevance in terms of economic recovery and development in Africa.

The Profile of Africa's External Debt

The external debt situation in Africa is in many ways strikingly different from that of the Latin American countries.[3] First the total African debt, at approximately $230 billion at end of 1988, is relatively small when compared to the huge debt of Latin America. In fact, the total debt of the 44 sub-Saharan African countries is about the same as that of Brazil. In addition, there are only 9 African countries with external debt exceeding $ 5 billion. One consequence of this small magnitude of the individual country debts is that African countries are not likely to get much attention and concessions from creditors unless they work on their debt problems vigorously and in a collective manner.

Table 1: External Debt and Debt Service, 1980, 1985-88
US $Billions

Debt	**1980**	**1985**	**1986**	**1987**	**1988**
All LDC's	635,8	1016,6	1099,0	1194,8	1228,9
All Africa	98,3	174,4	190,0	220,3	230,0
— North Africa	42,1	78,9	91,9	100,5	104,2
— Sub-Sahara Africa	56,0	95,5	98,1	119,8	125,8
Debt Service					
All Africa	12,4	24,3	26,4	126,1	29,3
— Sub-Sahara Africa	5,2	12,0	13,7	14,1	16,9
Debt Burden		**(in percentage terms)**			
All Africa					
Devt/GDP	32,1*	52,6*	62,28*	71,0*	81,1
Debr/Exports	120,5*	205,2	289,6	308,5	314,2
Debt Serv./Exports	15,2*	28,6	40,2	36,8	40,0
— North Africa	19,4*	29,9	49,7	39,2	40,1
— Sub-Sahara Africa	11.6*	27,3	36,2	34,6	40,0

Source: UNECA — Economic Report on Africa, 1989
IMF — World Economic Outlook, April, 1989
Note.*) Estimated on the basis of 1981 GDP and Exports.

The average figures in Table 1 conceal large variations between countries. This is particularly so in the case of the significance of the debt and debt service in the economy. For example in 1987, external debt as a proportion of GDP, was for Zambia 334%, Zaire 164% and Sudan 138%. In the same year debt service (excluding IMF debt) as a proportion of exports of goods and services was for Zambia 670%, Zaire 447% and Sudan 1562%. However, the main picture which emerges is that the debt burden has reached levels which are, simply and frankly, unbearable if the African countries are to achieve economic recovery and acceptable rates of growth in the years ahead.

The other main difference between the African debt and that of Latin America relates to its structure. Whereas in Latin America the proportion of debt owed to private creditors is large, in Africa private debt is small in relative and absolute terms. In the Sub-Saharan African countries for example, private debt comprises about 25% of the total debt. In the North American countries, the proportion of debt owed to private creditors is slightly more than that of Sub-Saharan countries — partly because of the former countries' longer association with capital markets in Europe. However, even for that sub-region the figures are no where near those of the Latin American countries.

Another interesting feature of the African debt is that both the World Bank and the International Monetary Fund are extensively involved as creditors in all countries concerned. For the region as a whole the share of the two Breton Woods institutions in total debt now stands at about 24% compared to 11% for Latin American countries. There has in fact been a steady increase in that figure — from 18% in 1980 to the present level. More worrying has been the substantial flow of resources to the two institutions from Africa. For example, in 1986 and 1987 there was, in fact, a reverse flow to IMF of about $1 billion per year.

The large proportion of official debt in Africa has had two main effects. First, it has meant that African debt crisis has not received much international publicity — partly because discussions on the problems in payments are conducted privately, unlike in the case of negotiations with commercial banks which are widely publicised and covered by the mass media. Secondly, it has meant that African countries could not benefit much from some innovative market techniques, such as debt swaps, which have been developed to reduce the private debt burden. In addition, the large debt owed to IMF and the World Bank is not reschedulable. Actually in Sub-Saharan Africa 40% of service payments on non-concessional debt is to the two multilateral institutions. This factor has contributed enormously to reduction of imports by African countries in order to service that debt — because default entails dire consequences for the country concerned. However and as will be mentioned later, both the IMF and the World Bank have in recent years made attempts to ensure a positive flow of resources in their transactions with the African countries. But as will also be argued, those efforts are not anywhere near sufficient for the job at hand.

Another distinctive feature of the African debt is that it has been growing faster than the average of all developing countries' debt. This is shown in Table 1. For example: between 1988-85 the overall LDC debt increase by 59,9% while that of Africa rose by 77,4%; after 1985 the growth rate of the overall LDC debt abated, but that of Africa did not slow sown. As a result in the period 1980-88, African debt grew annually by 11,2% compared with 8,5% for all LDCs. This rapid rise in the size of the debt has been accompanied by an even faster increase in scheduled debt service payments — from about $4,3 billion annually in 1980-82 to about $29,3 billion in 1988. An aggravating factor has been that this rapid increase in the African external debt and payments has occurred at a time when the debt servicing capacity has been eroded steadily by declines in capital flows, deterioration in terms of trade, and the necessity to import large quantities of food because of the widespread drought of the early 1980s. It is no wonder that in spite of repeated rescheduling, more and more countries have fallen into arrears. According to the World Bank[4] only 12 Sub-Saharan African countries have regularly serviced their debts since 1980.

These are some of the aspects which underline the basic conclusion that the African debt, despite its relatively small size, is a formidable (actually "impossible" would be a more fitting wor) obstacle to the growth of these countries. It is important to stress that current projections do not provide any comforting scenario, particularly because African countries are very dependent on a narrow range of commodities for their foreign exchange earnings. Indeed for Sub-Saharan Africa as a whole, primary commodities account for 94% of total exports. Except perhaps for the oil-exporting countries, the future of these particular countries looks bleak as the export prices of cocoa, coffee, tea and copper continue to decline, while better trade prospects through the Lome Convention now appear very uncertain. Moreover, some forecasts indicate that the growth of the industrialised countries may slow down over the next few years with a further depressing effect on export earnings of African countries. Another factor is that already there are strong pressures for increases in global interest rates. The general result is that in the near future the scheduled debt service payments will rise to \$50 billion, unless concrete steps are urgently taken to reduce the debt. The situation has therefore changed a great deal for the worse since the formulation of the African Priority Programme for Economic Recovery (APPER) and its adoption by the OAU Council of Ministers in March 1986. For example in APPER scheduled debt service payments were not to exceed \$25.5 annually for the period of the programme – 1986-90. But as already mentioned that figure has now been substantially exceeded.

But perhaps an even more important aspect is that whereas supportive changes in interest rates abroad, more access to foreign capital and less restricted access to the consumer markets of the developed countries would substantially improve the situation of the Latin American debtor countries, for the African countries much more than that is required. In particular, substantial additional concessionary resources are necessary. Another way of putting it is to say that while the Latin American countries would be able to grow out of their debt problems given supportive measures at the international level and in developed countries, African countries would not be able to do so. Indeed it should be recognised that in most cases African countries will not be able to repay their debts. It is because of some of these considerations that the African debt must be regarded as rather unique; and therefore the call by OAU for an international conference to discuss it in a comprehensive manner is entirely timely and fully justified.

The Impact of External Debt on African Countries

As already implied in the foregoing discussion, the "burden" of the external debt in Africa is much heavier than appears from mere examination of the debt/export ratios, repayments and other figures contained in the previous section. In fact, the negative impact of this debt affects areas of critical importance in the economic/social/political management and development of African countries. The following are some of the major aspects of this debt burden:

(i) Substantial outflows of desperately needed scarce foreign exchange resources. As already indicated above, in Africa debt service ratios average about 40%, and in many cases considerably higher than that. As far as the actual amounts are concerned, their small magnitude should be related to the general and sustained severe lack of foreign exchange resources in Africa. The outflow involved has been financed by drastic cuts in imports, in some cases amounting to 50% or more.[5] The situation has, quite correctly, been referred to as that of "import strangulation"; and since imports are so important for

African countries, it can be concluded that their economies too are being strangulated. It really should be recognised that attempts to service the debt and meet repayment schedules amount to a sacrifice of a magnitude and nature which these countries cannot sustain. And the use of the term "sacrifice" is appropriate since in some countries the debt problem has already led to, directly and indirectly, a reversal in the decline of mortality rates. In fact, UNICEF blames the problem of the external debt for the deaths of hundreds of thousands of children in some African countries.

(ii) Another serious problem is that the actual management of the debt problem, especially the continuous monitoring of the situation, negotiations, etc. is taking up too much time of the few experts African countries have for handling economic and financial matters. It is these same experts who are also expected to prepare development plans, programmes and strategies for dealing with other economic and social matters. While it is impossible to quantify the loss these countries are incurring through having their experts "tied down" to the debt and related issues, there can be no doubt that it is very substantial indeed.

(iii) The "case by case" approach being followed by the creditors, including the World Bank and the IMF, is undermining co-operative efforts by African countries and reducing opportunities for such co-operation. For example, African countries are compelled by the strategy to think about policies and programmes only *in the context of their own economies.* The approach offers no opportunities for planning new development initiatives with the neighbouring African countries. This is a major cost for many reasons, especially the imperative and urgent need for effective co-operation amongst African countries if they are going to achieve meaningful recovery and growth. Furthermore, such co-operation would, through collective self-reliance (e.g. in the area of food supply), minimise the dependence of these countries on external sources of support and supplies. This, in turn, would have major beneficial implications as far as the long-term dependence on external capital, as a factor in Africa's future development, is concerned.

(iv) Detailed and continuous negotiations with creditors, which involve close scrutiny of the debtor countries' economic and social policies, are undermining the independence of African countries. Indeed and as already mentioned, it would not be an exaggeration to say that the external debt is now being used by some creditors to impose their influence, political as well as economic, on Africa. The risks of neo-colonialism are therefore very real. This is an unacceptable trend: the African countries must do all they can to retain their independence in deciding on their economic and social policies and programmes. Loss of that independence would amount to a *de facto* recolonisation of the continent, with all its undesirable implications and consequences.

(v) Arising from the last point, especially the way the debtor countries are compelled by circumstances and the creditor organisations to make drastic policy and programme adjustments of one sort or another, the debt problem can be held responsible, directly and indirectly, for the growing political and social instability in some African countries. The occurrence of what are referred to as "IMF riots" in some African countries is only one example of the point being made here.

(vi) The det problem is also substantially responsible, directly and indirectly, for the poor economic performance by African economies in recent years. There are, of course, many factors responsible for this poor performance, including adverse weather conditions, collapse of export earnings, social/political upheavals, civil wars and gross economic mismanagement in some cases. But there is no doubt that one principal factor behind this dismal performance is the reduction in the volume of imports in order to service the debt. As indicated in Table 2 below, the number of African countries recording GDP growth rates below 3% — a rate that is below the average population growth rate of 3,2% — started to increase again since 1985. Even the recorded improvement in agriculture in 1988 was not sufficient to reverse the poor economic performance trend of the African countries, contrary to some recent reports whose principal aim appears to have been justification of the extremely painful "adjustment" policies in Africa.[6] This means that as long as the debt remains at its present high levels, African countries will not be able to resume investment for development. Furthermore, their existing production facilities, including basic infrastructural facilities, will continue to disintegrate through lack of spare parts and related problems. That in turn will mean, among other things, further deterioration in the investment climate — for both local and foreign investors. Meaningful debt relief is therefore one of the necessary conditions for economic recovery and growth in Africa.

(vii) Finally, there is a strong association between the debt crisis and acceleration of urban unemployment in many African countries. In these countries, most of the industrial and commercial activities are in the urban areas. Therefore when these countries have to take strong 'doses' of the IMF and World Bank adjustment 'medicine', which entails reduction of food subsidies, bank credit, public expenditure and in some cases actual lay-offs of civil servants, the adverse impact on urban employment is immediate and substantial. Furthermore, the scarcity of foreign exchange has also constrained economic expansion through shortages of raw materials and spare parts thereby leading to lay-offs of workers in the private sector. When such developments are accompanied by consumer prices increases, they create social and political tensions which further undermine investment, and which could actually tear a country apart. It should also be recognised that political and social unrest in one country undermines the investment climate in the neighbouring countries, especially as far as foreign investors are concerned.

Table 2: Growth Performance of African Countries (in percentage)

Growth	*1981*	*1985*	*1986*	*1987*	*1988*
Negative	17	10	13	14	6
0-3		13	12	15	25
Below 3	27	23	25	29	31
3-6	9	16	20	16	15
6-8	7	3	3	4	3
Over 8	6	8	2	1	1

Sources: *APPER*, ECA Addis Ababa March 1986.
UNECA: *Economic Report on Africa, 1989.*

Many more points can be made about the negative impact of the unbearable external debt in Africa. It is obviously a situation full of grave economic, social and political problems and risks for the African countries. In economic terms, it is clear that the solution of the external debt problem should now be the *starting point* in any sensible "adjustment" programme for recovery and growth in Africa. African countries are therefore quite right in singling out the debt problem as an area for concentrated and concerted attention. And that attention requires to be intensified because, while the creditors appear to be in no hurry to have the debt problem solved, the African countries must see the debt as a real threat to their future survival — politically and economically.

Resource Requirements

During this decade a number of reports have been produced on the development strategies and resource requirements for Africa. The World Bank has been quite active in this respect, with four major reports on sub-Sahara Africa in six years.[7] The 1986 World Bank Report — "Financing Adjustment with growth in Sub-Saharan Africa, 1986-90" — estimated that for the low income (IDA — eligible) countries of sub-Sahara Africa to growth by 3-4% annually by 1990, it was necessary to restore imports to the levels prevailing in 1980-82. The Report further estimated that for these countries to meet their import requirements and service their external debt obligations, they required US$35,3 billion annually. After considering the possible export earnings (US$20 billion), non-concessional flows (US$2,0 billion), savings from debt reschedulings (US$2,3 billion), and concessional flows (US$8,5 billion), the Report concluded that a financial gap of US$2,5 billion still remained to be filled by concessional sources of finance. That assessment excluded the middle income countries of sub-Sahara Africa, whose financial gap the Report estimated at between US$1-3 billion annually for a similar growth scenario. For the whole of sub-Sahara therefore, the Report estimated that an additional flow of US$4-5 billion annually was needed. According to the Report, multi-lateral agencies could mobilise US$1 billion for the low income countries, leaving a gap of US$3-4 billion to be filled by concerted action of commercial banks and bilateral donors.

Another assessment of the financial needs for the sub-Saharan African countries is that contained in the Report and Recommendations of the Advisory Group on Financial Flows to Africa (The Wass Report).[8] The Wass Report estimates that African countries required US$5 billion annually over and above the capital inflows in 1987. That amount was only the minimum of the resources needed to restore prospects for development and growth of the early 1980s (about GDP growth of 2-3%), provided these countries implemented and persevered with structural adjustment reforms.

African countries, with the assistance of UNECA, have themselves made an assessment of their financial needs as contained in the African Priority Programme for Economic recovery (APPER) 1986-90, which was submitted to the Special Session of the United Nations General Assembly on Africa's Economic and Social Crisis.[9] In that Report, African countries estimate that they require US$128 billion over 1986-90 in domestic and foreign financial resources to finance APPER. The requirement for sub-saharan countries was estimated at 72,2 billion comprising $31,6 billion from domestic sources and %40,6 billion in foreign capital resources. Known or identified foreign resources amounted to US$17,7 billion, leaving unfinanced gap of US$22,9 billion over 1986-90, or US$4,6 billion per year.

The coincidence between the estimates of the three Reports is striking. It is, therefore, useful to look at some of the assumptions used in preparing those estimates before offering a new one. First, it may be observed that the GDP growth assumed in those estimates imply virtually zero growth in *per capita* incomes in the countries concerned. When it is recalled that a large proportion of people in Africa already live below the poverty line, they are malnourished, illiterate, afflicted by disease and do not have a decent shelter, then the kind of economic and social scenario implied by those GDP growth assumptions is unacceptable. A more acceptable approach would be to set minimum levels of basic needs that would be needed to uplift the standards of living in Africa, and on that basis estimate the financial requirements. If that is done, then it becomes clear that the previous estimates of financial requirements are far below what is needed. The approach adopted by Africans in the APPER was in this respect superior to the others; but even that proposal did not cover all the sectors of the economy (in fact only agriculture and activities supportive to it were given some reasonable mention).

Another observation is that some important assumptions used in calculating financial requirements, especially at the international level, have not proved correct. For example, the World Bank Report assumed that export earnings would be buoyant in response to economic reforms, while debt service payments would average about $6,8 billion for low income countries. What has now emerged is that export earnings have stagnated, while prices of imports have continued to increase; and debt service payments have risen far above those assumed, with the consequence that many countries have actually fallen into arrears. In addition, the assumption that commercial banks could be persuaded to increase lending to Africa has also proved almost entirely unrealistic. These are only some of the developments which indicate that financial requirements are now much greater than those estimated in that Report and the other two.

It is almost impossible to construct a reasonable econometric model of a continent as diverse as Africa; however, there is no harm in making some simple but realistic assumptions for the purpose of establishing the minimum financial resource requirements. The International Development Strategy for the Third UN Development Decade set a target of GDP growth rate at 7% for Africa. Financial requirements were not indicated, but there is no doubt that the amounts involved would be very considerable and also largely unobtainable given the prevailing circumstances, especially the policies of the donor countries, trends in the field of external trade, policies and practices of foreign private investors, and the growing inaccess for the African countries to the main financial capital markets. Furthermore, it does not appear realistic for countries which for many years have grown by less than 3% to more than double their growth rates in a short time — because of structural rigidities and other obstacles. It is, however, feasible for these countries to achieve GDP growth rates of 4-5% — if only because many of them have done so previously when the external environment has been favourable. The total GDP of sub-Sahara African countries was estimated at about US$177 billion in 1985. If the target is an average growth rate of 5% per annum, and the Incremental Capital Output Ratio (ICOR) is assumed to be 5[10], then total GDP could rise to about US$225 billion by 1990 or an increase of about US$9,8 billion annually. The capital investment required US$245 billion over a 5-year period or about US$49 billion per year. If we further assume that the average savings rate is 12,5% — which is actually very optimistic in view of the prevailing and increasing poverty — the domestic savings would amount to US$128 billion or US$25,6 billion per year. Then the net foreign resources required would be about US$23,4 billion per year. Current levels of foreign assistance for sub-Saharan Africa amount to US$12-15 billion per year. The financial gap that remains would be about US$8,4-11,4 billion per year, which is about double the estimates of the World Bank Report, the Wass Report and the APPER proposal discussed earlier.

However, all these approaches are unanimous in stressing that Africa requires substantial additional financial resources. What is now necessary is that African countries mobilise themselves for the task, using all the opportunities and strategies available. When the ACP was formulated, the desire was to reverse the decline in net capital flows that had become evident in a number of African countries, particularly after 1982, because of stagnation in ODA and contraction in private flows and declines in export earnings. As indicated in Table 3 below, the net resource flows increased somewhat after 1984, reflecting mainly increased food and general commodity aid. While that increase in net resource flows is welcome, its nature deserves some comments.

(i) in nominal terms, there was some recovery in total flows, but in real terms (1985 prices), there was no improvement.

(ii) the increase in ODA has been accompanied by increased commercialisation of aid — in some cases the use of commodity aid has led to reduction of intra-African trade and contraction in domestic production of such items as vegetable oils and dairy products.

(iii) the increase in ODA has not been accompanied by recovery in private flows which for Africa is an important mechanism for transfer of managerial skills and technology.

(iv) the figures in Table 3 do not include interest payments which account for nearly 50% of the debt service.

Table 3: Net Resource Flows to sub-Sahara Africa 1981-1988
(Billions of US Dollars)

	1981	1982	1983	1984	1985	1986	1987
Official financing	12,5	12,3	12,7	13,3	13,0	15,7	18,2
ODA	9,3	9,5	9,6	10,0	11,2	13,9	14,6
— Bilateral	6,7	7,0	7,0	7,0	7,8	9,7	—?
— Multilateral	2,6	2,5	2,6	3,0	3,4	4,2	—
Other Devpt Finance	1,5	2,1	1,8	2,8	1,8	2,2	3,6
IMF (Net)	1,7	0,7	1,3	0,5	—	-1,0	-1,1
Private Flows	6,5	5,8	3,4	0,5	3,6	2,7	2,3
Total Flows	19,0	18,1	16,1	13,7	16,6	17,8	19,4
Total Flows in 1985 prices and exchange rates	18,3	17,9	15,9	13,8	16,6	15,1	—

Source: Financial Africa's Recovery, United Nations.
Economic Report on Africa, 1989, UNECA.

The points raised above indicate that two of the areas for joint action by African countries are those of more favourable trade arrangements and concessional aid flows. In the area of trade, concentration should be in the renegotiation of the Lomé Convention, the Commodity Agreements for Coffee and Cocoa, and better arrangements for compensatory financing of export shortfalls by multi-lateral institutions.[11] In the area of concessional flows, the African countries should press for much more support from the World Bank and the IMF and the EEC. For example: a firm commitment for a larger share in the use of IDA resources for Africa is needed; in the case of IMF, there are no technical or practical reasons why sale of some gold could not be undertaken to meet the pressing needs of African and other debt-distressed countries; for the World Bank and IMF, a more appropriate economic and financial framework for use in discussing applications for financial support is urgently needed; and the EEC should be pressed to do more under Lomé IV than in the previous Conventions.

Appraisal of Recent Proposals for dealing with the LDCs Debt Crisis

The summer of 1982 is mostly cited as the beginning of the debt crisis of LDCs. That is mainly because a major debtor — Mexico — declared publicly that it was unable to pay the creditors. But actually for more than half a decade before then, some development observers had already seen and warned about the emerging debt crisis, which prompted the Board of UNCTAD in March 1978 to appeal, in its Resolution 165 (S-IX), for relief to LDCs indebtedness. Since then, many proposals have been advanced on how to deal with the LDC debt problem. These proposals have come basically from the following parties:

(i) The debtors themselves — for example ACP;

(ii) The commercial banks and private creditors involved;

(iii) The creditor governments;

(iv) Those international organisations directly involved in development matters — especially UNCTAD, the World Bank and IMF. The recently established South Commission has also looked at the problems created by the debt and advanced its own proposals.

One of the surprising aspects of the debt history is that in the early years, the emerging debt crisis was more or less ignored by the two Bretton Woods Institutions. That conclusion might be considered rather unkind by those in the World Bank and the IMF; but analysis of the policies and programmes which the two institutions were advocating in the early 1980s for "stabilisation and structural adjustment" indicates clearly that the grave seriousness of the debt crisis was not fully recognised. It would appear as if the debt problem was seen merely as one of the "imbalances" which could be overcome through stabilisation and adjustment programmes. This attitude was particularly surprising because the two institutions were also major creditors. However, in recent years, the World Bank and the Fund have taken much more active intellectual and practical interest in the debt crisis. Admittedly, one of their objectives has been to avoid persistent reverse flows in their financial transactions with LDCs. But in spite of this interest, it is still the case that most of the new initiatives on the debt, including those directly involving the two institutions, are coming from the major creditor governments. In that sense, the role of the World Bank and IMF could be more vigorous and positive.

As can be expected, the formulators of the various proposals have had, on the whole, their main interests in mind. For example, in the case of the commercial banks, the aim is not to lose any money if at all possible or, at worst, minimise such losses. In that connection, it would appear as if proposals made from time to time about cancellation of ODA loans and use of the World Bank and IMF resources to assist LDCs to meet their obligations are making commercial banks more hopeful about being repaid. In my view "bailing out" the commercial banks should not be the most important objective: indeed my view is that the commercial banks should be active participants in providing the debt relief needed and in increasing the ability of the debtors, through further lending and support to direct investment (foreign as well as domestic), to meet their future obligations. These points are being stressed because some of the "plans" put forward by the major creditor governments, especially the Baker and Brady plans, appear to have "Bailing out" the commercial banks as the major objective.

As far as proposals from the debtor countries are concerned, there has been, on the whole, a high degree of realism. For example, no country has repudiated its debt as such. Indeed all the debtors have accepted their obligations, in spite of the major sacrifices involved. And these sacrifices are truly substantial: for example, the Latin American countries are now remitting, on a net basis, about 5% or more of their GDP every year to the developed countries in order to service and repay their debts. The proposals by the debtor countries have concentrated on ensuring the repayment of the debts within a framework which recognises the prevailing international economic forces, the need for debtors' national survival and future growth, and considerations of equity. Even in the case of the African countries, the call for write-offs, capping of interest rates, conversion of loans into grants, and conversion of private and commercial loans into long-term concessionary ones, etc., has been based on the clear recognition of complete inability to repay — not attempts to renege on their responsibility.

Debtor countries have, quite rightly, seen the debt crisis as a part of the general "development crisis" which, while calling for tough internal measures also demands action at the international level in other areas, especially those of trade, monetary and financial arrangements. This is legitimate because the debt crisis cannot be discussed meaningfully unless it is related to trade arrangements, the levels of interest rates in capital markets, access to more capital and changes in important exchange rates. Unfortunately, the creditor governments have resisted that wider approach in favour of "case by case" debt-centred ones in which the creditors have leverage in negotiations and in influencing the domestic economic and social policies of the debtors.

Objective analysis of the situation shows, quite clearly, that both the creditors and debtors have a considerable amount to benefit from ensuring that the debt crisis is resolved in a manner not disruptive to the international economy, the international banking system or the future development of LDCs. It is also recognised that if the creditors are going to provide the required amount of debt relief for renewed or strengthened growth in LDCs, they are also entitled to insist that the debtor countries undertake the measures necessary for such renewed or strengthened growth. In that connection during the 1980s, LDCs have demonstrated their willingness to discuss such matters with creditors and investors in a frank and realistic manner. LDCs have also demonstrated their considerable courage in taking tough economic and social policy decisions. The important point is that the two sides should reach agreement on the required debt relief and the accompanying economic and social programmes through balanced and objective dialogue, and not through strictures and dictation.

With these general points in mind, the subsequent paragraphs in this section examine the various proposals or plans put forward in recent years to deal with the debt problem. The discussion is not exhaustive either of the proposals (or "plans") themselves, or the individual provisions and other details of the ones covered here. But before that appraisal some brief discussion on the subject of *debt rescheduling* and experiences in that field so far are in order.

Debt Rescheduling

The main objective of rescheduling debt is to reduce, for the time being, the debt-service burden and thus give the debtor country time to reorganise its external finances. The technique is an old one and is undertaken mainly, but not exclusively, under the framework of the London Club for the private debt and the Paris Club in case of official debt. (Most of the reschedulings that have occurred in Africa have been undertaken under the framework of Paris Club since most of the African debt is owed to official creditors.) While debt rescheduling has been fairly common in the management of LDC's debt in the past, the rescheduling of the African debt depicts two unique features: first, it started only recently; and secondly, there is a high degree of frequency. In the period 1976-88, there were 94 debt reschedulings in both the London and the Paris Clubs by the 34 IDA-category countries in sub-Saharan Africa because some countries have had to reschedule their debt several times.[12] This frequency shows the desperate nature of the situation.

Debt Rescheduling under the Paris Club has proved unsatisfactory in recent years for many debtor countries. Although the meetings are convened at the request of the debtor country, it is a well known fact that debtors have little influence on the decisions of the creditors. An important pre-condition is that a debtor country must have an agreed stabilisation programme with IMF. The basic assumption of the Paris Club has been that the inability to pay is only temporary. The IMF indicates to the creditors its assessment of the 'capacity' of the debtor country to pay after which 'agreed minutes' of the meeting are adopted. The minutes usually specify the terms and the debts to be rescheduled. Under the traditional Paris Club arrangement, rescheduled debt is not allowed to be reduced or cancelled; while interest on the postponed repayment is charged at market rates. Within the framework of the 'agreed minutes', debtors have to negotiate with each individual creditor a rescheduling agreement — a process that is costly and takes much time. In addition, debtors undertake not to give any preferential treatment to any creditor, which means that the Paris Club agreement is extended to even non-members as far as that debtor country is concerned. In effect this means that the Paris Club determines the maximum relief to a country.

Despite the repeated reschedulings, many African countries have fallen deeper into arrears — in fact about 10% (US$11 billion) of the outstanding debt of sub-Saharan African countries is on account of arrears. Moreover, it is now clear that debt rescheduling through the Paris Club tends to aggravate the situation because the capitalisation of interest at market rates adds to that total debt and future debt service obligations.

However, since 1984, a number of changes have been introduced in the procedures and terms of rescheduling in the Paris Club. For example, in recognition of the long-term nature of the debt problem of African countries grace periods and maturities for rescheduled debt were extended in 1987 from 5 years and 10 years respectively to 10 and 20 years. Similarly, the creditors now accept the IMF structural adjustment programme, instead of a Standby arrangement, as a pre-condition for negotiations. It is also quite common now for countries to negotiate multi-year rescheduling arrangements (MYRAS) which previously were confined to debtor countries with prospects for an early return to creditworthiness. These MYRAS have saved debtor countries the agony and cost of negotiating several agreements.

A very significant recent development for the Paris Club was the set of guidelines agreed by G7 Heads of State and Government at the Toronto Economic Summit in June 1988.[13] The new guidelines introduced three options. In the first option, creditor nations could write-off one-third of the debt service due during the consolidation period and reschedule the remainder at market rates of interest over a period of 14 years and a grace period of 8 years. In the second option, creditors could reschedule debt service due over a period of 25 years with a grace period of 14 years at market rates of interest. The third option was that creditor nations could reschedule debt service due over 14 years with a grace period of 8 years at half the market rates of interest or 3,5 percentage points below the market rates, whichever gives the lowest reduction. Despite the wide publicity given to the Toronto Initiatives indications are that the measures, even if fully adopted, will not result in a significant additional relief. The World Bank[14] estimates that the result would reduce the 1988/89 debt service of the debt distressed countries covered in the Special Programme for Africa (SPA) by less than 5%.

While the Toronto Initiative does not provide much additional debt relief, it is important in terms of the principle established. For example, unlike before creditor nations can now choose from a menu of three options a rescheduling arrangement that suits them without being bound by a uniform rule. However, it should be stressed that the new guidelines fall far short of the proposals made in the ACP with regard to the maturities of rescheduled debt, and also in the sense that no agreement has been reached on rescheduling of the multilateral debt. In addition, the Paris Club arrangement does not yet incorporate the current understanding that debt reduction is an integral part of the measures to resolve the debt crisis. A great deal more, therefore, needs to be done to improve the Paris Club mechanism so that: (i) the actual debt reduction can be achieved at the necessary levels; (ii) creditors willing to give more generous debt relief can do so without being limited to the 'maximum relief' arrangement; and (iii) a more appropriate macro-economic framework, for example that contained in the *African Alternative to Structural Adjustment Programmes*,[15] is used in assessing the debt country's capabilities and requirements.

The limitations of the Paris Club mechanism has encouraged both debtors and creditors to search for other approaches which at least recognise the long-term nature of the debt problem. In assessing the effectiveness or otherwise of the plans or proposals advanced so far, it is useful to emphasise that, for Africa at any rate, a proposal should be regarded as effective only if it offers immediate and substantial debt relief, contains supportive conditions for renewed growth of the debtor country, and ensures that that country is able in future to participate appropriately in the international economy. With that in mind, the various plans or proposals can now be examined. In very broad terms, the main aims to be found in the proposals presented so far appear to be the following — although there is not any one proposal which fully covers them all (political and other aims contained in some proposals are now listed):

(i) to reduce the debt service burden e.g. the rescheduling of debt on longer terms; reduction and/or capping of interest rates; currency and interest rate swaps; etc

(ii) to provide resource flows that would enable debtors to continue servicing their current commercial bank obligations and external liquidity conducive to private foreign investments e.g. the Baker Plan;

(iii) to prevent negative flow of resources e.g. the IMF (SAF, ESAF and CCFF); the World Bank (SFA and SPA);

(iv) to reduce the stock of debt e.g. the debt equity swaps; exit bonds, the debt cancellation (or conversion into grants); voluntary debt reduction schemes; etc

(v) to induce sectoral and structural changes in the debtor countries e.g. diverstiture often required in the World Bank and IMF schemes; etc

(vi) to create an external environment favourable to growth of debtor countries e.g. ACP; the G.7 stabilisation of interest and exchange rates; etc.

In the following discussion, various proposals are assessed on the basis of those objectives. However, it is not intended to appraise each and every proposal that has been advanced, if only because many of them remain just ideas on paper or keep on evolving in light of other proposals. Further, it is also not the intention here to endorse or reject any one proposal, although relevance to ACP has been kept in mind in selecting those proposals which should be discussed.

The UNCTAD Resolution 165 (S-IX)

The UNCTAD Board Resolution 165 (S-IX), 1978 called for retroactive adjustment of terms of past bilateral ODA in order to bring them in line with the then prevailing concessional terms of ODA, or alternatively, for the donors to take equivalent measures to improve the net flows of ODA. Since the equivalent measures were not defined each donor country was left to determine the distribution and the net flows involved within the context of its own aid policy. Some donor countries chose to cancel their bilateral loans for some selected LDCs — which prompted the Board of UNCTAD in their Resolution 222 (XXI), September 1980 to *note* that developed countries providing debt relief to *only* a limited group of poor countries should not be considered as having implemented Resolution 165 (S-IX). The Resolution was also not mandatory and did not cover private, bilateral non-concessional multi-lateral debt.

A full assessment of the impact of Resolution 165 (S-IX) on the indebtedness of African countries faces major conceptual and statistical problems because of difficulties in quantifying various measures taken by the donors. However, since the debt crisis intensified later, one is tempted to conclude that the Resolution 165 (X-IX) made little impact on the debt situation. The World Bank[16] estimates that between 1975-1987 bilateral donors unilaterally converted US$1,9 billion of concessional loans to sub-Saharan African countries into grants, representing *only* 6% of the concessional debt outstanding. In an earlier and more comprehensive exercise undertaken by UNCTAD[17], it was estimated that the nominal value of debt relief provided to all LDCs since the Resolution was adopted in 1978 amounted to US$6,2 billion, of which debt cancellation US$3,5 billion, interest waiver US$730 million, conversion into local currency aid US$1,9 billion and refinancing US$1,5 million. What these figures indicate is that donors' actions in implementing Resolution 165 (S-IX) have been very inadequate, particularly with regard to rescheduling/refinancing of debt.

The Baker Plan

One of the serious consequences of the 1982 debt crisis was the 'drying up' of private financial flows to the LDCs such that, while debt rescheduling helped to prevent the collapse of the international financial system, another crisis was gaining momentum through economic stagnation, unemployment and reduced trade.

According to some estimates, the retrenchment by the Latin American countries alone has reduced the exports of USA in 1983/88 by over US$75 billion.[18]

The Baker Plan for the highly indebted developing countries (HICs) was one of the earliest initiatives aimed at encouraging private flows of resources to finance servicing of the commercial bank debt and economic growth and trade. The assumption was that HICs could *grow out of their debt* if they maintained structural reforms and opened their markets. In support of these reforms, the Baker Plan envisaged additional resources amounting to US$9 billion from the World Bank and regional development banks and at least US$20 billion from the commercial banks. For the poorest countries, Baker only proposed the recycling of US$2,7 billion from the IMF Trust Fund. Despite painful reforms by some countries, commercial banks did not provide the required finance. They viewed the Baker Plan as continuation of the practice which initially caused the debt problem. In the meantime, the debt crisis worsened and by 1987 it was evident that the Baker Plan was ineffective. The concept of 'menu of options' was therefore born. That too has not worked. In its place, the US government has come up with the Brady Plan.

While the Baker Plan was aimed mainly at the HICs, its relative failure has an important message for African countries — that private resource flows are not forthcoming. Efforts to mobilise resource flows should be concentrated on official sources. This does not mean that private flows should be ignored. Indeed a number of approaches have been suggested for creating an enabling environment for investment, both local and foreign, to take place. Most of these proposals, including those in the ACP, have centred on creating incentives and policy reforms of one sort or another. But the lack of response by investors indicates that a more thorough analysis of the situation is needed. While incentives are useful, more emphasis should be the elimination of those factors including, for example, gross inadequacies in infrastructural facilities, which have inhibited foreign direct investment in the past.[19]

The Wass Report

While the Baker Plan considered primarily the problems of HICs, the Wass Report in 1987 specifically addressed the problem of the sub-Saharan African countries. The Report focused on measures for providing debt relief and additional resource flows. Its main conclusion was that without the support of donor countries and creditors, many African governments were not in a position to carry through the structural reforms which they had embarked upon. The Report was more comprehensive in its approach than the Baker Plan. However, it was also extremely cautious and appears to have had acceptance of its reasonableness high in the list of its considerations.

On the issue of debt relief, the Wass Report did not introduce novel ideas. It mainly re-affirmed what, for example, had been suggested by Mr Lawson with regard to conversion of ODA loans into grants and rescheduling of debts at below market rates of interest. The Report also recognised the hardships posed by the debts of the IMF and the World Bank, and suggested creation of mechanisms to refinance these debts.[20] With regard to commercial debt, the Report proposed that commercial banks make use of the accumulated debt provisions to provide debt relief on case-by-case basis.

In the area of new financial flows, the Report stressed the importance and urgency of implementing the Replenishments of IDA- 8 and ADB-5. The Report also called for individual donors to substantially increase their bilateral assistance in form of quick-disbursing balance of payments support. With regard to contingencies, the Report suggested the creation of a facility at the IMF which would be relatively automatic and highly concessional to finance shortfalls in foreign exchange earnings due to unforeseen events.

While the Wass Report was not in any sense revolutionary, it helped to highlight the plight of the African countries and the need to refinance the heavy debts of multilateral institutions. Many of its recommendations on debt relief have been implemented, albeit with some modification — e.g. the decisions of the Toronto Economic Summit and the use of IDA reflows to finance the debt service of past IBRD loans for those eligible countries not in arrears. The IMF too has expanded the scope of its CFF. However, the report differs fundamentally from ACP in some areas – for example, in its emphasis on implementation of IMF programmes; rejection of widespread debt cancellation; and endorsement of case-by-case approach. With regard to resource requirements, it has already been mentioned that Africa requires more than US$5 billion a year recommended by the Report.

The ADB Refinancing Plan

The other major initiative in 1987 was that proposed by ADB. The ADB proposal calls for exchange of current bilateral non-concessional and private loans with securities redeemable in 20 years and bearing fixed and below market interest rates. The proposal further calls for creation of a *Redemption Fund* into which debtor countries would make contributions in accordance with their ability to pay. The Redemption Fund would be managed by a Board of Trustees comprising the debtor country, the ADB, the World Bank, the IMF and other Paris Club members.

The ADB proposal is important for the following reasons, among others: First, it admits that the yearly rescheduling at the Paris Club does not achieve much and is very costly to debtor countries. Secondly, the outstanding debt may never fully be repaid at the current market terms. Thirdly, it recognises the need to tie the debt service payments with ability of the debtor countries to pay without sacrificing resources for development. While these aspects are close to the intentions of ACP, the proposal is not likely to have a large impact on the African debt for the following reasons:-

(i) The proposal is primarily concerned with private debt and bilateral non-concessional debt, which are very small for African countries. Any proposal that does not include the multilateral debt will not have any significant debt relief impact in Africa.

(ii) African governments may find it difficult to accept the scheme as proposed since it entails considerable involvement of creditors in the financial and economic management of their economies. For example, the proposed Board of Trustees is expected to agree with the debtor country its future financial needs, and the means of meeting them. The Board of Trustees is also mandated to recommend to the creditors that disbursements of new funds be withheld if the debtor country fails to follow the economic policies agreed with the IMF and the World Bank, which is one of the areas of friction between debtors and members of the Paris Club.

(iii) The proposal does not of itself guarantee any additional flow of funds to the debtor country.

The Brady Plan

Quite a number of proposals for reducing the stock of debt of the LDCs have been made. Unfortunately, this fertility of ideas has not been accompanied by any significant achievement of that important objective. As far as private debt is concerned, perhaps the boldest initiative so far is the Brady Plan. The mechanics of this proposal are still being worked out, but even at this early stage, the following comments can be made:-

(i) The Brady Plan's intention to reduce the debt of the 39 highly debted countries by 20% over the next three years, even if implemented, will not be sufficient to reduce the debt burden to a level which allows these countries to achieve viability and sustainable development. Debt reductions of at least 50% are needed.

(ii) The Brady Plan, like its predecessor, the Baker Plan, will have little impact on the African debt situation.

(iii) Since the Brady Plan has not put a value on the level of loan discounts, the possibility of redemption using multilateral public funds may raise prices of these loans thereby transferring the benefits of the scheme from debtors to the lenders.

(iv) Although it has been denied, it is most likely that the use of IMF and World Bank resources to finance debt reduction schemes will reduce or divert resources and attention from other equally important operations of these institutions.

As far as Africa is concerned, it must be stressed that proposals that concentrate on market initiatives — such as debt equity swaps — will not be effective because of lack of marketable assets or bankable projects. Even where such bankable projects exist, as in case of some parastatals, it might still not be appropriate to transfer the ownership of such enterprises to foreigners. In any case, where such schemes have been tried, they appear to be of limited success and in some cases have resulted in some undesirable consequences e.g. inflationary pressures and displacement of foreign capital inflow.

Proposals for Structural Reforms

The proposals discussed so far are those that address the debt problem directly. There are other indirect approaches that recognise the debt problem as a symptom of a deeper economic development crisis that requires long term solution and changes in the structure of production. The APPER is one of the most articulate among such proposals, and its full implementation would be an important step towards solving Africa's development crisis, including the debt problem. In that connection, it is heartening to see many African countries implementing some of the fundamental proposals in APPER. For example, most African countries are now taking vigorous measures to encourage agricultural production through adjustments of producer prices, streamlining input supplies and introducing better marketing arrangements. This will contribute substantially towards more agricultural production and therefore less dependence on food aid and imports. However, the measures being implemented in this field will never be fully effective until African countries take the necessary steps to promote intra-African trade in food and non-food products in a more determined and committed fashion.

The World Bank and the IMF have been directly involved in the policy and structural reforms of African economies through their stabilisation and adjustment lending programmes. As already observed, the debt owed to these two institutions poses the greatest difficulty for African countries. This is an important and urgent problem, especially since what African countries need is not just appropriate solutions to the present World Bank and IMF debts but also much more support from these institutions than they are now getting or appear likely to get over the next few years.

The IMF

Some of the main proposals that have been put forward for greater involvement of the Fund in dealing with the debt problem include the following: enlargement of quotas in order to give LDCs greater access to the Fund resources; a new and substantial increase in SDRs allocated on basis of development needs; sale of some of the Fund gold to provide concessional resources for refinancing the Fund debt; and widening the coverage and reduction in the conditionality of Compensatory Financing Facility. The main shareholders of the Fund have resisted some of these proposals e.g. substantial quota increases and new allocation of SDRs, using the argument that excess liquidity in the international system would pose serious inflationary dangers. (The countries concerned might have other unstated reasons for opposing these particular proposals.)

In March 1985, the Fund established the SAF of SDR2,7 billion, funded from the reflows of the Trust Fund Facility to provide balance of payments support to IDA-eligible countries with protracted balance of payments difficulties. In recognition of the inadequate level of these resources (originally the facility was planned to provide 47% of member's quota), the Fund established in the following year ESAF of SDR6,0 billion, to be funded by contributions from the major industrialised countries. Both SAF and ESAF are not permanent facilities; in fact they expire after three years. In 1987, the Fund also expanded the coverage of CFF, albeit at reduced access level, to include shortfalls in tourism earnings, remittances of migrant workers and losses arising from unexpected increases in international interest rates.

While these initiatives by the Fund are welcome, it should be stressed that there exists serious obstacles that undermine the usefulness of Fund facilities in ameliorating the debt situation of African countries. First, since access to Fund resources is based on quotas, the small size of African countries' quotas minimises the benefit. Secondly, the existence of arrears and the tightening of conditonality has prevented a number of African countries from benefiting from these facilities. Since ESAF was established for example, only 5 African countries had managed to negotiate a programme by end of 1988. It should also be recognised that while the 10-year maturity of SAF and ESAF loans is a considerable improvement over existing IMF facilities, it is still far short of the proposal by ACP. In addition, the suggestion in the ACP that the Fund permit the rescheduling of its debt has not been accepted. Finally, the requirement that a country must be experiencing a protracted balance of payments difficulty in order to get access to SAF and ESAF appears rather strange — if only because many countries which might not have had protracted balance of payments difficulties also need financial support to supplement domestic efforts for sustained development and economic transformation and thus avoid such difficulties. Avoidance of such difficulties should be recognised while curing the existing ones.

The World Bank

Many proposals have been urged on the World Bank in the debt field. While the Bank has not recognised all such proposals, it is now actively involved in dealing with the African debt. For example in 1985, the Bank established the SFA which mobilised nearly US$2 billion in direct donor contributions or co-financing. The Bank has also increased IDA resources devoted to Africa from below 30% before 1985 to nearly 50% presently. By November 1988, commitments to IDA-8 resources amounted to US$14,4 (SDR10,6) billion, which exceeds the US$12,4 billion agreed during replenishment discussions. A consensus is also emerging that IDA-9 replenishment should strive to maintain at least the real value of IDA-8. In 1987, the Bank established the Special Programme of Assistance (SPA), a broader arrangement than the SFA which ended in 1988. The SPA has four elements: debt relief measures, which were adopted by the Paris Club in September 1988; additional IDA disbursements amounting to US$1 billion; co-financing arrangements with donors amounting to US$6,4 billion; and use of IDA reflows to service the debt of past IBRD loans to eligible countries. In response to the difficulties experienced in implementing the original Structural Adjustment Loans (SALs), the Bank introduced Sector Adjustment Loans, which, because they are narrower in scope, are easier to negotiate and implement.

The other initiatives that the Bank has taken, although not directly related to the debt problem, include the establishment of MIGA, and through IFC in collaboration with ADB, the formation of the African Project Development Facility (APDF). Both MIGA and APDF are not directly involved in investment; they are important only in encouraging the flow of private investment. But as indicated earlier, private flows are not likely to play a significant role until more conducive conditions, including reduction of the external debts, have been established.

The initiatives listed above will, in a large way, enable the Bank to maintain a positive flow of resources to African countries. It should be stressed, however, that what Africa needs is not just refinancing of past debts, but substantial additional injections of resources. The only institution that is most suited to perform that function is the World Bank. It is important therefore that facilities such as SFA, SPA and use of IDA reflows be regarded as fairly long-term instruments rather than *ad hoc* operations. It is also a matter of concern that at a time when Africa is trying to persuade creditors to extend the maturity periods of their loans, the World Bank has reduced the maturity periods of IDA loans from 50 to 40 years. That measure may not in itself have much adverse impact; but it plays an important symbolic role. A number of

African countries are also unable to benefit from the new initiatives simply because of existence of arrears. This is a matter that the Bank should now address. While it may not be an acceptable proposition for the Bank to write-off such arrears, it can use its IDA resources to clear such arrears and enable the debtor countries to participate in its programmes.

The International Economic Environment

Finally, there are those proposals which concentrate on desirable changes in the international economic and financial system. These proposals, while recognising the need for domestic structural adjustment, aim at creating favourable and equitable international relations between countries in the areas of trade and finance arrangements.

As far as ACP is concerned, the main interest in trade is establishment of mechanisms for stabilising commodity prices and export earnings. This is one area in which little progress has been made; it is also an area of great importance for Africa if only because of the continent's vulnerability to changes in those prices. Most of the organisations and commodity agreements that had been established earlier to assist in the stabilisation of prices of commodities have either collapsed e.g. tin, copper, rubber, cocoa etc or their future is very uncertain e.g. coffee. The Common Fund for Commodities which UNCTAD has been trying to get established is not yet operational.

With regard to stabilisation of export earnings, the two schemes that are functioning — namely the Compensatory Financing Facility of IMF and the STABEX Scheme under the Lomé Convention — have certain weaknesses which reduce their usefulness in assisting Africa. The problem of CFF along with other IMF facilities was mentioned before. The STABEX Scheme, whose terms are more favourable to African countries, is on the other hand, plagued with the problem of under-funding, such that compensation claims are usually not met in full as described in the rules of the Scheme or take too long to be honoured. Further, preliminary assessment of the Lomé IV negotiations now going on suggests that substantial improvements in STABEX are unlikely.

The other area of interest in the trade area concerns the prevailing protectionist policies in the industrial countries against the goods from LDCs. Here, indications in the on-going Uruguay Round of GATT Negotiations are that some progress might be achieved in some areas e.g. tropical products. But major favourable agreements in trade in agricultural products, which is the backbone of most African countries, appear unlikely as of now. Moreover, going by experience of the Kennedy Round and Tokyo Round negotiations, one fears that the industrial countries will concentrate on areas of direct interest to themselves. It is, therefore, disheartening that African countries do not yet have a co-ordinated approach, including a joint mechanism, for these negotiations.

In the area of international finance, African countries, and most other developing countries, have as of now little influence. The interest of African countries is mainly to see stability in the exchange rates and interest rates. The IMF, which is supposed to oversee the global financial policies, has not been able to influence the financial policies of the major industrialised countries (which determine the global interest rates and exchange rates) since the breakdown of the Bretton Woods system in the early 1970s. LDCs will, therefore, continue to suffer from external forces – key currency fluctuations, rising interest rates and declining terms of trade – over which they have no control. Some new 'order' in the international economy is desperately needed.

What emerges from the appraisal of the various proposals is that the major industrialised creditor nations dictate the pace of change in global arrangements which determine the form of support (or otherwise) that African countries get from the international community. Despite their weak position, African governments must continue to press for the necessary reforms in global arrangements in a joint and collective manner. In that connection, while the donors have been slow to consider proposals advanced, they have generally been sensitive to proposals presented in a collective manner. This is one of the reasons for recommending a mechanism for co-ordinating, articulating and pressing African countries' needs. It is also one of the basic reasons for urging that while recognising their unique circumstances, African countries should co-operate with other debtor countries, particularly the Latin American countries, in order to strengthen the debtors' position as a whole as proposed by the South Commission.[21]

Future Course of Action

As already observed, the African Common Position on Africa's External Indebtedness is comprehensive and contains good general recommendations on what should be done by the African countries themselves, the donor countries, the multilateral creditor organisations, the commercial or private creditors, and by the international community as a whole in relevant areas for dealing with the debt situations – e.g. in securing greater flows of resources to Africa, stabilisation of international prices of the primary export commodities on which most African countries depend so substantially, and in carrying out various measures for direct debt reduction and relief. But as also observed earlier, not many of these recommendations have been implemented. The important and urgent challenge for Africa now is now to get the message across as clearly as possible, and obtain appropriate action from all the relevant parties.

In considering the future course of action, African countries should concentrate on those areas of critical importance and where concrete action could be achieved. In deciding on that course of action, African countries should keep in mind the fact that their position in dealing with the creditors is different from that of the Latin American debtor countries. The latter, mainly because their debts are so very large and because they are also much larger economies than African countries, are able to get some hearing from the creditors – in fact some of them can demand that they at least be heard even if all their arguments will not be accepted. In short the creditors cannot ignore the Latin American debtors if only because default on their part would have extremely serious implications for the commercial banks in the creditor nations. Moreover, in spite of debt-caused import reductions, the Latin American countries continue to be major markets for some of the creditor nations. Furthermore, these countries appear to the creditors to be very promising areas for foreign direct investment in the long run. These are some of the factors which explain why, individually, the bargaining strength of the Latin American debtor countries is much greater than that of the African countries.

This weaker position of the African debtor countries is, in fact, one of the basic considerations for urging joint and collective action on the part of the African countries. Indeed, such an approach is imperative if these countries are going to exert any meaningful influence in discussions and negotiations with their creditors. It is because of that consideration that great disappointment must be expressed that since the adoption of ACP, African countries have not developed an effective mechanism for pursuing its implementation. Even more disappointing is the fact that African countries have not systematically and vigorously implemented those joint and collective measures which would ease their debt problem and which only they can actually undertake. The argument here is very simple: the debt problem, in strictly financial terms, arises from lack of foreign exchange resources. Further, Africa now desperately needs foreign exchange resources basically for the following reasons: (i) debt service; (ii) imports of the necessary items; and (iii) further investment. Use of the available foreign exchange resources is, therefore, a matter of great importance. To put the matter another way: while the African countries are not in a position to extract the required debt relief from the creditors, they have the responsibility and ability to reduce the outflow of foreign exchange resources now occurring steadily and in significant volumes in some areas. In that connection, the following are some examples of the areas in which such outflows are taking place, and in which African countries can act with tremendous benefit: (i) First, African countries can, through collective self-reliance, reduce very substantially the outflow of foreign exchange involved in importation of those goods which Africa can produce internally. In this connection, an area of great importance is that of *food imports.* Grains and vegetable oils account, every year, for very huge expenditures of foreign exchange in most African countries. At the same time, there are no reasons whatsoever why African countries, through co-operation in production and trade, cannot produce such food items in sufficient quantities. Indeed quite a few of these countries used to export some of the food items they are now importing e.g. vegetable oils.[22] Food production is an area of critical importance in these countries' development and maintenance of their political independence – not just the easing of the debt problem. African countries must urgently agree on the collective production and trade arrangements needed, even if such devices as barter trade are to be employed. The problem is not technical; it is basically political. It is, therefore, a matter which should be high on the OAU agenda — and this time not for expressions of intentions but agreement on concrete action programmes.

The issue of non-use of intra-African trade to ease the debt problem is actually more serious than indicated here. In fact, the debt problem has actually resulted in reduction of intra-African trade, instead of inducing greater and sustained efforts to promote it. This is because in cutting down imports in order to service debts, African countries have reduced imports from each other more drastically than imports from the industrialised countries. (The same thing has actually happened in Latin America where the debt crisis has led to reduction of inter-Latin American imports twice as large as reduction of imports from outside the region.[23] In fact, it is now very clear that without harmonisation, co-operation and co-ordination in the so-called "adjustment" policies and programmes, there will be further reductions of intra-African trade as each country cuts down its imports and hopes to promote its exports to others, including neighbours. That strategy, which is the one the African countries have been following in recent years, only makes sense when it is undertaken by one country, or a few countries; but it certainly makes no sense whatsoever when it is pursued by *all* countries at the same time.

(ii) Another area in which foreign exchange outflows could be reduced substantially, and an area of great importance although very controversial, is that of *military imports*. As of now, military imports in Africa account for about 10% of all imports. This is an average figure and therefore in some countries such imports account for a much larger proportion. Indeed in some countries, military imports are now 15% or more of the Gross Domestic Product. Two other illustrative statistics: according to ECA, Africa has been spending, in the 1980s, more on military than education; while public expenditure on health is less than one-third of military outlays.[24] Military expenditures are particularly unproductive. The African countries should, in a frank and courageous manner, address themselves to this issue — because military expenditures, if they are maintained at the present levels, will mean greater and continuous outflows of foreign exchange through purchase of spare parts and replacement of obsolete equipment.[25] It is recognised, of course, hat in some sub-regions of Africa, large military expenditures are made necessary by external aggression. This is particularly so in Southern Africa where the destabilisation manoeuvres and outright aggression by the South African regime have compelled the "Frontline States" to spend heavily on defence. The international creditors should recognise that elimination of *apartheid* and racism in South Africa is one of the necessary conditions for achieving sustained development in that sub-region and Africa as a whole.

(iii) Yet another area of great importance is that of *capital flight*. Statistics are not easy to come by in this area. But there is no doubt that because of economic, social and political factors, capital flight in Africa has been very substantial. One estimate indicates a capital flight of over US$2 billion[26] per year in recent years. In addition to disinvestment by foreign investors, a more worrying aspect is that of export of capital, through various forms and devices (e.g. over-invoicing of imports, under-invoicing of exports, smuggling of foreign currencies, etc.) being undertaken by residents. Capital flight can only be minimised through sound economic, social and political management. This is another area in which the African countries must accept that only they themselves are responsible for finding the solution. Realism, courage and determination are necessary. The objective should not be limited to mere prevention of capital flight; it should extend to establishment of a stable and conducive investment climate for *both* external and domestic capital. In this connection, it should be stressed that attempts to deal with the problem of capital flight through more and more laws and exchange control regulations will not succeed; in fact, in some cases, reduction in the number of such controls and regulations could be a significant factor in reducing capital flight and in establishing a more favourable environment for inflow of foreign capital.

Those three are examples of areas in which disappointment must be expressed that the African countries have not acted. Another great disappointment, which has already been mentioned, is that African countries have not yet developed a common mechanism for negotiating with the creditors. It is true that ACP provides for a permanent steering committee for "monitoring the African debt situation" with the assistance of the OAU, ECA, ADB and ACMS Secretariats. But what is needed is a permanent committee *for action,* not mere monitoring. It should also be added that many changes and developments are now taking place frequently at the international level. Indeed the increasing number of proposals to deal with the debt problem is an indication of that trend. African countries must have a mechanism for dealing with the situation on a continuous basis — not passively but actively, and making use of all opportunities as they arise.

The first task of such a mechanism should be to prepare a detailed and comprehensive negotiating framework for use by African countries in discussions with creditors. This is particularly important in dealing with the Paris Club, the World Bank and the IMF. The ACP document covers the matter in general terms. What is now needed are specific frameworks and guidelines. In fact, for the World Bank, IMF and the Paris Club, African countries must urgently take the initiative and press for agreement on such a common framework for use in discussing the problems of individual African debtors. African countries must recognise that the present case-by-case approach is particularly inappropriate and dangerous when pursued in absence of the kind of a common framework suggested here.

Use of African institutions in dealing with the debt situation has already been mentioned. One institution which certainly could have been made use of more imaginatively and energetically is ADB, especially in mobilisation of external resources. African countries have so far looked at ADB from strictly individual country point of view — which, basically, has been confined to seeing ADB as a modest source of project finance, especially of government sponsored projects. But in these times when foreign private flows have virtually dried up and in many African countries there is actual foreign private disinvestment, ADB must be used much more energetically for mobilising foreign capital for investment in Africa than is the case today. This is a subject which requires more discussion than space allows in this paper. It should also be added that the point being made here has another purpose — namely to stress that the external debt situation, and the development needs of Africa in general, demand that African countries do all they can to strengthen their own institutions, including OAU so that those institutions can be more effective in servicing Africa.

Conclusion

The external debt now facing African countries is an impossible burden in their development efforts. Adequate debt relief measures are, therefore, necessary, and a matter of urgency. Equally clear is that Africa will need to use, for many years to come, external savings in its development efforts — as indeed all the industrialised countries had to do during their process of development. Solving the existing external debt problem should not, therefore, be regarded as the final objective; indeed solving that problem should be seen as one of the necessary conditions for enabling Africa to absorb more external resources for economic recovery and growth. Furthermore, it should be stressed that that broader objective (economic recovery and growth) demands the implementation of those measures in APPER, in ACP and in the recent and more forcefully articulated "African Alternative to Structural Adjustments Programmes (AA-SAP): A Framework for Transformation and Recovery". In this connection, an issue of great importance is that of co-operation between African countries. Whether one is considering the debt situation, the environmental stresses now emerging and accelerating, food requirements, creation of adequate employment opportunities, etc., meaningful co-operation between African countries is essential. It is therefore to be hoped that the debt situation, by highlighting the weakness of African countries and the grave dangers to their independence posed by under-development, will provide the impetus needed for vigorous efforts to secure the kind of economic co-operation needed in Africa. Indeed, there is no choice in the matter: African countries have either to co-operate and therefore develop; or continue to pursue their development efforts individually and thus perpetuate economic stagnation which, in turn, will generate social and political pressures so strong that they will tear many of these countries apart.

Footnotes

1. African countries, through the O.A.U. framework and mechanism, agreed on an African Common Position on strategies and proposals to be pursued in dealing with their external indebtedness. The African Common Position, adopted by the Heads of State and Government of OAU at their Third Extra-Ordinary Session 30the November-1st December 1987, is in most aspects a well argued and balanced document, with commendable proposals. However, and as the experience since the formulation of ACP shows, the assumptions that the various creditors would be persuaded to respond appropriately have not proved true. New strategies for ensuring acceptance and implementation of Africa's proposals, and in particular the urgent need for meaningful debt relief, now appear necessary.
2. In recent years, the developed countries have also given some attention to the increasing role of the newly industrialising countries — Korea, Taiwan, Brazil, etc (NICs) in international trade. In fact, in the OECD, there has been suggestions of having dialogues and special arrangements with NICs. That approach should be resisted in favour of truly global and equitable trade arrangements.
3. Some countries of Asia also have burdensome external debts. However, many of them are quickly growing out of their debt problems e.g. South Korea. The only Asian countries which appear to have serious debt problems are Bangladesh and the Philippines. This is one of the reasons why in this paper most references to non-African countries relate to Latin America. Moreover, in recent debt discussions at the international level, it is the Latin American countries which have received most publicity and attention. In fact at that level, particularly in forums dominated by private sector organisations (especially banks), the external indebtedness of LDCs is almost always discussed with the situation prevailing in Latin America in mind. One objective of this paper therefore is to highlight the fact that Africa's external indebtedness is in some aspects a more depressing and serious matter.
4. *Africa's Adjustment and Growth in the 1980s* — The World Bank and the UNDP, The World Bank, Washington, 1989.
5. The general foreign exchange shortage situation has been made worse by the problem of *capital flight*, which is substantial in many African countries. There is a brief discussion on this subject later.
6. See, for example, The World Bank and the UNDP, *Africa's Adjustment and Growth in the 1980s,* The World Bank, Washington, 1989. This particular report has been rightly condemned for its selective use of data and for completely ignoring the *people* in its examination of the performance of tne various economies.
7. These reports are: 1. Accelerated Development in Sub-Saharan Africa: An Agenda for Action, Washington, 1981. 2. Sub-Saharan Africa: Progress Report on Debt Prospects & Programmes — 1983.3. Towards

Sustained Development in Sub-Saharan Africa: A Joint Programme of Action, 1984. 4. Financing Adjustment with Growth in Sub-Saharan Africa 1986-90, Washington, 1986. Earlier this year (March 1989) the World Bank and the United Nations Development Programme (UNDP) produced the Joint report referred to in footnote 6 above. Later in the year, the World Bank is scheduled to release another report on Africa.

8. *Financing Africa's Recovery*, United Nations, New York, 1988.
9. *APPER*, ECA, Addis Ababa, 1986.
10. Actually an ICOR of 5 for Africa is a brave and optimistic one. Considering the various rigidities involved, the lack of basic infrastructure in most African countries, the need to rehabilitate whatever infrastructure might be in existence after the steady disintegration which has taken place over the last 10 years or so, etc. the average ICOR could be a lot higher than that.
11. The current GATT negotiations are also important. Individual African countries will not be able to participate fully in those negotiations because of technical and resource limitations (e.g. the large number of Negotiating Groups involved, most of them requiring highly trained experts and frequent meetings). It is strongly recommended that African countries should participate in these Negotiations as one group instead of attempting to do so individually.
12. The World Bank: *World Debt Tables, 1988-89*, Table I-I.
13. The Toronto Economic Summit Decisions by G7 Heads of State and Government in June 1988 were broadened and adopted by the Paris Club members in September 1988. The Summit Decisions were heavily influenced by the proposals contained in the Lawson Plan and Mitterrand Plan. The Lawson Plan, which was revealed in April 1987, called for: increased conversion of existing ODA loans into grants; extension of the rescheduling debt at interests below market rates. The first two options received general acceptance in 1987, while the third was endorsed in June 1988. President Mitterand has in recent years made some important proposals. Late in 1986, he proposed a 'Third World Marshall Plan' funded by official loans and grants equivalent to 0,5-1,0% of the GNP (US$35-70 billion) of the Western industrialised countries. In June 1988, he called for cancellation of one-third of the debts for the poorest countries. The Paris Club modified the proposal to cover one-third of the debt service due rather than outstanding debt. Later in September 1988, he submitted to the United Nations a proposal for creation of a facility funded by new issue of SDRs to be used for guaranteeing interest or financial instruments for those commercial banks allowing significant reduction in their outstanding credits to LDCs. This option has not received general acceptance but the intervention of IMF and World Bank as perceived in the Brady Plan seems to have that approach in mind. At the meeting of Francophone countries in Dakar, May 1989, President Mitterand, reaffirmed the decision by France to write-off one-third of the

outstanding debt owed by the 35 world's poorest countries — US$2,35 billion.

14. The World Bank, *World Debt Tables 1988/89,* page xxxvii.
15. ECA, *African Alternative to Structural Adjustment Programmes, E/ECA./CM. 15/6/Rev.I,* Addis Ababa, April, 1989.
16. The World Bank, *World Debt Tables 1988/89,* page xxxvii.
17. UNCTAD, *Document No. TD/B (xxx) GRP. 3, March 1985.*
18. According to the Report of the Second working Party established by the All Parliamentary Group on Overseas Development (UK) — *'Managing the Third World Debt',* US exports to Latin American countries declined by 25% in 1981-1985. Also Henry Kissinger, in an article titled *Every Day, Deeper Into Debt,* Washington Post, May 24, 1987, estimated that American businessmen lost US$15 billion annually in exports to Latin America.
19. I have looked at this matter in a recent paper prepared for UNCTC. The paper, prepared in July 1988, is entitled *Measures for Increasing Foreign Investment in Africa by Transnational Corporations.*
20. The Nordic countries had earlier suggested creation of a Trust Fund to refinance the debt service on IBRD loans for the 15 African countries that are most debt-distressed. While the Nordic Plan was narrow in its coverage, it was one of the earliest to specifically address the problem of multilateral debt.
21. The South Commission has suggested the formation of a Debtors Forum for all LDCs to facilitate flow of information, consultation and co-ordination.
22. A good example here is that of palm oil in which the African countries have lost their share of the international market, mainly to Malaysia.
23. See UNCTAD, *Strengthening the Weakest Link.* (a review of certain aspects of South-South Trade and Finance) UN, New York, 1986, page 15.
24. ECA, *African Alternative to Structural Adjustment Programmes,* op. cit.
25. In the 1960s and early 1970s a significant proportion of military imports was financed through military aid programmes. However, most of such imports are now being bought at commercial prices and terms.
26. IMF Research Department — *Capital Flight: Concepts, Measurement and Issues,* January, 1987. Because of the extensive use of concealment devices and procedures especially where unauthorised export of capital is severely punishable, this estimate must be regarded as very much on the low side.