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AFRICA'S EXTERNAL DEBT BURDEN AND THE IMPACT THEREOF OF RECENT DEBT RELIEF MEASURES

A. PROFILE AND STRUCTURE OF AFRICA'S EXTERNAL DEBT

1. The African external debt problem intensified during the 1980s, notwithstanding the numerous debt relief initiatives announced by donor aid countries,among others. The rate of growth of the continent's external obligations was much faster than that of the major-economic variables and was even worse when set against the capacity of most African countries to service their external debts. The situation was exacerbated by the precipitous decline in the continent's terms of trade, a fall in real net resource flows to Africa, a sharp increase in real interest rates, and drought in a number of countries which necessitated food imports.

2. The magnitude of the African external debt crisis is more vivid through an examination of the major debt indicators. According to the United Nations Economic Commission for Africa (ECA), Africa's external debt stock nearly trebled between 1979 and 1990; having risen from US$ 89.6 billion to US$ 271.9 billion during the period. 1/ The ratio of debt outstanding to Gross National Product (GNP) rose from 38 percent to 91 percent and for a number of African countries, outstanding external debt is equivalent to their Gross Domestic Product (GDP). For some of these countries it ranges between 125 percent and 165 percent.2/

3. Africa's external debt service payments rose sharply in the 1980s, both in absolute terms and as a proportion of its export earnings. Total debt service payments (principal repayments and interest) rose from US$ 8.6 billion in 1979 to US$ 27.3 billion in 1990. These payments would have been even larger were it not for accumulation of arrears by some countries and outright default by others. The ratio of external debt service payments to exports of goods and services increased from 13 percent to 30 percent during the period and for Sub-Saharan Africa it was 34 percent in 1990. Taking into account arrears, the debt service ratio for a number of countries exceeds 50 percent and for a few is in excess of 100 percent.

1/ United Nations Economic Commission for Africa : Economic Report on Africa 1991,Table XI.

2/ Alwyn Taylor indicates that for the Sudan this ratio was 300 percent in 1986 and for countries like Somalia, Mauritania, and Zambia it ranged between 125 percent and 165 percent. See Alwyn Taylor (edited by Helen O'Neill) : Third World Debt: How Sustainable are Current Strategies and Solutions; The European Journal of Development Research, Volume 1, No. 2, december, 1989.

4. For Sub-Saharan Africa the servicing of external debt during the years 1980-86 caused a 3.1 percent drop in gross product per capita, a 2.4 percent drop in consumption and a 2.1 percent yearly reduction of exports in real terms. Furthermore, although there was discernible increase in nominal resource flows to these countries,thanks to unsecured aid and bilateral and multilateral loans, which constituted 7.3 percent of their Gross Domestic Product (GDP), nonetheless of this only 2.3 percent was used for productive investment and a large proportion went back to service external debt.3/ The decline in capital accumulation (investment) during the 1980s accounted for the dismal economic performance of Sub-Saharan African countries during this period.

5. Africa's external debt crisis was also reflected in the numerous debt rescheduling which took place in the 1980s. It is estimated that between 1980 and 1988 about twenty-five African countries rescheduled their debts one hundred and five times, a clear indication that the rescheduling were not having a lasting impact on the debt burden of these countries.

6. The continent's external obligations have changed rapidly and dramatically in size as well as in structure. The last decade saw a trebling of Africa's external debt stock,at the time when the region borrowe virtually no additional money for productive investment.

7. The structure of the continent's debt has also changed rapidly. The share of commercial debt in Africa's external debt stock has virtually disappeared, while the share of debt owed to official creditors and multilateral institutions has increased. Public and publicly guaranteed debt accounts on the average for nearly 84 percent of Africa's external debt and of this amount nearly 72 percent is provided by official creditors. Private non-guaranteed long-term debt which had risen at an annual average rate of 20 percent during the period of the recycling of petrodollars (1979-1984), declined significantly during the second half of the 1980s. The accessibility of African countries to international money and capital markets has been sharply impaired by the intractable debt burden. Some international financial institutions have virtually stopped lending to some African countries.

3/ Bettino Craxi "Overcoming the Debt Crisis : Resuming Development", Statement delivered to the United Nations General Assembly New York,23 October 1990 by the Personal Representative of the United Nations Secretary General on Debt, when he introduced his Report on External Debt Crisis and Development,Document A/45/380.

8. It may be worth noting that the share of multilateral debt in Africa's external debt stock rose sharply in the 1980s. This lending was associated with the implementation by a number of African countries of Structural Adjustment Programmes (SAPs) which where financed usually by the World Bank, IMF, and other co-financiers. Serious questions have been raised as to whether this form of lending contributed to productive investment and therefore growth in the countries which implemented these programmes.4/

9. It is now generally acknowledged that orthodox structural adjustment programmes have been unable to extricate the African continent from the external debt overhang and its pervasive impact on the overall performance of these economies. Several African countries have been forced to embark on politically tendentious, and high-risk adjustment programmes. As Percy Mistry summarised:

> "Many of them are now suspended in that dangerous transient state of having incurred the pain but are still far from seeing the cure take effect. They have agreed to making policy changes that they do not fully grasp the implications of. There is no internal consensus within their bodies politic for these programmes nor is there much support within their administrative bureaucracies. African leaders have accepted them because they have no alternative. Their debt burdens do not need adding to, they need subtracting from". 5/

4/ For arguments that orthodox structural adjustment programmes of the World Bank and IMF have not contributed to the socio-economic recover and transformation of the African economies see,United Nations Economic Commission for Africa: African Alternative Framework to Structural Adjustment Programmes for Socio-Economic Recover and Transformation,E/ECA/CM.15/6/REV.3; United Nations Economic Commission for Africa : African Alternative Framework to Structural Adjustment Programmes for Socio-Economic Recovery and transformation: A Popular Version, April 1991.

5/ Percy S. Mistry, African Debt: The Case for Relief for Sub-Saharan Africa, Oxford International Associates,paper presented at the Symposium on Swedish Development Co-ordination with Sub-Saharan Africa in the 1990s, Sweden, September, 1988.

B. CAUSES OF THE AFRICAN EXTERNAL DEBT CRISIS

10. A variety of factors have led to the African debt crisis. They include: continued deterioration in Africa's terms of trade; uncontrolled fluctuation in export earnings; higher interest rates; realignment of exchange rates; rescheduling and refinancing of Africa's external debt which has further exacerbated the increase in the continent's stock of debt rather than alleviating the problem.

11. Some have argued that Africa's external debt problems emanate from overborrowing during the period of recycling of petrodollars during the 1970s and early 1980s.6/ However, this is confusing the cause from the effect. The fundamental relationship underlying the notion of "sustainability of the stock of foreign debt" is that the addition to the stock of external debt over time must contribute to growth and development, and in particular to the country's ability to make payments to creditors.

12. Most African countries face a shortage of capital and therefore, and understandably, try to augment domestic savings with foreign savings. As long as such foreign savings are able to contribute to growth and development, the problem of debt service does not usually arise. However, the circumstances which prevailed in the 1980s did not permit African countries to make full and better use of their borrowed resources because the external environment was not conducive.

13. It may be important at this stage to revisit the issue of" How Africa's stock of external debt rose to such high magnitudes". Shortly after independence, most African governments were anxious to widen the limited horizons of colonial development and accordingly during the 1960s and early 1970s borrowed from official sources in order to expand their production and export bases. Most African countries were during this period able to meet their external obligations without any serious difficulties.

14. The rapid build-up of Africa's external debt can be traced to three distinct phases and several different causes over the last fifteen years. The first phase occurred after the first oil price shock and could cover the years, 1973-1977. This oil price shock brought in its wake an unprecedented commodity price boom which benefitted oil-exporting African countries and oil-importing

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6/ Joshua A Greene and Mohsin Khan, " The African Debt Crisis " , paper presented at the meeting of the African Economic Research Consortium (AERC), Nairobi, Kenya, May 27-30, 1989.

African countries responded to the shock through increased borrowing in the belief that the price increase was a temporary phenomenon. Furthermore, such borrowing was made possible by the system of recycling of petrodollars. Under this environment, African governments expanded sharply their borrowing for financing increased public expenditure programmes.

15. The second phase of the rapid increase in Africa's debt stock happened during the second oil price shock of 1979/80. Following this second oil price shock, African governments borrowed heavily to finance enlarged import bills and to avoid sharp, politically and socially disruptive cutbacks in public expenditure. This period also coincided with, a sharp deterioration in the terms of trade of most African countries; an increase in interest rates; and a sharp fall in private credits to oil-importing countries.

16. The third phase of debt accumulation by African countries has occurred since 1982 when most African countries have witnessed a skyrocketing of their external obligations,notwithstanding the fact that most of them made sharp cutbacks in their expenditures and some have been implementing stringent stabilization and adjustment programmes.

17. The factors which contributed to this sharp increase in Africa's external debt in the 1980s have to a large extent been beyond the control of these countries and include, as noted earlier: continued deterioration in the terms of trade; uncontrolled fluctuations in exchange rates; capitalization of interest and arrears; higher interest rates; realignment of exchange rates; and debt rescheduling and refinancing which has only served to increase Africa's outstanding debt stock.

18. It is, therefore, erroneous to attribute the current African debt crisis purely to wasteful and unproductive expenditures by African governments and more importantly to "overborrowing". This is not to deny that the African external debt crisis is an African problem which needs to be resolved. The African Common Position on Africa's External debt Crisis makes this explicitly clear, that :

> " Our position has all along been that external debt is a commitment made individually by member States and which they have to honour. We are also still convinced that the developed countries and international financial institutions have the duty and responsibility to contribute to the recovery of the economies of African States to enable the latter to service their debts ".

C. RECENT DEBT RELIEF MEASURES AND THEIR IMPACT ON AFRICA'S EXTERNAL DEBT BURDEN

19. The international community has come to recognize the gravity of the African external debt crisis,and that of other developing countries; and the devastating impact this is having on the economic performance of these countries. Accordingly, a number of initiatives have been put forward to alleviate the debt burden of the heavily indebted developing countries which include : the Toronto Agreement adopted by the Western Economic Summit (Toronto 1988), the Baker Plan,the Brady Plan, the Dakar (Mitterand) initiative, and recently the Trinidad initiative by the British Government. Notwithstanding these initiatives, the African external debt crisis is proving more intractable than was originally envisaged by the Toronto Summit.

20. A review of the impact that recent debt initiatives have had on Africa's external debt burden shows that it has been negligible. Since 1978 many bilateral donors have converted part of the official debt owed by these countries into grants. It is estimated that US$3 billion of official debt has been cancelled in this way and of this nearly US$2 billion are claims on low-income Sub-Saharan African countries. However, these cancellations represented only 3 percent of the total outstanding debt of low-income African countries in 1988. Furthermore, although the Toronto accords were hailed as a major breakthrough in dealing with the debt problems of low-income countries, because they officially sanctioned the principle of debt relief, nonetheless, the amount of debt relief delivered by the accords has been limited.

21. The World Bank indicates that the cash flow savings for twelve Sub-Saharan African countries participating in the Special Programme of Assistance in 1989 were only about US$50 million or 2 percent of their debt service. Furthermore, projections indicate that Toronto-terms rescheduling are likely to have only a small effect on the future stock of debt and their repeated application would only result in total reduction of debt to all bilateral creditors by the end of the year 2000 of only US$2.0 billion,or 11 percent of long-term non-concessional debt in 1988.7/

22. Many low-income countries find themselves with a daunting debt and debt service burdens at a time when they need to invest more in order to improve their long-term prospects and more importantly increase the consumption levels of large numbers of people in

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7/ The World Bank, The World Development Report 1990, Oxford University Press.

poverty. A disturbing development in the 1980s has been the reversal of net resource flows from developing countries to the developed countries, and multilateral institutions despite the announced debt relief measures. Net resource flows to the IMF from developing countries amounted to US$ 2 billion during each of the years 1988-89. The decline in net capital inflows, including external assistance is another factor that affected the ability of African countries to service their obligations in the 1980s.

23. It is estimated that combined net external borrowing and non-debt-creating flows, including debt relief, rose from US$6 billion in 1975 to US$17 billion in 1982, before falling to US$ 8 billion in 1985. Total inflows recovered in 1986-1987 to around US$ 13-14 billion, largely due to debt relief estimated at US$ 11 billion during each of these years. Excluding debt relief and arrears, it is estimated that net capital flows fell from US$ 11 - 13 billion a year during 1980-82 to less than US$ 1 billion a year during 1986-1987. 8/

D. THE SEARCH FOR LASTING SOLUTIONS TO THE AFRICAN DEBT CRISIS

24. It is now generally acknowledged that Africa's external debt burden is now so large and intractable as to impede any prospect for sustainable adjustment or to permit better policies to work in the absence of significant debt relief. Unrelieved, Africa's debt will continue to retard growth and it is a fallacy to believe any more that without any significant reduction in the continent's debt, Africa can grow out of its current debt crisis. A lasting solution has therefore to be found.

25. It is important to briefly survey the reasons why the various debt relief initiatives that have so far been put forward have not been able to adequately deal with the African debt crisis. Firstly, it should be recognized from the outset that a large proportion of Africa's external debt is to official creditors,including multilateral institutions such as the World Bank, the International Monetary Fund and the African Development Bank. Accordingly, measures which are designed to deal with Africa's debt to international commercial banks, such as the Baker Plan and the Brady Plan, have very little significance to Africa. The emphasis,

8/ Joshua E. Greene and Mohsin s. Khan," The African Debt Crisis", paper presented at the meeting of the African Economic research Consortium, Nairobi, May 27-30,1989,p.9

therefore, should be on measures that have been put forward for dealing with Africa's external debt owed to official creditors.

26. The Toronto agreements, although hailed as a significant breakthrough and an important precedence in debt relief,nonetheless, the accords fell far short of what the African debt situation requires for a number of reasons. Firstly, the write-downs, and/or interest rate reductions, are very limited. Any perceived gains low-income countries were supposed to have from interest rates reductions have disappeared in the aftermath of the sharp increase in market rates of interest which have occurred since then.9/ Secondly, developing countries were not offered any relief from the heavy "transactions costs", both in terms of financial resources needed for travel and the opportunity cost of time, imposed by repeated annual debt rescheduling negotiations required under the Paris Club.

27. Thirdly, the debt relief offered under the Toronto accords represented an insignificant proportion of the outstanding debt stock of low-income countries and accordingly a large proportion of debt of these countries still required servicing. Finally, eligibility to debt relief under the accords was conditional upon a country having a program with the International Monetary Fund. Many countries requiring debt relief remained ineligible either because they could not reach agreement with the IMF to implement orthodox structural adjustment programmes or had accumulated arrears.

28. Following the Toronto accords, a number of official aid donors have retroactively altered the terms of their previous aid loans to least-developed and/or low-income countries by converting them wholly or partly into grants. Even the government of the United States of America which had been for a long time adamant that their should be no debt reductions as a way of providing debt relief to developing countries and that full market interest rates should be applied, has come to appreciate the dimensions of the problem.

29. The British Government announced in 1990 during the Commonwealth Finance Ministers meeting held in Trinidad a new initiative designed to make some improvements to the Toronto Agreement and thereby improve cash flow benefits to African countries. According to the British Government, the new initiative

9/ G. K. Helleiner, "The Sub-Saharan African debt Problem : Issues for International Policy ", paper prepared for the Second World Scientific Banking Conference, Dubrovnik, Yugoslavia, June 7-10, 1989.

was intended to match the growth in total debt service payments with growth in debtors's capacity to pay.10/

30. The African Governments have been calling for a number of years for a lasting solution to be found to the external debt crisis facing the continent . This has been fully articulated in the "African Common Position on Africa's External debt Crisis " adopted by the African Heads of State and Government in 1987.11/

31. A comprehensive solution to the African debt crisis would, inter alia, have to include : a significant reduction of Africa's external debt overhang; a reduction in the original contracted interest rates; lengthening of repayment of residual external debt stock; and measures designed to improve the continent's terms of trade and net resource flows. The outlook for an improvement in Africa's terms of trade and net resource flows in the 1990s does not look promising if the current international economic environment and international economic relations persist.

32. Africa appears to be on the road to further marginalization in international trade if results of the current GATT negotiations are implemented without significant improvements for the benefit of developing countries. The Uruguay Round of trade negotiations under GATT will reshape world economic structures for decades to come and industrial countries are attempting to extend their control of world trade and production through the inclusion of new areas,such as services, foreign investments and intellectual property into the GATT framework. This would give transnational corporations in industrial countries unprecedented rights and monopoly not only over trade in goods and services but also over industrial technology. Africa's marginalization in international trade would indeed become complete and prospects for an improvement in the terms of trade for Africa even more dimmer. As Chakravarthi Raghavan states, " this would roll back the Third world's gains in

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10/ The British Government/s initiative was unveiled during the last Commonwealth Finance Ministers meeting held in 1990. See British Embassy Aide Memoir, Addis Ababa, Ethiopia, September, 1990.

11/ Organisation of African Unity(OAU) : African Common position on Africa's External Debt Crisis, adopted by the Third Extra_Ordinary Session of the Assembly of Heads of State and Government of the OAU, 30th November - 1 st December, 1987.

economic sovereignty since independence and usher in a new era of economic colonialism, where economic power would ever more be concentrated in transnational corporations ".12/

33. The outlook for increased net resource flows to Africa in the 1990s also appears poor under the current international environment. Developments in Eastern Europe and the aftermath of the Gulf crisis have put the African continent at the bottom of the preferred list of aid recipients from industrial countries. The democratization and opening up of Eastern Europe has shifted the attention of aid donor countries away from the concerns of African countries, despite the assurances to the contrary. This has been partly demonstrated by the rapidity with which these countries were able to agree to the establishment of the European Bank for Reconstruction and Development (EBRD) and yet the same countries are unable to agree to a substantial reduction of debt of low-income countries in Africa as well as to finding ways of dealing with multilateral debt of these countries.

34. It may be observed that some multilateral institutions ,such as the IMF, whose net lending to African countries has fallen sharply are willing to lend more money to Eastern Europe. The IMF intends to lend US$ 5 billion to the region in 1991 and to act as a catalyst for another US$ 15 billion more in assistance from other sources.

35. The aftermath of the Gulf crisis may also be further marginalization of Africa from external resource flows as focus shifts to the reconstruction of Kuwait and Iraq as well as compensation for those countries which were directly or indirectly affected by the crisis. The Gulf Crisis Financial Co-ordination Group has pledged to give a further US$ 834 million in new aid to nations that were hardest affected by the Middle East crisis, bringing the total amount of aid pledged for the region to US$ 15.7 billion. Turkey, Jordan and Egypt are expected to receive nearly US$11.7 billion of this amount. It would be naive to believe that such resource flows will not affect the pie allocated to other African countries.

36. Taking cognizance of this situation, the Twenty-sixth Session of the United Nations Economic Commission for Africa and the Seventeenth Meeting of the Conference of African Ministers Responsible for Economic Development and Planning adopted Resolution 20 (XXVI) OIL COMPENSATION FUND, in which they expressed concern that although the Oil Compensation Fund was set up by the

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12/ Chakravarthi Raghavan, Recolonization : GATT, the Uruguay Round and the Third World,Third World Network, Penang, Malaysia.

United Nations General Assembly to alleviate the adverse consequences of the Gulf crisis, African countries had not been major beneficiaries. The ministers noted that African countries suffered from additional oil import bills as a result of the Gulf crisis to the tune of US$ 2.7 billion and yet had been left out from any form of compensation, except for Egypt.

37. The precedence for debt cancellation has already been set and reinforced recently by the rescheduling of Poland's debts by major western industrial countries. Industrial countries that participate in Paris Club debt negotiations agreed recently to write off about half of Poland's US$ 33 billion owed to them. The two-stage reduction in that country's debt calls for writing off an equivalent of 30 percent of the debt by cutting interest payments by 80 percent for three years. A further 20 percent will be reduced in the fourth year upon successful completion of a three- year Standby arrangement with the IMF. A more important element of this arrangement has been the acceptance by the United States Government to forgive 70 percent of Poland's official bilateral debt. It should be recalled that for a long time the United States was adamant that there be no write-down whatsoever of debt of developing countries and that full market rates of interest be applied to all rescheduling, even to the lowest-income countries.13/

38. The need for finding a lasting solution to the African debt crisis persists. The African Ministers responsible for Economic Development and Planning reaffirmed this in their Final Communique they adopted after their Seventeenth Conference and Twenty-Sixth Session of the Commission.They stated as follows:

> " On the question of Africa's debt, the Conference observed that the solution to the problem was **more political than technical**. While appreciating that certain industrialized creditor countries have cancelled part or all of their ODA debts to Africa, the Conference was of the view that the quantum of such cancellations was still too little (about 6 percent of the continent's stock of debt) and therefore urged for the cancellation of at least 50 percent of Africa's debts in order to enable the continent to get over its excruciating debt burden."14/

13/ G. K. Helleiner, Opcit.

14/ Economic Commission for Africa, Final Communique, Twenty-Sixth Session of the Commission and Seventeenth meeting of the Conference of African ministers Responsible for Economic Development and planning, Addis Ababa, Ethiopia, 13th May 1991.

39. The excruciating external debt burden was a major factor in the poor performance of the African economies in the 1980s. African economies shrunk during the period,their capacity to export was seriously impaired, and living standards fell precipitously in a number of these countries. Real per capita incomes were lower at the end of the 1980s than they were twenty years ago; gains made since independence in improving Africa's infrastructure were dissipated; and a general decline occurred in education,health and nutritional standards. **Africa cannot afford to have the 1990s another lost decade** and accordingly a lasting solution has to be found to the debt crisis to enable these countries to resume sustainable economic growth and development. As the Conference of African Ministers responsible for economic development and planning has accurately stated, the issue is more political than technical; and the terms of Poland's debt rescheduling attest to that.

40. In searching for a lasting solution to the African debt crisis, it is imperative that African governments recognize that a lasting solution only lies in a "political solution" by major aid donors as they have done for Poland and that no amount of economic adjustment under the prevailing international economic environment will resolve the problem. A "technical solution" to the African debt crisis is no longer feasible. African leaders should therefore continue to exert pressure on official creditors and multilateral institutions to find this political solution, in the context of the African Common Position on Africa's External debt Crisis, to resolve this crisis.