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ECONOMIC REFORM PROGRAMMES IN AFRICA AND THE DEBT PROBLEM

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I. INTRODUCTION

1. Earlier optimistic assessments that African countries could grow out of their debt crisis through the adoption of short-term economic stabilization programmes (supported by an enabling environment and resource flows) have given way to a more pragmatic realisation that Africa's external debt problem has become so large and intractable, as to hamper any prospect for sustainable adjustment or to permit better policies to work in the absence of significant debt relief. With the result that a general consensus between African debtor countries and their creditors has emerged on the external debt overhang as an albatross around the neck of the former . It is too early yet in as far as this analysis goes to make a conclusion statement on the matter. However, it is generally agreed that for a sustainable recovery of these economies debt alleviation is an essential element of a comprehensive package of policies needed for transformation of African economies. Perhaps it was this consensus that gave a new impetus to both African debtor countries and the creditor countries to seek solutions to the problem.

2. Over the years, a number of initiatives for dealing with Africa's external debt crisis have emerged over the years from various sources including African countries. Although a consensus has emerged as to the diagnosis of Africa's debt problem, some divergence still exists as to its remedy, particularly regarding the modus operandi for a lasting solution to the problem.

3. The view of the African countries, is that the problem should be dealt with in a holistic approach rather than on a case-by-case basis 1/. In their view a comprehensive solution would invariably 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.

4. This view was reaffirmed recently by the African Ministers responsible for Economic Development and Planning whose discussion of possible solutions to the problem stressed its political rather than technical element. This conclussion was taken in full view and recognition of some of the measures undertaken by certain industrialized creditor countries to cancel part, or all, of their

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1/ 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, 13th November - 1st December, 1987.

Official Development Assistance (ODA) debts to Africa. None the less, the African Ministers felt that the quantum of such cancellation was still far too small. They therefore urged for the cancellation of at least half of Africa's debts 2/. The precedence for such debt cancellation has already been set by the terms and conditions of the recent debt rescheduling given to Poland and Egypt.

5. From the creditor countries' perspective, Africa's debt problem should be dealt with on a case-by-case basis and subject to the implementation of strong economic adjustment programmes. The creditor countries have on their part over the years put forward a number of debt initiatives: the Baker Plan (1986), the Toronto Agreement (1988), the Brady Plan (1989), the Dakar Plan (1989), and the Trinidad and Tobago Plan (1990). Some of which have benefitted Africa while others have simply made matters worse for the African economies.

6. The intransigence that had characterized the response of multilateral institutions to the African external debt crisis has created doubts on the minds of African economies about initiatives that have emerged in recent years. The World Bank has tried to put in place debt relief measures which are designed to alleviate the debt-burden of low income African countries. The International Monetary Fund has been experimenting with a scheme to provide some form of relief to countries in arrears with the Fund, through "rights of accumulation programs" designed to enable some countries to once more gain eligibility to Fund resources. 3/

7. This apparent divergence of views, between what African countries consider to be essential elements for a comprehensive solution to the debt problem and that of the major aid donors and creditors, has been a stumbling bloc in finding a lasting solution to the problem.

8. This paper attempts a brief review of the changes which Africa's external debt profile has undergone during the past decade, paying particular attention to the factors contributing to its deterioration. Additionally, the interaction between economic reforms in Africa and the debt crisis is also analysed. In addition, the recent external debt initiatives and their impact in

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2/ United Nations 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.

3/ United Nations Economic and Social Council, International Monetary Fund: Annual Report 1990, ECODOC/None No. 7, GE.91-70680.

alleviating Africa's external debt burden within the context of the aspirations of African countries for sustainable and human-centred development are reviewed. The main conclusion which emerges is that the African debt crisis persists notwithstanding the various initiatives that have so far been put forward and remains an albatross around the neck of many African countries. A lasting solution to the problem still has to be found which will inevitably have to include a significant reduction of the continent's external debt overhang.

I. AFRICA'S EXTERNAL DEBT PROFILE

9. Africa's external debt profile and structure changed significantly during the 1980s as balance of payments support became the major form of aid-flows to Africa as opposed to project-lending and productive investment. The share of multilateral debt in the continent's external debt stock increased, as lending by commercial banks to Africa virtually disappeared and lending by major aid donors took mainly the form of balance of payments support.

10. Africa's external debt stock nearly trebled between 1979 and 1990, having risen from U.S. $89.6 billion to US$271.9 billion during the period. On an annual basis, the continent's debt stock, which had risen by US$12.8 billion (or 5 percent in 1989), rose further by US$6.5 billion in 1990 (or 2.5 percent), notwithstanding the various debt relief measures initiated by aid donor and creditor countries.

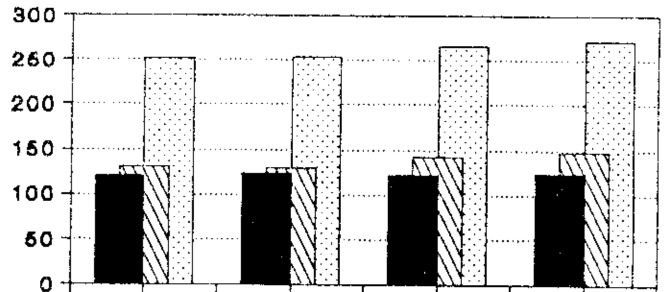
11. The magnitude of the African external debt crisis is more clearly apparent after an examination of the major debt indicators. According to the United Nations Economic Commission for Africa (ECA), the ratio of debt outstanding to Gross National Product (GNP) rose from 38 percent in 1979 to nearly 91 percent in 1991. 4/ For a number of African countries, their stock of debt outstanding is equivalent to their yearly Gross Domestic Product (GDP) and for others it ranges from 125 percent to 165 percent of GDP.

12. The continent's external debt service payments rose sharply in the 1980s, both in absolute terms and as a share of exports of goods and services. Accordingly, more and more of the continent's scarce foreign exchange was being earmarked to debt servicing and thereby neglecting important developmental areas. Total debt service payments (principal repayments plus interest), notwithstanding the recent debt cancellation initiatives, rose from US$21.4 billion in 1987 to US$27.3 billion in 1990. The ratio of external debt service payments to exports of goods and services increased from 13 percent to nearly 30 percent in 1990, while the ratio of debt outstanding to exports of goods and services soared to more than 300 percent (on average).

4/ United Nations Economic Commission for Africa, Economic Report on Africa 1991, Addis Ababa, Ethiopia, Document E/ECA/CM.17/2.

CHART 1

AFRICA'S EXTERNAL DEBT OUTSTANDING
(Billions of US Dollars)

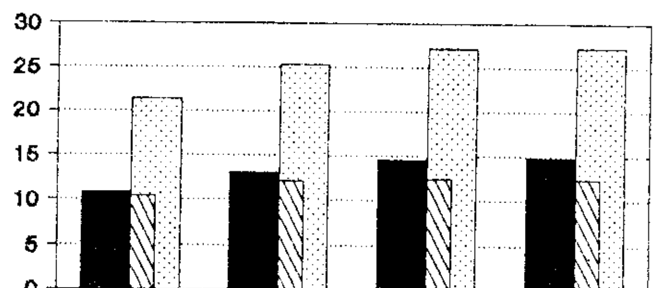


	1987	1988	1989	1990
North Africa	121.6	123.3	122.7	124
Sub-Saharan Africa	130.4	129.3	142.7	147.9
Total Devel. Africa	251.9	252.6	265.4	271.9

North Africa
Sub-Saharan Africa
Total Devel. Africa

Source: Economic Report on Africa 1991

AFRICA'S DEBT SERVICE
(Billions of US Dollars)



	1987	1988	1989	1990
North Africa	10.9	13.2	14.6	14.8
Sub-Saharan Africa	10.5	12.1	12.5	12.5
Total Devel. Africa	21.4	25.3	27.1	27.3

North Africa
Sub-Saharan Africa
Total Devel. Africa

Source: Economic Report on Africa 1991

13. The continent's external debt service payments during this period would have been even much higher than reported here were it not for an accumulation of arrears by several African countries. Taking into account arrears, the debt service ratio for a number of African countries exceeds 50 percent and for a few in excess of 100 percent. 5/

14. Among factors which contributed to the sharp increase in Africa's external debt in the 1980s we can mention: 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 in some cases served only to increase Africa's outstanding debt stock rather than alleviate its debt burden. This is not to deny that domestic factors may have also contributed to the crisis. For instance, inefficient utilization of resources, economic mismanagement, and military and political tensions in a number of African countries. Whatever the cause of the current African debt crisis, one aspect that has become obvious is that Africa's external debt has become a major obstacle to recovery and sustained economic growth on the continent, seriously jeopardizing the pursuit of reform and adjustment programmes by African countries.

15. The structure of the continent's debt has also changed rapidly. The share of commercial debt in Africa's debt stock has declined substantially from 26 percent in 1983 to about 15 percent in 1990. At the same time the share of debt owed to official creditors and multilateral institutions has increased. Public and publicly guaranteed debt at the end of the 1990s accounted on the average for nearly 84 percent of Africa's external debt, 72 percent of which provided by official creditors. Private non-guaranteed long-term debt rose at an annual average rate of 20 percent during the period of recycling of petrodollars (1979-1984) before it 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. Over and above, some international banks have virtually stopped lending to African countries.

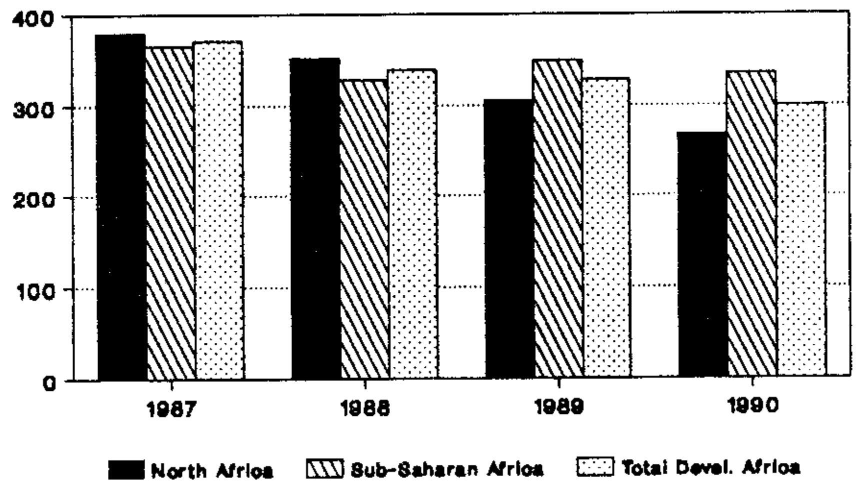
5/ Alwyn Taylor indicates that for the Sudan the ratio of outstanding external debt to GDP is around 300 percent and for some African countries with arrears their debt service ratios are as high as 100 percent. See Alwyn Taylor (edited by Helen O'Meill): Third World Debt: How Sustainable are Current Strategies and Solutions, The European Journal of Development Research, Volume 1, No.2, December, 1989.

16. The share of multilateral debt in Africa's external debt stock rose sharply from 17.8 percent in 1985 to nearly 22 percent in 1990. At the same time it increased as the share of official debt from 65 percent in 1985 to nearly 74 percent in 1990. The sharp increase in the share of multilateral debt during the second half of the 1980s reflected lending mainly associated with the implementation of Structural Adjustment Programmes (SAPs) supported by the World Bank and the International Monetary Fund (IMF) and other co-financiers. The African Development Bank (ADB) indicates that the growing importance of multilateral debt in total debt is a trend, evident in all developing regions, including Africa but not without many difficulties for most fragile economies, especially since multilateral loans cannot be rescheduled. The combined effect is that servicing of multilateral debt exceeds fifty (50) percent of total repayments. 6/ A comprehensive solution to the African external debt crisis would invariably therefore have to include measures to dela with the adverse effects of multilateral debts. The World Bank and the International Monetary Fund have been experimenting with schemes designed to alleviate Africa's debt burden arising from this type of debt either directly or indirectly. This issue is taken up in the latter part of this study.

6/ African Development Bank (ADB), African development Bank Report 1991, Abidjan Cote D'Ivoire..

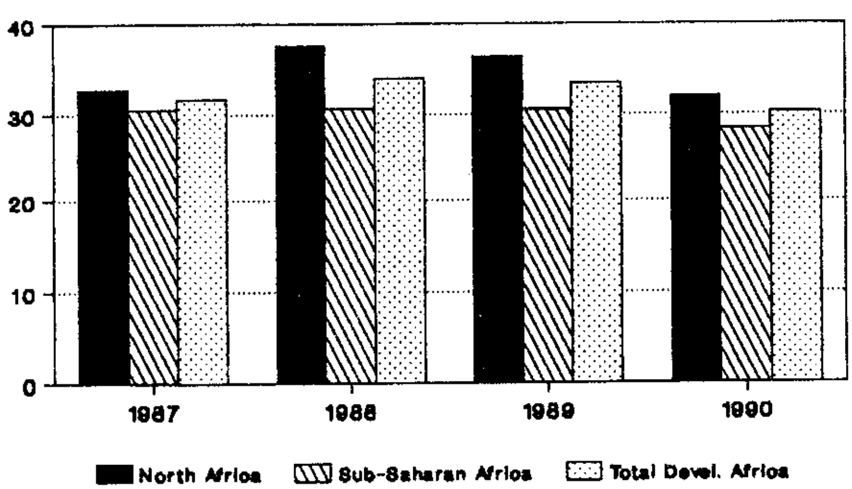
CHART 2

RATIO OF DEBT OUTSTANDING TO EXPORTS OF GOODS AND SERVICES
(Percentages)



Source: Economic Report on Africa 1991

RATIO OF DEBT SERVICE TO EXPORTS OF GOODS AND SERVICES
(Percentages)



Source: Economic Report on Africa 1991

III. ECONOMIC REFORMS IN AFRICA AND THE DEBT PROBLEM

17. Neddless to say, everyone now acknowledges that Africa cannot, and will not, resume sound and lasting growth without a significant reduction in the level of its external debt and associated service payments to levels consistent with the region's effective payment capacity. Notwithstanding the implementation of Structural Adjustment Programmes by a number of African countries, the African external debt crisis persists. It's manifestations have been, economic recession or sluggish economic growth, declining standards of living, a sharp fall in social indicators (health, education and nutrition), and increased poverty and deprivation of basic human needs.

18. As Percy Mistry summarizes, many African countries have been forced by circumstances beyond their control to embark on politically tendentious, and high-risk adjustment programmes:

> "many of them are now suspended in that dangerous transient state of having incurred the <u>pain</u> but are still far from seeing the <u>cure</u> 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 <u>politic</u> 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."7/

19. The view is gaining ground by the international community that Africa's development is a long-term transformation process and that while short-term to medium-term reform programmes may be helpful in achieving financial stabilization, on their own, these programmes will not lead to socio-economic recovery and transformation of African countries. Accordingly, to tackle the African crisis, development strategies and programmes it is important to simultaneously deal with short-to medium-term problems as well as the fundamental problems and underlying root causes of the crisis. The African crisis is not only an economic but also a human and political crisis, therefore, dealing with its root causes must inevitably go beyond the economic aspects to encompass the human and political dimensions. In this respect, fundamental and broad changes have to be made in development strategies to ensure that

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

the human dimension is made central to the development process. African countries have been calling for this transition in development strategies for quite some time now.8/

20. In Africa, a vicious interaction has emerged between excruciating poverty and the dismal performance of the economies. A host of exogenous factors, as stated earlier above, have perpetuated or exacerbated the African economic and social crisis. Similarly, those of internal have also contributed to this crisis. Hence, development of Africa is a long-term transformation and to be successful demands the process to be endogenous, responsive to national aspirations, carried out under national leadership, and follow the priorities set out in the respective national long-term perspective strategies. 9/

21. According to the United Nations Economic Commission for Africa, the main focus of development policies in Africa should be, the achievement of sustained improvements in living standards and the elimination of mass poverty; the economic empowerment of the people; democratization of the development process through popular participation and public accountability; and the creation of an enabling environment that promotes initiative and enterprise and

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8/ For an analysis of the "African Crisis" and a call for "human-centred development" see, United Nations Economic Commission for Africa, The Khartoum Declaration, International Conference on the Human Dimension of Africa's Economic Recovery and Development, Khartoum, Sudan, 5-8 March 1988; United Nations Economic Commission for Africa, African Charter for Popular Participation in Development and Transformation, International Conference on Popular Participation in the Recovery and Development Process in Africa, Arusha, Tanzania, 12-16 February, 1990; United Nations Economic Commission for Africa, African Alternative Framework to Structural Adjustment Programmes for Socio-Economic Recovery and Transformation, Document E/ECA/CM.15/6/Rev.3; Professor Adebayo Adedeji, Dimensions of the African Crisis, Keynote Address at the Conference on the Economic Crisis in Africa, Vassar College, New York, U.S.A., 25-28 October 1990; and Professor Adebayo Adedeji; Development and Ethics: Putting Africa on the Road to Self-Reliant and Self-sustaining Process of Development, Keynote Address at the First Session of the Thirty-Third Annual Meeting of the African Studies Association, University of Maryland, Baltimore County, U.S.A., 1-4 November, 1990.

9/ The Maastrich Conference on Adjustment in Africa, Issues Paper, July 1990.

guarantees economic justice 10/. This view has been echoed by other international and regional organizations, such as the World Bank, the African Development Bank (ADB) and UNICEF. The World Bank's Long-Term Perspective Study (LTPS) acknowledged that although sound macro-economic policies and efficient infrastructure are essential to provide an enabling environment for the productive use of resources, they alone are not sufficient to transform the structure of African economies.

22. In other words, major efforts are needed to build African capacities to produce a better trained, more healthy population and to greatly strengthen institutional framework within which development can take place 11/. The African Development Bank on its part stated that the crisis of the African economies requires urgent but not precipitate action. The real need is to adopt a new vision of development. This is the approach of human development, which combines equity and efficiency, market and public policy. This approach redirects attention to the base, to the poorest and largest groups in society; it mobilizes their strengths, but at the same time, removes obstacles put up by structural forces or by previous well-meaning but misdirected policies 12/. What is being stressed is the fact that sustainable economic growth is possible only if it is equitable. Therefore, the real task is to implement strategies that promote sustained human development.

23. Economic reform programmes designed to deal with the African external debt crisis should not only have as their focus improving the capacity of African countries to service their debts but more importantly, to allow sustainable growth and human-centred development to take place through socio-economic recovery and transformation. In their efforts to include the social dimensions in economic reform programmes currently being implemented in the African countries, multilateral financial institutions are trying to experiment with programmes on "Social Dimensions." The difficulty they face is how to reconcile programmes (SAPs), which were basically intended for financial stabilization of African economies, with social development in Africa.

10/ United Nations Economic Commission for Africa (ECA), African Alternative Framework to Structural Adjustment Programmes for Socio-Economic Recovery and Transformation: Selected Policy Instruments, Document 091-130, June 1991.

11/ World Bank, Sub-Saharan Africa: From Crisis to Sustainable Growth, a Long-term Perspective Study (LTPS), Washington D.C., 1989.

12/ African Development Bank (ADB), African Development Report 1991, Abidjan Cote D'Ivoire, pp. 91-92.

24. The persistent debt problem, rising energy costs, trade imbalances, and fragile global financial markets are some of the factors that stand in the way of Africa's recovery. Furthermore, recessionary trends in some leading industrial countries, rising world inflation, reduced financial transfers and failure to roll back protectionism in the industrial countries tend to exacerbate the African crisis. These developments will invariably prolong the difficult adjustment process in African countries, multiply the human cost associated with this process and increase the risks of socio-political conflict.

25. A significant reduction in the level of Africa's debt and difficulties of servicing it remain quite an urgent priority, among Africa's many priorities. However, this reduction on its own will not be sufficient to propel African countries back to the path of sustainable growth unless it is accompanied by extensive new financing, especially non-debt-creating flows; the maintenance of a favourable external economic environment; and new adjustment efforts on the part of the debtor countries. These are the major elements of a lasting solution to the African external debt crisis propounded by African countries over a number of years. They have also been fully articulated in the "African Common Position on Africa's External Debt Crisis." 13/

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

IV. RECENT EXTERNAL DEBT RELIEF INITIATIVES AND AFRICA

26. The optimism of the early 1980s emphasizing foreign-financed development strategies in Africa was tempered during the latter half of the decade by a number of factors. Firstly, the terms of trade shifted precipitously against African countries and over a much longer period than had hitherto been projected. Many African countries that had borrowed abroad in anticipation that the terms of trade would improve were disillusioned by the persistent decline in Africa's terms of trade. Secondly, the rise in foreign interest rates raised the external debt burden of most African countries beyond their capacity to service their external obligations, increasing debt levels of some African countries by as much as 10 percent during the period 1979-1983 14/.

27. Other factors which contributed to the failure of the aid-driven development strategy in Africa in the 1980s included, the decline in real net resource flows to the continent and the decline in the quality of that aid. Furthermore, most of it was directed to balance of payments support rather than to productive purposes.

28. Thus, others like Joshua Greene and Mohsin Khan estimate that combined net external borrowing and non-debt-creating flows, including debt relief and arrears, rose from US$6 billion per annum in 1975 to US$17 billion in 1982, before falling to US$8 billion in 1985. During the years 1986-1987 total inflows were estimated to have recovered to US$13-14 billion per year, inclusive of debt relief and arrears of about at US$11 billion. Excluding debt relief and arrears, it is estimated that net capital flows to Africa fell from US$11-13 billion a year during 1980-1982 to less than US$1 billion per year during the years 1986-1987 15/. In other words, Africa was receiving very little new money during this period.

29. Similarly, the personal representative of the United Nations Secretary General on Debt, Mr. Bettino Craxi, stated that the servicing of external debt during the years 1980-1986 for Sub-Saharan Africa caused a 3.1 percent drop in per capita Gross Domestic Product, a 2.4 percent drop in consumption, and a 2.1 percent yearly reduction of exports in real terms. He also stated that although there was a nominal increase in resource flows to

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14/ Kathic L. Krumm, The External Debt of Sub-Saharan Africa, World Bank Staff Working Papers, No. 741, June 1985.

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

these countries during this period constituting about 7.3 percent of their Gross Domestic Product (GDP), only 2.3 percent was used for productive investment and a large proportion went back to service the external debt 16/. The decline in capital accumulation (investment) in Africa during the 1980s has been a major factor in the dismal performance of the African economies during the decade.

30. Against this backdrop, and the recognition by the international community of the gravity of the debt crisis in developing countries, a number external debt relief initiatives emerged during the second half of the 1980s and in 1990: the Baker Plan (1986); the Brady Plan (1989); the Dakar Plan (1989); the Netherlands Plan (1990); and the Trinidad and Tobago Plan(1990).

31. The Baker and the Brady initiatives were intended to provide some form of debt relief to heavily indebted middle-income countries. The Brady initiative arose in early 1989, out of a consensus that a new debt strategy was needed to deal with the debt problems of the severely indebted middle-income countries. The U.S. Treasury Secretary, Brady, proposed that countries with sound adjustment programme should get access to debt and debt reduction facilities, supported by international financial institutions and official creditors. All debt relief initiatives encompassing the Brady Plan utilize market-based case-by-case menu of options negotiated between the countries and their Bank Advisory Committee. By October, 1990, Costa Rica, Mexico, and the Philippines had concluded a Brady-type of debt relief and a fourth operation was in progress in Venezuela. On the contrary, few African countries,if any, have benefited from these two debt relief initiatives.

32. Few initiatives have emerged for dealing with the official debt of the severely indebted middle-income countries. However, official creditors have provided debt relief for severely indebted middle-income countries on a bilateral basis. Bolivia, Poland and Egypt have been among the beneficiaries. In July 1990, the United States announced a programme under which Latin American countries with IMF/World Bank adjustment programmes were to be eligible for reduction of their concessional debts to the United States Agency for International Development (USAID), for sales under PL480 and for loans under the US Export-Import Bank and the Commodity Credit Corporation in order to facilitate debt-equity and debt-for-nature swaps. It was estimated that about US$8 billion could be eligible

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16/ Bettino Craxi, "Overcoming the Debt Crisis: Resuming Development, "Statement delivered to the United Nations General Assembly", New York, 23rd October, 1990 by the Personal Representative of the United Nations Secretary General on Debt, Document A/45/380.

for restructuring and around US$ 5 billion for sales. Early 1991, the United States Government announced that it would write-off US$7 billion of Egypt's debt for military aid and simultaneously Egypt's major Arab friends also announced their intention to cancel more than US$7 billion of Egypt's debt. In general, few African countries have benefitted from the Baker and Brady debt relief initiatives and from bilateral debt relief to severely indebted middle-income countries.

33. The Toronto Agreement, the Dakar Plan, the Netherlands Plan and the Trinidad and Tobago Plan are all initiatives designed to provide debt relief to heavily indebted low-income countries. During the Toronto Economic Summit in June 1988, the leaders of seven industrial countries (the G-7) agreed that the non-concessional bilateral debt of low-income African countries could be rescheduled at the Paris Club under a menu of options that would include concessional terms. For the non-concessional debt, the creditor countries were given a choice of repayment conditions from a menu of three options:

(i) <u>OPTION A</u>: Cancel one third of eligible maturities and reschedule the remainder with a maturity including an 8 year grace period. Moratorium interest would be based on market interest rates;

(ii) <u>OPTION B</u>: Adopt the longer repayment period applied to concessional debt (25 year maturity with a 14 - year grace) and base moratorium interest on market rates;

(iii) <u>OPTION C</u>: Charge moratorium interest rates somewhat below market rates and require repayment with a 14 -year maturity and with an 8 - year grace period.

34. Under the Toronto terms, all rescheduled concessional debt (as opposed to non-concessional debt) is to be repaid with a maturity period of 25 years, including a 14 - year grace period. Moratorium interest charges are to be at least as low as the rates of the original loans.

35. By the end of 1990 the Toronto terms had been applied to 16 eligible countries of the World Bank Special Programme of Assistance (SPA). The options available to creditor countries between partial cancellation, extended maturities, and concessional interest rates was distributed as follows: one country chose option A (France); four countries option B (Belgium, the Netherlands, Spain and the United States of America); five countries option C (Canada, Denmark, Italy, Switzerland and the United Kingdom); and four other countries opted for a combination of options (Finland, Austria, Japan and Sweden). The fact that only one country opted

for partial cancellation of debt is an indication of the limited debt relief potential available to eligible creditor countries.

36. At the end of 1989 the Paris Club members, as a group, accounted for over US$17 billion of the total official debt (outstanding and disbursed) owed by the twenty-three African countries of the World Bank Special Programme of Assistance, and slightly over one half of the bilateral debt of these countries. France was the largest creditor accounting for nearly 30 percent of this amount, followed by four creditors (United States, Japan, Germany and Italy) whose shares ranged from 17 to 9 percent. All other creditors had individual shares which ranged between 5 and 0 percent (see Annex I).

37. During the years 1978-1990, total debt cancellation by the Paris Club members to countries of the World Bank Special Programme of Assistance (SPA) totalled US$7.6 billion. Of this amount 39 percent (US$3.0 billion) was granted by France, 32 percent by Germany (US$2.4 billion), 9 percent by Canada (US$0.7 billion), and slightly above four percent each by United Kingdom and the United States of America (US$0.3 billion). The other countries which also made significant cancellation of debt to these African countries included Denmark (US$0.28 billion), Netherlands (US$0.17 billion), and Belgium (0.18 billion). The significant beneficiaries of this type of debt relief on a country basis were: Kenya (13 percent); Senegal(11 percent); Tanzania (9 percent); Zaire (8.5 percent); Madagascar (8.2 percent); Ghana (6.4 percent); and Niger (5.5 percent) (See Annex III).

38. The Toronto accord was hailed in certain quarters as a major break- through in dealing with the debt problems of low-income countries, because of officially sanctioning the principle of debt relief. Nonetheless, the amount of debt relief delivered has been insignificant both with regard to the magnitude of total debt outstanding from low-income African countries and the continent as a whole. On average, these cancellations represent only about 13 percent of the total debt outstanding of the SPA countries (see Annex IV), and even a lower percentage of the total African debt outstanding. Furthermore, the World Bank stated that the cash-flow savings for twelve Sub-Saharan African countries participating in the Special Programme of Assistance in 1989 were roughly US$50 million or 2 percent of their debt service. The Bank also stated that projections indicated that Toronto-terms rescheduling were likely to have only a small effect on the future stock of debt and that 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. 17/ It is against this background that the Netherlands and the Trinidad and Tobago initiatives on debt relief emerged in 1990.

39. The Netherlands initiative was announced in 1990 at the Second Conference on Least Developed countries held in Paris, France. It called for a complete and collective cancellation of the official bilateral debt from the heavily indebted countries, on condition that the beneficiary countries were able to implement economic adjustment policies. Similarly, The Trinidad and Tobago initiative, made by the British Chancellor of the Exchequer at the meeting of the Commonwealth Finance Ministers held in Trinidad and Tobago, was intended to improve on the terms of the Toronto Plan. During the September 1990 Commonwealth Finance Ministers meeting held in Trinidad, the then British Chancellor of Exchequer, Mr. John Major proposed a four point plan to improve the Toronto terms. The four priorities were:

(a) The whole stock of eligible non-concessional Paris Club debt would be rescheduled in one go instead of repeatedly rescheduling debt service during a short period (usually about a year);

(b) There would be only one option, similar to option A of the Toronto menu, but the amount of the debt write off would be doubled to two thirds;

(c) Interest obligations on the rescheduled debt would be capitalized during the first five years, with interest rates at market terms; and

(d) The repayment period would be lengthened to 25 years.

40. According to the Trinidad and Tobago terms, eligible debt was to be defined as in the Toronto terms. That is, all debt contracted before the cut-off dates (early 1980s for most countries), eligible countries, and style of conditionality would be maintained as in the Toronto terms. Furthermore, as with the Toronto scheme, all creditor governments were expected to reschedule <u>concessional</u> debt obligations with a 25 - year maturity, including 14 years grace period. The interest rates for such rescheduling were to be at least as favourable as the original terms.

41. An analysis by the World Bank of the impact of the application of the Toronto and Trinidad and Tobago terms on Special Programme

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17/ The World Bank, <u>the World Development Report 1990</u>, Oxford University Press.

of Assistance (SPA) countries shows that greater debt relief would be provided to these countries by the application of the Trinidad and Tobago terms. The Bank estimates that the debt service on all official non-concessional bilateral debt to Paris Club and other creditors owed by the 23 SPA countries for the years 1990-2000 amounted to US$20.1 billion. Under the Toronto terms, assuming that all loans before 1990 were to be rescheduled and that creditors chose the same options as before, the nominal savings during this period would be US$3.6 billion. On the other hand, if the Trinidad and Tobago terms were applied, during the years 1990-2000 the nominal value of additional savings would be about US$10.6 billion and these countries would be requirement to pay only US$6 billion in debt service (or 30 percent of the original amount) 18/.

42. The cost to individual Paris Club members resulting from application of the Toronto, and Trinidad and Tobago terms varies widely. If the Toronto terms are applied to the 23 SPA countries and assuming the cut-off dates are moved to the end of 1989, the country that would incur the highest cost would be France (US$1.9 billion), followed by the United Kingdom (US$0.8 billion), Germany (US$0.5 billion), and Italy (US$0.5 billion). Thus, the application of the Toronto terms would result in additional costs to creditor countries of the following magnitude, France (US$0.5 billion), Japan (US$0.4 billion), and Germany (US$0.4 billion). However, what also emerges is that most creditor countries would have a grant element of nearly 67 percent. 19/

43. The application of the Trinidad and Tobago terms would therefore result in substantial debt relief to SPA countries. Nevertheless, the African external debt crisis would still persist for a number of other reasons. Firstly, despite the launching of the Trinidad and Tobago initiative by the British Government in September, 1990 its implementation remained stalled through bureaucratic red-tape. The Summit in London in July, 1991 of the Seven industrialized Countries (G-7) endorsed the application of the Trinidad and Tobago terms. However, it is unlikely that its application could become effective until well into 1992. Secondly, the Trinidad and Tobago terms currently apply to 23 of the SPA countries which is a subset, not only of the heavily indebted countries in Africa but also of the African continent as a whole. Thirdly, multilateral debt has become a significant proportion of debt outstanding for many African countries.

18/ SPA Multidonor's Meeting, The Impact of the Toronto and Trinidad Terms on SPA Countries, Paris, April 16-17 1991.

19/ SPA Multidonor's Meeting, opcit.

44. It is therefore imperative that a solution to the debt burden arising from this type of debt be found <u>in tandem</u> with solving the burden emanating from official debt. Over and above, a comprehensive solution to the African debt crisis must in the light of the above, invariably have to address the following other issues: new non-debt-creating resource flows to Africa; policies needed for creating a favourable external economic environment in which these countries can operate; and policies are needed to spur for human-centered development. Accordingly, at the risk of repeating what is stated earlier, dealing with the African external debt problem requires a <u>holistic</u> approach encompassing all African countries as called for in the African Common Position.

45. The World Bank and the International Monetary Fund have been experimenting with various schemes designed to allevliate the debt burden of the heavily indebted low income countries. In 1987 the World Bank launched its Special Programme of Assistance (SPA) for debt-distressed low-income African countries. At present nearly twenty-three countries are eligible. The SPA encompasses quick disbursing concessional bilateral and multilateral assistance. In 1989, the World Bank established the IDA Debt Reduction Facility to support reduction of commercial bank debt of heavily indebted IDA countries only. An amount of US$100 million was set aside to provide grants to a maximum of US$10 million per country. The funds were slotted to buy back or exchange commercial bank debt at the market-related discount. However, the conditionality attached to the use of the funds entailed that a country must have an appropriate adjustment programme; that it must have a debt management strategy including the attainment of substantial relief from official bilateral creditors, and a programme for comprehensive resolution of the country's commercial debt burden. IDA disbursements to SPA countries in support of adjustment programmes during 1989-1990 were nearly US$2.9 billion. Quick-disbursing of concessional bilateral and multilateral assistance (other than World Bank and IMF) in support of adjustment efforts were approximately US$4.5 billion during the period plus contributions of US$85 million to the "Fifth Dimension". Donors and creditors have agreed to the Second Special Programme of Assistance (SPA-2) with pledges of US$7.5-8.0 billion extending to the year 1993.

46. The World Bank also established in 1991 a programme of Special Assistance to countries with Protracted arrears. Countries like Peru and Syria have already benefitted from this scheme but Africa has yet to do so. Parallel to the Bank's Special Assistance to countries with protracted arrears, the International Monetary Fund (IMF) has been experimenting with a new scheme called "rights of accumulation programmes" to assist countries with arrears to the Fund. According to the scheme, a country in arrears implementing a comprehensive reform program can accumulate rights of repayments

to Fund obligations while it is implementing the programme and need only repay the obligations at the end of the program. However, the rights approach was expected to be limited to those eleven countries with persistent arrears to the Fund at the end of 1989 that had adopted a comprehensive economic program endorsed by the Board of Executive Directors of the Fund by the time of the Spring 1991 Interim Committee meeting.

47. Notwithstanding the initiatives undertaken by the Bank and the International Monetary Fund, the burden of servicing multilateral debt still weighs heavily on African countries. Therefore, there is a need to devise further strategies for dealing with this type of debt.

V. CONCLUSION

48. Efforts that have been exerted by the international community and multilateral institutions in trying to resolve the African external debt crisis are indeed laudable. Nonetheless, the debt overhang is to say the least, a serious impediment to the efforts of African countries to restructure and transform their economies. Consequently, a comprehensive solution to the African debt problem, that is consistent with Africa's capacity to service such debt and more importantly, consistent with the continent's aspirations to uplift the standards of living of their people has yet to materialize. In accordance with the existing situation, African countries continue to call for a lasting solution to alleviate the continent's debt burden.

49. The optimism of the early 1980s that Africa could grow out of the debt crisis has given way to a pragmatic realism that the problem is more deep-rooted and requires a more comprehensive package of policies instead of purely financial stabilization programmes. Furthermore, it has become obvious that a lasting solution to the African debt problem will requires, ever than before, a "**political decision**" by the major aid donors, creditors, and multilateral institutions rather than the "**technical solutions**" that have so far been pursued. Hence, the Final Communique by the African Ministers of Economic Development and Planning in April, 1991 stated that:

> "On the issue of Africa's debt, 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 debt in order to enable the continent to get over its excruciating debt burden".20/

50. The precedence for a "political solution" to the debt problems of developing countries was set by the cancellation of certain official debt owed by Poland and Egypt. The write off of about half of Poland's US$33 billion debt, and the favourable terms of rescheduling of the balance, gives hope that such a political

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20/ United Nations Economic Commission for Africa (ECA), Final Communique, Twenty-Six 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.

solution can be found for dealing with Africa's debt. It is heartening to know that the Summit of the Seven industrialized countries (G.7) held in London in July 1991 endorsed the Trinidad and Tobago terms for dealing with debt of low-income African countries. The implementation of these terms would indeed result in a significant increase in debt relief to these countries. Africa should therefore urge for the expeditious implementation of the Trinidad and Tobago terms. However, as already stated, this would still leave a number of ineligible heavily indebted African countries without significant debt relief. This anomaly should be addressed if the African debt crisis is to be resolved in a comprehensive manner.

51. While welcoming the initiatives that have so far been undertaken by multilateral institutions to alleviate Africa's debt burden, it should be recognized that more needs to be done in tandem with measures to deal with the continent's bilateral and commercial debt. Mindful of the need to maintain the revolving nature of the World Bank and IMF resources and their creditworthiness, the African countries nonetheless should urge the Bank and other multilateral institutions to consolidate and expand their debt relief initiatives and intensify their efforts in trying to find a lasting solution to the African external debt crisis.

52. The main elements needed for a lasting solution to the debt crisis have already been laid down by the African countries 21/. Although, some of the elements of the document may have been overtaken by events, nonetheless the urgent need to find a lasting solution still holds. It is in this respect that African countries continue to call for a "**political solution**" to the African external debt crisis in the context of an overall comprehensive strategy for revitalizing their economies.

21/ Organization 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 to 1st December, 1987.

Annex I: PARIS CLUB MEMBER'S SHARES OF SPS COUNTRIES OFFICIAL PARIS CLUB DEBT, AS OF END OF 1989*

Creditor Country	Shares	
	Percent	Rank
Austria	1.6	11
Belgium	4.1	7
Canada	2.5	9
Denmark	1.1	12
Finland	0.5	16
France	30.3	1
Germany	9.4	4
Italy	8.6	5
Japan	11.5	3
Norway	0.9	15
Spain	1.7	10
Sweeden	1.0	13
Switzerland	1.0	14
The Netherlands	3.8	8
United Kingdom	5.2	6
United States	16.8	2
All Paris Club Members	100.0	N/A

* Includes all concessional and non-concessional debt.
Source: World Bank Reporting System.

Annex II: CANCELLATION OF DEBT OF SPA COUNTRIES BY PARIS CLUB MEMBERS, 1978-1990

(Millions of US$)*

Creditor Country	Amount
Austria	0.0 **
Belgium	183.5
Canada	657.4
Denmark	277.3
Finland	53.0 **
France	2984.7
Germany	2403.4
Italy	62.0 **
Japan	44.1
Norway	11.1
Spain	0.0 **
Sweeden	88.3
Switzerlandd	7.0 *
The Netherlands	174.1 **
United Kingdom	338.0
United States	314.2
All Donors	7595.1

* Amounts in local currencies were converted into US dollars using annual average exchange rates at the time of cancellation. The amounts of debt at the time of cancellation are mostly the face value of debt at the time of forgiveness.

** The figures refer to the period 1998-1989.

Source: Based on the World Banks' Special Programme of Assistance (SPA) Donors Report of February 1991 and World Debt Tables, 1990-1991.

Annex III: CANCELLATION OF DEBT OF SPA COUNTRIES BY PARIS CLUB DEBT ACCORDING TO DEBTOR COUNTRY, 1978-1990

(In millions of US$)

Debtor Country	Amount
Benin	137.6
Burundi	105.3
Central African Republic	164.9
Chad	90.5
Gambia	39.1
Ghana	490.3
Guinea	279.1
Guinea-Bissau	9.1
Kenya	967.8
Madagascar	626.2
Malawi	215.0
Mali	326.2
Mauritania	154.1
Mozambique	278.2
Niger	418.9
Sao Tome and Principe	0.0
Senegal	872.4
Somalia	143.8
Tanzania	687.3
Togo	287.4
Uganda	117.4
Zaire	646.5
Zambia	352.5
Total	7,595.1

Source: Based on Special Programme of Assistance (SPA) Donors Reports of February 1991, and World Bank, World Debt Tables.

Annex IV: DEBT CANCELLATION OF SELECTED AFRICAN LOW INCOME COUNTRIES AS A PROPORTION OF TOTAL EXTERNAL DEBT OUTSTANDING

(In millions of US$, and percentages)

Debtor Country	Debt Cancellation 1978–1990 1/	Total External Debt outstanding as at end of 1989 2/	Debt Cancellation as proportion of total External Debt Outstanding
Benin	137.6	1,177.0	11.7
Burundi	105.3	867.0	12.5
Central African Republic	164.9	716.0	23.0
Chad	90.5	368.0	24.6
Gambia	39.1	342.0	11.4
Ghana	490.3	3,078.0	16.0
Guinea	279.1	2,176.0	12.8
Guinea-Bissau	9.1	458.0	2.0
Kenya	967.8	5,690.0	17.0
Madagascar	626.2	3,607.0	17.4
Malawi	215.0	1,394.0	15.4
Mali	326.2	2,157.0	15.1
Mauritania	154.1	2,010.0	7.7
Mozambique	278.2	4,737.0	5.9
Niger	418.9	1,578.0	26.5
Sao Tome and Principe	0.0	131.0	0.0
Senegal	872.4	4,139.0	21.1
Somalia	143.8	2,137.0	6.7
Tanzania	687.3	4,918.0	14.0
Togo	287.4	1,185.0	24.3
Uganda	117.4	1,808.0	6.5
Zaire	646.5	8,843.0	7.3
Zambia	352.5	6,874.0	5.1
Total	7,595.1	60,390.0	12.6

1/ Data based on Special Programme of Assistance (SPA) Donors Reports of February 1991.

2/ Data based on World Bank, World Debt Tables 1990-1991.