13089

FOREIGN DEBT AND THE PROSPECTS FOR GROWTH IN THE DEVELOPING COUNTRIES OF AFRICA IN THE 1980s

by

Adebayo Adedeji
United Nations Under-Secretary-General
and Executive Secretary of the
Economic Commission for Africa*

*This is a revised version of a paper presented to the Conference on Foreign Debt and Nigeria's Economic Development, organized by the United Bank for Africa, Lagos, Nigeria, 5-6 March 1984.

UNITED NATIONS

CONTENTS

I. INTRODUCTION

One of the major objectives sought by the New International Economic Order is to secure favourable conditions for the transfer of resources to developing countries and to ensure that a country's resources are fully utilized for the development of the country concerned.1/ However, the unprecedented growth of the world economy since the Second World War has not been equitably distributed between the rich and poorer countries. Within this international scenario, the increasing external indebtedness of the latter group of countries has wide-ranging economic implications. This has rocked the foundation on which the economic prosperity of many African countries stands.

The financing of development through external borrowing is not a new phenomenon exclusive to developing countries. Some of the developed countries continue to depend on external borrowing for major investment projects. External indebtedness *per se* is not harmful. What is detrimental for many African countries is their inability to meet current debt obligations. This problem is compounded by the lack of information on the nature, structure and magnitude of the external debt, largely because the issues surrounding the external debt problems faced by developing countries are just beginning to be properly articulated. In fact, at independence many African countries inherited huge amounts of foreign debt contracted by the colonial administrations, and have never emerged out of their indebtedness.2/

1/ United Nations General Assembly resolutions 3201 (S-VI) and 3202 (S-VI) on the Declaration and the Programme of Action on the Establishment of a New International Economic Order.

2/ See also Ned J. McMullen, "Historical Perspectives of Developing Nations' Debt", in *Developing Country Debt*, ed. by L.G. Franks and M.J. Seiber (Pergamon, 1979).

The external debt problem can be visualized as a relationship between two variables - debt and export earnings. The debt is generated by the inability of a country to increase domestic savings, investment and export earnings, and by increasing import bills, amortization and interest payments. As the gap between these variables widens and debt accumulates, interest charges rise and the country must borrow increasing amounts just to maintain a constant flow of net imports.3/

The African experience has shown that once a country is trapped in this situation, it must borrow more in order to refinance maturing debt obligations. The other variable - income - must grow because the country's ability to service its debt depends fundamentally on continuing growth in output, which will ultimately allow it to close the gap between domestic saving and investment.4/ Accordingly, the thrust of this paper is to assess the major issues affecting the external indebtedness of African countries with a view to identifying the nature, magnitude and

---

3/ For further views on this aspect, see Robert Solomon, "A Perspective on the Debt of Developing Countries", in Brookings Papers on Economic Activity, edited by Arthur M. Okun and George L. Pevry, Vol.2, 1977.

4/ At the African level the debt issue has already been accorded great importance, as evidenced by the resolution of the Eighth Meeting of the Conference of Ministers of the Economic Commission for Africa, held in Tripoli, Libya, from 27 to 30 April 1982 which called on the secretariat of the Commission in collaboration with the African Development Bank and the Organization of African Unity to convene a meeting of African Ministers responsible for finance, economic development and planning to consider problems relating to the external indebtedness of African countries. This meeting will be held at ECA headquarters in Addis Ababa from 18 to 20 June 1984.

causes of external debts contracted by African countries. Emphasis is also laid on the implications of the debt crisis for economic development and growth within the context of the Lagos Plan of Action.

II. STRUCTURE OF THE AFRICAN EXTERNAL DEBT

Complete statistical data for all African countries are not always readily available, and this makes it difficult to produce an accurate estimate of the magnitude of Africa's external debt. However, as can be seen from Table 1, the total outstanding and disbursed debt for 42 African countries increased from $US 10.7 billion in 1971 to $US 77.5 billion in 1980. The major borrowers are the middle-income African countries, which accounted for over 80 per cent of total outstanding external debt in 1980.5/

A. Increases in total outstanding debt

In 1981 and 1982, total outstanding debt for all African countries was estimated at $US 81.8 billion and $US 86.2 billion respectively. This is shown in Table 2. The average annual growth rate of Africa's external debt, at 23 per cent was far higher than for gross domestic product or exports of goods and ser vices. Furthermore, the rate of increase of external indebtedness in Africa was much higher than in the developing countries as a whole, although Africa's debts accounted for only 19 per cent of total outstanding disbursed debt in 1982.

5/ These are Algeria ($15,990 million), Egypt ($13,054 million), Morocco ($7,098 million), Nigeria ($4,997 million), Ivory Coast ($4,267 million), Zaire ($4,190 million), Sudan (3,098 million), Tunisia ($2,955 million), Zambia ($1,815 million), Cameroon ($1,774 million), Kenya ($1,745 million), Tanzania ($1,355 million), Gabon ($1,257 million), Guinea ($1,069 million) and Ghana ($1,011 million).

Outstanding debt disbursed by official creditors (both multilateral and bilateral) accounted for 67.5 per cent of the total debt in 1971 while private creditors, that is, suppliers and financial markets, contributed 32.5 per cent. By 1980, the official creditors' contribution to outstanding debts had decreased to 60.5 per cent while private creditors had increased their share to 40 per cent. The increasing share taken by private creditors in debt of African countries was especially evident in countries such as Algeria, Cameroon, Egypt, Ivory Coast, Morocco, Nigeria, Tunisia, Zaire and Zambia whose heavy borrowing from creditors in most cases reflected their credit-worthiness in international financial circles.

Although the total amount of public external debt (outstanding and disbursed)6/ increased throughout the 1970s and continued to show increasing trends in the 1980s. Table 2 shows that net inflows reached their peak in 1978, when they amounted to $US12 billion, and declined every year thereafter to less than $US6 billion in 1982. A serious structural change in the external debt of African countries resulted. There are two main reasons for the decline in net public financial inflows. First, amortization (repayments of principal) increased substantially during the 1970s thereby reducing the total of annual disbursements; by 1982 amortization payments were three times the figure of 1978. In 1978 repayments of principal accounted for $US9.4 billion of a total of $US15.0

6/ Outstanding debt as discussed in this article refers only to public and publicly guaranteed debt. It does not include external private, non-guaranteed debt which is a private sector obligation whose repayment is not guaranteed by a public entity; nor does it include transactions with IMF, with the exception of Trust Fund Loans; nor debts repayable in local currency direct investment, or short-term debts (less than one year maturity).

billion in disbursements, which had been increasing throughout the 1970s, reached their peak in 1979, and then declined because of reluctance on the part of private creditors to extend further credit to the African region.

B. Privatization of international lending

An observable characteristic of the debt structure of African countries during the period 1971-1982 is the "privatization" of the international monetary system; the gradual shift from official to private sources for international trade finance.7/ For instance, Table 3 shows that in 1971, private debts were only about 32.5 per cent of the total debt but this rose to 39.5 per cent by 1980. It is believed that in recent years this share has increased even further. In 1971, annual commitments by official creditors amounted to $US1,561.1 million while commitments by private creditors amounted to $US1,202.2 million. By 1978 and 1979 annual commitments by private sources stood at $US11,419 million and $US12,195 million respectively, as compared with $US8,874 million and $US9,481 million in annual commitments by official sources for the same years. It is also observed that loans from private creditors increased from $US900 million in 1971 to a high of $US10,000 million in 1978 and declined to $US9,989 million in 1979 while those from official sources increased from $US1,061 million in 1971 to $US8,375 million in 1980, having remained below $US6,000 million throughout the 1970s.

In terms of total external indebtedness, loans from official sources, which constituted 65 per cent in 1972, declined to 58 per cent in 1982. Loans from

---

7/ See also United States Tariff Commission, Implications of Multinational Firms for World Trade and Investment for the US Trade and Labour. Report of the Committee on Finance of the United States Senate and its sub-Committee on International Trade, Washington D.C., 1973, pp. 534-543.

multilateral sources declined from 81 per cent to 67 per cent while loans from bilateral sources increased from 19 per cent to 33 per cent over the same period. An inevitable consequence of such a structural shift in the source of credit has been a decrease in the proportion of concessional loans and an increase in the amount of debt contracted under variable interest rates. For example, in sub-Saharan Africa concessional debt, which accounted for 50 per cent of the whole in 1972, declined to 35 per cent in 1982.

C. Deteriorating lending terms and conditions

In addition to the increasing incidence of external debt, there is also evidence of hardening terms of borrowing. For instance, Table 5 shows that the overall cost of borrowing increased from 4 per cent in 1972 to 10 per cent in 1982, partly as a result of increases in the interest rates in the private money markets which doubled, from 7 per cent to 14 per cent, during the same period. At the same time the average maturity of loans declined from 20 years to 15 years, the grace periods for most loans fell from 6 years to 4 years and the grant element of most official loans decreased drastically, from 37 per cent to 7 per cent of the total amount of the loan. The main reason for this is that as borrowers gradually lose their credit-worthiness due to their inability to meet their current obligations, commercial lenders attempt to recover their principal and interest in as short a period as possible for fear of losing more money.

Total debt service payments by the majority of African countries increased from $US1.0 billion in 1971 to $US15.3 billion in 1982. The relatively high rate of increase in debt service payments accounts for the drastic decrease in net resource transfers, which reached a peak of $US10.1 billion in 1978 and declined every year thereafter to a level of minus $US0.3 billion in 1982. This implies that with disbursements of $US15.0 billion to African countries in

1982 there was a net outflow of resources amounting to $US0.3 billion after $US15.3 billion was paid in amortization and interest payments.8/

8/ See Bahrad Howzad, "Some Issues and Questions Regarding Debt of Developing Countries", in Tony Killick (ed.), Adjustment and Financing in the Developing World: The Role of the International Monetary Fund. IMF, Washington D.C., 1982.

III. SOME MAJOR CAUSES OF EXTERNAL INDEBTEDNESS IN AFRICA

The indebtedness of African countries stems from several factors which combine to influence macro-economic performance, thereby holding growth rates at a level too low for sustained development.9/ The major ones are: (a) decreasing export earnings against a background of increasing import bills; (b) poor economic management coupled with misuse of resources and colossal wastage of public funds; (c) the inability of countries to make full use of external aid to generate surpluses that would enable them to repay both loans and service charges; (d) national fiscal and financial policies and the absence of any link with development resources; (e) the lack of policies and institutions concerned with the mobilization and management of domestic resources as a means of reducing external debt; (f) the adverse influence of transnational banks and financial institutions on resource flows into and out of Africa; (g) the lack of trained personnel to administer national resource development policies; and (h) the lack of policy co-ordination among aid donors at the national level to guarantee the maximum economic impact of aid and loan packages.10/

9/ For an analysis of related issues see the statement by Professor Adebayo Adedeji, Executive Secretary of the United Nations Economic Commission for Africa, in commemoration of the 25th anniversary of the Commission.

10/ See Adebayo Adedeji, The Evolution of the Monrovia Strategy and the Lagos Plan of Action: A Regional Approach to Economic Decolonization, NISER, Nigeria, March 1983.

tives.13/ Likewise, African countries' debt servicing problems have, by and large, been the result of low levels of economic growth, particularly in national income and exports, and high interest rates in the face of low export revenues. Only high export growth can make their debt servicing burdens more tolerable.

Structural disequilibrium between import requirements and export earnings compels many countries to resort to external borrowing. The following factors are chiefly responsible: (a) concentration on exports of primary commodities; (b) rising import bills, especially of energy and oil; (c) increasing protectionism in OECD and the Socialist countries of Eastern Europe; and (d) the declining competitiveness of African products on the world market. In 1982, for instance, African countries' exports stagnated while their terms of trade deteriorated, and this intensified the real debt burden. The low-income developing countries are said to have suffered a 30 per cent drop in their terms of trade between 1979 and 1982.14/ The declining terms of trade caused a sharp rise in the 1982 debt-export ratio, suggesting that the debt servicing capacity of these countries had been seriously affected. Therefore, import management in the face of declining export revenues is another major area of weakness in most African countries.

It hardly needs emphasizing that the increasing number of African countries now facing or about to face face serious debt servicing problems is a symptom of

---

13/ See also World Bank, Accelerated Development in Sub-Saharan Africa: An Agenda for Action, Washington D.C., 1981 and John Williamson, The Landing Policies of the International Monetary Fund, Institute for International Economics, Washington D.C., August 1982, pp. 47-52.

14/ See A.W. Clausen, "Let's Not Panic About the Third World Debts", Harvard Business Review, November-December 1983, No.6.

the deep-rooted structural economic problems and serious imbalance manifest in the current development crisis. This crisis is in turn compounded by a series of sectoral crises, relating to debt servicing crisis, stagnating export sales, deteriorating terms of trade, tumbling commodity prices, and high interest rates. In addition, world-wide stagflationary pressure makes it impossible for African countries to adopt an effective fiscal or monetary policy.11/ Some of these issues are briefly described below.

A. Declining export earnings

The African external indebtedness crisis, measured in terms of debt servicing capacity, arises because the world economy is facing a crisis. The crux of debt solutions lies in the "underlying structures" of developing countries and the international economic system.12/ The extent to which African countries experience difficulties in servicing their debts depends primarily on their production and export perf mances, their ability to attract new capital inflows, the volume and terms of the debts incurred, and their ability to devote foreign exchange to debt servicing without risking social and political repercussions from their failure to meet development objec-

The external indebtedness of developing countries, in Africa and elsewhere, is a continuing and growing problem. It has been observed that the debt service ratio - interest and amortization payments as a percentage of exported goods and services - on long-term

---

11/ See also Mahbub Ul Hug, "The Poverty Curtain (choices for the Third World)", Columbia University, New York, 1976, pp. 48-54.

12/ This fact is acknowledged by most academicians and international institutions. See for instance World Economic Outlook, Occasional Paper No. 21, IMF, 1983.

foreign borrowing, rose from 14 per cent in 1973 to 18.1 per cent in 1979 and 22.3 per cent in 1982.15/

Moreover, the repayment of outstanding debts and interest requires consistent and rapidly growing exports of African countries to reduce their current account deficits.16/ African countries are increasingly losing the little competitiveness they enjoyed during the past decade. In 1982, the rate of growth of total external debt was 10 per cent - considerably more than growth in exports, which were seriously affected by the global recession.17/ Debt service payments have continued to rise sharply as a proportion of export earnings, reaching as high as 24 per cent in 1982 after 20 per cent in 1981 and 15 per cent in 1976-1977.18/ This increase reflected the downturn in export earnings as well as a rise in outstanding debt.

B. Fiscal and financial policies

In addition, the fiscal and monetary policy of a country has a tremendous impact on indebtedness. For instance, as the domestic economic situation deteriorates and the balance of payments begins to worsen (rising current-account deficits, declining reserves), confidence in a country's economic management may weaken, leading to capital flight and a decline in net lending. With output and exports declining, reserves almost exhaused and debt-servicing obligations increasing, a country's scarce foreign exchange resources are insufficient even to maintain existing levels of growth. Therefore, a situation is soon

---

15/ External Debt - The Continuing Problem", *Finance and Development*, Volume 20, No.1, March 1983.

16/ Albert Fishlow, "Living with Developing Country Debt", *Foreign Policy*, Spring 1978, No.3.

17/ See *World Economic Outlook*, 1983.

18/ Ibid.

reached where a country defaults on its debt-servicing obligations as well as on principal repayments.

A related issue involves Government policies on expenditure. There are cases where African countries have borrowed to finance current expenditure (for instance foodstuffs; military and civil service payrolls).19/ There is also borrowing for deficit financing. During the latter half of the 1970s rising interest rates caused by anti-inflationary monetary policies and the burgeoning budget deficits of the developed countries accounted for 50 per cent of the increase in debt servicing difficulties experienced by developing countries. Middle-income African countries suffered most from the burden of high interest rates. These countries tend to depend more on commercial borrowing which, at variable interest rates and with shorter terms, requires more than double the amount needed to service the equivalent official debt.20/

The rapidity with which short-term debt has been accumulated during the past 10 years makes debtors more vulnerable to shifting conditions and more likely to renege on payments. The enormous surge in borrowing during the past decade outstripped the economic performance of some of the borrowing countries in Africa. For instance, commercial banks which in 1982 accounted for more than half of the outstanding $US700 billion debt started to retreat during the third quarter of that year and lent less than they received from deve-

---

19/ See also Chandra Hardy, "Rescheduling Developing Country Debts, 1956-1980, Lessons and Recommendations", Overseas Development Council Working Paper No. 1, March 1981.

20/ See George C. Abbot, International Indebtedness and the Developing Countries, Croom Helm, London, 1979.

loping countries in principal repayments.21/ A number of these countries experienced arrears in external obligations and were obliged to seek a rescheduling of their debts. Thus, total debt servicing difficulties were caused by bunching of payments.

C. Exchange rate fluctuations

Exchange rate fluctuations, especially in the value of the United States dollar vis-à-vis other major European currencies, have in recent years become a common phenomenon in international financial and monetary relations. They essentially originated with the deficit in the United States balance of payments, followed by the devaluation of the pound sterling in 1967.22/ These were progressively followed by devaluations of other major OECD currencies which compelled a number of Commonwealth African countries to devalue in terms of sterling while others pegged their national currencies to the United States dollar.23/ Other African countries followed suit and were thrown at the mercy of the powerful Eurodollar and major currencies.24/

21/ A.W. Clausen, "Let's Not Panic About the Third World Debts", Harvard Business Review, November-December 1983.

22/ For a full analysis see UNCTAD, "Impact of the present international monetary situation on world trade and development" document No. TD/140/Rev.1; and IMF, World Economic Outlook, Occasional Paper No. Washington D.C., 1982, Appendix A.

23/ See Joseph Tedajo, "Commerce échange et régulation des économies africaines au sud-Sahara au cours des années 80", in Afrique et développement, Vol.III, No. 112, 1982, pp. 6067.

24/ For instance, as at June 30, 1980, 11 currencies were pegged to the SDR; 14 currencies to the French franc; nine currencies to the United States dollar; six currencies to a basket of European currencies; one currency to the pound sterling; one to the South African rand; only two African currencies remained unpegged to any major currency.

The currency pegging coupled with floating exchange rates had far-reaching monetary and trade implications for most African countries, and hence affected their levels of indebtedness. For instance, some countries experienced a sudden increase in their import bills - as much as 7.3 per cent - whereas others increased by 16 per cent.25/ On the other side of the coin, export earnings suffered a decline due to the reduction in external purchasing power and the relative competitiveness of African goods abroad, causing adverse trade balances. The other result of exchange rate fluctuations was a drop in the export value of commodities and a reduction in tax revenue from exports.26/

The overall effect of exchange rate fluctuations on indebtedness has been increased problems in debt management, especially servicing and amortization.27/ While it is difficult to assess its impact accurately, especially in view of the multiplicity of currencies in Africa, there is evidence to indicate that a considerable decline in Africa's foreign exchange reserves was brought about simply by exchange rate fluctuations.

D. The impact of transnational banks and financial institutions on Africa's external indebtedness

Transnational bnks and financial institutions play a significant role in influencing the level of

---

25/ See African Centre for Monetary Studies, "L'impact du système monétaire européen sur les pays africains", page 20.

26/ United Nations, Department of Economic Affairs, Commodity Trade and Development (E/2519), page 16.

27/ See also G.K. Hellenier, The Impact of the Exchange Rate Systems on the Developing Countries, UNDP/UNCTAD/INT/M5/015.

indebtedness of the African countries.28/ They do so by making loans on less favourable terms, as disbussed earlier, or through other forms of resource leakages. Their dominant role in the investment production and distribution processes also enables them to exercise tremendous control over resource flows to and from any given country.29/

It is common knowledge that debt servicing difficulties also arise because of the activities of transnational corporations, which effect transfers of actual and potential foreign exchange by over-invoicing exports, consultancy and other services rendered to African countries. Among the activities of transnational corporations that account for major resource leakages may be included the following: international shipping and contrainerization; the acquisition of technology by African countries; management and consultancy fees; international air transportation and cargo handling services; international telecommunications and postal fees; banking and financial services; insurance and re-insurance; mineral exploration and extraction agreements; advertising and merchandizing; international procurement and sub-contracting; and purchases of armaments and weaponry. This list is by no means exhaustive, but serves to indicate the magnitude of the problem.30/

African countries have also lost considerable sums of money through the activities of transnational banks, including: (a) losses of foreign exchange due to the manipulation of commodity prices, e.g. transfer

28/ See UNCTC, Transnational Corporations in World Development: A Re-examination (E/C.10/38), 20 March 1978.

29/ See UNCTAD, The Internationl Market Power of Transnational Corporations (UNCTAD/ST/MD/13), 14 April 1978.

30/ See also ECA, Transnational Corporations and Resource Flows Developing African Countries (ST/ECA/CTNC/12), 16 November 1981.

pricing; (b) balance of payments difficulties caused by declining world prices for primary commodities engineered by such corporations, e.g. the operations of commodity exchanges and the London Metal Exchange; and (c) excessive transfers of profits and other capital gains, especially in the absence of effective national policies compelling them to re-invest a given portion of their profits in African countries.31/

31/ See ECA, Report on Workshop on Leakages in African Economies (SERPD/WIAE/83/3).

IV. DEBT MANAGEMENT AND THE PROSPECTS FOR GROWTH IN THE 1980s

The problems identified in the preceding section highlight the need for a debt management policy. The essence of such a policy is that a country should always assess its ability to repay the loan before the debt is contracted. Debt management as a major policy instrument has not yet found wide application in many African countries. Policy makers often fail to realize the repercussions of borrowing abroad on domestic development objectives and priorities. Deciding to contract a foreign debt means earmarking a portion of the borrowing country's future production. As indicated earlier, debt problems result from depressed export markets, high interest rates and excessive borrowing with little regard for ability to service the debts incurred. Therefore, poor debt management policies on the part of borrowing countries often result in serious repayment and debt-servicing problems and are to a large extent responsible for the African monetary crisis.32/

A. Long-term policy on external debt

In analysing the prospects for growth in the 1980s and beyond, it is therefore pertinent to ask how debt management can be incorporated into the development strategies of African countries so as to reduce costly debt-servicing problems in the future. Poor debt management, as evidenced by excessive borrowing in relation to the profitability of the project financed and to export earnings, inappropriate borrow-

32/ Report on Symposium on "Alleviating Africa's External Indebtedness" organized by the African Development Bank, Nairobi, May 1983.

ing terms, and inadequate information about the volume and composition of external debt continue to contribute to development crises faced by the African countries. Some experts point out that to manage debt effectively it is important to project accurately the time profile of debt service obligations, and forecast export earnings, domestic revenues and future access to various sources of finance.33/ While this exercise may be cumbersome, it would be worthwhile assessing in advance how to alleviate the difficulties likely to be experienced under a given loan agreement.

B. National bureau (council) for debt management and resource mobilization

Africa's external debt is now so grave that drastic action is needed. As can be seen related to the problem of economic and financial mismanagement is the conceptualization of foreign resources as catalyst in economic development. In an ideal situation, the effective management of external debt might entail three basic interrelated processes: (a) defining the purpose of the loan sought; (b) deciding how much to borrow, and where from; and (c) assessing repayment capacity. In countries where both private and public sectors borrow substantial sums, there is an urgent need for a national bureau or council to monitor and evaluate loans and assess their impact on the country's growth prospects.34/ This is particularly

33/ See Nicholas Hope and Thomas Klein, "Issues in External Debt Management", Finance and Development, Vol. 20, No. 3, September 1983.

34/ Such a bureau or council could be established as an autonomous body or within the office of the President, the ministry of finance or the ministry of economic planning. It would be made up of senior officials from various disciplines, such as financial or investment analysts, development economists, legal experts and banking specialists, who would examine all aspects of loans, especially their impact on development, before they were contracted.

important in countries such as Nigeria, where the state governments can contract foreign debts without the prior approval of the Federal Government. It is equally essential in countries where individual government ministries or parastatals have the authority to contract foreign loans. Such a bureau would also help Governments to match debt service obligations with anticipated inflows of export earnings, and to avoid bunched debt service obligations.

One of the major tasks of the bureau would be to consider how much to borrow. It should be understood that the decision itself would invariably depend on the skill and judgement of the decision-makers. The purpose of external debt management is to determine how much foreign debt a country should contract over time, and on what terms. To make a sound decision, a country must accumulate information on the implications of alternative borrowing strategies. It must also consider the implications of its borrowing for its balance of payments and its development prospects.

Selecting the right sources of financing is a crucial element of external debt management. The other task of the bureau would thus be to choose the best combination of external finance - loans, grants, and direct investment - for individual projects and the economy as a whole, paying particular attention to profits, dividends, pre-payments for exports and cask flows.35/ Grants and foreign loans on concessional terms are the cheapest, but often come with conditions not conducive to development. In any event, resources from grants have in the past been insufficient to meet requirements. Consequently, the choice of loan mix at the project level might involve the following decisions: (a) the highest possible grant element; (b) the minimum amount of commercial

35/ See also United Nations, Debt Problems in the Context of Development, (TD/B/C 3/109/Rev.1), New York, 1974.

financing; (c) the maximum amount of capital that can be rolled over easily; and (d) the minimum amount of debt servicing in the first five to ten years of the loan.36/

The maturing dates of new loans and the interest payable should be analyzed with a view to a tolerable debt structure; one with an adequate spread of maturities, a diversity of borrowing sources, and a margin of borrowing capacity for unforseen requirements such as emergency support for the balance of payments. A more mundane aspect of debt management is the creation of a satisfactory system for registering and approving foreign debt to show who is borrowing, how much, and for what purpose.

C. Rescheduling of debts

A form of debt management that as become popular during the past two decades is debt rescheduling.37/ Most countries facing repayment problems currently resort to this form of financing. In the case of African countries, it is clear from the above analysis that their external indebtedness has been increasing at a tremendous rate over the past 10 years or so. This has forced them to pursue policies deterimental to their development interest. Some of them followed a retrenchment policy, decreasing imports to improve

---

36/ See UNCTAD, International Financial and Monetary Issues, Policy paper TD.275, Belgrade, June 1983.

37/ In 1983, for instance, the total debt of all developing countries amounted to $US810 billion out of which $US100 billion, involving some 30 countries, was renegotiated (see A.W. Clausen's statement to the European Management Forum, Devon, Switzerland, 26 January 1984).

their external positions.[38] Imports by this group declined in 1982 by 16 per cent in nominal value terms from the previous year. Some countries that were unable to adopt such policies resorted to debt rescheduling under the auspices of the Club of Paris.[39] Debt rescheduling, which was somewhat unfamiliar in the 1960s and early 1970s, became common in the early 1980s.

38/ See Helen Hughes, "The External Debt of Developing Countries", Finance and Development, Vol. 14 No. 4, December 1977, and Karim Nashashibi, "Devaluation in Developing Countries: The different choices", Finance and Development, Vol. 20, No.1, March 1983.

39/ "Debt Rescheduling: What Does it Mean?", Finance and Development, Vol. 20, September 1983.

Available information shows the following African countries to have rescheduled their external debts over the past three to six years:

Country	Years of rescheduling
1. Central African Republic	1981, 1983
2. Egypt	1976 (once)
3. Ghana	1966, 1968, 1970, 1974
4. Gabon	1978
5. Liberia	1977, 1980, 1981, 1982
6. Madagascar	1981, 1982, 1983
7. Malawi	1982, 1983
8. Morocco	1983
9. Mauritania	1981, 1982
10. Nigeria	1983
11. Senegal	1981, 1982, 1983
12. Sierra Leone	1977, 1980, 1982
13. Sudan	1979, 1980, 1981, 1982
14. Togo	1979, 1980, 1981, 1982
15. Uganda	1981, 1982
16. Zaire	1976, 1977, 1979, 1980, 1981, 1982
17. Zambia	1983, 1984

Source: Various country publications, World Bank Reports and A. Danvergne, "Le monde au bord du drame", Le Point No.528, November 1982, pp. 70-71.

As the number of African countries rescheduling foreign debts incréased the amount of debt rescheduled also increased, from $US550 million in 1980 to $US1.4 billion in 1982 and $US5 billion in 1983. Rescheduling is easier when the principal cause of the debt crisis is one of maturity structure, with excessive numbers of repayments falling due in a relatively short period of time.

Despite the temporary relief which debt rescheduling offers, other, more deep-rooted problems have to be carefully considered before a country resorts to this policy option. In addition to

excessive borrowing and bunching, there is a more basic cause of the debt problem - a deeper balance-of-payments crisis whose origins must be sought in monetary and fiscal policies, inflation, overvalued national currencies, stagnating exports or excessive imports. 40/ In such cases, a rescheduling of debt repayments brings short-term relief; but unless the underlying causes are addressed, the debt problem is merely postponed and renewed negotiations become necessary a year or two later. The cases of Madagascar, Mauritania, Senegal, Sudan, Togo, Uganda and Zaire seem to bear this view out. Rescheduling as a strategy for debt relief depends on more than a package of new proposals. It requires specific actions and unique mechanisms. 41/

A more permanent way for African countries to obtain debt management, economic development policies and productive investment plans. Outside expertise may be valuable in deciding on debt reacheduling, but care must be taken not to aggravate the problem by incurring additional expenditures. 42/ Rescheduling comes with certain conditions - deflationary programmes. Debtor countries are often urged to adopt strict austerity measures, including the phasing out of subsidies on certain industries, drastic reductions in public expenditure, especially on the social services devaluation of the national currency as means of stimulating exports, and the enforcement

---

40/ See also R. Liebenthal, "Adjustment in low income Africa - 1974-1978", World Bank Staff Working Paper No. 486; pp. 33 ff.

41/ See also, R.Z. Aliber, "A conceptual approach to the analysis of external debt of the developing countries", World Bank Staff Working Paper No. 421, October 1980, pp. 10 ff.

42/ See, for instance, L. Wayne, "Poor countries Debt Woes Provide Status Business for Adviser Banks" in International Herals Tribune, 26 November 1982, p. 11.

of fiscal controls.43/ In a country largely dependent on primary commodities for export earnings and where the manufacturing base is narrow, such measures often exacerbate rather than ameliorate the debt crisis, export earnings cannot increase very mush over a relatively short period. At the same time, the forward and backward linkages in industrialization do not exist or are not strong enough to generate further growth or full employment. In such situations, debt-servicing costs increase.

D. Global approach to the debt situation

Money and finance have emerged in recent years as the most crucial aspects of international relations. The international lending system appears strong and able to meet the resources requirements of the developing countries, but economically the developing countries are faltering, stagnating or declining. Their export performance, especially in the case of the low-income developing countries, does not provide a healthy background for substantial borrowing from overseas. At the same time, the North-South dialogue has failed to breathe confidence into international economic relations.44/ Since a resolution of the developing countries' debt problems based on expending exports can only come about through a major reform in the system of international negotiations, the external debt situation must be dealt with in a framework that links it with the development of industry, agriculture, trade and finance. 45/

43/ See also Christine Bogdanowicz-Bindert, "Debt Beyond the Quick Fix", Third World Quarterly, Vol. 5, No. 4, October 1983.

44/ See also "The North-South Dialogue: Making it Work", Commonwealth Secretariat, London, 1982.

45/ See also ECA and Africa's Development 1983-2008, A Preliminary Study, Addis Ababa, April 1983, pp. 81-89.

Experience in the developing countries, especially over the past five to seven years, has shown that once a country has slipped into serious debt it cannot resolve its debt problems without the co-operation and understanding of the international lending system. At the African level there has been a massive reduction in concessional lending by international institution and massive defaults by debtor countries. Even the middle-income countries that managed to cope with the energy crisis of the 1970s are now facing serious liquidity problems. It is true that many African countries are not threatened with insolvency; but their cash flows have been depleted, and their chances of increasing earnings shattered by the drastic fall in the prices of primary commodities.

These circumstances make a strong case for a global approach to the debt situation. The possibility of a global conference on external indebtedness, bringing lenders and borrowers together to review the world debt situation and recommend an international agenda for action, needs to be explored. 46/ Such a conference would supplement the efforts of the Club of Paris and the donor conferences organized under the auspices of the World Bank, by showing the strong links between the developing countries' debt problems and their prospects for economic growth. Without economic growth their debt situation can only deteriorate, with serious consequences for world peace and stability. The other major task of such a conference would be to explore new ways of making the development institutions of the South strong enough to withstand the vagaries of the world economic situation. 47/

46./ See also resolutions 132 (S-IX) and 222 (XXI) of the Trade and Development Board of UNCTAD.

47/ See also President Julius Nyerere, "South-South Option", in Third World: transcript of a lecture given in 1982 in New Delhi, India.

V. CONCLUSIONS

The prospects for growth in Africa in the 1980s and beyond will depend more on structural changes in Africa itself then on the international economic systems. 48/ There is a consensus that Africa's enormous development and financial problems require drastic political decisions and a bold clear-headed policy orientation. 49/ The apparent recovery in the developed market economies will catalyse development and growth in the African region only if appropriate domestic policies are followed. In other words, African countries will have to put their own houses in order. The current African debt problems are manageable, but they emphasize the urgency of structural adjustments in production and trade.

It cannot be over-emphasized that the industrialized countries' policy of accelerating inflation and combating recession, together with the external debt crisis, will impose heavy penalties on many African countries. The impact will be still more devastating, however, upon economies that fail to respond to the harsher developmental and economic realities they now face with the requisite strict discipline. The prospects for growth appear good over the longer term, but they will be realized only if both creditors and debtors acknowledge their interdependence. In Africa the options for growth and the most appropriate combinations of instruments for attaining it vary from country to country, depending on such variables as levels of development, dependency on oil, composition of exports, size of the economy, credit-worthiness and domestic economic policies. But of paramount importance is the policy of

48/ See also ECA and Africa's Development 1983-2008.

49/ This framework at regional level is provided in the Lagos Plan of Action and Final Act.

careful borrowing to finance economic projects that really can generate a self-sustaining development momentum.

The solution to the problem of African external indebtedness lies in acknowledging the fact that African countries must restructure their monetary and financial policies both to meet current exigencies and to generate further growth. The international economic system also needs to provide the right climate, however, for countries to make the necessary structural adjustments. International institutions, transnational banks and private lenders must resist the temptation to "overland", especially to countries considered to be "under-borrowing". In addition, growth prospects will depend on the extent to which long-term financing on concessional terms is made available for structural adjustments. The restructuring of existing debts (rescheduling) should therefore be viewed in the light of the long-long-term structural nature of development problems and conducted in parallel with a search for new opportunities for domestic resource mobilization, intra-African payment arrangements and the proposed African Monetary Fund.

Finally, African Governments need to adopt drastic measures at the national level to curb public overspending, the wastage, misuse and mismanagement of resources, corruption, the individual accumulation of wealth, excessive dependence on foreign technical and managerial skills and competence; and the heavy use of foreign management and consultancy services at exorbitant fees where national expertise could suffice. For this purpose, they should seriously consider establishing the national bureau or council on debt management and resource mobilization discussed in this paper. They must also make serious and deep-rooted structural adjustments in industrial, agricultural and trade policies and institutions in order to address external debt as an integral component of their development plans and priorities.

Table 1

External Debt of 42 African Countries
(millions of US dollars)

	1971	1975	1978	1979	1980
Debt outstanding (disbursed only)	10 698.7	25 741.8	56 556.6	68 611.9	77 490.4
of which: Official creditors	7 191.1	15 731.6	29 465.2	35 445.7	41 602.2
Private creditors	3 503.6	10 110.2	27 091.5	34 165.9	35 883.2
Commitments	2 263.3	13 267.6	19 281.8	21 677.0	14 808.9
of which: Official creditors	1 561.1	6 849.5	8 874.0	9 481.7	8 591.3
Private creditors	1 202.2	6 567.6	11 419.8	12 195.3	6 217.5
Disbursements	1 962.9	8 483.9	15 405.3	15 962.3	17 365.4
of which: Official creditors	1 061.9	4 629.8	5 404.6	5 983.2	8 375.0
Private creditors	900.9	3 755.9	10 000.6	9 989.0	9 090.4
Principal repayments	759.8	1 751.1	3 369.1	4 587.4	6 528.6
of which: Official creditors	305.5	595.9	787.6	1 034.3	1 550.7
Private creditors	455.1	1 155.1	2 591.6	3 553.1	3 979.1
New flows	1 204.1	6 634.9	11 016.4	11 427.8	10 835.7
of which: Official creditors	787.2	4 043.9	4 617.2	4 948.9	6 724.4
Private creditors	445.9	2 600.9	7 419.0	5 425.9	5 111.4
Interest payments	277.0	836.7	2 121.9	3 140.9	4 390.5
of which: Official creditors	154.0	391.8	909.9	920.0	1 322.3
Private creditors	121.9	445.0	1 211.9	2 220.7	3 168.2
Net transfers	926.1	5 798.2	9 914.4	8.233.0	6 336.3
of which: Official creditors	602.3	2 799.3	3 707.4	4 029.0	5 395.3
Private creditors	313.8	2 995.9	6 207.1	4 205.0	1 010.8
Total debt service	1 036.8	2 585.6	5 491.0	7 728.4	11 019.8
of which: Official creditors	559.9	987.7	1 697.3	1 964.5	2 872.7
Private creditors	576.9	1 599.9	3 793.7	5 763.9	8 147.2

Source: World Bank, World Debt Tables, October 1981.

Table 2

External debt, net inflows, debt servicing and debt service ratio
(billions of US dollars)

	1972	1978	1979	1980	1981	1982
1. AFRICA						
Debt outstanding	12.2	57.2	69.2	77.3	81.8	86.2
Disbursements	2.5	15.7	15.9	16.7	16.7	15.0
Amortization	1.0	3.4	4.5	6.5	7.4	9.4
Net flows	1.5	12.3	11.4	10.2	9.3	5.6
Interest payments	0.4	2.2	3.2	4.2	4.8	5.9
Net transfer	1.1	10.1	8.2	6.0	4.5	-0.3
Debt service	1.4	5.6	7.7	10.7	12.2	15.3
Debt outstanding/export	85	116.8	104.7	90.3	105.9	121.2
Debt service ratio	9.6	11.4	11.7	12.5	15.9	21.5
Amortization	6.9)	6.9	6.8	7.6)	9.6	13.2)
Interest	2.7)	4.5	4.9	4.9)	6.3	8.3)
	9.6			12.5		21.5
2. ALL DEVELOPING COUNTRIES						
Debt outstanding	90.7	298.7	352.3	404.5	461.9	529.0
Debt service	12.0	47.9	62.3	70.4	93.1	94.0
Debt outstanding/exports	101.0	244.7	271.4			
Debt service ratio	17.2	20.1	19.9	17.9	19.7	22.3

Source: World Bank, World Debt Tables, 1982/1983 edition and ECA secretariat estimate.

Table 3

Debt outstanding and disbursed and payments by source of debt: 42 African countries
(per cent)

Source of debt	Debt outstanding and disbursed		Interest payments	
	1971	1980	1971	1980
Official	67.5	60.5	57	28.5
Private	32.5	39.5	43	71.5
Total	100	100	100	100

Source: Calculated from World Bank, World Debt Tables, October 1981.

Table 4

Selected economic indicators 1973-1982

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Economic growth rate (per cent)	2.39	6.27	2.75	5.85	2.82	1.84	1.52	2.69	1.84	1.90
Inflation (per cent)	9.86	17.07	15.84	16.6	24.3	19.0	22.3	23.3	25.8	16.3
Ratio of external debt and G.D.P	24.9	25.9	27.5	32.8	35.1	36.9	39.0	42.4	43.4	50.6
Exports of goods and services ($US billion)	20.3	35.7	34.7	39.9	47.2	49.0	66.1	85.6	77.3	71.1

Source: World Bank statistics, IMF and national publications.

Table 5

Average terms of debt commitment 1977-81
(Applicable to Africa south of the Sahara)

	1977	1978	1979	1980	1981
Interest rates (per cent	4.4	6.6	8.1	7.3	10.1
Official creditors	3.1	3.8	4.4	3.8	5.2
Private creditors	6.7	9.3	11.1	12.5	14.2
Maturity (years)	20.4	16.6	15.1	18.4	15.8
Official	27.6	25.2	22.6	25.0	24.9
Private	8.3	8.1	8.9	8.7	8.1
Grace period (years)	5.9	4.6	4.3	5.0	4.3
Official	7.8	6.5	5.8	6.5	5.9
Private	2.6	2.8	3.1	2.8	2.9
Grant element (per cent)	37.2	23.3	14.5	22.3	6.7
Official	52.1	45.1	38.3	44.9	34.8
Private	11.9	1.8	-5.4	-11.4	-16.9

Source: World Bank, *World Debt Tables*, 1982/83 edition.

Table 6

Debt structure of African countries 1972 and 1978-82
(Billions of US dollars)

	1972	1978	1979	1980	1981	1982
1. Total debt structure 1/						
Debt outstanding	12.2	57.2	69.2	77.3	81.8	86.2
- Official creditors	7.9	29.7	35.6	41.7	46.3	50.8
Multilateral	6.3	20.8	24.8	28.9	31.6	34.2
Bilateral	1.6	8.9	10.8	12.8	14.7	16.6
- Private creditors	4.3	27.5	33.6	35.6	35.5	35.4
Suppliers credits	2.2	7.9	9.0	8.4	7.7	8.1
Financial markets	2.1	19.6	24.6	27.2	27.8	27.3
2. By income group						
Oil exporters 2/	35.2	29.4	34.7	37.2	38.1	40.9
Middle-income countries 3/	4.2	20.2	25.3	28.9	31.9	33.0
Low-income countries 4/	2.8	7.6	9.2	11.2	11.8	12.3
3. Debt servicing	1.4	5.6	7.7	10.7	12.2	15.3
Oil exporters	0.7	3.3	4.7	6.6	7.7	8.5
Middle-income	0.6	1.9	2.5	3.5	3.6	5.5
Low-income	0.1	0.4	0.5	0.6	0.6	1.3

Source: World Bank, World Debt Tables 1982/1983 and ECA secretariat estimates.

1/ Data covers 42 countries.
2/ Algeria, Congo, Egypt, Gabon, Nigeria, Tunisia.
3/ Data cover 14 countries.
4/ Data cover 20 countries.