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TOWARDS A SOLUTION TO AFRICA'S DEBT PROBLEM

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I. INTRODUCTION

Looking back at the decade of the 1980s, one cannot but surmise that it has definately been a lost decade for Africa. Almost without exception, all socio-economic indicators have been pointers to a sad tale of retrogression in the economic, human and social conditions.

While many factors have contributed to this deterioration, the serious external constraints, posed by the closely interlinked problems of debt, depressed export earnings and declining resource flows, have played an important role therein and would indeed continue to have detrimental effects on future growth and development prospects in the continent, regardless of Africa's efforts at economic restructuring and policy reform. Therefore, if the development initiative is to be re-gained in the 1990s and if the coming decade is not to be ruled out as irrelevant as the one past, urgent and bold actions will have to be taken by the international community to provide meaningful and lasting solutions to these basic constraints.

Of the trio, the debt issue assumes the rather unique position of being a serious problem, yet a problem the solution of which could be within grasp, if Africa's partners are willing to exercise the needed political will. This paper briefly examines Africa's debt problem and looks ahead at the actions needed to solve it.

II. THE MAGNITUDE OF THE DEBT PROBLEM

Africa's external debt position further worsened in 1988 and is projected to become even more critical in the coming years. It rose sharply from $138 billion in 1982 to reach about $230 billion in 1988. (See Table 1).

On the face of it and compared to the debt of the third world's heavily-indebted countries, standing at about $490 billion in 1988, Africa's debt appears to be less menacing. Such a comparison is, however, deceptive. In terms of the growth of the stock of debt, the debt and debt-servicing ratios, the capacity of African countries to service debt and the implications of the growing debt for recovery and development prospects in the region, one cannot but conclude that Africa's external debt problem is indeed a very grave one.

As shown in table 1, Africa's external outstanding debt amounted in 1988 to over 81 per cent of the regions GDP and over 314 per cent of the exports of goods and services. These indicators are significantly higher than those of the heavily-indebted countries at about 50 per cent and 270 per cent respectively. Africa's sheduled debt service to exports ratio, of 40 per cent in 1988 compared to a similar ratio for the heavily-indebted countries of about 25 per cent, is also indicative of a heavier debt burden.

The rising debt and debt-servicing obligations have coincided with the erosion of the Africa's capacity to

Table 1

Developing Africa: External Debt and Debt Service
1985 - 1988

	1985	1986	1987	1988*
	Billions of Dollars			
Debt	**174.4**	**190.0**	**220.3**	**230.0**
of which				
North Africa	78.9	91.9	100.5	104.2
Sub-Saharan Africa	95.5	98.1	119.8	125.8
Debt Service	**24.3**	**26.4**	**26.1**	**29.3**
of which				
North Africa	12.3	12.7	12.0	12.4
Sub-Saharan Africa	12.0	13.7	14.1	16.9
Debt Burden	(in percentages)			
Debt/GDP	52.6	62.2	71.0	81.1
Debt/Exports	205.2	289.6	308.5	314.2
Debt Service/Export:	28.6	40.2	36.8	40.0
of which				
North Africa	29.9	49.9	39.2	40.1
Sub-Saharan Africa	27.3	36.2	34.6	40.0

Source: OECD, Financing and External Debt of Developing Countries, 1986 Survey (Paris, 1987); OECD, External Debt Statistics (Paris, 1988); World Bank World Debt Tables, 1988-1989 Edition; African Economic Deficit, Issues; and ECA Secretariat

* Preliminary estimates

service its debt, as the prices of and the demand for its exports continued to weaken, its terms of trade continued to deteriorate and resource flows virtually declined in real terms. This has resulted in:

(i) mounting arrears, including arrears to the IMF and World Bank, leading to blockage of new commitments and disbursement of credits; and

(ii) frequent resort to rescheduling in London and Paris clubs which averaged to about 8 agreements per year during 1980-85 and up to 12 agreements per year in 1986-1987, involving 26 African countries. The magnitude of the debt burden can be further exemplified by stating that no less than 31 Sub-Saharan African countries are officially classified as "debt distressed" countries.

The implications of this heavy and unsustainable debt burden, coupled with dwindling export earnings and resource flows for depreseed levels of investment and imports of capital goods, inputs and spare parts and for growth and development prospects are self-evident, particularly as governments were compelled to reduce expenditures and generate surpluses to meet increased debt-service obligations.

Thus, the unique nature of Africa's debt burden and the urgency with which this problem must be solved hardly need to be overstated.

III. REFLECTIONS ON ON-GOING INITIATIVES

The seriousness of the debt situation has prompted African countries to address this issue at the highest level on a number of occasions. The African Ministers of Finance met in Addis Ababa, Ethiopia from 18 to 20 June 1984 at the Regional Ministerial Meeting on Africa's External Indebtedness and adopted The Addis Ababa Declaration on Africa's External Indebtedness in which they analysed the causes of the problem and proposed measures to deal with them at the national, regional and international levels. Africa's Priority Programme for Economic Recovering 1986-1990 (APPER), adopted by the heads of State and Government of the OAU in 1985, and Africa's Submission to the Special Session of the United Nations General Assembly on Africa's Economic and Social Crisis, adopted by the first extraordinary meeting of the ECA Conference of Ministers and the fifteenth extraordinary session of the OAU Council of Ministers - held in Addis Ababa, on 28-29 March and 30-31 March 1986 respectively - underscored the severity of the problem and proposed lasting solutions to it. In the Declaration on the Economic Situation in Africa, adopted at their 21st Summit, the African Heads of State and Government called for an international Conference on Africa's external indebtedness to be convened as a matter of urgency to provide a forum for international creditors and African borrowers to discuss Africa's external debt with a view to arriving at lasting solutions to the problem. In The Abuja Statement, adopted by the

participants at the International Conference on Africa: The Challenge of Economic Recovery and Accelerated Development, the need for a concerted approach to the issues of debt, commodities and resource flows was stressed and measures to deal with problems in these areas were elaborated. The specific measures that are needed to be taken to ameliorate the debt crisis were later amplified in the African Common Position on Africa's External Debt Crisis, adopted by the African Heads of State and Government in December 1987 at their extraordinary summit which they devoted entirely to the debt problem. The 25th session of the Assembly of Heads of State and Government of the OAU, recently held during 24-26 July 1989, once more reaffirmed its call for an international conference on Africa's external debt to bring together international creditors and African borrowers to discuss the debt problem and arrive at appropriate solutions.

The severity of Africa's debt problems has also been recognized in international fora. The United Nations Programme of Action for African Economic Recovery and Development 1986-1990 (UN-PAAERD), adopted by the UN General Assembly at its Special Session on the Critical Economic Situation in Africa on 1 June 1986, stated that "The international community recognizes the magnitude of Africa's debt and the severe and restrictive burden which this has placed on many African countries. It realizes that measures have to be taken to alleviate this burden and to enable those countries to concentrate on the full implementation of priorities. In addressing

problems arising from such debt, existing mechanisms should respond flexibly and be improved as appropriate." 1/

The Advisory Group on Financial Flows to Africa, which was set up by the Secretary-General in April 1987 to examine the measures that are needed to resolve the financial crisis facing African countries, addressed itself in depth to the debt crisis and proposed a series of measures to deal with it in its report entitled Financing Africa's Recovery.

In the document which it adopted on the mid-term review and appraisal of UN-PAAERD, the UN General Assembly, recognized that "The external indebtedness of African countries has become one of the important factors constraining recovery and development in the continent, since debt servicing draws substantially on scarce financial resources that otherwise could be used for development purposes in the region" and called for specific measures to deal with the ODA, multilateral and commercial debt of Africa. It also stated that "The common position of Africa on addressing the problem of the continent on external debt adopted by the extraordinary summit at Addis Ababa in November and December 1987 should be taken account of and seriously considered by the international community". 2/

1/ Resolution S-13/2, Annex

2/ A/43/500

In spite of the severity of the problem and of these African and international initiatives, the response of the international community has been on the whole, and despite some positive initiatives, hesitant and inadequate, particularly when one takes into account the fact that the bulk of Africa's debt is public or publicly guaranteed debt.

Official Debt

Up to 1987, the attitude of the industrialized countries graduated from a denial that a debt crisis existed in Africa to provision of debt relief measures mainly to prevent import strangulation. Thus, most of the debt relief measures concentrated on debt rescheduling through the Paris Club. While African countries managed to obtain temporary relief through such rescheduling, these measures have failed to address the problems of reducing the stock of debt or increasing its concessionality. This is true even when one takes into account the recent development in Paris Club practices that have been adopted since 1987 to lengthen grace and maturity periods to 10 and 20 years respectively.

Indeed, such practices have caused the ballooning of debt as the total debt increased by the capitalization of interest and arrears and debt service also increased by charging market interest on the higher total debt. In this regard it is estimated that the additional debt burden due to Paris Club interest capitalization would

amount to over $10 billion. The debt burden of many countries has risen by up to 20-25 per cent due to this factor solely.

Also since the adoption of UNCTAD Trade and Development Board Resolution 165 in 1978, donors had retroactively converted about $3 billion of ODA loans to Africa into grants by 1986. These included the Federal Republic of Germany, France, Sweden, Canada and the Netherlands. Although seemingly substantial, these conversions affected only a sixth of the ODA debt, and debt service obligations on ODA debt remained substantial amounting to almost 10 per cent of obligations in 1986.

A discernible change in the approach of the industrialized countries came at the Toronto Summit of the G-7 which recognized the need to ease further the debt service burdens of the poorest countries that are undertaking internationally approved adjustment programmes. Consensus was also achieved on rescheduling of the official debt of these countries within a framework of comparability that allows offical creditors to choose among concessional interest rates on short maturities, long repayment periods at commercial rates, partial write-offs of debt service obligation during the consolidated period or a combination of these options. The Paris Club was to work-out the necessary technicalities to ensure comparability. The breakthrough was achieved in Toronto because the consensus provided for the above "menu" of options which accommodated the US which was against any concept of "debt forgiveness".

In September 1988, Paris Club agreed that creditors will choose among the following options:

(i) cancellation of 33 per cent of debt service covered by the agreement and rescheduling of the remainder with 18-year maturity and 8-year grace periods;

(ii) reduction of interest rates by 3-5 percentage points or 50 per cent, whichever is less, and rescheduling with 14-year maturity and 8-year grace periods; or

(iii) extension of grace and maturity periods to 14 and 25 years respectively.

In additon, concessional debt would be re-scheduled over 25 years with 14-year grace period at existing concessional interest rates.

The euphoria created by Toronto Summit has quickly been dampened. Actual relief has been negligible both in terms of countries that have benefited from the agreement and of the amounts involved. As it turned out no, less than 4 countries have opted for option (iii) and because of the conditionality of the need to adopt SAPs, not all eligible debtors will be able to benefit from the measures. In fact, option (iii) works against the intent behind the measures as it would lead to an increase in both the stock of debt and future debt service.

Relief is not expected to exceed $500 million over the next 10 years as a result of this initiative.

The recent Paris Summit of the G-7 affirmed commitment to the strengthening of Toronto debt strategy on a case-by-case basis and on the basis of the adoption of IMF and World Bank-supported structural adjustment programme.

Recently, in a significant move tuned with the Paris Summit, the United States went beyond Brady Plan to announce forgiveness of ODA loans to some Sub-Saharan African countries undergoing market-oriented economic reforms as prescribed by the World Bank and IMF. It is not yet clear which categories of debt are involved. The total of US loans to Sub-Saharan Africa is at about $4.3 billion, including $743 million in development loans, $1.5 million from the US Export-Import Bank and $1.2 billion in government loans to buy surplus American farm products. It is however expected that about $1 billion in ODA and balance of payments assistance will be cancelled. 16 countries are expected to qualify and while 7 others could have qualified, they are not likely to do so because they do not have an IMF/World Bank SAPs. 1/

1/ 16 countries expected to qualify are: Benin, Cameroon, Ghana, Guinea, Cote d'Ivoire, Kenya, Madagascar, Malawi, Mali, Niger, Nigeria, Senegal, Somalia, Tanzania, Uganda and Zaire. The other seven are: Botswana, Ethiopia, Liberia, Sudan, Zambia, Swaziland and Zimbabwe.

Multilaterl Debt

As the World Bank and IMF do not reschedule or write-off their debts, they took recent initiatives to lighten the burden of low-income Sub-Saharan African countries undertaking SAPs through refinancing schemes.

In 1986 the IMF established the Structural Adjustment Facility (SAF) to relend SDR 2.7 billion of repayment by low-income countries to the IMF with softer terms than other IMF loans: 10-years maturity, 5.5-year grace period and 0.5 interest rate. In 1987 the IMF created an Enhanced Structural Adjustment Facility (ESAF) with tripple SAF resources.

Commitments and disbursement to Sub-Saharan Africa have been disappointing. Between March 1986 and March 1989 only SDR 1.6 billion was committed to Sub-Saharan African countries, of which only SDR 662 million was disbursed, hardly affecting the negative flow of resources from the region to the IMF standing at $2 billion in 1986-1987. Added to that, the terms of lending remain less than optimal. Repayments of the first SAF loans will already commence in 1992.

The World Bank designed a Special Program of Assistance for low-income debt-distressed countries in Africa with adjustment programs covering the years 1988-90. So far the Bank announced interest payment relief for 13 low-income countries on earlier World Bank loans,

which would refinance $650 million of due payment. $400 million a year of additional IDA loans to low-income debt-distressed African countries have also been announced. Disbursement, however, are below the announced targets and the coverage, both in terms of amounts and number of countries, falls by far short of needs.

Commercial Debt

Commercial creditors hardly took any initiatives to lighten Africa's commercial debt burden. Only Cote d'Ivoire, Morocco and Nigeria are included in the Baker Plan and no progress has been made in implementing the ADB proposals for securitization of debt and other similar proposals.

IV. WHAT IS TO BE DONE?

It is obvious that although Africa's creditors have of late come to acknowledge the special nature of Africa's debt problem and have taken some steps to ameliorate the situation, no meaningful relief nor significant measures to provide a lasting solution have taken place.

Another problem that remains unsolved is the issue of conditionality. Although Africa's creditors seem to have abandoned their earlier main preoccupation of promoting structural adjustment to maintain debt service, the approach, nevertheless, has shifted to making debt relief conditional upon the adoption of SAPs. This has

not only eliminated many African countries with heavy debt burdens that do qualify for such relief but would also restrict the ability of those countries to adopt appropriate development strategies and programmes to ensure growth and development on a sustained basis.

Concerted and co-operative action between the African countries and their creditors of all categories need to be taken to provide significant reduction of the stock of African debt, and thereby create lasting solution to the problem. Africa's debt problem is intractable and is well beyond the capacity of African countries to deal with. The debt problem, along with other external constraints, have accentuated the economic crisis in the continent and, if not dealt with properly, would certainly deal a severe blow to any prospects of growth and development in future. While some of the current approaches do hold the promise of the beginning of a movement in the right direction, current approaches are nevertheless inadequate and relief through rescheduling has complicated and compounded the problem rather than helped in solving it.

Any approach to deal with Africa's debt problem must contain the following elements:

1. Action by the international community to achieve a substantial reduction of the stock of debt and the debt service due thereon. (See proposals to follow)

2. Removal by the international community of the restrictions of linking debt relief to the implementation of SAPs.

3. The need to look at the debt, commodity and resource flow issues in an interlinked manner and also link these issues with the requirements of growth and development to ensure that external resource flows to Africa are at levels that would sustain growth at a rate above the rate of population growth and provide for a human-centred development process.

4. The need for African countries to adopt sound development approaches and debt-management policies.

5. The need for African countries to invest new loans with prudence in the productive spheres.

6. Agreement between creditors and African countries to limit debt service to no more than 10-15 per cent of exports.

Realistically speaking, these objectives can best be achieved by strengthening and building on on-going initiatives. I am encouraged to state this because of two positive developments that have recently taken place.

(i) The shift of creditors, and in particular the G-7, away from a position of "debts have to

be paid" to a recognition of the need for special measures to relieve the burden of low-income Sub-Saharan African countries is a significant political move in the right direction.

(ii) The gradual transition of the stance of the United States from opposition to "debt forgiveness", to dropping its objections to the concept of "debt forgiveness" at the Toronto Summit to its recent announcement that it intends to "forgive official development loans of Sub-Saharan African countries" has removed a formidable hurdle in front of the attempts to achieve significant reductions in the stock of African debt. This development has been made possible through the passage of 1988 foreign aid bill, before which the US was prohibited from cancelling official debt. The new bill allows the US Administration to forgive Sub-Saharan African debt or receive payments in local currency as long as the countries involved have SAPs in place.

Similar legislative action can be adopted by other major creditor countries. The requirement is to broaden the base of both the countries to be covered and the amounts to be forgiven and to delink debt forgiveness from SAPs particularly as these programmes are not achieving their original objectives of sustainable development.

This legislative flexibility could also have positive implications for the debts owed to multilaterals, the procedures of which prevent debt write-offs and rescheduling. African debts and arrears to those institutions have now reached unmanageable levels and imaginative actions will have to be taken in terms of burden sharing in the debt problem by those institutions.

It is not my intention to go in detail into the specific measures to be taken for all categories of debt for very sound and comprehensive proposals have been put on the table by Africa.

However, I would like to point to directions for actions by the international community and by Africa, taking into account current initiatives, to move closer to the objectives of tackling the debt problem in an effective manner.

International Community

Official Debt

1. With the recent initiative of the US Government, the time is ripe to cancel all ODA debt. Important in this regard is to move away from the conditionality of making such cancellations contingent upon adherence to SAPs.

   The 1980s have exposed the limitations and inadequacies of SAPs and have also

demonstrated the need to move away from SAPs to adopt broader development approaches that would allow African countries to adjust while simultaneously puruse development and transformation objectives. Without this, African countries will be mired deeper into their economic malaise and their external dependence would only be compounded.

Requesting de-linking from the conditionality of SAPs is not tantamount to a call against accountability. On the contrary, accountability is very much called for and could be ensured through adherence to sound development approaches that provide for both adjustment and transformation. Africa's creditors and the multilateral institutions must not compel African countries to adopt SAPs through the lure of resource flows and debt relief, when the limitations of SAPs are glaringly obvious.

To deny those African countries which are under a heavy debt burden the benefit of debt relief merely because they have not signed agreements with the World Bank and IMF is both unjustifiable and counter productive in the final analysis. It should indeed be possible to find a formula to enable such countries to benefit from debt cancellation while ensuring

that they would put sound economic reforms, and not necessarily SAPs, in place.

2. Cancellation of export credit debts.

3. With the recent positive shift in the position of the US administration, the "menu" of three options certainly needs to be modified to provide more substantial debt relief for non-concessional debt. Earlier on, such moves, through cancellation or reduction of interest rates, were blocked by the US and the Federal Republic of Germany.

Positive action can be achieved through:

(a) abandoning option (iii) of the "menu" providing only for extending grace and maturity periods.

(b) modifying option (ii) to provide for cancellation of accumulated interest rates on principal and arrears on non-ODA debt and rescheduling the adjusted and consolidated obligations on IDA terms.

(c) modifying option (i) to provide for cancellation of 50 per cent of accumulated debt service and rescheduling adjusted and consolidated obligations on IDA terms.

(d) building in the possibility of payment of debt in local currency.

Multilateral Debt

Multilateral institutions should provide sufficient net inflows on soft terms with relaxed conditionality to enable African countries to refinance all their non-concessional debt to these institutions. Faster disbursments of ESAT, EFF, IDA and World Bank loans are called for.

Commercial Debt

Commercial creditors, through their own actions and through the support of industrialized countries should adopt special relief measures in favour of African countries - including debt reduction, lower interest rates, capping of interest rates, longer maturity and grace periods, disposal of claims at discount, debt equity swaps.

African Countries

1. Adoption of sound strategies to ensure growth and development on a sustainable basis that aim at internalization of the growth dynamic and implementation of policy directions that reduce dependence on external borrowing, creation of an enabling environment for enhanced levels of savings and investment and curtailment of

non-productive public expenditure. In this regard the implementation of national programmes on the basis of the African Alternative Framework to Structural Adjustment Programmes for Socio-Economic Recovery and Transformation (AAF-SAP) could be an important contribution to the solution of the debt crisis in the medium- and long-terms

2. Strengthening national mechanisms for the management of external debt and to exercise effective control over external borrowing.

3. Establishment of mechanisms for the exchange of information, sharing of experiences and devising common positions on debt and debt negotiation.

4. The effective use by African countries of regional and sub-regional payment and clearing arrangements for intra-African settlements and the establishment of the African Monetary Fund.

V. CONCLUSION

The debt and debt servicing problems of Africa have become intractable, are beyond the capacity of African countries to service and have had and will continue to have deleterious effects on growth and development in the region.

Clearly, a special case for debt relief for Africa has been established and the international community has started to respond to those needs. Nevertheless, action so far, while promising, has not been adequate.

The specific characteristics of the African debt make it possible to achieve rapid solutions. The cancellation of ODA debt by an increasing number of countries and the recent announcment by the US of intentions to do the same do point to such possibilities. Those moves, unthought of only a few years back, have become the political realities of to-day. Given the political will, proposals of to-day could be similarly turned into the political realities of to-morrow through patient and serious dialogue. It is in this spirit that the foregoing proposals have been made.