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Research for Action

Impacts of Africa's Growing Debt on its Growth

Siddig A. Salih

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Development Economics Research
(UNU/WIDER)

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A research and training centre of the United Nations University

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GLOSSARY OF ACRONYMS

ADB	African Development Bank
CFA	Communauté Financière Africaine
CPI	Consumer Price Index
ECA	Economic Commission for Africa of the United Nations
ESAF	Enhanced Structural Adjustment Facility
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNP	Gross National Product
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
LDCs	Less Developing Countries
ODA	Overseas Development Assistance
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of Petroleum Exporting Countries
OAU	Organization of African Unity
NAM	Non-Aligned Movement
NGOs	Non-Governmental Organizations
RAP	Rights Accumulation Programme of the IMF
SADCC	South African Development Coordination Conference
SAF	Structural Adjustment Facility
SAPs	Structural Adjustment Programmes
SDR	Special Drawing Rights
SIDA	Swedish International Development Agency
SILICs	Severely Indebted Low-Income Countries
SPA	Special Programme Assistance
SSA	Sub-Saharan Africa
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
WWF	World Wildlife Fund

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PREFACE

The global consequences of international indebtedness have been the subjects of heated debates also in the academic world, since the early 1980s. In the 1980s research work has been focusing on Latin America and the policy measures aiming at the stabilization and improvement of the debt situations concentrated also on that hemisphere. The international debt crisis that emerged in 1982 affected basically middle-income developing countries, particularly in Latin America, and had receded by the end of the decade. The debt crisis of the 1990s hit the low and lower-income developing countries, in particular Sub-Saharan African (SSA) countries. Sub-Saharan African debt is equivalent to about 125 per cent of its GDP. These countries are uniquely vulnerable to the growing burden of indebtedness because of their low per capita income and prevailing structural dependence on primary product exports. In many African countries the sharp deterioration of their international terms of trade, deteriorating infrastructure and limited institutional and human capacity to respond quickly to crisis aggravated the consequences of the debt crisis. These weaknesses coupled with high population growth and austerity measures have resulted in low or negative real per capita growth rates experienced for more than a decade by these countries.

The research programme of the World Institute for Development Economics Research of the United Nations University on international debt problems started in fact in the mid-1980s.

UNU/WIDER organized and sponsored a conference held in Helsinki in August 1986 on Debt, Stabilization and Development with the participation of leading economists in the field. A volume was published under the same title edited by Guillermo Calvo, Ronald Findlay, Pentti Kouri and Jorge Braga de Macedo by Basil Blackwell Ltd in 1989. During the same year a Study Group Series on *Debt Reduction* had been published by UNU/WIDER. Although the findings of these studies were basically in response to the first debt crisis, several lessons could be learned from that experience. While the devised debt management policy heralded its case-by-case approach, the analysis of the problem is typically universal and the suffering could be holistic. The basic indicators to evaluate the intensity of the debt burden are the debt-to-GNP ratio, country's capacity to pay, market value of the debt and the like. Faced by the severity of the problem as reflected in these indicators, both creditors and debtors had strong incentives to cooperate in reaching an agreement.

The study undertaken by Dr Siddig A. Salih, Senior Research Fellow at UNU/WIDER, explained the gravity of the debt crisis facing the African region and developed a set of challenging policy measures needed to alleviate the burden.

The statistics provided in the study demonstrate the huge GNP-debt-ratio, extremely low market value of SSA's debt buy-backs and the mounting debt arrears like no other region in the world. It is no surprise that the author calls for significant debt-reduction and debt-for-development swaps by all creditors to bring eventual return of Sub-Saharan Africa to a normal creditor-debtor relationship and to enable Africa to realize its full development potential.

Mihály Simai
Director, UNU/WIDER
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ABSTRACT

The main theme of this manuscript is to demonstrate that growth in Sub-Saharan African (SSA) countries has continued to decline under the burden of the foreign debt over the last fifteen years. After a decade of painful lost growth, the continent faced a devastating debt crisis at the turn of the decade. The main distinguishing features of the second debt crisis of the 1990s is the fact that the crisis affecting low-income countries residing mainly in SSA and the majority of their debt is owed to official creditors rather than to private creditors. The total debt stock of SSA is reaching US\$ 200 billion at present, which is roughly equal to the combined debt stock of Argentina and Brazil. Although SSA debt represents 12 per cent of debt for all developing countries, only recently is there beginning to be international sensitivity to the magnitude of the growing debt-burden in SSA. Sub-Saharan African is the only region in the world where debt exceeded its GNP since 1990. The severe difficulties that many African countries faced in servicing their debt resulted in the persistent accumulation of arrears, which are unpaid debt service obligations.

Despite similarity in the path and causes to the two debt crises, efforts and responses to resolving the crises were distinct. Creditors responded to the first crisis more speedily and flexibly than the second crisis. In both crises the response was triggered by imminent default. In this case, it is shown both theoretically and empirically that the reasonable response is to forgive partially the debt now rather than later. The inability of some creditors to respond to the situations in which debt will eventually have to be forgiven for SSA reflects a lack of political will to act now. Such an inaction sets up a tax on policy reform and makes it politically difficult to sustain economic reforms in SSA. The implementation of the reciprocity concept, preferably retroactively, will likely encourage reforms in debtor countries and protect creditors against moral hazard.

Two important lessons emerged from the first debt crisis and are relevant to the current situation. First, the importance of debtor country capacity to pay was the main determinant in devising the debt-reduction scheme. Empirical evidence indicates that more than half of the low-income SSA countries could only meet about 15 per cent of their debt service payments. Second, market evaluations assisted in persuading creditors of the need to make adequate concessions. The market value of the commercial banks claims on SSA countries were 10-18 cents on a US dollar debt.

There is, therefore, a compelling case for debt-reduction. Significant debt relief can be the most important external factor contributing to African economic recovery. This study confirmed that significant debt-reduction at a level suggested by the recent Naples proposal is essential to meet the terms of trade losses, to sustain economic reforms, to preserve Africa's share in ODA and to resume growth.

I INTRODUCTION

Once more forecasters on growth and economic turnabout in Africa for this year and the rest of the 1990s are revising their predictions. The persistent decline in per capita incomes of the 1980s is set to continue for the majority of Sub-Saharan African (SSA) countries in the 1990s. Per capita incomes for SSA countries as a whole fell further in 1993 by nearly 2 per cent (ECA 1994:9; UN 1994a:13; UN 1994b:11 and World Bank 1994a:79). The disappointing growth record is not helped by the prevailing unfavourable international environment. The worsening terms of trade for SSA since 1990 continued through 1993; i.e., it fell by almost 8 per cent (Table 1, Helleiner 1994:2; Salih 1994:5; UNCTAD 1993:46 and UN 1994b:11).¹ The decline in real prices of exports coupled with a stagnant volume of exports in 1993, resulted in an overall decline in the purchasing power of exports (or income terms of trade) in SSA (Salih 1994:4 and ECA 1994:26). With the secular decline in income terms of trade for SSA during the 1980s through the beginning of the 1990s, total import volume stagnated and per capita imports fell (Table 1 and UNCTAD 1994:43). The cutback in imports reduced, *inter alia*, domestic investment and production and, in turn, export growth (Table 1 and Salih 1994:7).

If the average growth rate in real per capita income is considered a short-term indicator, then the average growth rate of domestic investment is the appropriate long-term indicator to sustain growth. Table 1 shows a negative and declining growth rate of domestic investment in SSA since 1980. Domestic savings in SSA also exhibited a negative and declining growth rate since 1980 (Table 1). As a result, domestic financing was only able to cover one-quarter of Africa's capital investment needs (UN 1993c:6). At low GDP and low per capita growth, raising private savings would take a long time. Hence, raising public savings is a viable option to finance investment in the short-run. But, public savings in SSA have considerably declined between the mid-1980s through the early 1990s; registering a dissaving of 1 per cent of GDP (Salih 1994:15 and World Bank 1994c:157). Consequently, public investments in the majority of SSA countries have stagnated or grown negatively during the same period (Table 1 and Salih 1994:22). The effect of reduced public investment in these countries was doubly contractionary, because of the crowding-in effect between public and private capital formation,

¹ The fall in terms of trade is estimated to cause a loss often reaching 4 per cent of GDP in terms of the impact on the current account (ECA 1994:28; NAM 1994:39; UN 1994b:11 and UN 1994c:96). However, with better prospects for commodities, the UN is predicting a 2.5 per cent improvement in terms of trade for African economies in 1994, for the first time since 1990. The increase in prices of few primary commodities was related to changes in weather conditions. In light of the continuing slow growth in demand in the main trading partners with SSA countries, it is uncertain that the increase in basic commodities is sustainable (NAM 1994:40 and Salih 1994:4). In addition, the majority of SSA countries, particularly the poorest, depend on three agricultural commodities or less. The reliance on the export of a few primary commodities has made these economies highly sensitive to conditions in primary commodities' markets (Salih 1994:4 and World Bank 1993c:65).

particularly, among the countries embarking in economic reform programmes (Salih 1994:19-20 and Taylor 1988:152).² There is enormous demand in these countries for resources to reconstruct infrastructure and productive facilities after decades of insufficient maintenance and neglect of technological advancement in agriculture, industry, transport and communications as well as the demand for education and basic health services (NAM 1994:39).

The above considerations suggest that a significantly greater amount of external resources will be needed to restore investments in SSA countries (Helleiner 1994:3 and Salih 1993:107). Although improved external resource flows are considered vital for Africa's economic recovery, net resource flows fell or stagnated at best for the majority of SSA countries in the 1990s (Helleiner 1994:14 and UN 1994a:36). Overseas Development Assistance (ODA) accounts for 80 per cent of financial flows to Africa (UN 1993c:5). Although overall ODA flows to developing countries has increased nominally during the 1990s (or stagnated in real terms), both ODA and official development finance has dropped in nominal and in real terms for Africa in the two subsequent years after its peak year in 1990 (Helleiner 1993a:13; OECD 1994:204 and UN 1994a:36). Recent projections of SSA's growth assume no increase in the level of ODA flows to Africa (ECA 1994:37; Helleiner 1993b:14; UN 1993c:4 and UN 1994b:33). The reason for such pessimism stems from the increase in demand for ODA among a rising number of claimants, particularly Russia and Eastern Europe, and the non-competitive edge of SSA countries (UN 1994a:13).³

SSA is the only region in the world experiencing both declining and negative net direct investment as well as net private financial flows (UN 1994c:228-289). Several factors are to blame, such as limited saving instruments, uncertainty about African governments' commitment to SAPs, dependence on few primary commodities, poor commodity prices, high debt-burdens and other initial conditions limiting growth prospects (Salih 1994:40 and UN 1993c:5). At present, private financial flows are booming everywhere at order of levels not seen since the early 1980s, except in SSA. By comparison, private outflows from Africa increased by 14 per cent to exceed US\$ 61 billion in 1993 as capital flight continued and foreign investors stayed away (UN 1994b:11 and UN 1994c:96-97).

² Since the early 1980s, a total of 35 SSA countries have embarked on economic reform programmes supported by the World Bank and the International Monetary Fund, IMF (UNCTAD 1993:94). There are voluminous literature on the evaluation of Structural Adjustment Programmes (SAPs) in SSA (for example, ADB 1992; Chhibber and Fischer 1991; Commonwealth Secretariat 1993; ECA 1989; Elbadawi *et al.* 1992; Helleiner 1990, 1991 and 1993b; Hussain 1994; Lele 1993; Mkandawire 1989; Oyejide 1990; Sahn 1992; Salih 1993 and 1994; Summers 1992; Svedberg 1991; Taylor 1988 and 1993; Thomas *et al.* 1993; UN 1993 and 1994; UNCTAD 1992 and 1993; World Bank 1986, 1989, 1990, 1991, 1992, 1993 and 1994).

³ While SSA's share of ODA fell to 36.3 per cent in 1992 from 37.1 per cent in 1990, the share of Eastern Europe and the former Soviet Union rose from 1.4 per cent to over 7 per cent (UN 1994a:13).

TABLE 1
BASIC MACROECONOMIC INDICATORS FOR SUB-SAHARAN AFRICA (1980-92)

	1980	1990	1991	1992
Per Capita income (US\$)	560	480	470	450
Terms of Trade Index (per cent)	100	71	66	62
Exports Volume Index (per cent)	100	100	106	103
Exports Unit Value Index (per cent)	100	81	75	74
Imports Volume Index (per cent)	100	74	82	82
Imports Unit Value Index (per cent)	100	115	114	117
Exports Share of World Exports (per cent)	2.4	1.2	1.1	1.0
Imports Share of World Imports (per cent)	2.1	1.0	1.1	1.1
Share of Investment in GDP (per cent)	24	18	17	16
Share of Savings in GDP (per cent)	27	20	16	15
Population Growth rate (per cent)	2.8	3.0	3.1	3.1
Inflation Rate ¹ (per cent)	14	15	30	36
Official Development Finance (US\$ billion)	10.9 ²	21.1	19.0	18.5
Official Development Assistance, ODA (US\$ billion)	8.9 ²	19.7	18.3	12.1
Net transfers (US\$ billion)	9.1 ³	6.4	7.5	7.1
Debt-GNP ratio (per cent)	29	103	107	114
Sectoral Contribution to GDP growth:				
Agriculture (per cent)	0.7	-0.3	0.6	-0.6
Industry (per cent)	1.6	0.3	0.2	-0.3
Investment (per cent)	4.5	-0.9	-0.3	-0.6

Sources:

ABD (1992), Tables 2.2, 2.4, 2.14 and Chart 2.3, pp. 23, 24, 46 and 52, respectively.

ECA (1994), Figure 2, Tables II, IX and XIV, pp. 5-6, 9, 28 and 41, respectively.

Helleiner (1994), Table 1, p. 11.

Salih (1994), Tables 1, 4, 5 and 6, pp. 5, 9, 12 and 14-15, respectively.

World Bank (1994a), Table 5-1, p. 79.

World Bank (1994b), Tables 1-10, pp. 2-43.

World Bank (1994d), pp. 174-175.

UN (1994a), p. 36.

UN (1994c), p. 289.

UNCTAD (1994), Tables 1.9-1.10 and 2.1-2.5, pp. 28-29 and 42-46, respectively.

Notes:

¹ Measured by average annual growth rate of Consumer Price Index (CPI) for the region as a whole (ECA 1994, p. 5).

² Data for 1985.

³ Corresponding to net transfer in 1989. Net resource transfers (excluding short-term credits) for SSA also declined from US\$ 7.2 billion in 1991 to US\$ 6.7 billion in 1992 (Helleiner 1994, Table 4, p. 16).

Even with declines in net external transfers to SSA in the 1990s, interest rates on external debt and accumulated arrears on debt remained considerably higher than in the 1970s (NAM 1994:8 and Salih 1994:40). Past and current records show that domestic savings, investment rates, and exports are not likely to rise enough to fill the gaps in foreign exchange savings (Table 1; Helleiner 1994:2; Hussain 1994:26; Salih 1994:40; UN 1994b:33 and World Bank 1994a:81). This gap leaves the debt stock as one of the most viable source of finance.

Both the debt stock and the debt-to-GNP ratio in SSA increased steadily through the years. Growth in debt-to-GNP ratio was the only indicator to exceed population growth in SSA (Table 1). SSA is the only region in the world where debt exceeded Gross Domestic Product (GDP) since 1990 (Table 1). Despite progress in recent years to alleviate SSA's debt difficulties under conventional debt relief mechanisms, SSA's total indebtedness enormously grew to exceed 123 per cent of GNP at present, with severe debt servicing difficulties facing the majority of SSA countries (ECA 1994:39-41; NAM 1994:22, 25 and 29; UN 1994a:13-14 and World Bank 1994b:45-47). Despite repeated rescheduling, these countries have not been able to meet their debt-service obligations fully and on time during the last decade (Table 2).⁴ More than two-thirds of these countries had arrears exceeding 70 per cent, half had arrears exceeding 80 per cent and nearly a quarter had arrears in excess of 90 per cent during 1983-92 (Table 2).

Three-quarters of SSA's debt is at present owed to official bilateral and multilateral creditors, rather than to private creditors (NAM 1994:23 and the World Bank 1994d:175). France, Germany, Italy, Japan, UK and USA held almost 60 per cent of the debt and received 76 per cent of total debt-service in 1992 (Sonko 1994:1). The rapid increase in debt to official creditors from 66 per cent of long-term debt in 1987 to 76 per cent in 1992, reflects the large accumulation of arrears on debt to this group. Thirty-seven SSA countries owed a large proportion of arrears on debt to official creditors in 1992 (Table A1 in the appendix and NAM 1994:25). More than 90 per cent of these countries had arrears on debt to official creditors of more than 50 per cent of total arrears. For 23 countries (more than 60 per cent of SSA countries), the proportion ranged between 75 per cent and 100 per cent (Table A1 in the appendix).

Accumulation of arrears on debt to official creditors consists, to a larger extent, of arrears on bilateral debt and, to a lesser extent, of arrears on debt to multilateral creditors. The more rapid growth of arrears on debt to bilateral creditors is a consequence of the *de facto* status of multilateral creditors as 'privileged creditors' (Helleiner 1994:9 and NAM 1994:23). Debtor countries tend to give first priority to servicing their debt to multilateral creditors, in particular the World Bank and IMF.⁵ In fact, multilateral institutions were paid 84 per cent of the amount due to them on SSA's debt in 1992; while bilateral official creditors received only 14 per cent of their debt-

⁴ When external debt is not fully serviced, arrears will be accumulated and consequently stock of external debt will increase. SSA countries actually directed, on average, 6 per cent of GDP to external debt-service in 1990-92 (Helleiner 1994:19).

⁵ Debt to 'preferred creditors' is neither subject to rescheduling nor to reduction or forgiveness. As a result, an increasingly larger portion of total debt-service requirements accrued to multilateral creditors. Failure to meet debt-service obligations to multilateral creditors on schedule leads to severe penalties.

service claim (NAM 1994:48). Indeed, the 'preferred creditor' status of the IMF resulted in a reversed net transfer of resources from SSA countries to the IMF in the 1990s.

TABLE 2

SUB-SAHARAN AFRICAN COUNTRIES WITH CONTINUING ARREARS IN EXCESS OF 40 PER CENT DURING 1983-92¹ (IN PER CENT)

Country ³	Average over the decade ²
Angola	54.6
Benin	69.0
Chad	77.6
Equatorial Guinea	85.1
Guinea	70.0
Guinea-Bissau	82.8
Guyana	75.1
Liberia	97.6
Madagascar	62.9
Mauritania	57.0
Mozambique	95.2
Sierra Leone	88.2
Somalia	93.9
Sudan	97.4
Tanzania	82.0
Uganda	42.6
Zaire	57.2
Zambia	83.6

Source:

NAM (1994), Tables 9 and 4B, pp. 22 and 87, respectively.

Notes:

¹ Arrears are unpaid debt service obligations.

² Average arrears in terms of the median value of arrears.

³ Only five additional non-SSA countries have arrears in excess of 40 per cent during 1983-92. These are Haiti 45.7, Honduras 52.9, Yemen 62.4, Egypt 64.3 and Nicaragua 97 per cent. Egypt was the only country among these growing-debt developing countries that arrived at an agreement with its creditors for substantial debt reduction (NAM 1994, p. 21).

These payments were undertaken at times of severe import and budgetary constraints.

Given the limited resources available for debt-service payments, meeting the debt-service obligations on schedule to multilateral creditors could only be accomplished by further debt rescheduling. Historical rescheduling of SSA debt coupled with ODA financing of some multilateral debt-services resulted in even larger arrears to bilateral and private creditors, due to the interest-on-interest effect. Hence, arrears are considered a key indicator of the intensity of SSA countries' debt-burden, because of their undisputed nature as actual facts and a clear sign of the country's capacity to honour its debt (Helleiner 1994:14; NAM 1994:11; Salih 1994:43 and UN 1994a:14).⁶ Allowing arrears to continuously accumulate is hardly a solution to the debt crisis of SSA countries. Although it provides an instantaneous relief, it aggravates the long-run cost of the debt problem. Piecemeal rescheduling and extending finance to facilitate the servicing of interest on debt owed to the creditors do not serve the primary needs of the debtor countries: the immediate reduction of the total debt stock. Increasing claims for servicing foreign debt, urgent domestic consumption and investment requirements placed conflicting demands on declining income levels of SSA countries. Consequently, consumption, investment and debt-servicing capacity declined rapidly. For example, growing stock of foreign debt generates strong disincentives for potential investors in the debt-distressed SSA countries.

Therefore, a fundamental condition for the recovery and resumption of growth in SSA countries with serious debt-burdens is clearly the achievement of a significant debt relief beyond the recent initiatives, in particular for the severely indebted low-income countries, SILICs in SSA (Helleiner 1994:21; NAM 1994:40; Salih 1994:51 and Sonko 1994:10).⁷ Indeed, significant debt relief can be the most important external factor contributing to African economic recovery (Helleiner 1994:23 and Salih 1994:70). This claim is confirmed empirically in this paper. The paper argues the case for a debt management strategy that utilizes debt forgiveness in addition to applying the ongoing debt-for-development swaps on a large scale. The need for a sizeable debt-reduction is particularly relevant to SILICs in SSA. This is necessarily illustrative, as it does not go into detail for any particular country. Rather it demonstrates that per capita growth in SSA countries continue to decline or stagnate under the burden of the growing foreign debt over the past two decades. This claim is verified empirically by the posited debt-growth model. The purpose of this formulation is to start a conceptual analysis of

⁶ As a rule, countries with large arrears cease to be eligible for development loans from international financial institutions. Trade financing from foreign commercial banks and suppliers is frequently curtailed or ceases altogether. Moreover, creditors may take retaliatory measures in finance and trade (NAM 1994:11).

⁷ SILICs refers to countries with debt-GNP ratio in excess of 80 per cent or debt-export ratio exceeding 220 per cent and GNP per capita of no more than US\$ 675 in 1992 (Helleiner 1994:10). Other studies define SILICs in addition to having a low per capita income, they must fulfil three of four criteria: debt-GNP ratio of at least 50 per cent, debt-exports ratio of at least 275 per cent, debt-service-to-exports ratio of at least 30 per cent and interest-to-exports ratio of at least 20 per cent (SIDA 1992:29). The World Bank classifies low-income countries with GNP per capita of less than US\$ 675 and a threshold of arrears in excess of 20 per cent of scheduled debt-service as SILICs (NAM 1994:8). The latter definition suggests that 38 SSA countries were SILICs in 1992 relative to the 32 countries reported by the World Bank (Table A2 in the appendix and World Bank 1994d:45).

the issue of the debt reduction and the quantitative impacts of several debt write-off strategies on growth for SSA countries. The quantitative analysis and its impacts on sustainable growth, to my knowledge, has not been done before.

Scaling down the debts of SSA countries by the magnitude suggested in the Naples proposal (90-95 per cent) would seem to be an appropriate objective to be aimed at in international debt policy to impact on poverty-reducing growth in SSA (EURODAD 1994:1).⁸ The impact would be higher, if the debt-reduction could be applied to all creditors: bilateral official creditors, private sector lenders and multilateral creditors. Debt-for-nature and debt-for-development conversion schemes proved successful in several SSA countries such as Ghana, Madagascar, Niger, Sudan and Zambia and could be applied on a larger scale to make a difference in the future (World Bank 1994d:116-117).

IDA 'fifth dimension' allocations have also proven appropriate to relief overhang of IBRD loan to SILICs in SSA (Helleiner 1994:29 and World Bank 1994d:40).⁹ An adoption of such a facility or analogous arrangements by IMF, African Development Bank (ADB) and Paris Club would be desirable to refinance earlier loans made at harder terms to SILICs in SSA. In addition, conversion of a portion of multilateral debt into productive instruments to promote privatization and infrastructural projects could be considered to support and sustain adjustment programmes in SILICs of SSA (Salih 1994:51). There is broad professional agreement for a significant and holistic reduction of SSA debt to meet needs, policies and growth prospects of individual countries (Helleiner 1994:23 and Sonko 1994:10 among others). Indeed, the preferred leading course suggested by the Dutch Minister for Development Cooperation, Mr Jan Pronk, in September 1990 of a total debt write-off for SILICs by all bilateral creditors would, *ceteris paribus*, turn growth in SSA from its negative real per capita growth to a positive one.¹⁰ Further, our analysis suggests that positive per capita growth accelerates investment. The analysis also indicates that a strong turnaround in growth is required to increase savings rates. The increased level of savings is required to finance the investment needed to sustain growth (Salih 1994:2 and World Bank 1994c:156).

⁸ This is consistent with the 82-90 per cent discount off face value, equivalent to the debt price of 10-18 cents on the dollar, of SSA countries' negotiated debt buy-out of commercial debt in secondary markets (buy-backs) and/or *de facto* default on official bilateral debt. The latter is virtually not being serviced at present (Helleiner 1994:25; NAM 1994:37 and Salih 1994:50). The buy-backs have been at discounted prices of 10 per cent for Mozambique, 12 per cent for Uganda and 18 per cent for Niger. Several Non-Governmental Organizations (NGOs) in Europe campaigned for a relief up to 90-95 per cent for SILICs (EURODAD 1994:3).

⁹ International Development Association (IDA) fifth dimension programme introduced in 1989 allocated annually a portion of its reflow to finance over 90 per cent of the interest due on earlier IBRD loans to 12 SSA countries (World Bank 1994d:40). Seventy-two per cent of the total fifth dimension allocation has been received by IDA-only SSA countries that are undertaking adjustment programmes.

¹⁰ The Dutch Minister for Development Cooperation, Mr Jan Pronk, advanced a proposal to reduce the burden of bilateral debts in September 1990. He suggested that all bilateral creditors should collectively forgive concessional and nonconcessional debts of SILICs and other low-income countries that are undertaking SAPs. In 1991 Mr Javier Pérez de Cuéllar, then-Secretary General of the United Nations, proposed total forgiveness of all bilateral debts in SSA countries (SIDA 1992:50).

However, the debt-burden in SSA is the main obstacle to resuming a positive growth, to sustain economic reforms and to improve trade.

The aims of this study are threefold. First, to explain the character and uniqueness of the debt crisis in SSA. Second, to show that the adopted short-term measures to attack the debt problem were limited in scope and fell short of treating the debt overhang. Lack of a long-term approach to solve the debt problem *en masse* will mainly result in larger stock of debt as arrears continue to build up; thus bringing economic development to a halt. Finally, the study argues the needs to scale down the debts of SILICs in SSA beyond the prevailing debt initiatives. Both the first debt crisis and the implementation of the piecemeal debt relief measures demonstrated that applying debt-reduction by one class of creditors would not result in a sufficient effective aggregate debt-service reduction. Indeed, efficiency principle as well as equity consideration suggest concerted effort and burden-sharing to reduce uncertainty of SSA's external financial position.

The move toward significant debt-reduction will also encourage reluctant and non-adjusting countries to adopt reform policies and to improve their credit-worthiness. One implication of this approach is that some debtor countries may not adopt strong reform programmes and/or return to heavy borrowing after benefiting from the suggested debt reduction scheme; hence giving rise to the so-called 'free rider' and/or 'moral hazard' problem. In this case, creditors would still protect themselves against both the free rider and moral hazard problem by continuing to require acceptable policy performance before such a major reduction-conversion of debt are undertaken. It seems now that the reciprocity concept is widely accepted and has actually been implemented throughout SSA. Further, the reduction of debt obligations in line with the ability to pay removes the debt overhang distortion affecting both domestic and foreign investors and makes possible faster economic growth on a sustainable basis.

Section II of this study presents the basic data on external debt and transfers to SSA countries. Section III reviews the past initiatives and efforts made to provide debt relief to debtor countries. Section IV assesses the quantitative impacts of past and current debt relief efforts on growth in SSA and, in turn, on requirements to sustain growth. This section highlights the scale of the preferred solution of the debt-burden and the role of major institutions dealing with the debt management. The concluding section contrasts the gravity of the debt crisis with the effectiveness of its solution and offers caveats on the way ahead.

II DEBT-BURDEN IN SUB-SAHARAN AFRICA

The current debt crisis is different from the first crisis of 1982.¹¹ The first international debt crisis affected some of the highly indebted middle-income countries, particularly in Latin America and the international financial system. Since the May 1989 evolution of the debt strategy (the so-called Brady Initiative), the debt problems of a number of middle-income indebted countries either have been resolved or receded (NAM 1994:7; President Soeharto 1993; UN 1994c:102 and World Bank 1994b:34). The Brady Initiative has substantially improved the credit-worthiness of a number of major Latin American debtors. However, the current debt crisis affects mainly low-income developing countries, most of them in Sub-Saharan Africa (SSA), and their debt represents no threat to the international financial system (Salih 1994:42; UN 1994a:12 and World Bank 1994a:80).

The external debt stock of African countries has tripled during the past ten years, approaching US\$ 200 billion at the end of 1993 (UN 1994a:12 and World Bank 1994d:174). Although the SSA share of the LDCs debt stock stood in the early 1990s and projected to stay at 12 per cent in 1993, SSA is the most overburdened region of the world by foreign debt (Table 3). Its debt to GNP ratio exceeded 100 per cent in the 1990s (Table 1). This ratio is the highest amongst all developing regions; reaching 123 per cent of GNP in 1993 (ECA 1994:41). The ratio was 37 per cent for South Asia and 40 per cent for low-income countries (Table 4). Out of the 40 SSA countries for which data was available, 36 countries (90 per cent) registered a debt-GNP ratio in excess of the average for all low-income economies, 22 countries exceeded the threshold ratio (80 per cent) for SILICs and 15 countries exceeded 100 per cent in 1992 (Table 4).

The debt indicators for SSA in 1992 have stagnated. The debt-to-export ratio is the same for SILICs of SSA and the severely indebted countries as a whole. However, it exceeded those for SSA region as a whole (Tables 3 and 5). The ratio exceeded 410 per

¹¹ In many respects the origins of the two crises are similar; however, the extent of the burden is different. Similar to highly indebted countries, fluctuations in commodity prices and the resulting excessive government expenditures were to blame. Real commodity prices for the major commodity exports (including cocoa, coffee, cotton, groundnuts, sugar, tea, bauxite and uranium) peaked in the mid or late 1970s. These booms lowered the real cost of borrowing and led to optimistic expectations that future export revenues would rise in line with growth in external obligations. Even countries with no major commodity export booms (e.g., copper exporters like Zaire and Zambia and iron ore exporters like Liberia and Mauritania) could borrow against their previous growth, mineral reserves and future expectations of rises in mineral prices. Low-income countries were credit-worthy then. At that time, export credit agencies were also under pressure to promote exports to help offset the rising cost of oil imports. As a result, intense exports of intermediate and capital goods to low-income African countries increased and financed (or guaranteed) by export credit agencies. When the optimism of the future faded and unrealistic development strategies failed, the decline in export prices coupled with a slump in industrial countries' growth, economies were unable to adjust, thus creating a debt problem (Humphrey and Underwood 1989; SIDA 1992:8 and Sonko 1994:5).

cent for SILICs, 290 per cent for South Asia, 270 per cent for Latin America, 190 per cent for North Africa and 95 per cent for East Asia in 1992 (Table 3). Despite improvement of both debt-exports and actual debt-service ratios for SILICs in SSA during the early 1990s, the ratio of debt stock to exports reached 430 per cent in 1993 (Table 5).

Similar to all developing countries, actual debt-service payments as a percentage of export have declined or stagnated in the 1990s relative to the late 1980s, but arrears (i.e., debt-service obligations) have grown rapidly. As a result, actual debt-service plus arrears had climbed from less than 64 per cent in 1990 to a staggering 85 per cent of exports by 1992 (NAM 1994:13). The number of countries with arrears in excess of 80 per cent increased substantially from 11 (less than a third of SILICs in SSA) to 20 (more than half of SILICs in SSA) in 1992. The latter figure is higher than the proportion for all SILICs of the world (Table A2 in appendix and NAM 1994:9). Table A2 implies that half of the 38 SILICs in SSA had actual arrears of more than 85 per cent (median value) of their debt-service due. In other words, half of the SSA countries with arrears exceeding 20 per cent in 1992 met less than 15 per cent of their debt-service payment and nearly two-thirds of the countries met less than one-quarter in 1992. Such an indicator also demonstrates the inability of these countries to meet their debt-service on originally agreed terms, or simply the debt-service is beyond their capacity to pay. This makes arrears a key indicator of the intensity of a country's debt-burden. Thus, a compelling case exists for debt-reduction on the entire stock of debt rather than only on concessional debt-service obligation. Encouraged by the significant reduction on the debt stock of Poland and Egypt, both the UN General Assembly and the Dutch Minister for Development Cooperation called upon developed creditor countries to write-off the official bilateral debt owed by the least developed countries (SIDA 1992:52 and UN 1993b:7).¹² This is particularly relevant to Africa since three-quarters of its external debt is owed to official creditors and bilateral debt represents more than 60 per cent of the official debt in the 1990s (World Bank 1994d:175).

The rapid increase in debt to official creditors reflects the large accumulation of arrears on debt to this group. Of the 37 SSA countries in arrears in excess of 20 per cent, 34 had arrears in debt to official creditors of more than 50 per cent of total arrears in 1992 (Table A1 of the appendix). For 26 countries (70 per cent) the proportion exceeded 70 per cent, 20 countries (55 per cent) the proportion exceeded 80 per cent and 12 countries (or close to one-third) the proportion ranged between 90 and 100 per cent (Table A1 of the appendix). In addition, total net transfers to the SSA countries have shown a tendency to decline in the 1990s, after rising in the second half of the 1980s and peaked in 1989 (Table 1 and OECD 1994:69).

¹² Debt forgiveness of up to 50 per cent in net present value extended to Poland and Egypt in April and May 1991, respectively, by official bilateral creditors. Some creditors have gone beyond 50 per cent forgiveness for both Egypt and Poland. The United States (US) announced that it would provide debt relief with a net present value of 70 per cent for Poland. The agreement with Egypt permitted the 1990 cancellation of US\$ 6.7 billion in military debt by the US to count as part of the creditors concessions (Lancaster 1991 and World Bank 1991b). Egypt received exceptional Paris Club treatment: US\$ 13 billion debt-reduction (World Bank 1994d:45).

TABLE 3
DEBT INDICATORS 1980-92 (IN PER CENT)

Country group	Share of 1992 total debt	Debt-to-exports ratio														Debt-to-exports service ratio											
		1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
All developing countries	100	89	..	..	..	..	..	202	197	178	168	162	170	174	14	..	..	..	..	..	26	24	23	21	19	19	19
Severely indebted	47	..	..	..	..	..	..	..	391	356	334	323	343	326	..	..	..	..	..	..	..	32	35	32	26	27	29
Low-income	13	127	..	209	279	280	332	515	601	572	557	471	442	413	11	..	19	23	27	30	31	23	28	28	26	22	19
Middle-income	34	154	..	275	318	258	278	353	348	311	290	290	318	303	28	..	47	42	36	35	40	34	36	33	27	28	32
Sub-Saharan Africa	12	91	136	182	224	204	233	237	252	245	241	227	237	235	10	..	19	23	25	27	25	20	21	18	18	17	17
East Asia and Pacific	19	97	76	115	124	117	137	156	136	113	103	104	103	96	14	..	18	18	18	24	24	25	19	17	16	13	13
Latin America and Caribbean	30	207	211	269	309	291	313	392	384	327	289	276	276	272	37	..	48	43	40	38	44	38	40	33	27	26	30
North Africa and the Middle East	11	38	129	146	159	209	188	167	164	163	150	115	127	192	5	..	21	23	29	21	20	16	18	18	15	16	25
South Asia	8	163	167	207	213	213	265	297	305	298	292	298	260	269	12	..	15	18	18	23	29	28	27	26	26	22	21
Other countries	20	46	..	95	108	92	99	93	83	72	67	62	67	74	7	..	15	15	17	19	18	18	15	12	11	10	11

Source:

World Bank. World Debt Tables. 1988-89, 1989-90, 1990-91, 1991-92, 1992-93 and 1993-94, Vol. 1, Table 2.5, p. 33. The World Bank, Washington, D.C.

Note:

.. means not available.

TABLE 4
DEBT AND GNP IN SUB-SAHARAN AFRICAN COUNTRIES, 1992

Country	Total Debt Stocks US\$ million	GNP in US\$ million	Total Population in millions	Per Capita Debt in US\$	Per Capita GNP in US\$	Debt per GNP ratio (per cent)
Core Group of Adjusters	75307	68730	262.586	286.79	261.75	110
Burundi	1023	1083	5.823	176	186	94
Gambia	379.4	373	0.908	418	411	102
Ghana	4275	6778	15.959	268	425	63
Guinea	2652	3119	6.116	434	510	85
Kenya	6367	7623	25.23	252	302	84
Lesotho	471.6	1122	1.836	257	611	42
Madagascar	4385	2856	12.827	342	223	154
Malawi	1699	1808	10.356	164	175	94
Mauritania	2303	1124	2.143	1075	524	205
Nigeria	30998	28000	115.664	268	242	111
Tanzania	6715	2528	27.829	241	91	266
Uganda	2991	3096	18.674	160	166	97
Zambia	7041	3800	8.638	815	440	185
Zimbabwe	4007	5421	10.583	379	512	74
Members of CFA	45693	46165	75.886	602.13	608.35	99
Benin	1367	2118	4.918	278	431	65
Burkina Faso	1055	2896	9.513	111	304	36
Cameroon	6554	10337	12.198	537	847	63
Central Afr. Rep.	901	1317	3.173	284	415	68
Congo	4751	2565	2.368	2006	1083	185
Côte d'Ivoire	17997	8692	12.91	1394	673	207
Gabon	3799	5356	1.237	3071	4330	71
Mali	2595	2786	9.818	264	284	93
Niger	1711	2314	8.252	207	280	74
Senegal	3607	6218	7.736	466	804	58
Togo	1356	1567	3.763	360	416	87
Small economies with population less than a million each	1634.2	2284	3.208	509.41	712	72
Cape Verde	159.9	353	0.384	416	920	45
Comoros	173.2	262	0.585	296	447	66
Djibouti	189.5	..	0.467	406	..	..
Equatorial Guinea	246.4	122	0.369	668	330	202
Guinea-Bissau	634	208	1.006	630	206	306
São Tome & Príncipe	189.8	..	0.124	1531	..	..
Seychelles	181	380	0.072	2514	5273	48
Swaziland	239.7	960	0.792	303	1212	25

Table 4 (continued)

Country	Total Debt Stocks US\$ million	GNP in US\$ million	Total Population in millions	Per Capita Debt in US\$	Per Capita GNP in US\$	Debt per GNP ratio (per cent)
Social unrest	39146.1	19650	152.139	257.30	129	199
Angola	9645	..	9.888	975	..	..
Chad	728.8	1298	5.846	125	222	56
Ethiopia	4354	1966	52.981	82	37	221
Liberia	1952	..	2.751	710	..	..
Mozambique	4928	805	14.872	331	54	612
Rwanda	873.3	1576	7.526	116	209	55
Sierra Leone	1265	530	4.376	289	121	238
Somalia	2447	..	9.204	266	..	..
Sudan	16085	5896	26.656	603	221	273
Zaire	10912	7578	39.882	274	190	144
Outliers	1592.7	6576	2.411	660.60	2728	24
Botswana	544.7	3581	1.313	415	2728	15
Mauritius	1048	2995	1.098	954	2728	35
SSA	194264	..	520.198	375	295 ¹	117 ²
South Asia	133354	..	1162.959	115	310	37
All low-income economies	501601	..	..	155	390	40

Sources:

IMF. 1994. *International Financial Statistics*, July, International Monetary Fund, Washington, D.C.

World Bank. 1994a. *World Tables*, 1994. The World Bank, Washington, D.C.

World Bank. 1994b. *World Debt Tables*, 1993-94, Vol. 1, The World Bank, Washington, D.C.

World Bank. 1994c. *World Debt Tables*, 1993-94, Vol. 2, The World Bank, Washington, D.C.

Notes:

GNP in US\$ million is obtained by multiplying GNP in domestic currency by the corresponding US\$ exchange rate.

The computed per capita GNP are comparable with those in World Bank (1994a), Table 1, pp. 2-5.

¹ Weighted average of per capita GNP for all SSA (except South Africa, Angola, Djibouti, São Tome & Príncipe and Somalia) and the weights correspond to the relative population size of each country in SSA.

² GNP Debt ratio excluding South Africa and Namibia.

.. means not available.

Increased resources are needed to reverse this trend in order for the debt-distressed countries to sustain the momentum of the reform, to import, invest and grow. Not only does equity demand the extension of the Polish and Egyptian debt arrangement to SSA, but the conventional short-term measures have proved ineffective. Conventional rescheduling does not increase net resource transfers; but simply alters the profile of the transfers over time. Rescheduling actually reduces cumulative net transfers because of the additional financing charges when interest is consolidated. Concessional debt relief can increase transfers by reducing debt-service payments over a specified time period. This increase will materialize only to the extent that creditors do not finance concessional rescheduling out of existing aid budgets and that debtors would have eventually serviced their debt. Extending terms reduces debt-service payments for only a limited period and, so far, has led to a steady accumulation of both debt and interest arrears to bilateral creditor governments (Table 5, Helleiner 1994:13).¹³ The more rapid growth of arrears on debt to bilateral creditors and, to a lesser extent, to multilateral creditors is a consequence of the status of multilateral creditors as 'preferred creditors'. Debtor countries tend to give first priority to servicing their debt to multilateral creditors, in particular the World Bank and IMF. In 1992, SSA countries actually paid 84 per cent of the scheduled debt-service to multilateral institutions, private creditors received 69 per cent of their debt-service claim, while bilateral creditors received only 14 per cent of what was due to them (NAM 1994:48). Thus, the proportion of debt-service payments to multilateral creditors was much larger than the proportion of outstanding debt owed to them. The rapid increase in debt-service payments has been accompanied by a sharp decrease in net transfers of resources from the creditors to debtor countries.¹⁴

The policy of international financial institutions, in the face of the SSA's debt crisis, has been designed to assist the countries' balance of payments through extension of new loans (if possible on concessional terms) rather than to reschedule or reduce their existing claims (Helleiner 1994:31 and NAM 1994:51).¹⁵ Since 1984, net transfers on debt from the IMF to SSA as a whole have been negative (Helleiner 1994:31 and NAM 1994:35).¹⁶ That is, a large proportion of current bilateral concessional resources is

¹³ A common trend across African countries has emerged, namely, a shift toward official creditors and away from private creditors in the composition of debt. This shift has occurred distinctly in the active Special Programme Assistance (SPA) countries. In 1990, official debt of active SPA countries stood at US\$ 45 billion or 81 per cent of their total debt relative to 60 per cent in 1980. SPA core countries are those that were eligible during most of 1988-90. They include Benin, Burundi, Central African Republic, Chad, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, São Tomé and Príncipe, Senegal, Tanzania, Togo and Uganda; they exclude Somalia and Zaire, which became inactive, and Zambia, which joined in late 1990 (World Bank 1991b).

¹⁴ Net transfers on debt are defined as loan disbursements minus debt-service payments.

¹⁵ Debts with a grant element of at least 25 per cent are considered concessional. The grant element depends on the rate of interest, the grace period and the maturity.

¹⁶ The 'preferred creditor' status of the IMF led to a reversed net flow of resources from SPA countries in SSA in particular to the IMF for each of the past ten years, while in 1983 there was a net flow of resources from the IMF. The same was true for the SILICs except for 1992 when there was a small positive IMF transfer of US\$ 36 million (Helleiner 1994:18). However, the World Bank IDA concessional terms was helpful in alleviating some SILICs' balance of payment pressures resulting from earlier borrowing on nonconcessional IBRD hard terms (NAM 1994:51).

being diverted from financing growth to finance debt-service to multilateral institutions. In addition, current procedure is raising the overhang of debt stock as other creditors capitalize arrears and multilateral institutions refinance with new loans. As discussed earlier, the debt overhang discourages investment and growth in SSA countries. Permanent reduction in debt-service payments can be achieved by forgiving debt, writing off debt-services when due, or rescheduling at reduced interest rates.

TABLE 5
DEBT INDICATORS FOR SEVERELY INDEBTED LOW-INCOME COUNTRIES (SILICs)
IN SUB-SAHARAN AFRICA, 1980-93

	1980	1986	1988	1990	1991	1992	1993 ¹
Debt-Export Ratio (%)	127	515	572	471	442	413	432
Debt-Export Service Ratio (%)	11	31	28	26	22	19	15
Concessional-Debt Ratio (%)	33	29	29	32	33	34	46
Multilateral-Debt Ratio (%)	13	14	15	17	17	18	19
Total Interest Arrears on Long-Term Debt (US\$ million)	567	5307	..	12487	11382	11433	14531
Interest Arrears to Official Creditors (US\$ million)	488 (86%)	4352 (82%)	..	9195 (74%)	8823 (78%)	8823 (77%)	..
Interest Arrears to Private Creditors (US\$ million)	79 (14%)	956 (18%)	..	3292 (26%)	2559 (22%)	2610 (23%)	..

Sources:

Helleiner (1994), Tables 1 and 3, pp. 11-13 and The World Bank (1994d, pp. 32-33 and 174-175).

Notes:

¹ Provisional.

.. means not available.

III DEBT INITIATIVES

3.1 Reschedulings with Paris Club

The Paris Club of OECD creditor governments reschedules and reduces official bilateral debt. The Club was created as a forum for countries with temporary balance of payments problems (SIDA 1992:45).¹⁷ The London Club of *ad hoc* steering committees of commercial banks recognizes commercial bank debt (NAM 1994:viii).

Of the 25 SSA countries that rescheduled their debt with debt collectors during 1980-88, 85 per cent were low-income countries. These countries had 88 agreements (about 85 per cent of total agreements) within the multilateral frameworks of the Paris and London Clubs (Humphreys and Underwood 1989). Of these agreements, 75 per cent were with the Paris Club. These reschedulings reduced scheduled debt-service payments by US\$ 10 billion during the same period (i.e., 75 per cent of total debt-service payments). The annual consolidation of debt-service obligations tripled between 1980 and 1986. Paris Club agreements oblige debtor governments to seek comparable treatment from non-Paris Club creditors, such as former east European countries (including Russia) and Organization of Petroleum Exporting Countries (OPEC) members. Rescheduling with Paris Club has increased African debt by US\$ 10 billion during the 1980s (SIDA 1992:46).

In June 1987, the Venice Summit agreed to improve Paris Club practices for the debt-burden low-income countries (mostly in Africa) that are undertaking adjustment efforts. Venice terms suggest that consideration should be given to the possibility of applying lower interest rates on existing debt of the poorest countries, especially in the Paris Club, and on longer repayment and grace periods to ease the burden.¹⁸ Consequently, Mozambique, Somalia, Guinea-Bissau, Niger and Malawi have received 20-year maturities, including a 10-year grace period (Humphreys and Underwood 1989).

¹⁷ The Paris Club was created in the late 1950s to deal with the liquidity problems then faced by a small number of debtor countries, mostly in Latin America. The debt crisis of the 1980s caught the Club unprepared and its response was slow. Until 1987, it operated by and large under the tenet of business as usual. It continued to apply virtually the same terms to all rescheduling countries, insisting on short-leash approach (or maintaining strong links between creditor action and IMF programmes) and directing relief toward meeting immediate cash flow requirements. Nonconcessional debt was consistently rescheduled at market interest rate (UNCTAD 1993).

¹⁸ In 1987, a special meeting of the Organization of African Unity (OAU) convened to consider Africa's debt crisis. The meeting called for a 10-year moratorium on African debt repayments.

3.2 Toronto terms

The agreement by major creditor governments at the economic summit in Toronto in 1988 called for restructuring nonconcessional public debt (mainly export credits) within the Paris Club in one of a menu of three options. Creditors could choose to cancel one-third of the principal due during the consolidation period and reschedule the remainder to be repaid at market rates of interest with an 8-year grace period and 14-year maturities. Or, they could choose to reschedule the entire principal but charge below-market rates of interest, again to be repaid over an 8-year grace period and 14-year maturity. A third option was to reschedule all of the debt at market interest rates but with a 14-year grace period and a 25-year maturity period (Lancaster 1991). The agreement of the Toronto menu approach broke with past creditor-government practice in resisting any rescheduling of nonconcessional bilateral public debts on concessional terms.¹⁹

Since the adoption of the Toronto terms, 18 African countries have rescheduled only US\$ 6 billion of debt-service in 26 agreements with the Paris Club and most of them failed to reduce interest rates or debt-service (SIDA 1992:47 and World Bank 1991b).²⁰ As a result of these Toronto term reschedulings, the debt-burden of these 18 countries is lower by 2.5 per cent of the net present value of their scheduled debt-service payment at the end of 1989 (World Bank 1991b). Other lower middle-income countries, such as Congo and Nigeria rescheduled their official bilateral debt in 1990 and 1991, respectively, at the Paris Club under Houston terms. Houston terms allow for 15-20 years' maturities and for the possibility of limited debt conversions (UNCTAD 1993:169). That is, creditor governments have recognized the need for reducing the nonconcessional official debt owed by low-income countries. This approach, used first in the Poland and Egypt cases, will eventually benefit low-income countries under the enhanced Toronto agreement.

3.3 Enhanced Toronto terms

The enhanced Toronto agreement was adopted in December 1991. The agreement provides for a 50 per cent reduction in the net present value of the amount of arrears and debt-service payments due during the consolidated period for low-income countries. Paris Club creditors also agreed to consider a reduction of the entire stock of debt three or four years after the first agreement under the new terms (UNCTAD 1993:171).²¹ Since the inception of the enhanced Toronto terms, a total of 12 SSA

¹⁹ The US agreed for the first time that concessional interest rates could be applied by other creditors in such reschedulings, although it refused to provide concessional interest rates itself (Lancaster 1991).

²⁰ Zaire alone accounted for 25 per cent of the amount rescheduled up to the end of 1989 (SIDA 1992:47). The 18 SSA countries include 17 low-income countries and Senegal. Senegal is classified as middle-income but is considered poor enough to be eligible to borrow from the International Development Association (IDA), the World Bank's soft loan window (Lancaster 1991 and World Bank 1991).

²¹ Some creditor countries (US and Australia) have not yet accepted to grant the new concessional treatment and continue to apply extended maturities and market-related interest rates. However, the US

countries had reached an agreement with the Paris Club by October 1993 under those terms (World Bank 1994d:89). The new terms are expected to reduce considerably the debt-service obligations of half of the potential beneficiaries to a level compatible with the capacity of low-income countries to pay (World Bank 1994d:43).²² A significant number of creditor countries have publicly acknowledged the inadequacy of these terms and are ready to adopt the Trinidad terms. The European countries implicitly embraced the terms of reducing two-thirds of the debt; while the Nordic countries would be willing to opt for a reduction of 80 per cent (UNCTAD 1993:171).

3.4 Trinidad terms

The Development Minister of the Netherlands proposed in early September 1990 that creditor countries extend, collectively, a complete forgiveness of bilateral debt to the poorest developing countries facing severe debt-burden (SIDA 1992:50). In late September 1990, John Major, Prime Minister of Great Britain but then the Chancellor of the Exchequer, proposed, at a meeting of the Finance Ministers of the Commonwealth in Trinidad, four modifications in the Toronto terms for debt restructuring; hence, the proposal became known as Trinidad terms (Lancaster 1991 and Avramovic 1992). The plan calls for forgiveness of two-thirds of nonconcessional debt stocks and market interest on the residual debt. No interest is paid during the first five years, but interest due is capitalized and added to the residual debt. Maturity is 25 years (SIDA 1992:48). The terms for concessional debt are equivalent to the Toronto terms with the extension of maturity to 25 years and grace period of 14 years.

In the Trinidad terms, countries already given Toronto terms will be allowed to reschedule their debt in Trinidad terms. According to the Trinidad proposal, the entire debt stock may be restructured at once; instead of the time-consuming restructuring process of the Toronto scheme. In addition the grant element in Trinidad terms is estimated at 68 per cent compared to 19 per cent and 81 per cent in Toronto and IDA terms, respectively (SIDA 1992:48). The Trinidad proposal was discussed at the 1991 economic summit in London in July 1991 and the G7 agreed to achieve major debt relief for the poorest countries within the framework of the Paris Club.²³ The same phrase has been echoed in the G7 *communiqué* in the Naples summit, 1994 (EURODAD 1994:6 and Third World Economics 1994:4).²⁴

administration has recently sought congressional approval for legislative and budgetary measures to allow the US to reduce low-income countries' debt.

²² However, for the other half, debt-burdens would be expected to remain high (Salih 1994:48).

²³ G7 is the Group of Seven wealthiest nations: Canada, France, Germany, Great Britain, Italy, Japan and the US. Although the European countries were willing to follow the G7 recommendation, US has been against introducing the Trinidad terms.

²⁴ International NGOs in 16 European countries organized a Debt Treaty Movement (DTM) and sent a letter to the leaders of the G7 countries at the Naples summit stating the position of DTM on debt relief for the poorest countries. The proposed Naples terms called for an immediate 80 per cent reduction of debt stock for SILICs and in some cases up to 90-95 per cent. This must be part of a comprehensive package of debt relief from all official bilateral, multilateral and commercial creditors. Third, debt write-off can be attained through a policy-mix which does not risk the rating of multilateral banks such as issuing new SDRs and selling some of IMF gold stocks. Fourth, aid money should not be diverted for debt

In 1992, paid debt-service on bilateral debt accounts for only 14 per cent of total debt-service of SSA, while 40 per cent of payments by SSA countries were to multilateral institutions compared with 24 per cent to severely indebted middle-income countries (NAM 1994:21). Multilateral debt-service payments was also much larger relative to the proportion of outstanding debt owed to them: 84 per cent for multilateral and only 14 per cent for bilateral creditors in 1992. At the same time loan disbursement from multilateral creditors was stagnant during 1983-92. Although loan disbursement increased from the World Bank during the period, the IMF reduced its loan disbursement substantially between 1983-92. Only the ADB increased loan disbursement from US\$ 0.2 billion in 1983 to US\$ 2.1 billion in 1992 to SSA countries. Despite the increase in debt-service payments to ADB from US\$ 0.1 billion in 1983 to US\$ 0.4 billion in 1992, SSA countries have continued to receive net transfers of resources from ADB (NAM 1994:32). In contrast, there were reversed net transfers of resources from SSA countries to the rest of the creditors in the 1990s.

3.5 Multilateral debt problem

The World Bank and the IMF have also implemented programmes aimed at easing the immediate debt-burden for low-income countries on earlier loans, now maturing, from these institutions. In 1988, the World Bank set aside 10 per cent of IDA refloows and investment income to ease the interest payments on World Bank loans for qualifying low-income countries.

The World Bank has supplemented these funds with others to provide nine low-income, debt-distressed countries with concessional loans sufficient to finance 60 per cent of their interest payments to the World Bank. In September 1989, the Bank also established a Debt-reduction Facility for low-income countries. This facility, financed from the Bank's net income, will make up to US\$ 10 million in grants to individual debtors to buy back private debt at deep discounts (NAM 1994:50 and World Bank 1992d:67). Seventeen African countries, with an aggregate debt to banks of more than US\$ 2 billion, have requested the use of this facility (World Bank 1992d:67 and Avramovic 1992). Niger, Mozambique and Uganda were the only beneficiaries until the end of 1993 (NAM 1994:50).²⁵ The facility remains the only financing mechanism that offers SILICs the prospect of obtaining the financing to reduce partially commercial debt obligations (World Bank 1992d:67).

relief and finally the debt relief should be discussed in a more open forum (EURODAD 1994:5-6). In the Naples summit, all G7 members (including Japan for the first time) have supported debt stock reduction publicly.

²⁵ The discount prices ranged between 18 per cent and 10 per cent of face value for Niger, Mozambique and Uganda. The facility cannot be used to help major debtors to private banks such as Nigeria and Côte d'Ivoire. Both countries are not classified as very poor (IDA only) and their debts to private creditors stand at about US\$ 17 billion and US\$ 4 billion, respectively in 1990. This certainly requires more than US\$ 10 million each to buy back a significant portion of their commercial debt (Avramovic 1992 and NAM 1994:51).

In the past decade, the largest net negative resource flows from low-income Africa to any creditor institution have been to the IMF; these flows averaged US\$ 200 million per year since 1984 (Helleiner 1994:31). In 1986, the IMF set up its Structural Adjustment Facility (SAF) and, in 1987, its Extended Structural Adjustment Facility (ESAF) to make loans on concessional terms to low-income countries with chronic balance of payments problems. Together, the SAF and the ESAF can lend US\$ 12 billion on terms of 10 years' repayment, 5 years' grace, with an interest rate of 0.5 per cent. These facilities were initially welcomed as a method of informally refinancing low-income countries' nonconcessional debt to the IMF on concessional terms. However, disbursements were extremely slow. By March 1991, SAF and ESAF loans of US\$ 1.9 billion had been committed to 16 low-income African countries, with US\$ 1.2 billion actually disbursed. By April 1991, US\$ 2.0 billion had been obligated to 20 African countries, with US\$ 1.1 billion disbursed (Lancaster 1991 and SIDA 1992:62).

The impact of these loans was significantly reduced by the stringent requirements that nonconcessional debt-service be paid at the original terms (NAM 1994:36).

During 1990-91, IMF and the World Bank adopted new approaches for large protracted arrears. Under IMF's Rights Accumulation Programme (RAP) and a similar arrangement at the World Bank, countries accumulate rights towards future disbursements up to the equivalent of arrears outstanding at the outset of the programme.²⁶ These programmes together with the IBRD debt and refinancing service by IDA flows for low-income SSA, constitute a recognition by international financial institutions that a serious debt crisis is emerging. Such programmes also reflect a tendency to avoid the mounting accumulation of arrears (President Soeharto 1993 and UNCTAD 1993:181). A similar scheme was conceived by the ADB which has at present 15 countries in arrears. Private creditors also absorb 31 per cent of SSA debt-service, and 45 per cent, if service on short-term debt is included (Avramovic 1992 and World Bank 1991b:68).

International financial institutions (including ADB) and commercial banks must expect to share the burden of debt relief without risking the position of 'preferred creditors' (EURODAD 1994:5; Helleiner 1994:32; NAM 1994:52 and Salih 1994:5). A mixture of cancellation and conversion should be considered for a portion of multilateral debt into equity investments (such as IBRD-IFC debt-equity swaps arrangements) and into local currency. The latter could be used to finance social, environmental, or local infrastructure projects and the former to promote programmes of privatization in SILICs with underdeveloped private and financial sectors with a view to attracting FDI and portfolio investments. That is, debt can be transformed into productive instruments to support and sustain economic reform in SSA (Salih 1994:51).

Varieties of exotic debt-reduction measures have been tried in SSA, although on a small scale. However, the potential of expanding these trials on a large scale may

²⁶ By April 1993, RAPs had been agreed for Sierra Leone and Zambia (among other non-African countries) and the World Bank scheme had been also applied to Sierra Leone (UNCTAD 1993:178-179).

provide new sources of funds. In recent years, the amount of debt-for-development has increased, but still at a limited scope. In a typical debt-for-nature development swap, usually an international agency buys debt in the secondary market at a deep discount and at times commercial banks have donated debt. The local currency generated by the exchange is used to finance development projects such as debt-for-nature, debt-for-health and debt-for-education swaps (World Bank 1994d:114-115).²⁷ Moreover, donor countries are facing financial difficulties and, consequently, increased funds from international financial institutions are required to offset the decline in bilateral aid, such as SDR allocations and IMF gold sales (UNCTAD 1993:183).

²⁷ For example, debt-reduction schemes have involved debt-for-nature swaps, debt-for-development swaps, and debt buybacks. The few cases in which these approaches were used include an AID-financed US\$ 1 million debt-for-nature swap in Madagascar and a Marine Midland Bank conversion of US\$ 800,000 of its Sudanese debt to local currency for use by NGOs. Debt-for-nature swap transactions were also implemented in Madagascar by the World Wildlife Fund (WWF) to finance reforestation or tree nursery scheme at US\$ 3.5 million in 1993. Debt-for-development swaps were tried by UNICEF for its debt-for-child programme in Madagascar, Nigeria and Sudan during 1992-93 (World Bank 1994d:116-117).

IV DEBT AND SUSTAINABLE GROWTH

Significant debt-reduction is a necessary condition for an eventual return of African countries to more creditor-debtor relations (Helleiner 1994:73; NAM 1994:52; Salih 1994:51 and World Bank 1994d:44). This resumption is essential to meet the continued terms of trade losses and to resume growth. A model of real per capita GNP growth rate as a function of real per capita debt has been examined for SSA countries using the 1971-92 time-series data. The results of the estimated regression coefficients are presented in Table 6.

The sign of the estimated debt coefficient was negative and significantly different from zero at the specified levels of significance in almost all SSA countries for which time-series data are available, thus confirming the hypothesis that high-debt stocks discourage growth in SSA. That is, not only is SSA the most indebted region in the world and the external debt continues to be large for the majority of the SSA countries, but the debt-burden becomes an obstacle to growth (Tables 4 and 6). The impact of external debt on growth is statistically more significant among the core adjusting countries than among other groups. Therefore, the sooner this debt obstacle is removed (in terms of sizeable debt-reduction rather than merely debt rescheduling) from SSA countries, the faster will be the sustained recovery, particularly in countries undertaking SAPs.

The adoption of the full Trinidad terms for debt-reduction by the Paris Club of official creditors will, *ceteris paribus*, increase average rates of GNP per capita growth in SSA from -0.5 (its prevailing average annual rate during 1987-92) to -0.2 per cent (Table 6). The Paris Club allows for two-thirds of eligible debt to be written off, as opposed to the 50 per cent reduction currently on offer. If multilateral and commercial creditors were induced to adopt the Trinidad terms, then growth would increase by an additional 0.1 per cent.

If the Nordic countries' initiative of 80 per cent debt write-off is adopted by official creditors alone or by all creditors, it will, *ceteris paribus*, increase average rates of growth in SSA from -0.5 to less than -0.2 per cent or almost zero per cent, respectively. However, a complete debt forgiveness (Netherlands initiative of September 1990 and/or the 1994 Naples proposal favouring debt-reduction of 90-100 per cent to SILICs) extended to all SSA would, *ceteris paribus*, increase growth from -0.5 to -0.1 or +0.1 per cent, depending on whether the write-off by creditors is bilateral or multilateral. That is, complete debt write-off by official and multilateral creditors will, *ceteris paribus*, turn growth in SSA from -0.5 to a positive growth, however moderate. That is, enhancing the debt-reduction relief between 90 and 100 per cent by official creditors to SSA countries is necessary to enable countries to undertake again sincere development efforts. In this case, commercial bank debt could be converted into equity shares of parastatals (public enterprises) and financial institutions to speed up

privatization and to induce financial reforms. However, debt-reduction alone will not restore private investment and commercial lending. Significant debt forgiveness, contingent on strong policy reforms, will help attract private investment and, in turn, improve growth prospects. Still, strong economic policy reforms alone will not put countries on a sustained, poverty-reducing growth path. Additional measures must be brought in to sustain long-term growth, such as investment in infrastructure, human capital and capacity building.

TABLE 6
REGRESSION RESULTS OF THE REAL PER CAPITA GROWTH IN AFRICA, 1971-92

Real Per Capita Growth	Intercept	Per Capita Debt	R ²	F-Stat	D.W.
Sub-Saharan Africa	14.065 (2.62)**	-0.5319 (-2.36)**	0.55	14.74	AR(1)
Core Group of Adjusters					
Burundi	10.8500 (3.01)***	-0.8351 (-2.16)**	0.46	4.67	2.15
Gambia	20.0770 (3.00)***	-2.5770 (-1.57) ^a	0.36	2.45	AR(1)
Kenya	14.8405 (2.83)***	-0.5674 (-2.11)**	0.45	4.46	1.33
Madagascar	12.2975 (3.73)***	-12.1070 (-3.92)***	0.68	15.40	1.71
Malawi	13.8758 (3.24)***	-8.0578 (-2.10)**	0.45	4.40	1.38
Mauritania	26.1090 (3.10)***	-1.8634 (-1.80)*	0.40	3.22	AR(1)
Nigeria	32.1653 (2.85)***	-7.3963 (-2.79)***	0.56	7.79	AR(1)
Tanzania	18.0336 (2.96)***	-42.1887 (3.08)***	0.59	9.49	1.16
Zimbabwe	10.8007 (3.31)***	-2.4887 (-2.81)***	0.55	7.91	1.45
Members of CFA					
Benin	13.0247 (3.39)***	-0.4806 (-2.16)**	0.45	4.67	1.05
Cameroon	20.2714 (4.46)***	-0.4479 (-2.92)***	0.57	8.52	1.50
Central African Rep.	0.4438 (0.21)	-15.5381 (-1.35)	0.31	1.83	AR(1)
Congo	18.4989 (3.46)***	-0.0911 (-2.18)**	0.46	4.75	1.06
Côte d'Ivoire	18.6919 (3.69)***	-0.1717 (-3.04)***	0.58	9.22	1.25
Gabon	59.9771 (2.46)**	-0.7713 (-1.67) ^a	0.38	2.79	AR(1)
Niger	25.7736 (2.88)***	-7.5172 (-2.33)**	0.50	5.45	AR(1)
Social Unrest					
Ethiopia	6.5144 (2.88)***	-1.0934 (-1.91)*	0.41	3.64	2.13
Rwanda	16.2965 (4.62)***	-49.4443 (-2.98)***	0.58	8.88	1.24
Zaire	10.3138 (1.58) ^a	-10.4028 (-1.74) ^a	0.38	3.00	1.07
Outliers					
Botswana	0.3981 (0.12)	-6.3917 (-1.51) ^a	0.34	2.27	AR(1)
Mauritius	16.0028 (4.02)***	-0.5902 (-1.44)	0.32	2.08	1.08

Table 6 (continued)

Notes:

Data used in the analysis were obtained from the World Bank (1992c) and World Bank (1993b), Table 1, pp. 2-5.

R^2 is the coefficient of determination.

F-Stat is the F-ratio.

D.W. is the Durban Watson Statistics.

AR(1) indicates that the model is corrected for first-order autocorrelation (i.e. autoregressive process of order one).

t-values between parenthesis.

*** indicates that the estimated coefficient is significant at 0.01 level.

** indicates that the estimated coefficient is significant at 0.05 level.

* indicates that the estimated coefficient is significant at 0.10 level

^a indicates significance even at 0.15 level.

No asterisk or letter indicates insignificance even at 0.15 level.

Growth-oriented adjustment requires investment for restructuring production towards tradable goods and services. The expansion of social infrastructure and productive capital stock continue to be needed to sustain growth and to alleviate poverty (Hussain 1994:22; Salih 1994:53 and World Bank 1994a:83). Africa is the only region in the world where both the number of poor and the proportion of poor are increasing (Ali 1993:15; Helleiner 1994:2 and World Bank 1993c:66). A sustainable, poverty-reducing growth path requires increasing GNP per capita growth in the short-term, sustaining the rate of growth in the medium to long-term, and investing in social services to build and maintain the capabilities of the poor. Overall cuts in governments' expenditures in SSA have also reduced spending in social services. Both education and health expenditures as a share of GDP in SSA as a whole declined by 8 per cent between the periods 1981-86 and 1987-90 (Table 7). Of the 14 countries for which data are available, about two-thirds reduced education spending and almost three-quarters reduced health spending between the first and second half of the decade. Median education expenditures as a percentage of GDP declined significantly in both the core adjusters and social unrest groups, while increasing for the adjusting CFA groups between the same periods. Median health spending, as a share of GDP, either declined or stagnated for all groups between the early and the late 1980s.

By comparison, public expenditure on education in the dynamic East Asian economies (Hong Kong, Indonesia, Korea, Malaysia, Singapore and Thailand) was approximately 3.7 per cent of GDP in the late 1980s (World Bank 1994c:171). Only 3 countries (Kenya, Togo and Zimbabwe) out of the 14 SSA countries exceeded the East Asian share of education spending in GDP. But per capita GNP in East Asian countries was 4.5 times greater than in SSA countries. That is, low and declining share of expenditures on social services have not helped to build and maintain human resources in SSA. This trend must be reversed to protect and promote human development.

The reduction of debt obligation in line with the ability to pay removes the debt overhang distortion affecting potential investors and makes possible faster growth in a

sustainable way. Indeed, our analysis suggests that faster growth accelerates investment in both the short and long-run in SSA (Table 8). In fact the most significant impact of growth on investment was associated with countries registering savings rate in excess of 10 per cent of GDP: Nigeria, Zambia, Zimbabwe, Kenya, Congo, Côte d'Ivoire, Gabon, Togo, Zaire, Botswana and Mauritius (Table 8 and Salih 1994:14-15). In these countries, high growth will lead to high domestic savings that is required to finance the investment needed to sustain growth. That is, if GNP were to grow by 6 per cent a year in SSA, investment and saving rates would increase by 16 and 17 per cent of GDP, respectively; thus investment would reach the 33 per cent of GDP needed to sustain growth further and to restore sustainable positive rates of growth.

TABLE 7
SOCIAL SPENDING IN SUB-SAHARAN AFRICA (PERCENTAGE OF GDP)

		Education Expenditures		Health Expenditures	
		1981-86	1987-90	1981-86	1987-90
Core Group of Adjusters	Mean	4.1	3.8	1.6	1.5
	Median	4.1	3.2	1.8	1.5
Gambia		4.6	3.3	2.3	1.5
Ghana		2.2	3.4	0.8	1.3
Kenya		5.3	5.8	1.8	1.6
Madagascar		3.6	3.0	1.0	1.2
Malawi		3.7	3.0	2.0	2.0
Tanzania		..	..	1.3	0.6
Uganda		1.3	1.3	0.4	0.4
Zambia		4.5	2.2	2.3	1.7
Zimbabwe		7.5	8.7	2.3	2.9
Members of CFA	Mean	3.1	3.0	1.0	0.9
	Median	2.5	3.1	0.8	0.8
Burkina Faso		1.9	1.6	0.7	0.6
Cameroon		2.5	3.1	0.9	0.8
Mali		3.0	2.7	0.8	0.7
Niger		2.5	3.1	0.8	1.3
Togo		5.6	4.4	1.7	1.3
Social Unrest					
Sierra Leone		2.4	1.0	1.1	0.4
All countries		3.6	3.3	1.3	1.2

Source:

World Bank (1994c), Table 6.2, p. 172.

TABLE 8

SHORT AND LONG-TERM EFFECTS OF GROWTH IN INVESTMENT IN AFRICA, 1972-92

	Intercept	Real GNP	Real Per Capita Growth	One-Year Lagged Investment	Long-Run Effect	R ²	F-Stat
Sub-Saharan Africa	7.5001 (0.20)	0.004 (1.04)	2.6028 (3.04)***	0.7368 (4.37)***	[9.9]	0.84	28.02
Core Group of Adjusters							
Burundi	-58.5244 (-2.74)**	0.2673 (5.31)***	-0.5593 (-0.78)	-0.2765 (-1.19)	0.3	0.94	59.16
Gambia	-5.6138 (-0.82)	0.1332 (2.03)*	0.0779 (0.51)	0.4767 (2.06)**	0.3	0.92	27.63
Ghana	-153.7246 (-1.87)*	0.0513 (2.08)**	3.1898 (0.95)	0.9108 (7.42)***	0.6	0.95	51.56
Kenya	-188.5382 (-1.37)	0.3092 (4.80)***	7.4440 (1.53) ^a	-0.1970 (-0.80)	0.3 [7.4]	0.96	63.66
Lesotho	-104.0073 (-2.39)**	0.1632 (1.19)	3.3662 (3.09)***	1.012 (5.73)***	[Large]	0.97	99.97
Madagascar	-87.1201 (-1.21)	0.0953 (2.56)**	4.2044 (2.40)**	0.3843 (1.76)*	0.2 [6.8]	0.84	12.36
Malawi	22.3789 (0.69)	0.1019 (2.90)***	3.9142 (3.29)***	0.3549 (1.90)*	0.2 [6.1]	0.87	16.29
Nigeria	814.6237 (0.59)	0.0119 (0.30)	73.4793 (2.48)**	0.8435 (4.84)***	[469.5]	0.92	27.46
Tanzania	61.9892 (0.63)	0.0363 (1.11)	2.9710 (1.09)	0.7736 (4.18)***	--	0.92	30.76
Uganda	-175.0888 (-1.55)	0.1469 (2.50)**	-0.2101 (-0.14)	0.0796 (0.20)	0.2	0.95	11.14
Zambia	85.9950 (0.48)	0.0237 (0.43)	4.6516 (1.83)*	0.7228 (4.04)***	[16.8]	0.75	6.29
Zimbabwe	-113.6701 (0.31)	0.1285 (3.31)***	10.6212 (3.30)***	0.4569 (2.39)**	0.3 [19.6]	0.94	36.29
Members of CFA							
Benin	-1.9726 (-0.05)	0.0912 (2.32)**	1.1908 (0.74)	0.3857 (1.54) ^a	0.2	0.77	7.67
Burkina Faso	-13.8270 (0.58)	0.1675 (3.80)***	1.7137 (1.78)*	0.2180 (0.90)	0.2 [2.2]	0.96	69.38
Cameroon	-61.6716 (-0.25)	0.0982 (1.67) ^a	9.4819 (1.12)	0.5436 (2.12)**	0.2	0.92	28.96
Central African Rep.	13.4495 (0.88)	0.0678 (2.05)*	-0.3226 (-0.55)	0.2998 (1.15)	0.1	0.86	14.30
Congo	-127.2361 (-1.29)	0.0802 (1.20)	10.2879 (3.50)***	0.8305 (5.21)***	[60.7]	0.89	20.07
Côte d'Ivoire	-242.3675 (-1.44)	0.0490 (1.71)*	21.0185 (4.92)***	0.8585 (8.25)***	0.4 [148.5]	0.95	48.96
Gabon	-186.3768 (-0.91)	0.1904 (2.87)***	9.4519 (3.44)***	0.5945 (3.27)***	0.5 [23.3]	0.85	13.70
Mali	-52.2460 (-3.49)***	0.1023 (2.74)***	1.8385 (3.56)***	0.6636 (3.76)***	0.3 [5.5]	0.99	303.71
Niger	-36.0137 (-0.44)	0.0755 (1.29)	6.5719 (3.49)***	0.5764 (3.30)***	[15.5]	0.86	14.30
Senegal	-4.2798 (-0.17)	0.0461 (2.71)**	2.6536 (3.25)***	0.6806 (4.25)***	0.2 [8.3]	0.98	102.81
Togo	11.4971 (0.26)	0.0586 (0.91)	2.0655 (1.57) ^a	0.7159 (3.67)***	[7.3]	0.86	14.17

Table 8 (continued)

	Intercept	Real GNP	Real Per Capita Growth	One-Year Lagged Investment	Long-Run Effect	R ²	F-Stat
Small Economies							
Guinea-Bissau	-19.1338 (-2.00)*	0.3459 (3.13)***	-0.0551 (-0.33)	0.2144 (0.94)	0.4	0.88	18.78
Seychelles	2.6465 (0.37)	0.1453 (2.71)**	0.4096 (2.23)**	0.2889 (1.13)	0.2 [0.6]	0.93	21.08
Swaziland	-6.1185 (-0.33)	0.1456 (2.52)**	0.8378 (1.33)	0.5141 (2.55)**	0.3	0.91	22.77
Social Unrest							
Rwanda	-28.3755 (-1.47)	0.2328 (4.07)***	0.3364 (0.56)	-0.4731 (-1.32)	0.2	0.98	111.81
Sierra Leone	-16.6372 (-1.24)	0.1099 (3.47)***	1.4103 (3.73)***	0.2837 (1.44)	0.2 [2.0]	0.94	43.11
Sudan	-118.0553 (-0.57)	0.1086 (3.34)***	9.0925 (1.51) ^a	0.3283 (1.41)	0.2 [13.5]	0.87	16.01
Zaire	737.0277 (2.96)***	0.0594 (2.09)**	15.5867 (2.98)***	-0.0178 (-0.07)	0.1 [15.6]	0.74	6.00
Outliers							
Botswana	-94.3113 (-1.68) ^a	0.1007 (2.92)***	4.3509 (2.97)***	0.8213 (4.13)***	0.6 [24.4]	0.87	14.46
Mauritius	-90.3349 (-3.86)***	0.2376 (4.85)***	3.4427 (4.37)***	0.2851 (1.69)*	0.3 [4.8]	0.99	186.86

Notes:

Data used in the analysis were obtained from World Bank (1993b), Tables 1-4 and 13-14. pp. 2-16 and 50-57, respectively.

R² is the coefficient of determination.

F-Stat is the F-ratio.

t-values between parenthesis below estimated coefficients.

*** indicates that the estimated coefficient is significant at least at 0.01 level.

** indicates that the estimated coefficient is significant at least at 0.05 level.

* indicates that the estimated coefficient is significant at least at 0.10 level.

^a indicates significance even at 0.15 level.

No asterisk or letter indicates insignificance even at the 0.15 level.

Values enclosed between square brackets estimate long-run effect of real per capita growth, while the corresponding numbers estimate long-run effect of real GNP on investment using the koyck lag scheme.

V CAVEAT AND CONCLUSIONS

In the 1980s through the beginning of the 1990s, low-income countries in SSA have experienced a continuous fall in their real per capita incomes. These economies are conventionally assessed in terms of their income levels and related aggregates such as the viability of balance of payments, particularly for countries faced with foreign resource constraints. The balance of payments difficulties of SSA countries were not a short-term phenomenon, as originally anticipated (Helleiner 1994:31). At present 90 per cent of African exports consists of few primary commodities, virtually the same proportion as in 1965 (Salih 1994:4 and UNCTAD 1993:25). At the same time, terms of trade and SSA's share of world exports declined; to the extent that export earnings fall short of requirements of meeting the import bill and the debt servicing obligations. As a result, actual debt-service plus arrears had reached a staggering 85 per cent of exports in 1992 (NAM 1994:13). Moreover, the number of SSA countries with arrears in excess of 40 per cent threshold accounts for 80 per cent of the severely indebted low-income developing countries during the past decade (Table 2 and NAM 1994:22). In fact, 38 SILICs in SSA had arrears in excess of the 20 per cent threshold in 1992. More serious, the debt burden of SSA countries, measured in terms of both arrears and proportion of outstanding debt to GNP, far exceeding the respective thresholds of 20 and 100 per cent, increased substantially over time.

Eighty-five per cent of SILICs in Africa had arrears larger than 50 per cent, 50 per cent had arrears exceeding 85 per cent and nearly 30 per cent had arrears in excess of 90 per cent. An additional indicator reflecting direct evidence of the severity of the debt is the market value of the debt itself. At present, the market value of the commercial banks claims on SSA countries from active secondary market in banks claims on debtor countries varies between 82 and 90 per cent of par value, equivalent to 10 and 18 cents on a US dollar debt. For SSA region as a whole, its external debt exceeded GNP in the 1990s; marking SSA as the only region in the world where debt-GNP ratio exceeded 100 per cent. That is, the African stock of debt vastly exceeds its capacity to service it on the current terms (Helleiner 1994:16, NAM 1994:48 and Salih 1994:69).

The ongoing debt rescheduling mechanism is an inadequate response to the situation in which debt will eventually have to be forgiven. Both the SILICs in SSA and their creditors believe that eventually 60 to 80 per cent of the debt will have to be forgiven (EURODAD 1994:1). The historical experience of the defaults by Latin American countries in the 1930s and 1940s on their international bonds suggests a shift in the debt management strategy including debt forgiveness (Sachs 1989:87 and Sonko 1994:11).²⁸ Despite the gravity of the debt crisis and its long-term character, only short-

²⁸ After the collapse of commodity prices in the early 1930s, most of Latin American debtor countries suspended debt servicing on foreign bonds that they floated in the US and the UK during the 1920s. The

term solutions have been offered to alleviate partially the symptoms of the problem. The relief action taken so far for SILICs assumed that a substantial write-off or relaxation of terms of bilateral official debt would be sufficient to solve the debt problem (NAM 1994:48). The validity of this assumption has become progressively weaker and the terms are still too low to solve the problem of the SILICs who need relief up to 90-100 per cent (EURODAD 1994:3 and NAM 1994:48). Indeed, our analysis confirmed that immediate removal of the debt overhang is necessary to enable SSA countries to resume positive growth and to sustain recovery. The empirical findings is consistent with the preferred course favouring a total write-off of the debt for SILICs, as suggested by the Dutch Minister of Development Cooperation in September 1990.

Although major creditor countries recognized the need for official bilateral debt relief up to 80 per cent of the debt stock, Sweden has already cancelled debt beyond that level (EURODAD 1994:1 and Helleiner 1994:28). That is, there exists good reasons to write-down the debt now rather than later. It has been shown theoretically that if developing countries are likely to default on their external debt, then debt forgiveness can be the spur to growth and can actually increase eventual payments received by the creditors (Sachs 1989:91-95). Empirically, many of the risks of postponing debt forgiveness are evident in SSA. For example, the majority of SSA countries have been pushed into depression, investment spending has dried up and is very low, new lending are in short supply, less access to commercial banking, domestic capital have left SSA and is estimated at 90 per cent of GDP while foreign capital is no longer attracted to the region.

The *communiqué* on debt issued by the Naples G7 summit suggests that the promise to consider a write-down of the entire stock of official debt will not arise, in Africa, before 1995 at the earliest (EURODAD 1994:7, Helleiner 1994:27 and World Bank 1993e:89). The 'insolvency' label of the low-income countries in SSA will continue as long as the donor community views these countries as lacking in credit-worthiness to merit any fresh infusion of external resources. Consequently, the flow of external credit will dry up. In turn, the prospects for attracting foreign investment will be limited to the countries associated with natural resources. A repeat of the situation before independence; whence Africa's land and subsoil assets (particularly minerals) were an important magnet that attracted colonialists to Africa (Salih 1992b:77 and Salih 1994:68).

In this case the credit-worthiness aspect of SSA countries should be viewed from a different perspective. A complementary approach has been developed to focus on inherent wealth and potential of African economies rather than the current levels of exploitation reflected in aggregates like the GDP and related magnitudes (Salih 1992b:8-59). Indeed, most of the low-income SSA countries are rich in natural

debt-servicing moratorium was unilateral, with little negotiation between creditors and debtors until after the Second World War. In the late 1940s, the debtor countries came up with revised debt-servicing plans so that they could qualify for the loans of the newly created World Bank, which was requiring from each country an agreement between the government and its creditors as a precondition for disbursements. However, the World Bank did not take a hard line in the type of agreements that could be reached (Sachs 1989:100).

resources and have enormous long-term potential to meet their debt obligation as demonstrated in Côte d'Ivoire (Salih 1992b:78). Viewed in this context, such countries could turn out to be credit-worthy, and there is no reason to consider them 'insolvent'. Consequently a key indicator of the credit-worthiness of indebted nations is the networth (Cohen 1985:140 and Salih 1992b:67). In particular, when the stream of net earnings of an indebted country grows at a rate (n) exceeding the international real interest rate (r) applicable to its debt, then the country's wealth, in present value terms, is infinite and there is no solvency problem. That is, any small fraction of its wealth can repay any level of initial debt in finite time and the government can keep financing its existing debt service by further borrowing without insolvency. The solvency constraint is also satisfied when financial assets exceeds total liabilities.

However, when $r > n$, or equivalently when total liabilities exceed financial assets, the country's wealth is finite and the level of the debt must be compared to the value of wealth to determine its economic viability. In this forward looking approach, it is necessary to devise a policy regime consistent with a country's overall resources particularly in an intertemporal framework. Several interesting conclusions from the wealth accounts and the appropriate management of its components will emerge. For example, the management strategy will provide a framework allowing the conversion of part of the debt into equity with the participation of the World Bank and of similar regional investment finance institutions in such transactions. A combination of such arrangements would assist SSA countries in alleviating their present predicament, and at the same time would protect multilateral creditors in supplying funds to the developing world. Such detailed country's balance sheets, while reflecting individual country circumstances, will enable policymakers to set guiding investment rules and principles, as well as mutual support among creditors based on stock data of both assets and liabilities. The extension of this approach starts from the desire for a return to the wealth of nations as a leading focus for the economist's research. 'This is, obviously, particularly critical for LDCs ... the urgency of this subject for the world's poorest countries, and, indirectly for the interests of the wealthy nations is clear enough' (Baumol 1991:1).

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APPENDIX

Tables A1-A2

TABLE A1

ARREARS ON DEBT TO OFFICIAL CREDITORS AS PERCENTAGE OF TOTAL ARREARS
OF SUB-SAHARAN AFRICAN COUNTRIES WITH ARREARS IN EXCESS OF 20 PER CENT,
1992 (IN PER CENT)

Ghana	27.9
Angola	35.2
Kenya	37.7
Cameroon	50.0
Seychelles	50.0
Gabon	50.3
Lesotho	57.1
Congo	60.4
Togo	62.7
Uganda	63.3
Nigeria	67.5
Sierra Leone	71.8
Zaire	72.2
Liberia	73.4
Sudan	77.5
Senegal	78.8
Mozambique	79.6
Tanzania	80.5
Madagascar	81.7
Guinea	82.4
Guinea-Bissau	82.8
Equatorial Guinea	86.2
Mauritania	87.4
Benin	88.0
Zambia	88.6
Central African Rep.	89.5
Chad	89.7
Ethiopia	94.4
Burkina Faso	95.1
Somalia	96.3
São Tomé & Príncipe	97.4
Cape Verde	100.0
Comoros	100.0
Djibouti	100.0
Mali	100.0
Niger	100.0
Rwanda	100.0

Source:

NAM (1994), Table 11, p. 25.

TABLE A2

SILICs IN SUB-SAHARAN AFRICA WITH ARREARS IN EXCESS OF 20 PER CENT OF
SCHEDULED DEBT SERVICE, 1992 (IN PER CENT)

Lesotho	20.5
Ghana	22.7
Djibouti	25.0
Kenya	42.5
Senegal	43.4
Nigeria	48.0
Seychelles	50.4
Benin	50.5
Rwanda	53.4
Burkina Faso	56.8
Cameroon	57.6
Togo	59.4
Gabon	62.3
Niger	68.0
Côte d'Ivoire	74.9
Chad	75.7
Guinea	75.9
Cape Verde	76.9
Uganda	84.2
Central African Rep.	84.7
Mauritania	85.2
Zambia	85.7
Tanzania	86.5
Comoros	86.7
Ethiopia	86.7
Sierra Leone	86.9
Mali	87.0
Congo	90.7
São Tomé & Príncipe	91.3
Angola	91.7
Madagascar	92.3
Guinea-Bissau	95.4
Equatorial Guinea	96.4
Zaire	97.7
Mozambique	98.1
Sudan	99.8
Liberia	100.0
Somalia	100.0

Source:

NAM (1994), Table 1, pp. 9-10.

Notes:

Scheduled debt service is defined as total current debt service and accumulated arrears.

The number of countries increased from 34 SILICs in 1990 to 38 in 1992.

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