

# **Africa's External Debt Crisis**

## **Keeping up the Momentum Created by the Third Extraordinary Summit of the OAU Heads of State and Government**

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*OAU and ECA*

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### **Introduction**

The African debt problem is one of the major obstacles hampering recovery and development.<sup>1</sup> In a good number of countries, growth and long term development can be achieved only if this over-all problem is resolved. Limited Progress has been made since the Third Extraordinary Session of the Assembly of Heads of State and Government of the Organisation of African Unity on Africa's External Debt, held on 30 November and 1 December 1987, and more specifically since the Declaration on Economic Matters adopted by the Economic Summit of the Seven major industrialized countries, of the World held in Toronto in June 1988, setting out a plan to alleviate the debt burden of the poorest countries.<sup>2</sup>

More significant progress was achieved in the rescheduling of the long-term debt over several years, following negotiations with the Paris Club. However, the problem of reducing the stock of debt, or increasing its concessional component has not, as of now, been given the required attention. Some creditors have converted the loans of some African countries under official Development Assistance into grants, but the amount outstanding under this category of debt is still considerable. Even though the international community has started showing greater understanding of the peculiarity and complexity of Africa's external debt problems, as was demonstrated during the Toronto, and Paris Summits of the Seven major industrialized countries, the evolution and structure of Africa's external debt continue as in previous years, to weigh heavily on African economies.

The amount of Africa's external debt outstanding and the debt service ratio are increasing in such rapid proportions that they have now become difficult to bear in several African countries. This is why the entire continent has been compelled to resort to frequent debt reschedulings with the Paris Club. Between 1980 and April 1987 there were more than 71 such reschedulings<sup>2</sup> of official bilateral loans totaling about 21,7 billions dollar, comprising arrears and previously rescheduled debts.

With regard to private commercial loans, fifteen countries renegotiated with the London Club, the rescheduling of their debt totalling 11,5 billion dollars on thirty occasions during the same period. Moreover, it should be pointed out that according to the World Bank, about 15% of Africa's total concessional debt of 1,8 billion US dollars outstanding at the end of 1986, was cancelled by official bilateral creditors.

At the end of 1988, as in previous years, several African countries were obliged to accept strict conditions on the restructuring of their debt. The severity of the terms imposed on these countries delayed loan disbursements and hampered the efficiency of the IMF operations in this sector. Even though several industrialised countries have tried to enhance the ability of the principal debtors, among the developing countries, to comply with their debt-service obligations, no special consideration was given to African countries; as a consequence, and coupled with their poor status and low credit rating the African countries were unable to obtain more loans.

The heavy debt burden and diminished export earnings adversely affected the economies of African countries, and created drastic cuts in imports in essential items, thus slowing down national production and making Africa more vulnerable to the internally and externally induced constraints.<sup>2</sup>

It would therefore be asserted that since the Toronto Summit, not much practical effort has been made to resolve, in an efficient and innovative manner, Africa's debt problem in particular, and the crisis of resource flows in general, because ironically, Africa, which is the poorest continent in the world is also a net exporter rather than a net recipient of resources.<sup>2</sup> The most disturbing problem as far as Africa is concerned is how to stop and reverse this adverse outflow of resources, resolve the debt problem once and for all, and implement the various measures that have been recommended for Africa's economic recovery and accelerated development.

The purpose of this paper is, firstly, to stress that inspite of the recognition that the African debt problem has become a permanent constraint on growth and development, no lasting solution appears to have been found and; secondly, to emphasize on the necessity of maintaining the momentum generated by the Third Extraordinary OAU Summit, as well as propose measures to that end.

Section II of the paper examines the measures which are being currently proposed or implemented, as well their impact on the overall African debt situation; Section III concentrates on how to maintain the momentum while Section IV is devoted to the possible follow-up and monitoring mechanism

## **Nature and Effects of Measures Currently Proposed or Implemented**

The measures which are currently being proposed or implemented fall into two broad categories:-

- (a) those devised and agreed upon by the International Monetary Fund and the World Bank, and by the creditor countries; and
- (b) the proposals made by creditors in respect of public and private debt.

### **Measures Proposed by the IMF, the World Bank and the Creditor Countries.**

The measures proposed by the IMF and World Bank, and supported by the creditors are directed at the achievement of short-term equilibrium in the balance of payments, mainly through demand management involving devaluation, privatisation, liberalisation and severe cuts in public expenditure (deflation). The other aspect of the World Bank/IMF strategy is that high emphasis is placed on export expansion in order to achieve a combined effects of increased total revenue with which to meet the debt-service obligations. The debtor countries are then required to implement difficult policy reforms and structural adjustment programmes as a precondition for seeking debt relief and for the needed external resources. In all cases, the discipline which is imposed on debtor countries is exclusively intended to achieve short-term socio economic development. This fact is borne out by the experience of the countries which rescheduled their debt at the Paris and London Clubs and have implemented the IMF/bank supported adjustment programmes. Thus, while structural adjustment programmes have focused on the achievement of short-term equilibrium in the balance of payments, frequent debt rescheduling have led to an increase in the debt stock through arrears and capitalization of interest.

### *Proposals by the Creditors*

The proposals made by the creditors to resolve the debt problems arising from private commercial loans, attempt to transform such debts into equity (debt equity swaps). They suggest the sale of shares at reduced rates (buy back plans); others ask for a refund in kind (debt for export swaps). All these proposals do carry a series of deficiencies, the main ones being:

- (a) the fact that taking out shares in local enterprises (the debt equity swaps) might lead to a transfer of the equity of African enterprises into the hands of transnational banks;
- (b) the sale of shares at reduced rates (buy back plans) would adversely affect the balance sheet of the enterprises;
- (c) The fact that the refunds in kind (debt for export swaps) are carried out to the detriment of African countries whose refund - capacity would diminish as export earnings intended for repayment decline.
- (d) create hyper inflation.
- (e) reduce foreign exchange flows from private investments.

In addition, the creditor countries and other groups, have made various proposals or taken decisions on different occasions, including the following:-

- (a) the Baker Plan for highly-indebted countries; the Mitterand Plan; the Berlin Agreement; The Nicholas Brady Plan;

(b) the Lawson Plan which urges, among others, increased conversion of bilateral ODA into grants, or waiving all service that falls due, or extending new grants to pay due debts; interest rate reduction on rescheduled export credits *and/or* lengthening the grace and maturity periods on rescheduled debt;

(c) *The Wass Report Proposal*, which recommends rescheduling of all principal and interest payments due to bilateral lenders that would be due over the next three years at the new Paris Club arrangements (i.e. 20 years repayment and 10 years grace) at very low interest rates comparable to the charge on IDA and SAF credits;

(d) the *Nordic Proposal* which calls for the creation of a Trust Fund to assist 15 African IDA-eligible countries to refinance maturing IBRD obligations on IDA terms;

(e) the *Toronto Summit* decisions on the rescheduling of official debt of the poorest debt distressed countries which set out three options for the purpose, "within a framework of comparability that allows official creditors to choose among concessional interest rates usually on short maturities, longer repayment periods at commercial rate, partial write offs of debt service obligations during the consolidation period, or a combination of these options".

At the multilateral forum, the UNCTAD Board Resolution 165 (S.IX) of September 1978 represents a major milestone in the search for a solution to the debt problem of developing countries. That resolution calls for adjustment of terms of past bilateral ODA in order to bring them in line with currently prevailing terms, or other equivalent measures. The resolution sought to convert all bilateral ODA to the least developed countries into grants.

Recently, the African Development Bank (ADB) has come up with a *Debt Refinancing Scheme* which proposes that all debt (except multilateral and concessional debt) should be converted into a 20 year bond redeemable at maturity, at a fixed and below market rate of interest. Debtors would make annual payments into a redemption fund managed by a Board of Trustees consisting of the IBRD, IMF, ADB, creditor and debtor representatives with the Paris Club as the Secretariat. Part of interest payments would be paid from what the country can afford to pay, and the remainder would be paid into the redemption fund. The fund would be managed in such a way as to ensure full repayment of principal at maturity.

The initiatives, proposals or actions indicated above are certainly note-worthy, especially in terms of the enhanced appreciation, or a belated recognition on the part of the major creditors, of the seriousness of Africa's external debt crisis. On the whole however, their impact has not been fully felt; a lasting solution to the African debt crisis is yet to be found. Thus, the volume of Africa's total external debt continues to mount. The ECA estimates that total outstanding volume external debt stood at about \$230 billion at the end of 1988. This situation has, of late, necessitated frequent reschedulings of huge amounts of unpayable debt-service arrears which, in 1986 totalled some \$9.5

billion and four times as much as in 1985. (See UNCTAD Publication: TD/B/1182).

**Table I**  
**Selected Aggregates on Resources Flows to Sub-Saharan Africa 1981 - 1987**  
**(\$ billion)**

(From the 1989 World Bank Development Report)

		1981	1987
(a) Capital flows	(i) ODA	7,1	11,1
	(ii) Foreign Direct Investment	1,3	0,8
(b) Net Flows	(gross disbursement minus Principal-repayments)	8	5
	(i) Private	4	1
	(ii) Multilateral	2	3
(c) Net Transfer	(gross disbursement minus Principal and interest repayments)	6	2
(d) Total Debt Service	(Public and Publicly guaranteed and private non-guaranteed debt)	5,4	6,5

**Table II Debt-Service Projections for Sub-Saharan Africa**  
**(Total long-term public debt and non-guaranteed debt)**  
**(From the 1988/89 World Debt Tables - World Bank)**

	1988	1989	1990	1991	1992
\$ bill:	16,929	15,682	14,905	13,157	12,276

The information provided in Table I shows that debt service payments are consuming a greater proportion of external financial resource transfers to Sub-Saharan Africa, resources that are essential for Africa's economic recovery and growth. There is a strong case for a much more substantial increase in flows of external concessional resources to Africa within a framework of a comprehensive strategy that will take account of the need to maintain the recovery and growth momentum especially in the current situation where African governments cannot finance investments they need to generate growth as a larger part of their domestic savings is transferred abroad to service debt.

The debt problem has become the single most serious constraint on recovery and growth, and the projected debt-service obligations as shown in Table II, indicate clearly that the end of the crisis is not yet in sight, and that current initiatives, pronouncements or conventional reschedulings may be nothing more than a palliative. For some African countries, the ratio of scheduled debt service (excluding arrears and rescheduling) to exports is between 50% and 100%, and in excess of 100% for at least 3 others. Only a part of those amounts have been actually paid; some countries have been

unable to service their debts fully, and arrears have accumulated, thus contributing to the ever-increasing debt stock. The African external debt crisis has to be tackled with a much greater resourcefulness, innovation and with an approach that is effective, and comprehensive, such as the strategy proposed in the African Common Position.

Secondly the political dimension of the problem has to be fully recognised, and exploited to Africa's advantage. African political leaders, at all levels must continue to be in the forefront of the effort to tackle the debt crisis, and they must ensure that the issue receives priority attention at every possible forum, in and outside Africa, so that an international conference on Africa's external indebtedness is convened and a lasting solution to the debt crisis is found. In this connection, a strategy should be formulated on actions and procedures that should, be undertaken from time to time, at various levels, sub-regional, regional, at the level of the African continent (OAU) and at the international level.

## **How to maintain the Momentum**

The African Common position on Africa's External Debt Crisis embodies the proposals of African governments on how the debt problem should be tackled, and represents Africa's collective thinking on the multi-dimensional issues that surround the continent's debt crisis. The proposed international conference on Africa's external indebtedness is to provide an opportunity for constructive dialogue that would take into account the inter-relationships among all these issues that impact on the African external debt crisis. The responses from Africa's creditors have not been adequate, either in comparison with the specific proposals contained in the African Common Position or in terms of effective solution to the debt problem. It would, therefore, be very dangerous for Africa's economic recovery and growth, and for its long-term development to allow the perceived feeling of complacency to gain ground and take root.

The proposals set out in this section of the paper are designed to ensure that the African debt crisis is recognized as a burning issue that threatens the continued existence of African states and governments as independent entities, and that the subject of Africa's External debt features on the agenda of all major conferences and similar gatherings that discuss development and related issues. To this end, actions and measures have to be taken at various levels, starting at the level of the African continent.

### **(a) Action at the Continent, Regional and Sub-regional levels**

(i) The biennial meetings of the Conference of African ministers of Finance should have a permanent agenda item on the African debt crisis, in order for all recent development that area to be examined and recommendations/decisions adopted. The same should apply to all the annual/biennial meetings of the governing organs of all African

intergovernmental organisations, including economic integration groupings, the OAU, ECA, ECOWAS, PTA, ECCAS et.,) and institutions (ADE, ACMS, Payment Arrangements etc.). Major statements or declarations should be made annually on the African external debt crisis, including one by the OAU Assembly of Heads of State and Government;

(ii) The annual surveys of the economic and social condition in Africa published by the ECA, and ADB, and all similar publications should devote an expanded chapter to the treatment of the African external debt crisis, including an analysis of recent developments; and these publications should enable the regional and sub-regional organisations to carry out the analysis of the debt problems of their respective areas;

(iii) The annual joint speech of African governors in the IMF and World Bank should give a special focus on the African debt crisis;

(iv) There is need to strengthen all African institutions that deal with the debt crisis, including in particular the OAU Contact Group on Africa's External Debt Crisis set up in March, 1988 by the then OAU Chairman. The Contact Group has continued to operate as an informal advisory body to succeeding OAU Chairmen, and its chairmanship which rotates that of the OAU itself. Since its establishment however, all OAU Chairmen have, perhaps not really out of design, come from countries which are members of the Contact Group (Zambia, Mali and Egypt). The Contact Group can, and should become more active, and should continue to operate under the overall direction of the OAU Chairmen who should be contacted as and when specific developments require their personal intervention. The issue of a permanent Chairman of the Contact Group should also be considered, along with the need to ensure an appropriate level of participation. The Contact Group should thus be able to meet frequently and serve as Africa's pressure group on debt. The activities of the Group should include periodic press conferences/statements or communiques on the African debt situation. On the whole, there is a need for an enhanced recognition of the Group in order to increase its influence. The choice of its chairman is therefore of particular significance, as well as the selection of Ministers to represent the member States.

(v) The secretariats of African regional and sub-regional organisations should also be strengthened particularly in the debt area. The flow of information between these organisations and OAU/ECA/ADB/ACMS joint secretariat should be improved, through *inter alia* the designation of contact points for the purpose. The joint secretariats should also be reactivated in order for it to provide effective technical and logistic support to the Contact Group. The four secretariats should hold more regular consultations on these and related issues;

#### **Action at the International level**

At the international level, the actions by African governments and their representatives should on the one hand, serve to sensitise the entire world to

the African external debt crisis, on the basis of statements, declarations and decisions made at various levels by African governments and organisations and on the other hand and seek to ensure that positive actions are taken by the creditor countries in response to the African initiatives. The following proposals should facilitate the achievement of these objectives:

(i) The annual meetings of the Seven most industrialised western countries (Canada, England, France, Germany (West) Italy, Japan and the United States) have become major world events, the outcome of which usually affect the direction and momentum of the world economy as a whole. This forum should continue to be explored for purposes of seeking effective solutions to the African debt crisis. The Toronto decisions of the Group on this issue illustrate the considerable leverage that the Summit of the Seven has in tackling the debt crisis of developing countries.

(ii) African diplomatic missions in the major creditor countries, with the assistance and support of OAU regional offices where they exist, should be fully and actively involved; mobilized for the purpose of giving publicity to the African debt crisis. The Ambassadors/representatives of the countries of the Contact Group Chairman, or the Chairman of the African Group of Ambassadors, should serve as contact points to facilitate links with both the OAU/joint Secretariat and, through it, with the Contact Group itself. The African groups in these major centres should explore ways and means of sensitising the governments and the general public, through the news media, press conferences, mobilisation of Non-governmental organisations in order to obtain effective debt relief for African countries. Several strategies are possible, depending on the creditor countries, including the use of lobbies, address to chambers of commerce, press clubs, as well as special statements on major occasions (e.g. Africa Day - 25 May of every year),

(iii) Within the framework of the United Nations and its agencies African delegations should make sure that the debt crisis features prominently among the issues to be discussed, and that the particular characteristics of the African economic situations are clearly brought out in order to situate the discussion in a proper context. The work of UNCTAD, World Bank and IMF as well as that of the United Nations General Assembly is of particular significance in this regard. Since the debt crisis affects activities in all other sectors, the inter-relationships between the debt problem and issues in other fields should be given adequate attention, so that the work programmes of the organisations concerned are appropriately adjusted to reflect those relationships in the area of food and agriculture; UNESCO in the area of education etc; WHO in the area of health, in the area of industry etc.)

(iv) In addition, NGO forum could serve as an effective channel of communication and publicity if effective contacts and links are established for the purpose, the end result being to ensure that a lasting solution is found to the African external debt crisis.



### (c) Follow-up/Monitoring Mechanism

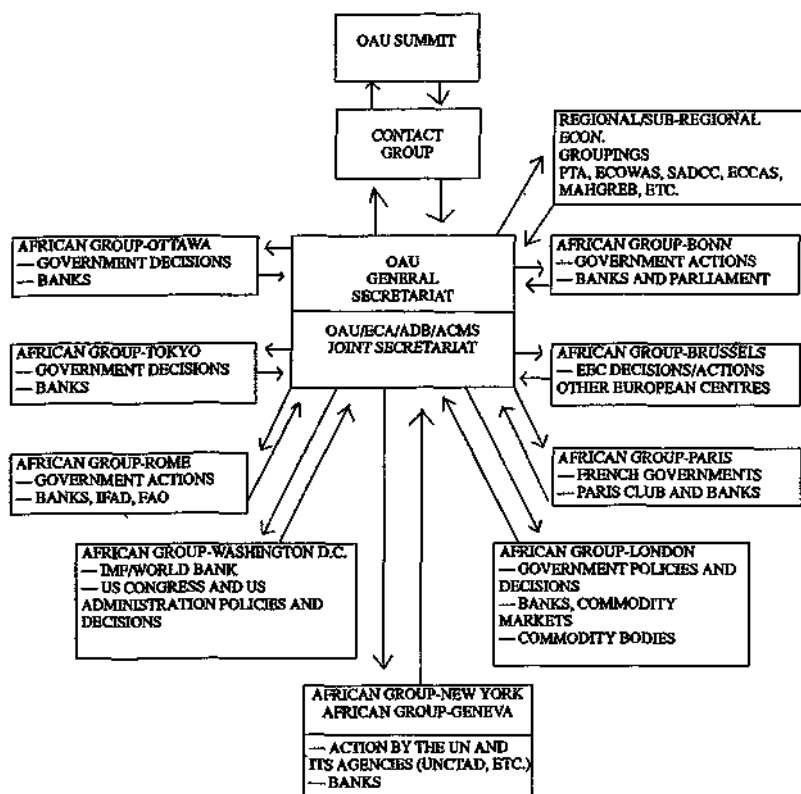
Follow-up/monitoring mechanism should, of necessity, centre around the Contact Group, and this would require that the Contact Group itself is strengthened along the lines proposed earlier. Another requirement is the efficiency and effectiveness of communication links between the OAU General Secretariat and the various important centres of operation/activities (Brussels, Washington DC, New York, London, Paris, Bonn etc); access to information on a regular and timely basis on actions taken or proposed in relation to Africa's external debt crisis, and bringing such information as appropriate, carefully analysed together with proposals for action, to the attention of the Contact Group and to the important centres where there is a strong African official representation.

Similarly, actions and decisions as well as other relevant information, on the African debt situation and related issues at the level of the African continent should be brought to the attention of the African diplomatic missions, at these centres, with general indications of the nature of follow-up action required. This involves monitoring closely the activities of the existing regional and sub-regional organisations and institutions in this particular area, through *inter alia* a regular exchange of information between the OAU General Secretariat and these organisations and institutions. Contact points will have to be established for this purpose. The continued existence of a joint secretariat (involving the secretariats of OAU, ECA, ADB and ACMS) will ensure that developments in any one of the four organisations will automatically be brought to the attention of all the parties concerned.

The Press and Information Services of the four joint Secretariats should devote specific periodic publications to the African debt situation.

Figure I illustrates how an effective follow-up and monitoring system could be put in place.

**Figure I**  
**A SCHEME FOR MONITORING DECISIONS AND ACTION ON**  
**AFRICA'S EXTERNAL DEBT**



1. Mid-term Review of the Implementation of the United Nations Programme of Action for Economic Recovery and Development, 1986 - 1990. Report of the Secretary-General, Dec. A/43/500 Para. 25.
2. Ref. IMF Bulletin of 4 July 1988 p. 209 and 219-221.