

THE FOREIGN DEBT PROBLEM OF AFRICA (*)

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CURRENT RESEARCH INTEREST: economical and financial problems in third world countries.

SUMMARY

The foreign debt problem of Sub Saharan Africa (SSA), although an important obstacle against economic growth, is not the region's major economic problem.

The creditors are less concerned about the relative small debt figures of SSA because of the lower risks for the equilibrium of the financial system. But from the debtors' viewpoint, the debt situation is possibly even more critical in low-income Africa than in the richer major debtor countries.

SSA has a predominance of official creditors with the best obtainable credit terms. Notwithstanding these good terms, SSA is so poor that it has difficulties with fulfilling its debt service.

There is no single solution for the African debt crisis. Anyway the official creditors have to adopt a more flexible attitude. The debtor countries have also to accept their own responsibility in the solutions of the problem.

KEYWORDS: foreign debt problem, Sub Saharan Africa

INTRODUCTION

Sub Saharan Africa of the eighties faces its worst economic crisis since political independence. Looking at this crisis as a whole, the foreign debt aspect can certainly not be considered as the region's major problem. The foreign debt rather reflects a number of underlying problems in the economies of the different countries. But as economic life forms a cycle, the outcome of one cycle becomes one of the incoming problems of a new cycle. In this manner the external debt problem has turned from consequence to cause and is actually an important obstacle against economic growth in Sub Saharan Africa (SSA).

To fully understand the economic and financial tragedy of the debt problem it is necessary to be aware of the major aspects of African development in the last decades. The external debt comes on top of a lot of other social-economic problems, such as high population growth and failing population policy, ecological degradation and declining per capita food production, falling terms of trade, low school education level and brain drain, internal and external warfare.

In the context of the above-mentioned problems it is not surprising that the past evolution of per capita GNP is rather gloomy (1). In constant US\$ from 1981, GNP per capita was US\$ 480 at the end of 1982 for SSA as a whole, but only US\$ 300 for the large low-income group with a per capita GNP under US\$ 700. After a steady growth in the sixties, per capita GNP more or less stabilized in the seventies, and fell steeply from 1979 till the end of 1985. For the low-income group actual GNP per capita is at the same level of 1960. In this same 25 years period per capita GNP of low-income Asia increased by 100%. In 1985 GNP per capita of low-income Asia has probably passed GNP per capita of low-income SSA, while it was only half of it 25 years ago.

TABLE I : Total net disbursements of Official Development Assistance (O.D.A.)
to Asia and Africa (1) (in %).

<u>Total ODA</u>	1960-61	1970-71	1982-83
Asia	44.8	47.1	27.1
Low income	33.7	39.3	23.9
Africa	9.0	18.7	30.2
Low income	7.8	13.0	25.2
<u>Total GNP</u>			
Asia	1.6	1.3	0.8
Low income	1.5	1.4	1.0
Africa	1.9	2.9	4.5
Low income	2.5	3.6	9.7

(1) It concerns annual averages of net ODA from bilateral DAC and OPEC sources, net concessional resources from multilateral programmes. Aid of Soviet Union and East European countries are not included, but they are relatively much less important except for Vietnam, Cuba, Afghanistan and Ethiopia.

Low income countries are here defined as countries with average GNP per capita in 1983 of less than US\$ 700.

Source : OECD. Twenty-five years of development co-operation.
Paris 1985, p.121-122, table III-10.

LESS AID FLOWS

An important event affecting the SSA balance of payment positions of last years (and thus the foreign debt figures) is the lower growth and even the standstill since 1982 of the net disbursements of official development assistance ("ODA"). During the 1970s the ODA flow rose by almost 13% annually (2). From 1982 onwards net disbursements of ODA stabilized at respectively US\$ 7.31bn ('82), US\$ 7.12bn ('83) and 7.32bn ('84) (3).

But analysts may not forget that this much criticized standstill of ODA totals is also attributable to the US dollar nomination of these aid flows. The US\$ exchange rate rose in the concerning years and a relatively high proportion of aid flows to Africa comes from Europe and is given in European currencies. Both phenomena combined automatically cause a slowdown of US\$ nominated aid flows. In fact the considerations concerning ODA-flows have to be extended over much longer periods. Without questioning the total level of ODA, table I very clearly indicates the increasing share of Africa in aid flows over the last 25 years.

Foreign aid in Africa per capita has become much higher than in more populated Asia. The part of ODA in total GNP of Africa has steadily increased over the past 25 years, and in 1979 corresponded with 20% of gross domestic investment (4). As far as the quantity of ODA-flows is concerned, low-income Africa has certainly nothing to complain in comparison with low-income Asia. This is an important fact to keep in mind in the outline of any development strategy.

VARIABLE TERMS OF TRADE

In the seventies and the first half of the eighties, Africa experienced a fivefold increase in the price of (imported) grain, a sevenfold increase in the price of oil, a stagflation in the industrial countries with the correlation of a collapse in commodity prices and higher

prices of imported industrial products, volatile exchange rates and high international interest rates (5). Instability of earnings and terms of trade deterioration were insufficiently offset by new financial mechanisms such as EEC's Stabex and IMF's Compensatory Financing Facility. As a result the external debt of low-income Africa rose by over 21% a year between 1970 and 1980 - more rapidly than in Latin America (6).

African economies are relatively more open (export and import in relation to GNP) than the economies of other developing regions. African economies are predominantly agricultural and more subject to climatic variations. Primary commodities account for nearly 80% of the region's exports, so Africa suffers sharper terms-of-trade variations than economies with a larger part of industrial goods export. Moreover, Africa is already very poor and any adjustment of its economy to external shocks is very painful.

EXTERNAL DEBT: WHICH ONE?

In fact it is impossible to grasp the external debt problem of a country in all its aspects. It concerns a cluster of real economic, financial and monetary variables interconnected on an international, national, public budgetary and private company level.

Even on a strictly technical level any comparison and explanation of debt figures is very difficult because "debt" is not a homogeneous concept. Although improving, debt reporting remains a labyrinth, due to incompleteness, time lags, omissions and double countings, different concepts and reporting systems.

There is for example a distinction to make between :

- public, publicly guaranteed and private debt
- actual and scheduled debt
- short term (- 1 year) or long term (+ 1 year) debt
- official or private creditors
- preferred (IMF and multilateral) and non-preferred

creditors

- concessional (25% grant element) and non concessional credits
- floating or fixed interest rates

It is also necessary to keep in mind the limited (although certainly not useless) value of various indicators such as debt service ratio, debt to GNP and to export of goods and services etc.. Also working with the in economic analysis omnipresent (but again not useless) weighted "averages" blurs out the differences between economic extremes and includes a limitation of analysis.

Therefore it is necessary to be guarded against too easy simplifications of the foreign debt problem. In fact the situation is different for every separate country, for every debtor and creditor. It is useful to be fully aware thereof when analysing the external debt problem of a whole region, as is done in this article.

S.S.A. IN THE THIRD WORLD DEBT

The ongoing foreign debt crisis of SSA dates further back than 1982, the year in which the international financial community became aware of the foreign debt problem by the Mexican debt shock. Out of the 15 countries that obtained debt reschedulings from their official creditors between 1975 and 1981, 10 were from SSA. They represented 35,5% of the amounts rescheduled. Not taking into consideration Turkey with about half of the total amount rescheduled, the 10 SSA-countries even represented 70% of the amounts rescheduled, Zaïre (US\$ 2,168 millions), Sudan (US\$ 373 millions) and Togo (US\$ 262 millions) were the larger clients (7). By 1981, 20 of the 32 developing nations with arrears reported on external debt payments were African (8).

The World Bank estimates total Third World debt at US\$ 908bn by the end of 1984 (9). This figure includes short term debt, IMF credits and debt from private sources. Thereof SSA has a part of US\$ 78.5bn (8.6%) and low-income SSA (countries with a per capita income up to US\$ 400 by

TABLE II : Public and private long-term debt and financial flows

(in US\$ billions).

	1975 (a)	1980	1983	1985 (b)
Debt Disbursed and Outstanding				
All Developing countries ^(c)	162.2	427.1	622.1	708
Major Borrowers (d)	101.4	250	372.3	430
Low-income Africa (e)	8.8	22.9	28.8	30.2
Disbursements				
All Developing countries	43.8	102.2	92.4	80
(from private creditors)	28.9	74.0	61.9	45
Major Borrowers	26.8	57.9	45.3	40
(from private creditors)	18.6	46.3	33.2	25
Low-income Africa	2.0	4.4	3.2	2.7
(from private creditors)	0.8	1.6	0.6	0.2
Debt Service				
All Developing countries	23.1	74.0	88.8	102
Major Borrowers	15.4	47.4	53.3	62
Low-income Africa	0.7	1.6	1.5	1.9
Net Transfers (f)				
All Developing countries	20.7	28.2	3.6	-22
Major Borrowers	11.4	10.5	-8.0	-22
Low-income Africa	1.4	2.8	1.7	0.8

(a) excludes Hungary and Rumania

(b) estimates

(c) data reflect the rescheduling of short-term debt into longer maturities in 1983-85.

(d) includes Argentina, Brazil, Chile, Egypt, India, Indonesia, Israel, Korea, Mexico, Turkey, Venezuela and Yugoslavia. Each of these countries had at least US\$ 16bn at the end of 1984.

(e) concessional lending (important for low-income Africa) is included. Grants (even more important) are not included. It concerns countries with per capita GNP of less than US\$ 400.

(f) defined as disbursement less debt service.

Source : World Bank. World Debt Tables, March 1986.

1984) has US\$ 34.4bn (3.8%). Latin America owes US\$ 372.9bn (41%).

This US\$ 78.5bn quoted is not the only figure mentioned in literature. Other sources give other figures. Most figures for SSA debt are between US\$ 75bn and US\$ 100bn for 1984 (10). The main cause of these variances is the common denomination of debt figures in US\$ and the high exchange rate fluctuation of this US\$ in the last years. Due to the proportionally high non-dollar denominated foreign debt of SSA and the US\$ depreciation from the middle of '85 onwards, it is obvious that statistical dollar denominated debt figures of SSA have increased dramatically at the end of '85 and the beginning of '86.

Table II gives a further indication of the long term (more than 1 year) external debt situation of low-income Africa compared to the situation of the developing countries as a whole and to the group of major borrowers. The figures give a clear impression of the different amounts involved for the group of "major borrowers" (without any African country) and the group of low-income Africa. It is easy to understand that the US\$ 430bn outstanding foreign debt of only 12 major debtor countries is much more in the spotlight of the creditors and the international press than the US\$ 30bn debt of the poorest part of SSA. In 1985 the debt of the 12 major debtor countries was 14.2 times as high as this of low-income SSA, but their debt service (interest and principal repayment) was 32.6 higher and they received (or had to receive) 125 more new credits from private sources.

The creditors are much more worried about the critical debt situation of the major borrowers because of the high amounts involved and the risks for the equilibrium of the financial system. They are less concerned about the "small" debt figures of the poor African countries. But from the debtors' viewpoint, the debt situation is as alarming and possibly even more critical in low-income Africa than in the richer major debt countries. At the end of 1984 the foreign debt of SSA stood at 52.1% of GDP. For low-income Africa it even stood at 79.2%, whilst for a big debtor

continent as Latin America it stood at 60.5%.

LOW-INCOME AFRICA IN THE SSA DEBT

Inside SSA the debt of the low-income countries (per capita GNP of less than US\$ 400 in 1984) is different from the situation of middle-income countries. In World Bank statistics there is a separation of the low-income group of countries from the continent as a whole. This makes it indirectly possible to analyse the different debt picture of both country groups. Relevant figures and ratio's in tables III en IV.

Short term debt and private non guaranteed debt (mostly from private creditors) are much lower in low-income Africa than in the rest of Africa. Low-income Africa is much more dependent on official creditors, who even cut down their outstanding risk to the low-income group. This is also clear in the short term debt which is mostly private creditor debt. In fact private creditors are only more important for the oil-exporting countries such as Nigeria (US\$ 8.7bn at Sept. '85), Congo and Cameroon (each about US\$ 1bn) and for Ivory Coast (US\$ 2.6bn) (11).

Dependence on IMF credits is relatively more important (certainly in relation to the GNP) for low-income Africa than for the rest of Africa. Low-income Africa has a much higher proportion of concessional debt (almost 55% of public long-term debt) and of fixed interest loans (almost 95% of public long-term debt) than the rest of Africa.

Net transfers have been slowing down dramatically in the last years. For SSA as a whole net transfers of total long-term debt have even become negative in 1984 (US\$ - 0.16bn). For low-income Africa they were still positive in 1984 (US\$ + 0.7bn), but only a quarter of the net transfers in 1980. The fall-down is due to a withdrawal of private creditors' money. In 1983 low-income Africa transferred itself US\$ 0.15bn to its private creditors and in 1984 this reversed transfer became US\$ 0.39bn. For SSA as a whole the reverse was even more abrupt, while it still received US\$ 1.8bn

TABLE III : Sub-Saharan Africa : debt structure and ratios.

(in US\$ bn and %)

	1975	1980	1982	1984
Gross External Debt (GED)	..	55.3	69.8	78.4
Long-Term Debt	15.0	43.9	55.4	61.0
public and publicly guaranteed	14.0	41.0	52.0	57.3
private non-guaranteed	1.0	2.8	3.4	3.6
Use of IMF credits	0.6	2.0	4.0	5.3
Short-Term Debt	..	9.5	10.4	12.2
Net transfers of LT Debt (1)	2.4	5.7	6.2	-0.2
Principal Ratios (in %) (2)				
Gross External Debt				
GED/XGS	..	98.3	186.5	229.3 (4)
GED/GNP	..	30.7	42	52.1
RES/GED	..	27.2	7	6.5
Public and Publicly guaranteed				
% concessional debt	46.3	38.1	36.9	36.9
% variable rate debt (3)	10.0	18.7	22.6	21.8
TDS/XGS (debt service ratio)	5.6	7.3	13.4	16.5 (4)
TDS/GNP	1.5	2.3	3.0	4.6
INT/XGS	1.8	3.4	6.5	7.5 (4)

(1) Disbursements - Debt Service

(2) Abbreviations : GED : Gross External Debt / XGS : Export of Goods and Services / RES : Reserves / TDS : Total Debt Service / INT : Interest Payments.

(3) In fact mostly private creditors.

(4) Figures of 1983.

Source : World Bank, World Debt Tables, March 1986.

TABLE IV : Low Income Africa : debt structure and ratios.

(in US\$ bn and %)

	1975	1980	1982	1984
Gross External Debt (GED)	..	27.1	31.9	34.4
Long-Term Debt	8.8	22.9	26.9	28.7
public and publicly guaranteed	8.1	21.9	26.2	28.0
private non-guaranteed	0.7	1.0	0.7	0.7
Use of IMF credits	0.5	1.3	2.3	3.1
Short-Term Debt	..	3.0	2.7	2.5
Net Transfers of LT Debt (1)	1.4	2.8	1.9	0.7
Principal Ratios (in %) (2)				
Gross External Debt				
GED/XGS	..	225.6	335.9	393.1 (4)
GED/GNP	..	49.5	57.9	79.2
RES/GED	..	9.0	5.4	6.1
Public and Publicly guaranteed				
% concessional debt	55.5	50.0	52.0	54.3
% variable rate debt (3)	7.3	6.5	8.2	5.1
TDS/XGS (debt service ratio)	8.8	11.4	13.6	14.9 (4)
TDS/GNP	1.8	2.5	2.4	4.0
INT/XGS	3.2	5.1	5.5	6.4 (4)

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(4) Figures of 1983.

Source : World Bank, World Debt Tables, March 1986.

from its private creditors in 1983, it transferred itself US\$ 2.2bn to these private creditors in 1984.

The foreign debt to GNP and foreign debt to export of goods and services ratios are bad and quickly deteriorating as well for SSA as a whole as for low-income Africa. But again for low-income Africa figures are worse. As a consequence of the higher concessional terms of foreign loans to low-income Africa, the situation of the rest of Africa is worse than in low-income Africa as far as the debt service ratio (debt service/exports), the debt service/GNP ratio and the interests/exports are concerned. Thus, the foreign liquidity situation is worse in the rest of Africa than in low-income Africa.

Among middle-income African countries the oil exporters (Nigeria, Cameroon, Congo, Gabon and Angola) form a special group. Their outstanding loans are relatively less concessional. They also have a higher part of short term debts and private creditors. The high depreciation of the US\$ from the second semester of 1985 onwards lowered their foreign purchasing power because the oil market is mostly priced in US\$. The collapse of the oil price in the first quarter of 1986 was a new heavy blow. As far as debt service is concerned (but also for other reasons) 1986 was a very harsh year for the oil exporting countries in a debt situation, certainly for the poorer among them, as the African ones.

THE NEED TO BORROW ABROAD

The need of SSA to borrow abroad can be explained by some macro-economic factors and aggregates. Table V shows some separated figures for low-income Africa and the rest of SSA. As in a lot of developing countries, domestic savings in low-income Africa are lower than domestic investments. This savings gap grew from 0.8% of GDP in '60 - '69 to 2.9% in '70 - '74, 8.2% in '75 - '79 and 9.6% in '80 - '84. This gap has to be filled up by increasing domestic savings or the inflow of foreign savings or by decreasing investment. In low-income Africa domestic savings decreased from 1975 onwards, while the decrease in investments was relatively lower and came with a certain time lag. This was automatically connected with a negative resource- (export less import) and current account-balance. From the end of the seventies the increase of the gap was no more followed by a steady increase of foreign financial flows. Thus domestic investment was forced to decline and the IMF moved into the picture.

In the rest of SSA, middle-income Africa, the picture is somewhat different. The savings gap came later, in the beginning of the eighties. Only 1.2% annual average of GDP for the period '80 to '84. But this average figure does not show the extremes over the several years. While in 1980 domestic savings were still 5.3% of GDP higher than domestic investment, they fell steeply in 1981 and the situation was reversed. In 1981 domestic savings became 5.2% of GDP lower than domestic investment, in 1982 it was 6.5% of GDP and in 1983 still 3.5%. As this gap was not filled up with sufficiently increasing foreign resources (which are more commercial and less concessional than in low-income Africa), the only solution was a forced and heavy decrease in domestic investment, which decreased from 24.3% of GDP in 1982 to 21.2% in 1983 and 14.7% in 1984.

So, in general, it is possible to postulate that the global economic problems of Africa in the last decade forced a decline in domestic savings, because a decrease in the already low consumption level was difficult. The increasing savings gap was from the end of the seventies (low-income

(1) Does not include Angola.

Low Income Africa includes not only countries with per capita GNP of US\$ 400 or less in 1984 (as usual), but also Liberia, Lesotho, Mauritania and Zambia (with per capita income to GNP US\$ 550).

(2) Concessional flows here include grants not allocated on a country basis.

(3) Include private non-guaranteed short-term loans that have been converted into medium- and long-term loans. Exclude IMF purchases.

(4) Excluded Chad, Guinea, Guinea-Bissau, Mozambique and Swaziland.

(5) Levels at end of year.

(6) Exports less Imports of goods and services.

Source : World Bank, Financing Adjustment with Growth, 1986.

TABLE V : Selected economic aggregates and ratios (1).

	1970-74	1975-79	1980-84	1984
AGGREGATES (annual averages in US\$bn)				
Gross flows of grants and concessional loans				
- Low Income Africa (2)	1.37	3.60	6.31	6.33
- Other SSA	0.38	0.67	0.99	0.91
Gross flow of non-concessional loans (3)				
- Low Income Africa	0.89	2.07	2.36	1.27
- Other SSA	0.34	2.17	5.73	4.11
Net direct foreign investment (4)				
- Low Income Africa	0.17	0.32	0.38	0.27
- Other SSA	0.44	0.53	0.73	1.61
Use of IMF credits (5)				
- Low Income Africa	0.16	1.03	3.25	4.24
- Other SSA	0.04	0.75	0.68	1.01
RATIOS (annual average in % GDP)				
Gross domestic savings				
- Low Income Africa	15.0	10.1	6.9	6.4
- Other SSA	25.2	29.2	21.6	18.6
Gross domestic investment				
- Low Income Africa	17.9	18.3	16.5	14.3
- Other SSA	21.4	28.7	22.8	14.7
Resource balance (6)				
- Low Income Africa	-3.0	-8.2	-9.8	-7.8
- Other SSA	3.8	0.6	-1.4	3.9
Current Account balance (4)				
- Low Income Africa	-6.0	-9.5	-11.1	-9.9
- Other SSA	-0.7	-2.9	-5.1	-1.9

Africa) and the beginning at the eighties (middle-income Africa) not filled up with a proportionally increasing flow of foreign financial resources. As a consequence the existing foreign financial flows were used less for debt service of outstanding debt (earlier financial flows). Moreover, the domestic investment level was forced to come down from 24.8% of GDP in 1981 to 14.5% of GDP in 1984, and is the lowest of the developing regions.

MULTILATERAL AND BILATERAL OFFICIAL FINANCIAL FLOWS

The structure of African countries' debt, primarily of the middle-income countries, has changed over the last decade. The relative share of bilateral official and concessional flows declined. The relative share of short term, commercial, variable interest rate and private credit increased. As a result the terms of the outstanding debt worsened and the debt service obligations increased.

But official creditors are still much more important than private creditors (9). The official long term public debt outstanding and disbursed to SSA increased from US\$ 8.9bn (of which US\$ 2.5bn multilateral) in 1975 to US\$ 24.3bn (US\$ 8.5bn multilateral) in 1980 and US\$ 36.6bn (US\$ 14.6bn multilateral) in 1984. For low-income Africa these amounts were respectively US\$ 5.6bn (US\$ 1.4bn multilateral) in 1975, US\$ 16bn (US\$ 5.4bn multilateral) in 1980 and US\$ 23.4 bn (US\$ 8.9bn multilateral) in 1984.

Net real financial transfers from abroad decreased from 1980 onwards. This move was partly offset by some higher transfers from the World Bank group and tripled transfers of (non-concessional and conditional) IMF credits between 1980 and 1984 (see table III and IV). In addition to its own expanded lending, the IMF exercises a leadership function in the relation between debtors and official or private creditors. As a consequence the IMF had over the past years a high leverage to impose its "austerity programs". From 1979 till 1984, over half of the governments of SSA negotiated such programs with the Fund. This enlarged role has aroused a great deal of controversy.

The critics of the IMF argue that its policy prescriptions are too homogeneous and not adapted to different circumstances. They are too limited in time, funds are too expensive and programs do not attract new additional capital.

The IMF-imposed policy is too much attached to a sharp and too rapid correction of external imbalances by a shock-therapy to bring down the (according to the Fund 'unrealistic') high level of aggregate internal demand. Such policy inhibits much needed economic recovery and growth. Recently the IMF has become a bit more flexible in its one-sided approach.

SSA has a high predominance of official creditors and more and more multilateral agencies. Official lenders plus the IMF account for more than 75% of debt service due in 1986-87 for low-income countries. Of the 75%, 20% is due to the IMF and 17% to other multilateral agencies (6). Actually SSA has to repay the IMF about US\$ 1bn a year (12). This is impossible and more arrears on payment are inevitable. Begin 1985 the IMF already listed following African countries with payment arrears : Gambia, Ghana, Guinea, Mali, Sierra Leone, Tanzania, Zaïre, Zambia, Benin, Chad, Guinée-Bissau, Mauretania and Nigeria (13). In its 1985 Annual Report the Fund already showed concern about the arrear problem (14). But problems will become worse. For some African countries multilateral lending agencies (the IMF included) account for 50% or more of the debt service. Since credits of the IMF and other multilateral agencies are still considered preferable, payments to those agencies are not taken into consideration for reschedulings. This automatically reduces the scope for debt relief. Contrary to common knowledge, SSA has a great diversity of bilateral official creditors, especially in the case of concessional bilateral credits.

In 1984 an amount of US\$ 5.54bn (43% of total) concessional bilateral credits was owed to Western DAC governments represented at the so-called Paris Club, US\$ 3.75bn was owed to OPEC countries and US\$ 3.01bn to Central Planned Economies Countries (15). The last two amounts were mostly owed by countries as Ethiopia, Guinea, Guinee-Bissau, Mali,

Mauretania, Somalia and Sudan. One has to keep in mind that these different groups of creditors have different approaches and procedures for debt relief.

COMMERCIAL BANKS AND SSA

Private credits to SSA are much less important than those in other regions (9). Private creditors had following amounts outstanding and disbursed long term public debt to SSA : US\$ 5.1bn (of which US\$ 3.2bn of "financial markets" and the rest of suppliers) in 1975, US\$ 16.7bn (US\$ 13.3bn financial markets) in 1980 and US\$ 20.7bn (US\$ 18.5bn financial markets) in 1984. To low-income Africa the amounts were respectively : US\$ 2.5bn (US\$ 1.3bn financial markets) in 1975, US\$ 5.9bn (US\$ 4bn financial markets) in 1980 and US\$ 4.6bn (US\$ 3.5bn financial markets) in 1984. The outstanding amounts increased till 1982 and fell from 1983 onwards. This downfall was very clear in low-income Africa : from US\$ 6.2bn in 1982 to US\$ 4.6bn in 1984. It is of course necessary to keep in mind that private creditors also have almost the entire amount of short term debt in their portfolio. For these figures see table III and IV.

It is sometimes forgotten that developing countries also have deposits with the western banking system. As a consequence the net position of developing countries with commercial banks is always better than their gross debt position with the banks (16). This is also the case for SSA, which had US\$ 33.5bn debt outstanding (the special case of off-shore banking centre Liberia - US\$ 10bn included) with the commercial banks at Sept. 1985, but also US\$ 15.5bn deposits with the same banks (11). So its net position was US\$-18bn. A lot of countries are even net depositors (always in Sept.'85), such as Zaïre (US\$ 223 million), Rwanda (US\$ 151 million), Burundi (US\$ 36 million), Chad (US\$ 31 million), Ethiopia (US\$ 174 million), Kenya (US\$ 590 million), etc.. It is striking that the lower the income of a country, the higher is the chance of a net deposit position with the banks. This is mainly due to, on the one side, deposits of liquid reserves with the banks and, on the other side, lack of credit-

worthiness to borrow from the banks. But part of this situation is also due to difficultly measurable capital flight.

LOWER INTEREST RATES, US\$ DEPRECIATION, AND CFA

The largest part of the outstanding credits to SSA has a fixed interest rate : 94.9% of long-term public debt for low-income Africa and 78.2% for SSA as a whole. As a consequence, the positive effect of decreasing i-rates in the international financial markets on debt servicing, is much less important for Africa than for Asia or Latin America. It is only through real reschedulings that Africa could partly profit from the lower i-rates.

An important aspect of foreign debt concerns the currency structure. It is too easily forgotten in debt analyses, also because of the lack of reliable data. According to World Bank sources (17), about three quarters of less developed countries' total long-term public debt was US dollar denominated at the end of 1983. But Africa is by far the less dependent on the US dollar, namely 54.2% against 68.2% for East Asia and 89% for Latin America. This has different consequences. Since the US dollar depreciation from the second half of 1985 onwards pushes up the dollar valuation of the non-dollar component of debt, and since this component is larger in Africa than in the other regions, total US dollar expressed -as common in international statistics - debt valuation by the middle of 1986 has increased more in Africa than in other regions. For each country the US\$ exchange rate fluctuation also has different (positive or negative) influences on its relations abroad, depending on its currency debt structure, its geographical import and export structure, the dollar or non-dollar pricing of its exported commodities etc. (18). All this automatically has an influence on the foreign debt ratio's, and is different for every country. Mainly African countries are influenced, because of their relatively high proportion of non-dollar denominated debt and because of the importance of non US\$ currency countries (Europe) in their foreign trade relation.

A clear example of the special currency situation in Africa is the CFA franc zone with special ties to the French Treasury (19). It encloses the Comores, the West African Monetary Union (UMOA) and the zone of the Bank of Central African States (BEAC). UMOA has seven members : Benin, Ivory Coast, Mali, Niger, Senegal, Togo and Burkina. BEAC has five members : Cameroon, Central African Republic, Congo, Chad and Gabon. For those countries the problems associated with the servicing of public and publicly guaranteed debt show some special features. On the one hand, the foreign exchange to service external debt is drawn from a common pool and therefore not constrained by an individual member's export earnings, and moreover, facilitated by net drawings from the French Treasury (Operations Account). On the other hand, to service its own debt, the government has to generate sufficient revenues in the common currency and can rely on money creation only within narrow limits. Thus, a crucial debt service variable is government revenues instead of export income.

ELEMENTS FOR A SOLUTION

There is not a single solution for the African debt crisis. In other words, there is not a separate debt crisis with a specific solution. The foreign debt problem is part of a larger deep-rooted crisis of Africa, with economic and social-political aspects. There can be no final solution without solving problems such as population growth, decline of per capita agricultural production, fall in terms of trade, ecological damage, economic and political mismanagement. Below, I will present a short analysis with some suggestions for debt relief.

INCREASE IN FOREIGN AID

Commonly advanced as a solution is an increase in foreign aid. This was also one of the issues of the special five-day session of the U.N. General Assembly on the African economic crisis at the end of May 1986. According to the last World Bank report on Africa (20), low-income countries

in Africa will need at least US\$ 11bn a year in concessional flows during 1986-90. Allowing for existing aid commitments, this means a gap of US\$ 2.5bn to fill up. The U.N. session puts correctly that "Africa's attempts to help itself will fail without additional resources in the form of new aid and debt relief." (21). But it is also true that rather than an increase in quantity of aid flows, an increase in aid quality is needed. As seen in table I, aid flows are certainly not a guarantee to economic development and growth. Foreign per capita aid to Africa increased substantially between the 1960's and the 70's and became on average much higher than in Asia, but... with very poor results. Some African countries even lack the political will and/or the skilled labour to distribute the aid received. It is well known among development economists that in the long run aid could do - not necessarily does - more harm than good.

BILATERAL OFFICIAL CREDITORS

As bilateral official credits are very important to Africa, the so-called Paris Club has an important role to play in African debt reschedulings. This Paris Club is not a legal body or organization but an ad hoc group of Western governments that regularly meets in Paris under the chairmanship of the French Treasury to negotiate the debt of countries falling behind in debt service payments. The restructuring terms of the official creditor governments are very harsh and in some aspects even harsher than those of the commercial bank creditors. The agreements never provide new money (as some commercial bank restructurings do) and do not bring a reopening of short-term lines of credit. They do not normally consider rescheduling periods of more than 12 to 18 months (while commercial banks agreed a lot of multi-year reschedulings). The London summit of Western leaders in May 1984 endorsed the principle of multi-year reschedulings but it was never put in practice. The rescheduling terms often proved to be out of reach, and, as a consequence, a lot of countries have to come back each year for a new rescheduling. In fact the Paris Club mechanism for debt rescheduling has proved not to be an

effective solution and not to take into account Africa's long-term requirements for net resource inflows. It is rather part of the problem than part of the solution. Western creditors, who gave concessional aid to promote their own - not always needed - products for export, should recognize their responsibility in the rescheduling terms with a more long-term approach as some have already done, they could also accept debt exemption for part of the debt. The same scheme should be followed by creditors from East Block countries.

MULTILATERAL OFFICIAL CREDITORS

Multilateral Official Creditors as the IMF and the World Bank have no problems with the rescheduling terms of their outstanding credits, they simply do not consider rescheduling. They lift themselves up to the rank of "preferred creditors", for whom debt rescheduling is out of question. As their credits to SSA have become more important in the total outstanding debt of SSA, this position of no rescheduling possibility actually aggravates the debt service problems of SSA and diminishes the hope for a debt relief.

This certainly is the case with the expensive IMF credits of the last years. It is quite possible that the lowering of net transfers - they could even become negative - of the IMF to SSA, and possibly even of the World Bank, will downgrade their "preferred status" and that the no-rescheduling-position will no longer stand.

During the last decade the World Bank and the IMF have paid a lot of attention to Africa and have become the most important multilateral official creditors. The development of SSA can certainly not be considered their success story. Thus time has come to question some development policy approaches of the multilateral institutions.

Over the past decade, the IMF has played a major role in Africa. In the second half of the seventies it established the Oil Facility, the Trust Fund and an Interest Subsidy Account, making low-cost loans possible to its poorest

members. By contrast, after the second oil shock of 1979, 75% of the IMF lending involved higher conditionality (22). In the eighties the Fund became the major source of balance-of-payments (non-project) financing with loans actually totalling more or less US\$ 6bn. Its imposed and much criticized austerity programs have also given the Fund a leadership function. A review of the Fund's policy would carry us too far in the context of this article. Although some of its policy prescriptions are tough but really necessary and appropriate, its general policy recipe was too much anti-growth oriented and not adapted to different circumstances in different countries. The Fund also accepts too easily that the local political elite passes on a disproportionate share of the burden of adjustment to the poorest population groups. From the beginning of 1986, the IMF has adopted a more flexible attitude. It ought to consider adapting a long-term growth oriented policy, beneficial to the mass of the population.

The World Bank is also very important donor to SSA, mostly through its soft loan branch, the International Development Association. Net transfers from the World Bank group to SSA were US\$ 3.9bn between 1981 and end 1985, or US\$ 0.79bn on average a year (23), less than commonly accepted. Most of its lending is for agriculture, transportation, water supply, energy and non-project program financing. Industry receives only a very small part. Again, a review of the World Bank policy in Africa would carry us too far. Anyway, the IDA branch procures very soft loans to Africa, and as such this is positive in a debt relief context. But the quantity of the lending has been decreasing over the last years, yet with the new African Facility this trend will probably be reversed in 1986. Sometimes quality of loans and credits can be questioned. The World Bank itself agrees that (following its own evaluation criteria) the number of projects with inadequate rates of return has recently been growing, mainly in agriculture and in Africa (24). In recent years the World Bank has begun to pay more attention to global program aid (instead of project aid) through the so-called adjustment programs.

PRIVATE CREDITORS AND THE BAKER PLAN

Creditor bankers have to accept their responsibility in the origin of the SSA debt problem. As a consequence, part of the adjustment burden is chargeable to the foreign commercial bankers. From the point of view of the bankers as a group the outstanding and disbursed credits to SSA are relatively small in their total credit portfolio, so they can certainly support such a small burden.

At least they have to stabilize their outstanding credits and to stop the actual withdrawal of their money. They must also lower the debt service burden of SSA by accepting some form of interest capitalization. This means in fact a fixed interest payment with a variable maturity, which is technically feasible for every banker. Debt service could also be linked to the price variances of export commodities of the debtor country. They must also write off a part of their outstanding credits and this operation must be openly published and matched by a reduced debt service burden.

The U.S. backed "Baker Plan", proposed at the end of 1985, has always remained a still-born publicity without any real and feasible substance, and without a concrete realization. Besides, it was only oriented towards middle-income debtor countries with relatively important debt outstanding to private creditors - by preference U.S. banks - . For SSA there were only two countries involved, Nigeria and Ivory Coast. In fact it does not earn any further consideration, certainly not as far as the SSA debt problem is concerned.

THE INTERNATIONAL MONETARY SYSTEM

Rather than ill-conceived programs such as the Baker Plan, there is the need for a change in the international monetary system. The promotion of a real neutral international reserve instrument has become a necessity. It is time to break away from the actual system with the preponderance of one country's currency, as actually the US\$, in international financial markets. Through the present system it has become possible that high national i-

rates in the USA (caused by a high public budget deficit) were transferred to the international financial market and so increased the interest burden of the debtor countries.

Looking forward to such a fundamental change, a new allocation of Special Drawing Rights to the debtor countries in Africa and elsewhere could already bring some temporary relief.

THE RESPONSIBILITY OF THE DEBTOR COUNTRIES

Last but not least the national political elites of the SSA debtor countries have to accept their own part of the responsibility in the solutions of the problem.

A correct exchange rate management for example is certainly an important aspect of the external debt's solution. It is true that too high and abrupt devaluations of the own currency heavily increase the price of essential import products. But it is also true that the artificially maintained high currency rates keep the prices of non-essential imports too low and often favour a small local elite and/or a relatively small urban population. Too high currency rates have too much boosted unneeded imports for a small part of the population and impeded export possibilities on which larger parts of the rural population are dependent for income. Correct (a relative concept) exchange rates have to be maintained in order to avoid the negative aspects of an abrupt shock devaluation therapy.

There is also the question of capital flight, conspicuous consumption and so-called economic mismanagement. A much advocated recommendation for a long-term solution of the foreign debt problem is a higher priority to rural development. It is true that the great majority of African population is living in rural areas and that these have not received enough attention in economic development building of the last decades. So it is correct to attach more importance to development in rural zones, certainly in the areas of food crops, stocking and distribution capacity. But this does not mean that the important role of industry

in total economic development may be forgotten. Africa has already become too much dependent on fluctuating international agricultural commodity prices. It needs to develop its own economy, and this requires a minimum level of adequate industrial development.

CONCLUDING REMARKS

As already advocated above, the foreign debt problem of SSA is only a part of much larger economic problems of the continent. It is in fact questionable if there is a will to find real solutions. Quoting Mr. A. Kaletsky in the Financial Times (25) : "...the errors of the past did not just arise by accident, they were reflections of powerfull vested interests and political forces in both the African and the Western countries." And also the interests of the East Block countries have to be taken into consideration.

Despite all the "development activity", it is still much too early to say that Africa has turned the corner.

NOTES

- (*) Manuscript received July 1986.
- (1) For all quoted figures on per capita GNP see OECD, 25 years of development cooperation, p.263- 268, table XII - 1 and chart XII - 1.
- (2) World bank, Annual Report 1985, p.86.
- (3) World Bank, Financing Adjustment, table 19.
- (4) For more information about geographical distribution of aid flow see OECD, 25 years, p.120 - 129 and Dancet G., p.16 -23.
- (5) see Hardy Ch., Africa's Debt Burden, p.5, Jackson H., p.1032, Krumm K., World Bank Paper, p.7-18.
- (6) World Bank, Financing Adjustment, p.41.
- (7) see World Bank, World Debt Tables, March 1986, table 2, p.XIV.
- (8) Jackson H., p.1083.
- (9) Quoted figures from World Debt Tables, March 1986.

- (10) US\$ 100 as quoted by Jackson H., p.1083.
- (11) B.I.S., Quarterly Report, January 1986.
- (12) Hardy Ch., Africa's Debt Burden, p.7.
- (13) Hardy Ch., Africa's Debt Crisis, p.19.
- (14) IMF, Annual Report 1985, p.64.
- (15) World Bank, Financing Adjustment, p.41 and table 15.
- (16) see also World Bank, World Development Report, 1985, p.110 -112.
- (17) World Bank, World Debt Tables, March 1985, p.XXIV -box 5.
- (18) see also IMF, World Economic Outlook, April 1985, p.60 and p.134 - 138.
- (19) The part concerning CFA franc zone is mainly borrowed from Krumm K., World Bank Paper, p.25.
- (20) World Bank, Financing Adjustment.
- (21) Financial Times, July 2, 1986.
- (22) Hardy Ch., Africa's Debt Crisis, p.3.
- (23) figures from World Bank, Annual Report 1985.
- (24) World Bank, World Development Report 1985, p.103.
- (25) Financial Times, April 15, 1986.

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Met windenergie wordt op de afgelegen hoogvlakten in Algerije drinkwater gepompt voor de kuddes.

Foto : D.Beke