Sub-Saharan Africa's external debt crises

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> Credit is suspicion asleep
>
> \- Henry Wallich

> The bank debt crisis has been allowed to obscure another crisis in which indebtedness has been super-imposed on other serious problems: namely, that of the low-income developing countries, especially in Sub-Saharan Africa.
>
> \- The Debt Crisis And The World Economy
> Commonwealth Secretariat (Lever Report)

> Africa's debt burden is now intolerable. We cannot pay. You know it and all our other creditors know it. It is not a rhetorical question when I ask, should we really let our people starve so that we can pay our debts?
>
> \- OAU Chairman Julius K. Nyerere
> 1985 Mansion House Address

The Magnitude of SSA's External Debt Crisis

SSA does not figure prominently in world debt crisis speculation or negotiations seen as critical to the global financial system. The total external debts of SSA countries - and especially of their debts to commercial banks - do not place them in the first tier of debtors, a default by one of whom could trigger a major international banking debacle and/or a wave of subsequent defaults.

For this reason there has been a general tendency - more marked outside SSA than within - to view SSA's external debt burden as manageable, with a few exceptions like the Sudan and Zaire as atypical cases resulting from major overborrowing and subsequent bad management. A parallel assumption was that SSA had a high net inflow on capital account plus net aid so that - with the odd rescheduling here and there - debts could be repaid as scheduled.

Unfortunately - above all for Africans but also for creditors - this picture is not accurate. As the fact that two thirds of official debt renegotiations since 1969 have been for SSA countries demonstrates[2], SSA debt levels have by no means been within servicing capacity historically. Furthermore they have risen very rapidly since 1972: the World Bank estimates of long term official debt amounted to $12.1 billion in 1972 and $80 billion in 1984, with debt service on that portion of SSA's external debt rising from 9.6% to 21.5% of export earnings.[3] As a result, many SSA economies with low debt service ratios as recently as 1979 have high ones today.

In fact, present reported data seriously understate the size of the debt burden. First, World Bank data are limited to long and medium term government and government guaranteed debt, and revised Bank data for selected countries suggest that adding short term debt would raise the total by perhaps one third,[4] and non-official debt would add another 5 to 10%. Second, even World Bank and Bank for International Settlements short term data significantly understate "best estimates" of debt for those major debtors for which the latter exist (only Nigeria in SSA), by 5 to 60%.[5] Third, none of the estimates include either trade arrears, unpaid local contracts which on payment would result in unpaid external obligations or - almost incredibly - IMF drawings. When these are added the probable 1984 figure rises to about $125 billion and the current total external debt of the 42 SSA economies to the order of $130-135 billion.[6] This would suggest that the average true debt service to exports ratio was of the order of 35%. Recorded debt service ratios do not bear this out in many cases for a grim reason - they record only payments actually made, therefore not only reschedulings but also arrears in payments are not recorded leading to apparent ratios very much under their true levels.[7]

In the case of SSA suspicion is no longer asleep - most creditors want their money back, or at least all new purchases for cash in advance, international banks view almost all SSA countries as cases for reducing exposure as rapidly as practicable with reschedulings and limited 'new' money simply tactics on that road.[8] Some senior IMF officials have even advocated current account surpluses in SSA[9]; they have actually argued that African countries should adopt at present a deliberate policy to "amortise existing debt at a rate higher than the rate at which new debt is contracted by generating a net outflow of external resources for this purpose". This would imply not only current account surpluses, but also domestic savings larger than domestic investment, clearly unacceptable in countries as poor as those of SSA! The net inflow of borrowed resources (though still positive) is falling and projected to continue to do so.[10] While the Chairman of the Bank-Fund Interim Committee has warned[11] that "insufficient financing leads to unwarranted exchange rate depreciation, restrictions or debt default", the record to date does not suggest that either governments, international agencies or commercial sources are making or will make available enough funds to avoid precisely these results.

President Nyerere's warning and question are not rhetorical. African states - as he has noted - are too small and too poor not to pay, but most are also too poor and too deeply enmeshed in overall economic malaise to pay either on the terms and over the period previously envisaged or without substantial additional resource transfers.[12] States will not in fact choose to pay interest - much less repay principal - when that choice would mean cutting grain imports needed to avert starvation or fuel imports needed to keep the economy operating. The case of the Sudan with a $78 million proposal for emergency aid and $213 million interest due (after rescheduling) on $10 billion[13] of external debts (after rescheduling and excluding repayments to the IMF) indicates that for at least a number of African central banks the choice is that stark. Relatively unthreatening as it may appear at the international banking system level - and even there a series of 'can't pay' defaults would not be so trivial as individual country figures might suggest - SSA's debt problem is at least as grave as that of any other region when looked at in terms of burdens on a majority of the national economies.

Official Long Term Debt On The Up and Up

The most striking feature of African external debt is its very rapid increase since the early seventies at a rate far exceeding that of the region's GDP or its exports of goods and services. The rate of expansion in the external debt of the African countries has since the early seventies also been more rapid than that for other developing countries.

Between 1972 and 1982, total African external public and publicly guaranteed debt outstanding is estimated to have increased sevenfold, representing an average annual rate of growth of about 22%. With relatively slow export growth, the ratio of total debt disbursed to annual exports of goods and services grew from 71.8% in 1975 to 161.7% in 1984. Sub-Saharan Africa's record was even worse, with its' ratio of external debts to exports deteriorating from 120.0% in 1977 to 223.0% in 1984![14]

This increase in the ratio of total debt disbursed to exports of goods and services grew significantly faster for Africa than for the rest of the developing countries.[15] In fact, the annual growth of African external public and publicly guaranteed debt between 1972 and 1982, estimated at 22% was higher than that for all developing countries estimated at 19%, and higher even than that of the three largest borrowers (Argentina, Brazil and Mexico) estimated at 20% for the period.[16]

The more rapid increase in the size of African debt than of other developing countries', as well as the far more rapid growth in African countries' debt/exports ratio can be largely attributed to the larger relative size of their current account deficits, particularly when measured as percentages of exports of goods and services. Thus, for African non-oil developing countries the median of their current account balances as percentage of their exports of goods and services was higher than for the median for all developing countries in every year between 1973 and 1983; the weighted average for this ratio was higher for Africa than for the total of developing countries in 7 out of the 11 years after 1973.[17]

The rapid rise in African external debt has <u>not</u> been accompanied by an increase in foreign exchange reserves. In fact, it has been estimated by the IMF in the 1983 <u>World Economic Outlook</u>[18] that for all Africa the value of foreign exchange reserves in 1983 was lower even in nominal terms, than it had been in 1973. The ratio of reserves to imports of goods and services for non-oil exporting <u>developing Africa</u> has as a consequence persistently declined from 18.4% in 1973 to only a mere 5.3% in 1983, which implies less than one month of imports, (clearly an extremely low ratio, which is much lower than that for <u>all other developing countries</u>). This ratio provides another indicator of the extreme seriousness of Africa's foreign exchange situation. Such a low level of foreign exchange reserves makes countries extremely vulnerable to unexpected changes outside their control - e.g. deterioration of their terms of trade or serious drought - and their ability to respond to such unexpected problems is thus heavily dependent on external capital flows.[19]

An important element accompanying the growth of African debt has been a change in its structure, which corresponds to an increasing importance of private flows in total external finance to developing countries. The proportion of Sub-Saharan African recorded official debt outstanding, owed to private creditors increased from 27% in 1972 to 40% in 1979; this share declined somewhat in 1981 to 38.0%. The share of Sub-Saharan African debt owed to private creditors was in all years at a level significantly below that for all developing countries, and the increase in the share of debt to private creditors for SSA countries between 1972 and 1981 was somewhat smaller than that for all developing countries during the same period (54%).

What the data do not show is the rapid increase - absolutely and as a share of debt outstanding - of IMF drawings, short term credit and of commercial arrears. For many Sub-Saharan economies these appear to account for up to a half of total debt outstanding and - even assuming a five year period for amortizing arrears - half of total debt service requirements. By definition short term credit and commercial arrears are virtually 100% obligations to private lenders.

The declining share of official flows towards developing countries - and towards African ones in particular - has been accompanied since the late seventies by an increased share of non-concessional official flows (predominantly supplier credits and similar export promotion lending for large, capital intensive projects). As a consequence of both these trends, the share of total African disbursed debt which had concessional terms is estimated to have risen first, from 46% in 1975 to 54% in 1979, but declined thereafter to only 36% in 1980 and 35% in 1981. The share of ODA differs for different categories of African countries, even though there is a common trend for all categories of countries for ODA to decline as a proportion of total debt since the mid-seventies. ODA debt as a proportion ot total debt represented 53% for low-income African countries in 1981 (down from 58.8% in 1975). The decline on ODA as proportion of total debt appears on the face of it to have been particularly rapid and harmful for the least developed African countries, for which the share declined from 65.6% in 1975 to 53% in 1981. However, this may overstate or even misrepresent reality. An increasing proportion of ODA to these countries is now in grant form and a substantial volume of soft loans were retrospectively converted to grants. These factors probably dominate the apparent shift at least for some countries. For non-OPEC middle income African countries, the share of ODA in total debt was somewhat smaller (48.2% in 1978 and 34.3% in 1981).[20]

A final characteristic of the evolution of the structure of African debt since the mid-1970s is that the traditional creditors of African countries (DAC countries and capital markets, as well as multilateral organisations) have actually increased their share of African debt rather significantly, while the "new" creditors have decreased their share. The latter trend is particularly clear as regards to the socialist countries (whose share in African debt is reported to have declined from 6.2% in 1975 to 2.7% in 1981) and to a lesser extent is also true for OPEC countries and other LDC's.[21] The latter trend contradicts increasing calls during that period for growing South-South cooperation in the financial sphere and is despite efforts of South economies such as Brazil and India to establish substantial medium term export credit programmes.

The changes in the structure of African debt during the 1970s - the increasing proportion owed to private creditors, as well as the proportion of non-concessional debt to official creditors - have led to a significant hardening in the average terms of new commitments,[22] reflected in a sharp increase in the average nominal interest rate, (from 4.4% in 1972 to 10.1% in 1981) a shortening of the average maturities and grace periods, as well as a reduction of the percentage of grant element, which declined from 37.1% in 1972 to 6.6% in 1981. However, for the least developed this has been partly offset by the increasing ratio of pure grants to concessional loans within ODA.

Particularly striking is the rise in average nominal interest rates paid by Sub-Saharan African countries which occurred during the 1982-81 period. The average rate rose from 3.1% in 1972 to 5.1% in 1981 (and was much higher for several states, e.g. Ivory Coast, Cameroon, Nigeria, Tunisia). This resulted from three trends: the increased "privatisation" of new flows, the rapid growth of the interest rate paid to private creditors (which more than doubled from its average level of 6.7% in 1972 to 14.3% in 1981), and the smaller - (but significant) rise of the average interest rate charged by official creditors.

Debt Service - On The Express Elevator

The large rise in the level of debt, the steep increase in interest rates paid by African countries, and the slow growth of the value of African exports led to a rapid increase in the debt service to exports ratio of African countries, which grew from 9.2% in 1975 to 17.3% in 1981, that is by 88% in six years. This increase is much larger than that for all other developing countries, whose debt service grew from 9.0% in 1975 (a similar level to that of African countries in that year) to 14.6% in 1981, a rise of 58%, which though significant, is less dramatic than that for African countries. The estimated ratio of debt service to exports for low income African economies was very high by 1981, reaching 22.3% in that year, and had grown extremely rapidly since the mid-seventies; the ratio increased nearly nine tenths between 1975 and 1981. 1984 Sub-Saharan estimates were of the order of 25%.[23] In fact even these data do not fully portray the present and impending debt service problem. First, drawings on pre-1981 commitments and the running out of grace periods combined with stagnant export earnings suggest sharp increases in debt service burdens through the rest of the 1980s even if all new borrowing were to be concessional. Second, past debt service data for most African states are based on actual payments made, not amounts due which are in some cases at least 50% higher. Third, in no case do either past data or standard projections include either repayment or interest with respect to IMF drawings nor amortisation of arrears. If these factors are taken into account the 1985 ratio of total debt service due to export is likely to be in the 35% -40% range. This is in sharp contrast to the low-income countries outside Africa, whose debt service ratio is estimated in fact to have declined between 1975 and 1981, from 18.3% in 1975 to 16.8% in 1981.[24] The large size of debt service payments in relation to the size of low-income African economies is also highlighted by the fact that debt service reached 7.1% of these countries' GNP in 1981, a sum far higher than the 1.6% of GNP that debt service represented for non-African low-income countries.

Total interest payments for low-income African countries are moderate, albeit above those for low income Asian countries.[25] It is the amortisation of past loans which mainly explains the high level of low-income African debt service ratios.

The issue of increased aid to low-income Afrian countries also needs to be examined in the context of recent trends. In particular net flows to low-income African countries through public and publicly guaranteed debt, which had risen systematically and substantially since the early seventies until 1980, declined quite significantly in 1981 (by 25%) to a level beneath the 1979 level, in nominal terms. Net transfers to those countries declined even faster, by 30% in nominal terms, during 1981. This decline in net flows and net transfers was mainly due to a large fall in disbursements in 1981, from all official sources (except IDA whose disbursements in Africa, however, declined thereafter) and from private sources. Perhaps of even greater concern should be the fact that total commitments - to low-income Africa - during 1981 fell much more sharply in nominal terms (by 42%) than disbursements. While 1982-84 showed some recovery in nominal terms for new official aid, to Sub-Saharan Africa the present levels are about at their 1980-82 average in gross terms; however, because of higher amortisation net official flows are significantly lower in 1984-5 than in the late seventies and early eighties.[26] According to recent figures, in the April 1985 IMF World Economic Outlook, net long-term official borrowing by Sub-Saharan African economies (excluding Nigeria) has fallen from an average of U.S.$4.7 bn in 1979-81, to U.S.$3.9 bn in 1984-85, a decline of almost 20% in nominal terms!

As the same IMF publication points out, official flows to Africa seem in the mid-eighties to have been "crowded out" by sharp increases in official flows to the heavily indebted middle income countries, in the context of the "management" of their debt crises. (Net official flows to the Western Hemisphere more than doubled between 1979-81 and 1984-5!). The total level of net disbursements from official creditors to all indebted developing countries is estimated by the April 1985 IMF World Economic Outlook to have remained fairly stable in the 1981-84 period. However, official creditors stepped up disbursements to middle-income countries experiencing liquidity pressures, often in the context of "concerted lending" packages and rescheduling agreements. This shift raised the proportion of net official lending going to developing countries that had previously borrowed large amounts from the private banks. The counter-part was a decline in the share - and in the case of Sub-Saharan Africa and also of the nominal amount - of net official flows going to countries, that had not been large borrowers from the private banks. (It seems worth stressing that increased net official flows to large private bank debtors countries in Latin America did not imply increased total net transfers to those countries; on the contrary, there was a large net outflow of financial resources from those countries since 1982, as total debt servicing greatly exceeded new inflows, due to high international interest rates and sharp falls in new private bank lending).

Of smaller quantitative importance, but indicative also of the current very serious difficulties of low-income African countries, is the fact that in 1981 disbursements of private non-guaranteed debt, declined so markedly that net transfers became negative, amounting to $-49 million in 1981 and -$-74.5 million in 1982, as disbursements declined so markedly during that year that they fell to a level below principal repayments. For this category of flows, net transfers (that is disbursements minus principal repayments minus interest payments) for low-income Africa have been in fact negative during every single year, between 1978 and 1981. Net transfers out of low-income Africa on private non-guaranteed debt has reached US $82.3 million during the 1978-81 period.[27] By 1985 they were negative on capital account alone (i.e. excluding interest).[28]

The problems of reduced net flows and net transfers to African countries are not limited to low-income countries. Net flows to all of Sub-Saharan Africa declined in nominal terms by 22% in 1981 and net transfers of public and publicly guaranteed debt to those countries delined in nominal terms by 34% in 1981; for both categories, this was the first decline since the mid-seventies, and implied that the 1981 level was even in nominal terms, beneath the level of flows for any year since 1977.[29] The resultant problems for the SSA lower middle-income countries are also similar. Indeed structurally and in terms of ability to stabilise and adjust to exogenous economc shocks SSA's middle (dominantly lower middle) income economies appear to be more similar to low-income economies than to major Latin American or Asian middle income ones.[30]

An Overview Of Debt Patterns

Attempts have been made to draw up multi-dimensional debt and development matrices for African and other Third World economies. Up to a point this is useful but, especially in respect to SSA, the distance it takes one is open to growing doubt. First, simple matrices correlating levels and/or growth rates of external debt with those of GDP do not seem to tell very much about recent performance. Second, in any simple classification system there are side discrepancies on results within any one class. Third, if the number of variables is increased to cover GDP, external trade, growth uncertainty, debt characteristics, debt levels and growth, one rapidly arrives at matrices with more boxes than countries - an approach potentially useful as an organising framework for case studies, but not directly producing generalisable answers. Fourth, both the relataionships and the interpretations of them have been very volatile since 1973 and especially since 1979, e.g. the Ivory Coast[31] and Malawi[32] now rank as debt service problems cases with future growth mortgaged by past borrowing - a perception few, even among their more critical analysts, would have held in 1979 either as a description of present reality (which it was not) or of their immediate future (which it was). Similarly, 1983 studies still tended to classify some countries (e.g. Tanzania) as having a low debt service burden;[33] however, for Tanzania including IMF obligations, taking account of the 1979-82 explosion in arranging and 1980-84 in using export credit, and assuming a five year amortisation of commercial arrears, ratios of up to 50% of exports can be projected to 1990. As a result, Tanzania is no longer in the low debt service category.

Therefore it may be more useful to attempt a brief typology of debt levels and patterns related to rough GDP classification (low, lower middle and upper middle output per capita).

Among low per capita output African economies are three debt patterns: low debt; high debt dominated by commercial borrowings (including banks and export credit); high debt dominated by arrears (at least so far as debt service problems are concerned), export credits and World Bank (as opposed to IDA) loans.

Upper Volta and the Central African Republic exemplify the first group. In general these economies have never been able to borrow much or to run up very large arrears albeit in some cases - e.g. CAR - even quite modest absolute debts have imposed burdens requiring reschedulings.

The next two sub-classes overlap in that arrears are endemic for both. However, in the cases of the Sudan, Zaire, Liberia and Malawi substantial (and in the event substantially non-productive as to GDP or exports) commercial borrowing has been central to their growing (for well over a decade in the first two cases) debt crises. This sub-class is characterised by one or more reschedulings each, and is dominated by the Sudan and Zaire whose external debt (including arrears and IMF drawings) as of 1985 is in excess of $20 billion - a level which should give pause to those who contend that defaults by low income SSA economies would be trifling so far as the international financial system is concerned. The Sudan is in arrear to the IMF by over $100 million.[34]

The other low-income sub-class tends to have high debt service requirements. Debt service is dominated by commercial arrears, export credits, IMF drawings, World Bank (not IDA) loans and short term bank credits (the latter, in at least one case quite explicitly contracted because the IMF conditions regulated 1 to 5 and 5 to 10 year, but not under one year external borrowing; in others because banks would extend no other type of credit). The overall external debt profile is sometimes (e.g. Tanzania) quite different, with long term soft ODA and IDA loans/credits dominant but these are not the primary source of the debt service problems. Examples include Tanzania, Uganda, Madagascar, Sierra Leone, Equatorial Guinea and Guinea Bissau. In most cases the problem debt has built up largely since 1979 and - except for Uganda and Equatorial Guinea which suffered from notoriously profligate and oppressive regimes and transitional problems after their fall - has in substantial part been incurred in vain attempts to preserve investment and production in the face of falling earned import capacity. Debt reschedulings, to date, are common but not universal.

<u>Lower middle income</u> ($400-999 per capita in 1981) fall into three somewhat different sub-classe: low, middle, and high, with both of the latter two characterised by a dominance of arrears, export credits and/or banks borrowing. The most evident member of the first sub-class is Botswana primarily because it has been notably successful in mobilising grant and consessional aid, foreign direct investment and exports and in acting promptly

in 1981 to overcome a moderate external imbalance crisis before it could become serious structurally or in terms of accumulated external debt.[35]

The second sub-category includes Cameroon, Swaziland, Kenya, Senegal and Nigeria. The composition of the troublesome debt varies, e.g. in the case of Nigeria it is dominantly the $5.7 billion of commercial arrears (including $2 billion covered by bank credits which have been rescheduled and $3 to 5 billion to firms or export guarantee agencies under renegotiation since late 1983).[36] For Kenya it is Euroloans contracted to provide balance of payments bridging finance after coffee prices fell and those of oil rose while for Senegal it is the growing load of offical and bank credit incurred over two decades largely marked by very low overall and export growth. Zimbabwe probably falls in this category today - partly because the former Smith regime's access to external medium and long-term credit was unusually limited; since independence Zimbabwe was on a trajectory toward the high debt group until 1983-84 when it adopted a highly perhaps unduly - restrictive policy on what types of borrowing to approve.[37] Several reschedulings have already been negotiated or are under negotiation for countries in this category, and more over the next two to four years can reasonably be anticipated.

Cameroon is an exceptional case because its extenal debt poses no present servicing problems and has, if anything, grown less rapidly since 1979 than before as a combined result of prudent debt management and the buildup of oil export. Therefore selective additional borrowing to augment growth would appear feasible.[38]

High debt lower middle income economies include the Ivory Coast, Ghana and Zambia. In the cases of Ghana and Zambia[39] there is a very high proportion of commercial arrears up to four years old, whereas the Ivoirien problem and need for rescheduling centres around the approximately $5 billion of 1984-88 maturities of bank loans and export credits. Similarly the timing and proximate courses of debt buildup to problem levels varies; Ghana faces recurrent debt service problems since the middle 1960s and Zambia since mid-1970s, but the Ivory Coast's arose since 1979. The Ivory Coast continued - indeed increased - borrowing from 1979, when real earned import capacity fell off, to bridge the gap until the Espoir (perhaps better titled 'Le Faux Espoir') offshore oilfield would restore export led growth, which it has not and apparently will not.

Ghana and Zambia are in fact borderline cases between this sub-class and that of high debt/low per capita output. Both have substantial export credit outstanding albeit in Zambia's case over half the over $2 billion debt represents arrears, IMF drawings and commercial bank loans (in descending order). Both have suffered over 50% real per capita purchasing power falls since 1970 - two thirds or more as a direct result of external factors in the Zambian case - and have had a series of partial debt restructurings and reschedulings. Neither the late 1983 recovery of cocoa prices nor any likely level of copper/cobalt prices can render rescheduling more than a short term palliative for these economies without substantial growth of export volume which has been sliding in Ghana for almost twenty years and in Zambia since the mid-1970s. By 1984 the World Bank had "downgraded" Ghana (and Kenya) to its low income category.

If upper middle income is defined as over $1,000 per capita GDP there are only two cases in SSA - Mauritius and Gabon. Both are now middle debt service burden economies (above average in relation to GDP but below in respect to exports). In each case the debt is largely commercial plus non-concessional export credits. However, there is an historic difference. Gabon's debt buildup came primarily in the late 1970s since when a draconic stabilisation programme has averted a fullscale debt crisis, at the cost of radically reduced growth and investment. Mauritius debt buildup began with the subsidence of the 1975 sugar boom and was used largely to sustain government real wage and investment increases into the 1980s. Its lower GDP, poor export prospects and high unemployment levels make its ability to operate a classic stabilisation more problematic than Gabon's.

Prospects Or Portents?

The prospects for improved net capital inflows are not good. Net private capital flows to low income SSA fell from $2.7 billion in 1980 to $1.1 billion in 1983 and are projected to be negative on the order of $1 billion a year over 1985-87.[40] Net official inflows were $8.3 billion a year over 1980-82 and were projected, as of late 1984, at $6 billion a year over 1985-87. Net IMF drawings averaged $0.8 billion a year in the earlier period; over 1985-87 gross drawings are not readily projectable, and gross repayments scheduled are of the order of $1.25 billion a year.

In sum, the World Bank projections show a decline of annual net inflow on capital account of 54% between 1980-82 and 1985-87 ($10.8 to $5.0 billion) before allowing for inflation or the probable swing from net IMF drawings to net repayments to the Fund. The basic cause is a 200% increase (from $2.7 to $8 billion) in annual amortisation, since the gross inflow estimates are roughly static (i.e. 20% lower in constant price and about 30% lower in per capita constant price terms). This stark set of data indicate that both rescheduling and new money are needed urgently.

The critical role of the capital account - and therefore of the debt burden -

is enhanced by the nature of the 'typical' SSA economy's economic malaise. This is inability to use or to maintain existing production and supporting service capacity - including export capacity - because of inability to finance imports. As imports have in fact fallen - rapidly in most cases since 1980 - the basic origin of the constraint is the availability of foreign exchange. Increased debt service burdens now threaten to worsen that constraint on production, including that of exports. When the extra import costs of the 1982-1985 drought cycle are added, it becomes clear that for many SSA economies the choices are economic collapse and human starvation today with default tomorrow, default today with little chance of recovery (as the costs in terms of gross inflows would often equal exceed savings on gross interest and amortisation) or additional transfers plus rescheduling to finance both increased capacity utilisation and export buildup and to lay a more plausible foundation for subsequent debt servicing.

It may be useful to indicate the annual orders of magnitude for a five year stabilisation - recovery - initial structural ajdustment programme for the 42 countries of SSA. Extrapolating from known draft programmes yields a total of the order of $7,500 million a year for basically operating inputs, spares and rehabilitation plant-machinery-vehicles and initial structural adjustment gap filling.

This total is in addition to present net transfers which, as of late 1984, the World Bank estimated at $5,000 million a year over 1985-87.[41] While considerable attention has since been focused on emergency relief and the World Bank's $1,000 million special Facility, for Sub-Saharan Africa the question of how any sum remotely like $7,500 million a year could be built up has not been much addressed.

In principle, to reach such a target, five components could be envisaged:

1. Raising the World Bank Special Facility to $1,500 million a year;

2. A target of $750 million a year additional funding for the African Development Fund and IFAD;

3. A target of at least $2,000 million a year additional bilateral finance (of which at most about a quarter could be with grace periods less than five and total duration of under fifteen years);

4. $1,750-2,000 million a year rescheduling/rollover of official and commercial loans - with repayment phased over, say, fifteen years following a five year grace period.

5. $1,000-1,250 million new drawings of IMF funds to offset the $1,250[42] repayments now scheduled - albeit preferably paralleled by a new interest subsidy facility for low income SSA countries.[43]

To state these orders of magnitude may well be to state why an overall stabilisation-rehabilitation-structural ajdustment programme for SSA is not achievable. It is, however, also to pose the debt burden and net inflow requirements of such a programme in a way that illustrates what needs to be attempted. The only evident way to reduce the target would be to shift say the 20 to 25% of present aid clearly tied to postponable projects (e.g. airport, capitals, additions to unutiliseable production and unmaintainable infrastructure) to programme support. That would reduce the target to $5,500 million a year - $3,000 million rescheduling/rollover and $2,500 million new money.

The sketch also indicates what kind of debt rescheduling is needed: five years substantial relief on principal, plus consolidation of arrears of interest and principal at interest rates (at the most) not above those currently paid (or unpaid) and with 15 (say 10 to 20 depending on the country) years subsequent repayment; plus new IMF drawings (useable on this scale by poorer countries only if interest subsidies can be reinstated) effectively to provide interim circulating trade finance until recovery puts suspicion back to sleep and normal short term trade and bank credit reemerges.

The costs of the absence of such an approach of this approximate order of magnitude are those which Dutch Finance Minister and Interim Committee Chairman Onno Ruding has made:[45]

1. indequate financing creates cumulative self generating devaluation (and inflation), very tight trade and payment restrictions, and/or default;

2. present African austerity (stabilistation in name) programmes are often so tight as to reduce rather than increase incentives and abilities to produce or invest.

In human terms for Africans the costs will include continued economic regression - and accompanying increased political and social instability (or worse) - for most, severe deprivation for a majority - and may contribute to the premature death of hundreds of thousands a year.

Large increases in new flows and significant reductions in debt servicing for Sub-Saharan African countries would be a necessary, but clearly not a sufficient condition for effective rehabilitation and growth in those economies. Major changes in policies pursued by African governments and in attitudes of international institutions would also be required, but these would clearly be made far more feasible in the context of significantly enhanced net financial transfers to Africa.

For example, it has increasingly been argued that, particularly for low-income African countries it would be far more appropriate to link discussions of their stabilisation programmes with an evaluation of medium-term needs, in the context of their development programme. This would clearly imply procedural changes (already adopted in the case of a few African countries), whereby emerging debt and short-term adjustment problems would be discussed first in the broad context of a donor group, aid consortium or consultative group, with the World Bank clearly playing an important role. Such a forum would stress the medium and long-term financial needs of the countries' development programme; once those needs were approved, short-term stabilisation and debt rescheduling could be discussed in the context of this medium-term programme. This could imply a simplification of procedures in debt rescheduling, for example by making widespread use of multi-year rescheduling (at present Ecuador is the only country that has been granted a multi-year rescheduling by the Paris Club, even though there is widespread agreement that many African countries clearly would benefit from it).

Although changes in the procedure to integrate short-term stabilisation with medium-term development and debt rescheduling with new flows can be made even without large increases in funding, clearly such changes are more likely to be implemented and to be more effective if net transfers of financial resources to Sub-Saharan Africa are significantly higher than at present.

Along the same line, forms of adjustment to disequilibria in African countries to current account deficit which use more supply - enhancing and more gradual than the current approach being suggested by official international institutions crucially (though clearly not exclusively) depend on significantly greater availability of net foreign funding.

Table 1

Sub-Saharan African External Debt - IMF Estimates

A. Amounts 1977-1984 (Amounts in USA $ Billions)

	1975	1977	1979	1981	1982	1983	1984
Medium and Long Term	15.3	23.6	38.4	51.7	61.4	64.8	68.8
% Share Therein							
Bilateral	(17)	(18)	(18)	(20)	(19)	(21)	(22)
Multilateral	(44)	(41)	(40)	(41)	(43)	(44)	(45)
Financial Institutions	(16)	(20)	(26)	(27)	(28)	(27)	(25)
Others	(23)	(20)	(15)	(13)	(9)	(9)	(8)
Short Term [1]	0.1	1.2	1.5	2.2	2.5	6.1	4.8
Arrears	1.5	1.5	2.0	4.6	9.7	9.3	9.4
IMF Credit	1.7	1.3	1.5	2.0	3.4	4.0	5.1
Total	18.6	27.6	43.6	60.5	75.0	84.1	88.1

B. Ratios 1977-1986 (Percentages)

	1977	1979	1981	1982	1983	1984	1986[2]
To Exports [3]	120.0	141.7	168.3	199.8	216.8	223.2	230.9
To GDP	33.8	36.7	43.5	49.7	54.2	72.6	68.0

C. Debt Service 1980-1986 (Amounts in USA $ Billions)

	1980	1981	1982	1983	1984[2]	1985[2]	1986[2]
Interest	2.6	2.7	3.2	3.5	4.3	4.8	4.6
Amortisation	2.9	3.1	3.0	3.9	5.7	6.2	6.2
Total	5.5	5.8	6.2	7.4	10.0	11.0	10.8
% of Exports	9.5	12.3	15.5	20.6	26.2	28.1	26.0

D. Average Terms New Public Sector Debt Commitments 1975-1982

	1975	1977	1979	1980	1981	1982
Interest (%)	5.6	5.6	7.6	7.4.	9.5	7.7
Maturity (Years)	19.9	18.1	15.5	17.6	15.3	19.9
Grace (Years)	5.2	4.8	4.5	4.8	4.3	5.0
Grant Element (%)	30.0	29.1	17.5	20.2	8.4	19.6
Of which Low Income Africa						
Interest (%)	4.2	3.8	5.2	4.5	4.8	4.2
Maturity (Years)	23.7	23.7	20.7	22.8	25.1	28.1
Grace (Years)	6.1	5.8	5.5	5.8	6.1	6.6
Grant Element (%)	41.8	44.0	34.1	40.0	40.3	45.9

Notes:

1. 1975, 1977, 1979 estiamted by present authors.
2. Projections. In respect to debt service do not include - especially for 1985, 1986 - impact new borrowing, rescheduling, failure to pay 1984 debt service in full.
3. Goods and Services.

Sources: Adapted from E. H. Brau, "External Debt Management in the African Context", paper for IMF/AACB Symposium, Africa And The International Monetary Fund, 1985, based on IMF World Economic Outlook, 1983; World Bank International Debt Tables; IMF Staff Estimates.

Table 2

Sub-Saharan Africa, composition of total public and publicy guaranteed debt outstanding (%)

	1972	1976	1979	1981
Total debt (inc. undisbursed)	100.0	100.0	100.0	100.0
Official creditors	73.0	69.5	60.0	62.0
Private creditors	27.0	31.5	40.0	38.0

Source: World Bank, World Debt Tables, First Supplement External Debt of Developing Countries. May 1983.

Table 3

All developing countries, composition of total public and publicly guaranteed debt outstanding

	1972	1976	1979	1981
Total debt (inc. undisbursed)	100.0	100.0	100.0	100.0
Official creditors	65.0	59.0	46.5	46.0
Private creditors	35.0	46.0	53.5	54.0

Source: World Bank, World Debt Tables, First Supplement, op cit.

Table 4

Average Terms of Public Debt New Commitments for Afria, South of the Sahara 1972-81

	1972	1976	1978	1980	1981
Interest (%)					
All creditors	4.4	5.4	6.6	7.2	10.1
Official creditors	3.1	3.4	3.8	3.8	5.1
Private creditors	6.7	7.8	9.3	12.5	14.3
Maturity (years)					
All creditors	20.5	18.7	16.6	18.5	15.9
Official creditors	27.8	27.2	25.1	25.0	25.2
Private creditors	8.3	8.4	8.1	8.7	8.2
Grace period (in years)					
All creditors	5.9	5.1	4.7	5.0	4.4
Official creditors	7.8	7.0	6.5	6.4	6.0
Private ceditors	2.6	2.7	2.9	2.9	3.0
Grant element (in %)					
All creditors	37.1	30.4	23.3	22.4	6.6
Official creditors	52.1	49.6	45.0	44.7	35.7
Private creditors	11.9	7.5	1.8	11.8	17.7

Source: World Bank, *World Debt Tables*, *First Supplement*, *op cit*.

Table 5

African debt, disbursed, end-year, by source of lending

(Percentage of total debt)

	1975	1977	1979	1980	1981
1. DAC countries and capital markets, of which ODA	64.0	65.8	68.6	67.6	67.2
	19.1	15.5	14.4	14.2	13.3
Exports credits	28.4	33.0	35.6	36.2	36.8
2. Multilateral organisations	10.6	13.3	13.9	15.0	15.4
3. CMEA countries	6.2	3.9	2.9	2.6	2.7
4. OPEC	11.9	11.4	9.5	9.8	10.2
5. Other LDC's	5.2	4.7	4.5	4.4	3.9
6. Unspecified and adjustment	2.1	0.9	0.6	0.6	0.6
Total	100.0	100.0	100.0	100.0	100.0
Total disbured debt (U.S. $ Billion)	29.6	48.8	77.5	86.1	95.2

Source: UNCTAD Secretariat 1983, based on information supplied by the World Bank and OECD.

Table 6

Key Financial Variables By Type of Developing Country, 1984

	Low-Income Countries Excluding China & India	Major Exporters of Manufactures	Other Net Oil Importers	Africa**
External debt as % of GNP	50.8	45.3	46.9	61.8***
Exports of goods and services	300.3	116.6	170.2	215.8
Debt service ratio	22.8	19.1	22.6	24.3***
Interest payments ratio	11.1	12.0	13.5	11.9
Amortization ratio	11.7	7.1	9.1	12.4
Percentage of debt owed to official creditors	82.9*	16.4	39.0	49.3
Reserves as % of imports of goods and services	14.8	17.2	16.1	9.7
Percentage of financing of current account deficit and reserve accretion from private creditors (net)	3	53	29	16

* Including China and India

** Includes some middle-income countries

*** Relative to other country groups the Africa figures are probably understated because short term credit, in general and non-bank commercial credit in particular plus visible and invisible commercial arrears which are very imperfectly caught by international (and most national) recording systems are proportionately much higher in SSA than elsewhere.

From G. K. Helleiner, "Aid And Liquidity: The Neglect of SSA And Others Of The Poorest In The Emergent International Monetary System", Journal of Development Planning, 1985.

Source: IMF, World Economic Outlook, 1984.

Table 7

Revised Estimate 1984 SSA External Debt

	IMF Estimate	Revision	Total
Long and Medium	68.8	10.3	79.1
Short	4.8	21.6	26.4
Arrears	9.4	5.6	15.0
IMF	5.1	-	5.1
Total	88.1	34.8	125.6

Notes

1. Unrecorded long and medium term estimated at 15% of recorded concentrated in government guaranteed and private sector non-guaranteed credits.

2. Short term credit estimated at 25% total long and short term. Includes revolving credits, supplier credits not routed via banks, excludes normal commercial up to 90 days.

3. Based on fragmentary data. Includes overdue open book credit, commercial bills payable, overdue acceptances, blocked invisibles transfers and externally payable portion of unpaid domestic contracts and loans.

4. Both Latin American and African debt crises exercises indicate that prior to crises and reschedulings very large sums of debt and arrears are not recorded. In the case of Nigeria pre-crisis total debt estimates were of the order of 40-50% of actual debt (including arrears and subsequently rescheduled short term bank credits).

Notes

1. This paper is based on a study done by the co-authors for the African Centre for Moentary Studies under an UNCTAD Consultancy - African External Debt and Development: A Review and Analysis, IDS (Sussex), 1984 (Xerox). It draws on information supplied by the African participants at the ACMS - Bank of Tunisia seminar External Debt Problems Of African Countries In the 1980's held in Tunis in September 1983, as well as on information provided by UNCTAD and OECD.

2. During 1980-84 alone there were 53 SSA reschedulings involving 16 countries - 4 in 1980, 9 in 1981, 6 in 1982, 15 in 1983 and 19 in 1984 according to Agreed Minutes of Debt Reschedulings and IMF Staff estimates cited by E. H. Brau, "External Debt Management In the African Context", March 1985 paper for IMF/Association of African Central Banks, Nairobi Seminar on Africa And The International Monetary Fund.

3. Cited in I. Guest, "Liberalising trade won't halt famine", Guardian, 16-IV-85.

4. Two participants at the ACMS/Bank of Tanzania seminar specifically noted that IMF programme limits on non-concessional debt of more than one year's duration had forced their states into maximising short term external borrowing to maintain (at least in the short run) imports and debt service without breaking programme restrictive clauses.

5. In the Nigeria case the 'uplift' was nearly 40% (and subsequently proved to be an underestimate). See Appendix 1.1, Commonwealth Group of Experts, The Debt Crisis And The World Economy (Lever Report), Commonwealth Secretariat, London, 1984.

6. See Table 7.

7. Similarly rescheduling lowers levels in the short run. For example Malawi's actual 1984 debt service to export ratio was 33% but without rescheduling it would have been 44% and since no rescheduling offsets exist for 1985 is expected to rise to the 35-40% range. Based on Malawi Government Economic Report, Lilongwe, 1985 cited by M. Holman, "Economy", Financial Times, 16-IV-85.

8. A senior official of a major international bank indicated privately that it had cut back to three significant exposures in SSA: Ivory Coast, Nigeria, Cameroon. Only in the last case was it willing to consider net new lending and in the first it hoped to recover its outstanding credit at the first upswing. He saw no promising markets to enter albeit he indicated that in the cases of Botswana and Gabon, size, not risk, considerations dominated that view.

9. See R. J. Bhatia and A. Tahari, "External Debt Management and Macroeconomic Variables: Problems of African Countries", in ACMS, External Debt Problems Of African Countries In The 1980's, Dakar, 1984.

10. See Table 5.1, World Bank, Toward Sustained Development in Sub-Saharan Africa, Washington, 1984; The Debt Crisis And The World Economy (Lever Report), Commonwealth Secretariat, London, 1984, esp. p.41.

11. Cited in Africa Economic Digest, 12-IV-85.

12. Speech given at Mansion House, London, 19-III-85 cited in V. Brittain, "The patient vision of Julius Nyerere", Guardian, 21-III-85.

13. See I. Guest, op cit; H. F. Jackson, "Sudan: Symbol of an Indebted Africa", International Herald Tribune, 11-IV-85.

14. Source: IMF World Economic Outlook April 1985. Washington DC.

15. See Bhatia and Tehari, op cit.

16. 1983 UNCTAD Secretariat estimate adjusted from World Bank and OECD data.

17. Bhatia and Tehari, op cit.

18. Washington, 1984, esp. Table 22.

19. Further, as demonstrated by G. K. Helleiner in "Aid And Liquidity: The Neglect of SSA And Others Of The Poorest In The Emerging International Monetary System", Journal of Development Planning, 1985, they have had very limited access to prompt, freely useable - or even conditional - liquidity relative to the size of exogenous shock impact on their external balances.

20. 1983 UNCTAD Secretariat estimates.

21. See Table 5.

22. See Tables 4, 1. The figures cited are from Table 4.

23. See Table 6 and IMF World Economic Outlook 1985.

24. See Tables 3, 6.

25. See Table 1 and Brau, op cit, Tables 2 and 4.

26. Estimated from data in World Bank, Toward Sustained Development, op cit, esp. Tables 1.3, 5.1.

27. World Bank, World Debt Tables - First Supplement, External Debt of Developing Countries, Washington, May 1983.

28. World Bank, Toward Sustained Development, op cit, Table 5.1, etc.

29. World Bank, World Debt Tables, op cit.

30. G. K. Helleiner, "Outward Orientation, Import Instability and African Economic Growth", 1984 (mimeo), forthcoming.

31. See "Ivory Coast Leaps The Debt Gap", AED, 22-VI-84.

32. See Holman, op cit.

33. Bank of Tanzania staff estimates.

34. See, e.g. B. Morris, "Vietnam loans ended by IMF", Times (London), 12-IV-85; Jackson op cit. Zambia and Liberia are also substantially in arrear and certain other SSA Fund members by lesser amounts and/or for shorter periods.

35. See, C. Harvey, "Successful Adjustment In Botswana" in Getting The Facts Straight (editors C. Allison and R. H. Green) IDS (Sussex) Bulletin, 16-3, 1985; E. Y Ablo, "Domestic Policy Response to Economic Imbalance, The Case of Botswana", in P. Ndegwa, L. P. Mureithi, R. H. Green, Development Options For Africa In The 1980's And Beyond, Oxford University Press, Nairobi, 1985.

36. Financial Times, AED, passim, 1984-1985.

37. See X. Kadhani and R. H. Green, "Parameters As Warnings And Guideposts: The Case of Zimbabwe", Journal of Development Planning, 1985.

38. See E. Bekolo-Ebe, "Comparative Analysis of Foreign Debt Situations in Cameroon and Ivory Coast since 1970", ACMS, op cit; "Cameroon - oil fuels continued growth", AED, 23-XII-83.

39. See Central Bank of Ghana, "Signals of Debt Servicing problems in Selected African Countries - The Case of Ghana" and Bank of Zambia, "Signals of Debt Servicing Problems in Selected African Countries - The Case of Zambia" in ACMS, op cit.

40. World Bank, Toward Sustained Development, op cit, loc cit.

41. ibid. Lever Report, op cit.

42. Brau, op cit.

43. At full rates, IMF money is arguably not only too short term but also too expensive to be a useable major component in low income SSA country stabilisation programmes. See R. H. Green, "IMF Stabilisation And SSA Structural Adjustment: Are They Technically Compatible?", Toward Getting The Facts Straight. op cit.

44. AED, 12-IV-85.