

**DEBT SERVICE BURDEN OVERHANG REDUCTION:
MORAL ECONOMY AND BUSINESS CONSIDERATIONS**

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Pacta servanda sunt.
(The contract must be honoured.)

- Mediaeval Commercial Law

Should we starve our children
To pay our creditors?

- J. K. Nyerere, 1974

DEBT BURDEN AND OVERHANG IN SSA

Africa South of the Sahara has - in respect to the external debt service/export earnings ratio which is the best single measure - the highest external debt burden of all regions. This is especially true if full account is taken of debt which is not being serviced but, at least nominally, will need to be at some time in the future.

Roughly a quarter of SSA's external earnings (earned import and debt service capacity) go to external debt service and over two-fifths would if all the debt were being serviced. The former is at the top of the range usually estimated as viable for relatively buoyant economies with good export growth prospects (hardly a description of most in SSA) and the latter well above it.

The case for external¹ debt service burden reduction can be argued on four overlapping grounds:

- a. the globalisation of Adam Smith's moral economy imperative that if the majority of a country's people were poor and miserable it could not be nationally strong and prosperous;

- b. the business reality that poor countries, enterprises and households are poor buyers, poor sources and poor payers and that chronic poverty amid chronic uncertainty is inconsistent with building up profitable business and identifying/capitalising on new opportunities;
- c. the risk (however hard to quantify) to global security arising from chronic poverty and lack of hope exemplified in South African big businessman Anton Rupert's observation on Baotho households/Lesotho - "If they do not eat, we cannot sleep";
- d. the ecological damage enforced by poverty from household through territorial economy levels.

A rough model - variable by country, temporal and external setting context - for mutual attainment of these three cases would - for poor and lower middle income economies - include:

- a. sustainable trend 6% real output growth - if only to provide the resources to attain other goals;
- b. external balance (visible and invisible exports and imports, remittances, debt service, concessional and commercial resource inflows) evolution consistent with averting the 6% growth trend being choked off by inability to meet import requirements;
- c. human development and production by poor people enabling investment to ensure that "a" is sustainable, reduces absolute poverty and builds the human capital base increasingly necessary for economic success however defined.

In that context excessive external debt service obligations - whenever, however, whyever incurred - are a barrier to full attainment of all three objectives by engrossing resources, increasing uncertainty and à la Keynes worsening the "animal spirits" of entrepreneurs whether foreign or domestic, public or private.

CASES, CONDITIONS AND CORRECTION SUSTAINABILITY

The best business practice and moral economy cases for eliminating external debt service burden overhang overlap. They are not, however, identical. The former applies virtually independent of political economic strategy and degree of commitment (or otherwise) to poverty reduction, probity and human development. The latter evidently does not.

The possible conflict can be overstated. Totally corrupt or tyrannical regimes in recent decades have relatively poor performance records. Similarly, to require perfection in a country's governance (whether in broadly defined human rights terms or political economic strategy) before reduction of debt overhang is not a recipe for New Jerusalems but for new deadlocks. Perhaps inconveniently, several states whose broader political economic and especially human rights records are problematic - e.g. Singapore, Indonesia - are demonstrably effective in reducing absolute poverty and raising human investment (and almost any variant of the Human Development Index).

In practice, breakthroughs on debt burden/debt overhang reduction are likely only when both business and unofficial good development governance advocates abroad as well as domestically back a clearly reasoned, forcefully presented national case. Northern NGOs may be able to block, but not by themselves to cause. To block alone when domestic social sector and peoples groups advocate is to take on a serious responsibility (as analogously are efforts to ally with Senator Helms to end US support for IDA and, quite possible IDA on anything like the present scale with little likelihood of a superior replacement).

Timing and conditionality are relevant - especially because in most cases in which major writedowns are at all likely, *de facto* assented non-service of much of the external debt is an ongoing reality, e.g. Tanzania, Mozambique.

It may well not be desirable to have writedowns:

- a. while an ongoing crisis makes new debt rollup inevitable - e.g. Zimbabwe or Mozambique before the end of the former's internal war and the South African ancien regime's 'forward policy';
- b. a totally larcenous (or conceivably a totally economically inept) regime would clearly appropriate (waste) all or almost all the benefits, e.g. Nigeria today (arguably Zambia over much of 1975-1995);

The points at issue are that backing ineptitude or ill-intent helps it to survive - hardly in most citizens' interest - while repetitive major writedowns are unlikely to be attainable. Conditionality is a more vexed point - especially as it is usually linked to phased writedown. Ideally, a writedown would be in support of a domestic government strategy concurred in (and in part negotiated with) donors and would be either once for all or fully effective at once as to debt service flow reduction but suspendable for up to say - 12 or 18 months if resources were allocated (purloined) in a pattern grossly out of line with that proposed to secure the writedown. In

practice, rather more detailed conditions and more phased writedowns are likely. In respect to limiting damage from four points are probably relevant:

- a. the final reduced payment flow obligations should apply at once even if part are treated as suspended or tentatively rather than finally written off;
- b. all targets should be either range or "best efforts" not point triggers - projections are neither technically nor prophetically good enough to bear the burden of the latter;
- c. conditionality is technically better related to new flows than to writedowns of old. New flows are projectable as necessary in virtually every actual prospective debt writedown case. Thus severe, long running conditionality on writedowns would appear to be market - as well as human being - unfriendly, rent seeking red tape and little more;
- d. the writedown's purposes of restoring human development and sustainable economic growth cannot be achieved until real resource outflows are reduced (or in some cases capped) while the uncertainty reduction needed to allow more efficient domestic and external actor planning and performance is only very partially attainable until the writedown is irrevocable.

Because cloud burst negative shocks are a fact of life, but one not always projectable and very frequently one not projected, consideration as to how to cope with them - both domestically and by external actors - is needed in the context of external debt writedowns. This is particularly true because major writedowns are unlikely to be repeatable and probably would lead to genuine "moral hazard" (imprudent lending, borrowing, use appraisal and resource allocation) if they were:

- a. exogenous crises (e.g. drought) should be an occasion for prompt external resource flows, for relaxation on a reasoned basis of domestic borrowing and monetary targets and for *ex post* refinance of obligations incurred to avert famine before food and related assistance arrived;
- b. for genuine economic shocks (e.g. terms of trade) the IMF should revert to its stated prime purpose (now nearly totally abandoned in Africa) of providing bridging finance with the proviso that external co-operating partners should be ready to negotiate refinancing if the shock is unlikely to be self-reversing and is so large it cannot be met fully over 3 to 5 years by domestic changes without massive growth and development losses;
- c. predictable economic shocks (context changes) such as WTO should be taken into account in concessional finance negotiations in the specific context of providing funds to strengthen

future affected sector performance, e.g. rural research and supporting investment to bolster real grower net income and to reduce food import needs in the case of domestic food production and importation relating to what are projected to be the most genuinely adverse results of the Uruguay GATT agreement's requirements in SSA.

"PACTA SERVANDA SUNT" - SERVICEABILITY AND EXCEPTIONS

As an immutable commandment, "the contract must be honoured" can be a means of starving children, preventing growth, deepening and broadening poverty and inciting the violence of despair. However, as a flexible general tool for implementing transparency, accountability and predictability (by no means either generally undesirable or anti-human principles of good civil, political and economic governance) it has much to be said for it as a rule of thumb which is subject to defined exceptions.

A list of basic exceptions includes:

1. transactions integrally corrupted by fraud or bribery;
2. grossly exploitative contracts based on coercion or exploitation of major imbalances of information;
3. mutual imprudence of lender and borrower;
4. events beyond the reasonable expectations of either party which have substantially altered the results of performing the contract as stated;
5. economically imprudent for lender as well as borrower to repay in full on time because present value of written down loan service and of other past writedown transactions exceeds those of full loan service and other future transactions without writedown;
6. full repayment on schedule economically and/or humanly disastrous to borrower.

The first five exceptions apply or have direct analogues in commercial and bankruptcy law and business practice. The sixth applies in personal bankruptcy and debt law. Indeed, in those contexts contract modification by negotiation, arbitration, equity law or statutory law is not at issue, only the appropriateness of specific cases and the degree of modification.

The basic case for general external debt service burden writedowns turns on the last four categories, and especially the last three since mutual imprudence is usually a result of tunnel vision as to likely outcomes. The first two are applicable to affected (or infected) cases whether a general writedown case exists or not and are especially likely to be micro and enterprise related.

The degree of writedown justified on these grounds is neither precisely and objectively calculable nor totally vague with any demand or rejection justifiable on purely subjective grounds:

- a. if the growth, human development and security conditions cited above are accepted appropriate macro writedowns under the human impact and business interest criteria can be projected;
- b. while dependent on views of the appropriate target growth and human development rates are on reasonable external earnings projections the calculations are not necessarily much less hard than most economic (including project and enterprise) projections.

Such an approach does avoid the problems of writing down whenever a country does not pay (even if it could either literally or by not unreasonable reallocation of resources²) and of automatically denying writedowns to a country because it is paying even if the price includes near stagnation or if roll forward rescheduling and temporarily condoned default has created a short term 'balance' of debt service and other demands. In practice, the latter point is more important - profligate non-payers are unlikely to win writedowns; only too cautious (to and beyond the point of imprudence) payers in full are quite unlikely to be offered them.

The bottom line is achieving sustainable external debt service levels both as to total amount over time and time profile (i.e. spikes in repayment which will create severe constraints unless rescheduled). Total external debt face value can be misleading - e.g. \$1 billion of 5 + 15 year IDA borrowing at 1% is less burdensome to service than \$0.1 billion of 5 year, 12.5% commercial bank borrowing. Similarly, how the reduction is achieved is secondary, e.g. converting a 5 year 12.5% loan to a 10 year 5% loan is about as effective in present value of service reduction as a 50% writedown of principal amount and may be more helpful in respect of annual service profile. By the same token any set of differential writedowns on different types of external debt adding up to the same total is about equally beneficial to any other to the borrower - even if not to individual lenders.

The case for differential writedowns and a package of modalities is that they may allow a higher total writedown and facilitate lenders agreeing on cost sharing. For example, most defaulted commercial credit (excluding lender state guaranteed) has been written off and/or recovered in

higher prices on subsequent cash transactions while the bulk of foreign commercial bank loans have been very heavily provisioned/written down (in part against domestic tax liabilities) but both largely remain on the borrower and lender books as part of the debt overhang and generate uncertainty even if all parties view full future servicing as highly unlikely. Therefore, they are a plausible target for above average writedowns - the lenders have already (usually with tax provision help) take the loss and/or retrieved part of it on later transactions.

A particular problem arises in cases in which a substantial proportion of the external debt service burden rests on enterprises.³ This is not in general the case in SSA - except for publicly guaranteed (usually also public sector) enterprises, but could be significant in one or two cases as it is more frequently in Asia and Latin America.

No general dictum is practicable. The macro foreign balance and growth burden of making servicing possible falls on the state but, in general, writedowns avert severe damage to these whoever benefits at micro level from writedowns. Equally it is not self-evident that a state gain paralleled by continued catastrophe for domestic financing or directly trading/producing enterprises is preferable to direct channelling of the writedown gains to the borrowers. For example, if commercial banks and/or major producers have external debt service obligations made uncoverable by substantial devaluation there is usually a case at least for benefit sharing in respect to writedown gains (offsets).

ON MODALITIES

No simple all country answer as to the appropriate degree of external debt burden writedown (from 0 to 100%) is possible, still less any sweeping pronunciamiento on its efficiency *vis-à-vis* lending and/or concessional finance. However, in virtually all cases in which writedown is appropriate it will be as part of a combination of debt writedown, concessional finance and - probably - commercial lending. In that context debt writedown can allow more efficient use of concessional finance, less problematic (to lenders as well as borrowers) undertaking of new commercial loans and a less uncertain climate for external investment.

The most appropriate base for evaluating possible writedowns is debt burden: interest plus repayment at present discounted value and the temporal pattern of servicing obligations. Normally the best series to which to relate it is earned foreign exchange (i.e. import/debt service capacity), i.e. visible and invisible exports (including tourism and worker remittances).

No absolute cut-off ratio of debt service burden to earned foreign exchange is appropriate albeit it is reasonable to presume annual flow ratios below 10% are most unlikely to justify writedowns and levels above 25% are very likely to do so. The import intensity of the economy, the external finance intensity of investment and the prospects for external earnings are significant in estimating debt service ratios consistent with sustainable growth and development at - say - 6% per annum.⁴

One means to estimate writedown needed is to project over 10 years:

- a. GDP at 6% compound growth;
- b. Import (visible and invisible) levels consistent with "a" on reasonable structural assumptions;
- c. Earned foreign exchange (visible and invisible exports plus net remittances) levels - on relatively conservative estimations;
- d. External reserve increase requirements (say to 3 months external payments);
- e. Net permanent external investment (excluding short term footloose financial capital and probably portfolio investment) computed as new investment less remitted profits plus repatriated capital;
- f. Interest and repayment on new loans (commercial or concessional) projected as needed/taken up/received during the decade;
- g. With $(c + e) - (a + d + f)$ indicating manageable debt service burden levels on existing external debt stock year by year and for the decade.

This is not a particularly novel approach. It is very similar to that in World Bank evaluations of acceptable/efficiency debt service levels. It does not necessarily imply any impropriety or mutual miscalculation in any or all of the debt incurrance/extension nor, indeed, any philanthropic motives. It is, however, perfectly consistent with moral economy premises. The bottom line is that global macroeconomic and security (as much as humanitarian) interests are best served by debt service burdens compatible with 6% growth in poor/lower middle income economies and levels significantly above that are *prima facie* candidates for writedown.

How a writedown is achieved is a secondary (if doubtless central in negotiating actual packages) issue so long as present value of debt service burden is reduced by an agreed proportion and a practicable time profile for that service achieved:

- a. interest rate reductions, grace periods, extension of repayment period, additional concessional finance to service old loans⁵ are all acceptable if they achieve (singly or together) the level and pattern needs
- b. different proportions of writedown (by class of credit, by country or institution, by particular characteristics of particular lending transactions) are all acceptable albeit differences among countries (as lenders or homes of commercial sector lenders) and among particular projects/loans are likely to pose severe negotiating difficulties in many cases.⁶

In respect to both "a" and "b" the divergences of interest are basically among lenders - the bottom line for the debtor is total writedown whatever instruments are used and however the cost of those writedowns are divided among creditors.

Two contrasting problems arise in respect to debtors who are not servicing (and on reasonable projections can never be expected to service) significant proportions of their external debt and *per contra* those which have never had a substantial writedown, have re-entered the commercial borrowing market but have inefficiently high debt service burdens:

- a. in the former case writedowns do not in fact free any present (or in some cases any substantial future) foreign exchange flows. What they do achieve is to create a climate of greater certainty for states, domestic enterprises, external lenders and foreign investors alike by removing a debt overhang which might - at least in theory - come crashing down. In such cases it is clearly inefficient to accept writedowns which reduce present concessional finance inflows significantly or - even in return for substantial writedowns - provide for substantial actual debt service which would not otherwise take place unless the latter is fully or predominately offset by additional concessional or quasi concessional finance. On the face of it, such "dead" debt overhang - e.g. enterprise commercial credit long in arrear and defaulted bank loans/guarantees should be subject to draconic writedowns - not least because enterprises (by above the going rate prices on later cash sales) and banks (by provisioning) usually have written them down.
- b. in the latter case special problems of division of writedown burden arise. To seek an across-the-board cut including commercial lenders could prejudice the sustainability of access to new commercial loans. Whether bilateral official lenders would accept making up the whole writedown is problematic. Possibly concessional loans (e.g. by IDA?) to buy back some high interest/short maturity commercial debt plus partial writedown of bilateral loans through retrospective conversion to grants would be practicable.⁷

Writedown of World Bank and IMF lendings/facilities is perfectly feasible commercially if desired politically. It can be achieved through at least three modalities (separately or jointly):

- a. *de facto* rolling over short/hard to long/soft facilities, e.g. ESAF for Higher Credit Tranche drawings; IDA credits for World Bank loans - as is being/has been done on a not insubstantial scale;
- b. use of profits from partial sales of gold reserves (IMF) and of a portion of profits (Fund and Bank) for writedowns (albeit in the Bank case this could reduce their use to bolster IDA credit availability);
- c. bilateral funding of a proportion of IMF/World Bank debt service - as already done in respect to arrears in several 'restart' packages (again with a risk of at least partial substitution rather than additionality).

The argument that overhang reduction will do little (or negative) good if it simply allows new overhang build-up is valid but - assuming either lender or debtor prudence - is unlikely to apply to very many cases. The cost - especially in Africa - of labouring under excess debt overhangs and the length of the period before temporary relief - let alone substantial writedown - strongly incline prudent governments against new borrowing sprees and the recent historical record should also lead to greater concessional and commercial lender and donor prudence.

GLOBALITY, EFFICIENCY, MISPLACED MONISM AND ALL THAT

The argument over debt writedown or concessional finance or commercial lending is misplaced Carteseanism. At least two are likely to be prudent in almost all cases and all three outside a handful of least developed countries with structurally and secularly poor foreign exchange earning prospects. The formula suggested would yield 75% to 95% writedowns for a handful of countries, e.g. Mozambique, Tanzania, Guinea-Bissau, Somalia's successor state(s), but each would self-evidently need continued access to concessional finance even though prudent (for borrower as well as lender) use of commercial finance except via escrow account channelled protected export oriented projects) is likely to be quite limited.

In general it is likely to be more efficient to provide writedowns than to increase concessional finance for other purposes and, especially, than to raise commercial borrowing levels. One basic reason is fungibility. Tightly constrained finance - as to sources or to uses - is likely to have less

impact than unconstrained. Earned foreign exchange freed from debt service is *de facto* (as well as *de jure*) totally untied. A second reason is certainty/predictability. Debt overhang writedown - once achieved - sets new parameters and has a reasonably projectible impact. This cannot be said of (readily reversible) increases in concessional or commercial lending flows. Therefore, it is likely - \$ for \$ - to have a position impact on public policy efficiency, business expectations and the "animal spirits of entrepreneurs".

To stand the previous point on its head and argue that external debt writedown reduces lender/donor leverage and thereby can be expected to reduce efficiency of resource use/quality of public policy could be true but only under rather unrealistic assumptions. These go well beyond borrower imprudence (public and/or private) and/or corruption. (If both borrowers and lenders share these characteristics all resources will be inefficiently used in macro economic or human welfare terms, however sourced and whatever the nominal quasi public conditionalities.) It also requires that the economy after debt service writedowns either requires no capital account inflows or can find adequate footloose financial capital and/or foreign long term investment despite inappropriate policies. The former source can (*vide* Mexico and Pinochet Chile) work for a time but hardly indefinitely and logically can be prevented by IMF-Central Bank action with as well as without writedown. The second is rather unlikely with sound policies let alone with manifestly unsound. As to nil new external capital inflow requirements no low or lower middle income country has exhibited that is a sustained structural characteristic - Botswana did exhibit it for about a decade but appears to be the only case even for that long.

However, a caveat is needed. Substitution of actual concessional (let alone commercial) finance for otherwise unmet debt service is subtractional rather than additional and efficiency gains are rather unlikely to outweigh immediately usable resource volume losses. Further the usual context in which writedown is seriously discussed is one in which debt overhang and - perhaps - excessive actual debt service are preventing achieving adequate and sustainable growth levels despite substantial concessional finance and are also inhibiting external investment and either extending or accepting commercial loans. In such contexts at least some additionality to current concessional flows (plus writedown of 'dead' debt overhang 'lost' long ago but still on the books) is necessary to achieve any useful outcome.

To debate whether debt service burden writedown should be global or case by case is - on the face of it - a confusion:

- a. the formula is (and the principles underlying it are) inherently global, or at least poor and lower middle income country wide;

- b. the actual appropriate debt service writedown proportions (or, in practice, range since all ten year projects give more plausible range than point outcomes) will vary because the contexts vary;
- c. the modalities and sharing of writedowns of necessity will be negotiated case by case (preferably in one or two fora) and then embodied in a substantial number of bilateral contracts. However if what is being said is that lenders wish to require detailed case by case conditions - whether economic, political or social - prior to writedown, then the nature of the debate is clear - as is probable opposition to a formula approach to calculating appropriate writedown proportions. Whether removal of debt overhang is a particularly sound Christmas tree to bedeck with semi-related conditionality baubles is problematic but evidently these would be case by case.

WHAT NEXT?

The moral economy, business practice, security and ecology cases for external debt service burden writedowns for perhaps four-fifths of SSA economies are logically compelling. Practicable means to projecting needed writedown proportions in conjunction with future concessional finance, commercial lending and permanent external investment flow exist and are not, in themselves, particularly controversial.

The main barriers to action appear to be:

- a. lack of a joint African state prioritised position backed by external friends for a formula based approach plus specific proposals on that basis from a number of countries;
- b. lender arguments about moral hazard (presumptively of new debt overhang build-up) and of loss of leverage if the overhang is written off;
- c. a distinct lack of any real sense of urgency or priority to reaching permanent resolution rather than *ad hoc* roll forward stopgaps by most lenders.⁹
- d. the general "the devil is in the detail" negotiating problem.

Without "a" - a coordinated African/external friend drive which is based on a plausible modality or short list of modalities and is reasonably photogenic - no speedy progress is likely. Somewhat over the top attributions of almost all SSA political and socio economic debacles to real or

nominal external debt service burdens by Northern NGOs and SSA critics plus some Northern academics with either no clear suggestions or an implicit 100% write-off for all proposal do not constitute a particularly efficient substitute.

The other issues seem to turn largely on misplaced donor perception that external debt (especially when not serviced) is an effective and necessary policy conditionality lever and on the complexities of cost sharing among themselves. In the absence of significant African or domestic pressure it is easier for lenders to roll over and to take marginal to moderate unilateral write-off of specific loans (or to encourage globally marginal debt for ecology or debt for children distractions¹⁰) rather than to attempt to negotiate general writedowns which would require facing up to conflicts of interest (at least on cost sharing) among states and between states and private sector lenders.

Imaginative new formulae are not needed - the one here is basically a three year old World Bank one which, in a slightly different form, was used by Philippine non-official groups and their advisers up to a decade ago. Indeed more apparently competitive approaches may well splinter mobilisation and embrace negotiation. Reasoned presentation of the interlocking moral economy - prudent business practice - security - ecology case may be useful. For historical (and perhaps presentational) reasons some lenders do view external debt service burden writedown in SSA as hysterical populism even if they have engaged in it elsewhere (not least in enterprise reconstruction and salvage - e.g. the Chrysler and Rolls Royce cases). Therefore sober restatements may be useful as a parallel to mobilisation to attract attention.

Prospects are unclear. Intellectually the formula based writedown case has gained much broader acceptance since 1984. Then there was little perception that SSA even had a serious general debt service burden beyond a handful of academics, African central bankers and a minority of World Bank African programme professionals. Operationally much less has happened - the Paris Club approach has generated much sound and movement but very limited present value of burden writedown and no sustainable country level solutions. The same can be said of unilateral write-offs (quite major relative to SSA bilateral loans from the UK and the Nordic countries) and of debt swaps. Indeed the substitution of new IDA for old Bank window loans and of ESAF for standard Fund drawings - both partly conditioned by the institutions' need to avert a tidal wave of arrears build-ups or SAP collapses - may have made the largest single contribution to debt service burden reduction.

What happens next probably depends on how much sustained, reasoned coordinated pushing African countries and Northern, African and global NGOs and social sector organisations (e.g.

religious, trade union and women's groups) exert.¹¹ No basic lender interests could be compromised by reasoned writedowns, therefore a serious perceived nuisance from not acting could tip the scales.

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Notes

1. A case for domestic debt service reduction can be made but is both more complicated and separable. In respect to enterprise obligations modern insolvency/reconstruction legislation is probably the key element. In respect to government debt the implications of writedowns for the domestic financial sector and economic uncertainty usually suggest interest rate and income tax policy are more prudent tools than direct assaults on outstanding obligations principle.
2. If Kenya chooses to allocate over \$125 million to a presidential job and a secondary town international airport, not merely its case to borrow a similar amount on concessional terms for highway rehabilitation but also that for writedown of present outstanding debt service obligations is prejudiced. Sharing historic overhang losses is arguably justified however incurred (albeit less so if gross borrowing state imprudence/impropriety is a major contributing factor and the group responsible remains in power) but writedown *de facto* to allow further self-evidently imprudent spending is not.
3. Prevention of new debt overhang build-up would be substantially helped by states' not guaranteeing private borrowing (external and other), rarely guaranteeing public sector enterprise borrowing and - especially - not 'nationalising' non-guaranteed enterprise external borrowing once an external debt service burden debacle erupts. For this purpose state includes central banks and other public sector financial institutions. External lender - including IFC - pressure for such guarantees (directly or by lending to the state as intermediary) should be rejected.
4. Very uncertain earned foreign exchange evolution, high risk of exogenous calamities (e.g. drought) and/or over 40% present absolute poverty levels would create a presumption for a ratio of 15% or less. Very high and low risk projected earned foreign exchange evolution and under 15% present absolute poverty levels might suggest 25% was not imprudent. Mozambique and Tanzania exemplify the first and Mauritius and the Seychelles the second category.
5. The World Bank's *de facto* policy of refinancing debt service on old Bank loans with new IDA credits for certain SSA borrowers is an example - and one in which the refinancing represents a substantial writedown as do substitution of ESAP for standard IMF drawings. Bilateral cases include Japan, Kuwait and Saudi Arabia.
6. Country differences will arise from differences by category whenever proportions of bilateral official, officially insured and standard commercial lending vary among creditors.
7. Both Zimbabwe - certainly - and the Philippines - probably - are examples of this category. The case of escrow loans raised - usually very expensively - after general debt service collapsed in countries not servicing most present external debt is analogous.
8. Indeed it is by no means evident that present writedowns of such loans are universally smaller or harder to achieve than for bilateral ones.

9. The World Bank - somewhat late in the day - is an exception in respect to analysis and quasi private positions but does not appear to have given the topic high - let alone high profile - priority because it believes lenders are determined to avoid resolution by writedown to maximise leverage whether this is logically reasonably necessary and appropriate or not.
10. The good faith of UNICEF and of global ecology bodies - and, for that matter Northern government supporters - is not at issue. Nor is the possibility of modest gains in some cases. But no general SSA, or even single SSA country, resolution can be reached on these lines so that effort devoted to them does distract attention form the general writedown issue.
11. It is reasonable to argue that the World Bank - which now believes general formula informed, case by case writedowns to be prudent - should push its views harder and more publicly. It is unreasonable to expect them to launch a crusade on what it to them a significant but secondary issue.