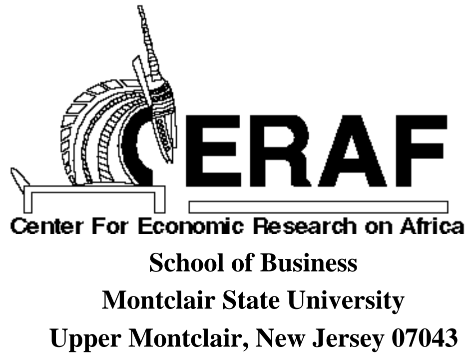

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New Initiatives for Africa's Debt

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Conference Program

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About the Center for Economic Research on Africa: The Center for Economic Research on Africa seeks to foster closer understanding of economic relationships between the United States and Africa. Through its research program, it is concerned with examining the scope and consequences of economic policies within Africa, United States policies toward Africa, and how specific policy alternatives bear on economic relationships between the two regions. The Center operates with financial support from educational, governmental, and business institutions, and works in close collaboration with the Department of Economics, School of Business, Montclair State University, Upper Montclair, New Jersey 07043.

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Introduction

For the past decade, Africa has experienced significant declines in per capita incomes. Between 1980 and 1987, the magnitude of this decline was almost fifteen percent, undermining many of the modest economic gains which African countries had achieved during the 1960's and 1970's. To respond to these declines, African countries have implemented major policy reforms. At the same time, they have also confronted substantial increases in external debt, much of it accumulated at a time when conditions looked far more favorable than at present. To examine these issues, the Center for Economic Research on Africa and the Department of Economics of Montclair State University held a conference on May 9, 1989, consisting of representatives of major policy institutions involved in devising current and evolving alternatives to Africa's mounting debt burden.

Sub-Saharan Africa, whose population of 460 million comprises over thirty of the World Bank's grouping of least developed countries, has over $U.S. 130 billion in external debt. In absolute terms, Africa's debt represents only one-tenth of developing country debt on a global basis. At the same time, Africa's debt burden differs significantly from the pattern found in Latin America and Asia.

First, approximately four-fifths of Africa's debt consists of public bilateral and multilateral rather than private obligations. Second, given relatively low levels of per capita income in SubSaharan Africa, most of the debt is structured on concessional terms, either through multilateral arrangements such as the International Monetary Fund's Structural Adjustment and Enhanced Structural Adjustment Facilities, the World Bank's program of structural adjustment through its International Development Agency concessional window, and the multilateral Special Program of Assistance created for debt-distressed countries in late 1987.

Africa's debt service burden has rivaled in some cases the conditions found in some of the most heavily indebted middle income developing countries such as Argentina, Brazil, and Mexico. Thus, while Africa's debt may differ in its composition and in its absolute magnitude in comparison to other countries, the search for viable solutions has been no less important to African policymakers.

Origins of Africa's Debt Crisis

Africa's debt burden stems from a variety of factors, both external and domestic in origin. In terms of external factors, African countries have suffered severe reversals in export earnings while at the same time they have experienced a slowdown In external investment resource flows.

The collapse in export earnings stems from two fundamental factors. One was the collapse in primary commodity prices in the 1980's, following the commodity price boom of the 1970's. The energy crisis of the 1970's, and the associated rise in petroleum prices, served as a barometer of the general commodity price boom, as well as its collapse In more recent years. The other factor has been the expansion of protectionism in the form of managed trade among the major industrial countries. Managed trade has affected African countries most notably in terms of agricultural subsidies for commodities on which the export earnings of many of these countries depend.

As export earnings of African countries declined, so too did flows of external investment resources. Although more than eighty percent of Africa's external debt is held

by bilateral and multilateral public institutions, declines in African export earnings reduced the willingness of creditors to supply new funding flows in the face of lower repayment capacity. This development represented a weakening of the Baker Plan, which had been initiated by former U.S. Treasury Secretary James Baker in the early 1980's. The Baker Plan was put forth in the wake of the collapse of primary commodity prices and the associated fall in debt servicing capacity of developing countries. Mexico's default on its debt obligations in 1982 provided the catalyst to the Baker Plan, which called for an expansion of publicly guaranteed credits by bilateral and multilateral institutions to stimulate the flow of private investment into developing countries.

In terms of domestic factors, until the collapse of export earnings brought on reform, many African countries were engaged in wide-ranging programs of import-substitution industrialization. Many of these initiatives involved extensive public sector intervention, not only for complementary investments in health, education, and basic Infrastructure, but also in the creation of state-owned and parastatal enterprises. Government resources were often inefficiently administered, and they were frequently accompanied by significant price distortions in such basic activities as agriculture. When drought and military conflict laid bare the extent of agricultural decline, food aid on a massive scale added further burdens to already strained government budgets. Public sector balances as well as external financial accounts thus fell increasingly into deficit as the costs of these distortions mounted.

Debt and Development Strategies in Africa

Africa's current debt initiatives are based largely on the implementation of structural adjustment programs negotiated in conjunction with the World Bank and the IMF. In general, they involve efforts to restore financial strength I to borrowing countries through improved management of public sector resources, expanding the role of the private sector to absorb functions which can not be efficiently handled through public sector intervention, as well as domestic price and exchange rate reforms to improve the overall efficiency of private sector markets.

In return for structural adjustment, borrowing countries gain increased opportunities for the rescheduling of existing debt, increases in external investment resources, greater concessionality in the flow of these resources and well as improved prospects for increases in economic growth. In an ideal setting, rising per capita incomes are directly associated with the mix of both structural adjustment and in the increased flow of investment resources.

While there is widespread agreement on the need for structural reform, the policy debate focuses largely on how well it has been working and as to what new initiatives may be needed. Part of this debate turns on two alternative views of Africa's development opportunities, echoes of which were present in the deliberations presented here.

One approach is based on African countries placing emphasis on export-led strategies as an engine of growth. This outward- focused strategy has been advocated by the World Bank and IMF, based largely on the experience of Asian countries such as Japan, South Korea, Taiwan, Hong Kong and Malaysia. It was articulated in clear terms in the World Bank's 1981 study, *Accelerated Development in Sub-Saharan Africa*, commonly known as the Berg Report, after its author, Elliot Berg. It is also reflected in a recent status report on structural adjustment by the World Bank and the UNDP, *Africa's Adjustment and Growth in the 1980's* (April 1989), prepared by a team led by World Bank economist Charles Humphreys.

The other approach for Africa's adjustment and expansion calls for African countries to look more toward internal solutions based on intra-regional trade and economic sufficiency embodied in import-substitution strategies. The inward-oriented strategy has been described in detail in the 1980 Lagos Plan of Action and in the recently issued proposal of the Economic Commission for Africa, *African Alternative Framework to Structural Adjustment Programme for Socio-Economic Recovery and Transformation* (April 1989), under the direction of Economic Commission for Africa Executive Secretary Adebayo Adedeji.

While there are opportunities for expanding locally based production and trade within Africa, the ultimate test of a policy is the extent to which it can provide Africa with sustainable economic growth. Given that Africa now accounts for less than five percent of world exports, and given Africa's decline in domestic savings rates to near historically low levels, increasing the flow of investment capital and technology transfer will of necessity involve an expansion of Africa's participation in the global economy in ways both traditional and non-traditional in comparison to existing patterns of trade.

Debt Management Alternatives

In the medium term, as African countries fashion adjustment strategies, they confront the burden of debt overhang. To relieve the burden of debt and to reward successful adjustment strategies, African countries have pressed for now debt initiatives. One is debt forgiveness, based on the 1988 Toronto summit and the March 1989 debt reduction

strategy put forth by U.S. Treasury secretary Nicholas Brady. Another is long-term debt rescheduling. One example is the debt securitization proposal of President Babacar N'diaye of the African Development Bank, and which is discussed in some detail here by ADB representative Raymond Zoukpo. A third is to expand membership of creditor countries in the Paris and London Clubs to include Comecon and OPEC countries. A fourth is to consider, where feasible, debt-equity swaps. All of these initiatives are currently under consideration by major creditor and debtor institutions.

In support of the Brady initiative, President Bush announced in July, 1989 the approval of selective debt forgiveness of up to $U.S. 1 billion of African debt owed to the United States. As the presentations of this conference attest, what role each of these initiatives will play will depend to a considerable extent on the magnitude and impact on ongoing programs of structural reform. Reaching a pragmatic consensus on these issues among both creditor and debtor institutions will thus be crucial to restoring Africa's economic growth in the period ahead.

Phillip LeBel,
Director, CERAF

Proceedings

Phillip LeBel, CERAF. Good morning. On behalf of the Department of Economics and the Center for Economic Research on Africa, welcome to today's conference. This is the third annual conference sponsored jointly by these institutions and which addresses an issue of contemporary concern in Africa. We are very pleased that we have been able to assemble a panel of highly qualified experts. I also see among the audience a number of distinguished individuals whom I am pleased to have with us this morning.

Some of you heard about this conference through our original flier. Our initial invitation was to Mr. Babacar N'diaye, President of the African Development Bank, Mr. Edward Jaycox, Vice-President for Africa from the World Bank, Mr. Mamadou Toure, Director of the African Divison of the International Monetary Fund, in addition to Dr. Warren Weinstein of U.S. AID, Mr. George J. Clark, Executive Vice-President of Citibank and Mr. J.O. Sanusi, Deputy Governor of the Central Bank of Nigeria. As time and events have unfolded, we have had to make some substitutions. However, I am pleased to assure you that the representatives we have with us this morning are highly knowledgeable in their fields and will be able to speak with great authority regarding the issue of debt in Africa.

Given our time constraints, I am going to compress my remarks, turning initially to Dean Suresh Desai, of the School of Business, who would like to extend a brief welcome to you. Before I do so, let me first introduce our panelists. Replacing Mr. Sanusi is Dr. E.A. Ajayi, who is Special Advisor to the Governor of the Central Bank of Nigeria. To his right is Dr. Warren Weinstein, Associate Assistant Administrator for Market Development and Investment, of U.S. AID. Next we have Dr. Richard Williams, Senior Advisor African Department of the International Monetary Fund. To his right we have Mr. John Underwood, Principal Economist in the Debt and International Finance Division of the World Bank. Finally we have Dr. Raymond Z. Zoukpo, Economic Advisor, African Development Bank and Fund.

Suresh Desai, School of Business I am very pleased and delighted to extend a hearty welcome to all of you to the third national conference on Africa that we are sponsoring with the Center for Economic Research on Africa. Our goal is to focus public attention on crucial issues affecting Africa. In so doing, we are pleased to contribute a public service in the best tradition of land grant universities. Our collaboration with the Center for Economic Research on Africa was initiated with the goal that we would select Africa as a

region of interest, focus public attention, and increase understanding of issues of international concern.

The issue which you have selected today, Africa's debt, is a very important one. There is among our panelists a strong representation from the banking community, and from multinational institutions closely aligned with the banking community. These individuals are "in the trenches", addressing the debt problems of Africa, as well as of other continents. I hope that in the presentation and discussions, the issues of debt management are not taken simply as how to deal with debt servicing issues. Hopefully it will be taken in a larger context.

The challenge before all of us is how to initiate or accelerate economic growth in Africa while at the same time addressing the debt servicing issue. There is no question that Africa needs new investment flows overall. As is well known, it is very difficult to generate enough domestic savings to meet both debt servicing needs as well as to build new capacities. Much of the investment that Sub-Saharan Africa needs is in infrastructure, which further complicates the challenge of investment flows.

Sustainable economic development, a relatively new slogan in policy discourse, really amounts to equitable economic development. As economic development takes place, its real goal is to enlarge and enhance the lives of people. When we pursue economic development, we should also understand the impact on the culture and lives of people, and whether the kind of economic growth we seem to be promulgating is really enhancing the lives of the people of these countries.

When we speak of sustainability, I would also urge you to look at the sustainability of cultures. If you take that larger perspective, the policies and proposals that you suggest will be relevant, probably will be followed, and will be effective. If we ignore the larger context and simply look at the issue from a purely financing angle, the problems and policies that we suggest may be irrelevant, not followed, and end up in failure. I thus hope the conference will take the larger perspective in analyzing the public debt problem.

As you are embarking on this intellectual endeavor, I wish you all success. I hope the conference will be personally enriching and professionally rewarding. Thank you.

Phillip LeBel, CERAF. Thank you, Dean Desai. Our procedure this morning is straightforward. I have arranged the panelists alphabetically by name, as opposed to institutions. I am going to ask each of them to speak for approximately twenty to twenty-

five minutes. Following each panelist's presentation, we will then provide them with a five minute opportunity for reaction to presentations made by the other panelists. Once we have completed that process, I will then open up the questioning to you, the members of the audience. By that time, we will then continue our deliberations at lunch, following the keynote address by Mr. George J. Clark of Citibank.

Our conference theme, the issue of international debt, is a most serious one. I understand that there will be a meeting in Washington tomorrow with some of the very individuals whom we had originally invited to our conference. In fact, this meeting is to include Mr. Babacar N'diaye, Mr. Edward Jaycox, and Mr. Mamadou Touré, and Mr. Adebayo Adedeji of the Economic Commission for Africa, among others, to discuss recent criticisms of structural adjustment lending in Africa, as well as to consider what new initiatives may be in order. With this perspective in mind, let us now turn to our panelists.

E.A. Ajayi, Central Bank of Nigeria. Thank you very much. Panelists, conference participants, ladies and gentlemen. Due to other pressing official engagements, Mr. J.O. Sanusi, Deputy Governor in charge of domestic monetary and banking policy at the Central Bank of Nigeria, who was invited to participate in this conference, is unable to be here with you today. He has therefore asked me to express his regret over the inconvenience which his unavoidable absence may cause the organizers of and participants in the conference and to wish you very successful deliberations.

Today's conference on "New Initiatives for Africa's Debt" cannot come at a more opportune time. One cannot but thank the Center for Economic Research on Africa of Montclair State University for taking the initiative in organizing the conference to examine the various facets of Africa's debt problem. There is no doubt that the cross-fertilisation of ideas made possible by the conference will be helpful to creditors and debtors alike will go a long way in finding a durable solution to the problem.

I have been asked to speak on recent developments in Nigeria with regards to international debt. This will be done in three parts. The first examines the magnitude of Nigeria's debt problem. The second provides a bird's eye view of the country's debt management strategy. The third proffers recommendations on how the debt management strategy should evolve for the mutual benefit of the debtors, creditors, and the entire international community.

Nigeria's Debt Problem

Nigeria's debt problem is rooted partly in the collapse of international oil prices in 1981 and the persistent softening of the international oil market since then, and partly in domestic policy lapses. The policies pursued in the 1970's and the early 1980's led to structural changes which made the economy vulnerable to external shocks. Rural-urban migration, which intensified in the wake of the "oil boom", as well as inappropriate pricing and exchange rate policies, had taken their toll on the agricultural sector. As a result, agriculture's contribution to Gross Domestic Product shrank from 53 percent in 1965 to about 40 percent in the mid-1970's and to not more than 20 percent in 1980.

A defective structure of incentives also paved the way for an industrial sector that was heavily dependent on imported inputs with very low value-added. Consequently, the economy became progresssively dependent on crude oil, accounting for over 22 percent of GDP, 81 percent of government revenue, and about 96 percent of export earnings at the beginning of the 1980's.

The economy, mal-adjusted as it was, and characterized by distortions in price-cost relations, import-oriented national expenditure and production, and a greatly over-valued exchange rate, could not cope with a prolonged period of depression in oil prices. The oil price collapse since 1981 can thus be said to have compounded the problems of an economy that had lost its flexibilty and which led to serious external payments problems. While the growth of merchandise exports averaged 11.4 percent a year between 1965 and 1980, it actually declined by an average of 6 percent a year between 1980 and 1986. Imports, which grew at an annual rate of 15.1 percent between 1965 and 1980, also declined by 17.5 percent a year between 1980 and 1986.

Nigeria also experienced a dramatic decline in external reserves. They fell from over $10 billion in 1980 to $3.9 billion in 1981 and to a little over $1 billion in 1986 as the current account position swung from a huge surplus in 1980 to a deficit of over $7 billion in 1981 and over $4 billion in 1983. Instead of adjusting, the country relied on financing during the initial phase of the problem, largely because the problem was perceived to be transitory, and partly because the international financial community was yet to put the global debt problem in its proper perspective. With the rapid accumulation of trade and payments arrears from 1982, lines of credit gradually dried up.

Meanwhile, the stock of external debt rose from $4.6 billion in 1980 to $11 billion in 1983 and $13 billion in 1985. These excluded the trade arrears accumulated in 1982 and 1983, amounting to about $6.9 billion, which, if taken into account, brought the debt

stock close to $20 billion in 1985. As of the end of December 1988, the debt overhang stood at $29.3 billion. Of this, $12.9 billion is owed to official creditors that are members of the Paris Club, $5.8 billion to London Club creditors, $3.1 billion to multilateral financial institutions, mainly the World Bank group, $4.8 billion in the form of promissory notes issued by the Central Bank of Nigeria in respect of rescheduled uninsured trade arrears and other creditors acount for $2.7 billion. Much of the increase since 1985 is accounted for by the impact of the high and variable interest rates at which most of the earlier loans were contracted, the capitalization of interest on existing debt stock, which could not be repaid as they fell due, and the depreciation of the dollar vis-a-vis other key currencies in which most of the debt obligations were contracted.

The increase in debt took place at a time when developments in the oil market, instablity in other commodity prices, adverse terms of trade, and high real interest rates, all combined in an unstainable pattern of the country's debt carrying and servicing capacity. The ratio of total debt to GDP rose from 6.5 percent in 1980 to 42 percent in 1986 and 110 percent in 1988. The ratio of debt to earnings from exports of goods and services rose from 44.7 percent in 1989 to 311.5 percent in 1987 and was projected to reach 368.8 percent in 1988. The debt service ratio also rose from 0.7 percent in 1980 to 33.1 percent in 1985 and in the absence of debt rescheduling, could have stood at over 73 percent in 1986 and 85 percent in 1988.

The implications of the debt problem for the national economy cannot be over-emphasized. As already noted, credit facilities gradually dried up as the full ramifications of the debt problem became clearer. The absence of medium to long-term financing meant that the completion of a number of projects was stalled, while the absence of short-term cover further drained the foreign exchange reserves and constituted a negative balance of payments financing. It also resulted in an accelerated deterioration in the terms of trade, as suppliers raised prices to build-in a risk premium against delays in payments, thus compounding the payments difficulties.

Import compression, necessitated by the desire to be current on debt service payments, posed its own dilemma. Compressing imports of intermediate inputs led, along with other factors, to under-utilization of installed capacity with dire consequences for income and employment. The reduction in imports of capital goods contributed to reducing capacity expansion and affected the ability to produce and maintain capital stocks, both of which are essential ingredients for sustained adjustment. Very importantly, debt service reduced the supply of savings by impairing the capacity to raise savings out of income, since growth was already constrained by the shortage of foreign

exchange. It also absorbed a portion of the available pool of savings, while new borrowing added virtually nothing.

These effects compounded other factors to adversely affect output. Real Gross Domestic Product, which recorded an average annual growth rate of 8 percent between 1965 and 1980, declined by 3.2 percent a year between 1980 and 1986. Industrial production expanded by an average of 13.4 percent between 1965 and 1980, but declined by an average rate of 5.1 percent a year between 1980 and 1986. Manufacturing sector's output expanded at an annual rate of 14.6 percent between 1965 and 1980, but by a rate averaging 1 percent a year between 1980 and 1986. The annual growth rate of gross domestic investment, which averaged 14.7 percent between 1965 and 1980, decelerated by as much as 13.7 percent a year between 1980 and 1986. In turn, capacity utilization averaged less than 25 percent in 1986.

Nigeria's Debt Management Strategy

The best and most durable solution to the debt problem lies in the revival of economic growth. As noted in part I, two sets of factors have militated aginst such growth. First are limitations imposed by inappropriate domestic policies, and second are the external factors over which the country has had little or no control.

As regards domestic policies, in July 1986, the Government adopted a structural adjustment program directed at realigning aggregate domestic expenditure and production patterns so as to minimize dependence on imports, enhance the non-oil export base and bring the economy back on the path of steady and balanced growth. Economic and financial reforms thus formed the bedrock of the debt management strategy.

The structural adjustment program was supported in 1986-1987 by a World Bank Trade and Investment Policy Loan of $450 million , with a similar loan in the amout of $500 million for 1988-1989. It was also supported by the IMF through two successive stand-by arrangements. The support of the two institutions formed an important plank of the debt management strategy. It enabled the country to combine effective debt management with economic adjustment measures, which enabled Nigeria to be in continuous dialogue with the various creditor groups with the objective of normalizing relations with them and securing debt relief through rescheduling on terms consistent with the realities of the country's external finances. In effect, this has been another major plank of the country's debt management strategy.

In this context, debt owed to private creditors, amounting to about $4.8 billion, was rescheduled in January 1988 with repayments stretched over a period of 22 years and at an effective rate of return of 5 percent. Restructuring, refinancing, and loan facility agreements were signed with the London Club in November 1987.

The inability to meet the payment terms of the agreements led to the re-opening of negotiations and the signing of new sets of agreements in March 1989. Under the 1989 agreements, the banks agreed on restructuring all debts due to them, totalling $5.8 billion, comprising payable debt, trade credits, and medium and long-term debt due over the next 8 years. Existing maturities were spread out over 20 years according to the category of debt, and at a margin that varied between seven-eighths and thirteen-sixteenths percent over LIBOR, the London Inter-Bank Offer Rate, again according to the category of debt.

The agreement included a menu of options that enlarged the scope of Nigeria's debt conversion program. New instruments such as Naira Notes and Nigerian Investment Bonds were provided for in this package. The agreement will reduce payments to the London Club in 1989 to $619 million from the $3.6 billion that was due originally. In 1990, payments to the Club would be about $532 million in compared to $1.4 billion prior to rescheduling.

On January 9, 1989, a donors' conference was held in London to consider Nigeria's request for concessional assistance after the World Bank had declared Nigeria as IDA-eligible. The response was encouraging, as pledges made were close to $600 million. The Paris Club also agreed on rescheduling terms in December 1986 and in March 1989. Under the 1989 agreement, debts amounting to $5.7 billion were covered.

Although Nigeria had embarked since 1983-1984 on debt restructuring and rescheduling aimed at reducing the debt service burden over the medium-term, and had achieved some relief through that strategy, by 1987 it had become obvious that the traditional approach to debt relief through debt rescheduling was inadequate. Rescheduling only stretches out repayments over a period and does not extinguish the rescheduled debts. This is evidenced by the rising level of total debt, despite repayments made.

In spite of the time-consuming nature of protracted debt re-scheduling negotiations, the cost and other inconveniences, the rescheduling packages, especially with the creditors in the London Club, have not resulted in any meaningful new money inflows. Although the 1987 agreements with the banks provided for new money in the amount of

$320 million, nothing was disbursed. Under the 1989 agreements, the banks refused to provide new money. Rescheduling has thus not prevented negative resource flows from Nigeria in the form of debt service payments.

In 1986, resource flows to Nigeria from the World Bank and the London Club amounted to $2.1 billion. In 1987, total inflows from them amounted to $224 million, while repayments to them stood at $2.1 billion. In 1987, total inflows from them amounted to $210 million, of which the London Club accounted for $9 million. Debt service for that year stood at $1.05 billion. In 1988, inflows from the World Bank stood at $100 million. Nothing was received from the London Club. In the same year, payments to the London Club amounted to $657.6 million, while the Paris Club and the World Bank received $272.7 million and $462 million, respectively.

It was aginst this background that the Government of Nigeria decided to establish a debt conversion program in July 1988. Awareness of the emergence since 1982 of the secondary market for loan claims on debtor countries, with sizeable discounts directly measureable, and the desire to appropriate for the national economy part of the market discount on Nigeria's debt, contributed to this decision. The initiative was undertaken to complement its existing debt management strategy. The aim of the initiative is to reduce the external debt stock, and to lighten the debt service burden. It also aims at encouraging capital inflows, including repatriation of flight capital, and to assist in the recapitalization of the private sector.

Eligible debt under the plan was limited initially to promissory notes and transactions, with coverage restricted to debt-for-equity and debt-for-cash conversions. The latter were being allowed in respect of gifts and grants to Nigerian non-profit making entities such as educationsl institutions, charitable organizations, research centers, religious bodies, and trusts. The scope of the program has since been expanded to cover restructured bank debt and debt-for-debt transactions. The mode of conversion is by auction. Between September 1988 and April 1989, five auctions have been held under the program. Thus far, $131.55 million has been redeemed with weighted average discounts offered by successful bidders ranging between 40.2 perdcent in the first auction to 49.4 percent at the fifth auction.

Future Directions

Nigeria's debt management strategy has been much in line with prevailing global debt strategies. It has prevented a break-down of relations between Nigeria and its creditors. While the banking system is protected against the risk of unilateral default, banks'

exposure has not increased and no new money is being provided as envisaged under the Baker Plan of 1985. Over-indebtedness, as measured by the various indicators of debt-carrying capacity, has not only persisted, but increased. The strategy is expected to lead to sustained growth which the Baker Plan saw as the solution to the debt problem. Here, available data indicate some improvement.

Real Gross Domestic Product, which had declined by 3.3 percent in 1986, grew by 1.7 percent in 1987 and by 4.2 percent in 1988. All sectors of the economy contributed to the improvement. Manufacturing output in particular grew by 13.7 percent in 1988, compared with 5.1 percent in 1987 and a decline of 3.9 percent in 1986. Capacity utilization now averages 45 percent compared with about 25 percent in 1986. Performance could have been better if external financing, which is critical in effecting structural adjustment, had not dried up. However, despite the upturn in economic performance, per capita income has shrunk from $630 in 1980 to $370 in 1987. In turn, this overall shift has been a major factor in the recent decision of the World Bank to declare Nigeria eligible for IDA funding.

With these factors in mind, various initiatives on easing the debt problem deserve the attention of all parties concerned. As regards debt owed to private creditors, including the banks, the recent proposal by U.S. Treasury Secretary Nicholas Brady is a welcome follow-up to the Baker Plan, which was not succeeding in achieving its stated objectives. What is attractive in the Brady initiative is, apart from the need for timely financial support for adjustment efforts, the recognition of the need for a debt reduction strategy, either to complement or to replace the Baker Plan, which had its emphasis on debt accumulation.

The market is now replete with debt-reduction instruments, including debt-equity swaps, debt buy-backs, and various forms of debt securitization. Banks, too, have been making provisions against loan losses, and these should assist in marketing a successful debt reduction strategy.

To be effective, the Brady Plan should take cognizance of the limitations of a debt recution-based strategy. From the standpoint of the debtor country, the magnitude of debt reduction under a debt-equity program is constrained by the associated unplanned increase in the money supply and the attendant inflationary pressures, the fear of the problem of round-tripping, the problem of additionality of resources, and the political pressures against changing the structure of business ownership in favour of foreigners.

Second, debt buy-backs, apart from being disallowed under restructuring arrangements, require the use of foreign exchange, which is the scarcest commodity in debtor countries. The involvement of the World Bank and the IMF could assist in ameliorating the foreign exchange constraint. However, the use of IMF resources is quota-based. As with other countries, what Nigeria will be entitled to draw under such a facility will be small in relation to outstanding debt and consequently will not be enough to bring about a meaningful reduction in its debt stock. In this context, a Bolivian type debt buy-back scheme, supplemented by anticipated IMF funding, could be more effective. The Brady proposal itself envisages creditor governments undertaking bilateral funding to strengthen the debt reduction strategy. Concerted pressures will be needed to dissuade banks from insisting on strict adherence to legal constraints against debt buy-backs under restructuring agreements.

Third, securitization involves use of foreign exchange and the guarantee of a major creditor or financial institution such as the World Bank. What is needed here is to specify more clearly how such guarantees can be undertaken in a reasonable policy environment.

Fourth, debtors' capacity, including Nigeria's, to offer creditors alternative assets such as cash, equity or collateralized securities in exchange for discounts is, on the whole, relatively small and is inversely related to countries' need for relief. From the standpoint of creditor banks, relevant factors include the desire to reduce exposure in a particular country or geographical area, to reduce or eliminate involvement in future debt rescheduling exercises, improved perceptions of debtors' financial and economic position, and greater understanding of the prospects of their capacity to meed future debt obligations. The scope of available debt-reduction programs, the investment climate in debtor countries, the restrictiveness of their investment laws and the availability of investment outlets all suggest that the capacity of the present voluntary market-oriented approach to reduce the debt overhang is thus very limited.

What is needed is to make the process of debt reduction concerted and the process of lending voluntary. In the view of UNCTAD, there are two avenues for arriving at such a result. One is for governments and international financial organizations to meet creditors' demands for alternative assets by increasing their supply through, for instance, the establishment of an international debt facility. Authorities should have an open mind for proposals already put forward along this line. The other is for banks themselves to reduce interest rates on their outstanding claims with a view to reducing the credit risk attached to their remaining claims.

Another proposal worth noting is the plan put forth by Senator Bill Bradley of New Jersey. His plan calls for creditors to offer debt and interest rate relief in exchange for debtor reforms, through those requiring all commercial creditors, private and public, to contribute to relief on an equitable basis to ensure a correspondence between contributions and gains and the avoidance of "free rides". It is a proposal that should be given serious thought.

Africa's debt is owed largely to creditor governments and multilateral financial institutions. As of the end of 1988, Nigeria, which owed a sizeable proportion of its debt to private creditors, had about 55 percent of its oustanding debt owed to the World Bank and creditors in the Paris Club. Various initiatives aimed at amerliorating the impact of the latter category of debt should be put into effect. These include forgiveness of official development assistance or other debt payment owed by the least developed countries and the scope widened to include other heavily indebted African countries. The World Bank's co-financing scheme with bilateral donors in support of adjustment programs in Sub-Saharan Africa, though commendable, should be given increased funding. The IMF's enhanced structural adjustment facility is on track. Drawings under it should, however, be delinked from Fund quotas of beneficiary countries.

The consensus that emerged from the Toronto Summit meeting in June 1988, entailing a "menu" of options for official creditors, including "concessional interest rates on shorter maturities, longer repayment periods at commercial rates, partial write-offs of debt service obligations during the consolidation period, or a combination of these options", represents an important qualitative change in the stance of official creditors with regard to non-concessional debt owed by poorer debtors and it has the potential for easing their debt burden. However, the degree of its concessionality needs to be defined within the Paris Club such that the reduction in future debt service will be large enough to allow avoidance of interest capitalization in future debt reschedulings.

Comparability among the various options also needs to be worked out by the Paris Club so as to be able to determine burden-sharing among creditors. Beneficiary countries are limited to the poorest debt-distressed countries undertaking internationally approved adjustment programs. Thought should be given to the possibility of widening the eligibility criteria to include more heavily-indebted countries like Nigeria. In order to help meet the huge financial requirements of beneficiary countries, the concessional resources provided under this initiative should be truly additional.

The recent Brady proposal should not be limited to the countries involved under the Baker Plan. Rather, all countries with commercial bank and other private debt should qualify for it. Furthermore, ways should be explored to include non-multilateral official debt in a wide-ranging debt-reduction strategy.

Finally, thought should be given to linking measures to reduce the burden of debt to commercial banks to debt relief on official bilateral debt in a single scheme along the lines proposed by the African Development Bank. The ADB plan involves the securitization of both kinds of debt, in which medium-term claims would be converted into 20-year bonds carrying below market interest rates. Under the scheme, repayment of principal would be guaranteed by a redemption fund to which debtor countries would make annual contributions. The assets in the redemption fund would be managed by a board of trustees, including representatives of all creditors and the debtor. The interest rate would be set so that when added to multilateral debt service and to the payments to the redemption fund, the overall debt service would be at a sustainable level in accordance with past experience. The scheme deserves sympathetic consideration by creditors.

In conclusion, we must recognize that there is no one single and easy solution to the African debt problem. The problem has been with us now for seven years without coming closer to being resolved. Growth remains stifled, real income per head continues to decline, and over-indebtedness persists. Despite the structural adjustment policies adopted by these countries, they have yet to see the light at the end of the tunnel as far as outgrowing the debt problem is concerned. A number of reasons account for these pressures, including slippages in program implementation, inadequate external financing, and a harsh international trading and financial environment. All of these have to be put right and a careful blend of the various initiatives that have been advanced effected if the desired objectives are to be achieved. To this end, all hands, including those of private and official creditors, debtors and the entire international community should be on deck. The organizers of this conference have contributed their widow's mite in this context. And I should end by thanking them once again for their initiative and for providing me the opportunity to participate in this conference. Thank you.

John Underwood, The World Bank. Let me apologize for the absence of Kim Jaycox, Regional Vice-President for Operations in Africa, who could not be here today. He is one of the most knowledgeable people in the world on the economic situation in Africa and would be able to provide a much more in-depth discussion for you.

My presentation this morning is divided into three parts. First, I will try to put Africa's debt in context, i.e., how does Africa's debt fit into the overall developing country debt problem. Second, I would like to discuss the origins of the African debt problem, although the previous speaker covered some of these issues in the Nigerian case. Third, I am going to talk about international programs designed to address the African debt problem.

The Context of Africa's Debt

First of all, in terms of putting Africa's debt in context, debt is not Africa's only problem. It may not even be the major problem. There is evidence that African countries without large external debt suffered real income losses over the last 10 to 15 years. Debt certainly is an obstacle to a solution to Africa's problems, something that the international community does need to address.

In terms of total debt, overall developing countries owe approximately $1.3 trillion dollars in terms of external debt. Among that group of countries are those which we in the World Bank call the highly indebted middle-income countries. These include the ones that former U.S. Treasury Secretary James Baker identified for his Baker plan back in 1985. At that time, he and other people in the international development community realized that the reschedulings and programs put in place to deal with developing countries' debt were not restoring growth in these countries and that growth was a key to the solution to debt problems, not only in Africa but in all of the developing countries. These highly indebted countries include Mexico, Argentina, Brazil, countries you hear about every day, plus, in Africa, Morocco, Nigeria, and the Côte d'Ivoire.

Sub-Saharan Africa, which is one of the two groups I am going to concentrate on, owes about $130 billion, which accounts for about 10 percent of total developing country debt. As it is about the size of Brazil's debt, we are not talking about hugh magnitudes of debt in Africa, although I do not want you to think that this minimizes the problem. These countries are also smaller in terms of income and wealth.

There is another group of countries I want to concentrate on, and that is low-income Africa. That is where the World Bank has concentrated its efforts in trying to alleviate Africa's debt problems. These are thirty-five African countries that are eligible only to borrow from the International Development Agency, (IDA), the World Bank's "soft loan" window. They are not eligible to borrow regular World Bank loans, which carry relatively close to market rates. IDA loans have very concessional interest rates and very long maturities.

These thirty-five countries owe about $70 billion dollars. That represents approximately five percent of total developing country debt. Again, we are talking about relatively small magnitudes. It might be worth emphasizing this factor rather than the overall size of the problem. Africa's debt may be more manageable if we think about it in terms of, at least for these very low income countries, constituting a very small part of developing country debt.

Low income Africa's debt is also different in composition than the debt of the highly indebted middle income countries. We just heard that in Nigeria, about 45 percent of the debt is owed to private creditors. Overall for the highly indebted middle income countries, that share is closer to 65 or 70 percent. By contrast, low income Africa, taking in account loans guaranteed by export credit agencies, about 90 percent of the loans are owed to or guaranteed by official creditors.

Export credit agencies are official export guarantee institutions such as the U.S. Export-Import Bank. A loan might appear on the books of Citibank, but Citibank may hold a guarantee on that loan so that if the country doesn't pay, the U.S. Export-Import Bank will stand behind the loan. Taking those loan guarantees into account, the debt problem in Africa, especially in low income Africa, is basically an official debt problem, as opposed to a commercial bank debt problem.

Debt in Africa is also more concessional than the debt in other parts of the world. Because of creditworthiness concerns, commercial banks were never heavily involved in most African countries. Aid agencies and multilateral agencies have provided a good share of the loans. Half of the debt of low income Africa is concessional, as opposed to only about five percent in the highly indebted middle income countries. I don't want to say, though, that because it is concessional and because it is official, it is less of a burden.

Measures of Africa's Debt Burden

Let's look at the traditional measures of debt burden, starting with debt to exports. Exports, and the foreign exchange that exports bring, are the only way to service external debt. Debt to GNP is another measure of the earning capacity of the country. These ratios are higher in low income Africa and in Africa in general than they are even in the highly indebted middle income countries. For example, debt represents about 360 percent of exports in the highly indebted middle income countries, e.g., Mexico, Argentina, and Brazil. In low income Africa, that same ratio is 520 percent. To put it very simply, if these countries were going to pay off otheir debts, they would have to devote all of their

export payments for approximately five years to just debt service on principal, ignoring interest payments. Obviously, this is not going to happen.

When we talk about an end to the debt crisis, we do not talk about totally repaying debt. An end to the debt crisis occurs when countries can meet their debt payments without resort to extraordinary reschedulings or arrears.

As I said earlier, debt is more concessional in Sub-Saharan Africa. As a result, when you look at statistics of debt service, as opposed to debt, the debt service ratio is not much different in low income Africa from the ratio for middle income highly indebted countries. In fact it is lower.

There are two factors at work in affecting low income Africa's debt service burden. One is lower interest rates. The other is the higher incidence of debt service interruptions - arrears and reschedulings. The World Bank statistics on debt service are published on a cash basis, i.e., how much debt service was paid as opposed to an accrual basis, which would be how much was owed, including the amount not paid. Debt service relative to exports in highly indebted middle income countries was 38 percent in 1987. In low income Africa it was 31 percent. On a scheduled basis, the ratios were closer. It was about 59 percent in the highly indebted middle income countries versus about 52 or 53 percent in low income Africa.

There is an alternative way of looking at the burden of debt. This is to look at the size of the trade surplus that a country has to generate in order to make net transfers to creditors. In the highly indebted middle income countries, that is about 3 percent of GNP, i.e., all forms of exports exceed all forms of imports except interest by enough to generate 3 percent of GNP to transfer to creditors. In a country like Mexico, over the last few years, that transfer has been 5 or 6 percent. In low income Africa, you can't look at the debt burden exactly that way because these countries are still running substantial trade deficits. They are not transferring resources to creditors. The non-interest current account balance, which is exports minus non-interest imports, taking into account all forms of exports and imports, is on the order of negative 10 percent of GNP, i.e., resources are still flowing into low income African countries. This is not necessarily true in a country like Nigeria, but in most of the 35 low income African countries, it is so.

Another way of looking at the debt burden is something that economists have been calling the "debt overhang". It means that debt acts as an implicit tax on adjustment, or investment efforts. If a country does better in terms of adjustment, generating more GNP

and more exports, it gets less debt relief, and thus suffers a penalty, or tax. The tax effect arises because all or a large part of the benefits of adjustment efforts go to external creditors.

The magnitude of debt overhang is an issue of some controversy among economists and policymakers. What is clear is that if debt overhang is important, then its reduction would be conducive to a larger boost to adjustment efforts and a larger boost to the confidence of investors. This may well be the case in some of most heavily indebted countries in Africa, where debt represents 500, 600, 700 percent of annual exports, and 2, 3, 4 percent of GNP. An investor cannot be too confident when debt represents 300 percent of GNP and when the investor does not know how it is eventually going to be settled.

Origins of Africa's Debt Problem

Let me turn to the origins of the debt problem in Africa. The analysis done at the World Bank relates the debt problem to commodity booms in the 1970's. World commodity prices peaked in the mid and late 1970's and this had two effects. It lowered the perceived cost of borrowing because interest rates were low relative to the rates of increase in the prices of these exports. It also raised expectations about the wealth of these countries. Wealth is measured in forward terms in these countries. Resources were viewed as being quite valuable because they were going to generate valuable exports in the future. These countries tended to look more creditworthy than they had in the past.

As African countries expanded their borrowing, so too did the supply of funds, which came largely from public bilateral and multilateral lending agencies rather than from private commercial banks. After the first oil shock, many developed countries became concerned about their own exports as well as about unemployment problems in their own countries. Export credit agencies had a relatively wide leeway to finance exports of both final goods and intermediate products and world trade expanded accordingly.

Interestingly enough, some countries that did not have commodity booms also accumulated large debts over this period, e.g., Zambia, Zaire, as copper exporters, suffered through low prices. Yet there was an expectation that these prices would recover. As a result, these countries borrowed extensively. Many countries, taking advantage of the availability of credit, and seeing themselves as richer in the long term, tried to very rapidly expand their public investment programs, their government-financed development programs. Very often the funds were put into projects with very long payout periods and perhaps expected relatively high rates of return, but in the very distant future.

These investment programs were often sustained after commodity prices had fallen. The low income African countries that I am talking about, as opposed to Nigeria, are all oil importers. To them, the fall in oil prices was actually a benefit, but it came at the same time as depressed prices for a lot of their other commodity exports.

The period of intense borrowing in many of these countries was very short, on the order of two or three years of borrowing. Then commodity prices fell and debt problems developed. Since that time, the major component of the increase in non-concessional debt has actually been in the form of capitalized interest, through arrears, or through reschedulings. Rescheduling interest, or interest capitalization has been one of the major features in the growth of debt in low income Africa since these problems developed.

The interest rate shock that affected countries like Nigeria was less of a problem in low income Africa because most of the debt has been at fixed rates rather than at floating rates. They don't have the large syndicated credits at floating interest rates that the middle income countries have. The interest shock was less of a factor there. However, higher interest rates are more of a factor over time as reschedulings take place. They do not affect the stock of debt immediately. They affect the flow of debt. In a year in which there is a rescheduling, that debt is likely to pick up a higher interest rate as it is rolled into a newly reshceduled loan.

The timing of Africa's debt flows was also different. The debt problem began earlier in Sub-Saharan Africa. Zaire was the first country to reschedule in the 1970's and 10 low income African countries rescheduled 24 times before Mexico announced in 1982 that it was unable to meet its scheduled debt service payments, and the crisis began in the middle income countries.

Debt Management Strategies in Africa

Let me quickly go over some of the programs that have been put forward to address the debt problems in Sub-Saharan Africa and in low income Africa in particular. First of all, even before the recent World Bank initiatives that I will discuss in more detail, Paris Club reschedulings had become more generous. The Paris Club is the unofficial forum at which official debt owed to bilateral governments is rescheduled. At Paris Club meetings, the United States is represented by the U.S. Treasury, along with other U.S. creditor agencies such as U.S. AID, the U.S. Department of Agriculture, and the U.S. Export-Import Bank. Other creditor governments send similar representatives. In addition to representatives from the rescheduling countries, these meetings are also attended by observers from international agencies, including the IMF and the World Bank.

For low income Africa, Paris Club reschedulings have become more and more generous over time in terms of the amount of debt covered. Now it covers basically 100 percent of interest as well as 100 percent of principal due during the period covered by the rescheduling, which is normally one to two years.

The terms of reschedulings have also become more generous. At one time, the Paris Club had a rule that if debt had been once rescheduled, then the principal and interest due later on that debt were ineligible for rescheduling. They have often waived that rule for Sub-Saharan Africa. In other ways, these reschedulings have also become more generous.

In 1978, UNCTAD had proposed that for the least developed countries, including many in Sub-Saharan Africa, concessional development aid loans be cancelled or converted retroactively to grants. Through 1987, about $1.4 billion in concessional debt to Sub-Saharan Africa was cancelled, resulting in savings of $5 million a year. The savings are surprisingly small only because of the long-term concessional nature of the original debt obligations, but these debts did stop adding to the accumulated stock.

In December 1987, the World Bank announced a new set of measures to address the debt problems in low income debt distressed African countries. The World Bank calls this program the Special Program of Assistance (SPA). The objective is to help countries grow and to restore normal debtor to creditor relationships. The eligibility criteria are: (1), poverty, meaning that the country must be classified as an IDA-only borrower; (2), it must be debt distressed , originally taken as a debt service ratio of at least 30 percent before any rescheduling has been undertaken; (3), it has to engage in structural adjustment in conjunction with IMF and World Bank programs.

The components of the World Bank's Special Program of Assistance are: additional concessional lending from IDA; increased co-financing by bilateral partners and donors; and supplemental credits from IDA reflows to be used to help meet payments on World Bank hard loans. Some of these countries have World Bank loans outstanding, so these supplemental credits help them to meet their debt service payments on these non-concessional loans. The IMF has its Enhanced Structural Adjustment Facility, which operates in conjunction with the World Bank's Special Program of Assistance.

The program also called for more concessional debt relief. At the Toronto summit in 1988, the bilateral creditors did agree to provide more concessional debt relief. They have

a series of three options. The French option is to forgive one-third of principal on debt service coming due in the rescheduling period. The British option is to reduce interest rates by a half, or three and a half percentage points, whichever is less. The U.S. option is very long reschedulings.

Countries that choose the U.S. option would not receive any principal payments until countries that have provided concessional relief under the other two options have been paid. Countries that undertake this last option are not really offering anything concessional, but they are at greater risk because their loans are to be repaid over a longer period. So far, seven countries through early 1989 have benefitted from this program, but the cash flow benefits have not been substantial. It also appears that most countries are choosing the reduced interest rate option.

Although there is much more that I would like to say, perhaps I should stop here and pick up some of these issues, in particular the Brady initiative, during the course of our discussion. Thank you.

Warren Weinstein, U.S. AID. Thank you for the opportunity to address the issue of debt management in Africa today. Unlike some of the other speakers, AID has become much more involved on the action side in terms of the growth and not how one sits back and becomes overwhelmed by the debt problem, which based on the statistics, is truly forbidding. As AID started to look at the debt issue, in many ways, we have certainly followed and have tried to be supportive of many World Bank initiatives, certainly the Special Program of Assistance, which John Underwood just spoke about. I think that we are also looking at how you go from debt as a block to growth to viewing debt as a potential, and how we move from resource drains to resource creation, from debt to a growth strategy. This means that we sometimes have a creative tension with the IMF and its programs and we sometimes have a creative tension even with the World Bank, although I think usually less so.

AID's Approach to Africa's Debt Problem

The reason why I mention the IMF is that as we look at growth, we are sometimes trying to come up with programs of credit, or even equity, to African entrepreneurs and to those who would like to undertake venture and joint venture investments in order to get production going. Clearly, the purpose is the production of wealth and the wherewithal to provide for, as Dr. Desai said, the better society, as well as to provide for paying off the debt so that you do not have default. That runs up against significant problems, because when the IMF goes in with its programs, it usually puts very strict limits on

credit creation and very strict limits on the money supply. To some extent, we are looking a little bit at equity lines as perhaps a way of getting around that because they do not show up quite the same way, but there I think we clearly have some tensions between the two organizations. It comes out from country to country, but certainly Dr. Williams will talk about that more.

We also go for what economists refer to as "gimmicks", and that creates tension within AID. I am in an office that tries to get investment and markets moving. Our economists always tell us that we are going to overheat things. I could go through the list of problems of debt-swaps that Dr. Ajayi mentioned. We may be selling things on the cheap to foreigners or trying to promote that, or adding to the money supply by debt conversions. We are trying to get African governments, even though they have very limited private debt, to deal with that, as well as with blocked currencies, and sell these, or make them available at a discount so as to have better internal rates of returns for investors when they look at whether or not they want to come into these countries.

Some people, economists in particular, become a little concerned with this and wonder whether we are getting too gimmicky and not really looking at the issues. That is, I think, a creative tension that goes on and keeps us from going too far and we always push economists to go a little further in some of the other directions.

I think that there are areas where we join very closely with the IMF and with the World Bank and that is the need for structural adjustment and for reforms. It is now gaining currency that structural adjustment makes people poor, kills children, deprives people of health care, and a number of negative and very nasty things. I think one has to admit that structural adjustment is painful. The U.S. still has not decided quite to go through it because we know what the pain is. Every time we look at it, we run in the other direction, or we create statistics that help us away from it.

In a lot of the African countries, they do not have the wherewithal to run away from structural adjustment. Things are pretty bad. But we look at it and say, "What would life be like if we didn't have structural adjustment, and why are we where we are right now?" In many ways, structural adjustment occurred because a lot of the countries in Africa were hitting rock bottom because they could not carry any of their programs, because sustainability wasn't being reached. A lot of the programs put forth by the bilateral donors, whether it was in the form of education, in health, in social services, have all come to a crashing halt. Salaries could not be paid, gas could not be purchased. Vehicles could not be maintained or serviced, and a lot of the countries were just coming to a dead

end. So while I think we talk a lot about the impact of structural adjustment, certainly for ourselves as donors, we also ask ourselves whether or not we shouldn't remember why we got into the structural adjustment game, if you will, or effort.

Lessons from Structural Adjustment

When we talk about the structual adjustment effort, there is a lot of soul-searching going on. A lot of lessons have been learned. The way in which the IMF, the World Bank, or we in AID think about structural adjustment and the ways in which the African Development Bank thinks about it has benefitted from some good things and some mistakes. We have learned, for example, that it takes longer than everyone thought to undertake structural adjustment. It is not a one-year "quick fix". Some people talk of three to five years. It may even go longer, and this in fact has created some problems for multilateral institutions like the IMF, more so possibly for them than for the World Bank, in how to gear up for longer-term involvement rather than the traditional way in which they became involved.

Sometimes there is difficulty in distinguishing between the IMF and the World Bank as to who is playing what role. You are getting blurring of the lines about how long this is really going to take. As I said, lessons learned and the history so far point to the fact that it is going to be longer than we all thought.

The next area for honest debate, and I think it is going on, based on lessons learned, is what should structural adjustment look like, and how does one define the policies. We have cases now where we have gone in, as in Rwanda, where we went in with one set of policy reforms, put money behind it, in what we call the African Economic Policy Reform Program. After three years we discovered we were going after the wrong reforms. Some of them were o.k., and on the mark, but really we were not going after what it would take to start making things happen in Rwanda in terms of, in this case, small enterprise, and discovered that we had to get into regulatory issues. We are finding this out in some other areas.

Above all, for AID, as opposed to, let's say, the World Bank, we tried to go into sector programs. For its part, Congress has told us to go into sectors and sub-sectors and leave the large macro issues to the World Bank and the IMF and we should always, to the extent that we can, be in consonance with each other and mutually supportive. As we get down into the sector and sub-sector level, we sometimes find that what we are pushing or going after doesn't end up being quite on the mark. So I think there is a lot of soul-searching and inquiry going on as to what policies one should go after.

What regulations should be changed and how do you phase it, i.e., when should it happen? And these are not easy issues. They are very difficult, and you do not always know the solutions in advance. That means that as we go through the structural adjustment process that there are going to be mistakes made. I think we all have to accept that there are going to be some failures and some successes, with hopefully enough lessons learned to rectify mistakes in a timely fashion as we go on. Indeed, I would request that outside audiences have a bit more charity as they try to figure what is the right way and understand that no one has, as I think Dr. Ajayi has said, the solution. There is no magic bullet.

New Departures for Africa's Debt

As we go forward in AID, we are also looking at program performance. Increasingly, we are going to performance-based lending, which in the African context means to performance-based programming. Let me say something about the lending. What we have done initially is we have stopped doing lending. We now only do grant assistance. In several cases, we have transformed loans into grants. We do have legislation that recently was voted, but do not know where it is going to go, and this is section 572 of the Operations Budget that was voted for us last year in November.

Section 572 says that as of October 1990, the authority exists whereby the debts owed to us by African countries could be totally forgiven, or could be repaid in local currency. The problem that has grown up with that one is we do not know the impact yet on the budget, and so while the OMB, or Office of Management and Budget, and the Congressional Budget Office are debating that out, nothing is happening. If something should move, there are between 10 and 14 countries owing us a principal as of September 30, 1988, $501.9 million dollars that could be forgiven. We could forgive the interest. We do not know how we would go about it. If we did, we might forgive it on an annual basis, or we might forgive it all at once. We might forgive it over three years.

There are many agencies in the U.S. government who are exploring ways as to how to proceed under section 572. In all cases, it would only apply to countries that have structural adjustment programs, countries that have IMF standby agreements, or countries that are benefitting from either the Structural Adjustment Facility or the Enhanced Structural Adjustment Facility, both of which will probably be touched upon by my colleague from the IMF.

Again, this represents a very good initiative from the point of view of the Africa Bureau within AID. Some others in the U.S. government are not sure as to whether or not this is a very good initiative and whether or not we should go forward because of the budget implications. So, in fact there is a bit of creative tension within the U.S. government. AID and the sister agencies, i.e., Treasury, State, OMB, don't always see eye to eye, and do not always think we should go on the same track. Some of us want to go quicker than others. I think the Africa Bureau has acknowledged and accepted the notion of debt reduction as being important and something that we should look at where countries are performing.

If you have countries starting to liberalize, so that forces within the countries themselves can start to be more productive, hence the private sector, then we should be doing something to help that along. We shouldn't penalize, and here I go along with the comment on debt overhang made by John Underwood. Our debt does not represent that large a part of the general debt in Africa, itself at $230 billion at the current point, but it represents something that we could do to demonstrate that with countries that are performing, we are trying to take that into account. How far one goes with that, one doesn't know because even if you think they are doing a fair amount of debt reduction through forgiveness, there is still a significant amount of debt left.

Entities such as the World Bank, the IMF, and the agencies such as the ADB are not able to accept their debt being put off or not being paid back. The major reason for this is that they have to go out in the open market and they have to raise capital. They do this with bonds and the other paper that they float, which is usually highly rated. As soon as they countenance rescheduling, that is going to affect the way that the market views the paper that is floated. If so, it could start to affect the whole system of the money that is made available with potentially adverse consequences for all concerned.

As an individual, I think that with every passing year, certainly within the past three years, there seems to be more and more movement toward an actual debt reduction that would include debt forgiveness, debt conversion, and to what has been referred to as securitization of debt, that is, some model worked out along the lines of what has been done in Bolivia. In the case of Mexico, where you have new paper in return for an old obligation with a variant of zero coupon bonds, or what have you, that means that by the time the new paper comes due at least the principal on that paper, and in some cases, the interest, would be assured, i.e. secured, hence the term securitization. We are looking at some of those schemes. One of the ways in which we are doing so is through the provision of technical assistance directly with respect to the African Development Bank

and in coordination with the African Development Bank, hopefully with some of the countries interested, and through our different missions directly with a number of governments.

Let me stop at this point, and say that perhaps we can examine further some of these items during the question and answer period. Thank you.

Richard Williams, International Monetary Fund. Thank you very much. Let me say at the outset that I am participating here in a personal capacity, and the views expressed are not necessarily representative of those of the staff of the Fund. I must add, however, that in preparing my comments, I have drawn not only on the Fund's latest World Economic Outlook,but also on some papers prepared by individual Fund staff, in particular, "The External Debt Problem of Sub-Saharan Africa", by Mr. Joshua Green. In terms of procedure, I would prefer to take up the few specific points raised on the role of the IMF in the debt strategy in conjunction with any comments I might have after each panelist has spoken.

What I intend to do today is to examine briefly the dimensions of Africa's debt, to examine some of the background to the evolution of the debt position, and to share with you the assessment by the Fund staff in the latest World Economic Outlook of some major issues related to the strengthening the debt strategy. As for the debt statistics, our colleague from AID has made a very good point suggesting that the debt numbers are large, which is about all the background we need to understand the dimensions of the problem. I would note, however, that there have been some important differences through the 1970's and early 1980's between developments in Africa and those of other developing regions of the world. These factors are relevant today in our assessment of how we are going to approach these country-specific situations in framing a response to the debt problem.

The Nature of Africa's Debt Burden

In the first place, economic growth rates have been significantly lower in Africa as a region than in many other parts of the world, a trend that was already in evidence in the late 1970's. It has been mentioned that the impact of the rise in international interest rates on debt was much less dramatic in Africa than in other parts of the world because of its relatively small share in the total amount of commercial debt, particularly that contracted at floating interest rates. While this positive aspect is true, the deterioration of the terms of trade for Africa, which undermined the ability to service the debt, was markedly more pronounced than for other regions.

In the sense of developments in the capacity to carry the debt, rather than developments in debt per se, the situation faced by African countries in general has been relatively more difficult and the adjustment to the changed international environment probaby more painful, especially for the poorest among them. In terms of its exports of goods and services, Africa's indebtedness has grown considerably faster than that of the developing countries on average, and even faster than that of most of the heavily indebted middle income developing countries.

Various measures of the debt burden have been mentioned. One that we are all familiar with is the debt service ratio, which has the benefit of combining the weight of current payments on the debt with a measure of the country's wherewithal to cover those payments. Interestingly, in 1980 for Africa as a region, the ratio of debt service to current exchange earnings was only about 14 percent. This was considerably lower than the average for developing countries, which was closer to 20 percent. For all developing countries, this ratio had risen to 23 percent by 1988, whereas in Africa, it had more than doubled to 29 percent, despite the frequent large-scale debt reschedulings for African countries during that period. In relative terms, therefore, Africa is heavily indebted and its debt service burden is onerous.

Another point that I wish to underscore is the tremendous variation found among individual countries in Africa in respect to all of the debt indicators. Let's examine for a moment the debt-to-export ratio, for which there is a striking diversity in African countries. These ratios vary from about 50 percent for a number of countries to well over 1,000 percent for some others, and even up to 1,800 percent. The variation in the debt service ratios is not much less, since they range from less than 5 percent to well beyond 50 percent. Given these wide differences, much caution is needed, not only in any inferences one would make from cross-country aggregates, but also in the conclusions to be drawn from any one of the various measures of the burden of debt.

Even a detailed balance of payments analysis for a given year, for example, does not answer the key question of whether the bulk of resources are being used efficiently to increase the country's economic potential over time. And even here, it is total resource use and not just the use of externally borrowed resources that is relevant. It is not merely a question of whether the additional resources supported investment or consumption, but rather, what developments occurred in the savings-investment balance throughout the economy. In addition, where external loans have been used to finance investment projects, the relevant issue is not just the internal rates of return on these projects in

relation to interest rates on borrowed capital, but rather, the efficiency of investment throughout the economy.

In short, it is total resource usage that is relevant, and this usage is affected by the whole range of macroeconomic policies. In many ways this is the most important aspect of the external debt issue. Taking this together with the fact that dimensions of the debt situation vary immensely from country to country, we must be very wary of generalized debt "solutions" that are not tailored to the circumstances of the individual countries. This combination of factors also ought to alert us immediately to the need to incorporate explicit macroeconomic policy adjustments in any strategy to resolve the debt issue in specific debtor countries.

Origins of Africa's Debt

I think my colleague from Nigeria has made it clear, as have some other commentators, that for many of the African countries external debt has become a heavy burden in part because the past borrowing has not resulted in a commensurate increase in productive capacity to service this debt. In fact, and regrettably, it has been noted that for several of the more highly indebted countries, there seems to be little to show for the heavy accumulation of external debt in the past.

It has been suggested that considerable borrowing was undertaken to finance investments that yielded little or no return, or was devoted to supporting domestic consumption, particularly government current expenditure, at levels that were clearly unsustainable when export prices remained weak and economic growth remained sluggish. Again, we are reminded that the problem of resource mismanagement extends far beyond the particular purpose for, and rate of return on, the externally borrowed resources.

In this sense the problem is much broader than one of external debt management. These kinds of considerations do not make it less important to deal with the problem of debt overhang -- the excess of contractual debt obligations over servicing capacity -- and they certainly do not make it any easier. They do point strongly to the need to continue to underpin the debt strategy with the reinforcement of domestic economic policies.

Adjustment for Growth in Africa

Given the magnitude of the domestic and external imbalances that continue to exist in the debtor developing countries, there is a tremendous challenge in dealing with these issues, particularly for the countries themselves. There are nonetheless a couple of factors

that can give cause for some optimism. First, there has been a growing recognition by African governments, if not uniformly by outside observers, that the key responsibility for improving the situation must be assumed domestically. Second, there has been increasing recognition by the international community, and certainly by the multilateral financial institutions such as the Fund and World Bank, that African countries cannot turn the corner on their own, even with strong domestic adjustment efforts.

Creditors and donors, through a number of initiatives in the recent past, have shown a renewed willingness to support countries that are undertaking sound and appropriate adjustment programs. The World Bank's Special Program for Africa is one indication of this, as was the development of (and financial contributions to) the Fund's enhanced structural adjustment facility. The debt strategy that has evolved since 1982 has been adapting to changing circumstances, but it has continued to be based on a cooperative approach between creditor and devtor countries.

Progress has been achieved in adjustment and in the resumption of growth in several countries that have undertaken comprehensive adjustment programs. At the same time, the initiatives in the debt area presently being formulated make clear the increasing perception that the implementation of the debt strategy needs to be reinforced. The precise modalities of adaptions to bolster the process are under discussion at this time. In general terms, this should be viewed as part of the evolution of the strategy, not a marked departure from underlying principles.

The debt strategy pursued since 1982 has been based on a case-by-case approach to encourage domestic policy adjustments by the debtor countries that will enable them both to strengthen their growth prospects and debt-servicing capacity and to better protect themselves from adverse external developments. This remains at the center of the strategy. For the lower-income debtors in Africa, significant steps toward strengthening the strategy have already been undertaken with the Toronto declaration of June 1988. At the same time, the situations of many of these countries remain precarious -- and their situations need to be monitored very closely and their adjustment programs supported strongly by the international community.

The Issue of Debt Overhang

The debt problem of the heavily indebted middle-income countries has somewhat different dimensions, in particular, the extent of the debt overhang. The discussions currently taking place in Washington that have been alluded to by other speakers reflect in part a recognition that efforts to revitalize the debt strategy and growth prospects in

many of these countries need to deal with the debt overhang, because it is viewed as impeding adjustment efforts.

Debt overhang can impose serious impediments to implementation of a growth-oriented adjustment strategy. Among other things, it could make it difficult for a debtor country to marshal and maintain domestic support for adjustment programs, owing to local perceptions that the creditors will benefit more than the country itself from the improvements in the economy that flow from more effective domestic policies. A major policy conclusion that emerges is that the debt strategy would be enhanced if the incentives to implement and sustain structural adjustment policies were to be improved and made more visible to the debtor countries concerned.

Improving the Adjustment Process

To date the expansion of the market-based menu of debt-reduction options such as debt buy-backs and equity conversions, or swaps, has had a quantitatively rather limited impact. Of course, this could change markedly under new initiatives to expand such operations. At least initially, such initiatives may be generally more applicable to medium-income, market-borrowing countries -- including those in Africa -- with the reduction in the debt burden in many of the poorer countries being handled in other ways. In any case, it seems necessary to examine ways in which contractual debt service payments for the poorer countries can be aligned more closely with servicing capacity in a medium-term, growth-oriented context. It must also be recognized that the extent of external resource transfer for debtors required to meet debt servicing obligations may in some cases have a bearing on the success of domestic reform programs.

We have already mentioned one element of the emerging debt relief modalities -- namely, the decision reached in Toronto in June 1988 to provide for concessional debt relief terms in the context of the Paris Club. The foundation for the Toronto initiative had already been laid by the establishment of the Fund's enhanced structural adjustment facility and expansion of the World Bank's Special Program for Africa.

The Fund staff's latest World Economic Outlook projections suggest that in the medium-term, official transfers and net long-term official flows to these low-income developing countries will increase significantly over the levels recorded in recent years. The new flows from commercial lenders, on the other hand, are projected to remain minimal. Innovative schemes for private debt reduction, perhaps with the technical assistance of the multilateral financial institutions, could also be of considerable benefit to some of the most heavily indebted low-income countries.

To come full circle, the key contribution to an effective debt strategy must come from the debtor countries themselves. It seems essential to redouble the efforts to formulate and implement structural adjustment programs that raise domestic savings, enhance investment incentives, increase efficiency, and control inflation, since without them the prospects for restoring growth and raising living standards are limited. Even in the case of the highly indebted middle-income countries, the lasting benefits from debt reduction would depend largely on the country's adjustment policy measures.

Conclusion

In closing, let me comment on the matter of "creative tension" raised by the speaker from U.S. AID. There is no way that countries can escape the reality of the need to adjust. It is basically a question of whether the adjustment is going to be orderly in the context of a structural adjustment program supported by the international community, or whether it is going to be disorderly, as we have seen in a number of cases. It is not necessary to name the countries that have tried unsuccessfully to pursue a growth-oriented program without sufficiently reducing existing financial imbalances and reationalizing prices -- in the broadest sense -- to achieve efficiency gains. The speed of adjustment required will depend importantly on the resource availabilities, both those generated through domestic saving and through external resource transfers.

Our colleague from U.S. AID has indicated that from time to time the programs that the IMF has supported in one country or another have included limitations on the expansion of credit to the private sector which have impeded the implementation of certain U.S. AID-supported private sector projects. Generally, the programs supported by the Fund provide for the maximum possible expansion of credit to the private sector. To facilitate this, the authorities are encouraged to come up with a plan to strengthen the budget as much as possible so that the government will reduce the extent to which it is crowding out the private sector from credit.

Frequently, both by bolstering the fiscal accounts and developing a market for government debt obligations, the budget can at some stage provide net resources to the banking system that can be lent to the private sector. Measures to rehabilitate and rationalize the operations of public enterprises also may be key components of the programs, and these serve to help reinforce the fiscal accounts -- by reducing the need for budgetary subsidies to thse enterprises -- and/or to reduce the credit demands on the banking system of the public agences themslves.

Another element relates to the improvement in the structure and level of interest rates, which together with policies to reduce the rate of inflation, can strengthen people's willingness to hold financial assets generated by the banking system. If these policies are successful, then the prospects for a greater flow of credit to the private sector through the banking system will be improved. Thank you.

Raymond Zoukpo, African Development Bank and Fund. Thank you very much. I almost feel like speaking in French to make the conference look international as it is intended. The President of the African Development Bank would have been very pleased to take the floor in this conference, to speak on this timely subject of the African debt problem, were it not for a prior commitment he had made already. On his behalf, therefore, and on my own behalf, I would like to extend our greetings and congratulations to Dr. LeBel and his group for organizing this timely conference, for which we cannot but commend them highly. President N'diaye also asked me to convey his friendly greetings to the high personalities attending gthis conference and whose presence enhances the quality of this gathering and bears eloquent testimony to the importance of the subject of the conference and the particular importance which we attach to it.

The conference aims at making an objective and practical review of the major initiatives on African debt. Each of the preceding speakers has spoken with high competence on the subject and I wonder whether there is much to add. As the last speaker, I hope that I will not fall victim to repeating what has already been said. I will thus focus my intervention on some of the major debt initiatives which have been taken so far and try to assess their likely effects, in particular, the African Development Bank's own initiatives on debt. Before coming to that, let me briefly comment on Africa's economic performance in the past decade.

The Significance of Africa's Debt Burden

As you all know, the region's economic and social situation has seriously deteriorated in the past decade. Per capita incomes have continued to decline in spite of bold policy reforms taken in the majority of African countries, sometimes, we must admit, at high social costs. Poor performance in food and overall agricultural production has led not only to declining rural incomes, but also to malnutrition and famine in a number of African countries. The current account has continued to deteriorate over the years in spite of efforts to contain imports and to expand exports.

The inability to finance imports, as a result of a drastic fall in the region's export earnings, in the face of heavy debt service payments, is reflected in underutilization of

existing productive capacity which led to outright reduction in the supply of basic social services, including those for health and education. This was largely attributed both to the weakening of the ainternational prices of many primary commodities on which the region depends so heavily and to payments outflows associated with the servicing of the region's external debt.

Today, Africa's debt has risen to an estimated $230 billion. The amount is, admittedly, relatively small in absolute terms when compared to the debt of other individual countries such as in Latin America, but if we look at the debt burden of Africa in light of the region's low capacity to service its debt, we see that Africa's debt service burden is among the highest in the world today. The strains of meeting heavy debt service obligations have had a crippling effect on the majority of African countries, 22 of which are alredy classified by the World Bank as debt-distressed. Of a total of about 50 countries which had their debts rescheduled in the 1980's, over one-half were in Africa

The growing recognition by the international community that much of the accumulated debts may never be fully repaid through the traditional rescheduling approach has led to several initiatives aimed at providing debt relief. Indeed, as is now well established, the traditional rescheduling approach has succeeded in providing only temporary debt relief and contributed to increases in the stock of outstanding debt and hence the debt service burden. This in turn has continued to impair the creditworthiness of individual African countries as well as contributed to a considerable reduction in the net flow of resources for investment and other purposes.

The African Development Bank has been concerned with exploring new avenues for the resolution of Africa's external debt predicatment for some time now. This concern stemmed from the recognition that repeated reschedulings at the Paris and London Clubs have not brought about a fundamental improvement in the region's external position, particularly that of the "low-income debt distressed" and "middle-income heavily-indebted" countries of Africa.

It is equally recognized that conventional debt rescheduling exercises under the London and Paris Clubs have not allowed for longer-term economic planning in debtor countries and in the process has increased the outstanding debt as well as its interest costs. At the same time, far from generating new capital flows to the debtor countries, debt rescheduling has actually converted some of these nations into net exporters of capital, further reducing the funds available for the investment needed to foster sustained longer-term economic growth and an eventual elimination of the debt burden.

It is as a result of these factors and in recognition that the debt servicing difficulties of the African countries can not be alleviated through short-term rescheduling at commercial interest rates that ADB, the African Development Bank Group, the debt financing proposal was put forward. Dr. Ajayi has briefly touched on the proposal, but still I would like to refresh you on this and hopefully outline the proposal which we put forward in November 1987.

The African Development Bank Proposal for Managing African External Debt

The African Development Bank's debt proposal takes as a starting point that debt service payments must be both preditable and sustainable. For this proposal, a country's debt service obligations should be met on a sustained basis in line with the country's debt servicing capacity, with the outstanding debt stock eventually being fully repaid. For this reason, the Bank's proposal calls for annual debt service payments that do not exceed the debtor country's proven debt servicing capacity, i.e., what, on average, the country has been able to pay during the past five to ten years.

Specifically, the proposal calls for the conversion of the outstanding stock of debt into a long-term security of at least 20 years' maturity which would carry a fixed interest rate below market levels. This proposed arrangement would cover all the medium- and long-term outstanding debt, with the exception of multilateral debt and any other debt which had been contracted on terms and conditions more advantageous than under the proposed scheme. In return for the exclusion of their debt, multilateral finance institutions would be expected to maintain a positive net flow of resources into the debtor country. A redemption fund would be established into which annual payments would be made in amounts both sufficient and sustainable to redeem the outstanding stock of debt in full at the maturity date of the issue.

The existence of the redemption fund would work to convince creditors to accept below market interest rates in return for the guarantee that their debt would be repaid at maturity. A Board of Trustees, including representatives of the World Bank, IMF, ADB, the various categories of creditors, and the debtor country, would also be established to manage the redemption fund. The Board would also meet on a regular basis to review the economic performance of the debtor country on the basis of reports received from the IMF and the World Bank on the progress of any adjustment programs put in place in the debtor country.

The Board of Trustees could recommend adjustments in the contributions made to the redemption fund depending on the economic performance of the debtor country. The Board of Trusttes would also play an important role in examining the financial needs of the debtor countries and identifying ways of meeting them. In this way, the granting of needed debt relief would be linked to the provision of fresh money and, the current system of conditionality, as applied by the IMF and the World Bank when recommending new disbursements, would not be weakened.

To be attractive to various classes of creditors, the proposal embodies a number of flexible optional features. For instance, subscribers of higher rate coupon notes will have the option of receiving higher interest payments for those notes for which twice their nominal value in outstanding debts will have been cancelled. Similarly, holders of the securities would have the option of surrendering them in exchange for local currency for equity participation in existing or new ventures, or investments in environmental projects in the debtor country, or alternatively, in funds such as UNICEF's funds for child survival, etc. We believe that this proposal is comprehensive yet flexible enough to be adapted to particular circumstances and conditions of any individual African country, while basically treating all the categories of credits in a comparable way.

Along with the ADB debt refinancing proposal, many other initiatives have been put forward over the years aimed at tackling the debt service crisis of the 1980's. A large number of these initiatives have already been implemented while others are awaiting implementation. Yet the debt service continues in Africa. It is the purpose now to spell out the effects, if any, of some of the relevant initiatives in the African context may have had or are likely to have on the African debt, with particular reference to the poorest countries of Africa which we believe merit especially comprehensive and sympathetic treatment, as was made clear at the Venice summit. Some comparisons will also be made with the ADB's refinancing scheme, in particular, the Toronto initiative, the Bradley initiative, and some of the techniques which have been applied elsewhere which may be of relevance to Africa.

The Baker Plan

The underlying philosophy of the 1985 Baker Plan was that debtors, restricted to fifteen heavily indebted middle-income countries (including two Sub-Saharan African, namely, Côte d'Ivoire and Nigeria) would be able to grow out of their debt problems without the need for specific debt relief. This was to be achieved through a combination of market-oriented economic reforms and new lending to finance growth.

One of the major shortcomings of the Baker Plan was its failure to attract the support of commercial banks. The additional U.S. $20 billion projected to be provided by commercial banks over a three-year period under the Plan did not materialize. Although major creditor banks on occasion have extended new loans, the lending levels have been substantially below the Baker Plan's expectations. Limited in scope and applicability, the Baker Plan was not, however, intended as a solution for the problems of the poorest debt-distressed African countries.

Securitization, Exchange Offers, and Debt Conversion

Much has been made of the potential for harnessing developments in the international capital markets to the third world debt crisis. Schemes involving the conversion of the debts of both public and private sector entities into tradeable securities, exchanges of existing obligations for new securities with longer repayment terms, and the conversion of existing debt into equity in domestic companies have all been explored.

New types of capital raising techniques, involving the reduction of the risk for lenders by way of pledging the eventual repayment of the principal due on sales of commodities, or use of gold reserves (bullion stocks), or holding of highly rated securities, have also been developed. They involve new kinds of bond issues in which a portion of the proceeds is used to buy at a discount bonds or zero coupons which, at their maturity can be redeemed for the full amount oustanding. For instance, suppose the cash is not available for the purchase of, say, the bonds, the debtor country can pledge for future delivery of commodities (i.e., pledge repayments on sales of commodities), or use of gold reserves, i.e., bullion stocks. These techniques have been utilized mainly in Latin America with varying degrees of success. They have resulted in an estimated debt reduction of U.S.$25 billion (out of a total of approximately U.S.$400 billion) over the past three years.

In rescheduling agreements, bank creditors have been offered "exit bonds" and other capital market-related options as one means of dealing with the debt of developing countries and as a tool for the more active management of creditor portfolios. These and other similar mechanisms have been in use, in various forms, for many years now. While it is certain that they have made a contribution to relieving the debt burdens of some countries, their potential in the African context is likely to be less significant.

Important differences between the structure of Africa's debt and that of other regions suggest that such techniques, primarily applicable to commercial debt, will never make significant inroads into Africa's debt problem. The two major constraining features of

Africa's debt which lead to this conclusion are: the overwhelming predominance of multilateral and official creditor, or Paris Club, debt, and the serious foreign exchange shortages and payments difficulties in many African countries, which deter private sector initiatives. Nevertheless, some types of operations, such as commodity-related financings and debt-to-equity conversions, may be able to bring some benefit to the region. In fact, debt conversion programs have so far taken off in only two African countries (Nigeria and Zambia), and not very much can be said of their performance thus far. Dr. Ajayi may wish to elaborate more on this issue.

Since Africa's external debt is mainly owed to creditor governments and multilateral agencies, the flexibility with which such debt can be treated is limited by Paris Club convention and other factors relating to the specific legal and budgetary circumstances of the countries concerned. Securitization and active portfolio management are not normally major concerns of official creditors. Neither can they generally make use of such techniques as debt-to-equity conversions and the like. Although in principle, the reverse might be expected, private creditors have often been more willing to write down the value of their debt than official creditors. Once such steps have been taken, the way will be paved for applying techniques involving capture of the discounts carried by much African sovereign debt in international secondary markets. Again, however, the relevance of such techniques to official debt is neglible.

In addition, debt buy-backs and various types of debt refinancings which involve enhanced security arrangements often involve a significant outlay of foreign exchange at the outset in order to capture the benefit in cash flow terms in future years. The current situation of many African countries is such that the resources needed to capitalize on such opportunities are not available and the prospect for their becoming available from external sources is uncertain.

The Morgan-Mexican Bond Exchange Offer

We will briefly comment on the Morgan-Mexican bond exchange offer which may be applicable to a few African countries and see what important differences there are between this and the African Development Bank's own proposal. The Morgan-Mexican bond exchange offer was launched in early 1988, whereby some official Mexican debt was converted into long-dated bonds, the principal of which was guaranteed by 20-year U.S. Treasury zero coupon bonds. This bond exchange was intended to enable Mexico to retire up to $10 billion in bank debt through the use of about $2 billion of the country's cash reserves to buy zero coupon bonds at a discount. The limited success of this scheme, under which approximately 1 percent of Mexico's total external debt was retired, resulted

in part from the fact that the security, i.e., the pledged U.S. Treasury bonds, applied only to the principal and not to the interest due on the new bonds.

Although the auction was not as successful as the Mexican government had hoped, several features of the transaction were most encouraging, and closely parallel the African Development Bank's own initiative. There were, however, three important differences with the ADB proposal:

a. A substantial cash outlay was required immediately in order to purchase the special issue of zero coupon U.S. Treasury notes which secure final repayment. There are very few African countries which would be in a position to make such an outlay and therefore to purchase a similar type of security. This is why the ADB proposal therefore called for annual payments into a redemption fund which would provide the means for retiring the new bond to be issued.

b. Second, the Mexican proposal called for bank creditors to exchange their existing loans at a discount. Many complications arise from banks in different jurisdictions when called upon to recognize discounts on the book value of their assets. This constrained many banks from tendering in the auction. It was for this reason that the ADB proposal avoided such a requirement. Instead, it was proposed that the new instruments to be issued should carry substantially below market interest rates. The cash flow effect for both debtor and creditor of these two alternatives can of course be identical, and the ADB plan provided for such an option to be offered to commercial creditors.

c. Third, the Mexican proposal was directed solely at commercial bank creditors. The substantial investment of reserves in the purchase of collateral for the benefit of one group of creditors seemed inequitable to many at the time. The ADB plan had proposed that all creditors should be offered the opportunity of participation in any plan on equivalent terms.

The Mexican exchange offer represented a significant change of attitude on the part of the U.S. government to debt refinancing schemes involving an element of write-off or sub-market terms, at least for private creditors. To this extent, the proposal was helpful in advancing creditors' attitudes towards comprehensive refinancing proposals in Africa. It should be recognized, however, that because of the particular structure of Africa's debt,

the transaction which was done in Mexico's case was not feasible for the majority of the African Develoment Bank's regional member countries.

The Toronto Summit Declaration - the Menu Approach

At the close of the Toronto G-7 Summit meeting in June 1988, a new initiative was announced to resolve the debt problems of the poorest developing countries. The proposals relied heavily on the statement made by President Mitterand before the Summit, proposing three alternative approaches or techniques which the creditors could adopt to provide debt relief to qualifying countries.

The Secretariat of the Paris Club was asked to devise a method under which rescheduling terms proposed by different countries could be compared with each other in order to demonstrate that each of the creditor countries concerned was taking a fair share of the burden of debt relief, within the framework set out below. It was agreed that details of the Toronto Summit Declaration would be worked out by the Paris Club in rescheduling negotiations with individual eligible countries.

The Toronto Declaration differentiated between middle income countries and the poorest debtor countries, noting that with respect to middle income debtors, "the market-oriented, growth-led strategy based on the case-by-case approach remains the only viable approach for overcoming their external debt problems". At Toronto, there was also a welcome call for "innovative financing techniques" and the "menu approach" to solving financial problems. This appears to have been the beginning of offical recognition that conventional rescheduling for certain highly indebted countries is not a viable solution, and that the debt crisis will be resolved only on a case-by-case basis involving a variety of methods.

No clear definition exists of a country's eligibility for Toronto terms. Criteria considered by the Paris Club include: countries with a per capita income of under $500; countries with high indebtedness (undefined), and under IMF adjustment programs; and those recognized as having made determined efforts to implement former rescheduling agreements.

Since late 1988, eight African countries - Central African Republic, Equatorial Guinea, Madagascar, Mali, Niger, Senegal, Tanzania, and Uganda - have rescheduled a proportion of their debt in accordance with the guidelines set out in the Toronto Declaration. These reschedulings have generally consolidated 12 months of principal and interest payments, although there have been exceptions extending to 24 months. In the

case of non-ODA credits, creditor countries have had the choice of one or a combination of the following specific options, namely:

a. Writing off one-third of the debt service obligations due during the consolidation period and spreading payments on the remainder over 14 years with an 8-year grace period;

b. Consolidating obligations at market interest rates over 25 years with a 14-year grace period; and

c. Consolidating debt at preferential rates (i.e., halving commercial interest rates or reducing them; by 350 basis points, at the option of the lender) over the same repayment period as in the first option.

Details on the options favored by creditor countries in these particular cases have not been disclosed. It is known, however, that the United States, because of legal difficulties with extending debt forgiveness, supports the option of extending repayments to 25 years, while preserving a market interest rate. By contrast, the United Kingdom and the Netherlands are among those, believed to be in the majority, favoring a reduction of interest rates as the way to enable the debtor nations to begin to reduce principal outstanding while avoiding the dangerous precedent of forgiveness. My colleague, Mr. Underwood, has already noted that France is known to prefer the option of writing off part of the debt service, both ODA and non-ODA. Sweden and Japan are known to favor a combination of options.

Beyond the Toronto Summit

While there is no doubt that the Toronto Summit marked a major advance in the attitude of creditor governments to the question of rescheduling the external debt of the poorest, most heavily indebted African countries, and the options proposed constitute an improvement on the traditional solutions of the Paris Club, there remain important shortcomings in the approach.

First, the amounts to which the options can be applied are very small, such that the relief in terms of reduced future debt service cannot be significant. For example, the application of the Toronto proposal would, as suggested by our own estimates, allow of Madagascar's debt service from its contractual level of about SDR 120 million to between SDR 80.5 to 99.3 million, depending on the auction taken. This clearly above the SDR 43.7 million Madagascar was able to pay on average on an annual basis for the past few

years. This is clearly inadequate and would in very short order require a rescheduling, which would bring us back to the beginning.

As another illustration, of the five countries which have benefitted from the menu approach in 1988, it is estimated that the interest payment saving reached $15 million, or about 20 percent of what they would have been, if the debt had been rescheduled according to the previous Paris Club terms. It is estimated that only 4 percent of the total combined debt of the eight countries who have so far been beneficiaries was rescheduled on the Toronto terms. Secondly, the rescheduling terms proposed have not varied according to the particular circumstances of each debtor country. The type of debt relief extended under the Toronto declaration equally aplies to all beneficiary countries. Thirdly, the Toronto options deal only with one consolidation period, so that the process will inevitably need to be repeated.

Ultimately, an examination of the arithmetic governing the application of the three alternatives mentioned above to the external debt of specific African countries demonstrates that such an application would not provide a basis on which the poorest debtor countries of the region would be able to resolve their debt problems effectively. In the case of several of the ADB's regional member countries, the debt service which would be required after the application of those alternatives is two or three times higher than the cash payments these countries have been able to make in recent years.

In short, while the Toronto Summit Declaration certainly should be recognized as an important step forward, it does not meet the essential conditions of a lasting solution to the debt service problem of the African countries, as advocated in the ADB debt proposal. In particular, this relates to the requirements that:

- each debtor country should be faced with debt service payments which it can be reasonably expected to meet;

- the continued accumulation of capitalized interest without significant net inflows of funds must be arrested; and

- debt not cancelled should eventually be repaid.

The Miyazawa Plan

The Miyazawa Plan to reduce the debt burden of the developing countries was unveiled at the 1988 IMF/World Bank meetings in Berlin, and directed at reducing commercial

indebtedness. As such, like the Baker Plan, it has limited applicability to African countries, most of whose debt is owed to governmental and multilateral institutions

The Plan was based on a combination of securitization and rescheduling of a part of the outstanding debt. However, as a result of strong objections from the U.S. government, specifically with regard to the proposed funding involvement of the multilateral institutions, there was little further development of specific details. It is heartening to note, however, that several elements of the Miyazawa Plan were subsequently incorporated in the proposals announced by U.S. Treasury Secretary.Brady. This would imply that as the creditor countries come to terms with the intractability of the debt crisis, they may become more willing to contemplate and ultimately implement policies which at earlier stages would have been viewed as too radical, and therefore not feasible.

The Brady Plan

The Plan unveiled by Secretary Brady in March 1989 focused new attention on voluntary debt reduction and lower debt service payments as a means of providing immediate financing for indebted countries. The Plan also focused on the need for the multilateral institutions to commit greater financial resources to supporting debt restructuring exercises in these countries.

The initiative marked a fundamental change of strategy to one which emphasized the need for reduction of debt rather than the continued accumulation of new debt to service old debt. It constituted an important step forward in the U.S. Government's approach towards the debt crisis, in that, by implication, it entailed a clear recognition that certain highly indebted countries would never be able to repay their debt obligations.

Thirty-nine countries have been identified as likely candidates for the Plan. Debtor countries would approach the IMF and World Bank to agree on programs under which they would be able to borrow funds from both institutions within normal quotas. Twenty-five percent of these funds would be earmarked for use in the reduction of the principal of outstanding debts due to commercial banks. Funds would also be available from the World Bank and IMF for use in the arrangement of "guarantees" under which sub-market interest rates would be agreed between debtor governments and their commercial bank creditors. The IMF and World Bank would have to agree that both the level of discount agreed between the debtor country and creditor banks for reductions of principal as well as the interest rates agreed for the newly restructured debts are acceptable.

The direct relevance of the Brady Plan to indebted African countries, however, is probably limited. The Brady Plan seems to be addressed entirely to commercial bank debt and therefore, by implication, principally to the large Latin American debtors. Since the major part of African debt is owed to creditor government and multilateral institutions, African countries are unliikely, therefore, to benefit to a great extent from this Plan, except for a few countries, such as Nigeria, Côte d'Ivoire, Senegal and Gabon, for whom the proportion of commercial debt is sizeable.

In some respects, the Brady Plan reinforces the view held by some official creditors that the Toronto Summit proposals were sufficient to deal with the African debt problem. At least for the time being, the possibility of seeking equivalent debt reduction from Paris Club creditors, should such an agreement be applied to any African country's commercial bank debt, has to be ruled out. Such incomparable treatment will in effect undermine the potential of the Plan, making it unmarketable. As is suggested inthe ADB proposal, equal treatment for all creditors must be a logical and necessary prerequisite of any comprehensive debt initiative. Furthermore, we believe that the refinancing of official debt, which constitutes a substantial portion of the external debt of most African countries, should also be reviewed closely, and would suggest that it should either be refinanced at particularly generous levels or converted into grants as is being done by a number of creditor governments.

Conclusion

While the various initiatives, and in particular those of the Toronto Summit, are encouraging, the proposals currently envisaged do not go far enough in finding an enduring solution to the problem of African external debt, particularly that of the poorest countries.

The Toronto terms are a step in the right direction, although they go only a very short way towards providing an enduring solution. They may be seen in the future to have been the first time that official creditors have ever accepted the principle of debt reduction.

Still, the best example of genuine debt reduction is the restructured Nigerian promissory notes where some U.S.$5 billion of unpaid trade credits have been turned into securities on which an annual payment of 8 percent is made over twenty years. This 8 percent is, of course, exactly in line with the African Development Bank proposal with the exception that the amount which would have been paid into the redemption fund is in this case paid annually to the holder of the security.

The Brady Plan could be extremely attractive and should lead to genuine debt reduction. It seems, however, that a debtor country would want to finance only purchases of existing debt out of a multilateral loan if the discount at which the debt is bought is very large indeed. Otherwise, a debtor country may find itself with a more intractable debt in place of a reschedulable debt. On the other hand, using the support of the IMF or the World Bank in order to underpin a new issue of securities at a concessional interest rate would have the very attractive result that debt service is genuinely reduced and no actual new debt is put in its place. The major drawback of the Brady Initiative is that it is restricted to commercial bank debt. A parallel proposal for Paris Club creditors must be accepted by the G-7 countries if they really expect commercial banks to agree to debt reduction.

We think that the African Development Bank's proposal has a great deal to offer to this debate. It is conspicuously in the interests of creditors and debtors alike that continued dialogue should be pursued concerning practical and durable solutions to Africa's debt problem. The solution will have to be comprehensive and far-reaching, particularly for those Sub-Saharan African countries experiencing severe debt servicing difficulties and continuing low rates of real economic growth. The financial position of many African countries has now deteriorated to the extent that continued short and medium-term arrangements can no longer work. Indeed, they will exacerbate the problem.

What is required now is nothing less than a radical reversal of the effects of the last decade of rescheduling experience. It is clear that the burden will need to be shared out equally among debtors and creditors alike. In many African countries, far-reaching adjustment efforts are being implemented, often at substantial social costs.

It is now time for the creditors to face up to the hard facts underlying the crisis, namely, that costs must be reduced to affordable levels based on low interest rates over long periods and accompanied by concessinal funding in the context of multilateral adjustment programs. This is not a plea for charity. We have to realize that the world economies are in the process of growing interdependence and if it doesn't go well in Africa, we know that the results will affect the outlook in the developed world. Thus we have to view this problem in a global context and not just Africa's problem because it has implications for the world economy. The challenge ahead is how to reverse the region's persistently declining per capita income and deteriorating socio-economic conditions together with effective and lasting debt relief measures. Thank you very much.

Discussion

E.A. Ajayi, Central Bank of Nigeria. I am in full agreement with the remarks of the other panelists. What the panelists have been saying appears to me to mutually reinforcing. What is particularly important is what the IMF delegate has said, i.e. that so far in African countries not much can be shown for past borrowings. The significance of debt is for future debt service carrying capacity. The problem is not the same in Latin America, where there is visible evidence of the effect of past borrowings. The problem makes the situation extremely difficult for African countries.

Second it appears that there has been insufficient appreciation of Africa's debt burden. The danger here lies in the fact that Africa's total debt burden is not large enough to make creditors believe that it can have adverse repercussions for the international financial system as compared with the Latin American debt. This has definitely not worked to Africa's advantage.

John Underwood, The World Bank. With regard to the Toronto initiative, Mr. Zoukpo mentioned the problem that the cash flow relief is not very great. That is true because most of this debt would have been rescheduled anyway. The only real difference in terms of cash flow is the lower interest on the rescheduled debt, the three and one-half percentage point reduction in interest rates, or the one-third reduction in principal. The latter would result in lower interest payments because the interest rate is applied to a lower level of principal. Also, the Toronto terms have only applied so far to the claims of countries that take part in the Paris Club negotiations. There are other official bilateral creditors out there such as centrally planned economies and Middle Eastern countries that are major creditors to African countries. We must see whether these creditors go along with the Toronto proposals. If they do, the cash flow benefits could increase somewhat.

In each case, you have to look at concessional rescheduling in the context of the overall financing package. If grant aid is increasing to these countries, then the combination of the two is what really matters. It doesn't matter whether you reduce debt service payments or give increased grant aid. Some of the Toronto initiative countries may be transferring money from the aid budget to the export credit agencies to offset the forgiveness. That obviously reduces net benefits to zero. This is an issue in the United States, because if the new proposal goes to forgive interest or principal on debt goes forward, it matters whether this forgiveness comes out of the AID budget or is additional.

With respect to the Brady proposal for Africa, some of the African countries are highly indebted middle income countries who may benefit from the proposal. On the original list of Brady countries there were approximately 10 African countries, several which are low income African countries. It is true that they do not have substantial commercial bank debt. Yet a program where concessional funds, perhaps from bilateral donors or from multilateral sources, were used to finance something like buy-backs, could be beneficial. While commercial bank debt may be marginal in these countries, cleaning up debt that has been in arrears for a long time does have benefits in terms of restoring normal creditor-debtor relations and in giving countries access to trade credit on reasonable terms. This is something that might be looked into in the context of the Brady initiative in Africa.

The African Development Bank proposal certainly has very nice features. The problem is that, in the Brady initiative, what we have is voluntary market-based debt reduction. It is hard to see creditors going voluntarily into the African Development Bank plan. If some creditors who could benefit stay out, the proposal could have a free rider problem. Because the country suddenly has a better debt-servicing capacity, it is better able to pay the free riders. Unless you do something about this, the whole program can not be initiated because the free rider problem blocks an agreement. So whereas it sounds very commendable and may be something that ought to be seriously considered, it requires a different political consensus among the major developed countries in order to go forward.

Warren Weinstein, U.S. Agency for International Development. Following up on the ADB proposal, we have heard from some of the commercial banks that there is the additional problem of risk. With the redemption fund, banks wonder about the assuredness that the monies would actually go in. One needs to ask whether the banks would willingly exchange one set of high risk obligations for a potentially equally risky alternative.

In summing up, I would join what Dr. Ajayi said. Most of the comments here are convergent. What it shows is the tremendous coordination on the debt issue. Perhaps one point that did not get enough emphasis is the need for the African governments themselves to start taking steps to get investment going by their own people as well as getting foreign investment coming. A lot of people can not remain under an illusion that commercial money is going to flow back into Africa until there is some security with respect to the market and how that market is going to operate. You can play around with the debt and try to reduce it, but to play with it to get investment going again, debt

management must be coupled with other complementary effective development strategies.

Richard Williams, International Monetary Fund. One question that eventually should be addressed in the initiatives that are taking shape is how to develop debt-reduction schemes for commercial debt in the low-income countries, including those in Africa. There are systemic arguments that apply to the concentrated range of highly indebted middle- income countries for whom initiatives vis-a-vis commercial banks are mainly going forward at this time. Nevertheless, in some African countries -- Mozambique, for example -- debt to commercial banks may account for 25 percent of scheduled debt service payments even though such debt accounts for 10 percent or less of total debt. This debt may be selling on the secondary market at a discount of 90 percent or more. The opportunity to see whether this debt service burden can be reduced, through mulitalteral agencies or through mobilizing concessional resources directly from bilateral donors, is not being overlooked.

The international community also has to become aware of the need to avoid defining too narrowly the concept of a debt problem in formualting solutions. In particular, a country that has chosen to keep current on its external obligations, perhaps at a high cost in terms of economic growth, is also burdened by the debt and could benefit directly from additional resources in one form or another to support additional domestic investment.

Raymond Zoukpo, African Development Bank. Basically I agree with the comments made by my colleagues here, except that I think that there are a number of misunderstandings. First of all, as an African and as a professional economist, I believe that there is no doubt that investment programs or policies are necessary in Africa, whether they are from the IMF, the World Bank, the ADB, or from the African countries themselves - there is a need to adjust. There is no problem at all with this notion.

On the Brady proposal, I did not say that we should reject this. What I have said is that we have to be comprehensive in this because I personally believe that we can link some of the elements of our proposal with the Brady initiative so that if you address only part of the problem, you risk going back to where you started. What I am saying is that if we address the commercial bank debt problem, then unless we do this together with Paris Club similar treatment, then we may not make significant progress. We have to treat both commercial debt and official debt to see within the context of a comprehensive package we can revitalize economic growth in Africa once again.

Kalfala Kallon, Gettysburg College. There is no professional economist who disagrees with the fact that there has to be some adjustment. Short-run palliative policies do not have long-run positive consequences. Given all of these things, how can the IMF justify its policies based on the monetarist approach and control of exchange rates, all of which are essentially short-run measures? Is it also not a fact that IMF has not had much success? Are there any success stories which can be cited, and is there anything new which the IMF can propose?

Richard Williams, International Monetary Fund. I have just returned from Mauritius, a country that worked with the IMF very closely in the mid-1980's with adjustment programs supported by several consecutive stand-by arrangements. The authorities implemented a set of policies that combined restraint on domestic demand with many elements that could be termed "structural" in the context of the establishment of greater incentives for savings and investment and promotion of industrial exports. These policies were fundamental to the growth process and promoted technological innovation and the application to human capital in the production process. They were supported by reform in the financial structure and the external trade and payments system.

It is true that in earlier years, the IMF was dealing more frequently with payments problems that emerged during commodity cycles, for example. Since that time, there has been a significant evolution in the programs supported by the Fund in the developing world, particularly if one looks today at typical programs under the structural adjustment facility and the enhanced structural adjustment facility. These comprise structural reform elements with some demand management and strengthening of financial incentives.

Adaptations in exchange rate and interest rate policies, and pricing policies more broadly, are key components of growth-oriented adjustment programs. These policies, sometimes incorrectly termed short-term measures, can have a profound, long-term impact on the economy. Such efficiency and resource mobilization measures were, of course, applied by countries such as Mauritius long before the Structural Adjustment Facility and Enhanced Structural Adjustment Facility were developed.

There is a direct link between the framework of these programs and the possibilities for enhancing growth. I have seen this in countries as diverse as Nepal, Korea, and others. In sum, if the incentives are there, there will be a response, and the growth process will be enhanced.

Daniel Akerejah, Institute of International Education. Have you given any thought to conversion of some of the official debt of these countries to grants for educational projects, or exchanges with respect to these countries.

Warren Weinstein, U.S. Agency for International Development. Actually, we have an initiative that was launched last year, called "debt for development" under which any of the non-profit organizations, including educational institutions that receive grants from AID, are able, if they can reach agreement with the host country, to go on the secondary market and rather than do a straight dollar exchange, go through debt conversion. In this case, what we are allowing is, if you will, taking some of our dollars, and allowing them to be used for debt conversion, thus pulling down some of the commercial debt, as was mentioned by some of the other speakers. This is then transformed into local currency that could be used to help with some of these programs and perhaps do more than you could do with a straight exchange rate. What comes out is an enhanced exchange rate, if you will, and one that allows some of these activities to go further.

There has been considerable movement on the debt-for-development initiative in Latin America. There is one effort currently under consideration, which will be a debt for nature swap in Africa, with another one under consideration which would be to actually assist with the costs of some of the agricultural research training. I think these are moving along well, but their success is going to depend on arrangements being worked out between the countries, the entity trying to do the program, and AID agreement.

With respect to AID using our own debt in a swap arrangement, I do not think any of the Paris Club countries has been prepared to agree to this. We are looking at this option with section 572, where there could be a local currency consequence, even though we do not think that it would be substantial. If local currency were so obtained, then we are talking about whether or not we might allow that local currency to be used in the way you have mentioned. What we do have in debt forgiveness is interesting, and no has talked about it very much, but it has been in existence for a long time, and it is with our food aid, Title I.

There is in Title I another aspect called Title III. Under Title III, if the government agrees on a range of development activities additional to what would otherwise occur, to the extent that local currency is committed and used for those activities, a concomitant part of the dollars that are owed will be forgiven. In other words, there is a way of pulling down the dollar debt that is incurred for the food aid initially and that is when you get the

food aid through expenditures of local currency for development projects. So in that sense, it has been going on for a number of years.

Getting that expanded hasn't happened, and as I have said, there are very few Title III programs in existence. Sudan, Bolivia, and perhaps one other in Africa are the only ones that I have heard of.

Nancy Northrup, Federal Reserve Bank of New York. I have a philosophical question. Although I think we could all generally agree, I wonder whether countries that have managed to avoid rescheduling ought not to be acknowledged in some way for their efforts, e.g., Kenya.

John Underwood, The World Bank. On those grounds official donors made Kenya eligible for the World Bank's Special Program of Assistance, even though it has not rescheduled. A high debt level is a sufficient criterion for eligibility. In that way, I think we are trying to reward a country that has made every effort to meet its debt servicing schedule.

Warren Weinstein, U.S. Agency for International Development. Under section 572, it is about 102.3 million dollars in debt and Kenya is on the list of countries that would be eligible for section 572 participation.

George J. Clark, Citibank. Her question is if you have a lot of debt forgiveness for the bad performers, how do you reward those that are good one?

Warren Weinstein, U.S. Agency for International Development. A number of African countries come to us and say, "What happens to us if we are good performers, and why dont's you have programs for us?" It is an unfortunate fact of life that we are stuck with a situation where the debt issue has become a tremendous burden and could become a block to anything moving anywhere with tremendous human costs.

From the AID perspective we have decided on that basis that it is worthwhile to start addressing it, knowing that it is unfair if you have some good performers who are not going to benefit that much. On the other hand, we do have a number of good programs in the better-performing countries. What makes it even worse, perhaps, is for countries like Cote d'Ivoire or Nigeria they are getting very little assistance from because we have found that they have graduated and have a certain level of per capita income. If you will, poverty and problems are things that attract aid to a country. Doing well and not having

problems are things that tell us that it may not be necessary to go in as a donor and we leave that more to market forces.

Richard Williams, International Monetary Fund. The question is an important one and it also raises issues of "moral hazard." Part of the answer relates to the possibly temporary impact of the approach. Without an adjustment program consistent with achieving external viability with sustainable growth over the medium term, the impact of the debt relief may be very transitory.

Debt alleviation initiatives that have evolved are properly directed toward countries that are prepared to implement such programs. I would eschew any kind of suggestions that we have some kind of broad-scale across-the-board relief, with the only criterion being that you have gotten into a serious debt problem. I believe that the issue must be addressed on a country-by-country basis and associated with a very aggressive adjustment effort that can be seen by the other neighbors around. I would also stress that the debt strategy that has evolved is based on a cooperative approach.

Notwithstanding the clear need for and benefits of debt relief in individual cases, contractual obligations still should not be taken lightly. If they have to be modified, this should be done in an orderly way, within an agreed upon framework. Programs designed to attract flight capital and increased foreign investor interest, for example, can hardly be based on an adversarial relationship between the debtor and its important creditors.

John Underwood, The World Bank. This is what we call sometimes the "prodigal son" problem. It has been around for a long time. In economics, we always say, "forget about sunk costs." Sunk costs refer to the past and are not recoverable. Kenya, for all of its debt, has grown much faster than Zambia or Zaire. In the case of Latin America, countries have suffered from the debt problem for a decade, while for Africa the problem has been with us for more like two decades. What countries are being rewarded for now is not their past debt, but their adjustment efforts. We talked earlier about the debt overhang acting as a tax on adjustment. Debt overhang can make both the debtors and creditors worse off in the long term unless we address it now.

E.A. Ajayi, Central Bank of Nigeria. I find it a bit difficult to see how Kenya can gain much from the debt reduction strategy that has been proposed. First, I am not very sure that a country with the status of Kenya will be in a position where banks will be prepared to market its debt at considerable discounts. For debt reduction schemes to be meaningful to Kenya, there must be considerable discounts. The situation in Kenya is such that if

there is going to be any discount on its debt, it will be very small. If Kenya is going to embark on a buy-back scheme, then it will be at a very high price that may not make it worthwhile.

Warren Weinstein, U.S. Agency for International Development. With respect to the aid programs increasingly ours are going on a performance base. It is only countries that are reforming that are getting the lion's share of the resources. Others we put into category III, some of them being large countries and some of them being small ones, where the amount of resources coming from us dwindles to very little. The other point is what Dr. Ajayi said, namely, that some countries question and wonder what the cost is to them when they go into these kinds of programs and whether that further frightens away the potential for new money and investment. I think from their side you raised a very good point.

Yao Osei-Amoako, AT&T. My question is based on the IMF-World Bank lending criteria. There is a lack of hard currency earnings sufficient for the developing country to manage loans. Why is it that reform packages emphasize so strongly the devaluation of currency as part of reform packages when the export demand elasticities are so small?

Richard Williams, International Monetary Fund. Changes in relative prices -- whether in the price of financial capital, in the external value of the currency, or in basic commodity prices -- have to be seen as part of a reform package designed to improve incentives for savings and investment and for the direction of resources in an efficient manner. Frequently there is far too much pessimism about the long-term export response once policies to establish or re-establish external competitiveness are in place.

I am reminded, for example, that in the Republic of Korea during the early 1960's when there were few raw materials available to support industrial growth in the country, the single largest export was human hair for wigs, and total exports were only about U.S. $35 million. The export-led growth evidence in Korea has been, albeit on a smaller scale, present in a number of other countries as well, including Mauritius, for example.

Where there is initial dependence on one or two export commodities, as in the case of Mozambique with cashews and shrimp, the process of export diversification will take time. It will require complementary policies, and will benefit from an atmosphere conducive to entrepreneurship, as well as from the requisite financial incentives to strengthen the external trade sector. In turn, efficient import-substitution industry will be promoted.

There may be significant shorter-term export gains for existing exports as well. One example would be the increase in cocoa export volume in Ghana when producer prices were rationalized. This led to important gains in cocoa export earnings even in the face of a marked decline in export prices.

Finally, the rationalization of pricing policies will improve efficiency, and hence growth prospects, in the nontraded goods sectors as well. In other words, the policies that are conducitve to strengthening the traded goods sector will enhance efficiency throughout the economy and help to strengthen the external accounts and growth prospects, even in an intermediate period before new lines of export activities may have emerged. In short, experience has shown that if incentives are adequate, over time, where there is indigenous entrepreneurship, new lines of activity will develop, but they will only develop if those incentives are in place.

Paul Kadjo, Stockton State College. The IMF proposes monetary policy solutions to address the issue of commodity earnings problems. We all know that African life styles are based on sociological patterns. How can economic incentives be applied to sociological conditions?

Richard Williams, International Monetary Fund. I am somewhat concerned about the nature of the reference to a "monetary solution." If what is being termed a "monetary solution" is one in which financial incentives and rewards are bing put in place or strengthened, then there should be a positive economic response to such measures. The literature goes back several years with respect to such factors as backward-bending labor supply curves and other sociological factors in Africa that supposedly could undermine the applicability of such financial incentives.

My own experience in several developing countries in Africa, Asia, and Latin America -- with particular reference here to small farmers, for example -- is that the response to improved financial rewards is generally positive and predictable. One sees farmers in a range of developing countries shifting patterns of production from one crop to another in response to relative price changes, as they seek to achieve better standars of living. Indeed, if financial incentives are not relevant, then they are not relevant, but I have not yet encountered such a case. This may have been true for a period for farmers in some parts of Mozambique, for example, but only until it was possible to make consumer goods available on which farmers could spend their additional income.

Warren Weinstein, U.S. Agency for International Development. I also question the notion that Africa, or African socialism, doesn't lend itself to some of this because we are seeing more and more in many African countries, such as Senegal, where 80 percent of the economy is informal and in the informal economy there is a lot of sensitivity to what we are talking about. It does operate very well.

Where we find difficulty is with over-regulation on the part of the state and also if you get into exchange rates, where they start to falsify what you can bring in or not and very often you find that the informal economy is paying a tremendous tax because of protectionism and other things for its inputs, and also because of the overvalued exchange rate, which if any thing, is constraining the capability of the indigenous and traditional private African sector to move yet further. I would say that it is very sensitive to it and in fact very direclty related to it, more so than some people have thought in the past.

Leon Segal, United Nations Action for Africa The inference I draw from descriptions of the Brady plan and other plans for debt conversion leaves me with the conclusion that the whole African debt problem has been tucked away into a corner and is not yet getting the kind of attention that Latin American debt is getting. What do you think are the prospects for changing Congressional legislation to include a broader role and interpretation regarding African debt with more favorable options and secondly, what do you think about the prospects for broadening the Brady initiative to have a more direct relevance for Africa?

Warren Weinstein, U.S. Agency for International Development. I received a call yesterday indicating that Congress may be less inclined to provide for expanded debt reduction options than one was hoping. I think it is up to the general American public to lobby Congress to change its views or to become of a view to allow for more debt reduction. As I did say, there is something on the books, which allows for reduction already, i.e., section 572, and while there are some technicalities on the budget implications, but if that went through, in fact, for performing African countries, i.e., those undertaking structural adjustment, those benefitting from the structural adjustment facilities that are making the hard and difficult choices, we would be allowed to actually reduce if not forgive all debt.

In a sense, we are already there. The question is whether the budget implications can be worked out. If that were to happen, then in respect to the Brady proposal, it ought to be taken care of, at least from the public debt side, not necessarily from the commercial debt side. On the commercial debt side, we are working quite a bit on the voluntary

aspects of the menu, e.g., debt conversions, securitization, and the other side in which we are working is in essence to help African countries to build up an environment that will attract new investment and there I would have to go back to the moral hazard argument that was used. I do not think in AID we are in favor of outright forgiveness and outright write-downs of the debt. There has to be something for it that assures us and the marketplace that it is not just going to be business as usual and get right back into the same problem.

Afeanyi Achebe, Lehigh University. I am at a loss as to what to think of the issues raised this morning. Given that marketing in LDC's is so weak, maybe the World Bank, the IMF, or the ADB. Isn't it about time that we recognize that many of these problems are beyond man's ability to solve them? Is man able to solve these problems?

John Underwood, The World Bank. At least in the case of low income Africa, the flows are still to Africa and not coming back from Africa. They may be a little lower, but with increased aid and World Bank and IMF programs, they have actually been stepped up from earlier years. What would happen if all low income African countries quit paying? They might actually be worse off if aid flows were cut as a consequence.

Richard Williams, International Monetary Fund. Many countries had in place an array of essentially unsustainable policies such that there was no reasonable way that they could service their debt. Let us not treat the debt process as if it were a problem in and of itself.

Francis Fawundu, Baruch College, CUNY. I would like to know the role of the financial system in the debt crisis.

Richard Williams, International Monetary Fund. I gather from the question that the reference is to the possible role of private financial institutions that were providing funds to the developing countries in the evolution of the debt crisis. I have a personal view that I can share, but it is no more than an unsubstantiated hypothesis, consisting of three basic interrelated elements.

In my view, instability was built into the debt process. In the first place, a wide range of financial institutions were attracted temporarily into the business of large-scale cross-border balance of payments financing that had no significant longer-term interest in such activity. They thought they could withdraw when the time was convenient, e.g., when domestic loan demand picked up, or if the international lending environment became

uncertain. Many of these banks were not really capable of making their own credit assessments, but were following the lead of major international banks in the loan syndication process.

Second, it was a highly competitive environment in which even second and third-tier banks could easily obtain access to Eurocurrency deposits flowing in from oil surplus countries on a large scale in relation to their own assets and capital. Many banks, including some of the largest, tended to judge their exposure in relation to the market, i.e., in terms of market share, rather than in relation to their own capital.

Third, the limits on credit availability over time from the financial market could not have been clear to the economic managers in the developing countries. What was apparent to them was their ability to obtain large-scale balance of payments financing for several consecutive years. Even those banks that had the capability to assess the situation and prospects of the countries to whom they lent, and had clearly defined country exposure limits, often seemed little concerned that those exposure limits were being utilized at a rapid pace. There was a rush of financing avilable in the short term that simply could not be sustained as banks approached their internal lending limits. Moreover, the size of the lending limits within banks and in the aggregate, and the extent of their utilization, were not transparent to the markets.

I believe that these elements were probably an important part of the dynamics of the debt problem, the results of which we have been viewing in recent years. But, as we have noted, this is much the situation for the middle-income market borrowing countries, including some in Africa, than for most of the low-income countries in Sub-Saharan Africa.

Warren Weinstein, U.S. Agency for International Development. If by the question you are asking whether U.S. policy contributed to the debt crisis, I would have a difficult time in answering it because I am not sure what you have in mind. I think that U.S. policy has been, at least in terms of U.S. AID, that as debt in Africa at least, has become more difficult to service, to move to grant aid. We no longer give loans. You probably do have a point if you are talking about all of the donors, and the kinds of loans and projects that we were supporting together with African governments, again with the World Bank and others, based on assumptions before commodity prices fell and the inability to predict certain issues that arose with the crises and shocks produced by the oil crisis, i.e., the sudden rise in oil prices in the 1970's, along with the inability to predict the consequences of shifts in interest rates.

I am not sure how one could have predicted all of that. Probably we can be faulted for not having done so, and I think we could also be faulted for not having gone to policy based lending and programming earlier on instead of just closing our eyes to things and saying, well if the government wants this, we are doing "government-to-government" aid and we should do it. We are starting to learn that we should not just do "government-to-government" activities and maybe we shouldn't just go in and say that as long as the government wants to embark on a particular policy that it is appropriate to do so. In that sense, you are right. Everyone has been part of the problem and now the problem is how everyone gets to be part of the solution.

Henry Akintunde, New School for Social Research. Given that growth is constrained by the strangulating policies such as the level of debt service required, is it sufficient to postulate that Africa is going to remain in poverty or that Africa is in a state of equilibrium? African countries risk higher inflation if they devalue their currency, and they risk further penalties to already weak terms of trade if they embrace many of the standard policies of adjustment which are recommended by the major international financial institutions.

Richard Williams, International Monetary Fund. I am not aware of any systematic evidence that countries that have followed a different kind of a policy posture than the Fund staff would recommend -- in most of these cases the adjustment process has been delayed -- would yield a better outcome. In fact, the situation is quite the contrary.

Developments in the external terms of trade have, as suggested by the speaker, been unfavorable to Africa in recent years. In 1988, the terms of trade deteriorated again. However, it is also true that borrowed resources frequently were not utilized efficiently and that the maintenance of government expenditure, in particular government consumption, at levels based on the presumption of a return to higher export prices created circumstances in which the country's ability to service debt on schedule was seriously impaired. It is difficult to conceive of sustained growth in such cases that would not require a process of orderly adjustment, any more than one would imagine that adjustment policies that do not lead to growth could be sustained very long.

Gaby Fernandez, Liberia Mission to the United Nations. First of all, let me thank Dr. LeBel for taking this important initiative. I should like to thank the panelists for noting that Africa's problems go beyond the debt crisis and involve long-term development issues. Won't the public sector be weakend by the emphasis on fiscal restraint and

privatization and hence reduce some of the essential services that are important to economic growth? Second, won't conditionality as practiced by the IMF and U.S. AID stifle creativity in terms of the ability to innovate?

Richard Williams, International Monetary Fund. The question raised seems to be whether, since government expenditure is necessary to provide for social and economic infrastructure, it makes sense to slow growth of public sector activities in order to provide resources to the private sector. The question of rates of return -- social and economic -- has to be carefully determined by the authorities of the country. It is not that one is necessarily trying to scale down the size of the public sector as an objective in itself. The problem that is frequently faced is that the public sector is taking resources away from the private sector through inflation, a mechanism that can easily lead to damaging disincentives to savings and investment and a misallocation of resources across the board.

It is difficult to recall a country that has been successful in sustaining growth over a long period that did not find some way to bring the fiscal accounts close enough to balance that they could be financed in a relatively noniflationary manner. I might add that frequently the programs that the Fund is supporting in the lower-income countries are not calling initially for a significant reduction in the scale of government expenditure. Instead, they place emphasis on the quality of rational public expenditure, utilizing additional concessional resources from abroad where necessary to permit the continuation of priority expenditure, including social expenditure, until the domestic tax base is sufficiently strengthened to avoid excessive budgetary recourse to the domestic banking system. The trade-off is not between the public and private sectors, but between adequate growth incentives and inflation.

Warren Weinstein, U.S. Agency for International Development. First, as I said, the lion's share of resources which we are spending are going to those countries undertaking structural adjustment and policy reforms. There are funds going to other countries as well. However, we are sticking by this priority system, i.e., that development assistance should be performance based, particularly in that we do not have that much money to go around and those countries that are prepared to make some of the hard choices might achieve growth and should be so supported. Those that don't we have programs, as in your own case in Liberia, where support is going increasingly to non-profit organizations to ensure that items such as health, education, and social benefits are taken care of, but we are not going to put the lion's share where we find the policy environment is such that quite frankly we see no results for the money, we see situations deteriorating, and we

have a hard time justifying what we are doing to the Congress and to the American public in terms of their taxpayers' resources.

James Mugume, Uganda Mission to the United Nations. I notice some differences in perspectives among the panelists today. The IMF has pointed out that the terms of trade have developed unfavorably for Africa, and that debt has grown much more rapidly than in other parts of the world. On the other hand, the World Bank the debt service ratio, as bad as it appears, is characterized in a more positive, more manageable light. Do I detect some differences in assessment?

We all agree on the need for structural adjustment. We all agree that structural adjustment needs sufficient resources to succeed. We also realize that not every country can have the same package of structural adjustment. One month ago, African ministers of finance met in Addis Ababa and came out with what has been characterized as a more home-grown structural adjustment framework. African countries have come up with their own program. What is the international financial community prepared to do in support of the African-based structural adjustment initiative as outlined in the recent meeting of finance ministers in Addis Ababa? Second, given the inadequacies of the Brady initiative and given its limited potential for Africa, how do we move the process of debt management dialogue and strategy forward from here, e.g., the AID initiative?

John Underwood, The World Bank. On the terms of trade issue, it would probably take us a while to straighten that one out. The paper to which you are referring, namely the recent report prepared jointly by the World Bank and the UNDP, Africa's Adjustment and Growth in the 1990's, finds that the terms of trade for low income Africa have worsened. In terms of debt service, the burden is not simple to assess. We look at various measures. We do measure it after adjusting for arrears and reschedulings. Once so measured, the debt service ratios are actually lower than for highly indebted middle income countries.

While resource flows are positive to low income Africa, I am not saying that these resources are sufficient. We have made some assessments of the imports needed. One of the major aspects of the Special Program of Assistance and the IMF's Structural Adjustment Facility operations is a joint assessment of the external resources needed in support of adjustment and growth. In some countries programs are in place and the external resources are not there, even though the resource flows are positive to Africa. Thus, resource flows to Africa may have to become more positive while we are going through this difficult period of adjustment.

For some countries I think we are close to necessary levels, at least in terms of current flows because the Special Program of Assistance has been successful in mobilizing a lot of bilateral resources. We think these resources are being used more efficiently because of the adjustment program. As to a cooperative effort on a strategy for structural adjustment, I hope that will come about. Officials from various U.N. agencies and the African Development Bank are already scheduled to meet to try to work things out. We are thus working cooperatively on this issue instead of at cross-purposes.

Keynote Address

George J. Clark, Citibank. Dean Desai and Phillip, I am sure you would all rather have your lunch than me. First of all, I would like to take my prerogative here and make a comment about this morning's session. I thought the morning was really very good. Phillip, I think the role that your group plays in putting together something like this was beautifully demonstrated. The air in the room was electric and I don't think there was anybody there who wasn't wanting to participate more actively in the debate. So it was a very good and very interesting session.

From my point of view, I thought that there was one thing that was quite distorted in the morning session and I would like to inflict on you my differing point of view. There was to my mind an excessive amount of talk about how heavy the ratios were, that it would take five years of exports to work off the debt, the feeling of how impossible the problem is to deal with. I am going to try to offer some positive, more upbeat ways of getting at it, I hope.

In the light of the way the meeting went this morning, I wanted to make one point. You know, you have a debt problem if you have a current account deficit. Even if you have a rather small debt outstanding, you are going to have trouble servicing that debt if you have a current account deficit because you are not going to be earning the foreign exchange to service that debt. John Underwood got at this in an interesting way in response to one of the questions. He went to his director and the director said, "Well there really isn't very much debt outstanding, but you've still got a problem in servicing it". Well, that was because that particular country wasn't earning enough foreign exchange.

The problem is that African economies don't earn enough foreign exchange. African countries, almost all of them, have overvalued exchange rates, which makes it difficult to be an exporter. An overvalued exchange rate subsidizes imports, and it encourages capital flight. For quite some time, African countries have had unrealistically low

domestic interest rates. If you are a saver, in most of these countries it pays you to put your money with Citibank London. We don't want that money in London. We want that money in Africa. But the domestic policymakers have chosen to subsidize capital flight through these measures.

Secondly, African countries typically have too much inflation. The public sectors are in deficit. The investment process is distorted. You could easily imagine where we would have a 50 percent reduction in the debt and you would still have as much difficulty servicing it because you haven't gotten at the fundamental issue. I can easily imagine a meeting 5 years ago where the local policymakers come back and say, "We've cut the deficit in half but we find we still can't service it." We have got to get at those fundamental issues. Africans have got to get their economies re-oriented so they generate current account surpluses.

The good news in this story is that if Africans are successful in generating current account surpluses, they will also get economic growth. The debt-growth issue is often presented as a conflict, i.e., either you service your debt or you have economic growth. That is not the way that it should be, nor the way it can be. If African countries will focus on their export sectors and on earning foreign exchange, they will find it easier to service their debt and they will also get economic growth. The two go together. Unfortunately, we did not have enough discussion on those points this morning. The whole thing was on the debt side. Phillip, I propose that the theme for next year's conference be "What Can Africans Do To get Their Economies Moving Again", and I think we will find that this will provide a lot of relief on the debt issue.

My job is more or less to cruise around the world and find out what is going on in international matters, similar to what we did this morning. What I am finding around the world is that the big thing that is "in" today is export-led growth. It is not surprising that this should be the case. We had Japan in the immediate postwar period, and then we have the Koreas and the Taiwans, the Hong Kongs and more recently, Turkey, Brazil, even Mexico since 1982 have been following export-led growth. The reason why they want that export-led growth is not to earn the foreign exchange to service the debt, which is what I would be interested in, but because they have learned that that is the way you achieve economic growth.

With that context of export-led growth, I want to tell you about a conversation I had recently. I was in an African capital, and was having lunch with the minister of finance, a very sharp fellow, and the other fellow at the luncheon was the governor of the central

bank. The minister and I were there on time and we were waiting and waiting for the governor. Finally, 30 to 40 minutes late the governor did come, we started our luncheon and by now the minister was rather annoyed that we had been held up this way. He turned to the governor and said, "What in the world held you up?" The governor said, "I was reviewing export licences". The minister said, "You mean in today's world we still require our exporters to obtain export licences when they ought to be out exporting?" The governor said, "Oh no, we look at all of our commodities to see if we should export them." Well, said the minister, "I am sorry to hear that, but at least I trust that you approved all of these export licences." The governor said, "Oh no, mister minister, we turned them all down."

Now this is a reminder that there is in Africa this streak of sort of self-sufficiency. I guess it was probably good in the beginning as Africans wanted to stand their economies on their own feet, but in terms of economic development, it is an absolutely awful approach. First of all, there is no way that a country can be reasonably self-sufficient in all of the items that they need to consume. They just don't have the efficiencies. They don't have the comparative advantage, and you are sure to get into a lot of inefficiencies if you follow the self-sufficiency type program.

The second danger is random events like drought. If you build a program in your country to be self sufficient in grains and all of a sudden you have drought, you have got a real problem. I think that even more deeply that kind of self-sufficiency idea reflects a lack of understanding of how the modern world works. The modern world works on the basis of efficiencies and you emphasize where your comparative advantages are and you hope that some of that will gnerate foreign exchange and then you use that foreign exchange to shop around the world to buy where the others are efficient. To my mind, at least, this is prima facie a better system, but we have to recognize that self-sufficiency is a popular item in Africa. Indeed, the recent meeting in Addis Ababa that was referred to this morning was very much in the spirit of self-sufficiency that has for so long characterized African economic policies and which in no small way have helped to exacerbate the conditions which we see today.

I do not know why, but I think that many African leaders suffer from an inferiority complex about exports. Maybe it is the old idea of "Well, what do we have that the world wants to buy?" You know, we have all been involved in programs. Richard Williams mentioned this morning the Koreans exporting hair in the early days. I can remember in 1964 we convinced the Brazilians that they needed an export-led program and they said, "The only thing we have is coffee." I looked five years later after the

program got started and I found as one of the significant export items, false teeth from Brazil. None of us was smart enough to know that Brazilians would export false teeth. I like that story because people remember false teeth. People will also remember the hair export story as well.

The fact is that if you get the right financial incentives, the economies will respond. The trouble will Africa is not that it does not have things that the world wants to buy. It is that we have never had a good system in Africa of financial incentives which will encourage the export sector. We do not have such a system to this day.

Phillip, I read your report of your last year's meeting, which was on agriculture. One of the fellows gave a very good talk in which he said that he had found that agricultural producers in Africa respond to price incentives and to financial incentives. What a revelation. We all know that people respond. We are all basically greedy. If we see a way to make a buck in a particular way, we will do it. In Africa they killed agriculture because the financial incentives were wrong. They are getting that a lot better now, as the new UNDP report points out.

Too many African countries still do not have adequate incentives for exports. The typical African country has an overvalued exchange rate, all kinds of restrictions on exports because they are still thinking to some extent about self-sufficiency. Until we get away from that, we will not have economic growth in Africa. We certainly will not have export-led economic growth, and we will have a debt problem regardless of how much debt forgiveness we agree to.

I want to read you a sentence from the recent report by the World Bank and the UNDP. This report says: "If African countries had simply maintained their 1970 market share of non-oil primary exports among developing countries, their export earnings would have been from U.S.$9 to $10 billion dollars a year higher in 1986 and 1987. This shortfall is similar in magnitude to the total debt service payments". Africa does not have a debt service payment problem. Africa has an export problem.

If Africa had simply maintained its market share they would have had enough earnings to service this debt which we have talked about this morning. Now that is sad from the point of view of a banker, because we are not getting paid on the debt. But it is much sadder for the African countries because that is the economic growth they deprive themselves of. They are the ones who deprive themselves of it by following these policies I have mentioned, which just don't encourage market share preservation and

create inordinate losses in income. That is a problem that only the Africans can solve. Debt relief is not going to solve that problem.

The other school of thought is the self-sufficiency model. The proponents of self-sufficiency have turned out to be the United Nations Commission for Africa which has its offices in Addis Ababa, Ethiopia. I feel strongly about this subject because for 20 years those of us who at that time were working in Latin America had to work with the Economic Commission for Latin America, in this case, ECLA. ECLA was run then by a fellow named Raoul Prebisch, a very dominant individual and his model was import-substitution self-sufficiency model. For 20 years Latin Americans followed that model at a time when they could have had much better economic growth. The import-substitution model ran its course and we are trying to get out of it and it is very difficult to do so. One of the sad things about that story was that Raoul Prebisch himself in his later years saw that the ideas of self-sufficiency and import substitution had hurt Latin America and he said so publicly, but in the meantime we had had 20 years of damage done to those economies.

Now we have the adverse consequences of import-substitution self-sufficiency showing up in Africa. I am naturally very agitated and very concerned about it. This is really bad stuff. Let me read to you what this report says. "The attainment of food self-sufficiency is the very first goal toward which Africa should strive." I would have thought that economic growth is the number one goal toward which Africans should have striven. To quote further, "It is in the nature of things that Africa's viability resides above all in its ability to feed its own people." You know, that is an idea that passed out of the literature 30 years ago, but here we have it just off the press. "It is therefore important to assure a realignment of the consumption patterns with the productive capabilities of the country." They want the African consumer to align his consumption according to what the African economy can produce. "If we do not do this, Africa will find itself in this humiliating situation of food dependence."

As you know, a delegation from the Economic Commission for Africa led by Mr. Adedeji will be meeting tomorrow with officials from the IMF and World Bank. Mr. Barner Conable, the president of the World Bank has appropriately seen it fit to be concerned about this. Mr. Camdessus of the IMF will be there, as will Bill Draper and Arthur Brown of the UNDP, along with Mr. Babacar N'diaye, president of the African Development Bank. I hope that they hit this thing hard. I was a little worried when at a meeting in Blantyre before the Addis Ababa meeting and I read the minutes and everybody seems to feel that this is something one needs to treat sort of politely, but this

can be disastrous for Africa. I certainly hope that we can get things back on a growth oriented track.

We have in the IMF and in the World Bank really valuable structural adjustment programs. The Addis Ababa report is an effort to discredit those programs. I worry about it especially for two reasons. One is the foreign investor. Reading this stuff, he is going to say that he does not want anything to do with Africa. The second thing I worry about is that we have a lot of leaders in Africa who are on the verge of taking some really good decisions for their economies on the basis of structural adjustment and then they read this other point of view, which says "structural adjustment is bad for Africa". They are just looking for some reason for not taking the measures they are being urged to take and this may lead to further postponements in implementation of the structural adjustment programs.

By way of conclusion I would say that 40 years of experience in economic development that we have had shows that reducing the public sector deficits, appropriate foreign exchange policies that encourage competitive export expansion, reductions in inflation, realistic interest rates, and market forces are what we need for economic development in these countries today. Those are concepts that you will not find anywhere in the Addis Ababa report. There is not a mention about market forces in here. These are important for economic development not because the IMF or the World Bank says so, but because the private sector and the investors says that that is what we want and only if it happens will we put our money in these countries. Thank you very much.

James Mugume, Uganda Mission to the United Nations. Let me first of all thank Mr. Clark for his remarks. I think the points he raised were very important, very true, namely, that we need to have export-led growth, that protectionism is not the way to go and that there is a need for structural adjustment programs. Having said that, I would like to start off at where I ended in the morning, namely, "Where do we go from here?".

I have seen in Africa that these structural adjustment programs are not working. Everybody knows it and I think that the reports from the IMF and the World Bank admit that the period is longer than anticipated, and that there have been problems with sequencing. At the same time, we must realize that Africa has to produce, has to export and has to aggressively promote market share. In other words, it has to get out of reliance on simple commodities. But we have to go beyond that point.

What I would like to do is to advance the debate. In looking at whether the IMF programs are good or bad or whether the ECA proposals are good or bad, I think the debate is joined. There is no question that adjustment is needed. The question is, "What kind of adjustment?", both conceptually and practically. I think that this is something we must all do and would like Mr. Clark to take the debate beyond this point. Would Mr. Clark also comment about private investment in Africa? What about sub-regional economic integration? I would be pleased if Mr. Clark would say something about this development.

George J. Clark, Citibank. Why have the structural adjustment programs not gone as rapidly as we have thought? I don't think anybody wants to say this but I will. In just about every one of these programs we have had big slippages in performance.The countries have found that, as in the case of Nigeria, where there were big problems over the exchange rate, and the government did not want the exchange rate to go off as much as the domestic inflation rate and there have been interruptions. Secondly, as to why don't we come up with some things that go beyond this, in the World Bank and in the IMF we are dealing with institutions that have been in their businesses for over 40 years.

If you go into those offices and talk to those people, you are talking to the greatest collection of experts and knowledge on economic development that has ever been assembled. We are so lucky to have those two agencies down there and their wisdom is so overwhelming that there just isn't anything else in the league and the suggestion that somebody else is going to come along with new wisdom is going to be disappointed.They have figured it out. They know what needs to be done. If the countries will follow these programs and I include the United States in this, then this is the fastest way to growth. Africans have got to understand that there isn't any better advice than what the Bank and the Fund are giving. It is in the Africans' self-interest to carry out these programs.

As far as private investment goes, it is hard under these circumstances to get it moving. There is an enormous amount of state intervention, a lot of inflation with huge budget deficits, negative real interest rates, which together do not provide an environment that is conducive to foreign investment. The foreign investor knows this and so too does the African investor. It is a little bit of the cart before the horse when you expect the foreign investor to invest in African countries when the African national isn't doing it either. The really sad part of the story is that the African investor is right not to invest in Africa, because the economic programs in the countries do not encourage that kind of investment.

Daniel Ngangmuta, UN Action Program for Africa. The main problem here is political. The political will is not there on the part of the creditor nations to come to an agreement on how to proceed to solve this problem. On the other side are the African nations that lack the political will to come to grips with what needs to be done. Half-hearted structural adjustment will not do anybody any good in the long run. Dr. Ajayi can bear me out.

In Nigeria today, the pain of structural adjustment is being felt not by those so-called non-investors, private individuals in those countries that are not investing in that country, because the money that they ought to invest in that country has been taken from public expenditures. Therefore it has to go elsewhere. Why is it that Nigeria, the largest country on the economy, has less foreign investment than, say, a country like South Africa, with less of a market than Nigeria? What did Citibank leave Nigeria in the 1970's and return in 1984?

George J. Clark, Citibank. I was glad he asked about Citibank because that is something I can answer. The Citibank story is really very brief. Nigeria used to have a law that said you can only joint venture with the government. We don't believe that the private sector and the government ought to be in joint ventures anyway anywhere so we did in fact close down. The government that came along later changed the law and permitted us to joint venture with private individuals and the bank in Nigeria, which is 60 percent Nigerian owned and 40 percent Citibank owned and it is a delight. It is very profitable and we have a lot of fun working in that joint venture with our Nigerian friends.

Nancy Northrup, Federal Reserve Bank of New York. It seems to me that commercial banks are pulling out of Africa. By and large, banks do not appear likely to return in any significant way. My question is given that there is no new money coming in from banks to Africa, why on earth should Africans pay back their commercial debt?

George J. Clark, Citibank. I think I can't really disagree with the conclusion that it will be some time before banks in general get involved in Africa, not so much because we are disappointed with some of the programs but the whole subject of debt globally I would say that the Africans are affected very considerably by the experience in Latin America, where the stakes are relatively high. A lot of these banks are really withdrawing from the cross-border lending type thing. Having been very badly burned by cross-border lending operations, it will be quite a time before they come back.

As far as why the Africans shouldn't default on the remaining debt, I think the answer there is very much trade-related. The commercial banks were never big-term lenders in

Africa. A couple of exceptions, one being that we had quite a bit of term-debt in Nigeria but that has been very substantially paid down over the years. We are basically left today with pretty much short-term. I would guess that 90 percent of commercial banking lending to Africa is trade-related. Africa needs short-term trade-related financing, and it would be hard pressed to know where they would turn if the banks did not continue to provide trade-related lending.

Nancy Northrup, Federal Reserve Bank of Nigeria. If Brazil declared a moratorium, trade credits would not fall off too much. Do you really think it would happen in Africa.

George J. Clark, Citibank. In general, around the world you read about all of this talk about debt moratoria and there not being foreign exchange, but it is incredible how the trade-related lines have been kept current. Even Mexico, which renegotiated everything else, never even suggested that it would renegotiate the trade related debt stock. The Africans, I must say, in spite of all of their problems, treat the short-term debt remarkably carefully. Even countries like Angola that have gone through really terrible wars and so on, the short-term debt continues to roll over, and that is about what there is left and that is what they want to keep coming.

Augustin Douoguih, Attorney, New York, New York. Part of our problem is the naive notion in Africa that some institution in Washington has all the answers. As you know, most of African leaders are wise, they are all-knowing. What incentive is there among the western countries to forgive any of the debt of Africa? In Mexico's case, for example, we know that if the U.S. doesn't help, illegal immigration will be a problem. Africa is far enough away from those western countries. What is the incentive to help, as opposed to restructuring them to death?

Warren Weinstein, U.S. Agency for International Development. One is that we sometimes try to convince ourselves that a stronger Africa will be able to participate more actively in the world economy, with attendant trade opportunities for both regions, and that it would also help the global economy. Recent reports question whether that is the case or not. Very often this is one reason why we think it makes sense to focus on performance. Another is very political. If you get countries that start to develop, you are probably going to have fewer upheaveals, fewer problems, and so fewer worries for the United States politically. Above all, it is a question of whether to move into strategic areas where instability would invite differing kinds of struggles.

Another is humanitarian, that is, as a country, we may do nice things or we may do nasty things, but we like to be loved and we like to think we are helping people out, so sometimes we go in to help out simply because we think it is the right thing to do. More and more, it is the understanding of being in the global market and if you are in the global market you are also looking for opportunities. Increasingly, whether it be the Japanese or the Americans or others, one of the last potential frontiers for market development increasingly appears to be Africa. We have Europe 1992 coming up.

Some people are interested in Africa through the Lome Accords, which is one avenue into Europe through triangulation. Some people also think that ultimately you are going to have to keep recycling your funds to look for places to increase production. Africa is also an area to look at. Then, there are economic strategic reasons. Africa has lots of resources, much of which is of interest to different parts of the world. You want to keep things going so you will have lines open to that option. I could go on. Now some of this interest reflects good reasons, and some of it reflects selfish reasons. I think that it is a mixture of all of these considerations that accounts for the reasons as to why we do what we do.

George J. Clark, Citibank. The first part of that question was in response to my very assertive statement that the ultimate wisdom in this matter lies in the World Bank and the IMF. One of the things that I am concerned about is that it is perceived that there is more than one wisdom around. That is the threat of the Addis Ababa declaration. In today's world, if you want to be realistic about it, you get yourself an IMF and a World Bank structural adjustment program. The commercial banks of the world have put up approximately $60 billion of new money since the crisis of August 1982 and every penny of that has been in association with the IMF and World Bank programs. If there is a program, they get new money. If there isn't a program, they don't get new money. I am just trying to be realistic about the thing.

Kefala Khallom, Gettysburg College. You tell us that the World Bank has all the answers. But when you have two economists you invariably get more than two perspectives. I thus find it hard to believe that all of the wisdom can reside solely in the World Bank and IMF. All of this discussion today has scattered away from the major point. The commercial banks were equally to blame for the debt problem today. If you look at the IMF statistics, you argue that Africa has a problem because of high inflation rates and high rates of deficit spending.

Pre-1973 data show that Africa's inflation rate was much lower than Latin America's, than for all less developed countries, and even developed countries. What happened since then was an external shock in oil prices that created this problem. Commercial banks then decided that with all of these petrodollars, there is a new way to market loans through recycling. You have pushed these loans hoping to get a high rate of return. As a professor, if I give a bad syllabus to my students and if they perform poorly, am I going to be evaluated as well as my students? Why is that the debtors are the only people who get the blame?

George J. Clark, Citibank. I am disapponted that my comments were interpreted as blame. I was trying to show how I believe Africa can get economic growth and thereby achieve something very positive and in the process make the debt servicing easier. That is what I said, and so, is that blame?

Kefala Khallom, Gettysburg College. My point is that all of today, it was not the debtor countries alone that were at fault. Commercial banks found a way to make quick money. As an economist, I believe in efficiency as you do. Also the argument about export-led growth and structural-adjustment stabilization policies, I read the professional literature. The professional literature does not support what you say, i.e., that the IMF and the World Bank seem to have the correct answers.

George J. Clark, Citibank. Winston Churchill had nine economists with ten opinions. John Maynard Keynes always had two of them. You are going to find economists with differing views. What I am saying is that in spite of the fact that there are a lot of people around who critize these programs, including the Addis Ababa report, or economists who do not like them. Jeffrey Sachs, of Harvard University, is going around saying crazy things about Latin American debt. All I am saying is that in the real world, we have to take into account the kinds of things we have been focusing on here today.

John Underwood, The World Bank. In the adjustment negotiations with which I am familar that the World Bank and its borrowers have engaged in over the past several years, there has been almost universal agreement in over 90 percent of the cases as to what had to be done. There was a lot of disagreement over the speed, and the sequencing, but in terms of the measures, economists from every continent, every background pretty much agreed on the same set of measures. There is not that much disagreement.

Raymond Zoukpo, African Development Bank. I would like to offer a brief comment on what Mr. Clark had said. I understand that we in Africa should be export-oriented. What I am not clear about is how we go about it. In this present context, foreign capital inflows are drying up, maybe partly due to the debt service overhang. How is it possible that Africans can get the money which is necessary to restructure their economies, because most of the money we get from the multilateral institutions is mainly directed toward the government sector. So the private sector itself is left out. I would like for my own education, although I agree basically that private sector initiatives built on export-led growth is the way we have to go, how practically can we go about it? Where will the money come from for the private sector to take over?

George J. Clark, Citibank. What you have to think about is not where the money comes from but what the policies are and these are all policies that are under the control of the Africans themselves. The first thing you have to do is get an exchange rate that encourages your exports. Second, you want to get rid of inflation. Three, you want to move toward convertibilty of your currency so investors who bring their money in know that they can get it out.

Africans sometimes say they don't get a response when they have structural adjustment programs. The trouble in Ghana is that money is flowing in so rapidly that people are saying that Ghanaians aren't doing it anymore, and that it is foreigners who are doing it. This is indeed, a very different picture from what you see elsewhere. Ghana's economic growth rate is providing a dramatic example of what structural adjustment can do. Fortunately, in Mr. Keith Botchway, in Ghana, we have an outright advocate of the right kind of policies. The Ghanaians are applying the kinds of measures I have identified and they are off to a great start. The money is coming.

Raymond Z. Zoukpo, African Development Bank. I do not want to make this an ideological discussion, but what we know about Ghana is that it is attracting mostly concessional resources. If you look at the composition of growth in Ghana, you go back to the same traditional exports, e.g., cocoa, because of their relatively low cost compared to, say, a neighboring country like Côte d'Ivoire. Practically, how much has Citibank poured into Ghana?

George J. Clark, Citibank. You know, I would expect that the initial phases of the program to be in the traditional items. Obviously, what is going now is the investments and we do not see the results of the investments right away. They have an export-related program and that will initially pull the traditional exports. I would predict that you will

soon begin to see the hair that Richard Wiliams talked about, and the false teeth which I referred to earlier, although by no means are these the only possibilities.

W. O. B. Kodjoe, Queens College, CUNY I would like to start by saying that I am not an economist. Therefore, I think I am smarter than all of the economists put together. A few disjointed comments, if I may. Number one, I was talking to some people from the World Bank and IMF about three years ago in Washington, D.C. at a seminar for Africa. They told me that in part, the Africans listened to the advice of the economists in the World Bank with regard to things like import substitution and the ways in which the African economies were trying to develop at that time. Now everybody seems to say that this is not the way to go.

It seems to me that if the Africans in part were listening to the World Bank economists at that time and now it seems that they are being counseled to do so again, then we should be very cautious about listening to the World Bank economists today because it may turn out next year that this is not the way to go. I think that the Africans, and whoever is interested, should become a little more creative in terms of what they would like to do with their own economies, and to develop a very healthy suspicion of these World Bank economists who have, in addition to their expertise, a lot of other agendas that have to do with the relationship between Africa and the rest of the world, and with which they have their differences.

Second, I am from Ghana. I would not have said anything except that I notice that Ghana has been brought up here as an example of the way we should go by virtue of the current finance minister in Ghana. He supposedly is an advocate of export-led development. My small familiarity with the literature suggests to me that the economy depends on both exports and imports. Since my understanding of economics is elementary, I am not going to engage in any discussion with those who believe in export-led growth.

My common sense tells me that you ought to at least try to do something about imports. It seems strange to me to suggest that Africans should not have some concern about growing food or for trying to feed their population, especially since most agriculturalists were saying only a few years ago that if Africans don't feed themselves, then they are going to spend a lot of their hard-earned foreign exchange importing food. If they continue to do so, they will have less money left over for development. Does that sound right to you? It would seem to me at the very least you should pay some attention to not using all the money you are making from your comparative advantage in cocoa and

using some to grow cassava so you don't spent all of your cococa money buying cassava, rice, or some other items. That just seems to me to be elementary.

It seems to me, then, we should be a little cautious when we hear that "All Africans need do, as Chester Crocker said recently to the Chamber of Commerce in Nairobi a couple of years ago, "All you have to do is sell us whatever you have to sell and then you can use the money to buy food." I wonder how the Americans would react to that kind of suggestion, i.e., that they shouldn't worry about having to feed themselves, that all they have to do is export what they have in terms of their comparative advantage and then they can use the money to shop around the world for the cheapest prices for whatever they can get.

Third, it seems to me that if you look at the case of Ghana now in comparison to a few months ago, that this economy is in serious trouble. Ghanaian producers are not responding as quickly as the World Bank economists thought they might. The answer we have heard is that they won't respond in time, maybe not now, but if you go long enough, they are going to respond. The cocoa price dropped by 44 percent over the past two years. This means that Ghana can increase its exports by 200 percent, but that if they do, the price is going to fall even further. If you look at the relationship between the EEC countries and the ACP countries, Ghana at this point can not afford to grind up the cocoa beans into powder because they would not be able to sell it in the European market.

It is not just an economic situation. It is political decisions that are made by Europeans in terms of whether they want Ghana or the other countries to fit in this model of exporting raw materials or whether they can graduate into exporting other raw materials. Everybody knows that as of now, this export-led development that we are talking about has locked African countries into a no-win situation.We have got find some way out of it. Maybe there is not any solution now, but if we do not try to find the solution, we are going in fact to be dead. In the long-run if I may invoke John Maynard Keynes, we are all dead.

About investment in Africa. The Ghana government says that, or at least Botchway says, that they are having trouble getting all of the money because of disbursement problems among the various donors who are saying that if we give you the money, you have to buy U.S. tractors. If we give you the money, you have to buy British manufactures, etc. We are sitting here talking as though all of this money is just largesse, and not loans with real costs. The fact of the matter is that when they give you this money, there is a high correlation between where the aid goes, what kind of investments

are usually being made, usually in oil, uranium, or any one of these large and important raw materials, and the trade patterns between the African countries and the rest of the world. So it is not just a matter of saying that if you all behave yourselves, economic growth will come. That has not been true and we should not expect it to be true in the future.

One last point. Ghanaian debt now has resulted in debt service at about 65 percent in the past three years. Why? Because of all of this new money they are getting from the World Bank and all of these loans. The Ghanaian government may be saying now that it is perfectly alright because we are really engaged in this program of structural adjustment and it is wonderful. I wonder what is going to happen five years from now, or ten years from now, when the Ghanaians begin to say, "Oh my God, we can't begin to service all this money?" We are going to then be back here again talking about those days and how it was a good idea to give Ghana all this money and that it was a good idea for Ghana to receive all of this money.

It seems to me that Africans should pay very close attention to how much money they are getting, how much money they are asking for, how much money they are spending, and what it is they are spending their money on. It seems to me that as of now, maybe because of the way that it has been structured, we have taken a lot of money, and we have been misusing the money. If we continue to export everything ranging even from cadavers to hair in pursuit of some kind of mirage, then I doubt whether our economy is going to grow in the ways that have been suggested. Thank you.

Warren Weinstein, U.S. Agency for International Development. First, I think it would be a mistake for us to engage in an either-or discussion. I don't think in export-led growth that the outcome means only exports and nothing else. I think this has to be set straight. Often what export-led growth means is that you can also save foreign exchange for investments that are going to produce things at home which you do not have to import, but which you can produce competitively.

Secondly, on food, what I think most people are talking about is food security. This means that you may not produce every single bit of food that you eat, but that if your economy grows, and there are food shortfalls, then you could go out and purchase what you do not have available at home. The United States does the same. In terms of whether you always have to buy U.S. tractors, we now have for U.S. AID in Africa the Development Fund for Africa. We were relieved of that onerous requirement so that you do not have to buy American products with funds that are released. In part, we had that so

that we didn't place an added burden on Africa where American products may not make sense. Of course, our preference is to use American products wherever feasible.

Next, on the type of investment and where the money comes from. Ghana has wood and lumber, which is an illustrative area of investment. This investment opportunity, in conjunction with the International Finance Corporation, or IFC, which places new money, can make for new investment. Every one has been asking, "Where does the new money come from?" The IFC, along with the European Economic Community, EEC, are sources of new money for investments and these have been among the sole sources of money that been available right now for Afircan entrepreneurs who are trying to undertake joint ventures.

On Citicorp's behalf, I wish they would take a bit more risk and put some more money into Africa. They have put about $1 milion into the Africa Growth Fund, which was just launched by the Overseas Private Investment Corporation, or OPIC. OPIC will have about $30 million that will be leveraged into about $100 million dollars available for investment in Sub-Saharan Africa.

I think that it is, in sum, not either-or. I think it is more nuanced, and some of the discussion is getting us toward that point. Whether or not the Ghana program is succeeding is something I will leave to the IMF or the World Bank to address. I will make just one comment on it. We are engaged in an investigation over the next four to six months to determine what private sector attitudes are in Ghana.

One thing I personally heard during a number of trips to Ghana is that the Ghanaian private sector still doesn't have its confidence level at a point where investors are willing to bring their money back in. That is a point I want to address and one that goes to the heart of why doesn't Citicorp just come running and put its money in. Once you have a lot of negative things happening, you destroy confidence. Confidence comes at a high cost. It takes a long time to build it. It is very quick to destroy. Unfortunately, a lot of African countries have destroyed confidence in their economies and in the predictability of government behavior over time. Until confidence is restored in such a way that investments will be secure, and not treated in a predatory manner, it is going to be very hard to convince Africans and non-Africans to invest their money in the continent, certainly to place it into long-term investment.

You do have a lot of trade and commerce taking place, but that is short-term. We have tried to get Ghanaian market women to channel some of their money into

investment. They won't do it. They won't do it because of the tremendous risk to them. As they state in matter of fact terms, they do not have confidence in the behavior of the government over the long-term.

I think we also have to be fairly straightforward and face the fact that confidence and risk have a lot to do with how markets operate. It is why Africans themselves are still holding back and waiting to respond to see how things are going to go. That perhaps is where the IFC, the World Bank, the IMF, and AID can hopefully provide enough aid and support to policy shifts and to the creation of a positive economic environment. Such efforts need to continue over a long enough period of time to build the level of confidence required by potential investors. Whether we will be successful or not we do not know, but we still have to take the risk and hope that it might work.

Phillip LeBel, CERAF. Unfortunately, our time is now running short. While I am sure that there are many views yet to be expressed, out of consideration not only for our panelists but for many of you who have other engagements, I think that we should bring our discussion to a close at this point. I want to thank all of you for coming. I hope that you have found this to be informative and useful.

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Appendix A

Table 1

Basic Economic Development Indicators

	Population 1988, millions	Population 2000, millions	Growth Rate, 1988-2000	GNP per capita $U.S.1987	GDP per capita $U.S. 1987
Africa	605.4	863.8	2.99%	$686	$1,187
Ethiopia	45.0	61.0	2.57%	$130	$454
Chad	5.4	7.3	2.54%	$150	$400
Zaire	34.0	49.0	3.09%	$150	$220
Malawi	7.9	12.0	3.55%	$160	$476
Mozambique	15.0	20.0	2.43%	$170	$500
Tanzania	25.0	40.0	3.99%	$180	$405
Burkina Faso	8.6	12.0	2.82%	$190	$500
Madagascar	11.0	17.0	3.69%	$210	$634
Mali	8.9	13.0	3.21%	$210	$543
Burundi	5.2	7.3	2.87%	$250	$450
Zambia	7.9	12.0	3.55%	$250	$717
Niger	6.7	9.8	3.22%	$260	$452
Uganda	17.0	26.0	3.60%	$260	$511
Somalia	7.1	9.8	2.72%	$290	$1,000
Togo	3.3	4.7	2.99%	$290	$670
Rwanda	6.8	10.0	3.27%	$300	$571
Sierra Leone	4.0	5.4	2.53%	$300	$480
Benin	4.5	6.6	3.24%	$310	$665
CAR	2.8	3.8	2.58%	$330	$591
Kenya	23.0	38.0	4.27%	$330	$794
Sudan	24.0	34.0	2.95%	$330	$750
Guinea	6.6	8.9	2.52%	$340	$500
Lesotho	1.7	2.4	2.92%	$370	$1,585
Nigeria	106.0	159.0	3.44%	$370	$668
Ghana	14.0	20.0	3.02%	$390	$481
Mauritania	1.9	2.7	2.97%	$440	$840
Liberia	2.4	3.5	3.19%	$450	$696
Angola	9.5	13.0	2.65%	$470	$1,000
Senegal	7.0	9.7	2.76%	$520	$1,068
Zimbabwe	9.2	13.0	2.92%	$580	$1,184
Morocco	24.0	31.0	2.16%	$610	$1,761
Egypt	51.0	67.0	2.30%	$680	$1,357
Côte d'Ivoire	12.0	19.0	3.90%	$740	$1,123
Congo	1.9	2.6	2.65%	$870	$756
Cameroun	11.0	15.0	2.62%	$970	$1,381
Namibia	1.8	2.6	3.11%	$1,000	$1,500
Botswana	1.2	1.8	3.44%	$1,050	$2,496
Tunisia	7.8	9.8	1.92%	$1,180	$2,741
South Africa	34.0	43.0	1.98%	$1,890	$4,981
Algeria	24.0	33.0	2.69%	$2,680	$2,633
Gabon	1.1	1.6	3.17%	$2,700	$2,068
Libya	4.2	6.5	3.71%	$5,460	$7,250

Source: UNDP, *Human Development Report 1990;* World Bank, *World Development Report 1990*.

Table 2

Africa Basic Financial Indicators

	GDP per capita $U.S. 1987	Ratio of ODA to GNP, 1987	Exports Debt Service Ratio 1988	Int. Reserves Import Ratio in mos., 1988
Africa	$1,187	11.8	16.6	
Algeria	$2,633	0.3	77.0	4
Angola	$1,000	4.0	12.0	0.2
Benin	$665	8.1	5.4	0.2
Botswana	$2,496	10.1	4.0	17.7
Burkina Faso	$500	16.2	11.9	4.6
Burundi	$450	15.3	25.1	2.9
Cameroun	$1,381	1.7	11.9	0.7
CAR	$591	16.1	5.9	3.9
Chad	$400	20.3	2.7	1.7
Congo	$756	7.0	28.7	0.1
Côte d'Ivoire	$1,123	2.5	13.0	0.1
Egypt	$1,357	4.9	13.9	1.8
Ethiopia	$454	11.8	37.4	1.5
Gabon	$2,068	2.3	6.2	0.4
Ghana	$481	7.4	19.7	2.7
Guinea	$500	6.0	21.9	0.2
Kenya	$794	7.0	19.4	1.3
Lesotho	$1,585	29.4	5.2	1.2
Liberia	$696	6.9	15.0	0
Libya	$7,250	0.0	10.0	5.3
Madagascar	$634	15.8	39.0	3.7
Malawi	$476	22.8	17.2	3.7
Mali	$543	18.6	14.2	0.7
Morocco	$1,761	2.4	24.8	1.5
Mauritania	$840	19.0	21.6	1.4
Mozambique	$500	40.9	7.8	0.4
Namibia	$1,500	2.0	10.0	6.7
Niger	$452	16.1	21.1	4.7
Nigeria	$668	0.3	24.2	1.3
Rwanda	$571	11.6	9.6	3.2
Senegal	$1,068	13.6	18.4	0.2
Sierra Leone	$480	7.3	5.9	0.4
Somalia	$1,000	57.0	4.9	0.6
South Africa	$4,981	0.0	4.0	1.1
Sudan	$750	10.5	9.5	0.6
Tanzania	$405	25.2	17.1	0.6
Togo	$670	10.0	18.3	4.5
Tunisia	$2,741	2.9	24.2	2.5
Uganda	$511	7.2	14.0	0.8
Zaire	$220	10.7	6.9	1.4
Zambia	$717	21.1	14.2	1.2
Zimbabwe	$1,184	5.0	24.8	2.2

Source: UNDP, *Human Development Report 1990*;
The World Bank, *World Development Report 1990*.

Table 3

External Debt Status of African Countries

in $U.S. Billions

	Population in millions Mid-1986 $U.S.	Per Capita GNP 1986 $U.S.	Debt Total $U.S. Billions	Long Term Debt by Source: Public and Publicly Guaranteed Multilateral	Bilateral	Private	Debt to Export Ratio:	Country Classification: A.	B.	C.	D.
Market Borrowers											
Algeria	22.4	$2,590	$22.88	$0.98	$2.29	$15.97	217.7		*		
Congo	2.0	$990	$4.63	$0.40	$1.20	$2.08	443.6		*		
Côte d'Ivoire	10.7	$730	$13.56	$2.28	$2.44	$3.72	374.0		*	*	
Egypt	49.7	$760	$40.26	$5.07	$23.32	$6.13	343.1		*		
Gabon	1.0	$3,080	$2.07	$0.14	$0.50	$0.97	148.3		*		
Morocco	22.5	$590	$20.71	$3.69	$9.86	$4.92	381.8		*		
Nigeria	103.1	$640	$28.71	$2.98	$8.63	$14.09	369.0		*	*	
Tunisia	7.3	$1,140	$6.90	$1.55	$2.87	$1.77	182.1		*		
Official Borrowers											
Burkina Faso	8.10	$150.0	$0.9	$0.5	$0.3	$0.0	175	*			*
Bunindi	4.80	$240.0	$0.8	$0.5	$0.2	$0.0	686.50	*		*	*
Cape Verde	0.335	$460.0	$0.1	$0.1	$0.0	$0.0			*		*
Central Af. Rep.	2.70	$290.0	$0.6	$0.3	$0.2	$0.0	317.80	*		*	*
Chad	5.10	$125.0	$0.3	$0.1	$0.1	$0.0	187	*		*	*
Comoros	0.409	$320.0	$0.2	$0.1	$0.1	$0.0	676.20	*		*	*
Djibouti	0.361	$500.0	$0.2	$0.1	$0.1	$0.0			*		*
Equal. Guinea	0.381	$230.0	$0.2	$0.0	$0.1	$0.0	490.10	*		*	*
Gambia	0.773	$230.0	$0.3	$0.2	$0.1	$0.0	277.30	*		*	*
Ghana	13.20	$390.0	$3.1	$1.2	$0.7	$0.3	324.20	*		*	*
Guinea	6.30	$300.0	$1.8	$0.5	$1.0	$0.1		*		*	*
Guinea-Bissau	0.905	$170.0	$0.4	$0.2	$0.1	$0.1	1783	*		*	*
Liberia	2.30	$460.0	$1.6	$0.5	$0.5	$0.2	324.40		*	*	*
Madagascar	10.60	$230.0	$3.4	$0.9	$2.0	$0.3	813.10	*		*	*
Malaw	7.40	$160.0	$1.4	$0.8	$0.3	$0.0	448.50	*		*	*
Mal	7.60	$150.0	$2.0	$0.6	$1.1	$0.1	620.40	*		*	*
Mauritania	1	$420.0	$2.0	$0.5	$1.2	$0.1	430.20	*		*	*
Rwanda	6.20	$290.0	$0.6	$0.4	$0.1	$0.0	330.70	*			*
Sao Tome & Prin.	0.111	$340.0	$0.1	$0.0	$0.0	$0.0	949.70	*		*	*
Senegal	6.80	$420.0	$3.7	$1.0	$1.8	$0.3	286.40	*		*	*
Seychelles	0.066	$470.0	$0.1	$0.0	$0.0	$0.0	82		*		
Sierra Leone	3.80	$310.0	$0.7	$0.2	$0.2	$0.1	389.70	*		*	*
Somalia	5.50	$280.0	$2.5	$0.6	$1.5	$0.2	1988	*		*	*
Sudan	22.60	$320.0	$11.1	$1.4	$4.8	$1.7	1562	*		*	*
Swaziland	0.689	$690.0	$0.3	$0.2	$0.1	$0.0	57.80		*		
Tanzania	23	$250.0	$4.3	$1.4	$2.2	$0.4	966.40	*		*	*
Togo	3.10	$250.0	$1.2	$0.4	$0.5	$0.1	269.70	*		*	*
Uganda	15.20	$230.0	$1.4	$0.8	$0.3	$0.1	377.90	*		*	*
Zaire	31.70	$160.0	$8.6	$1.4	$5.1	$0.9	447.10	*		*	*
Zambia	6.90	$300.0	$6.4	$1.3	$2.5	$0.6	670.20	*		*	*
Others:											
Benin	4.20	$270.0	$1.1	$0.4	$0.2	$0.4	536.90	*		*	*
Botswana	1.10	$840.0	$0.5	$0.3	$0.1	$0.0	27.70		*		
Cameroun	10.50	$910.0	$4.0	$1.1	$1.2	$0.6	190		*		
Ethiopia	43.50	$120.0	$2.6	$0.9	$1.1	$0.4	319.20	*			*
Kenya	21.20	$300.0	$5.9	$2.0	$1.6	$0.8	342	*		*	*
Lesotho	1.60	$370.0	$0.2	$0.2	$0.0	$0.0	72	*			*
Mauritius	1	$1,200.0	$0.8	$0.3	$0.2	$0.1	64.20		*		
Mozambique	14.20	$210.0	$3.6	$6.7	$77.6	$15.8	1726	*		*	*
Niger	6.60	$260.0	$1.7	$0.5	$0.5	$0.2	523.50	*		*	*
Zimbabwe	8.70	$620.0	$2.5	$0.5	$0.7	$0.8	152.20		*		

Source: IMF and World Bank, *UN Africa Recovery Programme,* Briefing Paper, No 1. June 1989.

Classification: A. Low Income; **B**. Middle Income; **C**. Debt Distressed; **D**. IDA-Eligible

Figure 1

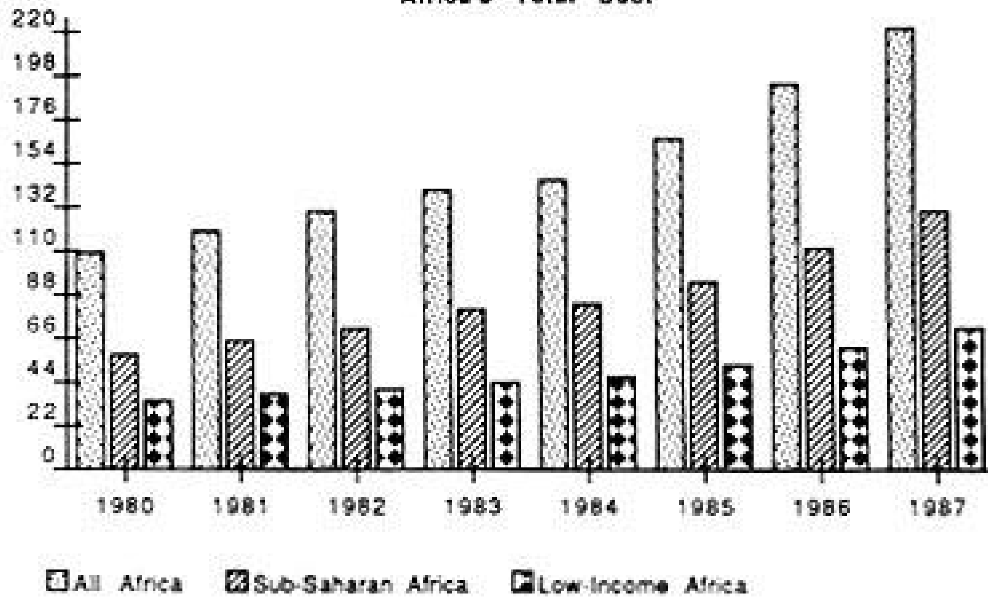

Figure 2

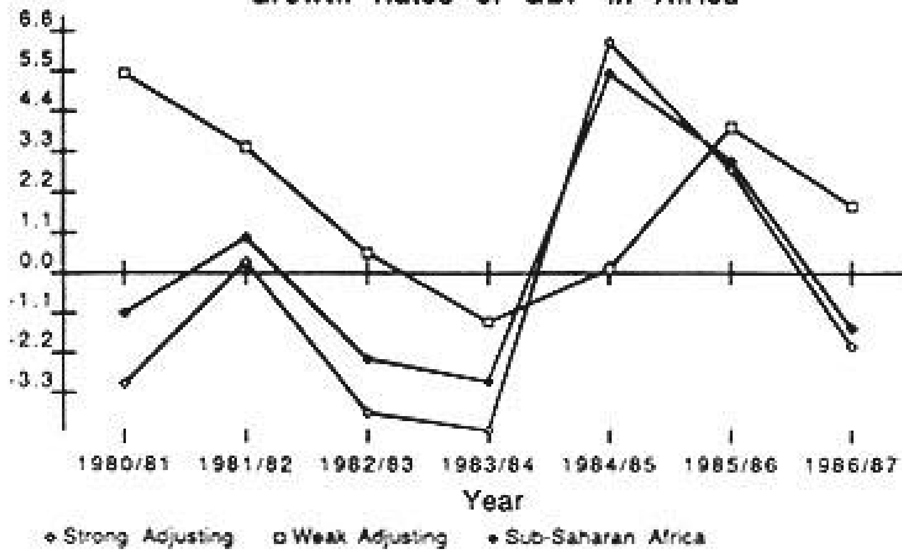

Figure 3