September 10, 1987 - 87/2

Statement by Mr. Jacques de Groote on
Proposals for Enhancing Assistance to Low-Income
Countries Facing Exceptional Difficulties
(Preliminary)
Committee of the Whole for the Development Committee Meeting 87/4
September 10, 1987

Let me begin by commenting on the conditions necessary for a successful overall debt strategy, before turning to the proposals for enhancing assistance to low-income countries facing exceptional difficulties, because these general conditions are valid for these countries, too.

The debt problem will be with us for years to come unless certain actions are taken in time. A debt strategy promising an ultimate solution must include, at a minimum, the following three elements:

First, the debtor country must implement adjustment policies for reviving sustainable growth with a viable balance of payments position over the medium-term. The design of such policies should be neither too general, nor too standardized. The country's needs should be identified and specifically addressed by a package of policies tailored to the individual case. The solution for each country is unique. Second, there must be adequate financial support on concessional terms. This support may be extended by reducing scheduled debt service obligations to more sustainable levels, or by providing additional quick-disbursing assistance. And third, the external economic environment should be favorable. Ideal conditions would be a growing, stable world economy, less afflicted by uncertainties, in which free trade can generate adequate demand for the debtor countries' exports.

Ideally all three elements should be present. In the case of adjustment programs which must be conducted under conditions like those prevailing for the last several years, the assumption has been made that additional financial support can more or less offset the cyclical shortcomings of the economic environment. Unlike the environmental factors, however, the elements of good program design and vigorous execution cannot be dispensed with.

Let me now turn to the particular topic of this meeting. We speak of "exceptional difficulties". Despite the arduous efforts of the last several years to implement growth-oriented adjustment policies on the part of many low-income countries, particularly in Sub-Saharan Africa, their very serious difficulties persist. The total debt of Sub-Saharan Africa amounted to $76 billion by the end of 1986. Although this amounts to only 6 percent of the total outstanding developing country debt, and may thus seem a modest amount, it is enormous relative to the very limited economic capacity of Sub-Saharan Africa.

There are about 22 African countries with severe debt problems, where severity is defined as a debt service/export earnings ratio higher than 30 percent. These countries' total outstanding debt averages 450 percent of their exports, and their scheduled debt service before rescheduling averages roughly 55 percent of their exports. Their per capita imports and per capita GDP have fallen steeply since 1980, and their average annual per capita growth rate between 1986 and 1995 is estimated at between 0.3 and 0.5 percent. Growth in aid flows to these countries, including those undertaking adjustment programs, remained below the recent average for all of Africa. These countries will need an additional $1.5 billion annually for the three years 1988-90, to support import growth and a modest growth in per capita GDP and consumption, without letting debt service payments rise to an unmanageable level.

I cite all these facts is to stress how urgent it is for us to act.

The paper before us is a good example of Bank-Fund collaboration, on which I would like to congratulate the staffs of both institutions. It suggests a very comprehensive program for addressing the most urgent needs of the low-income debt-distressed countries undertaking adjustment programs.

Particularly useful is the effort to make participation in the program's financing as flexible as possible to meet the widely varying special circumstances of donors, creditors and the debt-distressed countries themselves.

The principal measures included in the program are the provision of concessional debt relief, including reductions in interest rates, extension of grace periods and maturities, and conversion of some ODA loans into grants; increased concessional flows from IDA; increased cofinancing to support adjustment operations aimed at accelerating the disbursements of other ODA commitments, and an increase in the resources of the Structural Adjustment Facility (SAF) of the Fund. Since such a broad program will require active and timely collaboration by a wide variety of participants, including creditors, donors, borrowing governments and multilateral institutions, it seems a correct move to use the Policy Framework Paper as a basic coordinating document. Special attention will have to be given to the legal constraints under which most of those participants have to act.

There is really no need for me, in this Board, to stress the severity of the problems confronting this group of countries and the urgency of addressing them. We can perhaps be reassured that the Bank to is aware of these matters so well known to us, by the words of Mr. Conable, who said of their situation, "We do not have the luxury of dealing with them at some future point in time. They must be dealt with now."