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The Sub-Saharan African Debt Problem: An Update

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Abstract

This paper provides updated information on the external debt problem of sub-Saharan Africa. Between 1980 and 1990 the region's external debt more than tripled, to US$171 billion, while debt service payments and rescheduling rose by more than 150 percent to US$20 billion. In addition, the region continues to qualify as severely debt-distressed. During the last few years the region has benefitted from several new debt initiatives, including a substantial increase in debt cancellation by bilateral creditors and the general application of Toronto terms for debt rescheduling. There are also proposals for further debt assistance, including more liberal rescheduling terms, broader debt forgiveness, and consolidating debt relief and aid generation activities.

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1/ Senior Economist, International Monetary Fund, Washington, D.C. An earlier version of this paper was delivered orally at the 34th Annual Meeting of the African Studies Association in St. Louis, Missouri, November 25, 1991, and the Association has been given a copy of the present paper for outside distribution. The author has benefitted from comments by Karim Nashashibi and would like to thank John Underwood and M. Tabary of the World Bank for graciously providing Bank data on bilateral debt forgiveness to sub-Saharan African countries. However, the views in this paper are those of the author and do not necessarily reflect those of the International Monetary Fund or its staff.

Contents

Summary

This paper updates information on the external debt problem of sub-Saharan Africa reported in an article in *Staff Papers*, December 1989. More recent data confirm that the countries of sub-Saharan Africa remain severely indebted, both in absolute and in relative terms. At the end of 1990, external debt for the region totaled an estimated $171 billion, more than three times the level of 1980, while debt-service payments and rescheduling rose by more than 150 percent to $20 billion. Since the late 1980s, two key measures of distress for the region--the ratios of external debt to exports and external debt to GDP--have exceeded those for countries with recent debt-servicing problems and for the 15 heavily indebted countries singled out for attention by the U.S. Government's Baker initiative. At the same time, the region has suffered from weak export performance, leading to arrears or repeated debt rescheduling for many countries and a fall in per capita income that averaged about 1 percent a year during the 1980s.

Since the late 1980s, several major initiatives regarding the external debt of sub-Saharan Africa have emerged. Between 1988 and 1990, for example, bilateral creditors agreed to cancel more than $6 billion in ODA debt for 26 countries in the region, some three times the amount of cancellation granted during the previous ten years. In addition, the so-called Toronto terms for providing debt relief to low-income countries have become the norm for most rescheduling of sub-Saharan African debt. There have also been several proposals to liberalize existing terms for debt relief, most notably the Trinidad terms for rescheduling proposed by U.K. Prime Minister John Major. Several other proposals have been offered to accelerate debt cancellation for sub-Saharan African countries and to ease the process of debt rescheduling by combining Paris Club rescheduling, consultative group meetings, and development roundtables into a single review body for each country. Although none of these other proposals has yet been adopted, the debt forgiveness granted to Poland and Egypt during 1991 may ultimately offer a precedent for providing debt forgiveness to other severely indebted countries in return for implementing serious economic adjustment programs.

Introduction

During the last half of the 1980s, the international financial community began to realize that Africa, as well as Latin America and a few well-publicized countries in Europe and Asia, had a serious external debt problem. This recognition has led to important changes in debt rescheduling procedures affecting African countries, as well as new sources of official financing for African countries with protracted balance of payments difficulties. Despite these developments, the African debt problem continues into the 1990s. This paper describes the current dimensions of the problem and reviews the main strategies emerging to address it. In doing so, the discussion focuses on the problems of the 45 sub-Saharan African countries, although many of the issues apply equally to African countries north of the Sahara such as Algeria, Morocco, and Tunisia.

I. What Are the Issues?

Several key issues serve to define sub-Saharan Africa's external debt problem.

1. Sub-Saharan Africa continues to have severe external debt difficulties

As illustrated in Table 1, sub-Saharan Africa's external debt has continued to grow rapidly in the last several years. Aggregate external debt, which totaled only US$52 billion in 1980, more than doubled to US$121 billion in 1986. 1/ Since then, the region's total debt stock has increased a further 40 percent, reaching an estimated US$171 billion by 1990--more than three times its 1980 level. 2/ Even when deflating by the rise in the consumer price index of the United States, the region's external debt more than doubled between 1980 and 1990. The region's debt service payments have similarly grown over this period, rising from about US$6.2 billion in 1980 to an estimated US$12.1 billion in 1990. However, this increase understates the rise in overall debt service obligations, because of the substantial amounts of debt relief granted to sub-Saharan African countries in recent years and the incurrence of arrears on debt service. Adding estimated flows from debt rescheduling and the net change in external arrears to debt service payments would suggest that net external obligations virtually tripled during the 1980s, rising from US$7.7 billion in 1980 to an estimated US$21.3 billion in 1990. This exercise is crude,

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1/ These figures and those in subsequent tables draw on estimates of country debt compiled by IMF staff economists for the Fund's World Economic Outlook. For this reason, specific amounts may differ from those reported in World Bank (1991), although the orders of magnitude are broadly similar.

2/ Most of this debt is owed to official creditors, meaning bilateral donors and international institutions. As of 1990, only about 31 percent was debt to financial institutions and other private lenders, down from 46 percent in 1980.

Table 1. External Debt and Debt Service of sub-Saharan Africa, 1980-90

(*In billions of U.S. dollars; at end of period*)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Aggregate external debt	52.0	61.2	69.5	78.3	80.2	91.1	121.0	142.9	147.8	150.3	170.7
Medium- and long-term debt											
Excluding Fund 1/	48.8	56.8	64.6	72.3	74.2	84.4	114.0	135.3	140.8	143.9	164.1
Official Creditors	24.8	28.3	34.8	40.4	44.4	54.0	71.7	88.5	92.3	94.5	110.9
Commercial Banks	15.7	20.2	22.3	20.3	18.0	17.1	22.2	25.0	24.3	28.5	32.7
Other private	8.3	8.3	7.5	11.6	11.9	13.4	20.2	21.9	24.1	20.9	20.5
Fund	3.1	4.4	4.9	5.9	6.0	6.7	7.0	7.6	7.0	6.4	6.6
Debt Service Payments											
To non-Fund agencies	5.6	6.7	7.1	7.3	9.5	9.9	9.6	7.8	8.7	8.9	10.9
To the Fund	0.6	0.5	0.5	0.7	1.0	1.2	1.6	1.5	1.5	1.6	1.2
Memorandum items:											
Estimated rescheduling 2/	1.6	0.7	0.6	3.7	3.2	3.1	12.4	11.2	3.2	11.1	7.8
Net change in arrears	-0.1	0.6	4.2	3.2	0.9	1.5	-0.3	-1.4	7.8	-1.9	1.4

Sources: International Monetary Fund (1991b); and Fund staff estimates.

Note: Sub-Saharan Africa is defined as Africa exlucing Algeria, Angola, Morocco, Namibia, South Africa, and Tunisia.

1/ Totals may not add because of rounding.
2/ Net flows from rescheduling during that year.

because it imputes to debt service obligations some arrears that may have arisen on other external obligations. However, even without arrears, debt service payments and rescheduling rose more than 150 percent over the period, from US$7.8 million in 1980 to an estimated US$19.9 million in 1990.

Comparison with groups of countries identified as having external debt problems shows that <u>sub-Saharan Africa as a whole deserves to be considered debt-distressed</u>. As Table 2 indicates, since 1987, sub-Saharan Africa's debt-to-exports ratio has exceeded that for countries with recent debt-servicing problems and for the so-called 15 heavily indebted countries identified for special consideration by then U.S. Treasury Secretary James Baker. At end-1990, the region's external debt exceeded 345 percent of total exports of goods and services, a level so high as to make it difficult to envision meeting debt service obligations without debt rescheduling or forgiveness. 1/ The comparable ratio for sub-Saharan Africa excluding the four major oil-exporting countries (Cameroon, Republic of the Congo, Gabon, and Nigeria) was even higher. Moreover, the region's debt-to-GDP ratio, which is estimated to have risen above 68 percent in 1990, has exceeded that of the two designated sets of debt-distressed countries since 1986. The region's debt service payments to exports ratio, which has ranged from about 20 percent in 1983 to a high of 28 percent in 1986, has been smaller than that for the two designated groups of debt-distressed countries. However, this in large part reflects the very substantial rescheduling and arrears received by sub-Saharan countries. In 1986, 1987, and 1989, for example, the impact of rescheduling alone is estimated to have been larger than the amount of actual debt service payments from the region. 2/ With rescheduling and arrears included, on the assumption that all changes in arrears related to debt service obligations, sub-Saharan Africa's ratio of scheduled debt service obligations to exports of goods and services would have exceeded the ratio of actual payments to exports for the Baker 15 countries every year from 1986 through 1990. 3/

1/ Joachim Stymne, in an important analytical exercise, has shown how countries with debt-to-export ratios above 200 percent are unlikely to be able to meet scheduled debt service obligations without severely limiting import levels and thus compromising growth objectives, unless the debt is largely on concessional terms. See Stymne (1988).

2/ The low figure for rescheduling in 1988, a year when Nigeria did not obtain debt relief, is accompanied by an unusually high figure for net arrears. When estimated rescheduling and net change in arrears are added, the total (ranging from US$9 billion in 1988 to nearly US$11 billion in 1986) is fairly steady from 1986 through 1990.

3/ The relevant debt service ratios for sub-Saharan Africa would be 58.4 percent in 1986; 43.5 percent in 1987; 48.4 percent in 1988; 40.3 percent in 1989; and 40.5 percent in 1990.

Table 2. Debt Burden Indicators for sub-Saharan Africa and Debt-Distressed Countries, 1980-90

(In percent)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Ratio of external debt to exports of goods and services											
Sub-Saharan Africa	87.0	124.0	171.1	205.5	191.7	219.5	335.8	369.0	375.1	349.9	345.5
Sub-Saharan Africa excluding fuel exporters 1/	162.9	204.5	247.1	265.8	258.1	304.1	319.2	346.3	341.7	346.8	382.0
Countries with recent debt-servicing problems 2/	132.6	171.5	218.8	237.3	233.4	257.9	320.0	312.4	289.0	271.0	267.4
Fifteen heavily indebted countries 3/	167.1	201.5	266.3	289.3	269.5	284.3	346.2	334.6	292.2	262.5	247.7
Ratio of external debt to GDP											
Sub-Saharan Africa	25.3	28.6	32.1	38.3	43.6	46.5	58.4	60.6	59.1	64.6	68.4
Sub-Saharan Africa excluding fuel exporters 1/	38.7	44.8	51.3	53.7	58.8	64.5	67.1	75.6	69.1	70.3	75.2
Countries with recent debt-servicing problems 2/	33.0	37.9	41.1	45.2	47.1	48.4	50.6	50.2	48.1	47.4	46.7
Fifteen heavily indebted countries	33.0	37.5	40.8	46.0	46.6	45.5	44.8	44.5	40.4	39.4	38.8
Ratio of debt service payments to exports of goods and services											
Sub-Saharan Africa	9.9	14.6	18.7	20.6	24.7	25.8	28.3	21.2	23.3	21.5	23.0
Sub-Saharan Africa excluding fuel exporters 1/	15.5	19.9	21.3	21.5	24.3	23.1	25.1	21.5	22.9	22.1	21.4
Countries with recent debt-servicing problems 2/	23.9	30.9	36.2	31.5	31.6	33.1	36.9	30.7	32.5	26.4	24.6
Fifteen heavily indebted countries 3/	30.3	40.5	50.0	41.6	39.7	40.9	45.3	37.8	41.9	31.0	27.9

Sources: International Monetary Fund (1991b); and Fund staff estimates.

Note: Ratios for debt are based of aggregate debt excluding arrears.

1/ Average for sub-Saharan African countries excluding Cameroon, Congo, Gabon, and Nigeria.
2/ Average for capital-importing countries that experienced external arrears or rescheduled debt during 1986-88.
3/ Average for Argentina, Bolivia, Brazil, Chile, Colombia, Côte d'Ivoire, Ecuador, Mexico, Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela, and Yugoslavia.

Further evidence that sub-Saharan Africa is debt-distressed comes from information on individual countries compiled by the World Bank. In its World Debt Tables for 1991-92, the Bank categorizes 24 of the 45 sub-Saharan African countries as severely indebted, meaning that at least three of the following key ratios for 1988-90 apply: debt to GDP, above 50 percent; debt to exports of goods and services, more than 275 percent; accrued debt service to exports, above 30 percent; and accrued interest to exports, over 20 percent (World Bank, 1991, p. 116). 1/ Another 10 countries in the region are considered moderately indebted, meaning that at least three of the following ratios apply: debt to GDP of 30-50 percent, debt to exports of goods and services of 165-275 percent, accrued debt service to exports of 18-30 percent, and accrued interest to exports of 12-20 percent. 2/

2. Sub-Saharan Africa's ability to meet its debt service obligations has been limited

As shown in Table 3, the region's export earnings fell by more than 45 percent between 1980 and 1985, and in 1990 remained almost 20 percent below their level 10 years earlier. Moreover, in 1990 the region's terms of trade were 37 percent below their 1980 level, reflecting both a fall in the export unit values and a sharp rise in the relative cost of the region's imports. With total debt service obligations estimated to have virtually tripled over this period, it is not surprising that the share of obligations actually paid fell sharply. In 1980, the region's debt service payments of US$6.2 billion were about 80 percent of estimated scheduled obligations. In 1990, actual payments of US$12.1 billion were only about 57 percent of estimated obligations before rescheduling. Even with arrears and rescheduling, however, debt service payments for the region averaged 21 percent to 28 percent of total export earnings between 1984 and 1990. This is close to the level of 25 percent that many debt analysts consider the maximum countries can be expected to handle without being debt-distressed. Moreover, as noted above, a significant proportion of sub-Saharan countries had ratios of accrued debt service to exports of more than 30 percent.

3. Rising debt service obligations have constrained sub-Saharan Africa's ability to import and reduced growth rates

As shown in Table 3, the volume of sub-Saharan Africa's imports fell by 37 percent between 1980 and 1990, with most of the decline coming in the first half of the 1980s. This has led to a drop in GDP growth rates and

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1/ Burundi, Republic of the Congo, Côte d'Ivoire, Equatorial Guinea, Ethiopia, Ghana, Guinea, Guinea-Bissau, Kenya, Liberia, Madagascar, Malawi, Mauritania, Mozambique, Niger, Nigeria, Sao Tome and Principe, Sierra Leone, Somalia, Sudan, Tanzania, Uganda, Zaïre, and Zambia.

2/ Angola, Benin, Cameroon, Central African Republic, Comoros, Gabon, Mali, Rwanda, Senegal, and Togo.

Table 3. Selected Economic Indicators for sub-Saharan Africa, 1980-90

(Index: 1985 = 100)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Sub-Saharan Africa											
Real GDP	97.7	98.0	99.3	97.3	94.7	100.0	102.9	104.0	109.8	114.4	118.0
Real GDP per capita	111.9	109.1	107.6	102.5	97.2	100.0	99.9	98.1	100.5	101.6	101.8
Consumer prices	38.3	48.2	55.0	68.4	88.1	100.0	113.6	134.5	179.7	236.4	275.7
Export value	130.5	102.0	93.3	91.3	97.4	100.0	111.3	109.6	108.1	114.9	120.8
Export volume	146.3	115.6	95.1	89.4	100.1	100.0	83.9	90.3	90.8	101.4	118.4
Import volume	145.7	155.8	136.2	114.3	103.4	100.0	102.5	107.4	115.6	116.4	127.8
Export unit value	112.1	113.4	101.9	97.9	102.8	100.0	75.4	82.4	84.0	88.2	98.0
Import unit value	103.7	103.3	100.6	98.7	98.1	100.0	110.6	125.2	132.6	134.6	144.4
Terms of trade	108.1	109.8	101.3	99.1	104.8	100.0	68.1	65.8	63.4	65.6	67.9
Gross capital formation	...	...	...	125.1	85.5	100.0	121.3	119.6	115.3	112.3	116.4
Sub-Saharan Africa (nonfuel exporters)											
Real GDP	93.2	95.2	97.1	96.9	97.2	100.0	103.8	106.8	111.2	114.1	116.5
Real GDP per capita	107.9	107.1	106.1	102.7	100.2	100.0	101.1	101.1	102.3	101.9	101.2
Consumer prices	33.4	44.1	52.8	67.3	81.8	100.0	122.6	155.7	193.5	239.0	301.6
Export value	118.5	111.2	107.6	103.3	103.1	100.0	106.6	108.5	102.3	103.8	106.6
Export volume	117.2	103.4	95.3	94.2	104.7	100.0	112.5	121.0	125.9	127.3	131.9
Import volume	136.8	129.4	120.7	105.5	102.7	100.0	110.5	124.1	137.9	141.4	150.4
Export unit value	98.9	93.0	88.6	91.2	101.5	100.0	105.5	111.6	123.0	122.6	123.7
Import unit value	98.8	101.6	100.9	100.5	101.8	100.0	106.4	119.2	125.7	128.7	137.1
Terms of trade	100.2	91.5	87.8	90.7	99.7	100.0	99.2	93.6	97.9	95.3	90.2
Gross capital formation	...	...	...	86.7	91.7	100.0	98.6	104.2	108.2	105.3	109.4

Sources: International Monetary Fund (1991b); and Fund staff estimates.

real income levels. During the 1980s real GDP in sub-Saharan Africa rose at an average rate of only 1.9 percent a year. Because population grew even faster, however, real GDP per capita fell by an average of nearly 1 percent a year between 1980 and 1990.

II. Steps Taken Thus Far to Address the Problem

The international financial community, particularly bilateral donors and international institutions, has not ignored the growing burden of sub-Saharan Africa's external debts. From the early 1980s the Paris Club creditor countries were actively rescheduling current debt-service obligations and, in many cases, arrears of sub-Saharan countries. In addition, during the first half of the 1980s many countries in sub-Saharan Africa received financial assistance from the International Monetary Fund in the form of stand-by and extended arrangements, often with accompanying structural adjustment loans or credits from the World Bank. In 1986, the Fund established its structural adjustment facility (SAF), financed by repayments of Trust Fund loans to low-income countries made during the 1970s, to support low-income countries undertaking economic adjustment programs with financial assistance on very concessional terms (0.5 percent interest, with principal repaid over a ten year period, including five and one half years' grace). Late in 1987 the Fund's enhanced structural adjustment facility (ESAF) was added to provide additional concessional resources to support strong adjustment programs in low-income countries. Also in 1987 the World Bank inaugurated its Special Program of Assistance (SPA) for some 22 highly indebted countries in sub-Saharan Africa that were implementing economic adjustment programs, of which 21 were active in 1990-91, 1/ providing more than US$4 billion in IDA credits and cofinancing from donor countries. Donors have pledged a further US$8 billion for the second phase of the SPA, through 1993, adding three more countries (Burkina Faso, Comoros, and Rwanda) to the active list (World Bank, 1991, p. 97). In addition, the Bank has provided IDA funds for debt buy-backs and set aside earnings from its IDA facility to help reduce the debt service due to the Bank from currently IDA-eligible countries such as Zambia that had earlier obtained loans under the Bank's market rate (IBRD) facility.

In 1988, the Paris Club creditor countries introduced the so-called Toronto terms for rescheduling bilateral debt of severely indebted low-income countries. For concessional debt, this involved rescheduling over a 25 year-maturity, including 14 years' grace. For nonconcessional debt such as export credits, creditors would choose from among three options: (a) canceling one third of the debt service due on rescheduled

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1/ Benin, Burundi, Central African Republic, Chad, the Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Sao Tome and Principe, Senegal, Tanzania, Togo, Uganda, and Zambia (see World Bank, 1991, p. 100).

obligations and rescheduling the rest over 14 years, including 8 years' grace; (b) rescheduling over a 14-year period, including 8 years' grace, at below-market interest rates; or (c) rescheduling over a 25-year period, including 14 years' grace. Between then and September 1991, 18 sub-Saharan African countries received Paris Club reschedulings on Toronto terms. 1/ However, Bank staff have estimated the net annual cash savings from the shift to Toronto terms for these countries at less than US$0.1 billion, because the terms affect only debt included in the relevant consolidation periods (Underwood and Humphreys, 1988). In addition, since the late 1970s major donor countries are estimated to have forgiven or converted to grants more than US$8 billion of outstanding ODA (concessional) debt for 26 sub-Saharan African countries originally or now included in the Bank's Special Program of Assistance (Table 4). The Bank estimates the effect on scheduled debt service for these countries at about US$500 million, or about 4 percent of their 1990 exports, because of the highly concessional nature of ODA debt (World Bank, 1991, p. 97). Together with some recovery in net financing flows to sub-Saharan Africa since the mid-1980s (Table 5), these measures have provided some relief to sub-Saharan African countries. However, the continuing rise in the region's debt obligations and the recurrence of debt rescheduling by individual countries suggests that still more is needed to resolve the problem.

III. Strategies to Address the Continuing External Debt Problems of sub-Saharan Africa

During the last few years a number of specific proposals have been offered to resolve the continuing debt problems of sub-Saharan Africa. These proposals can be grouped under three general headings. First are measures designed to provide additional debt relief for countries in the region, generally by rescheduling part or all of the outstanding bilateral debt on concessional terms. The second approach has been to recommend outright debt cancellation for a significant part of the region's external debt. A third strategy, which could be combined with either of the above two approaches, is to streamline the mechanism whereby sub-Saharan African countries obtain debt relief. In many instances, the specific proposals offered have been phrased in terms of relief for low-income or the least developed countries, in which case they would apply to countries outside Africa and exclude some debt-distressed African countries (such as Senegal, Côte d'Ivoire, and Zimbabwe) whose per capita incomes exceed the present ceiling for eligibility under the World Bank's IDA (concessional) facility.

1/ Benin, Burkina faso, Central African Republic (twice), Chad, Equatorial Guinea, Guinea, Guinea-Bissau, Madagascar (twice), Mali (twice), Mauritania, Mozambique, Niger (twice), Senegal (three times), Tanzania (twice), Togo (twice), Uganda, Zaïre, and Zambia (see World Bank, 1991, p. 162).

Table 4. Cancellation of ODA Debt for Selected sub-Saharan African Countries, 1978-90

(In millions of U.S. dollars)

	1978-87	1988-90	1978-90
Benin	85.2	75.0	160.2
Burkina Faso	--	--	--
Burundi	--	121.3	121.3
Central African Republic	15.3	176.0	191.3
Chad	27.0	75.4	102.4
Comoros	--	--	--
The Gambia	15.1	24.1	39.2
Ghana	72.0	422.2	494.2
Guinea	36.2	290.4	326.6
Guinea-Bissau	8.1	2.0	10.1
Kenya	230.0	764.3	994.3
Madagascar	17.8	695.9	713.7
Malawi	157.1	61.0	218.1
Mali	113.9	246.7	360.6
Mauritania	16.2	148.2	164.4
Mozambique	9.9	299.2	309.1
Niger	148.9	310.1	459.0
Rwanda	--	2.7	2.7
Sao Tome and Principe	--	--	--
Senegal	18.1	941.9	960.0
Somalia	97.9	54.3	152.2
Tanzania	570.5	125.8	696.3
Togo	129.0	175.2	304.2
Uganda	91.9	27.4	119.3
Zaire	1.1	642.2	643.3
Zambia	36.6	407.7	444.3
TOTAL 1/	2,068.0	6,088.9	8,156.9

Source: World Bank, based on data provided by bilateral creditors.

1/ Totals for 1978-87 and 1978-90 include US$7.0 million of debt forgiveness by Switzerland not allocated to specific debtor countries.

Table 5. External Financing Flows for sub-Saharan Africa, 1980-90

(In billions of U.S. dollars)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Sub-Saharan Africa 1/	13.3	13.6	17.2	16.9	8.8	8.1	15.8	13.9	15.6	16.4	14.6
Net non-debt-creating flows	3.4	2.8	4.0	4.0	4.1	4.6	5.6	6.3	6.5	9.2	7.1
Net external borrowing 2/	9.8	10.8	13.1	12.8	4.7	3.5	10.2	7.6	9.1	7.2	7.5
Reserve related liabilities 3/	1.0	1.8	1.1	2.1	0.2	-0.3	-0.5	-0.4	0.1	-0.5	-0.4
Of which:											
Net credit from IMF	0.7	1.6	0.7	1.3	0.5	0.0	-0.4	-0.5	-0.2	-0.4	-0.3
Other net external borrowing	8.9	9.0	12.1	10.7	4.5	3.8	10.7	8.0	9.0	7.7	7.9
Memorandum items:											
Long-term borrowing from official creditor, net	4.3	5.2	7.2	7.5	5.6	5.1	6.6	7.7	6.5	4.8	10.0
Net borrowing from commercial banks	3.9	5.8	2.9	1.2	-1.0	-0.8	-0.7	-0.5	0.2	-0.3	2.4

Sources: International Monetary Fund (1991b); and Fund staff estimates.

1/ Totals may not add because of rounding.
2/ Includes estimated impact of debt rescheduling and arrears.
3/ Includes use of Fund credit and arrears.

Nevertheless, given the large number of low-income, heavily indebted countries in sub-Saharan Africa, these proposals would be of particular help to African nations.

1. Proposals for additional debt relief

During the last few years one proposal for additional debt relief to sub-Saharan Africa has received particular attention: the so-called Trinidad terms of the United Kingdom's Prime Minister John Major, presented during Commonwealth meetings in 1990 when Major was the U.K's Chancellor of the Exchequer. Under the Trinidad terms, which would apply to all low-income (IDA eligible) countries implementing Fund-supported adjustment programs, debt rescheduling would apply to a country's entire debt stock, rather than just the debt falling due during the consolidation period. In addition, the write-off of debt service would expand from one third to two thirds, and creditors would no longer be allowed to choose medium-term rescheduling at concessional interest rates or rescheduling over very long periods at market rates as an alternative to outright reduction of debt service obligations. Besides expanding debt service write-offs and limiting creditor options, the Trinidad terms would make the interest due during the first five years of restructuring, plus all principal payments, repayable in gradually increasing amounts, reflecting the growth in export capacity of the debtor country. In addition, the maturities of restructured debts would be extended from 14 to 24 years. The leading bilateral creditors (the G-7 countries) have discussed the Trinidad terms for the last several years without reaching a consensus on further debt relief. As of end-1991 talks were continuing, although Paris Club decisions in 1991 affecting Egypt and Poland (see below) may signal some willingness among bilateral creditors to more liberal rescheduling terms for low-income countries.

Another significant proposal for additional debt relief to emerge in recent years appeared in the 1990 United Nations report on the export prospects of sub-Saharan Africa, whose chair was former Australian Prime Minister Malcolm Fraser (United Nations, 1990). This report recommends a 3 to 10-year moratorium on all bilateral debt service due by sub-Saharan African countries, together with rescheduling on very concessional (essentially IDA) terms. As this proposal would extend IDA terms to all of the region's bilateral debt and eliminate any debt service obligations for a period of up to 10 years, sub-Saharan countries would arguably receive even greater debt relief from this suggestion than from the Trinidad terms. Thus far, however, major creditor countries have given no indication of serious interest in this proposal.

Besides these proposals, there have been occasional calls for reducing the debt service obligations of low-income countries to international organizations, which traditionally do not reschedule their debts and which account for a significant part of the debt service payments of some sub-Saharan African countries. Rescheduling would impair the status of these agencies as preferred creditors, however, and outright debt forgiveness would create capital losses requiring offsetting contributions from member countries that would be hard to secure in the current world financial climate. Thus, rescheduling or canceling the region's debt to international organizations has received little consideration. As noted earlier, however, since the mid-1980s the Fund and the World Bank have moved to increase their concessional lending facilities to low-income countries by establishing the SAF and ESAF, the Special Program of Assistance, and the reflows program from IDA countries that were previous IBRD borrowers. These innovations have significantly reduced borrowing costs for many sub-Saharan African countries undertaking Fund- and Bank-supported adjustment programs, compared to interest rates prevailing under the Fund's stand-by and extended Fund (EFF) facilities and IBRD loans from the World Bank.

2. Proposals for debt cancellation

A second set of proposals would go beyond greater debt relief and offer outright debt forgiveness (debt cancellation) for a significant part of sub-Saharan Africa's external debt. One such proposal was put forward in 1987 by the Organization for African Unity (OAU) (see Lancaster, 1991 and United Nations, 1989), which suggested canceling all concessional debt owed by member countries and rescheduling the rest on IDA terms. More recently, former Dutch finance minister Jan Pronk, in an analysis of African debt problems, proposed canceling all bilateral debt of the least-developed, debt-distressed countries, a group that would include the 24 sub-Saharan African countries classified as severely indebted by the World Bank (see Lancaster, 1991). Finally, there have been calls for eliminating all of sub-Saharan Africa's bilateral external debt, on three grounds: (1) continuing debt obligations posed a severe burden for the region; (2) debt repayment was unlikely in view of the region's economic distress; and (3) cancellation would provide significant benefits to the region with only minor costs to creditors or the world's financial system, because most of the debt was owed to official creditors (see, for example, Economist, 1991). Adding impetus to proposals for debt cancellation was the Paris Club decision in April and May 1991 to forgive up to 50 percent (up to 70 percent, in the case of debt due to the United States) of the bilateral external debt of two severely indebted middle-income countries, Egypt and Poland, implementing major economic adjustment programs supported by the International Monetary Fund.

3. Proposals to ease the process of rescheduling

A third type of proposal put forward to address the external debt problems of sub-Saharan Africa involves suggestions for simplifying the process of securing debt relief. One such idea is Carol Lancaster's proposal to establish Adjustment Review Consortia (ARCs) for low-income, debt-distressed countries (Lancaster, 1991). Under this proposal, Paris Club debt reschedulings, consultative groups, and development roundtables would be merged into a single review body (the Adjustment Review Consortium) for each country, chaired by the World Bank and attended by other creditors. This body would review the country's promises and performance under structural adjustment programs and grant debt relief and development assistance accordingly, in a single administrative decision. Under this proposal the IMF would cede to the World Bank responsibility for supporting and monitoring adjustment programs in low-income (IDA eligible) countries, while donor countries would merge their debt rescheduling and aid-granting operations into a single process. Lancaster has argued that this approach would reduce administrative burdens for low-income countries, strengthen incentives for these countries to develop and implement adjustment programs, and allow the conversion of near-market-rate IMF assistance to these countries to Bank lending on very concessional IDA terms. Critics have raised a number of objections to the proposal, from concern over the monopoly status of ARCs to worries that transferring the main responsibility for adjustment lending to the World Bank might complicate the Fund's economic surveillance role.

IV. Concluding Remarks

The continuing economic difficulties facing sub-Saharan Africa ensure that measures to alleviate the region's external debt problems will remain on the agenda of the world financial community. In addition, the decision by the Paris Club to forgive 50 percent or more of the bilateral debts of Egypt and Poland in the light of the Gulf War and implementation of major adjustment programs has important implications for sub-Saharan Africa. Although the Paris Club countries have not yet applied the terms of Egyptian and Polish restructuring to other countries, a precedent has been established that will inevitably influence the terms of future debt restructuring for sub-Saharan Africa. In addition to creating the possibility of large-scale debt relief, the Egyptian and Polish restructurings suggest ways in which further incentives can be provided for implementing adjustment programs. Indeed, by linking debt reduction (as opposed to relief on debt service obligations) to completing six months or a year of an agreed adjustment program, debt reduction could make it more attractive for sub-Saharan African countries to undertake adjustment. This could be particularly valuable for countries with relatively low IMF quotas but large amounts of bilateral debt. Thus, adding debt reduction to debt relief as a consequence of adjustment could encourage some African countries that have had difficulty implementing adjustment programs or have experienced adjustment fatigue to persevere in their adjustment efforts.

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