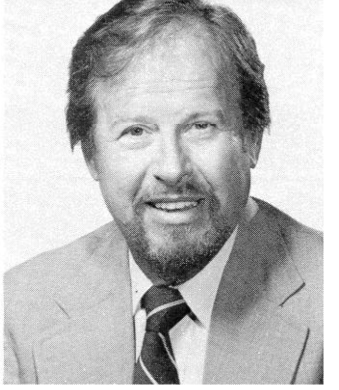
Commentary



Morris Miller

REVERSINGTHEFLOW

AFRICA AND THE INTERNATIONAL DEBT CRISIS

Morris Miller is a Canadian economist and a former executive director of the World Bank. He is also author of the book Coping Is Not Enough! The International Debt Crisis, *recently published by Dow Jones-Irwin, which examina, among other factors, the roles of the World Bank and the International Monetary Fund in the crisis. In this* Reports *commentary, he explains recent concern over Africa's debt problems and argues in favour of immediate forgiveness of Third World loans as a first step in averting international economic catastrophe.*

by MORRIS MILLER

In mid-1986, Third World debt passed the U.S.$1 trillion* mark. Though Africa's collective share is only a tiny fraction of that, the world community has begu" to turn its attention to the desperate financial predicament of that continent.

In early April, almost five years after the dramatic onset of the international deht crisis, UN Secretary General Perez de Cuellar announced the establishment of a 10-member Advisory Group on Resource Flows for Africa. Its purpose is to propose and activate measures to provide immediate help to the financiallv troubled countries of Africa.

Then came the mid-April meetings of the World Bank's Development Committee and the International Monetary Fund's Interim Committee, which brought together the world's finance ministers. It was largely devoted—to quote one source—to "a fundamental reassessment of Africa's ability to shoulder the burden of its foreign debt". The reassessment was intended to lead to action on this issue at the June economic summit of the seven leading industrialized nations.

These two initiatives followed hard on the heels of two moves by the World Bank: the establishment of the Special Facility for Sub-Sahara Africa, and its decision to raise Africa's share of its low-interest loans from 37 to 50 percent, which amounts to an entra $600 million per year. The Special Facility, for which US$1.7 billion has so far been pledged, aims to supplement financial flows to the region—on an emergency basis.

Given thai numerous dehtor nations in Latin America and Asia are also striving painfully and often vainly to cope with their debt burden, it is pertinent to ask: why the focus on Africa? After all, the largest debtors are elsewhere. Brazil and Mexico, for example, each owe more than $100 billion, a sum greater than the combined debt of all the Africa" countries.

Furthermore, it is only the dozen or so large-scale debtor nations that have the potential to pose a threat to the world's financial system. Their confrontations with private bank creditors command the headhes. Brazil's decision in late February to suspend its debt servicing payments is a good example. This action sent powerful tremors through the world's financial centres and there was even fear it might trigger a sequence of events cataclysmic for the global financial system itself.

Awareness of Ethiopian famine

Why then this focus on Africa at this time?

Part of the answer has to do with awareness of the Ethiopian famine. Heart-wrenching images reached into hundreds of millions of homes via television and other media. As UNICEF's deputy executive director, Richard Jolly, pointed out: "The outpouring of popular support followed when the ordinary television viewer saw what was happening [and] the dramatic change in *government* policies and support *followed after that."*

The concern for sub-Saharan Africa can, therefore, be seen as a cry of conscience—once the window on that tragic reality was opened to a wide audience.

It is but a small intellectual step to extend one's awareness of drought-generated famine in one country to the predicament of Africa as a whole, and to include in this litany of woes the much subtler, but no less serious, "societal costs" of ubiquitous poverty. The momentum of awareness created hy an emergency such as famine has to be maintained in order to secure widespread appreciation of the longer-term tragic effects of the deep 'poverty trap' in which ordinary Africans are caught.

But the face of poverty is "ot as dramatic as that of starvation. There are far fewer graphic images available to show the outside world the huma" consequences of grossly inadequate funding for health, education, nutrition, and housing.

Africa's deteriorating condition is accentuated by the debt crisis. Extremely scarce funds must be aliocated to service the more than $4 billion of interest annually owing on the continent's foreign debt. Payment arrears now amount to more than $12 billion, or one-fifth of their medium and long-term deht. Countries must forgo essential imports for immediate consumption, for maintenance of basic infrastructure, for investment in new facilities, and for the provision of basic services in the fields of health, education, housing, research, and so o". Julius Nyerere, former president of Tanzania, put the issue succinctly whe" he warned creditors that his and other governments are being forced to choose between repaying their debt and starving their children.

A few broad-brush statistics on sub-Saharan Africa illustrate the current situation. Over the decade from 1972, the year before the "oil shock", the region's collective debt grew from about $7 billion to almost $60 billion—or about 20 percent per year. This fa exceded growth in export earnings and income. The "deht shock" of 1982 drastically slowed the *rate of increase* of their borrowings, but oí course the total debt continued to grow. Some 30 countries "ow have debts more than three times greater than their annual export earnings. The significance of this ratio ca" be better appreciated by noting that, on average, these countries must allocate 40 percent of their export earnings to deht servicing.

Negative transfers

The problem is exacerbated by the fact that most of this is owed to governments and to the multilateral institutions, namely the World Bank and the IMF. In 1986, the IMF took $400 million more *from* these African countries than it put in. And this negative transfer phenomenon will soon apply to World Bank operations in Africa, if it doesn't already. Canadian journalist Michael Valpy portrayed the prohlem rather graphically in observing that African leaders have been forced to adopt measures that are "cannibalizing their countries".

The result is reflected in the cold statistical record: food production is increasing at only half the rate of population growth; manufacturing contributes less than 10 percent to the GNPs of these countries and is structurally at the same stage of de. velopment as it was a quarter-century ago; average real per capita incomes have been falling by about 1 percent per year since 1974. One-

* *All sums are in U.S. dollars*

hall to three-quarters of the population subsists on income levels characterized by the World Bank as "absolute poverty". African countries have the unhappy distinction of having the worst rankings on the 'misery index'-lite expectancy, adult illiteracy, and infant mortality.

So, poor countries are being called upon to maintain a net flow of resources *to* the rich. Little wonder that 22 countries of sub-Saharan Africa have had to reschedule their debt a total of 87 times since 1975!

It is against this background that ways are now being sought to provide more capital to these countries. But the financial and other resources projected and promised, helpful as they may be, are not enough to maintain living standards even at today's intolerably low levels. The U.S. White House Task Force to End Hunger in Sub-Saharan Africa, for example, estimates that an extra $4 billion will be needed annually. This is over and above both the $8.5 billion these countries are actually expected to, receive annually and the relief provided by the rescheduling oí the $7 billion required to service the debt.

It would he naive to think that pangs oí conscience over inequities in the present arrangements will spur donor governments to contribute more. The initiatives of the UN, the World Bank, and other institutions are more than a compassionate response to a deplorable situation. They also serve as a danger warning and draw attention to the hardships imposed on the people of these dehtor nations. This sense of danger can be a powerful force since it reinforces good conscience with a heavy dose of pure self-interest.

Once there is a widespread awareness that desperate conditions breed desperate measures, a range of future scenarios becomes relevant. Among them is a doomsday scenario which could well happen should some debtors declare outright default or quietly default de íacto on their obligations. Such actions could trigger a chain of events leading to economic disaster. By that stage the debt issue would have gained world attention—but too late for preventive measures.

Debt forgiveness is an immediate step. If it is not done deliberately and overtly, it will happen haphazardly.

The current approach to managing the deht issue is, in my view, helping to incubate the doomsday scenario. The approach can be describped as multiyear debt rescheduling on a case-by-case basis, in which the unpaid portion of the interest owed on the debt is added to the total, a practice known as "capitalizing" the interest. Thus, the debt of all developing countries is now astronomical: more than $1000 billion, compared with about $700 billion in mid-1982. During that period, however, living conditions in the debtor developing countries have deteriorated. It is as if the debtors are being forced to run up a down escalator. Little wonder they are tired and, with little or no prospect of a turnaround, discouraged. As the will to service the debt wanes with each passing day, the situation becomes more fragile and unsustainable.

As yet there is no light at the end of the tunnel, no glimmer of hope. World commodity export prices, in real terms, continue to remain at sub-basement levels. Export markets are stagnating or even shrinking. And protectionist barriers in the industrialized countries grow ever higher. To forestall the doomsday outcome which these trends make increasingly probable, the voting citizenry of the creditor countries must be aware and informed. They must use their votes to translate that concern into sustained government aid and related policies.

As a Rrst measure, the flow of resources must revert back to the traditional pattern—from the rich to the poor. Debt forgiveness is an immediate step. If it is not done deliberately and overtly, it will happen haphazardly. It is more a question of how it is to be achieved than when.

Debt-equity swaps

The wall of stubbom resistance by bankers is beginning to crack. Banks have begun to write down the value of loans to the Third World and to sell those loans at heavily discounted prices. This write-down often takes the form of "debt–equity" swaps in which banks sell loans at a discount in exchange for shares in companies in the debtor country.

And there are other proposals that would write down the value oí the debts in an organized manner tantamount to a contribution from the rich to the poor. Such proposals are premised on the view that the negative tranfer must be reversed immediately and that the positive flow to the debtor countries must be on a large sale. This reversal is but one condition of global recovery, but it is an essential and pressing one.

It is also essential that available resources, financial or otherwise, be used more effectively. Special attention must be given to a host of factors, two of the most critical being training and research. This is where agencies such as IDRC can play an important role on the global scene.

In the world of today there is no excuse for poverty tomorrow. Sub-Saharan Africa is a tantalizing challenge in its most extreme form. To hope to go beyond debt relief to the elimination of poverty may be regarded as optimistic. Whatever the judgment on that score, it is widely recognized that current arrangements are unsustainable and that a deep-seated and widespread crisis, of which the debt problem is but one manifestation, will force profound changes on us all.

The pain of the "adjustment" that is called for cannot be localized for long in an interdependent world such as ours. It must be shared, voluntarily or otherwise. ∎