IV Africa's Bilateral Debt & Debt Service 1983-90

4.01 At the end of 1990, official bilateral creditors were owed nearly $113 billion by African debtors. Of that amount, OECD creditors were owed about $88 billion (or over 78% of the bilateral total). CMEA (East Bloc) creditors accounted for $8.6 billion (8%), OPEC (mainly Arab) governments for $12.6 billion (11%) and other developing country creditors (the most significant being Brazil, China and India) for the remaining $3.7 billion (3%). The five North African countries owed creditor governments $48.4 billion (with Egypt alone accounting for nearly $28 billion) while the forty-five sub-Saharan countries owed a total of $64.5 billion. The proximate creditor breakdowns for each sub-region are shown in the table below. In North Africa, OECD creditors accounted for over 75% of bilateral exposure in 1990 (compared to 66% in 1982), CMEA for 7% (vs 8%), OPEC for 16% (vs 22%) and other developing country creditors for the remaining 2% (vs nearly 5%). In sub-Saharan Africa, OECD creditors accounted for nearly 80% of outstanding bilateral debt stock (vs 72% in 1982), CMEA for 8% (vs 11%), OPEC for 8% (vs 10%) and other creditors for the balance of 4% (vs 7%). The increase in exposure of OECD creditors is due, in large part, to the build-up effect of successive Paris Club rescheduling exercises in both sub-regions. *About 45-50% of the non-concessional debt owed to OECD creditors by countries in low-income Africa represents interest capitalized by the Paris Club; an amount that accounts for nearly $20 billion of debt outstanding at the end of 1990.*

4.02 European countries (in particular the big four – Germany, France, the UK and Italy) account for the largest proportion (72%) of total OECD claims in sub-Saharan Africa. The United States and France have the largest exposures in North Africa.[14] Japan is owed about 12% of sub-Saharan and about 17% of North African obligations. In the CMEA group, the Soviet Union is by far the largest creditor. Prior to German unification,

14 The distribution of official bilateral debt among different creditors has also been analysed in "The Problem of Official Debt owed by Developing Countries" by Percy S. Mistry, published by the Forum on Debt & Development (FONDAD), August 1989.

East Germany was the next largest but these claims have now become part of a united Germany's portfolio. Of the OPEC creditors, Saudi Arabia and Kuwait are the largest with Algeria, Iran, Iraq and Libya featuring prominently.

TABLE 5 THE AFRICAN BILATERAL DEBT BURDEN 1982-90

(Amounts in Billions of US Dollars)

	1982	1986	1990(E)
NORTH AFRICA:			
Total Debt Disbursed & Outstanding (DOD):	67.80	91.68	107.19
of which: Official Bilateral DOD:	27.20	39.14	48.35
OECD:	17.86	31.50	36.48
CMEA:	2.06	0.95	3.43
OPEC:	5.94	6.15	7.59
OTHER:	1.34	0.54	0.86
SUB-SAHARAN AFRICA:			
Total Debt Disbursed & Outstanding (DOD):	72.48	115.40	162.87
of which: Official Bilateral DOD:	20.35	41.40	64.59
OECD:	14.66	31.90	51.58
CMEA:	2.22	4.28	5.19
OPEC:	1.99	3.72	4.97
OTHER:	1.48	1.50	2.85
CONTINENTAL AFRICA:			
Total Disbursed & Outstanding Debt (DOD):	140.28	207.08	270.06
of which: Official Bilateral DOD:	47.55	80.54	112.94
OECD:	32.52	63.40	88.06
CMEA:	4.28	5.23	8.62
OPEC:	7.93	9.87	12.56
OTHER:	2.82	2.04	3.71

4.03 The bilateral debt of North Africa has grown by 77% between 1982-90 while in sub-Saharan countries it has more than tripled, largely as a result of repeated (mainly Paris Club) reschedulings on inappropriate terms. In North Africa, Egypt has rescheduled twice (1987 and 1991) with official bilateral creditors in the Paris Club. The last such rescheduling was on the most generous terms so far accorded to any African debtor and

From: African Debt Revisited: Procrastination or Progress?
FONDAD, The Hague, 1992, www.fondad.org

more generous than the terms accorded to the most debt-distressed low-income country. Morocco has rescheduled five times (1983, 1985, 1987, 1988 and 1990). Of the forty-five sub-Saharan countries for which debt records are available, thirty-three have rescheduled their debts with creditors at least once; eighteen have rescheduled at least thrice. Six middle-income countries (Botswana, Djibouti, Mauritius, the Seychelles, Swaziland and Zimbabwe) have not rescheduled their debts between 1983-90 while another six low-income countries (Burundi, Comoros, Ghana, Kenya, Lesotho and Rwanda) have also managed to avert rescheduling. Five of these are either severely or moderately debt-distressed (Burundi, Comoros, Ghana, Kenya and Zimbabwe).

4.04 Bilateral creditors of North African countries have (except in the case of Egypt) received debt service on scheduled or rescheduled terms; but the opposite is true for sub-Saharan debtors. Against scheduled payments (after rescheduling) of $6 billion due to their bilateral creditors in 1989 sub-Saharan debtors paid only $1.27 billion – 21% of the amount due.[15] In 1990, the ratio was estimated to be an even lower 19%. The World Bank observed in its annual commentary on the debt situation of sub-Saharan Africa at the end of 1990:

"Multilateral institutions receive preferred treatment, and with few exceptions (four countries) they were fully serviced in 1989. Bilateral creditors were last in line, receiving about 20% of the debt service due to them, while private creditors were paid almost one-third".

4.05 Table 6 highlights the *actual* debt servicing performance of African countries in meeting bilateral obligations over the last eight years. It shows how the bilateral debt burden has grown annually and reflects the extent of concessionality in the structure of bilateral debt. It also shows that debt service payments made by North African countries to their bilateral creditors have risen steadily throughout the period from $1.5 billion to over $3.5 billion between 1983-90 representing an increase in the proportion of total debt service absorbed by bilateral creditors from 13.5% in 1983 to 22.5% in 1990. At the same time the outstanding bilateral debt stock of North Africa has grown much less quickly than for sub-Saharan Africa (reflecting the large proportion of amortization payments made on

15 World Debt Tables 1990-91, Vol.I Analysis & Summary, pg 89 Table A6.1.

TABLE 6 AFRICA'S BILATERAL DEBT SERVICE 1983-90

(Amounts in Billions of US Dollars)

	1983	1984	1985	1986	1987	1988	1989	1990(E)
NORTH AFRICA								
Total Debt Service (TDS):	11.24	10.92	11.08	12.11	12.61	12.43	14.01	15.69
Bilateral Debt Service (BDS):	1.52	1.77	2.28	2.95	2.12	2.64	3.37	3.53
of which Principal Payments:	0.72	0.92	1.34	1.73	1.48	1.47	1.88	2.02
Interest Payments:	0.80	0.85	0.94	1.22	0.66	1.17	1.49	1.51
Memo: Bilateral DOD:	28.42	31.38	36.71	39.14	47.29	48.32	47.57	48.35
of which Concessional BDOD:	15.40	15.49	17.23	18.90	21.70	22.14	22.46	22.97
SUB-SAHARAN AFRICA:								
Total Debt Service (TDS):	8.56	10.50	11.75	10.47	8.87	10.06	9.25	11.75
Bilateral Debt Service (BDS):	1.13	1.38	2.05	1.64	1.53	1.90	1.57	3.11
of which Principal Payments:	0.48	0.55	0.99	0.73	0.61	0.66	0.52	1.54
Interest Payments:	0.65	0.83	1.06	0.91	0.92	1.24	1.05	1.57
Memo: Bilateral DOD:	23.47	25.15	29.28	41.40	51.24	51.88	56.54	64.59
of which Concessional BDOD:	13.96	14.86	17.18	20.14	24.07	25.21	25.34	26.83
CONTINENTAL AFRICA:								
Total Debt Service (TDS):	19.80	21.42	22.83	22.58	21.48	22.49	23.26	27.44
Bilateral Debt Service (BDS)	2.65	3.15	4.33	4.59	3.65	4.54	4.94	6.64
of which Principal Payments:	1.20	1.47	2.33	2.46	2.09	2.13	2.40	3.56
Interest Payments:	1.45	1.68	2.00	2.13	1.56	2.41	2.54	3.08
Memo: Bilateral DOD:	51.89	56.53	65.99	80.54	98.53	100.20	104.11	112.94
of which Concessional BDOD:	29.36	30.35	34.41	40.07	45.77	47.35	47.80	49.80

schedule) but the concessionality of North Africa's bilateral debt profile has diminished slightly from 54% in 1983 to 47% in 1980 (though there remains a high element of concessionality in Egypt's bilateral debt stock).

4.06 In the case of sub-Saharan Africa the opposite has occurred. Bilateral debt service has fluctuated around $1.6 billion annually with such payments being a residual derived from total debt service affordability and meeting payments to preferred and private creditors. The 1990 estimates for bilateral debt service are preliminary but seem exceptionally high and likely to be subject to downward correction when finalized. As a result of continuous rescheduling and the inability of sub-Saharan debtors to meet principal and interest payments on schedule the bilateral debt stock has grown more rapidly than in North Africa. Somewhat surprisingly, it also shows diminishing concessionality in its structure – from 60% concessional in 1983 to less than 42% in 1990. This feature reflects the build-up of rescheduled debt and capitalized interest on non-concessional terms coupled with the cancellation of some concessional debt.

4.07 The figures derogate the efficacy of the initiatives taken between 1986-90 to relieve sub-Saharan debt and debt service burdens. The only real relief seems to have been provided by sub-Saharan Africa unilaterally incurring arrears through lack of repayment capacity rather than through malign intent or the deliberate use of an arrears strategy to achieve a negotiating advantage with creditors. As shown earlier, total debt service payments account for nearly 8% of the region's GNP and absorb nearly half of aid grant inflows. Although bilateral creditors receive a quarter of total debt service payments, that still means that they extract 2% of regional GNP and 7% of exports. These ratios are relatively high compared to bilateral take-outs from other debtor regions. The inescapable conclusion is that the initiatives taken to relieve sub-Saharan Africa's bilateral debt burdens so far have not worked in reducing its contractual bilateral debt and debt service burdens to affordable levels over the medium-term. They have helped to alleviate cash-flow problems temporarily through arrears rather than through agreed relief. That temporary relief has been provided in a sub-optimal manner imposing heavy administrative and management costs on sub-Saharan governments and forcing senior African policy-makers to focus on day-to-day foreign exchange allocation rather than permitting them to deal with the more important issues of reviving long-term development.[16]

4.08 **The Paris Club:** The main vehicle for relief from meeting contractual bilateral debt service obligations has been the Paris Club rescheduling

16 For a thorough exposition of this point and for a discussion of how Paris Club procedures serve to achieve the wrong outcomes readers are referred to a forthcoming book entitled "Africa's Debt Negotiations; No Winners" by Dr. Matthew Martin, Chapter 3.

which involves participation by all OECD creditors and Brazil. The terms offered by the Paris Club are provided on the condition that other bilateral creditors also reschedule obligations due for the consolidation period on terms which are at least as generous (although there is little evidence to support the view that this is what actually happens). In North Africa, Paris Club reschedulings for Morocco have upto now been on inappropriate terms; greater flexibility would clearly have been beneficial. As observed above, the recent rescheduling for Egypt has broken new ground in going well beyond Toronto terms; it strengthens the argument that the Club's actions are politically motivated rather than being based on objective financial and economic considerations and criteria.

4.09 In sub-Saharan Africa the result of Paris Club reschedulings, made on unrealistically harsh terms between 1983-86 and then progressively eased but much too slowly, has been to create a mountain of unserviceable debt while providing immediate cash-flow relief which has quickly become ephemeral. The failure of the Paris Club to reschedule sub-Saharan debt on terms in keeping with the realities and circumstances facing those fragile and structurally weak economies is reflected in the extraordinarily high rate of arrears on bilateral debt which OECD creditors have had to accept. In retrospect it appears almost as if the Paris Club implicitly decided not to be realistic in its rescheduling agreements for the region, in order to avoid being pressed into making similar concessions for other (and in their view) less deserving debtors. It then compensated for that lack of realism by tolerating arrears of a relative magnitude which would earlier have been unthinkable for other debtors to risk incurring. In adopting such an implicit strategy (whether unintentionally or inadvertently) the Paris Club has probably encouraged the adoption of a deliberate arrears strategy by middle-income debtors (such as Brazil and Costa Rica) since 1987 to obtain negotiating advantage. Thus it has perhaps done more long-run damage to the sanctity of sound debtor-creditor relationships than would have occurred had the Club adopted a more reasonable posture on debt relief in the first place.

4.10 The fundamental weakness in the operations of the Paris Club is manifested in its arcane protocols and procedures which are profoundly inimical to the interests of debtors, or indeed to the achievement of sensibly negotiated outcomes. These have been discussed and criticised at length

From: African Debt Revisited: Procrastination or Progress?
FONDAD, The Hague, 1992, www.fondad.org

elsewhere. In the case of sub-Saharan debtors, however, the Paris Club's actions (especially between 1983-88) have been particularly harmful in exacerbating a bad situation. Treasury and ECA officials representing their own debt-collection interests at the Club's meetings have overridden or ignored the advice of the aid officials in their own governments and have taken insufficient account of discussions at Consultative Group (CG) Meetings. Moreover, in the Paris Club, the World Bank (a far more knowledgeable and involved agency than the IMF on sub-Saharan economies and their debt relief needs) is merely an observer while the IMF has a seat at the table owing to a peculiar (and perhaps once correct) belief on the part of the Club's members that the Bank is "soft" on the debt relief and reduction issue while the IMF can be relied on to be a firm disciplinarian in favour of maximizing debt service extraction. Such an assumption is probably no longer valid. But even when it was, its application has made the Club less effective and more harmful than it might have been in sub-Saharan Africa. *There is a powerful case to be made for shifting the focus of debt relief decisions for countries in that region to the CG forum, in which debtor countries have a better opportunity to present their case and creditor representatives have a wider perspective on the issue, with the Paris Club merely ratifying such decisions.*

4.11 The Paris Club first emerged in the 1960s to reschedule the debts of isolated countries. In the absence of another alternative, it moved swiftly and decisively in 1982-83 to complement the operations of the IMF in containing the debt crisis and co-ordinating the actions of bilateral creditors in the arrangement of voluntary and involuntary financing packages for the larger middle-income debtors. It appears now, with the benefit of hindsight, that its structure, supporting secretariat and modus operandi were perhaps particularly ill-suited to dealing with a large and generalized debt problem affecting more than half of the developing world – and particularly ill-suited to understanding or dealing properly with the debt relief needs of sub-Saharan Africa. Original Club reschedulings (of only principal repayments on export credits) in the 1960s were based on extending repayments of scheduled payments for a specific period of time (the consolidation period) on maturities comparable with medium-term export credits – 7 years with 3 years of grace. In the late 1970s and early 1980s when more sub-Saharan countries needed to reschedule their debts these terms were relaxed to permit the consolidation of: contractual interest along with principal for the entire face value of eligible maturities; and government-to-government loans as well as export credits. Repayment maturities were lengthened to a standard 10 years with 5 years of grace. In 1984-85 an attempt was made to accommodate multi-year reschedulings but this practice soon ceased. Interest payments were rescheduled on previously hard terms (or even harder terms if those were prevailing in the market at the time).

4.12 The Paris Club has required, as a precondition of eligibility for bilateral rescheduling, (and as its criterion of an adequate adjustment effort by the debtor seeking relief) that debtor countries have in place an agreed economic reform and adjustment programme monitored by the IMF (not even the World Bank would do as a substitute). In 1987-88 this precondition created a serious impediment for several sub-Saharan countries seeking bilateral debt relief. Between 1983-86 an average of 13 agreements a year were negotiated by sub-Saharan countries with official bilateral creditors, dropping to an average of 9 agreements in 1987-88. In September 1988, twelve sub-Saharan countries were unable to service their debts and were waiting to renegotiate them with the Paris Club with consolidation periods on previous agreements having expired for more than six months and with these countries accruing penalty charges on overdue obligations – charges that were not normally consolidated in Club agreements. Nor, as a result of denied access, could these countries obtain access to other forms of external finance, including disbursements of bilateral ODA. [17]

4.13 Patently unrealistic rescheduling terms for most sub-Saharan countries were tenaciously adhered to between 1983-88 by the Paris Club despite considerable evidence (and repeated but very softly couched warnings by the World Bank) that they were leading to a rapid build-up of nonconcessional bilateral obligations which were well beyond the capacity

---

17 See, World Debt Tables, 1988-89, Vol. I Analysis & Summary, pg xliv and xlv. This ugly and damaging feature of Paris Club preconditionality, tied in with IMF programmes that were proving particularly difficult to negotiate at the time (largely because of a lack of realism in the IMF's conditionality which later, was fortunately moderated), led the World Bank to suggest "a shadow adjustment programme for countries in arrears with a major portion of ODA disbursements, simultaneous with a settlement of arrears and a Paris Club rescheduling, at the end". (WDT op cit, pg xxxix)

From: African Debt Revisited: Procrastination or Progress?
FONDAD, The Hague, 1992, www.fondad.org

of these debtor economies ever to repay.[18] Following announcement of the Baker Plan[19] in October 1985 the Paris Club became more sensitive to the criticisms of its rescheduling practices. But it took twenty months of foot-dragging till the G-7 Economic Summit in Venice in 1987 paved the way for extending repayment maturities to 20 years with 10 years grace (often referred to as Venice terms) for "countries facing specially difficult situations". A year later, recognizing that this relaxation was little more than an empty gesture, the June 1988 G-7 Economic Summit in Toronto resulted in the Club's changing a cardinal precept that had governed its reschedulings since inception. It resulted in consensus that, instead of every OECD creditor in the Paris Club applying standard terms universally, creditors could for the first time choose among a menu of options in rescheduling the debts of the poorest countries.

4.14 Under **Toronto Terms,** rescheduled *concessional* debt was to be cancelled in full or in part and/or the balance to be repaid with a 25-year maturity including 14 years of grace. Moratorium interest charges would be at least as low as the interest rates charged on the loans at the time of original signing. For *non-concessional* debt, three supposedly equivalent rescheduling options were defined by the Paris Club and adopted, at the World Bank-IMF Annual Meetings in Berlin later that year, by creditors:

Option A. Partial Writedowns: One-third of eligible maturities could be cancelled and the remainder rescheduled over a 14 year period with 8 years grace. Moratorium interest would be based on market rates in different creditor countries.

---

18 These warnings were conveyed in several special reports on Africa, in the World Bank's annual commentary on the debt situation of developing country contained in the covering text of the World Debt Tables for the years 1986-91, in several Consultative Group Meetings held between 1986-90 and in specific country economic and sector reports. They were also echoed in the annual reports of UNCTAD and UNECA over the same period.

19 Though often ignored by most students of the Third World debt crisis, Secretary (then of the Treasury) James Baker III, included a special section of his Plan for dealing with the debt of low-income countries in sub-Saharan Africa calling for: (a) redirection of IMF Trust Fund reflows to be directed to addressing the financing needs of low-income debtors; and (b) for the IMF and Bank to take a joint approach in support of comprehensive programmes of policy reform. Mr. Baker made an offer to "seek resources in support of such a far reaching approach if other other donors were prepared to make equitable contributions". In fact, this announcement resulted in the creation of the IMF's Structural Adjustment Facility (SAF) and its "enhanced" variant ESAF to which the US did not, in fact, make any contribution leaving it entirely to other donors to carry the burden.

Option B. Extended Maturities: A 25 year maturity with 14 years grace could be applied to all reschedulable debt with base moratorium interest being charged at prevailing market rates.

Option C. Reduced Interest Rates: Moratorium interest rates on rescheduled debt could be charged at either 3.5% below, or one-half of, the prevailing market rate in the creditor country concerned, whichever gave the smaller reduction, with repayment maturities of 14 years and 8 years grace. [The provision referring to "3.5% or half" appears to have been watered down since to "somewhat below market rates"].

4.15 The Toronto terms are applied by the Paris Club only to low-income, debt-distressed countries that have an acceptable ongoing Fund or Bank supported adjustment programme. Upto March 1991, 18 low-income African countries had rescheduled with the Paris Club on Toronto terms. The total amount rescheduled under these terms was just over $5 billion. The first 15 of these reschedulings saw creditor choices evenly distributed among the three options: resulting in 30% of the consolidations being rescheduled using Option A; 36% using Option B and 34% Option C. France, Finland and Sweden usually chose Option A, Belgium, Japan, the Netherlands, Spain and the US have usually chosen Option B while Australia, Canada, Germany, Italy, Norway, Switzerland and the UK have exercised Option C. Though these options are intended to be "equivalent" in their debt relief effects, they are not.[20] Option B is clearly inferior to the other two in offering less real relief.

4.16 What difference have the Toronto terms made after all the fuss that was generated in achieving them and their heralding by the Paris Club as a major breakthrough for low-income debtor countries? Unfortunately, not much! The cash flow savings in actual debt service as a result of these reschedulings have amounted to a mere $100 million annually because: (a) the concessions do not apply to the entire stock of debt but only to maturities falling due within a consolidation period of generally no more than 18 months; (b) the Venice terms already allowed the rescheduling of all principal and interest on a prolonged basis; (c)

20 See "The Problem of Official Debt owed by Developing Countries", by Percy S. Mistry, op cit. para 3.14.

criteria for cutoff dates and for previously rescheduled debt are sufficiently strict as to inhibit the full extent of intended relief from being realized; and (d) the Toronto terms do not apply to Nigeria which is a low-income severely debt distressed country nor to some middle-income countries (like Cameroon, Cape Verde, Congo, Cote d'Ivoire, Gabon, Senegal and, in North Africa, Morocco) where there is a strong case for more generous treatment by the Paris Club.[21] Calculated against scheduled debt service burdens, had the original contractual terms been honoured, the relief is much greater – probably over \$5.5 billion – but it is hypothetical to look at savings from scheduled levels for most of these low-income countries. Also with more than one-third of the total amount being rescheduled using Option B the reduction in the present value of future debt obligations on restructured debt is about 15% instead of the 33% that would result if creditors chose one of the other two options.

4.17 The World Bank has calculated that if creditor countries choose the same options as before, and if Toronto terms are applied repeatedly (as they will need to be as future maturities fall due) to all low-income countries in Africa by Paris Club creditors then: (i) projected debt service savings would amount to \$310 million in the year 2000; (ii) the present discounted value of debt service savings for the period 1989-2000 would amount to under \$1.85 billion; (iii) annualized as a share of 1988 debt service this would result in a saving of under 2.5%; and (iv) the total amount of debt reduced by 2000 would be just over \$2 billion. Assuming that Toronto terms were also adopted by other non-OECD creditors then the discounted value of savings would rise to \$2.7 billion (or an annualized 3.4% of debt service saved) with total debt reduction by 2000 of nearly \$3 billion.[22] These amounts, though seemingly large, do not make much of a dent in the sub-Saharan debt problem – a point which has been belatedly recognized, two years after the Toronto Summit and which has resulted in two new proposals being tabled.

4.18 The first of these was introduced by British Prime Minister **John**

21 See World Debt Tables (WDT) , 1990-91, Vol. I. pg 94.

22 See WDT, 1989-90, Vol. I; pp 47-48 for these calculations.

Major (when still Chancellor of the Exchequer) at the meeting of Commonwealth Finance Ministers in Trinidad in September 1990. Known in current "debtspeak" as the *Trinidad Terms* they involve applying to the low-income severely debt distressed countries the following measures: (a) rescheduling the entire stock of debt in a single stroke, instead of the present tedious process of renegotiating it tranche by tranche for maturities falling due in 15-18 month intervals; (b) increasing from one-third to two thirds the amount of relief provided by cancellation of outstanding debt stock; (c) capitalizing all interest payments (at market rates) on the remaining one-third debt stock for a period of five years and requiring phased repayment with steadily increasing payments of princiapl and interest in line with export and output growth in the debtor economy; and finally (d) stretching repayments of the remaining one-third debt stock over a period of twenty-five years with a flexible repayment schedule.

4.19 This proposal has been discussed at length in the Paris Club, enjoined as it was to come up with modifications to the unsatisfactory Toronto package for consideration at the 1991 G-7 Economic Summit in London. Contrary to expectations, however, neither the Major proposal nor any derivative of it was approved at that Summit. The US government was unable to reach agreement with European creditors pushing for universal acceptance of Trinidad Terms despite the willingness of the latter to agree (against their better judgement) to US sponsored debt reduction proposals for two other middle-income debtors which were far more generous than those extended to African countries upto now and far less defensible on grounds of equity or economic rationality. Those exceptional actions clearly suggest that the agenda for debt relief and rescheduling is driven more by political than economic and financial considerations. The terms extended by the Paris Club to Poland and Egypt – neither of which are low-income debtors – earlier this year, fell between the Toronto and Trinidad terms creating expectations that this type of compromise was what the Paris Club may indeed propose as the next breakthrough. Adopted unchanged, the Trinidad Terms would mean a reduction in the eligible debt stock of the poorest sub-Saharan countries of about $18 billion. That would be increased to $34 billion if all low-income African countries were to become eligible. It could result in lowering scheduled debt service payments to levels approaching the

From: African Debt Revisited: Procrastination or Progress?
FONDAD, The Hague, 1992, www.fondad.org

present level of actual payments on bilateral debt service depending on the flexibility that was applied in phasing the repayment schedule.

4.20 The Major proposal would be substantially enhanced if it reduced the level of interest rates applied to the residual rescheduled debt stock to intermediate, below market levels for the lowest income countries, with some flexibility for higher rates to be applied to countries less distressed. Trinidad terms go a long way towards meeting most of the objectives, and addressing many of the difficulties, that have been raised in connection with previous Paris Club rescheduling practices and with the Toronto terms. They represent a significant departure from business-as-usual by a weighty creditor country and have gained the approval of EEC creditors. By themselves Trinidad Terms would not go far enough in solving the debt problem of low-income sub-Saharan Africa; they would deal with only one-quarter of the total debt service burden which these countries presently have to bear. But their adoption would represent a significant positive step towards a more comprehensive solution. The announcement in October 1991 by the British Prime Minister at the Commonwealth Heads of Government Meetings in Harare, Zimbabwe, that the UK would proceed unilaterally in applying Trinidad Terms to its own claims on 20 Severely Indebted Low-Income Countries was a significant breakthrough. Hopefully other OECD creditors will swiftly emulate the UK's encouraging example so that Trinidad Terms become the norm for all creditors in the Paris Club as soon as possible.

4.21 The *second,* and more far-reaching proposal, was made by the Dutch Development Co-operation Minister **Jan Pronk** at the Second UNO Conference on the Least Developed Countries in Paris in September 1990. Elegant in its simplicity, and likely to be extremely effective in its impact were the Paris Club inclined to consider it seriously, the Pronk proposal is for all creditor countries collectively to cancel all bilateral official debt (concessional as well as non-concessional) to those least developed countries which are severely debt-distressed and other low-income countries pursuing acceptable economic reform programmes. Applied in its strictest sense (only the LLDCs) the Pronk proposal would result in the cancellation of about $40 billion in outstanding debt stocks and save on scheduled annual debt service of $3-4 billion; but actual debt service savings would be in the region of about $1.5 billion. It would be extremely easy to administer involving the least amount of administrative fuss and complexity. For that reason, if no other, it is likely to be eschewed by the Paris Club which prefers its solutions to be complicated, often to the point of incomprehensibility.

4.22 For Africa, acceptance of Trinidad Terms would represent a major step forward. In some countries under extreme stress (Ethiopia, Sudan, Somalia, Mozambique etc.)[23] they could even prove to be a way-station for eventual acceptance of the Pronk proposals . The debt relief impact of Trinidad terms in Africa would be considerably enhanced if some variant of the Toronto terms – on the Poland/Egypt lines already approved – were to be applied to the bilateral debt of the continent's *middle-income* debt-distressed countries. Japan is fiercely opposed to debt write-offs and could prove to be the most recalcitrant opponent of any such proposal. It is not clear that the OPEC countries (especially in view of the costs to them of the Gulf War and the present financial predicament of Kuwait) are in a particularly debt-forgiving mood either. Nor is it clear that the CMEA countries or other developing country creditors see themselves as being able to afford the luxury of cancelling their claims. Peculiarly enough, Brazil has already taken a very large hit on Poland (nearly $2 billion in write-offs) where it was the second largest bilateral creditor. Its exposure in countries such as Angola and Mozambique remains high. Whether some accommodation needs to be made for countries such as these (India is another significant creditor to Africa about to slide into a debt crisis of its own) by way of offset arrangements needs to be carefully considered. Whatever the outcome, initiatives on reducing the burden of bilateral debt and debt service, while absolutely necessary, will not suffice by themsleves in alleviating Africa's crippling debt service burdens. They will simply be one piece, though an important one, in a mosaic which will require multilateral and private creditors to take equivalent action in sharing the burden of reductions in Africa's debt and debt service.

23 Providing of course that they could be persuaded to put their domestic houses in order and pursue rigorous reform programs without disruption by fratricidal conflict within the foreseeable future.

From: African Debt Revisited: Procrastination or Progress?
FONDAD, The Hague, 1992, www.fondad.org