

**THE EXTERNAL DEBT SITUATION OF AFRICAN OIC
MEMBER COUNTRIES: THE ENHANCED HIPC SCHEME,
NEW RELIEF OR NEW BURDENS**

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Poor countries' debts continued to figure prominently in the various international action programmes for LDCs. The recent years have witnessed a change in perception regarding the sustainability of HIPC's debts. A near consensus emerged on the need to drop, cancel or refinance all HIPC's non-sustainable debts. However, criteria of sustainability differ widely. In their estimations, the Bretton Woods institutions adopt the narrower definition of financial sustainability. NGOs and debt campaigners, on the other hand, call for a wider criterion that considers, in addition, socio-developmental factors of the HIPC's. Thus, while the enhanced version of the HIPC scheme has answered some of its earlier drawbacks, it remains inadequate to meet the prime aim for which it was launched. Instead, it brings in a set of new conditions, which complicate the issue further. Heeding these, the UN Secretary General proposed forming an independent body, which would not be unduly influenced by vested interests, to be entrusted with the process of assessment and evaluation. OIC countries and institutions should support this alternative approach.

1. INTRODUCTION

Recently, a number of important political and technical events have taken place on the debt scene worldwide. The G7 summit in Cologne (June 1999) and the International Monetary Fund-World Bank (IMF-WB) annual meeting (Sept. 1999) are primary among these events. In the Cologne statement, the G7 leaders approved a scheme to grant 90 per cent debt relief to countries enrolling in the HIPC process. During the year, the main world creditors (G8 plus China), on separate occasions, declared their intention to offer 100 per cent cancellation of the debts of the heavily indebted poor countries (HIPC's) participating in the scheme (Jubilee 2000). As before, the relief is expected to take the form of a stock of debt operation, which includes both bilateral and multilateral debt. However, there is a hitch with this pledge. The countries as well as the multilateral

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institutions concerned seem to interpret this 100 per cent term differently. So in effect, a 100 per cent pledge does not mean full debt relief. The IMF-WB annual meeting held in Prague (Sept. 2000) issued a review of the Enhanced HIPC initiative (EHIPC).

From the perspective of the HIPCs, the launch of the EHIPC scheme in September 1999 is arguably the most important technical development during the year. The EHIPC scheme is a modified version of the original HIPC initiative (1996) with some emphasis on poverty reduction and links to civil society and institutional reform. In addition to bilateral debt, the EHIPC scheme also includes some relief from the multilateral debts held by the Fund and the Bank. While the scheme offers interim debt relief, full relief only takes place at the scheme's completion point (Section 4). However, due to differences of interpretation, there is confusion as to the extent of the relief offered.

The subtle aims of the new scheme are to closely monitor the country's progress and to track the use of HIPC released funds to pre-specified purposes. While the IMF-WB hailed it as progress, many believe the new scheme offers very little in the way of more relief and attaches more strings to it. This report argues that, while the EHIPC offered more relief to some HIPCs, its new links and implicit strings have made more complex an already complicated process. Besides, the IMF-WB own estimates show that some targeted HIPCs will end up paying more on debt payments under the scheme than what they are now (Cameroon). Furthermore, almost all HIPCs will, after relief, continue to pay more on debt than they can on basic services such as health and primary education (Oxfam 2000). Uganda, the first country to receive debt cancellation under the Cologne¹ terms, will still pay creditors about US\$ 50 million a year. The scheme's relief is so thinly spread that it becomes inconsequential. Noting these, one cannot help but wonder whether the EHIPC scheme offers more relief or more burdens to the HIPCs.

As the international campaign 'Jubilee 2000' is drawing to a close, efforts have intensified to put more pressure to bear on political leaders and creditors in a final push towards realising the campaign's declared

¹ Under the Cologne terms 90 per cent of a country's debt in net present value (NPV) is cancelled including some multilateral debts owed to the Bank and the Fund.

aims. The campaign, which started in 1996, is a worldwide civil-society pressure group aiming at the full cancellation of the debt of the poorest countries of the world. These developments and their implications for the debt scene worldwide and for the African member countries (AMC) in particular are the subject matter of this report.

This report is prepared in compliance with ICFM Resolution No.7/27-E, which requests SESRTCIC to continue following the debt situation of OIC African and other member countries. The report includes basic debt-related data and debt indicators on all OIC member countries but it emphasises the debt problems of the member countries in the sub-Saharan Africa region (AMC). The report brings together debt data on individual AMC and OIC member countries. The collected data is compiled to calculate debt indicators for the two groups (Annexes 1 and 2). These are then compared with indicators of two reference groups namely, the Low-income (LIC) and the Developing countries (DC) groups (Annexes 4 and 6). Some references to all sub-Saharan Africa (SSA) and Middle-income groups (MIC) (Annexes 3 and 5) are made.

The report is structured as follows: Section II classes OIC and AMC by income and indebtedness. Section III includes a detailed account of the debt situation of the AMC. Section IV deals with the recent developments on the debt scene. And section V concludes the report.

2. CLASSIFICATION OF AMC BY INCOME AND INDEBTEDNESS LEVELS

The World Bank² classifies participant countries in the World Bank's debtor-reporting system by income level and indebtedness. The classification criterion identifies four income groups, namely low-income, lower and upper middle-income, and high-income groups. It also sets three categories of countries identified by levels of indebtedness. These are: severely indebted, moderately indebted and less-indebted countries. A fourth category is devoted to countries that are not classified by indebtedness. A full description of the criterion is in Table 1 below.

According to the World Bank (2000b), 21 of 56 OIC member countries (37.5 per cent) are severely indebted, 16 (28.6 per cent) are

² World Bank 2000, p.XXIV and World Bank 2000b, p.152.

moderately indebted, 14 (25 per cent) are less-indebted and the remaining five (8.9 per cent) are not classified by indebtedness.

TABLE 1. AMC AND OIC COUNTRIES CLASSIFIED BY INCOME AND INDEBTEDNESS 1996-98 DATA (NUMBER OF AMC AS RATIO OF OIC IN EACH GROUP)

According to 1998 GNP calculated by WB <i>Atlas</i> method	Severely-indebted PV/XGS \geq 220% and PV/GNP \geq 80%	Moderately-indebted 132% \leq PV/XGS \leq 220% OR 48% \leq PV/GNP \leq 80%	Less-indebted PV/XGS \leq 132% & PV/GNP \leq 48%	Non Classified
Low-income GNP/N \leq \$760	14/16	5/10	0/2	0/0
Lower middle \$760 \leq GNP/N \leq \$3030	0/4	0/3	1/8	0/1
Upper middle \$3031 \leq GNP/N \leq \$9360	1/1	0/3	0/4	0/0
High-income GNP/N \geq \$9361	0/0	0/0	0/0	0/4
Totals	15/21	5/16	1/14	0/5

Source: SESRTCIC calculations.

Notes:

Data from World Bank (2000b) p.152, (classification is based on pre-enhanced HIPC indebtedness criterion).

PV: Net Present Value of debt.

N: Population.

GNP/N: per capita Income.

XGS: Exports of Goods and Services.

Of the severely indebted category, 15 (71.4 per cent of the OIC members in the category) are AMC. Five AMC are classed in the moderately indebted category and only one in the less indebted category.

Of the severely indebted category, 16 OIC countries are classed as low-income countries (LIC), 4 as lower middle-income (LMIC), 1 as upper middle-income (UMIC). None of the severely-indebted OIC countries is classed as high income (HIC). Thus, of the 15 severely-indebted AMC, 14 are classed as LIC, none as LMIC, 1 as UMIC, and none as HIC.

Ten of the 16 moderately-indebted OIC countries are classed as LIC, 3 as LMIC, another 3 as UMIC, and none as HIC in this category. All 5 AMC, in this category, are classed in the LIC group.

In the less-indebted category, 2 OIC countries are classed in the LIC group, 8 in the LMIC group, 4 in the UMIC group and none in the HIC group. Only one AMC belongs to this category and is classed in the LMIC group.

TABLE 2. CLASSIFICATION OF AMC AND OIC ECONOMIES BY INCOME GROUP AND INDEBTEDNESS AS AT JANUARY 2000

	Sub groups	Severely-Indebted	Moderately-Indebted	Less-indebted	Not Classified	
Low-income	AMC	Burkina Faso Cameroon Comoros Guinea G. Bissau Mali Mauritania	Mozambique Niger Nigeria Sierra Leone Somalia Sudan Uganda	Benin Chad Gambia Senegal Togo		
	OIC	Afghanistan Indonesia	Bangladesh Pakistan Kyrgyz Rep Turkmenistan Yemen	Azerbaijan Tajikistan		
Middle income	AMC	Guyana		Djibouti		
	OIC	Iraq Jordan Syria	Algeria Morocco Tunisia	Albania Egypt Iran Kazakhstan Maldives Suriname Uzbekistan	Palestine	
Upper	AMC	Gabon				
	OIC		Lebanon Malaysia Turkey	Bahrain Libya Oman Saudi Arabia		
High-income					Brunei Kuwait Qatar UAE	
Totals	AMC	21	15	5	1	0
	OIC	35	6	11	13	5
	World	207	46	43	58	60

Source: World Bank 2000b, Table A1.7, p.152.

The five OIC countries that are not classified by severity of indebtedness are classed by income. Four of these belong to the HIC group and one to the LMIC group. No AMC belongs to the non-classified category.

Table 2 gives more details on the indebtedness and income classification of the AMC and OIC member countries.

3. OVERALL ACCOUNT OF THE DEBT SITUATION OF THE AMC AND OIC MEMBER COUNTRIES

In this section, the report compares the debt stock and flow indicators of the AMC and OIC groups with their respective indicators from the LIC and DC groups. The indicators used are growth rates (or period average rates of change), debt ratios, percentage shares and annual percentage change. Debt ratios compared are debt-export (EDT/XGS), debt-GNP (EDT/GNP) debt-service (TDS/XGS) and interest-service (INT/XGS) ratios. Indebtedness is gauged by debt-export and debt-GNP ratios while debt-service and interest-service ratios measure the debt repayment burden.

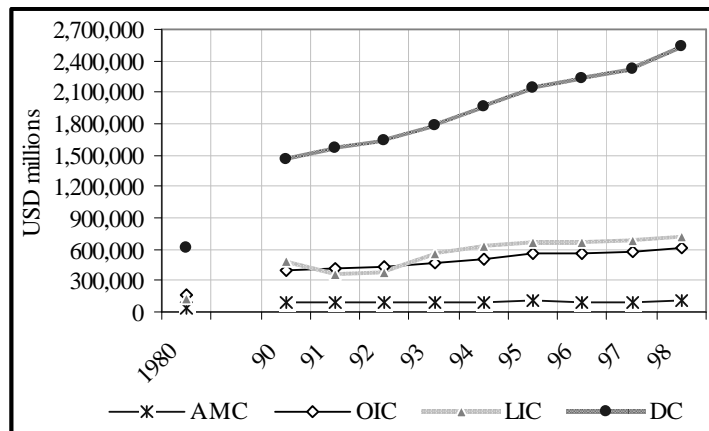
Debt stock indicators contrasted include total debt stock (EDT), and analysis of its components and composition. The flow variables contrasted are aggregate net resource flows and transfers, and net on-debt flow and transfers on debt. The report contrasts debt indicators of the OIC sub-Saharan African Group (AMC) with low-income countries (LIC), all OIC and all developing countries' (DC) debt indicators. Only when significant, references to the all sub-Saharan African and middle-income groups may be made. The inclusion of the 1998 data does not seem to alter much the debt stock or the flow trends of all the groups (Annex Tables 1-6).

3.1. Debt Stock Performance

Total debt stocks (EDT) consist of public and publicly guaranteed long-term debt (LDOD), private non-guaranteed LDOD, IMF credit and short-term debt (STD). Over the study period 1980-1998, the debt stocks of the AMC, the OIC and the reference groups have generally increased. However, EDT increases appear more pronounced for OIC, LIC and DC groups (Graph 1).

During 1980-90, AMC debt stock (EDT) figures show a 12.3 per cent average rise, lower only than the LIC average of 13.8 per cent. Over the same period, the debt stock of the OIC group increased by an average of 10 against 9.1 per cent for the DC group. However, during 1990-98, AMC EDT rose by an average of 1.7 per cent compared to 5.3 and 5.7 per cent for the LIC and the OIC group respectively. The DC group EDT rose by a higher annual average (7.1 per cent). Accordingly, AMC EDT growth, especially in the latter years, was marginal compared to the reference groups (Table 3). This may be due to two reasons: 1) the AMC were unable to attract new resources and 2) debt relief efforts are beginning to pay dividend. Comparing indebtedness ratios will shed more light on the group's debt situation.

GRAPH 1. STOCK OF DEBT COMPARED, 1980, 1990-98



3.2. Indebtedness Appraisal

The level of indebtedness of AMC soared out of control during the 1990s, with rates higher than their regional averages³. In 1980, the AMC group had one of the lowest indebtedness indicators. By 1998, the AMC group indebtedness ratios were among the highest in the world. By 1998, AMC debt-export and debt-GNP ratios were 5.5 and 3.6 times their 1980 levels (Graph 2A and Table 4).

The AMC group's debt payment position has also worsened over the years. Only the OIC group had a higher TDS/XGS ratio in 1990 and the

³ Sub-Saharan Africa (SSA) is the AMC regional group.

LIC had a comparable INT/XGS ratio. The AMC's 1998 debt service ratio is almost double its 1980 level, however its interest service ratio declined significantly in 1998 compared to 1990 (Graph 2B and Table 4). The graph and table show a comparison of debt ratios across time and groups.

In 1998, the OIC group's debt-export and debt-GNP ratios measured 1.5 and 2.1 times their 1980 levels, respectively. The same ratios were 1.2 and 2.2 times for the LIC, and 1.7 and 2.1 for the DC group. Even SSA indebtedness ratios were lower than the AMC ratios, both in magnitude and rate of change.

AMC payment ratios were relatively low and exhibited rather less extreme rates of change. Their 1998 debt-service ratio was the lowest (14.1 per cent) among all the six groups. Nevertheless, both its payment ratios were 1.8 and 1.2 times their 1980 levels. However, in 1998, the debt-service ratios of AMC, OIC and LIC groups were considerably lower than their 1990 levels. Interest service ratios 1998 levels were invariably lower than their earlier rates.

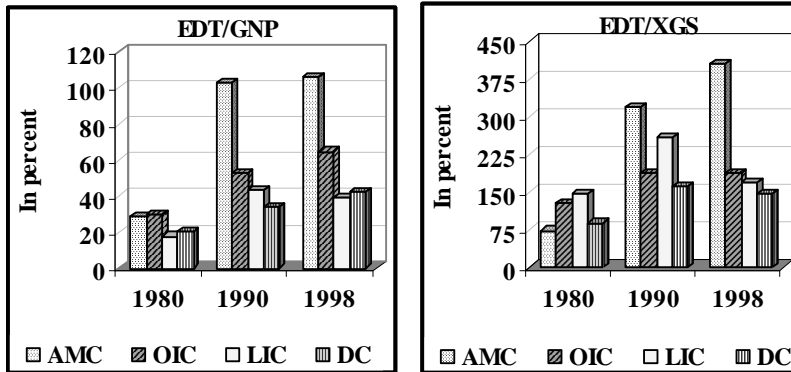
It is clear that, in recent years, the AMC group had the worst debt performance among the six groups. Even in relation to their region averages, the AMC group compares less favourably. Yet, their debt ratios were comparable to the other groups in 1980. However, throughout the 1990s, the AMC had relatively very high debt ratios. The relatively less extreme payment ratios compared to these high indebtedness ratios may be a reflection of non-payment of outstanding debts, rescheduling and also of debt relief.

3.3. Composition of Debt

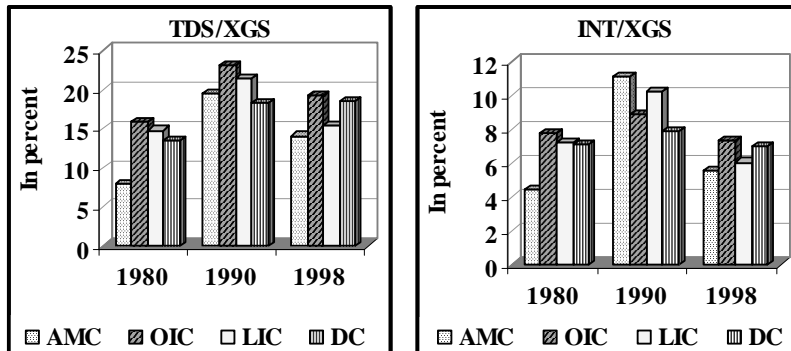
The composition of debt is an important factor in debt analysis since it has a direct bearing on the processes of debt repayment, rescheduling and relief. In terms of its main component, the composition of the debt of the AMC and the other reference groups remained roughly the same after the inclusion of the 1998 data (Graph 5). Long-term debt (LDOD) remained the largest component of EDT in all groups. In 1998, LDOD shares ranged between 78-85 per cent of the debt stock across all groups. AMC LDOD share was 79.3 per cent in 1998. During 1980-90, AMC LDOD increased by 13.7 per cent, second only to LIC group with 14.1

per cent, and followed by the OIC group with 10.2 per cent. The DC groups LDOD rose by 10.1 per cent (Table 3).

GRAPH 2. DEBT RATIOS COMPARISON
A. Indebtedness indicators



B. Debt-payment burden indicators



**TABLE 3. DEBT PERFORMANCE COMPARISON 1980-90,
1990-98**

	Average change per annum (%)							
	AMC		OIC		LIC		DC	
	80-90	90-98	80-90	90-98	80-90	90-98	80-90	90-98
1. SUMMARY DEBT DATA (millions of US dollars)								
TOTAL DEBT STOCK (EDT)	12.3	1.7	10.0	5.7	13.8	5.3	9.1	7.1
Long-term debt (LDOD)	13.7	0.7	10.2	5.2	14.1	5.2	10.1	7.0
Public and publicly guaranteed	14.6	0.5	10.3	2.6	14.5	3.5	11.3	4.0
Official debts	16.7	3.1	11.3	3.8	14.6	3.7	13.0	4.4
Multilateral	17.5	5.5	12.8	4.4	17.5	6.5	15.6	5.8
Concessional	18.3	8.2	13.4	7.8	15.8	7.8	14.2	7.6
Bilateral	16.4	1.9	9.5	3.5	13.3	2.0	11.9	3.6
Concessional	9.5	3.4	8.7	3.2	11.9	0.2	10.2	0.5
Private Creditors	10.3	-10.7	8.6	0.0	14.2	2.8	9.7	3.6
Private non-guaranteed	-2.7	9.6	8.0	26.8	7.6	24.6	-0.7	21.9
Use of IMF credit	9.5	2.5	4.4	14.4	8.3	7.2	11.0	13.3
Short-term debt (STD)	5.9	7.2	9.6	7.4	13.2	5.3	5.3	6.7
Of which interest arrears on LDOD	42.4	10.5	31.3	7.7	22.4	7.4	35.8	-4.6
Memo: principal arrears on LDOD	26.0	12.1	31.8	9.6	29.7	11.9	37.3	5.6
TOTAL DEBT FLOWS								
Disbursements	-2.5	-7.7	3.3	3.6	5.7	2.6	1.9	11.2
Long-term debt	-2.0	-9.1	4.0	1.7	6.4	1.5	1.8	10.7
IMF repurchases	-8.2	6.2	-14.3	41.7	-1.2	14.2	3.2	17.1
Principal repayments	6.2	-1.2	11.9	3.6	11.8	8.5	7.7	9.7
Long-term debt	6.5	-2.0	12.4	3.7	11.4	9.8	7.3	10.2
IMF repurchases	3.6	5.0	4.7	1.1	14.4	-7.2	15.1	2.4
Net flows on debt	-4.6	-36.7	0.0	-18.4	4.1	-173.2	-6.0	3.0
Of which short-term debt	-6.8	-166.9	12.2	-195.4	10.4	-206.6	-8.9	-214.4
Interest repayments (INT)	6.2	-9.5	7.3	3.2	11.3	4.0	3.7	6.9
Long-term debt	10.2	-10.1	8.7	2.7	12.3	4.4	5.3	7.1
IMF charges	8.8	-12.5	11.0	-0.2	14.4	-7.2	18.2	3.9
Short-term debt	-8.7	-3.7	1.9	6.1	7.2	3.5	-1.6	6.4
Net transfers on debt	-179.0	15.3	-185.2	37.9	-1.2	-210.1	-183.5	19.6
Total debt service (TDS)	6.2	-5.3	9.9	3.4	11.6	6.5	5.8	8.5
Long-term debt	8.5	-6.0	10.9	3.3	11.8	7.6	6.4	9.1
IMF repurchases and charges	4.6	2.2	5.9	0.8	14.4	-7.2	15.8	2.8
Short-term debt (interest only)	-8.7	-3.7	1.9	6.1	7.2	3.5	-1.6	6.4
2. AGGREGATE NET RESOURCE FLOWS AND NET TRANSFERS (long-term)								
NET RESOURCE FLOWS	3.7	-2.8	1.1	0.3	6.6	7.3	1.8	15.8
Net flows on LDOD (ex. IMF)	-6.7	-34.2	-6.2	-7.6	3.6	-12.7	-4.0	10.6
Foreign direct investment (net)	-204.8	14.4	10.3	11.3	36.8	32.2	na	20.8
Portfolio equity flows	na	na	na	32.2	na	21.0	na	27.3
Grant (ex. Technical coop.)	11.9	-2.9	6.6	-7.1	8.0	-0.6	7.9	-10.0
NET TRANSFERS	8.7	0.2	-3.7	-22.1	7.3	8.5	0.0	27.9
Interest on long-term debt	10.3	-10.1	8.7	2.7	12.3	4.4	5.3	3.8
Profit Remittances on FDI	-14.6	3.4	-3.6	7.3	-5.1	9.6	-3.0	6.0
3. MAJOR ECONOMIC AGGREGATE 1980, 1990-97 (millions of US dollars)								
Gross National Product (GNP)	-1.0	1.3	4.0	3.0	4.1	6.6	3.6	4.4
Exports of Goods & Services (XGS)	-3.0	-1.3	5.8	5.8	7.5	11.0	2.7	8.4
Workers' remittances	-0.4	12.2	5.8	2.6	2.2	12.0	5.8	8.2
Imports of Goods & Services (MGS)	-2.4	3.3	5.6	5.5	7.2	10.3	3.2	8.6
International Reserves (RES)	-5.8	8.7	-2.0	12.8	2.6	18.4	0.5	53.0
Current account balance (CAB)	-5.9	-224.9	-13.2	38.3	-1.1	-194.7	14.1	15.8

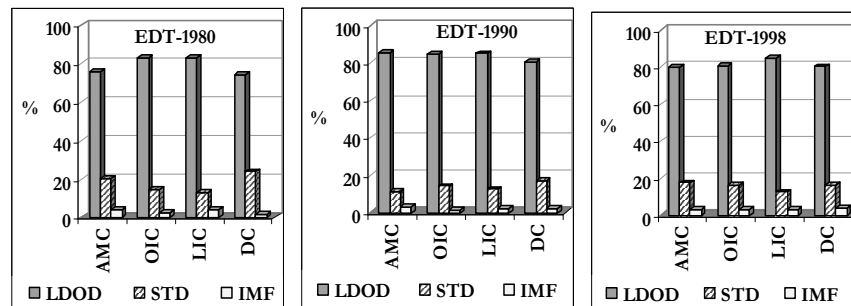
Study Calculations, based on Annex Tables 1-4.

TABLE 4. INDEBTEDNESS AND PAYMENT BURDEN INDICATORS

Indebtedness indicators								
	EDT/XGS (%)				EDT/GNP (%)			
	1980	1990	1998	98/80	1980	1990	1998	98/80
AMC	73.2	317.3	403.3	5.5	29.1	102.8	105.7	3.6
OIC	127.9	187.5	186.1	1.5	30.1	52.7	64.7	2.1
SSA	65.5	209.6	238.9	3.6	23.4	63	72.3	3.1
LIC	146.1	257.8	168.9	1.2	17.7	43.2	39.3	2.2
MIC	86.7	137.2	140.9	1.6	21	31.1	43.4	2.1
DC	88.4	162.5	147.8	1.7	20.3	34.2	42.1	2.1

Debt payments burden indicators								
	TDS/XGS (%)			98/80	INT/XGS (%)			
	1980	1990	1998		1980	1990	1998	
AMC	7.9	19.5	14.1	1.8	4.5	11.1	5.6	1.2
OIC	15.9	23.1	19.3	1.2	7.8	8.9	7.3	0.9
SSA	7.2	12.9	14.7	2.0	3.8	6.3	5.4	1.4
LIC	14.8	21.4	15.4	1.0	7.2	10.2	6	0.8
MIC	14.5	17.4	19.4	1.3	7.7	7.2	7.3	0.9
DC	13.5	18.3	18.4	1.4	7.1	7.8	7	1.0

Extract of Tables 1-6.

GRAPH 3. DEBT STOCK (EDT) COMPOSITION

During the 1990s, STD shares have been creeping up in all the groups. However, 1997 and 1998 witnessed a reversal of that trend in the DC and LIC groups. For the OIC group the decline is seen only in 1998. However, for the AMC and SSA groups, STD shares are still on the increase, although the rates of increase have fairly slowed. The rise of STD in these two groups is linked primarily to the widespread arrears on LDOD and to IMF credits. AMC STD rose on average by 7.2 per cent annually during 1990-98 against 7.4 per cent for the OIC. For LIC and DC, the rise in STD ranged between 5.3 and 6.7 per cent per annum (Table and Graph 3).

IMF credits shares have remained roughly the same except for the MIC. There they rose from 1.5 in 1980 to 2.3 and to 4.0 per cent in 1990 and 1998 respectively. During the 1990s, IMF credits to AMC made about 3.1 per cent of EDT, on average, compared to 3.5 per cent for SSA. IMF credits of the OIC, LIC and DC groups were 2.2, 2.5 and 3 per cent respectively (Graph 3).

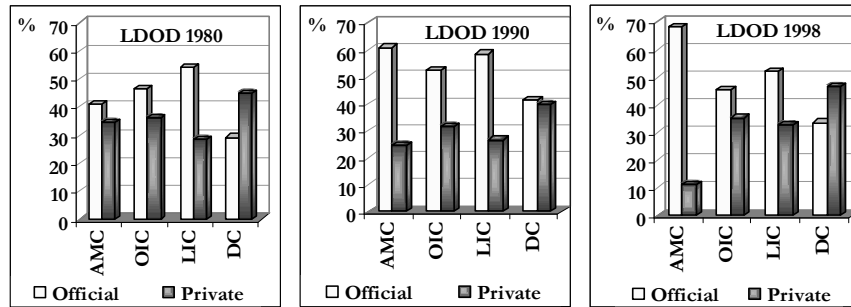
Guaranteed to non-guaranteed debt (G/NG)⁴ and official to private (O/P) debt ratios are significant indicators for debt composition analysis. These ratios appear to differ widely among various groups, but most notably for the AMC group. In 1980, both AMC ratios were midway among all the groups. The G/NG ratio ranged between 5.4 (DC) and 16 (OIC), the AMC ratio was in the middle of the range with 9.9. The O/P ratio range was 0.7 (DC) to 1.9 (LIC) with 1.2 for the AMC. From 1990 onwards, the AMC ratios are consistently on the highest boundary of the range. In addition, the AMC ratios were much higher than those of the other groups, including SSA. In 1998, the AMC G/NG and O/P ratios were 25.1 and 6.1, followed by 18.8 and 3.2 for SSA. For the remaining groups, including the LIC, the G/NG range was 3.1–5.1 and the O/P ratio's range was 0.7–1.6. The very high ratios of the AMC and SSA countries are due to their relatively high public and public guaranteed debts. Furthermore, the AMC's official debts amount to six times their private debts (Table 5).

TABLE 5. PUBLIC AND PUBLICLY GUARANTEED DEBT TO PRIVATE NON-GUARANTEED DEBT AND OFFICIAL TO PRIVATE DEBT RATIOS

Groups	Ratios	1980	1990	91-97	1998
AMC	Guaranteed/Non-Guaranteed	9.9	50.4	38.1	25.1
	Official/Private	1.2	2.5	4.6	6.1
OIC	Guaranteed/Non-Guaranteed	16.0	19.6	9.3	3.6
	Official/Private	1.3	1.7	1.7	1.3
SSA	Guaranteed/Non-Guaranteed	9.2	27.3	21.4	18.8
	Official/Private	1.2	2.7	3.0	3.2
LIC	Guaranteed/Non-Guaranteed	12.2	22.8	20.7	5.1
	Official/Private	1.9	2.2	2.5	1.6
DC	Guaranteed/Non-Guaranteed	5.4	17.0	8.4	3.1
	Official/Private	0.7	1.1	1.1	0.7

⁴ Guaranteed debt consists of public and publicly guaranteed debt, while non-guaranteed debt refers to private non-guaranteed debt.

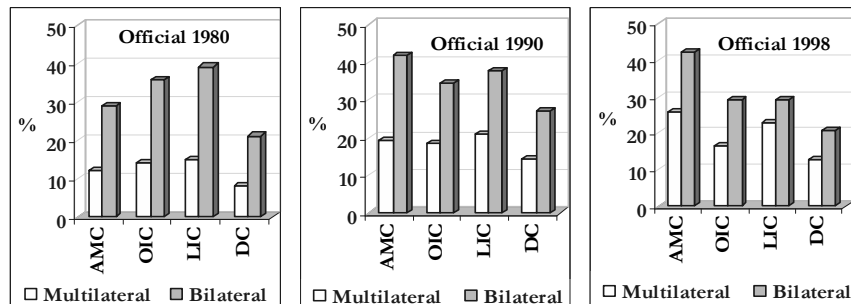
GRAPH 4. COMPOSITION OF LDOD



The distribution of LDOD into official and private debts is important due to its bearing on the issues of financial access and debt repayment and relief. During 1980-98, the share of official debts in the AMC LDOD has almost doubled while that of private debts diminished to about a quarter of its 1980 level. Similar but milder trends are observed for the LIC and OIC group. For the AMC the public-private debt ratio was 1.2 in 1980 but reached 6.1 by 1998. For the LIC groups, the public-private ratio declined from 1.9 in 1980 to 1.6 in 1998 and remained at 1.3 for the OIC group. The reverse is observed in the DC group with private debts taking the larger share (Graph 4).

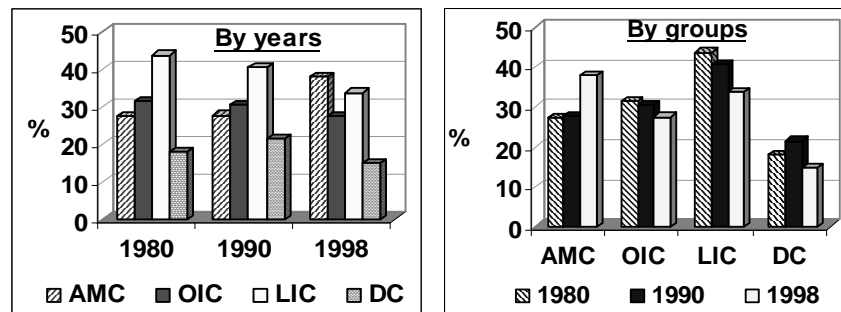
The distribution of official debts into multilateral and bilateral is also of significance, particularly for countries that face repayment problems, and thus need to restructure their debts. With the increase of AMC official debts, both their multilateral and bilateral debt elements have risen over the years. In 1998, 42.4 per cent of the AMC EDT was made of multilateral debts and 26 per cent of bilateral debts (Graph 5).

GRAPH 5. DISTRIBUTION OF OFFICIAL DEBT



Lastly, the concessional element of debt has risen substantially in the AMC and SSA, but declined in all the other groups including the OIC. In 1980, concessional debt represented 27.3 and 26.9 of their EDT respectively. The same amounted to 27.8 and 33.1 per cent in 1990 and increased to 37.9 and 38.7 in 1998 in the two groups respectively (Graph 6). The rise is traced principally to the impact of debt rescheduling, especially within the context of the Enhanced Heavily Indebted Poor Countries Initiative (EHIPC)⁵.

GRAPH 6. CONCESSIONAL DEBT



3.4. Financial Flows

Aggregate long-term net resource flows (NRF) are the sum of net resource flows on long-term debt (LDOD) –bonds and bank and trade-related lending excluding IMF– and non-debt-creating flows. Non-debt-creating flows consist of net foreign direct investment (FDI), portfolio equity flows, and official grants (excluding technical cooperation). Aggregate net transfers (NT) are NRF minus interests on loans and FDI profits. Accordingly the NRF are by definition greater than the NT.

3.4.1. Aggregate net resource flows (long-term)

During 1980-90, NRF of AMC increased by an average of 3.7 per year. That compares to annual average shifts of 1.1, 6.6, and 1.8 for the OIC, LIC, and DC groups respectively. In contrast, during 1990- 98 the AMC NRF declined by 2.8 per cent on average. Only the SSA had a matching rate of decline during 1990-98. The other groups' NRF have all risen on average, by 0.3, 7.3, and 15.8 for the OIC, LIC, and DC groups respectively (Table 3, Graph 7).

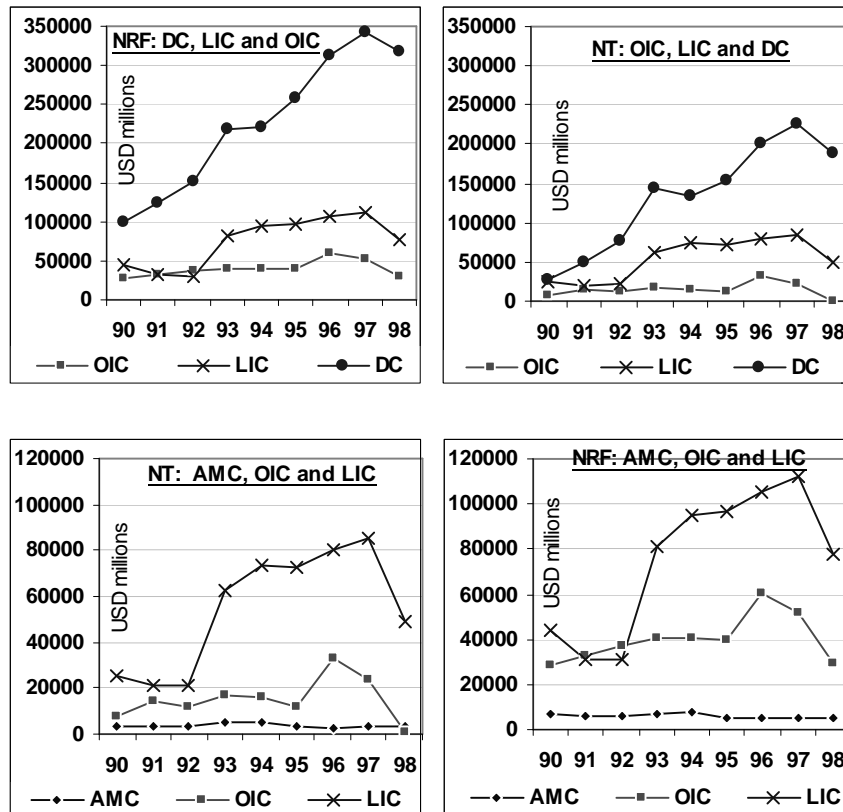
⁵ Section 4 of this paper discusses the EHIPC and its impact on the AMC.

The year 1998 witnessed a decline in the NRF of all of the groups. The steepest ebb was in the OIC group with 44.1 per cent, followed by the LIC with 30 per cent, then the DC with 7.4 per cent, and lastly the AMC with a 2.7 per cent decline (Table 6, Graph 7).

3.4.2. Aggregate Net Transfers

While the AMC annual NT shifts were positive over both periods, the rate of increase in 1980-90 (8.7) was markedly higher than in 1990-98 (0.2).

GRAPH 7. AGGREGATE NET RESOURCE FLOWS AND NET TRANSFERS



In 1998, NT declined in all of the groups, including the MIC. In addition, the rates of decline were sharper than in NRF. This observation indicates that most of the depreciation took place in the non debt-creating flows —FDI, portfolio equity flows and official grants. The NT

of the OIC group declined by 96 per cent in 1998, in addition to 29.7 per cent in 1997. SSA NT declined by 50 per cent in 1998. For AMC the decline in NT was the same as that of NRF (Table 6).

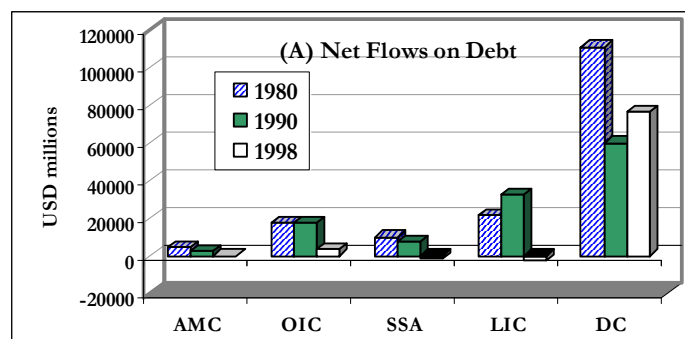
3.4.3. Net Resources and Transfers on Debt

Net flows on debt, or net lending or net disbursements, (NFOD) include disbursements on long-term debt and IMF purchases minus principal repayments on long-term debt. It includes the change in stock of short-term debt together with interest arrears for long-term debt. Net transfers on debt (NTOD) are net flows on debt minus interest payments (or disbursements minus total debt service payments) (WB 2000, pages 16, 20-21).

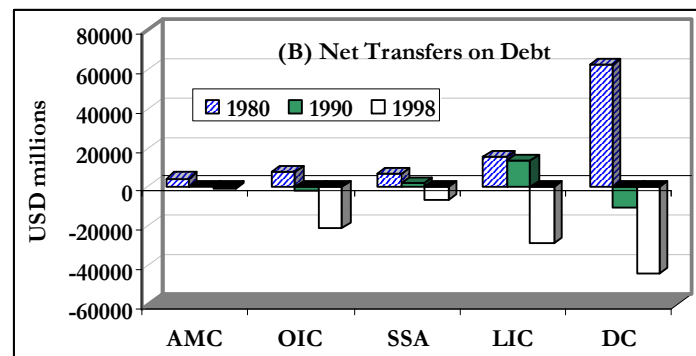
TABLE 6. ANNUAL CHANGE OF NET RESOURCE FLOWS AND NET TRANSFERS

	91/90	92/91	93/92	94/93	95/94	96/95	97/96	98/97	93-98
Net Resource Flows									
AMC	-8.7	0.5	14.2	7.8	-29.2	-6.4	9.3	-2.7	-1.2
OIC	16.3	12.8	8.6	0.7	-1.5	51.3	-14.4	-44.1	0.1
SSA	-3.4	-0.9	0.7	17.7	15.8	-25.6	19.9	-29.8	-0.2
LIC	-29.7	-1.3	163.3	17.3	1.4	9.6	6.4	-30.7	27.9
MIC	69.2	32.7	13.4	-9.3	28.3	29.0	11.5	3.9	12.8
DC	24.9	23.7	43.9	0.5	16.7	21.8	9.8	-7.4	14.2
Net Transfers									
AMC	-17.2	11.7	59.2	3.4	-38.6	-21.0	41.2	-2.6	6.9
OIC	94.2	-13.5	40.9	-6.9	-24.3	172.7	-29.7	-95.8	9.5
SSA	-0.9	-2.6	14.6	15.1	29.9	-43.3	53.9	-49.9	3.4
LIC	-18.3	1.9	191.8	17.4	-1.1	10.3	7.0	-42.4	30.5
MIC	4808	94.9	44.8	-24.7	31.9	50.8	14.0	-0.3	19.4
DC	90.4	54.8	85.9	-6.5	14.0	31.7	11.2	-16.3	20.0

GRAPH 8. POSITION OF NET RESOURCE FLOWS AND TRANSFERS ON DEBT



Resource flows on debt to AMC, OIC and SSA have declined drastically over the years. AMC, NFOD measured 15 per cent of their EDT in 1980, but declined to 3 per cent in 1990, and to a mere 0.07 per cent in 1998. Similar rates of decline were present in SSA, LIC and the OIC groups. In general, resource flows to all the DC group have declined during the 1990s, but recovered slightly in 1998 (Graph 8.A).



In 1980, the net transfers on debt (NTOD) were positive across the groups. By 1998, they all turned negative. The magnitude of the shift in the different groups was proportional to the groups' net transfer value. That is to say, the group with the highest NTOD value shifted the most. However, since the NTOD is a net leakage, then all groups had to pay more on debts in 1998 than they did in 1980 and 1990 (Graph 8.B). This general regression of the flows on debt across the groups indicates the scantiness of new debt resource flows to LIC in general, but especially to those in SSA including the AMC.

4. DEVELOPMENTS ON DEBT RELIEF

In recent years, international efforts on the debt relief of the HIPC have been centred on the HIPC initiative. However, progress under the initiative has, so far, been disappointing, both to the sponsors and to the HIPC, the targets of the initiative. In fact, ever since its inception and launch in September 1996, the HIPC initiative has been widely criticised. Its opponents claim that it suffers from problems of understanding, cumbersome procedures, excessive conditionality, restrictions over eligibility, inadequate debt relief and unfulfilled promises and expectations. The role of the IMF and World Bank (IMF-

WB) as sponsors of the initiative also has been the target of harsh criticism, particularly from aid agencies, non-governmental organisations (NGOs), civil society and pressure groups. In addition, the G8 leaders have also come under some criticism after their Okinawa summit in Japan in which they redefined some of their earlier commitments. This was seen as retraction of commitment and negation of urgent responsibilities by debt campaigners (UN 9/2000, pp 1-6).

During the millennium year, a number of significant developments have taken place on the debt relief front. The most important among these developments are:

- Approval and Review of the Enhanced HIPC initiative by the sponsors of the initiative;
- Pledges made by the G8 group of countries and some other weighty donors to cancel 100 per cent of the poor countries debt; and
- Intensification of the international campaign, Jubilee 2000, for the cancellation of the unpayable debt of the world's most impoverished countries. In this section, the report briefly recounts these developments (World Bank 9/2000, pp.1-8).

4.1. The Main Features of the Enhanced HIPC Initiative (EHIPC)

In 1998, the joint IMF-WB Committee initiated a wide consultation effort to revise and reform the HIPC initiative. The revision intended to address the poor achievement record in the initiative objectives as well as take note of the stakeholders' and critics' viewpoints. In June 1999, the G8 leaders in their Cologne summit addressed the issue of HIPC debt and declared a commitment to cancellations reaching up to 100 per cent of the HIPC's stock of debt, but within the EHIPC scheme.

In the fall of 1999, in their annual meeting the IMF-WB unveiled modifications to the HIPC scheme under the name enhanced HIPC initiative (WB 9/2000). The declared aims of the EHIPC are to accelerate the delivery of assistance; to link debt relief, *firmly and transparently*, to poverty reduction; and to augment, *more than double*, the amount of the scheme's projected debt relief. Since the EHIPC's aim is to provide "deeper, broader and faster" debt relief, the IMF-WB committed to four targets, namely,

- To expedite country cases, to enable 20 HIPCs to reach their decision point under the EHIPC framework by the end of 2000;
- To support HIPCs to prepare their Poverty Reduction Strategy Papers (PRSPs);
- To set up mechanisms to target and track resources freed by HIPC deals;
- To facilitate multilateral participation in financing the EHIPC

The enhanced scheme retained the basic two-stage, conditional framework of the original HIPC scheme, which requires eligible HIPCs to establish a certain track record, under the supervision of the IMF, before relief is granted. The main new features of the EHIPC scheme are:

First, lower debt sustainability targets, which increase the number of eligible countries for assistance under the initiative. This is sought to achieve broader debt relief.

Second, the provision of interim assistance for eligible countries, including relief from the IMF and the World Bank as well as more concessional restructuring of debts provided within the Paris Club framework under the Cologne terms⁶. The interim assistance, however, is to be coupled with the presentation of interim PRSPs.

Third, the novel feature of the new scheme is its explicit link to poverty reduction. Under the EHIPC, eligible HIPCs are required to prepare Poverty Reduction Strategy Papers (PRSPs) as part of the debt-relief process.

Fourth, the other novel feature of the new scheme is the adoption of floating completion points so as to accelerate delivery of debt relief. This modification eliminated the original three year interim period in favour of linking the completion point with the development and implementation of a PRSP, in addition to fulfilment of a pre-determined set of key structural and social reforms.

4.2. Progress under the EHIPC Framework

Under the EHIPC framework, 41 countries are classed as HIPCs, 33 of them are in SSA and 30 of them are classed as Least Developed

⁶ Cologne terms provide 90 per cent or higher debt reduction in present value terms as compared to the 80 per cent under the previously applied Lyon terms.

Countries (LDCs). Recent IMF estimates suggest the HIPCs' total outstanding debt has increased by US\$4.5bns in 1999 reaching US\$219bns. Their debt/export ratio is estimated at 389 per cent, more than double the DC average ratio and higher than the SSA average (IMF 5/2000 and UN 9/2000).

By September 2000, 10 HIPCs had reached their decision points under the enhanced scheme. The expected relief for these countries amounts to US\$16.2 billion (\$9.2bns in NPV terms). Seven of these are OIC AMC, namely **Benin, Burkina Faso, Mali, Mauritania, Mozambique, Senegal and Uganda**. The expected relief for these 7 AMC HIPCs amount to US\$10.2 billion (\$5.3bns in NPV). These amount to 63 and 58 per cent of the expected relief for this group (Table 7).

TABLE 7. ENHANCED HIPC INITIATIVE

Committed Debt Relief and Outlook; status as at September 7, 2000
(In millions of U.S. dollars)

Country	Debt Relief						Comments
	NPV Reduction			Nominal Debt Service Relief			
	Original HIPC 1/	Enhanced HIPC	Total	Original HIPC 1/	Enhanced HIPC	Total	
Countries that have reached their decision points (10) (7 AMC)							
Total	2,868	6,291	9,159	5,730	10,460	16,190	
Benin	0	265	265	0	460	460	Approved Jul.00
Bolivia	448	854	1,302	760	1,300	2,060	Approved Jan.00
Burkina Faso	229	169	398	400	300	700	Approved Jun.00
Honduras	0	556	556	0	900	900	Approved Jul.00
Mali	128	401	529	220	650	870	Approved Sep.00
Mauritania	0	622	622	0	1,100	1,100	Approved Jan.00
Mozambique	1,716	254	1,970	3,700	600	4,300	Approved Apr.00
Senegal	0	488	488	0	850	850	Approved Jun.00
Tanzania	0	2,026	2,026	0	3,000	3,000	Approved Apr.00
Uganda	347	656	1,003	650	1,300	1,950	Approved Jan.00
AMC sub-total	2,420	2,855	5,275	4,970	5,260	10,230	
%	84	45	58	87	50	63	
Countries with target decision points in 2000 (10) 2/ (6 AMC)							
Cameroon 3/	...	1,466	1,466	0	2,700	2,700	Reviewed Jun.00
Chad 3/	...	157	157	0	250	250	Reviewed Jul.00
The Gambia	...	...	...	...	...	...
Guinea 3/	...	638	638	0	1,150	1,150	Reviewed Dec.99
Guinea-Bissau	...	...	...	...	...	...
Guyana	256	...	256	410	...	410	Approved 1 Dec.97

Malawi 3/	...	629	629	0	1,100	1,100	Reviewed	Aug.00
Nicaragua 3/	...	2,507	2,507	0	5,000	5,000	Reviewed	Sep.99
Rwanda 3/	...	445	445	0	800	800	Reviewed	Aug.00
Zambia 3/	...	2,468	2,468	0	4,000	4,000	Reviewed	Aug.00
AMC sub-total		256	2,261	2,517	410	4,100	4,510	
%		100	27	29	100	27	29	
Countries to be considered post-2000 (15) (5 AMC)								
Possible early cases (5)								
Côte d'Ivoire	345	...	345	800	...	800	Approved /	Mar.98
Ethiopia	...	...	...	...	...	...	...	...
Madagascar	...	...	...	...	...	...	...	...
Niger	...	...	...	...	...	...	...	...
Sao Tome and Príncipe	...	...	...	...	...	...	...	...
Others (10)								
Burundi	...	...	...	...	...	...	...	...
Central African Republic	...	...	...	...	...	...	...	...
Congo, Democratic Republic	...	...	...	...	...	...	...	...
Liberia	...	...	...	...	...	...	...	...
Myanmar	...	...	...	...	...	...	...	...
Sierra Leone	...	...	...	...	...	...	...	...
Somalia	...	...	...	...	...	...	...	...
Sudan	...	...	...	...	...	...	...	...
Togo	...	...	...	...	...	...	...	...
At request of government not seeking HIPC debt Relief (2)								
Ghana	...	...	...	...	...	...	...	...
Lao P.D.R.	...	...	...	...	...	...	...	...
Memorandum item								
Debt relief committed under original and enhanced HIPC 4/	3,469	6,291	9,760	6,940	10,460	17,400		

Source: WB 9/2000, Table 1.

1/ Approved debt relief under the original framework.

2/ Work under way in partnership with government, other creditors, and donors towards the goal of bringing as many countries as possible to their decision points within a framework of sound policies that ensure debt relief is effectively used for poverty reduction. Bank and Fund staffs are committed to do everything possible to have debt relief packages in place for 20 countries by the end of 2000.

3/ Countries for which the Boards of the World Bank and IMF have reviewed the preliminary HIPC documents.

4/ Countries that have reached their decision points under the enhanced HIPC framework through early September, 2000 and Côte d'Ivoire and Guyana, which had reached their decision points under the original framework earlier.

Note: NPV means net present value.

Preliminary reviews are set to be completed for 7 other countries by the end of 2000. Three other cases that were considered under the original scheme are being reassessed. If completed, the 20-country target to reach decision point by the end of the year 2000 would be fulfilled. Preliminary relief for this group is estimated at US\$15 billion (\$8.3bn in NPV terms). The share of the AMC in this group could reach some 29 per cent of the group's expected relief. This is estimated to reduce the EDT of these countries by close to 45 per cent in NPV term on top of traditional relief mechanisms (UN 9/2000, p.5)

An AMC, Uganda, became the first country to achieve the completion point under the EHIPC in May 2000. Five other AMC are expected to reach that stage, Benin, Burkina Faso, Mozambique, and Senegal in 2001 and Mauritania in 2002. On the other hand, Mauritania became, in March 2000, the first country to receive flow-of-debt rescheduling from the Paris club on Cologne terms.

Of the 15 HIPC cases to be considered in post 2000, five, Niger, Sierra Leone, Somalia, Sudan and Togo, are OIC AMC. Of them only Niger is a possible early case (Table 7).

4.3. Evaluation of the EHIPC

The steps taken under the EHIPC scheme are greeted by some as positive developments. While some observers coldly welcomed the developments, many have rejected them outright as mere window dressing of an intrinsically inadequate approach. A recent UN Secretary-General report criticised the EHIPC approach by saying, "while such acceleration is welcome, the current approach is not likely to succeed in removing the debt overhang of the world's poorest countries" (UN Sep/2000). The report argues that while the EHIPC/PRSP initiative recognises the importance of involvement by debtor governments for its success, its design is not consistent with this objective (p.8). The report called for a bolder approach to the problem. It called for a comprehensive assessment, including other debt distressed non-HIPC countries, by an independent panel of experts who are not unduly influenced by creditor interests. The independent panel suggestion overtly points to the partial role of the Bretton woods institution in this regard.

An evaluation study carried out by an international NGO (Oxfam 9/2000) reached a similar conclusion regarding the EHIPC. It states that

some HIPCs will emerge from the EHIPC process still spending far more on debt than they are able to invest in priority social investments. Of the 12 reviewed HIPCs, all but three will continue to spend far more on debt servicing than on health and primary education after they received debt relief. Some HIPCs, including **Senegal**, Tanzania and Zambia will emerge in a perverse position of paying more on debt servicing after the relief than what they are paying now. In six of the countries reviewed, post-relief debt payments will absorb over 15 per cent of the countries' budget revenues, and up to 40 per cent in Zambia, **Cameroon** and Malawi. That clearly contradicts the initiative's own PRSP target. That study suggests that the targets and figures shown by the IMF-WB Report grossly exaggerate the real benefit of the initiative. This refers to the initiative's stated aim to leave the HIPCs with a sustainable debt profile, and to provide resources for poverty reduction. In sum, the report suggests that, while the EHIPC significantly reduces the amount of unpayable EDT, and the amount HIPCs should pay without relief, it does **not** go far enough. It calls for deeper debt reduction to capacitate HIPC governments to finance basic services. The report recommends a maximum ceiling of 10 per cent of government revenue to be allocated for debt servicing in a single budget year (Oxfam 9/2000).

4.4. Debt Cancellation

Among the significant developments with regard to poor countries unpayable debts during 1999-2000 has been the growing acceptance and pledges by creditors to grant relief beyond the Cologne terms. Most important amongst these are the commitments made by the G8 countries, which offer 100 per cent debt cancellation. China too declared its intention to waive some US\$ 1.2 billion of the African Countries' debt by the year 2002. Also significant in this respect is the inclusion of multilateral debts in the relief scheme including post cut-off incurred debts. However, the commitments to cancel debt have again been linked to the EHIPC process, which means only countries going through the HIPC process would be expected to benefit from these commitments.

Military conflict is seen as a factor preventing poverty reduction and thus debt relief. HIPCs involved in military conflicts would not be expected to benefit under the EHIPC scheme or from debt cancellation.

To a large extent, the international campaign to cancel the unpayable debt of the poorest countries has been instrumental in achieving these

positive developments. The campaign, which was launched in 1996, had set the millennium year as a target year to cancel that debt.

5. CONCLUSIONS AND POLICY RECOMMENDATIONS

The Sub-Saharan African region continues to be the focus of attention for the international debt relief effort, as it holds the world's poorest countries. Of the 41 countries recognised as HIPCs, 33 are located in the SSA region. Some of the region's non-HIPC countries also are suffering from unsustainable and unpayable debts. Of them some are OIC member countries. Some of the regions relatively well-off countries are also suffering from the legacy of unsustainable debts. South Africa and Nigeria are examples of these.

The period 1999-2000 has witnessed an increase in the debt stock of AMC and the other reference groups. In this regard the period has not been different from the 1990 trend. The latest available data indicate that AMC indebtedness position has deteriorated since our last report in 1999. Debt sustainability measures again have reflected the precarious position of the AMC and that of the SSA region in general.

On the positive side, the period since our last report has also witnessed some very significant debt-related developments which will have a lasting effect on the debt scene in general and on the HIPCs in particular.

Since 1996, an international campaign was launched calling for the cancellation of the poor countries' unsustainable debt by the year 2000. Since the millennium year was the set target year, the campaign has very much spread and intensified in the last two years. The campaign has been very instrumental in pushing the debt issue to the forefront of the international political agenda. Accordingly, the political leaders of the world, particularly the G7 countries, have responded positively to the campaign calls and committed, with some differences in emphasis and interpretation, to cancelling the unpayable debts of the poor countries. However this is to be done again within the controversial conditional context of the Enhanced Poor Countries (EHIPC) Initiative or HIPCII.

The EHIPC initiative, unveiled by the IMF-WB annual meeting in September of 2000, is the other most significant development of the

year. The new EHIPC, while it kept the basic structure of the original scheme, has introduced a number of significant modifications. These include lower debt sustainability targets, the provision of additional interim support for eligible countries, the explicit link of the scheme to poverty reduction through preparation of PRSPs and the linking of the process to civil society institutions and change. The new scheme's declared aim is to provide 'deeper, broader and faster' debt relief to eligible countries. An IMF-WB review report, issued in September 2000, has shown that the new scheme is delivering on all of these counts.

While the progress made has been welcomed as a step in the right direction, many have argued that the process is offering too little too late, and that the headline figures promoted by IMF-WB grossly inflate the level of actual relief. The EHIPC has been subjected to vigorous criticisms from debtor countries' representatives, official bodies, as well as NGOs and campaign fora alike. The grounds upon which these criticisms are made include complexity, excessive conditionality, design and sheer inadequacy to tasks and targets at hand. Prominent among the EHIPC scheme critics is the UN Secretary General who called for a reassessment of the problem by an independent panel that is not unduly influenced by the interests of the creditors. This report recommends the OIC countries and institutions to adopt, promote and support the Secretary General's proposal as a strategic alternative choice.

In the meantime, the OIC group and institutions have to continue their valued support to the AMC HIPCs. In addition, efforts should be directed towards achieving the HIPC initiative's original aim of relieving the HIPCs of their unpayable or unsustainable debt. As this report and others have categorically shown nothing less than 100 per cent cancellation of the HIPCs debts would be sustainable. The HIPC process itself has to acknowledge and take on this reality for it to become consistent with its own targets. In this regard, OIC states and institutions could play an instrumental role by endorsing and advocating this position, in line with other international movements and institutions such as the Non-Alignment Movement and the Organisation of African Unity (OAU).

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