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Remarks

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By

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The World Bank

and the

International Finance Corporation

at the

Conference on African Debt and Finance

Washington, D.C.

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Good evening.

This is indeed an honor to sit on a panel of such distinction and to address an audience so abundantly endowed with expertise and experience in African affairs.

I am grateful to the Institute of International Economics and Georgetown University for convening this timely conference on a subject of such urgency and importance -- Africa's growing external debt burden and what must be done to cope with it.

This debt problem is very serious and will increase in severity over the remaining half of the decade. Coping with the problem will require an extraordinary effort of international cooperation from the major participants: from the African governments, who must address their underlying economic problems with growth-oriented policies of adjustment and reform; from the donor community, both bilateral and multilateral, which must mobilize concessional finance to support these policies, and which must provide such finance more effectively than at present; and from the industrial nations, whose own economic policies will greatly influence the health of the global economy and the export prospects of the developing world.

Sub-Saharan African debt has grown rapidly over the last 15 years and could reach crippling proportions for many countries over the next five. In the decade of the 1970s, total external liabilities grew by about 23 percent per year in the region, with several African countries increasing their debt tenfold in those ten years. By 1984 Sub-Saharan Africa's total external debt amounted to 48 percent of GNP and over 200 percent of annual export earnings. Scheduled debt-service payments over the next five years are likely to average over 17 billion dollars per year.

For the 29 low-income nations of Sub-Saharan Africa, a group for which we share a special concern, the situation is even more ominous. Here, external debt at the end of 1984 stood at 68 percent of GNP, and at 340 percent of annual exports. Scheduled debt-service payments for this group have been estimated at 7 billion dollars per year for the next five years -- up from 3 billion per year between 1980-82. In addition to the rapidity of this build-up, we should also be concerned by the large and growing proportion of these liabilities which are owed to preferred multilateral institutions and to the IMF -- already some 24 percent and 10 percent respectively. An imminent danger faced by low-income African countries is that increasing burdens of debt service combined with foreign exchange shortages will lead to payments arrears to the IMF and the multilaterals. This could well cause damaging repercussions for these countries through disrupted disbursement flows, a decline in new commitments, and problems with the rescheduling of other types of debt.

We should of course keep in mind that there is a large variation in the country-to-country debt profile; while the scheduled debt-service ratios for the next five years exceed 80 percent for some countries, for others the level is below 10 percent. In general, however, the situation can only be described as grave.

The pessimistic debt scenario is part of a picture of continuing economic decline in Sub-Saharan Africa. It is true that the weather has been more favorable this past year, and that commodity prices have to some extent improved, with higher prices for coffee exporters and lower prices for the oil importing countries. But recent positive performances must be seen as uncertain in their potential duration.

No -- Africa's profound economic problems are still with us. It is estimated that per capita output will drop by 20 percent between 1980 to 1986 in Sub-Saharan Africa. This decline is the worst for any low-income region in recent history. The terms of trade for Africa are also expected to slide over the medium-term, after a brief rise in 1985-86. And the rate of investment in Africa, another measure of long term structural health, is also declining. As of 1984, it stood at a mere 14 percent in low-income Africa -- the lowest rate for any part of the developing world.

Other indications of Africa's long-term economic plight are well known to this audience. I would remind you of Africa's high rate of population increase, of the declining state of the region's infrastructure, of deteriorating health and education services, and of the growing incidence of deforestation and desertification. All of these problems require urgent attention.

These negative trends are no mere abstracts -- they define poverty, and are perpetuating it. Per capita output in low-income Africa has declined so drastically over the last 15 years that most of the gains of the modern era have been wiped out. Today, low-income Africa is poorer than it was in 1960.

In some respects, Africa's looming debt problems and their underlying causes suggest a parallel with Latin America's debt difficulties. Many African states have been slow to adapt to unfavorable external trends in the global economy, and have allowed their export sectors to languish; they have permitted price distortions to multiply, have made public investments with poor returns, and have acquired an external debt that their faltering economies could not hope to support.

It is the depth of the economic crisis underlying Africa's more recent debt problems that demands from all participants that we make an extraordinary effort.

African governments, for their part, face the formidable task of restructuring their economies to enhance efficiency and promote growth. The agenda for Africa is by no means new, and we have been working with African governments on the key economic issues for many years. If there is a note of encouragement to counteract the disturbing trends in Africa's economy, it is found here -- in the recent efforts of Africans themselves to chart a new course. And these efforts are now beginning to yield some results.

Currency devaluation is a reform many African governments have found very difficult to undertake, for essentially political reasons. Yet it is a reform of great importance, if sound economic adjustment is to take place. We can therefore be encouraged by observing that meaningful devaluation has occurred in a number of African countries. Some of them -- for example, Zaire, Zambia, Guinea and Somalia -- have adopted flexible exchange rate systems which are more responsive to market forces. Others like Ghana, Sierra Leone, and Mauritania have maintained administrative control over exchange rates, but have nonetheless devalued their currencies substantially.

As for the agriculture sector in Africa, years of neglect are now giving way to a new recognition that agriculture is the backbone of Africa's economy. Prices paid to producers, for so long a disincentive to production, are now being adjusted to reflect world market rates more accurately. In Ghana, Zambia, Zaire, Mauritania and Tanzania, prices for a wide range of agricultural commodities have been either decontrolled, or have been raised substantially.

Naturally enough, farmers have responded to the improved incentive environment. To mention just a few examples, in Ghana cocoa production is up 25 percent over the past two years, while maize production actually tripled in 1984 following a three-fold price increase. In Zambia, the volume of marketed maize was up 55 percent for the 1984-85 season, largely as a result of recent reforms. We in The World Bank are pleased to be associated with many of these programs, and we are delighted that we can report these positive preliminary results.

In other sectors, our collaboration with African governments is yielding further promising movements: for example, the gradual liberalization of interest rate controls in order to mobilize domestic savings; reductions in over-staffed government bureaucracies -- Ghana, for instance, is laying off 19,000 surplus employees from its Cocoa Marketing Board -- and the reform and privatization of the parastatals which have proven such a severe budgetary strain in much of Africa.

Due both to the progress of reform and also in response to the favorable short-term factors I have mentioned, we are estimating a real GDP growth rate of 3.6 percent for low-income Sub-Saharan Africa in 1986 -- and, for the first time in many years, a small gain in per capita GDP. Although the growth outlook for the middle-income countries is less positive for 1986, the low-income country improvement does offer a breathing space for much of Africa -- but a breathing space in which efforts to adjust economies and to establish solid growth foundations must be accelerated.

For the donor community, these signs of progress in Africa also place the ball in our court. We too must ask ourselves some hard questions. Can we improve the way we operate, and make our aid more effective? Can we mobilize the necessary resources to prolong Africa's economic reform, and enhance its chances of long-term growth?

There has been progress recently in the way donors are coordinating their efforts in Africa. First, most of us now share a growing conviction that aid should be used not only to finance traditional development projects, but also to support structural adjustment. The World Bank's Special Africa Facility, which is dedicated exclusively to lending in support of economic reform, was created last year in this spirit -- and has been endowed with 1.5 billion dollars in contributions. And this same conviction emerged again most clearly at the first round of our negotiations with International Development Association donors in Paris last month. As you know, IDA is The World Bank's affiliate for concessional lending to the poorest nations, and its funds must be replenished every three years.

Aid coordination, a theme which we have been pressing for some time, is also gathering momentum. Over the two years 1984 and 1985 five more consultative groups chaired by the Bank were established, along with eight more aid roundtables sponsored by the UNDP. By the end of last year, some kind of formal aid coordinating mechanism was either in operation or in preparation for all but one of the 29 low-income African countries.

Beyond these steps, though, we can do much more to improve the effectiveness of our performance in Africa. We must encourage African governments to design their own medium-term investment programs and to improve their coordination of donor involvement in these programs. While I recognize that multi-year aid budgeting is a difficult task for many of the bilateral donors, they must nonetheless make greater efforts to establish multi-year aid commitments; African governments will then be able to predict available resources more reliably, and to plan their investments better as a result. And on the question of debt we should borrow from the Latin American experience, where close coordination of debt and resource discussions between the indebted countries and their creditors now take place as a matter of course.

It would, of course, be convenient if programs of structural adjustment and reform were cost free. Economic growth, however, requires resources -- and in the African context, in particular, resources for the purchase of vital imports. If imports are in short supply, maintenance and rehabilitation efforts languish, reforms in the trade sector are slowed, productive capacity remains underutilized, and the consumer products needed to reward small scale producers are absent from the shelves.

In order to assure continued adjustment and growth in low-income Africa, and to permit progress to be made towards controlling debt, additional resources must still be found -- mostly through new concessional flows and debt rescheduling. This will have to be a true international effort, involving the commercial banks, bilateral donors, the African Development Bank, the IMF, and The World Bank.

Let me say a few words about potential concessional resource flows through The World Bank. It is still early to project what the precise levels of concessional finance for Africa will be, but with respect to IDA I can report that the IDA deputies agreed in Paris last month to make every effort to achieve a 12 billion dollar replenishment. If this level is ultimately secured, it would represent a 1.5 billion dollar increase over the combined resources of IDA's current replenishment and the Special African Facility. This is the minimum that we feel is necessary if the needs of low-income Africa and the rest of the poorest countries of the developing world are to be addressed.

Resources for Sub-Saharan Africa will also be forthcoming from the 2.7 billion SDR of reflows to the IMF Trust Fund over the next five years. Moreover, you will recall that Secretary Baker has outlined ideas for additional concessional flows -- particularly through IDA -- in association with these IMF reflows. This initiative has received support from other governments which are prepared to consider some form of matching effort between IDA and the IMF Trust Fund, provided that the overall IDA replenishment is of a sufficient size.

We are hoping for a successful outcome to IDA's next replenishment and to the IMF Trust Fund initiative. We are also hoping that the replenishment of the African Development Bank receives adequate support, and that African debt rescheduling efforts are successful; if these things occur, our projections show that Africa will still require additional external finance to support its program of adjustment and economic reform over the medium term.

Bilateral aid programs are uniquely well-positioned to contribute more effectively here, both in terms of supporting imaginative approaches to rescheduling and by providing additional development resources. Without these resources, Africa's prospects for economic recovery will be severely constrained.

The role of industrial countries reaches beyond the area of aid flows, to their own programs of adjustment and reform. Lower interest rates, sustained economic growth, open markets, and improved fiscal balances will help provide the setting for global economic growth -- a scenario which is indispensable to Africa's recovery. Recession and closed markets, on the other hand, will frustrate all of our efforts.

What lies before all of us is a historic opportunity to help launch Africa's economic revival. After so many years of tragic decay and unexploited potential, a number of African nations are exploring a new path that promises true growth and an eventual solution to the debt problem. If these pioneers succeed, others will follow, and we will see economic reform and regeneration bringing real progress to millions of Africa's poor.

It would be unthinkable to shrink away from such a challenge. Indeed, there are few such undertakings which so richly deserve our unshakeable commitment and support.

Thank you.