

Issue Paper on Debt Sustainability No.3

**The Other Costs of High Debt in Poor Countries:
Growth, Policy Dynamics, and Institutions**

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Washington DC
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I. Introduction

Despite recent progress in reducing the external debts of many poor countries, there is a renewed focus on continuing problems related to debt. In particular, there is a growing concern that debt levels are unmanageable. The “cost” of poor countries’ high debt is typically analyzed in terms of the relative amount of resources utilized to service the debt and the diversion of those funds from other potential spending areas, such as health and education.

This paper will seek to explain the cost of high levels of external debt for poor countries³ in three other areas: (a) the effects of various relative debt levels on investment and economic growth; (b) the impact of high debt on policies and the dynamics of policy reform; (c) and the influence of high debt on institutional development. In particular, the paper finds that high debts undermine donor selectivity and that low-income, high-debt countries face considerable administrative burdens that strain limited public sector management capacity.

II. Growth

A substantial amount of literature has addressed the negative effects of a heavy debt burden on economic growth. In most of the proposed channels for the debt-growth link, high levels of debt or debt service impede growth by reducing the quantity or efficiency of investment. Empirical studies of the association between debt and growth have generally sought to estimate growth equations or investment equations with selected debt indicators as independent variables. Below is a brief summary of some selected studies that have examined the growth-debt relationship.⁴

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³ For the purposes of this paper, low-income countries are considered to be those which are IDA eligible. High, medium, and low debt refer to debt-export ratios above 150%, between 100-150%, and below 100%, respectively. See Table 1 for more detail.

⁴ Sachs, 1989; Krugman, 1988; Elbadawi, Ndulu, and Ndung'u, 1997; Serieux and Samy, 2001; Pattillo, Poirson, and Ricci, 2002a; Pattillo, Poirson, and Ricci, 2002b.

2.1 The debt overhang. The most commonly cited channel by which large debt is thought to hinder growth is the so-called "debt overhang." This overhang is thought to exist when a country's high debt burden dampens the incentive to invest because investors expect that future taxes on returns to capital will be imposed to service the debt. In particular, expectations of distortionary measures to service the debt, such as currency devaluations or inflationary policy, may especially discourage investment. Moreover, as the outcomes of debt rescheduling negotiations are often unpredictable, a climate of heightened uncertainty within heavily indebted countries can induce investors to delay making new investments.

Empirical studies have sought to provide evidence for debt overhang by demonstrating that debt stock ratios (i.e., debt stock as a percentage of exports, government revenue, or GDP), representing expected future taxes to service debt, are negatively correlated with investment and growth in regression analysis. Panel regressions on a cross-section of credit-constrained economies have shown that the debt-to-exports ratio is significantly and negatively associated with the investment-to-GDP ratio and with per capita income growth, but the debt-to-revenue ratio is not significantly correlated with either investment or growth.⁵ In other studies that employ linear growth models, the strength of the association between debt and growth varies substantially according to the selection of the debt indicator and the specification of the model.⁶

Since it has been suggested that the relationship between debt and growth follows a nonlinear inverted-U, some studies have sought to estimate quadratic or spline models that allow the marginal effect of debt on investment or growth to change according to the extent of indebtedness. These nonlinear regressions point to a stronger negative effect of high debt on growth, but the specific magnitude of this effect varies substantially across specification. Pattillo et al (2002a) find that when a country's debt stock exceeds 160-170 percent of exports or 35-40 percent of GDP, the *average* impact of debt on growth is negative: that is, countries beyond these debt thresholds have lower growth than they would have experienced in the absence of any debt. Using a variety of regression specifications, they also find that the nominal (respectively, net present value of) debt level at which the *marginal* effect of further debt on growth is negative ranges between 30-115 percent (respectively, 30-295 percent) of exports or between 5-90 percent (respectively, 5-50 percent) of GDP. Elbadawi et al (1997) derive a comparatively high threshold: they find that the marginal effect of (nominal) debt becomes negative at 97% of GDP.

Recently, it has been shown that the debt overhang effect is exacerbated in the presence of a bad policy environment, as measured by the World Bank's internal CPIA score, and in the presence of low aid flows.⁷ In all, while empirical evidence does generally support a debt overhang phenomenon in heavily indebted countries, the results tend to lack robustness – suggesting that conclusions about such a relationship should be cautionary.

2.2 A liquidity constraint. A second proposed channel for the debt-growth relationship concerns liquidity constraints imposed by debt service: large debt service payments may hinder growth by depriving the country of foreign exchange needed for the importation of capital goods. In the literature, this channel is supposedly captured by a negative coefficient of the debt service-to-

⁵ Serieux and Samy, 2001.

⁶ See, for example, Pattillo et al, 2002a.

⁷ Pattillo et al, 2002b.

exports ratio in growth and investment regressions. The empirical results are mixed. While some studies do find that the debt service-to-exports ratio is significantly and negatively associated with investment and growth,⁸ other studies do not find the association to be significant in *any* specification of the growth equation.⁹ Thus, the hypothesis that high levels of debt service impede growth via import compression must be viewed with caution.

2.3 A fiscal effect. Thirdly, there are arguments that fiscal effects of high debt service may reduce growth. This argument tends to follow three lines. First, in order to service their debts, governments must cut back on public investment, which reduces total investment. Second, a reduction of social spending may reduce growth in human capital, a determinant of long-term economic growth. Lastly, in the absence of fiscal discipline, governments may run large budget deficits, which also dampen private investment. Some empirical literature has asserted that the fiscal effects of debt service are captured by the debt service-to-revenue ratio as an independent variable in investment and growth equations; regression analysis indicates that this ratio has a significant, negative impact on both per capita income growth and growth in the secondary school enrollment rate, but the ratio fails to exhibit significant association with the investment-to-GDP ratio and with growth in the primary school enrollment rate.¹⁰ Other studies have sought to estimate models of growth in human capital with debt stock ratios as independent variables; none of the debt indicators prove to be significant.¹¹ More limited analysis has simply demonstrated a negative association between fiscal deficits and growth, under the assumption that debt service payments exacerbate fiscal deficits.¹² However, the link between debt levels and fiscal performance is unclear (see discussion on fiscal policy below).

2.4 Productivity suppression. A final possible channel for the link between debt and growth is mediated through reduction in total factor productivity growth. The uncertainty generated by high debt biases investment toward quick returns and discourages the long-term investment necessary for productivity growth. Meanwhile, the expectation that foreign creditors will appropriate future benefits of economic growth may also weaken the incentive for domestic policy reforms that spur productivity growth. Using growth accounting to derive data on total factor productivity growth for a cross-section of developing countries between 1969 and 1998, a recent study has shown that, for high-debt countries, doubling the extent of indebtedness would reduce total factor productivity growth by almost one percentage point.¹³ However, the magnitude of the effect of high debt on TFP growth is nearly cut in half when the country has a good policy environment, as measured by the CPIA score.

In sum, the evidence of a direct connection between debt levels and economic growth is unclear. Although there appears to be a dynamic relationship between the two, there are few firm conclusions that can be drawn on either identifying the routes of linkage or on estimating standard cross-country levels where that relationship changes. Clearly this is an area for further research.

⁸ See, for example, Elbadawi et al, 1997 and Serieux and Samy, 2001.

⁹ Pattillo et al, 2002a.

¹⁰ Serieux and Samy, 2001.

¹¹ Pattillo et al, 2002b.

¹² Elbadawi et al, 1997.

¹³ Pattillo et al, 2002b.

III. Policies and sustainability of reforms

Debt management cannot be separated from the context of other policy reforms that may be underway. The accumulation of high debts and potentially unsustainable debt service obligations is itself an indicator of poor debt management in the past, which suggests that the economy requires significant structural and policy reform. In fact, the vast majority of high-debt countries have requested assistance from either the IMF or World Bank. Of the 35 IDA eligible countries that have NPV debt/export ratios above 150% (see Table 1)¹⁴, 22 (63%) currently have a PRGF or other Fund program in place. Thirty-two countries (91%) have active borrowing from the World Bank, of which 29 (83% of total) could be designated as having significant project portfolios.¹⁵ Based on the prevalence of IFI engagement among the sample, it could be surmised that the vast majority of all low-income high-debt countries are in the process of significant economic policy reform.

Heavy debt service obligations are surely one reason that many of these countries seek concessional finance from the IFIs and other donors. In exchange for a PRGF and/or IDA credits, countries undertake reforms that are intended not only to improve economic growth and reduce poverty, but also to increase their capacity for servicing their debt and for engaging in further new borrowing in the future. However, the presence of high debt and high relative debt service obligations may create policy pressures that undercut those very reforms, raising the risk of an inability to fulfill these obligations. This can be a reinforcing process whereby high debt service obligations today contribute toward policy decisions and conditions that make debt serviceability problems more rather than less likely in the future. Here we assess five possible ways in which high debt stock and debt service may change policy dynamics: overall policy credibility, short-termism, fiscal policy distortion, moral hazard, and interaction with donor selectivity.

3.1 High debt undermines policy credibility. High debt can erode confidence in economic reforms and thus diminish the sustainability of what might be an otherwise sound economic reform strategy. High debt can have indirect negative consequences on governments in terms of public support insofar as debt is *perceived* to contribute to poor growth and poor policies. Despite the mixed empirical evidence, the popular perception is that high debt is having a ruinous effect on economic growth in low-income countries. This inherently alters the political economy of managing economic reform. To the extent that countries have undergone (at least partial) economic reforms for many years, yet still face high debt service obligations and low per capita income growth, high debt is likely to cause political pressure on economic policy.

¹⁴ NPV debt/export ratios are end-2000 data based on *World Development Indicators*. Countries with populations below 1 million were excluded from this sample, as were countries with no data (Afghanistan, Bosnia and Herzegovina, Democratic Republic of Congo, Liberia, Somalia, and Yugoslavia.) Also, Uganda was placed in the high debt category even though its ratio was 146% because it had only just gone through the HIPC completion point in May 2000.

¹⁵ Zimbabwe, Central African Republic and Guinea Bissau have extremely limited portfolios, while Myanmar, Sudan, and Togo do not currently have any active projects with the World Bank. A limited portfolio for Sudan was under consideration as of early July 2003.

In the wake of well-publicized international debt relief campaigns and extremely high expectations for HIPC among populations in low-income countries, there can be more direct political consequences as well. Continued high debt and the public revelations of debt servicing strains can raise highly embarrassing questions about public policy and quality of governance. In some cases, such as those of poorly performing states, this trend may be viewed as a positive step towards increasing public accountability for mismanagement and could contribute toward improved management in the future. However, domestic political difficulties from high debt levels negatively influence high performance (as measured by the CPIA) countries as well. Because all low-income countries have large developmental needs, there are often strong political and nationalist impulses for questioning debt service obligations, especially after a country may have gone through HIPC and still finds itself debt distressed. In other words, lingering high debt undermines the popular credibility of both governments and donors in formulating economic strategy.

For example, Ghana was initially resistant to seeking debt relief under HIPC and only applied reluctantly, at least partly because admitting to debt servicing problems was seen as an admission of failure and a sign of weakness.¹⁶ Indeed, applying for HIPC was widely viewed within the country as an indication that previous economic reforms had largely failed. Ghana was arguing that, after two decades of IMF tutelage, it was still unable to manage its external debt burden in a sustainable manner. Continued high external debt levels are increasingly a political and threaten government credibility and its plans for domestic economic reform. Similarly, Uganda, which is among the top scorers in the CPIA and was the first country to reach the HIPC completion point, continues to face very high relative debt service obligations, causing embarrassment to both the government and donors. Because of these pressures, the mere presence of lingering debt creates doubts about the soundness of economic policy.

3.2 High debt encourages short-termism. One specific way in which high debt undermines sound policymaking is through the shortening of horizons, which creates longer-term difficulties. When countries face the pressures of external debt service in addition to their other short-term obligations (civil service wages, etc.), budget financing and allocation decisions can be made counter to long-term economic health. On the financing side, this can lead to non-selective borrowing, including agreement to conditions that might otherwise be rejected or that the government has no intention of fulfilling. Or, in the current global environment, accepting debt relief is viewed primarily as another form of short-term resource mobilization. Either way, a non-optimal outcome is encouraged by short-term needs trumping long term planning and decision-making. Because many governments in low-income, high-debt countries already face political and capacity barriers to sound long-term planning and decision-making, high debt may exacerbate this troubling tendency. In this sense, high levels of debt can reinforce what Nicolas van de Walle (2001) has described as "the politics of permanent crisis", where a range of internal and external factors sustain a short-term, crisis-oriented policymaking system. This can eventually have long-term negative effects on weak institutions (see Section IV below).

Indeed, donors already seem to have recognized this dilemma between debt sustainability and long-term economic planning. One of the reasons donors have explicitly linked HIPC and the Poverty Reduction Strategy Paper (PRSP) process is try to break the cycle of short-term priority-

¹⁶ See, e.g., Oxford Analytica (2002); Killick (2001)

setting and decision-making. In Ghana, for example, a series of budget and financial management reforms, including improved debt management, is intended to overcome the government's "preoccupation with short-term fire-fighting".¹⁷

In addition to pushing public policymakers into making short-term decisions, high debt may have a similar effect on the private sector. To the degree that high public sector debt creates economic uncertainties, it may push private investors into shorter-term investments such as trading, rather than longer-term investments in production. This bias toward liquid investment affects both domestic and foreign investors, creating distortions in investment patterns that may not exist in the absence of high debt. A preference for liquid instruments owing to uncertainty, combined with a dearth of such instruments in many low-income countries because of thin financial markets, also likely contributes to low overall investment levels. This affects not only growth prospects but also financial sector development and conceivably could complicate monetary policy reforms such as foreign exchange management.

3.3 High debt distorts of fiscal adjustment. Fiscal reform is a major component of economic reform in most high debt poor countries. It is possible that high relative debt service obligations could affect fiscal discipline and create a bias toward current expenditure over capital expenditure. However, a look at the data does not indicate any correlation between the NPV debt/export ratio and either overall fiscal or primary balances (see Figures 1 and 2). Looking at the debt service ratio, we see a slightly closer relationship, but it is still not statistically significant at the 5% significance level (Figures 3 and 4). Thus it is not apparent that high debt encourages fiscal recklessness. Similarly, a preliminary analysis of fiscal expenditure patterns does not appear to show any relationship between debt levels and capital expenditure as a percent of total expenditure.¹⁸

These initial findings do not, however, dismiss a link between high levels of debt and the dynamics of fiscal reform, especially since many HIPC countries are heavily reliant on trade-related taxes. Although the data is sparse, based on what is available, trade-related taxes represent about 34% of revenue and near 40% of tax revenue for the 17 HIPC countries with such data (ranging from 75% of overall revenue in Guinea to 5% in Congo). Trade-related taxes account for more than a quarter of revenue in a majority. In the context of trade reform and high debt service obligations financed through taxes, there is a strong potential for distortion. This is beyond the scope of this paper and an area for future research.

Overall, since debt service is a substantial item in national budgets of all high-debt countries, high debt service obligations seem likely to have an impact on fiscal policy and affect fiscal reform efforts. However, the nature of that influence in terms of fiscal discipline or public

¹⁷ Killick (2001), p. 24.

¹⁸ We ran a very limited analysis looking at NPV debt/export ratios and the most recent 3-year average of the capital expenditure/total expenditure ratio based on data from the IMF's *Government Financial Statistics 2002* and found no significant relationship. Fiscal data was however only available for 32 of the 58 countries in our sample. Perhaps more importantly, the quality of the data is highly questionable, especially for cross-country comparability. (There did appear to be significant regional divergence, with African countries reporting on average more than double the capital expenditure ratios than averages from Eastern European/Central Asian countries.) These relationships are areas for further inquiry.

investment patterns remains far from clear, at least on a regular cross-country basis and given currently available data.

3.4 High debt creates moral hazard for borrowers. The idea of "fiscal responsibility" goes beyond limiting the size of public deficits. It also means making sensible borrowing decisions and using those borrowed resources in a manner that both justifies the borrowing against future public resources and contributes toward repaying those debts once they come due. Most public external debt acquired by low-income countries is on extremely long terms – IDA terms for example, are 40 years with a 10-year grace period. The average maturity of new commitments by low-income countries was 27.1 years in 2001, compared with just 11.8 years for middle-income countries.¹⁹

There are obvious benefits to long debt maturities for low-income countries, especially when the "development payoff" for many loans may be a generation or more away. At the same time, however, this long-term nature of public debts weakens the link between borrower and final payment responsibility. With such a lag between debt accumulation and repayment (exacerbated by long grace periods and the backloading of repayment), there is often little accountability for governments or policymakers who likely do not expect to be around when payments come due. This encourages irresponsible borrowing and, more worrying, the use of borrowed funds for consumption or recurrent expenditure instead of investment linked to future growth or exports. Attempts to direct new borrowing toward investment have not escaped the fungibility problem. While the moral hazard problem exists as well for grants, the long-term implications are much less onerous.

3.5 High debt undercuts conditionality and donor selectivity. Finally, high levels of debt have a negative effect on donor behavior. Both multilateral and bilateral donors have been moving toward more systematic selectivity in allocation. Selectivity has been overt in some cases, such as IDA's evolving performance-based allocation system using the CPIA and a portfolio scoring system. Similarly, the proposed US Millennium Challenge Account contains 16 criteria for qualification, based on the notion that certain performance indicators signify more effective use of resources. Other donor allocation systems, including those used by most bilaterals, are more informal. Nevertheless, almost all donors accept that selectivity is important and are attempting to build some selective mechanism into their own allocation process.

But some studies have found that high levels of debt in recipient countries may undermine these moves toward greater selectivity. High debts are indicators of poor policy performance. However, because countries with higher debt service obligations also require more resources, the tendency for some bilateral donors to allocate grants based on resource requirements creates inverse incentives for countries to reduce debt and undermines attempts by other donors to be more selective.

One study found strong evidence that, after controlling for income and country size, bilateral donors transferred more resources to high multilateral debt countries, regardless of policy environments or institutional capacities.²⁰ Net resource transfer patterns across countries were

¹⁹ *Global Development Finance 2003.*

²⁰ Birdsall, Claessens, and Diwan, 2002.

better explained by debt stock levels than by other variables, including the quality of policy or income levels. In some cases, the bilateral bias was in fact inverse to positive policy and institutional indicators. This suggests that bilateral donor behavior was undermining multilateral efforts to be more selective. Countries were not only using bilateral grants to repay multilateral loans, but also eroding any leverage that the multilaterals may have had in tying new lending to improved policy performance. The authors of this study interpreted the results as defensive allocation by bilaterals in order to prevent recipients from accumulating arrears to multilateral creditors. (Avoiding arrears was deemed important for bilaterals because of political pressure to raise resource flows to Africa through the soft loan multilateral windows and the implications for future access to concessional credit.)

The inconsistencies of donors are worrisome for at least two reasons. First, such behavior undermines the very purpose of selectivity, which is to provide incentives to recipients to improve policy and institutional environments. Indeed, the Birdsall study suggests that, because of this phenomenon, "by the end of the 1990s, the donor community had no real leverage on governance and economic and social policy in the high multilateral debt countries."

Second, and perhaps more damaging over the long-term, is that high debt could wind up discouraging higher aid flows. With growing pressure for future aid to be tied to greater effectiveness – and higher debt discouraging policy reform and donor selectivity (and perhaps affecting economic growth) – the political foundations for continued foreign assistance to low-income countries will be seriously weakened.

IV. Institutional development and state capacity

The presence of high debt stock and high debt service obligations has institutional consequences for low-income countries as well. High debt – through its contribution toward ongoing fiscal crises and by the heavy administrative burden it places on weak public institutions – may also impede the development of capable and effective states.

4.1 Contributes to permanent fiscal crisis. Although the relationship between high debt and overall headline fiscal performance is unclear, debt service obligations undoubtedly skew public resource utilization. Positive net transfers from donors typically compensate for the diversion of resources from social services to debt service (and frequently more than do so). However, in the context of overall fiscal constraints, the dynamics of policy reform induced by high debt contribute substantially to near-permanent fiscal crises. Not only do governments that are facing continual short-term crises tend to make poor policy decisions, but this trend over a period of time damages the development of public institutions able to make strategic choices, finance initiatives on a sustainable basis, and monitor their implementation. This is a daunting task for governments in most low-income countries absent fiscal crises; it is even more arduous for those with such conditions on a permanent basis.

4.2 Exacerbates capacity constraints. Most high-debt countries face capacity constraints in public administration and budget management. Many of these countries struggle even to provide basic public services. Capacity levels for strategic planning and management are weak, even

where there is political will at the top. Debt management is one essential if complex responsibility of the state and requires high levels of technical skill and political influence. Sound debt management "involves the deliberate and planned acquisition, deployment and retirement of loans for the purpose of promoting economic growth and development. This entails articulation and formulation of policy for external borrowing, control and surveillance of external borrowing, and keeping comprehensive and accurate data on external borrowing."²¹ This is a tall order for many low-income, high-debt countries.

Debt management is often complex and fragmented, with responsibilities spread across the ministry of finance, the central bank, the President's office, and perhaps several aid coordination units. Uganda, which is considered among the best performing countries with relatively high management capacity, has a long history of shifting responsibility for debt management across multiple agencies.

Measuring the administrative cost of managing debt is inherently difficult, but there are several proxy indicators that suggest high administrative costs for high-debt countries:

- *Paris Club Rescheduling:* Multilateral debt rescheduling places a high administrative burden on poor countries. They must negotiate and reach agreement with: (a) the IMF, (b) an umbrella Paris Club, and (c) each individual Paris Club creditor (which must be consistent with the umbrella agreement). They possibly must also seek comparable treatment from other bilateral creditors. At each stage there are requirements for data collection and analysis, and negotiating and legal skills. It is also true that high-debt countries go through this process more often. Since 1980, high-debt countries have gone to the Paris Club for rescheduling an average of 5.1 times per country. Senegal has sought rescheduling 13 times in that period, while Madagascar and Niger have 10 times apiece. By comparison the low-debt countries have gone at a rate of only 0.55 times per country and medium-debt countries 1.0 times. Indeed, the majority of low- and medium-debt countries have never sought a Paris Club rescheduling and only three such countries (Yemen, Honduras, and Nigeria) have sought it more than once.
- *Large numbers of creditors and currencies owed.* High-debt countries tend to have obligations to large numbers of creditors and in a large number of currencies. Based on information in HIPC documents, among the high debt group, the average was *at least* 31 different creditors with obligations in *at least* 26 currencies. (The actual average is certainly higher because the data showed only partial disaggregation by creditor. The average used here is based on the lower bound.) Nicaragua has at least 52 different creditors, while Tanzania has at least 45 and Mozambique and Ethiopia each have at least 40.

Obligations to a large number of creditors and payment in multiple currencies come with two kinds of costs. First is the heavy administrative burden specifically related to debt management placed on weak public administrations with low management capacities. Although central banks and finance ministries are typically among the most highly skilled public agencies, much of their time and effort is taken up by debt management issues. This implies a high opportunity cost in terms of the diversion of scarce skills.

²¹ Mbire and Atingi, 1997

Second, there are costs related to creditor type. The vast majority of creditors to high-debt countries are official sources (bilateral or multilateral donors) with varying agendas and demands. The high transaction costs associated with donor finance are well known: According to the World Bank, for example, Tanzania is asked to produce 2,400 quarterly reports a year for its donors and host more than 1,000 donor missions each year. (To relieve this burden, Tanzania has instituted a "mission holiday" whereby no donor delegations are welcome for several months of the year.)

There are also examples of high debt leading to additional administrative layers. In December 1997, the Tanzanian government asked bilateral donors to contribute \$320 million into a fund to help cover the cost of their debt payments coming due to the multilaterals, which would keep them out of arrears and on-track for future HIPC assistance. A Multilateral Debt Fund was established with this explicit purpose – bilateral donors contributed to the fund, which the Tanzanian government then used to pay debts to multilateral creditors, such as IDA. Similar funds were set up for Mozambique and Uganda. They essentially functioned as bridges to HIPC, ensuring that the most promising HIPC countries did not face debt service problems in the run up to the HIPC decision point. Although this trend seems restricted to the high performing countries (as opposed to the findings of Birdsall et al all cited above), it suggests a new and additional administrative process related to servicing high debts.

V. Conclusion

There are many direct and indirect costs of high debt in low-income countries. Empirical evidence suggests that there is likely a link between debt levels and economic growth, but that exact relationship remains unclear. High debt does indirectly contribute to a negative policy dynamic and frequently threatens the sustainability of economic reforms that might have succeeded in the absence of high debt. Lastly, high debt levels place a heavy administrative burden on states, further exacerbating capacity constraints and slowing the development of capable public institutions.

Table 1. Characteristics of External Debt of IDA-Eligible Countries

	Country	NPV Debt (% of exports) In 2000 1/	Debt Service (% of exports) Avg., 1998-2000 2/	Maturity (years) Avg., 1998-2000 3/	Debt-Relief Agreements 4/	Currencies 5/	Creditors 6/
LOW DEBT							
1	Albania	35.9	2.3	32.6	1		
2	Azerbaijan	44.0	5.6	26.3	0		
3	Eritrea	62.8	1.4	35.9	0		
4	Vietnam	64.4	8.8	33.1	1		
5	Yemen, Rep.	72.2	4.2	35.0	3		
6	Mongolia	90.6	5.2	37.1	0		
7	Sri Lanka	91.0	9.9	25.7	0		
8	India	91.2	16.6	14.8	0		
9	Lesotho	95.0	10.0	25.7	0		
10	Papua New Guinea	97.5	12.5	19.0	0		
11	Gambia, The	99.1	8.7	30.4	1	27	20
	Low Debt (Avg.)	76.7	7.7	28.7	0.5		
MEDIUM DEBT							
1	Nepal	101.9	6.2	36.4	0		
2	Georgia	103.8	14.9	29.7	1		
3	Honduras	104.0	17.4	33.1	4	21	31
4	Armenia	106.0	10.9	32.5	0		
5	Bangladesh	110.6	9.0	31.6	0		
6	Nigeria	117.0	8.7	34.7	4		
7	Tajikistan	117.5	11.5	36.3	0		
8	Angola	121.2	30.5	4.9	1		
9	Uzbekistan	124.9	17.6	13.0	0		
10	Cambodia	127.1	2.0	35.8	1		
11	Haiti	132.6	8.5	40.0	1		
12	Moldova	140.4	22.4	29.3	0		
	Medium Debt (Avg.)	117.3	13.3	29.8	1.0		
HIGH DEBT							
1	Uganda 7/	146.1	16.8	39.4	8	33	36
2	Mozambique	151.2	15.4	43.5	8	26	40
3	Senegal	152.9	16.2	40.2	13	23	33
4	Ghana	160.0	20.8	26.7	3	26	34
5	Benin	160.8	10.1	32.9	5	20	28
6	Bolivia	162.2	30.7	32.7	8	23	26
8	Mali	166.7	12.5	32.6	5	26	27
9	Kenya	168.0	22.1	24.1	2		
10	Zimbabwe	168.8	29.2	17.6	0		
11	Congo, Rep.	168.9	2.0		4		
12	Indonesia	181.8	28.1	18.5	3		

13	Chad	207.4	9.8	41.5	4	24	24
14	Togo	209.1	7.6	38.5	9		
15	Burkina Faso	210.0	14.0	30.5	5	25	24
16	Cameroon	228.4	22.5	35.8	6	20	31
17	Lao PDR	233.9	7.3	34.9	0		
18	Myanmar	235.2	4.6	7.6	0		
19	Kyrgyz Republic	237.4	22.2	31.1	1		
20	Madagascar	246.7	13.8	38.7	10	27	33
21	Pakistan	249.3	25.3	15.1	4		
22	Cote d'Ivoire	253.6	25.0	45.0	9	26	31
23	Guinea	269.1	18.8	40.1	6	28	36
25	Malawi	297.4	12.6	43.6	4	23	25
26	Mauritania	314.3	24.7	33.0	8	29	27
27	Ethiopia	326.5	13.8	32.4	3	25	40
28	Tanzania	334.9	17.8	36.4	7	32	45
29	Niger	344.3	11.1	39.2	10	29	25
30	Nicaragua	425.3	20.6	37.7	4	22	52
31	Cent. Afr. Republic	496.9	17.6	39.8	7		
32	Zambia	504.7	19.1	39.5	7	28	31
33	Rwanda	509.1	23.5	41.8	1	30	17
34	Sudan	781.5	3.6		3		
35	Sierra Leone	892.4	40.6	23.9	7	23	24
36	Guinea-Bissau	970.4	27.4	38.7	4	32	28
37	Burundi	1118.2	41.0	20.8	0		
	High Debt (Avg.)	333.8	18.5	33.1	5.1	26.1	31.2

Sources: Column 3 is from *World Development Indicators 2002* CD-ROM; Columns 4 and 5 are from *Global Development Finance 2003* CD-ROM; Column 6 is from *Global Development Finance 2003, Analysis and Summary Tables* (pp. 145-153); Columns 7 and 8 are from Enhanced HIPC Initiative decision point documents and completion point documents (www.worldbank.org/hipc).

General Notes: Only countries with populations over 1 million in 2000 are included. "Low debt" denotes NPV of debt below 100% of exports. "Medium debt" denotes NPV of debt between 100%-150% of exports. "High debt" denotes NPV of debt of at least 150% of exports.

1/ "NPV of debt" is the sum of short-term external debt plus the discounted sum of total debt service payments due on public, publicly guaranteed, and private nonguaranteed long-term external debt over the life of existing loans. (World Bank)

2/ "Debt service" consists of debt service payments on total long-term debt (public and publicly guaranteed and private non-guaranteed), use of IMF credit, and interest on short-term debt. (World Bank)

3/ "Maturity" denotes the average maturity (in years) for all new loans contracted during the year.

4/ "Agreements" denote the number of multilateral debt relief agreements concluded under the formal auspices of the Paris Club between January 1980 and December 2000. Entries for Albania, Indonesia, and Pakistan include some agreements concluded outside of formal Paris Club auspices.

5/ "Currencies" denote the lower bound for the number of currencies in which the country's debt is denominated as of the year of the most recent HIPC documents (all are between 2000-2003). Data on currencies are only available for countries in the HIPC Initiative, so blank cells indicate no data.

6/ "Creditors" denote the lower bound for the number of creditors to which the country owes debt. Data are from HIPC documents (see previous note).

7/ Uganda is included in the high-debt category because its debt-to-exports ratio drops in 2000 only after reaching the Enhanced HIPC completion point in May 2000.

Figure 1. Relationship Between Debt and Overall Fiscal Balance

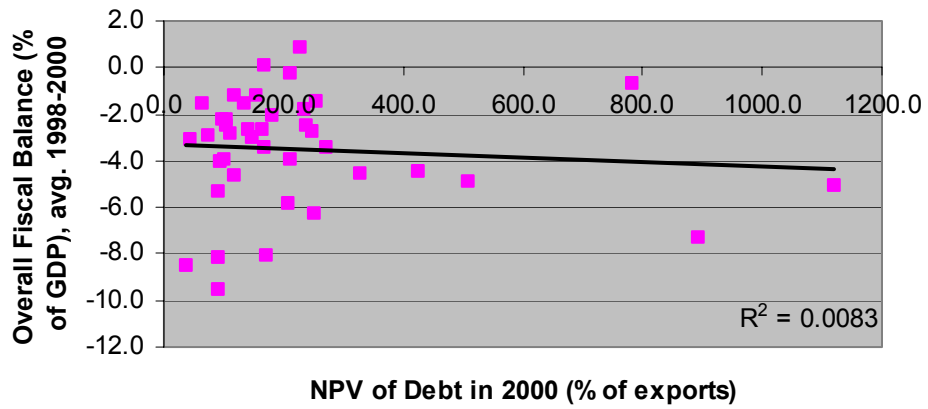


Figure 2. Relationship Between Debt and Primary Fiscal Balance

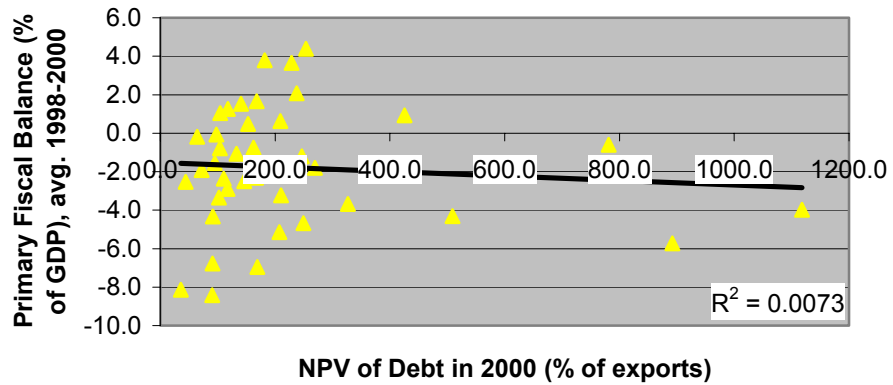


Figure 3. Relationship Between Debt Service and Overall Fiscal Balance

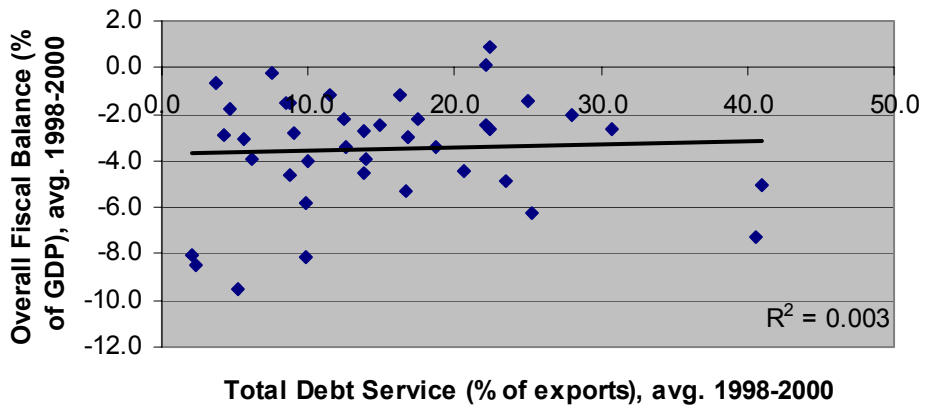
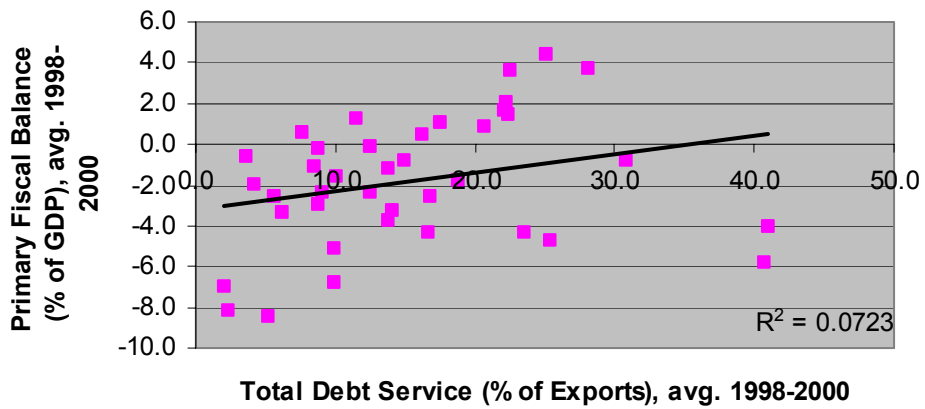


Figure 4. Relationship Between Debt Service and Primary Fiscal Balance



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