II Overall Dimensions of Sub-Saharan Africa's Multilateral Debt Problem

Before going into Africa's debt in detail it is perhaps useful to put the African economic and debt situation in a global context as the comparative figures in Table 1 attempt to do. These comparative figures suggest that, as a part of the developing world, sub-Saharan Africa under-produces, is over-indebted, has too small a cushion of international reserves and accounts for too large a proportion (relative to its trade and GNP) of the developing world's current account imbalance.

In its debt structure it is heavily exposed to official creditors and particularly to multilateral creditors while being under-exposed to private creditors reflecting, by and large, the relentless erosion of its commercial creditworthiness. Related to its high proportion of multilateral debt is its extraordinarily high share of the developing world's arrears on external debt.

Table 1 Sub-Saharan Africa in the Developing World: 1994
(billions of US dollars except where indicated otherwise)

	Sub-Saharan Africa (SSA)	Developing World (DW)	SSA/DW (%)
Population (Millions)	579.00	4,690.00	12.34%
Gross National Product	255.00	4,770.00	5.34%
Exports	82.76	1,163.65	7.11%
Imports	87.86	1,182.11	7.43%
Reserves (1993)	14.97	396.22	3.78%
Current Account Imbalance	–10.64	–95.25	11.17%
Total Debt	**221.12**	**1,944.60**	**11.37%**
of which:			
Bilateral Debt	74.22	508.28	14.60%
Multilateral Debt	57.77	312.84	18.46%
Private Debt (LT+ST)*	69.27	1,087.91	6.37%
Total Arrears on Debt	**54.28**	**128.50**	**42.24%**
of which:			
Interest Arrears	19.86	35.56	55.85%
Principal Arrears	34.42	92.94	37.03%

*LT = Long-Term; ST = Short-Term

Source: Debtor Reporting System, The World Bank.

From: Resolving Africa's Multilateral Debt Problem: A Response to the IMF and the World Bank
FONDAD, The Hague, 1996, www.fondad.org

The pre-emption of debt service by multilateral preferred creditors is obviously impinging severely on sub-Saharan Africa's ability to pay other creditors. Despite the increasing write-down of bilateral debt by creditor governments, sub-Saharan Africa has become excessively aid-dependent. There is no exit strategy in sight for the reduction of that dependence and the concomitant restoration of the continent's economic sovereignty – which has been ceded virtually in its entirety to donors, and especially to the IMF and the World Bank.

Africa's debt problems have been dealt with extensively in the literature over the past few years (see e.g. Husain and Underwood: 1991; Killick and Martin: 1989; Krumm: 1985; Lancaster: 1991; Mistry: 1991, 1989; OAU: 1987; UN: 1988, 1991). But, even as the dangers it poses have been recognised, failure to deal with the problem has resulted in its dimensions having grown relentlessly. The overall growth of sub-Saharan Africa's external debt is depicted in Table 2 below. Outstanding multilateral debt figures for individual countries are presented in Annex 3.

Table 2 Growth of Sub-Saharan Africa's External Debt: 1980-94
(billions of US Dollars)

	1980	1985	1990	1994
Total External Debt	**101.25**	**122.02**	**197.67**	**221.12**
SSA (excl. South Africa)	84.35	98.92	171.51	193.27
South Africa	16.90	23.10	26.16	27.85
Total Long Term + IMF Debt	**73.91**	**94.67**	**167.07**	**181.03**
SSA (excl. South Africa)	61.80	84.55	149.97	162.52
South Africa	12.11	10.12 *	17.10	18.51
of which:				
Bilateral Debt	**17.04**	**29.79**	**66.36**	**74.22**
Multilateral Debt	**10.59**	**23.40**	**43.82**	**57.77**
Multilateral Bank Debt	7.56	16.67	37.21	50.75
IMF Credit	3.03	6.73	6.61	7.02
Private Debt	**46.28**	**40.66**	**56.89**	**49.04**
SSA (excl. South Africa)	34.17	31.36	39.79	30.53
South Africa	12.11	9.30	17.10	18.51
Total Short-Term Debt	**27.34**	**27.35**	**30.60**	**40.09**
SSA (excl. South Africa)	22.55	14.37	21.54	30.75
South Africa	4.79	12.98	9.06	9.34

* Includes $812 million owed by South Africa to the IMF which was not captured by the Debtor Reporting System of the World Bank on which this Table is based.

Source: Debtor Reporting System, World Bank.

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Growth in Official Debt

As Table 2 suggests, whereas total sub-Saharan African debt has multiplied by 2.2 times over the last fifteen years, official creditors account for almost all of the growth in indebtedness. Bilateral debt has multiplied 4.4 times despite ostensibly generous write-downs and reschedulings – the full impact of which is barely discernible in the statistics on claims owed. But only a relatively small proportion (less than 20%) of bilateral debt is actually serviced by sub-Saharan countries. Multilateral debt has multiplied by a factor of 5.5 over the same period and a much higher proportion of it (about 90%) is serviced; mainly because the consequences of not servicing such debt are too serious for most countries without commercial creditworthiness to contemplate.

Within the multilateral category, the debt owed by sub-Saharan Africa (SSA) to the multilateral development banks (principally the World Bank and the African Development Bank) has increased by a multiple of over 6.7 times whereas debt owed to the IMF has increased by barely 2.3 times. In 1994, excluding interest in arrears, the IMF accounted for less than 3.2% of the region's total debt, suggesting that its influence in the region – which is disproportionate to the financial resources it provides (or, more accurately, extracts) – derives from the authority endowed to it by its G-7 membership as a policy-policeman rather than from the extent of its financial assistance, which is minuscule.

The bulk of multilateral debt (60%) at the end of 1994 was accounted for by eleven major borrowers which owe multilateral creditors more than $2 billion each: Côte d'Ivoire, Ethiopia, Ghana, Kenya, Nigeria, Senegal, Sudan, Tanzania, Uganda, Zaire and Zambia. A further seven countries owed multilateral creditors between $1-2 billion each: Cameroon, Guinea, Madagascar, Malawi, Mali, Mozambique and Zimbabwe. Together these eighteen debtor countries owed over 75% of SSA's total debt to multilateral institutions.

Growth in Private Debt

By contrast, SSA debt owed to private creditors (short-term and long-term) excluding arrears to bilateral and multilateral creditors (see Table 3 below) has stayed relatively stable in absolute dollar terms (at around US$67 billion including South Africa and $42 billion excluding it) but has fallen sharply as a proportion of total debt. In 1980, private creditors accounted for 72.5% of sub-Saharan Africa's total debt. In 1994 they accounted for less than 31.3% of the total. Taking South Africa out of the picture, the role of private creditors shrinks even more dramatically. For the rest of SSA whereas private creditors accounted for 67.3% of total debt in 1980, that proportion had fallen to under 23.8% by 1994.

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Growth in Arrears

Although sub-Saharan debt, and particularly debt owed to official creditors, has grown rapidly over the last fifteen years, arrears have grown much faster rising from negligible amounts in 1980 to account for a very large share of total outstanding debt in 1994 (see Table 4). The growth in arrears, mainly to bilateral and private creditors, is attributable almost entirely to the pre-emptive servicing of multilateral debt.

Even so, arrears to multilateral creditors (including the IMF) by SSA debtors at the end of 1994, amounted to \$5.61 billion against a multilateral debt portfolio of \$57.8 billion. Of this amount arrears to the IMF alone reached \$4.19 billion from an outstanding portfolio of \$7.02 billion. Arrears to the two major multilateral banks (the World Bank and the African Development Bank) and their soft windows amounted to \$1.01 billion with an estimated further \$400 million in arrears owed to other multilaterals.

Thus SSA's arrears to the IMF amounted to nearly 60% of its outstanding portfolio in that region. Arrears to the other multilaterals (mainly the two development banks, Eurolateral institutions and other smaller multilaterals) accounted for just under 3% of their combined portfolio although the arrears levels for individual multilateral institutions varied widely between 2-25% of portfolio. This combination resulted in overall multilateral arrears amounting to 9.7% of the total multilateral portfolio. By implication, therefore, arrears to bilateral creditors thus amounted to \$32.3 billion (or 43.5%) in a portfolio of \$74.2 billion in bilateral claims. These figures indicate that the alarming growth of arrears being incurred by SSA, and their concentration among bilateral and private creditors, is a direct consequence of the pressures on SSA debtors to service multilateral debt, leaving them with inadequate resources to meet service payments on debts owed to other creditors.

Even so, arrears to the IMF are higher than to any other creditor perhaps accounting for the pressing need which that institution has felt to create more concessional facilities for these particular debtors. SSA's arrears to the IMF are owed by five countries. Four (Liberia, Somalia, Sudan and Zaire) suffer from domestic circumstances which appear to preclude debt servicing for the time being. The fifth, Zambia, failed to adjust between 1979-94 when the IMF increased its exposure in vain attempts to achieve a change in economic direction. Arrears to the IMF from that country alone amounted to \$1.2 billion at the end of 1994.

Zambia's arrears were refinanced by funding from the IMF's Enhanced Structural Adjustment Facility (ESAF) when it successfully completed its rights accumulation programme at the end of 1995. That refinancing has resulted in scarce concessional funds being drawn down for the purpose of the IMF straightening out its own books.

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Table 3 **Growth of Sub-Saharan Africa's Arrears: 1980-94**
(billions of US Dollars; excluding South Africa)

	1980	1985	1990	1994
memo:				
Gross Short-Term Debt	22.55	14.37	21.54	30.75
Net Short-Term Debt Outstanding	22.32	12.42	11.60	10.89
Interest Arrears	**0.23**	**1.95**	**9.94**	**19.86**
of which:				
Owed to Official Creditors	0.13	1.42	7.08	15.30
Owed to Private Creditors	0.10	0.53	2.86	4.56
Principal in Arrears	**1.14**	**4.40**	**17.90**	**34.42**
of which:				
Owed to Official Creditors	0.44	2.81	10.34	22.60
Owed to Private Creditors	0.70	1.59	7.56	11.82
Total Arrears	**1.37**	**6.35**	**27.84**	**54.28**
of which:				
Owed to Official Creditors	0.57	4.23	17.42	37.90
Owed to Private Creditors	0.80	2.12	10.42	16.38
Total Arrears/Total Debt	1.62%	6.42%	16.23%	28.09%
Official Arrears/Official Debt	2.32%	9.10%	16.82%	30.32%
Private Arrears/Private Debt	1.41%	4.84%	20.27%	39.55%

Source: Debtor Reporting System, The World Bank.

Growth in Multilateral Debt Service

Excluding South Africa, sub-Saharan Africa's multilateral debt now accounts for over 26% of the region's total debt and for nearly 40% of the region's GDP. The debt service burdens it imposes are a key source of controversy in debate about their actual or potential drag effect on Africa's long-awaited but yet-to-materialise recovery. SSA's annual multilateral debt service payments have increased four-fold from $971 million in 1980 to $3.95 billion in 1994 with the proportion of exports which these payments absorb having risen from just over 1% in 1980 to nearly 5% in 1994.[1]

1 Whether it makes sense to use a mechanistic interpretation of the debt service/exports ratio in the context of African severely-indebted low-income countries as a measure of debt service sustainability or as an indicator of the burdens imposed by a debt overhang is open to question as discussion in later parts of this study will suggest.

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Multilateral debt service now accounts for over 45.6% of the region's total debt service. Table 4 below shows that multilateral debt service is now more than double the amount of bilateral debt service ($1.89 billion) actually paid and significantly larger than private (short and long-term) debt service ($2.83 billion) while Table 5 indicates how the pattern and structure of sub-Saharan Africa's debt service priorities have changed over the last fifteen years; more so than the structure of its outstanding debt obligations.

Prior to 1980, SSA was mainly dependent on private creditors. Commodity price windfalls and the exploitation of oil reserves in Africa led to a rash of syndicated loans to the continent from ill-informed and ill-prepared commercial banks between 1973-80. As Table 5 suggests, that pattern changed dramatically during the 1980s and has gone on changing through the 1990s.

Table 4 **Growth of Sub-Saharan Africa's External Debt Service: 1980-94**
(billions of US Dollars; excluding South Africa and Namibia)

	1980	**1985**	**1990**	**1994**
Total Debt Service	**8.92**	**10.96**	**10.71**	**8.68**
Bilateral Debt Service	0.90	1.65	2.76	1.89
Multilateral Debt Service	0.97	2.16	3.62	3.96
of which:				
Multilateral Bank Debt Service	0.40	0.99	2.43	3.37
IMF Debt Service	0.57	1.17	1.19	0.59
Private Debt Service (LT + ST)*	7.05	7.15	4.33	2.83
Memo:				
Interest Arrears 0.23	1.95	9.94	19.86	
of which:				
Owed to Official Creditors	0.13	1.42	7.08	15.30
Owed to Private Creditors	0.10	0.53	2.86	4.56

*LT = Long-Term; ST = Short-Term

Source: Debtor Reporting System, The World Bank.

Between 1980-1990, the IMF and the multilateral development banks (MDBs) stepped in to finance the partial bail-out of commercial banks, resulting in the proportion of IMF and MDB debt and debt service rising rapidly between 1980-90. Since 1990, the concessional windows of the MDBs have been bailing out the IMF, which has reduced its exposure in Africa sharply. The consequence has been a dramatic rise in the share of MDBs in both SSA's debt stocks and debt service. Although the increase in the share of

MDBs and their concessional windows began in 1980, it became particularly pronounced after 1990. In the meantime, the share of private creditors in Africa's debt profile has dropped significantly. In particular, Africa's access to short-term loans, mainly to finance trade transactions, has diminished precipitately; it has fallen well below levels necessary to lubricate the conduct of normal commerce and has forced Africa to rely even more heavily on the MDBs and bilateral donors for financing import support.

Table 5 **Pattern of Sub-Saharan Africa's External Debt Service: 1980-94**
(Percentages; excluding South Africa and Namibia)

	1980	1985	1990	1994
Total Debt Service	**100.00**	**100.00**	**100.00**	**100.00**
Bilateral Debt Service	10.09	15.05	25.77	21.77
Multilateral Debt Service	10.87	19.71	33.80	45.62
of which:				
MDB Debt Service	4.48	9.03	22.69	38.82
IMF Debt Service	6.39	10.68	11.11	6.80
Private Debt Service (LT + ST)*	79.04	65.23	40.42	32.61

*LT = Long-Term; ST = Short-Term

Source: Debtor Reporting System, The World Bank.

The Concessionality of Africa's Multilateral Debt

What is disconcerting about Africa's multilateral debt is that the debt service burden it imposes keeps growing inexorably even as the structure of such debt becomes seemingly more concessional. In 1980, less than 40% of sub-Saharan Africa's multilateral debt stock was on concessional terms. By 1994, the proportion of concessional multilateral debt had increased to over 70%. Yet the multilateral debt service burden has mushroomed, albeit at a slightly slower rate than the growth in debt stocks. Although multilateral debt increased by a factor of 5.5 between 1980-94, and concessionality increased by a factor of 1.75, the burden of multilateral debt service grew by a factor of 4.1 instead of the multiple of 3.1 (i.e. 5.5 divided by 1.75) that might have been expected. This is explained by the fact that concessional multilateral debt might not be quite as concessional, in US dollar terms, as its coupon rate (usually 1% or less) and long grace (typically around 10 years) and maturity periods (typically between 25-40 years) would suggest.

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The Exchange Rate Effect

Most (over 75%) of the concessional multilateral debt of sub-Saharan Africa is accounted for by debt owed to the World Bank's soft-loan window, IDA; the African Development Bank's soft window, AfDF; and the International Monetary Fund's concessional facilities, SAF and ESAF. All of this debt is denominated in SDRs. Much of the remaining concessional multilateral debt from the European Union or the European Investment Bank is denominated in ECU or European currencies. Only the concessional debt owed to Arab multilateral institutions is denominated in US dollars. The dollar (which is the principal currency earned by SSA from its exports) has experienced a long-term structural depreciation against the SDR and ECU over the past 30 years even allowing for the short-lived appreciation of 1982-85 and the exchange rate gyrations that take place every couple of years. Consequently, the effective average annual exchange-risk adjusted cost of this concessional debt in US dollars may be between 4-6% annually instead of the 1% or lower coupon rate which such debt nominally carries. The actual cost depends on: the specific parities prevailing when a particular debt was incurred, the effective duration of the loan, the length of its disbursement period, and the annual changes in exchange rate parities since it was committed and disbursed.

In addition, the residual principal value of the concessional debt which needs to be repaid has increased by between 30-45% in US dollar terms, adding a further burden to the limited debt servicing capacity of African countries. Thus, out of Africa's annual multilateral debt service burden of nearly $4 billion in 1994, about $500 million is probably attributable to the exchange rate effect on concessional debt; which results in such debt being much less concessional, and in some cases inadvertently becoming almost as expensive as market debt had it been borrowed in US dollars in the first place.

As a result, the effective grant element of concessional multilateral debt calculated in dollar terms is less than the 80% or so which is normally purported by aid donors. In reality it may be closer to between 40-50%. This raises the serious question of whether the poorest African countries should be victimised by technicalities governing multilateral concessionality in a world of floating exchange rates over which they have no influence, and the direction of which is governed largely by the macroeconomic policies of the G-7 countries. This is a question which requires a more careful answer than has so far been provided by the IMF and World Bank.

The foregoing paragraphs have attempted to outline the overall dimensions of sub-Saharan Africa's multilateral debt problem. The next chapter delves into its composition and characteristics in greater depth.

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