AFRICA'S DEBT: THE APPEAL OF REPUDIATION[1]

Kwasi Anyemedu

The absolute size of Africa's external debt is not large. It is estimated to be in the region of $150-$200 billion[2]. Even at the higher estimate, it is less than the combined debt of Brazil and Mexico. But Africa's debt is extremely burdensome. It accounts for about half of its Gross Domestic Product, and approximately three to four times its annual export income. Debt service ratios on average exceed 50%, and in some cases they are more than 100%. The latter situation means that if debt service obligations are to be met on schedule, such countries will use all their export earnings for debt service leaving nothing for imports of essential items, and still the countries would not have discharged their debt obligations fully.

Africa's debt problem is viewed as sufficiently serious by Africans to warrant the convening of a special summit of African leaders on the debt problem. But the options open to African leaders are limited. In a real sense, "the most effective solution to Africa's debt problem would be to cancel its obligations."[3] This, however is a decision for other people, not African leaders. But an option of equivalent effect open to African leaders is unilateral cancellation of debts, a collective repudiation of Africa's debt. Reputable opinion, however, tends to be against this position. The World Bank's Vice-President for East and West Africa is reported to have stated that such unilateral cancellation of debt on the part of Africa "will not work" because it will have a major impact since the creditors might stop lending the African countries money.[4]

It will be argued in this paper that if the problem is specified this way,[5] then unilateral cancellation of debts by Africa will "work" rather admirably. For the present value of any realistic estimates of expected future loans which will be put at risk by debt repudiation is likely to be lower than the value of the existing debt. It is not expected, however, that the course of repudiation will be followed, nor is it recommended.

THE DIMENSIONS OF AFRICA'S DEBT

Until very recently, Africa's debt problems had not received much international attention as compared to, for instance, Latin American indebtedness. This is largely due to the relatively small absolute size of this debt, and the fact that because of its smallness, problems associated with it are not regarded as posing a major threat to the international financial and monetary system.

It is now realised, however, that for Sub-Saharan Africa, the debt burden is a major constraint to economic development and the alleviation of the appalling poverty that prevails in this region.

Appendix II gives details of the external indebtedness of Africa, South of the Sahara. At the end of 1984,[6] total external indebtedness of Sub-Saharan Africa stood at $78 billion. Between 1978 and 1984, this debt more than doubled. About 94% of long term debt is official debt (public and publicly guaranteed debt). At the end of the 1984, Sub-Saharan Africa was indebted to the International Monetary Fund to the tune of over $5 billion. Total debt service (Principal, Repayment and Interest) grew from $449.3 million in 1970 to almost $7 billion at the end of 1984. In that year, there was a net outflow of funds from Sub-Saharan Africa to external creditor countries and institutions. As against disbursements of $6,837.0 billion total debt service amounted to $6,998.1 billion, implying a negative net transfer of $161 million.

The deterioration in the debt position can also be seen by an examination of other indicators. In 1970, interest rates averaged 3.7%; by 1984, they averaged 6%; down from a high of 9.3% in 1981. In 1970, there was an average grace period of 7.8% years. In the early 1980s, this fell to 4-5 years, though by 1984, it had increased to 5.6 years. The grant element in loans declined from 47.2% in 1970 to 33% in 1984, and in 1981 it reached a low of 9.2%.

REPAYMENT PROSPECTS

A. THE ABILITY TO PAY

The ability of Sub-Saharan Africa to service its debts is dependent on its economic health and especially on its export earnings. Inflows of loans and credits also help to ease liquidity problems in the sense that if gross inflows exceed debt service, there is a net inflow of resources into the region. Since these inflows, however, give rise subsequently to outflows, they do not help in the solution of the basic problem of insolvency even if they help to sove the problem of short-term liquidity.

General economic and export performance of Sub-Saharan Africa depends on both domestic policies and the external economic environment. Domestic policy failures have played a part in the general poverty which pervades Sub-Saharan Africa. A large number of African countries are, however, currently carrying out policy reforms: "Some twenty-five countries in the region, which account for a large proportion of Africa's population and output are implementing major programmes of structural reforms or are about to do so." [7]

The international economic environment, however, remains hostile. The prices of the export commodities of African countries have fallen to record levels - "the period between 1984 and 1986 saw real prices of non-fuel primary commodities fall to record lows. In 1985, the World Bank's index of thirty-three non-fuel primary commodity prices, in current dollar terms, fell to its lowest level in nine years ... For the first time in recent history, practically all commodity groups experienced price declines in 1984-86." [8] According to the U.N. Secretary-General, the African Continent lost $19 billion in 1986 due to lower prices for commodity exports.

The prognosis for Africa's economic performance in the coming decade is distinctly bleak.

Real income per head is not expected to show any increase over the next decade for Sub-Saharan Africa as a whole. Exports which will provide the wherewithal for meeting Africa's foreign exchange commitments, including debt service, are expected to grow very slowly. All told, the capacity of Sub-Saharan Africa to repay its debt now and in the foreseeable future, is very low indeed.

B. THE WILLINGNESS TO REPAY

It is a feature of the prevailing liberal international economic order that the sanctity of debts is greatly emphasised. So effective have been the norms prohibiting debt repudiation that Cuba and North Korea are said to provide the only cases of outright repudiation of public debt in the Third World over the past thirty years. But in the face of the severe burdens implicit in the upholding of the "divine right of capital", there have been doubts as to whether this prohibition on debt repudiation can survive. Statements made by some delegates at the Second Committee

TABLE I

INDICATORS OF ECONOMIC PERFORMANCE IN
SUB-SAHARAN AFRICA (1965-1985)
(Average Annual % Change)

	1965-73	1973-80	1980-86	1986-95	
				High	Low
Real GDP	6.4	3.2	-0.4	4.0	3.2
GDP/Capita	3.6	0.3	-3.4	0.7	0.0
Export of goods	15.0	0.1	-1.9	3.9	2.0
Export of Manufactures	7.5	5.6	4.0	9.6	4.4
Exports of primary goods	15.3	-0.1	-2.2	3.3	1.8

Source: World Development Report 1987 (The World Bank)

of the Forty-Second General Assembly of the United Nations in September-October 1987 indicate that the general willingness of countries to honour debt at all cost is not very strong. As the Rumanian delegate put it, - "The continuous difficulties faced by the developing countries have reached a point where the premise that debts should be honoured in full has come to be questioned both in the market place and in unilateral action by some debtors." One of the countries that has taken unilateral action in recent years is Peru, whose delegate at the meeting is reported to have said that governments of developing countries would put the development of their countries before debt repayment, and that debt repayment without a change in the present imbalances in the world economy would involve sacrifices that were unacceptable to the peoples of the developing world. African countries on the whole, avoided talk which might raise doubts about their willingness to meet their debt obligations. Indeed, the only delegate who found it necessary to affirm the intention of his country to honour its debts was from Sub-Saharan Africa.

The Mauritanian delegate declared that his country intended to honour all of its external obligations even though they were approximately double the size of its gross domestic product.[9] It is difficult to know whether Africa's position reflects the weakness of the poor everywhere, or the docility of the African, but Africans have so far avoided the unilateral action on debts taken by some Latin American countries.

THE APPEAL OF REPUDIATION

It is clear that the servicing of Africa's debts has become one of the major constraints to its development - "obligations on past borrowings now absorb much of Africa's foreign exchange earnings, as well as a rising share of African governments' budgets. Domestic savings, already inadequate for the investment needed for growth are consumed by servicing of past borrowings".[11] In these circumstances will debt repudiation be an assistance or a hindrance to Africa's economic development?

In his article on the appeal of confiscation in economic development published in the mid 1950s, Martin Bronfenbrenner explained - "The issue we discuss is not whether confiscation can be justified by some conventional standard of morals or propriety, but merely whether it brings the pragmatic results desired, namely economic development without sacrifice to the standard of living of the mass of the population".[12] It is generally accepted that the most potent incentive inducing countries to keep up payments of past debts lies in the hope of continued access to further capital inflows. Good behaviour on past debts is rewarded by future loans. But to be an adequate inducement "the hope of promise of reward must be substantial, plausible and contemporary. Crumbs from the table will not do, nor pie in the sky when you die!".[13] The issue then rests on an estimate of the prospects of Africa attracting significant inflows of capital over the next decade or so, and how much of the expected inflow will be at risk in the event of a debt repudiation.

An analysis of Africa's long-term debt shows that the bulk of it is owed to official creditors, governments and the multilateral agencies - the World Bank and the African Development Bank.

Private Commercial Banks are the most likely to withhold further lending to Africa in the event of debt repudiation. But this likely development has not much significance. First, private commercial bank lending is not very important for most countries in Sub-Saharan Africa. Liabilities to these banks make up only 20% of the public long-term debt of Sub-Saharan Africa, excluding Nigeria. Second, private commercial banks have attempted to reduce their exposure to developing countries in the wake of the debt crisis, and even under the best of circumstances not much additional capital from that source can be realistically expected at least for a generation.[14]

It is also possible that some bilateral flows, especially from the U.S. and Britain will be put in jeopardy by a debt repudia-

TABLE II

STRUCTURE OF AFRICA'S LONG TERM DEBT

DISBURSED AND OUTSTANDING (1984) (U.S. $ million)

Total long-term debt	57,306.2
Official creditors	36,573.8
Multilateral	14,563.8
IBRD	4,627.8
IDA	5,053.0
Bilateral	22,010.8
Private Creditors	20,732.4
Supplies	2,187.6
Financial Markets	18,544.9

Source: World Bank: World Debt Tables, 1985-86 Edition

tion. The IMF and the World Bank can also be expected to suspend further lending, at least for some time, to express their displeasure with any such debt repudiation. But it is most unlikely that all bilateral official development assistance will cease as a result of a debt repudiation, and even in the unlikely event of all long-term inflows drying up, Africa will not be worse off. The projected debt service in respect of long-term debt over 1988-92, as estimated by the World Bank, averages about $7 billion annually for Sub-Saharan Africa as a whole. Total disbursement of long-term finance to Sub-Saharan Africa in 1984 was just under $7 billion, and even the most starry-eyed optimist cannot expect much improvement in this situation. The reward for good behaviour is therefore not likely to be overwhelming. In addition, a bird in hand is said to be worth two in the bush.

PREFERRED SOLUTION TO DEBT PROBLEM

Although a convincing case can be made for debt repudiation, that course of action is not recommended. The main reason for this position is that it is possible to obtain, through negotiated debt cancellation, the benefits of debt repudiation without its costs. That Sub-Saharan Africa is in no position to meet its debt obligations and still hope for any improvement in levels of living is widely enough accepted. The transition from this realisation to the effective solution of debt cancella- has not, however, been made by all the relevant actors. Some action has taken place in this direction; Canada, Britain and Denmark have written off official loans to Ghana and other African countries, and many more can be expected to follow this path once the peculiar nature of the crisis in Sub-Saharan Africa becomes evident to them, and legal and other barriers are sorted out.[15]

One can be cautiously optimistic about the chances of getting substantial debt cancellation in respect of bilateral official debt. Debt relief from the multilateral sources are less certain, and it is here that the most bold and innovative departure needs to be made in the way in which debt relief has been handled up till now.

The I.M.F., the World Bank and the regional development banks have created for themselves a preferred or special creditor status; debt service to them is top priority, and their debt is not open to renegotiation. It is being increasingly realised that, given the importance of these multilateral institutions as creditors to Sub-Saharan Africa, the upholding of their special status is a barrier to an effective and realistic resolution of the debt problem: "Specific action, however, is needed by the I.M.F., the World Bank and the regional development banks which account for almost half of the projected debt service. They are not allowed to reschedule debts and are permitted by other creditors to be excluded from debt rescheduling operations. However, debt service measures that apply to only 30% of the debt service due do not ease the liquidity constraint."[16] More significantly, the World Bank, after observing that for 17 Sub-Saharan African countries more than 30% of their public debt service due in 1985-87 is owed to multilateral agencies, and that for 5 countries, this proportion is over 50%, commented as follows: "Such a high level of obligations to preferred (multilateral) creditors limits the scope for help from rescheduling in stabilising external payments. Difficulties are compounded for the twenty-eight countries that had used I.M.F. credits at the end of 1984. Repurchases and service charges to the I.M.F. add substantially to the debt-servicing obligations to other multilateral institutions, have severely reduced their room to manoeuvre."[17]

The realisation has now dawned that Africa's debt crisis can only be resolved within a general development framework which embraces policy reforms in the African countries, commodity price stabilisation and reduced protectionism in the industrial economies, and increased investment made possible by debt relief and increased aid flows.

The I.M.F. and the World Bank which have been in the forefront of those urging reforms in African countries have a special responsibility to ensure that the external conditions necessary for the success of these reforms are created. They should take a lead in debt cancellation to the countries of Sub-Saharan Africa. This debt cancellation can be linked to programmes of policy reform. But the people of Africa, who are the poorest in the world, cannot be expected to continue painful structural adjustments just to create budgetary and trade surpluses to service external debts while their already low per capita incomes stagnate or even decline. A realistic resolution of the debt problem will determine whether the "fragile political consensus" which has so far sustained adjustment and reforms can survive or fall apart.

NOTES

1. The focus of this paper is on Sub-Saharan Africa. Given the issues under consideration, it is not really meaningful to lump together Tunisia and Algeria on the one hand, and Ethiopia and Burkina Faso on the other, in spite of their common membership of the Organisation of African Unity (OAU). Algeria, for instance is classified (by the World Bank) as an upper-middle-income country, in the same category as Brazil, South Korea, etc. For such countries, the problem of their external debt is more one of illiquidity than solvency, and the solution to their problem is more appropriately discussed in terms of debt refinancing than in terms of debt cancellation and repudiation. (See Mahbub Ul Haq, Proposal for an IMF Debt Refinancing Subsidiary, in **Theory And Reality in Development** edited by Sanjaya Lall and Frances Stewart, the Macmillan Press, 1986).
2. Estimate from Report on Africa by the U.N. Secretary-General as reported by **West Africa Magazine**, October 26, 1987. Appendix I shows a country breakdown of Total External Debt of African countries which report to the World Bank on their debt position.
3. Chandra S. Hardy, Africa's debt: structural adjustment with stability, in **Strategies for African Development**, edited by Robert J. Berg and Jenifer J. Whitaker, Council on Foreign Relations Inc., 1986.
4. **Ghanaian Times**, Nov. 4, 1987.
5. The withholding of future loans is not the only recourse open to creditors in the event of debt repudiation. Historically, gun-boat diplomacy and the bolstering of "friendly" governments have been important instruments in the hands of creditor nations to safeguard their loans and investments. Currently, methods such as trade embargoes, laying hands on assets of debtor nations in other jurisdictions, etc., are remedies available to creditors. But the expectation of rewards for good behaviour in the form of future loans has always been the most efficacious factor in forestalling debt repudiation. The concentration of this paper on this crucial factor is not to deny that other factors are at play. "Partial equilibrium" analysis has well-known limitations, but it is nevertheless sometimes quite useful to isolate the strategic variable for analysis and emphasis. In the discussion about economic sanctions against South Africa, the claim that sanctions will hurt black Africans more than they will help them has been used as an excuse for not implementing sanctions. On the issue of Africa's debt, the claim that debt repudiation will work against

Africa's economic interests by depriving it of inflows of new capital will be seen by many, including Africans, as evidence that debt repudiation is neither a serious nor a responsible option. Our purpose is is to deny that the balance of capital flows will be to Africa's disadvantage in the evént of a repudiation of debts, and thus to demonstrate that debt repudiation is a serious and responsible option.

6. Because our analysis covers the whole of Sub-Saharan Africa, it is important to have data which are comparable all over the sub-region. The best sources on external debt for this purpose are the two World Bank publications; The **World Development Report**, and the **World Debt Tables.** The most recent issue of the World Development Report is that of 1987, and the data in that issue end in 1985. This is the source of **Appendix** I which gives the external debt position of individual African countries. The **World Debt Tables** give more detailed debt information, but the data in the latest issue (1985-86 Edition) terminate in 1984. While more recent data would have been useful, the absence of such data is not a major handicap since the available data illustrate adequately the main features intended for emphasis in this section; the rapid growth of the external debt of Sub-Saharan Africa, and the deterioration in both the structure and terms of such debt.
7. World Bank: **World Development Report,** 1987.
8. World Bank, op. cit.
9. All quotations from UN Committee meeting from press release by UN Department of Public Information, New York, October 1987.
10. Zimbabwean President, Rev. Canaan Banana is said to have modified the Lord's Prayer to read in part: "Forgive us our docility; Teach us to ask for our share of the loot."
11. World Bank: **World Debt Tables,** 1986-87 Edition.
12. Martin Bronfenbrenner, The ppeal o, Confiscation in Economic Development, in **Economic Development and Cultural Change,** Vol. III, No.3, April, 1955.
13. Martin Bronfenbrenner, op. cit.
14. B.J. Cohen points out in **In Whose Interest** that after the financial collapse of the 1930s, "The American people and their financial community vowed that never again would they trust their fortunes abroad or respond to the request of foreign governments." Owing to "Disaster Myopia", however, caution was soon thrown to the winds. It is unlikely, however, he argues, that the same generation of bankers that have had their fingers burnt so badly in the current debt crisis will themselves make the mistakes of over-exposure to doubtful Third World Debts.
15. Robert J. Berg ("Foreign Aid in Africa: Here's the Answer - Is it relevant to the Question?") points out that it is legally permissible for the U.S. to cancel debts to least developed countries, but that this option has never been exercised perhaps out of fear that a precedent would be set for the huge debt owed by India and a few other major recipients of USAID loan.
16. Chandra S. Hardy, op. cit.
17. World Bank: **World Debt Tables,** 1985-86 Edition.

APPENDIX I

AFRICAN COUNTRIES - TOTAL EXTERNAL INDEBTEDNESS

(US $ Million 1985)

Country	Long-term debt: Public & Publicly Guaranteed	Long-term debt: Private non-Guaranteed	Use of IMF Credit	Short-term Debt	Total External Debt
Ethiopia	1742	0	50	77	1896
Burkina Faso	496	0	0	43	539
Mali	1327	0	81	61	1469
Mozambique	-	-	-	-	-
Malawi	775	0	134	79	988
Zaire	4821	-	721	309	-
Burundi	415	0	0	31	446
Togo	787	0	63	74	914
Madagascar	2340	0	162	86	2588
Niger	791	199	67	98	1155
Benin	677	0	0	99	776
CAR	296	0	208	17	341
Rwanda	324	0	0	27	351
Somalia	1309	0	142	35	1486
Kenya	2857	406	486	470	4219
Tanzania	2982	6	21	600	3609
Sudan	5086	-	665	581	-
Guinea	1292	-	13	76	-
Sierra Leone	390	0	78	59	527
Senegal	1989	13	241	211	2454
Ghana	1170	-	656	302	-
Zambia	3214	0	762	507	4483
Chad	150	0	9	3	161
Uganda	726	0	282	22	1030
Mauritania	1363	0	30	84	1477
Lesotho	172	0	0	4	176
Morocco	11231	-	1190	1664	-
Egypt	17751	750	41	5800	24342
Cote d'Ivoire	5700	1400	662	725	8446
Zimbabwe	1526	45	264	308	2143
Nigeria	13016	416	0	4916	18348
Cameroon	1975	281	0	515	2871
Botswana	334	-	0	2	-
Mauritius	404	15	159	51	629
Congo (People's Republic)	1760	-	0	660	-
Tunisia	4442	246	0	562	5250
Algeria	13664	0	0	1862	15526

Source: World Bank: World Development Report 1987.

APPENDIX II

EXTERNAL INDEBTEDNESS OF AFRICA, SOUTH OF THE SAHARA (US $ Million)

	1970	1975	1978	1981	1982	1983	1984
GROSS EXTERNAL LIABILITIES	-	-	38,466.9	55,320.0	69,787.2	78,228.7	78,438.2
LONG-TERM DEBT	5,761.4	14,981.6	29,507.9	43,873.2	55,355.9	61,164.1	60,942.2
Public & Publicly Guaranteed	5,432.9	13,992.0	27,633.5	41,017.8	51,960.6	57,735.0	57,306.2
Private Non-Guaranteed	328.5	989.6	1,874.4	2,855.4	3,395.3	3,429.1	3,636.0
USE OF IMF CREDIT	106.5	647.9	1,251.0	1,966.8	3,997.3	5,088.1	5,259.0
SHORT TERM DEBT	-	-	7,708.0	9,480.0	10,434.0	11,976.0	12,237.0
DISBURSEMENTS	1,059.3	3,663.1	7,153.8	9,365.5	10,764.1	10,728.7	6,837.0
PRINCIPAL REPAYMENTS	287.5	880.1	1,292.4	2,207.1	2,571.7	3,078.4	4,084.0
NET FLOWS	771.9	2,783.1	5,861.4	7,158.4	8,185.4	7,650.3	2,753.0
INTEREST PAYMENTS	161.8	429.5	834.3	1,922.3	2,418.9	2,557.4	2,914.0
NET TRANSFERS	610.0	2,353.6	5,027.1	5,236.1	5,766.5	5,092.9	-161.0
AVERAGE TERMS OF NEW COMMITMENTS							
(a) Interest (%)	3.7	5.6	6.6	7.3	7.9	8.1	5.8
(b) Maturity (Yrs.)	26.0	19.9	16.5	17.5	18.5	15.9	23.6
(c) Grace Period (Yrs.)	7.8	5.3	4.6	4.9	5.0	4.1	5.6
(d) Grant Element	47.2	30.0	23.2	21.2	18.0	16.7	33.8

Source: World Bank: <u>World Debt Tables</u>, 1985-86 Edition.