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Africa in the Debt Trap: Which Way Out?

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At the October 1985 meeting in Seoul of the International Monetary Fund and the World Bank, African delegates insisted that 'the economic situation is the worst in recent history'.[1] Indeed, it is now widely accepted that the states and peoples of sub-Saharan Africa are in the midst of a crisis of unprecedented magnitude that has been caused by both short-term and long-range factors. Domestic food production has been declining, whilst food imports have increased, and this has exacerbated the televised disasters of drought and famine. The recession in western countries has led to a decline in the external demand for African primary products. Export volumes and values have decreased overall, producing significant fiscal problems, and the resulting foreign-exchange shortages have meant industrial stoppages, an inability to replace infrastructures, and a decline in the gross domestic product.

There has clearly been a significant deterioration in the quality of life for the vast majority of Africa's inhabitants, who are already deprived by global standards. Against a population annual increase of over 3 per cent, income *per capita* in 1983 was estimated to be about 4 per cent below its 1970 level,[2] while the G.D.P. of the countries in sub-Saharan Africa has been falling by 1·7 per cent between 1980–5, as opposed to a rise of 0·9 per cent for developing countries during the same period.[3] The recession is likely to have increased the already stark inequalities within African societies. Although it is true that 'No reliable figures are available about changes in income distribution in Africa', as Bob Sutcliffe goes on to point out, 'given that even the average living standard appears to be declining, that of the more luckless sections of the population must in some cases be falling quite precipitously'.[4]

One of the most problematic aspects of this continental and global decline has been the increasing indebtedness of African states. In this short article we shall (1) assess the proportions of the debt crisis, and (2) examine the prospects for resolving this by focusing on recent initiatives by the major industrial countries, and some of the tactics used by Nigeria, Africa's largest debtor, to alleviate its own problems.

Africa: Drowning in Debt

Africa's external debts have grown dramatically from about $6,000 million in 1970 to about $82,000 million in 1985,[5] and these are the heaviest in the

[1] *Africa Research Bulletin: economic, financial, and technical* (Exeter), 22, 9, 31 October 1985, p. 7939.

[2] *Toward Sustained Development in Sub-Saharan Africa: a joint program of action* (Washington, D.C., 1984), p. 1.

[3] *World Development Report, 1985* (Washington, D.C., 1985), p. 138.

[4] Bob Sutcliffe, 'Africa and the World Economic Crisis', *Review of African Political Economy* Conference on 'The World Recession and the Crisis in Africa', University of Keele, September 1984, Section 10.

[5] *Africa Economic Digest* (London), 28 September 1985, p. 22.

world in relation to G.D.P. While Latin America, where the largest global debtors are to be found, has a debt level of 58 per cent of G.D.P., the equivalent figure for Africa is 62 per cent.[1] According to World Bank calculations, the total outstanding and disbursed debts increased from $12,535 million in 1974 to $59,375 million in 1983, and if undisbursed debt is included, the amount has quadrupled to over $78,000 million during the same 10-year period, as may be seen from Table 1.

From the perspective of the global economy, however, African debts are not particularly significant, being estimated at only about 13 per cent of those for all the non-oil developing countries in 1983.[2] Indeed, at $82,000 million the continent's total debt is only the equivalent of that of *one* of the major third-world debtor nations, such as Brazil or Mexico. The relatively small size of Africa's debts is a reflection of the continent's marginal position in the world economy. But while they may be of little significance in global terms, they are of serious consequence for the peoples and governments concerned.

The growing problem of debt-servicing is to a great extent responsible for the deepening economic crisis. Although stagnation was experienced during the 1970s, the past five years have been catastrophic. The gross national product declined from a peak of $217,500 million in 1980 to just over $173,000 million in 1983, whilst international reserves fell during the same period from $15,000 million to $4,700 million. The ratio of debts to exports steadily rose from 51·2 to 110·2 per cent from 1974 to 1981, accelerating to reach an appallingly high 333 per cent in 1984.[3] Gerald Helleiner summarises the position:

> In subsaharan Africa, stagnation or decline over the medium-run, and immediate macro-economic 'crisis' have become the norms. The shocks of 1979–82 have brought the weakest to a state of near collapse and even the strongest into major economic and political difficulties.[4]

Even countries that have previously received good credit ratings – such as Nigeria and Côte d'Ivoire – are now facing serious problems.[5] Africa has had in general a poor international credit rating and, as a result, commercial bank lending has been substantially lower than to other parts of the Third World, notably Latin America. The continent's total net commercial borrowings stood at approximately $23,000 million by March 1985, whilst Mexico and Brazil owed $25,800 and $24,800 million, respectively, to American banks alone.[6] Commercial bank lending is low across Africa as a whole, though some countries have had large commercial loans. At March 1985 the main net borrowers were Nigeria ($8,300 million), Algeria ($6,000 million), Morocco ($3,600 million), and Côte d'Ivoire ($1,600 million), which together accounted for some 85 per cent of Africa's net borrowing.

[1] Ibid. 7 September 1984, 'Banking and Insurance Special Report', p. 2.

[2] T. M. Callaghy, 'Africa's Debt Crisis', in *Journal of International Affairs* (New York), 38, 1, Summer 1984, pp. 62–3.

[3] *Africa Economic Digest*, 28 September 1985, p. 3.

[4] G. K. Helleiner, 'The IMF and Africa in the 1980s', in *Canadian Journal of African Studies* (Ottawa), 17, 1, 1983, p. 19.

[5] *Toward Sustained Development in Sub-Saharan Africa*, p. 12.

[6] *Africa Economic Digest*, 28 September 1985, p. 20, and *Africa Research Bulletin*, 31 October 1985, p. 7940.

TABLE I

Actual and Projected Public and Private Debt, Africa South of the Sahara, 1974–91[1]

$ million

Actual Public and Private Debt	1974	1975	1978	1979	1980	1981	1982	1983
Debt outstanding:								
Disbursements only	12,534·6	17,787·9	29,366·6	36,866·9	43,605·2	48,577·2	54,500·4	59,375·2
Incl. undisbursed commitments	18,438·0	25,893·8	41,956·0	52,836·3	60,932·5	69,454·8	74,471·3	78,258·0
Disbursements	3,025·5	4,117·4	7,876·1	8,775·7	10,689·7	10,177·8	11,606·6	11,551·9
Principal repayments	841·0	1,215·6	1,496·0	1,982·9	2,624·7	2,976·5	3,198·9	3,776·3
Net flows	2,184·5	2,901·9	6,380·1	6,792·8	8,065·0	7,201·3	8,407·6	7,775·6
Interest payments	407·2	523·0	959·6	1,405·4	2,184·6	2,354·5	2,654·1	2,796·1
Net transfers	1,777·4	2,378·9	5,420·5	5,387·4	5,880·4	4,846·8	5,753·5	4,979·4
Total debt service	1,248·1	1,738·5	2,455·6	3,388·3	4,809·3	5,331·0	5,853·1	6,572·4
Projected Public and Private Debt	**1984**	**1985**	**1986**	**1987**	**1988**	**1989**	**1990**	**1991**
Principal	6,680·6	8,211·4	8,150·2	7,230·2	6,706·2	5,802·5	4,377·5	3,471·1
Interest	3,786·8	3,739·4	3,321·7	2,813·0	2,322·7	1,860·3	1,483·0	1,214·4
Total debt service	10,467·4	11,950·8	11,471·9	10,043·2	9,028·9	7,662·8	5,860·5	4,685·5

[1] Source: *World Debt Tables, 1984–85: external debt of developing countries* (Washington, D.C., 1985), p. 29.

The continent has not suffered as much as has Latin America from the new hard-line lending strategies of the commercial banks. Gross lending to Africa fell by only $2,500 million during 1984–5, as compared to a drop of $38,500 million in the previous year.[1] However, it seems unlikely that the decline in commercial lending will actually be reversed in view of the rising debt-to-export and debt-service ratios that characterise nations throughout the continent. It should also be remembered that any increase in private bank lending would almost certainly be available only for the few countries in Africa that can be judged as commercially viable risks due to their possession of valuable raw materials.

In such circumstances it is not surprising that African governments have increasingly sought assistance from major public international institutions, especially the I.M.F. and the World Bank. According to Robert Wood, 'Perhaps the most visible and publicised political consequence of the debt crisis has been the increased role of the International Monetary Fund.'[2] The latter has rapidly raised its loans to Africa during the last six years, from $400 million in 1979 to $1,600 million by 1984–5.[3] Such a commitment has given the I.M.F. great leverage in Africa, not least because its loan conditionalities have become stricter as the number of credit agreements have increased from two in 1978 to 21 by 1981[4] – indeed, the majority of African governments now either have agreed programmes with the I.M.F. or are in the process of negotiation.

The increase in the scale of commitment to Africa was such that by 1981–2 the I.M.F. took back more in total repayments than it had actually lent during 1978–9,[5] which is not surprising since its agreements are predominantly in the form of short-term balance-of-payments loans that need to be repurchased within three years. The estimated figure for repayment by African countries in 1985 was $700 million, more than they received that year, at a time, it needs to be emphasised, of growing economic crisis and deprivation.[6]

The rôle of the I.M.F. in Africa has become increasingly controversial, partly due to the nature of its conditionality, which usually includes a programme of public-spending cuts, devaluation, liberalisation of import and exchange controls, and a hospitable attitude to foreign investment. Advocates of this strategy argue that deflationary measures are necessary to curb administrative waste and to restore financial stability by reducing the over-valuation of African currencies which acts as a disincentive to industrial and agricultural production. However, there are a growing number of critics who claim that I.M.F. conditionality is designed to open up African economies for foreign capital by dismantling exchange and import controls, and that the enforced austerity measures, such as the abolition of food subsidies – as well as devaluation, which raises the cost of imported foods and industrial inputs – all help to depress living standards.

[1] *Africa Economic Digest*, 28 September 1985, p. 20. Cf. Adebayo Adedeji, 'Foreign Debt and Prospects for Growth in Africa During the 1980s', in *The Journal of Modern African Studies* (Cambridge), 23, 1, March 1985, pp. 53–74.

[2] Robert E. Wood, 'The Debt Crisis and North-South Relations', in *Third World Quarterly* (London), 6, 3, July 1983, p. 705.

[3] *Africa Economic Digest*, 7 September 1984, p. 6, and 28 September 1985, p. 26.

[4] Helleiner, loc. cit. pp. 21–2.

[5] Ibid.

[6] *Africa Economic Digest*, 4 January 1985, p. 2.

There is evidence that the I.M.F. has considerable influence over other multilateral as well as bilateral aid donors,[1] and that it can endanger or delay other official forms of credit if it is in dispute with any particular government, thereby enhancing its central rôle in African macro-economic management. Clearly the I.M.F. has a close liaison with the World Bank, often sharing technical judgements and personnel in almost the same way as when they occupied the same building in Washington, D.C.[2]

Reschedulings with the Paris Club of creditors since 1977 have involved mostly low-income countries in Africa,[3] and at least four – Togo and Zaïre (1980), the Sudan (1981), and Liberia (1982)[4] – have also had to reschedule their private non-insured debts. Almost all African countries are in arrears as regards some of their repayments[5] – indeed, the estimated total at the end of 1983 was $8,000 million, of which more than half was owed by Nigeria alone.[6] The major problem, however, remains the commitments of African governments to the I.M.F. itself, which are not reschedulable in the same way as are other debts. Currently, at least five African countries are behind in their repayments to the Fund – namely, the Gambia, Liberia, the Sudan, Tanzania, and Zambia. Moreover, officials in Washington have pointed out that about $7,000 million in African 'repurchase obligations' will be due in 18 months after the Seoul meeting, thereby increasing the possibility that other countries will also fall into arrears.[7]

An emerging difficulty concerns the levels of debt-servicing required, an issue raised by the World Bank's 1984 proposals for 'a joint program of action'.[8] African payments plus interest charges rose from $4,800 million in 1980 to $6,600 million in 1983, and were projected to reach a peak of nearly $12,000 million in 1985, falling to around $10,000 million by 1987. The debt-service ratio rose by 7·5 per cent between 1982 and 1984 to 28·25 per cent, and was estimated to reach a record 30 per cent by 1985, and to remain at just under 28 per cent during 1986.[9] The main cause of these increases is to be found in the reschedulings of the early 1980s, which gave temporary relief from debt repayments then, but at the expense of a much greater burden later.

The prospects for alleviating Africa's worsening debt crisis do not seem improved if we consider how reluctant western governments, particularly the United States, have been to continue providing aid in recent years. The I.M.F., the World Bank, and the International Development Association are all funded to a significant extent by America, and both the White House and Congress have been either unwilling to continue supporting these organisations at equivalent levels and/or have sought to change the rules of their operation. The I.M.F.'s enlarged access programme – which allowed countries to obtain up to 150 per cent of their quota – has been phased out, on American insist-

[1] Helleiner, loc. cit. p. 23.
[2] Teresa Hayter and Catherine Watson, *Aid: rhetoric and reality* (London, 1985), p. 112.
[3] O.E.C.D., *External Debt of Developing Countries: 1983 survey* (Paris, 1984), pp. 48–9.
[4] Sutcliffe, op. cit.
[5] Callaghy, loc. cit. p. 62.
[6] *Toward Sustained Development in Sub-Saharan Africa*, p. 12.
[7] *Africa Economic Digest*, 28 September 1985, p. 3.
[8] *Toward Sustained Development in Sub-Saharan Africa.*
[9] *Africa Economic Digest*, 28 September 1985, pp. 3 and 20.

ence.[1] The I.M.F. began to 'ration' loans in 1983, which affected Nigeria and Mali, while support for Zaïre, Sierra Leone, Somalia, and the Gambia was also delayed.[2] The U.S. Appropriation Bill for I.M.F. funds was held up in Congress in 1983, and the Reagan Government held down its commitment for the seventh replenishment of I.D.A. to $9,000 million, rather than $12,000 million as originally intended.[3] In April 1984 the I.M.F. received an invaluable loan of $6,000 million, half from Saudi Arabia, to cover its depleted resources, but at the same time it was clear that the Fund was reaching its limits on loans to developing countries, and that a further source of replenishment would be needed by mid-1986.[4]

It has been reported that World Bank lending to Africa declined by more than one-third between 1984 and 1985.[5] However, although the donors that Africa usually relies on for funding do not appear to be well placed to increase their financial assistance, both western and third-world countries are becoming increasingly aware of the problems posed by international indebtedness, and consequently a number of remedies have been suggested.

Some Proposed Solutions

Probably the most significant recent initiative to solve the debt crisis is the so-called 'Baker Plan', first aired by the U.S. Treasury Secretary in Seoul in October 1985, and subsequently endorsed by the main creditor states. It consists of the following elements: (1) the commercial banks are supposed to provide $20,000 million in new loans to the 15 largest debtors; (2) the World Bank and the Inter-American Development Bank should make an extra $9,000 million available over the next three years, also to the largest debtors; and (3) the I.M.F. should roll over $2,700 million of repayments to be channelled back to the poorest countries. This third component is likely to be of most potential use to Africa, since only Nigeria may be in a position to make use of the other two.

It must also be noted that the World Bank started a new three-year Facility for Africa in July 1985, with over $1,200 million expected in contributions. Furthermore, estimates suggest that the forthcoming replenishment of I.D.A. could amount to $16,000 million, and currently about one-third of this is reserved for Africa.[6] These developments, in particular the 'Baker Plan', have been generally perceived as signalling a thaw in monetarist attitudes in the West.

However, if we compare the above amounts with Africa's level of indebtedness, it is clear that the assistance being offered will still be inadequate. It has been argued that the $2,700 million being rolled over by the I.M.F. will be insufficient to maintain the Fund's rôle in the continent because of the $7,000 million currently owed to it by African states. Furthermore, the funds being made available by I.D.A. and the World Bank will not be adequate to cover the estimated levels of debt-servicing over the next few years. This is especially the case in view of the apparent failure of the latest attempts to alleviate

1 Ibid. 30 September 1983, p. 10.
2 Ibid.
3 Ibid. 21 October 1983, p. 7.
4 Ibid. 4 May 1984, p. 2.
5 *West Africa* (London), 30 September 1985, p. 2017.
6 *The Economist* (London), 297, 12 October 1985, pp. 75–6, and *West Africa*, 14 October 1984.

the debt-service burden by persuading America – and hence other industrial states – to lower interest rates.[1]

The prospects seem even more bleak in light of the October 1985 forecast by the I.M.F. that third-world economic growth would decline from 4·4 per cent in 1984 to 3·5 per cent in 1985, thereafter recovering only slightly to 4·1 per cent by 1986.[2] Even these figures are regarded as being optimistic by the United Nations Conference on Trade and Development, which forecast growth rates between 2·5 to 3 per cent in 1985, and just over 3·5 per cent for 1986. The poorest and primary commodity exporters – a category which covers most of Africa – are expected to do least well. U.N.C.T.A.D. has pointed out that such output growth rates would leave many developing countries at or below their 1980 *per capita* income levels for at least the next five years.[1 3]In the face of such poor prospects for growth it is unlikely that the levels of assistance currently being offered to Africa can make any significant contribution to economic recovery.

Moreover, it would seem that such funding is likely to be subject to the economic conditionalities that are presently attached to I.M.F. loans. The package agreed at Seoul ruled out any softening of the Fund's austerity programmes, whilst paving the way for the World Bank to adopt a similar set of conditions to govern its loans.[4] The communiqué agreed by the major industrial creditor nations at the Tokyo summit in May 1986 emphasised the necessity for third-world nations to adopt effective structural adjustment policies as proposed by the I.M.F.[5] As we have seen, many African countries object very strongly to the Fund's conditions, while U.N.C.T.A.D. has expressed reservations about the wisdom of large currency devaluations, which it blames for the current high levels of inflation in the Third World, particularly Latin America.[6]

There is evidence that the rising inflation in a number of African countries has been caused by I.M.F. conditions,[7] and it seems possible that these may be conducive to stagflation. Much of the agriculture and industry in Africa is dependent on imported petroleum, machinery, tools, and fertilisers, and productivity is likely to fall if devaluation causes a shortage of such inputs, or raises their price too high. Although it has been suggested that this unhappy combination of spiralling inflation and declining output could be avoided by taking a more gradualist approach in the implementation of I.M.F. conditionalities,[8] the creditor nations are clearly not willing to try this option.

The inadequacy of this initiative by the major industrial nations raises the question as to what other options are available to help the less-developed economies in the South. It is argued that their governments might use threats

[1] *The Times* (London), 20 January 1986, p. 21.

[2] *Africa Research Bulletin*, 31 October 1985, p. 7939.

[3] 'The Prospects of Economic Recovery', *ODI Briefing Paper* (London), 4, November 1985.

[4] *Africa Research Bulletin*, 31 October 1985, p. 7941.

[5] *Financial Times* (London), 7 May 1986.

[6] 'The Prospects of Economic Recovery'.

[7] Christopher Colclough, 'Competing Paradigms in the Debate about Agricultural Pricing Policy', in *IDS Bulletin* (Brighton), 16, 3, July 1985, pp. 39–46.

[8] E.g. J. M. Nelson, 'The Political Economy of Stabilization: commitment, capacity and public response', in *World Development* (Oxford), 12, 10, 1984, p. 1003.

of default to coerce their creditors into taking a more conciliatory line, given that any large-scale default could cause severe economic problems in the North. Whilst this argument might have some validity for the major debtors – such as Brazil, Argentina, and Mexico – it is very doubtful that it can be applied to Africa, because, as we have seen, its debt is small in relation to the total picture, and so does not constitute an effective threat in reality. In order to acquire sufficient leverage to win concessions from the North, the governments of Africa would have to win the alliance of the largest Latin-American debtors, possibly in the context of a cartel. However, it would be difficult to maintain unity in such a large organisation, especially as the creditors would have ample opportunity to counter-attack with divide-and-rule tactics. Indeed, it is questionable whether the biggest debtors would want to join a cartel, given that they seem to have sufficient leverage to negotiate with the North effectively as things stand.

An alternative possibility is to develop counter-trade techniques in an attempt to by-pass the international financial system. Nigeria, with some $20,000 million of debts, has followed such an aggressive strategy, and between 1 September 1984 and 10 June 1985 concluded counter-trade agreements with Brazil, France, Austria, and Italy (though the latter never became operational), worth over $2,000 million.[1] Through such deals Nigeria has been able to barter its oil for essential goods, industrial raw materials, and spares without having to use any foreign exchange.[2] This has meant that Nigeria has been able to avoid having recourse to an I.M.F. loan, with its objectionable conditionalities (although it should be noted that the Government has embarked on its own rigorous austerity programme).[3]

However, counter-trade deals have their own problems, as evidenced by President Babangida's comment that Nigerians were forced to buy goods and commodities at higher prices than obtained on international markets.[4] Apparently a number of firms which had been asked to check the quality, quantity, and price of goods being imported were not informed of the terms of the barter deal, and so failed to ensure that full value was obtained for Nigeria's oil. The country's leaders have recently redefined their counter-trade policy and now stress that they will negotiate only with other governments,[5] presumably in the hope that this will make new deals less vulnerable to fraud.[6] In any case, the Nigerians recognise that although counter-trading has gained them some room for manoeuvre with the I.M.F. it will not hold the wolves at bay forever, or solve the essential debt problem. It is purely a temporary measure.

Even more significant has been Nigeria's decision in 1985 to adopt the 'creeping default' strategy first employed by Peru, and to unilaterally impose a ceiling on foreign-debt repayments. Babangida stated in his latest budget

[1] *Africa Confidential* (London), 26, 13, 19 June 1985, and *Africa Research Bulletin*, 22, 11, 31 December 1985.

[2] *African Business* (London), September 1985, p. 23.

[3] *Africa Research Bulletin*, 31 December 1985.

[4] *New African* (London), 217, October 1985, p. 12.

[5] *Africa Research Bulletin*, 31 December 1985.

[6] *African Business*, November 1985, p. 26.

speech that only 30 per cent of foreign exchange earned in 1986 will be used to service debt, and this may be seen as a partial default since the debt-service ratio is currently estimated to reach 42·2 per cent.[1] This move means that repayments can be held at a manageable level and yet does not represent a complete repudiation of debts, which would provoke considerable hostility and possible retaliation. Indeed, it may yet prove to be a very useful technique for putting pressure on creditor states for concessions. Lagos has already pointed out that the Johnson-Matthey Bank 'affair' casts doubt on the validity of a substantial amount of the trade debt owed to Britain, and recent reports refer to a foreign-exchange scandal involving some $6,000 million being perpetrated against Nigeria through J.M.B.[2]

It is possible that Nigeria will press for a favourable settlement of this matter in return for co-operating with Britain over repayment of the rest of its debts, and the initial signs are that such a move might be successful. The Nigerian Minister of External Affairs, Bolaji Akinyemi, visited London in January 1986 to find that an unexpectedly sympathetic British Government might be willing to reschedule Nigerian debts, despite Babangida's rejection of the I.M.F. – whereas previously the latter's seal of approval had been regarded as an essential precondition – and there was even talk of a counter-trade deal between the two countries.

However, it is doubtful whether the 'creeping default' tactics are likely to be successful elsewhere in Africa. As previously remarked, Nigeria's debt is the largest, constituting just over 20 per cent of the total for the continent. Creditors have much more to lose there than in most other African states, and this gives Lagos some leverage that other governments do not possess, especially since Nigeria still represents one of the largest markets in black Africa, despite its economic doldrums. Moreover its oil can be used for barter deals, thus gaining further room for manoeuvre with its creditors, whereas few other states in the continent possess commodities that would be in demand by the counter-trade market.

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In conclusion, it seems clear that the African debt crisis will attain even worse proportions over the next few years, exacerbated by the low rates of growth that can be expected during the same period. The response of the North appears to be wholly inadequate to deal with the worsening situation. Since few, if any, countries in sub-Saharan Africa, apart from Nigeria, can benefit significantly from the strategies of counter-trade and 'creeping default', the portents are bleak. It can only be hoped that the industrial creditor states can be persuaded to take a more gradualist approach to conditionality and to release more funding. The alternative could be unprecedented disaster on a continental scale.

[1] *Africa Economic Digest*, 11 January 1986, p. 2.
[2] *West Africa*, 13 January 1986, p. 92.