III The Composition and Characteristics of Multilateral Debt in Sub-Saharan Africa

The Principal Multilateral Creditors

Unsurprisingly, as Table 6 below indicates, most of the multilateral debt owed by sub-Saharan Africa is to: (i) the World Bank and its soft-loan window, the International Development Association (IDA); (ii) the IMF and its concessional structural adjustment facilities, SAF and ESAF; (iii) the African Development Bank (AfDB) and Fund (AfDF); (iv) the European Union (EU) under its various Lomé facilities and the European Investment Bank (EIB); and (v) other multilateral institutions which include various Arab-OPEC funded institutions and the International Fund for Agricultural Development (IFAD). Each of these components of multilateral debt and their patterns of growth are discussed in the paragraphs that follow.

Table 6 Growth of Sub-Saharan Africa's Multilateral Debt: 1980-94
(billions of US Dollars; excluding South Africa and Namibia)

	1980	1985	1990	1994
Total Multilateral Debt	**10.59**	**23.40**	**43.82**	**57.78**
World Bank (IBRD)	2.55	5.28	9.18	8.07
Int. Dev. Assn. (IDA)	2.58	6.11	15.79	25.16
Total World Bank Group	**5.13**	**11.39**	**24.97**	**33.23**
Af. Dev. Bank (AfDB)	0.43	0.96	3.16	5.70
Af. Dev. Fund (AfDF)	0.23	0.88	3.41	5.70
Total AfDB Group	**0.66**	**1.84**	**6.57**	**11.40**
Int. Mon. Fund (IMF)	3.03	6.22	5.31	3.29
SAF/ESAF	-.-	0.51	1.30	3.73
Total IMF/ESAF	**3.03**	**6.73**	**6.61**	**7.02**
Eur. Inv. Bank (EIB)	0.27	0.62	1.14	1.40
European Union (EU)	0.06	0.22	0.48	0.61
Total Eurolaterals	**0.33**	**0.84**	**1.62**	**2.01**
Other Multilaterals (NC)*	0.36	0.45	0.78	0.68
Other Multilaterals (C)*	1.08	2.15	3.27	3.47
Total Other Multilaterals	**1.44**	**2.60**	**4.05**	**4.12**

*NC = Non-Concessional; C = Concessional
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 World Bank Group (WBG)

The World Bank Group has been the pre-eminent multilateral lender to sub-Saharan Africa since 1980. Surprisingly, its prominence in the region actually increased between 1980-94; despite the emergence, through the 1980s-90s, of the AfDB as a more significant regional actor and the growing presence of the IMF and other (mainly European and Arab-OPEC) multilateral actors. In 1980 the WBG accounted for 48.5% of total multilateral lending to SSA. By 1994 that proportion had increased to 57.5% giving the WBG a disconcertingly dominant hold in the region.

Judging its performance by the economic results achieved in SSA between 1985-95, it is arguable whether the WBG has employed that dominance to good effect; well-meaning though its intentions have been. Indeed, argument over that issue has supported an extensive specialised literature in its own right (Moseley *et al:* 1995). What is unarguable is that the WBG's pre-eminence as a lender has created an excessive dependency – on the WBG and on concessional assistance – on the part of too many African countries which find themselves locked in a patron-client relationship. Under that nexus, national economic sovereignty has been ceded almost in its entirety to the WBG – to the certain long-run detriment of these countries as well as of the WBG.

Overwhelming dominance as a creditor has permitted the WBG (along with the IMF) to become a virtually unchallenged monopoly in driving the adjustment and development agenda in SSA. As such, the WBG has become the victim of a fallacy of false expectations; which, perhaps it was more responsible than any other institution in generating for too long in Africa, relying more on exuberance than expertise in reaching prematurely optimistic judgements about adjustment outcomes. Since 1992 the WBG has become more cautious in the cold light of experience; albeit still intent on proving the unprovable – i.e. that its adjustment prescriptions for African countries have worked, are working, and will work even better in the future. The reality is that whatever has been achieved between 1985-95 in Africa – a dispassionate assessment of results would confirm that it is very little indeed – has been incommensurate with the effort, the resource inputs and the cost.

The unfortunate corollary is a legacy to Africa of a large burden of unserviceable multilateral debt which has not been as productive as was earlier hoped. The WBG's monopoly over the development and reform agenda has also created the now-familiar crisis of ownership over adjustment and policy reform programmes which WBG acknowledges (World Bank: 1989, 1994b, 1995b and IMF/WB: 1996a) as being partly responsible for compromising adjustment outcomes in more than a few instances.

At present the weight of influence which WBG carries in Africa is shared

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

only by the IMF and that mainly in the domain of macroeconomic policy rather than of sectoral or project operations; in these latter areas the WBG still exerts eminent domain. Through its Special Programme for Africa which was originally intended to provide a donor-coordinating mechanism, the WBG now sets the agenda for virtually all donors, both multilateral and bilateral. Experience suggests that in the interests of Africa and itself, a somewhat lower profile on the part of the World Bank in SSA over the next decade might be warranted.

Of the WBG's total claims on SSA, there has been a dramatic shift away from IBRD loans (non-concessional, hard window) towards IDA (concessional, soft window) exposure over the last fifteen years. In 1980, the proportion of IBRD:IDA was almost 50:50. That proportion shifted slowly but steadily towards IDA between 1980-85 (in 1985 the ratio was 46:54) and then shifted much more dramatically in the same direction between 1985-94. In 1994 the IBRD:IDA ratio was 24:76. The main reason for the shift from non-concessional IBRD lending was that most of the countries in Africa which were partly creditworthy in 1980, and therefore eligible for IBRD lending, lost that status by 1984. Also, several countries formerly classified as middle-income (e.g. Côte d'Ivoire, Nigeria and Zambia), which were large borrowers from the WBG became low-income countries with the progressive deterioration of their economies and the consequent downward adjustment of their exchange rates.

In 1980, thirty countries in SSA were eligible for borrowing from the IBRD. By 1985 that number had fallen to eighteen, in 1990 to twelve and, by 1994, to just eight. This retrogression of development status in Africa contrasts with every other developing region in the world where the number of countries eligible for IBRD borrowing has increased and some have graduated from eligibility for WBG assistance altogether.

World Bank Group Debt and Adjustment in Africa

The shift towards concessional funding, coupled with a massive increase in the absolute volume of resources (see Table 6) pushed out by IDA to sub-Saharan Africa, coincided with the most intensive period of adjustment financing in Africa by the WBG. Slow-disbursing project and sector loans were replaced by fast-disbursing structural and sectoral adjustment loans. The latter – while providing resources more quickly and up-front to countries in urgent need of import support – required to be serviced much sooner, in larger quantities, than traditional project loans. The build-up of the WBG's claims on Africa, along with a concomitant build-up of other multilateral (and bilateral) claims, thus appears to be directly related to the speed and intensity of the (retrospectively overdone) shift to adjustment lending between 1985-95.

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

This hypothesis is borne out by a simple comparison (which needs to be substantiated by more detailed analysis) of the increase in the debt and debt-service burdens of twenty-nine adjusting vs. eighteen non-adjusting countries in SSA, shown in Table 7 below. In the case of the adjusting countries, which were financed by a large volume of fast-disbursing multilateral loans and credits, the build-up of multilateral debt was significantly faster than in the non-adjusting countries.

Table 7 **The Multilateral Debt and Debt Service of Adjusting vs. Non-Adjusting Countries in Sub-Saharan Africa: 1980-94**
(billions of US Dollars; excluding South Africa and Namibia)

	1985	1994	Increase
Multilateral Debt	**23.40**	**57.77**	**138.6%**
of which:			
29 Adjusting Countries	17.40	45.83	163.2%
Strong Adjusters	10.54	25.19	139.0%
Weak Adjusters	6.86	20.64	200.1%
18 Non-Adjusting Countries	6.00	11.95	99.2%
Multilateral Debt Service	**2.16**	**3.96**	**83.3%**
of which:			
29 Adjusting Countries	1.64	3.70	125.6%
Strong Adjusters	1.11	1.87	88.3%
Weak Adjusters	0.53	1.83	251.9%
18 Non-Adjusting Countries	0.52	0.26	–100.0%*

* This reflects non-payment of debt service by several non-adjusting countries (e.g. Liberia, Somalia, Sudan, Zaire)

Source: Debtor Reporting System, The World Bank.

An earlier work (Mistry: 1994) observed that the pattern of multilateral (and particularly IFI) debt accretion which occurred between 1980-94 raised ethical, legal and moral questions about: (i) the debt servicing implications of adjustment and adjustment-related lending; and (ii) the appropriate sharing of burdens between creditors and debtors for highly conditional loans linked to policy-reform programmes that are designed, imposed and supervised largely by multilateral creditors, often against the judgement of debtor governments. The second question assumes particular significance when ownership of these programmes by debtors is absent (IMF/WB: 1996a) and given the failure of adjustment programmes to achieve what was intended in the time-frame originally envisaged. Adjustment in SSA has generated neither the levels of incremental growth, nor of incremental export earnings, which are necessary to cover the additional debt-servicing burdens imposed by an avalanche of fast-disbursing loans.

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

To illustrate that point using crude available numbers: Between 1980-94, sub-Saharan Africa's stock of debt owed to the multilateral development banks and the IMF increased by about $42.8 billion – with the rise between 1985-94 (the period of intense adjustment) accounting for $31.7 billion. Yet the nominal dollar GNP of SSA (estimated by the World Bank) was $20 billion (or 7.3%) lower in 1994 than in 1980 indicating a GNP loss in real terms that was higher than suggested by these figures. At the same time, the region's export earnings were $9.4 billion (or 10.2%) lower in 1994 than in 1980. Against these large declines in economic and debt servicing capacity, the MDB+IMF debt stock burden increased by 485% and the related debt-servicing burden increased by nearly 300%.

As the earlier work (Mistry: 1994) noted:

> 'Put differently, the trajectory of fast-disbursing multilateral lending to severely indebted low-income countries was forced onto a higher plane in the 1980s in the name of adjustment but actually used for continuing debt-service to other (private) creditors. That lending did not yield the economic pay-offs which were anticipated in terms of an economic turnaround in sufficient time. As a consequence, debtors which borrowed heavily from multilateral institutions in the 1980s now find themselves squeezed in a classic 'timing trap' – i.e. their debt service payments on earlier borrowings now have to be met before the gains from economic reform have begun to materialise. The refinancing provided by the multilateral system for this transitional period has, in the case of the African SILICs, simply compounded the problem, enlarged it and deferred it.'

Moreover, using the World Bank's terminology in differentiating between strong and weak adjusters (World Bank: 1994b)[1] the multilateral debt build-

1 It has to be said that this terminology, while illustrative and evocative, is problematic. There is no objective index or methodology for differentiating between these two categories, especially over time. The evidence as to which countries fall into which category is largely impressionistic and judgmental. The problem is further compounded by countries (like Ghana) which were strong adjusters at one moment in time, becoming weak adjusters later on especially when the policies pursued are seen by the government as not having been fruitful; or, like Uganda and Zambia, vice-versa when earlier weak adjustment is followed by greater commitment though not necessarily with much result. Moreover, the terminology implicitly implies that strong adjusters are invariably seen as those countries which are inclined to listen to the IMF and the World Bank while weak adjusters are those which are not as enthusiastically inclined. This means that even if a country pursues firm policies, which the IMF and the World Bank may disagree with, it would not be classified as a strong adjuster even though, in reality and outcome, the country might have deserved to be so classified. For this paper, the strong adjusters are identified roughly as: Côte d'Ivoire, Ghana, Kenya, Malawi, Mozambique, Senegal, Tanzania, Uganda, Zambia, Zimbabwe. The weak adjusters are: Benin, Burkina Faso, Burundi, Cameroon, CAR, Chad, Congo, Gabon, the Gambia, Guinea, Guinea Bissau, Madagascar, Mali, Mauritania, Niger, Nigeria, Rwanda, Sierra Leone and Togo. The non-adjusters include all the other countries in SSA.

up of weak adjusters is seen to be significantly faster than that of strong adjusters. At first glance that outcome appears anomalous. Further thought, however, suggests that it is plausible for countries which borrowed heavily from multilaterals to finance ambitious adjustment programmes – but which then abandoned them when they proved ineffective – to be saddled with a faster-growing burden of unproductive multilateral debt than those countries in which adjustment was perceived to have yielded earlier benefits. It is also possible that strong adjusters, because of the good-housekeeping seal of approval awarded by the IMF/WB, were able to attract more grant funding from bilateral donors in support of their programmes and needed to borrow less than the weak adjusters, many of which (like Cameroon, Gabon and Nigeria) were formerly either middle-income or oil-producing countries and might not have attracted grants on those grounds. These speculations need, however, to be supported by further investigation.

The Need for Writing-Off World Bank Claims

At the end of 1994, the IBRD (hard window) was owed $8.07 billion by twenty-five countries in SSA, seventeen of which were no longer eligible for IBRD borrowing on grounds of diminished creditworthiness. The eight countries (Botswana, Gabon, Mauritius, Namibia, Nigeria, South Africa, Swaziland and Zimbabwe) which were still eligible for IBRD borrowing, owed a total of $4.24 billion, of which nearly 78% ($3.29 billion) was owed by Nigeria and a further 13% ($556 million) was owed by Zimbabwe. The remaining debt, over 47% ($3.83 billion) was owed by uncreditworthy countries to which the servicing of that debt, at a cost of $850 million in 1994, was clearly unaffordable. In this group of countries, ineligible for further borrowing but still indebted to the IBRD, the main debtors were Cameroon, Côte d'Ivoire, Kenya and Zambia. Collectively these four countries owed the IBRD $3.09 billion, or 81% of the total due from presently IBRD-ineligible SSA borrowers. Three SSA borrowers (Liberia, Sudan and Zaire) were in arrears to the IBRD to the extent of nearly $300 million in principal and interest overdue for more than six months.

IBRD over-borrowing in SSA is a problem which, dollar-wise, is concentrated in six countries rather than affecting the sub-Saharan region as a whole. Yet the other nineteen countries, which together owed the IBRD the residual balance of $1.14 billion, can ill-afford – individually or collectively – to pay the $250 million annually which it costs to service this debt. Much of the interest burden of this debt for twelve to fifteen of these countries is covered by an IDA and donor financed facility (known in the vernacular as the fifth dimension) which subsidises IBRD debt service under strict conditionality depending on adjustment performance. But the burden remains considerable, relative to the size and export capacity of these small, fragile economies, as several recent individual country studies and the World Bank's own analysis, have shown (World Bank: 1995a; Government of Uganda: 1995; Oxfam: 1994; IMF/WB: 1996b).

Of the total multilateral debt service of $3.95 billion actually paid by SSA countries in 1994, the IBRD alone accounted for $1.76 billion or 44.6%. This amounted to 23.3% of SSA's total debt service when the IBRD accounted for less than 4.2% of the region's total outstanding debt stocks.

Looking at the IBRD's claims on SSA through the perspective of net transfers worsens the picture considerably. Between 1985-95, largely as a result of the shrinking population of eligible debtor countries in SSA, the IBRD extracted a total of $6.36 billion in financial resources from sub-Saharan countries.

Of course this was offset by a positive net transfer of $17.03 billion from IDA into SSA resulting in a positive net transfer from WBG to SSA of $10.67 billion over ten years. That, however, amounts to just $1.07 billion per year, spread over forty-five countries on the sub-continent; hardly a resource transfer achievement to be applauded in a developing region confronted by the problems that Africa faces.

In assessing the magnitude of IBRD's resource extraction and debt service pre-emption it is important to recall that SSA is, on average, able to pay less than a third of its scheduled annual debt service (disregarding arrears already built-up); thus explaining the build-up of its extraordinary level of arrears.

If arrears at the end of 1994 were to be cleared over five years, and SSA's debt service rendered current from 1996 onwards, the region's annual debt service between 1996-2000 would amount to around $37 billion per year (or about 45% of the region's total gross export earnings). This is an unsustainable level of debt servicing reflecting an unsustainable burden of debt stock relative to output and export capacity.

Bilateral and private creditors have clearly recognised that reality by permitting arrears to be built up in the first place without resorting to punitive sanctions against SSA debtors of any sort. There is of course, a virtual cessation (which is understandable) of access to commercial credit for trade or investment except for very few creditworthy countries. In Africa, every dollar counts, and the record suggests that the multilaterals in general, and the IBRD in particular, are not as yet being realistic in continuing to press for their claims on debt service to be met fully on schedule.

It is now apparent to almost every party other than the World Bank that some IBRD debt in sub-Saharan Africa will have to be written down. That measure will have market implications which need to be thought of and accommodated. But as later discussion will show, such a write-down is feasible, and may even be desirable, without incurring the spectre of dramatic repercussions (in terms of diminished credit ratings and increased cost of borrowings) which the WBG is wont to over-dramatise in attempting to avert what is inevitable.

The Problems of IDA

The World Bank's soft-loan window, IDA, was owed $25.16 billion by SSA debtors at the end of 1994 or nearly 44% of the total multilateral debt of SSA. Debt service due to IDA is now mounting rapidly. At the end of 1994, four countries (Liberia, Somalia, Sudan and Zaire) were in arrears to IDA for a total of $117 million in principal and interest overdue for more than six months. From an annual level of merely $22 million in 1980, debt service payments to IDA have reached $251 million in 1994 – a twelve-fold increase, and the highest increase for any individual creditor over the last fifteen years.

Annual debt service payments to IDA are projected to reach $575 million by the year 2000 and to increase at an average rate of over $80 million annually thereafter for the next ten years. Clearly, as repayments become due, IDA is no longer looking as concessional a bargain for Africa as it once seemed. IDA claims are more widely and evenly dispersed throughout SSA than IBRD claims since IDA is not constrained by creditworthiness but only by availability of resources.

IDA's eligibility and allocation criteria have resulted in more equitable distribution of resources than is the case for any other type of creditor or bilateral donor. However, the same criteria have resulted in large amounts of IDA being owed by war-torn, or recalcitrant non-performing countries in SSA (e.g. Burundi, Liberia, Rwanda, Sierra Leone, Somalia, Sudan and Zaire) which were once deemed reliable prospects.

At the end of 1994, outstanding IDA debt owed by SSA was concentrated in eleven countries: Ethiopia, Ghana, Kenya, Madagascar, Malawi, Senegal, Sudan, Tanzania, Uganda, Zaire and Zambia. Together these countries owed $15.63 billion or 62% of the total IDA debt outstanding in SSA. Of these, eight are perceived to be (but are not necessarily) strong adjusters while three countries are not adjusting, or indeed performing economically, at all.

IDA is a concessional facility whose resources are constrained. Access to it is therefore rationed. But – as explained earlier – IDA has not proven to be quite as concessional as once thought because of the exchange risk it passes on to countries which are basically dollar-earners. IDA was originally seen as the solution to the problems of many African debtor countries which could no longer afford IBRD loans. Now IDA has, somewhat surprisingly, become a problem in at least twelve SSA countries: Burundi, Guinea Bissau, Liberia, Madagascar, Mozambique, Sao Tome and Principe, Somalia, Sudan, Tanzania, Uganda, Zaire and Zambia.

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

The pressures imposed by outstanding IDA debt throughout SSA are not as immediately serious as those of IBRD debt in a more limited number of countries. And they can be handled more tractably. Rescheduling, deferring or cancelling IDA obligations has no market implications whatsoever. It does not require a write-down of income, provisions or reserves. It is a matter which can be negotiated largely among the affected debtor countries, the World Bank and those countries which donate funds to IDA.

Clearly, rescheduling or cancelling IDA obligations will lower the availability of future IDA reflows to its recipients. Those recipients, for as far ahead as the mind can see, are likely to be the same countries as those which are experiencing severe IDA debt servicing problems now. Therefore no third party is likely to be deprived as a result of the imaginative re-engineering or outright cancellation of IDA debt in those cases where it can be established that such options represent the *least worst* solutions to the problems which overindebted SSA countries face.

Moreover, a still-too-large amount of IDA allocations are directed to countries which are littoral powers with large defence budgets and pretensions towards nuclear power status (China, India and Pakistan). IDA funds are also being allocated to a number of smaller middle-income island economies whose financial circumstances no longer warrant the continuation of such concessional flows in view of the financing options they have available. If such flows were to be discontinued quickly, as they should be in a more rational world, a fairly significant amount of resources could be released for engineering multilateral debt reduction and relief in countries which needed it.

The International Monetary Fund (IMF)

The IMF, though not as large a creditor to SSA as other multilaterals, and understandably so because until recently it was supposed to provide only short or medium-term revolving resources, nevertheless plays an unusually significant role in inducing policy reform and adjustment in Africa. Unfortunately the IMF has been obstructing (by a tedious process of paralysis-through-analysis) the process of solutions being found and applied to the multilateral debt problem. It appears to be doing so on the grounds that such a measure would: (a) open a Pandora's Box of issues which it would rather avoid; and (b) exacerbate extant moral hazard problems with far reaching consequences for debtor indiscipline. At the end of 1994, the IMF was also the multilateral creditor with the largest arrears owed by SSA.

As observed, discussion of the Fund's role in Africa is often predicated on the notion that the Fund provides critically needed resources in large volumes; a notion belied by the facts. Although its new structural adjustment facilities (SAF and ESAF) were set up largely with Africa in mind they have

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

not yet become channels for significant resource flows. At the end of 1994, the IMF's claims on SSA countries amounted to principal outstanding of $7.02 billion (of which $2.7 billion was in arrears) along with a further $1.5 billion in accumulated interest arrears. Taking interest arrears into account, the resulting $8.52 billion owed to the IMF amounted to just over 14% of SSA's total outstanding multilateral debt. Of this amount $3.73 billion was accounted for by the Fund's concessional facilities (SAF and ESAF) representing 44% of total obligations due to the IMF (including accumulated arrears).

There were nineteen sub-Saharan debtors to the IMF owing upper tranche (GRA) facilities amounting to $3.29 billion (or $4.79 billion if interest arrears were added) but just seven countries (Côte d'Ivoire, Liberia, Somalia, Sudan, Zaire, Zambia and Zimbabwe) owed a total of $2.89 billion representing 88% of total GRA funds outstanding. Of these, as noted earlier, five (Liberia, Somalia, Sudan, Zaire and Zambia) were in arrears for a total of $4.19 billion. In other words, 87% of the IMF's upper tranche outstandings (including accumulated charges) were in arrears at the end of 1994.

The IMF's concessional facilities were more widely distributed across thirty-one SSA debtors at the end of 1994. The largest debtors to SAF/ESAF were Ghana, Kenya, Mozambique, Senegal, Tanzania, Uganda and Zaire, which collectively owed $2.25 billion or over 60% of outstanding SAF/ESAF resources in SSA. Five other countries (Côte d'Ivoire, Malawi, Mali, Sierra Leone and Zimbabwe) owed SAF/ESAF a further $695 million or about 19% of the total. Of these debtors, Zaire was in arrears.

As in the case of the World Bank, the IMF's resources were lent mainly to induce policy reform and adjustment in SSA but with the same desultory results. The consequence has been a debt build up with no commensurate increase in repayment capacity. To an extent, the very creation of SAF and ESAF – partly to help the Fund recover its build-up of arrears from acutely debt-distressed countries and partly to provide the Fund with resources which it could lend on terms more geared to the needs of SSA – represented an acknowledgement that adjustment in SSA was proving elusive, and (assuming that it occurred at all) would take a much longer time than had earlier been anticipated.

Yet even with the creation of these facilities, the IMF has been unable to provide a positive transfer of resources to SSA over the last decade. Between 1985-94 the IMF extracted $4.41 billion from SSA during a decade when the region's needs for a positive transfer of resources from the multilaterals has never been greater.

Thus, between the World Bank and the IMF, the effective combined net transfer to SSA between 1985-94 was a mere $6.26 billion over ten years or $626 million annually; hardly the sum to justify the adjustment pressures which these two institutions have applied on countries in the region. These net transfer figures suggest that: (i) adjustment in SSA may have failed to materialise partly because it was not properly funded; and (ii) IMF/WB financial programming exercises underlying individual adjustment programmes were invariably recalibrated by making casual changes in elasticities when calculations of funding needs collided with the reality that these funds could not be mobilised – a premise which available research evidence supports (e.g. Martin and Mistry: 1994, 1996).

The African Bank Group (AfBG)

Apart from the Washington based IFIs, which together accounted for over 70% of SSA's multilateral debt in 1994, the AfBG is the next largest multilateral creditor to Africa accounting for nearly 20% of the region's multilateral debt with its claims on SSA debtors being evenly divided between its hard (AfDB) and soft (AfDF) loan windows. The AfBG accounted for about 12% of total multilateral lending in 1980, and increased to almost 15% in 1990. The largest increase in its share occurred between 1990-94 reflecting: (a) the swift and imprudent deployment of its excessive share capital increase in 1989; and (b) the smaller, but nonetheless significant, increase in the concessional resources made available to AfDF between 1988-93. Too-rapid build-up of AfDB's claims overstretched its nascent institutional capacity and adversely affected its balance-sheet; effects which became disconcertingly visible in the last three years (Mistry: 1993a, 1995b). As a result the AfDB lost its triple-A credit rating in international markets in 1995.

Two inter-connected problems with the quality of AfDB's asset portfolio concern: (a) its concentration in uncreditworthy countries; and (b) institutional persistence in disbursing non-concessional funds to severely-indebted low-income countries well after they had been re-classified by the IBRD as being uncreditworthy, and therefore ineligible for further hard-window lending. Perversely, as late as 1993 and 1994, the AfDB was disbursing hard money to many of the same countries which were applying for debt relief under the World Bank's fifth dimension facility. To an extent the donor community as a whole is at fault for this outcome. To begin with, donors provided AfDB with the wherewithal (through a capital increase) to mobilise precisely the wrong kind of (non-concessional) funds for sub-Saharan Africa at a time when it was clear that what was needed was a large increase in concessional funds. The donor community was content to channel those through IDA more than through the AfDF.

Second, the donor community and the AfBG's own management were both too anxious to have AfDB participate in adjustment financing – largely because without its participation the holes in adjustment financing packages would have been even larger than they actually were. That involved risks which, in retrospect, even the larger, more capable IFIs should have been more cautious in taking. It was hardly a risk which the AfDB knew how to take, nor could they cope with the financial consequences which resulted.

Whereas the IBRD's sub-Saharan African portfolio accounted for less than 7% of its total portfolio, IDA's for under 25%, and the IMF's for less than 9%, the AfDB's sub-Saharan portfolio accounts for 58% of its total loan assets while for the AfDF the corresponding figure is over 98%. The effect of that concentration has shown up in rapidly rising arrears, large-scale non-accruals of income and equally large provisions for loan losses. These have damaged AfDB's profitability and hence its ability to accumulate a sufficient level of reserves.

Until 1990, the AfDB had negligible arrears. At the end of 1994, 8.6% of the total AfDB loan portfolio was affected by arrears with the amount of arrears reaching $553 million (of which $230 million was principal and $323 million was accrued interest overdue) – an amount 84% larger than arrears to IBRD, which had a more sizeable portfolio. Total arrears were equivalent to nearly 10% of the AfDB's outstanding portfolio in SSA.

At the end of 1994, forty-four SSA debtors owed the AfDB about $5.7 billion of which 70% was owed by eight large borrowers: Cameroon, Congo, Côte d'Ivoire, Gabon, Nigeria, Zaire, Zambia and Zimbabwe. Seven of these countries are debt-distressed, and four of these are in arrears to the AfDB (Cameroon, Congo, Gabon and Zaire). All of the others, except Zimbabwe, had difficulty in servicing their debts to other creditors.

Worse still, the AfDB had $3.62 billion in undisbursed commitments to its SSA borrowers, compared to $1.72 billion in the case of IBRD (of which $1.11 billion is to Nigeria and $0.23 billion to Zimbabwe). The AfDB appears intent on fully disbursing these committed funds. Yet, contrary to its inclinations, the indications are that AfDB should reconsider whether these contractual commitments (which as a result of myriad loan covenant violations by debtors have almost certainly been abrogated) should be fully met or should, to the extent possible, be cancelled. If these undisbursed commitments are actually disbursed in the coming years, AfDB will end up with a larger loan portfolio than IBRD in sub-Saharan Africa, but it will be of much lower quality and with high risks of future arrears continuing to mount at an unacceptable rate.

The soft-loan window, AfDF, was owed over $5.7 billion by forty-six SSA debtors at the end of 1994 with eleven countries (Ethiopia, Guinea, Madagascar, Malawi, Mali, Mozambique, Senegal, Sudan, Tanzania, Uganda and Zaire) accounting for about half of that amount. AfDF credits (like IDA's) are effectively denominated in SDRs. They have therefore proven to be much less concessional (in US dollar terms) than their nominal terms suggest. At the end of 1994, an amount of nearly $34 million ($19 million in principal and $15 million in accrued interest charges) was in arrears to the AfDF with seventeen countries being in default but with only seven of these (Comoros, Madagascar, Niger, Rwanda, Senegal, Somalia and Zaire) accounting for 86% of the total arrears.

Unlike IBRD, the AfDB does not have the internal wherewithal within its own balance sheet to undertake the kinds of debt reduction or relief measures which many of its borrowers obviously require. For that reason, a solution to the multilateral debt problems caused by AfDB loans will require a different approach relying on different sources of funding external to the AfDB, or alternatively, on available uncommitted AfDF resources which may be provided in future replenishments.

Other Multilateral Institutions

With over 89% of the multilateral debt of sub-Saharan Africa being accounted for by the two IFIs and the African Bank Group (AfBG), other multilateral institutions (of which there are a large number) accounted for the residual of nearly 11%. These institutions fall broadly into two groups: (a) the Eurolaterals; and (b) Arab-OPEC funded multilateral institutions of which there are many (e.g. the Islamic Development Bank, the OPEC Fund, IFAD, etc.). Individually, each of the other multilateral institutions account for a relatively small amount of multilateral debt. Nonetheless, some of them have played a useful, often innovative, developmental role in a few select sub-Saharan countries. From the perspective of resolving the multilateral debt problem which the sub-Saharan region confronts, however, these institutions are inevitably marginal players although that attribute may not permit them to become free-riders.

Hopefully, they will subscribe to the types of debt reduction and relief measures which may be agreed eventually by the major multilaterals (or more importantly by their most influential shareholders) and act to reduce or reschedule their own obligations on a *pari passu* basis. Among them, the other multilaterals have outstanding claims on SSA debtors amounting to a total of $6.14 billion divided on a roughly 1:2 basis between the Eurolaterals, which account for 3.6% of SSA's total multilateral debt, and the Arab-OPEC/other institutions, which account for the remaining 7.1%. Each of these two groups is discussed below briefly.

The European Multilaterals

The Eurolaterals comprise mainly: (i) the Development Directorate (DG-VIII) of the European Commission (EC) which lends funds directly under

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

various European soft-loan programmes; and (ii) the European Investment Bank (EIB) which is empowered to lend to developing countries under special arrangements negotiated under successive Lomé conventions and under bilateral agreements between the European Union (EU) and non-ACP developing countries (Mistry: 1994). At the end of 1994, the total amount of EC/EU loans outstanding (mostly on concessional or intermediate terms) amounted to $607 million, while EIB loans (mostly on intermediate or non-concessional terms) amounted to another $1.4 billion.

Distributed in small amounts over twenty-seven sub-Saharan countries, the larger EC/EU loans (together accounting for about 58% of the total) were concentrated in just five countries (Burundi, Kenya, Tanzania, Zaire and Zambia), with six more countries (Botswana, Ethiopia, Malawi, Rwanda, Sierra Leone and Uganda) accounting for a further 23% of total EC/EU outstandings. Whilst detailed information was not readily available, indications are that 6% of these loans (or a total of $34 million along with accumulated interest charges) were in arrears; especially those owed by Ethiopia, Tanzania, Zaire and Zambia.

Although EIB loans were also broadly distributed, across forty SSA countries, their pattern of concentration was different, with the majority of these (less concessional) loans being made either to: (a) countries which had previously been middle-income, and by that token more creditworthy, such as Cameroon, Congo, Côte d'Ivoire, Nigeria and Zimbabwe which together accounted for 38% of total EIB loans; or (b) in enclave projects (e.g. mining or corporate plantation agriculture in tropical beverages or sugar) in lower-income countries such as Ghana, Guinea, Kenya, Madagascar, Mauritania, Zaire and Zambia whose dedicated cash flows could in some way be sequestered to meet debt service payments. About 71% of the EIB's outstanding loans at the end of 1994 were concentrated in these twelve countries. Arrears on EIB loans exceeded $153 million with the largest overdues being owed by Burkina Faso, Cameroon, Ethiopia, Guinea, Kenya, Liberia, Nigeria, Somalia, Sudan, Tanzania, Zaire and Zambia.

Arab-OPEC and Other Institutions

The remaining $4.12 billion of sub-Saharan Africa's multilateral debt outstanding at the end of 1994 was owed mainly to Arab and other multilateral institutions (AOMIs). A detailed study of these debts and the individual institutions to which they are owed has recently been conducted under the auspices of UNCTAD.[2] As a result, rich analytical material now exists in a form

2 This information was compiled by a research team led by Matthew Martin. A confidential report was submitted by this team to UNCTAD in February 1996 but official clearance for its publication or citation had not been received at the time of this writing.

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

that was not readily available before. Regrettably, requirements of confidentiality preclude its divulgence for the time being. However, from other aggregate sources of debt data, it was clear that the bulk of the debt ($3.44 billion or over 83% of the total) provided by the AOMIs was concessional in tenor with only a small portion ($690 million) being non-concessional.

The concessional credits of AOMIs were distributed across virtually all sub-Saharan countries although 56% of the total ($1.92 billion) was concentrated in eleven countries (Burkina Faso, Guinea, Madagascar, Mali, Mauritania, Niger, Senegal, Somalia, Sudan, Zaire and Zambia). Non-concessional AOMI loans were owed by a slightly smaller number of SSA countries (thirty-five) but over 63% of the total amount ($437 million) was accounted for by nine countries (Cameroon, Chad, Mauritania, Senegal, Sudan, Tanzania, Uganda, Zaire and Zambia). Available information suggests that an amount of about $220 million (including overdue interest charges) is in arrears.

As in the case of the AfBG, such arrears have deleterious implications for the financial standing of many of the smaller AOMIs. That reality may reduce significantly their willingness, flexibility and internal ability to engage in the kind of multilateral debt reduction and rescheduling of residual balances which the circumstances of the majority of sub-Saharan debtors appear to warrant (Mistry: 1994). Again, as in the case of AfBG, sources of funding from outside these institutions themselves – possibly from their present shareholders or from other donor sources – may need to be made available in a pooled facility for the smaller AOMIs to participate fully in the kind of multilateral debt reconstruction exercises that will have to be organised.

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