VI Africa's Private Debt & Debt Service 1983-90

6.01 As observed earlier, the African debt problem is often seen as one which concerns mainly official creditors yet Africa's obligations to private creditors are large and intractable. At the end of 1990, Africa owed nearly $100 billion to private creditors. That represents 14% of the total amount of $720 billion owed by all developing countries to private creditors. North African countries owed private sources $45 billion while sub-Saharan Africa owed $55 billion. Of the $100 billion, about $62 billion was in the form of long-term debt *guaranteed* by debtor governments, $9 billion was *unguaranteed* long-term debt and $29 billion was *short-term* debt originally extended as trade credit.[26] The annual private debt stock movements, debt service payments and net transfers on private debt accounts are shown in Table 11.

6.02 In terms of debt stocks, private debt of all kinds has grown slowly throughout Africa. That is hardly surprising. What is noteworthy, however, is the relatively large amount of debt service which private debt continues to absorb and the large outward net transfers to private creditors which have been financed from inward multilateral net transfers and bilateral grants. Private creditors have extracted a total of nearly $30 billion from Africa between 1983-90 with most of the negative net transfers being from North Africa ($21 billion) and a relatively small proportion (just over $8 billion) from countries south of the Sahara. Negative private transfers from the sub-Saharan region have been concentrated in Nigeria and Cote d'Ivoire. The largest outflows and debt service burdens are accounted for by long-term *guaranteed* private debt.[27]

6.03 **London Club Debt:** Total London Club debt outstanding in Africa was an estimated $24.3 billion at the end of 1990 with sub-Saharan Africa

26 About $15 billion of this amount of short-term debt has been in arrears for over five years and should, effectively be classified as long-term though most commercial lenders refuse to permit that classification in the fear that it may compromise their prospects for recovering it.

27 In Africa this is not, as commonly thought London Club type debt owed mainly to commercial banks. Less than half the LTG debt is owed to banks, the remainder is owed mainly to private trade suppliers who arranged long-term credits for their previous sales of capital goods and project services in both North and sub-Saharan Africa.

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TABLE 11 DEBT & DEBT SERVICE OWED TO PRIVATE CREDITORS 1983-90
(Amounts in Billions of US Dollars)

	1983	1984	1985	1986	1987	1988	1989	1990(E)
NORTH AFRICA:								
Long-Term Guaranteed (LTG):	21.12	21.53	25.03	27.51	30.82	30.11	29.26	29.61
Long-Term Unguaranteed (LTU):	0.94	0.94	1.20	1.40	1.53	1.57	1.51	1.47
Short-Term (ST):	10.02	10.24	11.13	12.91	11.11	11.73	13.08	13.77
Total Private DOD:	32.08	32.71	37.36	41.82	43.46	43.41	43.85	44.85
LTG Debt Service:	7.89	7.07	6.60	6.34	5.61	6.57	7.61	8.45
LTU Debt Service:	0.27	0.25	0.27	0.31	0.37	0.32	0.36	0.37
Short-Term Debt Service:	1.03	1.09	0.87	1.06	2.74	0.98	0.79	1.06
Total Private Debt Service:	9.19	8.41	7.74	7.71	8.72	7.87	8.76	9.88
LTG Net Transfers:	- 2.28	- 1.21	- 1.57	- 1.06	- 1.19	- 0.62	- 3.45	- 4.32
LTU Net Transfers:	0.02	- 0.07	0.15	0.08	- 0.05	- 0.07	- 0.18	- 0.23
Short-Term Net Transfers:	- 1.64	- 1.33	- 0.30	0.18	- 2.10	- 0.07	0.17	- 0.11
Total Private Net Transfers:	- 3.90	- 2.61	- 1.72	- 0.80	- 3.34	- 0.76	- 3.46	- 4.66
SUB-SAHARAN AFRICA:								
Long-Term Guaranteed (LTG):	24.08	22.56	25.40	26.20	33.63	33.61	31.35	32.22
Long-Term Unguaranteed (LTU):	4.35	5.06	5.63	5.36	5.88	6.36	6.74	7.31
Short-Term (ST):	11.74	13.43	14.04	13.94	14.10	15.55	16.58	15.30
Total Private DOD:	40.17	41.05	45.07	45.50	53.61	55.52	54.67	54.83
LTG Debt Service:	4.11	5.00	5.33	3.57	2.21	2.64	2.39	2.77
LTU Debt Service:	0.93	1.06	1.31	1.34	1.34	1.30	1.14	1.14
Short-Term Debt Service:	0.94	1.22	0.91	0.77	0.50	0.62	0.55	0.69
Total Private Debt Service:	5.98	7.28	7.55	5.68	4.05	4.56	4.08	4.60
LTG Net Transfers:	- 0.32	- 2.31	- 3.01	- 1.28	- 0.43	- 0.57	- 0.98	- 1.82
LTU Net Transfers:	0.36	0.42	0.11	0.00	0.07	0.06	0.11	- 0.49
Short-Term Net Transfers:	- 0.95	- 1.53	0.89	1.35	2.66	0.76	- 0.50	- 0.96
Total Private Net Transfers:	- 0.91	- 3.42	- 2.01	0.07	2.30	0.25	- 1.37	- 3.27
CONTINENTAL AFRICA:								
Long-Term Guaranteed (LTG):	45.20	44.09	50.43	53.71	64.45	63.72	60.61	61.83
Long-Term Unguaranteed (LTU):	5.29	6.00	6.83	6.76	7.41	7.93	8.25	8.78
Short-Term (ST):	21.76	23.67	25.17	26.85	25.21	27.28	29.66	29.07
Total Private DOD:	72.25	73.76	82.43	87.32	97.07	98.93	98.52	99.68
LTG Debt Service:	12.00	12.07	11.93	9.91	7.82	9.21	10.00	11.22
LTU Debt Service:	1.20	1.31	1.58	1.65	1.71	1.62	1.50	1.51
Short-Term Debt Service:	1.97	2.31	1.78	3.61	3.24	1.60	1.34	1.75
Total Private Debt Service:	15.17	15.69	15.29	13.37	12.77	12.43	12.84	14.48
LTG Net Transfers:	- 2.60	- 3.52	- 4.58	- 2.34	- 1.62	- 1.19	- 4.43	- 6.14
LTU Net Transfers:	0.38	0.35	0.26	0.08	0.02	- 0.01	- 0.07	- 0.72
Short-Term Net Transfers:	- 2.59	- 2.86	0.59	1.53	0.56	0.69	- 0.33	- 1.07
Total Private Net Transfers:	- 4.81	- 6.03	- 3.73	-0.73	-1.04	- 0.51	- 4.83	- 7.93

owing about $15 billion and North Africa the remaining $9.4 billion. The African countries in which banks are most heavily exposed are Algeria ($5.5 billion), the Congo ($1 billion), Cote d'Ivoire ($2.8 billion), Morocco ($3.1 billion), Nigeria ($6.2 billion), Sudan ($1.4 billion). These six countries together account for over four-fifths of total commercial bank long-term exposure. Of these all except Algeria have had at least one rescheduling with their commercial bank creditors since 1983. Fourteen other African countries have also rescheduled their commercial bank debts; with forty commercial bank debt rescheduling agreements having been concluded in Africa since 1983. The net result has been a substantial extraction of resources by private creditors but a lesser rate of accretion of private debt than has occurred in the case of the Paris Club. The first phase of a deal under the Brady Initiative was concluded for Morocco in September 1990 under which all outstanding long-term debt plus previously rescheduled bankers' acceptances were restructured. Banks also provided waivers to make debt buybacks possible when Morocco has acquired the resources (which has not happened yet) to do so but no discount for Moroccan debt has yet been specified.[28] Nigeria has expressed interest in a Brady type agreement which would result in a deep discount buyback of about 60% of its debt but the banks are insisting on a rescheduling option which Nigeria fears would compromise its debt reduction prospects over the long-term.

6.04 The short-term debt exposure of commercial banks in Africa has risen from around $21 in 1983 billion to around $29 billion at the end of 1990. Such debt absorbs a significant amount of annual debt service in a laboured but unsuccessful effort on Africa's part to keep lines of trade credit open and expanding to avoid import strangulation. Short-term oustandings have increased from $10 billion to nearly $14 billion in North Africa (an increase of 38% over eight years) while in sub-Saharan Africa they have

28 Moroccan debt has been traded at between 38-45 cents in the last six quarters. Under the terms of the deal Morocco is free to set a price or organize an auction for its debt so long as the same offer is made to all banks each time a buyback is done. The second phase of the Brady deal was conditional on Morocco signing an EFF Agreement with the IMF after which banks have agreed to implement debt and debt service reduction (DDSR) provisions through an exchange of bonds for debt. Interest on the bonds would be enhanced with guarantees for payment by the World Bank but the principal of the bonds would not be collateralized. Banks not participating in buybacks or the bond exchange would agree to provide 15% of their existing exposure by way of new money.

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increased from under $12 billion to over $15 billion (an increase of 30% over the same period). The service payments devoted to such debt have averaged about $1 billion annually in North Africa (with the exception of an unusual payment of $2.7 billion in 1987) throughout the 1983-90 period while in sub-Saharan Africa they have fallen from about $1 billion a year between 1983-86 to an average of $0.6 billion between 1987-90 due to an absolute constraint on foreign exchange availabilities. As observed earlier, a large part of short-term debt has been overdue for a considerable period of time in several sub-Saharan countries (Zambia and Sudan being cases in point with $5.3 billion classified as short-term debt dues or nearly one-third of total sub-Saharan short-term obligations). Such debt needs to be reclassified and cleaned out through deep discount debt buybacks of the kind that the World Bank is trying to achieve through its special commercial debt buyback facility for low-income debt distressed countries.

6.05 Not much is known about *unguaranteed* debt except that the outstanding amount of such debt is hardly insignificant ($9 billion in 1990; $7.3 billion of which was owed by sub-Saharan countries with Cote d'Ivoire alone accounting for $4.1 billion of that amount). What is surprising is that for an average outstanding level of about $7 billion in unguaranteed assumedly junior debt throughout the 1983-90 period, African countries have been expending an average of $1.5 billion on servicing it. This represents a much higher proportion of debt service to outstanding stock than for any other type of debt. Indeed such debt servicing by sub-Saharan countries has averaged about 65% of debt service payments to Africa's bilateral creditors whose claims are about seven times larger. Equally surprising, (but perhaps not when this level of debt service is taken into account) such debt has been generating positive net transfers between 1983-87 with transfers only turning negative in 1988. More needs to be known about the sources of unguaranteed private debt, its terms and those features of it which result in such disproportionately high debt service payments. Unfortunately, the recording of unguaranteed debt is notoriously bad throughout Africa and the necessary information is simply unavailable. But the debt service pattern on this item raises some disconcerting questions about the probity and equity of sub-Saharan debt servicing priorities.

6.06 In 1989 the World Bank established a special debt reduction facility (DRF) to diminish commercial debt and debt service burdens of the poorest debt-distressed countries, most of which are in sub-Saharan Africa. The DRF can provide outright grants to eligible low-income countries that are classified as "IDA only" recipients. Between 1990-92 the facility will make available $100 million from the Bank's net income to finance cash buybacks of outstanding commercial debt with a ceiling of $10 million for each applicant. The large discounts on the debt of such countries (often in excess of 90%) enable a small amount of cash funds to have a substantial impact on reducing private debt stocks and attendant debt service obligations with beneficial effects in the long-run by way of reopened access to short-term trade credits and a lowering of import premiums. As with all such facilities access is open only to those countries which have agreed to: (i) Bank or Fund prescribed adjustment programmes; and which also have (ii) credible debt management programmes which address the overall commercial debt problem and include agreement to substantial debt relief from official bilateral creditors. The Bank has also been willing to make technical assistance available to improve debt records and debt management – essential preconditions for effficient buybacks to take place.

6.07 Progress in using this facility has, however, been disappointing. As of now only one country – Niger – has benefitted from the DRF. In March 1991 Niger completed the buyback of its commercial bank debt (of $108 million) with resources provided by the DRF ($10 million), and supplemented by Switzerland ($3 million) and France ($10 million). But the price at which its commercial debt was bought seemed unjustifiably high suggesting that scarce resources were unwisely used.[29] Out of the 14 African

29 Niger's debt was purchased at 18 cents. The buyback offer was made in January 1991 contingent upon acceptance by creditors holding at least 70% of outstanding commercial debt of $111 million. In the event, 97% of that amount was cleared. The buyback included interest arrears as well as principal (which meant that creditors probably recovered 40-50% of their principal). There were two options offered to creditors: (i) an exchange of 60 day notes equal to 18% of the face value of debt plus interest arrears tendered; and (ii) an exchange of debt for long-term zero coupon notes guaranteed by US Treasury zero coupon bonds with the maturity of such notes being adjusted so that their price at the time of exchange would be 18% of the dollar amount tendered. Both types of notes were guaranteed by the BCEAO (the West African Central Bank for states in the CFA franc zone) — the recipient agent of the grant aid which financed the buyback. The 1986 Bolivian buyback was executed by the IMF at 11 cents when, just previously, Bolivian debt had been trading for between 4-7 cents; resulting in a few arbitrageurs making a very substantial profit on the transaction at the time. The Brady deal for Costa Rica resulted in a buyback of commercial debt and arrears also at 18 cents. Compared to these two deals, a price of 18 cents for Niger represents very poor value for money and casts considerable doubt on the professional competence and judgement which were exercised in this particular operation.

countries that had applied to use DRF at the end of 1990, only Mozambique seems to be close to the consummation of the DRF's second deal although early indications of the likely offer price (which is too openly known in the market) suggests that the buyback may again represent an inefficient use of resources. Moreover the fact that only two buybacks for African countries are likely to be completed nearly two years after the establishment of the DRF suggests that something is seriously wrong with the execution of what was, and still is, a good idea. The Bank observes that:

".. . . Much of the delay in drawing the resources of the facility is due to the reluctance of banks to participate, in part to avoid setting precedents for other countries where their exposure is larger . . . ".

If that is indeed the case, then there is considerable justification for regulatory and tax authorities in the home countries of these banks to consider adopting measures such as the withdrawal and clawback of tax relief already provided against specific and general provisions for developing country debt and considerably less exertion of pressure on behalf of commercial banks in their negotiations with middle-income debtors – as for instance was exerted by OECD governments in pressing the case for commercial arrears clearance by Brazil. But the reluctance of banks is not the only reason. Private discussions with several governments of the eligible countries which have applied for DRF use suggest that the Bank's own internal guidelines, procedures and its appalling bureaucracy are at least as responsible for the absence of movement. Whatever the reasons for the DRF not being used to its full potential the Bank's management and its shareholders should be enjoined by the international community to exert maximum efforts in removing present obstacles for wider DRF use before the terminal date for (June 30, 1992) expires and the balances of its unused rersources revert to the IDA kitty.

6.08 Even if it is more efficiently and effectively utilized the DRF will not cater to clearing the commercial debt overhang (London Club and suppliers credits) for the bigger African debtors mentioned earlier. In their case the Brady Initiative also appears to have no particular appeal as the Nigerian case suggests. Clearly some action is necessary to deal with the overhang for this in-between group of debtors who are not catered for under any particular plan. An expanded version of the DRF with wider eligibility criteria is one option. A superior version of the Brady Plan which involves speedier and less cumbersome negotiating mechanisms with a little less volunteerism in inducing the right kind of behaviour on the part of banks and suppliers is another. What is more likely to work is a regionally specific version of the more global type of multilateral DRF which has been suggested so often before.[30] It is perhaps time to revive this idea as an adjunct facility for African middle-income debtors whose problems are unlikely to be solved until the end of the decade if the Brady Initiative plods on at its present pace of two deals per year when about thirty countries need its early application.

30 This type of DRF was suggested at various times between 1985-88 by Felix Rohatyn, Peter Kenen, Percy Mistry and James Robinson among others. For a detailed account of how such a DRF would operate see "Third World Debt: Beyond the Baker Plan" by Percy S. Mistry in The Banker, September 1987 issue.

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