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African Debt to the United States and Multilateral Agencies

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Summary

The countries of sub-Saharan Africa are generally very poor, and the burden of servicing their foreign debt is often insurmountably heavy. On the average, African countries owe 46% of their foreign debt to official bilateral lenders, 32% to multilateral institutions, and 22% to private creditors. However, most of their debt payments (57%) go to private creditors, while multilateral creditors receive 21% and bilateral creditors 22% of the total. Little of the bilateral debt is owed to the United States. In recent years, multilateral agencies and bilateral creditors have forgiven substantial amounts of debt, in order to reduce the poor countries' debt burden to "sustainable" levels. However, debtors many still have difficulty servicing their debts. There have been calls for 100% forgiveness of multilateral debt. Many analysts suggest, however, that such forgiveness could substantially limit the ability of the multilateral agencies to provide future aid.

Africa's Debt Burden

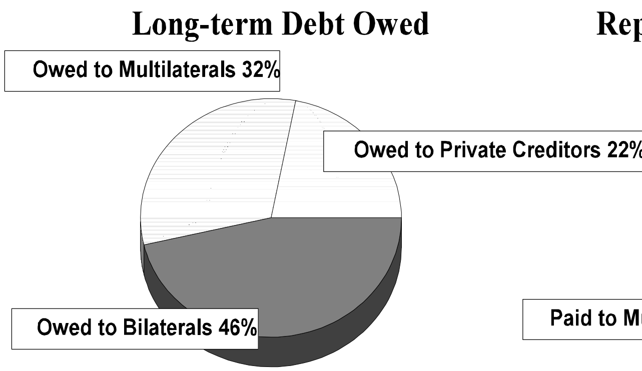
Overview. The countries of sub-Saharan Africa owed $208.9 billion to foreign creditors at the end of 2001, according to data published by the World Bank.[1] Of this, 81% ($168.7 billion) was long-term debt, 16% ($33.8 billion) was short-term debt repayable within a year, and 3% ($6.3 billion) was medium-term debt owed to the International Monetary Fund (IMF).

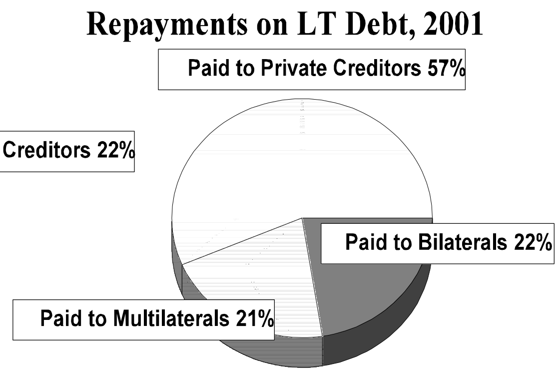
The basic structure of Africa's debt is very similar to most other regions. Most have long-term debt levels in the low 80% range and short-term debt in the mid-teens. There are two exceptions. South Asia has kept its short-term debt level below 4%, thus raising its long-term ratio to over 95% of total debt. By contrast, the Middle East and North Africa region carried 22% of its obligations as short-term debt, lowering its long-term ratio to 76%. The structure of a country's debt has considerable influence on the annual

[1] World Bank. *Global Development Finance, 2002.* Vol 2, pp. 24-49.

level and flexibility of its payment obligations. The annual cost of servicing longer-term debt is lower because the payments for principal are spread over a longer period of time.

Debt Structure. Of Africa's total long-term debt, $78.2 billion was owed to bilateral official creditors, $53.3 billion to multilateral creditors, and $37.1 billion to private creditors. Most (86%) of the debt owed to multilateral agencies was the result of concessional-rate loans; 45% of the bilateral debt was from concessional loans. Loans by official export-finance agencies to facilitate commercial export sales comprise a substantial share of all bilateral debt. Today, most countries provide most of their bilateral development aid in the form of grants rather than concessional-rate loans. Of the debt owed to private creditors, 67% was guaranteed by African governments.





Debt Payments In 2001. African countries paid $14.5 billion in debt service (principal and interest) to their foreign creditors. Most of this ($12.9 billion) went to service long-term debt, while about $0.9 billion paid short-term obligations and $0.8 billion went to repay the IMF. Africa's debt payments in 2001 were the smallest ratio (7%) of its outstanding debt for any region in the world. In Africa's long-term debt service, private creditors received $7.3 billion, multilateral creditors $2.7 billion and bilateral creditors $2.8 billion. In other words, private creditors received most of the loan payments even though they owned the smallest part of the debt, while bilateral creditors got a small portion of the repayments even though they owned the largest share of the debt. At the end of 2000, African countries were $23.7 billion in arrears in their payments to official creditors. Most of this is owed to bilateral creditors. Arrears to multilateral development banks (MDBs), mostly the World Bank and African Development Bank/Fund, totaled about $2.47 billion. Countries in arrears more than 6 months to the MDBs are ineligible for future loans.

Debt Burden. Most observers agree that the foreign debt burden of the African countries is very heavy. It is not the absolute size of the debt owed by African countries, however, which is the problem. On the average, each African owes a $251 share of the region's total foreign debt. This is double the per capita share for people in South Asia ($116), about the same as that for people in East Asia ($284) and much less than that for people in Latin America ($1,306). Compared to its export income, Africa's debt obligation is high but again it is not disproportionately large by world standards. Africa's ratio of debt to export income was 179% in 2001. This compares to 142% for South Asia, and 167% for Latin America. (The rate for East Asia, however, was only 74%.) When one considers only the amount of debt service that was actually paid, however, Africa's debt/service ratio declines. In 2001, Africa's actual debt service payments were equal to 12% of export income. This is comparable to the rates for South Asia and East Asia (both 12%) and less than the rates for Europe and Central Asia (18%) and Latin America (33%).

Africa's debt burden is heavy because the region is very poor. In 2001, its total gross income was about $294 billion.[2] This means that each dollar of Africa's income is matched by 71 cents in external debt. This was roughly twice the ratios for all other regions — South Asia (24¢,), East Asia (29¢), the Middle East (33¢), Latin America (43¢), and Eastern Europe and Central Asia (49¢). To have foreign debt/gross income ratio comparable to those for other regions, by this method of calculation, sub-Saharan Africa would either need to double its annual income or reduce its foreign debt by half.

Most analysts agree that reductions in the size of Africa's debt stock and debt payments are needed. Many also believe, though, that greater effort is needed on the income side of the equation. Over the long run, they say, efforts to stimulate economic growth and to expand and stabilize the region's export income may be at least as important (if not more so) in reducing the overall burden of Africa's debt. New trade opportunities and exports with higher value and greater price stability may be needed

Debt Owed to the U.S. Government

At the close of calendar 2000, the total foreign credit exposure of the United States in sub-Saharan Africa was $7.64 billion.[3] (By comparison, the total U.S. worldwide exposure was $90.55 billion). This includes direct loans, guarantees, and liability from insurance issued for African sovereign and official recipients. Of the total for Africa, $2.17 billion was the result of concessional U.S. assistance programs and $5.47 billion was due to non-concessional loans or guarantees. Debts owed to the Export-Import Bank of the United States (Eximbank) and the U.S. Department of Defense (loans financing commercial or military exports) accounted for $4.77 billion of the total.

Debt owed to the United States comprises about 10% of the total owed by African countries to all bilateral creditors. Through 2000, the U.S. Government has forgiven $1.67 billion owed to it by African countries. Arrears in the payment of principal and interest account for $4.2 billion of the $6.8 billion owed to the United States by African countries as a consequence of direct loans.

Five countries account for $5.3 billion (69%) of U.S. foreign credit exposure in sub-Saharan Africa. The Democratic Republic of the Congo (formerly Zaire) owes $2.28 billion, mostly for Eximbank loans financing U.S. commercial exports. Sudan owes $1.42 billion, two-thirds of it for DOD loans funding U.S. military exports. Nigeria owes $798 million, all Eximbank loans. Two countries without effective governments – Liberia and Somalia – owe $800 million, half of it for military or other commercial purchases.

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[2] The numbers for Africa and other regions are drawn from *Global Development Finance, 2002*, vol. 1, pp. 224-234.

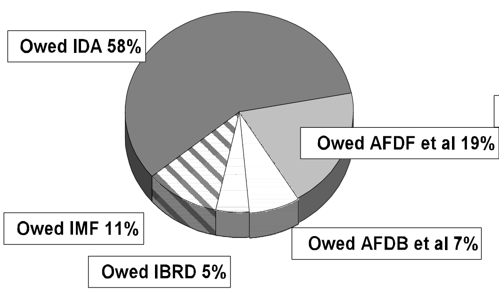
[3] See: U.S. Department of the Treasury and Office of Management and Budget. *U.S. Government Foreign Credit Exposure as of December 31, 2000*. Parts I and II. This is often called the "Salmon Book" in reference to the color of its cover,

Debt Owed to Multilateral Creditors

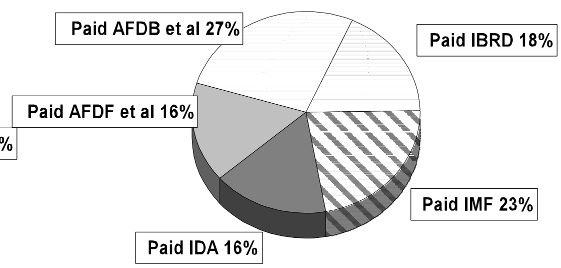
Totals Owed. At the end of 2001, African countries owed about $60.6 billion to multilateral agencies -- $6.2 billion to the IMF, $7.2 billion to MDB market-based loan programs, and $43.3 billion to MDB concessional programs. Most of the total, $37.4 billion, was owed the World Bank – 92% to the IDA and 8% to the International Bank for Reconstruction and Development (IBRD), its market-based loan facility. The remaining $16.8 billion was owed (69% of it on concessional terms) to the African Development Bank, the African Development Fund (AFDF) – its concessional affiliate – and smaller agencies such as the Islamic Development Bank and some African sub-regional banks.[4]

Overall, while MDB concessional programs accounted for 77% of Africa's multilateral debt, those programs received only 32% of the regions payments to multilateral agencies in 2001. Non-concessional MDB programs owned 12% of the region's multilateral debt and received 37% of its multilateral debt service payments in 2001. The IMF was owed 11% of the region's multilateral debt and received 23% of all multilateral debt service payments in 2001.

Multilateral Debt Owed



Multilateral Debt Payments, 2001



Net Transfers. On a net basis, the flow of resources from multilateral agencies to African countries is positive. In 2001, they disbursed $3.66 billion and received $2.72 billion in debt service (principal and interest), the net transfer being a positive $0.94 billion. The pattern is not even, however, for all multilateral programs. In 2000, the net transfer from MDB concessional loan programs to Africa was a positive $1.21 billion. For non-concessional MDB programs, by contrast, it was a negative $1.27 billion and for IMF programs as a whole the net transfer was a negative $21 million.[5]

On a country basis, the situation is also uneven. Some African countries had negative flows even for concessional MDB programs. Most of the negative net flows occurred, however, in non-concessional programs and in countries which are not deemed creditworthy for much future non-concessional aid. Consequently, their repayments or old loans exceed the disbursements for new loans; Nigeria is a prominent example.

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[4] North African countries also belong to the African Development Bank and Fund. Overall, 48% of total AFDB lending has gone to those countries and they have received about 7% of AFDF aid. World Bank's figures exclude AFDB and AFDF data from the totals for sub-Saharan Africa.

[5] Net transfer is the amount left over after the cost of repayments for principal and interest are deducted from the total received in new aid disbursements.

Overall, the net flow for the AFDB was negative $296 million in 2000; the net flow from the IBRD was negative $476 million. The net flow for the IMF's regular program was a positive $37 million while that for its concessional program was a negative $61 million.

World Bank Loans. Only a few African countries – Mauritius, Gabon, South Africa, Namibia, Swaziland, Equatorial Guinea, Zimbabwe, and Nigeria – are eligible for World Bank non-concessional (IBRD) loans. The latter two are "blend" countries, which are also eligible for IDA aid. Zimbabwe is in arrears in its repayments and not eligible for new loans. Several other African countries – notably Cameroon, Cote d'Ivoire, Ghana, Malawi, Senegal, Sierra Leone, Sudan, Tanzania, and Zambia – have outstanding balances from prior IBRD for earlier loans. The World Bank does not forgive or reschedule IBRD loans. However, in 1988, it adopted a program (the "Fifth Dimension" program), which in effect refinances IBRD loans on an as-needed basis. Countries unable to repay IBRD loans made prior to September 1988 may receive loans from IDA to cover the IBRD payments due during particular periods of time. Countries must be IDA-only borrowers (blend countries are ineligible) and they may not have received an IBRD loan in the past 12 months. As of June 30, 2001, the World Bank had approved IDA loans totaling $1.679 billion for this purpose, of which all but $28 million had been disbursed.

HIPC. Many poor countries have had difficulty, however, meeting their payment obligations for MDB concessional loans. In 1996, the G-7 countries approved a plan to forgive up to 90% of the foreign debt owed by heavily indebted poor countries. The plan was modified and its requirements eased in 1998. The World Bank and IMF have the lead in implementing the program to help heavily indebted poor countries (HIPCs). Some 42 countries have been considered for possible eligibility. Six (five African) have reached their completion point (the moment when debt is actually forgiven.). Twenty (18 African) have reached their decision point (the moment when they qualify for future debt relief).. For twelve (10 African), the decision point has not yet been reached. Four countries (two African) were deemed to have external debt situations requiring no HIPC debt relief.[6]

Under the HIPC initiative, a country's bilateral and multilateral debt repayment obligations will be reduced through cancellation of the stock of debt to a point where the remaining debt burden is deemed "sustainable." Sustainability is defined as a condition where external debt is no more than 150% the size of the country's export income on a net present value (NPV) basis. In a few cases, where exports comprise a larger than usual share of the gross domestic product (GDP), the debt/export ratio may be pegged lower and consideration may be given to the size of the country's debt compared to its fiscal revenue. Two countries have qualified for this treatment. Recently, the Bank has come to agree with critics that some countries may not achieve sustainability (due to lower-than-expected export earnings) when they reach their HIPC completion point.

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[6] International Monetary Fund. *Heavily Indebted Poor Countries (HIPC) Initiative: Status of Implementation.* Prepared by the World Bank and IMF staffs. April 12, 2002. Available from the IMF web site. Since the release of this report, as noted above, two more African countries have reached their decision point. See also the HIPC web site [/www.worldbank.org/hipc/] and CRS Report RL30214, *Debt Reduction: Initiatives for the Most Heavily Indebted Poor Countries* and CRS Issue Brief IB96008, *Multilateral Development Banks: Issues for the 107th Congress*.

For the 26 countries that have reached their decision or completion points, the HIPC program has agreed to provide $40.5 billion in debt service relief. This is equal, on an NPV basis, to $25.9 billion over the repayment period of the cancelled loans. Of this amount, on an NPV basis, multilateral agencies are providing 53% and bilateral official creditors 45% of the total. Commercial creditors are providing 2% of HIPC relief. Of the total, the World Bank is providing 24% and the IMF 8% of HIPC debt forgiveness. The AFDB/AFDF is providing another 7%. The World Bank's receipts from debt repayments will decline by about $500 million annually from 2003 to 2009 and will continue declining at roughly that level for a decade thereafter. Repayments to the IMF will decline from about $300 million dollars in 2003 to $48 million in 2009. This is consistent with the shorter debt repayment periods for most IMF loans.

Until recently, the World Bank has absorbed the cost of its portion of the HIPC program from its own resources. Through December 31, 2001, the World Bank had forgiven or announced plans to forgive $10.2 billion in debt owed to IDA by HIPC countries. Only a small portion of the cost of this forgiveness had been realized, however, as that cost is only incurred on the date the forgiven loan repayment would have otherwise been received. The Bank offset lost loan repayments through transfers from the IBRD's annual income and it received $778 million in reimbursements from the HIPC trust fund.

The Bank says that it will contribute between $200 million and $220 million annually to HIPC in the next four years (through 2005), completing its earlier pledge to provide a substantial contribution to the program. Thereafter, it says, the cost of offsetting lost IDA reflows will need to be borne by the IDA donor countries. Otherwise, the annual size of IDA's assistance program will have to shrink by about $500 million – the amount of the lost repayments. In effect, the future cost of IDA debt forgiveness under the HIPC program will need to be carried either by the donors (through higher annual payments) or by the IDA recipients (through reduced levels of future aid).[7]

More MDB Debt Relief?. Is it feasible for the World Bank to provide greater levels of debt relief to African or other countries? Jubilee USA and others have called for a 100% cancellation of all debt owed the multilateral agencies by poor countries. As of June 30, 2001, IDA borrowers owed $86.6 billion to IDA. African countries comprised $31.9 billion of the total. The World Bank has $19.6 billion in retained earnings in the IBRD's financial reserves, but transferring resources from one World Bank program to another is a process beset with serious legal, institutional, and political complications. A large percentage of the Bank's membership would need to agree to the transfer and the Bank's bondholders (to whom it owes over $100 billion) would need to agree not to sue the Bank for damages. Loan reflows currently account for about 40% of the resources IDA uses to fund its assistance program. The World Bank and the IDA donors expect that this share will increase to 70% in the next few decades. If the amount of IDA's debt forgiveness is greater than the amount it receives in offsetting transfers or contributions, it will lack resources in those future decades to fund its program. In that case, the United States and other donor countries either will need to increase their future contributions substantially or they will need to let the IDA program shrink substantially in size.

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[7] See: CRS Report RL31218, *World Bank: Funding IDA's Assistance Program*, May 21, 2002.