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Colonialism or supersanctions:

Sovereignty and debt in West Africa, 1871-1914

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West Africa has been neglected in literature on sovereign debt before 1914. However, it presented arguably the biggest test of investors' willingness to overlook poor economic fundamentals due to colonial status. This paper presents data on bond yields for three British colonies and independent Liberia along with qualitative evidence on the mechanics of borrowing by West African countries. It suggests that a variety of imperial interventions were important in reducing borrowing costs for the poorer periphery of the empire. The contrasting case of Liberia shows that supersanctions did not fully replicate the effects of colonial rule.

In 1924, John Maynard Keynes complained that "perhaps the limit of the absurdity, to which the Trustee Acts can lead, was reached early this year when £2,000,000 was borrowed by Southern Rhodesia on about the same terms as a large English borough would have to pay". Southern Rhodesia, he continued "is a place somewhere in the middle of Africa with a handful of white inhabitants and not even so many, I believe, as one million savage black ones". There was no formal British guarantee of the loan, he said, 'yet unless such is implied the terms of the loan were farcical'.[1]

Since Keynes, research on the imperial financial system has confirmed impressions that British colonies were able to borrow on relatively favorable terms, particularly following the adoption of Chamberlain's Colonial Stock Act in 1900, which, much to the chagrin of Keynes, gave trustee status to coonial bond issues. In their accounting of the costs and benefits of the British Empire, Davis and Huttenback (1989) compare borrowing rates for colonies and independent countries. On the basis of this comparison, they argue that cheaper borrowing was, after defence, the most important 'subsidy' granted by Britain and its colonies. Subsequent work has developed a more nuanced picture of the interaction between investor perceptions and the legacies of colonial rule. One set of possible explanations involves imperial institutions which made colonies a better credit risk. For example, Obstfeld and Taylor (2003) argue that the "empire effect" was actually linked not to empire but to gold standard membership, while Ferguson and Schularick (2006) argue that investors treated colonial bonds favourably because British rule ensured that stable fiscal policies would be maintained and colonies had a familiar set of legal rules and procedures which made it more likely that contracts would be enforced. An alternative argument proposes that colonies could borrow on better terms not because colonialism improved their fiscal and economic institutions, but rather *because* they were colonies (Accominotti, Flandreau and Rezzik 2011). In other words, investors considered them to be subsidiary units of the British government, and therefore their bond prices reflected the credit of the British government.

The sacrifice of sovereignty in the name of access to capital also took place outside the bounds of formal empire. A more recent debate in literature on sovereign debt has been on the role of supersanctions, or other forms of foreign financial control, in managing sovereign risk. Supersanctions include the threat of military or political intervention following default (Mitchener and Weidenmier 2010). A wider definition also includes countries which accepted foreign interventions not as punishment for default but rather as a condition of borrowing in the first place (Maerean and Sharp 2014). Accominotti et al (2011) argue that an empire effect might also apply to the debts of such countries, as they could be considered subsidiary governments like colonial administrations.

This paper seeks to interrogate the claims made in this literature in the context of West Africa before 1914. While loans to Britain's colonies in Africa were a particular target of contemporary critics like Keynes, borrowing by African colonies in particular has received little attention in the wider literature on the 'empire effect'. There are two key reasons for this neglect. Firstly, outside South Africa and Egypt, capital flows to Africa were relatively small in scale. Africa as a whole received only approximately 10 per cent of British capital exports from 1865-1914 (Stone 1999). Of that total, less than a tenth went to West Africa (Frankel 1938). Leaving out South Africa and Egypt, African government debt represented less than one per cent of total sovereign debt raised in London during that period (Stone 1999). Secondly, borrowing by colonies in sub-Saharan Africa began only relatively late in the usual period covered by the empire effect literature. Apart from two small issues by Sierra Leone and Liberia in 1871, the first West African loan was not raised on the London market until 1902.

However, in this case, small does not imply unimportant. If we define the empire effect as the willingness of investors to trust to imperial institutions over unpromising local economic fundamentals, African colonies arguably represented the biggest test of such a system. In the decades before 1914, the colonial conquest of Sub-Saharan Africa was still ongoing, with active conflict covered by British newspapers, and the likely economic potential of African colonies was the subject of vociferous debate.

This paper examines the mechanics of borrowing for three British colonies in West Africa (Nigeria, Sierra Leone and the Gold Coast) in the period up to 1914.[2] It contrasts their experience with that of independent Liberia, which, like a number of independent countries elsewhere in the world, was eventually subject to foreign financial controls as a condition of further borrowing. This comparison suggests a need to revise the conclusions of the 'empire effect' literature. Though the British government made some effort to impose sound fiscal policy in its West African colonies, including the use of gold standard currency, there remained considerable fiscal and economic instability in the period under consideration. Nor did the mere fact of British rule lead investors to overlook these uncertainties entirely. Direct imperial interventions played an important role in mitigating the effects of investor discrimination against bonds issued by poor, distant members of the empire. At the same time, the experience of Liberia suggests that more limited forms of financial control did not replicate these effects.

The paper proceeds as follows. The next section (2) briefly reviews the economic history of West Africa in the years up to 1914 to make the case that African loans would have been a particularly uncertain prospect for investors during the period. Section 3 presents data on African bond yields in comparison with those of other countries. The next section (4) uses archival evidence to outline the mechanisms by which the three British West African colonies raised their loans and suggests that imperial interventions played an important role in keeping secondary market prices high. Section 5 presents the contrasting case of Liberia which shows the challenges facing African countries hoping to raise capital in the absence of imperial networks and policies. Section 6 concludes.

2. West Africa to 1914: The "catch 22" of colonial development

Sunderland (2004, p. 149) characterizes the challenge faced by the imperial government in the crown colonies as the "catch 22" of colonial development. "Funds were required to build infrastructure, but the very lack of transportation networks and economic activity reduced the likelihood that they would be forthcoming at a price the colonies could afford". Nowhere was this perhaps more true than in sub-Saharan Africa. While the volume and value of exports from West Africa, in particular, had increased through the nineteenth century, high transport costs within Africa restricted export production to a relatively narrow band near the coast (Flint and McDougall 1987, p. 382, 397-9; Hopkins 1973, pp. 119-20). Some argued that with sufficient investment in reducing those costs, there was great potential for export growth. However, local tax revenues were, in per capita terms, among the lowest in the British Empire, leaving few resources with which to support this investment (Frankema 2010). This section provides a brief review of these challenges and the role of colonial borrowing in resolving them.

Proponents of West African expansion were keen to stress the economic potential of the region. Trade with sub-Saharan Africa as whole grew at impressive rates through the nineteenth century (Austen 1987, p. 112; Austin 2005, pp. 46-49; Coquery-Vidrovitch 2009, pp. 158-159). In terms of volume, exports from British West Africa increased more than tenfold from 1850-1914. Palm oil, which had been the leading export commodity of West Africa in the first half of the nineteenth century, was supplemented by gum Arabic and groundnuts in the second half of the century. Cocoa and rubber production had also expanded across this period. Frankema et al (2015) argue that it was this expansion in trade, and particularly changes in the net barter terms of trade, which helped motivate European imperial expansion.

However, this growth started from a low base, and West Africa remained a relatively small contributor to the overall trade of the British Empire. According to data on African trade compiled by Frankema et al (2015), West Africa contributed only 0.8 per cent of the exports of the tropical British empire (excluding the Dominions) in the 1860s. This rose to 4.2 per cent by the 1910s. Speculation about how much exports in West Africa could grow was widespread, and sometimes fantastical. In Gold Coast, what Havinden and Meredith (1993, p. 77) describe as a "mini-gold rush" took place in the 1880s. From 1880-1904, 476 companies with nominal capital of almost £43 million were registered for mining and exploration in West Africa, but by the end of that period only four companies had gold output of more than £10,000 per year. Other efforts to promote particular crops and industries in the region also failed. Colonial efforts to promote rubber production in Benin, for example, were largely unsuccessful before 1921, though the region would later be a leading rubber producer (Fenske 2013).

Opponents of British expansion in West Africa were not slow to highlight these disappointments. They could also point to considerable uncertainties regarding the economic and political future of the region. In 1873, an editorial in *The Economist* argued forcefully against Lord Grey's interventionist policies in the Gold Coast, noting that

> Not by any fair calculation can it be urged that the benefits this country has derived from the Gold Coast trade are equal to its burdens. Twice within the present decade we have been involved, at a heavy cost, in war with the Ashantees… Yet, in 1871, the total exports from the Gold Coast to the United Kingdom were under £400,000; and the total imports from the United Kingdom were only £477,000. So that were this

> trade even as steady as it is precarious, it would not justify us in spending a great deal of money or trouble upon it, or in running very serious risks for its sake.[3]

Nor did such expressions cease as the 'Scramble for Africa' gained momentum. The extension of European hegemony into West Africa was both a violent and uneven process, and was heavily influenced by ongoing economic and political upheaval within African societies. Hargreaves (1985) argues that in the 1880s, European interventions remained largely limited to the coast, while the major question was the ability of the great Sudanic empires to withstand pressure from internal factions. In the 1890s improvements in military technology, among other factors, facilitated European military incursions which continued into the twenty-first century. During this period, conflicts between imperial and African forces – including to name a few examples the Hut Tax War in Sierra Leone in 1898, the Asante uprising in 1900 in the Gold Coast, and ongoing campaigns in Northern Nigeria were widely covered in the British press. It was not until 1905 that, as Hargreaves puts it, "although there were still remote districts in the rain-forest and the desert where no effective 'pacification' had yet taken place – the fact of colonial rule had generally been accepted".

Even after the military subjugation of West Africa had been completed, however, there remained the challenge of making colonial rule in the region financially self-sufficient (Gardner 2012). Figure 1 gives exports per capita for the four countries under consideration here. Though the value of exports was increasing, there was considerable volatility in all four countries. The number of export commodities from each country was relatively small. In the Gold Coast, for example, rubber and palm oil accounted for 77 per cent of exports in 1900. In Nigeria, palm products (kernels and oil) constituted 75 per cent of exports in the same year. None produced a sufficiently large share of global output to influence the price. This left export producers vulnerable to changing global prices for their particular products.

Fig. 1 Per capita exports from British West Africa and Liberia, 1880-1913

Source: Gardner (2015).

This volatility had significant implications for the finances of West African governments, which collected most of their revenue from taxes on exports and imports (Gardner 2012). Figure 2 gives data on the budget balance of the four governments across the same period. The data suggest that in West Africa, the stable fiscal policy referred to by Ferguson and Schularick (2006) remained aspirational rather than actual. Apart from Sierra Leone, all of the countries considered here spent more years in deficit than in surplus, and even Sierra Leone suffered fiscal shocks in 1905 and 1908.

Fig. 2 Surplus/deficit as a share of revenue, 1880-1913

Source: Calculated from Gardner (2015).

Up to 1914, West Africa was therefore characterized by a great deal of economic dynamism but also considerable uncertainty as to its economic prospects. Exports and revenue were both growing but were also highly volatile, subject to both changeable global markets and the violent process of colonial conquest. This uncertainty made colonial expansion in the region controversial and almost certainly influenced wider decisions about whether investment in West Africa was a sound strategy. The next section will present data on West African bond spreads to consider how these factors influenced demand for West African debt.

3. Bond spreads in West Africa

The starting point for recent work on the empire effect is the observation that bond yields for colonies were, firstly, lower than those for comparable independent countries and, secondly, unresponsive to the economic fundamentals which influenced spreads for sovereign countries. To what extent was this also true for African countries? This section presents monthly data on bond spreads over British consols for the four West African territories under consideration in this paper and compares them with the data used in current literature. These data show little difference between the bond spreads of the three British West African colonies. Liberia, by contrast, resembles much more closely the patterns observed for other independent countries which found themselves in financial trouble during this period.

Fig. 3 Public debt as a share of revenue, 1880-1913

Source: Blue Books; Corporation of Foreign Bondholders annual reports.

Figure 3 shows levels of debt as a share of annual revenue for all four territories under consideration, giving an approximate chronology of West African borrowing. Sierra Leone and Liberia were the first to issue bonds in 1871. While Sierra Leone repaid its first issue on schedule, Liberia defaulted on its obligations, leading to an accumulation of interest arrears through the rest of the nineteenth century. However, most of West Africa's pre-war borrowing took place after 1900 and the passage of the Colonial Stock Acts. From 1900, each of the three West African colonies raised substantial sums for railway construction. These debts were then converted to longer-term obligations in the years before the war (see Appendix A for details).

Figure 4 gives the available monthly data from the Investors Monthly Manual on bond spreads over British consols for the four West African territories under consideration here. The data do not, unfortunately, provide a comprehensive picture. Sierra Leone's first loan of 1871 was too small to warrant public issue so secondary market prices are not available (Sunderland 2004, p. 187). Secondly, quoted prices are fragmentary. From 1883 until 1903, for example, no prices for Liberian bonds are given. Redemption options may also introduce some errors; the small number of bond issues limits the choices available in terms of selecting representative bonds (Flandreau and Zumer 2004, p. 103-106). With these caveats in mind, the data show that spreads on Liberian bonds are much higher, even after the end of Liberia's long period of default and the imposition of foreign financial controls in 1906. At the same time, spreads for the three colonies move together almost identically through the period from 1902.

This contrast becomes even more apparent if compared with data for countries outside Africa, as in Figure 5. In this figure, there is very little variance between the spreads for West African colonies and other British colonies, even those as different from West Africa as the Cape Colony and Jamaica. On the other hand, Liberia looks more like the spreads of independent countries with similar financial troubles like Greece and Portugal.

Fig. 4 West African bond spreads

Source: Investors Monthly Manual; Banks deny interest in Liberian loan. *New York Times*, 14 September 1922, p. 15.

Fig. 5 West African bond spreads in comparative perspective, 1900-1914

a) Colonies
b) Sovereign states

Source: as for Figure 3; Accominotti et al (2011)

Figures 4 and 5 provide suggestive, rather than conclusive, evidence that West African colonies were treated differently by investors than sovereign states. The small sample of the African data combined with the extensive use of conversion options for African bond issues as well as the limited liquidity of the Liberian bonds in particular limit the effectiveness of regression analysis used in studies of sovereign debt with larger samples. However, it is possible to use the results of this research to examine the African data more systematically.

The first issue to be addressed is the apparently very similar movement of West African bond prices. It is possible that this similarity is linked not to the imperial status of the colonies but rather to similarities in their fundamentals: all three were primary commodity exporters with no history of default. Though their overall fiscal performance was often shaky, contingency financing from imperial institutions allowed all three to present a more positive picture to investors. Further, all three used sterling as the main currency for international trade and public finance, giving them de facto membership in the gold standard (Gardner 2014; Hopkins 1970).

Using the findings from previous research, it is possible to use data on the economic fundamentals of the three colonies to predict what spreads might have looked like if the West African colonies had been independent. Accominotti et al (2011) find in their analysis of sovereign countries that economic fundamentals including trade and fiscal outcomes were significant in determining bond spreads.[4] The coefficients from this regression are used here along with data on economic fundamentals for the West African colonies to estimate hypothetical spreads for which economic fundamentals were significant determinants. Figure 6 reports the results, and suggests that if this had been true, the spreads for the three countries would not move together in the same way as observed. The predicted spreads show wide gaps between the three colonies, which converge to some degree by 1913.

Fig 6 West African bond spreads: hypothetical and observed

Sources: See text.

Fig 7 Liberian bond spreads: hypothetical and observed

Sources: See text

Figure 7 uses the same method for the Liberian spreads. It shows that the actual Liberian spreads are higher than the predicted values for sovereign countries, even controlling for its history of default.[5] The next two sections use archival evidence on the mechanics of borrowing by the West African colonies and Liberia, respectively, to help explain these comparisons. Together, they argue that investors did to some degree discriminate against African colonies relative to other colonies. To sustain high prices for African bonds required the intervention of a variety of imperial institutions. Liberia, without access to these mechanisms, faced a range of challenges in raising funds in London which help explain why its bond spreads were even higher than predicted by its fundamentals.

4. Borrowing by British colonies

The prices of bonds were the outcome of a process by which debt issues were proposed, managed and marketed in London. This section uses archival records to reconstruct the issue of bonds by colonial governments in West Africa. It particularly highlights imperial interventions in both primary and secondary markets which helped make African bonds marketable. The former included efforts to ensure the appearance (if not the reality) of fiscal stability and the latter involved market-making by imperial agencies or their surrogates to keep the prices of African bonds high. While the quantitative impact of these interventions would be difficult to measure given the limitations of the surviving evidence, qualitative records suggest that contemporaries found them important.

By the late nineteenth century, the process by which foreign governments issued loans on the London market had evolved as follows. A government wishing to raise a loan would appoint an agent or commissioner, who would then look for an issuing bank to undertake the issue. That bank would then work with stockbrokers and underwriters to issue a prospectus and advertise the loan to potential investors. The underwriters would commit to buying any part of the loan issue that went unsubscribed.[6] Variations in this process could influence the terms on which loans were issued and the prices of the bonds thereafter. For example, Flandreau and Flores (2009) argue that investors were willing to pay a higher price for bonds linked to 'prestige' underwriters because they helped overcome information asymmetries between borrowers and investors.

This was, in general, the procedure followed by colonial governments, with a few key differences outlined below. From the 1860s, the Crown Agents for the Colonies were responsible for approving, advertising and issuing colonial loans.[7] The Crown Agents were a semi-autonomous body which acted a general commissary service for colonial administrations, managing their finances as well as government purchasing (Abbott 1971, p. 2; Kesner 1981, p. 61). They had an interest in protecting the creditworthiness of all colonies, and were therefore active in trying to ensure the marketability of colonial loan issues, particularly those for which there was likely to be limited demand. Owing to this encompassing interest in all colonial bond issues, they shared many features with the prestige underwriters described above.

The archival records surrounding African loan issues suggest that the Agents faced a challenge in overcoming investor prejudice against the bond issues of little-known colonies in West Africa.[8] The quantitative evidence provides some support for this. Figure 8 gives three sets of figures for the Gold Coast: the observed bond spread over British consols, the hypothetical spread using parameters for sovereign countries from Accominotti et al (2011), and the hypothetical spread using parameters for colonies from the same source. It shows that while the observed spreads for the Gold Coast were much lower than what the model would predict if the Gold Coast had been sovereign, they were also higher than the predicted spreads using parameters calculated for wealthier colonies.[9]

Fig 8 Actual and predicted spreads for the Gold Coast

Source: As for Figure 6.

This picture is supported by anecdotal accounts from the period. A letter from Scrimgoers, which underwrote many colonial bond issues for the Crown Agents, noted in regards to the 1911 Nigeria issue that 'many of the general public regard the West African colonies on their own merits alone, and for this reason they have never been a popular investment amongt the outside public'.[10] Even after the passage of the Colonial Stock Act of 1900, West African issues were met with skepticism. The first of the West African colonies to borrow under the new system was the Gold Coast, which issued £1,035,000 in three per cent bonds in 1902. In response to the loan's announcement, the *Financial Times* pronounced: "how times have changed of late is well exemplified by the appearance of a new Trustee stock in the form of Gold Coast Government Three per cents. A few years ago investors would have thronw up their hands in horror at the suggestion". Though the bonds were priced at 91, the *Financial Times* writer argued that "in view of the whole circumstances we should have thought a lower price would have been fixed for this first appearance on the loan market". Faced with such responses, the Agents employed a range of methods to make African bond issues more attractive both in primary and secondary markets, often in coordination with private sector actors and other parts of the British government.

One obstacle to be overcome was the state of the finances of the West African colonies in the early years of colonial rule. Figure 2 showed that the West African territories were in deficit more often than not in the period before 1914. Fiscal stability was elusive, and could not be mandated by the imperial government owing both to the volatility in revenue and the military and political uncertainties of colonial conquest. At the same time, the most important initial criterion used by the Agents to determine whether a colony could borrow was whether the state of the colony's finances would allow it to service the loan. In the 1871 issue by Sierra Leone, for example, the timing was driven by 'the improved and yearly improving condition of the revenue'.[11] Fiscal solvency was also a key factor in the marketing of loans. The announcement in the *Financial Times* of the Sierra Leone issue of 1904 noted that the revenue had increased considerably between 1898 and 1902, from £117,700 to £205,800. In a letter from the Colonial Office to the Crown Agents ahead of the 1911 Nigeria issue, they wrote: "the governor desires that in the advertisement of the contemplated issue of £2,000,000 stock you will give prominence to the large revenue and surplus in 1910, and also to satisfactory railway returns for the same period".[12]

Despite these positive headlines, West African colonies remained vulnerable to fiscal crises. In Sierra Leone, the revenue declined in 1873 and 1874. The effects of this decline were compounded by unrest at Sherbro, which demanded new expenditure on military excursions. As a result, the amount that Sierra Leone could borrow was limited to £50,000 instead of the £60,000 which had initially been authorised, and the programme of expenditure was curtailed (House of Commons 1877, p. 16). In future years the imperial government often intervened to mitigate the effects of such crises by offering contingency financing of various kinds, usually on concessionary terms. Loans from the British Treasury and advances from the Crown Agents were granted to compensate for severe revenue shortfalls or when emergencies required increased spending, and prevented the colonies from accumulating domestic floating debt. The colonial administration of Lagos, for example, received an interest-free loan of £20,000 in 1873 to repay several loans advanced from local merchants to "meet the current expenses of the government" (Lagos 1873). In 1879, Sierra Leone received a loan of £38,000 at zero interest from the imperial government "in aid of the local revenue of the settlement" (Sierra Leone 1879). This was repaid in uneven installments by 1890. A further concessionary loan was issued to assist with the costs of the 1898 Hut Tax War, an uprising against the extension of British authority over the interior (Hargreaves 1956). These funds – a total of £45,000 – were advanced from the Treasury Chest, which Davis and Huttenback (1986, p. 149) describe as 'a fund of several hundred thousand pounds spread through the Empire for public services and emergencies". The colonial administration of the Gold Coast received several concessionary loans through the 1890s to cope with the costs of the Ashanti Wars (Gold Coast 1901; Kesner 1981, p. 44). As a share of total British spending, these loans and grants were very small, but relative to the much smaller budgets of the colonies they could be substantial. In terms of the primary market for colonial bond issues, such interventions also had the effect of making colonial finances appear perhaps more stable than was actually the case. It also meant that colonies would not have to resort to higher-cost methods of budget support, the importance of which will be illustrated in the discussion of Liberia in the next section.

Another form of financial assistance provided by imperial institutions was advances for the construction of the infrastructure to be funded by the loan proceeds. Though the first railway loan was not issued in West Africa until 1902, when the Gold Coast issued £1,035,000 in 3 per cent bonds, railway construction had actually begun in the 1890s. Over the next decade it proceeded sporadically, with frequent interruptions due to conflicts with the African population, the difficulty of continuing surveys and construction during the wet season, insufficient labour supplies and high turnover amongst the European staff (House of

Commons 1905). In some cases, like for example Sierra Leone, the advances came from the Crown Agents, who later recovered the money with the proceeds of the loan issue (Sierra Leone 1903). In Lagos, £725,000 of the £2,000,000 raised through the issue of 3.5% inscribed stock in 1906 was used to repay the Treasury for earlier railway loans (Lagos 1905).

These means of financing infrastructure construction had several advantages. They ensured that loan proceeds would not be diverted to other purposes, as had been the case in Sierra Leone in 1871, when loan proceeds were diverted from their primary purpose of expanding the Freetown harbor to supporting the 'general service' of the colony. They also ensured that the revenue returns of spending on railways would at the very least follow the issue of the loan without much delay, if not perhaps even precede it. The system of advances also allowed the Crown Agents some flexibilty in the terms of the timing of the loan issue. Sunderland (2004, p. 156) notes that "if market conditions were unfavourable, floatations would be delayed' by using other forms of financing first. In the case of the West African loans, the Sierra Leone issue in particular was postponed until the end of the South African War. A Crown Agents memorandum on the loan noted that "preliminary consideration of the prospect of raising a loan began in 1901 … Some time elapsed while these points were settled, during which time the programme was financed by temporary advances. Before the market had returned to normal (after the South African War) it became necessary to liquidate the advances and a short-term issue of 4% ten-year convertible debentures was made in 1904 at 98".[13]

Even with these measures to make bonds more attractive to investors, further intervention was necessary to maintain high prices after the bonds were sold. Several West African bond issues were poorly received among investors. An article in the Financial Times on the 1908 Southern Nigeria issue of £3,000,000 observed that "80 per cent of the Southern Nigeria scrip has been left in the hands of the underwriters".[14] To avoid this, the Crown Agents and their affiliates negotiated with other financial institutions to arrange the informal underwriting of the bonds. For the 1911 Nigeria issue, for example, Scrimgoers noted that half of the bonds were purchased by "certain of the larger undwriters with our active co-operation, in order to strengthen the position".[15] They particularly approached Leslie Couper of the Bank of British West Africa. In response, he wrote to the Crown Agents that "we are taking at least £100,000".[16] Finally, the Crown Agents themselves also purchased West African bonds, using the reserve funds which they held on behalf of other colonies. In their 1911 letter, Scrimgoers also noted that, "as you are doubtless aware in ordinary times there is very little market in the stocks of Southern Nigeria, Gold Coast and Sierra Leone, and it is only the heavy purchases made from time to time by your good selves which has kept the prices of these stocks at their comparatively high levels".

There is therefore compelling evidence that imperial interventions of various kinds facilitated borrowing by West African colonies. This was not limited simply to the fact of colonial rule or the trustee status offered to crown colony issues by the Colonial Stock Act. One important intervention in the primary market was the offer of emergency loans and advances on concessionary terms, which helped ensure fiscal stability and meant debts could be serviced on schedule. Another ws the advance of funds to pay for infrastructure projects in advance of loan issues. Finally, the Crown Agents and those acting their behalf actively manipulated the price of bonds to keep demand high. The importance of such interventions can be illustrated perhaps most convincingly through the contrasting case of Liberia, discussed in the next section.

5. Going it alone: Liberia

The extent to which imperial networks and institutions mattered can be judged in part by examining the experience of a country without access to them. Liberia, as shown in section 2, faced many of the same challenges as British colonies: export production was growing, but demand was volatile, and tension between coastal institutions and interior societies was a source of both economic and political uncertainty. However, Liberia's relationship with the international capital market began and remained on a more tumultuous footing from the country's first bond issue in 1871 through to its final loan of the period in 1912. It suffered particularly from both poor access to credible financial intermediaries in London as well as the weakness of its ow ninternal financial management. This section will review its history in light of the discussion in the previous section.

Liberia, like Sierra Leone, was founded as a colony for freed slaves. The first settlements were established in the 1820s, and the migrants – known as the "Americo-Liberians" – made their way primarily as middlemen in the growing commodity grades in West Africa. Unlike Sierra Leone, however, Liberia had not remained a colony. When pressed by the British government to declare a position on Liberia in the 1840s, the American government declined to stake any claim and Liberia declared its independence in 1847 (Clapham 1976, p. 7). From this point until 1912, American connections with Liberia were extremely limited. In 1905, the American consul-general in Monrovia, reporting on Liberian trade and commerce from the previous year, observed that "trade with the United States according to customs receits has dwindled to a fraction compared with that of Germany and England" due to "the lack of direct communication between this country and the United States". In that year, official trade statistics showed no exports to the United States at all.[17]

Also like Sierra Leone, Liberia also raised its first loan in 1871. Liberia's purpose in raising the loan, articulated in the enabling legislation, reflected some of its disadvantages relative to the West African colonies in terms of accessing capital. One key purpose of the loan was in redeeming depreciated government paper and creating a reserve fund for new issues.[18] As section 2 illustrated, Liberia's public finances were just as vulnerable to sudden crises linked to both external demand for its exports and internal instability as those of the colonies. Unlike the West African colonies, however, Liberia did not have access to contingency financing on concessionary terms during periods of fiscal crisis. Liberia also lacked access to the prestige financial intermediaries which the Crown Agents provided to the colonized territories, which affected both primary and secondary markets for its bonds. These differences were key foundations for Liberia's default on its first bond issue, and the terms of its subsequent loans.

The lack of access to concessionary contingency financing meant Liberia was often forced to turn to other means, including the printing press, for short-term budget support. While British West Africa (for purposes of international trade and government finance, at least) was in effect on the gold standard, Liberia's currency system was based on the unbacked Liberian dollar. The depreciation of Liberia's paper currency made it extremely difficult for the government to pay external obligations denominated in sterling (Gardner 2014). An alternative to the printing press was to seek cash advances from merchant firms, often at rates of interest as high as 30 per cent (Johnson 1992, p. 102). Unfortunately, systematic data on the level of this internal debt have not yet been located. However, anecdotal evidence suggests it could bequite high. In 1896, Governor Cardew of Sierra Leone described Liberia's customs revenue as "deeply mortgaged, principally to two firms, one a Dutch and the other a German". Of the 1906 loan issue of £100,000 ($500,000), $150,000 was used to redeem internal floating debt (Brown 1941, p. 165-6). In 1910 the report of a US Commission to investigate conditions in Liberia noted that 'in addition to her foreign loans Liberia has a domestic debt equivalent to about one year's revenue of the Republic' (US Senate 1910, p. 22). The weaknesses in Liberia's fiscal system made it impossible for the Liberian government make the claims to fiscal stability made by the West African colonies in their loan prospectuses or invest in infrastructure prior to bond issues. Repaying this private debt consumed considerable proportions of loan proceeds.[19]

At the same time, the primary market for its bonds was also influenced by financial intermediaries working on its behalf. One explanation for Liberia's default on it 1871 loan was that the Liberian government had been forced to make use of financial institution described by one account as "not perhaps of the first rank" (Johnston 1906, p. 259). President Roye appointed a London-based merchant, David Chinery, along with two members of his cabinet to negotiate the loan on the government's behalf. The Liberian government would later claim that Chinery had insufficient experience or connections to negotiate the loan properly. Little is known for certain about Chinery, but his limited success as a merchant lends some corroboration to these claims. He was sued for bankruptcy in 1859 by creditors from West African centres including Sierra Leone, Cape Coast and Badagry as well as Liverpool, Manchester and London.[20] In 1863, he became one of the founders of the London and African Trading Company.[21] Less than four years later, however, the company was being wound up after it had "endeavored to transfer its business to a new undertaking, which did not succeed and has since succumbed through total want of capital".[22]

Whatever his qualifications, Chinery took the lead in finding buyers for the bonds, which were purchased by Edward Williams, a merchant, and Henry Stavely King, a medical doctor turned financial agent. They would offer no more than £70,000 for the £100,000 in bonds issued by the Liberian government. Williams and King then sold the bonds to Holderness, Nott and Co, who marketed them at 85 per cent and paid part of the proceeds to Williams and King. Three years of interest payments were deducted from the payments made to the Liberian government. Liberia was not unusual in borrowing on such terms – Suzuki (1994, p. 17) notes that foreign governments often faced high commissions and other costs.

During the long period from 1874 during which the 1871 issue remained in default, Liberia attributed the default to the fact that only a very small share of the loan proceeds ever reached the Liberian treasury. In 1890, President Hilary Johnson said in his annual address to the legislature that the default was

> due not alone to the condition of the finances of the country, but also to the fact that the Republic was actually defrauded out of three fourths of the nominal sum, or two thirds of the sum at which the bonds were placed on the market. This instance of the Liberian seven per cent loan is not unique – similar cases occur with other nations – the smaller states. And the same principle, or rather non-principle, underlies them all: the money is squandered or consumed by the so-called foreign friends of these smaller states under the pretense of developing their alleged untold and inexhaustible resources.[23]

In Liberia, the loan became part of a larger political scandal about the role of foreign interests, which ended with the deposition, and untimely death, of President Roye. The new Liberian government brought suit in the Court of Chancery against Chinery and others. The Liberian government'slawsuit was eventually dismissed in 1876 when the government failed to meet deadlines set by the court. By that point, however, Liberia had joined a number of countries which defaulted or rescheduled their debts in the 1870s as the global economy stalled. These included Honduras, Costa Rica, Santo Domingo, Paraguay, Spain, Bolivia, Guatemala, Uruguay, Egypt, Peru and the Ottoman Empire (Pamuk 1987: 61, n 16).

The Liberian government finally agreed to negotiations with the Corporation of Foreign Bondholders in 1898. The new agreement reduced the interest rate to 3 per cent for 3 years, rising half a percent every three years to a maximum of five per cent. Despite the sharp drop in the interest rate, from 7 per cent, the long period of default was not without cost. Certificates were also issued for the arrears of interest which by then far exceeded the principal of the loan.[24] Liberia's bond spreads declined following the renegotiation and several years of regular interest payments under the new agreement, and the Liberian government returned to the capital market in 1906.

In the 1906 loan, Liberia attempted to improve the terms of its borrowing by agreeing to the first in a series of concessions of its sovereinty to potential creditors. Recent literature has referred to such concessions as "supersanctions", or third-party enforcement. These were imposed either as punishment for default or, as in the case not only of Liberia but also of Serbia and Bulgaria, as a condition of borrowing (Maerean and Sharp 2014). The 1906 bonds were purchased by Emile Erlanger & Co in return for an advance of the same amount. They were secured by the revenue from customs tariffs and the export duty on rubber.[25] Enforcement of the terms of the loan was made by means of two British officials placed in charge of customs collection (Brown 1941).

However, this did not eliminate Liberia's difficulties with the intermediaries acting on its behalf. In the arrangement for the 1906 loan, Erlanger was acting at the behest of a concession company, the Liberian Development Company (LDC), which was placed in charge of spending the loan proceeds. The LDC was managed by the same Sir Harry Johnston quoted above as writing disparagingly of the financial agents who managed the 1871 issue.[26] After the repayment of the domestic floating debt, most of the remaining funds were handed over to Johnston's company, which was to use them for road construction and the establishment of a national bank (Brown 1941, pp. 165-6). The scheme unfortunately ended in failure. After two years and $200,000, the Company had funded what Johnson (1992, p. 103) describes as "fifteen miles of dirt road, a small launch and two automobiles" before announcing that "all the funds were exhausted". The proposed bank, meanwhile, existed only on paper. The relationship between the LDC and the Liberian government was terminated in 1908, and the latter took control of the roughly $150,000 which remained of the loan proceeds.[27]

Liberia's forays into the British capital market had left it with nothing except, as Brown (1941, p. 166) puts it, "more debts and humiliation". The fear that its unpaid debts would trigger invasion by Britain or France, prompted the Liberian government to turn next to the US government for support (Rosenberg 2007, p. 70). In 1909 the American government appointed a commission to investigate conditions in Liberia. One recommendation of this commission was "the establishment of some system of collection and control of the revenues of the country for the benefit alike of the Government and its creditors, modeled in some respect upon the plan which has been of such practical success in Santo Domingo" (US Senate 1910, p. 11). The report also noted, however, the potentially tricky international politics of the Liberian situation. Liberia could not, in reported, "call to her aid either Greid Britain, France or Germany. Two of these powers she deeply distrusts, and each of them distrusts the other two" (US Senate 1910, p. 28).

Two years later, bonds up to a value of $1,700,000 at 5%, maturing in 40 years, were authorized. The proceeds were used to repay existing debt. This included the 1871 and 1906 bonds as well as the interest arrears from the former, and domestic debt.Though largely an American project, the European powers were involved in order to forestall European opposition to the plan. Small amounts of European capital were invited to purchase the bonds, and the customs receivership included one official each from Britain, France and Germany under the leadership of an American Receiver General.[28] It also placed American officials in charge of the Frontier Force (Rosenberg 2007, p. 86; Corporation of Foreign Bondholders 1913, p. 220). The Receivership had only limited success in ensuring Liberia's loans were serviced on schedule. Amortization payments were suspended in 1914-15 and interest payments from 1917-23 (Suter 1992, p. 149). Further, servicing the debt also absorbed a large share of total government revenue. In 1924, for example, $172,800 out of total revenue of $481,879 was withheld by the receivership for debt service. An additional $47,818 paid the salaries and other expenses of the receivership.[29]

Similar patterns of increasing intervention in the politicial affairs of countries struggling with foreign debt occurred in a number of other regions during the same period.[30] While these interventions may have gone some way towards addressing Liberia's fiscal problems, they also had a destabilizing effect on Liberian politics. The overthrow of President Roye was an opening salvo in what was to be a long-standing debate about the role of foreign interests (Marinelli 1964, p. 92; van der Kraaij 1983, p. 25-37). A later newspaper editorial proclaimed with regard to subsequent financial controls that "we exchanged a horse for a pile of hay and borrowed the horse to eat the hay; in other words, we … borrowed money for the lender to control".[31] Such opposition to financial control regimes was not unique to Liberia. Anti-foreign riots in Egypt prompted the British takeover in the 1870s. Similarly, opposition to foreign control in the Dominican Republic and Nicaragua also required American military intervention (Rosenberg 2007, pp. 55, 77). The imposition of ever-greater financial controls generated similar political upheaval in Bulgaria (Tooze and Ivanov 2011). The fact that such opposition was not as vehement or violent in Liberia as elsewhere is perhaps linked to the tenuous position of the ruling elite, which faced pressure from indigenous groups in addition to foreign powers.[32]

Did investors view the imposition of ever-expanding foreign control over Liberia's finances as equivalent to colonial status? Parallels are frequently drawn between financial control and colonial rule. Pamuk (1987, p. 56) describes European financial control of the Ottoman Empire as "one of the most striking forms of imperialist penetration short of de jure colonialism". In his history of Liberia, Azikiwe (1934, p. 111) similarly argues that "the control of the finance of one nation by another is one of the latest phases of imperialism".

The evidence from West African bond spreads, although fragmentary, suggests that investors before 1914 in any case did not see financial control and colonialism as equivalents. Figures 4 and 5 above suggest that while Liberia's bond spreads began to converge on those of colonized territories, they were still considerably higher even in 1913. In Figure 7, while Liberia's bond spreads eventually fall to the level predicted for sovereign countries by Accominotti et al (2011), they never reach the level predicted for a colony. Further, anecdotal evidence suggests wariness even after the establishment of the customs receivership. Of the 1912 loan, the *Financial Times* stated that "under the international control now established the bonds seem fairly well secured, though they can hardly be described as a gilt-edged investment".[33] The verdict of the *Economist* was even less enthusiastic, noting "the revenue depends very largely on Customs duties and the conditions of trade and the stability of the State administration are not satisfactory enough to make the present offer attractive".[34] Identifying the precise reason for this is difficult given the limits of the surviving evidence, but several possible explanations suggest themselves in light of the comparison with colonized territories. One is the apparently limited liquidity of Liberia's bonds, perhaps owing to the absence of market-making practices on its behalf. A second is its early default and continued struggles with repayment, which themselves were linked to the poor terms of its initial bond issue. A third, related, issue was internal fiscal institutions which remained weak despite increased controls on revenue collections imposed by the receivership. Liberia remained dependent for short-term deficits on more costly methods of financing, which influenced its fiscal position even under fiscal controls.

6. Conclusion: Sovereignty and access to capital

Borrowing by African countries has been neglected by the wider literature on sovereign debt before 1914. This paper attempts to address this gap, arguing that new colonies of West Africa represented the biggest test of mechanisms intending to reduce the costs of borrowing for crown colonies. It uses a comparison of three British West African colonies and independent Liberia to highlight the variety of imperial interventions which facilitated borrowing by poorer and more uncertain colonies, and the limited options available to African countries in the absence of these means.

This paper contributes to current understandings of the empire effect. Existing literature debates why colonies could borrow on comparatively good terms, given their generally poor economic fundamentals. To put it in the words of Keynes, why could "a place somewhere in the middle of Africa" access capital more cheaply than projects in Britain itself? At the core of the debate is whether imperial policies improved those fundamentals by enforcing fiscal discipline, or whether the status of the colonies as subsidiaries of the British government explains the low level of spreads for colonial bonds.

The experience of West African colonies suggests a more nuanced approach is needed to this debate, which allows for the fact that investors did appear to differentiate between colonial bonds. A wide range of imperial interventions, which included not only the Crown Agents but also the British government itself, contributed to allowing West African colonies to borrow on comparatively good terms even relative to other British colonies. Such interventions served the purposes of various interests within the British Empire and need not necessarily be attributed to benevolence. However, their importance of these interventions is emphasized by the contrasting case of Liberia, which provides some hints as to the options available to West African countries in the absence of imperial interventions. Its early efforts to borrow were on punitive terms. This, combined with the instability of its fiscal system, virtually guaranteed a default. Subsequent borrowing required ever-increasing infringements on its sovereignty, which nevertheless did not lead the terms of its borrowing to converge on those of formally colonized territories.

One wider question raised by the empire effect debate is to what extent developing countries faced a trade-off between sovereignty and access to foreign capital (Ferguson and Schularick 2006; Accominotti et al 2011). The phrase 'trade-off' raises interesting political questions about agency (whose choice was it?) which are beyond the scope of this paper. Other efforts by independent African states, including Ethiopia and Ashanti, to borrow in the nineteenth century were also controversial amongst local political stakeholders owing to infringements on their sovereingty (Chaves, Engerman and Robinson 2014, pp. 348-51). However, what the comparison of West African territories suggests is that it was really the structure of foreign rule that mattered. Where foreign rulers had a more encompassing interest in colonial bond issues, as was the case in the British Empire, they might take a variety of measures to ensure that their colonies could borrow. If the interest and degree of control was narrower, as in the case of the Liberian customs receivership, bond spreads did not converge completely.

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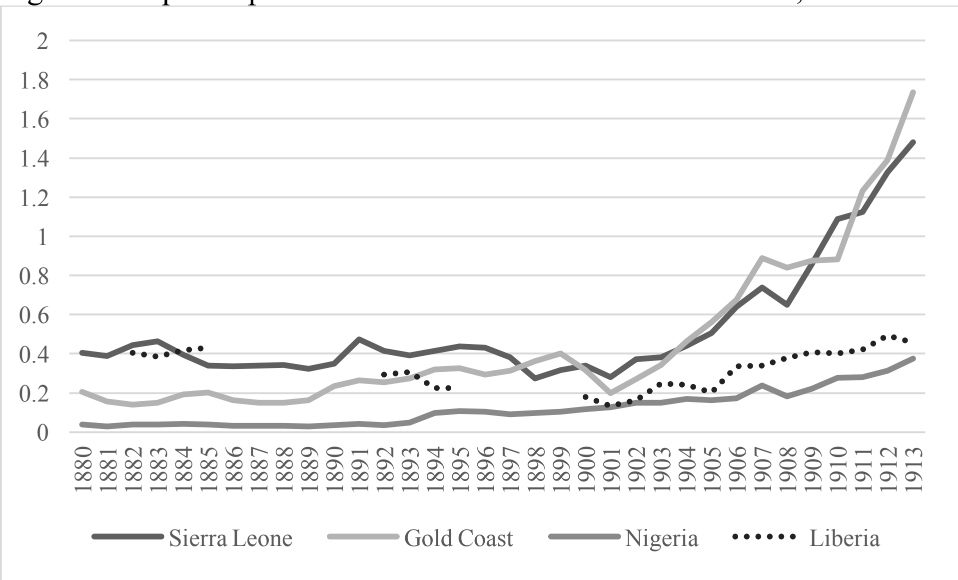
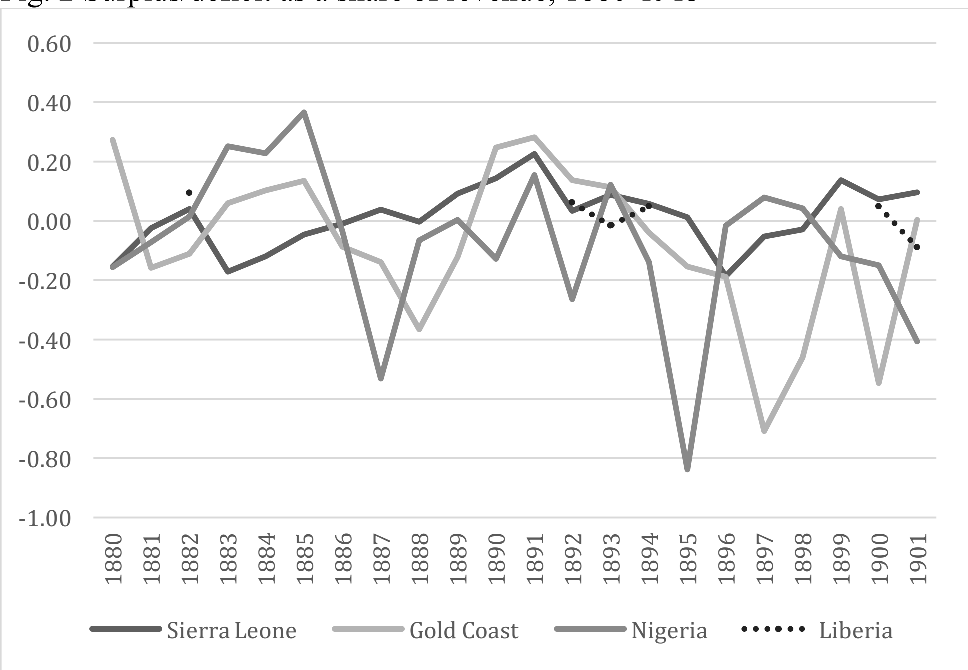
Fig. 1 Per capita exports from British West Africa and Liberia, 1850-1914



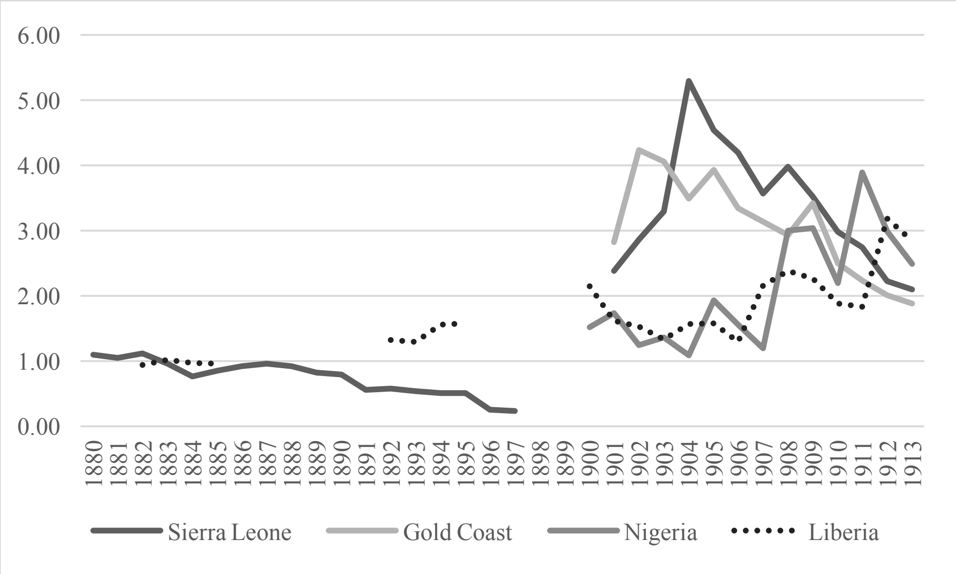
Source: Gardner (2015)

Fig. 2 Surplus/deficit as a share of revenue, 1880-1913



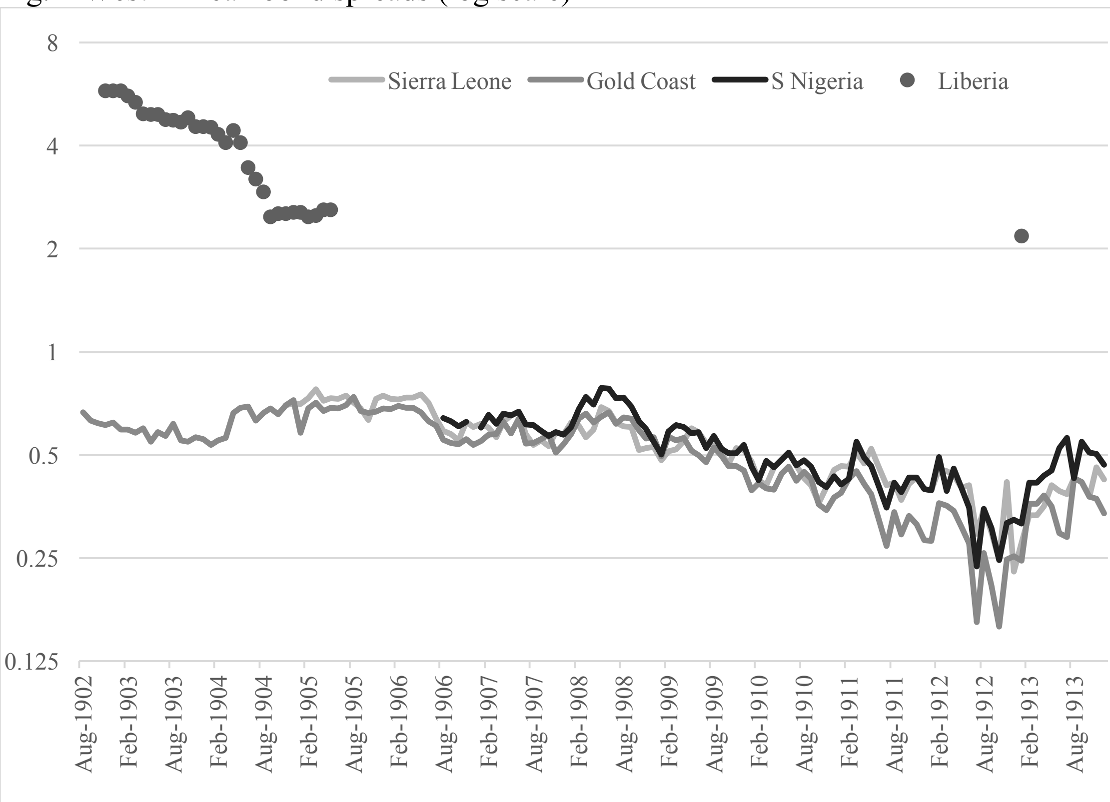
Source: As for Figure 1.

Fig. 3 Public debt/revenue, 1880-1913



Source: Blue Books; Corporation of Foreign Bondholders Annual Reports. Figure includes total public debt with the exception of Liberian internal floating debt, for which systematic data have not yet been found.

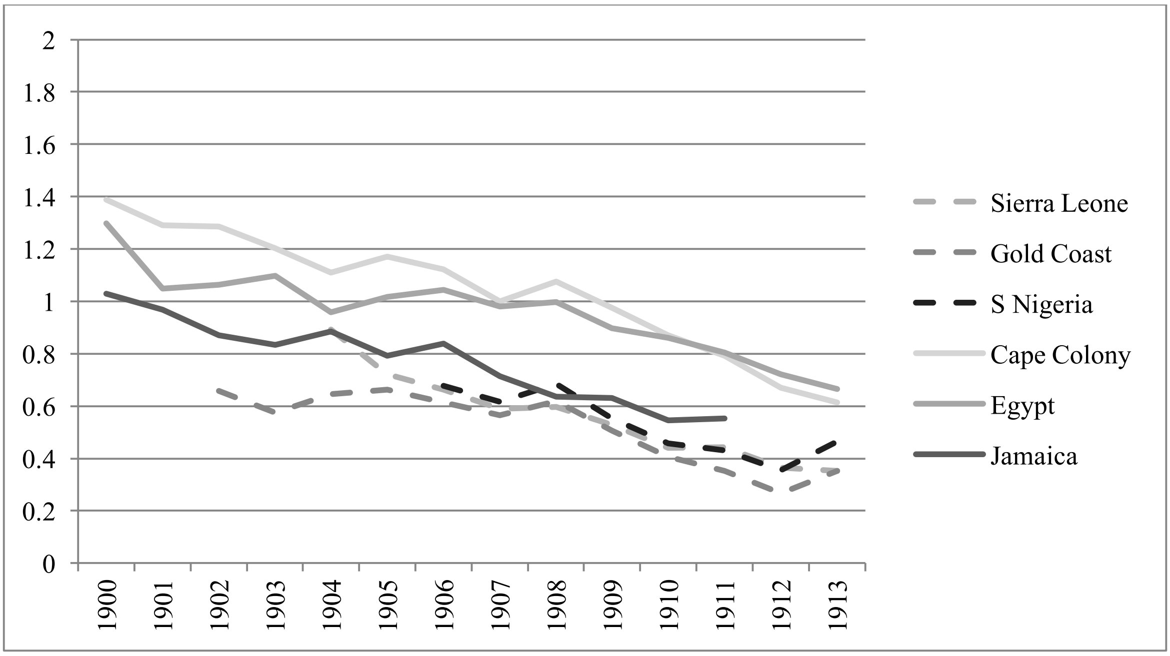
Fig. 4 West African bond spreads (log scale)



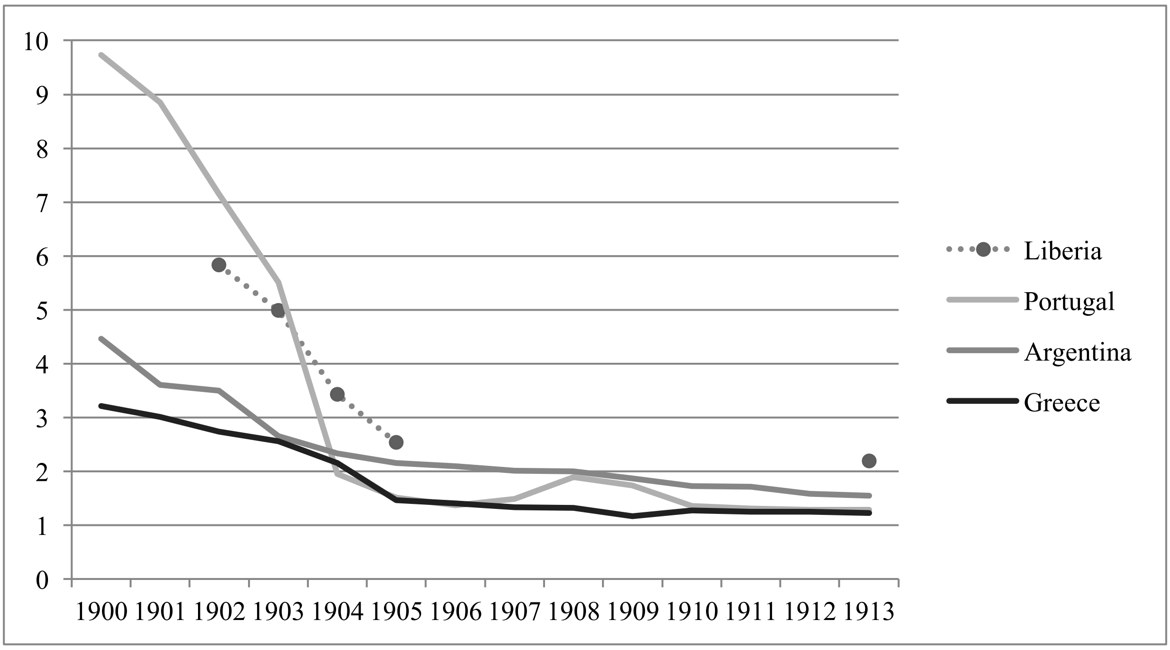
Source: *Investors Monthly Manual*.

Fig. 5 West African bond spreads in comparative perspective, 1900-1914

a. British colonies

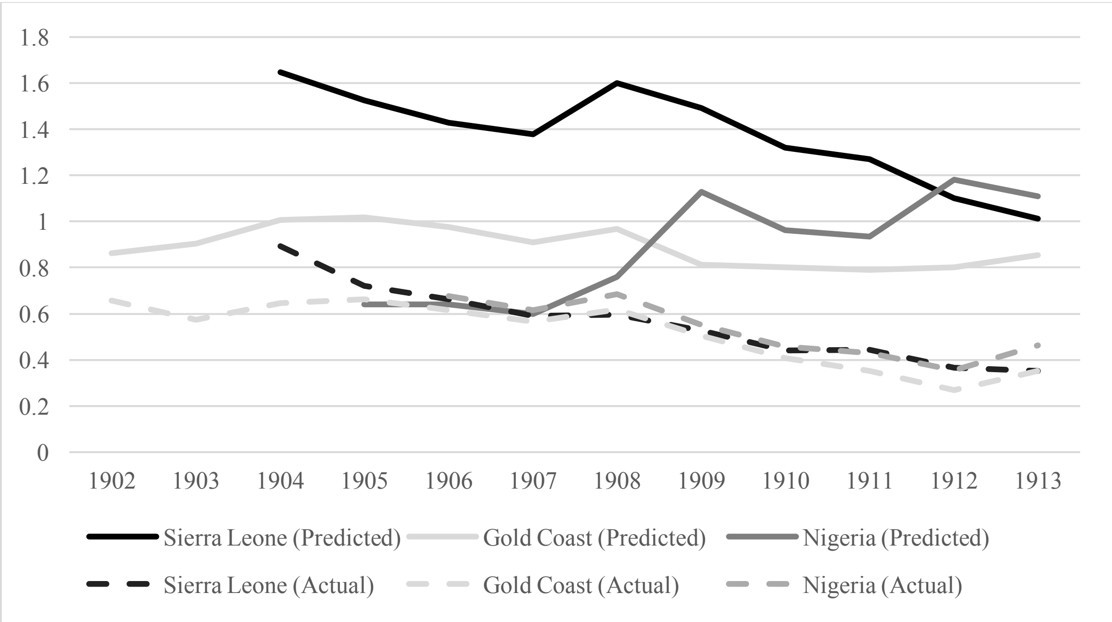


b. Sovereign states



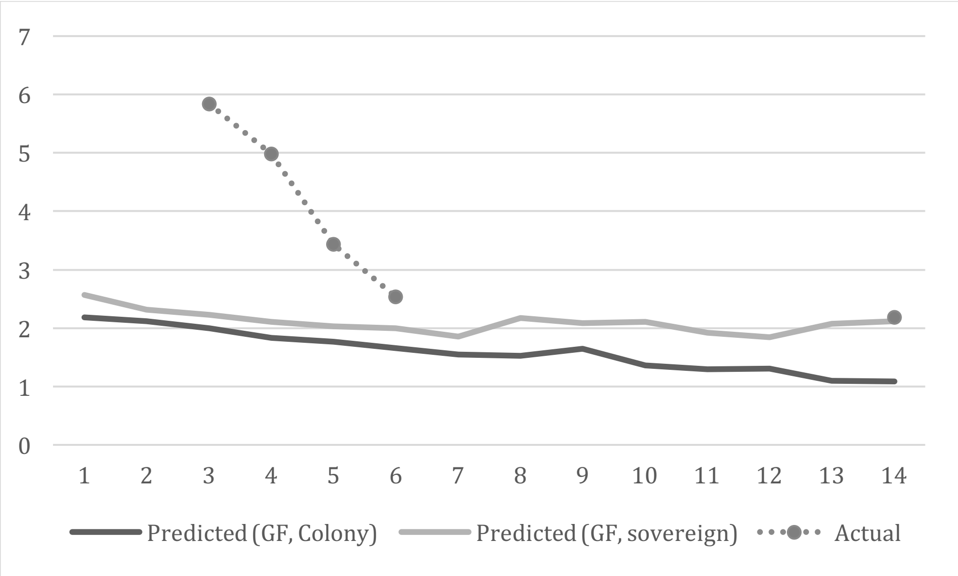
Source: as for Figure 3; Accominotti et al (2011)

Fig 6 West African bond spreads: hypothetical and observed



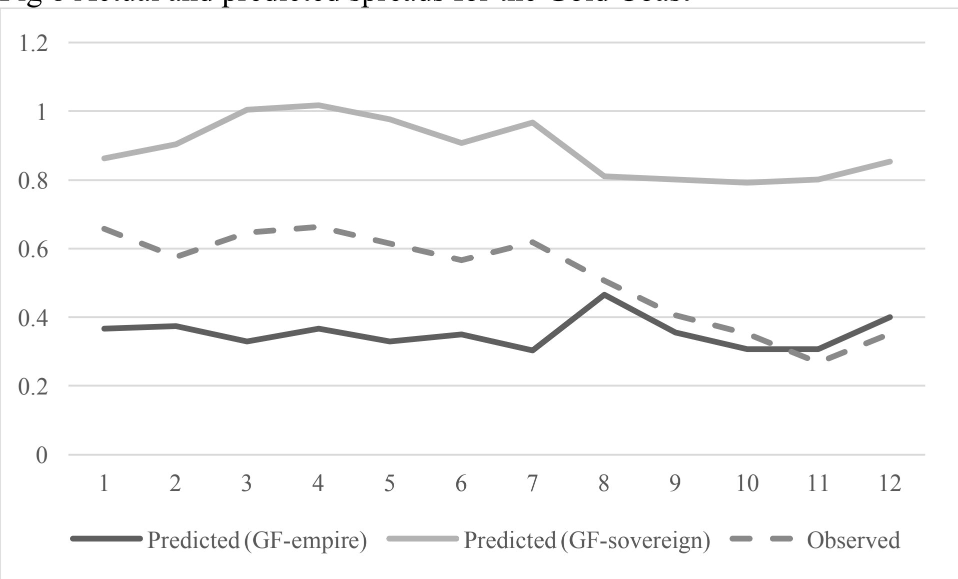
Sources: See text.

Fig 7 Liberian bond spreads: hypothetical and observed



Sources: See text

Fig 8 Actual and predicted spreads for the Gold Coast



Source: As for Figure 6

Appendix A: Loan issues to sub-Saharan Africa, 1871-1913

Date	**Country**	**Amount**	**Rate**	**Price**
May 1871	Sierra Leone	£25,000	6%	100
Aug 1871	Liberia	£100,000	7%	85
Jun 1873	Sierra Leone	£25,000	6%	100
March 1902	Gold Coast	£1,035,000	3%	91
June 1904	Sierra Leone	£1,250,000	4%	98
March 1905	S Nigeria	£2,000,000	3.5%	97
1906	Liberia	£100,000	6%	NA
May 1908	S Nigeria	£3,000,000	4%	99
May 1909	Gold Coast	£1,000,000	3.5%	99.5
Nov 1911	S Nigeria	£5,000,000	4%	99.5
Jan 1913	Liberia	$1,700,000	5%	97
Dec 1913	Sierra Leone	£1,000,000	4%	97

Source: Investors Monthly Manual

[1] Keynes ([1924] 1981, pp. 281-2), quoted in Ferguson and Schularick (2006, p. 286).
[2] Britain's fourth West African colony, the Gambia, did not borrow during this period and has therefore been excluded.
[3] English policy in West Africa, *The Economist*, 15 November 1873, p. 1379.
[4] In this model, determinants of borrowing costs include: interest service/revenues; budget balance/revenues; trade openness; default; memory of default. Trade openness is defined as exports per capita/UK exports per capita. See Accominotti et al (2011, p. 393. The same exercise was performed using the model proposed by Ferguson and Schularick (2006), with similar results.
[5] Cruces and Trebesch (2013) have recently revisited the question of the extent to which countries are punished for defaulting.
[6] This account is based on the more detailed chapter in Suzuki (1994: chapter 2).
[7] Before 1883, the Crown Agents commissioned loan issues for all colonies. After that date, they no longer handled the loans of territories with responsible government. They continued, however, to manage loan issues for crown colonies such as the three West African territories. See Suzuki (1994, p. 32) and Sunderland (2004, pp. 152-3.
[8] This section relies primarily on the papers of the Crown Agents for the Colonies held in the UK National Archives, as well as the records of the Colonial Office and Treasury.
[9] The same pattern holds for the other two colonies.
[10] A Scrimgoer to Crown Agents, 16 November 1911, TNA CAOG 9/37.
[11] Sierra Leone Ordinance 1 of 1871.
[12] Colonial Office to Crown Agents, 10 May 1911, in TNA CAOG 9/37.
[13] Undated. TNA CAOG 9/63.
[14] 'Stock markets and money', *Financial Times*, 7 May 1908.
[15] A Scrimgoer to Crown Agents, 16 November 1911, TNA CAOG 9/37.
[16] Couper to Antrobus, 7 November 1911, in TNA COAG 9/37.
[17] Report on the commercial and industrial activity of the Republic of Liberia for the calendar year ending December 31, 1905, in Monrovia Despatch Book, US National Archives and Records Administration (NARA) RG 84 UD 584 Volume 7.
[18] 'An act authorizing the negotiation of a loan', January 26, 1870, in Acts Passed by the Legislature of the Republic of Liberia during the session 1869 & 1870, in Indiana Uiniveristy Liberia Collections (IULC).
[19] This was also true of other indebted countries. See for example Reinhart and Trebesch (2015, p. 308).
[20] TNA B9/230.
[21] *The Times*, 6 July 1863, p. 7.
[22] *The Times*, 9 January, 1867, p. 5.
[23] Message of the President of Liberia communicated to the second session of the twenty-second legislature, 15 December 1890, IULC.
[24] Corporation of Foreign Bondholders, *Annual Report 1899*, p. 239.
[25] Corporation of Foreign Bondholders, Annual Report 1911, p. 211.
[26] He had been the first commissioner of British Nyasaland in the 1890s and was a widely published naturalist and explorer (Lyon 1989). Just before the loan was issued, Johnston published what remained for many years a widely-cited study of the country (Johnston 1906).
[27] 'Plan of settlement for the Liberian Development Company, 1907', in IULC, Holsoe Papers, Box 2.
[28] There remained disputes about the placement and relative influence of European members of the receivership. See correspondence in *FRUS 1912*, pp. 672-691.
[29] *Annual Report of the General Receiver of Customs and Financial Adviser to the Republic of Liberia for the Fiscal Year 1924-25*, IULC.
[30] See for example Reinhart and Trebesch (2015) on Greece or Tuncer (2015) for additional cases in the Balkans and Middle East.
[31] Z. B. H. Roberts (1937). Liberia's Firestone or Firestone's Liberia. Which? *Liberian Crisis*. In IULC, Holsoe Collection, Liberian Newspapers, Box 49.
[32] This was the suggestion of a later US government report. Strategic survey of Liberia, 10 July 1942, in NARA RG 165 NM84 77 Box 2325, Declassification Number 745020.
[33] Liberia Five Per Cent Bonds. *The Financial Times*, 4 Jan 1913, p. 6.
[34] New capital issues. *The Economist*, 4 January 1913, p. 28.

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