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Contextual paradoxes and the management of 'Debt Relief': Evidence from Sub-Sahara Africa

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Abstract

Modern management is largely focused on the effective deployment of the factors of production, especially within organisational contexts. However, 'human capital' has been proven to be a critical determinant of organisational and, by implication, management success or failure. With this as a point of departure, this paper examines an aspect of poverty management, specifically debt relief, using Sub-Sahara Africa as an illustrative case study. It is premised on the notion that the way poverty is conceptualised is inherently about value preferences that vary between individuals, organisations and societies. Whilst governments and multi-lateral agencies are currently showing an unprecedented interest in poverty of nations, societies and world regions, it is surprising that organisational theorists, especially those focusing on the macro analyses of organisations and their environments, have not paid sufficient attention to this important dimension. This paper, therefore, represents an exploratory position work, written from a practitioner perspective.

Introduction

The move towards 'debt relief' of some of the poorest countries in Sub – Saharan Africa is as fascinating as it is contentious. On the face value, a 'Marshall plan' for Africa is not only right but a just cause for our common interest in our common humanity. The NEPAD Framework, American AGOA (as extended), Blair's Commission for Africa, G8 and other development partners including MDBs, European EBA agreement, WTO negotiations etc are pointers to a brighter and prosperous future for Africa and would lead to a more engaging and mutually rewarding productive Trade & Investment relationship with the West and Diaspora African communities.

The single greatest obstacle to sustainable economic growth of Africa is the spiralling debt burden. It is a powerful disincentive to Foreign Direct Investment (FDI); has a crippling effect on infrastructure investment; the biggest obstacle to the achievement of Millennium Development Goals (MDG); damaging to private sector development, investment, partnership & engagement; and would remain a festering sore in global economic relations involving Africa. In short, this debt burden appears to be a self-defeatist financial model to a sustainable global market economy. It is a spiral of multiple economic disadvantages; a monstrous unacceptable face of economic imperialism and unfortunately, could prove a financial instrument of self-destruction of a free market economy in the poor under-developed economies of Africa.

Contributors To Debt Explosion In Africa

These include:

- Reckless borrowing by borrowers many of which were not directed to the productive sector
- Poor lending and refinancing policies of bilateral, multilateral and private lenders
- Poor verification by lenders resulting in fraudulent claims and payments
- Poor debt management practices and inefficient loan utilization
- Adverse Terms of Trade shocks and interest rate movements
- Poor Economic policies- inefficient Trade and Exchange rate policies

- Accumulation of arrears and penalties
- Adverse exchange rate movements

Foreign Debt Vs National Debt

Sub-Saharan Africa's (SSA) external debt is about $250b at the end of 2004, 45% of which is believed to be made up of late payment penalties, arrears and fines. Nigeria's foreign/ external debt burden alone is believed to be in the region of US $35b. Domestic borrowing include Securitised Treasury bill of US $10b, local domestic contractor debt of over US $5b (and still counting) and unpaid pensions of 1trillion Naira (about US $6.6b).[i]

As much as US$0.3b of the total of US$1.6b of the Debt Service paid by Nigeria in 2003 went to service private creditors, US$0.8b went to bilateral lenders and US$0.5b to multi-lateral lenders.

SSA countries debt stock ballooned from the early 80s period and in recent years, the debt service payments averaged US $13b. The Debt to Export ratios and Debt to GDP ratio are very high, although they have come down in the last 2 years.

Total Debt Service paid by Sub-Saharan African Countries in 2003 *1b

Figures for 2003 in US $billion	Paid to bilateral lenders	Paid to multilateral lenders	Paid to private creditors	Total
HIPC's	1.1	1.1	0.1	2.3
Other low-income countries	1.1	0.7	1.8	3.6
Of which Nigeria	0.8	0.5	0.3	1.6
Middle-income countries	0.3	0.2	2.3	2.7
Of which South Africa	0	0	2.1	2.1
Total	2.4	2	4.2	8.6

33 out of 41 HIPC countries are SSA countries. 22 out of 27 countries have been labelled Severely Indebted Low-Income countries (SILIC). The debt situation remains precarious as measured by traditional indicators. Some of these debt trends and indicators are shown in the simple table below:[ii]

	1970	1980	1990	2000	2003	2004
Total Debt Stock (US $bn)	6.9	60.0	176.7	211.3	231.4	218.4
Debt service payments (US $bn)	N/A	6.7	10.9	13.4	12.2	15.2
Debt/ Export ratio (%)	N/A	68.9	221.9	180.7	160.2	124.5
Debt/ GNI ratio (%)	N/A	23.6	63.4	69.4	58.0	49.3

Debt Classification & Disaggregation

There are essentially 2 groups of Foreign Debt: Group A(highly contentious and objectionable) and Group B(Non-contentious).

Group A Debt

Group A Debt(contentious and objectionable) include:

- Illegal and non-legally acquired Debt including non-state actors.
- Stolen money and unverified/fraudulent claims and verification
- Unfair interest rates and penalties on Debt already paid.

Group B Debt (non-contentious) include:

- Acceptable debt usually going to the productive sectors
- Debt owed by National Entities

National Debt Committee would need to clearly establish the Group A Debt to the ***Present Day Value*** using applicable lending rates and agree those figures with the creditors.

Corruption, Collusion and Complicity

According to Blair Commission report 2005, ALL parties in this debt burden have a share of blame. It is often the case that in bribery and corruption, the giver is as guilty as the receiver. The virtues of democracy, equity and fairness should pervade the economic and financial circumstances surrounding the debt issues. The electorate in our democracy are questioning the equity and fairness in asking them to take ownership of, and face the consequences (of half a meal a day) for the debt largely acquired by military dictators, 45% of which are made up of penalties imposed by the failure of the same military dictators to service the principal and arrears.

It goes without saying that there should be zero tolerance on corruption and collusion leading to billions of dollars repatriated to foreign banks. Even more worrying is the lack of transparency and openness about the principal actors who incurred the debt, and how much of it was ever spent on verifiable projects on the side of the lenders. References abound on Ghost projects including Roads, Hospitals and Utilities which were falsely verified and payments released. This openness and co-operation would now support public demand for accountability before national legislature, government and citizens by the signatories and key actors to such loans on the side of the borrowers (and even the lenders). This in turn would generate a fair amount of confidence, mutual assurance and accountability that will allow the public to own a tolerable and reasonable proportion of the true debt. It would also constitute the first steps in recovery action for billions of dollars stolen in relation to these debts.

4-Tier Approach on Debt resolution

A key recommendation of the Blair's Commission on stolen funds is that "countries and territories with significant financial centres should take, as a matter of urgency, all necessary legal and administrative measures to repatriate illicitly acquired state funds and assets".

1. Unconditional relief of Group A Debt as a diplomatic approach to forestall political and legislative backlash from National Assembly that may be minded, or arguably entitled, to legislate against further servicing of dubious Debt.
2. Debt Rescheduling and Renegotiation of legitimate Debt granting 10 to 20 yrs moratorium .
3. Request International Community to help repartriate the stolen funds to be applied to Debt Servicing and investment in social infrastructure.
4. **Debt Swap Deal**: - offer the evaluation of the Dubious Debt and Stolen monies by the National Debt Committee to the ***Present Day Value*** as pay-off against the Foreign Debt.

High Debt Burden: An Affront To National and Regional Economic Development & Integration

By not relieving the Debt, the International Community is delaying the liberation, economic take-off and regional economic integration of Sub-Saharan Africa. The high debt burden is severely hurting the business development environment and the market environment. It is crowding out key strategic infrastructure investment in roads, telecom, gas, oil, energy, water and transport; suppressing domestic private sector investment; discouraging foreign direct investment; restricting import; cash strapping funding of Human Capital development; blocking regional economic development and contriving against regional monetary union. That is, it emasculates our ability to generate wealth to service the debt.

- The heavy debt burden diverts vital resources needed for public investment in infrastructure, without which the full potential for complimentary investment by non-state actors including the private sector or public-private partnership will not be realised.
- It could result in increased taxes to finance debt service payments which in turn, lower both the return on capital and incentives to more investment. It is discouraging even Diaspora African businesses interested in Trade & Investment with Africa- making it difficult for Africa to reap their Diaspora Dividend.
- It is a dis-incentive to FDI and could hurt Western Commercial interests in Africa most. It has compounded Western perception of Africa's productive potential and inhibited longer term view of the African Trade and Investment potential . They contrive against the capacity to take advantage of opportunities created by US AGOA and E.U. trade agreement.
- External debt service payments require huge foreign currency outlay which increases demand for foreign exchange. Constraints on foreign exchange availability will require forex rationing through import restrictions or currency devaluation. The associated reduction in imports and the pricing of forex leads to a reduction in imported inputs and capital goods.
- Even where inflationary financing and/ or devaluation is adopted to meet excess demand for Foreign Exchange to service debts, the effects are more

depression of the local economy. Not having a strong export sector doesn't help either.

- The high debt service payment crowds out vital investment in the social sector- Education, Employment and Entrepreneurship (3Es), Health and Capacity Development.
- Millennium Development Goals (MDG) include eradicating extreme poverty and hunger; achieving universal primary education, bridging the gender disparity in secondary and tertiary enrolment; reducing infant mortality and improving maternal health; combating HIV/ AIDs, malaria and other diseases; ensuring environmental sustainability and developing global partnership. A high Debt burden contrives against the achievement of any of these MDGs as shown in the SSA data below.
- Tightening budgetary resources to take into account cash availability has resulted in non-payment and late payments of commercial debts, salaries, contractors etc. These have a knock-on effect on both productivity and output level of the private sector and the poverty reduction strategies. The biggest killer of African businessmen is late or non-payment of commercial debts by African Governments.
- The high point of NEPAD and Regional Economic Communities in Africa is the development of a Monetary Union. West Africa Economic Community (ECOWAS) has implemented ECOWAS passport, regional gas pipelines, etc and are achieving much of the convergence criteria of key financial indicators. Varying levels of external debt is clearly a major impediment to achieving a monetary union which makes it an even greater priority to cancel all debts.

Energy, Technology & Infrastructure: Global Comparism

	SSA	Latin America & Caribbean	South Asia	East Asia & Pacific	Europe & Central Asia	Middle East & North Africa	High Income: OECD
Energy use per capita (kg oil equivalent)	667.4	1,155.7	467.7	904.3	2,697.5	1,503.9	5,425.9
Electricity use per capita (kWh)	457.1	1,506.4	343.7	890.7	2,808.1	1,412	8,769.3
Fixed lines and mobile telephones (per 1000 people)	61.9	416.1	61.4	356.7	437.9	237.5	1,254.7
Paved Roads (% of total)	19.6	26.9	42.9	22.6	89.7	63.8	88

Social Indicators: Global Comparism *4

	SSA	Latin America & Caribbean	South Asia	East Asia & Pacific	Europe & Central Asia	Middle East & North Africa
Prevalence of HIV, total (% of population aged 15-49)	7.2	0.7	0.8	0.2	0.7	0.1
Literacy rate, adult male (% of males aged 15 and above)	70.5	86.6	72.1	90.1	98.3	82.3
Literacy rate, adult female (% of females aged 15 and above)	57.6	87.4	43.3	79.1	95.4	60.9
Net Primary enrolment (% of relevant age group)	N/A	94	84	N/A	N/A	82
Life Expectancy at birth (years)	46	71	63	70	68	69

Why Nigeria's Debt Should Be Forgiven

Nigeria, as much as South Africa, represents a regional Hub, a major development centre around which we should build and anchor Africa's regional development. Nigeria is using its position as the largest and most populous black nation to enshrine democracy and defend democratic values and institutions. Nigeria has 20% of the entire Africa's population; a huge internal market; reserves of Oil, Gas and much of known extractive minerals occurring in mineable quantities; with as many universities as the rest of Sub-Saharan Africa put together. It will be a serious error of judgement for G8 and developed nations to claim to support NEPAD and the new vision for Africa Economic Renewal and ignore support to the economic heartbeat of Sub-Saharan Africa and the vast human and material contributions Nigeria can make in welding severely fragmented and economically impoverished Sub-Saharan Africa states.

Nigeria is going through consolidation of the banking sector through recapitalisation of the 100 odd Banks to a minimum of Twenty Five Billion Naira- N25bn (US $166m). This is to ensure that our Commercial and Development Banks are sufficiently capitalised to deliver regionally and support longer term borrowing and infrastructure financing. Much of the regional initiatives: ECOWAS Bank, ECOWAS Gas Pipeline, ECOMARINE (continental shipping network), Trans-National Highway, Regional Telecom Network, ECOWAS Passport, ECOWAS Monetary Union are led by Nigeria.

Africa has always been the Centre-piece of Nigeria's foreign policy. Over the years, many countries in Southern Africa – Angola, Mozambique, Namibia and even parts of South Africa, remain eternally grateful for the massive financial, diplomatic and educational(scholarships) support given by Nigeria during their political struggle. Nigeria even recently resettled some of the white Zimbabwean farmers in Nigeria in recent conflict. The same could be said of billions of US Dollars in Oil, Gas allocations, subsidies, concessions and loans granted by Nigeria to neighbouring African countries to support their fledgling economies. In all of these, Nigeria reaches out to deal with problems created from the time of Western Colonial interests; problems that could have caused more western lives, much more money and with not much prospect of achieving lasting solutions if the West were to address these.

She is a dominant player in securing regional peace, security and conflict resolution and committing US $2b and our forces in recent West African regional conflicts. She is showing very strong signs of regional economic leadership in being among the founding fathers of New Partnership for Africa Development (NEPAD); in leading the implementation of Africa Peer Review Mechanism; in supporting Corporate Governance and Extractive Industries Transparency International; in setting up Financial and Economic Crimes Commission to trace, persecute and recover stolen funds; in developing Integrated National Development Framework (Nigeria Economic Empowerment Development Strategy- NEEDS); in committing to making major investment in social infrastructure in pursuit of Millennium Development Goals and in creating enabling political, economic, social and legal environment for private sector investment and FDI through de-regulation and privatisation.

Reciprocity

In Africa, the External Debt burden is hurting the poorest and the weakest members of the human family. It seems reasonable to match total debt forgiveness, or a vast proportion of the legitimate Debt, to progress in development of key economic, environmental and social infrastructure that move Africa in the direction of creating sustainable market economy; maximise private sector and civil society development & engagement; and achievement of Millennium Development Goals. In all the issues and challenges of external debt, the real losers are the innocent citizens that are experiencing multiple deprivation and deteriorating poverty indicators.

Equally, this approach will ensure a decisive commitment towards building a truly open, global and competitive market economy in Africa that would say ***"farewell to poverty"***.

Blair's Commission's key criterion for debt relief is that the money should be used to deliver development, economic growth and reduction of poverty for countries actively promoting good governance. That's what the new Nigeria stands for, that is what the new Nigeria is doing. Nigeria is to the sub-region, what US was to Europe in the context of the Marshal plan for Europe. Total debt forgiveness for Nigerian will give it a vital push that will not only have a multiplier effect but will create an upward spiral of economic benefit that will draw the entire ECOWAS region and move Africa nearer to achieving the NEPAD vision.

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