Debt and poverty in Africa and their implication on Development

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Abstract

This study is based on the premise that, Africa's economic performance is crippled by weak fiscal policy and heavy foreign debts which cause many challenges for economic development. This severely affects any attempt to engage in public reform. The research therefore argues that, the cancellation of Africa's foreign debt could generate 20 to 25 billion US Dollars per year for economic and human development. However, the demand for debt cancellation is usually faced by heavy challenges from government creditors and international financial organisations that tend to protect the well being of these financial institutions rather than the interest of the heavily indebted poor countries and their people. Beside a number of solutions such as the Highly Indebted Poor Countries Strategy (HIPIC) and the Multilateral Debt Relief Initiative (MDRI), this paper attempt to look into what strategies could be adopted in order to help Africa come out from the debt overhang as well as from the scourge of poverty and use this to organise itself in such a way that, the continent becomes self-reliant to achieve economic development. In an attempt to assess the situation at hand, the current study will review a number of literature related to issues of debt in Africa. The paper starts by providing an overview of the causes of poverty in Africa, followed by the rationale of fiscal policy on development in Africa. It continues by giving an account of the history of debt in Africa. It also provides a critical assessment of findings related to Africa's governance and its position on Debt Cancelation. The paper equally examines the implication of debt cancelation for Africa's Development as well as the financing for development approach (FfD) which is a global strategy. This strategy has been advocated since the first International Conference on Financing for Development in Monterrey in 2002. The second Conference that was held in Doha in 2008, assessed progress made and advocated the same.

Keywords: The Lagos Plan of Action, NEPAD, PAP, APRM, Socio-economic development, economic performance, debts cancellation, Regional Integration, Financing for Development, Africa.

I. Introduction

Past studies revealed that, International development policies and strategies were unable to help Africa achieve sustainable development; many African countries did not adequately reacted to programs that were meant to correct some discrepancies within their governments. Some of these programs were initiated by the Bretton Woods Institutions such as the International Monetary Fund (IMF) and the World Bank. This situation did not help the African continent and its leaders to fulfill their needs in eradicating poverty and putting Africa in the path of economic development as advocated by New Partnership for Africa's Development (NEPAD). Strategies such as the structural adjustment programs (SAPs) indeed initiated by the IMF have made Africa to become more vulnerable on challenges that the continent is facing.

African countries are experiencing extreme poverty because many are indebted as a result of misleading international policies of the International Monetary Fund (IMF) and the World Bank. The overall consequence of the above was that, SAPs came under robust criticism because, the programs drastically failed to eradicate poverty in Africa. Anup Shah (2013) convincingly argued that, SAPs policies have been imposed to ensure debt repayment and economic restructuring. Anup further argued that, the policies were intended to force poor countries to reduce spending in areas such as health, education and development, while debt repayment and other economic policies have been made the priority. This was clearly an indication that, African countries were asked to lower their standard of living he added.

As a result, countries from Economic Communities of West African States (ECOWAS) and those from the Economic Communities of Central African States (ECCAS) experienced the reduction of the salary packages of many public servants in the early 1990s when their local currencies were devaluated. The devaluation of theses currencies and the reduction in salaries of civil servants in these countries clearly explain that, the standard of leaving dropped dramatically , plunging the majority of people into extreme poverty. Many parents were no longer in the position of sending their children to school or pay a bond or even plan for future family's investments.

With the above in mind, African leaders agreed to adopt a comprehensive regional approach that was initially based on collective self-reliance. This approach is traced back following a series of consultations related to Africa's economic challenges by African Ministers and selected experts, African Leaders adopted at the 16th'Ordinary Session of the OAU, held in Monrovia, Liberia, in July, 1979, the "Monrovia Declaration of Commitment of' the Heads of State and Government of the OAU on the guidelines and measures for national and collective self-reliance in economic and social development for the establishment of a new international economic order" (LPA 1980-2000)

In adopting the Declaration, the Ministers and Experts were looking for efficient and adequate strategies that could facilitate growth for economic development. From the Lagos Plan of Action that paved way to the creation of the New Partnership for Africa's development (NEPAD), the African Peer Review Mechanism (APRM) as well as the Pan African Parliament (PAP), the aim of Head of States and Governments was indeed to eradicate poverty and put Africa in the path for Socio-economic development. But past and current experiences continually demonstrate that, Africa's economic performance is hampered by heavy foreign debts which cause many challenges for economic development. This severely affects any attempt to engage in public reform.

The research therefore argues that, the cancellation of Africa's debt could generate 20 to 25 billion US Dollars per year for economic and human development. This could support the effective implementation of the Lagos Plan of Action. .However, the demands for debt cancellation is usually faced by a fierce challenge from government creditors and international financial organisations that tend to fight and protect the financial sustainability of these financial institutions rather than the interest of the heavily indebted countries and their people. Another challenge is related to the management of funds provided by creditors. The management of these funds always remains questionable because of maladministration and corruption that are the enemies of development, of the people and of good governance as a result of the absence of transparency and accountability.

II. Theoretical Consideration and its implication in this study

It is important to remember that, the Millennium Development Goals (MDGs), which emerged as the world's countries blue print in 2000 had a fundamental mission to reduce poverty and ignite development within a period of 15 years. Many developing countries conceptualised regional and national development policies related to some of the MDGs and other regional and national priorities. Most of the development policies recognise that good governance, improvements in institutional capacities, an equitable trade regime, and strong partnerships with the private sector as well as with civil society organisations among others play an essential role in the development process. The key and most important tool required for successful implementation of these development policies is adequate financial resources, both domestic and external. However, a number of developing countries are struggling in keeping their head above water as they are facing challenges in mobilising the necessary financial resources to finance their development programmes and the support from external partners has not been able to meet the total financial needs required to meet development goals. This research therefore seeks to explore the challenges that Africa faces in managing it public debt and the implication of this for Africa's development. The study equally provides an assessment of which position Africa can take in order to solve the debt overhang that constitutes a bottleneck for any development initiative.

II.1 The history of debt in Africa

A number of literatures have pointed out that, the debt crisis in Africa was generated by the oil price shocks between 1973-74 and 1978-79, the rise in public expenditure by African governments following the increases of commodity prices in the early 1970s

(Alemayehu, 2003). Most African countries in the 70s experienced falling commodity prices for their major exports (Eg Copper in Zambia, Cocoa in Ghana, and nickel in Zimbabwe etc) and rising real interest rates. Africa suffered huge weakening terms of trade (i.e. the ratio of prices paid for exports to prices paid for imports) which pushed African governments to start borrowing in support of their budget deficits. Another reason for borrowing was related to the fact that, African leaders wanted to finance development projects such as the building of roads, railways, power stations , health care facilities as well as schools and universities.

However this article strongly argues that, Africa's debt is being always characterised as a bottleneck to economic and human development because the money is usually not utilised for the purpose for which it was borrowed. Also, the higher interest rates and the conditionality attached to the loans that, financial institutions such as IMF, the World Bank and other related International Organisations as well as western governments imposed on African countries is crippling development initiatives.

These loans usually take longer to repay as countries put more efforts in servicing the debt rather than paying the principal amounts. This strongly undermined any effort to ignite socio-economic development and regional stability in Africa. The above is certainly the reason why many African countries strive for debt relief, so that the savings could address issues in sectors related to infrastructures, education, health, service delivery and unemployment.

The lack of governance and maladministration related to corruption and the embezzlement of public funds are other causes that make debt to become a burden for many African economies. The funds that are received from both bilateral and multilateral partners are not efficiently used for the purpose for which they were borrowed. Three quarters of these funds are mismanaged by decision-makers who use them for their own interest. The money is usually embezzled and placed in foreign banks in countries such as, the Switzerland, Luxembourg, France, and the United States just to name these few. These embezzled funds, if used effectively could have contributed in building infrastructures and maintaining existing ones. These infrastructures could attract foreign and local investments in different sectors of the economy. Investing will certainly, by the multiplier effect create jobs which in turn will contribute to economic growth and human development across the African continent. If the above were to materialise, Africa would not have been experiencing hunger, unemployment and internal conflicts. Appropriate policies are therefore prerequisite for any development project.

II.2 Fiscal Policy and Economic Development in Africa

Fiscal policy is related to government approach on how the country expenditure, tax and debt are managed in order to create conducive environments where all citizen could live and have access to information as well as to basic needs such as water and electricity. The decisions on how to allocate resources are included in government fiscal policy framework. The Minister of Finance is the person legally recognized by Parliament who is in charge of implementing fiscal policy and monitoring its impact nationally. Black.P et al (1913) define public debt as the sum of all outstanding financial liabilities of the public sector in respect of which there is a primary legal responsibility to repay the original amount borrowed and the interest. Experiences have shown that, many African countries fall into debt trap because of maladministration and lack of good governance which are the enemies of development.

The implementation of fiscal policy should therefore set the tone on how the government should manage public debt. Since there is a legal responsibility to repay the debt, the funds should be managed for the purpose for which the money was borrowed. Failure to do so, the issue may end up going for arbitration. Africa has the highest cases where governments failed to repay borrowed funds. This is partly due because of corruption and maladministration. Experiences in Africa have shown that, in most of the cases, the funds borrowed from foreign government’s creditors and other related donors are not used effectively for the purpose for which they were disbursed. Most of these funds are embezzled by government officials and placed in personal accounts in Europe and elsewhere in the world. This behavior hurts domestic investments on infrastructures that are believed to stand as pillars of development .This unfortunately, led countries to fall into debt trap where they are bound to pay additional interests for servicing the debt as a result of failing to repay the loan within the agreed period of time. Fiscal policy should therefore stand as a guiding policy that helps African countries to use all funds adequately including those borrowed from bilateral and multilateral partners. If a country fiscal policy approach becomes ineffective because of lack of governance, the funds allocated to projects will be misused through corruption activities. As a result, the funds borrowed from donors will not be repaid, interests will be accumulated, and poverty will become the norm.

Africa's Governance and its Position on Debt Cancelation

Governance in many African countries has been criticized for lack of transparency and accountability which characterises the lack of democracy. This could be justified from the fact that a number of heads of states and governments in Africa have been in power for more than 25 five years through the tempering of their constitutions, which give them breathing space to seek for additional terms in office. This situation is common in Africa and in most cases the root cause of civil wars in the continent. The introduction of the African Peer Review Mechanism (APRM) has not brought radical changes in Africa governance as many countries are yet to be evaluated by the APRM panel of eminent experts. The APRM is the instrument of NEPAD's good governance initiative. The instrument is a self monitoring tool voluntarily acceded to by member states of the African Union. Its objective is to support the adoption of policies, standards and practices that lead to political stability, high economic growth, sustainable development and accelerated regional and economic integration (APRM Country Review, 2009).

However, the legitimacy of this instrument that promotes good and effective governance in Africa is drastically undermined and thus bringing under scrutiny, the issue of governance in Africa. The lack of governance related to debt management in Africa is the reason why, the IMF and the World Bank are always responding to calls from corrupt governments to step in and bail out African countries that are usually vulnerable to external shocks and economic crises. Unfortunately, the intervention of these international organisations brings more problems than solutions to African economies as most of the programs are under strenuous conditionalities that did not give room for economic and social development. The heavy debt is still tormenting most African countries that are in dire need for debt cancellation.

Africa is certainly aware of the above challenges that it is facing. Beside the fact that, the continent is rich in natural resources, the development of a number of countries has been exposed to corruption, mismanagement and decades of wars. The majority of Africans are living in extreme poverty and inequality is widening as an exponential function, despites the continent's mineral wealth. Current and past civil wars in countries such as Sudan, Cote d'Ivoire, Somalia, Democratic Republic of Congo (DRC) , Central African Republic (CAR), the Arab Spring are some of the living examples of the problems that Africa is facing because maladministration and corruption that are seen to be enemies of development.

As a result of the above problems, the Lagos Plan of Action (LPA) (1980-2000) was initiated to serve as a Roadmap for Africa's Development which represents the Africa's position for debt cancellation through strategic programs such as NEPAD. The intention was to look into strategies that could help countries to become self-reliant. This led to the creation in 2001 of the New Partnership for Africa's Development (NEPAD) with a governance instrument , the African Peer review Mechanism (APRM) that serves to assess the level of governance and development in Africa. Unfortunately, some countries are resisting to be evaluated, prompting the proponents of good governance to label such countries as corrupt and undemocratic.

The Pan African Parliament (PAP) was also created to oversee the wellbeing of country members through its committees that work closely with local and regional parliaments. The issue that is of interest in this article is to explore the common position for African leaders which insures that, debt overhang will be considerably reduced in such a way that the saving could be used to finance human and economic development

Aware of the debt burden that hangs over many countries in Africa, NEPAD initiated a number of strategies to take Africa out from the scourge of poverty. Among them is the industrial development strategy. The industrialisation of the continent and individual countries according to NEPAD are certainly set to free Africa from the debt dependence and hence from abject poverty. The Industrialisation at country level will contribute to the basic needs of citizen such as water and electricity; the creation of jobs and subsequently to the effective exploitation and management of natural resources for the development of the countries and the continent. This industrial development strategy to be effective requires the increase in resources mobilisation and the debt relief strategy.

The initial objective of NEPAD through its founding document is to advocate for debt relief in order to fight the scourge of poverty that is crippling African economies. The NEPAD founding document, (NEPAD, 2001) argues that debt ceilings should be fixed as a proportion of fiscal revenue with different ceilings for international development assistance (IDA) and non IDA countries. Since its creation, NEPAD is committed to continually engaging with donor's governments and institutions to provide debt relief for poverty stricken countries in Africa. The leadership of NEPAD has also been organising meetings in which countries share experiences related to debt relief strategies.

The Implication of Debt Cancelation on Africa's Development

The higher interest rates attached to the funds borrowed by African countries have crippled African economies for decades and there is no doubt that, the cancellation of debt will certainly have a positive impact on development in the continent . However, for this cancellation to become effective, it should be followed by the strengthening of national institutions such as the office of the Auditor General and the Office of the Public Protector. These institutions should operate autonomously in order to fight corruption, maladministration and the misuse of public funds/goods. The strengthening of these institutions will support good governance initiative that promotes transparency and accountability which are powerful instruments that support development strategies.

Therefore, the cancellation of Africa’s debt could generate billions of dollars in savings that could be used for economic and human development.

These savings, if well managed, could ignite socio-economic development through the construction and maintenance of roads, the building of health care facilities and the improvement of education systems. In order to promote good governance, the government should introduce decentralisation as a policy and a strategy. Decentralisation should be viewed as a public sector reform strategy in the management of public debt in order to check discrepancies at all levels of government and in all sectors of the economy. It is in support of the above that , Christopher Pollit and Geert Bouckaert (2009) convincingly asserted that decentralisation reforms should be related to legal acts and administrative measures that initiate a transfer of responsibility in the form of authority, resources (human and financial) and rules (institutions) from central government to local authorities. However for decentralisation to be effective it should be characterised by the devolution of power where there is transfer by law and other formal actions, of responsibility, resources, and accountability, (Smith, 1985) and (Adamolekun, 1999).

Local authorities should be given the opportunities to identify projects and implement them at local levels using the funds allocated for that purpose. Proper mechanisms should be put in place in order to monitor and evaluate the impact of these projects at local levels.

Once the principle of decentralisation is effectively active, the funds allocated through the budget and international donors will be used adequately and countries are likely to experience economic growth in such a way that local and international investors could be attracted to invest in all related sectors. Countries in this way will realize their dreams of becoming emerging economies around 2035. All regional economic communities in Africa are therefore called upon to work together under the African Union and its program NEPAD in order to improve their debt management systems. The harmonisation of policies and regulations is critical in the area of trade in order to promote intra-African trade (NEPAD, 2001).

African Position to ignite development and to eradicate poverty should strongly support the financing for development initiative that has been encouraged in the 2002 Conference in Monterrey and in Doha in 2008 and for the upcoming summit that will be held in Addis Ababa in Ethiopia in July 2015 .

These conferences were fully aware of the challenges being faced in meeting development goals and the need to source or develop other financing mechanisms. This reality has stimulated multiple efforts by development partners and by developing countries themselves to find ways to raise additional and alternative sources of development finance to assist countries including Africa. The World Bank Group-WBG (2013) and the Independent Research Forum (IRF) have provided comprehensive reports on how the world including Africa could survive beyond 2015 once the millennium development goals end. These reports provide the approaches that countries ought to follow for sustainable economic development that could of be of assistance to African countries.

In its report the Word Bank Group – WBG (2013) strongly posits that as the world is approaching the end of the MDGs in 2015, it is developing a new framework to advance sustainable development beyond 2015 that aims to build on successes and challenges of the MDGs . In its analysis, the WBG further inferred that, with the Euro zone crisis and the failure by most developing countries to mobilise their own resources, there is a pressing need to find other alternative ways of financing the development needs. The WBG further argued that, the ability to adequately finance a post 2015 development depends on a number of factors that include a global development agenda that attracts aid from diverse sources, emphasising on domestic resource mobilisation and capitalisation on the potential of the private sector. In addition it requires good policies and credible institutions to increase the impact of scarce resources and leverage additional resources from domestic and foreign, public and private sources.

The above analysis is perfectly in line with the thinking of the Independent research Forum- IRF (2013) that published a policy paper on a Post-2015 Sustainable Agenda (IRF2015). This policy paper offers principles and approaches for integrating economic, social and environmental sustainability and equity in a new post 2015 development agenda. The paper is set to examine how post 2015 goals and strategies can address development issues such as water, agriculture, food security, energy security and urbanisation in a way that integrates their environment, economic and social dimensions. The paper among other things, advocates that, sustainable development is only achievable when all these dimensions of development are all present and mutually reinforcing including participative governance (IRF, 2013).

While WBG (2013) further inferred that, financing a transformative development agenda will require that available resources be used more effectively and strategically to catalyze additional financing from official and private sectors. The IRF (2013) convincingly holds that, universal wellbeing is achievable but requires the way in approaching development. It argues that, transformation must draw on past experience and address the future challenges in a realistic manner within the rapidly changing global context.

Conclusion and recommendations

The Lagos Plan of Action's objective was to promote economic and social integration of African economies so that countries become self-reliant (Ikome, 2005). Africa is thus, divided into five economic blocks called regional economic communities (RECs) and Ajulu (2005) convincingly explained that the idea of RECs on the continent is not new. These blocks form the platform for regional integration in Africa and are expected to serve as engines for economic growth in Africa (Nyongo,1995). However besides the fact that Africa is rich in natural and human resources, the majority of African lives in abject poverty. The continent remains poor and countries are constantly involved in civil wars.

The main reason related to this extreme poverty is the lack of good governance. This situation is equally exacerbated by the debt burden that hangs over many Africa countries. This debt burden as a result has crippled many African economies that are in dire need for revival. Elbadawi et al (1996) clearly explained in Ajulu (2005) that rising debt-servicing requirements, along with stagnant exports, has meant either defaulting on payment or parting with scarce foreign exchange. Elbadawi et al further argued that large debt servicing also hampers the country's ability to import the necessity capital for investment, especially in infrastructure facilities. With the above in mind, it is clear that, the debt overhang is so heavy that, countries are unable to repay the loans and should rather look into ways of how to renegotiate with donors. Unless African leaders come together for a common solution, this situation might take longer to resolve and many countries in the continent will remain trapped in the debt circle.

The cancellation of debt should be supported by the strengthening of national and regional institutions. National fiscal policies should be solutions-driven rather than being rhetorical in nature. Decentralisation thus is expected to play a key role in public sector reform to ease the pressure on countries fiscal policy so that it becomes a useful instrument for economic development. Decentralisation should be seen as a strategy to ignite socio-economic development through the devolution of powers with total transfer of powers and resources from upper to lower of governments.

As a result of the above, the following recommendations should be taken into consideration:

National policies on debts related to international financial organisations such as the IMF and the World Bank should be aligned to policies of regional and continental institutions such as the African Union and its program represented by NEPAD, the Pan African Parliament (PAP) through its committee on finance as well as Regional Parliaments and Regional Economic Communities (RECs). It is through these institutions that Africa will strengthen its position when advocating for total eradication of debt for Africa's development. The fiscal policy at country level should also be conducive for economic development.

A fiscal policy that tracks expenditures should be encouraged as proper mechanisms are put in place to monitor and assess spending. Countries and regional institutions in

Africa should take time to study the terms of references when they are borrowing funds from international creditors. They should insure that, the debt will not harm the countries or the people in the indebted countries. In the case of a dispute, the issue should go for arbitration. This is why it has being advised that, an international court should be established with the blessing of the United Nations in order to look into arbitrations issues related to debt in developing countries. Regional parliaments should equally establish credible arbitration courts that deal with issues related to business between governments and bilateral as well multilateral partners.

Available resources are expected to continue to fall far short of development needs, implying that policy makers will need to make better use of existing resources while working to catalyze new funding. This will require greater attention to domestic resource mobilization and making countries more attractive destinations for both ODA and private sector resources by improving the underlying conditions for development and growth.

No quantity of financing grant, concessional, or non-concessional is sufficient to achieve ambitious development goals without a supporting country level policy framework and credible commitment to build domestic capacity and combat poverty. In the absence of these factors, the question of resource mobilization is moot. A supporting policy and institutional environment can not only enhance the effectiveness of development spending, but also catalyze additional resources from the official and private sectors. Indeed, when it comes to policies, donor assistance, and private-sector resources, the whole is greater than the sum of the parts. Reflecting this, any feasible approach to financing development goals requires a two pronged strategy, first, to significantly enhance the impact of available resources, and second, to increase those resources.

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