AFRICA - DEBT PROBLEM

"The Lord says, the people of Israel have sinned ... They sell into slavery honest people who cannot pay their debts." (Amos 2:6)

Between 1996 and 2005, $100 billion of debt owed by thirty sub-Saharan African countries was cancelled. In spite of stringent International Monetary Fund (IMF) and World Bank conditions the cancellation was, for Africans and for those who campaigned for debt justice, a limited but long sought victory.

In addition, since the Millennium Goals Project began in 2000 there has been much improvement and investment in development. As a result, across Africa, one million fewer children die each year from preventable diseases. Millions more children, especially girls, are in school. Nine million Africans now have access to life-saving anti-retroviral drugs. Economic growth has accelerated, millions more people have jobs, and while extreme poverty is still far too high, is at last beginning to fall.

In the past few years however, the indebtedness of African countries has again grown rapidly, and as a result, progress made is in danger of being reversed.

Busy Market in Accra, Ghana

History repeating itself?

African countries are borrowing again. In itself there is nothing wrong with this. Most countries borrow to manage their economies. But what is different this time is that African Nations are borrowing from the private sector and are therefore more exposed to volatile market fluctuations and much harsher loan conditions than the previous concessional IMF or World Bank loans.

In 2007 Ghana was the first to engage in commercial borrowing. It raised $750 million by issuing a ten-year Eurobond. Since then more than a dozen sub-Saharan African countries have followed suit, raising billions of dollars which will have to be paid back with interest.

These bonds have an average maturity of just over 11 years and interest at 6.2%. Previous IMF debt was secured on much better terms for the borrower. Loans had average interest rate of just 1.6% and a 29 year maturity.

African Governments are also borrowing from commercial banks and from lenders like China and Brazil. Why? Because the lack of attached conditions and the relative unavailability of loans from traditional sources (IMF and World Bank) has made these loans attractive to African States whose governments depend on revenues from mineral extraction and oil as a means to meet loan repayments.

However, prices of oil and other commodities have dropped significantly leaving countries with less revenue to service their debts. Ghana's debt has already reached crisis level (see below). Nigeria and Zambia are experiencing similar but - so far - less serious problems.

Africa seems to be stuck in a vicious cycle of debt that is sapping it of the very resources that should be used to establish sustainable economies. Instead of converting natural resources into export products that would generate employment and better economies, African countries are forced to export raw commodities at prevailing prices in order to service their debts.

"Getting more minerals out of the ground may be very beneficial for Western nations ... but if it's not developing African economies in a genuine way they're likely to be left with the debt and none of the resources they've invested in." These words from the director of the World Development Movement are proving to be true. African countries are expending unrenewable resources to service growing debt.

International Debt is a social justice and moral issue.

In Catholic social teaching, lending money is a legitimate enterprise when key conditions of justice are met by both lender and borrower. In international lending these conditions of justice are imperative as the scale of such loans affect the welfare of millions of people, the stability of entire countries, and international financial institutions.

The foundation of Catholic Social Teaching is the inherent dignity of the human person and consequently is the starting point of its view on international debt. This is the criterion against which economic, political and social systems are to be judged and all aspects of international debt measured. Principles in Catholic Social Teaching relevant to international debt (and which flow from the core principle of human dignity) are; *the common good, solidarity, the universal destination of goods and the preferential option for the poor.*

States have responsibilities for the international common good. The Church calls on the international community to show concern for the needs of the poor in all economic, political and social decisions, because most often it is the rights and dignity of the poor that are violated. This is especially true when it comes to the servicing of international debt, where people who have had no voice in the contracting of debts are most negatively affected by the choices made by governments and rulers in resolving a debt problem.

That countries have to spend more per capita on debt-servicing than on the health or education of their people is fundamentally unjust. The Church's view is that borrowers and lenders must act responsibly. They must ensure that loan terms and conditions, the purposes for which a loan is granted and used, and the impact that debt has on individuals, does not erode human dignity or deny human rights.

"Debt servicing cannot be met at the price of the asphyxiation of a country's economy, and no government can morally demand of its people privations incompatible with human dignity….. Due to their greater economic power, the industrialized countries bear a heavier responsibility which they must acknowledge and accept . . . the time is over when (industrialized countries) can act without regard for the effects of their own policies on other countries."

Cardinal Roger Etchegaray, Pontifical Commission Justitia et Pax, 1987.

"There are no easy, risk-free paths to development and prosperity. But borrowing money from international financial markets is a strategy with enormous downside risks, and only limited upside potential…. Sub-Saharan Africa's economies, one hopes, will not have to repeat the costly lessons that other developing countries have learned over the past three decades." theguardian.com - 26 June 2013

Ghana's Debt Problem

Ghana is justifiably upheld as a model of progressive democracy, peace and development in sub-Saharan Africa. It has enjoyed a boom period based on oil, cocoa and gold exports.. Yet now even Ghana, the star performer in Africa, is in financial difficulty.

In the 90's Ghana was one of the countries that benefited from World Bank and IMF debt cancellation. Since then it has come through a process of political liberalisation leading to a democratic and open society envied by many Africans living in countries with more autocratic regimes.

In the good times billions of dollars were borrowed by the Ghanaian Government to improve infrastructure and increase salaries. As a result the living standards of a larger portion of the population was improved.

It was expected that high cocoa and oil prices would make loans sustainable. But prices dropped and the country is now burdened with massive debt and in need of cash to cover its running costs. Other African countries are also on the the verge of similar problems, as lower commodity prices (e.g. copper in Zambia) mean debt payments are becoming more difficult

In Ghana the drop in the price of oil was followed by a large currency devaluation which made dollar debt repayments even more expensive. These factors, together with high public spending, put the country in serious financial difficulty and on the brink of defaulting on its debts.

In February 2015 the Ghanaian Government had no alternative but to seek another International Monetary Fund bailout. Back in 2005 Ghana had 75% of its debt cancelled leaving it a comparatively small debt of $2.3 billion to service. Ten years later this debt had mushroomed to almost $22 billion with more than half of this amount made up of non-IMF, and therefore high interest debt.

Ghana's current debt-to-GDP ratio stands somewhere between sixty and seventy percent, indicating that is unable to produce sufficient income to meet its debt repayments and will therefore incur further interest payments. The country is now classed by the IMF as being in *'high debt distress'* and will, over the next three years, need to draw down the agreed IMF loan of one billion dollars to meet its balance of payments.

For ordinary Ghanaians the cost of the bailout will be higher taxes, cuts in public sector spending and public services, the removal of fuel subsidies and civil service wage cuts. In short, everything will be more expensive, and there will be a lot less money to pay for it. Living standards will drop. Ghana is in for a period of austerity that it has not seen since the 80's.

Given the debt levels of other African countries it is likely that they will suffer similar consequences, ones made even worse as a result of borrowing from costly international markets

The stakes could not be higher. Africa will soon be home to 40% of the world's young people, an eager generation that can either be a rocket fuel for the regional and global economy - or a powder keg if all it knows are plundered resources, joblessness, and weak governments.

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