Internal mechanism

Debtors too have a role to play in finding sustainable solutions to Africa's Debt Crisis

In seeking sustainable solutions to the Debt problem, it is imperative to address the underlying structural constraints and the need for structural changes if the crisis is not to be perpetuated. It is only through an understanding of these structural issues that truly sustainable solutions can be found.

The depth of the African Debt crisis and the need to resolve it is now widely accepted. The multiple external factors responsible for the accumulation of Debt stock and arrears provide a compelling case for international action on eradicating the Debt problem.

However, notwithstanding such external factors as international economic fluctuations, over enthusiastic lending, varying exchange and interest rates and declining terms of trade, the causes of the Debt crisis in many African countries are also attributable to poor internal borrowing, weak Debt policy and management systems. Projects financed by international loans have, due to lack of adequate or realistic planning, disregard of established borrowing procedures and inadequate monitoring, fail to generate sufficient resources to either cover their operational costs or service the Debt created. Internal Debt management is critical to both the Debt problem and preventing another Debt crisis.

A study commissioned by AFRODAD in Mozambique, Zambia and Tanzania revealed that Debt problems in these countries could also be attributed to poor internal borrowing patterns and a lack of a Debt policy and Debt management principles.

The problems identified in Zambia centred on management, legal and human resource issues while the Mozambique and Tanzania studies brought out problems throughout the project cycle from inadequate project analysis and appraisal, to negotiation and contracting that was not in favour of the recipient country, poor implementation and, finally, a lack of monitoring and evaluation. In addition, the Tanzania study also highlighted problems of loan servicing and non-compliance with the legal framework for external borrowing.

In response to the issues identified, the Zambia study recommended setting up a project implementation unit, a human rights development programme for the Ministry of Finance and Economic Development and Central Bank, and the establishment of clear borrowing limits. The Mozambique study stressed adherence to the existing framework for borrowing. Mozambique further recommended deeper analysis in the early stages of a project, including accurate forecasting, cost-benefit analysis and a specific analysis of the project’s capacity to generate funds for loan repayment. The Zambia report focused its recommendations on national level reforms such as, refocusing development efforts, public accountability, a public expenditure review process, parastatal reform, a country financial accountability assessment and a Debt sustainability analysis.

Overall, a shift in the emphasis of either new borrowing or Debt relief is needed from issues of poverty reduction and human development, to encouraging the productive sector, which would generate wealth internally to reduce poverty and enhance development.

Most African governments have set themselves the target of improving the living standards of their people. While some, as Tanzania did in the mid 60s, have tried to follow the path of self reliance, using domestic rather than foreign resources as the basis of growth, large scale infrastructural projects inevitably called for massive capital inflows and increased dependence on foreign aid.

Notwithstanding external factors, such as international economic fluctuations, over enthusiastic lending, varying exchange and interest rates and declining terms of trade, the causes of the Debt crisis in many African countries are also attributable to poor internal borrowing and Debt policy and management. Projects financed by international loans have, due to lack of adequate or realistic planning, disregard of borrowing procedures established between agencies and arms of government and inadequate monitoring, failed to generate sufficient resources to cover either their operational costs or to service the Debt created.

Sovereign borrowing contributes temporarily to state revenues by adding to the compulsory contributions of tax payers. Since external loans must be reimbursed, mostly in hard currencies, most states contract them on the inherent assumption that they will contribute to economic growth and increase tax revenues. The resultant growth must be large enough to finance the ongoing expenditures and repay loans and interest. But, if borrowing is out of proportion to other public income, a Debt crisis becomes unavoidable.

The borrowing policy of central governments must, therefore, be considered as an integral part of public Debt management because the terms and conditions of new loans have a major impact on the existing Debt structure and ownership distribution and hence on the opportunities for development of the country. The high failure rate of externally funded development projects in the past (13 out of 25 projects funded in Tanzania between 1966 and 1985, for example, had a negative economic rate of return) indicates the need for reform of internal Debt management structures.

Work carried out by AFRODAD suggests the following improvements: more effective and tightly monitored implementation of externally financed projects; securing the source of loan repayments for externally financed projects that are not directly productive or export oriented; ensuring that programmes to stimulate productive activities enhance rather than undermine the overall capacity of the economy to repay the loans; setting up local currency funds to facilitate repayment of foreign loans in local currency; and establishing and/or enforcing laws that regulate borrowing and prevent the accumulation of unsustainable Debt.

In addition, there ought to be a shift in the emphasis of either new borrowing or Debt relief from issues of poverty reduction and human development, to encouraging the productive sector which would generate wealth internally to reduce poverty and enhance development.

Mozambique

Tanzania

Zambia