International Debt Cancellation and the Question of Global Justice:
A Case-Study of Nigeria.

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Abstract
There is so much hunger in the developing poor countries of the world that the extent of inequality calls for a re-examination of global resources distribution especially as it concerns global debt crisis. The debts and their servicing obligation worsen the condition of the poor. Their cancellation could grant some respite to these global poor. This is why the call for a total and unconditional cancellation of Third World debt becomes a moral imperative. This needs to be given a normative approach especially as most of the debts were said to have arisen from morally questionable contracts. The demand for their cancellation is therefore a demand for global justice viewed from the stand point of rectification and distribution.
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Chapter 1: Introduction and Background

1.1: The Global Order

The world has virtually become a single and unified village. And for this, we talk of a global order and globalisation. There is growth of exchange and interdependence among countries. In the world today, there is an increased movement of ideas, investments, messages, money, people and products across state frontiers. This extended interaction enlarges the effects that events and conditions in one country can have on another. There is an internationalisation of the world order. The world today again experiences a process of removal of government-imposed restrictions on movement between countries to create an ‘open’ world economy. This involves the reduction or abolishment of statutory trade barriers, foreign exchange restrictions, capital controls, and migration limits (in principle any way). Thus market is globally liberalised. There is a growing recognition of human commonality on a world wide scale. The world is universalised since objects and experiences can be spread to all people at all corners of the earth. The world today experiences the imposition of western modernity thereby destroying the pre-existent cultures and local self-determination in the process. With air travel, telecommunication, internet and computer networks, people can now have supraterritorial, transworld or transborder connections in which terrestrial distances are covered in effectively no time and territorial frontiers present no particular impediments. Due to this, there is reconfiguration of geography, so that a social space is no longer wholly mapped in terms of territorial places, territorial distances and territorial borders.¹

The above paints vividly the picture of the world of today. Distances, both physical and social are in some way bridged as never before. The phenomenon is generally regarded as globalisation. Globalisation is not new but its manifestations and effects could be said to be more felt today more than before. This is why it is has become imperative that discussions could be made on the manner of interaction that really exists in the global order especially since the attitude, behaviour or general life style of Mr. Smith in the far North could some how affect the convenience or otherwise of Mr. Okonkwo in the down South. The above explicated global order has also inspired discussions on the manner of the distribution of global burdens and benefits or wealth. A close look at the global order can see vividly how lopsided this distribution has been: there is great inequality. The few rich in the Northern hemisphere bask in excess wealth while the majority in the South lavish in poverty. And this

raises the question of global justice. Is it just that a world so unbundled like a world of ours today should live comfortably in the midst of such gross inequality? This complacency, I think calls for a global introspection. I think there are areas of resource distribution that could be subjected to some moral re-examination in order to find ways if not to eliminate inequality entirely, but to uplift the living standards of the very poor to a standard befitting of human beings. One of such areas is the present global issue of debt cancellation. So many poor countries of the South are heavily indebted to the rich nations of the North. The effect is that these debtor countries spend much annually on debt service obligations. Money that could otherwise be used for development purposes and poverty alleviation is spent on debt servicing. The effect is that poverty, hunger, disease, pre-mature death, infant mortality, illiteracy and unemployment are on the increase. What are the moral implications of this? This is what this work attempts to answer.

This work is divided into five sections or chapters. The first chapter which is introductory looks at the basic issues in the work. It tries to explicate certain terms like justice and others related to debts transactions and give a brief overview of Nigeria. Chapters two and three are a survey of some of the major empirical issues in the present debt crisis: its nature, history, politics, efforts by both the creditors and debtors to handle the crisis and various arguments for and against debt cancellation. The fourth chapter considers the moral implications of the entire scenario for global rectificatory justice and global distributive justice while the last chapter considers specifically Nigeria’s situation. There is finally a brief evaluation of the entire argument and a conclusion.

On the sources of data, this research has relied much on internet sources since not much has been written on this topic. I have gathered much from the websites of the World Bank, the International Monetary Fund, the Central Bank of Nigeria, the Jubilee Network, African Action on Debt and Development, European Network on Debt and Development and other Non Governmental Organisations and academic institutions. Much of the moral arguments were made with ethical tools presented by modern ethicists like John Rawls, Peter Singer, Thomas Pogge and Robert Nozick amidst others.

1.2: Analytical Questions

This work will address the following questions:

1. Is it ethically justified that the global poor pay heavily to offset their indebtedness to the global rich at the expense of so many innocent lives being lost to poverty when the creditors
seem to be rich enough to forgo such debts and especially when such debts are products of ethically questionable contracts?

2. Given the history of Nigeria’s debt crisis, and the level of poverty in the country, is it not a demand of global justice that Nigeria be granted outright cancellation of its outstanding debts?

1.3: Indebtedness and its Causes

A country’s indebtedness is measured more appropriately by comparing its annual external servicing cost with annual external income. It could further be studied by distinguishing the long-term economic burden – the value of domestic resources that are lost or must be transferred to foreigners until loans are repaid – from the short-term financial burden – the amount of foreign exchange that must be earned annually to meet interest and principal payments. (Girling, 1985: 30).

Certain factors account for the huge indebtedness of some countries. There are external and internal factors. The external factors are those that are related to trade conditions and lead to balance-of-trade difficulties, and those that are affected by changes in the price and availability of capital on the international financial market. Balance of trade deteriorates due to depressed commodity prices and depressed demand for exports which leads to reduction in trade earnings, and a rise in import prices which in turn lead to rise in costs. In these cases, the typical Third World country has little power to act decisively. (Ibid: 23)

The internal causes of indebtedness concern mainly the economic policies of the indebted countries. They include the growth strategies and programmes pursued by most third World countries during the 1960s and 1970s. Those programmes were highly capital intensive, requiring substantial imports of capital goods; dependence on imported energy (eg. Brazil); high dependence on imported foodstuffs; public external borrowing to finance recurrent expenditure; decline in domestic savings rate; and the recycling effects of prior borrowing. (Ibid: 26-27).

1.4: The Concept of Justice.

The concept of justice was a great concern to the great Philosophers of old. One of the earliest attempts to define justice was made by Plato in his dialogue, the Republic. The dialogue was concerned about a just state which is a magnification of the virtues and the relationships to be found within the just individual or soul. For Socrates, justice may be found both in societies and individuals. In each it is a fundamental architectonic principle giving structure to the whole and determining the relation between parts. (cf. Forrester, 1996: 502).
Aristotle distinguishes between universal and particular justice. “Universal justice is directed at the good of the community as a whole, and ‘is complete virtue in the fullest sense,’ it is not one virtue among others, but virtue as a whole. It is a virtue of communities as well as individuals, the cohesive principle of a good society.” (Ibid). Particular virtues regulate the exchange of goods and penalties among peoples and while protecting the legitimate interests of individual, it assumes that all should be concerned for the common good. Aristotle’s division of justice is represented in today’s distributive justice and rectificatory justice. (Ibid).

The idea of justice lies at the heart of moral and political philosophy. It is a necessary virtue of individuals in their interaction with others, and the principal virtue of the institutions. “Justice is closely connected to the idea of desert and equality. Rewards and punishments are justly distributed if they go to those who deserve them.” (Barry, 1998; Matravers, 2004)². An application of this concept of justice to the global order will be attempted in this discourse on the global issue of debt cancellation. I will do this by looking at some modern theories of justice that concern the social distribution of benefits and burdens and the issue of reparation for wrongs done. Theories of social justice found in John Rawls, Thomas Pogge, Kok-Chor Tan, Peter Singer, Robert Nozick and others will be form the central tool for this ethical discussion.

1.5: Nigeria: Brief Overview

One of the countries in West African sub-region, Nigeria is bordered by Niger to the North, Chad and Cameroon to the east, the Gulf of Guinea to the West. Nigeria covers an area of 356,669 square miles. The most populous country in Africa and the most populous black nation in the world, Nigeria came into its present shape in 1914 following the amalgamation of the two protectorates of North and South by Sir Frederick Lugard, the then Governor General. Nigeria was thus a creation of European ambition and rivalries in West Africa. (Crowder, 1966: 21). Before its creation by the European imperialists, Nigeria contained not just a multiplicity of pagan tribes, but also a number of great kingdoms that had evolved complex systems of government independent of contact with Europe. The kingdoms include:

- Kingdom of Kanem-Bornu.
- The Fulani Empire.
- The kingdoms of Ife and Benin
- Yoruba Empire of Oyo

- City States of Niger Delta – developed through slave trade and palm oil trade.
- The Ibo people of Eastern region.
- The small tribes of the Plateau. (Ibid)

Due to this multiplicity of tribes, it was doubtful to both the inhabitants and the British themselves whether Nigeria was going to survive as a nation. Yet the British, for economic reasons and the growth and expansion of trade, suddenly united these groups to form a nation. Effective British control of the country could be said to have begun in 1906 when the Lagos protectorate was finally merged with protectorate of Southern Nigeria. (Ibid).

The colonial rule continued in Nigeria till October 1, 1960 when Nigeria became independent and a full member of the British Commonwealth. In 1963, Nigeria became a republic with the election of the Dr. Nnamdi Azikiwe as the first President. Barely two year into independence, had Nigeria begun to experience internal squabbles due to the dominance of the Northern element in the Federal administration. This led to the first military coup on 15 January, 1966. This coup was organised by junior military officers from the Eastern part of the Country. From then, Nigeria’s political history has remained tumultuous till 1999 when the present civilian administration came into power. Nigeria has had more military administrations from then than civilian. Gen. Aguiyi Ironsi: January 1966 to July 1966; Lt.Col. Yakubu Gowon: July, 1966 to July 29, 1975; Brig. Murtala Ramat Muhammad: July 1975 to 13 February, 1976; Lt.Gen Olusegun Obasanjo: February, 1976 to 1 October 1979; Maj.-Gen. Muhammadu Buhari: 31 December, 1983 to 27 August, 1985; Maj.-Gen. Ibrahim Badamosi Babangida; August 1985 to 26 august 1993; Gen. Sani Abacha: November, 1993 to 8 June, 1998; Gen Abdoulsalami Abubakar: June 1998 to 29 May, 1999. The rivalry between the north and the eastern parts of the country on the political domination at the centre culminated in the declaration of the Sovereign state of Biafra on 30 May, 1976. The state of Biafra was headed by Lt. Col Odimegwu Ojukwu. This led to a civil war in 1967 which lasted for 30 months and claimed many lives and properties. After the regime of the first civilian administration which was terminated in 1966, Nigeria had another civilian administration between 1979 and 1983 and the present administration that assumed power in 1999. The above crisis has been a result of rancour that arose out of the manner the country was quickly put together out of diverse ethnic groups by the colonial leadership.

Nigeria’s economic history is one that dates back down the pre-colonial era. Not much about Nigerian history before the colonial era is known with certainty since much

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history can boast of were handed down by oral tradition. However oral tradition and archaeological findings indicate that Nigerians had engaged in some kinds of manufacturing and agriculture before the advent of the colonial masters. It indicates an Iron Age culture and agriculture and livestock raising before and between 500 BC and 200 AD. Until the arrival of the British, northern Nigeria woven cloths and leatherworks were exported as far as the North African ports of the Mediterranean. Slave trade was also part of commerce in Nigeria prior to the British administration before it was abolished by the British in 1807. (Ibid). Interest in Agriculture however became intense with the contact with the British who demanded more of agricultural and forest products for their home industries. This was why from the late 19th Century through the 1970s, Nigeria earned a lot of foreign exchange from the export of groundnut, palm oil and other agricultural products. In 1956, crude oil was discovered in commercial quantity in Nigeria. This marked a turning point in Nigeria’s economic life since it has influenced the nation’s growth both positively and negatively up to this moment. Well, this is not the subject of this work.

1.6: Clarification of Terms

I think it worthwhile to give definition of some of the commercial terms and expressions involved in loan transaction that will often appear in this work. The terms and expressions include: Debt relief, Debt rescheduling, debt refinancing, debt buy back, debt cancellation or debt forgiveness, and debt default.

1. Debt Relief

Debt relief can come in different forms ranging from increasing the repayment period while not providing any financial concessions through to outright debt cancellation. Debt relief takes the forms of rescheduling, refinancing, buy back and debt cancellation. Concessional debt relief reduces debt in net present value terms whereas the non-concessional debt relief does not. Concessional debt relief may be provided in the form of a lower rate of interest and/or some cancellation of the stock of debt.

2. Debt Rescheduling.

Debt rescheduling entails deferment of debt repayment. The debtor country pays interest on the amount rescheduled (unless the initial loan was interest free). Rescheduling may be concessional or non-concessional. In non-concessional the debtor is simply given more time

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5 The details on European exploratory missions and British economic interest in Nigeria could be found in Michael Crowder’s work, ‘The story of Nigeria’
to pay, while in concessional arrangement, the net present value of the debt is reduced as a lower interest rate is negotiated.

3. Debt Refinancing

Under debt refinancing, new money is provided as either a grant or a loan to a country in order that it can repay an existing debt. This is sometimes provided on concessional terms and sometimes not.


This is a form of debt relief whereby donors purchase all or part of a debtor country’s outstanding commercial debt from its creditors at an agreed (reduced) settlement price.

5. Debt Cancellation or Debt Forgiveness.

Debt cancellation or debt forgiveness is a specific and highly concessional form of debt relief. With cancellation, the level of the official debt is reduced in net present value terms. With total debt cancellation, all eligible debts are reduced to zero.

6. Debt Default.

This is a country’s failure to pay its debts. (Hillyard; 1998)

1.7: Limitations of the Study

This is a philosophical work bordering on an issue that is not only empirical but highly scientific. It is an issue I think would have been better handled by a social scientist or at best an economist. Due to this fact, analysis of the entire issues involved in the debt crisis will not be found very professional or completely exhaustive.

Again the international debt crisis is an issue that has given impetus to so many discussions very recently. As a result of this, it has been very difficult to get a comprehensive and coherent data concerning the actual amount owed by different countries and the entire third world debts. Often in the work, figures from different sources could conflict by not being exactly the same. However all point to the same fact of huge indebtedness.

Finally, the country of emphasis, Nigeria, is a country very young in data collection and storage. Due to this fact, this work encounters great difficulty in getting the appropriate figures with regard to the history of Nigeria’s debts. However the little gathered rightly point to the fact of high indebtedness of the country.

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7 These definitions were taken from an article: ‘Cancellation of Third World Debt’ by Hillyard, Mick. Retrieved on 26-03-06 from http://www.parliament.uk/commons/lib/research/rp98-081.pdf
Chapter 2: The Reality of International Debt

“Total debts amassed by the world’s poorest countries shot up from $25bn in 1970 to $523bn in 2002, resulting in endless misery and widespread poverty as many of these Economies spiralled out of control.” (BBC News, 2005/06/29).

The above statement from a BBC report gives an overview of the nature of the global economy as it relates to debts owed by the poor countries to the rich countries. In this chapter, I intend to provide a historical and factual sketch of the situation. I will also pay particular attention to Nigeria’s case looking at the history of its debts crisis and examine the various efforts made by the successive governments in Nigeria and Nigeria’s creditors to handle the debt problem.

2.1: The History of International Debt

The above statement from the BBC news gives a sharp description of the burden of debt on the poor countries of the world often referred to as the Third World. ¹ This phenomenon of debt burden took quite a number of years of unsuccessful and inadequate financial and economic policy implementation by the Third World countries to build. According to Robert Girling, “Foreign debt and financial instability are not new. The Medici Bank of Florence flourished in the 15th Century, but sustained massive losses in the century when unsecured loans to medieval monarchs were not paid. The bank finally failed.” (Girling 1985, p. 21). It could be said that most of the world’s indebted nations today incurred their debt after independence owing to the fact that most African and Asian countries did not have an independent financial existence as recently as World War Two.² Yet not all external debts of these countries were acquired after independence. The first part of the Third World debt was inherited from the colonial masters. Most of the colonial administrations transferred their debts to the newly independent states that by 1960, the external debts of the new independent states amounted to about $59 billion. (Guisse, 2004)³

¹ Third World is often used while referring to the developing or underdeveloped countries of the South. It will often be used in this thesis as Nigeria is also considered a Third World.
² The Second World War was fought between 1939 and 1945.
³ Retrieved on 25-04-06 from http://www.southcentre.org/info/southbulletin/bulletin85/bulletin85.htm. South Centre Organisation is an intergovernmental organization of developing countries. This article was taken from its website.
However the piling up of the unpaid debt could be traced to the 1960s. According to an analysis from Jubilee Research, in the 1960s the United State government had to print more dollars to make up for its over expenses. This led to a fall in the value of the world stock of dollars. This had bad effect on the big oil exporters whose oil was priced in dollars. They could then buy less with their oil proceed. To cushion the effect of this, there was an increase in the price of oil in the international market in 1973. Then they made huge sums of money out of the increase and had the money deposited in Western Banks. The banks were faced with international financial crises as the interest rate plummeted. They lent out the money to the Third World whose economies were doing well but who wanted money to maintain development and meet the rising cost of oil. As the banks lent lavishly without considering the possibility of their repayment, the developing countries were pleased to take advantage of loans at very low interest rates- below the inflation rate. (Jubilee 2000)

The Third World countries needed much money to finance the developmental projects then. Their governments were advised by their Northern consultants from institutions like the World Bank to borrow massively from the First World Banks when interest rate was still low. “Borrowing cheap money seemed to be an eminently reasonable way of undertaking much needed development.” (Columbans , 2006). Also encouraged by the West, many Third World countries went into massive cultivation of such raw materials like copper, coffee, tea and cocoa. They produced the same crops so massively that the prices fell. There was another oil price rise and the Third World countries were earning less from their export and paying more on their loans and imports. They had to borrow money to service the loan through interest payment. (Jubilee Analysis)

Furthermore other factors that led to the rise in Third World debt has to do with the manners these borrowed money was spent and the rise in interest rate. According to an international Peace Research Institute in Stockholm, about 20 per cent of the borrowed money was spent on arms. Third World countries’ dictators spent so much on arms to terrorise and murder their own people in order to stay in power. This in turn boosted the profit profile of arms industries in the US, Britain, the USSR, France, East Germany, Czechoslovakia and others. Another reasonable portion of the money was squandered on grandiose or elephant

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4 Jubilee research is a successor to jubilee 2000 UK and a member of the Jubilee Network. Available at (http://www.jubileedebtcampaign.org.uk/?lid=247 assessed 16-02-2006)

5 Retrieved on 5-05-06 from http://www.columban.com/debthist.htm. Columbans are priests, sisters and laity called by the Church to proclaim and witness to the Good News in Jesus Christ of Full Christian Liberation and reconciliation of all peoples through the sharing of life and service with people of other cultures and faith traditions. They are involved in the anti-debt activism.

6 available at (http://www.jubileedebtcampaign.org.uk/?lid=247 assessed 16-02-2006)
projects most of which were never completed while others were embezzled by the leaders. In Philippine $2.2 billion was spent on a nuclear plant in Bataan that was never started. Yet the loan for this project was serviced to the tune of $200,000 each day. Notable cases of embezzlement of borrowed money were found among President Marcos of Philippines, Lopez-Portillo of Mexico, Anatasio Somoza of Nicaragua, the Generals in Nigeria, President Mobuto of Zaire and others. Moreover towards the late 1970s and early 1980s, there was rise in interest rate. Due to this rise Third World debts grew by leaps and bounds. (Ibid). In the 1980s the debt burden on the Third world countries got worsened with a threat of major default by some countries and to the whole international credit system. Mexico and other countries could not pay or service their debt any more. Mexico on August 1982 threatened to default on its debts. Lenders especially the Citibank and Chase Manhattan feared the possibility of losing their investments and turning into bankruptcy. The International Monetary Fund and the World Bank stepped in and introduced the Structural Adjustment programmes (SAPs) with the aim to reorient Southern economies. The programmes included currency devaluation, cutback in government spending, elimination of subsidies and price control, a drop in wages, opening up to foreign investment and competition, an emphasis on export-oriented industry and agriculture, widespread privatisation of government industries leading to lay-offs and increased unemployment. (Columbans, 2006)

These measures were to help the countries to earn hard currency through increased export and reduced import. To implement SAP a country had to reduce spending on health, education and social services; devalue the national currency which will lower export earnings and increase import cost; cut back on food subsidies; cut job and public wages; encourage privatisation of public industries including sale to foreign investors; and take over small subsistence farms for large scale export crop farming instead of staple foods. A country’s successful implementation of these programmes qualified it for further loan and other developmental assistance from the IMF and the World Bank. These loans were being used by these countries to service and reschedule the debt to the bilateral and private creditors. These loans added to the debt burden on these countries while the implementation of the above programmes inflicted severe hardship on the citizenry. Many Southern governments like Jamaica have complained that they were pushed into managing an enforced economic transition against the wishes of their people. (jubilee analysis)

Today, the debt burden on the Third World countries from jubilee figures stands like this:

- Total debt of low-income countries - $523 billion.
- Total debt service paid every day by low-income countries - $100 billion.
- Africa’s total external debt – approx $300 billion.
- For every $1 received in grant aid, low-income countries pay: $2.30 in debt service.
- Many African countries spend more on debt than either health or education. (Eg Cameroon, Ethiopia, Gambia, Guinea, Madagascar, Malawi, Mauritania, Senegal, Uganda and Zambia all spent more on debt than on health in 2002 (latest figures).)

Funding dictators and runaway interest rates:
- Total debt to oppressive regimes (low and middle-income countries) - $500 billion
- Loans to South Africa’s apartheid regime (being repaid by current government) - $22 billion.
- Africa’s debt stock in 1970 - $11 billion
- Africa’s debt stock in 2002 - $295 billion. (Ibid)

The above figures represent debts owed both to bilateral and multilateral creditors. In a bid to find a lasting solution to this debt crisis, the World Bank and the International Monetary Fund in agreement with world leaders, announced the Heavily Indebted Poor Countries Initiative in 1996. The aim is to remove debt overhang for countries that pursue economic and social reform targeted at measurable poverty reduction; reduce multilateral debt; and help countries exit from endless restructuring to lasting debt relief. At completion, the initiative is expected to cut by more than two-thirds the outstanding debt to more than 30 countries. The World Bank will reduce its debt claims by nearly $11 billion, while the IMF by approximately $4 billion. (World Bank). The initiative is meant for the poorest countries that are eligible for highly concessional assistance from the International Development Association (IDA), the part of the World Bank that lends on highly concessional terms and from the IMF’s Poverty reduction and Growth Facility (previously the Enhanced Structural Adjustment Facility). Qualified are also countries that still face an unsustainable debt situation even after the full application of the traditional debt relief mechanisms (such as application of Naples terms under the Paris Club agreement). This initiative, its funding, successes and weak points will be treated fully in the next chapter.

8 http://www.jubileedebtcampaign.org.uk/?lid=247 assessed 16-02-2006

9 In the next chapter an analysis of these creditors is made.
11 Naples Terms refers to one of the debt treatment procedures often employed by the Paris Club of creditors for highly indebted poor countries. Under this mechanism a given country is granted relief of up to 67% of its entire debt stock. Ref. Paris Club website: http://www.clubdeparis.org for a detailed description.
2.2: History of Nigeria’s Debt Crisis

The phenomenon of external debt by Nigeria dates back to the colonial period precisely in 1958 when the sum of US$28 million was contracted for railway construction. Between 1958 and 1977, debts contracted were the concessional debts from bilateral and multilateral sources with longer repayment periods and lower interest rates constituting about 78.5 per cent of the total debt stock. The fall in oil prices in the late 1970s had a devastating effect on government expenses. It therefore became necessary for government to borrow in 1978 for balance of payment support and project financing. As a result of this, government promulgated Decree No 30 of 1978 which limited the external loans the Federal Government could raise to 5 billion Naira. In the same year government made the first “jumbo loan” of US$1 billion from the International Capital Market. This increased the nation’s debt profile to US$2.2 billion. Nigeria’s external debt stock increased to US$13.1 billion in 1982. Two factors led to this sharp increase: one, the entrance of state governments into external loan obligation and two, there was a substantial decline in the share of loans from bilateral and multilateral creditors and a consequent increase in borrowing from private sources at stiffer rates.

Nigeria’s inability to settle her import bills resulted in the accumulation of trade arrears amounting to US$9.8 billion between 1983 and 1988. The insured components were US$2.4 billion while the uninsured were US$7.4 billion. The insured component was rescheduled at the Paris Club, while the uninsured was reconciled with the London Club. This reconciliation which took place between 1984 and 1988 reduced the amount to US$3.8 billion. The accrued interest of US$1.0 billion was recapitalised. This brought the amount to US$4.8 billion in 198(8) and the debt was eventually refinanced. In 1990, Nigeria’s external debt rose again to US$33.1 billion. After a brief decline to US$27.5 billion in 1991, it rose steadily to US$32.6 billion at the end of 1995. As at 1999, Nigeria’s external debt stock was US$28.0 billion. 73.2 per cent of this was owed to the Paris Club while the rest was owed to the London Club, the multilateral creditors, promissory note holders and others. (Central Bank of Nigeria)\textsuperscript{13}

Furthermore, servicing and rescheduling of debt became problematic for Nigeria from around 1985 when its external debt rose to up to US$19 billion. Before then Nigeria had experienced boom in oil revenue which was followed immediately by an unexpected decline. In 1980, Nigeria earned $25 billion from oil export. In 1982, it declined to $12 billion and

\textsuperscript{13} Retrieved on 18-02-06 from http://www.cenbank.org/paymentsystems/externa_debt.htm
further to $6 billion in 1986. Government spending had remained high within this period and much of the projects were financed through external borrowing. Since Nigeria was an OPEC member, it was not qualified for the soft-loan financing provided by multilateral and bilateral aid agencies to other countries at that time. As at the end of 2004, Nigeria’s debt stock had reached almost $36 billion out of which $31 billion is owed to the Paris Club of Creditors while the rest is owed to multilateral, commercial and other non-Paris Club of creditor. (Riefel, 2005).\(^\text{14}\) The table below illustrates better.

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\(^{14}\) Retrieved on 25-02-06 from [http://www.brook.edu/dybdocroot/Views/Papers/20050801rieffel.pdf](http://www.brook.edu/dybdocroot/Views/Papers/20050801rieffel.pdf). Brookings Institute is an independent research and policy institute. This article was found in its website.


2.3: Nigeria and its Creditors

In this section, I wish to look at the various effort or attempts at debt servicing made by the Nigerian government in conjunction with its creditors and the factors that had worked against a successful reduction on Nigeria’s debt profile over the years. It is important to recall that Nigeria’s creditors constitute the Paris Club of creditors, London Club of Creditors, Multilateral Creditors, Promissory Note Creditors which are the refinanced uninsured trade arrears and bilateral and Private Sector Creditors. (Central Bank of Nigeria: Ibid.) “The Paris Club is an informal group of official creditors whose role is to find co-ordinated and sustainable solutions to the payment difficulties experienced by debtor nations.”\(^\text{15}\) The Paris Club members who fall into Nigeria’s creditors list include: Austria, Belgium, Brazil, Denmark, Finland, France, Germany, Italy, Japan, Netherlands, Russian Federation, Spain, Switzerland, United Kingdom and United States. “The London Club is an adhoc grouping of
commercial banks exposed to third world debt. The name London club came into being since the “Club” sits in London which is regarded as the financial nerve centre of transnational banks”\textsuperscript{16}. The Multilateral creditors are basically the World Bank and the International Monetary Fund and the African Development Bank.

Since 1985, Nigeria has been engaged in debt servicing, rescheduling and buy back with its creditors. Yet its debt stock as at the end of 2004 was $36 billion dollars after having paid about $35 billion to its creditors on $15 billion which it actually borrowed. The situation could be blamed on two factors: (1) compound interest accrued to the actual loan within these years; and (2) the disposition of the Paris Club of Creditors towards the restructure of Nigerian debt for political reasons. On December 16, 1986 the Paris Club agreed to a treatment under the classic terms\textsuperscript{17} of Nigeria’s $7.3 billion of medium and long term debt in arrears at the time of negotiation and falling due over the coming year. Sadly, the expected debt relief from the Paris Club did not materialise since Nigeria could not successfully implement the IMF Structural Adjusted Programme which was the condition for expected debt relief. Nigeria went back to the Paris Club in 1989 and on March 3\textsuperscript{rd} had to treat another $6 billion still on classic terms and again in 1991 for a treatment of $3 billion this time on Houston Terms.\textsuperscript{18}

In 1989, the Brady Plan was adopted to support debt reduction with commercial banks. “These were innovative exercises in burden sharing that combined stronger economic adjustment measures by the debtor countries with exceptional financing from the IMF, the multilateral development banks, and bilateral donor agencies.” (Rieffel 2005, Ibid). This measure eliminated most of the debts owed to the commercial Banks in the 1980s by converting it into marketable bonds at a substantial discount. In 1992, in the Brady Bond exchange, Nigeria exchanged $5.6 billion of commercial bank debts for $2.1 billion of Par Bonds, at a discount of roughly 60 per cent. With the Brady Plan debt reduction sealed up, there was “strong technical argument for a Paris Club deal that would allow Nigeria to exit from the cycle of repeated rescheduling of a growing mounting of debt by including a substantial element of debt reduction.” (Rieffel 2005, Ibid.). This was however not possible for some political reasons. Nigeria had concluded third debt rescheduling deal with the Paris

\textsuperscript{16}Retrieved on 26-02-06 from http://www.unitar.org/dfm/Resource_Center/Document_Series/Document1/C_Akanle.htm United Nations Institute for Training and Research (UNITAR) is a body within United Nations with mandate to enhance the effectiveness of UN through training and research.

\textsuperscript{17} Under the classic terms, debts are rescheduled at the appropriate market rate with a repayment profile negotiated on a case-by-case basis

\textsuperscript{18} Under the Houston Terms, credits are rescheduled at the appropriate market rate over around 15 to 20 years with 2-3 years grace and progressive payments [rising] year by year
Club in January 1991 after the first series of elections to restore civilian rule was held in 1990. This deal covered payments due through the end of the first quarter of 1992. This deal however was not executed due to political instability and economic management by the then Nigerian government.

It is important to note at this juncture that Nigeria had concluded a benchmark debt reduction operation before the Brady Plan was introduced, not for commercial bank debt but for supplier credits in arrears and not guaranteed by creditor country export credit agencies. “It began restructuring these credits at tradable Promissory Notes in 1983 and it completed the restructuring in 1988 with a fresh issue of Promissory Notes with a face value of $4.8 billion.” (Rieffel 2005, Ibid). Again, by 1991, before the Brady Bond exchange, Nigeria’s external debt had already risen from $19 billion in 1985 to $34 billion. Two thirds of this debt was owed to the Paris Club while the rest was shared by the multilateral creditors and the commercial creditors. This means that Nigeria’s debt to the Paris Club increased by 130 percent in six years while debt to commercial creditors increased by 35 percent. This shows that with all the effort to reduce the burden of debt on itself Nigeria has had problem reducing its indebtedness to the Paris Club. The above increase was as a result of new borrowing and interest arrears, late interest charges and penalty charges.

Nigeria’s effort to reschedule debt with the Paris Club was bedevilled further by the tumultuous political landscape in the country between 1993 and 1998. General Ibarahim Babangida, the then Military President, organised and annulled an acclaimed free and successful general election in 1993. This heightened the political tension in the country which necessitated the exit of the President and an eventual take over by the then Defence Minister, General Sani Abacha after a botched interim Government. These events attracted massive economic sanctions from the United States and other major creditor countries. The sanctions affected any other attempt at debt restructuring with the Paris Club within this period. The country under the Military rule of Gen. Abacha went through lots of political upheavals, bad government and economic mismanagement. Because of this the Paris Club were unwilling to enter into any dialogue with the government. According to Reiffel, “while the position of the Paris Club not to enter into debt restructuring negotiations with the Abacha government is easy to justify on political grounds, it had the effect of exacerbating Nigeria’s debt servicing difficulties. In the face of sanctions, General Abacha could not justify paying billions of dollars every year to these creditors and arrears started pilling up, compounded by interest charges on overdue interest and penalty charges.” (Reiffel, 2005: Ibid). Within the next six
years, Nigeria’s total external debt owed to the Paris Club creditors jumped from 53 percent to 72 percent.

However Nigeria was able to meet its payment obligation to other creditor groups within the period between 1993 and 1998. Nigeria met its payment obligation to non-Paris Club bilateral creditors, often in return for concession including partial forgiveness and or reduction. In effect, the portion of Nigeria’s debt to these creditors fell to below $100 million since there was no new loan from them. To the commercial creditors, after the Brady Plan deal, Nigeria remained punctual in meeting its payment obligation. As a result, Nigeria’s portion of debt to these creditors fell steadily from $5.4 billion to $3.6 billion and without fresh financing also. The multilateral creditors continued to make new loans to Nigeria in order to maintain their preferred creditor status and avoid arrears. Within this period, Nigeria continued to meet its payment obligation to its multilateral creditors and paid them $4.5 billion while it paid only $1.5 billion to the Paris Club.

Moreover, the improved political landscape in Nigeria in 1999 set the stage for a long expected amicable solution of Nigeria’s debt problem with the Paris Club. With the return of democratic rule in 1999, the political climate has been conducive for a Paris club dialogue with Nigerian Government under President Olusegun Obasanjo. The new government in 1999 increased its payment to the Paris Club creditors to $644 million from $229 million of the previous year. The aim of this increase was to show goodwill in resolving the problem that had developed and in normalising financial relations with these important countries. Nigeria entered into intensive negotiations with the IMF in 2000 on an economic reform programme that could meet the Paris Club conditionality. Due to strong opposition from home on the part of Nigeria and strong principle of uniform treatment of its members that require reform package, agreement was hard to reach. Nevertheless an unsatisfactory compromise was reached in which a strong reform programme supported by a one-year IMF standby arrangement was adopted. Nigeria agreed to this agreement but refused to use any of the IMF financing to which it was entitled. With this, the Paris Club agreed to a generous rescheduling of Nigeria’s arrears but refused to commit to any debt reduction. It rather agreed to negotiate a debt reduction agreement in 2001 after a full year of satisfactory implementation by Nigeria of its reform programme.

The government of Nigeria did not achieve much success in the implementation of the reform programme. By the middle of 2001, the programme was off track. This influenced negatively Paris Club interest in any debt reduction deal with Nigeria. Under the 2000 Paris Club deal, Nigeria was expected to be paying these creditors nearly $3 billion per year in the
2001 and 2005 period. But the government could not get the legislative back-up from the Parliament. The parliament gave a budget approval for paying only $1 billion each year. In a Supreme Court decision in 2002, the burden of debt service was shifted from the Federal government to the States. The depreciation of the U.S. dollar relative to the Euro within this period also affected adversely Nigeria’s effort to service its debt to the Paris club. Again Nigeria met its obligations to other creditors within this period but the share of its debt to the Paris club continued to rise further to 87 percent.

Nigeria’s financial relations with the Paris Club and efforts toward debt treatment took a new dimension with the G-8 summit of June 2005 in London. At a pre-summit meeting, the G-8 Finance Ministers announced: “We are prepared to provide a fair and sustainable solution to Nigeria’s debt problem in 2005, within the Paris club.” (Cf Rieffel 2005). In a special meeting on June 29, the Paris Club had a special meeting to persuade the non-G-8 members to embrace the G-8 proposal with regard to solving Nigeria’s debt problem. In order to address the issue, the Paris Club made the following offer to Nigeria: Nigeria was to reach agreement with the IMF in September on its economic objectives and policies and will thereafter negotiate a memorandum of understanding with the Paris Club to formalise the restructuring; Nigeria was to clear its current arrears of about $6 billion by a cash payment in September; Nigeria will buy back the remaining debt after “Naples” reduction of 67 percent by making another cash payment of about $6 billion six months after the first payment. Therefore, to eliminate the $31 billion debt to the Paris Club, Nigeria will have to pay about $12 billion and to receive a debt right off of $18 billion by the Paris Club. (Ibid)

Following the above offer, the representatives of the Paris Club and the Nigerian government met on 18, 19 and 20 October 2005 and agreed on a comprehensive treatment of Nigeria’s debt. This agreement was heralded by a prior affirmation by the Creditor countries of Nigeria’s implementation of Nigeria’s economic programmes since 2003 and an approval by the Executive Board of the International Monetary Fund of the Policy Support Instrument (PSI) on October 17, 2005. The agreement includes a debt reduction under Naples Terms on eligible debt and a buy back at a market-related discount on the remaining eligible debt after reduction. The implementation of this agreement will be in two phases in consonance with the implementation of the PSI. The first phase will be the payment by Nigeria of arrears due on all categories of debts and a grant by the Paris Club of 33% cancellation of eligible debts. The second phase will depend on IMF approval of the first review of the PSI in March 2006. Then the Nigerian government will pay amounts due under post-cut off date debt, and the Paris Club creditors will grant a further tranche of cancellation of 34% on eligible debts. Finally,
Nigeria will buy back the remaining eligible debts. This agreement gives Nigeria a debt forgiveness of about $18 billion or 60% of its debt to the Paris Club at the payment of an approximate amount of $12.4 billion, representing regularisation of arrears of $6.3 billion, plus a balance of $6.1 billion to complete the exit strategy. (The Paris Club)\(^{19}\) the conclusion of this deal and the debt cancellation granted Nigeria will be treated briefly in the last chapter.

Chapter 3: The Politics of Debt Cancellation

I wish to look into certain issues regarding the present debt cancellation crisis. Who are the creditors? What efforts have been made by these in an effort to handle the crisis and what else is required of them? What does the present campaign for debt cancellation entail: relief, reduction or outright cancellation? Then who is going to finance whichever is accepted? I consider these to be the core issues in the politics of debt cancellation. I will also consider the different arguments already put forward for and against debt cancellation and then examine the present Heavily Indebted Poor Countries Initiative aimed at alleviating the burden of debt on a selected number of poor countries.

1: the Politics of Debt Cancellation.

The creditors are classified as the multilateral, bilateral and private creditors. Aside the multilateral creditors, the other two further make up what is today know as the Paris Club and The London Club of Creditors respectively. The multilateral creditors comprise the international finance institutions such as the World Bank, the International Monetary Fund and the African Development Bank. These are said to be the largest creditors of the poor countries. Debts owed by the low income countries to these creditors increased by 793% from 1980 to 2005 and today represents 30 per cent of the current debt stock of these poor countries. Debts owed to the multilateral creditors are almost always serviced because they enjoy the “preferred creditor” status. “This is because a default on a multilateral debt obligation is likely to result in a country being cut off completely from international credit from any official or private source.” (Kapoor, 2005: 5). But then why debts owed to them remain the highest remains a technical issue that is beyond the scope of this write-up.

The bilateral creditors consist of the rich countries that engage in loan or grant arrangement with poor countries. Today they make up what is known as the Paris Club of creditors. Established in 1956, the Paris Club is an informal group of official creditors whose role is to find coordinated and sustainable solutions to the payment difficulties experienced by debtor countries. The members include: Austria, Australia, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, Norway, Russia Federation, Spain, Sweden, Switzerland, United Kingdom and the United States of America.2 The private creditors include private banks that are into loan arrangement with some poor countries. They


are bondholders\(^3\) and bankers. They form a group known as the London Club of Creditors. During the 1970s they were the main source of credit for countries in difficulty. (Guisse, 2004).\(^4\) According to Kapoor, a greater percentage of debt owed to the bilateral and private lenders are in arrears. This means that they are not serviced regularly. The cancellation of such debts may just present a paper transaction involving the cancellation of debt that was not being repaid in the first place. (Kapoor, 2005: 5). Cancellation of debts owed to private and bilateral creditors may not actually free up any resources for poverty reduction in poor countries but will only reduce the overall debt overhang. On the other hand, cancellation of multilateral debt almost always means that money that would otherwise go into servicing debt becomes available for development projects for the country. (Ibid). This is quite a complex matter and the author does not elaborate. Nevertheless this could be one of the reasons why much of the emphasis today is on multilateral debt cancellation.

However, for a country to obtain debt relief from any of the bilateral creditors, it must satisfy the IMF conditionality. This indicates a strict collaboration between the international financial institution and the other creditors especially the bilateral creditors or the Paris Club. It is impossible for a country to receive debt cancellation from others if it is in default of its multilateral obligation. “The Paris Club of creditors will not even consider a country for debt reduction until it has signed up to an IMF-sponsored adjustment programme.” (Ibid). It is however not very clear whether the private lenders operate on the same collaboration with the IMF. In an article: “The Constructive Role of Private Creditors", Arturo C. Porzecanski paints a picture of non-collaboration between the private creditors and the bilateral creditors or more precisely, the G-7 countries. The G-7 countries and the IMF have often tried to coerce the private creditors into granting more debt relief to insolvent countries and seeing that as the major measure needed to improve the functioning of the world’s financial market. The author faults the move by the developed countries due to their failure to influence an international reform that could facilitate the constructive involvement of bondholders and other private-sector creditors in debt restructuring. The G-7 also has not called for any actions or penalties against irresponsible governments who unlike corporations cannot be subjected to liquidation.

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\(^3\) A bond is a debt instrument issued for a period of more than one year with the purpose of raising capital by borrowing. The federal Government, states, cities, corporations, and many other types of institutions sell bonds. Generally, a bond is a promise to repay the principal along with interest (coupons) on a specified date (maturity). available at [http://www.investorwords.com/521/bond.html](http://www.investorwords.com/521/bond.html) retrieved 28-03-06.

\(^4\) available at [http://www.southcentre.org/info/southbulletin/bulletin85/bulletin85.htm](http://www.southcentre.org/info/southbulletin/bulletin85/bulletin85.htm), retrieved 17-02-06.
Even in the IMF’s Sovereign Debt Restructuring Mechanism (SDRM), only the private creditors would have to reduce their claims. According to the fund’s proposal, “public creditors like the Fund, the World Bank, and all the regional development banks would have their debts excluded from debt restructuring negotiations.” (Pettifor, 2003). This, according to the author would be ineffective and unjust since it fails to ensure a comprehensive treatment of debtor’s crisis and limits the accountability of the official creditors like the IMF and the World Bank. (Ibid)

In his article, Pozecanski argues that the private creditors have been more considerate and corporative in dealing with sovereign debt in terms of restructuring and cancellation. Yet, the official lenders who have not often shown similar concern have always called on countries to default on their debt obligation to the private creditors. He sights as example the cases involving Uruguay and Ecuador where the IMF demanded the countries to default on their debt obligation to private creditors. For Ecuador such default was a condition for any financial help from the international official community. The IMF and G-7 countries resort to this demand for default instead of providing a financial bail out for countries in financial crisis since much of their loan to poor countries are for debt servicing. The private creditors however have provided debt restructuring for Uruguay and substantial debt cancellation for Bolivia, Nicaragua, and Ecuador. Yet not much debt cancellation has come from the official and multilateral creditors. (Ibid).

Nevertheless, the official bilateral and multilateral creditors seem to be out to do something positive about the debt crisis with the new Heavily Indebted Poor Countries Initiative. This initiative will be further treated below. A very important aspect of the initiative is the doctrine of equal burden sharing for creditors. It states that “all creditors should contribute resources for debt cancellation in proportion to the debts owed them…” (Kapoor, 2005: 6). Kapoor however in this article: “Paying for 100% Multilateral Debt Cancellation” paints a picture of lopsidedness in the contributions of both the bilateral and official creditors to the cost of debt cancellation. He writes that bilateral creditors have actually contributed more than the multilateral creditors. Even most of the multilateral debt cancellation to date has been financed by additional bilateral contributions. “This effectively

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5 Available at: http://www.cceia.org/viewMedia.php/prmTemplateID/8/prmID/1021. Retrieved on 16-02-06. This website belongs to Carnegie Council on Ethics and International Affairs. An independent non-profit organisation dedicated to research and education at the nexus of ethics and international affairs.

6 SDRM is a framework created by the IMF for an equitable debt restructuring that restores sustainability and growth, without including incentives that unintentionally increase the risk of default. Available at: http://www.imf.org/external/np/exr/facts/sdrm.htm retrieved 05-04-06

turns grants into loans— as the money contributed by donor countries is then recycled as additional loans by the institutions. Multilateral debts cancellation using the multilaterals’ own resources is one way to redress this imbalance.” (Ibid).

There have been proposals for modalities and funding of the debt cancellation. In his write-up, Sony Kapoor who is more concerned with the multilateral debt cancellation highlights the proposals. The first proposal was put forward by the United Kingdom Government in September 2004. It proposed to begin with 20 countries which could be increased later to 45 countries. It seeks to use funds raised through selling and revaluing of IMF gold reserves to cancel debt owed by eligible countries to the IMF. Additional bilateral contributions from donor countries could be used to fund the cancellation of debts owed to the World Bank and the African Development Bank between 2005 and 2015. The United Kingdom government promised to fund 10% of debt service due till 2015. The second proposal was put forward informally by the United States of America. The proposal includes the 42 HIPCs and seeks the use of the multilaterals’ own resources to fund the cancellation of multilateral debts. It suggests using the principal from the gold revaluation in 1999 as well as the IMF’s Poverty Reduction and Growth Facility (PRGF). For the World Bank, all outstanding debt would be converted retrospectively into grants and there will be a future decrease in loan repayment to International Development Association (IDA). This proposal however is not backed up by any pledge of new resources from the US government. The third proposal was put forward by several international civil liberty organisations. It extends 100% multilateral debt cancellation to all low income countries that have a shortfall of resources needed to meet the internationally agreed Millennium Development Goal. This proposal seeks the sale of IMF gold which can raise as much as $35 billion. It can be used for cancellation of multilateral debts owed to both the IMF and others like the World Bank. It proposed that additional resources could be sourced from two possible ways: bilateral contributions similar to the one pledged by the United Kingdom government and $17.5 billion of transfer from the resources of the International Bank for Reconstruction and Development (IBRD) – the non-concessional lending arm of the World Bank. However it is estimated that about US$80

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8 PRGF is the IMF’s low-interest lending facility for low-income countries. PRGF-supported programs are underpinned by comprehensive country-owned poverty reduction strategies. Available at: [http://www.imf.org/external/np/exr/facts/prgf.htm](http://www.imf.org/external/np/exr/facts/prgf.htm) retrieved 05-04-06

9 These are International Nongovernmental Organisations that have been involved in anti-debt movement. Notable among them are: African Network and Forum on Debt and Development, (AFRODAD), European Network on Debt and Development (EURODAD), Latin American Network on Debt and Development (LATINDAD), Jubilee South International and similar organisations found in Belgium, Bolivia, Burkina Faso, Canada, Demark, France, Ghana, and Germany.
billion in net present value is needed for a 100% cancellation of the multilateral debt (Kapoor, 2005: 7-8).

Today the Civil Liberty organisations and the debtor countries are demanding an unconditional 100% cancellation of the debt owed to the rich world and international financial institutions. The present demand is something higher than debt relief or reduction which the present efforts by the international creditors seem to be promising. What are the arguments for and against this proposal? To what extent will the Heavily Indebted Poor Countries Initiative launched by the International Monetary Fund and the World Bank satisfy the above demand? These questions will be addressed in the following sections.

3.2: Arguments for and against debt cancellation

Some arguments have been put forward for and against total debt cancellation by many in the present debate on the international debt cancellation. Most of the arguments against total debt cancellation have often been put forward by experts in the international financial market and some politicians while there has been strong civil liberty movement for debt cancellation. Such movement has been epitomised in the operations of the Jubilee 2000 network, the African Action Organisation, the South Centre organisation, the European Network on Debt and Development and then various ethicists.

One argument against debt cancellation put forward by a World Bank Advisor, William Easterly has it that such cancellation could encourage moral hazards in the international level. This means that debt relief encourages borrowers to take on an excessive amount of new loans expecting that they too will be forgiven. This can as well lead to financial recklessness on the part of the borrowing countries. From this he makes the second argument that debt relief is a bad deal for the world’s poor since it rewards those who have behaved recklessly or cynically and encourages them to go out there and do it again. “Debt relief goes into the same government account that rains money on good and bad uses alike.” (Easterly, 2005: BBC News, 2005/06/29). Complete and unconditional debt relief will transfer more resources from poor countries that have used aid effectively to those that have wasted it in the past. A third argument from Easterly is that debt cancellation could encourage unproductive and wasteful spending. He argues that instead of being an encouragement to spend on education, debt relief will encourage these governments to spend more money on

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weapons. He points out that debt level have continued to soar during the last decade even though a string of debt relief programmes have been introduced after 1967. (Ibid).

In another argument, Easterly argues that debt cancellation is not for the advantage of the poor countries. He said that poor countries whose debt is written off could become financial pariahs without any hope of raising finance to invest in better future. “Both commercial and official lenders may want to redirect their resources to safer countries where debt relief is not on the table.” (Ibid). Christian Barry points out that “ineffective and unfair mechanisms for managing the restructuring of debt can lead to defaults that may also significantly harm creditors’ and investors’ interests, and can create disincentives for lending and investment that can be crucial to the prospects of wealthy and poor countries alike.” (Barry, 2003).11 Due this, Barry argues for a more effective debt management that will be fair to both the creditor and debtor other than outright cancellation.

A similar argument from the IMF is that total debt cancellation whose cost it puts at $460 billion will hamper further funding and lending to poor countries. It states that total cancellation will affect the availability of funds for the financing of future development needs of the poor countries and will also undermine the confidence of existing and potential investors whose funds are vital for the long-term development of the low-income countries. This argument concerns the funding of both the cancellation and future funding of concessional lending to the poor countries from the IMF, the World Bank and the African Development Bank. (IMF, 2001).12

However arguments for total debt cancellation put forward by anti-debt movement groups border on poverty and the doctrine of odious debt. The argument from poverty considers the level of poverty and disease in the indebted countries which already spend so much on debt servicing than on the basic necessities of life. According to this argument, debt cancellation will provide more resources for the governments of these poor countries for investment in education, healthcare, employment generation and other poverty alleviating programmes. This argument comes mainly from the Jubilee 2000 network. According to jubilee USA:

In the world’s most impoverished nations, the majority of the population do not have access to clean water, adequate housing or basic health care. These countries are paying debts service to wealthy nations and institutions at the expense of providing these basic services to their citizens.

11 Ethics and International Affairs; retrieved on 16-02-06 from http://www.cceia.org/printerfriendlymedia.php/prmid/1014
The lives of 19,000 children could be saved every day if the debt of these countries was cancelled and savings put to good use. (Jubilee USA, 2005).\textsuperscript{13}

In one of its releases, it asserts the following:
\begin{itemize}
  \item In 2004, Zambia’s debt repayment to the IMF alone costs $25 million, more than the country’s education despite 40% of rural women being unable to read and write.
  \item Sub-Saharan Africa receives $10 billion in aid every year – but has to pay back at least this amount in debt repayments.
  \item Malawi spends more on servicing its debt than on health, despite nearly one in five Malawians being HIV positive.
  \item Despite being the second country to be granted debt cancellation (after Uganda) Bolivia still spends more on debt servicing than on health, even though its infant mortality rate is 10 times that of the UK. (Ibid)\textsuperscript{14}
\end{itemize}

With the above figures the jubilee holds that debt hurts economically the poor in the third World countries. According to Christian Barry, sovereign debt “can limit countries’ capabilities to provide the basic social services that are required to secure minimally decent living conditions for their citizens, and can make it difficult for countries to pursue policies that are likely to contribute to their long-term development.”(Barry, 2003)

Similarly this poverty-based argument considers the effect of debt on peoples’ realisation of their fundamental human rights and freedom. It sees the burden of debt as a serious impediment to the realisation of all human right. It tries to link the debt problem to the economic, political and social problems in poor countries and their negative effect on the protection and realisation of collective and individual rights. “These problems, and this situation as a whole, are the result of the debt owed by these countries and the related debt-servicing requirements. Debt has thus become not only a means of pushing these countries into extreme poverty, but also a tool for domination and exploitation …” (Guisse, 2004).\textsuperscript{15}

The Jubilee US sees debt as a new form of slavery. “The international debt slavery means that countries are caught up in a debt trap they can’t get out of. The debt trap is made up by economic conditions that take away their sovereignty and freedom. When countries are enslaved by debt they can’t improve the lives of their citizens nor have control over their own futures.” (Jubilee USA, 2005: Ibid).

Furthermore the argument from the concept of odious debt seeks to look at debt crisis from its historical perspective and at the same time examines the legitimacy of much of the debt from a legal standpoint. “Odious debts are those contracted against the interest of the

\textsuperscript{13} Available at \url{http://www.jubileeusa.org/learn_more/why_drop_the_debt.pdf}, Retrieved on 02-03-06
\textsuperscript{14} Available at \url{http://www.jubileedebtcampaign.org.uk/?LID=247}, Retrieved on 17-02-06
\textsuperscript{15} Available at \url{http://www.southcentre.org/info/southbulletin/bulletin85/bulletin85.htm}, Retrieved on 17-02-06
population of a state, without its consent and with the full awareness of the creditor” (King, Thomas, 2003: 9). This argument considers debts transferred by colonial regimes and those contracted by despotic regimes odious. It holds that unjust transfer of debt from the former colonial Masters to the sovereign states was the beginning of the debt problem. “In 1960, the external public debt of these countries already amounted to US$59 billion. With the additional strain of an interest rate at 14 per cent, this debt increased rapidly. Before they had time to organise their economies and get them up running, the new debtors were already saddled with a heavy burden of debt” (Ibid). The new lending to these countries was spent on debt servicing instead of the intended development purposes. And by 1977, debt servicing – the annual repayment of principal and payment of interest - exceeded the gross amount of new lending by 20 per cent in Africa and 30 per cent in Latin America. “The history of international debt is a history of a massive siphoning-off by international finance of the resources of the most deprived people.” (Ibid).

Therefore the above argument seeks to question the legality of debts transferred from the colonial regimes to the new independent sovereignties. Such transfer of liability of a predecessor state should not be imposed but be analysed and solved legally. This is a matter of international Law which is outside of the ambient of this work. But those who argue on this line maintain that “the colonial power thus did not have the authority to designate unilaterally the colonised country as heir to its liabilities, whether such designation was made in a written instrument or was understood as part of a set of established juridical events. The declaration of independence cannot of itself constitute a legal mechanism by which the liabilities of the predecessor state are transmitted.” (Ibid).

Similarly the argument from the concept of odious debts seeks the cancellation of the Third World debt since much of it were incurred and transferred by past illegitimate regimes and not used for the advancement of the people of these poor countries. A statement from the African Action on debt cancellation holds that Africa’s foreign debts were mostly incurred by unrepresentative and despotic regimes during the Cold War years. It goes further to say that with the complicity of creditors; these loans were used for purposes contrary to the interest of African Nations. Even loans that were contracted with legitimate regimes were contracted for projects that were “poorly conceived, imposed by creditors, and benefited

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16 This is a working paper titled “Advancing the Odious Debt Doctrine” from the Centre for International Sustainable Development Law. Available at: http://www.odosuds.org/odosuds/publications/Advancing_the_Odious_Debt_Doctrine.pdf, Retrieved on 26-03-06.
foreign or corporate interest over the interests of African people.” (African Action: 2005). A figure from the jubilee network has it that total loan made to oppressive regimes (low and middle-income countries) amounted to $500 billion while loans to South Africa’s apartheid regime stand at $22 billion. (Jubilee Debt Campaign). And according to the Jubilee USA, much of the debt is a result of “bad faith” lending which include: the process of pushing loans on the developing countries because banks had too much money and had to lend it; knowingly lending to corrupt governments for political purposes, lending with conditions that ensued that profits return to the creditors. Some debts are results of stolen wealth, loans used to serve the interest of elites and those used to finance irresponsible projects that either had no purpose or caused harm to the people and the environment (Jubilee USA, 2005).

Furthermore argument for total debt cancellation tries to examine the relationship between amounts borrowed, the amount already paid in debt service and the actual amount owed. Those who argue for total debt cancellation argue that debtor countries have actually paid more than what they borrowed. In an article: The international anti-debt campaign: a Southern activist view for activists in ‘the North’… and ‘the South’, Don Keet writes: “In fact, the debts that these governments incurred, by whatever purposes, have in real terms already been repaid;” (Keet, 2000: 463). For instance, between 1970 and 2003, African countries received about $540 billion in loans and paid back $580 billion in debt service, yet the continent is still saddled with a crippling $330 billion in external debt. (African Action on debt). “These nations have already paid back their debts time and again. The debt crisis set in when interest rates skyrocketed and compounded interest made repayment impossible. … Nigeria borrowed $5 billion; paid $16 billion to date and still owes $32 billion.” (Jubilee USA, 2005).

In summation, those who argue against total debt cancellation base their argument on moral hazards; recklessness or corruption of leaders in poor countries; and the availability of funding both for cancellation and future lending. On the other hand, the proponents for debt cancellation point to the illegality of most of the Third World debt; and poverty in poor countries and the extent such cancellation could contribute to alleviating this poverty. The moral implications of these arguments will be examined in the next chapter.

18 Available at http://www.jubileedebtcampaign.org.uk/?lid=247 Retrieved on 17-02-06.
19 Available at: http://taylorandfrancis.metapress.com/media/p8121d9trp6tpf4wr8x/contributions/9/v/j/p/9vjpwrlyr9h46i6l.pdf. Retrieved on 26-03-06.
3.3: Debt Cancellation Strategy (HIPC)

In a bid to practically address the present debt crisis the International Monetary Fund and the World Bank in conjunction with the G-8 countries launched in 1996 the Heavily Indebted Poor Countries Initiative. “The Heavily Indebted Poor Countries Initiative is a comprehensive approach to debt reduction for heavily indebted countries pursuing IMF- and World Bank adjustment and reform programs.” (IMF, 2005). According to the IMF statement, the initiative entails a coordinated action by the international financial community, including multilateral organisations and governments, to reduce to sustainable level the external debt burdens of the most heavily indebted poor countries. What this means is that at completion, no poor country will face a debt burden it cannot manage. In 1999, after a review of the initiative, it was given a number of modifications to provide faster, deeper and broader debt relief and to strengthen the links between debt relief, poverty reduction and social policies. The initiative was further supplemented in 2005 with the Multilateral Debt Relief Initiative (MDRI) to help countries achieve the Millennium Development Goal. “The MDRI allows for 100 percent debt relief by three multilateral institutions – the IMF, the International Development Association (IDA) of the World Bank, and the African Development Fund (AFDF) – for countries completing the HIPC process.” (IMF, 2005). The HIPC proposes debt cancellation from the multilateral, the official bilateral and private creditors while the MDRI proposes debt cancellation by the multilateral creditors alone: IMF, IDA, and the AfDF.

The HIPC initiative is meant for countries who: (1) face an unsustainable debt burden, beyond traditionally available debt-relief mechanisms; (2) establish a track record of reform and sound policies through IMF- and World Bank- supported programs; (3) have developed a Poverty Reduction Strategy Paper (PRSP) through a broad-based participatory process. (IMF). This means that initially, to be considered for the HIPC a country’s debt sustainability is analysed by the IMF and World Bank to determine the country’s debt relief needs. “If a country’s external debt ratio after traditional debt relief mechanisms is above a threshold for the value of debt to exports (or, in special cases, the value of debt to fiscal revenue), it qualifies for assistance under the Initiative.” (IMF, 2005). It is open for low income countries with annual income per head of $825 or less and that have debts that are more than one and a half times their annual export earnings. (Jubilee, 2006). When a country has made sufficient progress in meeting the criteria for debt relief the IMF and the World Bank decide on a country’s eligibility for debt relief. This is called the decision point. Once a

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country reaches this decision point, it may immediately begin to receive interim relief on its debt service falling due. However, for a country to receive a full and irrevocable reduction in debt under the HIPC initiative, it must establish a further track record of good performance under the IMF- and World Bank – supported programs. This entails: (1) the satisfactory implementation of key policy reforms agreed at the decision point, (2) the maintenance of macroeconomic stability, and (3) the adoption and implementation for at least one year of the PRSP. Once a country has met these criteria, it can reach its completion point. At this point, lenders are expected to provide the full relief committed at the decision point. (IMF).

On the financing of the HIPC initiative, the IMF fact sheet holds that the initiative will be financed by both the multilateral and the bilateral creditors. It is estimated that the total cost of providing assistance to the 28 countries that have reached the decision point and the 13 other countries potentially eligible for debt relief under the enhanced HIPC initiative is about $61 billion in 2004 net present value terms. About half of this amount or more will be provided by bilateral creditors, while the rest will come from the multilateral lenders. The IMF is expected to fund its share of the cost from the investment income on the net proceeds from off-market gold sales in 1999 deposited in IMF’s PRGF-HIPC Trust while additional contributions to this trust have been provided by member countries. (ibid). All other creditors are expected to participate in this initiative. According to a World Bank statement, “Creditors share the costs of HIPC assistance on the basis of broad and equitable burden sharing and provide relief on a basis that is proportional to their share of the debts after the full application of traditional forms of debt relief; these forms include Naples terms from Paris Club creditors which provide a 67 percent NPV reduction on eligible debt.” (World Bank). Therefore Paris Club creditors will provide additional debt reduction under the HIPC initiative, as part of the overall effort to enable country exit from unsustainable debt. Furthermore, countries receiving assistance from the Paris Club are required to seek treatment on debt owed to other bilateral and commercial creditors on terms at least comparable with the Paris Club. (Ibid). On the World Bank contribution, it is prepared to commit HIPC assistance at the decision point to achieve the agreed reduction in the present value of its claims on eligible countries. Interim assistance can be made available between the decision point and the completion point, with any remaining assistance provided at the completion point. IDA - the lending arm of the World Bank – will forgive a minimum of 50% of the

annual debt service due to its existing debt and will to the extent possible deliver its full share of debt relief to the country within 20 years after the completion point. (Ibid).

In a bid for a coordinated participatory funding of the HIPC initiative by the multilateral creditors, the multilaterals established the HIPC Trust Fund. The Fund consists of contributions from participating multilateral creditors and bilateral donors. The contributions will help to ensure that all multilateral institutions are in position to meet their share of the cost. The HIPC Trust Fund provides debt relief to eligible HIPCs on debt owed to participating multilaterals. It can repay or purchase a portion of the debt owed to multilateral creditors and cancel such debt; or pay debt service as it comes due. (Ibid).

On the progress of the HIPC initiative, the IMF fact sheet has it that for the 28 countries for whom packages have been approved, debt service falling due between 1998 and 2004 on average has dropped by more than half in relation to both exports and government revenue. Before the initiative, eligible countries were, on the average, spending slightly more on debt service than on health and education combined. But now these countries, under the recent IMF- and World Bank- supported programs, have increased markedly their expenditures on health, education and other social services and, on average, such spending is now almost four times the amount of debt servicing payments. (Ibid) The following countries according to the fact sheet have benefited in some way from the enhanced HIPC initiative: Benin, Bolivia, Burkina Faso, Burundi, Cameroon, Chad, Democratic Republic of Congo, Republic of Congo, Côte d’Ivoire, The Federal Democratic Republic of Ethiopia, Gambia, Ghana, Guinea, Guinea-Bissau, Guyana, Republic of Madagascar, Malawi, Islamic Republic of Mauritania, Republic of Mozambique, Nicaragua, Niger, Rwanda, Zambia and others. (IMF).  

However, the IMF recognises an appreciable difficulty in getting this debt relief impact positively on a comprehensive poverty reduction in these countries. Even as effort is being made to ensure that money is redirected to aid the poor, difficult problems remain in war-ravaged Rwanda and Ethiopia. Pressing reconstruction needs may need large new loans at the same time that old ones are being reduced. There is also serious problem with HIPC countries that have not been able to reach their decision points, due to uneven policy records or poor governance, which also may be caused by serious problems like civil conflict. Other countries like Sudan and Liberia, both afflicted by civil conflict, also have debts too large to

write off given current funding for the initiative. Due to the above problem the IMF and the World Bank recently agreed to extend for an additional two years, to end-2006, the deadline – known as the “sunset clause” – for remaining HIPCs to adopt an IMF- or World Bank – supported program of adjustment reform that would allow their consideration for debt relief under the enhanced HIPC initiative.24

Notwithstanding the above achievements of the Heavily Indebted Poor Countries initiative, it has been trailed by numerous criticisms by the civil liberty organisations. The method of selection of the beneficiary countries has been criticised as based on analytically imprecise and political criteria. Not all the countries in need of debt cancellation are included in the HIPC initiative. While up to 62 countries should be considered only 38 are meanwhile covered in the initiative. “These 62 countries owe a total of $100 billion in debt service through 2015. The G8’s offer currently applies to 18 countries, for a total cancellation of $10 billion through 2015. This means that the deal cancels a mere 10 percent of all debts that need to be cancelled.” (Timotiva, 2005).25 According to a statement from the Jubilee Network, “HIPC is too limited – many more countries need and deserve debt cancellation.” (Jubilee, 2006).26

Again the HIPC initiative does not address the issue of inequality between the rich and poor countries in the international financial system. Timotiva considers this a fundamental issue and a major contributing cause of the debt problem. “A lasting solution to the debt problem must address this inequality – for example, through the creation of a debt resolution mechanism that will consider, through an independent, fair, and transparent process of arbitration, how debts have been accumulated.” (Timotiva, 2005). And similarly, in the process of debt resolution, all parties – creditors and debtors- must be able to participate fully in the process of debt resolution. The determination of debt sustainability level used in country selection is done only by the creditors themselves. If the debtors had say in determining the debt sustainability level, up to the 62 countries will be eligible for debt cancellation. (Ibid). The initiative is controlled by creditors. They do not accept responsibility for their part in creating and maintaining the debt crisis, or allow poor countries to have a say. (Jubilee, 2006).


Furthermore, there should be an all-inclusive participation of all creditors in the HIPC initiative since the debt crisis is a global problem and hence requires a global solution. Presently the initiative does not include all debts because some countries, banks and companies refuse or fail to take part in it. And some of those that take part only provide relief on a case-by-case basis. (Timotiva, 2005 and Jubilee, 2006). Those not part or partially part of the initiative are not mentioned by these authors. 

Another problem with the HIPC initiative is that it links debt cancellation with aid reduction and conditionality. Under the initiative, all of the debt that a country pays to the International Development Association will be cancelled but simultaneously, the donors will adjust or reduce the IDA aid allocations to the country by an equivalent amount. This means that any new aid after the cancellation will be linked to governance conditionality to be imposed by the IMF and the World Bank that may potentially be harmful to the recipient country. (Timotiva, 2005). Presently, debt cancellation under the initiative is linked to severe conditions imposed by the IMF. Referring to these conditions, a Jubilee statement has it that the HIPC comes with damaging and unfair strings attached. It states further:

Typically these conditions will include measures to target poverty but they also include compliance with all kinds of economic policy conditions which can undermine poverty-reduction efforts. For instance, countries have to cut public spending, meaning fewer teachers or doctors; they are told to privatise basic service like water or electricity, meaning worse service and higher prices for the poor; or they are made to liberalise trade, leaving poor farmers and producers unable to compete with import from the rich world. (Jubilee, 2006).

The conditions have been disastrous for poor countries. And debt relief or cancellation is tied to a country’s compliance with the conditions. The African Action points to the failure of the initiative to provide a solution to the debt crisis due to the strict conditions attached. Due to the illegitimate nature of African debt, it is inappropriate for creditors to put any conditions on the cancellation of irresponsible loans. Again such conditions erode the sovereignty of African countries to determine their own economic policies. It also faults the initiative not just because it dictates economic policies but also that it “extracts the maximum in debt repayment from poor countries before writing off the balance.” (African Action, 2005)27 This is similar to the criticism above that the HIPC initiative does not provide 100% unconditional debt cancellation which is the demand of the poor countries and the civil liberty organisations.

In this chapter, I have tried to examine some of the major empirical issues involved in the present global debt crisis. As some creditors have tried to find constructive solutions to the problem, others have tried to give only a legalistic approach to it until the recent Heavily Indebted Poor Countries Initiative. As the initiative tries to find remedy to the situation, many arguments are still put forward for and against unconditional and 100% debt cancellation for poor countries. In the next chapter of this work, I will try to look at the moral implications of those arguments and their implication for global justice.
Chapter 4: Moral Implications for Global Justice

In the preceding two chapters, I have tried to look at some of the empirical issues surrounding the international debt crisis especially its history, facticity and the effects on the international financial system and on the global poor found in the Third World countries. The immediate last chapter has tried to focus more deeply on the more critical issues. These include the efforts to handle the crisis through debt rescheduling and cancellation, the arguments for and against debt cancellation and the present initiative by the World Bank and The International Monetary Fund to end the debt crisis. However, many proposals have been put forward aside various criticisms levelled against the HIPC initiative. For the purpose of this work and limited time and space, I wish to consider the moral implications of the arguments for total debt cancellation already outlined in the previous chapter. I wish to pay much emphasis to the arguments concerning the legitimacy of the debts and the effects of debt overhang on the poor countries. This I will do under or with two global justice theories of rectification and distribution as tools. If the debts or a greater percentage of it was actually illegally incurred, its cancellation could be viewed from the standpoint of rectificatory justice. Since it is argued that debt overhang and its servicing obligation on the poor countries could or has often hampered the eradication of poverty in the poor countries, its cancellation could be a form of global distributive justice. In an effort to demonstrate this I will also try to respond to the arguments put forward against total debt cancellation. It is important at this junction to recall that my thesis seeks to find reasons why the demand for debt cancellation should not just be seen as a demand for favour from the rich nations but a demand of justice. This will be demonstrated in this chapter.

4.1: Global Rectificatory Justice

Rectificatory justice is also referred to as justice of restoration of past wrongdoing. It refers to just compensation for transactional problems such as breaches of contract and malpractice. (Beauchamp and Childress, 2001: 226). Rectificatory justice is backward looking in that it considers the negative effect of an act on the one to whom the act was directed on one hand and on the relationship between the actor and the recipient on the other. How could such negative effect or damage or injury be paid for? I wish to discuss rectificatory justice from the standpoint of Aristotle and Robert Nozick.
Aristotle.

Aristotle’s theory of rectificatory justice in accordance with arithmetical progression is based on a requirement to restore the balance of goods when one agent wrongfully takes what belongs to another. If an agent commits a wrongful act against another, justice requires that we rectify the situation by restoring the goods that have been wrongfully taken. Aristotle tries to demonstrate this first of all by identifying a correlation between justice and equality in every transaction between two persons. In such situation, justice is a sort of equality while injustice is a sort of inequality according to an arithmetical proportion. This injustice or inequality is also a sort of injury which deserves reparation and this is the central role of a judge. “The law looks only to the distinctive character of the injury, and treats the parties as equal, if one is in the wrong and the other is being wronged, and if one inflicted injury and the other has received it. Therefore this kind of injustice being an inequality, the judge tries to equalize it;” (Aristotle, 1908)

There is an unequal distribution of suffering and action in a case in which one has received and the other has inflicted a wound, or one has slain and the other been slain. In this case, the judge tries to equalise by means of taking away from the gain of the assailant and this is by penalty. (Ibid).

For the term gain is applied generally to such cases, even if it be not a term appropriate to certain cases, e.g. to the person who inflicts a wound and ‘loss’ to the sufferer; at all events when the suffering has been estimated, the one is called loss and the other gain. Therefore the equal is intermediate between the greater and the less, but the gain and the loss are respectively greater and less in contrary ways; more of the good and less of the evil are gain, and the contrary is loss; intermediate between them is, as we saw, equal, which we say is just; therefore corrective justice will be the intermediate between loss and gain. (Ibid)

So in dispute he goes on, people take refuge in the judge since to go to the judge is to go to justice for the judge is a sort of animate justice and thus is sought for as an intermediate. This is why the judge is called in some places a mediator because he restores what is intermediate between loss and gain which is equality.

The basic assumption behind Aristotle’s theory of rectificatory justice is that people existing in a given society are in possession of certain goods. If an agent takes some goods from another agent, the action requires a principled justification or the consent of the agent from whom the good is taken. Justice of taking good without justification could or is only based on rectification, where goods that have been acquired unfairly by one person at the cost of another are taken back and equilibrium between the wronged and the agent who acted

Aristotle’s rectificatory justice theory is a theory of reparation and restoration. The harm done ought to be paid for and that which is taken away: property, health or generally, good life has to be restored to its rightful owner. It is assumed that one who inflicts harm receives some good in expense of the inflicted one who is deprived of her own good. Rectification requires that there be a restoration of the balance of goods. The judge does this as though there were a line divided into unequal parts, and he took away that by which the greater segment exceeds the half, and added it to the smaller segment. (Aristotle, 1908)

The above principle of rectificatory justice is quite well suited in the present discussions bordering on the international debt crisis and even on the relationship between the rich countries of the North and the poor Third World countries of the South. This is because one could argue that much wealth from the South has been moved to the North thereby inflicting some harm on the southerners’ economy and this demands reparation. Before a detailed analysis of this, let me x-ray the principle of rectificatory justice from the standpoint of a modern thinker, Robert Nozick.

Robert Nozick.

Robert Nozick is one of the prominent libertarian thinkers of our time. His theory is a defence of absolute property right after the property right argument of John Locke. To enunciate his libertarian theories, Nozick propounded his entitlement theory and in it made reference to the justice of rectification. The entitlement theory is a defence of absolute property right and free market exchange. In the theory, he enunciated three main principles:

1. a principle of transfer – whatever is justly acquired can be freely transferred.
2. a principle of just initial acquisition – an account of how people come initially to own the things in accordance with (1).
3. a principle of rectification of justice – how to deal with holdings if they were unjustly acquired.


Hence Nozick seeks to demonstrate that any form of distribution that arises from free exchange between persons entitled to their holdings must be just. This is based on the assumption that people have legitimate titles over their holdings and can distribute or exchange them freely as they deem fit. He derives this absolute property right from self-ownership right. Self ownership for Nozick implies that one owns oneself, one’s talents and

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2 Available at: http://www.csus.edu/org/pswp/An%20Aristotelian%20Justification%20of%20Capital%20Punishment.doc. Retrieved on 12-04-06
whatever is the fruit of the use of one’s talents. “If I own myself, then I own my talents, and if I own my talents, then I own whatever I produce with my self-owned talents.” (Ibid, 109). So whatever distribution arises from any free exchange with the products of my talent is just.

However, if people have right to exchange their holdings and a corresponding legitimate entitlement over the result of such free exchange, Nozick was confronted with the task of demonstrating the legitimacy of such entitlements prior to free exchange. “The question about the initial acquisition of external resources is prior to any question about legitimate transfer. If there was no legitimate initial acquisition, then there can be no legitimate transfer, on Nozick’s theory.” (Ibid, 111). In response to this puzzle, Nozick propounded the initial acquisition theory. First he said: “Things come into the world attached to people who have entitlement over them.” (Ibid). I would think that with this, Nozick meant ownership by inheritance. If this is the case, the question remains unanswered since my ownership of a portion of land by inheritance does not give account of how my father or great grand fathers acquired it initially. What of secondary resources which contain some natural elements that did not come as private property? “Everything owed has some elements of nature in it.” (Ibid). Nozick answered that resources came to be someone’s property by force. If this is true, then this force made the initial acquisition illegitimate. This means, deriving from his entitlement theory, that current titles and new distributions from market exchange arising from them remain illegitimate. (cf. Kymlicka, 2002:111).

The above conclusion led Nozick to the issue of rectification since the process of taking resources initially by force rendered entitlements illegitimate. He talked of restoration of resources to their rightful owners through a one time general redistribution of resources in accordance with Rawls’ difference principle. Nozick thus propounded his theory of rectificatory justice and maintained that justice is a matter of history and that any initial acquisition that passed the test of Lockean Proviso is legitimate. John Locke had in his theory of property stated that one can acquire absolute rights over disproportionate share of the world, if one does not worsen the condition of others. “Nor was this appropriation of any parcel of land, by improving it, any prejudice to any other man, since there was still enough and as good left, and more than the yet unprovided could use.” (Fremery, 1979)

However the concept of ‘worse off’ has generated much controversy as its interpretation could vary according to culture and circumstance. Nonetheless, its application in this study is still appropriate as history has shown that the world’s natural resources were

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3 Available at: www.cooperativeindividualism.org/fremeery nozick review of.htm, Retrieved on 09-03-06.
appropriated by the stronger in the north and leaving the poor in the south not in any way better off. This appropriation was made by force by the colonial masters and their agents in the past and today the Third World countries are experiencing severe hunger and avoidable death from starvation and curable diseases. Nozick’s concept of restoration could be applied in a way to rectify this inequality or injury not just through one time redistribution but even through debt cancellation. There are also stronger arguments for debt cancellation based on the principle of rectification as already pointed out above. The arguments point to the illegality of the debts; the over-payment of the existing debt through debt servicing; and a global economic order that has continued to render the Third World too vulnerable to economic crisis. If the above could be established, it becomes then a matter of justice that the debts be cancelled as a matter of rectification.

**Odious Debts**

It is a strong argument among anti-debt crusaders that Third World debt should be cancelled because of the odious nature of most of the debts. The doctrine of odious debts is a legal instrument that could serve a moral purpose since it could be used to examine the moral implications of the present debt crisis. So it tries to present both a legal and moral argument. What does the odious debt principle imply and to what extent is it relevant in our discussion on debt cancellation?

The doctrine of odious debt questions the form of transfer that took place in the loan transactions that led to the massive debt overhang on the poor countries. “Odious debts are those contracted against the interest of the population of a state, without consent, and with the full awareness of the creditors. The doctrine states that in such cases, the debt is odious under international Law and unenforceable against the alleged debtor.” (King, 2003: 13). Quoting Alexander Nahum Sack, the author continues:

> When a despotic regime contracts a debt, not for the needs or in the interests of the state, but rather to strengthen itself, to suppress a popular insurrection, etc, this debt is odious for the people of the entire state. This debt does not bind the nation; it is a debt of the regime, a personal debt contracted by the ruler, and consequently it falls with the demise of the regime…. Odious debts, contracted and utilised, for purposes which, to the lender’s knowledge, are contrary to the needs and the interests of the nation, are not binding on the nation – when it succeeds in overthrowing the government that contracted them – unless the debt is within the limits of real advantages that these debts might have afforded. (Ibid: 14)

With this the author stipulated three conditions that are necessary for a debt to be considered odious as including: “(1) the debt has not received the general consent of the nation, (2) the
borrowed funds are contracted and spent in manner that is contrary to the interests of the nation, and (3) the creditors lend in awareness of these facts.” (Ibid.)

Let me look at the interpretations of these conditions as given by this author. The underlying rational for the requirement of consent in loan agreements is that international law cannot prohibit states from consenting to agreement which may turn out to be detrimental to them, or even those which are on their face detrimental to them provided that consent was given in a legitimate manner. This means that proper consent by a state eliminates the issue of illegitimacy and an absence of it kills legitimacy. As Sack considers despotic regimes, where the people do not will the transaction to occur, in his understanding of odious debts, Feilchenfeld thinks that odious debts devoid of such consent are not limited to dictatorial regimes. (Ibid: 15) However how legitimate consent is to be obtained or determined in an agreement involving a state is a matter of international law and politics. But I would think that a legitimate regime like in a true democracy obtains such consent from the population through first a free and fair general election and through the people’s representatives in a parliamentarian procedure. This however was often lacking in despotic regimes (military or civilian) found in most of the new independent states since 1960s.

Another condition says that borrowed funds must be contracted and spent in manner that is contrary to the interest of the nation. This condition requires that (1) the proceeds are spent against the interests of the state, and (2) the debt is contracted against the interest of the nation. It is suggested that the first condition above requires that a debt contracted against the interest of the nation and the proceeds were later used for its interest does not fall within odious debt category. While on the other hand, a debt contracted for the benefit of the state and with full consent but later not used for the interest of the state, still falls outside the odious debt category. “… the debtor state would still be required to repay even in the absence of benefit, for the debts were in fact incurred for the benefit of the state.” (Ibid: 16). In this last case it could be said that the leader of such government deceived both the state and the lender. In such situation of deception, who bears the consequences, the succeeding government or the innocent creditor? The above suggests not the creditor but the nation. As I consider such suggestion morally justified it is important to note that it is a matter of debate whether these debts contracted for the Third World countries have been used for the interest of the states. The level of development in these countries point to the contrary. A bulk of it was contracted by unrepresentative regimes and much of the proceeds starched in foreign banks in the rich countries with full knowledge of such banks and probably the governments of those countries.
Finally, the last condition says that the creditors be subjectively aware of the odious purposes of the loan, and conclude the deal under that awareness. The rational behind this condition is that it is unjust to allow creditors suffer for what they were in no way responsible for. It is suggested that this condition is meant to protect the interest of the creditors. Nevertheless, practice has made it that such awareness is highly imputable. In Cuban loan case and the Tinoco Arbitration creditor’s awareness was much emphasised. The Cuban loan case of late 19th century arose after the Americans had taken over the sovereignty of Cuba from the Spanish imperialists. The Spanish had argued that a principle of international law states that state obligation belongs to a land and its people, not a regime. Citing different cases the Spanish held that the new government should inherit the said debt. The Americans replied that the cases cited by the Spanish were inapplicable, legally and morally to the so-called Cuban debt. Arguing that the borrowings were made to suppress opposition from the Cuban people, and was spent in manners contrary to their interests, the Americans pointed out specifically at the awareness of the creditors: “The creditors from the beginning took the chances of the investment.” (Adams; 1991)\(^4\) None of the debts was inherited either by the Americans or the Cubans. In the Tinoco arbitration, the successor to Frederico Tinoco of Costa Rica had repudiated the country’s debt to the Royal Bank of Canada. This was challenged in Great Britain vs Costa Rica and was heard by the Chief Justice Taft in 1923. Arguing that the said loan was given for personal purposes of the ex-dictator and were full of irregularities, the Chief Justice referred to the awareness of the lenders in this judgement:

The case of the Royal Bank depends not on the mere form of transaction but upon the good faith of the bank in the payment of money for the real use of the Costa Rican government under the Tinoco regime. It must make out its case of actual furnishing of money to the government for its legitimate use. It has not done so. The bank knew that this money was to be used by the retiring president, F. Tinoco, for his personal support after he had taken refuge in a foreign country. It could not hold his own government for the money paid to him for this purpose. The position was essentially the same in respect to the payment made to Tinoco’s brother. The Royal Bank of Canada cannot be deemed to have proved that the payments were made for legitimate governmental use. Its claim must fail. (Ibid)

Furthermore it is quite difficult to establish the subjective awareness of the creditors. But Bryan Thomas argues that 1970s commercial lending to developing countries was in a sense uniquely amenable to cancellation under the doctrine of odious debts since those lenders

\(^4\) Available at: [http://www.probeinternational.org/probeint/OdiousDebts/doctrine.htm](http://www.probeinternational.org/probeint/OdiousDebts/doctrine.htm). Retrieved on 08-05-06

Energy Probe Research Foundation is an environmental think-tank who performs research on issues affecting Canadians. This information was gotten from its website.
in most cases were more informed about the end uses of such loans than the bondholders of the previous era (1960s). He said that a mixture of short-sightedness and greed combined with layers of principal-agent problems contributed to the developing countries debt crisis since senior bank officials were hungry for the high interest rates and significant upfront fees they could extract from southern borrowers. (Thomas, 2003:91 & 99) He writes that few World Bank loans could fall within the odious debt category since the extensive involvement of the Bank’s loan officers in projects could make it easy to establish subjective awareness or wilful blindness. The World Bank loans were project loans and are monitored by a specific protocol called a ‘project cycle’. This cycle involves a thorough examination of the project, before the loan is granted and supervision of the execution of such projects till completion by the World Bank officers. This makes the World Bank loans differ from the carefree policies of commercial banks in the 1970s. This close supervision of projects by the World Bank officers does not indicate an absence of corruption in granting of such loans. It rather points to a possible wilful blindness in the face of corruption on the part of the officers themselves. These officers must have either corroborated with corrupt government officers in embezzling borrowed funds in poor countries either actively or passively. Until recently, this has often been denied by the Bank. But recent statements from the World Bank President, James Wolfensohn in 1996 point to their acceptance of some elements of corruption within their rank: “Let’s not mince words: we need to deal with the cancer of corruption.” Following this statement, the World Bank created an anti-Corruption Task Force charged with the task of revising World Bank protocol to combat corruption. The IMF loan is not likely to be considered odious since most of such loans were granted on conditions and meant to avert default and aid countries in balance of payment problem. Corrupt governments of the 1970s, afraid of the strict IMF Structural reform conditions, preferred to contract unconditional loans from private creditors. Again, IMF has a purely macroeconomic mandate: its role is not to fund projects, or even to gather information on the political economic activities of its member nations. “Thus even if loans disbursed by IMF were misused, it may be very difficult to demonstrate that officials with the fund were aware that they would be misused.” (Ibid: 103-104).

Nevertheless an argument for debt cancellation based on the doctrine of odious debt assumes the satisfaction of all the above conditions. Karen Lissaker, US representative in the IMF had said in 1996 that if we were to apply the principle of odious debt, most of the Third World debt would simply disappear. (Cf. Thomas, 2003: 100). The first condition of absence of consent above, when applied to despotic regimes, appears quite inclusive of others.
despotic regime ab initio is unrepresentative of the population and does not have the consent of the people in any transaction it carries for or in the name of the state. This fact the creditors cannot claim ignorant of. It will be quite difficult for any lender in the 1970s and 1980s to demonstrate that it did not know whether a certain regime it was contracting business with was a legitimate representative of the people or not. Such must be a culpable ignorance. After all, “Know your client” is one of the cardinal rules of banking. The banks chose to disregard this maxim and opted for the newly invented “syndicate loans”. (Columban, Ibid). Furthermore recall that Taft’s judgement on Tinoco arbitration required that the Royal Bank of Canada demonstrate that the borrowed funds were legitimately used. This the Bank could not do. Therefore it will be the moral responsibility of the creditors to demonstrate the legitimacy of their claims on Third World countries by demonstrating that: (1) they were not only ignorant of the moral status of the regimes that contracted the loans but also that their ignorance was not culpable; and (2) that such borrowed funds by the unrepresentative regimes were used for the interest of the countries.

Moreover, Thomas Pogge argues against a global economic order that impoverishes the poor countries. This global economic order is one that encourages the despotic regimes in poor countries. Such global order recognises internationally any group controlling the preponderance of the means of coercion within a country as the legitimate government of this country’s territory and people regardless of how such group came into power, of how it exercises it and the amount of support or disapproval it receives from the population. Such recognition extends to the extent that “we accept this group’s right to act for the people it rules and, in particular, confer upon it the privileges freely to borrow in the country’s name (international borrowing privilege) and freely to dispose of the country’s natural resources (international resources privilege). (Pogge, 2002:112-113). This could be a morally justified response to the arguments against debt cancellation that hinge on the corruption of leaders in the Third World countries.

Pogge’s argument is that with the above privileges, despotism is highly encouraged in the Third World countries and that whatever transfer made with despotic regimes should be considered illegitimate. With the international resource privilege, any group that overpowers the population assumes the legal right to own and transfer the resources of the nation. He makes analogy with a group that overpowers the guards and takes control of a warehouse. Such a group may be able to sell some of the merchandise; taking money in exchange and the buyers are recognised as legitimate owners. A similar thing happens when a small group of people takes over the government of a country through unconstitutional
means. They enjoy the privilege to control the resources of the country. Such privilege often enjoyed by despotic regimes has encouraged military insurrection and corruption in resource rich countries like Nigeria, Congo/Zaire, Kenya, Angola, Mozambique, Brazil, Venezuela, and the Philippines, Burma/Myanmar, the oil rich Middle East and other resource rich countries. Similarly the borrowing privileges encourage corruption in these countries since any government, legitimate or illegitimate, can borrow funds in the name of the whole society, thereby imposing internationally valid legal obligation upon the country at large. Pogge has tried to outline the effect of this borrowing right on poor countries’ corruption. Such borrowing right puts a country’s full credit at the disposal of the most “loathsome ruler” who can borrow money more cheaply in the name of the country and use such money to maintain himself in power despite opposition. It also strengthens incentives for coup and civil war since whoever wins the government enjoys the right to borrow and use the proceeds as he wills. The country in question bears the blunt of over indebtedness when the dictator finally leaves office. “it thereby saps the capacity of its (a country’s) fledging democratic government to implement structural reforms and other political programmes, thus rendering it less successful and less stable than it would otherwise be” (Ibid:113-115 bracket mine). This is the situation in which the Third World countries are today and thus the need to have their debts cancelled as a matter of justice.

If the above argument from Pogge is anything to go by, it is important to note that most of the third world debt is odious since they were contracted within an unjust global system. The transfers made in such contracts should be considered illegitimate using Nozick’s expression. And any obligation of debt repayment arising from it should not be justifiably imposed on the Third World countries and their poor citizens. Yet today, the Third World countries saddled with heavy debt burden are shown to have even paid more than what they actually borrowed. Recall as shown by African Action above that between 1970 and 2003, African countries received about $540 billion in loans and paid back $580 billion in debt service, yet the continent has a debt profile up to $330 billion. The countries under review in this report must have been ruled by despotic regimes after some parts of the debt were inherited from colonial regimes. And payment of the above figure within these years must have inflicted some harm on the economic life of the countries and the health, education and life expectancy of their citizens. Yet such payments were made on loans a bulk of which was ab initio contracted under illegitimate arrangement and without full consent of the people. I argue that this harm is worth paying for as a matter of justice. If not through a repatriation of money already spent in servicing illegitimate debt, it could be through an
outright and unconditional cancellation of the outstanding balance. Rectificatory justice seen in the light of Aristotle would recommend this. Nozick’s rectification for resources appropriated through illegitimate transfer can as well make a no less appeal.

Finally, an argument from the odious debt can respond to the argument above that debt relief could encourage moral hazards by arguing that repay of odious debts can encourage lending to pariah regimes. If banks could lend to apartheid South Africa in the face of global opposition, and global calls for sanctions and still collect on the loans, then the signal to international banks is that they can lend to any regime, no matter how repugnant. This is moral hazard which in turn encourages immoral lending. (Action for South Africa; 1998)\(^5\)

4.2 Global Distributive Justice

It is important to recall one of the important arguments put forward for debt cancellation. This argument holds that debt burden hampers the Third World countries’ effort to fight poverty and achieve a reasonable degree of self determination. It holds inter alia that debt servicing has sapped these nations enormous resources that otherwise would have been spent on education, agriculture and healthcare to improve the living standard of the people. It is true this argument can be faulted from the ground that poverty in poor countries is a result of poor civic and political culture, yet the argument provokes a genuine concern for the global poor. It calls for a deeper re-examination of the global resource distribution scheme and questions the moral implication of a concern, the manner of it or absence of it for the suffering individual in the other part of the globe quite beyond the national boundaries. The necessity, appropriateness, urgency or otherwise of such concern and manner of its expression has generated different distributive justice theories from contemporary moral thinkers. There is a sharp divide between those who hold that even with a genuine concern for the global poor, that it is not possible to apply the difference principle globally (the nationalists) and those who hold there should be a possible global difference principle for the global poor (the cosmopolitans). As the former is led by John Rawls, the later is most led by Singer, Peter and others. I wish to present here the views of these thinkers on global distributive justice and see their implication for our present discussion on debt cancellation. Could debts be cancelled as a form of global distributive justice?

\(^5\) Available at: [http://www.globalissues.org/TradeRelated/Debt/Causes.asp](http://www.globalissues.org/TradeRelated/Debt/Causes.asp), Retrieved on 5-05-06
Distributive justice focuses on how the resources, benefits and burdens of a given society are distributed. “The concept of distributive justice is usually defined as meaning the fairness of redistribution of social and material goods, including liberties, rights, and entitlements”. (Hellsken, 1998: 817). The concern of distributive justice is yielding, allotting, assigning, or resigning, to the members of a society what they need, deserve and are entitled to. Distributive justice is equated with distributional questions of a society whether a particular society or a global community. It is often assumed that the material object of distributive justice are social goods and material resources which ought to be distributed to all according to what one deserves or needs. (Ibid). I will be concerned about these goods and the effects of their lack on people’s actualisation of their fundamental human rights.

The concern for the inappropriate distribution of these goods in a society inspired the theories of distributive justice and its application to the global level led to the issue of global distributive justice. Global distributive justice aims to address global economic inequality and to formulate normative principles that could suitably prescribe practical measurers towards the liberation of the global poor. The global economic inequality increased fifteen years after the end of the Cold War to the extent that despite an impressive rise in human affluence overall, hundreds of millions still barely survive from one day to the next. People have suffered from hunger and malnutrition, child labour and trafficking, from lack of access to basic health care and safe drinking water, lack of shelter, basic electricity and elementary education. About 18 million people have died from poverty-related causes per year. Thomas Pogge gives a sketch of the United Nations Development Programme report on human development between 1998 and 2003. The report holds that in 2001, among 6133 million human beings, about 799 million are undernourished; 880 million in 1999 have no basic access to basic medical care; 1000 million in 2003 lack access to safe drinking water while 2400 million lack basic sanitation; 1000 million and 2000 million in 1998 lack adequate shelter and electricity respectively; 876 million adults are illiterate while 250 million children (aged 5-14) are engaged in wage labour outside their homes and others involved in various forms of forced labour. (Pogge, 2004:30-31)\(^6\)

As a section of the global population is affected by the above statistics, the other section lives in affluence and good health. “Hundreds of millions enjoy a high standard of living with plenty of spare time, travel, education, cars, domestic appliances, mobile phones, computers, stereos, and so on.” (Pogge, 2002: 98-99). And this points to the extent of global

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\(^6\) A footnote in Pogge’s article, Real Word Justice.
inequality which according to Pogge has been on the increase since last fifty years. He said that 32 (countries) high income economies plus Hong Kong with 14.9 percent of world population and 79.7 percent of aggregate global income, have annual per capita income of $27,150 while for the world as a whole, the annual per capita income is $5,150. With the annual per capita income of $85, the collective income of the bottom quintile is about $103 billion annually, or one third of 1 percent of aggregate global income. On individual wealth, the assets of the top three billionaires are more than the combined GNP of all the least developed countries and their population of 600 million people. (Ibid).

Ethicists are today divided on the normative approach to the global inequality. The nationalists hold that in spite of the global inequality, it not feasible to apply globally the difference principle found in Rawls principle of justice. On the other hand, the cosmopolitans see it as a demand of justice that the global inequality should be remedied by a global principle of distributive justice. The Nationalists defend a claim of justice for fellow nationals. They base their theories on their understanding of a nation as a “community (1) constituted by shared belief and mutual commitment, (2) extended in history, (3) active in character, (4) connected to a particular territory, and (5) marked off from other communities by its distinct public culture.” (Cf Caney, 2001: 980). Three different theses have been propounded in defence of nationalist theories: the national duty thesis; viability thesis; and the allocation of duty thesis. The national duty thesis emphasises the ethical ties generated by the membership of a nation and therefore holds that individuals hold a special obligation of distributive justice to members of their nation. This theory is supported mainly by Miller and Tamir who hold that this thesis is intuitively plausible and can be defended with the concept of reciprocity. Individuals have special duties to others if they engage in a joint corporative system typified in a nation. (Ibid). The viability thesis looks at the feasibility of a global distributive justice and holds that a system of distributive justice is only feasible if mapped onto national communities. For Miller, people’s willingness to comply with a system of justice determines its successful implementation. People will therefore willingly comply with a system of distributive justice if it involves redistribution to fellow nationals. (Ibid: 981). The allocation of duty thesis on the other hand holds that nations have special duties to ensure that their members receive their just entitlement. (Ibid: 982)

Furthermore there is also the society of state approach to nationalism which states that international justice requires that sovereign states respect other states’ independence. They should not therefore seek to implement any cosmopolitan ideals of distributive justice which some states would not accept. (Ibid: 983). This approach is mostly represented in John Rawls
Law of Peoples. In the Law of Peoples, Rawls presented a particular political conception of right and justice that applies to the principles and norms of international law and Practice. (Rawls, 1999: 3). He developed a liberal theory of justice for the liberal and non-liberal but decent people in the global society as he did for the liberal people in the domestic society. His idea of justice is based on the idea of social contract in which the principles of justice are selected in a hypothetical original position and behind the veil of ignorance. This means that in this hypothetical original position, the representatives of the people do not know for example, the size of the territory, or the population or the relative strength of the people whose fundamental interest they represent nor do they know the extent of their natural resources or the level of their economic development (Rawls 1999: 32-33). The representatives of people (leaders of nations) in the Law of Peoples would choose principles that will govern the entire world. The principles to be chosen are similar to the first one chosen by the representatives in the original position in A Theory of Justice which holds that each person is to have an equal right to most extensive liberty compatible with a similar liberty to others and to such issues like self-determination, and just wars and justice in war. (Ibid: 32-33). However, the second principle, which allows for inequality in our basic structure only to the extent that such inequality benefits the worst-off individual in the society, is left out. (Cf. Tan, 2004: 55). With this Rawls does not think that the difference principle should be applied in a global principle of justice.

With the rejection of a global difference principle, Rawls developed in his Law of Peoples a theory of global justice that is nationalistic. He argues that instead of a global difference principle aimed at redistributing wealth for the global poor, well ordered societies owe a duty of assistance to help people (the burdened societies) living under unfavourable conditions that prevent their having a just or decent political and social regime and not to lower the gap between the rich and poor. (Rawls, 1999: 106). He rejects the use of any distributive scheme to regulate economic and social inequalities among societies. This is because according to Rawls, the major cause of poverty in poor countries lies not in the scarcity of resources or inequality in natural resource allocation but on their political culture or its members’ political and civic virtues. (Ibid: 117). This means that every society of liberal people have a full potentiality to be well off given a proper political will and culture. Every country has enough human and natural resources to build a great society but due to improper use of these resources through bad political culture and poor civic mentality, such resources are not put at their optimum utilisation. Any taxation on those who made proper use of theirs is not acceptable to Rawls since it will punish the nations that made proper use
of their resources and compensate those who due to choice of theirs did not. And this will not be acceptable to other liberal decent nations. With the above theory, Rawls would not consider it a demand of distributive justice that the debts of the Third World countries be cancelled. He seems to be arguing on the same line with those who hold that debt forgiveness is a way of rewarding recklessness – paying those who must have misappropriated resources entrusted to their care for positive development. (Cf Earsterly’s argument above)

Nevertheless, Rawls thinks that the ordered societies have a duty of assistance to the burdened societies. These burdened societies are living under unfavourable conditions since they “… lack the political and cultural traditions, human capital and technical know-how, and, often, the material and technological resources needed to be well-ordered.” (Rawls, 1999: 106). The ordered societies have a duty to assist these societies build up such traditions and resources and to help them become full members of the Society of Peoples and to be able to determine the path of their own future for themselves. This duty of assistance holds until all societies have achieved just liberal and decent basic institutions. This Rawls calls “an egalitarian principle with target.” (Ibid: 118-119). Rawls does not call this a duty of justice. However, could this argument be applied to this discussion on debt cancellation since it is argued that debt burden has prevented some countries from building basic institutions of health, education and agriculture? Lack of these basic institutions has continued to affect other areas of people’s life especially economic and political life as a result of which there are absolute lack of sound democratic values and free and a reasonable degree of political participation in most debtor countries. If therefore, debt cancellation can assist tackle poverty, even in a small measure, could a Rawls in his theory of duty of assistance not consider debt cancellation a moral imperative for the ordered peoples? Perhaps, this will make an ethical sense since such debt cancellation will be a form of egalitarian principle with a target. After all Rawls holds that the duty of assistance “seeks to raise the world’s poor until they are either free and equal citizens of a reasonably liberal society or members of a decent hierarchical society.” (Ibid: 119). But how acceptable will this theory of duty of assistance be to the cosmopolitans as a strong obligation of justice? This will be answered as I consider the cosmopolitan ideas of global distributive justice.

As stated above, the cosmopolitans argue for a principle of distributive justice that cut across national borders. Their major claim is the affirmation of a universalist moral personality of every individual person. They state that all persons, whatever their creed, cultures, ethnicity, or nation should be included in the scope of justice. “Given the reasons we give to defend the distribution of resources and given our conviction about the irrelevance of
people’s cultural identity to their entitlement, it follows that the scope of distributive justice should be global (Caney, 2001: 977). A cosmopolitan, Kok-Chor Tan disagreed with Rawls that the well ordered societies have just a duty of assistance to the disordered societies. Rather, for the sake of global justice the rich countries owe a duty of justice to the poor countries and this should be the focus of any discourse on global justice. This is because the duty of assistance does not address the global structural context within which countries interact. Duty of justice applies directly to this background. (Tan, 2004: 23). This shows that the cosmopolitans are also concerned about the global institutional structure within which countries interact. I wish to consider two important versions of cosmopolitan justice: the right-based version and the goal-based version. The right based version emphasises the right of all humans to economic resources while the goal- based version emphasises the utilitarian view that welfare of all human beings should be factored in and maximised. (Ibid: 978-79). I will look at these versions one after the other.

The right-based cosmopolitan theory of justice is supported mainly by Thomas Pogge. He looks at the right of the individual person to a minimum standard of living as found in the United Nations Declaration on Human Right. The UN Declaration on human right says this in section 25(1): “Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the events of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control.” He defends an institutional understanding of human right as opposed to the interactional understanding. The interactional understanding of human right makes a claim on governments and individuals not to violate human rights. The institutional understanding on the other hand, makes a claim on individuals and governments to work for an institutional order and public culture that ensures that all members of society have secure access to the objects of their human rights. (Pogge, :65). This understanding has a correlative negative duty that individuals and perhaps governments do not help to uphold and impose upon human beings coercive social institutions under which they do not have secure access to the objects of their human right. This duty is above the positive duty of beneficence. This negative duty is violated if through one’s participation, one helps to sustain a social order in which such access is not secured for all or some people. “I would be violating this duty if, through my participation, I helped sustain a social order in which such access is not secure, in

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which blacks are enslaved, women disenfranchised, or servants mistreated…” (Ibid: 66). This participation could be by paying taxes to a government that does that or by contributing my labour to its economy. But then “I might honour my negative duty … more plausibly by working with others toward shielding the victims of injustice from the harm I help produce or, if this is possible, toward establishing secure access through institutional reform. (Ibid).

It is on this that Thomas Pogge developed his right based cosmopolitan theory of global distributive justice. For him, the world richest nations have violated their duty by upholding an international institutional order that denied the poor secure access to the objects of their economic right. The global rich have contributed greatly to the present global inequality. To demonstrate this, Pogge invoked three different grounds of injustice: the effect of shared social institutions, the uncompensated exclusion from the use of natural resources, and the effects of a common and violent history. These grounds of injustice classify the existing radical inequality as unjust and its coercive maintenance as a violation of negative duty. (Ibid: 199). There is a global shared institutional order that is shaped by the better-off and imposed on the worse-off. The lives of the worse-off are greatly affected by the investment, loans, trade, bribes, military aid, sex tourism, and culture exports on the part of the rich countries. And this institutional order continues to widen the gap between the rich and the poor even when alternative order could be put in place. The few better offs in the world population enjoy the natural resources of the earth while the global poor still lavish in poverty. In collaboration with the ruling elites in the poor countries, the citizens of the affluent countries violate their negative duty by coercively excluding the poor from a proportional share of resources. This exploitation of the worse off, according to Pogge, has emerged from the period of conquest and colonisation. These periods were characterised by massive exploitation, severe oppression, enslavement, and even genocide through which native institutions and cultures of four continents were destroyed. And this has continued to shape the present global inequality and this pogge said should not be allowed. (Ibid: 199-202).

Pogge then argues that the present inequality is a result of a global institutional order which can and should be abolished through institutional reform. This he says is feasible since the better-off can improve the lots of the worse-off without becoming badly off themselves. As a way of suggestion, Pogge suggests a Global Resource Dividend as a form of global distributive scheme whose aim is to eradicate global poverty. (Ibid: 204-208). As space will not permit a treatment of this scheme in this work, it is important to note that this points to Pogge’s acceptance of a global distributive justice based on the duty of the well off to
eradicate global poverty not just because of a norm of beneficence but because of their having violated a principle of justice not to unduly harm others by imposing on them a coercive global order that makes their access to the objects of their human right to subsistence secure. The demand stems from basic commands which are negative rather than positive.

However arguable Pogge’s stand might look, its institutional emphasise finds expression in the cosmopolitan justice theory of Kok-Chor Tan. Tan holds that global justice should be concerned with the background global institutional context within which countries interact in a global economic interdependency. There is need for better global principles and institutions to regulate this global economic interdependency and to distribute the burdens and benefits of globalisation more evenly. This is why he disagreed with Rawls that rich countries owe just a duty of humanitarian assistance to the poor nations. Rather for the sake of global justice, the rich countries owe a duty of justice to the poor countries. While the duty of humanitarian assistance does not address the global structural context within which countries interact, the duty of justice directly addresses this background context. (Tan: 32).

The duty of assistance concerns redistribution of wealth while the duty of justice concerns identification of what counts as a just distribution. Again duties of assistance should take place within an existing just structure while duty of justice is meant to question and correct an existing unjust structure. This means for Tan that if we accept that the rich countries have only a duty of humanity to poorer countries, we are also accepting that the existing baseline resources and wealth distribution is a just one and that the global basic institutions organised around and legitimizing the prevailing allocation of wealth and resources are acceptable. (Ibid: 66). The existing baseline resources and wealth distribution is not just since the current global economic structure and its norms and practices perpetuate gross inequality and poverty. (Ibid: 25)

Moreover this institutional approach to cosmopolitan justice is ethically relevant to our discussion on debt cancellation. A poverty-related argument for debt cancellation considers the impact of debt burden on the people’s realisation of their individual and collective rights and freedom. Debts have become not only a means of pushing the indebted countries into extreme poverty but also for domination and exploitation. (Guisse, 2003 already quoted above). Debt trap has thus become a form of slavery which takes away poor countries sovereignty and freedom and hampers their effort to improve the lives of their citizens and their access to the objects of their basic fundamental rights. These countries are made not just to spend heavily annually on debt servicing but also to abide by strict structural
conditionality imposed by the International Financial Institutions. This is why Tan thinks that an institutional approach to global justice will demand that we examine the objectives, policy goals, and decision-making procedures of such organisations like the IMF, the World Bank, and the World Trade Organisation (WTO). (Ibid: 27) It could be argued that today these institutions have been used by the global rich to enslave the global poor. Their operations and major decisions are greatly influenced by their directors drawn often from the highly industrialised countries. And one of the means this is done today is the present debt trap. The Jubilee Network had referred to international debt as slavery. This means that countries are caught in a debt trap that they can’t get out of and which, with the conditions attached, take away their sovereignty and freedom and worse still their ability to improve the lives of their citizens or have control over their own future. (Jubilee USA, Ibid). A 100% cancellation of the existing debt becomes then a moral imperative since it will not only provide food for the hungry but will also serve to correct an existing unjust institutional global order that deprives the poor secure access to the objects of the fundamental human right.

Again Tan’s cosmopolitan justice theory has special consideration for the individual person irrespective of national boundaries. Here again he disagreed with John Rawls on the scope of distributive principle. Rawls had argued that distributive justice can only apply in a domestic and national setting. But for Tan the individual is taken to be the basic moral subject. Justice holds that persons have a right to a global arrangement of a certain sort in which the worst-off persons are made better-off. A distributive principle at the global level therefore will cushion the effects of unjust global and institutional factors on not just the disadvantaged countries but more on the individual. Such global distributive principle will not undermine national self determination or compensate those who fail to make successful use of their resources as claimed by Rawls but will give due recognition to domestic decisions and choices. (Ibid: 71-73). Tan suggests a global institutional distributive scheme like the Tobin Tax.\(^8\) (Ibid: 27). This will provide fund for a global redistribution aimed at reducing global inequality. If this proposal is adopted, the question of who funds the present debt cancellation would have been solved. It can as well present a solution to the IMF’s fear as expressed above that debt cancellation will hamper future funding of developmental projects in the developing countries.

\[^8\] This is a worldwide tax on all foreign exchange transactions as proposed by economist James Tobin in 1978. This tax could generate revenue for international development programs. Some economists predict that a modest 0.01 percent to 0.5 percent tax on each foreign exchange transaction could generate between $150-300 billion annually given the size of daily net turn over which is approximately $1.8 trillion. (Tan: 27).
Tan’s consideration of the individual person deserves a special attention in any moral discourse on the debt cancellation. This is because the poverty argument concerns mainly the individual person. A greater percentage of human beings on earth are poor going by the UNDP Human Development Report above. Again those who argue against debt cancellation point to the recklessness on the part of the elites in the indebted countries as the cause of poverty and that debt cancellation will provide them resources to spend on wasteful ventures. This argument seems very sound and logical. But such an argument has been punctured by Pogge’s institutional approach to global justice which has indicted the global rich for collaborating with these elites in poor countries. An imposition of debt burden a bulk of which is illegitimate cannot be a morally permissible punishment on corrupt leadership. Again, if the claim by the leaders of poor nations that debt burden hampers their effort to eradicate poverty in their countries is taken to be true, then debt cancellation becomes a demand of justice. This will impact heavily on the lives of millions who are hungry, naked, sick, homeless, illiterate and jobless. The needs of these people should concern not only their fellow nationals but also people in the other part of the globe. And this takes me to goal-based theory of global distributive justice found in Peter Singer.

Peter Singer had developed a goal-based theory of global justice. Singer presents a utilitarian consideration of the welfare of the suffering individual in the poor countries of the world. He then proposes a theory of global justice based on the idea of one world. This theory should begin from recognition of how much technology has made the world one global community and rejection of the nationalist view that only welfare of mutual assistance within borders should be given moral weight. The incidence of terrorism and the effects of gas emission on the global atmosphere have lent credence to the view that the world has become a global community and the fact that the effects of the sufferings of the poor in the remotest valleys of the earth could be felt at the other end of the far north. (Singer, 2004: 1-4). Singer then proposes a new global ethics which is necessitated by our newly interdependent global society, with its remarkable possibilities for linking people around the planet. (Ibid: 12). There should therefore be a global ethics that go beyond racial, tribal and nationalistic considerations of our kingship with other members of the globe. It is an impartial ethics which exhorts a morality that transcends nation-state. It is a morality that demands that we render help to those in need irrespective of whatever she is a child of a neighbour ten yards from me or of a Bengali whose name I shall never know, ten thousands miles away. (Ibid: 157)

The demand to assist the global poor out of poverty, for Singer should be the goal of the global rich. This is why he does not consider John Rawls’ view that a duty of
humanitarian assistance is sufficient to address the problem of poverty in the world. There is a lack of focus in Rawls’ theory on obligation towards individuals who are destitute in poor countries. (Ibid: 176). Rawl’s emphasis on the need for a change of culture leaves untouched the plight of individuals who are dying from starvation, malnutrition, or easily preventable diseases in countries that presently lack the capacity to provide for the needs of their citizens. (Ibid: 179) He advocates for the use of foreign aid to alleviate the sufferings of the poor in poor countries. He then suggests that rich people and rich countries be taxed to provide funding for such aids. There could be an increase on taxes on people in rich nations who have higher income or leave large to their heirs, and use the revenue to increase aid to people in the world’s poorer nations who have income well below average even for the nations in which they are. (Ibid: 174).

Welfarism which is characteristic of utilitarianism is quite evident in Singer’s cosmopolitan justice. The welfarists would hold that the extent at which the consequences of an act increases or diminishes the welfare of those affected determines its moral value. (Hare, 2001: 80). An act is morally right and commendable if it produces, within a given circumstance, the best overall result for the greater majority or given equal weight to the interest of each affected party. (Beauchamp and Childress, 2001: 341). As a welfarist, Singer thinks that for the welfare of the teeming population of poor people, the rich should be taxed. This will surely not be well acceptable to the libertarians on the ground that it infringes on people’s right over their property, nor to the deontologists on the ground of using others as means to an end. Well, I do not think that Singer proposes the like treatment of people since he points out that those who have wealth in abundance and spend on frivolities should be made to consider the plight of those who cannot provide for the necessities of life. For him any one who has enough money to spend on the frivolities and luxuries so common in affluent societies should give at least 1 cent in every dollar of their income to those who have trouble getting enough to eat, clean water to drink, shelter from the elements and basic health care. Those who fail to meet this standard should be seen as failing to meet their fair of global responsibility and therefore as doing something that is morally wrong. (Ibid: 194). After all he does not see how it can be justified when one keeps what one has in superabundance when others are suffering. (Ibid: 186). It is a global goal.

From the above, if debt cancellation will improve the welfare of the poor in the indebted countries, Singer would advocate that. If the funding of debt cancellation becomes a problem, Singer would see it as an obligation on the part of the global well-offs to finance it through a global taxation that will transfer some resources from the rich to the poor countries.
Thus debt cancellation could be a moral imperative for Singer. I think Singer’s views are very central to our discussion on the effect of debt burden on the global poor. If unconditional and 100% debt cancellation will even in a small measure aid the poor, I argue that it is a demand of justice that such cancellation be granted. Such demand is quite beyond a mere duty of assistance since it will enable the poor have secure access to the objects of their right.

Another possible argument against debt cancellation could be that such resources may not get to the poor or really improve the economic status of these countries due to the corruption of their leaders. But a statement from the Jubilee network has shown that debt cancellation, however little, can impact positively on the lives of the people: “The small amount of debt relief given so far has achieved startling results, including more than doubling school enrolment in Uganda, vaccinating five hundred thousand children in Mozambique and adding three more years of schooling for Honduran children. After debt relief and elimination of school fees, 1.5 million children returned to school in Tanzania almost overnight.” (Jubilee USA, Ibid). Moreover, if the leaders in poor countries are poor, debt burden can not be a morally valid deterrent measure on them by the international community. Such measure if adopted will eventually have its toll on the poor people in such countries. The leaders may continue with their massive embezzlement of the public fund under the pretence that they are spending on debt service. An alternative global measure should rather be adopted, perhaps in international law, to checkmate the excesses of corrupt leadership in our countries. Again, if a leader promises to use the resources judiciously well, I do not think that an ordinary doubt is enough to justify a continued enslavement of such country and its citizenry through debt trap and continued debt servicing. Finally, I doubt the moral appropriateness of punishing an unjust leader with a debt burden that arose out of morally questionable circumstances as seen in the discourse on odious debts.

Evaluation

I have tried to see in this chapter, using selected moral issues, why debts owed by the Third World countries should be cancelled as a matter of justice. The rich countries of the world have established and have continued to maintain a global economic order that has not been favourable to the poor countries of the South. The result today is that a majority is impoverished why a few lives in affluence. Aristotle and Nozick would require that whatever harm is inflicted on another be paid for and that whatever is taken illegitimately by force be returned. The global poor had been inflicted economically by the rich. If this is taken to be given, they could demand reparation and restoration. This is global rectificatory justice. This
will not only rectify the evils of the past, but will provide resources for the suffering global poor. This is the demand of distributive justice. It is on this that cosmopolitan thinkers like Thomas Pogge, Kok-Chor Tan, and Peter Singer could argue for a debt cancellation. It is important to note that these thinkers have not discussed debt cancellation per se in their theories, but a proper application of these theories to present debate can serve a purpose for a normative approach to a global issue. However, whether debt cancellation will give total poverty alleviation, or partial or none of such to the poor countries due to corrupt leadership are still matters of debate. But that notwithstanding, the above argument is based on an assumption that it will alleviate poverty, if not totally, but partially given a political will by the leadership in poor countries. Whichever, the poor demands that justice be done.
Chapter 5: A Nation’s Demand for Justice

I wish to begin this last chapter which has special emphasis on Nigeria with a recall of the debt buy-back deal Nigeria had agreed on with its highest creditor, the Paris Club. On the 20th October, 2005, following the decision of the G-8 countries to deal more proactively with Nigeria’s debt crisis, Nigeria went into a buy-back agreement with the Paris club on the $30.4 billion it owed the developed countries. Under the agreement, $18 billion of the amount will be cancelled while Nigeria will pay the remaining $12.4 billion between October 2005 and March 2006. In October, 2005, Nigeria paid the sum of $7.58 billion to the Paris Club and on the 21st of April 2005, made the final payment of $4.5 billion to the Paris Club. (Thisday: 25-04-2006)

With the above deal and the last payment Nigeria has paid off its debts to the Paris Club and has become the first African country to do so. It also means that Nigeria has reduced its total debt portfolio from about $35 billion to $5 billion. This balance is made up of $2.5 billion to the multilateral creditors (the IMF, the World Bank, and the African Development Bank); $1.44 billion par bonds and $0.649 billion promissory notes. These later could be taken to be loans owed to the commercial creditors. (Gaurdian News, 2006)

The above makes a commercial sense as it could be considered a good deal both for the debtor who exists from further debt obligation, and for the creditors who have got some payment for some level of write-off. Yet the following statement from the International Non-Governmental Organisations could be of use in the last section of this discussion. “It is obscene that some of the world’s richest countries are taking over $12 billion from Nigeria, a country where more than 80 million people live on less than $1 a day. Nigeria’s money must be used to improve education, healthcare and water for its citizens, not to subsidize wealthy countries.” The statement continues:

In any case, rich countries have no legitimate claim to this money. Nigeria has already paid more than it originally borrowed, but is still told it owes vast sums because of the huge build up of interest under oppressive former regimes. How can rich countries justify demanding billions from one of the world’s poorest countries in payment for ‘debts’ that are anyway illegitimate? The G8 has claimed that this is a year of Africa. Under this deal, Nigeria is paying more to the rich world.

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in six months than the 2005 Gleneagles G8 debt deal will deliver for Africa in a decade. Justice demands that this money is returned as soon as possible.³

The above statements encapsulate what should be the moral implication of the above deal between Nigeria and the Paris club. It is also a summation of the entire moral arguments already discussed why countries should be given unconditional and total debt cancellation. Nigeria deserves total unconditional debt cancellations especially for the two reasons given by the NGOs: Debts were illegitimate; debt cancellation could help alleviate poverty. In this chapter, I wish to see how much Nigeria qualifies for debt cancellation as a matter of justice given the above considerations. But first, what are the possible reasons why Nigeria should not be given total and unconditional debt cancellation. Three possible reasons: (1) Nigeria is a rich nation going by its ‘huge’ oil revenue; (2) due to corruption of the leaders, the forgiven money may not get to the poor and may not impact on their lives. (3). Nigeria is densely populated and as a result of this, the impact of the forgiven debt, if felt at all may be significantly felt. The above objections seem logically sound. I will respond to them in the following sections.

5.1: Nigeria’s Debts: Odious?

The anti-debt movement has continued to emphasise the odious debt principle in the quest for debt cancellation. How much of Nigeria’s debts fall within the odious debts category? It is not often possible to make a complete data by data analysis of the entire debts to establish which loan contract or amount is really odious. But few empirical analyses will be employed in this work to attempt some establishments. First a look at the conditions needed to make debts odious will provide the analytical tool for further normative considerations. The conditions for a debt to be odious as stated in the previous chapter are (1) the debts has not received the general consent of the nation, (2) the borrowed funds are contracted and spent in manner that is contrary to the interest of the nation, and (3) the creditors lend in awareness of these facts. (King, 2003: 13).

Since its independence from the colonial rule in 1960, Nigeria’s political life has been bedevilled by constant military interventions. Nigeria has had more years of military than civilian rule. Apart from the $28 million loan inherited from the colonial administration,

³ The ngos include: African Network on Debt and Development (AFRODAD), Europea Network on Debt and Development (EURODAD), Latin American Network on Debt and Development (LATINDAD), and Jubilee South, international. Available at http://www.eurodad.org/articles/default.aspx?id=671 31-03-06
Nigeria did its first major borrowing of $1 billion in 1978 under a military administration headed by the General Olusegun Obasanjo. This increased the nation’s debt profile then to $2.2 billion. The long and protracted military administrations in Nigeria between 1983 and 1999 affected adversely Nigeria’s debt profile as these administrations could not service Nigeria’s debts especially to the Paris Club due to political reasons, economic maladministration and sanctions from the creditor countries. It is therefore important to note that both the borrowing and the inability to service the outstanding debts by the above administrations lacked the consent of the Nigerian people. Military administrations were imposed on the people and thus lack the consent of people ab initio. I had argued earlier that a government could attract the nation’s consent through either a political mandate in a free and fair general election or in a parliamentarian legislative procedure or both. These are however lacking in a military administration. As these loans lacked the consent of the Nigerian people, they were also not used for the interest of Nigerian’s as they ended up in private accounts of those who contracted them. “In the 1970s and 1980s, successive military governments in the country (Nigeria) borrowed unchecked against future oil receipts, predominately from the Paris Club. Many of these loans were simply looted with full knowledge and complicity of creditors” (EURODAD, 2006 emphasis mine). This means that the above debts incurred by the military administrations having satisfied the above criteria, fall within the odious category. Furthermore, the moral permissibility of transferring debt liability by a colonial administration to a new independent administration is still arguable. The argument from odious debt points to this and it could be seen that Nigeria’s debt problem started from debts inherited from the colonial administration.

The other portion of Nigeria’s debt was rightly contracted by the civilian administration between 1979 and 1983. With the above criteria of consent established above, one would hardly argue that such debts lacked the consent of the Nigerian people. But it is not easy either to establish that the loans contracted within this people were used for the interest of the people. This is because Nigeria’s underdevelopment did not improve significantly within this period. It is important to recall that this was the period of recession that followed the fall in oil prices in 1981. The civilian administration then under Shehu Shagari had borrowed massively to finance some developmental projects. There was heavy investment in steel development with the construction of the still milling plants in Ajaokuta, Aladje, Warri, Jos, Oshogbo, and Katsina. As most of the contracts for development projects were awarded

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under dubious circumstances, most of those projects never materialised to impact on the lives of the people of Nigeria.\(^5\) About 40% of the projects for which the loans were contracted were never started and the remaining hardly any of them was economically viable to generate returns to service the debts. (DMO, Abuja, 2001).\(^6\) This means that much of the proceeds from the loans were either stolen or mismanaged. Even if the debts incurred within this period may be considered odious given this single consideration, they may still not score a wonderful mark in the odious test since the complicity of the creditors may not be easily established. But looking at the fact that they were contracted due to a fall in oil revenue within that period, they could be considered as loans contracted to alleviate poverty. There cancellation could be considered a demand of distributive justice which will be considered in the next section.

Moreover the argument that debtors have paid more than they actually borrowed is very central in Nigeria’s case. As already quoted above from the Jubilee USA network, Nigeria borrowed $15 billion; paid $16 billion to date and still owes $32 billion. (Jubilee USA, 2005). A figure from the debt management office of the federal republic of Nigeria in May 2001 has it that Nigeria borrowed a total of $13 billion from the Paris Club, paid about $17 billion and was still owing about $22 billion then. (DMO, 2001). And today, Nigeria has made another $12 billion payment to the same Paris Club on debts whose origins are morally questionable. I have argued above that if the origin of debts were dubious and thus rendering such debts illegitimate, such debts and the interests that accrue from them do not pass the test of legitimate transfer using Nozick’s expression. Payment of such debts should not be morally enforceable and any harm inflicted in an effort to pay them should equally be paid for or rectified. Between 1998 and 2000, Nigeria spent an average of $1.5 billion annually on debt servicing. This amount was 20-30 percent of total export, three times the national education budget and nine times the public health budget. (Ibid). This means leaving many uneducated and allowing many to die of curable diseases.

The global economic order pointed out in the preceding chapter by Thomas Pogge played out vividly in Nigeria’s years of despotism. The successive military dictators that ruled Nigeria had enjoyed both international borrowing and resource privileges. Well only General Sani Abacha received sanctions that made it impossible for him to service Nigeria’s debt obligation to the Paris Club but he still enjoyed the international resource privilege. However, these privileges encouraged military interventions, military and civilian dictatorship, and official corruption in Nigeria. So looking at these factors it will be quite

\(^6\) Available at: http://www.odiousdebts/index.cfm?DSP=content&ContentID=2752 Retrieved on 10-02-06
difficult to discountenance entirely the odious nature of most of Nigeria’s debts to the Paris Club especially. “From a historical, moral, and environmental and human rights perspective, most of the country’s external debt was illegitimate.” (Obasanjo; 1999) It is morally recommendable that they be given unconditional and total cancellation. The partial cancellation given by the Paris Club should not be portrayed as an act of charity but as public recognition of their role in the debt crisis that has been suffocating the nation as well as many others. But it is a demand of justice that this recognition should go beyond this since creditors should be made to take responsibility for irresponsible lending. The effect of their irresponsibility is harsh on the poor. (Ibid).

5.2: Debt Relief: A Respite for the Poor

Poverty is simply defined as the inability to achieve a certain minimal standard of living. (Aigbokhan, 2000). It is a “human condition characterized by the sustained or chronic deprivation of the resources, capabilities, choices, security, and power necessary for the enjoyment of an adequate standard of living and other civil, cultural, economic, political and social rights.” A greater percentage of the Nigerian population suffer the deprivation of adequate standard of living and capability to be adequately nourished, to live a healthy life and to have knowledge and skill for earning livelihood and leading a productive life. As a result Nigeria has been marked as one of the 20 poorest countries in the world. According to an IFAD (International Fund for Agricultural Development) report in December 2001, of more than 130 million people, about 72% of the population is classified as poor; more than 35% live below the US$1 per day poverty level. More than 50% of Nigerian population do not have access to safe water and 10% or about 12 million people are grossly under nourished. The report continues:

Thirty five percent of children under 5 years old are underweight and 42% are stunted compared to 30% and 40% respectively in sub-Sahara Africa. The problems of malnutrition are compounded as more than 5% of the rural population are affected by HIV/AIDS and more than 50 million Nigerians suffer from a combination of protein energy malnutrition, vitamin A deficiency anaemia and iodine deficiency diseases. The majority of these are women and children. Currently, the incidence of poverty is 58% in female-headed households, more than double the level of 27% recorded in 1980.

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8 UN: Available at: http://www.unhchr.ch/development/poverty-02.html: Retrieved on 28-04-06
In the rural areas, more than 40% of the population live below the poverty line. A World Bank study showed that poverty in Nigeria is highest in rural areas. The number of rural poor more than doubles the urban poor.

The average per capita expenditures of a rural poor household were one-fifth of the non-poor in 1992. Of the extremely poor, 85 per cent lived in rural areas and more than two-thirds lived on farms. Nonetheless, the number of rural poor declined from 26.4 million in 1985 to 22.8 million in 1992, while it rose in the towns and cities from 9.7 million in 1985 to 11.9 million in 1992. Additionally, the depth of poverty declined from 19 to 16% in rural areas, while it increased in urban areas from 9 to 12%, consequently, increasing extreme poverty substantially in urban areas. (UNCDF).

The above figures point to the level of poverty in Nigeria. Nigeria is surely rich in natural resources and thus has a great potentiality for growth. The growth of the economy has suffered greatly in the past due to bad leadership and corruption in the high places. As a result, as there are excessive wealth in the coffers of our elites and their foreign collaborators, the other majority of Nigerian population die in extreme poverty. Today, the nation seems to be into massive reconstruction of its institutions and much is needed. The institutions of education, health and agriculture if reconstructed, the poor will be rehabilitated. Currently, Nigeria needs an annual growth rate of 7-8% in order to halve the number of people in poverty by 2015, and this translates to an investment rate of more than 30% per annum. Currently, the country grows at about 3 percent and the national savings rate is about 15 percent. “In addition, the country faces daunting challenges of rebuilding a country badly damaged by decades of military misrule and a fragile democracy.”(DMO: Ibid) Much resource is needed to build the decayed infrastructure in the country and to generate employment. Many of Nigerian school leavers are unemployed and many cannot attain minimum standard of education due to poverty. It could be argued that debt cancellation might not offer much in alleviating the poverty in poor countries, especially Nigeria, as pointed above, but if the much already paid to the Paris Club is invested in education and health, the effect, even if little will not be insignificant.

Furthermore, it could be argued that Nigeria is a rich nation due to the oil revenue. But a statement from the nation’s minister of finance holds that Nigeria is actually poor but potentially rich. Total oil revenue to the country in 2004 was not more than $25 billion net. If this is spread over the large population of the country put at 130 million people, this means no more than 53 cents or 70 naira per person per day. This is quite different from other oil rich countries like Venezuela with 23.5 million people and $3.4 per person per day; Kuwait with

2.75 million people and $27.3 per person per day; and Iraq with 25 million people and $2.4 per person per day. (Vanguard Newspaper, July 3, 2005).\textsuperscript{11} If the following figures are anything to go by, it becomes clear that the oil revenue in itself is grossly inadequate for sustainable minimum standard of living for the Nigerians. I therefore think that if any country could be considered for any form of global distributive justice aimed at alleviating poverty, Nigeria should be considered for such. Again following arguments already put forward, debt cancellation should be considered as a form of distributive justice to aid the poor in Nigeria. They are part and parcel of the global ownership of the world resources. The poor individuals in Nigeria deserve a global attention the type argued for by the cosmopolitans. The poor in Nigeria like every other citizen of the world have right to a minimum standard of living the type enshrined in the Art.25 of the UN declaration on Human Rights. A continuation of debt service obligation on the part of the Nigerian government is a deprivation of the people’s access to the objects of their fundamental human right. Global justice considered from the human right perspective demands that these debts be cancelled totally and unconditionally. The $12 billion dollars Nigeria paid to the Paris Club is a gross injustice on the poor nation and on the millions languishing in poverty and many others dying of easily curable diseases. The present administration in Nigeria seems committed to the growth of the country’s economy and poverty alleviation. This could be seen from its National Economic Empowerment and Development Strategy (NEEDS). NEEDS focuses on reorienting values, reducing poverty, creating wealth and generating employment. “The goal of NEEDS is to mobilize the resources of Nigeria to make a fundamental break with the failures of the past and bequeath a united and prosperous nation to generations to come.” (Obasanjo, 2004).\textsuperscript{12} Debt burden constitutes a great set back to this strategy. As I argued above, a doubt of this commitment does not justify an imposition of debt burden and its servicing obligations on Nigeria especially when most of such debts are illegitimate. Debt cancellation’s impact will be felt however little.

5.3: The Morality of IMF Conditionality

I have thought it worthwhile to address the issue of IMF conditionality in this moral discussion of the debts crisis because Nigeria has had to go through this in the past with the excruciating effect on the poor. As already stated in this work, borrowing from the IMF and

\textsuperscript{11} Available at: \url{http://www.odiumdebts.org/odiumdebts/index.cfm?DSP=content&ContentID=13291} Retrieved on 10-02-06.

\textsuperscript{12} Available at: \url{http://www.imf.org/external/pubs/ft/scr/2005/cr05433.pdf} Retrieved on 09-05-06.
attraction of any debt cancellation from other creditors always are attached to a country’s compliance with the IMF conditionality which is a country’s commitment on a set of economic and financial policies. “Conditionality is a way for the IMF to monitor that its loan is being used effectively in resolving the borrower’s economic difficulties, so that the country will be able to repay promptly, and make the funds available to other members in need.” (IMF Fact Sheet). This means that IMF loans are generally conditional on the adoption of appropriate policies to resolve a country’s balance of payment difficulties, and to enable the country to repay the Fund. Such policies are measures to contain inflation, reduce public debt, or strengthen financial systems. They also address structural impediments to healthy growth like price and trade liberalisation or improvements in governance. (Ibid). IMF conditionality includes trade liberalisation, privatisation of basic services, and cuts in vital social spending like education, healthcare and energy. The programme was generally referred to as Structural Adjustment Programmes (SAP) in the 1990s. Under the HIPC the conditionality takes the form of Poverty Reduction and Growth facility. Other aspects of the conditionality include the devalue of a national currency, lowering export earnings and increasing import costs; a cut on food subsidies; cut on jobs and wages for workers in government industries and services; and take over of small subsistence farms for large-scale export crop farming instead of staple foods. (jubilee).

The IMF conditionality is specifically meant for borrowers from the Fund but countries wishing to obtain debt cancellation, relief or some kind of rescheduling from other creditors have been made to adopt the conditionality. As a condition for debt relief for Senegal, it was asked by the IMF and the World Bank to liberalise its groundnut sector. Zambia was also required to privatise its state bank in order to obtain debt relief from the two international financial institutions. The rich creditor countries are also pegging a country’s eligibility for debt relief on the latter’s compliance with the conditionality. The UK is using implementation of World Bank conditions as the criteria for deciding which countries will get debt relief. (Jubilee)

As stated above, Nigeria’s inability to implement the IMF Structural Adjustment Programme stalled the completion of a debt treatment agreement it reached with the Paris Club in December, 1986. Recent debt buy back arrangement between Nigeria and the Paris Club is also dependent on Nigeria’s successful completion of an IMF programme contained in the Programme Support Instrument (PSI). All this entails privatisation of public utilities,

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14 Available at: [http://www.jubileeresearch.org/analysis/reports/beginners_guide/began.hm](http://www.jubileeresearch.org/analysis/reports/beginners_guide/began.hm) Retrieved on 17-02-06
15 Available at: [http://www.jubileedebtcampaign.org.uk/?lid=914](http://www.jubileedebtcampaign.org.uk/?lid=914). Retrieved on 1-05-06.
reduction of government spending on public utilities, cut in public service work force, and liberalisation of trade.

Furthermore for the IMF, the economic policies enshrined in the conditionality are meant not just to resolve the immediate balance of payments problem but also to lay the basis for sustainability and economic growth over the longer term for broader economic stability. (IMF fact sheets, Ibid). However the conditionality has been found to be wanting on certain grounds: it is seen as an imposition on helpless countries; and as an aggravation of poverty in the poor countries. Countries that seek to receive IMF loans and those requesting some debt cancellation are made to adopt economic policies formulated by the Directors of the Fund which are drawn from the G7 countries themselves. The debtor countries adopt policies which ordinarily they would not if they are in a stronger financial position, or have numerous financing alternatives available to it with less economic need. (Buira, 2003: 4). This makes the conditionality coercive since these countries that accept them find themselves in deep financial crisis, with low level of international reserves and do not have access to other sources of financing. “Using their influence in the IMF, the G-7 countries have effectively been imposing economic policies on indebted countries in Latin America and Africa since 1982…” (Pettifor, 2003).

This imposition of policy raises the moral question about autonomy. In medicine, the principle of autonomy demands voluntary and informed consent on the part of a patient to engage in an experiment. This involves a right to accept or reject the experiment and he exercises this without undue influence. Taking from this, a country should have the right to accept and reject such economic experiments given as a condition for debt relief or further funding. But the situation is that the World Bank and the IMF decides to introduce a structural adjustment programme without the principle of informed consent. “The message to nations in crisis is: accept the conditions or abstain from loans!”(Collste, 2005). This means that such nations are not allowed to take their own destiny in their own hands. This is similar to the Jubilee’s argument above that debt has become a new form of slavery. (Cf. Chapter 3 above). The country’s peculiar circumstances in culture, population and politics are sometimes not put into consideration. These reforms are imposed in a blanket fashion, irrespective of differences in local economies. Many countries like Guinea, Guinea-Bissau, Guyana, Honduras, Malawi, Nicaragua, Niger, Rwanda, and Sao Tome and Principe had difficulties implementing the structural reforms from the IMF because of economic and political difficulties. (Jubilee, Ibid). Unfortunately, such impositions have not helped these countries meaningfully out of poverty. In countries of Latin America and Africa that received such impositions in the 1980s,
economic growth in those years has been lower than the period between 1945 and 1980. (Pettifor, 2003).

Furthermore, the IMF conditionality has been criticised as imposing austerity measures that impoverish the poor more in the poor countries. Privatisation of public utilities like water and electricity has led to increase in the prices of these essential commodities; the cut in public service expenditure also led to increase in healthcare and education cost. In Nigeria, the deregulation of the down stream oil sector as part of IMF framework for the country has led to continued removal of oil subsidy by the government and the continued rise in the pump prices of petroleum products from #6 in 1983 to #75 in 2005. In all, the poor has to bear the brunt of the adjustment policies. The IMF would find justification for this policy on the ground that there will be a lowering of standard of living on the short run and economic development for all in the long run. In a bid to look at the moral implication of this assumption, Göran Collste examines the implications of the concept used: “lower standard of living”. The concept could imply two things: general lowering of living standard but still a decent standards for everyone; and or poverty for certain social strata of the population, implying no schooling and limited access to health care due to high fees, leading to illiteracy, diseases, prostitution, trafficking and early deaths. Then on the concepts: ‘short and long run’, how long will the lowering of standard of living last before the economic development takes place? Does development mean a higher standard of living for everyone or just for those who already have a high standard? “Or does it imply a higher standard particularly for those who were hit by the previous lowering?” (Collste, Ibid).

The above are pertinent moral questions that should be addressed by those who impose economic policies on poor countries. Göran gives two possible interpretations to the above: lower standard of living in the short run and development in the long run could mean: one, that although there is a lowering of the living standard for everyone – but still a decent standard – in say 10 years the standard of living for every one will increase and in particular for those who suffered most from the lowering; and two, it could mean wide spread poverty implying early deaths for many, and that other population strata in a number of years will enjoy a high standard of living. This means that some people will have undergone severe hardship or sacrifice in order for others to achieve economic development. This implies that the interest of certain individuals can be sacrificed for the welfare of others. This is using others as a means to an end which a deontologist like Kant would not accept. The conditionality imposes hardship on some people and they are hit by poverty and illness, for the sake of an increased welfare for others. (Collste, Ibid). Finally economic policies that
impoverish the poor constitute part of the global economic order that denies the poor the access to the objects of their fundamental human right: right to a minimum standard of living. This the IMF conditionality does.

So far, I have tried to show that Nigeria, being one of the greatly indebted poor countries, deserves, as a matter of justice, unconditional 100% debt cancellation. Viewed from the angle of rectification, most of Nigeria’s debts are considered odious and illegitimate. Payments already made in form of servicing of such illegitimate debts have caused untold hardship on poor helpless Nigerians, a harm that demands reparation. Majority of the Nigerian population that are poor, illiterate, sick, HIV/AIDS infected and unemployed demand that the debts be cancelled since such cancellation could help alleviate their suffering even if for a little measure. The conditionality often attached to debt cancellation hurts the poor countries as it denies them sovereign autonomy and increases the poverty in those countries. It is therefore a demand of both rectificatory and distributive justice that these debts be cancelled totally and unconditionally. I therefore agree with the Jubilee Network that there should be:

- a one-off cancellation of the backlog of unpayable debts for the world’s poorest countries – which either cannot be paid, or can be paid only with enormous human suffering. This wouldn’t be setting a precedent for cancelling all debts repeatedly. Rather, it would be a once-only gesture to mark the millennium, a gesture showing that creditors and debtors alike have made mistakes and that the slate needs to be wiped clean…. This would change millions of lives, without taking away the responsibility of debtors to pay their future debts. (Jubilee 2000, Ibid).
Conclusion

The present global order with all the effort to a global unification is one bedevilled by gross global inequality. Present effort towards global development has been hampered and has continued to be hampered by this inequality which in itself is aggravated by the level of indebtedness of many poor countries of the world to the few rich countries. The debts arose from a history marked by colonialism, global economic recession, reckless lending and borrowing, and despotic, unrepresentative and corrupt governance. Today, the effect is that the poor pay heavily to correct the mistakes of the past. And poverty is breeding higher in the affected poor countries.

It may seem ethically sound to argue that a debtor should pay what he owes especially when it arose out of a mutually agreed contract. The international financial system would require that it is commercially and economically imperative that the indebted countries pay back their debts so that there could be future lending. Cancellation of such debts will encourage moral hazards, encourage recklessness, discourage future lending and hamper funding for future projects. On the other hand, however, it is argued that debt cancellation should be seen as a correction of past mistakes by both lenders and borrowers. The borrowers should not be punished for an offence committed with the wilful blindness and complicity of the lenders. Thus the debts should be considered illegitimate. Again, debts should be cancelled since its continued repayment hampers people’s effort to growth and self actualisation.

Using different moral theories and especially global justice theories, I have tried to give a normative approach to the above issue and the different arguments put forward. With the available data, it could be established that much of the debts in question are odious. It becomes then unethical that countries be made to pay continuously for debts that lack a legitimate moral status. Payments already made on such debts with its attendant harm on the poor countries should be paid for as a form of global rectificatory justice. Finally, the global poor deserve a global attention through a global distributive scheme that will enable the global rich to contribute to the well-being of the global poor. Debt cancellation could be one good way of doing this. These considerations should be made with particular attention paid to Nigeria. Its mountainous debt profile arose both from colonial inheritance and bad faith lending to despotic regimes. These debts ought to be cancelled. The level of poverty in Nigeria is one a comprehensive global justice cannot afford to neglect. Nigeria’s debts and debts of other poor countries should be cancelled as a matter of justice and without stringed attached. Such strings aggravate their situation.
Bibliography


Organizations and their Website