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ACHIEVING MAXIMUM ECONOMIC TRANSFORMATION IMPACT IN FRAGILE STATES THROUGH AIDS AND DEBT RELIEF

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ABSTRACT

This paper focuses on the peculiar features of fragile states and I have tried to put forward some approaches that can be adopted by development finance organisations and friendly countries at bailing out these states from their predicament. With the growing awareness and acceptance of the notion that poverty anywhere is a threat to prosperity everywhere and prosperity anywhere should be shared everywhere it is obvious that fragile states can not be left on their own without external assistance. A link between fragile states and the global economy was done with particular recourse to debt relief, aids and fragility while drawing conclusions and making recommendation on the mix of approach to be adopted in giving aids and debt relief that will help achieve maximum economic transformation impact in fragile states.

Keywords: Fragile State, Debt Relief, Foreign Aids, Economic Freedom Index, Millennium Development Goals

INTRODUCTION

In recent times in line with the attempts at achieving the millennium development goals especially as it relate to poverty reduction, much attention is being given by scholars, researchers and policy makers to fragile states scattered all over the continents of the world . This is to ensure that such nation states are not left far behind and consequently frustrate the world's efforts at achieving the millennium development goals of reducing extreme poverty by half by the year 2015, achieve universal primary education, reduce child mortality, improve maternal healthcare, promote gender equality and women empowerment, combat HIV/AIDS, ensure environmental sustainability and the achievement of global partnership for development. The attention paid to these states are not misplaced as fragile states are part of the international system and whatever happens in one has a spill-over effect either directly or indirectly on other countries around them and even the larger world community. The Liberia – Sierra Leone, Somali – Ethiopia examples are quite obvious. The concept or phrase fragile states have been defined by so many people but herein some relevant definitions to our focus of discuss will be used. The United States Agency for International Development defined a fragile state or failed state as that characterised by a growing inability or willingness to assure the provision of basic services and security to their population. Fragile states are also defined as those where the government cannot and will not deliver core functions to the majority of its people including the poor. The World Bank defines a fragile state based on its internal Country Policy and Institutional Assessment exercise affirming that fragile states have peculiar features of having a significant number of poor people, they are those that create negative spill-over evident as conflict, instability and refugee flow to their neighbours. In another sense, a fragile state is seen as a country that lacks either the will or capacity to engage productively with her citizens to ensure security, safeguard human rights and the provision of institutions for development. Ordinarily, sovereign states are expected to perform certain minimal functions for the security and well-being of their citizens as well as the smooth working of the international system. Essentially, people need states to work and contribute to the global economy and states that have failed to meet these minimum standards have been referred to as weak, fragile, poorly performing and in more extreme cases labelled as failed or collapsed states. Recently the African Union and the United Nations declared Somalia as a failed state.

Fragile States and the Global Economy

Fragile states from the viewpoint of the Organization for Economic Cooperation and Development are seen from the perspective of difficult environments in which case the state is largely unable and sometimes unwilling to harness domestic and international resources for poverty reduction. Ordinarily fragile states have severe development challenges among which are weak governance, limited administrative capacity, chronic humanitarian crisis, persistent social tension, violence or the legacy of civil war Examples of such nation states include Sudan, Somalia and Congo Democratic Republic, Burundi, Eritrea, Mauritania, Zimbabwe Chad and recently Nigeria in the African continent. Some of the countries considered as fragile states by the World Bank are classified under the Low Income Counties Under Stress in need of special development finance interventions. More often, the characteristic features of fragile states include their lack of capacity to effect meaningful positive changes in their economies due to the lack of territorial controls and enough presence of supposed government in power in such nations over the entire landmass, region and people they are supposed to be governing. In some cases, it is the lack of effective exercise of political power while in other cases it is the lack of basic competencies in economic management and lack of administrative capacity for implementation. In a broader sense, fragile states are often overwhelmed by socio-economic and political problems that manifest in the following ways:

1. Political crisis- evident in weak governance and security problems. For example in Sudan, Congo Democratic Republic and Somalia, civil wars have been a problem that is refusing to go.
2. Weak institutions and infrastructure- a notable feature of fragile states is the absence of strong institutions and infrastructures that can support macroeconomic policies, which would have been used to transform such economies.
3. Low sectoral productivity that translate into dismal aggregate growth.
4. Low income and inadequate domestic savings
5. Low level life expectancy
6. High infant and maternal mortality
7. Inequality in income distribution arising from unjust and inefficient reward system
8. Humañitarian crisis and widespread poverty
9. High crime rate and corruption
10. Lack of natural resources in many instances to support the population adequately
11. Human rights violation
12. Inadequate and inefficient financial markets
13. Poor technology
14. High illiteracy population and as such deficient human capacity with a large percentage of unskilled labour often engaged in agriculture and local textiles.
15. Inappropriate economic policies and high debt portfolio

The peculiar features highlighted above have made it difficult for fragile states to contribute their needed quota into the global economy. Instead they have been sources of drains and leakage to the drive at achieving a better world. Since fragile states cannot be wished away unattended to, the issue now is what approach should the international community use in helping to address the problems in these locations. It is noteworthy to state that if the problems faced by fragile states are not addressed, the achievement of a relatively peaceful world and the millennium development goals will be farfetched. Nigeria being a signatory to the proposed targets set in the millennium development goals it becomes imperative that if the nation is to meet up with her expectations on the goals, there must be a conscious effort by the government and policy implementers to improve on the nation's Economic Freedom Index often used as one of the basis of measuring the economic well-being of a country. The Economic Freedom Index is a simple average of a number of individual freedoms each of which is vital to the development of personal and national prosperity. This include the freedom to aspire to attain your highest productive potential and freedom of access to useful public information. Development finance specialists and other scholars are now faced with deciding on what best approach international partnership efforts should take in the light of global economic reforms to reverse the fortune of fragile states. There have been two distinct schools of thought on the best approach, while some have advocated the solving of the political problems of fragile states as the first step towards reversing their dwindling fortune, others have advocated the need to address the economic problems through the giving of aids and debt relief as the first step to normalcy. Advocates of the need to solve the political problems of fragile states as the first step base their argument on the fact that most fragile states are characterised by divisions based on ethnic or religious sentiments that have over the years impacted the political economy negatively. In most of these states there is the need for a willingness to reform politically and to adopt a more inclusive approach to governance in such a way that no group will be left out. On the other hand, advocates in favour of tackling the problems of fragile states from economic perspective have articulated the need for more direct involvement of the international community through the giving of aids and extending debt relief to these trouble ridden nations. The assumption is that the major cause of political problems is the fight by different groups for better access to economic opportunities available in those fragile states. Also the fact that the debt overhang on most of the states arising from unfavourable trade relations, natural disasters, official corruption has helped to trump up the need for better trade relations, debt cancellation, foreign direct aids assistance. At this stage my concern is not to ascertain which of these two approaches is better suited for solving the problem though that may be done later. My primary concern now is to take an objective look at the inter-related factors that can be deployed towards reversing the negative fortune of fragile states and how best they can be deployed.

Linking aids, debt relief and fragility.

In addressing the problems of fragile states, the issue of aids and debt relief are two broad dimensions of solving them. They could be used in isolation or together as occasion demands though foreign aids come either in bilateral form or multilateral form. Aids instrument could be through budget support, social funds, pooled funds, projects and humanitarian assistance. However the method to be adopted and the mix of aids often depend on the peculiar features of the nation state. Essentially aids are given to fragile states in order to meet immediate needs and service delivery, building sustainable systems to support pro-poor domestic political reforms. However the consensus is that for aids to achieve the purpose for which it is given by donors, there is the need for strong policy environment and institutions because of the partnership model of aids effectiveness as supported by the Monterrey Consensus- The International Conference on Financing for Development held in Mexico in year 2002.There is the need for shared commitments between givers and receiver nations. The extent to which development intervention will impact positively on the people of a particular fragile state will depend on the foundations of the state authority. Regarding the issue of debt relief, there is no gainsaying that most fragile states need total debt cancellation because of the retrogressive impacts it has on their quest for economic growth. Moreover, when one considers that most of the debts of fragile states fall within the category of odious debts associated with bad political leadership resulting from official corruption, the case for debt relief and forgiveness for fragile states is justifiable. For many of the fragile states, the prospects for poverty reduction depend crucially on reducing their external debt. The boards of the World bank and the International Monetary Fund (IMF) at their annual meetings in September 1999 endorsed measures aimed at providing faster, deeper and broader debt relief to some 41 heavily indebted poor countries (HIPCs) and to strengthen the links between debt relief and poverty reduction. The measures which was known as the Enhanced HIPC Initiative aim at relieving up to 70% of the approximately $127 billion debt owed by these countries. This figure is about $65 billion more in debt relief in nominal terms than what was offered by the original HIPC initiative the previous year. The original HIPC Initiative sought to enable the heavily indebted poor countries mostly concentrated in Sub-Saharan Africa to achieve sustainable debt and escape from the constant rescheduling of debt they could not repay. The underlying assumption was that debt relief would free fiscal resources to allow these countries improve on their human development drive. Debt relief and the giving of aids though germane in international finance development interventions, it however worthy to say that aids givers should deal with countries with consideration to a broad context of development issues to ensure a synergy of good partnership and aids delivery. In addition it is important to point out that in giving aids and offering debt relief, there must be a coherence between aids, debt forgiveness and government policies especially as it relate to trade. In line with the Washington Consensus articulated by John Williamson in 1990, the opinion that state control on the economy should be reduced may be applicable to some fragile states but not all. Taking into consideration the common features of fragile states, the following key issues need to be focused and applied appropriately:

1. foreign capital inflow in form of aids, foreign direct investment and remittances must be scaled up in fragile states.
2. there is the need to use moral suasion to make government of fragile states agree to the design and implementation of long term development plans with medium term expenditure planning considerations.

In recent times, the idea gaining ground among many researchers and scholars sympathetic to the course of fragile states is that trade and not aid is essential for helping out, this is however debatable and may not hold true in all situations. It is contended that the developed countries have failed to meet the aid requirements of the developing economies generally during the last two decades. It has been argued that though foreign aid has provided crucial support to the development plans of poor countries, developed countries are not prepared to supply aid to the extent required by many fragile states.

Getting it Right

It should be understood that in most cases aids and debt relief have failed to achieve their desired results in fragile states because the conditions given by donors and creditors do not often take into consideration the peculiarities of each nation state. For example the directive to weak states to devalue their currencies and allow unrestricted import has been counterproductive in most cases. What worked in a particular scenario of a fragile state might not necessarily work in another. It is on record that development intervention policies in Argentina in year 2002 and Turkey in year 2000 failed because there was no balance between the government responsibility and what ~~the~~ market economy ought to do.

CONCLUSION

In extending aids and granting debt relief to fragile states, benefactors of such countries should deal with them within the context of broad development issues. This is to say their political and economic intervention initiatives should be synthesised and development programme and projects must be designed to make the citizens have a sense of ownership. In situations where political problems have been surmounted, a bottom-top approach to project and programme conceptualisation till implementation must be done. A good knowledge of existing institutions, history of policies, inclusive participation and human capital development to ascertain the capacity of human resource must be done in the quest towards ensuring macroeconomic stability and the achievement of maximum economic transformation impact in fragile states. With particular reference to foreign aids which could come in form of direct investment, indirect investment known as portfolio or 'rentier' investment through foreign ownership of transferable securities and as public foreign capital, giving aids to fragile states as public foreign capital should be more as it addresses more realistically the social expenditures issues of education and public health. Moreover foreign aids assistance should come in form of untied aids or what is also called programme aid whose disbursement is at the recipient's discretion mainly on a wide variety of items justified in terms of the total needs and development plan of the country rather than on any particular project.

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