



**KEVIN
MARTIN
OGWEMOH**
L E G A L
NEWSLETTER

**DEBT RELIEF/FORGIVENESS: A STEP TOWARDS
FINANCIAL HEALTH AMIDST COVID-19 PANDEMIC**



DEBT RELIEF/FORGIVENESS: A STEP TOWARDS FINANCIAL HEALTH AMIDST COVID-19 PANDEMIC.



1.0. Introduction

The outbreak of COVID-19 pandemic has exposed the world to an economic upheaval. Declared a pandemic by the World Health Organization (WHO) on 11 March 2020,¹ COVID-19 has become a global emergency, given its impact on the entire world population and the economy. It has no doubt resulted in closure of countries borders, shut down of businesses and self- quarantine globally.

Economic impacts of the COVID-19 pandemic became more visible in the world economy by the 20th of February, 2020 with the stock market crash. On 14 April 2020, the International Monetary Fund (IMF) reported that all G7 nations had entered or were entering into what was called "deep recession" alongside most of the western world with significant slowdown of growth across developing and emerging economies². The IMF has stated that the economic decline is "far worse" than that of the Great Recession in 2009³.

It is worthy of note that the pandemic has so far affected companies particularly on the supply and demand sides⁴. On the supply side, companies experienced a reduction in the supply of labour, as workers were unwell or needed to look after their children or other dependents and in many cases, there was outright downsizing due to paucity of income to meet such commitments. The recession has seen unusually high and rapid increase in unemployment rates in many countries. For instance, some of the world biggest airlines including Virgin Australia, Air Mauritius and four

subsidiaries of Norwegian airline filed for bankruptcy. Pursuant to this, an estimated 1, 571 pilots and 3, 134 cabin crew employed by these companies and their subsidiaries stand the risk of losing their jobs.

Africa is overwhelmingly a continent of small businesses, petty traders and micro-firms, with an estimated 95% of enterprises falling into this category. This particular category is vulnerable to the effects of the COVID-19 pandemic. Few have the savings to cover basic essentials such as rent and payment of wages as lockdowns across the continent see businesses close, customers dry up and employees let go.⁵

African countries such as South Africa, Nigeria, Tanzania, Angola, etc are facing economic challenges as the COVID-19 pandemic coincides with rising debt levels and other structural issues, continuing deterioration in fiscal strength, sharp decline in oil prices that has massively affected the country's oil-dependent economy.⁶ In Nigeria, the government has been forced to adjust the 2020 budget downward from the original N10.59tn to N10.52tn and adopt \$25 oil benchmark as against the initial \$57 oil benchmark due to the negative effect of COVID-19 pandemic⁷.



On the demand side, a dramatic and sudden loss of demand and revenue for companies severely affects their ability to function, and/or causes severe liquidity shortages. Furthermore, consumers experience loss of income, fear of contagion and heightened uncertainty, which in

turn reduces spending and consumption. These effects are compounded because workers are

laid off and firms are not able to pay salaries.



As the world continues to cope with the impacts of the COVID-19 crisis, government officials throughout the world have taken important steps to curb the spread of the virus. At the same time, many businesses, financial institutions and government entities are stepping up to provide some relief to those who are worried about their financial security.⁸ Nigerian government, for example, through the Central Bank has since embarked on palliative measures such as extension of period of loan moratorium, reduction of interest rates, grant of interest free loans to SMEs, etc to cushion the effects of the pandemic on businesses.

Despite the foregoing, one other veritable way to achieve prudent financial health during the seemingly endless plague of Covid-19 is to ensure that business organizations and small business holders are given debt relief or cancellation.

2.0 THE CONCEPT OF DEBT RELIEF/ DEBT FORGIVENESS

United States of America stands out as pioneer country in granting debt relief. When consumers begin to fall behind on payments, they have several options to discharge the debt, either in full or in part. This is automatic as long as a debtor is able to declare bankruptcy, which has the immediate effect of stopping any payments made to creditors.⁹

Debt relief can be defined as the partial or total forgiveness of debt, or the slowing or stopping of debt growth, owed by individuals, corporations, or nations. It is the reorganization of debt in any shape or form so as to provide the indebted party with a measure of respite, either

fully or partially. Debt relief could also mean clearing the debt out altogether in bankruptcy; getting changes in interest rate or payment schedule to ease payments; or assuring creditors to agree to accept less than the full amount owed.¹⁰

One of its advantages includes assisting companies to pay debts faster or in a slow-and-steady manner, helps in reducing the amount owed by the debtor, it amplifies the Debt Payment Process etc.

However, debt relief is not free of demerits. Some of the challenges are that it could encourage imprudent and reckless behavior by historically fiscally irresponsible parties. Some who are relieved of their debt may embark on borrowing sprees in the expectation that their creditors will eventually bail them out. Other drawbacks include prolonging the payoff of debts due to consolidation, whereby the interest rate is lowered but the term is lengthened.

3.0. Forms of Debt Relief.

1. Debt settlement.
2. Debt consolidation
3. Debt Management Plan



3.1. Debt settlement

Debt settlement is a debt repayment strategy where a debtor negotiates with his creditors to accept a partial payment as full satisfaction for the debt. If the creditor agrees, the debtor pays just a percentage of the outstanding balance and the rest of the debt is canceled for good. This option is typically used on unsecured debt, like credit card debt, and only when the debtor is severely behind on his payments. Debt



Debt

settlement aims to reduce a consumer's obligations rather than the number of creditors.¹¹

Advantages of Debt settlement.

1. It prevents the debtor company from going bankrupt.
2. It helps a company to pay its debts in a short time.

Disadvantages of Debt settlement.

1. Debt settlement can result in negative tax implication. A company may owe tax on the amount of debt cancelled by its creditor. This may likely expose the company to a greater financial implication than the debt which was offset by the creditor.
2. There is no guarantee that the creditor will accept the settlement terms.

3.2. Debt Consolidation.

The term debt consolidation refers to the act of taking out a new loan to pay off other liabilities and consumer debts, generally unsecured ones. Multiple debts are combined into a single, larger piece of debt, usually with more favorable payoff terms. Favorable payoff terms include a lower interest rate, lower monthly payment, or both. Therefore, when a consumer is saddled with different kinds of debt, they can apply for a loan to consolidate those debts into a single liability and pay them off. Payments are then made to the new debt until it is paid off in full.¹² An important point to note is that debt consolidation loans do not erase the original debt. Instead, they simply transfer a consumer's loans to a different lender or other types of loans.

Advantages of Debt consolidation.

1. It allows a company to get lower monthly payment terms thereby alleviating its financial stress.¹³
2. It helps companies to free up their cash flow so as to enable them pay suppliers and have enough funds to grow the business.¹⁴

Disadvantages of Debt consolidation.

1. Consolidated debt cannot fix a bad business; it can only fix financial mistakes and errors. If a business model is flawed, debt consolidation will be of no benefit rather it will simply push problems faced by the company to the future.¹⁵
2. In debt consolidation, the company does not enjoy any relief, it only cut short the number of creditors. The company still has an obligation to pay its creditors the exact sum owed by it.



3.3. Debt Management Plan (DMP).

In a Debt Management Plan (DMP), the debtor appoints a credit counseling company to negotiate with his creditors to reduce his interest rates and fees, or lower monthly payments.¹⁶ The debtor still pays off the principal amount. Credit counselors will also help the debtor to improve his money management skills and come up with a workable budget. The parties agree on an affordable payment schedule that allows 3-5 years to pay off debt owed.¹⁷ A debt management plan is part of the package of debt consolidation plans that are designed to help businesses regain control of their finances while reducing unsecured debts. It is one of the several ways companies can take control of their debt by reducing the number of payments

they make each month which could translate to savings in interest and fees.



4.0. PROSPECT OF DEBT RELIEF TOWARDS ACHIEVING FINANCIAL HEALTH.

Most countries have taken up the challenge to ease financial stress that could emanate from the Covid-19 pandemic. Many countries are working tirelessly to keep their economies going in certain areas.¹⁸

Common challenges such as Capital access, **Workforce Capacity, Inventory and Supply shortfalls, facility remediation, Insurance Coverage Issues, Changing Market Demand and Marketing**¹⁹ usually confronted by small business holders can be solved through debt relief or debt forgiveness.


Debt relief offers immense benefits to consumers without hope of repaying unsecured debt (credit cards, medical bills, personal loans) within a stipulated period of five years, even with observing extreme measures to cut spending; and to the debtors whose total unsecured debt equals half or more of his gross income.²⁰

CONCLUSION.

It is the writer’s opinion that debt relief will provide succor especially in this era of Covid-19 pandemic- a disease which apart from causing the loss of thousands of lives, has also negatively impacted on business sustainability. It may eventually guarantee and offer hope to business organizations and small business holders to remain in business by the application of any of the procedures for debt management and debt restructuring.

REFERENCES

1. <https://www.who.int/dg/speeches/detail/who-director-general-s-opening-remarks-at-the-media-briefing-on-covid-19---11-march-2020>
2. <https://blogs.imf.org/2020/04/14/the-great-lockdown-worst-economic-downturn-since-the-great-depression/>
3. <https://www.bloombergquint.com/business/global-great-lockdown-will-dwarf-the-great-recession>
4. https://blogs.imf.org/2020/03/09/limiting-the-economic-fallout-of-the-coronavirus-with-large-targeted-policies/?utm_medium=email&utm_source=govdelivery accessed 6th April, 2020
5. <https://www.dw.com/en/covid-19-relief-promises-for-africas-small-businesses/a-52995876>lasted accessed 6th April, 2020.
6. <https://www.brookings.edu/blog/africa-in-focus/2020/04/04/africa-in-the-news-impacts-of-covid-19-on-african-economies-and-elections-updates/amp/>accessed 6th April, 2020.
7. Tax and Finance News, Thursday, May 14, 2020.
8. <https://www.experian.com/blogs/ask-experian/covid-19-resource/>last accessed 6th April, 2020.



9. https://en.wikipedia.org/wiki/Debt_relief#cite_note-12lasted accessed 5th April, 2020.
10. Julian Kogan (January, 24, 2020), “Debt relief”
<https://www.investopedia.com/terms/d/debt-relief.asp>, last accessed 7th April, 2020



kindly forward your comments to
info@kmo.legal

-Stay Safe-
-Take Responsibility-
-We Care-

11. Leslie Parrish and Ellen Harnick- state of Lending: Debt settlement<https://www.responsiblelending.org/state-of-lending/reports/12-Debt-Settlement.pdf> accessed 5th April, 2020.
12. Julian Kogan (January, 24, 2020), "Debt relief"
<https://www.investopedia.com/terms/d/debt-relief.asp>, last accessed 7th April, 2020
13. <https://www.solvable.com/credit-card-debt/debt-counseling/the-pros-and-cons-of-debt-relief-programs/>
14. Ibid
15. Ibid
16. <https://www.debt.org/management-plans/> accessed 6th April, 2020.
17. Ibid
18. <https://www.brookings.edu/blog/africa-in-focus/2020/04/04/africa-in-the-news-impacts-of-covid-19-on-african-economies-and-elections-updates/amp/> last accessed, 5th April, 2020.
19. <https://www.sba.gov/page/coronavirus-covid-19-small-business-guidance-loan-resources> accessed on 6th April, 2020
20. Ibid



Established in 1988, KMO Legal, a result oriented Law Firm has over three decades of experience in providing quality and innovative services to clients who in turn have grown to rely on the Firm in achieving their set individual/organisational targets.

Some of the Firm's practice areas include:

Litigation, Alternative Dispute Resolution, Banking, Finance and Corporate Commercial Law Practice, Energy, Power, Oil & Gas, Telecommunications Law, Immigration Law, Real Estate and Property Law, Probate, Estate Administration and Trusts, Shipping, Admiralty and International Trade Law, Taxation, Entertainment, and Bespoke Advisory/Secretarial Services.

For further enquiries or assistance, please contact us at:

Address: The Trinity Centre
Plot 14A Block 139A
Nike Art Gallery Road, Lekki
Peninsula Scheme 1, Lagos
Nigeria.

Email: info@kmo.legal

Phone: +234(0)8033014162
+234(0)8059006522
+234(0)8023636083
+234(0)8033083445
+23412714388

Website: www.kmo.legal