October 15, 1987

SEEKING THE CAUSES OF AFRICA'S POVERTY

Morris B. Goldman, Ph.D.
John M. Olin Fellow

INTRODUCTION

The continent of Africa, particularly the 45 sub-Saharan countries, soon may be receiving massive foreign aid increases. Many of these nations long have enjoyed the highest levels of foreign aid as a percentage of their gross national product. Yet the results of this past aid have been disappointing. Economic development in a large number of these countries is either stagnant or declining. World Bank reports, for example, estimate that Africa's per capita gross domestic product in 1983 was 4 percent lower than its 1970 level.[1] This is despite investment from all sources of at least $200 billion in the region between 1965 and 1984.[2]

Rather than spur economic development, foreign aid often has retarded African economic growth. Current efforts offer no better promise.

Despite the dismal record of past foreign aid transfusions to Africa, the Reagan Administration in March 1987 unveiled a major assistance initiative to "end hunger in Sub-Saharan Africa through economic growth and private enterprise development by the end of this century." The plan envisions larger official development assistance flows to low-income African countries. The World Bank, meanwhile, has created a special sub-Saharan Africa facility to provide extra concessional aid flows from its International Development Association. In addition,

1. The World Bank, *Toward Sustained Development in Sub-Saharan Africa* (Washington, D.C.: The World Bank, 1984), p. 1.

2. Stephen M. Haykin, *Policy Reform Programs in Africa: A Preliminary Assessment of Impacts* (Washington, D.C.: Bureau for Africa, Office of Development Planning, Agency for International Development, March 1987), p. i.

the World Bank and International Monetary Fund recently have begun working together on a special IMF Structural Adjustment Facility to provide yet another source of highly subsidized funds to Africa.[3]

Mozambique's Bonanza. A meeting early this year of the Paris Club, an informal association of creditors of Third World countries, agreed in principle to reschedule on more favorable terms the debt owed them by the poorest, most indebted African countries. As a result of this agreement, Mozambique is receiving the most favorable terms ever obtained by a developing country.[4] The June 1987 Venice economic summit dealt with several African economic aid issues. Also in June, donors agreed to triple the size of the African Development Bank. And there are impressive private African relief programs, using frequent and numerous television appeals for contributions to the starving of Africa.

All this activity would seem to indicate mounting attention on Africa and on the human suffering caused by the dismal economic performance by the least developed continent. The fact is that Africa stands at the end of the queue of popular attention. Though the human problems of Africa elicit emotional and charitable responses, geopolitically and economically other parts of the world are generally viewed as more important. To make matters worse, Africa also has been at the end of the evaluation queue. It is as if few really have cared or have made the effort to understand what has been causing the economic problems of sub-Saharan Africa.

There are some signs, however, that Africa at last is getting some analytical attention. Secretary of State George Shultz, on arriving in sub-Saharan Africa on January 8, 1987, said:

> Donor nations, too, have unwittingly subscribed to faulty theories of development. For us as well as for African states, bad theories have produced bad policies. Some of our aid has been counterproductive.

Admitting Responsibility. Two months later, a White House initiative on African assistance based itself on the premise that what has been the typical Western economic assistance to sub-Saharan Africa will not induce growth in the region; consequently, the U.S. must change the way it delivers economic assistance.

African nations themselves finally are frankly admitting their own responsibility for their problems. A March 1986 special session of the General Assembly of the United Nations, focusing on Africa's economic situation, at least rhetorically, took a new approach to development in Africa. The U.N. session's final document, entitled "Africa's Submission to the Special Session of the United Nations General Assembly on Africa's Economic and Social Crises," notes the African nations' acceptance of responsibility for the resolution of their problems, admits past mistakes, pledges self-reliance and the attainment of self-sufficiency, and promises profound "structural changes" in their governments. The document noted the intention of these African

---

3. Current proposals call for substantial increases in this new facility.

4. George Graham, "Mozambique Wins Long Debt Rescheduling," *The Financial Times*, June 18, 1987.

nations to take measures to strengthen incentive schemes, review public investment policies, improve economic management, and instill greater discipline and efficiency in the use of resources.

While the U.N. session was encouraging, similar occasional rhetoric in the past has led to no change in policy. To the contrary, the rhetoric turned out to be a sophisticated effort to extract more foreign assistance. This again may be the situation. Adebayo Adedeji, Executive Secretary of the U.N. Economic Commission for Africa was asked under what circumstances he would consider the special U.N. session a success. His reply is scarcely encouraging. He said: "When we have a commitment from the international community for assistance."

This attitude has doomed past African development efforts. Policy reforms, not more foreign assistance, is the prescription for Africa's economic growth. The U.S. Agency for International Development has identified numerous harmful policies of African governments that need correction. These include:

- ◆◆ state-run production in both agriculture and industry;
- ◆◆ state control of agricultural marketing;
- ◆◆ price controls, especially low official farmgate prices;
- ◆◆ high minimum wages in the formal sector;
- ◆◆ interest rate controls;
- ◆◆ concentration of investments in the urban economy and neglect of the rural economy;
- ◆◆ overvalued exchange rates and foreign exchange controls;
- ◆◆ tariffs and other trade restrictions that encouraged investments in industries which were not competitive;
- ◆◆ barriers to private investment, including limitations on profit repatriation and regulations limiting entry into particular sectors;
- ◆◆ unfair and inefficient tax laws;
- ◆◆ expansion of government expenditures through consumer subsidies and support of inefficient parastatals;
- ◆◆ excessive expenditures on social services for the elite (curative hospitals and universities) at the expense of services for the masses (clinics and primary schools);
- ◆◆ financing of spending through foreign borrowing or monetary expansion.[5]

5. Haykin, *op. cit.*

Until these policies are changed by African nations, additional foreign aid will simply become another misguided act of wealth transference worsening Africa's misery.

REGIONAL ECONOMIC PERFORMANCE

Sub-Saharan Africa's economic performance has been deteriorating relative to the world's other regions, especially since 1970. Yet Africa also contains nations of diverse economic health, with Lesotho, Ivory Coast, and Botswana having done relatively well, as Tanzania and Ethiopia struggle severely.

Tables 1 and 2 summarize the major trends of sub-Saharan Africa's economic stagnation. In terms of income, investment, export, debt service burden, and size of government, sub-Saharan Africa is worse off than developing regions elsewhere. Africa's troubles, however, belie the enormous sums of foreign aid that it has received. Official development assistance from all sources in 1985 as a percent of GNP for the countries of the sub-Saharan region was 5 percent.[6] The low income countries of the sub-Saharan region receive even more assistance, 9 percent of their GNP in 1984. In comparison, the average for low income countries in the world, as a percentage of their GNP, was only 1.7 percent in 1984.[7]

TABLE 1

	1980-1985 (Average Annual Rate)
Gross Domestic Product Growth (percent)	
Developing Economies	3.3
Sub-Saharan Economies	-0.7
Gross Domestic Investment Growth (percent)	
Developing Economies	0.8
Sub-Saharan Ecomomies	-11.4
Growth in Exports (percent)	
Developing Economies	3.9
Sub-Saharan Economies	-5.0

6. The World Bank, *World Development Report, 1987* (Washington, D.C.: The World Bank, 1987), p. 245.

7. The World Bank, *World Development Report, 1986* (Washington, D.C.: The World Bank, 1986), p. 220.

TABLE 2

Debt Service Burden as a Percent of Exports of Goods and Services	1970	1985
Developing Economies	11.2	19.7
Sub-Saharan Economies	5.3	21.5
Central Government Expenditures (Percent of GNP)	**1972**	**1985**
Developing Economies	19.3	22.3
Sub-Saharan Economies	16.4	23.7
Central Government Revenues (Percent of GNP)		
Developing Economies	17.5	21.1
Sub-Saharan Economies	14.2	19.3

Source: The World Bank, *World Development Report, 1987*, Tables 2, 4, 10, 19, 23, and 24.

Other measures of African economic performance are also disappointing. Gross domestic savings, for example, has declined 5 percent over the twenty-year period 1965 to 1985 from 18 percent to 13 percent of GDP, unlike other developing economies, which have increased their savings from 20 to 23 percent of GDP in the same period.[8]

Destroying Incentive. Another problem is that very few African nations have equity markets. This hampers investment as companies lack the markets needed to raise capital. In addition, regulation of financial markets allows the government to fix interest rates. When official rates are below market rate, as they often have been, there is little incentive to save. As a result, domestic credit to further investment is not available.

Credit is scarce for another reason. Private firms are restricted from obtaining credit because the governments and government enterprises are often given the first priority for funds, domestic and foreign. This crowds out the private sector from capital markets. IMF figures show that the public sector demanded more than 60 percent of all the outstanding credit in 14 of the 35 African countries in which these statistics are kept: in six countries, those figures were greater than 75 percent.[9]

---

8. *World Development Report, 1987*, *op. cit.*, p. 211.

9. International Monetary Fund, *International Financial Statistics*, March 1986.

THE REASONS FOR SUB-SAHARAN AFRICA'S DECLINE

Economic stagnation and suffering in sub-Saharan Africa is overwhelmingly due to economic policies which can have no other result. These policies have led to pervasive government ownership or control over economic institutions. Private initiative to produce and create wealth in too many cases has been stymied by government interventionist programs.

The U.S. Agency for International Development (AID) summarizes four profound effects of flawed economic policies in Africa as:

> First, they discouraged production, reduced new private savings and investment, and channelled whatever investment that did take place into areas which were relatively unproductive. Second, they shifted income from low income groups (mostly small farmers) to upper income groups (politicians, government employees and other workers in the formal industrial and service sector). Third, they led to stagnation in employment. Fourth, these policies engendered corruption and moral decay.[10]

To be sure, factors other than policy failures have been alleged as explanations for Africa's poor economic performance. Such allegations include insufficient foreign aid, excessive population, colonial exploitation, excessive debt, commodity price fluctuations, tribalism, drought, plagues and diseases, untenable political boundaries among many other rationalizations. While some of these, of course, have hampered economic development, some have helped economic growth; others have had unclear effects. Careful analysis will reveal that these factors alone cannot explain the long-term decline in Africa's economic health since 1970.[11]

Political Factors

African economic policy failures have not occurred in a vacuum. They exist because there are incentives for them. Some incentives arise out of the political instability and civil strife prevalent in the region.[12] African leaders thus often do not have the time to implement sustainable economic programs resulting in long-term growth. Instead, they are under pressure to create employment immediately via inefficient government programs and to share the "spoils" of office by subsidizing politically important groups from the public treasury.

Related is the widespread official corruption. In many African countries, corruption is used to buy loyalty for the ruling political power. The greater the state's role in the economy, the greater the opportunities for corruption.

---

10. Haykin, *op. cit.*, p. 6.

11. Alan Rufus Waters, "In Africa's Anguish, Foreign Aid Is a Culprit," Heritage Foundation *Backgrounder* No. 447, August 7, 1985.

12. Since 1960, there have been only eight examples of constitutional succession of governments in all of Africa. This does not indicate a climate of political stability. See Peter Duignan and Robert H. Jackson, eds., *Politics and Government in African States, 1960-1985* (Stanford, California: Hoover Institution Press, 1986) p. 66.

Policy and Program Failures

Today, nearly every discussion on Africa's economic decline mentions the policy and project failures. A 1984 major World Bank report on Africa's woes began:

> ...the roots of Africa's problems continue to be the combination of those policies--governments' as well as donors'--that influence the efficiency of resource use. Those policies should remain the focus of action. Unless they are corrected, extra foreign exchange from whatever source--trade or capital inflow--may bring temporary relief but will have no lasting benefits. If governments are to address their domestic policies, more external finance could even exacerbate the problem.[13]

In a May 1986 address to the U.N. on the crisis in Africa, Secretary of State George Shultz observed:

> ...well intentioned programs can produce dependency rather than self-sufficiency, economic stagnation rather than self-sustaining growth...no amount of foreign assistance, and no measure of good intentions can alleviate the hardship caused by a government bent on misguided policies.

A March 1987 U.S. AID report on Africa noted:

> A central cause for the economic stagnation most African economies have experienced has been the adoption of misguided economic policies. These policies discouraged people from working harder, from taking risks and from using their savings for productive investments, while at the same time perpetuating and expanding the inefficient use of resources by the public sector.[14]

Hampering Market Operations. The most serious policy failures include: large government expenditures and bureaucracies, state marketing boards, high subsidies, price controls, barriers to entry in markets by private entities, weak property rights, overregulated labor markets, foreign exchange controls, highly regulated and inflexible capital markets, excessive taxation, discouragement of foreign equity investment, overvalued exchange rates, protection from imports, and an obsession with large-scale, capital intensive government projects.

Poor policies are primarily those that hamper the operations of markets. This is confirmed in a study by Johns Hopkins professor Bella Balassa. He finds that GNP growth rates for more market-oriented sub-Saharan countries, such as the Ivory Coast, averaged 6.8 percent as compared with a 1.9 percent growth rates in economies that are considered to be interventionist, such as Tanzania.

The policies hampering markets most include:

---

13. *Toward Sustained Development in Sub-Saharan Africa*, *op. cit.*, p. 21.

14. Haykin, *op. cit.*, p. 1.

1) **Discrimination against imports.** This is done through tariffs, price controls, and parastatal trading companies. Lack of such imports hampers local economies by eliminating the opportunities to purchase a variety of low-priced, high quality goods and services. Inefficient domestic firms, moreover, are shielded from competitive pressures of the world marketplace.

2) **Failure to allow currency values to be set by the market.** While almost all African nations manipulate exchange rates, the interventionist states do so the most. Currency overvaluation makes goods for export relatively more expensive when compared to world prices. The World Bank's figures for the entire sub-Saharan region indicate that exchange rates appreciated by 31 percent from the period 1969-1971 to 1981-1983.[15] Correcting for such overvaluations can reduce balance-of-payments deficits and shift the terms of trade more in favor of the country.

3) **Bloated government bureaucracies.** Specifically, the number of civil servants in Kenya has swelled from 45,000 in 1955 to 170,000 in 1984; Senegal has increased its state servants sevenfold in the period 1960 to 1984. Along with the increased number of employees, Africa traditionally has paid its civil servants salaries sharply above comparable private sector jobs and higher than relative government salaries in other countries. This not only increases the cost of government, but draws into government service from the private sector scarce entrepreneurial talent.

4) **Price controls.** In Benin, government cement price controls caused otherwise efficient cement plants to operate at a loss. In Sierra Leone, state-owned transport enterprises were forced to absorb cost increases without timely price increases, again creating losses.[16] In Zambia, farmers had to pay more than a dollar for fertilizer for every dollar's worth of food produced.[17] Obviously, when the cost of only a single input in the production process is greater than the amount a farmer can receive for the entire output, there is no incentive to grow food.

5) **High taxes.** Ghana cocoa farmers, for example, are taxed at marginal rates of 90 percent. In Zimbabwe, socialism has resulted in much higher rates of taxation. Other African nations with high marginal tax rates which numb the incentive to produce include Tanzania (85 percent marginal rate at $12,000 income), Mali (70 percent marginal rate), Sierra Leone (70 percent marginal rate), Zaire (60 percent marginal rate), and Sudan (60 percent marginal rate).

Marketing Boards

The singularly most harmful institution to agriculture in sub-Saharan Africa is the state marketing boards. The exact nature of marketing boards varies by

---

15. *World Development Report, 1986, op. cit.*, p. 67.

16. John R. Nellis, *Public Enterprise in Sub-Saharan Africa* (Washington, D.C.: World Bank Discussion Papers, November 1985), pp. 21-22.

17. Haykin, *op. cit*, p. 1.

country. Generally, however, they allow the state to control the import, export, domestic procurement, and distribution of the entire range of agricultural products. In some countries, such as Tanzania, Sudan, Zambia, and Ghana, marketing boards enjoy statutory monopoly power. The African governments argue that marketing boards are necessary because of the private sector's inefficiency. The evidence proves just the opposite. For example in Kenya, "the public sector charged 15 to 20 percent more for marketing maize and beans than did the private sector."[18]

According to the World Bank, marketing boards are relatively inefficient because they:

> ...often have unrealistic and inconsistent mandates to generate government revenues, provide cheap food, and create employment. Moreover, as complex centrally controlled systems are open to corruption, it is difficult for public agencies to adopt the differentiated pricing policies which are needed to promote efficient trade. But the costs of not doing so can be great. For example, when an agency offers a single price for all grades of a crop, farmers want to sell to it only their lowest quality grade. When the agency is in charge of exporting the crop, as in the case of the rice marketing board in Guyana, the low quality of its supplies discourages foreign buyers.[19]

Tanzanian Disaster. Tanzania, under the socialist policies of former President Julius Nyerere, wholeheartedly embraced marketing boards, which replaced private traders in the 1960s and early 1970s. Ten state agencies were put in charge of buying, processing, and marketing 42 products. The results were disastrous: Farmers saw the prices decline sharply for their output. By 1984, official prices were 46 percent below 1970 levels, even though world prices for Tanzania's export crops were 17 percent higher in real terms between 1970 and 1980. As a result, agricultural output fell drastically, particularly for such export crops as cashews, cotton, and pyrethrum. Reports the World Bank: "By 1984, the tonnage of export crops marketed by the marketing boards was 30 percent less than it had been in 1970."[20]

State-Owned Enterprises

Government-owned enterprises dominate the economies of many sub-Saharan African nations. They produce a high percentage of national income and are capital intensive. Yet their performance has, in general, been very poor. A 1985 World Bank report concludes that "African public enterprises present a depressing picture of inefficiency, losses, budgetary burdens, poor products and services, and minimal accomplishment of the non-commercial objectives so frequently used to excuse their poor economic performance."[21] The report adds that it is unlikely that public enterprises will ever perform well.

---

18. *World Development Report, 1986, op. cit.*. p. 85.

19. *Ibid.*, pp. 85-86.

20. *Ibid.*, p. 75.

21. Nellis, *op. cit.*, p. ix.

A study of state owned enterprises (SOEs) in twelve West African countries finds that 62 percent showed net losses while 36 percent had negative worth. In Kenya, the government estimates that over $1.4 billion had been invested in SOEs by the early 1980s, yet their annual average return had been 0.2 percent.[22]

Catalogue of Errors. A catalogue of faltering SOEs would include a huge Somalian plant to box bananas for export. Even if the entire banana production in Somalia were boxed by this one plant, it still would not be profitable and would have unused capacity. Six years after beginning operations, it was operating only at 25 percent of capacity.

A tin can manufacturing plant in Kenya had such high production costs that cans full of vegetables could be imported from Asian competitors cheaper than this concern's cost for the cans alone.[23]

In Niger and Madagascar, SOEs selling grain and foodstuffs were required to market goods at below their costs of production.[24]

An African regional airport was required by its government operators to have two eight-hour shifts of workers for two flights a day.[25]

The failures of SOEs is overwhelmingly due to their manipulations by the ruling elite for political ends and to a lack of marketplace pressure to curtail costs and produce what consumers demand.

Capital Intensive Showcase Projects

The "White Elephants" of Africa are legion. Created for political purposes and largely externally financed via foreign aid or subsidized credit, these show projects harm small fragile economies. They greatly skew the flow of scarce capital and entrepreneurial talent toward inefficient uses.

Zaire can boast one of the most most disastrous showcase projects--the Inga-Shaba power line joining the hydroelectric facilities of the lower Zaire river to the Shaba metallurgical complex. This project cost $1 billion, four times the original estimates. More important, it was devised on a premise that proved false--an expansion of Zaire's copper output. Mainly, however, the chief impetus for this project was not economic but political. This 1,100-mile power line, the longest of its kind in the world, was viewed as a source of great pride to the Zairean government. It also was designed to serve the political purpose of tying the rebellious region of Shaba to the capital. There is little possibility that revenues

---

22. *Ibid.*, p. 17.

23. *Ibid*, p. 21.

24. The World Bank, *Accelerated Development in Sub-Saharan Africa: An Agenda for Action* (Washington, D.C.: The World Bank, 1981), pp. 26-27.

25. Nellis, *op. cit.*, p. 30.

ever can recover the cost of this project. It will drain the productive resources of Zaire for decades.[26]

Operating at 10 Percent Capacity. Another Zairean failure was its $250 million steel mill near Kinshasa. The plant's steel is of such low quality that few want to buy it. At any event, this steel's cost is eight times that of equivalent imported steel. The plant has never operated at greater than 10 percent of capacity.[27]

A $47 million Togo steel mill completed in 1979 can produce seven times the amount of steel that Togo needs. But Togo has little of the raw materials required to produce steel. This mill was built--and advocated--by Swedish and Swiss firms. Togo paid for it by loans and guarantees from the Swiss and Swedish governments. The plant has never run at higher than 22 percent of capacity, and Togo has paid off only one-quarter of the costs. One member of Togo's Planning Ministry bitterly blamed European governments because, "The [European] government credits prevented the suppliers from doing careful analysis of the viability of the project... they encourage projects to increase their own exports and create employment."[28]

According to the World Bank,

> Almost without exception, the Bank's reviews have revealed that a good deal of the pressure to undertake new investment or continue with low-priority projects derives from the inflexibility of foreign donors. The more the program is externally financed, the harder it has been to maintain national control over priorities.[29]

White Elephant Banks. Another example of financial disaster white elephants is the establishment of national development banks. These government-created banks, heavily financed by foreign aid, with the intent of funding a nation's development strategy, often retard growth. Consider the Gambian Commercial and Development Bank (GCDB) created in 1972. After fifteen years of inept and corrupt management, major international financiers are calling for its liquidation while Gambians credit it with creating "a closely knit, Mafia-like formation which, with its limitless monopoly, is one of the greatest obstacles to economic development." The problem is that national development banks have easy access to external capital and are politically managed for amorphous development goals. As a result, the GCDB is in

> ... breach of all Gambia's banking regulations on minimum reserves, liquid assets, and equity capital. It is also in breach of the recommendations of nearly all its international financiers who normally require that the debt-equity ratio does not exceed 4:1. Today the bank is both insolvent and illiquid. Its

---

26. Duignan and Jackson, *op. cit.*, pp. 144.

27. *Ibid.*, p. 144.

28. Steven Mufson, "White Elephants in Black Africa," *The New Republic*, December 29, 1986, pp. 18-20.

29. *Toward Sustained Development in Sub-Saharan Africa*, *op. cit.*, p. 38.

> current liabilities are almost twice its assets; its accumulated loans four times its paid-up capital and resources put together. Though the bank has a loan portfolio of only D121m [dalasi, monetary unit] its total liabilities amount to D191.1m. Almost half of these loans are government-guaranteed loans to barons of the ruling party, clients whose actual existence can at times be questioned, and other unworthy debtors with powerful godfathers.[30]

The bank is in fact able to continue its operations only because the Central Bank accommodates its financial needs. But in spite of all these flaws, the bank and its management continue to enjoy the full backing of the authorities. All pressures from foreign creditors geared toward an overhaul of management have been effectively blocked by the regime.

CURRENT POLICY AND AID CLIMATE

Given this dismal record, what is there in the new initiatives that will ensure change? There is recognition of specific past failures and there are urgent demands for more aid, but no fundamental changes are being offered that will prevent past mistakes from being repeated. More funding to existing institutions and recipient nations with the same incentive structures will prove in vain.

Have the incentives of the international bureaucrats at the World Bank and the African Development Bank so changed that they no longer want to enlarge their institutions or to meet country and region lending targets, but instead are trying to improve the quality of their loans and projects?

Have the leaders of African countries lost the incentives to convert foreign aid and government receipts to their own personal and political gain?

Have the developed donor nations become less interested in obtaining Third World influence and promoting their own exports?

Goodwill and Charity. The answer to all these questions is no. Men of goodwill and charity who promote African aid initiatives hope the money will be used differently this time, but unfortunately, that is not enough.

Recent negotiations tripling the size of the African Development Bank (ADB) indicate that, despite the rhetoric of the need for change, neither the African nations nor the Western donors are serious about adopting new policies. In the twenty years of its existence, the ADB has loaned over $11 billion to African nations to spur economic development in Africa.

Despite the ADB's failure to make almost any progress toward its goal, it sought and received a huge increase in its resources at its 23rd annual meeting this June in Cairo. Agreement was reached to increase the bank's capital from $6 billion to over $19 billion. Yet the ADB made no solid promises about changing the requirements for its loans in a way that would encourage African states to

30. *West Africa*, April 6, 1986, p. 658.

abandon flawed economic policies. In short, it was business as usual at the ADB. In evaluating the ADB's work, the U.S. representative from the Treasury Department, James Conrow, noted:

> The United States has been disappointed in the pace of improvement in the quality of projects financed by the Bank Group. In 1986 we felt compelled to vote against 10 loans out of a total of 86 loans financed by the Bank and Fund. These loans were, in our opinion, economically or financially deficient. The basic quality of these projects was questionable. Substantive issues critical to design, sustainability and relating to factors such as cost recovery, availability of counterpart financing, and skill requirements were often ignored or poorly examined.
>
> More generally, we are concerned that while the Bank Group recognizes the need for economic reform and for efficiency in lending, we have not seen that recognition translated into reality. The Bank has not actively and aggressively promoted economic reform in borrowing countries nor has it encouraged borrowers to focus their efforts on areas of obvious priority."[31]

U.S. Complicity. Yet, despite these and other concerns such as the Bank management's excessive spending on its own "comforts," the U.S. representative went along with the huge resource increase because the ADB had already made commitments to lend the funds. This continuation of bailouts simply perpetuates the harmful economic policies.

The ADB meeting is not the only indication that Africa is not yet serious about economic growth. In 1986, Zambia received great acclaim in the West when it agreed to the International Monetary Fund's policy reforms in return for $266 million from the IMF. This May, however, Zambia abandoned the IMF reforms and announced a "new" economic policy based largely on tight government controls. This policy in fact is the old prescription for economic disaster: food subsidies, controlled interest rates, foreign exchange rationed for government approved uses, and easing the government spending reduction targets. This action, in one of Africa's more politically stable countries, calls into question the sincerity of the continent's newfound policy reform beliefs.[32]

Impeding Reforms. In Tanzania, Julius Nyerere, the guru of African socialism, who stepped down as president in 1985 after ruling for 29 years, still wields considerable power. His successor, Ali Hassan Mwinyi, quickly signed an agreement with the IMF, long derided by Nyerere as "an instrument for destabilization in the Third World." Through his retention of the chairmanship of Tanzania's ruling party, Nyerere has been using his influence to impede the free market reforms introduced by Ali Hassan Mwinyi, according to businessmen and Western diplomats. This May, Nyerere again blasted the IMF, calling it "an instrument of capitalist powers...bent

---

31. 23rd Annual Meeting of the African Development Bank and 14th Annual Meeting of the African Development Fund, Cairo, Egypt, June 9, 1987, p. 10.

32. Sheila Rule, "Zambia-I.M.F. Fallout Mirrors Third-World Woes," *The New York Times*, June 8, 1987.

on suppressing the weak developing countries by taking advantage of their poverty."[33]

Nigeria last month announced its intention to repudiate approximately $2 billion in external debt. This move by the Nigerian Central Bank calls into question the sincerity of the economic reforms by sub-Saharan Africa's largest economic power.

Togo's Efforts. In Togo, a laudable effort at privatization has failed to produce economic gains. Togolese officials have leased a public enterprise steel mill to a foreign private entrepreneur for the modest annual fee of $175,000.[34] While this privatization is sound policy, the conditions of it are not. Togo agreed to grant the foreign firm protection from steel imports by levying a 41 percent tariff. This is damaging to the Togolese economy because all domestic users of steel must pay higher than world prices for this critical input. Albeit well-intentioned, it was an act that unfortunately set a bad precedent with regard to future privatization. In the same way, the principal feature of privatization in many other African nations is the large divergence between stated intentions and actual changes.[35]

For the region as a whole, 1986 saw an increase in government deficits as a percentage of gross domestic product (from 5.9 percent in 1985 to 6.6 percent in 1986). Taxes jumped too. New direct taxes included taxation of wages and salaries for previously exempted income groups. Also increased were taxes on business turnovers as well as tariffs, export taxes, and excise duties.[36]

Such policies do not leave room for optimism that sub-Saharan Africa has learned the right lessons from its economic failures. The most effective policy reforms, moreover, need not be financed from foreign aid.

Increasing Tax Revenues. Privatizing state-owned enterprises does not cost money--it actually generates new revenues for the government and reduces the subsidies borne by the public treasury. Eliminating price controls, marketing boards, onerous regulations, and budget deficits does not increase central government expenditures.

The stimulus to the domestic economy from such actions actually can increase governmental tax receipts and reduce the demand for government assistance. Adedayo Adedeji, the Executive Secretary of the U.N.'s Economic Commission on Africa, is wrong when he insists that "You cannot expect African countries to go through structural adjustment without resources to finance it. If the rest of the

---

33. Blaine Harden, "Two Years After Retirement, Nyerere Sparks New Debate," *The Washington Post*, July 11, 1987.

34. Nellis, *op. cit.*, pp. 47-48.

35. Victor Mallet, "Privatisation in Africa: The Spirit is Willing, the State Obstructs," *Financial Times*, July 13, 1987.

36. African Development Bank, *Annual Report, 1986*, p. 31.

world cannot help Africa stand on its feet, then it will have to support a permanent emergency case."[37]

RECOMMENDATIONS

Of course, there is a role for U.S. and Western aid to Africa. A new strategy, however, must be devised to ensure at last that this aid triggers the economic growth that can lift Africans from their poverty.

For the U.S., elements of a new aid strategy must be based on the following principles:

◆◆ Multilateral and bilateral agencies should not base foreign aid levels on predetermined quotas or targets for countries or regions. Funds should be given to countries on the basis of what is expected to work, not political considerations.

◆◆ Aid should be designed explicitly to induce changes in domestic economic policies of recipient countries that will spur growth. Mere promises of change no longer should be acceptable; actual changes must begin.

◆◆ Aid flows should be more directed to private sector activities than to governments. Flows should go to those private sector efforts capable of near-term self-sustainability.

◆◆ Independent evaluations and audits should be conducted on the effectiveness of past aid efforts by donor organizations. Organizations with low effectiveness ratings should receive reduced funding. A permanent independent body is needed whose sole mission would be an objective evaluation of aid efforts.

◆◆ Nondevelopment considerations in dispensing foreign aid, such as donor country export subsidization and influence seeking, need to be reduced.

Without such redirection of aid efforts and without changes in existing political and economic incentives, which only retard growth and impede markets, further aid will continue to fuel harmful policies, and the quality of life in much of sub-Saharan Africa will continue to be dismal.

---

37. Blaine Harden, "Africa's Poor on Brink, 12 Nations in Severe Debt Crisis," *The Washington Post*, June 7, 1987.

The author wishes to thank Brian J. Buttigieg for his assistance in preparing this study.