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The African Development Tragedy

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On the African Development Tragedy

World Bank's new president Paul Wolfowitz directed his first official travelling abroad to Africa, and he announced that Africa would be a focal point of his term in the World Bank.¹

The British Government has in the beginning of 2004 formally established a Commission for Africa. This is an impressive fact since there are few examples of similar initiatives – dealing with the development of a specific region of the world – on a government level.

The actual 15. World Economic Forum in Kapstadt is supposed to prepare also for the G-8 summit in Gleneagle in Scotland where Great Britain probably will present sort of “Marshall Plan for Africa”.

1. Some Facts

Africa is a tragic place. In many statistics Africa occupies leading positions when it comes to issues such as wars, violence, famine, infant mortality, repression, corruption, or aids. When the topic is development, Africa usually ranges last. Among the 20 least developed countries in terms of income per head 18 are African (the other two being Nepal and Chadchikistan. UNDP has a different list where out of the 34 least developed countries 30 are in Black Afrika, and the last 25 of that list are all African. Across the continent 38 million people face famine. In Africa 340 million people - or half the population - live on less than \$1 a day (welthungerhilfe 2005). It is the continent with 12 percent of the world's population but with 80 percent of the world's Aids deaths. Unemployment varies between 30 and 70 percent. “This is a continent which year by year outdoes itself in its capacity to disappoint and inflict suffering” (Hutton 2003).

A prominent indicator for developing countries is indebtedness, and I should like to come to grips with our topic from this side. Developing countries are chronically indebted – this is one constitutive criterion for defining a developing country. But also industrial countries are indebted so that further indicators are required in order to classify the international indebtedness as a specific attribute of developing countries. One such aspect is the debt service capacity, and this has for many countries run out of the rudder: the debt service – interest and repayment – cannot be financed. Debt service has to be paid in hard currency which would have to be earned by export earnings. Exports would, in addition, also have to finance the import needs of a country. But this is usually out of question in developing countries (DCs) so that the resulting gap in the balance of payments has to be financed by loans.

2. Debt Burden

¹ Backfisch 2005.

The developing countries (DCs) have accumulated a total debt burden of some 2.83 trillion (German billions) USD (2005). The African states south of the Sahara carry a debt load of 200 billion USD which is roughly two-and-a-half-fold the export earnings of the entire continent. African debts only to the World Bank amount to 80 billion USD. Mozambique would have to use its entire export earnings for twelve years in order to repay its debts (Welthungerhilfe 2005). Therefore, (some) debt service can only be paid if fresh money is provided from abroad.

Regular interest payment is crucial since otherwise – and this is an aspect to be found in most national laws – commercial creditors have to write off their receivables, in many countries to zero. This would be a burden to their commercial balance sheet as the depreciation of receivables results in a reduction of profits and is counterbalanced only to the extent of the respective profit tax rate – the rest is loss. No commercial creditor will voluntarily accept that. Loans from states or international institutions such as the IMF or the World Bank have to be served properly in order to preserve some credibility, since otherwise it becomes very difficult to raise further loans internationally. The trend, though, goes to raising funds on the regular capital markets at commercial terms, in order to by-pass the conditionality usually tied to World Bank or IMF loans.

3. Appalling Consequences

The consequences are appalling. Indebted countries do not dispose of sufficient hard currency for importing urgently needed goods such as food, medicine, or technology. And since the population is poor – which is a major cause of conflicts and violence – public funds resulting from tax payments are low so that the public services in health or education or infrastructure are insufficient. Consequently, also economic development is slow, which in turn results in low public funds. We all know that “poor” means in a developing country something else than in an industrial country.

Is the mayor cause of no development a lack of capital? Is debt relief the solution?

Calls for flat debt relief come up again and again, very recently by Tony Blair, and my guess is that the World Bank will start another initiative. But one has to differentiate as to which debts should be written off. Public creditors must not fear to a similar extent as private ones a deterioration of the optics of their balance sheet, but no finance minister of an industrial country is keen on losing cash flow on which he had based his planning.

In 1996 the International Monetary Fund (IMF) and the World Bank have launched the highly indebted poor countries initiative (HIPC), a programme intended to relieve a group of poor countries (mainly in Africa) from most of their debt burden. In April, Zambia was relieved from 3.9 billion USD under the HIPC initiative, according to which in May 2005 the Paris Club agreed to cancel 1.4 billion USD of Zambia's debts, and Britain added another 550 million USD.

I claim that this concept has not produced much sustainable effect in practice. The benefiting countries are supposed to develop Poverty Reduction Strategy Papers (PRSP) (based on the participation of the civil society) – sort of debt-poverty-swap where a commitment to actions apt to potentially reduce poverty leads to debt relief. The issue at stake, though, is not to produce a plan but to actually implement efficient policies. However, on the whole of Africa, economic development has not accelerated, public debts have not declined, and poverty has not been reduced. Worldwide, more than one billion people dispose of less than one dollar per day; as I

already said, in Africa half the population lives on less than \$1 a day. Only in Asia there is some improvement in this aspect.

Some critics say that debt relief is negatively affecting the credit rating of a country and thus the inflow of private investments. Admitted. But in many cases this is not really relevant because that rating anyway is below creditworthiness. A better solution might be increasing export earnings but this is more easily said than done. After having been freed from its debts by the HIPC initiative, Uganda (as an example) has accumulated a fresh debt burden of twice its export earnings, and this is not a singular phenomenon.

Why is a high level of debt normal for a developing African country?

4. Structural Causes

Economists tend to identify a double structural problem. Imports have to be paid by export earnings, but the terms of trade develop unfavorably: they 'deteriorate', last not least because the industrial countries are interested in low and declining prices for raw materials and agricultural goods they do not produce themselves.

A developing country's exports usually consists predominantly of (a few) raw materials and agricultural products (which yield comparatively low world market prices), and imports are composed of more sophisticated consumer and industrial goods (which are comparatively expensive), in addition to often urgently needed basic nutrition. This logically tends to produce a gap in the balance of payments, to be financed by capital imports, and this means debts.

So why then do the DCs not export more processed goods for which they can ask higher prices? This is the other structural problem. As a matter of fact, the typical DC does not have the industrial infrastructure to do so. Why? Lack of skilled workers, lack of know-how, and lack of finance is the usual answer. This is added to by the structures of world trade. There is no doubt that the industrial countries follow a protectionist policy while at the same time advocating free trade. The IMF, the World Bank and the WTO are in favour of privatization while they fail to reduce their massive subsidies.

5. Crucial Other Causes

I acknowledge that the scarcity of capital in DCs is partly due to the outflow of debt service payments. But a mayor cause for the lack of finance is a massive capital flight out of the developing countries. The UN Economic Commission for Africa (ECA) estimates that the deposits owned by Africans overseas amount to close to 40 percent of the GNP of the continent, and we find the corresponding syndrome in Asia and Latin America.² A large amount of such money does not come from commercial earnings but from "diverted" public funds, exactly those which should be used for development purposes.

But there is more. A mayor cause for slow development in very many – not only African – developing countries is related to a large variety of internal factors. They include – to start with the most obvious ones – ethnical, religious and/or political conflicts which more often than not result in open wars, both internally and between countries, and in a disregard of human rights. I cannot list those conflicts here since this paper must not be that long. On a list of the 10 worst countries in this context 6

² Schuldenerlass als Weg aus der Verwüstung? Geoscience-online.de, March 14, 2005.

are African (the 10 being Burma, Burundi, Columbia, Ivory Coast, DR of Congo, Indonesia (Aceh), Liberia, Russian Federation (Tshetshenya), Somalia, Sudan).

In any case, wars absorb enormous amounts of money, and they impede development. Tanzania has not really reduced its military expenses after having benefited from the HIPC initiative, and it has not been able to develop an investment climate which would attract foreign (private) investments. Bureaucracy, corruption, nepotisms, tribalism, open criminality, and lack of infrastructure are unfavorable frame conditions. Transparency International estimates that one third of public debts relate to corruption – e.g. credit financed projects which favor certain groups but do not have any positive impact on development. Corruption erodes resources needed for poverty and jobs. But without private investment there will be no development.

The state of the infrastructure outside the capitals is in most African countries deplorable. This hampers internal movements considerably, and is added to in some countries by the chronic insecurity produced by maroding soldiers or the existence of land-mines.

6. Lack of Dedication and Commitment

Furtheron, also in very many peaceable countries we have to observe a considerable lack of dedication and commitment for, and ownership of, development initiatives on the side of the governments, the public administrations and the powerful classes. What is referred to as Good Governance is more often than not very little developed, and this holds good not only for Black Africa but also for Arabic states – a fact which most interestingly has been pointed out by Arabic researchers in their recent “Arabic Report on Human Development” initiated by UNDP.³ Usually democratic, social, or legal reforms got stuck.

Usually there is a large gap between the ruling groups and the poor population. What we call a middle class is usually barely well developed. Politicians in the field of development cooperation may tend to object, but reality points the other way. (I am actively engaged in development cooperation since thirty years, and my firm opinion is based on my experience.) A lacking middle class restricts the development of a civil society as well as the mobilization of private funds.

In some African countries there is no functioning central government at all (e.g. Ivory Coast, Liberia, Somalia, Sudan). In others there is no democratic basis, some pretend to carry out democratic elections which are fakes, some have been ruled (and exploited) for tens of years by dictators (who in various cases have not only been tolerated but actively supported by the West). As a result, the development of a civil society is lacking that could bring international attention to the situation in their countries.

7. “There is honour among thieves...”

Yet Africa's leaders do very little to improve this situation. Africa's political leaders – with few exceptions – do not impress by their engagement for the development of their country. Very many simply look after their own.

And when they get the chance to take action against the obvious misuse of power by one of their number, as is the case with Zimbabwe, they just let him go. I would like to expand on this a little. In 2002, the Commonwealth had temporarily suspended

³ FAZ April 5, 2005, and Rössler 2005.

Zimbabwe from active membership for obvious reasons. Early in 2003 a group composed by the South Africa's president Thabo Mbeki, Nigeria's president Olusegun Obasanjo, and Australia's prime minister John Howard had to decide whether or not Zimbabwe's suspension should be renewed or not. But no decision needed to be taken since Mbeki and Obasanjo – without conferring with John Howard – recommended that Zimbabwe be readmitted to full membership of the Commonwealth – and so did it happen (The Observer, 16 March, 2003). What a great day for Mugabe; what a tragic day for Africa. This decision was spectacular. There was no mention by the other two African leaders of the fact that Zimbabwe is sinking into a state of repression and collapse that has affected so much of Africa.

And when there were so-called elections held in Zimbabwe early in 2005, already early that very day South Africa's Mbeki was of the opinion that those elections were held democratically while external election observers stated severe shortcomings. Also in the past African Leaders fell silent over the obvious misrule of a long line of African dictators – in silent agreement with the West who even shuts its eyes before atrocious crimes against humanity (George 2005). African leaders guilty of major fraud and theft knew that they would live happily on immense fortunes in Europe or elsewhere should unfortunately they would have to give up stealing the wealth of their country. Mobutu lived in a villa at the lake of Geneva.

The African Union, the successor to the very unsuccessful Organisation of African Unity (OAU), now follows objectives such as a pan-African currency, a pan-African army, and possibly the creation of an EU-style superstate on the African continent. This stands in sharp contrast to the fact that Africa cannot feed or educate millions of its own people. Half of Africa's 10-year-olds do not attend primary school because there aren't any. But who is responsible for the state of an education system? The UN? The OECD?

Few years ago there was much talk – led by Mbeki – of an African Renaissance, and of a new generation of African leaders who would overcome the old corrupt post-independence regimes and lead Africa to a new beginning. Mbeki even called for a South African membership in the UN Security Council. Simply nothing has happened. Mbeki's potential successor, Vice President Jacob Zuma, some weeks ago ago (in the beginning of June) had been classified by a South African judge in court as a criminal in the context of a corruption case. Did he resign? No, but the judge was accused of racism (FAZ June 7, 2005). Only on 14 June President Mbeki displaced him reluctantly

When end of April 2005 the dictator Faure Eyadema of Togo (the son) violated international law, what did the African Union do? Nothing but disagreeing on what to do. And who was in the center of that mess? President Obasanjo of Nigeria.

The Congo – whose brutal former leader Laurent Kabila was heralded as key to the renaissance – has fallen apart. The African Union is very much promoted by Libya's Colonel Muammar Gaddafi. As a result Libya now has troops “peace-keeping” in the Central African Republic (CAR). From insiders one could learn that the impoverished CAR gave Libya the right to exploit oil and mineral resources in the country for 99 years. In return, Libya provides “security” for CAR's then President Ange-Felix Patasse. Just another example of corruption and power. Nowhere in such deals, political decisions or discussions are the real needs of Africa's ordinary human citizens reflected.

Somalia has now gone 12 years with no form of government and no prospect of getting one. Ivory Coast – which somehow survived almost 40 years of independence

as relatively peaceful and prosperous – is now gripped by different warring rebel factions. Eritrea and Ethiopia have fought a two year war over a stretch of barren border territory that cost 70,000 lives and consumed hundreds of millions of dollars of aid that could have fed their starving people.

Africa has continued its spiral of decline. Some observers speak of a continent that burns.

In Namibia, the former President Sam Nujoma has been so impressed by the “success” of Mugabe's so-called land reform that he threatened to do the same in his country. He had also banned foreign programs from television, denounced Christianity as a foreign philosophy and called for a revival of ancestral worship of cattle gods.

In Swaziland, the young King Mswati III three years ago bought a new private jet for 42 million EUR. But a quarter of his country needs food aid, 22 per cent of them have HIV, and the entire Swazi health budget is 20 million EUR (Inter Press Service, Johannesburg, June 3, 2005). Former President Nujoma of Namibia also purchased a private presidential jet. When interviewed by a German journalist on that fact he shouted: “We are entitled to travel by jet just like other people. If you go to Germany you find all over jets, even private people have them, and therefore the Republic of Namibia cannot buy a jet? That is arrogance, sheer arrogance.”

No, Mr. President, I do not think that that is arrogance.

Many people blame the disastrous situation that Africa is experiencing on the old evils of colonialism. African nations, they say, just weren't given the chance to develop naturally because their borders are all wrong. They were drawn by colonial officials at European desks with no mind to facts on the ground. That is certainly true. But – who should change those borders? Africa. However, among the first resolutions the OAU ever passed was the decision to keep them. Also the African Union has not changed that. If colonial borders were such a mayor obstacle then Africa's independent nations have had four decades to change them.

Others say that the multi-ethnicity of African nations has hampered development. There is only one country in Africa which has an almost entirely homogenous population, whose people speak the same language, worship the same religion and which has no ethnic minorities: Somalia. Now have a look on the state of Somalia today!

Criticism of Africa is regularly classified as racist or neo-imperialist. African politicians misuse the tragedies of Africa's past as a catch-all excuse to explain its current tragedies. They use such labels to cover their own misdeeds, corruption, war-mongering and incompetence.

8. Is more aid then a solution?

Aid removes responsibility from African governments. If the international community is willing to feed a country's population, support its schools and run its clinics, then the government of that country does not have to, and this provides opportunities for skimming off the top.

To be sure, as to corruption, Africa has no monopoly. The industrialized countries face corruption, and it is endemic in large parts of Asia. Yet corruption there does not stop development. In the 1950s South Korea was behind Ghana in a plurality of

economic indicators. Today, South Korea is a first world country. And now have a look on Ghana today. I have been working and living in Ghana in the early seventies, and three years ago I had a chance to go back for a while. I then visited the premises of the “Development and Productivity Institute” where I had worked some 30 years ago: The same wooden buildings, the same modest infrastructure (except for more computers), the same un-tarred street, the same pot-holes.

But what causes this? Why is Asia so different to Africa when both have so much in common with respect to corruption and authoritarian government? There seems something fundamentally wrong, not with Africans, but with African political culture. The central problem with Africa is African government.

In Africa, as an Economist article pointed out, the phenomenon of “shell states” has developed. These are countries which have been degraded so exhaustively by their own governments that they factually no longer exist. In Congo vast parts of the country are cut off, and they are returned into the status of an age before the first European explorers appeared. In Europe, Asia, and South America corruption does not prevent the general progress of development. In Africa it is so endemic that it virtually stops it, and can even send it backwards.

A major issue is that Africa has made itself irrelevant. Why should we take leaders like Sam Nujoma and Robert Mugabe seriously? The more prominent internal obstacles to development apparently are, the easier it becomes to shake off a remaining guilt of colonialism. Very many Africa's politicians are willing to exploit their own country's resources for their personal benefit.

9. NEPAD

Some time ago, a new round of discussions centers around NEPAD, the New Partnership for African Development, but the concept is not very prominent any more in public discussion. President Abdoulaye Wade of Senegal recently called NEPAD “a series of costly meetings without any result” (FAZ 6 April 2005). NEPAD foresaw that Africa in the first instance should engage in structural reforms, and financial support by the donor community in terms of debt relief and aid should be tied to concrete progress in fighting corruption, improving good-governance and legal stability. What is disturbing me is the fact that apparently African leaders have to be paid in order to engage in Good Governance. Why so? Zambia is one example of a HIPC (highly indebted poor country) which claims success in this respect, but the agreement was reached on 26 May, 2005 only.⁴ We shall see then. The main advocates of NEPAD are Mbeki and Obasanjo, the very two who did their best to let Mugabe's crimes go unpunished and unaccounted for.

Aid will not solve Africa's problems. Nor will the West. And this is also why debt relief is not a sustainable solution as long as the underlying causes are not eliminated. As long as this is not the case, debt relief by one or some creditor countries is usually counterbalanced by new debts raised in other countries, or on the capital market, and the process starts from scratch. Debt relief will deflagrate unless the unfavorable external structural conditions on the world markets for the developing countries are improved (admitted) plus – and this is the real crucial issue to me – by making very much better use of the existing internal resources. The only people who can solve the problems of Africa, who can change their leaders, who can end corruption, who can end the African wars, are Africans themselves. Africa will have to do more for its

⁴ Shikapwasha 2005.

recovery. Fortunately, more and more African observers – politicians, journalists, scientists – stand up for this.⁵ There is no need to search for new concepts.

⁵ Example: Agha, Eugene, *This Day* (Lagos), June 6, 2005, “Let’s Name and Shame the Criminals”, Editorial in: *Public Agenda* (Accra), April 8, 2005, Lawson 2004, or Hutton 2003. A prominent and very critical author is Axelle Kabou from Cameroun.

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