

Neo-Colonialism In Africa: The Economic Crisis In Africa
And The Propagation Of The Status Quo By The World
Bank/IMF And WTO

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Introduction

It is no secret that Africa is wallowing in extreme poverty, well behind other developing nations in Asia and South America, and definitely centuries behind the Western civilizations that are the United States and Europe. Africa is deep in debt, hunger, diseases, illiteracy and civil strife. Many argue that the condition in Africa is in fact far worse today than it was at the end of colonialism under the European nations in the 1960s and 1970s. Observing the living conditions of the rapidly growing population, it is apparent that this is actually the case. I painfully agree that living conditions are worse now, but reiterate that colonialism is not over as such. There is merely a new form of colonialism, by the same western countries, masked under the pretext of economic support for Africa, directly enforced or institutionalized in the World Bank, the International Monetary Fund (IMF) and the World Trade Organization (WTO). The policies enforced on poor African countries through these organizations have chained Africa to continued dependence on western economies for mere subsistence, by preventing self help to the continent's economic problems. Moreover, the same policies seem to favor a trade imbalance to the already wealthy Western economies over the struggling ones in Africa. This economic colonization of Africa has done and continues to do as much damage to the continent as the imperial colonialism and its after effects did.

About the World Bank/IMF/WTO

The World Bank and the IMF, jointly known as the Bretton Woods institutions, were created in 1944 with an aim to help rebuild the economies that had been greatly affected by World War II. The original plans included an international trade organization,

but it was not until 1995 that the World Trade Organization (WTO) was formed. The IMF would create a stable climate for international trade by harmonizing its members' monetary policies, and maintaining exchange stability. It would be able to provide temporary financial assistance to countries encountering difficulties with their balance of payments. The World Bank, on the other hand, would serve to improve the capacity of countries to trade by lending money to war-ravaged and impoverished countries for reconstruction and development projects. By 1944 none of the colonized African countries had attained their independence and hence were neither members nor intended beneficiaries of this grand plan.

Currently the World Bank is the largest public development institution in the world, lending around US\$ 25 billion a year to developing countries for the financing of development projects and economic reform. It comprises of 183 member countries, including 47 in sub-Saharan Africa, and is headed by the World Bank director, currently James Wolfensohn, who is directly appointed by the US government. The bank is governed under a board of governors, whose voting powers are based on the members' capital subscriptions which means the members with the greatest financial contributions have the greatest say in the Bank's decision-making process. The US government holds 20 percent of the vote and is represented by a single Executive Director while the 47 sub-Saharan African countries, in contrast, have two Executive Directors and hold only seven percent of votes between them. It is evident early on from this fact that the board decisions are not likely to be in favor of the poorest members which are in Africa.

The WTO was established in 1995 based on a set of rules for global trade that had been negotiated in round table negotiations since the 1947 General Agreement on Tariffs

and Trade (GATT). The aim of the WTO is to ensure that global trade is conducted smoothly and peacefully and it does this by creating rules that govern global trade, which have to be followed by member countries. Countries become members by ratifying WTO regulations and in so doing are governed by the regulations not only when involved in international trade, but also within their respective borders. This means that WTO rules become a part of a country's domestic legal system. The membership to the WTO currently stands at 148 with 41 of these being in Africa.

The WTO is run by its member governments. All major decisions are made by the membership as a whole, either by ministers (who meet at least once every two years) or by their ambassadors or delegates (who meet regularly in Geneva). Decisions are normally taken by consensus. In this respect, the WTO is different from the World Bank and International Monetary Fund. In the WTO, power is not delegated to a board of directors or the organization's head. In this manner the poorest countries are in a better position to influence decisions of the WTO, than they are in the World Bank/IMF.

The Current Debt Situation In Africa

Saying that Africa is currently in an economic crisis is probably a great understatement. Basic infrastructure in most African countries is dilapidated, economic growth is minimal, access to the basics like food, health and education is sparse and expensive, arid areas are encroaching into previously arable land, and so on and so forth. The list is enormous. All this while the continent is deeply entrenched in debt to the developed Western countries, much of which was acquired to fight the economic hardships, but have obviously failed to make any marked improvement in the situation.

There are many arguments as to the cause of the current economic crisis in Africa from political instability, to underdeveloped human resources, to the oil crisis of the 1973-4, to increased government spending after the colonial period, to inheritance of poor colonial economic systems and trade practices (which were set to serve as source and sink to the “mother” country rather than serve the people), to the sole dependence on primary industries (i.e. failure to diversify), and many more. All these point are to a great extent valid, but how the situation has been handled has resulted more to maintaining the status quo or worsening the situation altogether as the rest of the world looked on if not directly benefited. Though the title of my paper befits a much broader perspective on the economic crisis in Africa, my focus is primarily on the debt problem.

In my opinion the African debt problem is the biggest hindrance to any possible solutions to the overall economic crisis. This is ironic because the purpose of the loans in the first place was to help alleviate economic hardships in the receiving countries. Most African countries were in debt almost as soon as they gained independence. The amount of debt has been constantly rising since then. Currently African governments spend huge chunks of their annual revenue just to service loans, money that could go quite a distance in developing their economies. Fig 1. shows how external debt in Africa has grown between 1971 and 1998.

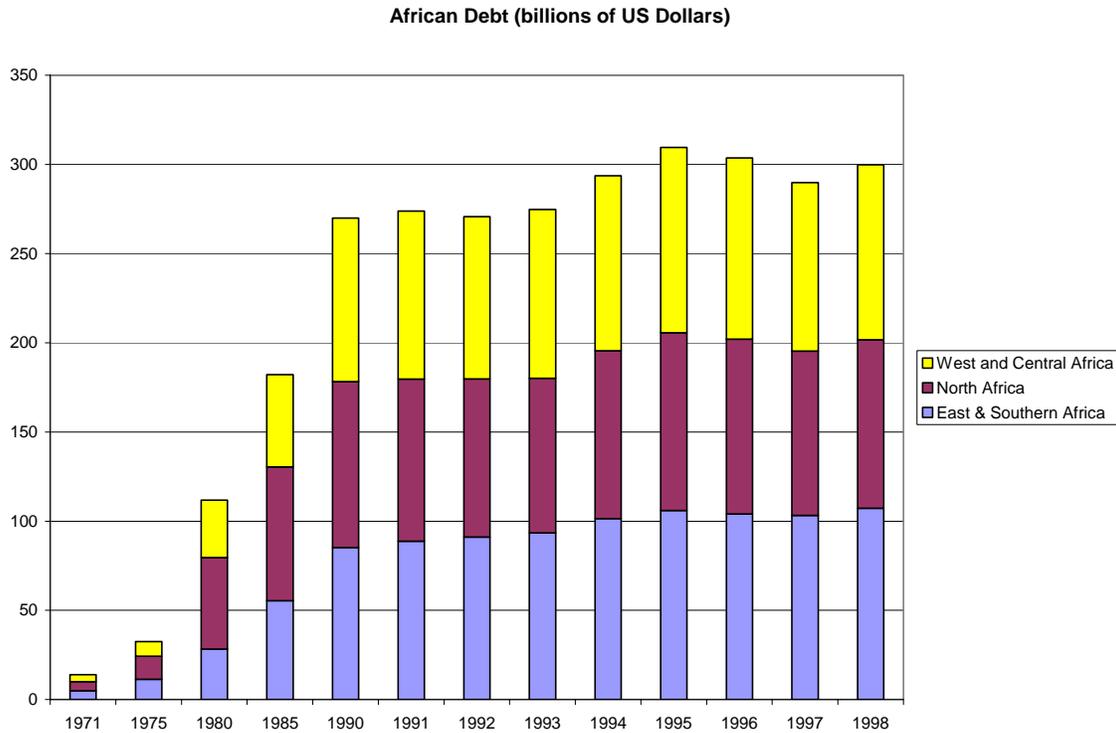


Fig 1. Growth of Debt In African countries (source: Based on World bank Global Development Finance', 2000)

Compared to other developing countries Africa actually holds a small chunk of the total world debt. However the problem lies in its inability to service this debt. African countries are unable to service the huge debts and at the same time build their economies and fight poverty. Fig 2 shows the total debt in Africa as a percentage of Gross National Product. Currently, except for North Africa, the rest of the African countries combined owe more than they make. The debt servicing ratio currently averages about 18% in Sub-Saharan Africa and 20% in North Africa (previously as high as 38%). Despite having a larger chunk of the debt sub-Saharan Africa is manages to pays less annually than their North African counterparts, probably because of the latter's economic advantage in oil revenue. It goes without saying that the debt burden in sub-Saharan Africa is growing faster than the economy can handle.

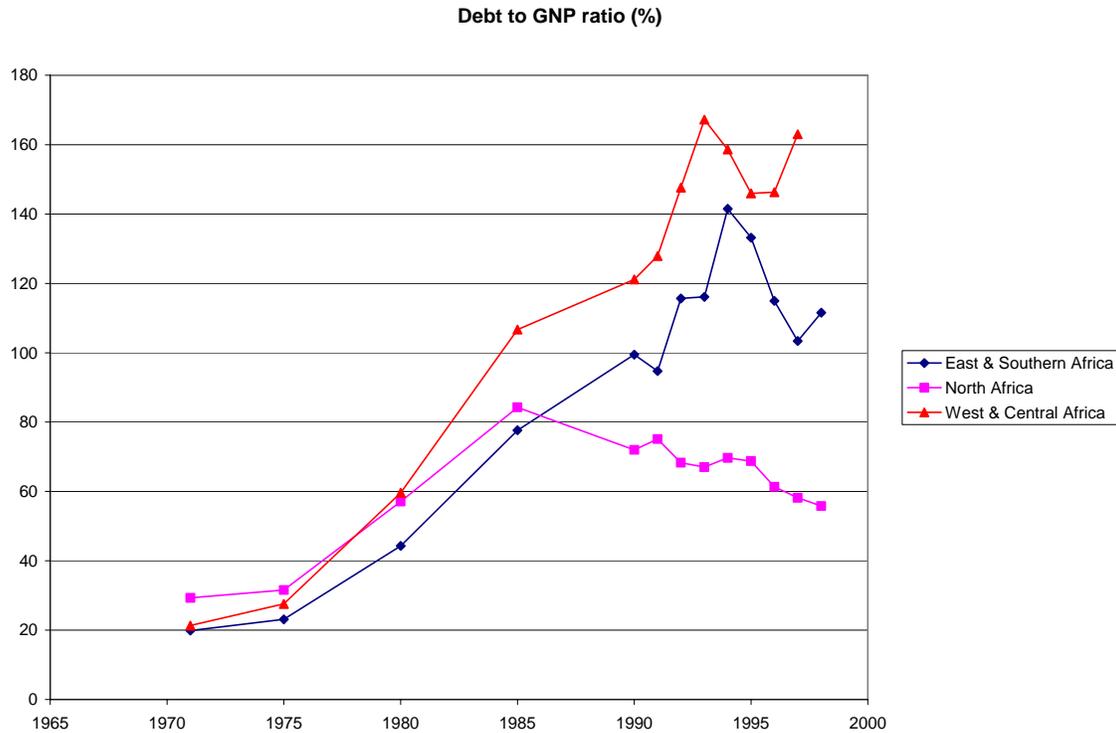


Fig 2. Debt to GNP ratio (source: Based on World bank Global Development Finance', 2000)

The servicing of the external debt consumes national income thus hindering both public and private investments. Additionally, having a large debt overhang erodes the confidence of both foreign and domestic private investors who are usually sensitive to uncertainty. There has been a declining trend of private investment in most African countries from the late 1970s onwards, and this can partly be attributed to this factor. Finally, servicing of debt in the African context is placing an enormous fiscal pressure. Such pressure has an adverse effect on public investment, evident in the declining share of public investment from late 1970s onwards in most African countries and on physical and social infrastructure.

A good indicator of debt burden is the net transfers to the sub-regions. From the same World Bank data used to generate the figures above, it is interesting to note that if

grants and net foreign direct investment inflows are not taken, African countries are on a net basis transferring resources to the developed countries since 1985. The figure picking from its low level of 1.7 billion in 1985 to nearly 7 billion in 1997. Moreover, even a good part of grants, nearly 35%, goes to experts that come from the donor countries to manage development projects.

From this, it is evident that Africa's wealth is being repatriated to the richer countries in the west, just like it was in the colonial days, but masked under "debt servicing", and thus my notion of economic colonialism.

Structural Adjustment Programs

Structural Adjustment Programs (SAPs) were prescribed for Africa beginning in the early 1980s when it became apparent that there was a big economic crisis looming over Africa. There were concerns that government spending was careening out of control in many of the countries, which was not reciprocated with huge revenue and thus big budget deficits. A bigger concern was the inability of many of the African economies to service the huge debts that they had incurred. To ensure debt repayment and economic restructuring the IMF/World Bank imposed Structural Adjustment Programs modeled on the neo-liberal ideology that the optimal economic system is achieved by giving free reign to market participants, privatization, free trade, and the shrinking of government intervention in the economy. The Structural Adjustment Programs were a precondition to new loans from the World Bank and renegotiations of current debts. Many African governments were reluctant to the policies prescribed from the onset but obliged just to maintain support. Over the years it has turned out that the policies have neither alleviated

the huge debts nor improved the economies of the developing countries. If anything, poverty in African countries has increased as a direct result of these policies.

So what were these policies? The Structural Adjustment Programs prescribed to all African countries, regardless of unique situations can be summarized as follows: privatization of government enterprises and decreased government spending; liberalization of trade and lifting of import and export restrictions; increased interest rates; liberalization of the money markets and devaluation of currencies; and lastly, market pricing and the removal of price controls and government subsidies. All these measures have negative effects that can arguably far outweigh the intended economic benefit. I will briefly explain the theories of these arguments then give examples, and in the following section highlight Mozambique as a case study on SAPs gone wrong.

Privatization of government enterprises is meant to curb huge government budgets and deficits, and to essentially free up money for repayment of loans. It makes sense to privatize government enterprises that are unprofitable and non-productive. However it cannot be done on a large-scale swoop as prescribed by the IMF/World Bank. There are many hindering factors such as the lack of local private capital and entrepreneurs to take over the huge corporations. This opens the gates to foreign investors who ultimately will repatriate profits instead of reinvesting locally to promote growth. Ultimately the result is massive layoffs and pay cuts, and increased repatriation of income. In addition reduced government expenditure robs the citizens of essential services including health and education. Social services, such as health and education cannot be run with the aim of profit, so privatizing them and/or reducing government spending

hurts social welfare in general. It is also important to note that oftentimes unproductive sectors such as military do not undergo budget cuts.

Liberalization of trade is meant to create a market based pricing and have exporters get better prices for their products and make available more affordable alternatives from abroad. However, it also leads to dumping of cheap products from outside such as clothes, food, stationery. This undermines the local industries that produce or those that would have started to produce these products. It is well known that budding industries need nurturing and protection at the early stages. A new fabric manufacturing plant in Tanzania, for example, cannot be expected to be as efficient as established manufacturers in China, and hence cannot compete equally. So African infant industries fail to take-off under extensive trade liberalization. This is also very critical with respect to imported food such as rice, wheat, milk, etc. Developed countries which have an excess of these food items reduce their price and export them to Africa to get rid of this excess at any price. If such a situation is not controlled, Africa will never be able to produce its own food. In addition liberalization of export of raw materials robs local industries of raw materials which can fetch higher prices from more efficient external competitors.

Increased interest rates is meant to encourage savings and investment in the capital market. However this makes capital inaccessible to local and small businesses which are the mainstay of most growing economies. Also this creates speculative investment especially from external sources which brings quick paper money profits to a few people while adding nothing to productive capacity. So the industries do not benefit at all.

Liberalization of the money markets, that is lifting of control of foreign exchange transactions, coupled with unrestricted imports causes increased spending on imports at the expense of local spending, and also contributes to the devaluation of the local currency. Devaluation of currencies is supposed to increase self-sufficiency by making imported products more expensive and exports cheaper. Another perspective is that exporters get more money for their products while external buyers are more able to afford African exports. However, this gain is artificial because the local industries still rely a lot on imports such as fuel and machinery thus their production costs increase accordingly and commodities become more expensive locally. Additionally, most of the developed countries that buy African products set quotas on how much can be imported or have fixed prices in foreign currencies to shelter their own producers from foreign competition. (It is ironic that the same protectionist practices being abolished by the SAPs are still practiced by the US and European Union that preach their abolition.) Under these conditions, African products, even when they become cheaper externally, do not necessarily gain new outside markets or earn more foreign exchange. In the long run there may be no real benefits, merely inflated prices. A good example is in Kenya, where The 81 percent devaluation of the Kenyan Shilling in 1993 resulted in an overnight jump of the external debt to 143 percent of GDP, and commodity prices escalated 3 to 4 times in a week. That year for the first time in decades, the price of salt, one of the cheapest staple products, rose.

Market pricing, achieved by removal of price controls and government subsidies are meant to reduce government spending and to promote competition and improve production efficiency. However, the removal of subsidies designed to control the price of

basics such as food and milk hurts the poorest of the poor. By devaluing the currency and simultaneously removing price controls, the immediate effect is generally instantaneous hikes in prices of commodities. Basic needs, such as food become unaffordable thus increasing the poverty rate overnight. Also removal of government subsidies coupled with open importation may hurt local production economies which may have to compete with dumping from foreign countries. Thus farmers end up having depleted revenues and in turn produce less which in turn causes shortages of basic commodities.

In summary SAPs are a poor prescription intended to relieve a misdiagnosed problem. SAPs were designed to address the symptoms of the economic problems and not the root causes of the economic crisis. The need for policies to increase economic productivity of the African countries and improving their social and technological infrastructures remained unaddressed, meanwhile the IMF/World Bank made policies aimed at increasing government's ability to repay loans. SAPs led to the postponement or total abandonment of development programs such as new roads, schools and hospitals. Existing infrastructure became cash strapped, with lack of books in schools, lack of medicine in hospitals, roads in perpetual disrepair, etc. None of the countries even those that implemented SAPs religiously have improved their economic situation to date. After over two decades of Structural Adjustment Programs most African countries are suffering from high inflation, lower spending on health, education, housing, sanitation and water. Illiteracy has not declined unemployment is incredibly high and average income for the ones lucky to be employed barely suffice for subsistence.

In 1994, the World Bank admitted that out of the 29 African countries it had provided more than \$20 billion in funding to sponsor adjustment programs during the

ten-year period, 1981-1991, only 6 had performed successfully: The Gambia, Burkina Faso, Ghana, Nigeria, Tanzania, and Zimbabwe. This means a failure rate of 79%. Barely a year later, however, this number had shrunk to two out of 29: Burkina Faso and Ghana. By 1995, SAPs were on the verge of collapse in Ghana. By 2001, Ghana, the World Bank's poster child was on the list of Heavily Indebted Poor Countries (HIPC), the World Bank's intensive care unit for the poorest countries whose debt is classified as unsustainable. By 2002, Ghana's real per capita income was about 10-15% below 1983 level when the structural adjustment program was launched. In 1998, the World Bank identified four new countries, Guinea, Lesotho, Eritrea and Uganda, as the new poster children for success of SAPs. Similarly, in less than two years, this list had shrunk, leaving Uganda as the Bank's only economic success story. A lot of political capital was invested in Uganda with praises from all corners. As it turned out, the accolades were premature. Uganda's rate of economic progress is non-sustainable. About 55 percent of its budget is aid-financed. Different African countries have different scenarios but the same story has played out over and over from one country to the next. After structural adjustments all countries in Africa are worse off than when they started. To paint a better picture I will consider Mozambique as an example.

Mozambique: A Case Study

At independence in 1975 Mozambique was the world's leading cashew producer, and processed cashew kernels were the country's most important export. Mozambique was still under Portuguese colonial rule. The overthrow in 1974 of dictator Antonio de Oliveira Salazar and the declaration of independence that ended the colonial rule caused

the Portuguese to flee and marked the beginning of a 16 year civil war. By the end of the war in 1992, production had tumbled, the national cashew orchard had a high proportion of old or diseased trees, and state-owned processing plants badly needed new investment. As expected the prescription for revival by the World bank was “privatize, then trade freely”. So the state cashew company was broken up and sold off in 1994-95.

Mozambican companies bought the processing plants on the assumption that the industry would continue to enjoy government protection from foreign competition. But in late 1995, as a condition for over US\$ 400 million in loans, the World Bank demanded the liberalization of the raw cashew trade. This meant reducing the export tax on raw nuts, even though all those involved - the industry, the traders in raw nuts, and the government - had agreed on a 26 per cent export tax, designed to encourage domestic processing. Under World Bank pressure, the tax came down to 20 and then to 14 per cent, a level which allowed traders selling raw nuts to India to compete with the local processing plants. By late 1998, 10 of the 15 sizeable processing factories had closed, with over 5,000 workers laid off.

The World Bank argued repeatedly that liberalization would improve the prices paid to farmers for their nuts. However, an independent study by the international consultancy firm Deloitte and Touche, commissioned by the Ministry of Industry, Trade and Tourism and funded by the World Bank, found that the benefits of liberalization mainly went to the traders, not the farmers. It rejected as inaccurate World Bank claims that the industry was so inefficient that Mozambique would earn more money by exporting raw nuts rather than processed kernels. On the contrary, the Deloitte study found that, on average, Mozambique would gain an extra US\$ 150 per ton by exporting

processed nuts. The Mozambican parliament reacted to the World Bank pressure by calling for a total ban on the export of raw nuts for the next 10 years, a proposal backed by the remnants of the processing industry. In September 1999, the government passed a compromise bill raising the tax to 18-22 per cent, with the exact level to be determined each year, based on prevailing conditions. World Bank officials were reported to have tacitly agreed to the compromise.

The sad reality is that, despite many years of World Bank-sponsored policy reform, barely any country in Africa has successfully completed its adjustment program with a return to sustained growth. In fact, the path from adjustment to improved performance has often been a road to nowhere or a dead-end. Poverty rates have increased sharply in Africa, suggesting rather cryptically that more Bank lending leads to increased poverty

Alternatives: Where to go from Here

If the World Bank/IMF and their policies are keeping the economic crisis in Africa alive, what are the alternatives? This is a natural question to ask following this discussion. The Bretton Woods institutions were formed after the second world war to address the economic problems of that time. Though the European economies needed massive restructuring, their situation was distinctively different from that of Africa after independence. These were already relatively developed nations for the times, merely set back by years of fighting. The medicine prescribed was to pour in money to reconstruct what was lost in the war. Africa on the other hand was coming out of colonialism with unfavorable colonial economic structures that needed complete overhaul. Land

reclamation and use by indigenous farmers was limited by concessions given to white settlers, so there was limited agricultural opportunities for the people beyond subsistence levels. In addition, the majority of the Africans were secluded in a very rural environment while development programs mostly supported the urban areas. Access to the education that would build a manpower able to sustain development was limited. Looking at all these conditions that were peculiar to Africa at the time, pouring in money in the same manner as was done in Europe, and with the same economic ideology, was a recipe for failure. Moreover appointing the World Bank/IMF, which was run by countries that were unwilling to give up their colonial mercantile practices in Africa in the first place, to be the watchdog spelled a big conflict of interest. It is no surprise that the IMF/World Bank policies have driven Africa deeper into debt and poverty, while the western economies still benefit enormously from African production and markets. The West cannot succeed in restructuring the economic environment in Africa because it is not in its best interest to do so. The only role that the developed countries could take to help would be a humanitarian one.

I propose solutions to the current crisis at two levels that should be very independent. The first is to establish organizations and policies to directly address poverty and economic strife in Africa. The second is to find ways to alleviate the current debt. It may be true that by increasing its economic wealth Africa would be better able to afford its debt, but at the same time the debt burden is preventing Africa to meet the first objective of poverty reduction. These two objectives have to be addressed independently. I propose that Africans worry about building their economies in lieu of paying back World Bank debt. No more loans should be taken from the IMF and the World Bank, and

no more resources should be spent in repaying existing loans. Economic policies should be made from within and development funds also built from within, with African countries being the only stakeholders. I discuss this proposed alternative below. The debt repayment problem is discussed in the next section.

To replace the World Bank and the IMF Africa should rethink the idea of the African Development Bank that currently plays second fiddle to the other two economic giants. In my opinion one big flaw in the bank's structure is the inclusion of non-African members so that they can contribute to the development fund. Because contributions are inadvertently made under certain policies, Africa's autonomy in decision making can be compromised. Even worse, the African Development Bank currently negotiates bilateral lending from Western countries. There is enough money and resources to build a fund without looking towards external sources. Africa spends over US\$12 billion annually in debt repayment. This could instead go into a locally managed development fund from which member countries can acquire loans under fairer terms than from the World Bank. African countries are rich in resources such as oil and diamond whose revenues can be channeled for development through this bank. For example, Nigeria's revenue from oil is channeled through banks in Europe. The African Development Bank could be used instead to manage this revenue.

New Initiatives to Solve the Debt Problem

In light of the stagnating debt situation in Africa, there have been some humanitarian initiatives to solve this problem. A good example is the Debt-for-Nature Initiative. The World Wildlife Fund pioneered the concept of the debt-for-nature swap and successfully executed its first swap in Ecuador in 1989. Debt-for-nature swaps

leverage funds for use in local conservation efforts, by buying discounted debt in secondary equity markets and exchanging it for local currency investments in the indebted country. This is particularly effective in reducing debt and providing funds for conservation projects because there is no transfer of ownership in the debt or repatriation of capital abroad. So essentially the person who buys the debt from the creditor writes it off on condition that a local currency equivalent of a percentage of the debt written off is invested in a conservation project. A good success story is in Bolivia, which was actually the first implementation of the debt-for-nature swap. In 1987, the Government of Bolivia and Conservation International (CI) signed the first debt-for-nature swap agreement. Under that agreement, CI was able to acquire US\$ 650000 of Bolivian external debt at a discounted price of \$100000. In return, the Government of Bolivia undertook to provide the Beni Biosphere Reserve with maximum legal protection and to create three adjacent protected areas. It also agreed to provide \$250000 in local currency for management activities in the Beni Reserve. The success of this project opened the door for other countries to enter such agreements including African countries such as Kenya and Ghana.

This can be a model for other similar initiatives, for example Debt-for-Education, or Debt-for-Health, where the governments could pledge a percentage of the debt written off for direct use in education and health programs. This could go a long way in alleviating poverty given that currently African governments spend 20% of GDP on debt repayment versus less than 5% on health or education.

Support has also been drumming up recently across the worlds for a complete debt cancellation initiative. Though complete debt cancellation at this point seems far fetched enough pressure can result in better concessions for the African countries. The

Commission for Africa set up by the British prime minister, Tony Blair, released its long-awaited report earlier this year which includes a demand for a one time 100% debt cancellation for countries that need it and whose governments can make good use of it. He is however having hard times convincing the rest of Europe. Germany, for example, claims it is currently more preoccupied with domestic economic problems to expend much energy and cash in Blair's project for Africa. A good sign that the only way out for us is by us.

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