

① AFRICAN FORUM AND  
NETWORK ON DEBT AND  
DEVELOPMENT

① Trade and debt  
blockages

## Trade and Debt blockages - which way forward?

# Financing for Development & Debt



# Table of Contents

## Contents

## Page

<b>The trade-debt blockages - which way forward Africa?</b> <i>By Ransbeeck Vandalis and Charles Mutasa</i>	.....1 - 10
<b>Reducing Dependency and Indebtedness in Financing Africa's Development</b> <i>By Patrick Bond and Charles Mutasa</i>	.....11 - 21

MEMORANDUM  
STUDIES  
YEARLY

ISBN 07974 2508 X

©2003

All Rights Reserved To AFRODAD

Printed By High Gloss Printers

Tel: 263-4-796214/5

Harare, Zimbabwe

## **The Trade-debt blockages which way forward Africa?**

*By Ransbeeck Vandalis and Charles Mutasa*

### **Introduction**

The problems of Africa's external trade, debt and resource flows are closely linked. Life or death for millions of African people depends upon major changes in international trading arrangements, new approaches to aid, relief from the burden of debt, and good complimentary domestic policies. The course of international trade since 1945 shows that an unfettered global market can fail the poor and that full trade liberalization brings huge risks and rarely provides the desired outcome. The countries of sub-Saharan Africa have been losing ground on international markets since the late 1960s - they are the losers in the process of globalization. Capital flight from Africa has taken on massive proportions. Africa accounts for less than 2% of world trade.<sup>1</sup> It has been unable to diversify production and trade and still relies heavily on the export of raw materials. Evidence from the Third world countries' experience over the past four decades shows that the benefits that would flow from increased international trade will not materialize if markets are simply left alone.

The recent rises in the oil price place a particularly heavy burden on those African countries that do not export oil and many countries have seen their oil bills double since 1998. In 1999, sub-Saharan Africa's debt burden stood at US\$231 billion, or 225% of total export revenue. Annual debt service stood at 15% of export revenues, and for some countries was a great deal higher. Debt cancellation must be implemented and initiatives launched to avoid similar debt spirals in future. The World Bank estimates that reform of the international trade rules could take 300 million people out of poverty and in Africa alone it will generate \$70bn - approximately five times what the continent receives in aid.<sup>2</sup> Reform is essential because, to put it bluntly, the rules of international trade are rigged against the poorest countries.

The WTO Director General recently proclaimed on a visit to South Africa shortly after the 4<sup>th</sup> Doha Ministerial meeting that 'there was an agreement that development is trade and trade is development'. The practical implication is that Africa will remain undeveloped as long as its trade fails to switch from few primary commodities towards a more balanced export portfolio. The vicious circle of debt, capital flight, inability to diversify production and trade has to be broken if the continent is to accelerate its recovery and resume steady and sustainable growth.

---

<sup>1</sup> Kwa Aileen (2002) Power and Politics in the WTO, Focus on the Global south, Bangkok, Thailand.

<sup>2</sup> Oxfam (2002) Rigged Rules and Double Standards at [www.maketradeair.com](http://www.maketradeair.com)

<sup>3</sup> Business Day, Johannesburg, 12 February 2002.

## **Current Situation**

Despite some past upturns, per capita income in Sub-Saharan Africa (SSA) in year 2000 remained at ten percent below the level reached in 1980; the gap is even larger compared to that attained three decades earlier. Africa's share in world trade has declined steadily since 1980. Between 1980 and 1993, when world trade doubled in value, Africa's external trade remained at more or less the same level in absolute terms. Africa is not only failing to partake in increased world trade; it has been steadily losing ground to others. In 1980 Africa's share in world trade and in the trade of developing countries were 5 and 4 per cent respectively. Since then the share of the continent in global trade has fallen to just over 2 per cent. The trend over the years has shown that rich nations may open up their own markets, but still keep in place massive subsidies. The quid pro quo for doing this is that developing countries open up their domestic markets.

The relatively static nature of the commodity structure of African exports since independence attests to the absence of substantive economic transformation over the last four decades. The commodity composition of the region's trade continues to be dominated by exports of primary commodities and imports of manufactured goods. African countries rely on a few primary commodities for a major part of their export earnings, with a high degree of commodity concentration, Zambia for example, relied heavily on copper before its price fell in the 1990s. Currently, Zambia's copper output is only a third of the highest level ever attained. The contraction in mining has led to severe financial distress, high external debt burden punctuated by the absence of reliable sources of long-term credit.

On the other hand, there is a continuous heavy dependence on the import of capital goods by African, signaling the fact that a major technological transformation is yet to take root in African economies. This is also exacerbated by the failure of the manufacturing sector to make a significant dent in the import of consumer goods that absorbs the same proportion of export earnings as it did in the early 1970s. In 35 of the 53 African countries, non-oil primary commodities account for more than 50 per cent of annual foreign exchange earnings. In nine countries, non-oil primary commodities account for more than 90 per cent of annual exports while in another 18, the share is no less than 70 per cent. This contrasts sharply with developments in South East Asia where the share of primary commodities fell from 63 per cent to 36 per cent of total exports between 1965 and 1987.

---

<sup>4</sup> IMF, International Financial Statistics; Economist Intelligence Unit; ECA secretariat.

<sup>5</sup> UN (1995) External Trade, Debt and Resource Flows. [www.un.org/Depts/eca/](http://www.un.org/Depts/eca/)

## **Background**

The UNCTAD report notes that after enjoying an upturn in terms of trade during the commodity price booms of 1970s, Africa has experienced a downward trend from early 1980s. The levels of terms of trade for SSA and North Africa at end of 1990s were 21 and 24 percent respectively below those attained in 1970s. The overall trend, since 1980s has been downward. Africa's debt crisis can easily be associated with these declining terms of trade<sup>6</sup>. Industrial growth in Sub-Saharan Africa has also fallen behind since 1980, with a process of de-industrialization in some African countries associated with policies of trade liberalization and decline of state-owned enterprises forced on the countries by the IMF and World Bank economic reforms programmes and conditionalities.

The causes of Africa's economic quagmire began when the price of oil doubled in the early 1970s and again quadrupled in 1979-1980 while the prices of beverages and tobacco remained on the decline with the exception of 1976-1977 and 1993-1994. The 1973-74 oil price hikes are said to have led to economic growth decline accompanied by a fall in the prices and demands for African exports and a decline in the net inflows of capital. Debt crisis are also said to have been caused by creditors increasing interest rates by 172% between 1970 and 1987. Interest rates shot from 3.7% to 10% with maturity periods shortened by 35% and grace periods for repayments shortened by 36%. The oil shocks of 1973-1974 were followed by those of 1979-1980 coupled with the depression in non-oil commodities markets such as cocoa, tea, sugar, groundnuts, sisal and uranium.

## **Internal factors**

The internal reasons for Africa's late 20th century trade and debt problems vary. Some of the causes noted by Zayl (2003)<sup>7</sup> include the following significant elements:

- ❖ inherited colonial legacies, including in many cases illogical borders. More importantly, however, is that the transition from colonialism often resulted in undemocratic, often corrupt and militarized neo-colonial regimes. Many adopted economic strategies benefiting a few urban elites at the expense of peasants and especially women producers, workers and even local manufacturers.
- ❖ Domestic economic policies were often inappropriate. The widely adopted inward-looking import-substitution industrialization [ISI] strategy often did not promote linkages between mass consumption and mass production but was aimed rather at establishing the local production of "luxury goods" for a small, wealthy elite. South Africa and Zimbabwe are good examples. Ironically, as specialization increased the shorter-term effect of the ISI approach was usually to make these countries more dependent than they were before on external input sources - of sophisticated machinery, parts and some raw materials.
- ❖ Subsequent export-led growth strategies were typically advanced as a central component of [IMF/World Bank promoted] "macro-economic reforms" by lenders and Northern governments. At the time, however, this occurred despite generally declining, glutted tendencies in world markets associated with goods produced in Africa.

---

<sup>6</sup> UNCTAD (2002) *Developing Countries in World Trade*, UN, Geneva.

<sup>7</sup> Danso Alex (1990) 'Causes and Importance of the African Debt Crisis' in *The Review of Black Political Economy*, summer 1990.

<sup>8</sup> Zayl.J.V. (2003) *Trade, debt and Sustainable development in Africa*. A research Article for AFRODAD, Harare

## **External factors**

During the Cold War, many African countries witnessed closely related political and military interferences in their own affairs. But the focus here is on two other major external reasons associated with Africa's economic crisis viz. (a) falling commodity prices since the mid-1970s and (b) rising real rates of interest since 1979, in the context of massive external debt.

Africa has suffered weakening terms of trade [i.e. the ratio of prices paid for exports and prices paid for imports] over many decades. However, since the mid-1970s its terms of trade worsened markedly, partly because of the export-oriented policies that most African countries were forced to adopt once they experienced a debt crisis. From 1977 to 1982 the price index for the main [non-fuel] commodities declined dramatically while the export prices of developed countries increased steadily. During the 1982-90 global expansion, the terms of trade of non-oil producing Third World countries still fell significantly i.e. by some 1,5 % per year. This trend continued after the 1990-92 global recession, leaving 1998 commodity prices at their lowest level since the Great Depression.

For most African countries this trend towards declining terms of trade is problematic because of the sharp dependence of many on only a few export commodities. The commodity composition of the region's trade continues to be dominated by exports of primary commodities and imports of manufactured goods. In spite of the increase in prices of other primary commodities in 1994, oil exports continued to account for nearly 60 per cent of the total foreign exchange earnings of African countries. Generally across Africa, four or fewer products make up three-quarters of export revenues. Due to protracted decline in Africa's competitiveness, its small share of world trade has been shrinking over the last decades. Mineral fuels and related materials continue to dominate the region's exports, followed by beverages and tobacco.

On the other hand, more than three-quarters of all Africa's trade is with developed countries. Africa relies heavily on foreign financing from both official and private sources. Additional foreign borrowing increases the debt-service burden more than it increases the country's capacity to carry that burden. Although debt-service ratios have remained relatively low because of the highly concessional nature of external financing provided to Africa, many countries in the region have been unable to service their debt without recourse to rescheduling under Paris Club arrangements or by accumulating arrears. As if that is not enough, the drain of foreign exchange resources through capital flight also creates a greater need for governments to borrow abroad. If trade conditions do not change, more borrowing will be needed to make payments, and external debt will continue to increase above sustainable levels.

It can be estimated that for each dollar of net capital inflow to SSA from the rest of the world, some 25 cents went back as net interest payments and profit remittances abroad, more than 30 cents leaked into capital outflows and reserve build-up, while 51 cents made up for terms of trade losses. These figures indeed imply a net transfer of real resources from SSA to the rest of the world.

---

<sup>9</sup> Zayl.J.V. (2003) Trade, debt and Sustainable development in Africa. A research Article for AFRODAD, Harare

<sup>10</sup> See, for example, Barratt-Brown and Tiffen, *Short Changed: Africa and World Trade*, London, Pluto Press.

## **Key Issues**

- ❖ The biggest obstacle developing countries are facing in achieving true participation in multilateral trade system that also worsens their external debt situation is not the lack of capacity, knowledge or training but the lack of transparency in the processes within the WTO and political abuse committee by the developed countries.
- ❖ Despite the rhetoric about greater participation of developing countries in international trade and claims about comparative advantage by the orthodox school, trade flows are governed not by economic theories but by the trade policies of the major industrial countries as well as the global strategies of transnational companies (TNCs) that often discriminate against products originating in the South.
- ❖ An increase in Africa's share of world exports by just 1% could generate around £43m - five times the total amount of aid received by African countries.<sup>11</sup> Fair global trade has the potential to be far more important than aid or debt relief for developing countries. This has led President Museveni of Uganda to say: "Africa does need development assistance, just as it needs debt relief from its crushing international debt burden. But aid and debt relief can only go so far. We are asking for the opportunity to compete, to sell our goods in western markets. In short, we want to trade our way out of poverty."
- ❖ The asymmetric power relations, as well as the rules governing international finance and trade are to blame for Africa's economic quagmire and debt crisis. It was observed that the rules of international finance encouraged odious debt to accumulate, capital flight and brain drain to persist, and stolen wealth to be stored in the western countries and off-shore financial centers. The debt crisis is a shared responsibility between Africans and the creditors, and that creditors are as guilty as Africans in the accumulation of the debt.
- ❖ The marginalization of the South in the World Trade Organization (WTO) is a serious concern. To ensure transparency in the decision making process voting (as spelt out in Article IX of the WTO Agreement) should be used as a means of reaching final decisions and not consensus. Consensus has been used by developed countries to put pressure, undue influence and threats to withdraw some type of tariff preferences on developing countries so that they support their preferences even if they know its detrimental to their countries.
- ❖ Foreign direct investment (FDI), along with trade in goods and services and shorter-term capital movements, is one of the three pillars of economic globalization. While Foreign Direct Investment (FDI) maybe associated with increased trade volumes, in most African states it has an undesirable impact on debt levels, poverty eradication, and the overall area of economic development. The benefits of FDI do not accrue automatically to host countries, as the interests of investors--profit maximization and freedom to enter and exit all sectors of the economy at will--are not necessarily in harmony with that of the objectives of economic development.

---

<sup>11</sup>Bridges (2001) UNCTAD Calls For Dramatic Increase in African Aid and Trade Vol 5 Number 31, ICTSD, 18 September 2001.

<sup>12</sup>Stephen Byers (May 2003) The IMF and World Bank orthodoxy is increasing global poverty. The Guardian.



- ❖ A rapid build-up of FDI in most African countries has led to denationalization, discouragement of local technological know-how and inefficiency in resource allocation. Too much FDI reliance on large imports of capital and intermediate goods causes a negative impact on balance of payments and exchange rate.
- ❖ Working with TNCs adds a lot of trade, but doesn't do much to national incomes and development in Africa. Of the profit that TNCs make only a tenth is recorded as export surpluses. A country may have balance of payments problems when TNCs are enjoying good investment and exports. Thus, national trade strategies are far more important in order to make trade serve development.<sup>13</sup>
- ❖ The strong push by major developed countries to expand WTO disciplines on investment under the rubric of a multilateral investment agreement (MIA) will further marginalize and impoverish African countries. An MIA is dangerous for sustainable development if all it does is enforce corporate/investors rights and forces states through the process of 'commitments' and 'single undertakings' to surrender their rights to regulate.
- ❖ Africa's debt is the heaviest in per capita terms and in terms of African countries' capacity to service. The unfavourable terms of trade for Africa's major exports in the world market makes matters worse, by reducing the capacity of governments to cope with domestic pressures. When indicators such as debt/GDP, debt/goods and services exports, and debt service/goods and services exports ratios, are taken into account, the situation for Africa has gotten worse rather than improved with time attributable to the low level of fresh disbursements, various rescheduling efforts, arrears accumulating and compounding the problems of repayment and adding to the overall debt stock.
- ❖ The expansion of world trade under the current global scenario does not have the potential to bring major benefits to African countries and would not be one of the key means by which world poverty would be tackled. Even if developing countries would embrace trade liberalization; it is not true that the discipline of the market would resolve problems of underperformance leading to the emergence of a strong economy. Full trade liberalization is not the way forward for Africa and the rest of the developing world. A different approach to international trade is needed: one that recognizes the importance of managing trade with the objective of achieving development goals.
- ❖ The role of the IMF and World Bank is also of concern in the trade affairs of African countries. The conditions placed on their loans often force countries into rapid liberalizations, with scant regard to the impact on the poor and the problems of indebtedness. These Bretton Woods Institutions should not include trade liberalization, as conditionality in their loan agreements for this is inappropriate for them to compel poor countries on behalf the World Trade Organization to comply while their own countries still maintain subsidies especially in agriculture. For instance, OECD countries subsidize their agricultural sectors to the tune of approximately US\$300 billion, which is equivalent to sub-Saharan Africa's gross

---

<sup>13</sup>Raghavan. C. (2002) 'South needs more policy space in trade system, says UNCTAD' Third World Network, see [www.twinside.org.sg](http://www.twinside.org.sg).

- ❖ It is wrong for international financial institutions to advise developing countries to reduce tariffs and liberalize unilaterally, when the system is based on bilateral, reciprocal tariff reductions on a product-by-product basis. The international financial institutions should refrain from giving advice for unilateral liberalization that effectively places countries in a more disadvantageous position in negotiations in the trading system.
- ❖ Due to globalization most African governments have resorted to give priority to international trade at the expense of intra-regional trade and development of local entrepreneurs. In West Africa, for example, government policies favor foreign fishing interests and monopolies at the expense of the country's small fishermen and consumers in quest for production for export while opening the door for cheap imports.<sup>14</sup>
- ❖ Despite various initiatives such as the PTA, COMESA, EAC, ECOWAS, UDEAC, UMA, ECCAS, UEMOA, and SADC inter-African trade remains a small proportion of total African trade as African economies maintain traditional roles of exporters of primary goods to industrialized countries. High levels of indebtedness and lack of foreign exchange has made it difficult for neighboring states to trade equally within a regional bloc. It has intensified the demand for foreign currency to enable countries to import from outside Africa.<sup>15</sup> Existing trade patterns reflect strong vertical linkages (developed - developing country) and weak horizontal linkages (between developing countries), which are symptomatic of an unequal global balance of economic power and debt problems.
- ❖ The lack of diversification and competitiveness of the African economy and trading system is a major constraint to both sustainable poverty reduction and debt strategy. Without addressing the risk and uncertainty inherent in the investment climate, it is difficult to stem capital flight, and prevent future indebtedness.
- ❖ World trade could be a powerful motor to reduce poverty in line with the Millennium Development goals (MDGs). Paradoxically, world trade rules are a key part of the global poverty as the rules that govern it are rigged in favour of the rich.
- ❖ The Declaration on TRIPS and Public Health agreed at the WTO Ministerial in Doha in November 2001 was an important step forward in the campaign for affordable medicines. It affirmed the primacy of public health over intellectual property rights, and the rights of governments to make full use of the public health safeguards in TRIPS. Ministers also recognized a fundamental imbalance in the TRIPS Agreement and promised to find a solution before the end of 2002.

---

<sup>14</sup> Yu Joseph (2002) Fishing Industry not Safe from Globalisation Net. IBON Features 2002-68 October 1, 2002.

<sup>15</sup> UNECA (2002) Annual Report on Integration in Africa (ARIA) Overview, Addis Abba, Ethiopia

## **Recommendations**

- ❖ If Africa is to draw significant benefits, from the international trading system all current WTO arrangements and practices need to be reviewed and existing preferential and special and differential treatment should be translated into explicit obligations, including revisiting the agreements on TRIPS, TRIMS and Subsidies. Institutional change and policy reforms in international trade can radically alter the prevailing levels of inequity and poverty without wrecking the global economy. There is need for a formalized system of processes, checks and balances for ensuring equity, predictability, stability and transparency. This could include a review of the processes leading up to and during Ministerial conferences.
- ❖ Given the poor results obtained in Africa under the various debt relief schemes and PRSPs, it is necessary to consider debt cancellation or forgiveness for the severely indebted low-income African countries. A once-and-for-all exit solution from the debt overhang than that offered by the HIPC initiative is the setting up of an independent, fair and transparent body (selected by debtors and creditors) to assess debt sustainability and write off debt deemed unpayable and illegitimate.
- ❖ The external debt crisis of Africa must be placed within the global context of Africa's relations with the rest of the world and seen as a central element in the economic crisis of the continent. There is urgent need to relieve the pressure of debt so as to avoid a disintegration of the present fragile economic and social structures and restore the external viability of African economies.
- ❖ There must be a way of institutionalizing civil society participation in international trade issues. What has become known as the "democratic deficit" was analyzed a couple of years ago by the World Trade Organization (WTO) itself, whose then head Mike Moore noted: "If the WTO is to succeed it must reinforce its democratic credentials." Mr. Moore was responding to what he stated was "a very real feeling amongst many people that decisions which are having a fundamental impact upon their lives are being devised behind closed doors." Both parliamentarians along with civil society organizations are important actors in bridging the disconnect between local and global decision-making.
- ❖ Africans together with their Third World partners should demand immediate and significant changes; for example on the patenting of life forms assumptions, aims and entire character of some Uruguay Round agreements, such as TRIPS, TRIMS and others, that are so fundamentally wrong and their location in the WTO so fundamentally questionable, that they should be removed from the WTO and rescinded altogether.
- ❖ Rich countries must honour their commitments made at Doha and agree to lift WTO restrictions on exports of cheaper generic medicines. WTO patent rules that allow developing countries to import cheaper generic medicines, but restricts producer countries from exporting them must be abolished. In a nutshell, WTO patent rules should not prevent WTO member countries from taking measures to protect public health or from promoting access to medicines for all.

## **Specific recommendations for African Leaders;**

- ❖ African leaders should pursue vigorously all the options for debt relief, including outright cancellation. Although others would opt for unilateral repudiation of the debt, it is diplomatic and promising for African leaders to go for negotiated resolution of the crisis using their partnership with the North as spelt in the New Partnership for African Development (NePAD).
- ❖ A transnational corporation code of conduct must be in place and enforced. Governments should undertake a careful audit of the operations of transnational companies, foreign direct investments and an audit (review) of each of the projects/programmes for which loans were incurred. A legally binding international policy restricting business practices of the operations of transnational companies should be put in place.
- ❖ The monopoly of transnational corporations and other big international traders over the whole national production and trade system in Africa should be broken in favor of the small local producers and traders who, after all, are the ones who produce and sell for local consumption. Small national producers and traders should also be given the means to own their own gear in order to improve their productivity.
- ❖ A multilateral investment framework (MIF) at the global level, formulated outside the WTO, could be beneficial to Africa's economic development, the environment, gender and labour if African governments ensure corporate social responsibility by transnational companies. Corporations must be obligated to protect the human rights of women, men, girls and boys.
- ❖ A key element to Africa's success in international trade is for governments to arrest problems of corruption and ensure institutional reforms of those entrusted with revenue collection and trade issues. There is urgent need to strengthen or reform the institutional/legal and administrative framework for public resource management. This is to ensure effective and efficient utilization of present and future public resources so as to prevent the waste and inefficiencies of the past. Among other things, this institutional re-engineering would ensure due process and due diligence, transparency, accountability and sanctions.
- ❖ Governments need to create space for civil society participation in trade issues and also be accountable. This needs to extend beyond parliament to independent national audit offices and structures for consultation on trade issues, new borrowing and public spending.
- ❖ African governments at WTO should press for special treatment in terms of competition policies appropriate to their stage of development and block the application of a "multilateral "one size fits all" competition policy.
- ❖ A careful and frank assessment of effects of WTO regulations and rules on African communities. Merely redirecting public spending on health and education would not suffice - so long as policies in agriculture, trade, finance, exchange rates, enterprises, deregulation and privatization do not succeed in raising growth and bettering income distribution.

## **Civil Society**

- ❖ Civil Society needs to continue campaigning for free and fair trade as well as the cancellation of the entire debt to free up resources for development in Africa.
- ❖ Campaign for the Increase of Africa's unconditional access to Western markets for non-oil exports and the removal of agricultural subsidies for farmers in the North is key for sustainable development.
- ❖ There is need for lobby and advocacy to focus on Africa's unconditional access to Western markets for non-oil exports and reform of the global financial architecture to ensure that looted funds are not safe anywhere in the world and also ensure that such loots by African ruling elites are speedily returned to the African people. Also, there is a need for an international law stipulating adequate penalties for looters and their foreign collaborators.
- ❖ Apart from demonstrations at WTO gatherings civil society has a challenge, to have joint statements and declarations, letter campaigns and sign-on petitions with concrete analysis and implementable alternatives in language that is convincing and challenging to the powers-that-be. In addition to this civil society information and means of communication must be accessible and acceptable to 'ordinary' people.<sup>16</sup>
- ❖ CSOs should campaign for the establishment of new intellectual property rules to ensure that poor countries are able to afford new technologies, basic medicines and that farmers are able to save, exchange and sell seeds. The laws should recognize and protect traditional knowledge as well as ensure appropriate financial compensation to the indigenous owners of resources in the areas of biodiversity and technology transfer.

## **Conclusion**

There is need for radical and exceptional trade measures if severely indebted low-income African countries are to emerge from the debt crisis trap. Efforts by the African countries to improve their external competitiveness in international trade are not by themselves enough to provide a solution for their debt crisis, even on a medium-term basis. If the World Trade Organization, international financial institutions and the donor community were to abandon unfair trade practices and adopt multifaceted radical measures that went beyond the limited framework of financing payment arrears, to include immediate and massive concessional flows in conjunction with debt relief, Africa would be able to emerge from the vicious circle of the debt trap, repeated rescheduling and capital flow losses. Solutions to the African crisis should include debt cancellation, fair trade relations, and stabilization of commodity prices and encouragement of private flows in Africa.

---

<sup>16</sup> Keet Dot (2002) "Building a mass civil society movement for change. How do we develop a way forward?" Presentation by at the meeting of the OWINFS Network, at the World Social Forum Porto Alegre, Brazil, January-February 2002

## **Reducing Dependency and Indebtedness In Financing Africa's Development**

*By Patrick Bond and Charles Mutasa*

### **Introduction**

International debate on economic issues and social problems has increasingly highlighted that many international problems do not respect state boundaries. Debt, public and private finance, trade and poverty are all problems that cross borders. Such global problems require a global response. A new approach to international development cooperation is emerging which has been prompted by the failure of previous debt-aid systems to deliver on their promises, it rests on a number of misguided precepts which could hinder its effectiveness in improving the lot of the world's poorest countries

The Financing for Development conference was part of a UN attempt to develop a concrete plan of action for dealing with global economic problems. Finance and Foreign Ministers gathered in Monterrey, Mexico, to discuss global economic priorities between 18-22 March 2002. The ministers committed themselves "to ensure that the global systems of finance and trade fully support economic growth and social justice for all the peoples of the world. Our objective is to achieve a fully inclusive and equitable globalization."

The conference in Monterrey in a way represents the rethink that is taking place in the areas of aid and debt relief. The re-assessment must have been spurred by the "aid-and-debt trap" in which the severely indebted low-income countries (SILICS) find themselves enmeshed. This paper briefly considers the key outcomes of the most important international conference to date--the United Nation's Financing for Development (FFD) summit in Monterrey, Mexico, in March 2002--as well as the New Partnership for Africa's Development, and concludes that far more rigorous reforms of the global financial system are required, than are presently on the table.

### **Background**

In an effort to assess existing and alternative strategies of financing development in Africa it is incumbent for one to take a glimpse at some past or already existing strategies. The problems encountered in redirecting aid toward social development are well illustrated by the experience with the 20/20 initiative. In order to create funding for health, education, family planning and sanitation services, James Grant, the then UNICEF Executive Director championed the 20/20 initiative through the 1994 International Conference on Population and Development in Cairo and the 1995 World Summit on Social Development convened in Copenhagen.

## **Aid**

The final chapter of the Copenhagen Program of Action adds “*a mutual commitment between developed and developing country partners to allocate, an average, 20 per cent of the Official Development Assistance (ODA) 20 per cent of the national budget---to basic social programs.*” This was seriously taken up by the United Nations Development Programme, World Bank and many NGOs but it has its setbacks ranging from differing definitions of social development by donors to having common different indicators/measurements of progress achieved. A case in point is donors not agreeing to categorize nutrition as separate from health. Recipient governments are reported to have shifted aid for social services to other state commitments; others had their public services failing to reach the poor. According to UNICEF (2000), of 27 developing countries surveyed recently, only 5 allocated virtually 20% of their budgets to basic social services. Generally, ODA dropped by 21% between 1992 and 1997, and among the leading industrialized countries it dropped by almost 30% during the same period.

Aid inflows have been animated by the desire to maintain positive net transfers to the SILICS, to ensure continued servicing of old loans and to avoid embarrassing arrears and development failure. This in effect means official creditor-donors have been taking away with one hand what they have been giving with the other. The UNCTAD report, the developmental impact of aid in the more indebted LDCs has been reduced as urgently needed investments in the economic and social infrastructure are sacrificed in order to devote scarce resources to debt servicing. At the same time, aid is diverted away from the less indebted LDCs. This in turn discourages an effective resolution of the debt problem as countries find that progress in reducing their external debt is greeted by diminished aid inflows.

Contrary to conventional thinking, aid remains essential to LDCs' development due to inadequate domestic resources and foreign private capital inflows. The UNCTAD report outlines how slow growth and low incomes limit domestic savings and loanable funds within the LDCs; this in turn limits increases in investment and economic growth.

However, ODA 'is a tool to serve the commercial, political, economic and strategic interests of donor countries.' As a result, 'The donor creditor countries must keep all their aid and against it write off all the debt owed by poor African countries... The bottom line would be elimination of both aid and debt because they reinforce the power relations that are contributing to the imbalances in the world.'

---

<sup>1</sup> UNRISD Report (2000) Visible Hands-Taking Responsibility For Social Development, UNRISD, Geneva.

<sup>2</sup> UNICEF (2000) Poverty Reduction Begins With Children, UNICEF, New York.

<sup>3</sup> UNCTAD (2000) Least Developed countries Report 2000, UNCTAD, Geneva.

<sup>4</sup> Kapijimpanga, O. (2001), 'An Aid/Debt Trade-Off the Best Option,' in G.Ostravik (Ed), *The Reality of Aid Reality Check 2001*, Oslo, Norwegian Peoples Aid.

## **Foreign Direct Investment**

There is little hope for most countries of balancing their accounts by attracting steady inflows of Foreign Direct Investment (FDI). The main critic of FDI as an FFD strategy; Yash Tandon of the Southern and Eastern African Trade Information and Negotiations Initiative,

*FDI is falsely marketed to the developing countries as a solution to their underdevelopment. There is no necessary correlation between FDI and growth, nor between growth and development. Development itself is a complex phenomenon. Its reduction to an economic phenomenon has been one of the most egregious faults of neo-liberal economics... FDI is really a bundle of assets in the service of TNCs in their perpetual quest for profits, markets and sources of raw materials. FDI is a means for foreign owners of capital to acquire assets in the host country.<sup>5</sup>*

The most damning critique of FDI is that no matter how conditions improve, foreign investors have a whimsical and Afro-pessimistic perspective, and are unreliable partners. South African president Thabo Mbeki makes the following case:

*In our own country, we have been assured that our economic fundamentals are correct and sound. We have developed a stable and effective financial and fiscal system. We have reduced tariffs to levels that are comparable to the advanced industrial countries. We have reformed agriculture to make it the least subsidized of all the major agricultural trading nations. We have restructured our public sector through privatization, strategic partners and regulation... Yet, the flow of investment into South Africa has not met our expectations while the levels of poverty and unemployment remain high.<sup>6</sup>*

At the empirical level, reviewing the data on investment flows to Africa as a whole is depressing. Africa's share of FDI fell from 25% of all multinational corporate investments during the 1970s to less than 5% during the late 1990s. And even the tiny amounts of FDI in Sub-Saharan Africa in recent years can be attributed in large part to oil company investments in Angola (\$1.8 billion in 1999) and Nigeria (\$1.4 billion). The only substantive FDI flows into Sub-Saharan Africa unrelated to extractive minerals by 1999 were into South Africa (\$1.4 billion). In any event, the bulk of FDI into South Africa was based on mergers and acquisitions. Many thousands of jobs were lost in the process, and inappropriate technology transfer made South Africa all the more dependent and vulnerable. In all these regards, FDI exacerbated Africa's vulnerabilities.

---

<sup>5</sup>Kapijimpanga, O. (2001), 'An Aid/Debt Trade-Off the Best Option,' in G.Ostravik (Ed), *The Reality of Aid Reality Check 2001*, Oslo, Norwegian Peoples Aid.

<sup>6</sup>Tandon, Y. (2002), 'The Centrality of FDI in Contemporary Finance-for-Development Theory', *Seatini Bulletin*, 5,2, 31 January.

<sup>7</sup>Mbeki, T. (2000), 'Address to the Commonwealth Club, World Affairs Council and US/SA Business Council Conference,' San Francisco, 24 May.

Statistics come from the UN Conference on Trade and Development (2000), *World Investment*



## **Macro Adjustment Policies**

African countries struggle with worsening trade and financial deficit, decreasing international reserves and domestic budget deficit. Structural rigidity of these economies, inappropriate economic policy, inefficient public sector, corruption and the misconceived investment policy continue to mar economic breakthroughs. Based on the World Bank's 1981 Berg Report, most of the macroeconomic reforms that IMF and Bank teams insisted African countries pursue have been relatively uniform. The programmes, subsequently known as the 'Washington Consensus,' involve devaluation of exchange rate, restructuring of government expenditures and related fiscal restraint, monetary discipline, rationalization of interest rates as well as reforming the state and state-run institutions.

It is commonly understood that the structural adjustments were necessitated by unsustainable balance of payments and high budget deficits experienced by developing countries. Most assessments of macro adjustment policies (SAPs), especially those in Sub-Saharan Africa have been pessimistic about their outcomes;

*“ The adjustment policies did not succeed except in a minority of cases- in restoring economic growth. Among the adjusting countries of Sub-Saharan Africa, three quarters had declining per capita incomes, over half had declining investment and accelerating inflation... ”*<sup>8</sup>

Given the secrecy and confidentiality with which structural adjustment programs have been negotiated and formulated between the Bretton Woods institutions on the one hand and Third World governments on the other, it is not surprising that both parties continue to be lambasted by skeptics outside the government. The adjustment programs were adopted under duress by Third World governments who were desperate to obtain financial support from Western governments, donor agencies and international financial institutions. Notably, too, SAPs were implemented in the face of considerable local opposition. The truth of the matter is that SAPs have generally lacked legitimacy, commitment and support in both government and the populace.

Contrary to the claims made by its authors and advocates SAPs have not abated the Third World economic crisis. As one study asserted every reasonable analysis of the process returns the same verdict that they did not succeed in laying the foundations for sustainable development. On the contrary, they worsened the crisis on a number of scores. Structural adjustments in Africa for instance have not affected the economic composition of GDP, including the balance between consumption, savings and investment. Economic growth except in a few countries and for limited periods of time has been sluggish. More seriously, even when per capita incomes have risen, they have generally been inadequate to make a dent in the deep-seated grinding poverty.

Different sectors have retained their pre-adjustment shares in most regards, with the exception that informal activities have grown in employment terms. Most fundamentally, export values have hardly shifted. Africa' exports as a share of worldwide trade have declined from 4% to 2%. The continent is experiencing import compression, weak productivity and low output. Factories operate at less than 30% installed capacity.

---

*Report, Geneva.*

Stewart F (1991) “ The Many of adjustment, World Development Vol 19, No.12

## Debt Relief

Sub-Saharan Africa's debt is graver than that of other regions of the world in three aspects. The first aspect is that the ratio of Africa's total debt to total export earnings has been rising more rapidly than those of other regions and it became the highest in 1987. Secondly, the ratio of Africa's total debt to GNP has grown rapidly to become the highest since 1986. Third is the fact that despite incurring the highest growth rates of borrowing, African economies have grown slower than those in other developing countries.

The debt is particularly onerous for most African countries, which defaulted *en masse* during the early 1980s, but were simply given new loans to pay off old loans. As a result, although between 1984 and 1996 the lowest-income African countries paid \$1.5 billion in repayments--a sum 1.5 times greater than the amount owed in 1980, as a result of compound interest payments--the outstanding debt rose and rose.

Debt relief has become a prominent issue in recent discussions about development, poverty and the relationship between developed and developing countries. Sub-Saharan Africa's debt is graver than that of other regions of the world in three aspects. The first aspect is that the ratio of Africa's total debt to total export earnings has been rising more rapidly than those of other regions and it became the highest in 1987. Secondly, the ratio of Africa's total debt to GNP has grown rapidly to become the highest since 1986. Third is the fact that despite incurring the highest growth rates of borrowing, African economies have grown slower than those in other developing countries.

## Key Areas Discussed

**The six main areas for the Financing for Development Conference in Mexico, Monterrey were as follows:**

- ❖ Raising financial resources within countries for development most of the money a government spends on development comes from taxation systems
- ❖ Increasing international resources for development Most developing countries need supplementary resources to the ones they can raise. They attract private finance from abroad, loans from banks and aid.
- ❖ Opening access to markets and ensuring fair and equitable trade regimes earnings from trade are important for financing development. However, so far developing countries have not received significant benefits from liberalizing their economies.
- ❖ Strengthening official development assistance such assistance has been declining but is still vital for developing countries. Increased Overseas Development Aid (ODA) is essential for developing countries to achieve the international development targets.
- ❖ Addressing developing country debt difficulties some debt relief has been granted but the Heavily Indebted Poor Country (HIPC) initiative has not gone far enough. Over half the HIPC countries still pay more in debt servicing than they spend on healthcare and education.
- ❖ Improving the coherence of global and regional financial structures and the fair representation of developing countries in international decision-making developing country participation in international decision-making has thus far been negligible. The UN has a role to play in ensuring that in the future there is increased policy coherence amongst the various institutions and governments and that developing countries can participate on an equal basis

## **Main Issues**

Of the above bulleted issues the main issues that were discussed at Monterrey and codified in the Monterrey Consensus are as follows;

- ❖ Good governance, especially efforts to eradicate corruption;
- ❖ Excessive allocation of government resources to military uses;
- ❖ The preferred role of foreign direct investment, compared to short-term capital and volatile credit;
- ❖ Implementation of the World Trade Organization's Doha Ministerial Declaration, especially improved market access for agricultural products;
- ❖ the effective functioning of small entrepreneurs in international trade and finance;
- ❖ Implementation of the enhanced Heavily Indebted Poor Countries (HIPC) initiative;
- ❖ The rise of donor countries aid quantities to 0.7% of GNP, and enhanced quality of Official Development Assistance (ODA);
- ❖ Capacity-building support for developing countries;
- ❖ Consistency and coherence of the international monetary, trading and financial systems; and
- ❖ Reform of the Bretton Woods institutions and increased participation of developing countries in economic decision-making.

## **Flaws in development-financing policy sidelined**

- ❖ Government Ministers at Monterrey left out commitments to review trade policies that block access to markets in rich countries. They left out commitments to view trade policies that block access to markets in rich countries.
- ❖ Governments overlooked the urgent need to cancel the crippling debt of developing countries. How can you develop, when you are locked in a aid-and-debt trap?
- ❖ Existing macroeconomic policies go beyond the insufficient attention they pay to social issues and poverty reduction. Policy reforms have suffered from serious design weaknesses in relation to African -type economies because they neglected the impact of structural constraints, lack of economic and social infrastructure, weakness of market development, thinness of the entrepreneurial class, and low private-sector production capabilities. As a result, the new policy environment does not deliver high growth rates.
- ❖ The efficacy of market-opening policy prescriptions counseled by donors and international financial institutions have proved to be irrelevant and inapplicable in Africa with recent financing policies stressing the need for structural reforms to be accompanied by social and poverty reduction policies.
- ❖ The private sector is ill suited to allocate international credit. It provides either too little or too much. It does not have the information with which to form a balanced judgment. Moreover, it is not concerned with maintaining macroeconomic balance in the borrowing countries. Its goals are to maximize profit and minimize risk. This makes it move in a herd-like fashion in both directions. The excess always begins with over expansion, and the correction is always associated with pain.<sup>9</sup>
- ❖ Genuine ownership of national development policy (including PRSPs) is a meaningless concept without effective state capacities to control the allocation of aid funds and have a say in formulating the policy agenda and monitoring the outcomes.<sup>10</sup> It is the lack of coordination on the part of donors of their aid projects in individual countries that undermines the sustainability of aid programmes and negatively affects resource allocation and growth. Moreover, the volatility of aid flows can result in financial instability and hinder stable macroeconomic development.

---

<sup>9</sup> Soros, G. (1997), 'Avoiding a Global Breakdown,' *Financial Times*, 31 December.

<sup>10</sup> UNCTAD (2002) Least Developed countries Report 2000, UNCTAD, Geneva.

## **MDGs and -Financing Development Link**

During the 1995 United Nations World Summit on Social Development, world leaders and their governments committed themselves to eradicate poverty as they recognized the significant role of social development. Five years later in 2000, a review of the commitments revealed that results were mixed, social development financing in Sub-Saharan Africa in particular was marred by lack of commitment, unfulfilled Official Development Assistance pledges, economic difficulties due to harsh economic reforms through structural adjustments, by commitment of resources to fight the HIV/AIDS scourge and the binding obligations to repay external debts.

It is clear that increasing integration of the world economy, emerging international competitive pressures for efficiency gains and the compelling need to ensure social sustainability in the context of globalization call for prudent advice on social development policy formulation and implementation. Thus, the New Poverty Agenda, along with much other neo-liberal orthodoxy of the 1980s and early 1990s is withering away as rapid political and ideological shifts take place at the global level and within the domain of international development policy. Of critical importance was the launch of the Millennium Development Goals (MDGs). Whilst one may celebrate that fact, it also urges caution. First, because these are changes in attitude, not a great breakthrough in actually financing social development for poverty reduction in poor countries and especially the continent of Africa. Second, the crucial issue is whether an internationally defined anti-poverty agenda is really a good thing and will not serve to undermine rather than enhance anti-poverty efforts in Africa.

Although the United Nations Millennium Declaration by heads of state summit was in September 2000, it was only in March 2002 that the United Nations came together with the World Bank, International Monetary Fund and the World Trade Organization for the first time to address national and international issues relating to financing for development. The March 2002 conference that was named the 'Financing for development conference' provided an ideal opportunity to discuss new ways of raising financial resources in order to reach the 2015 international development targets. The September 2000 United Nations General Assembly resolution 55/2 set out the following seven targets--the 'Millennial Development Goals':

- ❖ To reduce the proportion of people living in extreme poverty by half between 1990 and 2015;
- ❖ To enroll all children of school age in primary schools by 2015;
- ❖ To make progress towards gender equality and empowering women by eliminating gender disparities in the enrolment in primary and secondary education by 2005;
- ❖ To reduce infant and child mortality ratios by two-thirds between 1990 and 2015;
- ❖ To reduce maternal mortality ratios by three-quarters between 1990 and 2015;
- ❖ To provide access for all who need reproductive health services by 2015;
- ❖ To implement national strategies for sustainable development by 2005, so as to reverse the loss of environmental resources by 2015.

It is important to point out that the Monterrey final 'Report of the International Conference on Financing for Development' observed 'dramatic shortfalls in resources required achieving the internationally agreed development goals.'

Immediately after Monterrey, a Canadian financial-democracy activist Robin Round summed up the sentiments of civil society as follows, "The Monterrey Conference will throw a little money at the poverty problem, but it won't be enough. It will cost \$100 billion annually to cut poverty in half by 2015. The recent \$5 billion US aid pledge is little more than a down payment on that bill. So what do we tell the parents of the 27,000 children who die every day, mostly from preventable causes?"<sup>11</sup>

Both ODA shortfalls and external debt were considered as the main constraints, whereas global financial volatility--while recognized as a problem--was not explicitly linked to development goals.

### **Financing for Development and Africa**

What is the legitimate development-finance needs of Third World countries, especially in Africa, given an evolving global financial architecture and debilitating volatility in trade, finance and capital markets?"

Africa's main financing problem, foreign debt, has deep roots. These, in turn, relate to a triple problem: mal-governance by borrowing elites, structural disadvantages in international trade that worsened over time, and the mirage of foreign direct investment. Monterrey failed to come to grips with either problem.

Most controversial at Monterrey, perhaps, is the underlying premise behind FFD: deeper integration of developing--especially African--countries into the global financial system is a valid means of assuring economic growth and development. Likewise, the New Partnership for Africa's Development (Nepad) repeatedly endorsed at Monterrey, calls for further integration of Africa into the world economy, including its financial system.<sup>12</sup>

The underlying double problem in both Monterrey and Nepad is lack of political will to ensure sufficient financial flows, and a failure to grapple with the contradictions intrinsic to orthodox development financing systems, including hard-currency liabilities and opposition to cross-subsidization of public goods.

---

<sup>11</sup>Round, R. (2002), 'CBC Commentary', 20 March.

<sup>12</sup>For more information in the same spirit, see, e.g., Bond, P. (2001), *Against Global Apartheid: South Africa meets the World Bank, IMF and International Finance*, Cape Town, University of Cape Town Press; Cheru, F. (2001), *The Highly Indebted Poor Countries Initiative: A Human Rights Assessment of the Poverty Reduction Strategy Papers*, Report submitted to the United Nations Economic and Social Council, New York, January; Mkandawire, T. and C. Soludo (1999), *Our Continent, Our Future*, Ottawa, IDRC; Trenton, Africa World Press and London, James Currey; and Walton, J. and D.Seddon (1994), *Free Markets and Food Riots*, Oxford, Basil Blackwell.

<sup>13</sup>New Partnership for Africa's Development, 23 October 2001, <http://www.nepad.org>.7

## **Solutions**

Social development is an outcome of economic and political processes that interact with and reinforce each other in ways that can worsen or ease the deprivation poor people face everyday. To promote social development and poverty reduction requires promoting opportunity, facilitating empowerment, and enhancing security-with actions at continental, regional and national levels. The following recommendations on financing for development in Africa are therefore very crucial;

- ❖ In order to ensure systemic policy coherence, aid and debt relief policies must be made more complementary, avoiding the pitfalls of the negative synergies manifested in the “aid-and-debt trap.” The new approach to international financing for development cooperation, “which has moved so rapidly in the last three years in the areas of aid and debt policies”, should incorporate the trade dimension, for “it is through international trade that the LDCs will make their way in the world.”<sup>14</sup>
- ❖ If financing for development is to benefit Africa and the rest of the Third world there is urgent need to ensure the promotion of private capital flows and an international trading regime that better serves their development. Such a regime would ensure better market access for LDC exports, significant reductions in agricultural domestic support and export subsidies in developed countries, and more remunerative and stable primary commodity prices.
- ❖ Efforts are needed to regulate the powerful forces of globalization, without which it will continue to serve the expansion of global markets at the expense of equity between Africa and the developed world, and even within African states, leading to further marginalization and social exclusion.
- ❖ There is need for Africa to press for fair international trade policies and investment that promote social development. The Union of Africa should demand from the World Trade Organization, European Union, and the Bretton Woods institutions the discontinuation of liberalization and trade policies that have caused detrimental effects to social development and hampered poverty reduction in Africa. African countries need to reject economic conditionalities such as arbitrary liberalization of national economies and irresponsible divestiture of national assets under the banner of privatization.
- ❖ There is need for African countries to pressurise the international community especially the members of the European Union to honour their Official Development Aid (ODA) for social development commitments. Donors who at Copenhagen in 1995 promised to provide 0.7% of GNP for ODA should be encouraged to do so through their European Union, so as to meet the target by 2005 and even urge them to increase their levels of ODA.
- ❖ The Union of Africa should take a lead in ensuring that the continent receives compensation for losses resulting from World Bank and the International Monetary Fund structural adjustment programs that left the vulnerable, especially women living in poverty. This **include calling for a total unconditional cancellation of all African debts** for all countries impoverished by their policies and the money saved should be channeled towards social development.

---

<sup>14</sup> Rubens Ricupero (2000) An Overview to the LDC 2000 Report, UNCTAD.

- ❖ African state budgets should reflect governments commitment to social development, especially poverty reduction, the fight against HIV/AIDS and land degradation. Particular priority needs should be given to education, not only because it is a basic right but also because it contributes to improvements in health, productivity and incomes, and promotes democracy. It is possible to shift the composition of public spending towards the sectors that are believed to benefit the poor, such as primary education and health.

## **Conclusion**

Financing development in Africa should be done in a way that promotes equity, justice and sustainability. It goes beyond rhetoric and ideological posturing that characterizes many international meetings. The needs of the developing world and Africa in particular are better served within a set of rules for global economic governance including resolution to the debt crisis, fair trade practices and reform of financial institutions such as the World Bank, the International Monetary Fund and the World Trade Organization. The poor countries of the world must be given the chance to be masters of their own destination, allowed to charter their own development pace with international support that has no strings attached.





**African Forum & Network on Debt & Development**

207 Fife Ave, P.O. Box MR 38 Marlborough, Harare, Zimbabwe

Tel: 263-4-702093, Fax: 263-4-702143

info@afrodad.co.zw : afrodad@afrodad.co.zw : afrodad@samara.co.zw

[www.afrodad.org](http://www.afrodad.org)

This work is licensed under a  
Creative Commons  
Attribution – NonCommercial - NoDerivs 3.0 Licence.

To view a copy of the licence please see:  
<http://creativecommons.org/licenses/by-nc-nd/3.0/>