

EXTERNAL FINANCIAL FLOWS: THE CASE OF AFRICA¹

S. Sideri²

Institute of Social Studies, The Hague

1. Introduction

On few subjects is there so much agreement as on the recognition that Africa is in deep crisis and that its position has been worsening. This paper deals mainly, but not exclusively, with Sub-Saharan Africa (SSA) and neither intends to analyse the causes of this tragic situation nor to explore strategies to solve or alleviate it. Its main purpose is to highlight the impact of foreign financial flows on Africa's present predicament and their eventual contribution to the continent's recovery. However, by questioning the current wisdom, namely Africa's need for more trade and, consequently, for substantial resources from abroad, the paper also contributes to the ongoing debate on alternative approaches to the continent's development policies. As it seems likely that Africa is going to be able neither to expand its exports nor to receive the inflow of external resources on the scale deemed necessary by international organizations, its development must come largely from within.

2. General Background

Africa's main problems centre around poverty, limited capital and human resources, dependence upon primary commodities, and environmental deterioration.

- (1) Extensive and growing poverty, resulting mainly from lower economic growth, rapidly rising population and recurrent famines.

The annual average growth rates of African GDP has declined from 4.1% in the 1960s to 1.3% in the 1980s which, given Africa's rate of population growth, means that the per capita income has dropped from 1.3% to -1.9% in the same period. The continent's total population, close to 600 million in 1989, is growing at an annual rate above the 3%. More than 80% of Africa's population is concentrated in SSA, where its rate of growth is still accelerating. On the basis of present trends, Africa could have 1 billion inhabitants by the year 2010 [WB, 1989, 4], although even then almost one-third of African countries will have a low population density.

¹ This is the revised version of the paper presented to the Workshop "African Banks and Human Resources, National Savings and Foreign Capital in the 1990s" organised by Finafrica and the Bank of Tanzania at Arusha, 17-21 November 1991.

² Dr. S. Sideri is professor of international economics at the Institute of Social Studies, The Hague, The Netherlands.

In 1987 per capita income averaged \$550 for the whole of Africa, but only \$360 for SSA [OECD, 1991, 326]; overall African per capita income grew at an average annual rate of 1.1% during the period 1965-1987, while in SSA it declined from 2.9% in 1965-1973 to -2.8% in 1980-1987, averaging a mere 0.4%. If Nigeria is excluded, the per capita income of SSA has been steadily declining since 1967 [WB, 1989, figure 1.1, 17] and presently only three countries in SSA have per capita incomes higher than \$1,000 [WB, 1990, 1, 90]. The life expectancy at birth barely reaches 53 years for Africa and 51 years for SSA [UNDP/WB, 1989, Table 1-1, 3] [WB, 1989, Table 1, 221], while the infant mortality rate is about double that of other developing countries (LDC). According to a World Bank's study, "low-income Africa is poorer in 1986 than it was a generation ago in 1960"³ and the same study prophetically predicted that "if present trends continue, the human disaster of 1983-84 in Sub-Saharan Africa will return to haunt the world economy" [WB, 1986, 1].

(2) Limited and deteriorating capital stock, particularly human resources.

For the whole of Africa gross domestic investment averaged 21.8% of GDP in 1980-1985 and 20.7% in 1986-1987 [UNDP/WB, 1989, Table 1-9, 11]. For SSA the average investment rate grew from 16% of GDP in the 1960s to 20% in the 1970s, although in real terms, given SSA's higher costs, these investment rates were lower. In SSA during the 1980s "investment rates have declined by a quarter... reflecting the drop in both the domestic and foreign saving rates" [WB, 1989, 25]⁴.

Actually, the gross domestic savings of SSA have dropped from an average of 13.9% of the GDP in 1980-1985 to 11.8% in 1986-1987, while those of Africa as a whole have fallen from 20.8% to 17.5% in the same periods [UNDP/WB, 1989, Table 1-10, 12].

The decline of the foreign savings rate resulted from the sharp fall of non-concessional flows in 1984-1985 and the reduced creditworthiness of SSA [WB, 1989, 25] and Africa in general. During the same period direct foreign investment (DFI) averaged 1.7 billion current dollars annually. More relevantly, machinery and transport equipment imports have declined from around \$35 billion in 1981 to less than \$22 billion in 1985 and 1986, further reducing the utilization of manufacturing

3 Few years later The World Bank states that "overall Africans are almost as poor today as they were 30 years ago" [WB, 1990, 1]. OECD estimates Africa's and SSA's real GNP per capita in 1987 at 94% and 92%, respectively, of 1980 levels [OECD, 1991, 330].

4 Gross domestic investment has been declining, averaging less than 22% of the GDP in the first half of the 1980s and around 20% in the second part [UNDP/WB, 1989, Table 1-9, p. 11].

capacity [UN, 1990, 20], while the inability to maintain the existing poor infrastructure has raised the cost of production and exchange. According to the World Bank, "Africa's investment and operating costs are typically 50 to 100 per cent above those in South East Asia — the most comparable region", while "wage costs are high relative to productivity" [WB, 1989, 3 and 27].

As for the human capital, 125 million Africans are illiterate, although enrolment in primary schools has certainly increased — from 47% to 75% between 1980 and 1987. Enrolment in secondary schools also has risen, but only from 7% to 29%. The figures are much lower in SSA: from 41% to 66% for primary schooling and only from 4% to 16% for secondary education [UNDP/WB, 1989, Table 1-1, 3], and the *quality* of education has deteriorated throughout Africa [WB, 1986, 29], due to the low and declining expenditure per head in education — from \$32 in 1980 to \$15 in 1987 according to UNESCO's figures [UN, 1990, 23]⁵ — and to the accelerating brain drain which pulls intellectuals, professionals and technicians northward.

Two further considerations must be voiced. While borrowing abroad clearly has "proved insufficient to check a widespread erosion of the physical and human capital stock" [C. Hardy in Berg and Whitaker, 1986, 459], contrary to IMF and World Bank analyses, some African countries, like Sudan, "cannot be said to suffer a shortfall, either of savings or of foreign exchange" but that instead their

adjusted accounts reveal a huge current account and savings surplus. The "problem" is that the state in such countries has no capacity to harness these surpluses for productive investment in the domestic economy... The migrants, who need to remit their earnings to support their families, provide the foreign exchange and the transfer mechanism through which the private entrepreneurs can engage in capital flight [Brown, *et al.*, 1991, 15].

- (3) Heavy dependence on primary commodities and consequently on declining, and unstable, export earnings caused by factors largely beyond African countries' control. Within the Third World, Africa's dependence on primary commodities is the most pronounced, as they account for between 85 and 95% of the total value of its exports, a large part of which consists of fuel — about 63% of total export earnings in 1987 — [UN, 1990, 15, fn. 1].

⁵ During the period 1980-88 the GDP share of expenditure on defense and on health and education has averaged 7.8% and 5.8% respectively in Egypt, 12.0% and 4.4% in Angola, 8.2% and 5.2% in Ethiopia, and 4.2% and 5.6% in Algeria; *The Economist*, November 2nd 1991, p. 67.

The volume of SSA imports has declined at an annual average rate of -1.5% during the period 1980-1989 [UNCTAD, 1990, Table 2, 5]⁶ and its imports per capita have been falling since 1970. Declining imports have negatively affected the growth of SSA's investment rate, already the lowest among developing regions, and the deterioration of these two variables threatens to undermine the structural adjustment programmes undertaken by many of these countries. Yet, if the loss of the import capacity is accepted as the basic cause of SSA's economic decline [Green, 1986, 15], it cannot be ignored that the fall in farm production — from nearly 3% in the 1960s to half that rate since the early 1970s — has also resulted from development strategies which tended to neglect agriculture.

In absolute value, Africa's exports have declined drastically, from \$96.1 billion in 1980 to \$54.8 billion in 1987 — those from SSA from \$51.3 to \$31.8, respectively — and more sharply than imports, the value of which declined from \$77.9 to \$54.7 billion during the same period [UNDP/WB, 1989, Table 2-1 and 2-2, 36-37]. The volume of Africa's exports declined by 4.1% annually during the first half of the 1980s and then grew at a positive, albeit modest rate of 2.5% in 1985-1989 — SSA's by -4.9% and 5.0%, respectively [UNCTAD, 1990, Table 3, 6]. Declining export volumes have contributed more to poor export revenues than have declining export prices [WB, 1989, 19-20]. As prices are set in world markets, while volumes are largely decided domestically, the impact of the misguided policies pursued by African governments cannot be denied. With respect to OECD countries, African exports have declined from \$61.8 billion in 1985 to \$50.6 billion in 1988, while its imports have moved from \$48.5 billion in 1983 to a minimum of \$43.7 billion in 1986 and then back to \$48.1 billion in 1988 [OECD, 1991, 336].

During the period 1980-1987, Africa's terms of trade deteriorated from 100 to 66 — from 100 to 70 those of SSA — [UNDP/WB, 1989, Table 2-14, 49]. The share of SSA exports in the total world trade has declined from 2.4% in 1970 to 1.3% in 1987, its share of non-fuel primary commodities from 7% to below 4%, a fall approximately equivalent to its total debt service [WB, 1989, 19-20 and 173]. By 1988 the continent's market shares for its main exports, namely cocoa, coffee, cotton and copper had fallen by between 20 and 40% below 1970 levels [UN, 1990, 15].

6 While in the text of the World Bank's study the average annual growth rate of SSA's exports is given at 6.6% in 1965-1980 and at -0.8% in 1980-1987, in Table 12 of the Statistical Appendix the figures are 15.1% in 1965-1973, 0.2% in 1973-1980 — so 8.1% for the whole period 1965-1980 — and -1.3% in 1980-1987 [WB, 1989, 173 and Table 12, 240-241].

Furthermore, the \$18 billion Africa earned in 1988 from the exports of its primary products — excluding fuel — “compares poorly with the \$17.2 billion needed in 1987... for debt servicing [obligations not actual disbursements] or with the \$13 billion needed in 1988 for food imports” [UN, 1990, 16] excluding food aid received. Dramatic also is the food situation in a continent that as recently as 1970 was self-sufficient in food; now almost one in four Africans is undernourished and the food deficit is estimated at more than 30 million tons per year — 10 million tons for SSA alone — and likely to rise to 50 million tons by the end of the present decade [UN, 1990, 18]. Even if average birth rates may have declined, child malnutrition has increased as have many other diseases, including Aids, not directly connected to food shortages.

Both the continuous decrease in the export prices of primary commodities, particularly those of tropical beverages, and the growth of food imports, have contributed to the deterioration of Africa's trade and overall current account balances, the latter having leapt from -\$15 billion in 1987 to -\$21 in 1988 and being estimated to about -\$25 in 1989 and 1990 [UNCTAD, 1990, Table 17, 33].

The African agricultural crisis is rooted in the structural weakness of the sector and precedes the financial and economic crisis. Therefore, although the agricultural policies followed by the African governments share some of the responsibility for the region's predicament, it seems rather naive to believe that it can be overcome simply by pricing and marketing measures. And, finally,

- (4) serious environmental deterioration through a self-reinforcing process of:
- (a) desertification, which already affects over 60% of Africa's arid and semi-arid land;
 - (b) deforestation, i.e. the destruction of 3 to 4 million hectares of forest annually;
 - (c) land degradation, as results of which in most of Africa soil fertility is declining and the ecological balance of grazing grounds is being upset.

The environmental degradation is closely linked to rapidly expanding populations and industrialization efforts. If coping with these problems requires “sustained political commitment and appropriate conservation policies on the part of African governments”, the challenge cannot be undertaken without “substantial technical and financial support from donors extending over many years” [WB, 1986, 31].

The real challenge for Africa is now to reverse these trends and to start a process of economic growth compatible with a sustainable and equitable development for most of the continent.

3. International Primary Commodity Markets

Even though the problems related to food, population, ecology, debt, and exports are all interconnected, it is generally agreed that "it is the failure in the commodity sector which has been central to the economic crisis facing Africa — as both a contributor and a casualty" [UN, 1990, 28]. Therefore, the analysis of this sector represents the starting point for attempting to understand the present quandary of this continent and to explore the developmental options available to it.

Clearly, this failure results from external as well internal factors. It appears that although world consumption of most of Africa's major non-fuel commodities has been rising, their prices have grown less than those of manufactures and consequently Africa's terms of trade declined through most of the last three decades. Undoubtedly, the same external conditions have not prevented other LDCs from prospering. Yet the low level of diversification, together with the other factors indicated above and with what has been called "the poor public sector management" [WB, 1989, 27], all have contributed to the different response generated by most of African countries to the changing world environment. The existence of the Lomé Convention has not really helped ACP (African, Caribbean and Pacific) countries to take fuller advantage of the trade preference it offers and has not encouraged diversification. For ACP countries, access to developed markets is essential and until now the Lomé Convention has failed to open up the EC market [WB, 1989a]. Its overall impact on the ACP countries has been modest and certainly much less than many expected from it [Sideri in Sideri and Senguta, 1992]. It is true that SSA exports confront no effective EC tariff and get an average tariff preference margin of 2% when compared to other LDCs. EC tariff preferences for SSA exports also are more generous than the GSP benefits offered by other DCs, which are equally open to all LDCs exports [Erzan and Svedberg, 1989]. Yet, the share of SSA in total extra-EC imports declined from 6.6% in 1980 to 5.4% in 1988 — the decline of the share of EC exports to SSA, 7.4% and 4.4% respectively, was even more marked — with the EC absorbing more than half of all SSA exports. Only EFTA — by just few points — has a larger share of trade with the EC as a percentage of trade with the rest of the world. The composition of SSA exports to EC has changed little between 1975 and 1987, aside from the share of manufactured goods, which has increased from 5% to 14% of total exports [Tovias, Table A2, A6 and A7, 56-61], a share that is largely made-up by simply processed raw materials and cheap textiles, the production of which remains concentrated in a few countries.

Finally, there are the difficulties encountered by both international commodity agreements

(ICA) and regional co-operation schemes. In the past ICAs, with very few exceptions, have, for various reasons, not performed well. Yet some form of co-operation between producers and consumers could substantially help African economies as they embark upon or continue their internal economic restructuring. Foreign expertise and technology is required to expand, diversify and process most primary products, but it is particularly needed for expanding mineral production and exports, which require better infrastructures and better relations with foreign companies. The list of the internal factors that have contributed to the failure of African commodity sectors is equally long and includes "low productivity and uncompetitive production, ...ill-advised government policies, unenlightened administration and organization, a serious lack of agricultural scientists and extension officers, a poor knowledge of international markets, a lack of investment in transport and other infrastructure essential to effective competitive production and an economic policy framework which offer overseas investors few incentives" [UN, 1990, 28].

While most countries in Africa have embarked upon major policy reform programmes under the tutelage of the IMF and of the World Bank, the declining prices of many of their main exports, the restrictive trade policies of the developed countries and the persistent debt-servicing problems all contribute to render the reforms envisaged in these programmes, more difficult, if not impossible, to carry out. Therefore, it seems that the cause of chronic exchange crises in many African countries is less the accumulation of debt and debt service obligations and more on the deterioration of their debt-servicing capacity, i.e. the secular decline of their earnings since the late 1970s [Brown, 1991, 10].

Agriculture and mining remain the pillars of any development strategy for Africa. Due to the fact that nearly four-fifths of the population depend on agriculture, increased agricultural production is essential for any real and lasting improvement in living standards. Meanwhile, the level of export revenues crucially depends on the mining sector, and mining exports are expected to expand more than those of other primary commodities. However, since prospects for significant increases in the world price of most primary commodities are poor, higher export earnings can only come from increased output, diversification into new products and penetration of new markets. If, as commonly assumed, the required investment cannot be financed entirely by domestic savings, then the net inflow of foreign resources would be a substantial share of the GDP. The same road Africa travelled in the 1980s.

4. International Debt

The more than doubling of Africa's external debt since 1980 represents a crushing

burden for the continent. Africa's foreign debt has increased from \$107.7 billion in 1980 to \$219.6 billion in 1987⁷, SSA's from \$56 billion in 1980 to \$147 billion in 1989 and a projected \$161 billion for 1990 [WB, 1990, 1, 130]. Debt service for the whole of Africa has risen from \$12.6 billion to \$17.3 billion during the period 1980-1987 absorbing a growing share of export revenues, namely from 11% in 1980 to 26% *ex post* (33% *ex ante*, i.e. in terms of obligations) in 1988 [UNDP/WB, 1989, Table 3-18, 90 and Table 3-21, 93]. Growing international interest rates contribute to the worsening of the situation and rescheduling — if not accompanied by reduction of the principal, i.e. write-down — increases total indebtedness as it capitalizes arrears [UN, 1990, 85].

The increase in Africa's debt burden indicates that the problem is one of deep-rooted poverty and insolvency rather than temporary liquidity. That most of it cannot, and will not, be repaid was recognized in the Toronto Agreement of 1988 which, however, should not be seen by the African ruling elites as an invitation to repeat the experience of the 1980s. The Toronto Agreement established the principle of debt and debt service reductions on public and publicly guaranteed debt for low-income developing countries — 28 of the 42 least developed countries (LD) being in Africa. Although the Agreement has had some impact on African indebtedness, cancellation does not yet apply to private debt and moratoria must be extended. Actual cancellations in 1986-1989 saved low-income countries in Africa less than \$250 million in debt service [ODI, 1990, 4]. Two new proposals to alleviate the debt burden of low-income countries, exist. J. Pronk, Dutch Minister of International Co-operation, has proposed a collective declaration of forgiveness for all bilateral official debts; J. Major, then British Chancellor of the Exchequer, has suggested a more complex scheme, which tends to further improve the terms of the Toronto agreement relative to Paris Club reschedulings⁸. However, as the poorest countries are not servicing their debts anyway, the "British proposal to cancel two-thirds of what they owe would cost creditors precious little". Instead it may cause some outflow from the debtor countries, "since they would require that the remaining third of the debt should actually be serviced". Although the British proposal "would match the Brady plan for the less desperate countries", it has received little support from the rest of the rich countries. Thus, at the Harare Commonwealth Summit in Oc-

7 According to UNCTAD, the African outstanding debt was \$272 billion in 1987 and \$274 in 1988 and it is estimated to have reached £299 billion in 1990 and \$309 billion in 1991 [UNCTAD, 1990, Table 19, 35].

8 Major's proposal involves to include in a single operation a country's total debt; to rise the write off to two thirds; to capitalize the interest payments relative to the first five years and spread their payments over time and according to the country's economic progress; and to lengthen the repayment period from 14 to 24 years.

tober 1991, Major declared that Britain was "going it alone" on this proposal after failing to secure backing from the Paris Club of creditor nations.

SSA's debt has grown faster than that of the whole of Africa. Its total debt service *ex post* has increased from \$6.3 billion in 1980 to \$8.8 billion in 1989 and projections for 1990 put it at \$11.2 billion. SSA's debt represents only about 10% of Third World indebtedness. The ratio of this debt — both short-and long-term — to exports of goods and services has therefore risen from 97% to 371% between 1980 and 1989, while the debt service ratio has grown from 11% to 22% [WB, 1990, 1, 130; 89 and Table 6, 20]. The latter ratios refer to service payments actually made, which in 1989 represented only 39% of the amount due [WB, 1990, 1, Table A6.1, 89]. Therefore, the ratio of due debt service to exports of goods and services has grown from 29% in 1983 to 34% in 1988, a share larger and growing faster than that of LDs as a whole, i.e. 24% and 25% respectively [OECD, 1990, Table 18, 203]. According to the World Bank the ratio of debt service actually paid averaged 27% of SSA's exports in 1988,⁹ but scheduled debt service payments were about 47% of export earnings, the same level than those of Latin America [WB, 1990, 1, 89]. About 70% of SSA's debt, including short-term commercial trade credits and drawings from the IMF, is at market rates, but only 39% is owed to private creditors, one third of which is guaranteed by creditor governments [WB, 1989, 20-21].

No wonder then that "of the 44 countries in the region, 30 have resorted to rescheduling of their debt with their creditors" [WB, 1990, 1, 89] and

no more than a dozen Sub-Saharan countries have serviced their debt regularly since 1980. For the others debt service payments have had to be reduced, either through rescheduling or the accumulation of arrears. Altogether during 1980-88, 25 sub-Saharan countries rescheduled their debts 105 times [...and] only four severely indebted countries have not rescheduled their debt in the past eight years [WB, 1989, 21].

Multilateral debts and short-term trade credits have been much more likely to be serviced, while "the payments to private creditors have been virtually suspended by most of the African Countries". Of the debt service payments actually made by SSA, half went to official creditors and one third to the private ones [WB, 1990, 1, 89 and 91].

The more recent evolution of the various types of debt is summarized by the World Bank as follows [WB, 1990, 1, 92-94].

⁹ And not 34% as calculated by OECD [OECD, 1990, Table 18, 203] and reported above in the text.

-
- (1) The outstanding debt of SSA with *multilateral institutions* and the IMF amounted to \$38 billion in 1989, generating \$4.2 billion in debt service. The same year, the multilateral institutions increased their loan disbursements to \$3.4 billion which, after subtracting repayments and interests, represented a net transfer of \$1.8 billion. These institutions then provided another \$2 billion as official development assistance (ODA) grants. In 1990, net transfers to SSA by the World Bank alone amounted to \$1.2 billion, while IDA's, and its commitments for adjustment-based lending, rose to \$1.3.
 - (2) The claims of *official bilateral creditors* on SSA reached \$56 billion, with service payments of \$6.7 billion. To improve SSA's debt burden they have:
 - (a) increased the flow of concessional aid from 10% of the total ODA in 1960 to more than 30% at the end of the 1980's;
 - (b) cancelled or converted bilateral loans owned by various SSA countries into grants, although with little aggregate impact, of such action has been small in the aggregate, while the risk remains that forgiveness may reduce the level of new grants and concessional loans to the same countries to which it applies; and
 - (c) accepted the rescheduling of the Club of Paris, where debts for more than \$5 billion have been consolidated since October 1988, with a cash flow savings of only about \$100 million a year, but with a substantial buildup of the debt, to the tune of 40% of the long-term non-concessional debt of the rescheduling countries.
 - (3) The role played by *private creditors* has been rather modest in the external financing of Africa; their outstanding debt was \$31 billion in 1989, only \$20 billion if Nigeria is excluded, with a debt service of \$9.1 billion, or \$4.3 billion without Nigeria. To help countries to reduce their debt, in 1989 IDA established the Debt Reduction Facility, which provides grants of up to \$10 million to countries with adjustment programmes to buy back or exchange commercial bank debt at a discount.

At any rate, net financial transfers to SSA have declined from \$4.7 billion in 1981 to -\$1.2 in 1985 and to the estimated \$1.1 billion of 1989 [UNCTAD, 1990, Table 10, 19]. Decisions on aid and debt relief must be more adequately harmonized and "viewed as elements of a single financial plan in support of growth-oriented adjustment". This is also needed in order to avoid using increases in aid — and the expected rise in export earnings, which has not yet materialized — to reduce debt instead of supporting growth [WB, 1986, 45].

5. External Capital and Foreign Aid

Yet, all international organizations and most African governments insist that policy reforms aiming at promoting economic growth depend on additional financing, in order:

- (1) to increase the use of existing capacity, allowing the import of essential goods and industrial inputs;
- (2) to raise investment rates; and
- (3) to alleviate the negative effects that price changes (caused by greater reliance on market mechanisms) are going to have on the social and political tissue of the countries undertaking adjustment programmes.

The main source of financing for external payments is export earnings, a source which in the case of Africa, not only has been shrinking, but given the production structure and the composition of the exporting sector cannot be expected to respond rapidly to export-oriented policies and/or to growing external demand. Even intra-regional trade is very modest and is bound to remain so for some time to come. Thus it is difficult to imagine Africa's economic recovery without a substantial and sustained inflow of foreign capital. But how large have these inflows of foreign resources have been recently?

Bilateral ODA to Africa by OECD countries (DAC) has increased from \$6.8 to \$12.7 billion between 1983 and 1989. This continent has been absorbing the largest share of this form of assistance to the Third World during the 1980s, namely about 37%. Most of bilateral ODA to Africa has accrued to SSA, whose share in relation to total ODA to the Third World has grown from 27% to 30% and with respect to all of Africa from 73% to 80% [OECD, 1991, A.18].

According to OECD data, net ODA to Africa reached \$18.3 billion in 1989, at 1988 prices and exchange rates, from \$15.2 billion in 1980 to almost \$20 billion in 1985 [OECD, 1990, Chart 3, 17]. A similar trend characterizes total net disbursements of ODA to SSA. The aggregate net financial transfer to SSA has grown in current dollars from an average \$11 billion in 1980-1982 to a peak of \$16 billion in 1987 and then to \$14 billion in 1989 [OECD, 1990, Table 16, 202]. At 1988 prices and exchange rates, the transfer becomes \$16 billion in 1980-1982, \$17 billion in both 1986 and 1987 and \$14 billion in 1989 [OECD, 1990, Table 17, 202].

In 1988-1989 the ODA received by SSA averaged 11.2% of its GNP (up from 7.5% the previous year and from 4.2% at the beginning of the 1980s [OECD, 1990, Table 37, 226]). The share of ODA received by the region's LDs averaged 14.2%, and within these

countries reached, for instance, 76.1% for Mozambique, 18% for those of the Sahel Group and less than 5% for Zimbabwe [OECD, 1990, Table 19, 204]. According to The World Bank the net transfers to SSA have averaged 4.8% of its GDP in 1975-1980, 3.3% in 1980-1985 and 6.2% in 1986-1987 [WB, 1989, Table 8.3, 174].

Direct foreign investment in Africa is very small — about 10% of DFI in the Third World, mostly from France and the UK and little from the US and Japan — and since the oil crisis of 1979 it has been also declining. The transnational corporations (TNC) are disinvesting in Africa. Over the period 1980-1988, the total cumulative net amount of DFI received by SSA exceeded \$7 billion. Yet, the share of DAC in total DFI in SSA declined from 14% to 4% between 1981-1982 and 1987-1988, while that of European DFI fell even more during the same period, from 19% to 3% [OECD, 1990, 128 and Table 3-3, 127]. The decline of DFI in Africa has been explained by the shortages in foreign exchange, growing lack of access to foreign capital, declining ODA, rapid increases in the external indebtedness, social and political instability and last, but not least, the steady decline in returns on investment (i.e. the ratio of growth of output to the rate of investment in a given year) which in 1980-1987 were just above 6% compared with almost 37% in South Asia [WB, 1989, 25-26].

Since the problem of foreign exchange shortages and external debt means that spare parts cannot be imported and therefore existing plants are forced to operate below capacity or are completely paralyzed, any attempt to increase the inflow of DFI depends on the solution of the debt problem. Debt-equity swaps have become an opportunity for DFI in the LDCs, although the fact that Africa's liabilities tend to be public rather than commercial limits the utilization of this measure.

DFI inflows into Africa could grow as result of better world or regional conditions, by a more welcoming attitude to DFI on the part of African countries¹⁰, by the utilization of new forms of investment and privatization programmes and by the commitments to exploit the region's abundant natural resources. With respect to the resources sector, particularly gold and diamonds, the low levels of DFI in the recent years have probably caused a more than proportional reduction in growth of productive capacity, so that a revival of investment in this sector may be expected. Tropical products could also

¹⁰ Actually, most African countries have already reduced or reversed their hostility towards TNCs and have either introduced or made adjustments to their investment codes or guidelines in order to attract DFI. To further promote it they allow tax holidays, removal of controls on remitting dividends and relaxation of rules on retaining export income. Furthermore, export processing zones are being established in growing number.

see an increase in DFI due to the favourable entry into Europe provided by the Lomé Convention and now by the opening-up of Eastern Europe. Foreign investors have remained active in the energy sector, where oil and gas exploration have continued even during the late 1980s, despite low oil prices. It is expected that Japanese investors will find this sector increasingly attractive.

The intensification of intra-regional trade may also enhance DFI because such trade can absorb part of its output — often too large for domestic markets — before it can enter industrial countries' markets.

A wider applicability is having in Africa the participation of foreign investors in investment packages that include local private investors, government, local or regional banks, and investment or management advice from non-African international institutions — such as the International Finance Corporation of the World Bank, the Commonwealth Development Corporation, the Deutsche Finanzierungsgesellschaft für Beteiligungen in Entwicklungsländern, The European Investment Bank, and the United States Overseas Private Investment Corporation.

Other incentives for stimulating DFI are the establishment of appropriate legal frameworks, the streamlining the licensing procedures, the use of counterpart funds generate by commodity aid, tax incentives. Last, but not least, all African governments should start or should accelerate the process of divestiture, disengaging from those state enterprises that would be more efficiently and profitably run as private businesses.

Yet, in order to work these incentives must be accompanied by the implementation of macro-economic policies which TNCs judge favourable to their investment goals. This means that if the macro-economic adjustment tends to produce deflationary effects — as most of the structural adjustment schemes preferred by IMF and the WB do — then DFI may be discouraged.

Aside the incentives available at the national level, countries should launch joint efforts to attract DFI rather than compete for it by multiplying the advantages to foreign investors. Regional action is the more important in SSA given the modest size of most of its national markets. Furthermore, the design and implementation of infrastructural development plans — a very important incentive for attracting DFI — cannot be much effective without regional coordination.

Compensatory financing is very useful in bridging over a temporary, self-reversing shortfall in foreign exchange earnings. The Structural Adjustment Facility (SAF) establish-

ed by the IMF in 1986 and the Enhanced SAF (ESAF)¹¹ of 1987, both aim at providing additional short-term contingency financing on soft term and at reducing the flow of funds to the IMF from low-income countries. They have then been integrated into the Contingency and Compensatory Financing Facility (CCFF)¹², but the mechanism of intervention needs improving [UN, 1990, 87] and the IMF is still reducing its exposure to low-income countries. Based on short-term programmes the Facilities carry rigorous short-term IMF policy conditions and additional medium-term strings. As result they have neither been popular with debtors nor have prevented net transfer by low-income nations to the Fund. At the same time the Facilities have reduced additionality as the contributions to ESAF have also come from existing aid budgets.

The World Bank refinances interest payments on its loans by reducing them by 60-90%, depending on the size of the matching contributions from the Nordic governments, but imposing adjustment policy conditions similar to those of ESAF.

The Special Facility for SSA established in 1985 aimed at focusing aid, especially non-project assistance (the importance of which is being recognized by an increasing number of donors) on countries willing to adopt adjustment programmes and at facilitating collaboration between multilateral and bilateral agencies. Project assistance is also concentrating on projects that maintain (the backlog of road maintenance is estimated to cost \$5 billion on top of the \$700 million needed annually during the present decade to avoid further deterioration [WB, 1989, 176]) or rehabilitate existing capacity, while aid coordination is being strengthened both at the central level — both bilaterally and

11 Both the IMF and the World Bank maintain the rule that their loans cannot be rescheduled. Yet in 1986 the IMF created the Structural Adjustment Facility (SAF) to refinance some service due to them by re-lending low-income countries' payments on softer terms. SAF was enlarged in 1987 and Enhanced SAF (ESAF) has been created with capital from OECD countries, except the US, plus Saudi Arabia. Furthermore, low-income countries with heavy debt burdens can use 25% of an IMF ESAF credit for commercial debt reduction and 40% of quota for debt service reduction.

In 1988-1990 the World Bank refinanced \$650 million of \$700 million interest payments due to it from 13 low-income African countries. Under its Special Programme Assistance (SPA) \$1.35 billion was targeted for low-income "debt distressed" Africa in 1987-1990. The World Bank has allocated also \$100 million of income on its past loans to be used as grants for debt or service reduction, with a maximum of \$10 billion per country [ODI, 1990, 3].

12 In April 1988 the IMF Board modified two of its lending facilities: it widened the Compensatory Financing Facility (CFF) into the CCFF, by adding an "External Contingency Mechanism" to compensate for foreign exchange shortfalls during IMF programmes and for unexpected interest rate and import price rises; and it also agreed to use Extended Fund Facility (EFF) loans for countries with a record of sustained adjustment, loans that have longer repayment periods and lower interest rates.

multilaterally, with expansion of donors' formal arrangements, consultative groups and round-tables — and at the local level — multiplication of special meetings on aid for selected sectors and growing importance of the regular meetings of local representatives of major donors — [WB, 1986, 43-44].

Another initiative of the World Bank has been the establishment, at the end of 1987, of a three-year Special Program of Assistance (SPA) for Africa's low-income, debt-distressed countries to which it should provide highly concessional and quickly disbursed finance. In practice, "however, the SPA has increased financial flows by less than expected" [ODI, 1990, 4], although there are higher expectations for SPA's Second Phase 1991-1993.

Export credits to LDCs have not revived, although in the first half of 1989 their negative net flows slightly exceeded 30%, from about 50% in 1986-1987.

For Africa the negative net flows have declined more — 24% in the first half of 1989 — while they averaged about 55% in 1986-1987. In absolute terms, net flows of total medium- and long-term export credits to Africa have been reduced from \$3.6 billion in 1981 to -\$2.3 billion in 1988 [UNCTAD, 1990, Table 8 and 9, 17-18] and those to SSA from \$1.9 million to \$0.6 million [OECD, 1989, Table III.6, 29].

In summary, the net private transfers that Africa obtained between 1980 and 1987 have changed from \$1.9 billion to \$6.2 billion, net official transfer from \$3.2 to \$6.0 billion and DFI from almost zero to \$1.5 billion. For SSA the flows are the following: from -\$1.3 to \$0.8 billion; from \$2.9 to \$4.8 billion; from zero to 0.5 billion, respectively [UNDP/WB, 1989, Tables 2-5 to 2-8, 40-43], figures lower than those presented above from OECD publications and lower than those used by the World Bank and reported below. Although net transfers have increased, they remain rather modest. These flows could be larger if due consideration would be given to the growing levels of informal, unrecorded activities which also generate flows across frontiers and often strongly alter official data [Brown, 1991].

According to World Bank calculations, to make the per capita income increase by less than 1% annually¹³ during the 1990s (between 1 and 2% during 2000-2020!), while overall per capita consumption stagnates, African GDP must grow at a rate of 4%, total investment rise to 25% and domestic savings to 18% of GDP by the year 2000 when, after allowance for interest payments, the gap between investment and savings will be

13 "If real average incomes in Africa's poorest ten countries were to rise by just 1% a year, it would be 50 years before they reach even the pitiful level currently achieved by the average Indian" commented *The Economist* on March 4 1989, p. 15.

about 9% of GDP. This gap should decline to 5% in 2020. In order to close its saving gap SSA alone will need annually at least \$22 billion of gross ODA at 1990 prices — or \$27 billion at 1987 prices [UN, 1990, 88] — up to the year 2000¹⁴ [WB, 1989, 13-14 and 174-75]. For SSA alone this implies a net transfer of \$12 billion in 1990 rising to \$19 in 2000, at 1990 prices, equivalent to 8% and 9% of its GDP, respectively [WB, 1989, Table 8.4, 179]¹⁵.

To these net additional transfers, one has to add another \$10 billion to meet the estimated financial needs of Northern Africa [UN, 1990, 88], only to stop the continent's decline and to give it a chance of re-igniting its development process. In order to obtain this flow of resources to SSA during the 1990s, ODA must continue to grow at about 4% a year in real terms — actually lower than the rate of growth achieved in the 1980s — while concessional debt relief, preferably debt reduction, must be agreed so as to avoid that debt servicing exceeds recent payment levels, namely about \$9 billion during 1987-1989. Yet, the projected amount for 1990 is already \$11.2 billion [WB, 1990, 1, 130].

For the foreseeable future, the economic growth of SSA will continue to rest on agriculture and other primary products, the prospects of which depend both on the supply, taking into account unpredictable climatic conditions, and on the availability of markets abroad. To shift the ratio of exports to GDP from about 19% in 1986-1987 to the required 24% in the year 2000 and more later on [WB, 1989, 174] will not be easy. The manufacturing sector — which still contributes only 11% of SSA's GDP — depends both on the

14 In its 1986 study the World Bank estimated that "IDA-eligible" or "low-income" countries of Africa needed at least \$11 billion a year in concessional flows and since \$8.5 billion alone were expected to materialize, a gap of \$2.5 billion was predicted, a gap which could be closed only by extra multilateral and bilateral aid [WB, 1986, 2-4].

15 More specifically the ODA requirement for SSA are as follows:

	Annual average (billions of current dollars)		Projected (billions of 1990 dollars)	
	1981-1985	1986	1990	2000
Net transfer	5	8	12	19
(% of GDP)	(3)	(5)	(8)	(9)
Debt service payments	9	9	9	9
Other flows, incl. DFI	6	6	6	6
Gross ODA	8	11	15	22

Source: [WB, 1989, Table 8.4, 179].

access to foreign market as well as on foreign investment, including human resources, imported inputs and technology. More regional co-operation could help to reduce the dependence on overseas markets for Africa's manufactures, though it would not lessen the need for net capital inflows from outside the continent. Exports will also remain concentrated on few primary commodities for which other markets have to be found, as prices are not expected to improve much.

Imports are expected to grow at 1% over and above the 4% rate of growth of the GDP during the 1990s, and in line with the latter afterwards, assuming that SSA is able to curtail its dependence on food imports, which are estimated to reach 15 billion tons by the 2000, at a cost of about \$4 billion at 1988 prices [WB, 1989, 175].

6. Future Perspectives

To resume economic growth African producers must be determined to regain a substantial share of the international market for their commodity exports. This requires a profound transformation of the economic structures of most African countries, a transformation that — and here it is difficult to disagree with the main conclusion of one of the most recent reports on the African situation — “will remain an idle hope” without substantial and sustained assistance from the international community [UN, 1990, 3]. This means that although most of the efforts must be made internally — like drastic cuts in military expenditures which averaged more than 11% of government expenditure during the period 1980-1986 [UNDP/WB, 1990, 4-27, 125]; strengthening of the African governments' capacity to design “their own favorite package of policy reforms” and “coordinate their foreign assistance” [WB, 1986, 45]; and increasing domestic savings — the response of the international community remains essential.

Before considering the external response it seems appropriate to assess the possibility of mobilizing household savings, which implies rehabilitating and deepening the financial system. Starting with the need for increased domestic savings — mainly by cutting government financing requirement (public spending averaging 27% of SSA's GDP against 19% in poor countries outside Africa), freeing prices and increasing interest rates — one must also address the problematics of such an objective. In fact, it seems that “with earned import capacity (export earnings) at or below operating levels and these already 25 to 50 per cent below the levels needed to maintain and operate existing core production and infrastructure capacity, *ex post* domestic savings cannot ex-

ceed the domestic content of fixed investment... They can therefore not be increased absolutely except by expanding exports or *increasing* the complementary external finance" [Green, 1986, 10-11]. Furthermore, increased savings cannot be discussed without tackling the issue of income re-distribution if it can be demonstrated that the latter strengthens the saving capacity. Simple calculations show that if the bottom 40% of households have 10% to 15% of income, then a 2% to 4% shift of total GDP to or from them affects their income by 20% to 40% [Green, 1986, 23]. This also means that the problem of raising domestic savings cannot be separated from that of the development strategy pursued. A basic needs strategy with agrarian reform, selective import controls, liberalization and privatization guided by socially acceptable goals, regional co-operation, may require less foreign financial assistance. The problem is then whether or not such an approach is acceptable to the ruling elites, namely government, bureaucracies and most intellectuals, who routinely accuse foreign interest, but actually constitute the main linkage — a linkage not analysed by A. Hirschman — between those interests and the countries they rule or, more appropriately, occupy.

Although the African financial system has certainly expanded, "the quality of services has evolved differently among countries", mainly according to whether or not macroeconomic policies have forced the commercial banks to finance the public sector deficit and to the extent that political considerations have influenced the allocation of the banks' resources [WB, 1989, 169 and 171]. Undoubtedly, the economic and/or social objectives pursued with the system of preferential credit generated by political considerations, can be best achieved by means of price, trade and fiscal policies. Also links between the formal and the extensive, often more effective, informal financial sector must be created or strengthened, while interest rates must be liberalized so that they can fully take into account the level of inflation, therefore reducing the scope for credit rationing and capital flight. Yet, the utilization of the savings thus created must be perceived as taking place according to some acceptable development strategy.

Furthermore, since liberalization requires restoring the confidence of the public and the business community in the banking system, it becomes imperative to strengthen the central banks' supervisory controls over the commercial financial system and to introduce new financial instruments which in turn prosper only if money and capital, including stock, markets are properly functioning [WB, 1989, 169-173].

External support need not materialize exclusively through financial transfers. Not all of the following proposals imply financial flows and all represent a quite exhaustive list of how the international community could concretely contribute to Africa's recovery. In brief, by:

-
- (1) encouraging private companies to invest and provide technical co-operation, while convincing them to utilize the World Bank's Multilateral Insurance Guarantee Agency (MIGA) to protect themselves from non-commercial risks and to make use of such mechanisms as import-export banks and bilateral credit and export guarantee organizations;
 - (2) co-operating in sharing information; in collaborating on research, particularly on new end-uses, and on market promotion and development; and in stabilizing price and income, possibly through the re-establishment of ICAs for coffee and cocoa and eventually, and possibly the operationalization of the Common Fund;
 - (3) sustaining effective producer/consumer associations and regional co-operation schemes;
 - (4) improving the access of African commodities and manufactured goods to industrial countries' markets. If this implies not only the reduction or elimination of tariffs — which are already relatively low in many cases — and the more difficult issue posed by non-tariff barriers, existing preferences must also be liberalized. Yet, any such liberalization reduces their relevance and therefore is opposed by the African countries, which instead favour a reduction of the limitations — like the rules of origin, anti-dumping and other administrative measures which, together with tariff escalation, hamper their diversification efforts — characterizing the preferences granted them by the Lomé Convention. Concerning diversification it is interesting to note that while the imports of manufactures from Africa by the US have increased at the annual rate of 6% in 1980-1985 and almost 33% in 1985-1989, those by the EC have grown by -2.6% and 25%, respectively [UNCTAD, 1990, Table 4, 7];
 - (5) reducing or eliminating in the industrial countries their internal taxes on tropical products. The proposed scrapping of the remaining excise duties on coffee and cocoa in some EC countries should cause the expansion of their imports, while the harmonization of taxes on tobacco should increase its price and therefore reduce its consumption and imports. More complex problems arise with respect of sugar and bananas [Davenport and Page, 1991, chap. 3] [Matthews and McAleese, 1990] [Sideri in Sideri and Sengupta, 1992] [Davenport and Stevens in Stevens and Faber, 1990];
 - (6) discontinuing or phasing out the Multifibre Arrangement (MFA), plus the industrial countries' promise not to invoke safeguard procedures against textiles and clothing imports from LDCs [Page in Stevens and Faber, 1990];
 - (7) shielding vulnerable sectors in the African economies from adverse effects by means
-

of adequate World Bank and IMF programmes. This "does not suggest relaxation of the macro-economic reform efforts by African countries", but follows logically from the World Bank's admission that "the improvements in macro-economic policy and economic performance are ultimately only a means to the priorities of improving health", expand education, ensure food security and create jobs [UN, 1990, 82]. "External assistance should extend" — according to the World Bank — "beyond investment to cover development expenditures more broadly defined" and "to activities of non-governmental and private sector organizations" [WB, 1989, 193];

- (8) coordinating donors' and non-governmental organizations' aid policies — building on the "historic North-South compact" UN Programme of Action for African Economic Recovery and Development created in 1986 — so as to more effectively:
 - (a) sustain the external supply of goods and services needed by each particular country; and
 - (b) provide high-level training and strengthen existing educational institutions, so as to reduce the role of expatriates — presently more than 80,000 people are estimated to be working in Africa as technical assistants. According to the World Bank, the development of human resources in SSA alone will cost about \$10 billion (1990 prices) annually [WB, 1989, 181 and 175].
 - (9) increasing the resources of the International Finance Corporation in order to expand the latter's capability for financing more joint ventures with private foreign companies;
 - (10) untying bilateral and multilateral aid — and, for EC countries, tenders should not refer to donor's country norms, but to EC-wide standards, refraining from dumping subsidized food surpluses in African countries and possibly purchasing food aid from other African countries;
 - (11) increasing non-project assistance in order to support adjustment programmes and, particularly for the EC, providing assistance aimed at upgrading product quality so as to conform to improved environmental and safety requirements established in Brussels;
 - (12) finding ways to refinance the arrears of IMF and World Bank loans and making commercial debt eligible for special treatment, particularly when the countries concerned have undertaken strong and comprehensive reforms. This objective could be obtained — following the suggestion of an Expert Group [UN, 1990, 90] — by selling part of the IMF gold holdings and using the proceeds to rectify arrears with
-

the IMF and to augment the resources of the IMF Trust Fund to be used for interest rate relief on new loans;

- (13) committing annually an additional and growing amount of financial resources which starts, roughly, with \$22 billion now and reaches \$39 billion in the year 2000; and, finally,
- (14) making clear the time-frame (for example, through multi-year indicative pledges) of this or any commitment of resources, as no medium-term adjustment plan is possible without such an indication and consequently attempted policy reforms are bound to fail.

As for the question of the availability of extra external resources for the African development, at least for avoiding further deterioration of an already tragic situation, one has to consider the whole international scene and the rapid changes that are taking place in the North, particularly in Europe.

The special relation that Europe pretends to have with Africa is best illustrated by the Lomé Convention and by the fact that almost half of total aid received by SSA comes from the EC's bilateral and multilateral ODA. No less than 45% of the EC-7 bilateral aid goes to SSA, France and Italy contributing about two thirds of this, a substantial part as tied aid. It has been estimated that by untying this aid SSA would save at least \$600 million a year and probably more, although it is not clear whether "France and Italy would maintain their present levels of bilateral aid if they were obliged to untie it entirely" [Tovias, 1990, 41]. Another 17% of EC-7 aid to SSA is channelled through the European Development Fund (EDF) and more should after 1992. However, even this multilateral aid does not seem completely untied and the concentration of aid in large multinational institutions reduces SSA's possibility of "shopping around" in bilateral aid negotiations.

The EC's Project 1992 is not expected to have any significant impact on Africa even considering the greater demand for imports that the rapid growth of Europe should generate. Given Africa's great dependence on primary commodities, with their relatively low income elasticities;¹⁶ and "the past delinking of most SSA countries from the global

¹⁶ For the period 1963-84 the income elasticities of demand for LDC's primary products have ranged from less than 0.3 for industrial materials to 0.7 for non-ferrous metals, with the exception of fuels the elasticity of which is estimated at 1.9. On average, "a one percent increase in the gross domestic product of the developed countries appears to have been associated with a 0.5 percent increase in their imports of non-fuel primary products from the developing countries" [Balassa, 1988, Table 1, 5 and 4].

economy" — although one should be sure that the delinking is the result of African action or instead the effect of Europe economic disinterest for that continent; considering then that Europe's perception of Africa appears characterized by cyclically changing mythologies [Hopkins, 1986, 1475] — "it would be difficult to expect such a growth dividend to play any part in SSA exports" [Tovias, 1990, xi]. Furthermore, as there is no apparent relationship between trends in the EC's GDP and in SSA exports to the EC — and particularly striking is the divergent trend since 1985 — it is not clear what impact, if any, the EC's economic growth (largely deriving from trade diversion resulting from improved European competitiveness) could have on the exports of SSA and Africa in general [Sideri and Davenport in Sideri and Sengupta, 1992] [Davenport and Page, 1991] [JCMS, 1990].

It is expected, however, that the acceleration of the EC's GDP will contribute to a substantial increase of EC aid to SSA after 1992. It is also expected that the eventual harmonization of EC member countries' export credit policies could foster competition among EC export credit suppliers and therefore reduce the net import prices of machinery and other equipment of which the EC is the main supplier to SSA [Tovias, 1990, 4244]. The positive impact of Project 1992 for third parties will remain limited to industries producing goods and services with high income elasticities of final demand in the EC, a feature that within SSA is possessed only by tourism which, however, represent one, if not the most important, source of external revenue for the ACP countries taken as a whole [Nicolaidis, 1990, 120].

Furthermore, Project 1992 is being strongly transformed by the opening-up of Eastern Europe. This wider, and looser, process of European unification will tend to place more, and competing, demand on Western European resources and consequently further marginalize the Third World, and particularly Africa [Sideri, 1991]. Even the demand for its fuels may not necessarily increase [Matthews and McAleese, 1989, 163 and Appendix], since common EC energy policies are not yet decided upon and are likely to aim for a reduced dependency on crude oil, a product which is the bulk of EC imports from SSA subject to national quota systems. Given the potential expansion of imports from Eastern Europe, and particularly from Russia, and the less-than-unity income elasticity of the EC demand for petroleum products (estimated at between 0.5 and 0.8 for the period 1973-1988), it is not unlikely that SSA fuel exports to Europe may decline. At any rate the share of fuel in EC imports has already declined to 30% in 1987 from 50% in 1983 [Tovias, 1990, 25 and 8]. The stiffer competition that Project 1992 is meant to cause, will tend to increase the danger of trade and investment diversions which may also negatively affect Africa's exports of non-traditional food and sugar, plus

its tourism and air transport sectors [Tovias, 1990, 47].

The process of wider European integration tends also to strengthen the drive towards bloc formation — i.e. Europe, North America and the Pacific Basin — the effects of which are not likely to benefit the Third World, and even less SSA¹⁷, whose export patterns tend to overlap with those of the Mediterranean and Eastern European countries still negotiating the terms of their relationship with the EC. In order to keep obtaining assistance, the African countries may even have to show willingness to police the outflows of potential emigrants to Europe [Sideri, 1991, 19]¹⁸. The mere adoption of common EC visa policies may affect adversely some SSA countries whose citizens presently do not need entry visa in some EC countries.

To conclude, although here and there Africa shows a few signs of improvement¹⁹, its troubles are far from over and a prompt and adequate international response to its plight cannot be taken for granted, as some international institutions seem to do²⁰. Even EC response to African problems may be limited as result of the trade and investment diversions that Project 1992 implies. Under these circumstances, the further opening of Africa does not seem to be of much consequence if its products face supply constraints, weak demand and limited market access. Yet, Africa cannot contemplate significant economic growth without further integration into the world economy.

It seems, therefore, that even if one accepts that the structural change Africa badly needs cannot be carried out without a higher level of net capital inflows — since only a constant inflow of net resources can give conditionality, with all that it implies, the necessary flexibility to achieve the targets within a reasonable time — it is not certain that many African governments will be able to mobilize the political consensus needed to implement stabilization programmes that necessarily require further cuts in the already

17 Also C. Stevens "The Impact of Europe 1992 on the Maghreb and Sub-Saharan Africa" in [JCMS, 1990, 241].

18 Following the events of the summer 1991, the Albanian government has accepted on Albanian soil Italian military personnel to help preventing would-be illegal emigrants to leave the country.

19 "Africa's farmers have increased their output by 4% a year for the past four years, after 1.25% a year in the previous 15 and for the first time in two decades the average African is not getting poor" [The Economist, 1989, 15]. Starting 1989 the volume of exports has also "taken an upward turn, but terms of trade losses have neutralized these gains". The annual percentage change of the current account balance deficit has kept growing, yet the GDP is expected to have grown by an unprecedented 4.2% in 1990 [WB, 1990, 1, 91].

20 One of the main criticism of the earlier *Accelerated Development in Sub-Saharan Africa: An Agenda for Action* of 1981 had been its "undue optimism about the international trade environment and the likelihood for increased foreign assistance to Africa from the industrial countries" [Gordon/Parker, 1984, iii].

low living standards. The limited political base and modest popular support enjoyed by most African states make them scarcely viable for large international rescue operations. Consequently, the contribution of external resources deemed essential for re-starting Africa on the road to economic growth, is also bound to remain limited unless the internal conditions change radically. Yet it is also the greater dependence of African economies on external assistance, particularly on ODA, which has put into motion contradictory forces that have tended to reduce the state's capacity to actually manage the allocation and use of scarce foreign exchange resources according to any given set of priorities.

According to Brown *et al.*, this has resulted from the increasing proportion of these resource inflows being channelled through the state and from the growing "incapacitization" of the state due both to the emergence of informal or parallel relations and to the proliferation of donor-conceived, - finance, and - managed projects [Brown, 1991, 17]. Therefore, the loyalties of many civil servants has shifted towards donors agencies where wages are higher and resources more available. The policy recommendations suggested by the preceding considerations, and in contrast to those propagated by the World Bank, are that Africa's recovery seems to depend more on enhancing the state's administrative and managerial capacity; incorporating the informal sector into the economic analysis in the context of the actual, ongoing processes of transformation already taking place in many countries; analysing the role of the informal sector and its connections with the public sector; and further stressing the development of human resources [Brown, 1991, 20]. Furthermore, "with the substantial levels of unrecorded foreign exchange surpluses earned through remittances and smuggled exports, ...[too large] aid flows could also end up supporting the capital exports and luxury consumption of those clients on whose support the political leadership depends most" [Brown, 1991, 21].

Regardless of the or not foreign assistance will be available, Africa must fundamentally change its political and social structure. Only then might it be able to restart the process of development, with its one resources, which if properly mobilized could result less scarce than commonly believed. Foreign assistance will continue, but neither in the large amounts desired by the international organizations nor with the effectiveness expected. Under such circumstances a development strategy that is inward-looking and driven from within might be the only alternative available. Left to its own devices Africa may do no worse than it has so far. Its worst enemies have always been foreign interference and its own ruling groups — often closely interconnected. The interference is being lessened by the evolution of the world economy, the second can only be weakened by the Africans themselves.

References

- Berg, R. and J.S. Whitaker (1986), *Strategies for African Development*, University of California Press, Berkeley, Ca.
- Balassa, B. (1988), "The Adding Up Problem, World Bank WPS Paper no. 30, Washington, D.C.
- Brown, R., et al., (1991), "Debt, Adjustment and Donor Interventions in Post-war Horn of Africa", Institute of Social Studies Working Papers no. 37, ISS, The Hague, NL.
- Davenport, M. and S. Page (1991), *Europe: 1992 and the Developing World*, ODI, London.
- Erzan, R. and P. Svedberg (1989), "Protection Facing Exports from Sub-Saharan Africa in the EC, Japan and the United States", World Bank PPR Working Paper no. 320, Washington, D.C.
- Green, R.H. (1986), "The IMF and Stabilization in Sub-Saharan Africa: a critical review", IDS Discussion Paper 216, IDS, Brighton, Sussex, June.
- Gordon, D.F. and J.C. Parker (1984), "The World Bank and Its Critics: The Case of Sub-Saharan Africa", Discussion Paper no. 108, Center for Research on Economic Development, The University of Michigan, Ann Arbor, March.
- Hopkins, A.G. (1986), "The World Bank in Africa: Historical Reflections on the African Present", *World Development*, 14, 12.
- JCMS (1990), Special Issue: Europe 1992 and the Developing Countries, P. Robson (ed.), 29, 2, December.
- Mauri, A. (ed.) (1989), *Problematiche finanziarie dello sviluppo rurale*, Giuffrè Editore, Milan.
- Matthews, A. and D. McAleese (1990), "LDC Primary Exports to the EC: Prospects Post-1992", [JCMS, 1990].
- Nicolaides, P. (1990), "Trade Policies for Services: Options for the ACP Countries", in [Stevens/Faber, 1990].
- ODI (1990), "Recent Initiatives on Developing Country Debt", *Briefing Paper*, ODI, London, April.
- OECD (1989), *Financing and External Debt of Developing Countries, 1988 Survey*, OECD, Paris.
- OECD (1990), *Development cooperation, 1990 Report*, OECD, Paris.
- OECD (1991), *Geographical Distribution of Financial Flows to Developing Countries*, OECD, Paris.
- Sideri, S. (1991), "The Opening-up of Eastern Europe and its Impact on North-South Relations", Inaugural address delivered on the 10 October 1991 on the occasion of the 39th Anniversary of the Institute of Social Studies, The Hague, The Netherlands.
- Sideri, S. and J. Sengupta (eds) (1992), *The 1992 Single European Market and the Third World*, Frank Cass, London.
- Stevens, C. and D.C. Faber (eds) (1990), *The Uruguay Round and Europe 1992*, ECDPM, Maastricht.
- Stevens, C. (1990), "The Impact of Europe 1992 on the Maghreb and Sub-Saharan Africa", [JCMS, 1990].
- UN (1990), *Africa's Commodity Problems: Towards A Solution*, UN, New York.
- UNDP and World Bank (1989), *African Economic and Financial Data*, World Bank, Washington, D.C., May.
- UNCTAD (1990), *Trade and Development Report, 1990*, UN, New York.
- The Economist* (1989), March 4.
-

-
- World Bank [WB] (1986), *Financing Adjustment with Growth in Sub-Saharan Africa, 1986-90*, World Bank, Washington, D.C.
- World Bank (1989), *Sub-Saharan Africa: From Crisis to Sustainable Growth*, World Bank, Washington, D.C.
- World Bank (1989a), "Costs and Benefits for EEC and African Countries of Abolishing all protection on Agricultural Trade", World Bank, Washington, D.C., August.
- World Bank (1990), *World Debt Tables 1990-91*, vol. 1, World Bank, Washington, D.C.
- World Bank and UNDP (1989), *Africa's Adjustment and Growth in the 1980s*, World Bank, Washington D.C.
- Tovias, A. (1990), *The European Communities' Single Market: The Challenge of 1992 for Sub-Saharan Africa*, World Bank, Washington, D.C.

Abstract

By analysing the predicament in which Africa, mostly Sub-Saharan Africa, finds itself, the paper assesses past contributions and the future role of the flow of external financing in the region's development. The easy appeal of the current wisdom — Africa needs more trade and more aid — seems to ignore the more recent evolution of the world economy, with its reduced availability of more exports opportunities and extra financial resources for Africa, as well as research findings which indicate the existence of untapped internal resources, the mobilization of which cannot be obtained without assuming different governments and different development policies. Yet, it is their dependence on foreign assistance that has contributed to many governments' growing "incapacitation" to actually manage the allocation and use of resources according to any given set of priorities. More aid will not necessarily result in the more efficient governments hoped by the international agencies. As for different development policies, these must address more explicitly the informal or parallel systems that have emerged in each country and, considering the further marginalization of the continent, by necessity must be more inward-looking and possibly more regionally-oriented.

LES FLUX FINANCIERS EXTERIEURS: LE CAS DE L'AFRIQUE

RESUME

En analysant la situation difficile dans laquelle se trouve l'Afrique, surtout l'Afrique Sub-Saharienne, l'article évalue les contributions passées et le rôle futur de l'apport de finances extérieures dans le développement de la région. Le recours facile de la sagesse actuelle — l'Afrique a besoin de plus de relations commerciales et de plus d'aide — semble ignorer la plus récente évolution de l'économie mondiale avec ses disponibilités réduites quant aux possibilités d'exportation et aux ressources supplémentaires pour l'Afrique, ainsi que des résultats de recherches indiquant l'existence de ressources intérieures non-utilisées dont la mobilisation ne peut être obtenue sans envisager des gouvernements différents ou des politiques de développement différentes. Cependant, c'est leur dépendance à cette assistance extérieure qui a contribué à "l'incapacité" des gouvernements à gérer l'allocation et l'utilisation des ressources en fonction de priorités déterminées. Plus d'aide ne va pas forcément résulter à créer plus de gouvernements compétents comme l'espèrent les agences internationales. Quant à des politiques de développement différentes, celles-ci devraient plus explicitement s'adresser aux systèmes officiels ou parallèles qui ont émergé dans chaque pays et qui, considérant la marginalisation avancée du continent, doivent nécessairement être plus tournées vers l'intérieur et si possible s'orienter davantage vers les régions.



CARIPLO IN THE WORLD

Cariplo and Cariplo Group: a large and diversified organisation of companies, experiences and resources to operate in all banking and near banking sectors (merchant banking, leasing, factoring, insurance, etc.). With more than 600 branches in Italy and in the most important financial markets, Cariplo provides a full range of top banking services all over the world.

INTERNATIONAL NETWORK

Branches:

LONDON

6 Lombard Street - London EC3V 9AA

MADRID

Calle Alcalá 44 - 28014 Madrid

NEW YORK

650 Fifth Avenue - 25th floor - New York N.Y. 10019

GRAND CAYMAN

c/o New York Branch - 650 Fifth Avenue
New York N.Y. 10019

HONG KONG

Bank of America Tower - 18th floor
12 Harcourt Road - Central Hong Kong

Shareholdings:

- **BANKHAUS LÖBBECKE & CO.**
Fasanenstrasse 5 - 1000 Berlin 12
(2 city branches in Berlin, and branches
in Frankfurt, Braunschweig, Magdeburg).
- **CARIPLO BANK INTERNATIONAL S.A.**
12 Rue Goethe - 1637 Luxemburg
- **COMPAGNIE INTERNATIONALE DE BANQUE**
42 Rue la Boétie - 75008 Paris (branch in Lyon)
- **EUROPAI KERESKEDELMI BANK Rt. EKB**
7/13 U. Hegyalja - 1016 Budapest

* Controlling interest

Representative offices:

ATHENS

13, Panepistimiou Str. - 105 64 Athens

BEIJING

811 Scite Tower - 22 Jianguomenwai Da Jie
100004 Beijing

BRUSSELS

Avenue Louise 250 - B.te 63 - 1050 Brussels

CHICAGO

190 South La Salle Street, Suite 2890
Chicago, IL 60603

FRANKFURT/MAIN

Gutleutstrasse 32 - 6000 Frankfurt/Main 1

MOSCOW

Pereulok Bolshoy Gnezdnikovsky 7
4th floor - 103009 Moscow

PARIS

10 Rue de la Paix - 75002 Paris

SEOUL

Oriental Chemical Building - 3rd floor
50 Sokong-Dong Chung-Ku - 100070 Seoul

TOKYO

Enokizaka Building - 3rd floor
12-12 Akasaka 1 - Chome - Minato-Ku, Tokyo 107



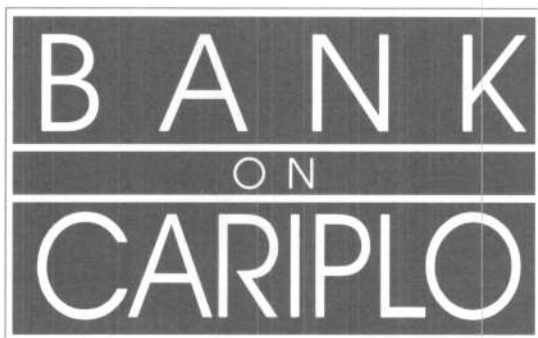
CARIPLO

CASSA DI RISPARMIO DELLE PROVINCE LOMBARDE S.p.A.

HEAD OFFICE: 8, VIA MONTE DI PIETA' - 20121 MILAN - ITALY



FOR YOUR BUSINESS



Count on Cariplo for speed and efficiency for all your banking needs. Whether it's financial, commercial or overall assistance. Count on the great experience of a bank born and bred in Milan, linked in real-time to 600 branches throughout Italy. Count on a sound capital base of 5,099 million dollars. Count on the professionalism of a group represented in Beijing, Berlin, Brussels, Budapest, Chicago, Frankfurt, Grand Cayman, Hong Kong, London, Luxembourg, Madrid, Moscow, New York, Paris, Seoul, Tokyo and over 1,800 correspondent banks. If you have a problem or just want advice, you can always count on Cariplo.

 **CARIPLO**
CASSA DI RISPARMIO DELLE PROVINCE LOMBARDE S.p.A.
SINCE 1823 WE KNOW HOW.

The authors:

Dr. Monica S. Fong is the Coordinator on Women in Development for the Europe, Middle East and North Africa region in the World Bank. Her long standing interest in the provision of financial services for poor rural women stems from her analysis and evaluation of development projects and programmes directed to the rural poor with the International Fund for Agricultural Development and the Food and Agriculture Organization of the United Nations.

She has also written extensively on women in the agricultural labour force in the developing world.

Dr. Heli Perrett is an independent consultant, specializing in social aspects of development planning and implementation. She is the author of numerous books and reports on communication, education and behavioural considerations in rural development planning. In addition to her extensive writing, she has continued to pursue a career as educator and has taught at the Catholic University of Peru in Lima, and the American University in Washington, D.C. among others.

163 pp.

Lit. 20.000

ISBN 88-85955-02-9

Summary

Rural women have been one of the most consistently neglected groups in development planning and programming, and, paradoxically, one of the groups with the greatest unrealized potential. Direct access to credit, accompanied by savings, can become a catalyst for change that brings benefits to rural women, as well as to their families and communities. The book will address this issue as follows:

— In the introductory chapter, the reasons for direct, lending to rural women in developing countries are highlighted and women's creditworthiness is reviewed.

— A review of women's informal practices of borrowing and saving, their advantages and disadvantages is given in Chapter 2.

— This is followed by an overview of women's limited use of formal financial markets for borrowing and savings, and existing constraints on the supply of credit to women in Chapter 3.

— Chapter 4 discusses women's demand for credit, its assessment and promotion, with reference to both institutional credit and to savings.

— Chapter 5 provides an overview of institutional strategies for providing financial services to rural women, either separately or together with men, with extensive case illustrations; the variety of operational linkages that are being tried between credit and savings.

— The role, development and functioning of grassroots credit and savings groups, and the factors that determine its effectiveness in practice are discussed in Chapter 6.

— The concluding chapter summarizes what we have learned about the planning of appropriate financial services for women and the related policy implications.

ORDER FORM:

WOMEN AND CREDIT

The Experience of Providing Financial Services
to Rural Women in Developing Countries

Please send me _____ copy (ies) of the above mentioned volume.

Name _____

Address _____

City _____ Country _____

Date _____

Signature _____

Please, make cheques payable to:

FINAFRICA FOUNDATION

Via San Vigilio, 10

20142 MILAN - Italy

Tel. 8135341, telex 313223, Fax 8137481



THE JOURNAL OF DEVELOPING AREAS

US ISSN 0022-037X

JDA's purpose is to stimulate descriptive, theoretical, and comparative study of regional development, and promote a fuller understanding of the human relationship to the development process. Issues consist of four to six articles, book reviews, and occasional guest editorials.

- | | |
|---|--|
| ROBERT E. LOONEY | The Influence of Arms Imports on Third World Debt |
| N. PATRICK PERITORE
and ANA KARINA
GALVE PERITORE | Brazilian Attitudes toward Agrarian Reform: A
Q-Methodology Opinion Study of a Conflictual Issue |
| JOEL SAMOFF | Popular Initiatives and Local Government in Tanzania |
| LOUISE G. WHITE | Increasing the Relevance of Agricultural Research: In-
stitution Building in Third World Universities |
| AJIT S. BHALLA
and DILMUS D. JAMES | Integrating New Technologies with Traditional Economic
Activities in Developing Countries: An Evaluative Look
at "Technology Blending" |
| LUCY E. CREEVEY | The Impact of Islam on Women in Senegal |
| MICHELE GARRITY
and LOUIS A. PICARD | Organized Interests, the State, and the Public Policy
Process: An Assessment of Jamaican Business
Associations |
| WILLIAM P. AVERY | The Origins of Debt Accumulation among LDCs in the
World Political Economy |
| RICHARD GRABOWSKI | Economic Development and Feudalism |
| JAMES LOVE | Export Instability and Recurrent and Development
Expenditure in a Sample of Developing Countries |

Issued October, January, April, July
North America (personal)--\$20.00, North America
(institutional)--\$30.00, Elsewhere--\$30.00

THE JOURNAL OF DEVELOPING AREAS
Western Illinois University
Macomb, Illinois 61455

While not implying acceptance, payment of fees, responsibility for loss or return, the Editor encourages the submission of manuscripts concerning money, financial intermediaries, financial techniques, and experiments in savings mobilization in developing countries. Articles (two copies) should be in English or in French 4,000 - 10,000 words in length with a 200-400 word summary. All communications should be sent to the Editor.

FINAFRICA - Via S. Vigilio, 10 - 20142 MILANO (Italy)

Signed articles do not necessarily reflect the opinion of Savings and Development or of its Editor and no responsibility is accepted for them. Some of the data contained in this quarterly are taken from unofficial sources and the Editor is in no way responsible for them.

In all correspondence concerning changes of address, missing numbers, etc..., reference should be made to the mailing number printed on the top right-hand corner of the stencilled address.

Bien que cela ne signifie pas l'acceptation ou le paiement de frais, et que toute responsabilité soit déclinée pour la perte ou la restitution, la Rédaction souhaite l'envoi de manuscrits concernant la monnaie, l'intermédiation et les techniques financières, et les essais pour la mobilisation de l'épargne dans les pays en voie de développement. Les articles (deux copies) devraient être rédigés en Français ou en Anglais, d'une longueur de 4.000 à 10.000 mots avec un résumé de 200 - 400 mots. Toute communication devra être adressée à la Rédaction:

FINAFRICA - Via S. Vigilio, 10 - 20142 MILANO (Italie)

Les articles portant signature ne reflètent pas nécessairement l'opinion de Savings and Development ou bien de la Rédaction et toute responsabilité est déclinée par ceux-ci. Quelques-unes des données contenues dans ce trimestriel proviennent de sources non officielles et la Rédaction n'est en aucun cas responsable.

Toute la correspondance ayant trait aux changements d'adresses, aux numéros manquants, etc., devra se référer au numéro imprimé en haut à droite de l'adresse estampillée.

RASSEGNA TRIMESTRALE

REGISTRATA PRESSO IL TRIBUNALE DI MILANO AL N. 102 DEL 27.3.1974

DIREZIONE, REDAZIONE, AMMINISTRAZIONE

FINAFRICA CARIPLO - VIA S. VIGILIO, 10 - 20142 MILANO

Direttore Responsabile

FELICE TAMBUSI

Copertina di

LUIGI CASALINO

Arti Grafiche FRIMA s.r.l. - Milano



ISSN 0393-4551

FONDAZIONE FINAFRICA - Via San Vigilio 10 - 20142 MILANO (Italy)
Spedizione in abb. postale Gruppo IV/70