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DEVELOPMENT WITHOUT AID

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PREFACE

In this Occasional Paper, a distinguished scholar and diplomat, Frederick S. Arkhurst, has carried out a penetrating analysis and critique of foreign aid and its direct impact on development in the Third World.

He concludes that development is possible without aid. The author is of the view that, far from fostering development, foreign aid has become an addiction which has not led to real development, but has resulted in "seemingly perpetual dependency."

He deals with the economy of Ghana under Structural Adjustment, the free fall in the value of the cedi, and poverty alleviation.

It is the hope that this paper will make stimulating reading for those who are interested in the impact of foreign aid on development.

I am delighted to place on record, the gratitude of the Institute of Economic Affairs to the Danish Government, through the. Royal Danish Embassy in Accra and DANIDA, whose generous assistance made the publication of this Occasional Paper possible.

Dr. George A. Apenteng
Executive Director
Institute of Economic Affairs

Accra, November 2000

ABOUT THE- AUTHOR

Frederick S. Arkhurst was educated at the University of Aberdeen in Aberdeen, Scotland; where he earned a Master of Arts Degree with First Class Honours in International Economics.

His wide and varied experience spans a period of 40 years, dating back to 1960.

In the service of Ghana he held the positions of Head of the Ghana Foreign Service (1963-1965); Ambassador and Permanent Representative of Ghana to the United Nations (1965-1967); and Member of the Ghana Government Committee for Policy Development and Review (1978-1980), in which capacity he was responsible for international economic policy.

Mr. Arkhurst has also held a number: of international appointments. He was Director of the Lagos Office of the United Nations Fund for Population Activities (UNFPA), responsible for the coordination of population programmes in West Africa (1962-1963). As Director of the United Nations Training Programme in Diplomacy, Kampala and Dakar (1969-1971) he was responsible for designing and running courses in diplomacy for Foreign Service Officers from Third World countries. He later became Senior Advisor to the Secretary-General, United Nations Conference on the Human Environment, Stockholm (1971-1972).

Mr. Arkhurst's other appointments include a Fellowship at the Harvard University Center for International Affairs in Cambridge, Mass. (1962-1963); Director of African Programmes at the Adlai Stevenson Institute of International Affairs, Chicago (1967- 1970), where he was responsible for research on African politics and economics. He was a Visiting Professor at Queen's College, City University of New York (1975), where he taught courses in African Politics and International Relations.

He was Vice-President of the Phelphs-Stokes Fund, New York (1970-1974), in which capacity he was responsible for African Programmes toward increasing political and cultural contacts between Africans and Americans.

Mr. Arkhurst has four publications to his credit, all on African issues. He has been listed in Who's Who in America (1968-1969); Who's Who in the World (1971-1972, 1974-1975); and in the National Register of Prominent Americans and International Notables (1974-1975)

He is currently the Managing Director of ECTECH LIMITED, ACCRA, a firm of economics and management consultants.

DEPENDENCE ON AID

There is a disturbing mindset, particularly prevalent among African officialdom, that somehow development is impossible without the intervention of foreign aid. Indeed, no less a person than Kenneth Kaunda, then President of the Republic of Zambia, wept before the General Assembly of the United Nations in 1973, in an appeal to the rich nations of the world to come to the aid of Africa in crisis. More recently the Finance Minister of Kenya, in announcing proposals for the reform of the Kenyan public service, indicated that this would involve drastic reduction in the size of the government bureaucracy. Predictably, he appealed to the rich donor nations to come to the aid of Kenya by providing a "safety net" for those of the Kenyan public service who must inevitably be laid off. On October 27, 1999, the Deputy Finance Minister of Ghana announced before Parliament that the Government of Ghana had not been able to balance its budget because foreign aid expected from donor nations to support the Government's budget had not been received in full.[1] In November, with the World Bank as midwife, the donor countries delivered. Presumably, the Government of Ghana was then able to balance its budget.

This pernicious habit of living beyond one's means and expecting to be bailed out by benefactors is ominous for Africa, because it tends to perpetuate a *cadeau mentality* and a psychology of helplessness that leads to poor performance, apathy and corruption. This is what Lee Quan Yew, former President of Singapore and one of the most respected and successful leaders of the Third World, had to say about the dependency proclivities of some Third World countries:

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[1] *The Ghanaian Chronicle*, October29/31, 1999, p.1.

> *They lacked one essential quality: self-discipline, either in their leaders or, more often, both in their leaders and their people. It required self-discipline to budget and live within your means when you can print more money... Whatever the evils of British, French and Dutch colonial administrations, they provided firm, rigid frameworks within which constructive endeavour was rewarded. Seldom were colonial budgets ever in deficit. They invariably spent less than they got out of each colony; for colonies were intended to provide profits, not incur losses. They kept stern discipline and stable conditions...It is sad to see how in many countries national heroes have let their countries slide down the drain to filth and squalor, corruption and degradation, where the kick-back and the rake-off is a way of life.*[2]

The addiction to foreign aid has been fostered by the very donor countries, whose professed objective is the development of recipient countries; and yet they have assumed the role of "fixers" catering to the addiction and delinquency of recipient countries. But, like all addictions, foreign aid has led to unexpected consequences. It has not led to development; it has not alleviated poverty, but has rather led to seemingly perpetual dependency, corruption, and poverty on the part of the addicted.

Is foreign aid really an indispensable ingredient of economic development? Before exploring this question, it is necessary to agree on some definitions. "What is foreign aid; what is development?"

[2]Alex Josey. *Lee Quan Yew*, London, Oxford University Press, 1968, p.43 7.

FOREIGN AID

Foreign aid consists of international transfers of capital, goods and services for the benefit of other nations. By this definition, private capital investment and private voluntary assistance cannot be classified as foreign aid. Foreign aid has been offered in two major forms: capital transfers in cash and kind in the form of grants and concessional loans; and technical assistance in the form of experts and technical equipment.

While historically nations have given aid in support of friendly countries, the concept of "foreign aid" came into full bloom after the Second World War, when the fear of Soviet expansion into Western Europe led to the establishment of the Marshall Plan, which spent over $17,000,000,000 (seventeen billion dollars) for the rehabilitation and economic reconstruction of Western Europe. During the Cold War - the forty-year confrontation between the Western Powers and the Soviet Union and its allies in Eastern Europe - the two power-blocs used foreign aid, including military assistance, as a tool - of diplomacy aimed at maintaining spheres of influence, particularly in the Third World. For the best part of three decades, both developing- country recipients of foreign aid and the rich donor countries laboured under a misconception regarding the role of foreign aid in economic development. The conventional wisdom was that economic development could be achieved through infusions of foreign aid. But in retrospect it can be argued that, although well intentioned in some cases, a large part of foreign aid was misconceived, misdirected, unmonitored, misused or simply stolen at destination.

The rationale of foreign aid, as applied to developing countries after the Second World War, was based on the highly successful Marshall Plan that insured the recovery of a Western Europe devastated by the war. But economic aid in the recovery of Western Europe was successful precisely because, even though ravaged by the war, the countries of Western Europe still possessed a functioning industrial, agricultural and organizational base necessary to operate a complex modern economy.

In contrast, the new nations of Africa, which emerged after the Second World War, were fragmented, mainly subsistent agricultural societies lacking a consistent technological culture and skilled manpower. Their infrastructural development was low, and there had been little experience in the management of complex economic organizations. In these circumstances, the haphazard and largely unmonitored infusions of foreign aid inevitably led to inefficient utilization of resources, and increased dependence on handouts. Thus, in spite of decades of foreign aid, the structure of most African economies remains the same as it had been under colonialism: dependence on extractive activities, such as, mining, forestry, and primary agricultural exports. These economies still rely excessively on export markets, imported capital, food imports, and technical assistance. It is thus reasonable to conclude that while foreign aid may have led to some growth - more exports of the same primary products - economic development has not resulted.

THE MEANING OF DEVELOPMENT

Growth, rather than development, has been the main focus of international aid strategies, since the concept of foreign aid became a significant factor in international economic policy. The preoccupation with growth was clearly reflected in the programmes of the two United Nations Development Decade initiatives, and persists in the strategies of the World Bank and the United Nations Development Programme (UNDP). But, as a perceptive African economist once observed, "Growth is a problem which almost anyone can do something about, while development is a problem only the developing countries have to tackle themselves."[3]

Growth, in terms of the economy, refers to increases or expansion of existing economic activity - it is a linear quantitative concept. Development, by contrast, has to be seen as a holistic,

[3]Carney, David, "Requirements for African Economic Development" in *Africa in the Seventies and Eighties: Issues in Development*, Frederick S. Arkhurst (ed.), New York, Praeger Publishers, Inc., 1973, p.177.

multi-dimensional, qualitative concept embracing not only the expansion of production but also its diversification and the improvement of the standard of life of the participants in the development process. It involves not only changes in the structure of production, but also the transformation of entire social and economic systems. In addition to its effect on incomes and output - the Gross National Product (GNP) - it must also involve radical changes in institutional, social and administrative structures as well as attitudes and, in many cases, changes in established customs. The critical measure of economic development should be its effect on poverty, unemployment and economic and other inequalities in the society. If economic policy results in the decline of poverty, unemployment and economic inequalities, then, clearly, development has taken place. On the other hand, if poverty, unemployment, and inequalities have remained the same or have increased, it would be a travesty to characterize the result as "development".

FOREIGN AID AND ECONOMIC DEVELOPMENT

Leaving aside the question of economic development, is foreign aid even an indispensable ingredient in economic growth? Economic history gives an unqualified negative answer. The classic cases of growth and development – the Industrial Revolution in England and its follow-up in Western Europe, the United States and Japan - did not rely on foreign aid. The impetus to growth in these cases was the combination of expanding trade, foreign investments, technological improvements in agriculture and industry, and the development of skilled manpower. In more recent times, economic growth in South Korea, Taiwan, Malaysia, and Thailand - the so-called Asian Tigers - has been touted in untutored circles as examples of economic growth through the instrumentality of foreign aid. But, apart from the fact that the two most successful examples - Taiwan and South Korea - were special cases, growth in all these cases was dependent more on domestic investment than on foreign aid. Furthermore, the massive infusions of U.S. aid to Taiwan and South Korea were predominantly military assistance in support of United States

strategic objectives. The industrial success of Taiwan and South Korea was dependent, initially, on the direct investment of U.S. corporations, through the encouragement of the U.S. Government by such devices as tax credits and guarantees against investment risks.

THE ASIAN TIGERS AND SUB-SAHARAN AFRICA: A STUDY IN CONTRASTS

As already indicated, some of the countries of East Asia - South Korea, Singapore, Thailand, Malaysia, Indonesia - registered impressive growth in manufacturing in the 1970s and 1980s. Between 1970 and 1994 total net capital flows to developing regions of the world amounted to $11.3 billion in 1970, rising to $88.4 billion in 1980, $101.9 billion in 1990 and $207.4 billion in 1994. Of this, net capital flows from public sources amounted to $5.6 billion in 1970, $35.1 billion in 1980, $57.9 billion in 1990 and $48.6 billion in 1994. Net private capital flows - from banks, equity portfolios and foreign direct investment - were $5.8 billion in 1970, $53.3 billion in 1980, $44.0 billion in 1990 and $158.8 billion in 1994.[4]

From 1970 to 1994, total net capital flows to East Asia were $2.2 billion in 1970, $13.2 billion in 1980, $28.9 billion in 1990 and $85.3 billion in 1994. Of these, net private capital flows were $0.8 billion in 1970, $8.9 billion in 1980, $20.4 billion in 1990 and $77.3 billion in 1994.[5] "Private capital is the largest source of external funds in East Asia."[6] In contrast, net capital flows to Sub-Saharan Africa from 1970 to 1994 were $1.7 billion in 1970, $15.1 billion in 1980, $17.1 billion in 1990 and $20.1 billion in 1994. Of these, net private capital flows were $0.8 billion in 1970, $7.9 billion in 1980, $0.2 billion in 1990 and $4.7 billion in 1994.[7] Foreign direct

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[4] Appendix Table 1, p.25.
[5] Appendix Table 2, p.26.
[6] Managing Capital Flows in East Asia, Wodd Bank, Washington, D. C.,
1996, p.20.

investments in East Asia from 1970 to 1994 were $0.3 billion in 1970, $1.3 billion in 1980, $11.0 billion in 1990 and $43.0 billion in 1994. For Sub-Saharan Africa the figures were $0.4 billion in 1970, $0.0 billion in 1980, $1.8 billion in 1990 and $3.0 billion in 1994.[8]

Is it surprising that during the period 1970 - 1994 the countries of East Asia experienced a dramatic take-off, while the Sub-Saharan African countries languished in the economic doldrums?

DOMESTIC INVESTMENT

The role of domestic investment in economic development is crucial, and calls for effective, and thus credible, government, with the ability to provide the right combination of economic and technical requisites to promote development. Government must have the capability of installing and operating, efficiently and equitably, the appropriate institutions of law, and provide adequate infrastructure and public services such as education, health care, transportation, telecommunications and the technology to support them. Domestic investment in the four East Asian countries - Indonesia, Malaysia, South Korea and Thailand - during the period of their dramatic growth, was maintained at an annual average ratio (domestic investment/gross domestic product) of 33.0 percent, from 1980 to 1993. For Sub-Saharan Africa, the average annual domestic investment - as a ratio of gross domestic product - was 18.6 percent from 1970 to 1993.[9]

From another perspective, external debt as a ratio of GDP was maintained at an average of 29.2 percent, from 1980 to 1993, by the East Asian countries. For Sub-Saharan African countries, the ratio was an average of 75.0 percent for the same period. Correspondingly, external debt as a ratio of exports was an

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[7]AppendixTable3, p.27.
[8]Appendix Table 4, p.28.
[9]Appendix Table 5, p.29.

average of 82.9 percent for the East Asian countries for the period 1980 to 1993. For the Sub-Saharan African countries, the average ratio was 321.0 percent for the same period.[10]

From the foregoing, it is obvious that the remarkable economic performance of the East Asian countries was based firmly on the inflow of private direct investment – foreign aid was of marginal importance. Even more important, the economic success of the East Asian countries derived from efficient, effective and thus credible governments, capable of demonstrating to foreign investors the governments' ability to maintain an enabling economic environment, and political and social stability. The external debt/GDP and the external debt/ exports ratios are particularly ominous for African economic development. In the light of these figures, it is conceivable that the Sub-Saharan African countries will be saddled with mounting external debt for the foreseeable future, irrespective of whatever foreign aid they are able to wheedle from the increasingly fatigued donor countries.

Clearly, foreign aid cannot be counted upon as the engine of economic growth or development. This is because its volume and scope are limited, and its availability cannot be predictable or consistent, dependent as it is on the whims and prejudices of foreign national legislatures. Foreign aid, as the record shows, can be capricious in application and ambivalent in its objectives.

SOME CONSEQUENCES OF FOREIGN AID

Structural Adjustment has been the most universally touted example of foreign aid, and it has been applied in developing countries almost worldwide, on the analogy of "one size fits all." Its application in Africa stemmed from the serious crises in many African economies in the 1970s and 1980s, arising from mismanagement that resulted in low agricultural production, declining industrial output, stagnating exports and increasing public debt.

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[10]*locus cit.*

Food production lagged behind population growth, resulting in inflation in the prices of domestic staples. There had been considerable disinvestment in industry, and the share of African exports in world markets had dropped by some 50.0 percent in the 1970s. African governments had borrowed heavily in the 1970s, and long-term debt had risen to 100.0 percent of Gross Domestic Product in the 1980s. Debt servicing was 50.0 percent of export revenues.

The causes of the malaise of the African economies were, and still are, obsolete technology, shortage of skilled manpower, low infrastructural development, inefficient economic organization, misallocation of resources and official corruption. These deficiencies were reflected in persistent external and internal financial imbalances. On the advice of the World Bank and the International Monetary Fund (IMF), a number of African countries agreed to adopt "stabilization programmes" in the 1980s, as a solution to the crises of their economies. In return for opting for "Structural Adjustment Programmes", these countries were promised both multilateral and bilateralloans and grants. By 1988, thirty-five African countries had concluded Standby Facility Agreements with the IMF; twelve others maintained Extended Fund Agreements with the IMF, and fifteen had received Structural Adjustment loans from the World Bank.[11]

WORLD BANK PRESCRIPTIONS

The prescriptions of the World Bank under the Structural Adjustment Programmes were: (i) the removal of price controls, (ii) the reduction and eventual elimination of the public sector, (iii) the promotion of domestic savings, and (iv) trade liberalization. The means of achieving these objectives included exchange rate adjustment, through devaluation, interest rate policy aimed at encouraging domestic savings, and the control of credit and the

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[11] *African Alternative Framework to Structural Adjustment Programmesfor Socio-Economic Recovery and Transformation (AAF-SAP),* United Nations Economic Commission for Africa, New York, 1988, p.16.

money supply. Fiscal policy was geared to reduce government expenditure and deficit financing. The elimination of import licensing and other obstacles to foreign trade was an important feature of structural adjustment.

The rationale of the World Bank's. Structural Adjustment Programmes is a belief that market forces are the be-all-and-end-all of economic progress. In classical economic theory the market is supposed to be "the most efficient regulator of economic activity.", and in recent years this "market fundamentalism" has been the watchword of the "experts" on international economic problems. However, exclusive reliance on market forces must presuppose the existence of (a) perfect competition, (b) accurate and easily accessible information on conditions prevailing in the market, (c) gradual changes in market conditions and quick responses to such changes, (d) a relatively well-developed economy, capable of reacting to dynamic movements in the market. These conditions scarcely exist in the African economies, if they ever existed anywhere, and this inevitably limits the effectiveness of the prescriptions advocated under the Structural Adjustment Programmes of the World Bank.

DEVALUATION AS PANACEA

Devaluation of the currency, a major feature of the Structural Adjustment Programmes, is presumed to change relative prices as between imports and exports, resulting in increased demand for locally produced goods on the domestic market, and the simultaneous promotion of exports. But, particularly for primary producers, technological rigidities and other factors prevent quick reaction to changes in demand and supply conditions; and, with low productivity, the major problem of the African economies, devaluation may not stimulate demand for exports or exclude low-priced imports from displacing high-cost domestic products. Even more serious, devaluation has a direct effect on inflation, particularly in the African context, where there are no readily available local substitutes for imports such as petroleum products, pharmaceuticals and the like, which must be imported, irrespective of

price. Furthermore, the uncertainties created by repeated devaluations tend to discourage investments, further depressing productivity and leading to further decline of the economy.

As a study by Ricardo Faini of Johns Hopkins University and Jaime de Melo of the World Bank concluded in October 1990:

> *Two lessons emerge from the design of adjustment programmes. First, in law-income primary exporting countries the large real exchange rate depreciation that is essential to the adjustment-with-growth strategy may not be effective far a number of reasons. These include the attendant rise in the cost of mostly imported capital inputs, and the lack of responsiveness to the real exchange rate depreciation. Second, the macro-economic reforms that have been at the heart of many recent adjustment packages may not bear fruit if there is uncertainty about the sustainability of the stabilization. Investors will wait for the uncertainty to be resolved; and low investment, in turn, will increase the probability of future economic deterioration.*[12]

Long experience in all kinds of economic environment has demonstrated that devaluation can only be a one-shot attempt at correcting an external financial imbalance. Devaluation has always been an inefficient long-term policy, particularly for primary producing countries. As the *Economist* has pointed out: there is "a link between nominal exchange rate policy and the stability of the economy." It cited the case of Mexico, whose repeated devaluations from 1980 to 1990 were associated with bouts of inflation and the erosion of its international competitiveness, after each devaluation. The *Economist* concluded: "Though one-off devaluation may, sometimes, be necessary, the costs in terms of inflation, greater

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[12]Faini, Ricardo and de Melo, Jaime, "Adjustment, Investment and Real Exchange Rate in Developing Countries", in *Economic Policy*, London, October, 1990 p.511.

macro-economic uncertainty and less investment may be greater than are often thought. And the benefits, at least for primary producers, do not seem as strong as the devaluationists have often claimed".[13]

MONETARY AND FISCAL POLICY

The stabilization programmes of the World Bank recommended high interest rates and credit restriction to encourage savings and to control the supply of money. The effect of such policies inhibited productive investments, fueled inflation and encouraged speculative financial activity. Banks were encouraged to deal in short-term commercial loans and government notes to the detriment of long-term investment.

Fiscal policy, under Structural Adjustment, focused on generalized budget retrenchment to ensure internal and external financial balance. But, while unrestrained deficit financing is bad fiscal policy, indiscriminate budget retrenchment is equally bad public policy. The adverse consequences of such policy on the provision of indispensable social services, such as, education and health care, should be quite obvious. The World Bank in its report, *Sub-Saharan Africa: From Crisis to Sustainable Growth,*[14] appears to have recognized this fact. Among other things, the World Bank now accepts the need for investing in "people-building capacity" and for ensuring the better management of social programmes, instead of their liquidation.

TRADE LIBERALIZATION AND PRIVATIZATION

The policy of trade liberalization, another major feature of the Structural Adjustment Programmes, is presumably justified on the classical theory of comparative advantage as the best means of resource allocation. But, in the African context of low technological and

[13]"Economic Focus: When Devaluation Breeds Contempt" *The Economist,* November 24, 1995

[14]*Sub-Saharan Africa: From Crisis to Sustainable Growth,* World Bank; Washington D.C., 1989,p.15.

infrastructural development, indiscriminate trade liberalization without effective measures to promote domestic investment and increased productivity, only leads to more dependence on imports, resulting in the exacerbation of the imbalance in external payments - one of the problems the Structural Adjustment Programmes were supposed to solve.

On the matter of privatization - or should we call it "foreignization"? - there is no question that the performance of the public sector in most African countries has been disastrous. In 1975, I was commissioned by the Government of Ghana to evaluate the performance of the Ghana State Enterprises. My findings were that, out of a score of companies, only two had reported a profit over a five-year period. One, significantly enough, was the state-owned distillery; the other was a joint-venture with a private commercial partner. Annual audited accounts were five years overdue for all the companies. Yet, these eighteen companies that were making steady losses, year after year, were able to give regular end-of-the-year bonuses to employees, plus annual Christmas parties at public expense. My recommendation to the Government of Ghana, that all public enterprises making losses two years in succession should be sold or liquidated, was countered with the argument that such a step would lead to increased unemployment!

Nevertheless, the dismal record of the public sector in the African economies cannot be used as a good justification for the widespread jettisoning of all public enterprises. The problem of the public sector in Africa is that public companies have been operated like the civil service, instead of being run as commercial, profit-making companies. Staff in these enterprises could not be disciplined or fired without cumbersome procedures inimical to the successful operation of a profit-making firm.

By their very nature and operating procedures, governments have no business operating commercial enterprises. However, there are certain "natural monopolies" of a public interest nature that cannot be assumed as solely profit-making enterprises, to the exclusion of the public interest. There is no reason,

however, why such natural monopolies cannot be efficiently operated to make profits. A dramatic example is the United States Post Office that, under reorganization, now operates like any other U.S. corporation, competes effectively with private companies and generates profits. It is still publicly owned, and a valuable public asset. On the other hand, the privatization of gas and water supply in Britain, in some cases, has led to the accusation of higher prices and exorbitant emoluments to company executives.

The primary criterion for judging the performance of any firm - public or private - must be the ability of the firm to maintain internal and external efficiency. Other criteria, such as widespread ownership, ability to raise capital for investment, the avoidance of harm to the public interest, are also important. The achievement of these important goals has little to do with the type of ownership of the firm. Of crucial importance is the maintenance of a competitive environment within which the firm operates. Empirical evidence shows that private ownership is most efficient in markets where effective competition, actual or potential, exists. Thus, the privatization of British Aerospace, British Airways, and firms in the automobile industry in Britain - firms formerly publicly owned - was more successful than the privatization of the gas and electricity utilities. This was precisely because the former group of companies operated in reasonably competitive conditions within their respective industries.

PRIVATIZATION IN AFRICA

In Africa, privatization has in many cases merely meant the transfer of a public monopoly to private operators, without establishing conditions for competition in the industry or emplacing effective regulatory procedures to prevent monopolistic practices by the privatized firm. The result inevitably has been the perpetuation of the same inefficiencies: poor service and high prices. Worse still, there has been no assurance of public scrutiny or oversight of the pricing and investment policies of the new private monopolies. Instead of indiscriminate privatization, particularly of utilities, these monopolies could be reorganized and operated on commercial lines

with foreign or indigenous private investors, with a record of established competence in the particular industry. In such cases, management must be the exclusive responsibility of the expert private partner or partners, the Board of Directors being representative of all the partners.

Privatization in Africa must rest not simply on part ownership by government with a "strategic partner"; ownership must be spread widely enough to include indigenous investors. Therefore, negotiations for the privatization of each publicly owned firm must be public, and mechanisms should be established in the banking system to enable indigenous entities to acquire stock in the privatized company. So far, however, what privatization has been effected in most African economies has been "fire sales" of public enterprises, mainly to foreign investors or their fronts. In most cases, no provision has been made to ensure that indigenous investors are enabled to hold stock in the privatized companies. Furthermore, questionable deals have, sometimes, tainted the whole process of privatization.

OFFICIAL CORRUPTION

Foreign aid, through the Cold War and after, has often been doled out without strict procedures and guidelines to ensure that aid recipients are held accountable for the proper administration and spending of the funds. One only need mention "Mobutu" to illustrate this point. But Mobutu was not the only case in point; official corruption is rampant in Africa and is unlikely to abate under present circumstances. In November 1999, a conference on "Corruption" was held in Durban, South Africa, following an earlier conference that was held in Washington. These conferences must have hosted several hundred participants, and must have cost some millions of dollars. One wonders what such conferences can tell us about corruption. In the "bad old days under colonialism" there was a simple remedy for corruption: "investigate, indict on the basis of the evidence, convict and imprison." What more can be done about corruption by convening

conferences of hundreds of delegates and merely issuing *communiqués*?

In the matter of official corruption, the donors of foreign aid are, to some extent, accessories before and after the fact. They know who is stealing their money; they know where the money is located in offshore unnumbered accounts!

GHANA UNDER STRUCTURAL ADJUSTMENT

Ghana has often been cited "as the forerunner of success" 'under Structural Adjustment. However, its experience under Structural Adjustment does not point to as conclusive a verdict on the success of the experiment, as the World Bank would have the world believe. The Ghana economy has been in decline since the 1970s; by 1983, the economy was in stagnation. The world price of cocoa had collapsed, resulting in declining government revenues, inflation and high unemployment. This led to the inability of the country to meet its external liabilities. In these circumstances, the Ghana Government opted for Structural Adjustment, and the Government and the World Bank announced an Economic Recovery Programme of Stabilization, Rehabilitation, Liberalization and Growth (ERP).[15] This was supposed to be an attempt to solve the economic problems of Ghana. The Government accepted and applied the World Bank's prescriptions of budget retrenchment, credit restriction, devaluation, trade liberalization and privatization. In return, it received from the World Bank, the IMF, and bilateral donors, considerable loans and grants.

From 1983 to 1984, World Bank loans to Ghana reached an impressive $2,429 million; by 1990 IMF loans to Ghana had amounted to $1,350 million. However, the effect of Structural Adjustment Programmes in Ghana, during their operation, has been ambiguous at best.

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[15]It has not been possible to find the document dealing with the Economic Recovery Programme either from World Bank or Ghana Government sources.

While exports of minerals, timber and cocoa increased, manufacturing declined. Agricultural production for the domestic market regressed markedly - a situation adverse to the well-being of most Ghanaian consumers, since it led to inflation of the prices of major staples. Credit restriction depressed domestic productive investment, while the service sector, especially wholesaling and retailing, rose pervasively. The interest rate increased from 37.0 percent in 1992 to 40.0 percent in 1995 and is 50.0 percent at the time of this writing, August 2000.

THE CEDI AND STRUCTURAL ADJUSTMENT

The steady state devaluation of the Ghana currency is testimony to the failure of Structural Adjustment. In 1978 the Ghana cedi, which was at par with the United States dollar, was devalued to $1 = C.2.75. Six years later, at the beginning of Structural Adjustment, the cedi was devalued to $1 = C.35. Since 1984 the cedi has been in a free fall, registering sinking values of $1 = C.138 in 1986; $1 = C.171 in 1987, and $1 = C.1535 in December 1995. The rate of exchange was $1 = C.2180 in June 1997, and $1 = C.2600 in August 1999. At the time of this writing the cedi is trading at $1 = C.6000 at commercial banks. Since 1993 the cedi, under Structural Adjustment, has depreciated by 99% in foreign exchange terms, and by 2268% in local currency terms. The obverse of this progressive devaluation has been persistent inflation. The long saga of the uninterrupted devaluation of the Ghana currency mystifies rational observers. Why is it not possible for the policymakers of Ghana to realize that endless devaluation cannot be a solution to the problem of the Ghana economy, which is basically one of low productivity? As the World Bank itself admits: "For the most part, Africa is simply not competitive in an increasingly competitive world."[16]

The skewing of the Ghana economy away from local production towards food imports is another disturbing effect of structural adjustment. Everywhere in Ghana, retail shops keep sprouting up like mushrooms after an overnight rainstorm. One can envisage a Ghanaian nightmare in which nobody produces, but everyone

has a shop - so, nobody shops. Meanwhile, foreign goods out-compete local manufactures, and imports continue to escalate. From the experience of the population at the receiving end of Structural Adjustment, the experiment has been a failure. The World Bank's own assessments, after ten years of Structural Adjustment in Ghana, support this conclusion. Its study, *Adjustment in Africa: Lessons from Country Case Studies*, titles the Chapter on Ghana: "Ghana, forerunner in adjustment"' and begins with the assertion that: "By customary criteria, Ghana's adjustment has been a success..." Further, in the same Chapter, the study observes:

> *Many believe that Ghana's adjustment performance has been exceptional by regional standards. But, its performance largely reflects the depths of economic decline before reform. Over the longer term horizon, Ghana's record is not that distinctive. For example between 1980 and 1990, real GDP growth in Ghana averaged 3 percent annually, behind nine other Sub-Saharan countries, including Botswana, Burkina Faso, Burundi, Congo, Mali and Mauritius, and comparable with six others, including Malawi, Senegal, Tanzania and Zimbabwe.*[17]

Furthermore, the World Bank now reports that it was a mistake to label Ghana a "success story." The Bank's Evaluation Department's report has stated that, although Ghana had been hailed as a success story, "prospects for sustaining a satisfactory rate of growth and poverty alleviation are uncertain", and that "proclaiming Ghana a success story may not be accurate [or] in the country's best interest."[18]

POVERTY ALLEVIATION

The lackluster performance of the African economies under Struc-

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[16]*Opus cit., p.3*

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[17]World Bank Regional and Sectoral Studies, Adjustment in Africa: Lessons from Country Studies, IBRD, Washington, D.C., 1994, pp. 153 - 155.
[18]Robert P. Armstrong, Ghana Country Assistance Review: A Study in Development Effectiveness, World Bank, Washington D. C., 1996, pp. 116-117.

tural Adjustment has led to the abatement of the propaganda surrounding the experiment. The World Bank and the IMF are now on a new tack -"Poverty Alleviation."

Indeed, the World Bank has conducted an international lottery for the best ideas on poverty alleviation. But one would have thought that the best idea for alleviating poverty is economic development - no lottery is needed to establish that fact. In the new World Bank initiative Ghana is again supposed to be the model.

In a left-handed compliment a document issued by the World Bank and the Government of Ghana has this to say:

> *The Ghanaian economy stands at a crossroads. Ghana's adjustment programme is by any yardstick one of the more successful ones in Sub-Saharan Africa. A decade of stabilization policies has yielded broad budget balance, stronger export growth and some beginnings with respect to structural reform, including some limited privatization of state-owned enterprises and the closure of chronic loss makers... Even with the improved economic performance since 1983, real growth has only been about 5 percent per annum, with per capita income rising about 2 percent per annum. At this rate the average poor person in Ghana would not cross the poverty line for another half century.*[19]

So much for poverty alleviation. Goodness only knows how many Ghanaians will be around to cross the poverty line!

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[19] Africa Regional Office, The World Bank, *Ghana 2000 and Beyond: Setting the stage for Accelerated Growth and Poverty Reduction*, February 1993, p.ix.

APPENDIX TABLES

TABLE 1: Total Net Flows to Developing Countries by Type, 1990-94
(billions of dollars)

Types of Flow	1970	1975	1980	1985	1990	1991	1992	1993	1994
Public Source	5.6	18.8	35.1	36.7	57.9	65.5	55.0	53.0	48.6
Official Development Assistance	4.8	14.4	24.6	25.5	46.1	53.7	45.3	42.4	47.4
Other Official Finance	0.7	4.4	10.5	11.1	11.8	11.8	9.7	10.6	1.2
Private Flows	5.8	25.4	53.3	32.7	44.0	61.5	100.3	154.3	158.8
Commercial Banks	2.3	14.2	32.2	8.3	1.7	2.5	13.8	-4.9	9.2
Bonds	0.0	0.2	2.6	5.4	3.0	12.8	13.2	38.2	32.2
Other	1.2	3.6	13.4	7.6	10.6	3.7	12.7	6.9	2.4
Foreign Direct Investment	2.3	7.4	5.1	11.3	25.0	35.0	46.6	68.3	80.1
Portfolio Equity Flows	0.0	0.0	0.0	0.1	3.7	7.6	14.1	45.6	34.9
Total Net Flows	11.3	44.2	88.4	69.4	101.9	127.0	155.3	207.3	207.4

Note: (Foreign Investment Numbers may not sum to total because of rounding)
Source: Managing Capital Flows in East Asia, World Bank, Washington, D.C. 1996, p.5.

TABLE 2: Net Capital Flows to Developing Countries (billions of dollars)

Region	1970	1975	1980	1985	1990	1991	1992	1993	1994
East Asia	2.2	7.2	13.2	15.7	28.9	34.5	53.4	73.2	85.3
South Asia	1.4	4.0	6.6	7.3	9.4	10.9	9.3	10.1	13.8
Sub-Saharan 1.7	5.7	15.1	8.7	17.1	16.3	16.3	13.5	20.1	
Latin America and the Caribbean	4.2	15.4	29.9	15.2	21.5	30.3	34.4	64.2	51.1
Middle East and North Africa	1.2	9.1	8.3	14.8	9.9	11.5	7.5	9.1	10.3
Europe and Central Asia	0.7	15.3	2.9	15.3	7.5	15.123.2	34.2	37.2	26.8
Total	**11.3**	**44.2**	**88.4**	**69.4**	**101.9**	**126.8**	**155.1**	**207.3**	**207.4**

Source: Managing Capital Flows in East Asia, World Bank, Washington, D.C. 1996, p.133

TABLE 3: Net Private Capital Flows to Developing Regions, 1970 - 94
(billions of dollars)

Region	1970	1975	1980	1985	1990	1991	1992	1993	1994
East Asia	0.8	4.7	8.9	10.9	20.4	26.1	44.7	62.9	77.3
South Asia	0.1	0.2	1.2	2.4	2.4	2.1	2.8	4.6	7.4
Sub-Saharan 0.8	2.3	7.9	0.0	0.2	1.0	0. 3	-0.8	4.7	
Latin America and the Caribbean	3.2	12.5	24.6	7.3	12.2	22.6	30.3	58.8	49.7
Middle East and North Africa	0.6	3.4	-1.2	6.8	0. 5	2 .3	0.4	3.8	4.1
Europe and Central Asia	0.3	2.3	11.9	5.3	8.2	7 .1	21.6	25.0	15.6
Total	**5.8**	**25.4**	**53.3**	**32.7**	**44.0**	**61.5**	**100.3**	**154.3**	**158.8**

Source: Managing Capital Flows in East Asia, World Bank, Washington, D.C. 1996, p.133.

TABLE 4: Foreign Direct Investment Development Regions, 1970 - 94
(billions of dollars)

Region	1970	1975	1980	1985	1990	1991	1992	1993	1994
East Asia	0.3	1.0	1.3	3.2	11.0	13.9	21.7	37.9	43.0
South Asia	0.1	0.1	0.2	0.3	0.5	0.5	0.6	0.8	1.2
Sub-Saharan 0.4	1.1	0.0	1.0	0.9	1.8	1.5	1.8	3.0	
Latin America and the Caribbean	1.1	3.3	6.1	4.4	7.8	12.6	14.5	15.7	20.8
Middle East and North Africa	0.3	1.7	-3.3	2.0	2.8	1.8	2.1	3.8	3.7
Europe and Central Asia	0.1	0.2	0.7	0.6	2.1	4.4	6.3	8.3	8.4
Total	2.3	7.4	5.1	11.3	25.0	35.0	46.6	68.3	80.1

Source: Managing Capital Flows in East Asia, World Bank, Washington, D.C. 1996, p.134.

TABLE 5: Domestic Investments, Trade, External Debt as Percentages of GDP (Annual Average 1980 - 1993)

Region	Domestic Investment/ GDP	Exports/ GDP	Imports/ GDP	Debt/ GDP	Debt/ Exports	PCI ($)	Pop (m)
East Asia							
Indonesia	30.5	27.8	23.8	42.9	155.7	670	184.3
Malaysia	32.4	70.4	68.7	34.0	49.3	2789	18.6
South Korea 33.4	36.4	36.0	19.7	50.7	6790	43.7	
Thailand	35.6	31.1	36.3	20.5	76.0	1810	58.0
Sub-Saharan Africa							
Burkina	21.5	12.3	34.1	32.3	164.7	300	9.5
Cameroon	15.7	23.4	22.5	31.7	161.0	820	12.2
Central African Republic	10.6	18.7	30.4	50.0	232.3	410	3.2
Congo	23.3	48.5	51.1	126.8	253.9	1090	2.4
Cote d'Ivoire	13.7	36.7	31.7	118.7	325.9	670.	12.9
Gabon	27.1	52.0	34.2	33.5	90.6	4150	1.2
Ghana	11.7	14.0	21.4	39.6	168.5	450	15.8
Kenya	18.7	27.4	24.2	61.0	202.6	310	25.7
Malawi	19.0	18.2	34.0	71.8	328.3	220	9.1
Mozambique	30.1	13.6	55.9	176.3	1199.5	70	16.5
Nigeria	16.4	24.0	23.9	54.0	95.4	320	101.9
Senegal	13.2	20.5	34.4	53.9	156.3	770	7.8
Tanzania	29.7	14.1	37.4	121.5	647.2	110	25.9
Uganda	11.5	9.5	19.8	62.2	700.0	170	17.5
Zambia	15.5	37.3	38.2	128.8	347.9	360	8.3
Zimbabwe	20.0	31.4	34.9	42.2	70.2	570	10.4

Source: Figures derived from *Trends in Developing Economies,* World Bank, Washington, D.C., September, 1994.

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