FOREIGN AID AND AFRICAN DEVELOPMENT*

By

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The future role of foreign aid to Africa and the role of international organisations are best discussed in the light of three contemporary developments:

i) the serious economic crisis which many African countries are currently going through;
ii) the programme for African economic development outlined in the Lagos Plan of Action (subsequently referred to as LPA) *(1)*; and
iii) the World Bank Report on Accelerated Development in sub-Saharan Africa (subsequently referred to as the Bank's Report) and the discussion and debate that the Report has generated *(2)*.

Clear thinking on the future role of foreign aid to Africa would require an objective analysis of the circumstances that have given rise to the present crisis and a careful assessment of the lessons that could be drawn from Africa's development experience during the past three decades.

THE PRESENT CRISIS

The cause of the current economic crisis and the possible approaches to renewed economic growth and stability have given rise to considerable discussion and debate, most especially since the publication of the Bank's Report. Though the Report has been controversial, it still provides a useful basis for a discussion of the relevant issues, especially if taken along with the comments and discussion which it has provoked. In any case, no matter how inadequate or inappropriate some of the conclusions of the Report are judged to be, its weight and influence with African governments are bound to be strong, considering the tremendous resources which the Bank is able to mobilise from its own coffers or induce from the IMF and bilateral donors.

In its introductory chapter, (p. 4) the Bank's Report draws attention to three issues in discussing the «sources of lagging growth».

1) «Internal constraints based on 'structural' factors that evolved from historical circumstances or from the physical environment. These include under-developed human resources, the economic disruption that accompanied decolonization and postcolonial consolidation, climatic and geographic factors hostile to development, and rapidly growing population».
2) «Adverse trends in the international economy, particularly since 1974. These include 'stagflation' in the industrialized countries, higher energy prices, the relatively slow growth of trade in primary products, and – for copper and iron-ore exporters – adverse terms of trade».

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3) «Domestic policy inadequacies, of which three are critical. First, trade and exchange-rate policies have overprotected industry, held back agriculture, and absorbed much administrative capacity. Second, too little attention has been paid to administrative constraints in mobilizing and managing resources for development; given the widespread weakness of planning, decision-making, and management capacities, public sectors frequently become over-extended. Third, there has been a consistent bias against agriculture in price, tax, and exchange-rate policies» *(3)*.

However, in the main body of the Report there was much more emphasis on «domestic policy inadequacies» than on «internal constraints» and «adverse trends in the international economy». Indeed, this is one of the main criticisms that have been directed at the Report. For example, in proposing increased emphasis on the export sector, the Report makes a rather optimistic assumption about the future trends for primary commodities in world markets. More glaring is the failure to draw attention to the role that international stabilisation of primary commodity markets can play in stabilising the incomes of primary commodity producers. There was not a single reference to the UNCTAD Common Fund for commodities, the ratification of which would introduce some semblance of order into chaotic and unfair commodity markets. Hence the emphasis which the report gives to the promotion of agricultural exports may be questioned in the absence of a more purposeful attempts to stabilise commodity markets. The expansion of agricultural production for exports will make economic sense only if producers can be assured of remunerative commodity prices.

A second criticism that has been directed at the Report has to do with its inadequate appreciation of the «internal constraints» to African development and the need to mount a special aid programme specifically to assist the continent to overcome structural constraints caused by poor infrastructures in major economic and social sectors. While the Report recognises the consequences of «internal constraints based on structural factors that evolved from historical circumstances or from the physical environments» *(3)* a recognition which no doubt partly accounts for the recommendation to increase aid to Africa substantially – its treatment of the subject is somewhat less focused than the proposal of the Brandt Commission for the poorest countries of Africa and Asia. The Commission had recommended that:

> *«An action programme must be launched comprising emergency and longer-term measures, to assist the poverty belts of Africa and Asia and particularly the least developed countries. Measures would include large regional projects of water and soil management; the provision of health care and the eradication of such diseases as river-blindness, malaria, sleeping sickness and bilharzia; afforestation projects; solar energy development; mineral and petroleum exploration; and support for industrialization, transport and other infrastructural investment.*

Such a programme would require additional financial assistance of at least $ 4 billion per year for the next two decades, at grant or special concessional terms, assured over long periods and available in flexibly usable forms. New machinery is required on a regional basis to coördinate funding and to prepare plans in cooperation with lending and borrowing countries. Greater technical assistance should be provided to assist such countries with the preparation of programmes and projects» (4).

In the African region there is at present a large number of schemes conceived on regional or subregional basis, with the assistance of UN Agencies, that could use such special assistance most effectively. Examples are the Regional Food Plan for Africa, the programmes for the Industrial Development Decade for Africa, and the United Nations Transport and Communications Decade for Africa.

A third criticism that has been made of the Bank's Report concerns the emphasis on the private sector in preference to government undertakings. So concerned is the Report with this issue that a special sub-sector is devoted to «The size of Government». This is a misplaced emphasis for many reasons. Firstly, in an ideologically sensitive world, the treatment of this subject may have given the Report an unintended ideological bias which is bound to affect its general acceptability and probably create a few problems in donor-recipient relations.

Secondly, this is an issue on which it is impossible to make sweeping generalisation because conditions differ so widely from country to country and even the concept of 'government' and the 'role of government' can pose intractable problems of definition. How, for example, can one assess the role of government in the Japanese economy in terms of government expenditure relative to GDP? In Africa, conditions differ so widely that such generalisations are not likely to be very helpful. Some countries are on the way to developing important indigenous private sectors and could to some extent transfer activities from public to indigenous private sectors, having only to worry about the impact of the move on domestic income distribution. In other countries, such a transfer may mean handing strategic sectors of the economy to foreign control, a result that may be politically unacceptable. The fact of the situation is that many African countries are in the latter position and each must be felt free to tread the path between private and public enterprises as warily as their particular circumstances would allow. It should not be a matter for broad generalisations, still less an issue that creeps into the whole question of «conditionality» in relations between aid donors and recipients.

Fortunately, a more constructive approach to this sensitive matter is also to be found in the Bank's Report. In the sub-chapter on «Organisation and Management», the Report has made many valuable suggestions on how the efficiency of public enterprises can be improved, most especially by protecting them from undue political influences. This is a subject on which too much cannot be said. Indeed, in African circumstances, it would be safer to generalise about the need for improvement of organisation and management than about the undesirability of expanding government intervention in the national economy.

A fourth criticism of the Bank's Report concerns the Report's recommendations on trade and exchange-rate policy. The Report proposes that:

> *«The key changes needed are: correction of overvalued exchange rates that have emerged in most countries; improved price incentives for exports and for agriculture; lower and more uniform protection for industry; and reduced use of direct controls»* (p. 30).

All the policy instruments referred to can be useful in certain circumstances. There is absolutely no question about that. For example, the Report is substantially correct when it draws attention to the problems posed by direct controls. However, the real question is whether some of the instruments are appropriate in the circumstances faced by many African countries. The Report would have presented a more convincing case if it had drawn on case histories where the use of some of these instruments in African countries, usually on the recommendations of the World Bank, has been effective in achieving the desired results *(5).*

These particular proposals have been very widely discussed and debated and the issues involved are so complex that it is not intended to enter into the argument in this brief paper. Indeed, the report itself clearly acknowledges the scepticisms of governments in adopting some of the policies proposed (p. 30), and notes that «Not all African countries have the same trade and exchange-rate problems, nor is there a blanket policy prescription that fits all countries». All this implies that the policies proposed need to be carefully examined and evaluated before they are adopted in particular circumstances. Even more important is the recognition in the Report that there are «alternatives... which require a combination of effective policies to keep the rise in incomes and in costs below the rise in other countries and budgetary policies to provide appropriate incentives» (p.30). Although the Report goes on to explain how difficult it would be for many African countries to follow these alternatives, the question may still be raised as to whether, given the structural problems faced by many African countries, devaluation can ease the problems of policy without these «alternatives» being vigorously pursued. One view is that it cannot, and that, in fact, it may worsen the situation. Exchange rate adjustment cannot be used to escape from the necessity to keep domestic costs and incomes under restraint. Quite the contrary. To be effective, exchange rate adjustments, even in the best of circumstances, would require some restraint on domestic costs and incomes. However, it may be argued with respect to Africa that while domestic policy reforms should give attention to this important problem, there are many elements in the high cost structures of African countries which are the results of structural constraints arising from African historical experience and which should be the focus of a special programme of assistance such as was proposed by the Brandt Report.

Indeed, one of the most disturbing developments in the current aid situation is the decline in multilateral assistance that should be geared to such structural constraints.

The final point that I would like to make in connection with the World Bank Report has to do with the problem of conditionality. This is an issue that has created very great difficulties in recent years between the World Bank (and probably even more the IMF) and recipient countries, and there is great concern that these problems may not be eased by the treatment of this sensitive issue in the Bank's Report. The reason is that the Report has sought to link foreign aid with domestic policy reform even more closely than before. It says:

> *«On the African side, aid inflows have not always been used effectively; their development impact has been diluted by inadequacies in the domestic policy environment. African governments, therefore, must be willing to take firm action on internal problems, be more open to proposals to revise policies in the light of experience, and be willing to accept the proposition that without policy reform higher aid will be difficult to mobilize».*

If the agenda presented in the report could be regarded as the surest path of wisdom to African economic development, then there would be little cause for concern about its being regarded as the very basis of conditionality. Though it may not be intended, the style of presentation does tend to convey the impression that the increased aid proposed in the Report should be seen as conditional on the acceptance of the Agenda for Action.

DOMESTIC REFORMS AND SELF-RELIANCE

Having said all this, it must be admitted that the issue of conditionality will not be such a vexed question if African countries would pursue more vigorously a number of urgent domestic reforms that are critical to the success of their development effort. Indeed, some of the reforms to which the Report has drawn attention, such as greater incentives for agricultural producers, and more attention to management and organization particularly in public enterprises, are of urgent necessity, even though there may be disagreement as to how exactly these reforms should be pursued. And so is the whole range of issues – employment, basic needs, income distribution and popular participation in development planning – that has opened up new perspectives in development planning.

If domestic reforms are the results of internal initiatives rather than foreign pressures, African countries will be able to choose their own paths to change and select policy options that are more suited to their own circumstances. This is an important aspect of the principle of self-reliance that runs through the recommendations of the LPA. In the words of the LPA :

> *«Africa must cultivate the virtue of self-reliance. This is not to say that the continent should totally cut itself off from outside contributions. However, these outside contributions should only supplement our own effort: they should not be the mainstay of our development»* (p. 8).

However, recognising the magnitude of the task that would be involved in pursuing this policy, the LPA has drawn attention to a wide range of policy reforms that would have to be pursued at national, sub-regional and regional levels if success is to be assured.

While some of the reforms may be difficult to implement, delaying action will only make things more difficult in future, and retard the achievement of the long-term objectives of the LPA. Two examples will illustrate this point. Firstly, under a proposal for an «incomes and price policy», the LPA (p. 15) :

> *«Strongly recommended that Member States formulate and apply effective and coherent policies to ensure that prices of farm inputs and farm produce provide an adequate incentive for increasing food production, particularly by small farmers, while safeguarding the interests of the poorer consumers at the same time».*

Indeed, this is a much broader issue touching on the relationship between rural and urban incomes, and the movement of population from rural to urban areas with the consequent decline of agricultural production.

It is generally accepted that the problem cannot be solved mainly by paying farmers better prices and supplying them with cheaper inputs. It would also require a substantial diversion of development expenditures from urban to rural areas and a major programme of foreign assistance to improve water control, transportation and other infrastructures related to agricultural production and marketing.

Another important aspect of policy would have to deal with the income gap between urban and rural areas. In spite of the new emphasis that many African countries have been giving to rural development, the rural-urban income gap is still very wide in many countries. Recent studies of this problem in some African countries show that average urban income is almost seven times the average rural income in a few cases *(6)*. In fact, if average rural incomes are compared with minimum urban wages – a comparison that is more germane to the explanation of rural/urban migration – the gap would be much wider still.

Narrowing this critical gap would not be an easy matter. As we know very well, urban workers are usually much better organised than the rural population, and their pressures for higher incomes are usually too strong to be resisted, most especially in countries where the income gap between low wage earners and high income salary earners is also very wide. In other words, a high intra-urban income gap, quite apart from the movements of the cost of living, presents urban trade unions with a powerful argument for pressing ever so often for higher wages; and the more they succeed, the wider still is the gap between urban wages and average rural incomes.

In some countries, the competitive pressures among wage and salary earners for higher incomes have gone out of hand, leaving the rural population steadily worse off and raising domestic costs of production that are already kept high because of inadequate infrastructures and poor management. This competitive bidding for real income usually goes on unabated even at a time that overall national income may be falling or growing very slowly, for example, as a result of falling terms of trade.

A comprehensive prices and incomes policy designed to arrest this trend should be at the heart of domestic policy reforms in the 1980's. Failure to take action on this front will put considerable strain on domestic prices and the balance of payments and may lead to sustained pressure for frequent devaluation of the currency. But given the inflexible structures of many African economies, this latter policy should not be regarded as an effective substitute for a realistic domestic policy on costs, prices and incomes.

A second example of domestic reform emphasised in the LPA concerns the mobilisation of national technical capabilities. The LPA puts this in the context of a new approach to development planning which emphasises the «involvement of the entire population, particularly the technical expertise in the entire spectrum of economic development endeavours» (page 121).

Three decades after independence, with vast sums of money already expended on programmes for human resource development at all levels many African countries are still more heavily dependent on foreign advice and expertise than seems necessary. In some exceptional cases, local experts play the role of virtual onlookers in situations in which foreign experts identify projects, prepare feasibility studies, advise on the choice of technology, man strategic positions in industry and commerce and influence the overall directions of economic and social policy. Admittedly, in some cases, domestic political issues have generated feelings of distrust and suspicion that have not been helpful for the full mobilisation of local technical and managerial expertise to the task of national development. However, even with these constraints, much more could be done to ensure that the country's own experts gradually take over the main share of these responsibilities, leaving foreign experts to play increasingly marginal roles. This should not be difficult to achieve if the number of local counterparts working with foreign experts is vastly increased and if there is more vigorous pursuit of arrangements, already well developed in some cases, whereby foreign experts and institutions working on a country's development problems are encouraged to interact closely with local institution of training and research. The following suggestions made in the Bank's Report on this matter (p. 132) merit serious consideration:

> *«First, short-term technical assistance should be relied on more heavily to complement a greater reliance on local staff, systems, and institutions. Recruitment and logistic problems are much reduced in this way, and the injection of outside advice and help can, in some instances, be more effective. Second, local people should be employed more frequently as consultants and staff for externally financed projects. In the case of the World Bank, existing regulations permit the use of consultants. This has been tried in some projects and should be encouraged. Third, given the difficulties of combining the functions of management or technical expert and trainer, resident technical assistance people as well as those on short-term assignments should be explicitly named «trainers», except where they have another task of explicitly*

higher priority; in general, training should be their primary and, in some cases, their exclusive responsibility. The training components of programs should be reviewed to see how the training aspects can be strengthened. As noted above, future project-related training components should have heavier weight, and alternations should be made in the personnel mix of such projects» (p. 132).

THE ROLE OF INTERNATIONAL ORGANISATIONS

In its proposals and programmes for African economic development, the LPA has drawn heavily on studies and analysis undertaken by UN agencies and without doubt, the support of the agencies will be important in the implementation of the programmes at all levels. However, the impact of UN agencies on implementation will be much enhanced to the extent:

i) that there is close co-ordination of their activities at the national level; and
ii) that there is greater support from African states for the various multinational sub-regional and regional arrangements or institutions, many of which have been set up with the assistance of the agencies, and all of which stand to benefit from the broad and varied experience that the agencies can bring to bear on the problems of African co-operation and integration.

As regards the first point, the appointment of Resident Coordinators of the UN systems now provides an institutional framework for effective co-ordination of the activities of the UN system at the national level. The arrangement could also be useful for assessing and monitoring the programme of the LPA at the national level.

Within the new arrangement for co-ordination, and depending on the preference of the particular country, it may be possible for other UN agencies notably UNCTAD, ECA and UNDP to play an effective role in the discussions on aid and conditionality that have generated so much controversy between national governments and the World Bank and IMF. If these discussions take place on a broader platform, it may be easier for all sides to see domestic reforms in a wider setting rather than in the narrow confines of dialogue between lender and borrower. While the «honest broker» approach adopted recently by the World Bank in the case of Tanzania represents a departure from the normal practice, the arrangement would be much improved if a few other UN agencies were to be involved.

As regards the problem of co-operation, the role of UN agencies could also be crucial. But here the central problem is political will. The LPA points out that:

«The various institutions that have been established, all at the request of African governments, in fields such as national resources, science and technology, industry, training and human resources and transport and communications, have all suffered from the ill effects of lack of follow-up in the implementation of political decisions» (p. 91).

And it proposes that:

«existing multinational institutions should be strengthened by the prompt provision to them of the political and material support of all Member States which supported their establishment, since without such support, the purposes of the establishment of the multinational institutions would be undermined and frustrated» (p. 93).

It also draws attention to the implication of this situation for foreign aid specifically destined for multinational institutions. It says:

«A more alarming development is the fact that potential donors, which promised assistance to various institutions at the time of their establishment, now appear to want to give assistance to them only if their membership is increased so as to give them a more truly sub-regional or regional character» (p. 91).

These facts speak for themselves. More than any other continent, Africa has to cope with the problem of small nation-states, and, in consequence, sub-regional and regional co-operation are indispensable for long-term development in virtually all sectors of economic activity. Indeed, one may venture to suggest that the success of most of the programmes outlined in the LPA in all sectors of activity would depend very largely on the success of the new efforts proposed by the LPA itself for revitalising the process of economic integration on the continent.

In conclusion, I would like to say that foreign aid has a great role to play in African development, most especially in assisting African countries to overcome the structural deficiences inherited from colonial regimes, and realise the tremendous potential for development which abounds on the continent. However, aid would be much more constructive if it responded to internally generated reforms rather than those imposed from outside and if, at the same time, greater success with economic co-operation and integration provided more fertile grounds on which national and multinational efforts, assisted by foreign aid, can attain higher levels of productivity.

FOOTNOTES

1. *Lagos Plan of Action for the Economic Development of Africa 1980–2000,* Organization of African Unity: Lagos.
2. *Accelerated Development in Sub-Saharan Africa – An Agenda for Action.* The World Bank, Washington D.C., USA. For commentaries and critisisms on the report, see especially (i) Economic Commission for Africa «Accelerated Development in Sub-Saharan African: An Assessment by the OAU, ECA and ADE Secretariats» (ECA edited version) Document No. E/ECA/CM. 8/16 of 19 March 1982 and (ii) «Accelerated Development in Sub-Saharan Africa – What Agendas for Action», Institute of Development Studies, Sussex, Bulletin Vol. 14 – 1st January 1983.
3. See p. 4.
4. *North-Sourth: A Programme for Survival,* The Independent Commission on International Development Issues under the Chairmanship of Willy Brandt, the MIT Press, Cambridge. Mass USA: 1980.

5. (i) A footnote to the report (on p. 30) refers to two studies on devaluation; both of which do not address the particular conditions faced by African Countries.

   (ii) There is of course no particular magic about devaluation. For a country that is unable to alter the foreign prices of its exports and imports (and most African countries are in this position), devaluation would simply mean that the prices of these products, denominated in the local currency, would rise by close to the amount of devaluation; and it would also have an impact on other items in the balance of payments. For example, the proceeds of foreign investment and foreign aid which are denominated in foreign currency would now go up when measured in domestic currency, while, on the other hand, payments on foreign debt (which would remain unchanged in foreign currency) would now go up when denominated in domestic currency. The net result would depend on the particular situation, and a country facing the kind of rigidities that many African countries have to cope with would have to consider the balance of advantage very carefully. Consider an extreme situation where export volumes and import substitutes cannot be expanded rapidly because of structural rigidities, and where trade unions are so powerful that they are able to press successfully for higher wages in response to higher import prices caused by devaluation. In this extreme case, devaluation would simply have the effect of raising domestic prices all round with no significant effect on domestic production. If at the same time the country has a large foreign debt on which it has to make service payments in foreign currency the burden of raising the equivalent amount of money in domestic currency would have gone up correspondingly with devaluation.

6. (i) See the series of country studies on income disparities between urban and rural areas in some French-speaking African countries undertaken by JASPA (ILO) Addis Ababa. The findings are summarised in a synthesis report «Disparités de Revenue entre les villes et les campagnes en Afrique Noire Francophone, Rapport de Synthèse».

   (ii) Some useful information on the relationships between urban and rural incomes is also to be found in the JASPA Studies on Basic Needs in Zambia, Tanzania and Nigeria.

   For example, the Zambian study shows that in that country real wages rose by 42.9 % between 1965 and 1979 whereas the index of real income of the average peasant farmer fell from 100 to 71.4 during the same period. See *Zambia: Basic Needs in an Economy under Pressure*, JASPA (ILO) Addis Ababa, 1981.

RESUME

Dans son étude du rôle de l'aide étrangère dans le développement de l'Afrique, l'auteur estime qu'il faut d'abord analyser les circonstances objectives qui ont été à l'origine de la crise actuelle que traverse l'Afrique puis apprécier correctement les leçons à tirer de l'expérience de l'Afrique en matière de développement au cours des trois dernières décennies.

Dans son analyse des causes de la crise économique actuelle, l'auteur se refère largement au rapport de la Banque Mondiale qu'il estime être un document qui jouera un rôle important et aura beaucoup d'influence sur les stratégies de développement des gouvernements africains dans la mesure où la Banque détient des ressources énormes qu'elle peut mettre à la disposition des états africains par le canal du Fonds Monétaire International ou dans le cadre de rapports bilatéraux entre ces gouvernements et des organismes de financement. Il s'étend longuement sur les causes aussi bien internes qu'externes que la Banque Mondiale avancent comme étant à l'origine de cette crise ainsi que sur les recommandations que cette institution propose aux pays africains pour résoudre ces problèmes. Il passe aussi en revue les diverses critiques qui ont été faites à ces recommandations qu'il compare d'ailleurs avec celles faites par la Commission Brandt pour résoudre les mêmes problèmes. Il fait ensuite, une brève analyse comparée de ces recommandations qui l'a mené à considérer tour à tour les problèmes des réformes locales par rapport aux objectifs du développement autocentré ainsi que ceux liés au rôle des organisations internationales, particulièrement de celui des agences des Nations Unies.

En conclusion, l'auteur estime que l'aide étrangère a un grand rôle à jouer dans le développement des pays africains en les assistant plus particulièrement dans leurs efforts pour résoudre les insuffisances structurelles héritées des régimes coloniaux et pour mettre à profit les important atouts dont dispose le continent pour son développement. Cependant, l'aide serait plus constructive si elle répondait à des désirs de réforme générés de l'intérieur mais non pas à des réformes imposées de l'extérieur. L'aide serait encore beaucoup plus constructive si des succés étaient déjà enregistrés au niveau de la coopération et de l'intégration économique, ce qui pourrait constituer des bases solides à partir desquelles les efforts tant nationaux qu' internationaux, soutenus par l'aide étrangère pourraient garantir un niveau de productivité beaucoup plus élevé.