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AFRICAN DEVELOPMENT AND INTERNATIONAL CAPITAL

1. INTRODUCTORY REMARKS

Economic development has been substantially slowing in most African countries at least since the second half of the 1970s. The economic characteristics of Africa of the early 1980s' contrast sharply with unprecedented, rapid and relatively stable economic expansion, outstanding development and prosperity throughout the 1950s and 1960s. Since then growth has almost disappeared, inflation has become high, foreign trade sluggish, payments imbalances huge and economic disparities within and between African nations have remained wide and even increasing. The standard of living of the bottom 40 per cent of the population in Africa has deteriorated, particularly in the countries with high risks of famines or at best improved little. Most African governments want to return to high rates of growth, less unemployment and low rates of inflation as well as lower foreign dependency, particularly in respect of balance of payments difficulties. One of the major obstacles to such a development path is the lack of resources and especially foreign exchange.

A number of observers focus on the decreasing contribution of international capital to African economic development, particularly in the countries with debt-servicing difficulties. It is almost generally agreed at present that new approaches in respect to the role of international capital in development are needed if the low-income African countries are to resume economic growth.

Whatever is the country's attitude to the international capital it has to be emphasized that „foreign borrowing is not a painless or riskless alternative to adjustment" (*World Development Report 1985*, p. 2) International capital can help an African country to cushion both internal and external economic and political shocks in order to reallocate gradually its resources for a new environment but this is not a costless process. And to be effective it has to be supported by national po-

licy reforms. The greater such abilities the more the country can afford to borrow. Generally speaking, if the country's rate of income and exports growth exceeds the rate of interest over a long time it is a sufficient sign of soundness, indicating that the country will be able to meet its future international payments obligations. Otherwise it makes African countries more and more dependent on international financial institutions including big commercial banks. Such a risk is greater in Africa than in other regions due to its higher economic dependence on the rest of the world as a result of only a few key commodity exports.

2. STATISTICAL BACKGROUND

The African debt crisis has to be put in the proper perspective since the present problems are sometimes overexaggerated and seem to be insoluble. On the other hand, one has to agree that the current rescue efforts are not sufficient to solve the problem in the immediate future. Some observers argue that „present reported data seriously understate the size of the debt burden" (Green, Griffith-Jones 1985, p. 212). The next recession and its renewed strain on African balances of payments will make in one country after another the problem altogether insolvant (Frank 1985).

Since 1970, the outstanding debts of African countries have grown several times to about 200 billion dollars in 1986 and simultaneously their debt-servicing abilities have substantially deteriorated, particularly after 1974 (see Figure 1). The ratio of debt to GNP more than tripled from about 18 per cent in 1970 to almost 57 per cent in 1984. This indicator was over 25 points higher for Africa than average for LDCs. Similarly the ratio of debt to exports rose from about 80 per cent to almost 280 per cent (for LDCs 35 per cent). The following two indicators are important from the perspective of the current economic policy of African countries. The indicators seem relatively less critical and less serious to Africa in comparison to avarages for all LDCs. The ratio of debt service to GNP increased from about 1.4 per cent in 1970 to almost 4 per cent in 1984 (for LDCs almost 5 per cent). The crucial index which clearly shows increasing debt-service difficulties in Africa in recent years represents the ratio of debt service to exports. It increased from 6.3 per cent in 1970 to 19.4 in 1984.

Similar tendency of deteriorating debt situation of the particular

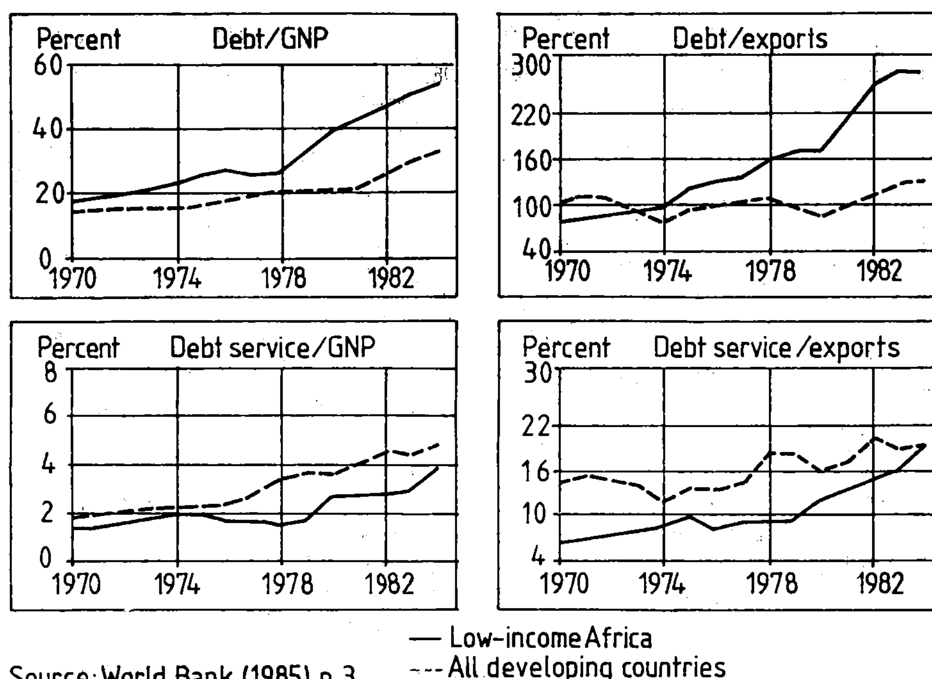

Fig. 1. Trends in selected debt indicators, 1970—84.

African countries is represented in Figure 2 which ranks the countries according to three different criteria in two periods, i.e. at the beginning of seventies and eighties. Whatever criterion is used, there is a dramatic decline in debt position of African countries. If in 1970—72 the highest ratio of debt to GNP was in Liberia (46 per cent) then in 1980—82 Zaire had this indicator of much higher level (78 per cent). The debt-to-exports ratio in the 1970s was highest in Egypt (over 180 per cent) and in sub-Saharan Africa in Malawi (130 per cent), then in 1980—82 it rapidly deteriorated up to 437 per cent (Sudan) and 324 per cent (Tanzania). And debt-service-to-exports ratio as the best guide to country's debt problem is getting more and more pessimistic. In the seventies it was the highest in Egypt (31 per cent) and next in Sudan (12 per cent) and Zambia (11 per cent). In the 1980s it rose very fast up to 43 per cent (Morocco) and in the case of Africa south of the Sahara to 42 per cent (Niger, Ivory Coast). Also simulation of future debt in Africa is rather pessimistic (see Table 1). Still larger deficits are projected and heavy reliance on short-term borrowing as well as further substantial reduction in accumulation of reserve assets are expected which will make an increase in reserve-related official borrowing (Hinshaw 1983, p. 104).

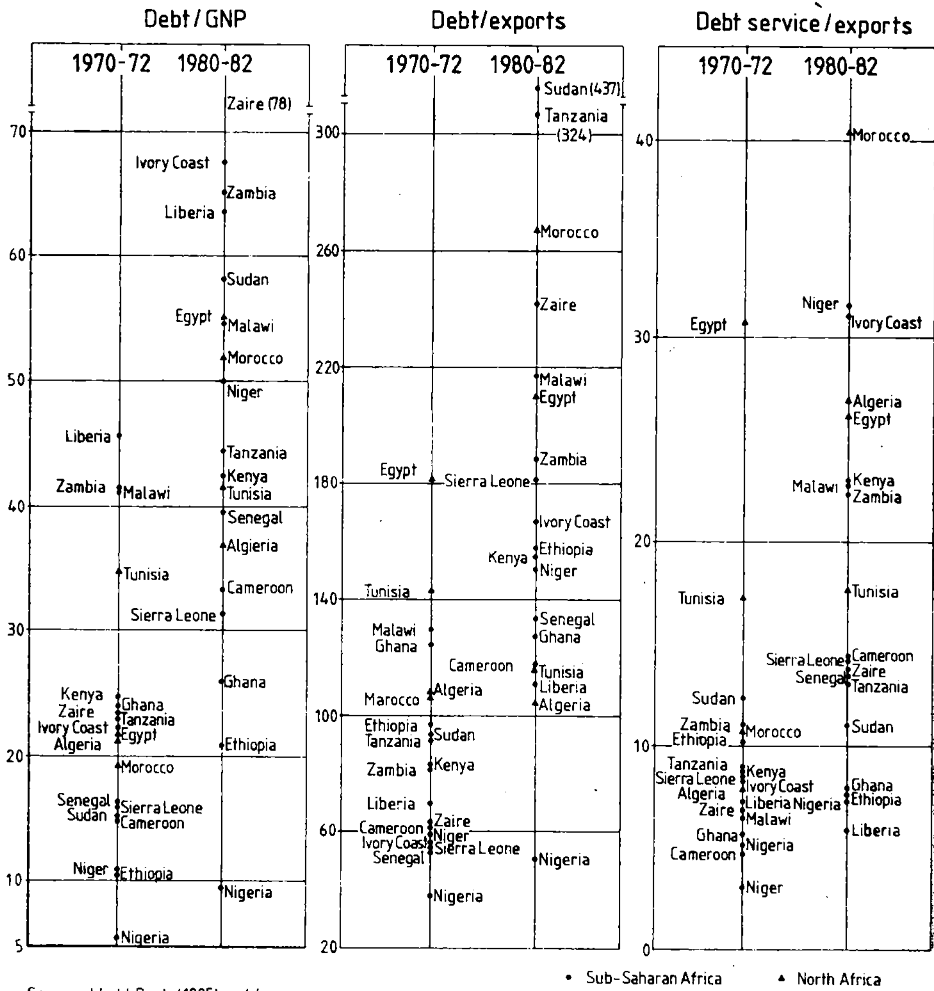

Fig. 2. The debt ladder (percent)

Table 1

Estimation of debt in low-income Africa, 1984—90 (in billions of 1980 dollars)

	1984	1990 High simulation	1990 Low simulation
Debt outstanding and disbursed	27.2	27.1	29.6
As percentage of GNP	54.6	44.6	51.5
As percentage of exports	278.1	250.3	328.1
Debt service as percentage of exports	19.9	25.2	37.5

Source: *World Development Report 1985,* p. 142.

3. POLICY IMPLICATIONS

The above statistical information shows that low-income African countries have suffered the biggest shocks as a consequence of debt-servicing problems in recent 15 years and particularly in the 1980s. Such a situation had vital implications since as a consequence of weak internal economic structures and long-term decline in domestic savings the majority of African investment, mainly in public sector, was covered by international capital. In time of crisis it was also used to partially shield consumption from temporary adverse shocks of national income caused by commodity price movements, crop failures, worldwide recessions and the like. However, in cases where the change of income is perceived to be permanent much less reliance on world capital markets is justified (Smith, Cuddington 1985, p. 4). On the other hand, foreign capital inflow enabled most African countries to postpone their adjustment policies.

In order to discuss the importance of international capital flows in the economic development process several issues have to be put forward and namely (Smith, Cuddington, 1985, p. 3):

— the potential benefits of international capital flows;
— the role of existing banking regulations or lack of such regulations in the extent of loan exposure;
— the preventive early warning system for African countries;
— interactions between macroeconomic management including interest rate, exchange rate, budget policies and external debt;
— institutional and policy changes in the international financial markets and in African countries.

Potential measures to be taken by African governments in order to benefit from international capital inflow might be efficient if they are not seen in isolation but they are part of wider macroeconomic reforms. Unfortunately, they seem to be inadequate in African countries and that is why increased control over capital inflows has been required. There is a crucial conflict of interest here since at least the direct investors also want to retain some forms of control over their investment. African countries find this difficult to accept and it has led them to counter-measures.

The World Bank (1985, p. 8) and Kindleberger (1981, p. 244—6) indicate that there are at least two main sets of issues to be decided on, that is to say:

— government preference and regulation of foreign borrowing by the private and public enterprise sectors;

— government impact on composition of capital flows and debt with particular reference to the terms of foreign borrowing, the currencies, risks between lenders and borrowers, level and composition of a country's reserves.

The list of problems facing African countries trying to gain most and/or protect themselves against some risks from managing foreign borrowing and debt is in practice much longer. On the other hand, it is impossible to suggest a single set of solutions which will ideally suit the economic and political reality of all African countries. In the final assessment the upper limit of capital inflow to African countries depends on both external and internal environments.

4. INTERNATIONAL ENVIRONMENT OF ADJUSTMENT POLICY

The low-income African countries structural adjustment programme calls for attention not only in African countries themselves but also at the international level. The developed countries should be prepared to accept weaker current-account positions. One of the proposals by the international community is that the lending countries could be asked to subscribe to an international guarantee fund or to an organisation which could offer the overall umbrella for sharing losses arising out of failure of the borrowers to meet their obligations, and assure that individual projects would be successfully undertaken. One of the major problems is how the national and international effort to promote production and exports can help if the LDCs cannot sell their goods in the markets of the developed countries. So the adjustment conditions should also be imposed on the countries of the North by complete liberalization of its trade with the South in order to increase LDCs' exports and thus to reduce their current-account deficits. Such a measure would enormously facilitate LDCs' adjustment problem and attract foreign investment and this is also benefitial for the industrial countries.

The adjustment process with or without an international organisation such as IMF should not be limited to exchange-rate changes as the only instrument. The direct outcome of devaluation means for African countries a sharp decline in their real incomes and standard of living of the population. However, quite a number of African countries are already at the lower limit of consumption and cannot reduce it in order to bring about adjustment.

At present, there is a discussion in the international community whether the IMF is in danger of becoming a provider of foreign aid

rather than a supplier of short-term finance to facilitate adjustment or whether „the Fund is becoming a transmission belt for resource transfer rather than a guardian of the international monetary system" (Hinshaw 1983, p. 120). The best solution seems to be the so-called „link", a proposal which would link the operation of SDRs with foreign aid. At the same time, the IMF conditions should be softened at least by interest subsidies for the poorest African countries. A challenge of some critiques goes much further when they call for restructuring of the Fund and of the conditionality guidelines in particular. Tanzanian Minister of Finance called in his IMF speech (1980) for a far-reaching proposal of establishment of referees in cases of serious disagreement between the Fund and a member country. Such an idea, disruptive to present structures, has been strongly opposed by the IMF up to now.

5. INTERNATIONAL ASSISTANCE TO AFRICA

Since the prospects for African development are not promising even in a higher simulation, a number of observers emphasize that low-income Africa with its low capacity to save will still need for a long time additional and larger flows of international finance in a form of growing aid and foreign official transfers (*The World Development Report 1985*, p. 107 and 137; Hinshaw 1983, p. 104) Continuation of the present trend in African illiquidity is irrational in the medium and longer run not only from the perspective of African countries but also from the perspective of international environment. At least as long as the system operates „the cost of trying to introduce any radical change is very high, especially for a solitary (country) attempt to do so" (Frank 1985).

According to Green and Griffith-Jones (1985, p. 219—20), „the annual orders of magnitude of additional net transfers needed for a five-year stabilisation-recovery-initial structural adjustment programme for the 42 countries... of sub-Saharan Africa... (yield) a total of the order of 7500 million per year for, basically, operating inputs, spaces and rehabilitation of plant-machinery-vehicles and initial structural adjustment gap-filling. This total is in addition to present net transfers which, as of late 1984, the World Bank estimated at $ 5,000 million a year over 1985—87". The authors suggest five components which could finance such a programme. Some of them are, however, controversial and debatable. The international community has already responded with the establishment of the World Bank's Special Facility for sub-Saharan Africa. There are also some other bilateral donors

that substantially increased their aid programmes. At the same time, international and bilateral donors pay special attention to new approaches to their aid policies toward Africa which should be parallel to the reforms by African countries consistent with their development priorities. Such a co-ordidation of approaches and policies toward improvements in aid effectiveness seems to be essential for future African development. However, African countries realize that such aid programmes are also a regular part of Northern foreign policies. So it is a second-best solution for Africa. Unevenly distributed aid might be only a stimulus to development in some countries with special ties with the developed world. On the other hand, a crucial structural problem of Africa, virtually untouched by aid, was agriculture. Under these cicumstances, domestic efforts and mobilization of local resources would have to be the main road to development. Some need for external capital as only an additional source of growth must be admitted, particularly in development of the rural sector which has to be reconstructed soon. Favourable climatic conditions in 1985/86 represent a promising point of departure for further structural changes.

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