THE FAILURE OF WORLD BANK PROGRAMS IN AFRICA

World Bank involvement in Africa's development span more than three decades, providing over $50 billion to fund various projects and programs. These programs -- in particular Structural Adjustment Programs (SAPs) -- have failed spectacularly to alleviate poverty on the continent. Criticisms of Bank programs have poured in from various quarters; including the Bank's own staff. William Easterly, former senior advisor of the development research group at the World Bank, describes the Bank as part of a "cartel of good intentions" and "a bloated, unaccountable foreign aid bureaucracy out of touch with sound economics that is running amok." This Report, compiled after extensive field trips to Ghana and Nigeria and numerous interviews with government officials, echoes the same sentiments but from an *African perspective.*

In the initial stages, Bank lending to Africa was project-specific – financing infrastructural development (roads, dams, telecommunications and other public goods with large externalities), as well as various sectoral projects in agriculture, health care and industry. However, ample evidence suggests that projects financed by the World Bank have performed poorly. Infrastructure has crumbled in much of Africa for lack of maintenance or destroyed by on-going civil wars. Further, the state-owned enterprises, financed by the World Bank and other multi-lateral development banks (MDBs) did not live up to expectations. In many cases, they were poorly conceived, hastily constructed and, consequently, inefficient and wasteful.

With the emergence of a serious economic crisis in the beginning of the 1980s, a policy shift to "adjustment lending" occurred with the primary objective of "restructuring" African economies away from state control or domination toward the private sector or a more market-oriented economy. Structural Adjustment was designed to rationalize a bloated African state sector, where government expenditures have careened out of control and, given narrow tax bases, have resulted in massive budget deficits. Unfortunately, the Bank often makes the situation worse.

The Bank's record on "adjustment lending" in Africa has been abysmal. Back in 1994, the Bank itself admitted that only 6 African countries had performed successfully -- out of the 29 African countries it had provided more than $20 billion in funding to sponsor adjustment programs the ten-year period, 1981-1991: The Gambia, Burkina Faso, Ghana, Nigeria, Tanzania, and Zimbabwe. It should be noted that 6 out of 29 gives a failure rate in excess of 80 percent. Barely a year later, however, this number had shrunk to two: Burkina Faso and Ghana. By 1995, SAP was on the verge of collapse in Ghana. In March 2001, the incoming Kufuor administration had placed Ghana, the Bank's "star pupil" on the HIPC intensive care unit and on July 5, 2002, the outgoing World Bank Resident

Director in Ghana admitted that the Bank probably made a mistake in tagging Ghana an "economic success story." Ghana's real per capita income is about 10-15% below 1983 level when the structural adjustment program was launched in 1983.

Zimbabwe followed the same trajectory: from stardom to economic collapse. By 2000, it had descended into anarchy and violence with President Robert Mugabe's ill-conceived involvement in Congo's war for mercenary motives and violent seizures of white farmlands.

In 1998, the Bank identified four new countries (Guinea, Lesotho, Eritrea and Uganda) as the new "success stories." In less than two years, this list also "evaporated," leaving Uganda as the Bank's only economic success story. Western governments followed suit, investing much political capital in Uganda. President Bill Clinton visited Uganda in 1998 and identified its leader, President Yoweri Museveni, as one of the "new leaders of Africa," taking charge of their own backyard. As it turned out, the accolades were premature.

Uganda's rate of economic progress is non-sustainable. About 55 percent of its budget is aid-financed. Moreover, Uganda is effectively a de facto one-party state. Museveni's record on democratization and human rights has been abominable. Political activity and press freedoms are severely restricted, limiting the scope for a pluralistic and transparent society. *The Monitor*, a private independent newspaper, was shut down in October 2002.

The stark reality is that, despite many years of World Bank-sponsored policy reform, barely any country in Africa has successfully completed its adjustment program with a return to sustained growth. In fact, the path from adjustment to improved performance has often been a road to nowhere or a dead-end. Poverty rates have increased sharply in Africa, suggesting rather cryptically that *more* Bank lending leads to *increased* poverty.

SAPs failed in Africa for a variety of reasons. First, the wisdom of the Bank's standard economic prescriptions -- for all African countries, irrespective of their stage of development -- is questionable.

Second, SAPs are not attuned to the dynamics and characteristics of African economies. Most African economies are characterized by two sectors: The modern sector, which includes the government, is operated by the elite; and the traditional sector, which is the abode of the African poor. Bank programs focus on the modern sector, paying little attention to the traditional sector where the poor live. Even then, evidence suggests that the modern sector is not reformable. Given a political system that is based upon a patronage system and governments run by uniformed bandits, the commitment to reform is almost non-existent as genuine economic reform would be politically suicidal. The result is a "reform charade," where "reforming" governments take one step forward and three steps backward.

It is astonishing that, after decades of involvement in Africa, the Bank has not caught on to this ribald chicanery and allows itself to be duped time and again by crooked African governments. For example, in March 2001, the IMF demanded a refund of all loans and grants, totaling $38.5 million, given to the Ghana government between August and September 2000, claiming the refund was the penalty the country has to pay for providing false information to secure the loans. Though this may be interpreted positively, the IMF *knew* for years that the books were being "cooked" and it only acted *after* a regime change in Ghana.

Third, the Bank *knew* some of its loans are being squandered. At least 40 percent of World Bank loans and Western aid to Ghana were squandered. There were cases upon cases where many loans and grants from Japan, Canada, USA and Britain, given to NDC party functionaries, were misapplied or misappropriated. Yet, in country after country in Africa, there has been no accountability in the use of World Bank loans. No single government in any African country -- not even star pupil Ghana -- has been called upon to account for the loans it took from the World Bank. Billions in World Bank loans have been embezzled in Africa and rarely anyone is held accountable and prosecuted.

To be fair to the Bank, in September 2000, the former Minister of Finance in Ghana, Victor Selormey, was indicted, prosecuted and jailed for 8 years for embezzling $1.2 million of World Bank loan, granted for the computerization of Ghana's court system. This may be a first but most Ghanaians feel the "bigger fish" got away. Yet, Ghanaians must shoulder the responsibility of paying back those loans.

Increasingly, Africans are getting frustrated and irate. Some African groups and organizations are demanding that much of Africa's debt to the World Bank be cancelled or repudiated. They claim that it is immoral to demand repayment of loans that did not benefit the people -- loans that the World Bank *knew* were being misappropriated. They are of the view that they should not be held liable to repay World Bank loans to illegitimate governments which used the loan proceeds to repress them and leave their continent in ruins. The principle being applied here is termed *The Odious Debt Principle.*

Finally, the Bank does not live up to the very principle of transparency it preaches. The most infuriating aspect of World Bank loan agreements with crafty, corrupt and despotic African governments is that the loan agreements are often conducted in secret. World Bank directors meet with high-ranking African government officials to conduct negotiations behind closed doors. The media is not invited; nor is the public -- or the people on whose behalf billions of dollars are being borrowed and who, ultimately, are liable to repay the loans.

Africa needs to come up with its own "adjustment program" that circumvents World Bank nostrums. The continent needs to look *less* to the World Bank and the IMF and *more* toward itself, drawing from its own strengths and people -- both at home and in the diaspora. Rather than drawing up elaborate Investment Codes to attract foreign investors, Africa should create the environment to spur domestic investors and mobilizes capital from Africans in the diaspora. Far more important for Africa are measures that promote free movement of people and goods within Africa or increase *intra*-African trade.