

## THE MYTH OF FOREIGN AID

George B.N. Ayittey, Ph.D.

---

Foreign aid has done more harm to Africa than we care to admit. It has led to a situation where Africa has failed to set its own pace and direction of development free of external interference. Today, Africa's development plans are drawn thousands of miles away in the corridors of the IMF and World Bank. What is sad is that the IMF and World Bank "experts" who draw these development plans are people completely out of touch with the local African reality.

-- Dr. Joshat Karanja, a former Kenya member of parliament, in *New African*, June 1992, 20.

---

### INTRODUCTION

There are three types of foreign aid: humanitarian relief aid, given to victims of natural disasters such as earthquakes, cyclones and floods; military aid; and economic development assistance. Much confusion surrounds the third, also known as official development assistance or ODA. Contrary to popular misconceptions, ODA is not "free." It is essentially a "soft loan," or loan granted on extremely generous or "concessionary" terms.

For example, an African government that needs \$50 million to build a dam may borrow the said amount from a foreign private bank at 10 percent rate of interest for 10 years – a proto-type of a typical foreign commercial loan. However, a western government aid agency, say US AID, may provide the funds at 2 percent interest for 20 years, with a 5-year grace period. This ODA differs from a normal foreign commercial loan in three respects: It has a lower rate of interest, a longer term to maturity and provides a "grace period." Still, it is a "soft loan" that must be paid back; it is *not* free.

Africa's experience with official development assistance dates back to the colonial era. One of the charges African nationalists leveled against the colonial powers was that colonialism failed to promote credible social and economic development for Africans. And the critics were right. Colonial administrations were frugal and fiscally conservative. The colonies were expected to pay their own way instead of draining the finances of the mother country. Further, the development of Africa required large capital outlays that the home administrations were not prepared to undertake. Where investment was necessary – to lay down some minimal infrastructure for the exploitation of minerals and raw materials – the mother countries expected such expenditures to be financed by the colonies themselves. If the colonies borrowed any funds, they were supposed to service their own debts.

In the British colonies, the only "aid" offered consisted of grants under the 1929 Colonial Development Act to meet the cost of repaying loans approved for capital projects. The French colonies obtained comparable assistance under *Fonds d'investissement pour le Developpement Economique et Social*. No such arrangements existed for the Belgian colonies.

After World War II, grudging contributions to colonial development were made by the British and the French in token appreciation of African soldiers who aided in the war effort: "In 1959, for example, British East Africa (Kenya, Uganda and Tanganyika) received 5 million pounds sterling

(mps) in official grants; by 1962 that had risen to 23 mps. Nigeria received an official donation of 5 mps in 1960. These, of course, were in addition to commercial loans raised on the London money market. But these were quite modest. Nigeria, for example, raised only 6.8 mps in new loans between 1946 and 1955, Tanganyika 6.69 mps. Kenya was a heavy borrower in these years, it borrowed 18.7 mps; and in addition, the East African High Commission borrowed 31.5 mps, whose burden was spread between the three countries” (Fieldhouse, 1986; p.244).

## **FOREIGN AID AFTER INDEPENDENCE**

After independence, African nationalists settled down to the task of developing Africa – in its own image. No more would Africa be relegated to the inferior status of “hewers of wood and drawers of water,” producing raw materials to feed the industries of Europe. Colonialism was exploitative, and, since the colonialists declared themselves to be “capitalists,” African nationalist leaders believed, in one monumental syllogistic error, that capitalism, too, was exploitative. Thus, Africa was to be developed, not by capitalist or imperialist principles, but by a socialist ideology under which the state not only participated but captured the “commanding heights of the economy.” Furthermore, only the state under the banner of socialism, they argued, possessed the necessary powers to mobilize the requisite resources to accelerate the pace of development. A large role was envisaged for an activist and centralized state, gathering resources from traditional economic activities and investing them in modernization. Much of these resources were to be secured domestically through increased savings, sacrifice, and belt-tightening. The remainder was to be sought through foreign aid requests.

Initially, foreign aid was expected to fill the gap between domestic savings and investment. The rationale was the banal “vicious circle of poverty.” Savings or investible resources were low because of poverty and incomes were low because of low investment, which in turn was due to low savings. Foreign aid therefore could supplement domestic savings, enable a higher rate of investment to be attained, and propel the economy out of its “low-level equilibrium trap.” Foreign aid was thus seen as an essential prerequisite to economic advancement.

Even if domestic savings were adequate, a more mundane rationale was used to justify foreign aid requests. African countries lacked capital-producing sectors and needed to import tractors, equipment, and machinery, as well as intermediate goods such as fuel, lubricants, and spare parts essential for development. But foreign exchange was required to import these critical goods and since most African currencies are not freely convertible, ample domestic savings in *cedis* or *kwachas* cannot be used to purchase tractors unless they are first converted into foreign exchange through exports. Such foreign exchange receipts may then be used to import machinery and equipment. Thus, an African country’s effective savings is the difference between its foreign income (export earnings) and imports of consumer goods. The country can obtain more foreign exchange to finance imports of capital goods if it earns more abroad or curtails its import of such luxury items as caviar, pickled French sausages, or Mercedes Benzes, for example.

The development frenzy received further impetus when the United Nations declared the 1960s as the “development decade.” Advocates of foreign aid determined that an African country’s capacity to earn more foreign exchange through exports was limited by the following constraints: an inelastic foreign demand for African exports, an unjust international economy system, protectionist policies of industrialized nations, and monopolistic as well as oligopolistic practices of multinational corporations. Therefore, even if imported consumer goods were reduced to be barest minimum – assuming African elites would consent to an abstemious diet – the foreign exchange earnings saved would still be insufficient to finance huge capital imports. Given those

assumptions, foreign aid was expected to play a vital role in accelerating development by financing critical imports (Chenery and Strout, 1966; pp.679-733).

Such theoretical arguments for greater foreign development assistance were buttressed with emotional invective. Colonialism raped and plundered Africa, argued the newly-independent African states. Therefore, it was the responsibility – in fact, the moral duty of the West – to repair the damage, return the booty and rectify the injustices perpetrated against black Africans. It is difficult to determine whether the West was persuaded more by academic arguments or succumbed to its own collective guilt over the iniquities of colonialism and slavery.

It is important to remember that reservations against this dominant paradigm by one brave economist, Peter Bauer, were ignored. He warned that, politically, centralized power could lead to corruption, authoritarianism, totalitarianism, and human misery. He cautioned that under this scheme of things, government essentials such maintenance of law and order, effective management of monetary and fiscal systems, and even agricultural extension work would be neglected by a regime concerned with micro-management of the economy (Bauer, 1976: 90-91).

Nevertheless, the West responded to African appeals with generous contributions of aid. As Whittaker (1988) noted:

“Even in 1965, almost 20 percent of Western countries’ development assistance went to Africa. In the 1980s, Africans, who are about 12 percent of the developing world’s population, were receiving about 22 percent of the total, and the share per person was higher than anywhere else in the Third World – amounting to about \$20, versus \$7 for Latin America and \$5 for Asia” (p.60).

Earlier, the World Bank (1984) had reached similar conclusions:

“External capital flows to sub-Saharan Africa have been quite high. Between 1970 and 1982, official development assistance (ODA) per capita increased in real terms by 5 percent a year, much faster than for other developing countries. In 1982, ODA per capita was \$19 for all sub-Saharan African countries and \$46 per capita for low-income semiarid countries – compared, for example, with \$4.80 per capita for South Asia. Aid finances 10 percent of gross domestic investment in Africa as a whole, but up to 80 percent for low-income semiarid countries and over 15 percent for other low-income semiarid countries. For some countries, ODA finances not only all investment, but also some consumption. During the 1980-82 period, however, ODA levels stagnated, even though sub-Saharan Africa’s share in the total increased from 21 percent in 1980 to 24 percent in 1982” (p.13)

## **CHANGING FOREIGN AID PATTERNS**

Official development assistance (ODA) to Africa may be delineated into four phases. Phase I covers the period from independence in the 1960s to the beginning of the 1970s, during which bilateral aid was the main source of development finance in Africa. Private foreign investment was not significant, largely as a result of the socialist rhetoric and policies of African nationalist leaders. There was some recourse to private credit markets in the West but this was insignificant, and, where utilized, tended to be of very high cost, as was the case with supplier’s credit. “Foreign direct investment was limited mainly to minerals and oil extraction, and in some cases to the production of wage goods such as beverages and textiles” (UNCTAD, 1998; p.116). Although the former colonial powers (Britain, France, and Belgium) provided the bulk of bilateral assistance, other countries such

as Canada, Norway, Sweden, the Soviet Union (mostly military aid) and the United States assumed an increasingly prominent role in aid disbursements to Africa.

However, as early as the 1960's, a growing concern over the effectiveness of foreign aid had begun to surface. US AID officials had realized that that project support made little sense unless recipient governments improved the incentive framework for economic activity. As a result, the Peterson Commission was established by the Nixon Administration to evaluate and reform U.S. foreign aid programs. It recommended that the primary function of US AID be shifted back to project lending and technical assistance, while the IMF and World Bank would provide overall policy frameworks for developing countries.

Thus, phase II began in the early 1970s when multilateral institutions, such as the IMF, the World Bank, the European Development Bank, the OPEC Special Fund, the International Fund for Agricultural Development, the UNDP, the Arab Bank for Economic Development in Africa, the African Development Bank, and the Commonwealth Development Corporation, became increasingly important sources of development assistance. For example, in 1970, aid from multilateral sources accounted for only 13 percent of the total; by 1987, that had grown to 34 percent. The following table illustrates the phenomenal growth of multilateral aid in the 1970s, 1980s and 1990s:

**TABLE 1: Gross Disbursements of External Loans to Sub-Saharan Africa (\$ Millions)**

<i>Disbursements</i>	<i>1970</i>	<i>1980</i>	<i>1987</i>	<i>1990</i>	<i>1994</i>	<i>1996</i>
<b>Bilateral (concessional)</b>	432	2,552	4,868	4,915	4,808	4,156
<b>Multilateral</b>	151	1,697	2,345	2,327	1,451	939
<b>Private</b>	593	6,330	3,346	2,533	4,636	4,426
<b>TOTAL</b>	1,176	10,579	10,559	9,775	10,895	9,521

Sources: World Bank, *Financing Adjustment in Sub-Saharan Africa, 1986-1990*; World Bank, *African Development Indicators, 1998-99*; UNCTAD, *Trade and Development Report, 1998*.

By contrast, private commercial lending, including net foreign investment in Africa, has declined sharply, although it picked up in 1994. Between 1990 and 1995 the net yearly flow of foreign direct investment into developing countries quadrupled to over \$90 billion but Africa's share of this fell to only 2.4 percent. According to the World Bank, in 1995 a record \$231 billion in foreign investment flowed into the Third World. Singapore by itself attracted \$5.8 billion, while Africa's share was a paltry 1 percent or \$2 billion -- less than the sum invested in Chile alone (*The Economist*, 9 November 1996, 95). "Even that meagre proportion has been disputed by some analysts who believe the true figure to be less than \$1 billion," said *The African Observer* (11-24 April 1996, 20). Although it increased dramatically to \$4.7 billion in both 1996 and 1997, it dropped to \$3 billion, leading United Nation's Conference on Trade and Development (UNCTAD) to conclude that "Africa has lost attractiveness as market for Foreign Direct Investment as compared to other developing regions during the last two decades," (*The African Observer*, 30 November - 13 December 1998, 21).

This view is corroborated by the Organization for Economic Cooperation and Development (OECD), which noted that though private capital flows to developing countries over the period 1990-97 exceeded \$600 billion, the flow to all of sub-Saharan Africa barely amounted to \$10 billion. Even then, of that total, fully \$9 billion accrued to one country, South Africa -- meaning that the other 49 countries and 560 million people of sub-Sahara attracted essentially no net new private capital during the greatest international investment boom ever witnessed (Eberstadt 2000; p.B4).

Thus, Sub-Saharan Africa has steadily grown ever more reliant on foreign aid, with the MDBs and bilateral donors simply filling the void vacated by private commercial lenders.

Much of the loans extended by the MDBs during the second phase were project-specific: To fund infrastructural development (roads, dams, telecommunications, and schools) – public goods that were vital for an African country's development. A hydro-electric dam, such as the Akosombo Dam in Ghana financed by the World Bank for example, generated not only electricity but also provided large "externalities": a low-cost power grid for an industrial base, a man-made lake that could provide income-earning opportunities from tourism and fishing. Road construction, telecommunications also fall in this category, since they facilitate movement of goods and commerce. Similarly, a steady supply of well-educated labor force aids industrial expansion. MDB loans were also used to finance agricultural and industrial projects in Africa, which were largely owned by the state.

Phase III began in the early 1980s when it became apparent that most African economies were in crises. Although the crises were triggered by the oil price shocks of 1979 and the Third World debt crisis of 1982, there was a general recognition that decades of misguided government policies had contributed immensely to Africa's economic morass. In fact, in May 1986, African leaders themselves collectively admitted on their own accord, in a rare moment of courage and forthrightness, before the United Nations Special Session on Africa that their own capricious and predatory management had contributed greatly to the continent's deepening economic crisis. In particular, they pointed to their own "past policy mistakes", especially the neglect of agriculture. The 1985 OAU Report, which served as the core of the African sermon at the United Nations, urged African nations "to take measures to strengthen incentive schemes, review public investment policies, improve economic management, including greater discipline and efficiency in the use of resources" (*West Africa*, 21 April 1986, 816). Most notably, the report pledged that "the positive role of the private sector is to be encouraged." Even a year before that, the African Development Bank and the Economic Commission for Africa had produced reports that had been adopted at the OAU meeting in July 1985. These reports stressed a change of direction of economic policy "toward more market freedom, more emphasis on producer incentives, as well as reform of the public sector to ensure greater profitability" (*West Africa*, 21 April 1986, 817).

Subsequently, African leaders agreed to the World Bank's structural adjustment programs (SAPs) in return for loans to ease balance of payment, debt-servicing and budgetary difficulties. In June 1987, African leaders reaffirmed their determination to pursue the SAPs at a conference organized by the Economic Commission on Africa at Abuja, Nigeria. Under a structural adjustment program, an African country undertook to devalue its currency to bring its overvalued exchange rate in line with its true value. Supposedly a more realistic exchange rate would reduce imports and encourage exports, thereby alleviating the balance-of-trade deficit. The second major thrust of SAP was to trim down the statist behemoth by reining in soaring government expenditures, removing the plethora of state controls on prices, rents, interest and the exchange rate, while eliminating subsidies, selling off unprofitable state-owned enterprises, and generally "rationalizing" the public sector to make it more efficient. By 1989, 37 African nations had formally signed up with over \$25 billion in Western donor support.

Phase IV began after the collapse of communism in the eastern-bloc countries in 1989 when Western donor governments and the MDBs finally recognized the importance of a democratic order and added various "conditionalities" to the receipt of their aid: Respect for human rights, establishment of multi-party democracy, etc. For example, on May 13, 1992, "the World Bank and Western donor nations suspended most aid to Malawi citing its poor human rights record, a history of repression under its nonagenarian "life-president" Hastings Banda . . . The decision came after

protest by workers turned into a violent melee in Blantyre. Shops linked to Banda and the ruling party were looted and government troops fired point-blank at the protesters, killing at least 38 (*The Washington Post*, May 14, 1992; p. A16).

The total amount of funds transferred to African governments during the four phases has been quite substantial. According to OECD, "the net disbursement of official development assistance (ODA), adjusted for inflation between 1960 and 1997 amounted to roughly \$400 billion. In absolute magnitude, this would be equivalent to almost six Marshall Aid Plans" (Eberstadt 2000; p.B4). Since ODA is merely a "soft loan," this accumulated foreign aid forms the bulk of Africa's \$350 billion foreign debt. Of this, 40 percent is owed to or guaranteed by Western governments and 36 percent is owed to multilateral financial institutions, such as the World Bank and the IMF (Nafziger, 1993: 29). Private commercial loans, as a share of Africa's total debt, have dropped from a high of 36 percent in the 1980s to about 20 percent in the 1990s, reflecting a declining private commercial lending interest in Africa. Much of the private unsecured commercial debt is accounted for by Nigeria, Ivory Coast, Congo, Gabon, and Zimbabwe, with Nigeria alone responsible for an estimated 50 percent of sub-Saharan Africa's total commercial debt.

Between 1980-90, Africa's debt grew faster than any other region in the Third World. By 1990, 27 African countries were classified as heavily indebted, meaning that 3 of 4 key ratios were above critical levels: debt to GDP was above the critical level of 30-50 percent; debt to income of all goods and services was above the critical level of 165-275 percent; accrued debt service to exports was about the 18-30 percent level; and accrued interest to exports above the critical 12-20 percent level (Nafziger, 1993; 30). In the period 1978-83, its debt ratio (outstanding debt over export earnings) doubled to over 200 percent. For some individual countries, the debt ratios at the end of 1985 skyrocketed. Sudan's debt ratio reached 1,232 percent; Mozambique's 1,518 percent; and Guinea-Bissau's 1,042 percent (IMF, 1986).

## **THE FAILURE OF FOREIGN AID PROGRAMS IN AFRICA**

That foreign aid has failed to accelerate economic development in the Third World generally is no longer in dispute. An empirical study of foreign aid by Boone (1995) shows that "there was no significant correlation between aid and growth" but that "government consumption rises by approximately three quarters of total aid receipts" (Boone 1995: 4). So, according to Boone, aid in its usual government-to-government form, does little to promote a long-term economic growth but does induce growth in government bureaucracy. As far as the poor are concerned, regardless of regime type, "aid flows primarily benefit a wealthy political elite" (Boone 1995: 5). One indicator of this, are infant mortality rates, which are sensitive to even tiny changes in nutrition for the poor. However, there is "no significant impact of aid" on these indicators (Boone 1995: 4-5).

Alan Woods, the late administrator for US AID noted in a February 1989 report that, while the United States had provided some \$400 billion in aid to the developing countries, no country receiving U.S. aid since 1968 has graduated from a less-developed to a developed status. Worse, he concluded, "only a handful of countries that started receiving U.S. assistance in the 1950s and 1960s has ever graduated from dependent status" (Woods, 1989; p. 112). US AID again admitted in 1993 that "much of the [Third World] investment financed by U.S. AID and other donors between 1960 and 1980 has disappeared without a trace" (*The Washington Times*, October 10, 1996, A19). According to Doug Bandow of the Cato Institute, a Washington-based libertarian organization, "The United Nations [in 1999] declared that 70 countries--aid recipients all--are now poorer than they were in 1980. An incredible 43 were worse off than in 1970. Chaos, slaughter, poverty and ruin stalked Third World states, irrespective of how much foreign assistance they received" (*The*

*Washington Post*, Nov 25, 1999; p.A31). Except for Haiti, all of the 13 foreign aid failures he cited--Somalia, Sierra Leone, Liberia, Angola, Chad, Burundi, Rwanda, Uganda, Zaire, Mozambique, Ethiopia and Sudan--were in sub-Saharan Africa.

With particular reference to Africa, the record has been abysmal and a general consensus has emerged that aid to the continent, both bilateral and multilateral, has been ineffective. Between 1980 and 1988 sub-Saharan Africa received \$83 billion of aid. Yet all that aid failed to spur economic growth and to arrest Africa's economic atrophy or promote democracy. Africa is littered with a multitude of "black elephants" (basilicas, grand conference halls, new capitals, and show airports) amid institutional decay, deteriorating infrastructure and environmental degradation. The standard of living in black Africa fell by 1.2 percent a year from 1960 to 1980. "Overall, Africans are almost as poor today as they were 30 years ago (at independence)," according to the World Bank (1989; p.1). Nor did the aid buy much influence or leverage for the West since many of the aid programs were ill-conceived and economically unsound. Western backers tended to support almost any gaudy and extravagant project. Even Jean-Bedel Bokassa's coronation and Felix Houphouet-Boigny's basilica had Western financiers. Tanzania's less glamorous but ill-conceived *Ujaama* socialist experiment also received Western support. *The New York Times* reported that, "at first, many Western aid donors, particularly in Scandinavia, gave enthusiastic backing to this socialist experiment, pouring an estimated \$10 billion into Tanzania over 20 years. Yet, today as Mr. Nyerere leaves the stage, the country's largely agricultural economy is in ruins, with its 26 million people eking out their living on a per capita income of slightly more than \$200 a year, one of the lowest in the world" (Oct 24, 1990; p. A8).

The 1990 *World Development Report* by the World Bank noted that Tanzania's economy contracted an average of 0.5 percent a year between 1965 and 1988. Average personal consumption declined dramatically by 43 percent between 1973 and 1988. *The Economist* observed that for all the aid poured into the country, Tanzania only had "pot-holed roads, decaying buildings, cracked pavements, demoralised clinics and universities, and a 1988 income per capita of \$160 [lower than at independence in 1961]" to show for it (June 2, 1990; p. 48).

The African countries that received the most aid -- Somalia, Liberia, and Zaire -- have slid into virtual anarchy. "Another large recipient, Kenya, inflicts unspeakable abuses of human rights on its own citizens while aid pays the bills" (Maren, 1997, 11). In a letter to Secretary of State, Warren Christopher, the U.S. House of Representative's International Relations Committee chairman, Republican Benjamin Gilman -- a Republican -- and Lee H. Hamilton, a ranking Democratic member, wrote:

"Zaire under Mobutu represents perhaps the most egregious example of the misuse of U.S. assistance resources. The U.S. has given Mobutu nearly \$1.5 billion in various forms of aid since Mobutu came to power in 1965. Mobutu claims that during the Cold War he and his fellow African autocrats were concerned with fighting Soviet influence and were unable to concentrate on creating viable economic and political systems. The reality is that during this time Mr. Mobutu was becoming one of the world's wealthiest individuals while the people of Zaire, a once-wealthy country, were pauperized" (*The Washington Times*, 6 July, 1995, A18).

Similarly, the United States gave Liberia's late President Samuel Doe more than \$375 million in aid between 1980 and 1985. But much of it was squandered and looted, forcing that country into a receivership on 2 May, 1986. Somalia is probably the most egregious example of Western patronage gone beserk. Huge amounts of economic and disaster relief aid was dumped into

Somalia, transforming the country into the Graveyard of Aid. But the massive inflow of food aid in the early 1990s did much to shred the fabric of Somali society. Droughts and famines are not new to Africa, and most traditional societies developed indigenous methods of coping. These methods were destroyed in Somalia, and the country became more and more dependent on food imports. "The share of food import in the total volume of food consumption rose from less than 33 percent on average for the 1970-79 period to over 63 percent during the 1980-84 period, which coincides with Western involvement in the Somalia economy and food-aid programs" (Maren, 1997, 171).

Similar food aid has induced an import food dependency in Ghana, according to Young and Kunz (2000). Despite Ghana's relatively small size, it is the sixth largest recipient of food aid (AID, CDIE, 5). The way PL 480 works is to, give food on easy credit terms to the government to sell for development money (title I), to fund development projects (title II) to give it for a specific sale for agricultural improvement/food security (title III). A country can save on foreign exchange, and raise capital by getting these types of aid. Yet, as an AID report itself concludes, the general direction of the country's growth has not been positive.

Cocoa, a major export, now suffers in spite of the aid that was supposed to help Ghana develop. Further, humanitarian aid may have created an import dependency as the two major aid components of "wheat and rice... tend to end up on the plates of the better-off"(AID, CDIE, 11). Internally, "natural resource depletion..., declining agricultural productivity, low private savings, low investment rates, and a high population growth rate" spell an unstable future for Ghana, especially concerning agriculture and famine. To sum up AID's presence in Ghana, "only a small percent of the population in need were served" by development initiatives (AID, CDIE, 3). As far as consumption inequality is concerned, the lowest 10 percent in Ghana consume 3.4 percent of total consumption, whereas the top 10 percent consume 27 percent of total consumption (World Bank 1997: 222-23).

Nor has adjustment lending been successful in Africa. According to UNCTAD (1998), "Despite many years of policy reform, barely any country in the region has successfully completed its adjustment program with a return to sustained growth. Indeed, the path from adjustment to improved performance is, at best, a rough one and, at worst, disappointing dead-end. Of the 15 countries identified as 'core adjusters' by the World Bank in 1993, only three (Lesotho, Nigeria and Uganda) are now classified by the IMF as 'strong performers'" (p.xii). The World Bank itself evaluated the performance of 29 African countries it had provided more than \$20 billion in funding to sponsor Structural Adjustment Programs (SAPs) over a ten-year period, 1981-1991. Its Report, *Adjustment Lending in Africa*, released in March 1994, concluded that only six African countries had performed well: The Gambia, Burkina Faso, Ghana, Nigeria, Tanzania, and Zimbabwe. Six out of 29 gives a failure rate in excess of 80 percent. More distressing, the World Bank concluded, "no African country has achieved a sound macro-economic policy stance." Since then, the World Bank's list of "success stories" has shrunk. The Gambia, Nigeria and Zimbabwe are no longer on the list and even on Ghana, the World Bank's own Operations Evaluation Department noted in its December 1995 Report that, "although Ghana has been projected as a success story, prospects for satisfactory growth rates and poverty reduction are uncertain."

In 1998, four new countries were added (Guinea, Lesotho, Eritrea and Uganda) were identified as the new "success stories." However, the senseless Ethiopian-Eritrean war, the eruption of civil strife following an army take-over in 1998, and the eruption of civil wars in western and northern Uganda have knocked off most of the new "success stories." The following table provides the list of the African "success stories," whose economic performance can at best be characterized as "mediocre" to "abysmal."



**TABLE 2: The Success Stories -- GNP Per Capita (U.S. dollars)**

	1980	1990	1991	1992	1993	1994	1995	1996	1997
Burkina Faso	260	290	310	280	230	200	210	230	240
Gambia	430	320	330	350	350	340	340	340	350
Ghana	430	390	410	430	410	360	350	360	370
Guinea	...	460	470	480	500	520	540	560	570
Lesotho	440	540	530	590	590	620	660	690	670
Nigeria	710	270	270	280	250	230	220	260	260
Tanzania	...	190	180	160	170	160	170	180	210
Uganda	...	340	260	200	190	190	250	300	330
Zimbabwe	950	920	910	740	670	650	650	710	750

Source: World Bank, *African Development Indicators*, 1998-99; p.35.

Of the 9 African “success stories” listed above, 6 of them had income per capita in 1997 that was less than in 1980. Declining income per capita, used as an indicator of standard of living, can hardly be considered a “success.”

A blistering affirmation came from a very unlikely source. Sir William Ryrie, executive vice-president of the International Finance Corporation, a World Bank subsidiary, declared that “the West’s record of aid for Africa in the past decade [1980s] can only be characterised as one of failure” (*Financial Times*, June 7, 1990; p. 5). In a more general indictment, Eberstadt (1988) wrote:

“Western aid today may be compromising economic progress in Africa and retarding its development of human capital. Overseas development assistance (ODA), after all, provides a very substantial fraction of the operating budgets of virtually all governments in sub-Saharan Africa. In 1983, ODA accounted for two-fifths of Liberia’s central government budget, for three-quarters of Ghana’s, and four-fifths of Uganda’s. Western aid directly underwrites current policies and practices; indeed, it may actually make possible some of the more injurious policies, which would be impossible to finance without external help (p. 100).

Indeed, Africans themselves have realized that Western aid has not been effective. David Karanja, a former Kenya MP for example, was blunt:

“In fact, foreign aid has done more harm to Africa than we care to admit. It has led to a situation where Africa has failed to set its own pace and direction of development free of external interference. Today, Africa’s development plans are drawn thousands of miles away in the corridors of the IMF and World Bank. What is sad is that the IMF and World Bank “experts” who draw these development plans are people completely out of touch with the local African reality” (*New African*, June 1992; p.20).

## **REASONS FOR FAILURE**

It is generally agreed that foreign aid programs failed in Africa because genuine mistakes were made on both the donor and recipient sides. We examine these mistakes, first from the donors’ side.

### **Donors: Multiplicity of Conflicting Objectives**

Perhaps, what contributed most to the grievous failure of Western aid to Africa was a donor culture of doublespeak, inconsistencies in policy actions to achieve a confusing, and an overlapping array of objectives. As noted earlier, foreign aid comes in three forms: economic development assistance, military aid, and humanitarian relief assistance for humanitarian crisis situations. Despite being cloaked in "development" garb, economic development assistance to Africa has over the decades been used as an instrument by the donors to achieve a variety of non-economic (geopolitical and political) objectives, such as the containment of Communist expansionism in Africa, democratization, and promotion of human rights, among others. But some of these are also the stated policy objectives of U.S. foreign military aid, which seeks to promote stability, democracy, and human rights among U.S. allies. The two key elements of that program have been Foreign Military Financing, which provided allies with grants, military equipment, and related technical services; and International Military Education and Training, which provided extensive training of foreign military officers and police forces in a wide variety of operations. Such U.S. military aid went to brutal military regimes in Liberia (under the late Samuel Doe), Ghana (under Jerry Rawlings), Somalia (under the late Siad Barre) and Zaire (under Mobutu).

The West poured much foreign aid into Africa to support Cold-War allies (the late Mobutu Sese Seko of Zaire; the late General Samuel Doe of Liberia; the late General Siad Barre of Somalia), and to woo various Marxist leaders from the Soviet bloc (Flt./Lte. Jerry Rawlings of Ghana; Chissano of Mozambique; dos Santos of Angola). In Somalia, for example, Siad Barre used Italian aid to purchase arms and military advisers for his armed forces, which declared war against their own people. Northern Somalia, a hotbed of opposition to Barre's tyrannical rule, was bombed on several occasions -- even with napalm -- in 1988. Burned-out buildings bore testimony to the depravity of Barre's rule. Barre's eldest son, Colonel Hassan Mohammed Barre, who handled the aid money, acquired property and bank accounts in Switzerland. Yet Rome maintained cordial relations with Siad Barre after the assassination of the bishop of Mogadishu, Salvatore Colombo, in July 1989, and even after an Italian biologist was beaten to death in the headquarters of the Somali Secret Services in June 1990.

After the Cold War, Western foreign policy objectives were overhauled. Greater emphasis was placed on promotion of democracy, respect for human rights, better governance, transparency, and accountability, among others. In May 1990, for example, the U.S. Congress and the White House reshaped the U.S. foreign aid program in light of global political changes and reordered priorities. President George Bush sought new flexibility to boost aid to emerging democracies in Eastern Europe, Panama, and Nicaragua. Assistant Secretary of State for Africa Herman J. Cohen announced in May 1990 that, along with economic adjustment and the observance of human rights, democratization would soon be included as the third prerequisite for U.S. development aid. Shortly after the establishment of the policy of tying bilateral aid to political conditions, the U.S. Congress called to do the same for multilateral aid, such as from the World Bank.

But beyond the rhetoric, nothing much changed underneath the surface. It was "business as usual." Old friends remained old friends. Not surprisingly, the reformist winds of change that blew across Africa in the early 1990s subsided rather quickly. As Michaels (1993) noted, "Economic reforms that promised to bring back foreign capital investment have thus far only deepened Africa's dependency on foreign aid. The pace of political transition that saw no less than nine leaders toppled by gun or ballot in the nine months following the fall of 1990 has slowed to a crawl, as many incumbent regimes have managed to maintain military control while outmaneuvering splintered oppositions." (34 )

The West stood by and watched as wily autocrats honed their skills to beat back the democratic challenge. Africa's democratization experience in the 1990s has been marked by vapid Western pronouncements, truculent duplicity, and scurrilous abandonment. When the going got tough, the West cut and ran.

Although virtually all Western governments made lofty statements about the virtues of democracy, they did little to aid and establish it in Africa. There have been more than 170 changes of government in Africa since 1960, but one would be hard pressed to name five countries that the West successfully democratized from 1970 to 1990. The record since 1990 has been dismal. Pro-democracy forces in Benin, Cape Verde Islands, Zambia, Malawi and other newly democratized African countries received little help from Western governments. Nor have democratic forces in Ghana, Nigeria, and Kenya for that matter. This was not the case in South Africa or Eastern Europe. In South Africa, the African National Council received funds and materiel from Western governments. Similarly in Poland, Solidarity received substantial assistance from Western governments. But the West seems incapable of abandoning its racist way of thinking and apply one race-neutral standard to all of Africa.

In 1993, "A Clinton administration review of U.S. foreign aid programs concluded they are often wasteful, incoherent and inconsistent with the administration's objectives, and proposed a radical overhaul that would abandon country-by-country funding . . . Many countries (receiving U.S. aid) view these allocations as something approaching `entitlements'" (*The Washington Post*, Sept 18, 1993; p. A8).

### **Red Tape**

Second, foreign aid allocations were often cocooned in bureaucratic red tape and shrouded in secrecy. The programs lacked transparency and the people being helped were seldom consulted. In this way, the donors set themselves up to be duped. A 1989 bipartisan congressional task force of the U.S. House of Representatives Foreign Affairs Committee confirmed this: "Current aid programs are so encrusted in red tape that they no longer either advance U.S. interests abroad or promote economic development" (*Wall Street Journal*, March 2, 1989; p. A16).

Two years later, the U. S. General Accounting Office, the Senate Governmental Affairs Committee and a presidential commission released a report in April 1992, which revealed severe management problems at the US AID. Commenting on this report, *The Washington Post* noted: " `Aid too often does not know whether its programs are efficiently run or how effective they are,' the report said . . . The review found that during fiscal 1989 and 1990, AID evaluated the effectiveness of only 125 of its 1,900 projects . . . The poor evaluation record had made it impossible for Congress to make effective foreign aid decisions, Frank Hodson, Office of Management and Budget (OMB) deputy director for management, said" (*The Washington Post*, July 17, 1992; p. A10). On the House floor, Congressman John Miller (R, Washington) was more scathing: "Over the past couple of years AID has been plagued with mismanagement. Scores of AID employees have been indicted for corruption. Commission after commission has investigated AID and said this agency needs to be reorganized" (*Congressional Record*, June 25, 1992; Vol. 138, No.93).

### **Tied Aid and Cronyism**

Third, much Western aid to Africa was tied and riddled with cronyism, thereby eclipsing its effectiveness. In 1995 a Foreign Aid study was conducted by the Freedom Support Coalition, chaired by former Congressman Dave Nagle and its 1,000-page report released on 12 October 1995. "Mr. Nagle said in an interview that 80 percent of foreign aid is spent in the United States

buying food, equipment, expertise and services. But he said many Americans wrongly believe most the \$13 billion a year the U.S. has been spending on foreign assistance goes directly to foreign leaders" (*The Washington Times*, 13 October, 1995, A17). Even then, United States AID was plagued with cronyism: "Ninety-five percent of procurement went to a few firms that only did business with AID. They were inside-the-Beltway firms that employed former AID staffers," said Larry Bryne, the assistant administrator for management (*The Washington Times*, 19 August, 1996, A8). Known as "a cadre of Beltway Bandits, these Washington-based firms, or firms with Washington offices, were experienced in winning US AID contracts and cornering a large portion of US AID contracts to Central and Eastern Europe and the former Soviet Union" as well (Wedel, 1998; 27). Similarly, "an estimated 80 percent of French aid comes back in salaries, orders and profits," according to Biddecombe (1994). So who is helping whom?

A large part of the donor funds goes to feed a hungry Western NGO bureaucracy. Aggressive lobbying campaigns often are launched to provide justification for the continuation of food relief aid. Ken Hackett, director of Catholic Relief Services, pitching the idea of food aid, told the U.S. Congress: "Each food aid dollar has at least a double impact. First, the funds are spent primarily in the United States on U.S. commodities, processing, bagging, fortification, and transportation. This enhances economic activity and increases the tax receipts to the U.S. government. Second, the food is provided to people and countries, which cannot afford to import adequate amounts of food on a commercial basis. Finally, when PVOs are involved, we leverage funds and services and gain broad public participation" (Maren, 1997, 201).

How much of the food actually reaches the needy? In the case of Save the Children, in 1994 of less than 50 percent of the total of sponsors' dollars actually went in grants to field programs. Of that amount, about half was given in grants to other organizations, which also had their own salaries and expenses, to actually implement the programs. Thus, much smaller percentages of the money actually was devoted to field programs. Even then, not all the programs on the ground were defensible. Maren (1997) provided examples of such "idiotic projects":

"During the 1994 Somali crisis, Oxfam was teaching refugees to grow onions and cabbages and peppers in the refugee camp. The two Oxfam agriculturists discussed their dilemma nightly: The idea behind their project was to make refugees more self-sufficient. But if the refugees were going to return to their nomadic way of life, these skills wouldn't be very useful. And if they were going to settle down and become farmers, they'd need to know a lot more about agriculture than how to grow just a few cash crops. The Oxfam team drank their whisky every night and wondered aloud why they were doing what they were doing that day" (p.98).

Because of Africa's social system of extended families, there is no such thing as an orphan. A child without parents can always find an aunt, cousin or some distant relative to serve as a guardian. Yet "a Canadian group arrived one day looking for orphans. They checked into the local office of the National Refugee Commission and were given permission to collect whatever orphans they found. Thirty or forty children were gathered together and loaded onto a truck and carted off to an orphanage in Mogadishu, while their clan elders protested" (Maren, 1997, 95).

According to Claude de Ville de Goyet, director of the WHO's emergency preparedness and disaster relief coordination program in the Americas, such "crisis junkies" do more harm than good:

"Instead of supporting local emergency and medical services, they inundate them with unrequested, inappropriate and burdensome donations of clothes, medical equipment and packaged food. Many misguided individuals seem motivated as much by the chance to

raise their own profiles at home as by a genuine opportunity to do some good. You see hundreds of small agencies turning up at the scenes of disasters. Some of them pop up because there is money or because there is media coverage, which is emotionally appealing. I visited the Balkans during the Kosovo crisis and frankly I was astonished to see youngsters doing de-mining, medical care and mental-health assistance. I wondered what kind of previous experience they had. Some of them did contribute very much. But people tend to consider that, just because it is an European or American from a developed country, they can do better than a national would do in a disaster, I am sorry, but that is wrong" (*The Washington Times*, Sept 4, 2000; p.A11).

Mr. De Goyet lamented that the cost of sending helicopters to Mozambique in March 2000 was not only too late to rescue the majority of the victims of massive flooding but also could have better paid for thousands of villagers to rebuild their shattered lives. "Dispatching Western medical teams was worse than useless, as they absorbed large chunks of the aid budget but arrived long after the critical 24 hours when acute medical care was needed. They then departed too quickly to help local doctors deal with the long-term consequences of the disaster, he said" (*The Washington Times*, Sept 4, 2000; p.A11).

### **Poor Judgment**

Fourth, Western governments and development agencies failed to exercise prudence in granting aid and loans to African governments. Much Western aid to Africa was used to finance grandiose projects of little economic value and to underwrite economically ruinous policies. There are many horrifying blunders. In Senegal, the U.S. built silos in 1983 and placed them in locations peasant farmers never visited. In the 1980s, Canada funded a fully-automated modern bakery in Tanzania but there was no flour to bake bread. In Somalia, the Italian funded a banana-boxing plant but the production capacity needed to make the plant break even exceeded the country's entire output of bananas. And in northern Kenya, Norwegian aid officials built fish-freezing plant to help the Turkana people. The only problem was the Turkana people do not fish; they raise goats.

In Somalia, Italy sponsored 114 projects between 1981 and 1990, costing more than \$1 billion. According to Wolfgang Achtner, an Italian journalist, "with few exceptions (such as vaccination programs carried out by NGOs [nongovernmental organizations]), the Italian ventures were absurd and wasteful" (*The Washington Post*, 24 January 1993, C3). One example was for the \$250 million spent on the Garoe-Bosaso road that stretched 450 kilometers across barren desert but crossed only by nomads on foot.

Piero Ugolini, a Florentine agronomist who worked for the technical unit of the Italian Embassy in Mogadishu from 1986 to 1990, revealed that most of Italian cooperation projects were carried out without considering their effects on the local population. "Italian aid program was used to exploit the pastoral populations and to support a regime that did nothing to promote internal development and was responsible for the death of many of its people," he said (cited in *The Washington Post*, 24 January 1993, C3).

Italian construction and engineering companies that were awarded lucrative contracts for projects in Somalia provided kickbacks to politicians in Rome and Mogadishu. In fact, Italian colonies were divided up among the politicians. Ethiopia, another former Italian colony in the Horn of Africa, was awarded to the Christian Democrats. The Socialist Party, which got Somalia, flooded it with millions of dollars of aid.

## Western Duplicity

Fifth and finally, Western donor governments and organizations allowed themselves to be duped by shrewd and corrupt African despots. Structural Adjustment Programs or “adjustment lending” failed because of design flaws, sequencing, pedagogical inanities, and a weak commitment to reform. African dictators accepted reform – both economic and political -- only reluctantly. And even when they accepted it, they performed a resounding rendition of what Africans dismiss as the “*Babangida Boogie*” – one step forward, three steps back, a flip and a sidekick to land on a fat Swiss bank account. All much ado about nothing.

Foreign loans and aid programs in Africa were badly monitored and often stolen by corrupt bureaucrats. “We failed to keep a real hands-on posture with aid,” said Edward P. Brynn, former U.S. Ambassador to Ghana. “We allowed a small, clever class that inherited power from the colonial masters to take us to the cleaners. It will take a whole lot of time and money to turn Africa around.” (Blaine Harden, 2000; p.1)

More maddening, the donor agencies *knew* or should have known all along the motivations and activities of corrupt African leaders and that billions of aid dollars were being spirited into Swiss banks by greedy African kleptocrats. “Every franc we give impoverished Africa, comes back to France or is smuggled into Switzerland and even Japan” wrote the Paris daily, *Le Monde* in March 1990. Even famine relief assistance to Africa was not spared. Dr. Rony Brauman, head of *Medecins sans Frontiers* (Doctors without Borders), which operated in Ethiopia in 1989, lamented: “We have been duped. . . Western governments and humanitarian groups unwittingly fuelled--and are continuing to fuel--an operation that will be described in hindsight in a few years' time as one of the greatest slaughters of our time.”

Patricia Adams of Probe International, a Toronto-based environmental group, charged that, “in most cases, Western governments knew that substantial portions of their loans – up to 30 percent, says the World Bank – went directly into the pockets of corrupt officials, for their personal use” (*Financial Post*, May 10, 1999). In an interview, Edward Jaycox, the World Bank's Vice President for Africa, complained bitterly: “How many African governments put a top priority on alleviating poverty? I can't even think of three. When has the military given up its toys? When has a diplomatic mission been closed in the interests of poverty alleviation? When has the role of women been enhanced in any of these African countries, without outside interference?” (*Africa Recovery*, April-September 1994, 9). The World Bank itself estimates that “nearly 40 percent of Africa's aggregate wealth has fled to foreign bank accounts” (*The Washington Post*, Nov 25, 1999; p.A31).

Yet, the Bank considers these same such African governments as “partners in development.” When the United Nations launched a \$25 billion Special Initiative for Africa on 15 March 1996, to revive development on the continent, World Bank president James Wolfensohn gushed that “he was pleased that the Special Initiative is designed to be supportive of and a ‘true partnership’ with African leadership” (*Africa Recovery*, May 1996, 13). In a letter to the editor of *The Washington Times* (20 June, 1995), Stephen Thompson was furious: “The infusion of cash strengthens corrupt ruling classes and encourages the continuation of disastrous socialist policies. Thus, the World Bank becomes, in effect, the partner of corrupt, oppressive, often brutal regimes” (*The Washington Times*, 20 June 1995, A18). As Gourevitch (1998) noted in regards to the late Rwandan president, General Juvenal Habyarimana, “Development was his favorite political word and it also happened to be a favorite word of the European and American aid donors whom he milked with great skill” (69).

World Bank loans and foreign aid to Africa have bailed out tyrannical regimes. After its economy was shattered by crass "revolutionary" policies in 1983, the Marxist PNDC regime in Ghana found its days numbered. The Soviets and Cubans could no longer provide assistance. It made overtures to the West, which responded with alacrity, eager to win one more "convert." The regime signed a Structural Adjustment agreement with the World Bank in 1983. Slight improvements in the economy were hysterically hailed and Ghana was declared a "success story", a "role model for Africa." Twelve years later and after the infusion of more than \$4 billion in World Bank loans and credit, the World Bank itself admitted in its own 1996 Country Assessment Report that, declaring Ghana a "success story" was a mistake and not in the country's own best interest.

Similarly in Mozambique and Angola, whose economies had been devastated by years of senseless civil wars. The Marxist regimes in both countries, under siege from freedom fighters, were about to collapse. They did what any clever Marxist would do to survive: blamed apartheid South Africa for funding insurgency activity in their country, eschewed doctrinaire Marxism, expunged all references to this ideology from government documents, and signed a structural adjustment agreement with the World Bank. Eager to woo these countries from the Soviet orbit, Western financial and technical assistance poured into Mozambique in the late 1989, at the rate of \$800 million a year. Britain even provided military assistance and personnel to help Zimbabwean forces crush the insurgents in Mozambique and to rebuild and reopen the Beira Corridor, that allowed goods to flow from the interior to the port city of Beira. Suddenly these resistance forces or freedom fighters, who for years put up a courageous struggle against brutal Marxism, were now characterized as "bandits" and forsaken by the West. The same fate befell the resistance forces in Angola. In July 1989, when Angola was faced with imminent economic collapse, President dos Santos took up membership of the IMF. A year later his government formally abandoned Marxist-Leninism and announced that it would introduce a market economy. The new Clinton administration cheered and the State Department made diplomatic exchanges with Angola. Dos Santos was invited to the United States, just as Jerry Rawlings was officially invited. The rehabilitation and bailout of Marxist "tin gods" was complete.

In this way, World Bank sponsored SAP provided failing regimes the door to redemption in the West and, more important to, their own survival. Had the World Bank insisted on signing SAP agreements with only democratic countries and those *at peace*, the course of history in Ghana, Mozambique, and Angola would have been different and their people would have breathed easier. The very act of signing such an agreement was an admission of failure. Johnson (1993) noted that:

“Western experts who had backed the rapid transfer of power argued that Africa, in particular, was going through a difficult transition, and that patience -- plus assistance of all kinds -- was imperative. That view is now discredited. During the 1980's it came to be recognized that government-to-government aid usually served only to keep in power unsuccessful, unpopular and often vicious regimes. By the early 1990's, some international agencies were beginning openly argue that, in crisis situations, like the famine in East Africa, a Western military presence was essential to supplement a largely nonexistent government “(7).

Uganda, dependent on foreign aid for 55 percent of its budget, was hailed as a "success story" by the World Bank and the IMF, despite growing concerns its democracy, defense spending, its inane intervention in the Congo conflict and rampant corruption. Yet, on December 11, 1999, Uganda's aid donors announced the country's biggest-ever dollop of aid: \$2.2 billion, with no visible strings attached. Of this \$830 million will be given quickly as budget support and the rest will come in

chunks over 3 years. “Cynics might say that Uganda can hold the world to ransom because the World Bank, the IMF and the other foreign donors cannot afford to let their star pupil go under” (*The Economist*, Feb 12, 2000; p.61).

### **On The Recipients’ Side**

It is easy for African leaders to put the blame somewhere else; for example, on Western aid donors or on an allegedly hostile international economic environment. But as the World Bank (1984) observed, “genuine donor mistakes and misfortunes alone cannot explain the excessive number of ‘white elephants’” (p. 24). Certainly, the recipients – African governments – are also responsible for the failure of aid programs.

It must be stated that there is nothing wrong with borrowing money. The cardinal principle of borrowing requires that the loan be used productively to generate a net income over and above that required for debt repayment or amortization. Unfortunately, this has not been the case in many African countries. External loans were not used productively. Some were used to finance reckless spending; to establish grandiose loss-making state enterprises and other “black elephants”; to purchase weapons to slaughter the African people; while the rest was simply squandered.

### **Consumption Loans**

There were three ways in which foreign aid or loans are “consumed.” The first is borrowing from abroad to finance a budget deficit on the current account. Such a loan simply finances recurrent expenditures; for example, paying civil servants' salaries. The use of the loan generates no foreign exchange or return to pay back the loan. If the loan is used to finance a deficit on the capital account, such as a new office building or telephone system, it must produce or save enough foreign exchange to service the loan. But in general, this is difficult to achieve.

A second type of consumption loan is borrowing abroad to finance imports of consumer goods (corned beef, sardines, Mercedes Benzes, TV sets, etc.). In this case, the loan is simply consumed and there will be nothing to show for it; no foreign exchange saved or earned. Ghana, Nigeria and Cameroon borrowed much abroad to buy consumer goods. In the early 1980s, for example, more than half of Tanzania's imports was financed by loans from foreign governments (foreign aid).

The third type of consumption loan is that taken to purchase arms and ammunition – the most useless and pernicious use of foreign aid. BANG, BANG, BANG and the loan goes up in smoke. No income generated to repay the loan. Ethiopia, Angola, Mozambique, Libya, Chad, Somalia and Uganda all took foreign loans to buy weapons to wage various campaigns. If conflicts can be settled through dialogue and negotiation at very little cost, then what is the sense for a poor nation to borrow heavy amounts and wage military conflicts? What Africa spends on arms, much of which is bought with foreign loans, in the teeth of its famine crisis, defies logic. In Africa’s most idiotic war between Ethiopia and Eritrea (1998-2000), both countries were spending \$1 million a day on weapons while their people were being ravaged by AIDS and famine.

“According to figures from the Institute for International Strategic Studies in London. Ethiopia, a country of 60 million, spent \$480 million on arms in 1999; Eritrea, a nation of 3 million, spent \$306 million. They spent slightly smaller amounts in 1998.

This year[2000], Ethiopia’s defense budget is set to rise to \$533 million. Yet before the first outbreak of war in 1998, Ethiopia's defense budget was a little more than \$100 million, the Institute said.



In the last four years, Ethiopia received \$924.9 million from the World Bank, more than two-thirds of it in 1998 after a first round of fighting, according to the World Bank. Eritrea, a much smaller country, received less. The World Bank never threatened to stop the money, bank officials said, although Ethiopia lost its program with the IMF because of excessive military spending" (*The New York Times*, May 22, 2000; p.A9).

### **Unproductive Investments: Prestigious "Black Elephants"**

Though foreign aid was used to finance specific development projects, they tended to be grandiose, projects and state enterprises, dictated more by considerations of prestige than by concerns for economic efficiency. The late Mobutu Sese Seko of Zaire once declared, "I know my people. They like grandeur. They want us to have respect abroad in the eyes of other countries" (*The Wall Street Journal*, Oct 15, 1986). Accordingly, half of Zaire's foreign debt of \$6 billion went to build two big dams and the Inga-Shaba powerline, as well as a \$1 billion double-decked suspension bridge over the Congo River. The upper level is for a railroad that does not exist.

By 1983, Ghana had more than 240 state enterprises (SEs) but their performance has been nothing short of the scandalous. These enterprises, set up with foreign loans, were supposed to *earn or save* Ghana the foreign exchange needed to service or pay back the loan. Instead, they racked up losses upon losses, used up more foreign exchange to compound the debt crisis. The state enterprises could not fill the shortfall in production. Inevitably, the results were greater inefficiency, excess capacity, and economic retrogression. For example:

- The State Meat Factory at Bolgatanga was closed for nine months; yet employees were paid in full for the entire period" (*West Africa*, 1981; p.2884).
- For 14 months, from November 1978 to January 1980, the State Jute Bag Factory was closed due to a shortage of raw materials. Yet, the 1,000 workers received full pay for the entire period of closure [Punch, 14-20 August 1981, p.4].
- The Boatyard Division of GIHOC at Mumford Village in the Apam District (Central Region) has launched only 6 vessels with a workforce of 40 employees since its establishment 9 years ago" (*Daily Graphic*, 14 August, 1981; p.8).
- The pre-fab factory started by the Russians in 1962 has not produced a single home. Yet, 500 Ghanaian workers and 13 Soviet experts were drawing salaries for a period of 6 years [Graphic, 6 December 1978, p.5].

The picture elsewhere in Africa was pretty much the same:

- In Nigeria, most state enterprises are triumphs of towering inefficiency. Consider the rate of capacity utilization of a random selection from the Central Bank's 1992 Annual Report: Nigerian Machine Tools: 8 percent; Nigerian Paper Mill, Jebba: 12.1 percent; Nigerian Newsprint Manufacturing Company: 13.3 percent; Jukura Mable Plant: 1 percent; the Nigerian Sugar Company: an impressive 72 percent. The Nigerian National Paper Manufacturing Company did not make anything at all: "construction work which started in 1977 was yet to be completed due to lack of funds" (*The Economist*, Aug 21, 1993; Survey p.9).

- The Tunisian Government runs the airline, the steel mill, the phosphate mines and 150 factories employing a third of Tunisian workers. Mr. Ben Ali doesn't want them jobless, hanging around mosques. Before 1990, 35 companies were sold off; fewer than 20 have sold since.

Private businessman Afif Kilani bought one called Comfort, a featherbed for 1,200 workers who built 15,000 refrigerators a year. Mr. Kilani paid \$3.3 million for the place in 1990. Now it has 600 workers and makes 200,000 refrigerators a year. "Like all state companies, its point was to support the maximum number of jobs," he says from behind a big glass desk. "It was social work. A sort of welfare." (*The Wall Street Journal*, June 22, 1995; p.A11).

- Tanzania's state-owned Morongo Shoe Company (MSC) was financed by the World Bank. Based on abundant supplies of hides and skins, the project was supposed to be a low-technology, economies of scale activity that would expand the country's exports. About 80 percent of the shoes were to be shipped to Europe. But when the plant became operational in the 1980s, "MSC achieved just over 5 percent capacity utilization . . . By 1986, the figure was below 3 percent. Most of the machines were never used, quality and design were abysmal, and unit costs were very high and the factory was eventually abandoned" (Luke, 1995; p.154).

As the World Bank (1989) itself admitted:

"There are countless examples of badly chosen and poorly designed public investments, including some in which the World Bank has participated. A 1987 evaluation revealed that half of the completed rural development projects financed by the World Bank in Africa had failed. A cement plant serving Cote d'Ivoire, Ghana, and Togo was closed in 1984 after only 4 years in operation. A state-run shoe factory in Tanzania [Morongo Shoe Factory] has been operating at no more than 25 percent capacity and has remained open only thanks to a large government subsidy (p. 27).

Indeed, in a speech at the International Conference on Privatization on Feb 17, 1987, in Washington, D.C., former president of the African Development Bank, Babacar N'Diaye, himself admitted that:

"It is now generally accepted that over time the majority of public sector enterprises or entities have not performed efficiently. Instead of accumulating surpluses or supplying services efficiently, a good number of these enterprises have become a drain on the national treasuries. Due to this poor performance, coupled with the growing recognition of the costs of ineffective public enterprises in terms of foregone economic development and the scarcity of domestic and external resources for public sector expenditure, reappraisal of the strategy of heavy reliance on the public sector has become imperative. From this reappraisal, a view has emerged -- the need for enhancement of the role of the private sector in development . . . We in Africa are facing a great challenge. We believe that the creation of a conducive environment for the growth of the private sector, an important agent of economic growth, is essential."

Many of Africa's state enterprises, set up with foreign loans, were supposed to earn or save Africa the foreign exchange needed to service or pay back the loan. Instead, these enterprises racked up losses upon losses, used up more foreign exchange to compound

the debt crisis. As Mr. E.A. Sai, member-Secretary of Ghana's Committee of Secretaries, observed:

“Apart from a few success stories in the management of public enterprises in Africa, such as in the Kenya Tea Development Authority, Botswana's Meat Commission, Tanzania's Electricity Company, The Guma Valley Water Company of Sierra Leone and Ghana's Volta River Authority, the record of state enterprises had been poor” (*West Africa*, 16 May, 1988; p.897).

### **Corruption, Fraud and Shady Deals**

Considerable evidence exists to suggest that many foreign loans were contracted under rather dubious and corrupt circumstances. Ghana foreign debt stood at \$5 billion in 1995 with a population of 17 million.

To finance its industrialization drive, Nkrumah borrowed heavily from abroad under supplier's credit. In a supplier's credit arrangement, a fast-talking equipment peddler would sell Ghana an equipment over a period of time, generally 4 to 6 years. The peddler then would obtain credit from private banks and have it guaranteed by his own country's governmental export credit insurance organization. After this arrangement, any future dealings will be between Ghana and the export credit organization; not with the peddler. He was paid and gone.

Indeed, under supplier's credit arrangements, Ghana bought in many cases obsolete equipment at inflated prices and contracted a huge foreign debt between 1961 and 1966. For example, the expensive 3 Ilyushin jets Ghana bought from the Soviets, at a time when Ghana Airways was having difficulty filling its planes, turned out to be old jets that had been repainted. The British firm, Parkinson-Howard, sold Ghana a huge dry dock which laid idle for 9 years after it was commissioned in 1969. The German "equipment-monger", Stahlunion, build a sheet glass plant with a capacity of nearly 3 times the size of the local market. The plant was never brought in operation and later had to be converted at an extra cost of 2.5 million *cedis* for bottle-making. When that was completed too, the same government imported large quantities of bottles from Czechoslovakia and China to make it difficult for the factory to sell its bottles. A Parliamentary Report suspected that the plant supplied Ghana's Vegetable Oil Mills "was of pre-war manufacture and had been lying idle for more than 30 years before being shipped to Ghana" (Public Accounts Committee, 1965; p.9).

A Ghana Government investigation (Apaloo Commission, 1967) reported Parkinson-Howard, which built the Accra-Tema Motorway; Tema Harbor extension; the dry docks and steelworks, paid a total of \$680,000 in bribes between 1958 and 1963 in three installments to certain ministers. In most cases, the bribes were 5 to 10 percent of the value of the contract.

In recent years, there have been persistent allegations of corruption and fraud in the use of aid to Ghana: "The British environmental group, Friends of the Earth, says millions of dollars in overseas aid -- going to Ghana's timber sector -- have been diverted by local and foreign logging firms which got development aid from the British Overseas Development Administration and the World Bank" (*The African Letter*, March 16-31, 1992; p.1). Even refugee aid was not spared. Mattresses, rations and other relief supplies to Liberian refugees encamped at Budunburam in Ghana were regularly pilfered by the authorities. When a Liberian refugee by name of Oscar complained, "the Ghanaian soldiers beat him" (*Index on Censorship*, April 1996).

External loans contracted privately on behalf of Ghana was subject to much abuse and fraud, according to Mary Stella Ankomah, MP for Wassa Mpohor in the Fourth Republic:

“A member of parliament for the Wassa-Mpohor constituency, has disclosed that the government pays agency fees on loans it contracts. Miss Ankomah also said that the government pays what it terms "exposure fees" before loans are granted to the country.

The MP explained that the government claims it pays middlemen, who lead Ghana to negotiate loans on its behalf, a certain percentage that these agents demand.

She said when the minority MPs smelt some fishy deals in the whole exercise, they invited the Deputy Minister of Finance, Mr. Victor Selormey, to explain the term "agent and exposure fees" to the House.

According to Miss Ankomah, the Minister said there are some benevolent Ghanaians in the United States who negotiate loans for the country under the condition that they are paid a certain percentage. Under one of such conditions, the MP said the government paid out 27 percent of an \$8 million loan recently given to the country by an European country.

The MP wondered how a country with a Minister of Finance and an economic team which oversees the economic performance of the country should contact an agent in contractual bids. She described the Minister's explanation as a big farce (*The Independent*, Aug 28 - Sept 4, 1996; p.1).

In recent years, loans provided by the World Bank for various poverty-reduction programs have been embezzled by elite bandits. According to the Serious Fraud Office, 130.3 million *cedis* ( or \$20,000) of the World Bank's poverty-reduction program, intended for the small community farmers of the Afram Plains, was embezzled by Col. D.I.K. Sarfo, I.G. Tetteh, P.P. Adade, C.K. Gyamfi, D. Attrama, E.K. Addai and B. Acheampong. The World Bank also provided 58 million *cedis* to Ghana's Statistical Service to conduct a survey and enable the compilation of core welfare indicators but the money was stolen by Dr. Oti Boateng. Another sum, 155.4 million *cedis* provided by the World Bank to the Ghana Statistical Service for a "Living Standards Survey" was misappropriated by Dr. Atadika through the inflation of car rentals and seminar fees.

"A total amount of 650 million *cedis* (about \$278,000) allocated to the Tema Municipal Assembly toward the implementation of its Poverty Alleviation Programme for the last two years cannot be traced. According to reliable sources, there is no record of the total amount released by the Ministry of Local Government and Rural Development in two batches of 400 million *cedis* for 1997 and 250 million *cedis* in 1998 respectively having been expended on any project or projects to alleviate poverty in the Assembly's area of jurisdiction . . .Political observers questioned the Assembly's integrity under the leadership of Nii Armah Ashietey. "He calls himself a mafia and says only God can remove him from the Assembly," an observer remarked, adding that he is a law unto himself so far as matters of the municipality are concerned" (*Free Press*, January 13-19, 1999; p.1).

According to Goosie Tanoh, leader of the newly-formed National Reform Party, "It is an open secret that so many grants from Japan, Canada, USA and Britain had been given to party functionaries who have misapplied it" (*The Ghanaian Chronicle*, August 14, 2000).

In Kenya, Nairobi's deputy mayor, Abdi Ogle, demanded the resignation of the World Bank's Country Director for Kenya, Harold Wackman (a Canadian), accusing him of turning a blind eye to embezzlement of an emergency loan of \$77.5 million in July 1998 to repair infrastructure damaged by heavy rains. "Not a cent of this money has come to the City Council because it has disappeared

into private pockets within the Ministry of Local Government," fumed Ogle, who also demanded the resignation of the Minister, Sam Ongere (*Daily Graphic*, 9 January 1999, 5).

In June 1999, the EU announced that it had suspended aid to Ivory Coast after discovering that about \$30m donated for health programs had apparently been misused. The Ivory Coast authorities arrested four senior government officials for questioning in connection with the alleged embezzlement (*BBC World Service*, July 18, 1999). And at the XIth International Conference on AIDS and Sexually Transmitted Diseases in Africa in Lusaka in September 1999, former Nigerian health minister Olikoye Ransome-Kuti accused some African governments of stealing the bulk of funds meant for the purchase of medical drugs. Kuti said many of the HIV/AIDS patients could be saved and the epidemic effectively controlled in the region if governments valued the lives of their people and looked critically at the ways funds were being spent. He added that it would not be helpful to appeal for international aid towards the procurement of drugs when the money was being stolen by the governments. "Donors no longer listen to our whines. I am also sure they will respond promptly when our governments demonstrate a determination to care for the people" (*PanAfrican News Agency*, September 13, 1999).

Mauritania, a poor arid West African country, receives aid from wealthy western countries. About 70 percent of it goes back as interest payments and the rest is embezzled. "The chief opposition party, *Union des Forces Democratiques*, claims that since 1985, the government of President Maaouya Ould Sid' Ahmed Taya has siphoned away \$1.8 billion of aid money for itself and its supporters. When the party raised questions about the missing money, its leaders were promptly thrown in jail. Mohammed Ould Lafdahl, the chief opposition spokesman, says debt relief will go the same way as the original loans" (*The Economist*, Sept 23, 2000; p.52).

## CONCLUSION

Evidently, the record of official development assistance in Africa under all phases has generally been dismal – a fact recognized by the donors and which underscores their unwillingness to provide more aid (donor fatigue). OECD aid to Africa fell by 22 percent between 1990 and 1996, decreasing by 18 percent to sub-Saharan countries between 1994 and 1996 alone. (DeYoung, 2000a; p.A1). Even humanitarian aid to Africa has been shrinking. Contributors to United Nations aid and development programs have provided slightly more than half of the \$800 million requested in 1999 for African countries suffering from "complex emergencies"--the term applied when war and failed institutions, often combined with a natural disaster, leave vast numbers of people homeless and starving. Specific programs for some particularly problematic areas, such as the Great Lakes region of Central Africa including the two Congos, Rwanda and Burundi, have fared even less well (DeYoung, 2000b; p.A1).

In Sept 1999, the U.N.'s World Food Program announced it would curtail its feeding program for nearly 2 million refugees in Sierra Leone, Liberia and Guinea after receiving less than 20 percent of requested funding. An emergency appeal during the summer to feed and shelter at least 600,000 Angolans who had been displaced in that country's long-standing civil war brought minimal initial response and predictions of mass starvation. In Africa's Great Lakes region of Congo, Burundi and Rwanda, where wars have produced nearly 4 million refugees, the United Nations estimated it would need \$278 million to take care of them. By Oct 1999, only 45 percent of that amount had been donated.

Private organizations are also having difficulty raising funds for African relief operations. According to Mario Ochoa, executive vice president of the Maryland-based Adventist Development and Relief Agency (ADRA), which operates relief projects out of its own donations

and under contract with donor governments, "If I were to go now and make an emergency appeal for, say, Rwanda, for \$500,000 for food, I'd probably get about seventy or eighty thousand" in contributions" (*The Washington Post*, Nov 26, 1999; p.A1).

The reasons for the decline are not hard to find. Critics have long said that foreign assistance was wasted by bloated aid agencies pouring money into the pockets of corrupt African governments. When the Soviet Union collapsed, Western powers no longer felt the need to purchase the Cold War loyalty of such governments. With a less threatening world beyond their borders, donor nations came under pressure to attend to problems at home (DeYoung 2000a; p.A1).

Perhaps, the decline in foreign aid is just what Africa needs. As Maritu Wagaw wrote: "Let Africa look inside Africa for the solution of its economic problems. Solutions to our predicament should come from within not from outside" (*New African*, March 1992; p. 19). Indeed, the aid resources Africa desperately needs can be found inside Africa itself.

First, the amount African governments spend annually to import arms and maintain their militaries is nearly equal to what they receive in foreign aid. According to Sammy Kum Buo, director of the U.N. Center for Peace and Disarmament, lamented that "Africa spends about \$12 billion a year on the purchase of arms and the maintenance of the armed forces, an amount which is equal to what Africa was requesting in financial aid over the next 5 years" (*West Africa*, May 11, 1987; p. 912). Ten years later, this amount has increased: "Excluding South Africa, spending on arms in sub-Saharan Africa totaled nearly \$11 billion in 1998, if military assistance and funding of opposition groups and mercenaries are taken into account. This was an annual increase of about 14 percent at a time when the region's economic growth rose by less than 1 percent in real terms" (*The Washington Times*, Nov 8, 1999; p.A16).

Second, the elites illegally transferred from Africa at least \$15 billion annually during the latter part of the 1980s. By 1991, this trickle had become torrential. According to *The New York Times* (Feb 4, 1996), "The United Nations estimated that \$200 billion or 90 percent of Sub-Saharan part of the continent's gross domestic product (much of it illicitly earned), was shipped to foreign banks in 1991 alone" (p.4). These elites had too little faith to invest their ill-gotten wealth in their own economies. Yet they urged foreigners to invest in Africa.

Third, at least \$5 billion annually could be saved if Africa could feed itself. Foreign exchange saved is foreign exchange earned. Fourth, another \$5 billion could be saved from waste and inefficiencies in Africa's 3,200-odd state enterprises. This might entail selling off some of them or placing them under new management. Fifth, the civil wars raging in Africa exact a heavy toll in lost output, economic development, and destroyed property. If Angola's civil war alone cost the country \$1 billion annually, \$10 billion would not be an unreasonable estimate of the average annual cost of civil wars throughout the continent. Adding up these savings and the foreign exchange generated from internal sources would yield at least \$47 billion annually, compared with the \$12.4 billion in aid Africa received from all sources in 1990.

A bucket full of holes can only hold a certain amount of water for a certain amount of time. Pouring in more water makes little sense as it will all drain away. To the extent that there are internal leaks in Africa--corruption, senseless civil wars, wasteful military expenditures, capital flight, and government wastes--pouring in more foreign aid makes little sense. As a first order of priority, the leaks should be plugged to ensure that the little aid that comes in, stays. As President Reagan once stated: "Unless a nation puts its own financial and economic house in order, no amount of aid will produce progress"(President Reagan quoted by Bovard 1986: 2). To believe otherwise is a myth.

But African dictators, impervious to reason, continue to believe that only more foreign aid would save Africa.

## BIBLIOGRAPHY

Achebe, Chinua (1985). *The Trouble With Nigeria*. Enugu, Nigeria: Fourth Dimension Publishing.

Agency for International Development, Center for Development Information and Evaluation.  
Agency  
Performance Review 1997. Washington, D.C., January, 1998. PN-ACB-775

Ake, Claude (1991), "As Africa Democratizes," *Africa Forum*, Vol. 1, No. 2; 1991: 13-18.

Ayittey, George B.N. (1991) *Indigenous African Institutions*. Dobbs Ferry, NY: Transnational Publishers.

\_\_\_\_\_ (1992). *Africa Betrayed*. New York: St. Martin's Press.

\_\_\_\_\_ (1998) *Africa In Chaos*. New York: St. Martin's Press.

Bandow, Doug and Vasquez Ian, eds. *Perpetuating Poverty: The World Bank, the IMF and the Developing World*. Cato Institute; Washington, DC: 1994.

Bauer, P.T. *Dissent on Development*. Cambridge, Ma: Harvard University Press, 1976.

Biddlecome, Peter (1994). *French Lessons In Africa: Travels With My Briefcase Through French Africa*.  
London: Abacus.

Blaine Harden (2000), "The U.S. Keeps Looking For a Few Good Men in Africa," *The New York Times*,  
August 27, 2000, Section 4; p.1).

Boone, Peter. "Politics and the Effectiveness of Foreign Aid" NBER Working Paper  
5308. October, 1995.

Bovard, James. "The Continuing Failure of Foreign Aid." Cato Institute Policy Analysis  
No 65. January 31, 1986.

Chenery, H .B. and A. M. Strout (1966), "Foreign Assistance and Economic Development."  
*American Economic Review*, 679-733.

DeYoung, Karen (2000a), "Generosity Shrinks in an Age of Prosperity," *The Washington Post*,  
Nov 25,  
1999; p.A1.

DeYoung, Karen (2000b), "World Donors Ignore Signs of Promise in Sliver of Africa," *The Washington Post*,  
Nov 26, 1999; p.A1.

Eberstadt, Nicholas (1988). *Foreign Aid and American Purpose*. Washington, D.C.: American Enterprise Institute.

\_\_\_\_\_ (2000), "Pursuit of south of the Sahara", *Washington Times*, August 27, 2000; p.B4.

Fieldhouse, D. K. (1986). *Black Africa 1945-80*. London: Allen & Unwin.

Gourevitch, Philip (1998). *Stories From Rwanda*. New York: Farrar, Straus and Giroux.

Herbst, Jeffrey (1993). *The Politics of Reform in Ghana*. Los Angeles, CA: University of California Press.

IMF (1986). *World Debt Tables*. Washington, DC: IMF.

Johnson, Paul (1993). "Colonialism's Back --- and Not a Moment Too Soon," *New York Times Magazine*, 18 April.

Killick, Tony (1978). *Development Economics In Action: A Study of Economic Policies in Ghana*. London: Heinemann.

Luke, David Fashole (1995). "Building Indigenous Entrepreneurial Capacity: Trends and Issues," in *Development Management in Africa: Toward Dynamism, Empowerment and Entrepreneurship*, ed., Sadig Rasheed and David Fashole Luke. Boulder, Co: Westview Press.

Maren, Michael (1997). *The Road to Hell: The Ravaging Effects of Foreign Aid and International Charity*. New York: The Free Press.

Michaels, Marguerite (1993). "Retreat From Africa," *Foreign Affairs*.

Nafziger, E. Wayne. (1993). *The Debt Crisis In Africa*. Baltimore: John Hopkins University Press, 1993.

Sandbrook, Richard (1993). *The Politics of Africa's Economic Stagnation*. New York: Cambridge University Press.

UNCTAD (1998). *Trade and Development Report, 1998: Financial Instability and Growth In Africa*. New York: The United Nations, 1998.

U.S. Senate Committee on Foreign Relations Report, "Economic Development and U.S. Development Aid Programs." U.S. Senate Committee on Foreign Relations, Washington D.C. September 19, 1996.

Wedel, Janine R. (1998). *Collision And Collusion*. New York: St. Martin's Press

Whitaker, Jennifer (1988). *How Can Africa Survive*. New York: Harper & Row, 1988.



Woods, Alan (1989), U.S. AID Report. *Development and the National Interest: U.S. Economic Assistance into the 21<sup>st</sup> Century*. Washington, D.C.: Department of State.

World Bank (1984). *Toward Sustained Development in Sub-Saharan Africa*, New York: Oxford University Press, 1984.

World Bank (1989). *Sub-Saharan Africa: From Crisis to Self-Sustainable Growth*. Washington, D.C., 1989.

\_\_\_\_\_ (1994). *Adjustment in Africa: Reforms, Results and the Road Ahead*. New York: Oxford University Press.

\_\_\_\_\_ (1995). *Ghana: Is Growth Sustainable?* Operations Evaluations Department. Report No. 99. Washington, D.C.: World Bank Publications.

---

World Bank/UNDP (1997). *African Economic and Financial Data*. Washington, D.C.: World Bank.

World Bank. *The World Development Report, 1997*. New York: Oxford University Press, 1997

Young, Danielle M. and Kunz, F. Michael (2000), "An Analysis of the United States Agency for International Development and Aid to India and Ghana." Posted at Michigan State University website.