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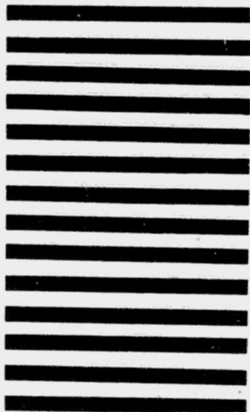

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AFRICA REPORT

Transaction Periodicals Consortium
Rutgers University
New Brunswick, New Jersey 08903

SEPTEMBER-OCTOBER 1984

AFRICA REPORT

AMERICA'S LEADING MAGAZINE ON AFRICA

VOLUME 29, NUMBER 5

A Publication of the African-American Institute

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Africa Report (ISSN 0001-9836), a nonpartisan magazine of African affairs, is published bimonthly in January-February, March-April, May-June, July-August, September-October, and November-December, and is scheduled to appear at the beginning of each date period at 833 United Nations Plaza, New York, N.Y. 10017. Editorial correspondence regarding subscriptions, distribution, advertising, and other business matters should be sent to Transaction Periodicals Consortium, Dept. 8010, Rutgers University, New Brunswick, New Jersey 08903. Telephone: (201) 932-2280. Subscription rates: *Individuals*: U.S.A. $21, Canada $27, air rate overseas $45. *Institutions*: U.S.A. $28, Canada $34, air rate overseas $52. Second-class postage paid at New York, N.Y. and at additional mailing offices. POSTMASTER: If this magazine is undeliverable, please send notice to *Africa Report*, Transaction Periodicals Consortium (address above). Telephones: Publisher (212) 949-5717; Editor (212) 949-5731. Copyright © 1984 by the African-American Institute, Inc.

IN THIS ISSUE

What does election '84 mean for the future of U.S.-African relations? In this issue of *Africa Report*, Democratic candidate Walter F. Mondale and spokesmen for the Reagan administration answer questions about their stands on Africa-related issues and on the policies they plan to pursue.

This issue also includes a thorough look at Africa's debt crisis and the roles of the IMF and the World Bank in African economies.

Robert S. Browne looks at Africa's relationship with the IMF, paying particular attention to the pressures placed on African economies and policymakers by the conditions imposed by the Fund. E.I.M. Mtei recommends adjustments that could be made in the relationship that would turn it into a partnership for development. Timothy T. Thahane looks at ways the World Bank, the IMF, other donors and African countries can cooperate to reform their policies and arrive at a comprehensive development strategy. Ekwow Spio-Garbrah faults the individual countries for not seriously addressing their economic problems and for being inadequately prepared to deal with multilateral financial institutions.

Next, *Africa Report* presents in-depth examinations of six countries. Gamaliel O. Onosode analyzes the Nigerian economy sector by sector and prescribes a large dose of austerity. Thomas M. Callaghy looks at Zaire's relationship with its creditors, explaining why it continues to have its debts rescheduled despite gross corruption and economic mismanagement. *Africa Report* editor Margaret A. Novicki assesses the efforts of the Ghanaian government to revive the country's economy.

In other articles, Reginald Herbold Green discusses Tanzania's relationship with the IMF; Howard Schissel looks at Mali's economy; and Joanmarie Kalter describes Lesotho's attempts to free itself from South Africa's economic stranglehold. Antonio-Gabriel M. Cunha says that membership in the CFA franc zone has not provided all of the benefits that were promised and has included several unpredicted drawbacks.

Finally, in our In Washington column, Congressman Don Bonker questions the effectiveness of the Reagan administration's private sector approach to African development.

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The cover photograph of President Ronald Reagan was taken by Atlan/Sygma. The photograph of presidential candidate Walter F. Mondale was provided by Mondale/Ferraro Committee, Inc.

Interview

The Reagan Administration

In a special ELECTION '84 feature, *Africa Report* presents the Republican and Democratic presidential candidates' views on major issues in African-American relations. The Reagan administration evaluates its four-year Africa policy record and outlines its plans for a second term. These written replies were provided on behalf of the Reagan administration by the U.S. Department of State.

Africa Report: What are the goals of the Reagan administration's Africa policy? Which of these goals have you attained, and which have you failed to reach? Do you expect to change any of your basic strategy during a second term?

Reagan administration: The goals of this administration in Africa have focused on two objectives in which the U.S. and African nations have mutual interests: regional peace and stability, and economic development. These objectives are unabashedly in the U.S. interest. The United States' interests and objectives are best advanced in a climate of economic cooperation, peaceful commerce, trade, and development. That is where our strength lies and that of the West as a whole.

Our global adversary is the largest arms supplier to Africa. It provides almost no economic assistance. Where African nations are diverted from peaceful development, either by internal strife or cross-border military activity, there is a market for arms and subversion. Most important, hundreds of thousands of people suffer, are uprooted, lose their homes and their livelihood. Many die. No African nation wants this situation. Neither do we.

In pursuing these objectives—regional peace and economic development—we have sought a mature partnership with African nations. What does this mean? It means that we have engaged African leaders and nations in a candid and open dialogue, searching for answers together, working in cooperation on each of these problems. We do not claim to have all the answers. We do not always agree with our African friends on the solutions. But it is a collaborative process and for that reason, it gives us promise of success.

What distinguishes this administration's policy the most in these areas is that it has been an extraordinarily activist one. This administration has made the independence of Namibia and the bringing about of peace in southern Africa its number one priority in Africa and has devoted enormous efforts and resources to that end. This is a priority shared by all of Africa. We have pursued this objective in full cooperation with the frontline states, other members of the OAU, and our Western partners in the Contact Group. There has not always been full agreement on how to achieve the objective. But there is no doubt of America's commitment and the relevance of the United States to finding peaceful solutions. We have defined an agenda of regional peace-making and negotiated change which contains potential for all parties and groups in southern Africa. We will continue, for the rest of this term and for the next, to work toward these objectives in southern Africa as one of the highest priority world-wide foreign policy goals of the United States.

Our concern with regional peace has shaped our policy in other parts of Africa. Where friends have been threatened by external attack, or territorial integrity violated and regional peace threatened, the U.S. has been willing to help. We have, for example, temporarily stationed AWACs in Sudan when there were Libyan air attacks or provocation. We have provided emergency military assistance to Chad when Libyan troops entered the country and threatened to impose a government on the capital in place of the one recognized by the OAU. We have provided selective increases in military assistance to other countries that faced real threats from across their borders.

Our security concerns parallel those of African nations themselves. The U.S. has firmly and consistently supported the principle of respect for territorial integrity that is enshrined in the OAU charter. We have lent support to the OAU's efforts at collective security as in our financial support to the OAU peace-keeping force in Chad in 1981. We have placed ourselves on the side of peaceful resolution of disputes, including internal disputes, in every part of Africa, e.g. over

the Western Sahara and in the border tension between Ethiopia and Somalia. Our security assistance is provided in support of those principles.

Security assistance is an important part of our partnership with Africa, but it is a carefully limited part and secondary to our overwhelming emphasis on economic assistance. Less than one out of every five U.S. bilateral aid dollars for Africa is military assistance, and that is the kind of ratio we expect to continue.

The economic plight of Africa is a major concern of this administration. In a speech on Africa of February 15, 1984, Secretary of State Shultz said Africa "is a continent of enormous diversity. Yet today, virtually all sub-Saharan African nations are in [illegible]omic crisis of stark proportions. This is Africa's most [illegible] problem."

We recognize that this crisis arises from several causes. Natural disasters have hit Africa in unprecedented waves in recent years: crippling drought over western, central, and southern Africa, cyclones and typhoons of devastating character in Mozambique and Madagascar. There has also been the fallout from worldwide recession in the late 1970s and early 1980s which saw prices for most African exports fall to unprecedented lows. Finally, there has been frank recognition of policy failures and distortions in the economic systems of many African countries that have worked against agricultural production and against the incomes of the rural poor and have prevented the free play of market forces or the development of competitive industries. Africa thus remains dependent on primary commodity exports and is losing the capacity to grow enough food for its populations. These problems were first articulated by African leaders in the Lagos Plan of Action in 1977, and later elaborated in several World Bank and other reports.

The United States has responded to this extraordinary crisis in unprecedented fashion. We have expanded the traditional U.S. role in humanitarian aid. At the outset of this administration, the U.S. pledged $285 million, the largest single pledge of any group of donors, to the International Conference on Assistance to Refugees in Africa (ICARA I). This past year the United States provided more food to Africa than during any year in history: 1.4 million tons [illegible] $440 million. In emergency food aid alone, the U.S. provided $172 million, two to three times the amount in recent years.

The U.S. economic turn-around now in full swing is producing the greatest market for exports to the U.S. in recent history, fueling the recovery of the world economy. Our trade deficit, and our opening to the least developed countries through our generalized system of preferences, offers markets for African countries to enter. But we recognize that Africa cannot take full advantage of the opportunities in the world economy unless some of the basic structural problems are addressed. The U.S., acting in close coordination with other donors, the international financial institutions, and African governments, has played a central role in shaping an agenda of policy reform and structural change around which increased assistance as well as domestic and foreign investment can be mobilized.

The U.S. has placed steadily increasing amounts of resources behind this effort. U.S. economic assistance to Africa has increased 30 percent since 1981. Africa is getting a stead-

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President Ronald Reagan meeting with Zimbabwe's Prime Minister Robert Mugabe: "We are working in constructive engagement with all of the countries of southern Africa"

ily higher share of U.S. assistance resources world-wide. We have also made our assistance more flexible and responsive to priority needs of African countries, for example increasing substantially the assistance available for essential non-food imports such as fertilizer, machinery, spare parts, and petroleum.

The United States carried this process further in early 1984 with the announcement of the Economic Policy Initiative (EPI) for Africa. This initiative represents our belief that working more closely together, African nations and the donor community can accelerate the process of restructuring and development. Under EPI, the administration has proposed to Congress that $500 million in additional assistance be provided to Africa over the next five years. This assistance would be concentrated on those countries, perhaps four to six each year, carrying out difficult but essential reforms and would provide the means to ease the cost and speed the results of those reforms. With EPI, we are also calling for closer cooperation between African countries and the several donors and donor institutions involved in each country so that assistance from several sources can become coherent, that African countries are not pulled in several different and even conflicting directions by different donor emphases, and that sufficient resources are mobilized to enable countries that are performing well to achieve their objectives. Asking Congress for additional assistance under EPI means that funds will not be taken away from the essential tasks of research, training, agricultural development, and institutional development that make up the bulk of our programs in Africa.

As noted earlier, U.S. interests are best served in a world free to focus on economic development and trade. That interest is reflected in the distribution of our assistance throughout Africa. Our emergency food aid goes to every African country in need, regardless of political system or the state of our bilateral relations. Our share of total food aid delivered to the 24 FAO-designated "food emergency" countries during 1982-83 averaged 40 percent and will be at least as great in 1984. Ethiopia, Ghana, and Mozambique were among the principle recipients of U.S. emergency food aid. Our development assistance program operates in nearly every country in Africa. We are proud and pleased to make economic cooperation a central feature in our relations with Africa.

Southern Africa

For more than a decade, southern Africa has been gripped by a deepening cycle of violence, of cross-border raids and terrorist attacks, of bombings, of internal dissidence with outside support, and growing insecurity. South Africa's system of apartheid—unacceptable to the majority of South Africans and Americans—its sense of isolation and encirclement, and its dominant military and economic position, have fed that cycle of violence. So, too, have the Soviets and their allies outside Africa, ready to fuel military solutions and exploit the deeply rooted problems of the region. So, sadly, have many voices in Africa and the West who blithely argue that violent solutions are inevitable, even preferable, and who thrive on the politics of racial polarization. The victims of this syndrome are first and foremost the peoples of southern Africa whose lives become militarized and whose scarce resources are diverted to security needs, real or perceived. Some countries have seen their economies ruined. Most countries of the region have found themselves caught up in a diplomacy of battle lines and confrontation.

The United States has committed itself to lend its influence, resources, and diplomatic ability to help solving not just the problem of Namibia, as central as that is, but to helping address the cycle of violence which threatens the entire region. There is no question that these issues are related, i.e., there

Camerapix

Somali guerrilla in the Ogaden: "In the Horn of Africa we have consistently urged restraint on all parties"

is no solution to the independence of Namibia that does not take account of the wider regional context of a settlement. By the same token, a Namibia settlement can have fundamental and positive consequences for regional security throughout southern Africa.

Throughout the past three and one-half years, this administration has worked tirelessly with its allies in the Contact Group, with the frontline states, with South Africa, and with SWAPO and the other Namibian parties to overcome, one by one, each of the obstacles to the implementation of UN Security Council resolution 435. That task has now been accomplished: the issues that arose in previous conferences and negotiations on UN resolution 435 have been resolved. What remains is the need for an understanding on the withdrawal of Cuban combat forces from Angola. This is neither an extraneous issue, nor one that can be wished away. The U.S. has carried out fruitful discussions with Angola on this issue and we remain convinced that a formula can be found, consistent with Angola's security, that will trigger the implementation of South Africa's commitments under UN resolution 435.

To reach this objective we have worked with African leaders to create building blocks of peace and greater mutual confidence. In Lusaka last February, South Africa agreed to withdraw its forces from Angola. That process, involving a joint monitoring commission between the two countries, is almost completed. This necessary first step has the potential to bring further progress, including a ceasefire in Namibia and the beginning of the transition to Namibia's independence.

Problems of escalating violence and economic decline risk becoming endemic across the region. We have made clear our position: if there is to be development, there must also be a fabric of security; if there is to be a way out of the cycle of violence, it must be based on mutual commitments to respect boundaries and co-exist peacefully, despite fundamental differences of domestic systems. In this spirit, we have pursued a systematic normalization of relations with Mozambique, a two-way process that has enabled us to lend our good offices to negotiations between Mozambique and South Africa. This has resulted in the Nkomati Accord of March 16, 1984, a watershed of potentially historic meaning for the region. Both countries pledged their respect for the OAU principle of the integrity of borders, and to control cross-border violence. The way has been opened for peaceful development in Mozambique and, given its geographical importance, a boost to the prospects of all the countries in the region.

Our regional efforts in southern Africa are integrally related to our position on South Africa's domestic racial policies. The U.S. has made clear that we find that system repugnant and incompatible with U.S. values and interests. We are committed to encourage change within South Africa toward a government based on the consent of the governed. We believe that a climate of violence in the region only strengthen internal resistance to such change, as will efforts to bring violence into southern Africa.

Many forces are at work within South Africa which are opening up opportunities for peaceful change. Economic forces, social forces, changes in attitudes and political realignments are all potential contributors to constructive change. Recognizing as we do that the situation is far from static, we are working to strengthen those forces for change. With the support of Congress, we are spending $10 million this year to support the training and education of black South Africans. We have clearly backed higher standards of citizenship by U.S. corporations in South Africa.

At the same time, this administration has sent powerful messages on those things we cannot support or condone: e.g. forced removals, the "homelands" policy which constitutes the denial of citizenship and effective political participation to the majority of South Africa's citizens, and legally entrenched racial restrictions on where people may live, work, travel, and go to school. Clearly, the equation of change in South Africa presents a mixed picture. We can afford neither to be complacent nor to deny that change is occurring. In the coming years our role will be to communicate as clearly as we can that negotiated change is imperative and that all South Africans have a right to shape their future, free of foreign intervention.

As we look back on the past three and one-half years, we believe we have set some important priorities, established principles for pursuing them, achieved cooperation from key African leaders in furthering the process of peace in southern Africa, and helped alert the world to the special character of the economic crisis in Africa. The decade of the 1980s will not be easy for Africa. But we are pledged to play a steadily greater role in providing the encouragement and resources required for the task.

Africa Report: What threats to U.S. interests exist in Africa? Do you consider the continuation of apartheid to be a threat to U.S. interests? Should the U.S. use its influence to end the apartheid system? How could this best be done?

Reagan administration: The U.S. has a strong national interest in seeing the emergence in Africa of a community of free nations with healthy economies and democratic political institutions. Economic decay, weak institutions, and political instability attract foreign adversaries who will seek to take advantage of misery and instability to the detriment of the U.S. Such conditions deter foreign and indigenous investment and delay Africa's proper role in the world economy.

Apartheid is clearly a threat to U.S. interests as well as an invitation to heightened instability and economic decline affecting all southern Africans. If that system does not change peacefully, it will be challenged violently, and all will suffer. Violence in southern Africa does not contribute to U.S. or African security. The U.S. is using its influence to end apartheid by, as has been noted above, actively working to create conditions which will lead to peaceful change. The South African government is under no illusions about the depth of our opposition to apartheid. We oppose forced removals and arbitrary detentions and bannings. We do not accept the independence of "homelands" and oppose the deprivation of citizenship which that system entails.

America is playing a positive role. American businesses in South Africa have taken the lead in improving working conditions for black workers, as for example: equal pay for equal work; moving blacks into management positions; and improving the life in black communities generally. Many American companies have signed the Sullivan Code principles which call

for the improvement in the lot of the black South African worker. The administration endorses the Sullivan Code and encourages American firms to adhere to it. We believe that such positive involvement directly supports peaceful change in South Africa.

Africa Report: Your administration criticized the Carter administration's approach to South Africa for not producing any tangible results. Do you feel that there have been any changes within South Africa as a result of "constructive engagement?" If so, what changes have taken place, and does the administration consider them to be sufficient? If not, do you foresee any change in U.S. policy?

Reagan administration: We are working in constructive engagement with *all* of the countries of the region, to create conditions which will reduce violence and allow all the nations of the region to concentrate their energies and resources on economic development and social betterment. This climate of peace would permit South Africans to get on with the process of internal reform and to address the role and rights of the nation's black majority. South Africa's agreement to UN Security Council resolution 435, its move toward disengagement of forces from Angola, its diplomacy with African neighbors, and the Nkomati Accord all help to create those conditions. This comes about from a process of intense interaction and negotiation.

One fact stands out clearly: South Africa and its neighbors—immediate and near—are not locked in cross-border violence today. As recently as eight months ago, this was not the case. In the place of violent confrontation, a dynamic in favor of peace and détente is in motion. In our view it is high time that romantic illusions about violent solutions—illusions held by both white and black—were called into question. Today, responsible leaders are exploring peaceful alternatives. That situation could lead to larger gains in the months and years ahead. Constructive engagement cannot claim credit for all of this, but the U.S. has played an indispensable role as a middleman, encouraging negotiation and dialogue.

S Romilly

U.S. Assistant Secretary of State for African Affairs Chester Crocker with José Luis Cabaço, Mozambican Minister of Information: "American aspirations for change in South Africa are more likely to be achieved in the wake of the Nkomati Accord"

Similarly, inside South Africa, there are signs of positive change. It would not be appropriate for the United States government to claim credit for these developments but we do believe our message and our actions have encouraged a climate of ferment, change, and reflection among South Africans. Working conditions for blacks have improved; legal black trade unions exist; bannings and detentions are greatly reduced; police have been tried and punished for assaulting a black prisoner; two-thirds of the white electorate voted for change when it adopted the new constitutional proposals last November. Those proposals are flawed because they do not address the political rights of South Africa's black majority, but the vote does reflect a willingness on the part of the white electorate to make incremental changes. We are working to encourage that trend and to extend positive change to South Africa's black majority. Our influence will be committed to achieving further movement. We will continue to press for change and encourage positive movement whenever and wherever it occurs.

Africa Report: The Nkomati Accord between South Africa and Mozambique has often been cited as an example of the success of "constructive engagement." How do you react to criticism that Mozambique had no choice after being terrorized by South African-backed guerrillas, and that "constructive engagement" was directly responsible for South Africa's aggressive posture?

Reagan administration: The leaders of Mozambique and South Africa made a political decision that it was in their countries' national interests to end the escalating spiral of violence and explore an alternative road. These were difficult decisions for both governments. Both negotiated, a process that entails concessions to achieve broader interest. Mozambique benefits immediately and directly, as does South Africa. There is first of all the promise of peace and increased security.

Furthermore, the accord is expected to lead to substantial economic benefits for Mozambique and South Africa in the fields of energy, trade, employment, transportation, tourism, and investment. Our aspirations for change in South Africa itself are also more likely to be achieved in the wake of the Nkomati Accord and a reduction of violence in the region. If cross-border violence is controlled, the South Africans will be encouraged to direct their energies toward internal reform. If it is not controlled, there will simply be a return to the cycle of violence, death, and destruction—and no necessarily commensurate move toward change away from apartheid. The Nkomati agreement entails reciprocal obligations. Both sides endorse fundamental principles of international order—principles enshrined in the OAU and UN charters. Nkomati represents the ability and readiness of black and white to negotiate in southern Africa. That principle has broader ramifications, not least for black South Africans.

Africa Report: Despite a flurry of diplomatic activity, there has been no real progress toward Namibian independence. What new policy initiatives should the U.S. take to bring about the independence of Namibia? Will the U.S. continue to insist on linking independence to the withdrawal of Cuban troops from Angola?

Reagan administration: The premise of the question is

inaccurate. There has, as has been explained earlier, been real and tangible progress toward Namibian independence. We are closer than we have ever been. All parties, including South Africa, have agreed to Namibian independence in accord with UN Security Council resolution 435. Namibian independence now depends on political decisions being taken by the concerned parties. The South African government has repeatedly made clear that the issue of the Cuban troop presence in Angola has to be addressed before South Africa will implement resolution 435. This is a political reality that must be dealt with if Namibian independence is to be achieved and South African forces are to leave Namibia. We are actively seeking to find ways to overcome this last obstacle to Namibian independence and South Africa's disengagement of forces from Angola is part of that effort. For our own part, we believe that the withdrawal from Angola of the largest number of Cuban troops on African soil is very much in the interests of Angola and the region, and can form part of the context in which all foreign forces return home. This will promote greater security and greater confidence for all nations in the region that their borders and sovereignty will be respected.

Africa Report: How do you answer critics who say that the Angolan government must maintain the Cuban troops in order to defend itself against externally based threats to its security and that, by backing UNITA, South Africa contributes to this threat by destabilizing the Angolan government? Does not the U.S. insistence on "linkage" allow South Africa to forestall indefinitely a Namibian settlement by continuing its destabilization of the Angolan government?

Reagan administration: The Angolan government has stated repeatedly that the Cuban troop presence in its country is related to the threat from South Africa. Therefore, positive movement on the Namibia issue can directly remove the concerns which the Angolans have said necessitate the Cuban troop presence. Furthermore, we have recognized that the Cuban troop presence in Angola is a political reality which must be dealt with in order to move toward a settlement in the region acceptable to all parties. We certainly are not asking the Angolan government to act against its own interests, as we could not expect it to do so. On the contrary, and as we have clearly stated to the Angolans, our view is that a resolution of the Namibia issue will contribute greatly to a reduction in outside involvement in the internal Angolan conflict and permit the Angolans themselves to reconcile their differences. It should be made very clear that we have never asked that one side move first or that one side first implement the other side's preconditions. Rather we seek parallel commitments—on implementing resolution 435 and on Cuban withdrawal—that would be implemented in tandem.

Africa Report: What role should the U.S. play in the resolution of African regional conflicts such as the wars in the Western Sahara, Chad, and the Horn of Africa? Is the provision of military assistance to countries friendly to the U.S. a barrier or an aid in finding peaceful solutions to these conflicts?

Reagan administration: The U.S. supports peaceful resolution of conflict. Negotiation is far and away preferable to war and violence. In Africa, where there is so much poverty and need for development, the spectre of armed conflict among nations is a tragedy. Our goal is to permit Africans to develop their own solutions. In the Western Sahara, the U.S. has consistently supported the OAU's call for a referendum to determine the territory's political future. We supported the OAU peacekeeping force in Chad in 1981. Military assistance to governments threatened by or under attack is an aid to deterring aggression. We have provided such assistance when the alternative would be further aggression and greater instability. Our assistance, as noted earlier, has been limited and selective. In 1983, when Chad was again invaded by Libyan forces, we responded by dispatching military equipment and supplies to the legitimate government there. Our assistance and that of other nations, notably France and Zaire, has stabilized the military situation blocking further Libyan advances and permitting the Chadian government to undertake steps aimed at internal reconciliation.

In the Horn of Africa, we have consistently urged restraint on all parties. We do not see military solutions to the intractable and intricate political conflicts of the area. In the face of Libyan-promoted and Ethiopian-supported subversion, and, in some instances, direct aggression and occupation of another country's territory, we have provided defensive military equipment and supplies to Somalia and Sudan. To do less would encourage further violation of the norms of international behavior. We are at the same time actively promoting dialogue among the states of the Horn. Our position on the principle of territorial integrity as endorsed by the OAU is clear and is the basis for our belief in negotiated settlement of border tensions.

U.S. military assistance programs in Africa are a small fraction of our overall assistance, which is principally focused on economic development and relief efforts. We do not seek the militarization of Africa; overall, we are one of the continent's smaller arms suppliers. But we do recognize that states have the right to provide for their own national defense. Economic development cannot take place in a climate of national insecurity. We seek to help nations friendly to us to meet those security needs. In doing so, we keep in mind the overarching goal of economic development and the concern which we and many Africans have about the intentions of the USSR, Cuba, and Libya to exploit regional tensions in Africa for their own purposes.

Africa Report: What is the administration's rationale in decreasing the U.S. contribution to multilateral development agencies? How do you respond to the criticism that this shows the administration to be more concerned with exercising political leverage than with promoting development?

Reagan administration: The United States strongly supports both multilateral and bilateral assistance programs for Africa and for the developing world as a whole. Last year, the administration led a tough but successful fight to enlarge the quota of the International Monetary Fund (IMF). The IMF has lent Africa some $4 billion in the period 1980-84 and helped preserve Africa's liquidity in the face of rising debt payments and lower export earnings. This year, the administration supported an enlarged replenishment for the African Development Fund (ADF), and agreed to increase the U.S. annual contribution by 50 percent. In the case of the Interna-

tional Development Association (IDA), the administration made a decision that will enable IDA VII to be replenished on schedule. Previous administrations had made pledges that lacked bipartisan support in Congress and which were not fulfilled on schedule. This stretched out the actual disbursement of IDA VI well beyond the original plan. IDA VII, fulfilled at $9 billion in three years, provides for a more predictable and reliable continuation of this vital program.

The administration has also taken the lead in supporting a higher share of IDA VII for sub-Saharan Africa, where the need and justification for these highly concessional resources is greatest. Other parts of the world have greater access to other sources of development funding, yet have traditionally taken a major share of IDA. Taken together, the increase in ADF, timely replenishment of IDA VII, and the increase in Africa's share of IDA VII, should provide Africa with an increased level of multilateral assistance in the next three years. Finally, the administration is encouraging more effective international donor coordination—under the auspices of the World Bank. In this context, we have proposed a substantial increase in our bilateral aid for Africa under the EPI, which would lend credence and effectiveness to a more coordinated effort.

Africa Report: What have been the results so far of efforts to promote policy changes to encourage private investment in Africa? Do you feel that this approach to development should replace multilateral development assistance? Is such an approach suitable to every African country?

Reagan administration: We have worked with African governments, other donors, and international financial institutions to help shape a framework for policy reform in Africa that stimulates the private sector and increases the efficiency of economic resource allocation. This is not a substitute for multilateral assistance; as noted in the previous answer, the U.S. has advocated substantial resource flows to Africa through both multilateral and bilateral programs. But we do believe that sound economic policies are a necessary framework for effective use of either bilateral or multilateral assistance. For example, the hard work and large amount of resources that go into research on improved varieties of grains and other foods grown in Africa will not lead to more production if farmers cannot get a fair price and therefore afford the seeds and fertilizer they need, or if marketing is so inefficient and expensive that goods cannot be sold to the markets that desire them. Health and education budgets will be starved if parastatals drain government budgets to cover large losses. All of these considerations are behind the efforts to improve the policy framework and give more freedom to the private sector in Africa.

The private sector includes the vast majority of farmers, who are still the poorest of Africa's population, as well as the merchants, market women, traders, entrepreneurs, and manufacturers. Policy changes to stimulate the private sector are underway in many African countries, not just because we support them, but because there is consensus behind them. They make sense. Similarly, many countries have made it clear that they would welcome foreign investment. We are actively involved in promoting American investment. Several countries have expressed interest in bilateral investment treaties with the United States. So far, two treaties have been signed, with Senegal and Zaire.

In some countries, increased foreign investment is unrealistic in the short-run. However, in our view, in virtually every country, greater incentives for the domestic private sector will be productive, and where private investment is attracted, there will be more jobs, more agribusiness, and more diversity in Africa's economy.

Africa Report: Some members of Congress have called for an end to assistance to U.S. allies such as Zaire, characterizing the government as "repressive" and "corrupt." Should the U.S. continue to aid these states despite their reputations for repression and corruption? How should the U.S. respond to requests for aid from countries such as Mozambique and Ethiopia, which have socialist political systems?

Reagan administration: The U.S. government has a longstanding policy of providing emergency humanitarian relief to suffering people without regard to politics. As noted earlier, Mozambique, Ghana, and Ethiopia have been the principle recipients of U.S. emergency food aid in the wake of the drought. We cannot stand by while several million people in these and other countries are seriously threatened by drought and famine. Our development assistance program operates in virtually every country in Africa. This is consistent with our emphasis on the economic problems of Africa.

In the case of Zaire, we believe it is in the U.S. interest to work with Zaire, which has consistently shared U.S. concerns over regional and international issues. It sent troops to Chad to help keep the peace in 1981 and again in 1983 to help President Habré fight the Libyan-backed rebels. It has voted to condemn the Soviet downing of the Korean jetliner and the invasion of Afghanistan. It renewed diplomatic relations with Israel in 1982. Our reliability as a partner in Africa as elsewhere is judged by how we treat our friends, how we act toward those states that share many of our concerns, and how clearly we perceive our own interests. Furthermore, Zaire's continued stability has vital implications for almost all parts of Africa, given its central location and many shared borders.

In recent months, Zaire has successfully implemented a far-reaching economic reform program which has brought the budget deficit and inflation under control, made foreign exchange readily available for imports through officials channels, and stabilized the value of the currency. Substantial progress has also been made in reducing corruption.

It is true that Zaire's human rights record has major shortcomings. However, it should be noted that there has been progress in recent years, including Zaire's welcoming over a quarter million refugees from neighboring countries, a general amnesty last year which resulted in the release of all political prisoners, the return of several prominent exiles, and the opening of prisons to the ICRC [International Committee of the Red Cross].

With Zaire, as with other countries, the U.S. has made known its concerns over human rights issues, but has emphasized ways to improve the situation. In Zaire, we welcome the improvements that have taken place and want to encourage them. □

Interview

Walter F. Mondale

Democratic Candidate for President

The Democratic party and presidential candidate Walter F. Mondale take issue with the direction and emphasis of the Reagan administration's policies and recommend a new role for the U.S. in Africa. These written answers were provided in response to questions put to former Vice President Mondale by *Africa Report*.

Africa Report: What are the United States' basic interests in Africa? What would be the Mondale administration's Africa policy goals, and the most appropriate means of pursuing these interests and goals?

Mondale: The United States has economic, strategic, and moral interests in Africa. Our policy must seek to promote economic development in and trade with Africa; thwart Soviet meddling in African affairs; and foster respect for democracy, human rights, and social decency throughout the continent. Achieving these goals will require a range of means: humanitarian and developmental assistance; skilled diplomacy that understands the history and culture of each African nation; and a steadfast insistence on basic values. Apartheid, murderous dictatorships, and extremes of wealth and poverty are wrong and dangerous. We must work patiently but firmly to overcome them, in Africa and around the world.

Africa Report: Some African governments credited the Carter administration with improving U.S.-African relations and commended it for its concern with human rights, yet the policy did not achieve any tangible results in changing the South African government's policies. The Reagan administration on the other hand appears to weigh strategic concerns very highly in the formulation of its Africa policy. In what specific areas would a Mondale administration's Africa policy differ from that under Carter and Reagan? Should the U.S.-Soviet relationship be an important consideration in the formulation of U.S. Africa policy?

Mondale: I disagree with your statement that the Carter administration policies did not achieve any tangible results. President Carter's policies helped bring about majority rule in Zimbabwe. Just prior to the 1980 U.S. elections, the South African government had agreed to virtually all the conditions of UN resolution 435, which provides for UN-supervised elections and independence for Namibia. The U.S. has been formally committed to Namibian independence since 1977, but when the Reagan administration took office, progress on this matter virtually halted.

While our relations with the Soviet Union may sometimes influence [illegible]ngs with other nations, I believe that a successful African policy rests on the detailed knowledge of the needs of each individual nation. In addition, where a Soviet threat does in fact exist, the effective way to thwart it is to help build thriving African economies.

Africa Report: Neither the Carter nor the Reagan administration has succeeded in bringing about Namibia's independence despite differing policy approaches. What new initia-

Former Vice President Walter F. Mondale: "Apartheid, murderous dictatorships, and extremes of wealth and poverty are wrong and dangerous"

tives would you undertake to achieve Namibia's independence? What is your view of the linkage of the withdrawal of Cuban troops from Angola to Namibia's independence?

Mondale: The first thing I would do with regard to Namibia is to revive, in close cooperation with our European and African allies, UN resolution 435, which provides for Namibian independence and UN-supervised elections. I think it is important that we remember what is at stake when we discuss Namibia. What is at stake is the system of apartheid in the Republic of South Africa. The South African government continues to exclude 25.5 million people out of a total population of 30 million, from social, economic, and political participation. Now the South African minority is beginning to fear pressures from outside to reform its exclusionary practices, and has reacted by taking a hostile stance toward its disapproving neighbors. When the Reagan administration began its espousal of "constructive engagement," South Africa jumped at the chance to link independence for Namibia to Cuban troop withdrawal. The U.S. has been formally committed to Namibian independence since 1977, and just prior to the 1980 U.S. elections, the Republic of South Africa had agreed to virtually all conditions of UN resolution 435. The Reagan administration threw that commitment away.

The withdrawal of Cuban troops from Angola is, of course, a highly desirable objective. But a free and independent Namibia would probably be the most powerful argument against the continued presence of Cuban troops.

Africa Report: Would your administration extend diplomatic recognition to Angola? If so, under what conditions?

Mondale: We should be willing to sit down and work out an acceptable basis for relations with Angola. Our failure to do this has certainly hurt us, as the current Namibia stalemate demonstrates. Angola's future is intimately tied to the future of Namibia and South Africa. We cannot maintain a realistic view of the region without incorporating Angola into our goals. As I said before, one of our primary goals with regard to Africa is to immediately begin to establish forthright dialogue with all of its nations. No resolutions can be achieved without communication, and the situation in Angola is no different. As president, I would immediately begin that process with Angola.

Africa Report: Some observers cite as evidence of success of the Reagan administration's policy of "constructive engagement" the Nkomati Accord between Mozambique and South Africa, and South Africa's disengagement from southern Angola. Others say the policy has given the South African government a freer hand to destabilize southern African states and to force them into signing non-aggression pacts. What is your view of the administration's "constructive engagement" policy? What southern Africa policy would your administration pursue?

Mondale: Two years after the Reagan administration reversed our policies in southern Africa, their policy has produced few positive results. Rather than directly confronting the difficulties South Africa poses for American interests in southern Africa, they instituted "constructive engagement." They proposed to turn South Africa around by offering a series of unilateral concessions. It is hardly surprising that the United States has gotten nothing in return.

When I met with former Prime Minister Vorster in Vienna in 1977, I made it clear to him that South Africa must allow all its people to share fully in the political life and future of the country. Apartheid is antithetical to our most basic values. Tolerating or ignoring it is not an acceptable American policy. As president, I would press South Africa for meaningful action. I would make certain the South Africans understood that if they did not make progress on Namibia and apartheid, we would be prepared to use sanctions in cooperation with other nations. We should also be prepared to employ a range of unilateral measures, such as restriction in the areas of exports, nuclear materials, and air traffic.

Finally, as president, I would move to restore the trust that the Carter-Mondale administration had been able to create between the United States and black Africa. Working together, we were able to bring about majority rule in Zimbabwe and real movement toward independence for Namibia. The distance the Reagan administration has put between itself and black Africa has encouraged South Africa to assume that we will no longer pressure them relentlessly to change. "Constructive engagement" has merely emboldened South Africa to delay leaving Namibia and to destabilize neighboring Mozambique, Angola, and Zimbabwe.

By making it clear that we stand with black Africa against these strategies, we can greatly increase South Africa's incentive to change course.

Africa Report: What measures should the U.S. government utilize to bring about change in South Africa? Would you support economic sanctions such as those proposed by the Gray amendment to the Export Administration Act? Should the U.S., as the Reverend Jesse Jackson has suggested, initiate a scheme for progressive divestment from South Africa of American firms? What should be the U.S. government's relationship with the African National Congress of South Africa?

Mondale: In our efforts to bring about change in South Africa, we must utilize every means available to us. This includes exerting political pressure through international bodies such as the United Nations, as well as a carefully considered program of economic sanctions. My administration would begin by enforcing the UN arms embargo against South Africa, including restrictions on "dual use" equipment, and would reimpose export controls which the Reagan administration has seen fit to relax. I would support the Gray amendment and ban new loans by U.S. businesses to the South African government and private sector until it demonstrates progress toward ending discrimination. I would also impose a ban on the sale or transfer of sophisticated computers and high technology to South Africa on the same conditions. Programs such as those I have outlined will require careful coordination with our allies, both regionally and globally.

Africa Report: What role should the U.S. play in the resolution of African regional conflicts such as the war in the Western Sahara, Chad, and the Horn of Africa? Is the provision of military assistance to friendly countries a barrier or aid in finding peaceful solutions to these conflicts?

Mondale: A Mondale administration would seek to prevent the intervention of outside forces who exploit African regional conflicts to their own benefit. We would understand the com-

plex historical background of conflicts such as those that exist in the Horn and the Western Sahara. Where we discerned Soviet exploitation of such conflicts, we would join with African allies to pressure the Soviets to withdraw.

African nations oppose foreign intervention in their regional conflicts. I would have the U.S. join with them, if invited, to assist the Organization of African Unity [OAU] in fulfilling its mandate to find a peaceful solution to conflict in the region. The OAU is seized with the problem of the Western Sahara at this time and is seeking to forge a settlement based upon the principles of self-determination, non-intervention, and settlement through negotiations rather than violence. In my judgment, these OAU principles form a sound basis for a settlement. While making our own position clear, however, we should not intervene in OAU deliberations in ways that divide the Africans or obstruct their chosen processes.

Africa Report: Critics maintain that the Reagan administration has used military and economic aid as leverage to influence African governments' political and economic policies. It has also decreased the U.S. contribution to multilateral aid agencies upon which Africa relies for economic assistance. What criteria should be used in allocating foreign aid to Africa and should the U.S. use its aid as leverage? Are current aid levels to Africa sufficient in your view?

Mondale: A solid relationship with the nations of Africa is important to us. To achieve it, we must play a substantial role in fostering Africa's economic development. During the Carter-Mondale administration, U.S. economic and technical assistance to Africa more than doubled, from $300 million to well over $700 million. The Reagan administration, on the other hand, has increased military assistance at the expense of vital development aid. Among the important consequences of this trend has been a sharp reduction in the funds available to support the highly effective programs of American voluntary agencies in the developing world.

This policy is terribly shortsighted. By now, we should have learned that instability throughout the world thrives on hunger and grinding poverty. Of the world's 30 poorest countries, 20 are in Africa.

We must respond to Africa's economic problems, not only to promote human decency, but also from an enlightened concern for our long-term interests. If we want an Africa capable of buying American cars or grain, if we want an Africa that sees us as a partner and endorses our values and objectives, we must increase our contribution to Africa's development. We must undertake this foreign assistance, not as a dole, but as an investment in the future. Aid must go to the poorest and neediest regions of the continent, not just to those countries defined as strategically important to the United States.

Currently inflated levels of military aid tend to destabilize Africa by escalating the East-West conflict. Development assistance, coupled with prudent diplomacy, will be much more effective in fostering peace and security on the continent.

Africa Report: The Reagan administration's development aid policies emphasize the role of the private sector in development and encourage economic policy reforms which would promote private investment. Is this a realistic approach to the continent's development needs? Should Africa be regarded in special terms considering that it contains many of the poorest nations in the world? How should trade and investment be promoted in Africa?

Mondale: The Reagan administration's private sector developmental aid policies have some positive aspects. In light of Africa's special circumstances, however, it would be unrealistic to base our entire policy on this approach. To spur long-term economic growth, African nations need a range of additional assistance in education, infrastructure, and other key areas. Enhanced trade and investment will require, as well, increased political stability and assistance from multilateral institutions.

Africa Report: Some members of Congress have called for an end to U.S. assistance to American allies such as Zaire, characterizing the government as "repressive" and "corrupt." Would you favor continued aid to Western client states despite their reputation for repression and corruption? Would you support aid to countries such as Mozambique which follow socialist political systems?

Mondale: The single most important consideration in providing aid to any nation is the needs of its citizens. U.S. aid should be given to nations that use it to promote decent standards of living. I do not believe that aid is a carrot to be held out in front of hungry nations with the admonition, "If you take our side in global politics, then we'll consider feeding those who are hungry, sheltering those without homes, but if you do not, we will leave them to suffer." Such a policy ignores the principles of human rights which must guide our foreign aid policies.

At the same time, we must avoid policies that encourage and strengthen repressive regimes. In particular, arms sales and other exports that increase brutality and divert resources from vital human needs must be scaled back or halted. □

Afrapix

South African family being evicted from Mogopa: "In our efforts to bring about change in South Africa we must utilize every means available to us"

Conditionality: A New Form of Colonialism?

With the African continent in economic crisis, more and more countries are finding that they have no other option but to strike a deal with the IMF. But at what cost to their political and economic sovereignty?

BY ROBERT S. BROWNE

The economic crisis which Africa has suffered over the past decade has wreaked so much damage on basic structures and has saddled the continent with so large a debt burden that it will take many years for the effects to be undone. The sources of the devastation are many: drought, increases in the price of petroleum, the prolonged recession in the industrial countries, deteriorating terms of trade, and inappropriate policies pursued by African governments.

The true extent of the damage to African economies was concealed, or delayed perhaps, for several years by the heavy flow of commercial bank loans to the continent, which enabled it to ignore for a while the grim implications of the multifold increase in the price of energy and the deterioration in its terms of trade. But the escape was only temporary. As a result of unprecedented oil price rises, oil exporters began to register heavy payments surpluses, while non-oil exporters experienced comparable deficits, and lowered standards of living. To counteract this trend, industrialized countries moved to protect themselves by raising the prices of their exports, thus shifting a portion of their share of the deficit onto the Third World, whose raw material exports could not command comparable price increases.

Commercial banks, flush with the burgeoning deposits of the newly wealthy oil exporters, and eager to find borrowers for these deposits, offered the Third World an easy outlet by which to avoid, or at least postpone, the wrenching adjustments which were called for by the new global economic situation. These money salesmen offered loans which would enable oil importing countries to maintain their former levels of spending, despite the double financial squeeze to which they were being subjected.

What politician could resist such an offer, especially when real interest rates were at all-time lows, and banks were far more concerned with making the loans than with how they would be repaid? Indeed, some political leaders were unable to resist the temptation to borrow beyond what was required to close their balance of payments gap in order to finance massive new projects which often had little economic justification.

This unprecedented surge in loans to Third World countries was a few years later brought to an abrupt halt by the deepening recession in the industrialized nations and by the steep rise in real interest rates. By the end of the 1970s, borrowers were finding it increasingly difficult to meet their interest and principal payments, and were forced to reschedule or renegotiate their loans at higher interest rates. Many of the loans had been made on a short-term basis to suit the requirements of the lender, but were used to finance projects which had only long-term payback possibilities.

To meet these debt servicing requirements, and to pay for ever-increasing food imports caused by the drought and by faulty agricultural and administrative policies, African countries found themselves obliged to cut their non-food imports and to use up their remaining foreign exchange reserves, which had fallen dramatically as a result of the depressive effect of the global recession on export earnings. It was into this economic chaos that the International Monetary Fund (IMF) made its debut as a major financier on the African continent, although it had been providing occasional loans in Africa for many years.

The IMF was created in 1944 with the aim of stabilizing the international monetary system, a task it pursued by establishing rules and mechanisms for regulating exchange rate fluctuations. A stable monetary system was thought to be essential to the expansion of global trade in the post-World War II era. The IMF's principal stabilizing mechanism was the provision of loans of relative short-term duration to countries experiencing temporary deficits in their balance of payments, thereby permitting these countries to maintain their flow of imports. To obtain these loans, the bor-

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rower was obliged to observe certain IMF conditions. But as the borrowers were mainly the industrialized nations and the conditions attached to the loans usually entailed orthodox economic policies, conditionality rarely created problems between the IMF and the debtor.

In recent years, however, the IMF's focus has shifted from the industrialized nations to the Third World, a shift which has proved to be more than a mere change of geography. The IMF, which became active in Latin America prior to its heavy involvement in Africa, quickly found itself at loggerheads with its new customers. Latin American countries frequently objected to the conditions attached to their loans on both ideological and fiscal grounds. On more than one occasion, efforts by governments to implement IMF-imposed conditions led to riots and social upheaval. With the arrival of the IMF in Africa on a large scale, such friction has intensified and critics of the IMF have characterized the Fund as the vanguard of a new form of colonialism.

Under the best of circumstances, the task which the IMF performs is hardly likely to endear it to its borrowers (all of whom are members). Almost by definition, IMF stabilization programs impose hardships, sometimes severe, on the borrowing country. But such is the nature of the institution—it funds countries confronted with a need to impose austerity on their economies in order to enable them to reverse their payments imbalances.

Before the formation of the IMF, nations adjusted their balance of payments by unilateral devaluation or revaluation of their currencies, a practice which invited destabilizing currency manipulations. This foreign exchange anarchy contributed to the collapse of the global trading system in the period before World War II. Prior to 1973, during the era of fixed exchange rates, the IMF operated mainly by constraining the exchange rate movements of its members, lending them funds to enable them to correct their balance of payments deficits. If a country's deficit appeared to be chronic rather than transitory, then negotiations for a major devaluation would take place, and a new rate for the currency in question would be mutually agreed to among IMF membership. The IMF also negotiated currency revaluations for countries experiencing chronic balance of payments surpluses.

In the present era of floating exchange rates, and with the Third World rather than the developed countries as the major borrowers, the IMF has found itself in a new environment. Unlike developed countries, most of which are creditor nations, Third World countries' development strategies require vast injections of external financing, as well as a continuing supply of imported capital goods and raw materials. A critical segment of their population is also heavily dependent on imported consumer goods.

If this stream of financial and real inputs is interrupted, the country's ability to export is rapidly impaired. Furthermore, Africa's exports are primarily goods over which governments can exert little or no influence on prices or demand. Thus the most obvious means for closing a payments gap—by either importing less or exporting more—is not as readily available to African and other Third World countries as it is to the developed world.

The IMF gradually accepted that stabilization efforts in the Third World could not be addressed effectively with its traditional formulas. In 1979, after extensive discussion, the Fund's guidelines on the use of its resources were amended to permit longer-term loans. The Fund also recognized that in helping members to design adjustment programs, due regard would have to be paid to social, political, and economic priorities and objectives. These were steps in the right direction, but unfortunately, they were overtaken by the fast-moving events of the 1980s.

As long as private loans were readily available, IMF money, with its odious

Ahmed Bennys/Sygma

Food riots in Tunisia: "Riots and social upheavals have occurred when governments have been forced to remove subsidies because of IMF austerity policies"

"conditions," was not very attractive. In fact, during the late 1970s, so few countries went to the Fund that it was receiving more in repayments than it paid out in new loans. But as the first hints of possible defaults by Third World borrowers reached Wall Street, they sent shudders through the private banking community and transformed the formerly glib loan pushers into dour loan collectors. IMF money subsequently took on a new allure.

The IMF was eager to be accommodating, for it correctly perceived that a rash of loan defaults could easily destroy the international financial system which had been so laboriously constructed over the past 40 years. Its involvement with Third World debtors became more extensive. Whereas in 1978, the Fund was repaid four times more than it lent, by 1983, it was lending six times more than it was receiving in repayments.

For many African countries that had turned the ease of borrowing in the 1970s into excessive spending, closing payments gaps and finding the resources to service their debts was very difficult. Although both the debts and the deficits were generally smaller in Africa than in other Third World areas, African economies were also more fragile, more dependent, and had in many cases deteriorated far more seriously. Thus the dilemma of how to close a balance of payments gap when options of reducing imports or expanding exports are either highly risky or nonexistent cast its shadow over every loan negotiation.

African borrowers quickly lined up to request IMF loans, but whatever euphoria they may have experienced at finding a willing lender was promptly dispelled as they learned of the conditions attached to the loans. The IMF's country analysis teams discovered broad similarities in the underlying nature and causes of the financial crises in the various countries, and the prescriptions they recommended for "adjusting" the failing economies fell into a fairly consistent pattern.

In the IMF's view, the principal cause of each country's economic crisis was in almost every case the same—expansive demand policies—with the following results:

- government spending far in excess of revenues, leading to budget deficits and inflation;
- failure to adjust exchange rates to reflect internal inflation, leading to overvalued currencies;
- failure to maintain a balance between imports and exports in the face of rising prices for imported goods;
- insufficient attention to supply side factors.

"IMF Managing Director Jacques de Larosière regularly reaffirms that the IMF is not a development bank"

The IMF maintains that unless such deficiencies are corrected, a country's payments imbalance cannot be rectified. The longer the correction is postponed, the more serious the problem becomes. The medicine is bitter, but failure to take it is even worse, it is argued, for until it is swallowed, finances will continue to deteriorate, no new capital flows will be forthcoming, and the moment of collapse moves ever closer.

Most African countries, however, have found the IMF analysis inadequate and the adjustment packages untenable. These complaints derive from the IMF's exclusive focus on the borrower's behavior, while ignoring developed countries' share of responsibility for Africa's current predicament. African governments argue that it was the industrialized countries which raised the prices of their manufactured goods and cut back purchases of Africa's exports, thus turning the terms of trade against them; it was the industrialized countries which raised interest rates to astronomical levels. Therefore, African governments should not be expected to bear all of the burden of adjustment.

The IMF responds that it monitors the economic policies of the developed countries as well and urges them to avoid measures which are inflationary, protectionist, or otherwise harmful to the global financial and monetary system. It has been particularly vocal, for

example, in calling on the U.S. to reduce its deficit and lower its onerous interest rates. But the Africans are perhaps justified in characterizing this as mere rhetoric because there are no comparable strictures on developed countries' conduct, whereas developing nations' noncompliance with IMF conditionalities results in a prompt penalty, usually the suspension or cancellation of the loan.

It is this asymmetry in the IMF's relations with its members which, critics charge, constitutes one of the more serious flaws in the Fund. Although the criticism is not entirely valid because it compares borrowers with non-borrowers, neither is it completely without merit. It illustrates a bias which permeates the international monetary and trading system overall, one which favors developed economies at the expense of those in the developing world.

Complaints about the untenable terms of the adjustment packages are numerous. Some of the conditions frequently incorporated into IMF loans to African countries include:

- limitations on the level of domestic spending, often entailing wage ceilings, reductions in employment, and elimination of subsidies on consumer goods;
- expansion of government revenues, through additional or more effective tax collection;
- elimination of unprofitable or inefficient public enterprises;
- ceilings on credit creation, domestic or external borrowing, and monetary expansion;
- redirection of credit away from government and toward the private sector;
- relaxation of price controls;
- increase in interest rates;
- devaluation of the currency;
- expansion of exports and reduction of imports;
- removal of exchange and import controls.

While no single loan will contain all of the foregoing conditions, the list nonetheless is representative of the policies the IMF regularly imposes upon African borrowers. Since loans are disbursed in pre-arranged installments which are keyed to the compliance deadlines, it is quite common for them to be terminated after only one or two installments if borrowers fail to meet their targets.

It is widely believed that since the arrival of the Reagan administration, the IMF's lending policies have become even tougher. One observer has calculated that in the first six months of 1982, "The IMF cancelled agreements, many of them in Africa, of greater value than its gross new commitments, on the grounds that members had failed to meet strict performance targets. In consequence, its new commitments were actually negative—during the worst recession since the 1930s!"

In some cases, failure to meet targets may merely lead to renegotiation of the loan. On the other hand, there are many cases where loans are not made because the borrower and the IMF cannot come to an agreement on the terms and conditions. Nigeria, for example, has been negotiating with the Fund for nearly two years with no agreement yet in sight. In this instance, the major stumbling blocks appear to be the size of the proposed devaluation and the reduction of the domestic petroleum subsidy.

"As long as private loans were readily available, IMF money, with its odious conditions, was not very attractive."

The reality, however, is that the poor countries have virtually nowhere else to go for help once their economies have deteriorated to a certain level, so while they may temporarily reject IMF loans because the conditions are unacceptable, the Fund generally concludes an agreement on terms only marginally different from those originally put forward. Both the IMF and the borrowers know who is in the driver's seat. And the result, as in all negotiations between two grossly mismatched antagonists, is highly predictable.

The mismatching arises not only from the vast disparity in power of the two parties, but also from that of the human resource base from which they can draw to negotiate the loan agreements. The IMF installs a team of well-paid and highly skilled experts in the borrowing country for whatever time is needed to persuade the local authorities to accept its analysis of the country's problems and how they should be addressed. Against this impressive array of power, skill, and resources, the local government is likely to have at best only very limited personnel with the appropriate training and experience to deal with the IMF team. Therefore, it is not surprising that African governments regularly agree to conditions which they find objectionable on policy grounds—and ones which they are unable to fulfill.

The IMF's relentless insistence on such conditions has given it an unflattering image in much of Africa and the Third World. The riots and social upheavals which have occurred in Sudan and elsewhere, when governments have been forced to remove subsidies and raise prices on staple food items, have in the public consciousness, linked the IMF to austerity policies. Compliance with any one of the IMF conditions is likely to inflict considerable hardship on some segment of the population—an option African leaders are understandably eager to avoid. Certainly no government leader is going to take the medicine, no matter how miraculous it may be, if he believes that the likely result will be the overthrow of his regime.

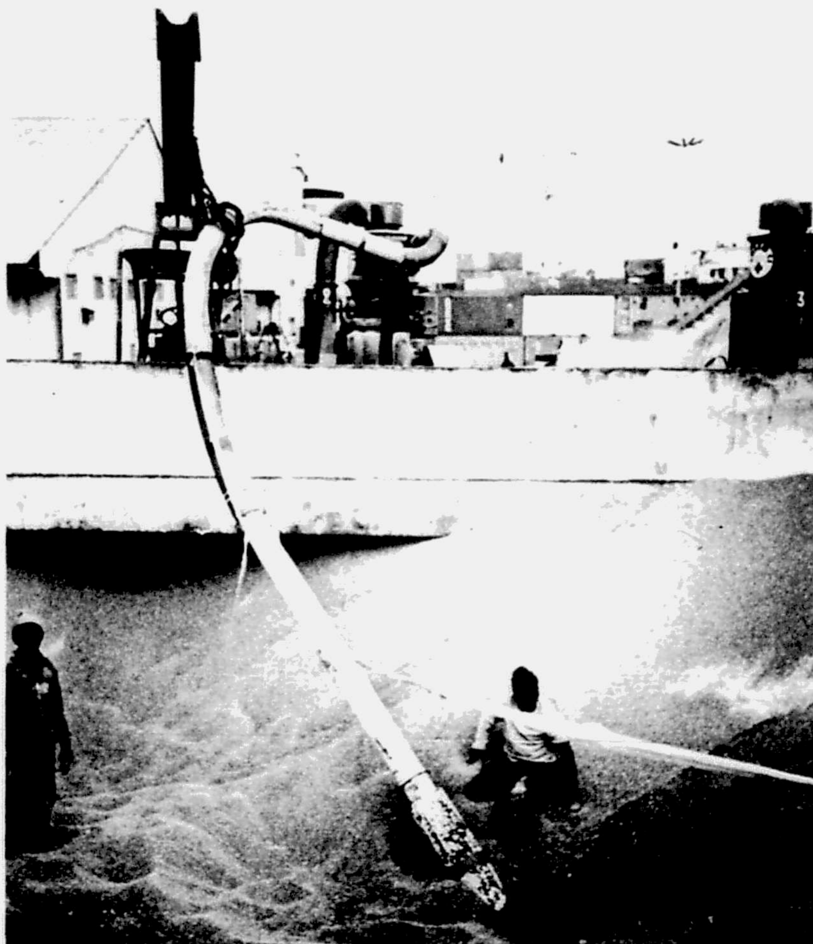
The IMF experience in Africa has not been all bleak, but the success stories are few and far between. Probably the best known (because it is so frequently cited by IMF officials) is that of Somalia, which, with IMF partnership, a currency devaluation, and liberalization of its pricing and marketing policies, was able to reverse its economic decline and eliminate its external payments arrears, all within a two-year period. Mauritius is also cited as a success story. But these cases are clearly aberrations from the general pattern of the results the IMF has obtained in the rest of the continent.

The IMF was created to deal with transitory imbalances in developed nations' balance of payments—it is therefore ill-equipped to deal with the long-term, structural imbalances which characterize most of Africa's economic crises. A major criticism of the IMF's role in Africa is its overemphasis on restraining demand (by the restriction of monetary and credit expansion), while paying inadequate attention to supply side factors, such as increasing production and exports. That it does so is not

surprising. Supply side changes are long-term in nature and generally require considerable long-term financing, preferably at low interest rates. The IMF has very little money available for this, and its managing director, Jacques de Larosière, regularly reaffirms that the IMF is not a development bank; therefore its function is limited to the provision of balance of payments support during temporary periods of adjustment.

While its critics would accept the argument that the Fund is not equipped to finance long-term structural change, they also point out that the Fund makes little effort to increase condition-free, low interest loans which could, within its existing structural and legal limitations, be made available to the poorer countries. By choosing to replenish its resources with high-cost borrowed funds, rather than exercising the option of low-cost quota increases or the creation of additional special drawing rights (SDRs), the Fund appears to have made a deliberate decision to force high conditionality loans on the poorer countries. The implication here is that the IMF is aggressively seeking to expand its control over the economic policies of Third World borrower nations.

No one has contested either the need for some policy changes on the part of the borrower countries or the right of the lender to place some reasonable conditions on its loans. However, the friction has arisen over the extent of conditionality, its appropriateness, and its time frames—issues which could be worked out over time if good faith is maintained on both sides. Suspicion that the IMF is manipulating its own resource base to better extend its control over its poorer clients introduces a new and alarming twist to the relationship, feeding the charges of neo-colonialism which inevitably surface whenever conditions become oppressive.


Karen Durlach

Sorghum unloaded in Dakar, Senegal: "Increased food imports were made necessary by the drought and by faulty agricultural and administrative policies"

Recently, fuel has been thrown on the fire, first by the World Bank's move to expand conditionality in its loan programs for Africa, and secondly, by the Reagan administration's proposal for a high-conditionality aid program for Africa—the Economic Policy Initiative. The World Bank, through its newly created structural adjustment lending program, has moved toward providing the longer-term adjustment funds which the IMF cannot provide, but in doing so, it has not only made compliance with IMF conditions a prerequisite, but it has also added ones of its own. The Bank is even considering extending such conditions to its regular project loans.

The aid request for the Economic Policy Initiative is still before the Congress, but the clear signal from the White House is that future U.S. aid will be increasingly dependent on the recipient country's willingness to accept policy direction from Washington. There are similar stirrings coming out of the European Economic Community, Africa's largest single source of aid monies, and there is an effort afoot to "coordinate" resource flows to Africa from all sources—bilateral and multilateral—as well as commercial loans and private investment.

There is some merit in rationalizing the anarchy which currently prevails in the transfer of resources to Africa, but the continent is at serious risk if all resource flows are channeled through a single, conditional funnel. In effect, it will become necessary to trade sovereignty for aid. Adherence to the IMF "good conduct" cachet is swiftly becoming a *sine qua non* for African countries wishing to obtain financial assistance—whether from commercial banks, multilateral institutions, or bilateral donors. If this scenario fully materializes, African countries will be justified in feeling that donor nations are "ganging up" on them. If the record of donor intentions or success rates were a more positive one, then one might feel comfortable in counseling Africans to be optimistic. But unfortunately, that is not the case. □

An Evolving Relationship

The IMF's alternate executive director, E.I.M. Mtei, believes that the Fund can better address Africa's development needs if its programs are made more responsive to the continent's economic and political realities.

BY E.I.M. MTEI

When the United Nations Monetary and Financial Conference which established the International Monetary Fund (IMF) was convened at Bretton Woods in July 1944, most of Africa was still under colonial rule. Only three African countries (excluding South Africa) participated in the conference.

Today, the African bloc of countries in the Fund is numerically the largest. However, this has done little to increase Africa's influence in the IMF's decision-making process. Sub-Saharan Africa accounts for under 5 percent of total votes, and together with the North African group of countries, the entire continent can muster only 7.54 percent of the votes in the Fund. By contrast, five industrial countries, led by the United States, account for about 41 percent. Africa's weak position within the Fund's power structure is based on the fact that the combined quota of African countries is low, and that successive quota reviews have not materially changed the basis for quota distribution.

One of the areas where the Fund has developed a close relationship with its African members is in technical assistance. This area might not receive as much attention as the IMF's role in designing adjustment programs in Africa, but it is very significant, given the shortage of skilled manpower in Africa. The scope of assistance covers the fields of economic research, sometimes in connection with requests from regional organizations such as the Economic Community of West African States (ECOWAS), statistics, foreign exchange operations, bank supervision, and tax and customs administration. Officials from African countries have also benefited from the training programs conducted by the IMF Institute. About 3,500 officials from 144 member countries have participated in the Institute's programs since its beginning two decades ago.

Lately, the Fund has become more visible in Africa. African countries account for about half of the standby arrangements in effect with members, an indication of the serious economic problems facing the continent. A Fund-supported program has become a *sine qua non* not only for debt rescheduling, but also for the release of resources from other international institutions, commercial banks, and donor countries. Lending agencies and donor countries leave the impression on debtor countries that Fund financing, which is predicated upon a borrowing country undertaking an adjustment program, will necessarily produce the desired result—a viable balance of payments position, stable prices, and sustained economic growth. Such a result is not only necessary in order to make their aid effective, but it also guarantees ultimate repayment of the debt incurred.

Saddled with a heavy debt service burden, many African countries therefore are left with little choice but to turn to the IMF. It should be noted that although this problem came to the fore in the 1980s, it had been brewing since the first oil price shock in 1973. Within a period of nine years, the price of a barrel of crude oil rose from about $3 to over $36 at the beginning of 1982. Consequently, most developing countries' balance of payments positions came under enormous strain, and governments were required to borrow to finance the increased cost of petroleum as well as investment projects. Because of the ease with which investors could secure petrodollar loans at the time, a large number of investment projects financed were of doubtful viability in the long run, compounding the debt problem.

The situation did not develop into a crisis immediately because of the considerable improvement in developing countries' terms of trade and the substantial rise in prices of primary commodities beginning in 1976. The commodity boom, however, proved to be only temporary. The second oil price shock in 1979 was followed quickly by high interest rates which resulted from undue reliance on restrictive, deflationary monetary policies in a number of industrial countries, and the most severe global recession since the second

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World War. The prices of commodities produced by developing countries tumbled. Even those countries which exported manufactured goods found their markets drastically reduced and their foreign exchange reserves virtually wiped out. By mid-1982, the debt service problem had reached crisis proportions.

Today, Africa's economic situation is somber. It is estimated that per capita GDP has dropped by more than ten percentage points since 1980. The concessional element of African countries' debt has declined, while variable interest rate loans, which accounted for 8.8 percent of total disbursed debt in 1973, increased to 21.4 percent in 1982. This underscores why Africa is concerned about policies in the industrial countries which keep international interest rates high.

Financial developments have become even more problematic for Africa's many low income countries. Of the 30 countries so classified by the World Bank in its 1983 *World Development Report*, almost two-thirds are African. In 1982, disbursements to these countries fell to two-thirds of 1980's level, and the expansion projected in 1983 was not sufficient to keep pace with external debt service requirements. All this shows that while no single African country's debt is large enough to send shock waves through the international financial system, the problem for Africa is no less serious than it is in other regions. Indeed, because of the low income levels of most African debtor countries, the servicing and amortization of the debt have a more painful and destabilizing impact on the social and political fabric. Prescribing too much austerity is like halving the diet of an already underfed child. This fundamental point must be borne in mind by the Fund and the rest of the international community.

There appears to be very little disagreement in Africa that adjustment programs aimed at ensuring financial discipline, bringing demand more in line with available resources, and facilitating payment of adequate and remunerative incentive prices for the productive sectors have a great deal of merit. Nor is it disputed that indefinite subsidies for consumer goods not only strain government finances, but also introduce distortions in the allocation of resources for production. Indeed, many countries agree with the Fund's general stance on this point and have adopted measures in this direction.

However, there is less agreement on whether the IMF's policy prescriptions give sufficient consideration to some of the unique characteristics of African economies. The main concern is that Fund programs tend to concentrate on short-term movements in macroeconomic variables, whereas African economies suffer from deeper structural problems such as high commodity concentration of exports, which leaves them vulnerable to external market conditions; low income levels, which lead to low domestic savings; a high rate of population growth; and the lack of sufficient skilled manpower in the critical areas of technical, economic, and financial management.

Vocational training in Zambia: "African economies suffer from structural problems, such as the lack of sufficient skilled manpower"

African economies' weak external payments position, the low level of economic growth and declining per capita income, and dependence on external capital inflows are a reflection of deep-seated constraints which can only be removed over an extended period of time. This is one of the reasons why a number of Fund-supported programs in African countries have become inoperative, or why in many cases economic growth targets were not achieved.

A recent study of IMF-supported adjustment programs in Africa shows that the economic growth target was reached in only 20 percent of the cases. Given declining per capita income trends in Africa, it is not difficult to appreciate why this result must be alarming to African policy-makers. The same study is revealing in other respects. It shows that programs were not fully successful in reducing inflation—measured by the rise in the consumer price index—and that the current account position as a proportion of GDP was not achieved in most countries. Comparing the performance of countries relative to the previous year, the same study notes that there was a decline in economic growth in most countries; inflation worsened in over half the countries; and neither the current account position nor the overall balance of payments appears to have improved or worsened significantly in most countries.

Although only limited conclusions can be drawn from one study covering a short period of time, the situation does suggest a number of things. First, it seems obvious that any program designed to correct or ameliorate the situation will have to be better integrated into the development plans of African countries because the standard policies of demand management and exchange rate devaluations by themselves do not guarantee price stability and sustained economic growth. The Fund has already taken a step in the right direction with the establishment of the extended facil-

Processing tea in Kenya: "The price of commodities produced by developing countries has tumbled"

Camerapix

ity which provides support to a member country for a three-year period. However, only a few African countries have benefited from the extended facility.

Second, there is need for additional resources to be made available to the IMF to enable it to provide adequate funds to members undertaking medium to long-term adjustment programs. The recent quota increase appears to be too small. This has prevented the Fund from making larger commitments to countries where problems are structural in nature and require a longer period of adjustment, although IMF credit to sub-Saharan Africa has grown over the years, from $161.2 million in 1973 to $3,987.9 million in 1983 (excluding the Reserve Tranche and the Trust Fund). The Fund takes the position that under such circumstances, the revolving character of its resources dictates that the best it can do is to play a catalytic role in attracting financing from other sources.

African countries anticipated this problem and had argued for a substantial increase in quotas in order to alleviate pressure on Fund resources, making it possible for the organization to provide adequate resources to members, particularly low-income countries, which have limited access to private capital markets and must rely more on the IMF. Increased pressure on IMF resources has also led to the reduction of the amounts countries can borrow and to a somewhat stricter application of the rules on access to its resources.

Third, because its resources are not likely to be increased in the near future, the IMF should be prepared to take a more forthright attitude in seeking longer-term financing for African countries. This sort of catalytic role would have the greatest impact. It is not enough that member countries obtain debt relief. There is also need for additional resources. A longer term commitment by the Fund in African countries would send a signal that might encourage the international community and bilateral donors to increase their assistance to countries undertaking adjustment programs.

Fourth, it is important that Fund-supported programs should be more flexible in order to respond to the factors which limit the speed of adjustment in Africa. Because Africa is more dependent on trade than other developing regions of the world, pragmatism requires that Fund programs make greater provision for contingencies beyond the control of the local authorities.

Lastly, the Fund needs to show a greater appreciation of the political realities in Africa. Even where there is agreement on the need to take firm corrective action, there are limits to the demands that can be placed on policymakers at any given time. Otherwise, setting inflexible targets for economies that are vulnerable to unforeseen developments, such as drought, will lead to slippages. In such cases, it would be unproductive to take the view that the authorities lack sufficient political commitment to the adjustment process.

Instead, the Fund should work with government authorities to modify the performance criteria prescribed in the programs in accordance with the new realities, and where possible, to assist in mobilizing additional resources to meet the emergencies. It should be understood that for any program to be successful, it must be supported by the people of the country implementing the program, and an atmosphere of peace and social stability must prevail. □

The Ritual Dance of the Debt Game

President Mobutu Sese Seko's latest efforts at economic reform are earning him accolades from Western governments, banks, and multilateral institutions. But given Zaire's record, is their optimism warranted?

BY THOMAS M. CALLAGHY

On August 2, Frank Wisner, U.S. Deputy Assistant Secretary of State for African Affairs, held a press briefing to announce the signing of a bilateral investment treaty with Zaire, only the second such treaty between the U.S. and an African country. Wisner praised Zaire for its decision to "restructure and reform its economy and take very deep biting measures to make certain that it succeeded."

Though Zaire has instituted some reforms during the last year, the U.S. optimism over Zaire's economy seems to be more closely tied to political considerations than to economic realities. There is little in the history of Zaire's economy or in its relations with multilateral institutions and Western creditors that would lead most observers to conclude that Mobutu is seriously undertaking substantial economic reforms. Indeed, the corruption and mismanagement which have become associated with Mobutu and his ruling elite are the very elements which keep them in power.

Mobutu and his ruling group have an insatiable desire for revenue. The revenue collected by the state belongs to them, and they should be able to spend it as they see fit. Mobutu is a political, not an economic man. He knows that his continued dominance depends very heavily on available financial resources, but the costs of power, order, defense, glory, grandiose projects and lifestyles, and the inherent corruption and largesse of such a personalized regime have come at too high a cost for Zaire, especially for its citizens, or subjects, more accurately.

Zaire's reliance on extraordinary financial measures has been significant. Numerous and often quite inventive, they include shady forms of borrowing, extortion, confiscation, bribery, smuggling, and the operations of foreign businesses and financiers, all of which are almost "normal" practice. The result of such activities in Zaire, especially in conjunction with structural economic difficulties brought on by neglect and the effects of a world recession, has been financial and economic crisis.

Zaire's financial condition in the late 1960s and early 1970s was excellent, particularly because of the high price of copper which accounted for about two-thirds of Zaire's foreign exchange. The price of copper peaked at $1.40 per pound in April 1974, but declined to as low as $0.53 by late 1975; in 1976, it had stabilized at around $0.65. By early 1976, Zaire was in the middle of a grave economic and financial crisis.

As the 1980s approached, Zaire was nearly $5 billion in debt and on the verge of economic collapse. The percentage debt breakdown by category was as follows: International Monetary Fund (IMF)–3.1 percent; World Bank and other international organizations–8.7 percent; bilateral credits, including publicly-insured private bank loans–75.8 percent; uninsured bank debt–11 percent; and uninsured commercial debt–1.4 percent.

There were many reasons for this crisis: the dramatic fall in copper and other commodity prices; the closure of the Benguela Railroad after the Angolan civil war in 1975-1976; the disastrous economic effects of the Zairianization moves (1973-1975); rising oil costs; and a world recession. This situation was compounded by the Shaba invasions in 1977 and 1978. As serious as these factors were, however, they are far from the whole story. All of these conditions were made far worse by other factors: massive and rash spending and borrowing when revenues were high, rampant corruption and fiscal mismanagement, grandiose and unproductive development schemes such as the Inga-Shaba powerline and the Maluku steel mill, the almost total neglect of agriculture and the transportation and productive infrastructure, and lack of understanding and concern about the rapidly deteriorating situation by Mobutu and his associates.

Due to their nonproductive nature, Mobutu and those around him need the

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resources and assistance provided by Western governments, the IMF, the World Bank, and the private international banks, but cannot afford to comply fully with their demands for reform. To implement the bureaucratic changes demanded by these actors would undermine the very basis of their power—access to and free use of the state's resources. As a result, Mobutu and his ruling group use their control of the state apparatus to sabotage major and long-lasting change, while manipulating the external actors' partially competing interests and fears about the consequences of a collapse of the regime to fend off effective and sustained cooperation between them.

Given the severity of Zaire's situation, Mobutu and his ruling group have done amazingly well in this game of brinkmanship. They may not have understood the finer technicalities of the international financial system at first, but they did understand the politics of international finance. Thus far, Zaire's rulers have adroitly blocked almost all efforts by international lenders to control their financial practices.

Under the IMF and other external pressure and guidance, Mobutu and his government put together five stabilization programs, the "Mobutu Plans," in 1976, 1977, 1979, 1981, and 1983. In each case, Zaire entered into a standby or extended fund facility (EFF) agreement. The plans reflected the IMF's conditions and were designed to cut corruption, rationalize and control expenditures, increase tax revenues, limit imports, boost production in all sectors, improve the transportation infrastructure, eliminate arrears on interest payments, make principal payments on time, and generally improve financial management and economic planning.

Zaire's public and publicly-insured debt has also been rescheduled by the Paris Club five times between 1976 and 1983. Zaire's private creditors rescheduled their part of the debt in April 1980, and eight World Bank and Western country aid consortia meetings were held to generate further official assistance between 1977 and 1983. Without this international support, the regime might well have collapsed.

The government of Zaire had no clear understanding of what it had agreed to do when it signed the first two standby agreements with the IMF in 1976 and 1977—and no intention of living up to their terms. Given the gravity of Zaire's situation, the degree to which the government could have fully lived up to the agreements is not clear, but, since no real effort was made, it is impossible to tell. President Mobutu and his ruling group do not view international organizations and aid agencies as sources of development assistance, but rather as channels for access to more resources, particularly foreign exchange.

Since the results of the first two stabilization plans were so meager, the IMF and the World Bank decided in 1978 to send their own teams of experts to Zaire to take over key or supervisory positions in the Bank of Zaire, the Finance Ministry, the Customs Office, and Planning. In December 1978, the head of the Bank of Zaire team, Erwin Blumenthal, a retired German central banker, took dramatic measures which struck at the heart of the power of the ruling elite. He cut off credit and exchange facilities to firms of key members of the political nobility, including several of Mobutu's closest collaborators, and imposed very strict foreign exchange quotas. Since President Mobutu needs the foreign exchange to keep the warring elements of his ruling group in line, this appeared to be a major threat.

Many Zairians viewed the expatriate teams as a crude form of neocolonialism, and they began to refer to Blumenthal as *Bula Matari*—"he who breaks rocks," a term used during the colonial period for Belgian administrators. From the Western point of view, the teams were an attempt to bring some rational order to the chaos of Zairian "mismanagement." In large measure, the teams were an effort to create and "buffer" from political pressure a "technocratic core" of competent Zairian officials. The bureaucratic enforcers were to do battle with this personalized authoritarian regime.

The valiant efforts of the internationally sponsored teams at the Bank of Zaire, the Office of Debt Management, Customs, Finance, and Planning have had limited impact. The maneuvers of Mobutu and his people to detour around the controls have been creative, persistent, and, to a substantial degree, successful. The Zairians have both systematically harassed and "worn down" the teams over time; the teams change

Tannenbaum Sygma

Presidents Mobutu and Reagan at the White House, August 1983: Mobutu was praised by Reagan for sending 2,700 troops to Chad

composition periodically, are often difficult to recruit, and are small in number. They are not substitutes for domestic political will and administrative capability. At best they are supplements.

The Zairian system has given the international bureaucrats a good drubbing. After Blumenthal's departure in 1979, the expatriate teams were more careful to avoid the "political hot spots," as one expatriate official put it. It was a way of keeping the level of harassment at manageable levels, particularly from the Presidency and the military.

In August 1979, Zaire hired a multinational "triumvirate" of investment banking firms—Lazard Frères, Kuhn Loeb Lehman Brothers, and S.G. Warburg. For very high fees, they assessed the actual size and structure of Zaire's debt (the World Bank had already tried to do this once); compiled a series of useful information memoranda; assisted Zaire in two Paris Club reschedulings (1979 and 1981) and in several donor meetings; advised on and helped to guide the complex negotiations for the London Club private bank rescheduling in 1980; and dealt with the IMF, the World Bank, Western governments, and private banks in an ongoing, albeit informal, way.

In October 1982, this "holy trinity" severed its contract with Zaire, in large part because of the intransigence of its ruler and key elements of the ruling group. It can be argued that Mobutu and his people used the triumvirate quite consciously to provide international "management" cover or legitimacy behind which they could continue to pursue their own narrow personal and class interests.

The role of Western governments in the external efforts to cope with Zaire's debt crisis stems from their influence on the IMF and the World Bank, their diplomatic presence in Kinshasa, and the fact that 43 percent of the roughly $3 billion debt rescheduled under Paris Club auspices is guaranteed private bank debt. The Western governments have partially and often fitfully coordinated their efforts to get Zaire to service its debt, control its expenditures, diminish corruption, and implement badly needed managerial and economic reforms. They have rescheduled its public and publicly-insured debt five times via the Paris Club mechanism. They have also helped to generate additional assistance for Zaire from a variety of sources.

There is general agreement, even by many bankers themselves, that the banks loaned money to Zaire unwisely, in too large amounts, and without any clear indication of what they were getting into. General agreement also exists that a 1976 Memorandum of Understanding with Zaire, which was essentially a Citibank-led rollover effort that eventually failed, was a mistake. Despite the fact that it at least temporarily preserved Zaire's creditworthiness, it helped to delay driving home the seriousness of the country's situation to the government of Zaire (and to the bankers themselves).

In the end, the bankers had to reschedule Zaire's uninsured private debt in the April 1980 London Club agreement. The delay in arriving at this point resulted in part from the banks' desire to let the Western governments and international organizations reschedule Zaire's public debt (including the publicly-insured private bank debt) and provide much-needed "adjustment" assistance, thereby leaving more foreign exchange available to service the uninsured private debt.

In fact, the banks' repayment ratio has been ten times that of the public creditors. The tendency was reinforced by the banks holding out the enticement of further lending, much of it to individual members of the ruling group, however, rather than to the state. Since the 1980 agreement, many of the banks have been quietly writing down Zaire's uninsured debt, long before the Comptroller of the Currency ordered U.S. banks to reclassify most of their loans to Zaire. At the same time, they have been maintaining pressure on Zaire to stay current on its London Club payments.

By the end of 1982, Zaire was still over $4 billion in debt, and the economy continued to disintegrate. The decline in agricultural production continued, as did the deterioration of the country's transport and communications infrastructure. The impact of this dismal fiscal and economic situation on the welfare of the

United Nations

Gécamines copper smelting plant: "Over $30 million was reportedly diverted from Gécamines over a 15-month period"

population has been severe, although so far it has not been manifested in major outbreaks of political unrest.

With the collapse of Zaire's relationship with the IMF in 1982 and continued missed public and private debt service payments, there were those within the highest reaches of the political aristocracy who counseled that Zaire need not make any serious efforts to service the debt or institute reforms because its external "patrons" or "kin" in the international "extended family" would have to bail it out.

On the other side, there were those in Western circles who argued that Mobutu and his people should be allowed to stew in their own juices. After a brief lapse, however, the logic of the interests on both sides dictated that the ritual dances of the debt game begin again. The result was a period of waiting, testing, and fencing, and the eventual emergence of a "shadow agreement" with the IMF that existed throughout most of 1983.

An IMF team visited Zaire in early December 1982 to gather information. A rare congress of the *Mouvement Populaire de la Révolution* (MPR) was held the same month, only the third since the founding of the single party in 1967. Mobutu used the occasion to stress national unity, to reaffirm the one-party state, and to call again for economic reforms and financial discipline! In a plea to his foreign supporters, Mobutu noted that "in order to arrive at the sound management of our economy, the successive rescheduling and rearrangement of our foreign debt must be placed in a more realistic context. . . Plainly speaking, this means that the periods of grace and maturity of the foreign debt must be extended." The party congress was followed by a "major" anti-corruption drive with the arrest of over 100 state officials, and 1983 was declared "the year of strictness in management."

Negotiations with the private banks over payment arrears in January 1983 led to an agreement that the banks would not declare Zaire in default on the 1980 agreement if it made up the arrears by the end of the year. That same month, during his visit to Kinshasa, the Chinese prime minister announced the cancellation of a $100 million debt. IMF teams arrived in the capital in late April and again in July to discuss the establishment of another standby agreement over 15 months. Finally, during Mobutu's August 1983 visit to Washington, D.C., where he was praised by President Reagan for sending 2,700 troops to Chad, Zaire and the IMF agreed on the terms on the new standby arrangement.

A major precondition of the informal agreement with the IMF was accomplished in mid-September when the Zairian government abolished the fixed parity of the *zaire* and immediately devalued it 77.5 percent. This brought the official rate almost down to the "parallel" or black market rate. President Mobutu admitted that "the terms of the agreement with the IMF are tough, although it is true that the program is only for 15 months." He called "once again on the patriotism and on the revolutionary discipline of all MPR militants," once more ruled out any modification of the one-party state structure, and attacked leading internal dissidents as "outlaws" for forming an illegal opposition party, in part "with external backing."

"There is general agreement that the banks loaned money to Zaire unwisely, in too large amounts, and without any indication of what they were getting into."

The impact of these measures was readily apparent to most Zairians as the prices of oil, other fuels, and key food items rose between 200 and 300 percent over the next three months. The price of a sack of manioc flour, the basic foodstuff, more than doubled. In the meantime, wages increased by only 20 percent. There was a brief flurry of strikes which were quietly suppressed by a mixed dose of bargaining and coercion.

Finally, on December 15, 1983, a formal agreement with the IMF was signed for a 15-month standby agreement worth $237 million and another $119 million in compensatory financing. The signing of the new agreement had been delayed until there was some confidence that the September changes were having the desired effect. Several days later, Zaire's official debt was rescheduled by the Paris Club for a fifth time. This was followed immediately by an eighth consultative group meeting on Zaire in Paris on December 21-22—more an aid coordinating session, however, than an occasion to pledge new funds.

By this time, Zaire's accumulated arrears for 1983 totalled over $800 million. The Paris Club rescheduled $1.28 billion or 85 percent of the amount of official and officially guaranteed debt due in 1983 and 1984 over a longer than normal 11 years, including a five-year grace period. By the end of the year, Zaire was still not current with its London Club payments and talks with the banks continued.

After the signing of these agreements, there was an air of cautious optimism on the part of most of the external actors. By mid-1984, this was transformed on the part of the United States into full-blown enthusiasm. When announcing the signing of the new bilateral investment treaty with Zaire, Deputy Secretary Wisner said that Zaire is now "an example where this very tough international medicine is taking effect." While admitting that past IMF programs had not been very successful, he stressed that Zaire has now put into effect "a program of economic reform as deep and as far-reaching as any that's been undertaken in the Third World, and happily at this point, one of the most successful." This fifth IMF facility came only after Zaire had managed to abide by most of the performance criteria of the informal or trial "shadow program" of 1983.

There has been some apparent change. Evidence exists that, for now at least, the budget is under control and the parallel currency market has been significantly weakened. A number of subsidies to parastatals are being eliminated; some price controls have been "liberalized"; and inflation appears to be down at the moment. The underlying assumption is that the increased availability of domestic currency and foreign exchange and the loosened state con-

trols will somehow be translated into more productive economic activity; this may not be a fair assumption, however. This also leaves aside the question of the appropriateness of the IMF's performance criteria and the strategy behind them, as well as that of their consistent application over time.

Wisner also claimed that, due to the IMF's conditions and actions of the Mobutu government, there has been a significant impact on the level of and capacity for corruption. In this context, he pointed to the late June announcement of the abolition of Sozacom, the state marketing organization for minerals, as "one of the most significant reforms that's been undertaken."

The long and complicated Sozacom story, however, might well give pause to any optimistic projection about progress in Zaire. Sozacom had been one of the major sources of "leakages" of foreign exchange. For years, one of the most significant issues preoccupying both external and internal actors was whether Gécamines, the state mining corporation, could know how much it was due for the minerals it produced, much less whether it actually received those funds. This question was, of course, central to the ability of Gécamines to maintain any kind of reinvestment program, thereby protecting its capacity to produce in the future.

In September 1982, after sustained long-term pressure by a variety of external actors, Mobutu finally agreed to a new Sozacom-Gécamines convention which was to resolve this issue. The convention threatened the free flow of foreign exchange and had to be "rammed down Mobutu's throat," according to one World Bank official. A variety of special measures were to ensure that Gécamines received its fair share of the profits from its production. They were to include the establishment of special accounts with Belgolaise, a major bank owned by Belgium's giant Société Générale. Money due to Gécamines never apeared in these accounts, and up to $30 million was reportedly diverted over 15 months after the convention was signed.

Société Générale once owned Union Minière du Haut-Katanga before Mobutu nationalized it and eventually transformed it into Gécamines. Société Générale also owns Société Générale des Minerais which has had contracts with both Sozacom and Gécamines to provide numerous services and personnel and, via its Métallurgie Hoboken-Overpelt, refines a substantial proportion of Zaire's copper.

A crucial player in the Sozacom-Gécamines drama was the latter's Belgian managing director, Robert Crem. He had aggresively struck out to protect the interests of Gécamines. This included the skillful negotiation of a significantly better deal for Gécamines with Hoboken-Overpelt. This earned him the antipathy of Société Générale, which began to lobby for his removal. Finally, after this latest Sozacom scandal, one that clearly made a mockery of the 1982 convention, Crem was fired by Mobutu and replaced by another Belgian with close ties to Société Générale. Technically, Crem resigned "for reasons of ill health" on February 8th.

The World Bank and the IMF investigated the charges about Sozacom and eventually recommended its abolition. It was, and the staff of the IMF recommended in mid-summer that Zaire be allowed to make its next drawing under the standby agreement. Although Gécamines will reportedly market its own minerals, it is not clear as of this writing what the new structure will be or who will control the lines of authority. One tantalizing hint is that the former head of Sozacom has been appointed minister of trade. This Sozacom story is but one recent caution against undue optimism. As one European banker related in 1982, as soon as one set of leaks is plugged, new ones appear upstream.

Western actors have gone through previous waves of optimism, for example, over externally induced political "liberalization" after the 1977 invasion of Shaba province, or over the vigor with which Erwin Blumenthal attacked his job at the Bank of Zaire in 1978. These waves have always come crashing down; this latest one most likely will as well.

The ultimate issue is, of course, the productive capacity of the economy as a whole and the viability of its infrastructure, both of which are disintegrating. In this regard, it should be noted that the 1984 investment budget is only $35 million; this figure constitutes just the counterpart funds on existing external donor projects. This leaves aside the question of implementation. Given this climate, one might wonder how many American firms or investors are going to be willing to make major new investments in Zaire, even if the new bilateral investment treaty is fully implemented and the Overseas Private Investment Corporation decides to again issue convertibility insurance for Zaire as it is being urged to do.

What are the chances for reform? The chances are very slim for any major and persistent improvement. To carry out the externally demanded reforms effectively over time would undermine the very core of this personalized authoritarian state—the personal discretion of its ruler and the financial largesse and corruption which constitute the glue holding the system together. This is not to say that the level of corruption cannot be curtailed and diminished somewhat for a while. But over time, the imperatives of calculability and rationality come into direct conflict with personal and dominant group interests. When the bureaucratic clashes with the personal, the latter will most likely win out. Because of the nonproductive nature of the ruling group, any major and sustained threat to the viability of the patron-client networks that are so central to the regime's survival, especially to the financial resources holding them together, must be avoided at all costs.

The degree of external acquiescence is critical. External pressure for reform may only be able to slow the rate of decline of the downward sloping economic curve, to dampen the pillage. Above all, the chance for a significant improvement in economic performance is small, especially with the continuing disintegration of productive capacity and infrastructure.

In this case, who is more dependent on whom? Only time will tell, but the element of personalized rule will most likely dominate for now. Mobutu's ability to control Zaire depends in large part on the existence of adequate, but not necessarily unlimited resources, of sufficient financial "slack." For now it appears friendly Western powers, banks, and international organizations will continue to give him that slack. □

UPDATE

Nigeria seeking to improve its position in OPEC hierarchy

Nigerian Bonny Light crude oil, which is among the finest quality petroleum in the world, is the foundation of the Nigerian economy. Oil provides more than 90 percent of Nigeria's foreign exchange earnings and 80 percent of all government revenue, leaving Nigeria dangerously exposed to the vagaries of the world oil market. The recent fall in oil prices cut Nigeria's oil revenue from $23 billion in 1980 to only $10 billion in 1983.

The lack of diversification in the Nigerian economy has made the country almost completely dependent upon imports for its daily survival. Food imports alone will cost Nigeria $2 billion in 1984, and billions more will have to be spent importing medicine, raw materials, industrial equipment, and spare parts.

The fall in oil revenues has forced Nigeria to cut back on imports, resulting in shortages of raw materials, plant shutdowns, massive layoffs, and inflation now estimated at 80-100 percent. A million Nigerians have lost their jobs in the last three years.

The military coup that deposed the Shagari administration last December 31 was, according to Nigerian leader Muhammadu Buhari, "necessary in order to put an end to the serious economic predicament and the crisis of confidence now afflicting our nation." Buhari, a former commissioner for petroleum resources and ex-chairman of the state-owned Nigerian National Petroleum Corporation, declared better oil management to be one of his highest priorities. A campaign against oil smuggling is estimated to have prevented the diversion of almost 100,000 barrels per day—as much as 10 percent of all production, valued at nearly $1 billion a year.

Although the anti-smuggling drive has increased Nigeria's oil revenues, the real problem is Nigeria's inability to influence OPEC's pricing policies. Nigeria has, since it joined in 1971, been the most vulnerable of the OPEC states to oil price fluctuations. Nigeria's membership in OPEC has restricted its ability to tailor its own export policies to meet its own needs.

The high quality of Bonny Light is, in some ways, Nigeria's undoing. Since only the North Sea fields tapped by Great Britain and Norway produce oil of a similar quality, Nigeria's real competitors are outside OPEC. But Nigeria is bound, as an OPEC member, to adhere to the OPEC price structure, which is based on the heavier crude oil produced by most members of the cartel.

In March 1982, the British National Oil Corporation (BNOC), which oversees Britain's oil production, dropped the price of its Brent Light by $4 to $31. At that time, Nigeria's official oil price was $35.50 per barrel. OPEC reacted to the British move by lowering production quotas, but refused to lower its prices.

Drastically underpriced by the British, Nigeria watched its oil sales plummet. Finally, in February 1983, when the price of British oil went down another 50 cents to $30.50, Nigeria broke OPEC ranks and cut its own price to $30 per barrel. Nigeria then pledged to meet any future British price cuts "dollar for dollar."

The other members of OPEC were furious. OPEC was forced to drop its prices, but the cartel was able to get Nigeria to set its production ceiling at 1.3 million barrels per day, less than half of Nigeria's production capacity.

Since then—except in the first

Continued on next page

Students riot in Liberia after Doe arrests prominent politician

Head of State Samuel K. Doe cut short a visit to Western Europe, rushing home on August 19 "to attend to some important state matters." Doe then announced the arrest "for security reasons" of three members of his People's Redemption Council (PRC); George Kieh, a doctoral student at the University of Liberia; and Prof. Amos Sawyer, a professor of political science at the university who chaired the committee that drafted Liberia's new constitution.

Students at the university responded to Sawyer's arrest by boycotting classes and maintaining an all-night protest vigil, while the academic authorities demanded Sawyer's immediate release. The university, which is located within a stone's throw of Doe's residence, the Mansion, was then surrounded by government troops. On August 22, the soldiers swept through the campus dispersing the protesters. The Ministry of Health confirmed that at least 73 people were wounded in the operation, and there were unverifiable reports that several people were beaten or raped and that as many as 13 people may have been killed.

The U.S. government lodged a formal protest against the violent suppression of the demonstrations, during which at least one American citizen was wounded. But news of the violence was slow in reaching the West. Pointing out that the wire services in Monrovia must dispatch their reports from the American embassy there, a New York-based group of Liberians opposed to Doe's government claimed that the U.S. was "squashing the truth."

Before the arrests, there had been

Continued on next page

LIBERIA continued

rumors that Doe was orchestrating a "fake coup" in which leftists would seek to overthrow him, giving him the necessary pretext for abrogating the new constitution and returning the country to military rule for an indefinite period.

In announcing the arrests of Sawyer, Kieh, and the PRC members, Doe lent some credence to those rumors. He announced that the men had been connected with a plot to overthrow the government. Doe charged that the conspirators planned to sow confusion among

Cameraplx

Doe: Military tactics in civilian clothing

the people, in order to force him to cut his trip to Europe short and declare himself president. The new constitution, calling for the president to be chosen by elections, would then have been violated, and the conspirators could seize power under the pretext of preserving legality.

But the arrests also came just weeks after the referendum in which Liberia's voters approved the new constitution, which calls for a return to civilian rule and the resumption of political activity by opposition groups. Observers found it difficult to believe that Sawyer, who was the chief architect of the new constitution and a declared candidate for the presidency at the helm of a newly formed party, would so rashly seek to overthrow a system he had been so instrumental in designing. Doe's claims that Sawyer planned "to have the city of Monrovia set on fire by trained saboteurs" did not make the charges of conspiracy more convincing.

In an unprecedented public statement, the Liberian Council of Churches issued an appeal, read from pulpits throughout the country, for Doe to stop the "arbitrary arrests and mysterious disappearances" that had occurred since the approval of the constitution. Like the leaders of other political parties, who had also protested the arrests, the churches were reflecting a growing concern that the constitutional transition to civilian rule may only be a pretext under which Doe would step out of his military uniform and into the civilian presidency. ■

OIL continued

quarter of 1984—Nigeria has adhered scrupulously to its quota. Meanwhile, OPEC as a whole exceeded its production ceiling of 17.5 million barrels per day by nearly ten percent throughout much of 1983-84, and Saudi Arabia was rumored to have disgorged 36 million barrels of oil onto the market in one gush this July as part of a barter arrangement for British airplanes.

So, while Saudi Arabia, Indonesia, Qatar, Kuwait, and the United Arab Emirates have all regularly exceeded their quotas, and while Libya and Iran undercut the official OPEC price, Nigeria was left out in the cold.

One of Buhari's first announcements as Nigerian head of state was that he would seek an increase in Nigeria's production quota, and at OPEC's meeting in Geneva this July, Nigeria pushed for an increase to 1.6 million barrels per day. Buhari's minister of petroleum, Tam David-West, threatened that Nigeria would increase its production as it pleased if OPEC did not agree to a new quota.

"The interest of the Nigerian state is not negotiable," said David-West. "We can't sit here forever discussing quotas. . . I will go for the happiness of Nigeria before the happiness of OPEC. Otherwise I would not have a country to go back to. Only a surviving Nigeria is relevant to OPEC."

OPEC finally agreed to allow Nigeria a production increase of 100,000 barrels per day in August and 150,000 in September. After September, Nigeria "would be expected" to revert to the original quota of 1.3 million barrels per day, but a special OPEC meeting at the end of Nigeria's "grace period" will re-evaluate the quota.

Home in Lagos, David-West made it clear that Nigeria had no intention of reverting to its original quota of 1.3 million barrels per day: "If we (OPEC) are to have a meeting in October on the basis of 1.3, no way." From now on, Nigeria intends to negotiate on the basis of 1.45 million barrels per day, its revised quota for September.

But the new quota simply makes Nigeria's plight more conspicuous. Although David-West claims that demand exceeds the supply of Nigerian oil and that an even higher quota will be necessary to fulfill new contracts awaiting signature, Nigeria is not even able to sell 1.3 million barrels per day, let alone 1.45. In order to sell more oil, Nigeria will have no choice but to drop its prices from their official level of $30 per barrel. Russian oil is now officially priced at $27.50, and North Sea oil was trading on the spot market for at least $1 less.

Nigeria does not sell on the spot market, relying instead upon sales under contract based on the official price. But technological advances in the oil industry are making it more difficult to sell Bonny Light at a premium: most U.S. oil corporations have invested in catalytic crackers at their refineries, which enable them to get good gasoline yields from heavier, and cheaper, blends.

Furthermore, comprehensive "indigenization" measures—directed by Buhari under the previous military administration—increased Nigeria's state participation in oil companies to 60 percent, which is higher than that of most other oil producing nations. Smaller government participation, and lower corporate taxes, make the comparable North Sea oil much more profitable for the major oil companies.

Nigeria is thus left with less and less leverage in the oil market. OPEC continued to overproduce in July, exceeding its overall quota by more than a million barrels per day;

in August, OPEC appeared to be adhering more closely to its quota. But OPEC's attempts to solicit formal cooperation from Great Britain, Norway, and Mexico to prevent another fall in oil prices have been only partially successful. Mexico is planning to conserve its oil reserves by setting a ceiling of 1.5 million barrels per day on its oil exports until the end of the century. But Britain continues to pump out North Sea oil as fast as possible to obtain maximum income for its economic recovery.

The BNOC has a tacit understanding with OPEC to hold its official price at $30, but only if the BNOC remains confident that OPEC is taking measures to stop flooding the market. If OPEC continues to overproduce, the BNOC will eventually be forced to lower its price to maintain sales in a saturated market. And Nigeria will have no choice but to follow suit.

There could well be a major altercation at the October meeting of OPEC, which is scheduled to review Nigeria's production quota. Nigeria is attempting to use the very small amount of leverage it has on the world oil market to strike a better deal, but the best possible scenario will not be adequate to pull it out of its current predicament. A larger production quota, and even a price increase in the distant future, will increase oil revenues by a few percentage points at best. The Buhari government still presides over a completely undiversified economy that leaves Nigeria with few choices. ■

WESTERN AFRICA

How Upper Volta became Burkina Faso

Last December, the government of President Thomas Sankara declared that Upper Volta's national independence holiday would be August 4, the day on which Sankara took power in 1983. Sankara had a surprise ready for this year's independence celebrations. He announced that Upper Volta would now be known as Burkina Faso, from Moré and Dioula words meaning "the land of honest people."

Besides its new name, Burkina Faso also has a new flag, national anthem, and national motto. The changes are the most dramatic in Sankara's year-long effort to "revolutionize the masses." Experiments with parliamentary democracy under previous governments had made no dent in the country's poverty and illiteracy, so Sankara has sought to expand the realm of political participation beyond a small elite in Ouagadougou. The Committees for Defense of the Revolution (CDRs) have mobilized both the urban and rural populations for a wide variety of cooperative efforts in education, agriculture, "political awareness," and construction.

But Sankara clearly felt the need for a symbolic break with the past as well. The new changes extend the reach of Sankara's revolution into every home: a different national anthem is now heard on the radio, currency and postage stamps have changed, the flag is redesigned, and the very name of the citizens has changed from "Voltaiques" to "Burkinabês."

Material objects are the outward symbols that give patriotism its focus and expression. Dr. Whitney Smith of the Flag Research Center in Winchester, Mass., pointed out that "these changes are never arbitrary. . . A state that adopts new national symbols is asserting a new identity for itself and declaring its second independence."

Nearly all the national symbols of francophone African nations were designed by the French and "bequeathed" to the African countries on independence. Most nations have retained the colonial designs, but some have changed their symbols and names, as "the French Soudan" did when it became Mali, as Dahomey did when it became Benin, and as Congo did when it became Zaire.

Although Upper Volta's national anthem was composed by Robert Ouédraogo, a Voltaic priest, it was written in the style of a 19th-century European martial tune. And although the Voltaic flag, with its horizontal bands of red, white, and black, was meant to symbolize the three branches of the Volta River, it also featured the same design as the flag of Germany under the rule of Bismarck.

The new national anthem, known as the "Ditaniya," is more African in style, and the new flag features a five-pointed gold star on two horizontal bands of red and green.

In Burkina Faso, the changes will affect everything from official documents and stationery to passports, currency, postage stamps, military uniforms, and license plates. But the conversion to new symbols should not be a severe burden to the weak Burkinan economy. Rather than incurring large expenses with a comprehensive changeover, the government will replace most affected items with new designs only as the old ones run out. Many items, such as postage stamps, can simply be overprinted with the new name. The relative smallness of the national economy will itself keep the amount of inconvenience to a minimum.

Burkina Faso's radical "nationalism of symbols" is meant to shake up the complacent. It could also arouse anger. There may be some ideological resistance to the change, as there was in Dahomey/Benin in 1975 and in Congo/Zaire in 1971, where opposition figures attempted to use the abolished national symbols as rallying points for dissension. Since taking power, Sankara has already survived two attempted counter-coups, and his deputy military chief of staff, Maj. Amadou Sawadogo, died in a Paris hospital on August 7 after having been shot by unknown assailants near Ouagadougou at the end of July. ■

GUINEA
Toward economic recovery

The Military Committee for National Recovery (CMRN), which seized power in April after the death of President Ahmed Sékou Touré, has taken initial steps to implement an economic recovery program.

The Central Bank of Guinea has restored the right of privacy for all individual accounts, to "allow Guinean citizens to increase their wealth without interference for arbitrary reasons." Farmers will no longer be ordered to sell their produce at less than market prices, and several state-owned agricultural cooperatives have been abolished. Multinational corporations have been invited to explore Guinea's immense mineral reserves, and a liberal new investment code is being prepared. Importex, a state corporation controlling foreign trade, is being dissolved. Two long-term actions are also being contemplated: devaluing Guinea's currency, the syli, by as much as 600 or 700 percent; and the eventual abandonment of the syli in favor adoption of the CFA franc and membership in the Monetary Union of West Africa (UMOA).

Prime Minister Diara Traoré visited several European countries in July, including France, Great Britain, Belgium, and Hungary, to appeal for economic assistance. The French government pledged $2.4 million in aid for education and infrastructure and vowed to encourage French businesses to explore the potential for commerce and investment in Guinea. After Traoré met with British Prime Minister Margaret Thatcher in London, the British government announced the appointment of a chargé d'affaires in Conakry. The British post in Conakry will be the first in approximately a decade; Anglo-Guinean relations deteriorated drastically in the 1970s.

The CMRN is also seeking aid from the United Nations High Commission for Refugees (UNHCR) for the resettlement of returning exiles. Out of the estimated 1.5 million Guineans living in other countries, some 200,000 have returned since Sékou Touré's death, according to the CMRN. The Guinean economy is unable to absorb the influx: employment prospects are virtually nil, housing is inadequate, and food shortages are worsening. UNHCR pledged around $1 million in emergency assistance for the remainder of 1984, but Guinea will need more aid if it is to provide adequately for the returnees. ■

GUINEA-BISSAU
New government

In July, President João Bernardo Vieira announced an extensive cabinet reshuffle, filling some posts that had been vacant since May. Headed by President Vieira, the Council of State now has two deputy chairmen, Paolo Correia and Iafai Camara. Correia is a former minister of the armed forces. Camara, who replaced him in 1982, will retain the armed forces ministry in the new government. Vasco Cabral, the former minister of economic planning, was reinstated; he had been out of the government since a purge of "left-wing ministers" in 1982.

The appointments complete recent governmental changes that began in May when the newly-created 150-member National Assembly selected the 15-member Council of State and approved a new constitution. Despite the restructuring of the government, however, the ruling African Party for the Independence of Guinea-Bissau and Cape Verde (PAIGC) remains in firm control both structurally and ideologically. The reshuffle is the culmination of Vieira's effort to strengthen his control in the wake of an attempted swing to the right led by former Prime Minister Victor Saúde Maria.

Soon after tightening the reins on internal affairs, Vieira made two important trips abroad. On his first official visit to Portugal since assuming power in 1980, Vieira met with Portuguese Prime Minister Mario Soares, who expressed his government's willingness to improve relations with its former colony. The visit followed Portugal's decision to reschedule Guinea-Bissau's $417 million debt and to pledge $10 million in aid for development projects. Earlier, Vieira had made a one-week tour of Brazil in which he stressed the importance of economic and cultural ties between the two lusophone countries. ■

MAURITANIA
Pardons and austerity

On the sixth anniversary of his seizure of power, President Mohamed Khouna Ould Haidalla pardoned approximately 20 political prisoners, as well as former President Mokhtar Ould Daddah, who from his exile in France leads an opposition group seeking to overthrow Haidalla's government.

Haidalla also declared that the army "does not intend to remain in power indefinitely and that we are preparing the people for democracy." Mauritania did return briefly to civilian rule in late 1980, but Haidalla retook power only months later.

Haidalla reiterated his call for the Mauritanian people to confront their economic difficulties with "solidarity and harmony." Under the government's austerity program, taxes have been raised and wages have been frozen although the cost of living continues to rise. Haidalla, in an effort to make the bureaucracy more efficient, has banned the traditional tea hour in government offices.

Sharia, or Islamic law, is being applied more stringently; murderers have been publicly executed, thieves have suffered amputation, and alcohol has been forbidden. One report claims that a Malian who sold alcohol was beaten to death by the police; the neighborhood near his bar—a district where trade in illicit goods continues—has become known as "le quartier Keita" in his memory. ■

NIGERIA
War against indiscipline

The government of Maj. Gen. Muhammadu Buhari has added force to its War Against Indiscipline (WAI). It recently made 17 more crimes punishable by death, including counterfeiting, use or sale of drugs, arson, tampering with electrical or telephone cables, and unauthorized oil trafficking. Food smuggling now carries a 10-year sentence. The penalties for minor crimes are also severe. Cheating on exams by students 17 or older is now punishable by sentences of up

to 21 years.

The state governments have issued their own decrees specifying penalties for other crimes. In Borno state, any pregnant student will be automatically expelled from school, and the father of the illegitimate child will have to pay the state for the expense of the girl's education up to the time of her expulsion.

One of WAI's most important battlefields is the workplace. The Buhari regime has fired some junior civil servants for chronic lateness and has made others do menial labor as punishment. By equating laziness with lack of patriotism, it has pressured private businesses to take similar measures with their own employees.

The government claims that WAI is already showing positive results. Buhari said recently that Nigerians were learning to queue again, a practice they had abandoned under civilian rule. Statistics are not yet available, but labor productivity is believed to be improving.

But some Nigerians say the government is going too far in pushing WAI. Even those who applauded making armed robbery a capital crime have questioned whether cocaine use is an offense worthy of death, or whether cheating on exams should even carry a jail sentence, let alone one of 21 years.

The government has already made an example of seven thieves who were publicly executed on August 11. At least 100 other criminals have been sentenced to death, so more executions are likely in the near future. ■

SENEGAL
Economic tensions

In late July, rival factions of the National Workers' Federation of Senegal (CNTS) clashed in Dakar. One unionist was killed and several hospitalized when a fringe group of the CNTS attempted to hold a meeting in the main CNTS assembly hall. The police had to be called in to quell the resulting violence.

Although the CNTS is closely affiliated with the ruling Socialist Party (PS) of President Abdou Diouf, the union has recently shown signs of disunity, with some factions favoring a tougher stand in negotiations with the government, while others have begun leaning toward association with political parties other than the PS.

Senegal has more than a dozen political parties, although only the Senegalese Democratic Party (PDS) was strong enough to win seats in the 1983 legislative elections. The PS holds 111 of the 120 seats in the National Assembly, while the PDS has eight and the People's Liberation Party (PLP), a faction that defected from the National Democratic Rally, has one. Dakar's *Africa* magazine recently reported that PDS leader Abdoulaye Wade may soon order all the PDS legislators to resign their seats in protest against the domination of the PS. *Africa* commented: "It is urgent to re-establish the parties' confidence in the continuity of our democratic institutions. The crisis, which is on the verge of eruption, could, in an atmosphere of mutual recriminations, lead everyone to extremes. The failure of Senegal's democratic experience would represent a setback for freedom in Africa."

Meanwhile, students in Dakar, whose strikes closed the university down for long periods over the past year, are concerned about their future in a weakened economy. The government of Senegal can no longer afford to hire all university graduates, as it has traditionally offered to do: public salaries in 1982 consumed more than 59 percent of Senegal's annual export revenue. Most public employees also receive pensions when they retire at the age of 55; their pensions are approximately equal to the salaries earned by university graduates after three years. To help alleviate the shortage of work for graduates, the government has created new state companies that each can hire several graduates. To create 47 companies, Senegal will spend more than $3 million. Barely over 100 new jobs are expected to result. ■

EASTERN AFRICA

Ethiopia prepares to institute a state communist party

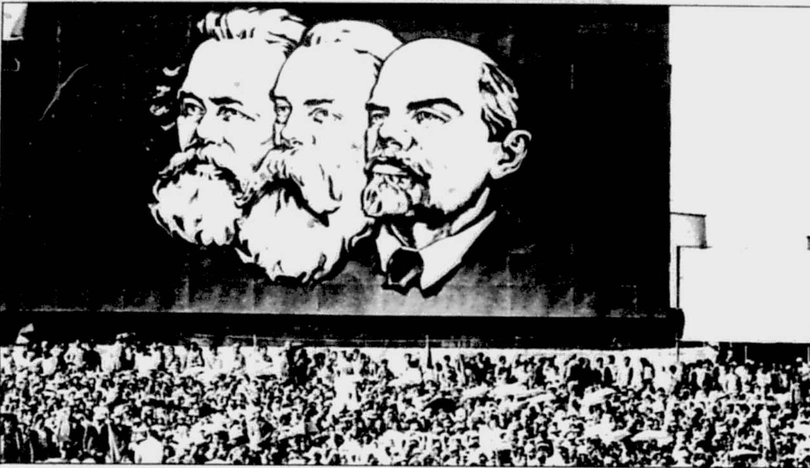
To mark the 10th anniversary of the revolution that overthrew Emperor Haile Selassie, Ethiopian leader Mengistu Haile Mariam will preside over the official formation of the Ethiopian Workers' Party (EWP) on September 12. The establishment of the party is the culmination of the Ethiopian government's efforts to transform the country into a Marxist-Leninist state—a transition that has been in the works for the last five years. It is expected that the transition will strengthen still further Ethiopia's ties with the Soviet Union.

The creation of the EWP by the military government represents perhaps the most important political exercise since the overthrow of the emperor in 1974. It comes, however, in a year that has been difficult for Mengistu's ruling Dergue. Government troops have been locked in battle with liberation groups in Tigre and in Eritrea where, after a two-year stalemate, the Eritrean People's Liberation Front (EPLF) is gaining ground and support. In addition, there are signs that the smoldering rebellion among the Oromo people, Ethiopia's largest ethnic group, is now gathering some momentum.

Ethiopia is also facing a severe drought that is showing no signs of letting up, an economy on the brink of ruin, and hostility from the Western countries whose help Ethiopia will need to counter both of these maladies.

Together, all of these factors add up to dwindling support for the government among the Ethiopian people. Therefore, one of the most important tasks for the EWP will be to bridge the gap between the rural populations and the government, which is seeing its power and influence increasingly limited to the urban centers.

The government is also expecting



Camerapix

Revolution Square in Addis Ababa: Five years of preparation

that the adoption of the party will lead to increased military and economic support from the Soviet Union. This development, however, may serve to further alienate radical nationalists and pro-Western members of Ethiopia's ruling Central Committee.

U.S. officials are quietly hoping that the adoption of the party will cost Mengistu more in domestic support than it gains him in foreign backing, and some officials are even expecting that the transformation will lead to a coup d'état. "The U.S. is waiting, and hoping to deal with the next guy," commented an American government source. ■

KENYA
Over at last

After seven months and 109 sessions, the judicial inquiry into the alleged misconduct of Charles Njonjo has come to an abrupt and unexpected end. The three judges who heard the evidence have retired to prepare a report for President Daniel arap Moi. It will now be up to Moi to decide whether or not to prosecute Njonjo.

It appeared that the trial was going to drag on for at least a few more months, as the state still possessed a battery of witnesses and evidence against Njonjo. When Njonjo finally took the stand at the end of the inquiry, however, he instructed his lawyer, W.S. Deverell, not to prolong the proceedings. Deverell never examined Njonjo on the stand, nor did he call evidence on his behalf. The government prosecutor, Lee Muthoga, was also very brief in his examination of Njonjo.

The government offered no explanation as to why the inquiry was cut short, but in all likelihood it was because it had stopped serving its original political purpose. The inquiry began with widespread popular enthusiasm, but as time passed, the popular tide began to turn toward the underdog Njonjo.

Kenyans also began to see the inquiry as an attempt to distract the public's attention from the country's mounting economic problims, particularly an impending food crisis. Western sources estimate that Kenya will need to import 1.5 million tons of grain before the end of 1985, more than the country has ever had to import.

Though government officials are playing down the severity of the crisis, there is growing panic within the country as food lines have begun to sprout in urban areas. Talk of food hoarding has prompted officials to issue stern warnings to hoarders, and the govennment has clamped a ban on all exports of food.

Kenya has not asked to be included in the list of 24 African countries which are receiving emergency relief from UN organizations. But the U.S. has pledged $10 million to purchase 33,000 tons of grain, and more bilateral assistance is forthcoming. ■

SOMALIA
Rapproachment with Kenya

In late July, Kenya's President Daniel arap Moi spent three days in Somalia meeting with President Siad Barre. It was the first visit by a Kenyan head of state to Somalia which has, in the past, claimed the entire northeastern province of Kenya.

The visit followed a four-day meeting between Kenyan and Ethiopian officials which resulted in joint communique in which both countries renewed their commitment to respect the inviolability of the region's borders. Although Somalia was not mentioned in the statement, the entire exercise was part of a regular ritual in which Kenya and Ethiopia implicitly admonish the Somalis to curtail their territorial ambitions.

The official "memorandum of understanding" from the Kenya-Somalia meeting listed fields in which the two countries would cooperate. There was no mention of territorial disputes or of the massacre of ethnic Somalis that took place in northwestern Kenya earlier this year. ■

UGANDA
Human rights wrangle

In August, U.S. Assistant Secretary for Human Rights, Elliott Abrams, called the human rights situation in Uganda "horrendous," claiming that the government of President Milton Obote was responsible for killing or deliberately starving 100,000-200,000 people since 1980.

Other sources made larger claims. The Archbishop of Kampala claimed that the Obote government was holding 80,000 political prisoners, and the London *Observer* quoted anti-Obote guerrillas as saying that at least 300,000 people have been killed by the government.

But the British Foreign Office commented that "there is no evidence to substantiate reports of hundreds of thousands being killed." The Ugandan government, seeking to disarm the criticism abroad, issued its first official esti-

mate of casualties, saying that approximately 15,000 people had been killed since Obote returned to power in 1980. The government admitted that some of those casualties may have been inflicted by its own troops, but that many others were caused by guerrillas posing as soldiers.

"My master is the people, not the gunmen in the bush, and it is certainly not the newssheets from outside Uganda," Obote said while defending his record in late August. ■

CENTRAL AFRICA

Zairians go to the polls to give Mobutu the 'green light'

President Mobutu Sese Seko won 99.16 percent of the vote and was re-elected to a third seven-year term in Zaire's national election on July 28 and 29. Mobutu, who ran unopposed, conducted a five-week campaign.

Every Zairian automatically becomes a member of the Popular Movement for the Revolution (MPR) at birth, and Zaire is one of the few countries in the world where voting is mandatory. A "yes" vote for Mobutu meant simply placing a green ballot in the ballot box, while a "no" vote could be made only by specially requesting a red ballot and handing it to a soldier in the polling place. ("Red," a Zairian official explained, "is the color of blood and chaos. Green is the symbol of nature, of life, of strength.") Every citizen's identification papers will be inspected from now on; they must bear the word "voted."

As long ago as May, Mobutu had ordered the military to "take an effective part in the election campaign," and there have been frequent reports of beatings and harassment. When the head of Zaire's Catholics, Cardinal Joseph-Albert Malula, suggested that citizens "should vote according to their souls and consciences, keeping in mind the past, the present, and the future of the country," Mobutu placed a curfew on religious services between 6 P.M. and midnight.

In many polling places, red ballots were not available; as one Mobutu loyalist commented, "There is no need for them. Everyone is voting green." In an interview with foreign journalists on the day after the elections, Mobutu said that "the voting was a real election and could not be considered a referendum or a plebiscite. . . I have found it very difficult to make my people accept the idea of elections because those held before [Mobutu's presidency] brought to power people who were responsible for all the miseries the country suffered. In the minds of the people of Zaire, the idea of elections represents a phenomenon causing all kinds of trouble. The most remarkable illustration of that was during the [latest] elections, when the militants of the party felt that red ballot papers were unacceptable in the polling places. These observations demonstrate the need for intense electoral campaigns in order to explain to the citizens the necessity for elections." Mobutu denied that he would seek to be named president-for-life and said that the people, and not Mobutu himself, would designate his successor.

Just two weeks before the elections, Mobutu made a five-day official trip to Belgium. Coming soon after a visit to France during which he had received pledges of a large loan and considerable military aid, Mobutu's trip to Belgium was his first visit to the former colonial power in five years. Mobutu's notorious record of human rights violations is an embarrassment to the Belgians, who enraged Mobutu in 1982 by asking him to grant clemency to 13 opponents of his regime.

On this visit, however, the Belgian government whisked three of Mobutu's well-known opponents, who were living in Brussels, out of the city for the duration of his visit. Although protesters picketed Mobutu nearly everywhere he went, he was granted an audience with King Baudouin and was given access to prominent businessmen and government officials. He presented a long shopping list, including a guaranteed credit increase for the Zairian national bank, substantial loans to the Zairian government, agricultural aid, and credits to help Zaire import Belgian goods. Mobutu's requests, totalling hundreds of millions of dollars, are being considered individually by the Belgian government. ■

CAMEROON
Economic measures

The thwarted coup attempt in April against the government of President Paul Biya has severely damaged Cameroon's reputation for stability, and the nation's economic planners are taking measures that they hope will restore Cameroon's image as a safe haven for foreign investment.

Although agriculture and large state-owned companies have traditionally dominated the economy, the government is now seeking to expand the role of small and medium-sized businesses. The state-owned enterprises are now widely perceived as failures, and the Biya administration has instituted two government agencies to encourage the growth of private businesses; one will provide technical advice and the other will offer financial assistance to fledgling companies.

In the new budget, national defense receives greater importance than ever before, totalling 7% of the budget; only education receives a larger allocation. But the ministries of territorial administration and public health also won substantial increases in funding. More than a third of the budget will be spent on capital investments in various sectors of the economy. ■

CENTRAL AFRICAN REPUBLIC
Two found guilty

In late July, two former government ministers were found guilty of complicity in the March 1982 coup

attempt against President André Kolingba: Gaston Ouédane, a colonel who had served as minister of the civil service, and Maj. Jérome Allam, who had been secretary of state for trade and commerce, were sentenced by a special court to ten years' imprisonment.

Their conviction for conspiracy is surprising. Ouédane was appointed to the government on the day after the coup attempt, in a cabinet reshuffle that supposedly promoted only those officials most loyal to Kolingba. Allam was part of Kolingba's first cabinet and retained a place in the government until August 1982, when he was dropped from the cabinet with no public explanation.

Analysts believe that the implication of the two men in the coup attempt is simply a pretext to purge them from the inner circle. Like Sylvestre Bangui, another prominent official demoted at the beginning of this year, Ouédane and Allam are believed to have been conducting clandestine political activities of their own. ■

CHAD
Negotiations fail

The "national reconciliation conference" scheduled to be held in Brazzaville, Congo, in late July, never took place. President Hissène Habré and rebel leader Goukouni Oueddei were unable to agree on matters of protocol and procedure and, like all previous efforts, the negotiations collapsed.

Chad therefore continues to be divided in two along a "Red Zone," with Goukouni's forces, helped by Libya, occupying the north, while Habré's army, reinforced by France, controls the south. The status quo seems to benefit Habré more than Goukouni: the French troops boost the local economy and help Habré to maintain stability, while Goukouni's troops are reportedly short of supplies and resentful of their Libyan allies. The rebels have claimed to have won several recent skirmishes with Habré's army, but Habré's troops are now able to cross the "Red Zone" with little risk. The intensity of the war, however, is indisputably low.

After the collapse of the Brazzaville conference, Habré reshuffled his government for the first time. Gouara Lassou, executive secretary of Habré's newly-formed National Union for Independence and Revolution (UNIR) party, became minister of foreign affairs and cooperation; he is the most prominent of several southerners in the new cabinet. Lassou replaces Idriss Miskine, who died in January. Abba Siddick, one of the founders of Chad's original rebel movement, Frolinat, was promoted from minister of education to minister of higher education.

Meanwhile, early August marked the first anniversary of "Operation Manta," the airlift of 3,000 French troops to Chad. Chad now represents the biggest French military involvement overseas since the Algerian war ended in 1962. French Defense Minister Charles Hernu said on the anniversary that France would maintain its troops in Chad "as long as one Libyan soldier remains." Aside from military assistance, French economic aid to Chad in 1983 exceeded $15 million. ■

CONGO
New number-two

On July 30, at the third general congress of the ruling Congolese Labor Party (PCT), President Dénis Sassou-Nguesso was unanimously re-elected. New constitutional reforms made the president the head of government, a function previously performed by the prime minister. The prime minister will hence-

ABC sums up Africa at the Olympics

During its coverage of the opening ceremonial procession of Olympic athletes, ABC News, "uniquely qualified to bring you the world," provided descriptions of the participating nations. Here is a transcript of the commentary on Africa by Peter Jennings (PJ) and Jim McKay (JM).

ALGERIA PJ: Much more friendly to the U.S. since Algeria played such an effective role mediating the hostage crisis when the Americans were trapped in Iran.

BENIN PJ: A lot of people will remember it as Dahomey. Look at those wonderful costumes! Not a terribly happy place. It's essentially a military, one-party dictatorship.

BOTSWANA PJ: First inhabited by the Bushmen. A very rich nation, full of gold.

CAMEROON PJ: West Africa again. Just south of Nigeria. The Portuguese were the first settlers there. You can see it in the ease of relations with which foreigners are treated.

CHAD PJ: An example of a nation in very much trouble by war. Libya supporting forces in the north, the French supporting forces in the south. And still they manage to break away, these athletes, to participate in the Games, which says something, surely, about this universality for athletes.

DJIBOUTI PJ: A former French colony. It has a staggering unemployment rate of 80 percent.

EGYPT PJ: Perhaps over the last decade the most popular Arab country in America, largely because of Anwar Sadat. Its participation in the Camp David agreements helped in the minds of some people to move peace in the Middle East a fraction of an inch closer.

EQUATORIAL GUINEA JM: Well, tell me about Equatorial Guinea, please, Peter. PJ: What can I tell you, Jim? It was discovered by the Portuguese. It's terribly poor. It's off the coast of Africa.

GABON PJ: The Equator runs right through the middle.

THE GAMBIA PJ: Do I recall correctly—I may get it wrong—if somebody will correct me. Is Gambia not where Alex Haley's roots are? JM: I wouldn't swear to it either, but I'll back you up.

GHANA PJ: Where a resident of this city, Shirley Temple Black, was once the ambassador. JM: That's right. PJ: Put Ghana on the map in some ways. Wonderful country known for its high life, its wonderful late-night dancing revelry. Look at

those wonderful costumes!

IVORY COAST PJ: One of the most well-developed of the former French colonies in West Africa. And, Jim, if you ever go to the Ivory Coast you can take your ice skates.

LESOTHO PJ: A kingdom in southern Africa. Virtually surrounded by South Africa. About 50% of its citizens go to work in South Africa.

LIBERIA PJ: Look at that flag. So familiar to so many Americans, particularly American blacks. Founded by American slaves in 1821. 115,000 American slaves finally settled there. And it is a country that for many years, basically until the coup in 1981, has had the strongest identity with America.

MADAGASCAR PJ: World's fourth largest island. Got its independence from France back in 1960.

MAURITANIA PJ: Enormous representation from West Africa. Mauritania is in northwest Africa. The majority of the population is still nomadic. JM: A country that has known famine five of the last ten years. PJ: Absolutely. JM: We don't know of that here.

MAURITIUS PJ: Mauritians are very proud of their high literacy rate. One of the highest literacy rates of any former colony.

MOROCCO PJ: Home of the Casbah. King Hassan, always regarded as one of the more moderate leaders in the Arab world. Wonderful fezzes they're wearing.

MOZAMBIQUE PJ: Mozambique is developing closer relations to the U.S. than previously. Fairly dependent on South Africa. A former Portuguese colony. A country of fairly easy race relations.

SOMALIA PJ: With its five-pointed star. Now somewhat of a friend of the U.S. Used to be a friend of the U.S.S.R., until basically the two sides, Somalia and Ethiopia, changed sides.

SUDAN PJ: Located in the eastern end of the Sahara. Largest country in Africa, with its Arab north and African south. A very strict Islamic country.

SWAZILAND PJ: The King of Swaziland died a short while ago after having ruled, Jim, for 61 years.

UGANDA PJ: One of the most beautiful countries in all of East Africa.

ZAMBIA JM: Formerly Northern Rhodesia. PJ: A country with enormous difficulties because it was essentially a one-commodity country, copper.

ZIMBABWE PJ: Formerly Rhodesia. ■

forth be responsible for "coordinating ministerial action." Ange Edouard Poungui was named prime minister, replacing Col. Louis-Sylvain Goma, who became chairman of the Constitutional Council.

The Political Bureau, the ruling council of the PCT, was expanded and reshuffled. Formerly a ten-member group, it now includes 13 men. The most dramatic change was the exclusion of Jean-Pierre Thystère-Tchicaya, who had been considered the "number-two man" in the regime. Two days before the party congress, Sassou-Nguesso summoned all the members of the outgoing Political Bureau to an informal "session of self-criticism." After blaming himself for a variety of petty shortcomings, Thystère-Tchicaya found himself confronted with documents implicating him in several anti-government bombings that took place in 1982. Thystère-Tchicaya, who had long been responsible for political education and the ideological direction of the PCT, was ordered to "start again at the bottom to be re-educated." ■

ZAMBIA
Debt and copper

Zambia has managed to reschedule most of its $2.6 billion public debt and was expected to obtain $225 million in additional credits from the International Monetary Fund after the reschedulings became official.

But rescheduling does not begin to solve the Zambian economy's fundamental problems. In fact, President Kenneth Kaunda's agreements with the IMF have, in the short run at least, left most Zambians worse off than before. IMF pressure was directly responsible for the 40 percent devaluation of the kwacha in 1983-84. The devaluation, along with reduced food subsidies, caused a 30 percent jump in food prices. Meanwhile, wages rose less than 10 percent. Not surprisingly, Zambia's labor unions are opposing the adoption of more IMF proposals, especially the elimination of all food subsidies. Kaunda has recently suggested that food subsidies might have to be abandoned for the first time since independence. Work stoppages have become more and more frequent: in the first three months of 1984, more than 10 times as much work time was lost as in all of 1983.

Although many Zambians are discontented, the recent policy shift has impressed most Western economists, some of whom speak of Zambia as an economic model for other African nations. The U.S. has increased its financial assistance to Zambia, while Secretary of State George Shultz said that Zambia "is on the right track."

But what the U.S. gives with one hand it might take back with the other. The Reagan administration is under heavy pressure from domestic copper producers to cut back imports by at least a third. The low price of copper has already caused American copper companies to shut down some domestic mines. But an American restriction on imports would hurt other copper-producing nations by restricting the largest single market and causing a sharp fall in prices. Copper prices—now around 70 cents per pound, down from a peak of $1.40 in 1973—could drop at least another 25 cents. Zambia derives 90 percent of its foreign exchange earnings from copper.

In recent years, the cost of producing copper has substantially exceeded the revenues Zambia can derive from it. However, the country's powerful labor unions have effectively prevented any significant cutbacks in production. ■

NORTHERN AFRICA

Alliances shift again in the Maghreb

The Maghreb states—Algeria, Libya, Mauritania, Morocco, and Tunisia—have regularly discussed the possibility of joining together in a federation. They remain sharply divided, however, over the future of the Western Sahara and over which of their headstrong and charismatic leaders should preside over the union. The result has been that the frequent attempts at regional alliances have failed to include more than two or three countries at a time.

In the latest realignment, Morocco's King Hassan II and Libyan leader Col. Muammar Qaddafy signed a treaty on August 13 establishing a "union of states." Under the union—which is subject to approval "by the people"—both countries would remain autonomous and would retain their existing institutions. A permanent secretariat, alternating between Rabat and Tripoli, would administer the union. A joint communiqué declared that the treaty "would be the basic mortar for the unity of the Arab Maghreb."

After signing the treaty with Hassan, Qaddafy also visited Algeria and Tunisia. He met with Algerian President Chadli Benjedid later in the same day and claimed that Chadli "had given his blessing to this step toward unity." In Tunis, where he was accompanied by "the adviser to King Hassan," Qaddafy met with Prime Minister Mohamed Mzali and other Tunisian leaders.

Cameraplx

Hassan: Looking for allies

The signing of the treaty, and particularly the claim that it could be the model for uniting all the nations in the Maghreb, elicited a chilly response from Algeria. Algeria's official daily newspaper, *El Moudjahid*, insisted that only the 1983 Algeria-Tunisia-Mauritania treaty "is and remains from the historical viewpoint the cornerstone, the solid and healthy foundation upon which Maghreb unity must be built."

There is no ideological basis for a Libyan-Moroccan alliance. Hassan, however, is desperate for any ally he can find in his dispute over the Western Sahara—which he sees as a war with Algeria and now, increasingly, with Mauritania. Qaddafy, in his continuing quest for the mantle of leadership in the Maghreb, was upstaged last year by Chadli's regional diplomacy, which resulted in Algeria's tripartite pact and discussions with Hassan. Qaddafy has also proposed a summit meeting to be held in Tripoli for the five states of the region to discuss the Libya-Morocco accord.

Pressure on Mauritania

The pact between Libya and Morocco may have been designed to exert pressure on the government of Mohamed Khouna Ould Haidalla of Mauritania, which recently angered Hassan by recognizing Polisario's Saharawi Arab Democratic Republic (SADR).

On July 20, Hassan claimed that two recent attacks by Polisario guerrillas against the town of Dakhla in the Western Sahara had been launched from Mauritanian territory. Hassan sternly warned Haidalla: "This state of affairs cannot continue without our Royal Armed Forces finding themselves being forced, while repulsing attacks on them, to pursue the aggressors to the places from which they had set out. And if we find ourselves faced with this possibility, you are not ignorant of the magnitude of the grave consequences of this to our two countries. . . Morocco cannot accept that its national soil should be subjected to armed attacks without making a suitable reply. Therefore, we hope you will take the necessary steps to control the situation."

Haidalla denied Hassan's charges, saying that "our territory has not been used and will never be used as a base for an attack on your forces. . . Why, every time there is fighting in the Western Sahara, must Mauritania take the blame for incidents with which it has no connection?"

Hassan's warning, and his threats of hot pursuit across the Mauritanian border, caused concern throughout the region. The Tunisian secretary-general of the Arab League, Chedli Klibi, told Moroccan and Mauritanian representatives that he was "preoccupied" with the breakdown in their relations and "ready to take any possible measures to re-establish concord between the two neighbors and stability in the Arab Maghreb." And the Algerian minister of foreign affairs, Ahmed Taleb Ibrahimi, visited Nouakchott three days after Hassan's warning, bearing a private message from Algerian President Chadli Benjedid.

An editorial in Algeria's government newspaper, *El Moudjahid* commented: "'Hot pursuit' is a pure product of colonial ideology. . . There is a clear choice to be made between adventurism and the construction of a Greater Maghreb, which requires the satisfaction of the national rights of the Saharawi people." Any hot pursuit action against Mauritania by Morocco, the paper said, could not be treated passively by Algeria or Tunisia, with whom Mauritania signed a "treaty of fraternity and concord" in December 1983. ■

ALGERIA
Natural gas dispute

Algeria's state-owned oil and gas company, Sonatrach, has asked the

International Chamber of Commerce to arbitrate its dispute with Spain's Empresa Nacional del Gas (Enagas). The wrangle between the two national companies began with Spain's attempts to extricate itself from a 1975 contract in which Spain agreed to purchase 4.5 billion cubic meters of liquified natural gas (LNG) each year for twenty years beginning in 1980. The contract contained a "take or pay" clause requiring Spain to pay for the gas, imported or not.

In 1979, Enagas argued that it could no longer use the Algerian gas in the quantities agreed to in the contract. Sonatrach signed a codicil that pushed the delivery date back two years. Despite the compromise in its favor, Enagas has only imported about 30 percent of the volume originally contracted.

Enagas has argued that the contract level is three times what is needed to cover Spain's requirements, but the Algerians insist that they have detailed information proving that the Spanish market could absorb the LNG. At any rate, the Algerians claim that Spain is still under contract to pay for the gas.

Besides seeking arbitration, the dispute has left the Algerians little alternative but to cancel a deal with a Spanish consortium to construct a dam at Mexanna. The project has been valued at $74 million at current exchange rates. Other trade reprisals being sought by the Algerians include the suspension of approximately half of all Spanish goods and services, totalling over $1 billion for the coming year, and the suspension of the repayment on a $150 million soft loan which was granted with the Sonatrach by Enagas during the 1975 contract negotiations. ■

EGYPT
Back with the USSR

On July 7, Egypt restored full diplomatic relations with the Soviet Union, after more than a year of hints that a restoration was forthcoming. Diplomatic links with the USSR were broken in 1972 by the late President Anwar Sadat, who accused Soviet diplomats of spying and attempting to stir up religious strife.

President Hosni Mubarak indicated soon after taking office in 1981 that he would like to re-establish relations with the Soviet Union. Mubarak waited until this July to restore Egypt's links with the USSR out of concern over Soviet covert activity in the Middle East and North Africa. Mubarak has been especially concerned that Moscow is pushing Libya and Ethiopia to overthrow Sudan's President Gaafar al-Nimeiry. Another likely reason for the delay was concern over the American reaction, but U.S. officials gave little public response when the move was finally announced.

Camerapix

President Mubarak: End to isolation

Egypt could benefit substantially from friendly relations with the USSR. The Egyptian military still depends heavily on equipment obtained from the Soviets in the 1960s and early 1970s, and spare parts for Soviet equipment will now be readily obtainable. In addition, Egypt pays up to $50 million annually to cover various debts incurred before the break in relations. A negotiation of easier terms for Egypt may now be possible. Finally, Egypt is seeking to regain its former position as a leader of the non-aligned movement, which it was instrumental in establishing. Mubarak hopes that resuming relations with the Soviet Union will help alleviate the diplomatic isolation of Egypt that resulted from its peace treaty with Israel.

New cabinet

Seeking the "achievement of stability," Mubarak installed his new cabinet on July 17. True to his word, there are only nine new faces from the previous cabinet, which was dissolved after the June parliamentary elections. The latest cabinet features two new ministries—housing and education—raising the number to 32.

The new prime minister, Kamal Hassan Ali, who previously had been the foreign minister, had served as acting prime minister since the death of Fuad Mohieddin on June 5. Otherwise, there were no changes among the top positions except the demotion of the interior minister, Hassan Basha. Mubarak was said to have blamed him for pre-election rioting. ■

SUDAN
Chevron's dilemma

The seesaw battle between the U.S. oil company, Chevron, and the regime of Sudan's President Gaafar al-Nimeiry continues. Chevron, after rebel attacks in the south forced it to abandon its exploration activities, has yielded to government pressure and resumed exploration at Babanusa and Muglad oilfields, which are north of the areas in which violence has occurred.

Dr. Sharif Tukami, the minister of energy and mining, met with Chevron representatives at the end of July and reached an agreement on the resumption of oil prospecting. The accord requires the Sudanese army to protect Chevron facilities and employees from the southern guerrilla threat led by the Sudan People's Liberation Army (SPLA).

The SPLA, which has killed five Chevron employees since last November, has vowed to continue disrupting Chevron's activities. If the Sudanese army cannot adequately protect Chevron's facilities, the company may be forced to pull out of Sudan. Nimeiry's government, which expects to earn $136 million annually once the oil is flowing regularly, cannot afford such a loss.

Chevron has substantial interests in Sudan. In the last ten years, the

company has spent about $900 million. With a large investment expected to be committed for constructing the controversial pipeline from Bentiu to Port Sudan, Chevron's total investments in Sudan could reach $2 billion.

The government's new understanding with Chevron places more pressure on Nimeiry to modify his stance on the movement for autonomy in the south. Since late last year, he has seemed dedicated to pursuing a military solution, while forging ahead with his plans to make Sudan an Islamic republic. Those policies continue to place Chevron's operations in jeopardy. ■

SOUTHERN AFRICA

South Africa's economy suffers as interest rates go through the roof

On August 3, South Africa's major banks raised their prime lending rate from 22 percent to a record 25 percent. Barend du Plessis, who became finance minister in June, said that the increase was part of an austerity plan designed to reduce inflation, control consumer spending, curtail the rand's decline in value, and curb the growth in money supply.

As the price of gold fell from its 1980 peak of $850 per ounce to its current level of $340, South Africa's current account surplus has turned into deficit. Gold is priced in dollars, and the value of the rand is pegged to gold. Therefore, as gold prices dropped, the rand steadily lost value against the dollar, making all of South Africa's imports more expensive.

The current drought has forced farmers to borrow heavily, and the government has had to grant them interest subsidies to cushion the high cost of borrowing. Before the drought, South Africa had been the third-largest exporter of maize in the world and had been deriving nearly $1 billion annually from agricultural exports. The drought has now turned South Africa into a net importer of staple foods; maize imports in 1983 alone cost more than $200 million.

There are other pressures on South Africa's economy. Inflation reached 11.7 percent in June, and the money supply continues to grow to record levels. Government spending has exceeded most budgetary allocations for five years in a row; in April and May of this year, government expenditures exceeded the budget by more than 8 percent. On July 1, the general sales tax rate rose from 7 to 10 percent. Defense spending will consume 21.5 percent of the South African national budget in 1984, and the war in Namibia is estimated to cost well over $1 million per day.

Foes of the South African regime have long pointed to South Africa's economic strength as the main barrier to achieving majority rule. Anti-apartheid activists have recommended trade sanctions as the most effective way for the West to pressure the Pretoria regime. Gold, however, has always been South Africa's ace in the hole, allowing the government to skirt oil embargoes and render most attempts at sanctions ineffective.

Opponents of apartheid are now calling attention to the vulnerability of the South African economy to falling gold prices. Economists have pointed out that another sharp decline in the gold price could cripple the South African economy. Some have suggested that the West, if it so desired, could use gold sanctions to pressure South Africa to abandon apartheid. As British economist David Piachaud recently pointed out: "If the United States decided to release an eighth of the gold in Fort Knox it would double the world supply, and South Africa would face economic catastrophe."

ANGOLA
Sabotage in the north

After months of threatening to attack the oil-rich northern province of Cabinda, the anti-government Unita rebels claimed responsibility for blowing up an oil pipeline owned jointly by Sonangol, the government oil company, and Gulf Oil of the U.S. At least ten Angolan civilians in a nearby house were killed by the blast on July 12, which shut down the pipeline for four days.

Gulf spokesmen explained that the bombing had done less damage to the pipeline than most reports initially suggested. The saboteurs had chosen a pipeline that carries only 6 percent of Cabinda's daily oil production, and only a small amount of oil was lost, since the main shut-off valve was left intact. From Lisbon, Unita issued a communiqué claiming responsibility, but Unita's inaccurate description of the site suggested that the Front for the Liberation of the Cabinda Enclave, which has launched several similar attacks in recent years, may in fact have been responsible.

Three weeks later, Unita claimed to have struck again in the north, this time mining the harbor of Luanda and severely damaging two cargo ships. Unita claimed that the two ships—one of them Angolan and the other West German—were loaded with munitions; the Angolan government stated that the ships were carrying food.

Military analysts believe that, unlike Unita's land assaults, the latest attacks could not have been made without South African assistance. The mining of the harbor must have been carried out from the sea, and Unita has no access either to a port or to ships from which commandos could operate.

The two acts of sabotage are similar to the bombing of a pipeline and the mining of a harbor in Mozambique in October and November 1981, which could also have been launched only from the sea. Although the Mozambique National Resistance (MNR) claimed responsibility for those attacks, there was little doubt of South Africa's involvement.

South Africa's apparent complicity in the latest Unita attacks could be related to the delayed South African withdrawal from southern Angola. In the "Lusaka accord"

signed in February, South Africa agreed to withdraw its troops from Angola by March 31. But the South African soldiers are still occupying a large area of Angola just north of the Namibian border, and officials in Pretoria recently hinted that the troops may remain there or even be reinforced.

The South African presence in Angola has allowed Unita to advance northward without having to defend its rear. Unita's success is tactically convenient for South African diplomacy: a strong Unita position guarantees the continued presence of Cuban troops to fight the rebels, and South Africa has refused to grant independence to Namibia so long as the Cubans remain in Angola. ■

BOTSWANA

Masire calls elections

President Quett Masire dissolved Parliament on July 20, in preparation for general elections to be held on September 8.

In the national campaign, the first since the death of former President Seretse Khama in 1980, six political parties will contest 34 seats. Before Parliament was dissolved, Masire's ruling Botswana Democratic Party (BDP) held 29 seats, the Botswana National Front (BNF) held two, and the Botswana People's Party one; two new seats have been added for this election. The BDP has won a majority in each of the four general elections held since independence in 1966. Another BDP victory is likely, but because Masire is leading the campaign for the first time, the results are not certain.

The BNF, led by Kenneth Koma, is the most serious challenge to the BDP; it is the only other party contesting every seat. The BNF has made the economy a major issue, accusing Masire of not doing enough to narrow the gap between rich and poor. Although Botswana has one of the highest per capita incomes in Africa—$1067 in 1981—the BNF charges that the government's recent devaluation of the currency, the pula, has made life harder for the poor. Koma has promised a more equitable distribution of resources and to increase subsidies for farmers.

The BNF also opposes Botswana's membership in the Southern African Customs Union. Koma has called Botswana a "neo-colony of South Africa" because of Botswana's dependence on revenues from SACU. SACU provides 40 percent of the Botswana government's receipts.

The other parties—the BPP and the Botswana Independence Party, which has not held a seat since the 1966 election—are conducting regional, not national, campaigns. They are expected to win no more than one or two seats each. ■

Pretoria breaks links with New Zealand

On July 31, the South African government announced the closure of its consulate in New Zealand. After defeating incumbent Prime Minister Sir Robert Muldoon in a mid-July election, New Zealand's new Labor government, led by Prime Minister David Lange, announced that it would fulfill its campaign pledge to sever diplomatic ties with South Africa.

South Africa pre-empted Lange by instructing the consul-general to leave Wellington "without delay," and South Africa's Minister of Foreign Affairs, Roelof Botha, said with hauteur: "It will not be necessary for the new prime minister of New Zealand to issue a statement later on the status of the South African mission."

New Zealand's action is part of a general trend in the region's foreign policy. Australia has recently declared a moratorium on uranium sales to France, which it claims is testing nuclear weapons in the South Pacific. And New Zealand has banned nuclear-powered or armed ships from its ports, causing concern among American military officials, who consider New Zealand a vital outpost for American ships.

Earlier this year, Australia angered South Africa by allowing the ANC and SWAPO to open information offices; the Australian government also banned sporting exchanges with South Africa and barred a proposed visit by two South African politicians. Lange's government has said it will "discourage" New Zealand's rugby team from making a proposed tour of South Africa later this year. ■

LESOTHO

Elections at last

As Lesotho prepares for the first elections in 14 years, tension between Prime Minister Leabua Jonathan's cabinet and the various opposition groups is escalating.

Some members of the official opposition Basotho Congress Party (BCP) have boycotted sessions of the National Assembly in a dispute over Jonathan's policy. But the BCP itself is divided: disagreement over whether or not to boycott the upcoming elections has split the party into at least two factions.

In recent National Assembly sessions, the proposal to install a caretaker government has aroused fierce debate. One BCP faction insists that once the campaign begins, Jonathan and his cabinet should relinquish their posts in favor of a caretaker cabinet until the elected government assumes office.

Jonathan and his supporters have sharply criticized the proposal, calling it an attempt by the BCP to create a "vacuum" in the government that the BCP could use to manipulate the outcome of the elections. However, the BCP contends that a safeguard is needed against Jonathan's unlimited power to postpone or annul the elections. (In the last election in 1970, Jonathan usurped a certain BCP victory by declaring the elections void, assuming power himself, and decreeing a "five-year holiday from politics.")

Jonathan has still not set a definite date for the elections, although he has been hinting at a return to constitutional government for at least four years. "Instability" has caused the delay. Since the 1970s, violence has intensified between

the government and the armed wing of the BCP, the Lesotho Liberation Army led by Ntsu Mokhehle. Conflict with the Roman Catholic church and within Jonathan's ruling Basotho National Party (BNP) over the Prime Minister's warm diplomatic relations with communist countries has caused further tension.

Relations with South Africa have deteriorated seriously in recent months. South African Foreign Minister Roelof Botha has met with several anti-Jonathan leaders—including Jonathan's former minister of information, Charles Molapo, and Phoka Chaolane, a prominent BCP member—to form a new opposition group called the United Democratic Alliance (UDA). The South African government is funding the new group, and reports also indicate that South African mining authorities have been coercing Basotho mine workers to support the UDA, threatening to fire them if they do not comply.

South Africa is angered at Lesotho's refusal to sign a mutual non-aggression pact. Shipments of "internal security equipment" that Lesotho purchased from Britain have been detained at South African ports, in reprisal for Lesotho's recalcitrance. The delay in allowing the weapons to pass through South African territory is expected to give the LLA temporary superiority in attacking government security forces. ■

MALAWI
Death sentences commuted

On the occasion of Kamuzu Day, the national celebration of his birthday, President-for-Life Hastings K. Banda announced that he had commuted the death sentences of Orton and Vera Chirwa and had released their son Fumbani from prison. The Chirwas, the most prominent opponents of Banda's rule, have been in jail since 1981.

Meanwhile, elections scheduled to be held in the Central Region were postponed indefinitely on Banda's orders. The district election conference of the Malawi Congress Party (MCP) was dissolved by Banda without warning, and local party leaders were summoned to MCP headquarters in the capital of Blantyre. Local elections in the Northern and Southern Regions were held as planned. Observers believe that the cancellation of the election in the Central Region was related to the continuing suspicion surrounding the death last year of Aaron Gadama, minister for the Central Region in the national government. Gadama, like several other politicians who had fallen out with Banda, died in a car crash; many opposition figures have called his death a "liquidation." Banda, who is from the Central Region himself, seems to have postponed the elections to avoid any embarrassment that could result from a lackluster turnout. ■

MOZAMBIQUE
Trying to make Nkomati work

Foreign Minister Joachim Chissano said in Lisbon at the beginning of August that the Nkomati accords—the mutual non-aggression pact signed with South Africa in March—"are being progressively implemented, and Mozambique has no reason to complain against the South African government." Chissano said that "the problems that arose are all being discussed with Pretoria," and he was careful not to blame the government of South Africa for the continuing activity of the Mozambique Resistance Movement (MNR). The MNR, which used to receive covert backing from South Africa, is now receiving only illegal support from South African "interests in contradiction with those of the Pretoria government."

South Africa is now providing "logistical support" to Mozambique in an effort to ensure the safety of the Cabora Bassa hydroelectric dam, which provides both countries with much of their electric power and which is a favorite target for MNR commandos.

The Nkomati accords have opened other potential areas of cooperation. Negotiations are now underway for South Africa to provide medical assistance for Mozambique; for Mozambique to accept South African tourists again, as it did under Portuguese rule; for a bureau to be opened in Maputo for South African businessmen; and even for the possibility of compensating South Africans for investments confiscated after Mozambique's independence.

But the most significant issue being discussed by the two countries is the joint development of the now-dilapidated port of Maputo, which according to some estimates could inject more than $65 million per year into the Mozambican economy. Improvement of the port's infrastructure, and a public relations campaign to build South African businessmen's confidence in the port, could make it into a thriving and lucrative operation.

The port of Maputo is hundreds of miles closer to the mining and manufacturing centers of the Witwatersrand and the eastern Transvaal than are South Africa's own major ports. Before Mozambique's independence, Maputo was South Africa's third most important shipping outlet. South African firms could now save at least $10 a ton on the cost of exporting minerals by routing them through Maputo, and the South African cargo tonnage handled in Maputo is expected to double in 1984-85. ■

SOUTH AFRICA
Rumor of Africa tour for Botha

On August 7, Western newspapers carried a Reuters report from Johannesburg quoting "official sources" in the South African government as saying that Prime Minister P.W. Botha, fresh from his triumphant tour of Europe, would visit several African countries in October. Reuters said that Botha's itinerary "could include such countries as Ivory Coast, Zambia, Zaire, Gabon, Mozambique, and Morocco."

A week later, *Newsweek* reported that Botha "will visit Morocco in October. . . and, according to diplomatic sources in Paris, the prime minister will go on to Zaire, Ivory Coast, and Gabon." Another source added Togo to the list.

But other observers were not so

sure. American diplomatic sources told *Africa Report* that a trip to Ivory Coast "could be in the wind," but that they did not believe any formal agreement had yet been reached between Botha and the Ivorian government, let alone with any others in Africa. Official South African sources in the U.S. vehemently dismissed the report, calling it "purely speculation" and pointing out that the opening of South Africa's first "multi-racial" Parliament would keep the prime minister extremely busy throughout the month of October.

The Reuters report was not officially denied by any of the countries mentioned; only Zambia made any comment at all, saying that the government "denied having knowledge of South African Prime Minister Pieter Botha's visit here." The carefully-worded statement did not say that Zambia would oppose such a visit.

President Kenneth Kaunda of Zambia has met several times with Botha and has frequently called for a regional summit in which all the heads of state in southern Africa, including Botha, would meet.

Throughout the 1970s, Ivorian President Félix Houphouët-Boigny advocated "dialogue" with South Africa. He hosted a visit by South African Prime Minister John Vorster to Ivory Coast in 1974; Léopold Senghor, then the president of Senegal, also attended. In 1975, Houphouët said that African countries should exchange ambassadors with South Africa, and he met openly in Geneva on at least three occasions with South African Foreign Minister Roelof Botha or with Vorster.

A recent editorial in *Fraternité Matin*, the government daily newspaper of Ivory Coast, praised South Africa's constitutional "reforms"—which continue to exclude the black majority from the parliamentary process—as "a small step in the right direction."

By not denying the possibility of a Botha vi[illegible] Ivory Coast and the other cou[illegible]ries appear to be sending a signal to Pretoria. Their overwhelming silence suggests that most of the countries mentioned would, under the proper conditions, agree to host a Botha visit. It now seems clear that the rumor of Botha's tour was a premeditated leak by the South African government to determine how the potential "host countries" would react to the idea, and many diplomats claim they would not be surprised by an "African tour" by early 1985. ■

SWAZILAND
ANC members expelled

On July 25, the 41 remaining ANC members in Swaziland, out of a total of 86 arrested by Swazi police after entering the country illegally from Mozambique in April, were deported to Tanzania. The government dropped all charges against the ANC members.

The ANC has been active in Swaziland since 1965, but in recent months there have been frequent accusations by the Swazi government of ANC robberies and lawlessness, and accusations by the ANC of Swazi torture of arrested members.

The July expulsions removed the last of the group of ANC members who entered Swaziland in April. There had been repeated exchanges of gunfire between the Swazi security forces and the ANC group since their arrival.

In a July interview, ANC President Oliver Tambo explained, "The ANC related to Swaziland as to a country that helped bring it about. . . basically relations between the ANC and Swaziland, despite everything, remain intact. . . The sorrows and irritations that we have experienced should be seen as part of the problems that Pretoria has created for decades." ■

ZIMBABWE
Mugabe consolidates his power

While the party congress of Prime Minister Robert Mugabe's ruling Zimbabwe African National Union (ZANU) opened on August 8 with a blast of revolutionary rhetoric, it concluded five days later on a quieter, more pragmatic note.

Margaret A. Novicki

Prime Minister Robert Mugabe

A resolution calling on Zanu to endorse the immediate introduction of a one-party state was defeated. Instead, the congress approved a resolution, drafted by ZANU moderates, calling for the party to strive for the establishment of a one-party state "in the fullness of time and in accordance with the constitution and the law." Likewise, the initial threat to drop a number of moderate ZANU leaders from the Central Committee was not acted upon.

Mugabe was elected to the newly-formed Politburo, along with his deputy, Simon Muzenda. Mugabe was then able to consolidate his power by selecting the remaining 13 members of the Politburo, which will be the decision-making body of ZANU.

Early next year, in the first general election campaign since independence, ZANU will seek to strengthen the party's base and win a decisive majority over its major rival, Joshua Nkomo's Zimbabwe African People's Union (ZAPU).

ZANU believes a one-party state is necessary to oversee the socialist transformation of Zimbabwe's economy and to prevent politics from dividing along ethnic lines.

ZANU, however, has not yet won the support of the Ndebele-speaking people in Matabeleland, a prerequisite for the establishment of a stable one-party state. While the government's use of force has reduced the activities of armed dissidents in the area, it has also alienated many of the area's residents. ■

The Economics of the Rawlings Revolution

The Ghanaian government has launched a major effort to reverse the country's two decade-long economic decline, while attempting to restructure society along egalitarian lines. But difficult choices have been made and the challenges ahead remain daunting.

BY MARGARET A. NOVICKI

Before Flight Lieutenant Jerry Rawlings' December 1981 revolution, the residents of Golinga, in Ghana's drought-plagued Northern region, were employed by commercial farmers in Tamale, the regional capital, to cultivate the crops on the irrigated land surrounding their village. In return for their labor, the "rich men," said Fusheini Burow, a wizened farmer who is chairman of the village people's defense committee (PDC), would provide a few bags of fertilizer and maize and some used clothing, taking the bulk of the produce to sell in the markets in town. Now the villagers have set up their own community farm on the land and are using the proceeds from the sale of their crops to construct a school and to rebuild the dirt road that winds between their village and their neighbors.

In Winkogo, in the Upper East region where 70 percent of last year's harvest failed, villagers contributed nearly $3,000 and their labor to build a community center and health clinic which will serve seven villages and 8,000 people. Residents of Taha, outside Tamale, wanted a feeder road to connect their village to the main road, explained a farmer, "so we could get our pregnant women to the clinic and our food to market." The local PDC organized the villagers into work brigades, and the regional mobilization committee provided the supplies and road grader. The 8 km road is near completion pending arrival of gravel, and planning has begun on the next project—a school.

And at 9 in the evening, at a schoolhouse in Tamale, a farmer, a tractor driver, a trader, a tailor, a second-hand clothes seller, sit huddled over notebooks at a table lit by kerosene lanterns. The volunteer teacher explains that his students, ranging in age from their mid-20s to 60s, meet four times a week after their day's labors to learn basic English language skills. The night school is one of 60 that have been set up in the Northern region under the coordination of the regional defense committee.

In northern Ghana, amid these examples of the self-help, populist spirit which underlies both the economic and political philosophy of the Rawlings government are stark reminders of a country in economic crisis. The decaying frame of a tractor, long inoperable from lack of fuel, lubricants, and spare parts, stands idle and rusted on a farm ten miles out of Tamale; the villagers use hoes and cutlasses—even these, costly and in short supply—to cultivate their maize, rice, and cassava. A farmer in Bolgatanga, in the dusty Upper East region, says the reason he is not taking advantage of the recent rains to plant maize on his farm is that the fertilizer needed to raise this staple crop is not available.

At Tono, Ghana's largest working irrigation scheme, the managing director explains: "The key thing in agriculture is planting at the right time. It's critical that inputs—fertilizer, seeds, fuel, tractors—are there when the farmer needs them." With foreign exchange for such inputs stretched to the limits, a lowered water table in the reservoir from two years of drought, and a dearth of skilled manpower to manage the scheme, even this government-run project has failed to meet its targets.

The shortage of tires and spare parts for the tankers which traverse the decrepit road network from the coastal Tema refinery to Ghana's north, bearing the diesel needed to fuel the power generators, makes electricity supply erratic at best, and often non-existent for days on end. Petrol for cars, trucks, and particularly tractors—in this most heavily agriculturally mechanized region in Ghana—is rationed. And when the power is off, industry grinds to a halt and planes carrying needed supplies from Accra cannot land at Tamale airport.

Such is the legacy of Ghana's two decade-long downward spiral and hence the level of the challenge faced by the Provisional National Defense Council (PNDC) government. Two and one-half years after the Rawlings revolution, there are signs that the country is

slowly, painstakingly breaking out of its economic stagnation and that the themes of this government—self-reliance, productivity, and the community work ethic—are taking root. The PNDC has won the endorsements and financial support of those who initially held the Rawlings revolution at arm's length—Western donors and creditors—for, says Werner Schelzig, the World Bank's representative in Accra, "They have done one thing that no other government in Ghana has done for years, and that is to give the economy a direction."

But Rawlings' efforts have been daunting and controversial, for few African countries have witnessed as precipitous a decline in their short post-independence histories and few governments have faced such overwhelming historical and natural odds—and considerable skepticism—in attempting to turn the trend around.

When Rawlings seized power in late 1981 on a platform of ending corruption, restoring accountability, and redistributing the nation's economic and political power, Ghana's economic profile was among the bleakest in all of Africa, all the more tragic because of its abundant natural wealth—gold, diamonds, timber, cocoa, bauxite, manganese, offshore oil, and rich agricultural land.

As with his three-month intervention in 1979, Rawlings' 1981 revolution was an angry reaction against the failures of Ghana's post-independence leadership to address the problems of underdevelopment, permitting the rural areas to sink further and further into subsistence—fueling the stream of rural migrants into the decaying cities—while the elite squandered foreign exchange on unnecessary imports and grew wealthy off of institutionalized corruption. It was indicative of how easily fragile political structures not rooted in the country's traditions cracked under the strains of economic crisis. Above all, Rawlings' revolution was born out of the frustration and despair bred by a political and economic system which had allowed Africa's "Black Star," once the inspiration of a continent, to reach a point of near collapse.

Throughout the 1970s, Ghana's import-dependent economy was grossly mismanaged. The pursuit of wrong-headed monetary, fiscal, foreign exchange, and pricing policies discouraged local production in agriculture and manufacturing. The export sector, and therefore the country's foreign exchange earnings, plummeted. The economy was plagued by high rates of inflation caused by mounting budget deficits, and a severe shortage of consumer goods and raw materials. These problems were exacerbated internally by the attendant ills of corruption, black marketeering, and tax evasion, and externally by world recession and deteriorating terms of trade.

Margaret A. Novicki

Flt. Lt. Jerry Rawlings' government has won the support of those who initially held the revolution at arm's length

The mantle of economic woes Rawlings took on when he overthrew Hilla Limann's civilian government was staggering. Production of the main foreign currency earner, cocoa, was roughly half the level a decade earlier, and was fetching one-third of 1975's world market price. Lorryloads were smuggled across the border to exchange for convertible CFA francs. Foreign exchange earnings could finance only a week's worth of imports; the oil bill consumed over 50 percent of government revenues. Mismanagement and years of political instability—partly cause and partly effect of the economic crisis—cut donor assistance to a trickle. The road and transport system, deteriorating from lack of spare parts and inputs, was in so advanced a state of disrepair that exports could not be evacuated to the ports, and cocoa was left to rot in the bush.

Seventy-four percent of the non-agricultural workforce, employed in the bloated public sector, was kept on the payroll by the only means available—printing more money—and inflation raged out of control, reducing annual incomes to $350, one-third their level a decade earlier. Skilled professionals fled Ghana in droves to take up more remunerative posts in neighboring countries and abroad. The grossly overvalued cedi bred a thriving black market, which made sales and distribution of the nation's increasingly scarce imports and domestic goods more profitable than production.

Rawlings explained: "At the end of 1981, Ghana was like a runaway train, rushing downhill toward a broken bridge. The economy and the moral fiber of the people appeared to have reached a point of no return." To initiate the process of socio-economic transformation promised by the revolution, new structures were erected: Public tribunals heard cases of economic crimes against the state; citizens' vetting committees and the National Investigations Committee examined allegations of tax evasion and criminal conduct on the part of officials of previous regimes. A network of defense committees, in workplaces and rural and urban communities, sprung up to promote grassroots development initiatives, defend workers' rights, and provide vigilance against the attacks on the revolutionary process.

But amid the formation of these "organs of the revolution," the litany of economic crisis confronting the government was magnified by natural disaster. In 1982, the worst drought in Ghana's post-independence history struck, causing unprecedented food shortages, raging bushfires which cost the country

one-third of its aging cocoa trees and acres of timber forests, and a hydroelectricity shortage leaving industry operating at 10-15 percent of capacity. And in early 1983, over one million Ghanaians—one-tenth of the population—were expelled from Nigeria, arriving home amid a food and employment crisis.

It was against this desperate backdrop that the government embarked on a thorough economic review. Confronted with the harsh reality of a nearly bankrupt economy, and with the scale of assistance required to rebuild it forthcoming from neither East nor West, Ghana's financial planners devised a comprehensive recovery program for 1983-86, combining a one-year stabilization phase with a medium-term development strategy.

Explained Kwesi Botchwey, PNDC Secretary for Finance and Economic Planning: "The main objective of the recovery program was to redress the imbalances in the economy not in the name of some abstract fiscal or monetary targets, but to achieve certain basic social and political objectives—namely, to improve the material conditions of the people, to provide incentives for production, and to redistribute incomes by mopping up the liquidity sitting outside the formal sector and in the hands of speculators and middlemen."

Launched in April 1983, the strategy was directed at reviving the moribund productive sectors—agriculture, timber, and mining—and opening up the trade bottlenecks the decaying infrastructure had wrought. The first year was designed to realign prices in favor of production and the export sectors, to reduce the budget deficit, and to ease the flow of essential imports.

These targets were given fiscal expression by an unprecedented dose of austerity measures and market incentives. Reform of the exchange rate, a politically sensitive issue which had provoked coups in the past, was the first and most critical step. In three stages over the past year and a half, the cedi has been devalued by a cumulative 1,060 percent, and further adjustments are expected.

Producer prices of cocoa and other export crops were hiked, retail prices on petroleum doubled, subsidies reduced, and taxes increased on a range of public services. Public spending was slashed to bring down the budget deficit, and efforts undertaken to trim the fat in the public sector by redeployment of surplus labor and reorganization of inefficient parastatals.

The recovery program, however, hinged upon attracting the financial wherewithall to import the raw materials and equipment required to fuel the export sectors. In a controversial move, Ghana turned to the International Monetary Fund (IMF). Said Kenneth Dadzie, Ghana's High Commissioner in London, "We were in a more fortunate position than other countries which are negotiating with the Fund, because we had already decided that there were certain areas in which we needed to take corrective action. There was an overlap in concerns."

With an austerity program in place, the government worked out a one-year

"Rawlings' efforts have been daunting, for few African countries have witnessed as precipitous a decline in their short post-independence histories."

stabilization program with the IMF, in return for which it received $377 million in standby and compensatory financing facilities for 1983-84. As an IMF official familiar with the negotiations said: "The Ghanaians came up with their own program, and apart from a few refinements, we said this is the kind of program we can support."

The Fund's seal of approval was enough to grease the financial wheels of other donors and creditors. In rapid order, Ghana received a $40 million World Bank credit for importation of urgently needed inputs for the agriculture and transport sectors, and an additional $93 million for export rehabilitation. And after a 13-year hiatus, the World Bank consultative group on Ghana was reconvened in November last year and Bank officials characterized the recovery program as "well-conceived, feasible, and realistic." Western donors responded by pledging $150 million in support of the first year of the program, while some $550 million more in concessional aid is required for the next two years.

Previously skeptical Western observers credited the government for its courageous identification of the country's economic problems and its willingness to take harsh corrective measures. Said one Western diplomat: "The program the Ghana government has undertaken is a very, very difficult one. Would that some of these steps had been taken before so that the measures now being followed would not be so severe."

But the austerity program also elicited harsh criticism from domestic detractors on the left and right. The regime's leftist ideologues saw the IMF-backed cure for the ailing economy, with its attendant repercussions on the working classes, as a sell-out of the revolution's egalitarian goals, whereas the right criticized the government for having turned to those institutions which it characterized as part of the neocolonial system which "had chopped Ghana small."

Botchwey maintains: "We see no contradiction between criticizing the weaknesses in the system as we see them on the basis of empirical data as opposed to blind ideology, and the pursuit of policies that will enable us to get access to the resources of the World Bank and IMF, both of which we are members and to which we make contributions in foreign exchange. The important thing for us is to ensure that the conditions for access to the use of these resources are consistent with our own aspirations and are tempered by our efforts at mobilizing our people in production.

"It is not our intention to simply implement an orthodox Fund program which is not supported by adequate concessional long-term resources, and which would really just result in our paying our debts on time and not registering any growth. Our intention has always been to combine a set of sound macroeconomic measures and a sound program of restructuring industry and other sectors of the economy with our own mobilization efforts so that we can be self-reliant. But this will take time. The textiles here can be fed by local cotton, but it takes time and money to grow the cotton."

A year later, the PNDC has been given outstanding first-term grades on macroeconomic performance and fiscal discipline from its multilateral financiers. Noting that the government had stuck to virtually all the performance criteria required by the Fund, an official commented, "I don't think they do it to get the money, but because they believe in it, which makes a big difference."

Billboard in Accra: "The predominant messages of the Rawlings revolution are productivity, self-reliance, and accountability"

The macroeconomic indicators are beginning to register signs of improvement—inflation is down from 115 percent in 1982 to 40 percent in mid-1984, and the timber industry has responded most dramatically to the devaluation incentive, with exports up by 55 percent this year over last. But the export sectors continue to be bedeviled by the legacies of a shattered economy—deteriorated equipment, costly inputs, and transport bottlenecks. Upturns are relative, and often put off track by exogenous factors.

Consider the plight of the cocoa industry, which provides Ghana with 60 percent of its foreign exchange earnings. Last year, the massive devaluation enabled the parastatal Cocoa Marketing Board to cover its operating costs and pay the government revenues for the first time in three years. It also reduced smuggling across the border to Ivory Coast, a practice which at one time cost Ghana 20 percent of its crop. Producer prices have been revised upwards twice since mid-1983, to a level equivalent to 35-40 percent of the world market price and comparable to the rate paid farmers in neighboring countries.

But cocoa production in 1984 is likely to be the lowest in history—156,000 tons, down from 1965's peak of 550,000—owing to the destruction of acres of cocoa trees from bushfires. Despite the government's emergency replanting program and priority provision of fertilizers, sprayers, and other inputs, farmers have reacted to the high food prices caused by drought-related shortages by turning over their land to more remunerative food crops. And the biggest disincentive to cocoa farmers is the non-availability of goods and inputs to purchase with their revenues—a situation which will only improve when the economy as a whole begins to turn around.

The past year therefore has been an extraordinarily difficult one for the Rawlings government. For despite its adherence to the austerity regimen and the slight improvements in the macroeconomic picture, the payoff for the IMF-backed cure is painfully slow in coming, the promised donor assistance has only begun to flow, and the government's own meager foreign exchange reserves have had to be diverted to emergency imports necessitated by the drought.

Most importantly, the hardpressed urban and rural workers, who still demonstrate faith in the government's intentions, have yet to feel that they have benefited substantially from the tough economic measures Rawlings has instituted. The PNDC chairman candidly admits that Ghanaians "have seen little material improvement in their daily lives" over the past two years, and the weight of the austerity measures has fallen most heavily on average workers' already bowed shoulders in the form of higher prices, restricted availability of consumer goods, and a daily wage bearing little relationship to the cost of living.

The Trades Union Congress has demanded a daily minimum wage of 300 cedis, arguing that the current wage of 40 cedis, which buys two eggs or one beer, is insufficient to provide for one person, let alone a family. But the government maintains that the decades-long decline in living standards cannot be reversed overnight by raising salaries to meet the cost of living, for the increase would not be real and would only fuel inflation.

Says P.V. Obeng, the PNDC Coordinating Secretary, "The easiest way out is to panic and put more money in the worker's pockets. But if this is unsupported by higher productivity, the spiral that would create will subvert the economy and make the plight of the worker even worse."Adds Joyce Aryee, the PNDC Secretary for Information, "It is really a vicious circle because it is higher productivity that would help to increase the purchasing power of the worker, and yet the higher productivity will come as a result of the worker's ability to cope with his most basic needs. But the circle must be broken somewhere."

And although the rains have been falling more steadily this year, replenishing thirsty lakes and reservoirs, transforming the sunburnt landscape into fields of ripening maize, and forcing down the sky-high food prices last year's shortage created, the costs of basic goods are still beyond the means of urban salaries. Middlemen continue to derive excessive profits from distribution—a bunch of bananas sold by a farmer in the Volta region costs 35 cedis; in Accra, the

same bunch is 350. And government efforts to mitigate the burden of the austerity program by launching a network of People's Shops, for the "democratic distribution" of basic goods, have barely begun to take off.

While the unprecedented devaluation has brought down the costs of some goods diverted to the black market, it has not yet curbed the parallel economy. Visitors are besieged by offers to buy dollars at a rate of $1 to 120 cedis against the official exchange rate of $1 = 35, and a gallon of petrol which sells officially for 55 cedis can be had on the black market for 250. For in a situation of shortage, corrupt practices flourish as a means of survival and it is virtually impossible to ensure equitable distribution of goods when there simply isn't enough to go around.

In Accra, an air of optimism about the country's medium-term economic prospects coexists among signs of the hardships of everyday life. After two years of drought, the hydroelectricity shortage caused by the low level of the Volta Lake has required severe power cuts; at dusk as the lights in one section of the city flicker on, those in another go off. Petrol queues wind down the potholed streets and a sadly limited selection of goods line shop shelves.

The political tensions which peaked during last year's economic difficulties—most violently expressed in four coup attempts in two years—appear to have eased. Ghana's borders with its eastern and western neighbors, closed in late 1982, were recently reopened and the curfew in place since Rawlings' 1981 coup has been lifted. Fences are gradually being mended with the professional classes, churches, and traditional rulers who were unalterably opposed to the government's revolutionary goals. There is grudging acceptance that another bout of political instability would spell doom for any future attempts to reverse Ghana's economic decline. Further, there is agreement that this government's commitment to improve the lot of Ghanaians is a sincere one, and that all are suffering equally from the harsh economic medicine required to cure the country's ills.

Today, the predominant messages of Rawlings' "national democratic revolution" are productivity, self-reliance, and accountability. The PNDC chairman has sought to instill a sense of discipline among all ranks of the revolution, the PDCs and military included, and those "unused to the responsible use of power" are being weeded out.

Rawlings exhorts Ghanaians to mobilize for the long haul, for, "In the last analysis, Ghana's economic recovery depends much more upon the productivity of our people. Without hard work and a substantial effort to produce more, no economic plans, fiscal measures, or external financing can do more than provide temporary relief." A sociological change is going on, says one Western observer, for Rawlings' appeal to Ghanaians to leave the "parasitic urban areas" and go back to the land to grow food is being heard.

"Despite the government's well-intentioned long-term goals, its efforts will continue to be undermined by the sheer difficulty of everyday existence for the average Ghanaian."

Despite the haunting memories of two years of drought and the critical problems of input supplies, farming in the Northern region, Ghana's granary, is at an intensity not seen in recent years, and, says Ibrahim Adam, the regional undersecretary for agriculture, "We hope to be able to match 1974's record level of agricultural production." University professors, civil servants, and businessmen tend backyard garden plots. The economic program's emphasis on self-reliance and increased productivity, and its efforts to reverse the urban bias, says a Western diplomat, are strikingly in tune with the messages of the two blueprints for Africa's economic development—the World Bank's Berg Report and the OAU's Lagos Plan of Action.

The new structures of the revolution have taken on an increasingly important role in the recovery effort. The National Mobilization Programme, intended to harness all available resources toward maximum production in priority sectors of the economy, also played a critical part in two of the major crises of the past two years—resettling the returnees from Nigeria, and distributing emergency food assistance. And the PDCs, which have suffered from problems of organization, direction, and discipline, are becoming more actively involved in developmental tasks, particularly in the rural areas.

Despite the difficulties of city life, the sprawling slums of Nima, in the center of Accra, are getting a facelift. The building-high piles of human refuse that accumulated from an inoperable sewage system among the shacks and open market stalls are gone, and passers-by no longer have to roll up their car windows to block out the stench. The mess has been cleared by the residents themselves, under the direction of the local PDC, and work is going on to renovate the public sanitation facilities.

Meanwhile, the confidence of the private sector is coming back. Ghanaian entrepreneurs in self-imposed exile abroad consider returning home to take advantage of the improved commercial climate, and foreign businessmen hoping to cash in on lucrative contracts linger in Accra's hotels. The government is revising the 1981 investment code, and Botchwey says, "We welcome and indeed actively encourage foreign investment in the areas we define as priority." Seminars have recently been held in Britain, the U.S., and Canada, to declare open for petroleum exploration some 7,300 kms of Ghana's virtually unexploited offshore blocs.

Even the Reagan administration appears to have altered its view of the PNDC government. Relations hit a low point in mid-1983 when Ghanaian officials accused the U.S. embassy of involvement in a coup plot, and development assistance was frozen in response. This year, the U.S. provided some $26 million in drought relief food aid, and in July, the remaining tranche of development assistance was unfrozen. Ambassador Robert Fritts commends the government on "a very credible performance in addressing the food crisis," and says, "We are very impressed by the integrity of this government in adhering to what is a very difficult [economic recovery] process. It is our belief that if that program is sustained, it will begin to have a visible impact upon not

only the economy of the nation, but on the individual welfare of every Ghanaian."

And although it might appear that the revolutionary process has been sidelined by the crisis management of the past two and a half years, steps are being taken to broaden the political participation of the masses. Groundwork is being laid for the formation of a "representative national assembly," to be the culmination of Rawlings' efforts to build democracy "from the bottom up." The ruling four-member PNDC which Rawlings chairs has been enlarged with the addition of D.F. Annan, a former appeals court justice who will take charge of the democratization process, and Nkrumah's minister of social welfare, Susanna Alhassan.

Explaining the political tasks ahead, Justice Annan says: "This government is committed to the establishment of institutions of true democracy as the end result of the present process. Everyone should be engaged in the process to reevaluate our political past and come out with new ideas and new structures for the future. I think this is very critical not only for Ghana, but for the whole of Africa. What we have to address is the continued failure on the part of the traditional constitutional processes to withstand pressures. There is a basic structural weakness which we have to identify and address. This is being worked on and the necessary steps will be taken to put on the ground structures which will actively encourage discussion."

But despite the Rawlings government's well-intentioned long-term goals, its efforts will continue to be undermined by the sheer difficulty of everyday existence for the average Ghanaian—until the benefits of the economic cure can be felt in a living wage—and by the hostage position in which it is held by exogenous factors—the weather, the international terms of trade, and donor generosity. There are limits to what can be achieved in such an environment.

Even the most significant victory for the government's principles—the renegotiation of the agreement with the Volta Aluminium Company (Valco)—has been a double-edged one. After more than a year of discussions to rewrite the onerous terms of the 1962 agreement under which Africa's largest aluminum smelter was built—part of the Nkrumah era's grand industrialization scheme, the Volta River project—a new deal was struck in July, which will go some way toward making amends for development dreams never realized, and which, in real terms, could earn Ghana $50 million a year in sorely needed revenues.

But for the time being, the concessions won from Kaiser Aluminum's Ghanaian subsidiary—higher taxes, tolls, and import duties, a tripling of the fee paid for electricity, and a 15 percent reduction in its use of power—will not add a penny to the government's hungry coffers. That is, not until the Volta Lake, which feeds the vast hydroelectric scheme upon which Valco depends for power, recovers from the drought. Valco's smelter, which prior to the renegotiation, was purchasing two-thirds of the Volta River's hydroelectric power, and at prices set in 1962, has been mothballed since last November when the level of the lake dropped so perilously low that the government was required to ration electricity.

Margaret A. Novicki

Millet growing in northern Ghana: "Farming in the Northern region, Ghana's granary, is at an intensity not seen in recent years"

And even if the current rains hold up, enabling the smelter to resume operations as projected by the end of the year, Valco will still be paying less for power than the Ghanaian consumer; rather than developing Ghana's bauxite reserves, it will continue to import alumina from its Jamaican mines; and the increase in the rate it pays Ghana for electricity will be tied to the currently depressed world aluminum price.

Rawlings' efforts are at a critical stage. Governments who fear the domestic repercussions of the IMF-style cure for their ailing economies, neighbors who view with apprehension the political precedent he has set—one which has been repeated in other West African capitals over the past year—and Western donors who after more than a decade are gingerly reopening aid lines, are watching to see if he will succeed.

The IMF and World Bank are clearly hoping that he does, for Ghana's success or failure will have far-reaching implications for their policies in sub-Saharan Africa as a whole. The World Bank plans to make a strong case for increased assistance when it convenes the next donors' meeting at the end of the year, and the IMF has just granted Ghana another $185 million standby for 1984-85, for any hard-won improvements in the economy could be jeopardized by insufficient financial largesse.

The road ahead is hard. Says the World Bank's Schelzig, "I'm convinced Ghana can make it. They are doing for the country whatever can be done to better the lot of the people in the medium and longer term, but there is very little hope to do it in the short run." □

The Development Challenges Ahead

Timothy T. Thahane, Vice President and Secretary of the World Bank, discusses the role of the Bank and the importance of coordination with donors and other multilateral institutions in efforts to promote Africa's economic development.

BY TIMOTHY T. THAHANE

Although during the past two decades, there have been concerns in the donor community about the development, the constraints, and the needs of sub-Saharan African countries, the fact is that today, most of their economies are still underdeveloped. With some variations from west to east, and from country to country, African nations still have low incomes per capita with a very high proportion of the population living off subsistence agriculture, far below a minimum standard of social needs. They have weak agricultural support institutions and an extremely low level of exploitation of natural resources—minerals, energy, etc. Sub-Saharan Africa still suffers from acute scarcity of skilled labor at all levels, a high dependence on a vulnerable and narrow spectrum of primary commodities, and a lack of physical and institutional infrastructure to provide the foundation for development.

As a whole, the economic condition in sub-Saharan Africa is grim, and the outlook is bleak. All major indicators give cause for serious concern: overall economic growth is stagnating; per capita incomes are declining and are now below pre-independence levels in most countries; fiscal and balance of payments positions have weakened markedly. The burden of debt service payments has become heavy in many countries and some are even in arrears. Foreign exchange reserves have dwindled.

What went wrong, and what can be done about the deepening economic crisis in the region? What role should multilateral institutions such as the World Bank play in the efforts to help African countries in their search for ways and means to overcome their development constraints? In this article, I shall attempt to delineate and analyze the World Bank responses to the needs of its member countries in Africa. It is important, however, to understand the magnitude of the developmental challenges facing African governments in the post-colonial period. For unless we view the current economic condition of the region in its historical perspective, we will not be able to understand and appreciate the depth of the crisis.

Nature of Development Challenges

One of the major problems faced by many African countries at independence was institutional fragility in the political, social, economic, and financial sectors. The World Bank and other donor agencies did not directly tackle the issue of institutional development, which requires long-term and sustained commitments of funds and other resources, nor did governments of the region give institutional development top priority. Instead, they jointly focused on expanding economic production and physical infrastructure, and building more schools and hospitals to extend services to a larger percentage of the population.

With the political and social turbulence of the two decades following independence, institutional performance was strained; development institutions took on new and sometimes onerous tasks unrelated to their original mandates. Many government ministries revealed a lack of capacity to determine and evaluate appropriate policies for investment selection and stimulation of private sector development, including the fragile cooperative movement, and for designing appropriate tax structures that could stimulate production and ensure long-term sustainable growth.

Therefore, a meaningful development strategy for sub-Saharan Africa must include as a central component institutional and policy reform. This is a major challenge whose solution is a long-term one and one which the Bank and other donors cannot avoid if they are to be credible partners. Through its pro-

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ject and sector lending, including economic and sector work, the World Bank has sought to address this problem. However, project lending alone has not always proved to be an effective vehicle to address institutional issues and concerns.

Developing Africa's agricultural sector, which has been characterized by falling output per head since the mid-1960s and a growing dependence on food imports, is another major economic challenge in Africa. Since 1961, food imports have increased from about 8 percent to about 23 percent of total cereal requirements. This import dependence reflects both the low output of agriculture and the growth in population—increasing at one of the highest rates in the world. Compounding this is the recent drought and the large refugee population, numbering over 400,000, which has resulted from internal political instability. Therefore, no strategy by African governments and international agencies can reverse the situation without addressing the problems of agricultural development, population growth, and rising dependence on food imports.

Another challenge relates to the overdependence of several African countries on a few primary commodities whose prices are likely to remain substantially lower than they were in the 1960s. Many low-income African countries have lost almost a fifth of the purchasing power of their exports because of declining prices for such products as cocoa in Ivory Coast and Ghana; copper in Zambia and Zaire; sugar in Mauritius; and cotton in Sudan. A strategy for export diversification must therefore be included among the tools to lift Africa out of its present situation. However, effective export performance requires open access to the markets of developed countries, as well as appropriate policies on the part of African countries in the areas of exchange rates and tax incentives to support exports.

Addressing shortages of skilled manpower was placed at the top of the agenda of many African governments, which expanded the primary education school systems and built high schools and national universities. However, these institutions failed to produce the right mix of graduates with appropriate skills to man many of the development institutions or infrastructural agencies. Consequently, donor agencies and governments, in the concern to make the design of their projects correct and productive, imported expatriate personnel under various technical assistance schemes, while local graduates remained unemployed. Some governments, such as that of Sudan, enacted legislation guaranteeing employment to every graduate. Ministries and parastatals came under pressure to employ more nationals. In the process, the capacities of ministries to prepare and evaluate projects and to design flexible and specific policy-oriented plans for guiding decision-making were eroded. Again, the scope and nature of this adjustment and reform requires time and long-term commitment by the governments.

Finally, a problem that is often referred to but is never fully analyzed is the private sector and the development of indigenous entrepreneurship. Taken as a whole, foreign private investment with its management, financial, and marketing expertise, has never played a meaningful role in Africa outside the mining sector and plantation agriculture. Both the policy environment and the specific rules of licensing, site allocation, and import permits are frequently cumbersome and not very encouraging. It may also be noted that there is very little work and analysis on the nature of the African private sector. In addition, political rhetoric in some countries, coupled with bureaucratic confusion in others, portrays this group as money-hungry capitalists instead of seeing them as a means of expanding the productive base of the economy.

Pamela Johnson/UNDP/World Bank

A World Bank road maintenance project in conjunction with the UN and the Ghanaian government: "While progress was made in building infrastructure after independence, little attention was paid to creating an effective operation and maintenance capability"

While impressive progress was made in building roads, railways, ports, power systems, schools, and hospitals after independence, little attention was paid to creating an effective operation and maintenance capability. Consequently, the quality and frequency of these services in most sub-Saharan countries are poor. As the economic crisis deepens, a number of governments have responded by reducing funds for maintenance of many of these services. Roads have deteriorated because of lack of maintenance funds, schools lack essential textbooks, health clinics have insufficient drugs and dressings, and funds to pay staff have become more and more scarce. Thus, to reverse these conditions, the donor community must be willing to provide recurrent funds for maintenance of these services.

Africa responded to the balance of payments crisis of the late 1970s, especially increases in the prices of oil and cereal imports, by using its reserves and by borrowing from commercial banks and from the International Monetary Fund (IMF). This has resulted in an increased debt service burden for many countries. For sub-Saharan Africa, average annual amortization payments will rise from $2.3 billion in 1980-82 to about $8 billion in 1985-87, exclusive of IMF obligations of about $1.6 billion falling due in the next few years. Clearly, something has to be done. Debt rescheduling alone is not enough; it must be supplemented by measures to make available external financial resources in a timely fashion and suitable form, and by government policies to ensure the efficient use of these external and domestic resources to increase output and incomes.

The Bank's Response

The World Bank's development partnership with sub-Saharan Africa dates to the early 1950s when the first loan was granted to Ethiopia. Since then, the Bank and its affiliates, the International Development Association (IDA), which provides soft loans, and the International Finance Corporation (IFC), which participates in equity and loan financing with the private sector, have committed over $19 billion for priority development projects and programs in the region. These include agriculture and rural development; infrastructural improvements, including roads, railways, ports, telecommunications, and power systems; human resource development, including education, health care and nutrition; and industrial development through the intermediary of development finance corporations and IFC joint ventures with the private sector.

In the 1960s and 1970s, the Bank expanded its support in Africa for one of its priority sectors, agriculture and rural development, focusing on techniques of achieving growth with equity, alleviating poverty, and improving the quality of life for many of the poor and disadvantaged people living in rural areas. In East Africa alone, there were 116 projects between 1972 and 1982, amounting to about $1.8 billion, financed primarily from IDA resources, as most sub-Saharan countries are not eligible for Bank borrowing.

"A meaningful development strategy for sub-Saharan Africa must include institutional and policy reform."

In the livestock sector, several World Bank projects failed to achieve their expected results due to political factors ranging from war and revolution to changes in governments and policies; inappropriate technology design; and innovations that failed to take full account of local conditions and the strength of domestic institutions. However, we are beginning now to see signs of success in livestock development in our projects in Mali and Madagascar, for example.

Lack of adequate knowledge of the soils, climate, and diseases may also have contributed in varying degrees to the mixed performance of about 15-20 percent of agricultural projects in sub-Saharan Africa. But because agriculture and rural development constitute top priority for the World Bank, we must persevere and never waiver in our resolve. Ernest Stern, senior vice president for operations, summarized our commitment in the following comments to staff: "It may be true that Africa has limited absorptive capacity and that the preconditions for a rapid growth in agriculture are not there. But then that is our challenge. We, I think it is fair to say, among all of our achievements, have failed in Africa, along with everybody else. We have not fully understood the problems. We have not identified the priorities. We have not always designed our projects to fit the agro-climatic conditions of Africa and the social, cultural, and political frameworks of African countries. While I don't have the solutions, some of the elements are clear. We need to do much more to support research. We need to help build up more institutions in the agriculture sector. We need to work very much more at the simple approaches to extension."

The second of the World Bank's priority sectors relates to energy development. In response to the dramatic oil price increases of 1973 and 1978 and the resultant balance of payments deficits of oil-importing developing countries, the Bank increased its lending for energy from 15 percent to 22.8 percent of total Bank lending in 1984. It assisted countries like Ivory Coast with co-financing of about $1 billion for oil development; Tanzania with exploration for gas; and Guinea-Bissau, Senegal, and the Gambia with technical assistance for a legal and institutional framework that would enhance their capacity to attract and negotiate with private oil companies. The Bank has also been conducting energy assessment studies on several sub-Saharan countries, including Nigeria, Mauritius, Zambia, and Zimbabwe, identifying all forms of energy in each country in order to propose a program for their efficient utilization. In the course of this work, it has become clear that improvement in energy efficiency, through rehabilitation of existing refineries and afforestation to provide fuelwood and anti-erosion measures, deserve high priority in sub-Saharan Africa.

Another important area of Bank financing is structural adjustment lending (SAL), which provides short-term balance of payments assistance through a series of operations over a three to five-year period to help a country restructure its investment portfolio and reduce its current account deficit to a sustainable level in the medium and long-term. This involves preparation of an adjustment program by the government and agreement on the objectives it should

achieve and the criteria for monitoring its success or failure. The focus of SAL is policy and institutional reforms which will enable the economy to adjust to new structural changes that have taken place as a result of increases in the cost of energy, or shifts in demand or prices of exports such as copper in Zambia or cocoa in Ghana.

Within sub-Saharan Africa, structural adjustment lending varies by country according to its unique economic characteristics. In several countries, some progress has been made toward financial stabilization through policy changes which have helped to reduce budget deficits and moderate inflation. In other countries, progress has also been made in restructuring the incentive system through adjusting exchange rates and pricing policies, improving public resource management, or restructuring external debt. It is evident that a great number of countries continue to face the kinds of problems that structural adjustment loans were designed to address. However, participation remains limited because of the poor quality and credibility of the programs with which governments propose to address their structural adjustment problems, despite analytical and technical advice from the Bank.

Structural adjustment lending requires as a precondition that a short-term financial stabilization program such as those supported by the IMF be in place. While Fund programs focus on demand management and act on such policy instruments as interest rates, taxes, subsidies, exchange rates, and incentives, the SALs focus on medium-term issues of reform of policies, institutions, procedures and structure of investment, and the efficiency of resource use. The relationship between the programs of the Fund and the Bank reflects the fact that the Fund cannot be totally indifferent to the medium-term impact of its programs, neither can the Bank overlook the short-term financial viability of the country.

Collaboration between the Bank and the IMF is essential for achieving the broad objectives of adjustment programs. IMF balance of payments assistance has played an important role in sub-Saharan Africa in restoring short-term financial viability and creating macroeconomic conditions in which longer-term structural adjustment can begin to take place effectively. The Bank's work, drawing on its continuing analysis of general developmental and sectoral issues, views financial questions in relation to the policy and institutional changes necessary for sustained development. One illustration of this interaction between the Bank and the IMF is in reform of state enterprises. The IMF-supported adjustment programs often include measures to reduce subsidies to state enterprises, thereby reducing the claims on the government's budget, or increasing public savings. The Bank's complementary focus is generally on measures to improve the efficiency of state enterprises themselves by strengthening management procedures, improving incentives, and staffing, and encouraging use of appropriate production techniques. In general, IMF-supported adjustment programs seek to establish the macroeconomic conditions for balance of payments improvement, while the Bank seeks to supplement these measures by introducing institutional changes and efficiency in such areas as investment selection and management practices.

Bank and IMF collaboration is important because of the broad nature of both the SAL and IMF-supported adjustment programs, and the consequent need to ensure complementarity between them. The balance of payments adjustment programs supported by the IMF help to create the macroeconomic conditions in which longer-term structural adjustment can begin to take place effectively. The Bank's work, drawing substantively on its continuing analysis of general developmental and sector issues, views financial questions in relation to the policy and institutional changes necessary for sustained development.

The expertise and purview of each institution remain distinct, yet it is increasingly a distinction regarding emphasis and balance of the respective programs, transcending any formal characterizations of perspective (long-term vs. short-term), orientation (supply vs. demand), or analysis ("real" vs. monetary). Each institution, from its own perspective, has views about the appropriateness of key elements of a country's economic policy, but each respects its particular institutional concerns in discussions with governments. For example, while Bank staff views on the exchange rate may incorporate immediate implications for the balance of payments, they are more geared to the longer-term impact of exchange rates on the structure of production. Extensive discussions on this issue between Bank and IMF staff normally occur, but policy advice to the national authorities on specific exchange rate adjustments is

Ivan Massar, Black Star/World Bank

Classroom instruction at a farmers training center in Kenya: "In the 1960s and 1970s, the Bank expanded its support to Africa for agriculture and rural development. . . improving the quality of life for many of the poor and disadvantaged people living in rural areas"

the responsibility of the IMF. On the other hand, the IMF has relied on Bank staff for analysis and judgment on the content of the public sector investment program. However, there are large areas of economic policy, e.g. issues regarding financial sector reform and fiscal and price policy, where there is a complementarity of involvement by the Bank and the IMF.

More generally, while IMF-supported adjustment programs seem to establish the macroeconomic conditions for balance of payments improvement, the Bank seeks to supplement these measures and to introduce institutional changes—such as investment selection criteria and improved management practices—to ensure that excessive spending and the misallocation of resources do not systematically recur.

Undoubtedly, from time to time there have been differences of opinion between the Bank and IMF, such as on pricing subsidies and the size of public investment programs. But those differences have been resolved through intensive discussion. Long-term development programs cannot be implemented effectively by a country that is disrupted by an immediate financial crisis, nor can the longer-term balance of payments objectives of SAL programs be achieved, since the macroeconomic policy measures included in IMF-supported adjustment programs are critical to the overall adjustment package. Experience during recent years has shown that the Bank's SALs and the IMF-supported adjustment programs are in practice both complementary and mutually reinforcing. Development objectives and balance of payments adjustment objectives ultimately converge.

Yosef Hadar World Bank

Palm seedlings on the Kwae plantation, Ghana: "Developing Africa's agricultural sector is a major economic challenge in Africa"

Conclusion

It is difficult to build a recovery plan for sub-Saharan Africa because the conditions within each country vary according to problems, potential, requirements for external assistance, and resumption of growth. However, the World Bank believes that a general strategy among donors to support government-sponsored reforms is necessary to avoid a discordant development effort. Hence, this year, the Bank has been working on another study, the results of which will emphasize the need for a coordinated approach and strategy by donors toward Africa's development effort. First, there must be recognition by governments of the need for domestically inspired design and implementation of national rehabilitation and development, defining priority needs, such as the primary importance of improving agricultural production. Donors should also re-examine their aid strategy in general and look for better ways to use aid effectively. They should target their assistance to long-term development programs, particularly since most domestic resources are used for short-term purposes to contain immediate crises.

Secondly, unless development aid is carefully coordinated, some of it will undoubtedly be wasted. Hence, a greater coordination effort under governmental direction is needed and should be financially supported. This would require more frequent meetings, particularly at the country level; sector groups working under a lead donor's guidance; and coordination of technical assistance. It must, however, be realized that aid is not necessarily the answer to Africa's chronic problems; indeed, it could increase a country's debt burden. Although I am not in any way advocating frugality, I am emphasizing the need for efficient use of scarce resources.

The economic potential as well as the challenges of development in sub-Saharan Africa are enormous. Without question, the time for action is now, and the Bank is firmly committed to making a contribution in the effort to improve the human condition in its member countries in the region. □

Financing the Economy for Revival

In a speech to members of the Nigerian Stock Exchange, Gamaliel Onosode examines the reasons for Nigeria's current economic crisis and recommends a reordering of the nation's long-term development priorities.

BY GAMALIEL O. ONOSODE

The subject of financing the Nigerian economy for revival is as controversial as it is topical. The controversy is an indication of the complexity of the problems faced by the operators within, and the managers of, the economy vis-à-vis popular feeling, which is not always as informed as it is vocal. Because there is no economic solution which does not involve explicit or tacit political choices of consequence, it must be recognized that it is the government which must ultimately take a position with which it can live.

The Nigerian Debt Situation

What has been remarkable about the reports appearing in the press is the singular lack of precision and agreement as to the actual size of the nation's outstanding foreign debts. The subject has clearly been receiving the close attention of government officials who have been agonizing over it, while our foreign creditors follow developments with either concern or sadistic cynicism. Judging from the amount of time and space devoted to the debate, it is reasonable to conclude that there is certainly a problem, although perceptions of it may be as varied as the solutions being proferred.

To define the problem, it is necessary to trace back the explosion in Nigeria's outstanding medium-term debt from 1978 to the present time. The most frequently quoted estimate of the size of this debt is $10 billion. This figure compares with the level of $2.8 billion in 1978, $4 billion in 1980, $5 billion in 1981, and $8 billion in 1982. There are also the past due trade credits estimated at $6 billion. The total outstanding of $16 billion (which excludes undrawn portions of committed loans) by itself is not large for a country of Nigeria's size, especially when compared with those giants of the debt world, Brazil, Mexico, and Argentina, whose estimated outstandings range from $43 billion to $90 billion. Where, then, lies the problem?

There is nothing wrong with nations borrowing in order to implement perceived priority projects that would strengthen their economies and improve the standard of living for their citizens. This must, however, be done within the constraint of resources available to meet debt service and to finance other ongoing obligations. To the extent that a nation borrows outside its currency boundary, prudence in borrowing is measured in terms of the percentage of foreign exchange earnings required to service outstanding external loans.

In the case of Nigeria, the picture was exemplary until 1982 when debt service with respect to term loans was only $1.13 billion, or 8.7 percent of export earnings. In fact, as recently as 1980, it was as low as 1.9 percent. We now know that the picture has changed radically for the worse. The IMF estimates that debt service (for outstanding term loans) in 1983 was $1.9 billion, or 20 percent of export earnings, and will increase to $3.27 billion in 1984 and $3.61 billion in 1985. These figures do not take into consideration the $6 billion in outstanding trade debts which are past due. At current levels of export earnings, the debt service ratio in the mid-1980s would exceed 40 percent. Some estimates indicate that it could be as high as 50 percent. The prospect is simply frightening.

It is true that in Nigeria's case, events outside our borders which affected the ability of our traditional customers to continue to buy as much of our export products, principally oil, as they used to, has depressed our earnings. The phenomenon of the world oil glut has affected all oil-exporting countries and ne-

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cessitated the establishment of production quotas for members of the Organization of Petroleum Exporting Countries (OPEC) to which Nigeria has belonged with advantage since the early 1970s. Unfortunately, the worst effects of past inadequate economic policies have come to roost with the decline in our export earnings. This has raised the spectre of a debt trap from which we may escape only taking certain policy decisions that are bound in the short-run to be economically inconvenient and politically embarrassing.

The lessons of the past five years which must be learned if we are to cure the current malady is that the judicious and intelligent application of hard-earned revenue and borrowings is far more crucial to an economy than the mere generation of these resources. Just as it is inadvisable for an individual to borrow solely to finance consumption, so it is almost suicidal for a nation to borrow externally to finance projects that do not contribute in any way to enhancing its external resources or to materially reducing the demand on them and making a worthwhile contribution to internal revenue. That the management of our economy since independence has not put sufficient emphasis on these principles and has placed us in the position of depending increasingly on imported food, raw materials, machinery, and spare parts can hardly be contested. Our position has been further aggravated by the near total dependence on a single product for our export earnings in a continually volatile market situation and by commitment to a massive capital expenditure program which cannot be sustained, given the emerging resource gap.

Given the realities with which we are confronted, there should be no doubt in anybody's mind that as a nation, we have no viable alternative to lowering our sights with respect to our development expectations in the short and medium-term. The days are now gone when we may blandly expect government to provide everything at the same time and, for that matter, free for everybody. We wanted free education, free health, an almost free constant power supply, good roads, free better housing, as good as free steel plants and refineries offering heavily subsidized products, a brand new capital city, etc. all at once and without adequate regard for the absorptive capacity of the economy in the short-run or a conservative long-term projection of available financial resources.

Of course, with oil revenues rising to dizzying heights in the mid-1970s, money was not perceived as likely to constitute a problem. How to spend it was the problem, and how not to have spent it has turned out to have been the real problem. We imported everything that was needed to implement gigantic projects in the time we set ourselves, in addition to importing a long list of inessentials including American long grain rice. We grew sugar cane with significant foreign input, manufactured brown sugar from it, refined its nutrients using imported chemicals to produce white sugar, which was then sold with difficulty to domestic brewers and other manufacturers to produce Stout, Coca-Cola, and the like. Nigeria was literally invaded by foreign labor, skilled and unskilled, who regarded our shores as "El Dorado" but lacked, understandably, the basic commitment to make Nigeria great, thanks to the ready availability of indigenous partners in crime and collaborators. Nigerians joined in the gold rush.

Gamaliel O. Onosode:
"We must lower our sights"

The current predicament in which we have found ourselves is yet another chance to reorder and restructure our priorities. We must accept that we cannot do everything at the same time for everybody. If we accept this principle, then we must also accept the necessity for planning on a longer-term basis. The kind of planning which we have engaged in during the last 24 years of independence has evidently failed. We must explore an alternative route. Experience has shown that the mere fact that a quantity of money has been spent during a particular period does not mean that physical and qualitative objectives have been met. It is amazing to me that there is no sector in the country, outside perhaps port development, in which we can boast of excess capacity or even sufficiency.

Sectoral Analysis

One cannot sensibly talk about financing the Nigerian economy for revival until one has identified the cancerous elements and the excess fat which need to be excised if a real chance of revival was to be held out. In other words, it is necessary to identify on a more realistic basis the essentials of an economy which we may wisely seek to be financed.

For good or evil, Nigeria has opted for a modern economy. It is therefore obvious that the demand for energy will continue to be on the increase as the economy expands. Heavy investments are being made both by the public and private sectors on the assumption that power will be available and at reasonable prices. When this expectation is frustrated by the inefficiencies currently associated with the National Electric Power Authority (NEPA), the cost to the economy is astronomical. Moreover, valuable foreign earnings are diverted as companies and individuals opt for auto-generation to overcome the lack of supply from NEPA. In my view, because of the linkage effect of the power sector on the rest of the economy, we as a nation must decide to do something decisive about the power sector.

We must regard the investment required to bring the power sector to operate efficiently and meet the demand of the various sectors of the economy as money well-spent. Such an investment should have the highest priority. The state of the power supply in Nigeria is simply a national disgrace which must

not be tolerated indefinitely. It has become the monumental symbol of a nation's failure to realize anything near its full potential, unwittingly breeding despair and total disrespect for law and order.

Hardly a charitable comment can be made about the state of the supply of potable water in the cities, not to talk of the rural areas where pipe-borne water is something they might only read about or see on television.

The problem of drought which has bedeviled the economies of the West African sub-region in the last three years underscores the need to harness our water resources for more effective use. The impact of the drought on agriculture in the last year is a cause for genuine concern. While heavy investments have been made in the last ten years through the various river basin authorities, the flow-through that one would have expected in terms of increased agricultural output has far from materialized. Without making further enormous investments, more can be achieved through the expansion of irrigation systems using, where appropriate, simple earth dams to bring more land under cultivation.

It is a matter of self-respect as a nation that we should be in a position to feed ourselves, strategic considerations apart. We can become either a net exporter of food products or be in balance. I have never been comfortable with policies that ban the importation of particular food items, such as apples or the exportation of others, such as yams. We seem to be operating as though we have never heard of the doctrine of comparative advantage in international economic relations. The Nigerian entrepreneur must be encouraged to develop agricultural resources for domestic and export markets.

Let us organize ourselves to grow appropriate food items locally in as much quantity as possible to feed our people and export the excess. Europe talks of its "milk lakes" and "butter mountains," America of its grain reserves, which represent excess production over their immediate consumption and even export requirements. To maintain such surplus, the government subsidizes farmers. It is money well spent if, for no other reason, it guarantees food to the people and provides an important weapon in the pursuit of foreign policy objectives.

We have tended to neglect the importance of agriculture as an important source of raw materials for our industries. There could be no justification for Nigeria to import palm oil, corn, and, to some extent, wheat and barley to feed our industries. Yet we do this on a grand scale. All of these raw materials or viable substitutes can be grown locally resulting in considerable savings in foreign exchange.

What then is the strategy that we must pursue to achieve our goals in the agriculture sector? First, I think we must rapidly disabuse our minds of the notion that the industrialist must himself become a farmer. I do not see the viability of this approach on a wholesale basis. This is not to exclude the possibility of backward integration into agriculture in some cases. The inefficiencies that are bound to attend any policy which requires every manufacturer to grow its own agro-based raw materials could lead to waste of valuable resources and misdirection of precious entrepreneurial zeal and managerial ability.

"The days are gone when we may blandly expect government to provide everything at the same time, and for that matter, free for everybody."

The second point I wish to make on the strategy for agricultural development in Nigeria is to recognize that smallholder farms and large plantations can exist side by side with desirable results. We have heard calls in recent times for the establishment of large mechanized farms. They have their role. We must, however, not forget that small farmers still constitute the backbone of our economy even in terms of farm production and employment opportunities. We need, therefore, to encourage the small farmers without denying the larger ones the support and encouragement which they require. The concept of nucleus estates must be revitalized and pressed into national service.

Thirdly, I believe that we need ongoing multi-dimensional dialogue between government, industrialists, and agricultural investors if the strategy outlined above for determining and prioritizing our agricultural output is to be productive. These discussions must also fix production goals on the farms and viable marketing and pricing policies supportive of their achievement.

Overall Priorities

Within the general framework of a long range plan, we should concentrate our available resources on developing power, water, and agricultural inputs immediately. If we set a five-year goal for these three sectors to receive the maximum attention, we will be laying a solid foundation for a more purposeful development of the economy.

What about the other sectors? Given the reality of our situation today we cannot afford to be over-ambitious. It is, however, possible for us if we establish greater respect for law and order, exercise a higher degree of discipline at all levels and a better organized approach to our problem, to achieve much more in other areas, especially with a more critical appraisal of ongoing government projects. Take, for example, the liquefied natural gas (LNG), petrochemicals, and steel sectors. We should seek to implement or complete these projects with minimal burden on our own scarce financial resources, present and future.

The Structure of Financing

How do we go about financing the Nigerian economy for revival? As a first principle, we must learn to apply our now meager resources in the most astute way to achieve the best for our people. We must also be more circumspect in the acquisition of debt financing, especially from abroad, once the ongoing discussions are satisfactorily concluded. There must be a concerted effort directed at mobilizing domestic resources to finance development in the private as well as public sector.

Largely as a result of the oil boom, we tended to neglect other important sources of revenue to finance the economy. Prior to the boom, our greatest source of revenue had been taxes and customs duties. The neglect of recent years must be reversed. Tax administration in this country, which enables

thousands of companies making losses year in and year out to remain comfortably in business, even though their share capital has in the meantime been ostensibly wiped out according to their records, is clearly scandalous in its inefficiency or deliberate indulgence of accounting pranks. While not seeking to discourage the entrepreneurs among us or to stifle the entrepreneurial spirit, we need to find a better tax administration system which takes cognizance of the realities and idiosyncracies of the Nigerian environment. As a first step, all companies must be made to pay a fixed minimum tax if they choose to remain in business. As long as we remain competitive internationally, we need not jeopardize our growth by slavish adherence to traditional concepts of corporate taxation.

We also need to examine the delicate issue of subsidies which are currently being enjoyed, and consider whether these are required in their present form and in every case, with or without IMF prodding. There are two types of subsidies operating in Nigeria today—voluntary and involuntary. The voluntary subsidies arise from deliberate government policy to peg prices of certain products and services below their open market levels in order to meet certain policy objectives. These subsidies, such as those applying to petroleum products, would need to be critically examined especially now that there is evidence that some Nigerians and foreigners are taking advantage of low-priced products by exporting them illegally at the expense of the nation. From the revenue generation point of view, the review of such subsidies can produce significant results. The involuntary subsidies are those which are either unauthorized and arise only because parastatals fail to collect receivables in addition to operating generally inefficiently or by failure to review tariffs in step with general price levels.

The effort of the present regime to mobilize revenue from local sources deserves every encouragement. Various levies and taxes have been introduced by some state administrations. Since modern amenities cannot be provided to everyone at this time, those few who enjoy these facilities must be required to make reasonable contributions to the cost of providing them. Otherwise, those who do not have these facilities, be it telephone, power, water, etc., would be suffering double injustice, quite apart from the inherent misallocation of scarce resources which these subsidies tend to promote.

The role of the domestic capital market in mobilizing savings for allocation to priority sectors of the economy is crucial to the success of our strategy. The time has come when parastatals must be encouraged to use the services provided by the capital market for the financing of their projects and forge dynamic interaction with the private sector. To do this, however, they must learn to abide by the rules and discipline of the capital market. It is obvious that the current practice whereby some parastatals do not have audited accounts for years will be inconsistent with the discipline of the capital market. There is no justifiable reason why this practice should be allowed to continue six months longer especially now that we have a regime that places high value on accountability. How can accountability be fixed when audit is lacking? Chief executives of parastatals ought to be held vicariously responsible if annual audits are not completed within six months of the end of each financial year.

Lagos harbor: "Port development is the only sector in which we can boast of excess capacity or even sufficiency"

The External Sector

The impact of the external sector on the survival or revival of the economy must now be plain to all. There is an inescapable connection between the integrity of the economy and its healthy interface with the rest of the world. The nation's present debt situation cannot be wished away without some difficult decisions being taken by the government. In this task, the government deserves the sympathy and understanding of all men and women of good will. In the context of re-ordering our priorities and reforming the management and scope of operations of our parastatals or public enterprises, there appears to be no viable alternative to raising some new loans to keep our sensible factories open and the economy generally afloat. More than ever before, to promote the inflow of foreign investment in areas where it is welcome, incentives must be real, administrative procedures must be streamlined, and unnecessary and enervating regulations abolished. Exchange control must not be perceived as a permanent feature of Nigeria's development strategy. Long-term plans must provide for its progressive relegation to the faded memories of history. In the meantime, while the economy is being re-structured, the naira must float down to a more realistic level to reflect its comparative international purchasing power. □

African Debtors

SUDAN

Sudan's debt situation is among the most severe in the world. While most countries borrow money in order to finance debt service, imports, and development schemes, Sudan's borrowing is what keeps the government afloat. Sudan has been tottering on the verge of bankruptcy for the last three years and, since 1979, has undergone three major reschedulings and received a string of standby agreements.

Sudan's total debt of $7 billion is equal to its GNP, and its debt service is twice the country's export earnings. As Sudan's import bill is three times what it earns from exports, the debt continues to grow. Sudan now runs a trade deficit of $600 million. Sudan received partial relief in June, signing a $90 million standby agreement with the IMF.

Last year, Sudan was only able to pay half the interest on its debt and none of the principal; interest payments continue to mount. While countries with better credit records and a better history of meeting IMF targets have struggled with their IMF negotiations, Sudan has had a relatively easy time obtaining additional loans on lenient terms. One reason for this has been that the U.S., which sees President Gaafar al-Nimeiry as a strategic ally, has pressured Sudan's other Western creditors to accept the reschedulings despite world-wide agreement that Sudan will never be able to pay up.

Sudan is the largest recipient of U.S. bilateral aid in sub-Saharan Africa. The U.S. gave $190 million in economic aid and $45 million in military assistance this year. In addition, the U.S. covered $25 million of Sudan's commercial debt in order to facilitate the June standby agreement with the IMF.

Sudan's most optimistic creditors believed that the country's infant oil industry offered the best hope for economic development. But the fighting in the south has put an end to oil operations for now, and $280 million is still needed to finance the oil pipeline. The imposition of Islamic law earlier this year has scared off potential investors and alienated the country's educated and middle class. The cost of fighting the growing insurgency in the south is bound to escalate, and Nimeiry is looking to the U.S. for increased assistance. The U.S., however, is not as anxious as it was last year to support Nimeiry, and Congress is reluctant to foot the bill.

NIGERIA

Nigeria's new government is committed to the task of settling, to whatever extent possible, its $10 billion external debt. With the largest debt in Africa and considerable economic potential, Nigeria is in a better position to press its own terms on the IMF than are other African countries.

Nigeria has been wrangling with the IMF since the beginning of the year over a $3.1 billion standby credit. The Nigerians have steadfastly resisted the IMF's call for a devaluation, and the talks remain at a standstill.

The stalled IMF talks also jeopardized Nigeria's attempts to secure favorable terms in its repayments to commercial creditors. Credit agencies—led by Britain's Export Credits Guarantee Department (ECGD)—have said that they will not refinance Nigeria's short-term debts until an IMF package is in place. In an attempt to skirt ECGD's refusal to refinance, Nigeria announced in late July that it was willing to go directly to its insured commercial creditors and pay off $2.4 billion with six-year promissory notes. Earlier, Nigeria had come to terms with uninsured creditors to cover sums up to $3.6 billion. Bankers saw the Nigerian proposals to creditors as an attempt to pressure the IMF to agree to the standby credit. The ECGD is now owed $650 million, and the agency is telling creditors not to settle because it would be in violation of the rules of international debt refinancing. The British Treasury is now faced with the possibility of having to bail out the ECGD for loans made to Nigeria long after it was apparent that the country would not be able to pay.

Most experts feel that Nigeria has no chance of reviving its economy without assistance from the IMF, but the country seems ready to go it alone if it cannot deal with the

IMF on favorable terms. Nigeria took the first step in this direction when it received permission from OPEC to increase its oil production quotas during August and September. The higher quota will mean an extra $210 million in revenue for Nigeria.

KENYA

Among African countries, Kenya may have the best overall relationship with the IMF. The country's economic philosophy—reflected in the economy's reliance on the private sector and the government's recent commitment to cut spending—is generally in agreement with IMF conditions for loans. "We have so far been able to meet all the ceilings with the IMF without any problems at all," Kenya's Finance and Planning Minister George Saitoti said recently.

The IMF is now considering a three-year extended credit facility for Kenya to begin when the current $184 million standby agreement expires on September 20th. Kenya should have no problem coming to terms with the Fund, as there are now indications that the economy is improving. Coffee and tea exports have been increased at the same time that prices for these commodities have risen, lifting Kenya's foreign exchange reserves to $408 million. The opening of Kenya's border with Tanzania last year should help the Kenyan manufacturing sector somewhat, and Kenya's role as a dependable U.S. ally has added to the willingness of Western financial institutions to regard it sympathetically.

Still, the country is almost entirely dependent on exports of coffee and tea. Kenya's current economic problems began when coffee prices began to drop in 1977 after several years of unprecedented highs. Though the country's foreign currency reserves began to fall, the demand for imported consumer goods remained high, and Kenya experienced a rapid deterioration in its terms of trade. At the same time, the corrupt and inefficient management of food during a severe drought led to massive food imports.

Debt service payments rose from $93 million in 1975, on a total debt of $675 million, to $360 million in 1982, on a total debt of $2.5 billion, accounting for 23 percent of export earnings. Kenya's total debt now stands at $3.1 billion.

Kenya also has the world's highest population growth rate, and soaring unemployment; of the 400,000 young people leaving secondary school at the end of this year, only 140,000 will find jobs. Nearly half the population now lives below the poverty line.

ZIMBABWE

Zimbabwe's $305 million standby agreement with the IMF was suspended in mid-August after the country exceeded the deficit ceiling imposed by the Fund. It was an 18-month facility, and $125 million still remained undrawn when the IMF cancelled the loan. In late August, Zimbabwe's Minister of Finance, Economic Planning and Development Bernard Chidzero said that negotiations had begun with the Fund aimed at releasing the remaining tranche of the loan.

The original agreement, signed in March 1983, followed a 20 percent devaluation of the Zimbabwe dollar, which was subsequently allowed to fall an additional 10 percent. The government also cut back short-term bank borrowing, reduced food subsidies, and placed a ceiling on budget deficits.

But last January, Zimbabwe lifted its budget deficit above the IMF ceiling in order to raise wages and increase defense spending. The IMF then froze the $125 million which remained in the facility. Zimbabwe also requested an additional extended Fund facility for September 1984, when the agreement is due to expire.

Zimbabwe's failure to meet the IMF targets is also the result of the drought which has devastated agricultural production, and of the depressed prices for Zimbabwe's mineral exports. Should Zimbabwe and the IMF fail to reach an agreement, it will serve to further weaken Zimbabwe's economy.

—*Michael Maren*

The Other Side of the Coin

The CFA franc zone was intended to stabilize member countries' economies, promote trade, and encourage foreign investment. But as Africa's debt crisis grows, membership in the zone may be more of a burden than a benefit.

BY ANTONIO-GABRIEL M. CUNHA

The performance of the French franc within the European monetary system (EMS) is watched with particularly keen interest in most of Africa's francophone states. For as the franc oscillates within the parameters of its agreed parity with the European Currency Unit in the EMS, so does the purchasing power of all African countries in the CFA franc zone. What is surprising about the latter, given its key importance in many countries' economies, is that it is so little understood. Furthermore, there is growing evidence that the costs associated with membership may be too onerous, therefore more than outweighing the often-mentioned benefits.

The CFA franc zone is a monetary union embracing France and most of the countries that formerly comprised French West and Equatorial Africa. The two former territories are still grouped within the currency areas that existed before independence: the West African Monetary Union (UMOA), comprising Benin, Ivory Coast, Niger, Senegal, Burkina Faso, and Togo; and the Customs and Economic Union of Central Africa (UDEAC), consisting of Cameroon, Chad, Central African Republic, Congo, and Gabon. Mali voluntarily left the franc zone and UMOA in 1962, and was readmitted to the former in 1968, and the latter in June this year.

The joint central issuing banks for UMOA and UDEAC are the Central Bank of West African States (BCEAO) in Dakar, Senegal, and the Bank of Central African States (BEAC), in Yaoundé, Cameroon, respectively. Both organizations use a common currency, the CFA franc, which since 1948 has been fixed by the French treasury to the French franc (FF) at the rate of 50 CFA to 1 FF. The convertibility of the CFA franc into the FF is guaranteed by the French treasury. But in return, the francophone countries are required to transfer at least 65 percent of their foreign exchange earnings to the Bank of France where they are exchanged into French francs and deposited into individual country accounts. Members are entitled to draw upon these accounts at short notice, provided that the global account of their joint central bank is not in deficit.

In theory, therefore, France underwrites the CFA franc by guaranteeing its value and by permitting each of the zone's central banks to accumulate practically unlimited overdrafts with the French treasury at an interest rate that varies according to the amounts involved and the nature of the overdraft. At the same time, credit balances earn interest equivalent to the going money market rate at the Bank of France. The countries pool foreign exchange reserves in each of the two joint central banks' operations accounts.

In the past, the system enabled countries with severe balance of payments problems to utilize foreign exchange reserves previously accumulated by members in a surplus position. The overdraft facilities have permitted the holding of a much lower level of foreign exchange reserves than would otherwise be the case without disrupting a country's international transactions. For example, since 1980, Ivory Coast has been able to simultaneously run annual current account deficits of over $1 billion, while holding international reserves below $20 million ($8.5 million by last March). Concurrently, the country's overdraft debit position with the French treasury amounted to an estimated $650 to $690 million, as of December 1983.

In practice, the tight controls exercised over monetary policy by the joint central banks prevented the zone as a whole from overrunning its own foreign reserves. Historically, these restrictions were so effective that the zone as a whole has always been in a surplus position with its operations account at the French treasury. Only since 1981,

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when world economic recession and lower commodity prices hit even the most stable economies such as Ivory Coast's, has the West African zone, UMOA, been in the red. And it is believed that the entire CFA franc zone went into a deficit position with the French treasury in 1983.

With a minimum of exchange control regulations, these financial arrangements were intended to stimulate the flow of trade and capital both within the zone and with other countries. While the potential or actual wealth in hydrocarbon resources has attracted multinational companies and banks to countries such as Gabon, Ivory Coast, Congo, and Cameroon, it has also greatly expanded their external indebtedness. And, contrary to its professed intentions, the system has failed to diversify the industrial base or to develop the very narrow range of mineral and agricultural commodities which generate the bulk of GDP, government revenue, and foreign exchange income. The share of manufacturing in total GDP in most countries does not exceed 10 percent, and substantial growth in intraregional trade has not occurred.

Although the CFA franc has the advantage of being considered a "hard" currency because of its convertibility, it cannot be traded independently on international money markets. Its value is determined by exogenous factors, in particular, the state of the French economy.

With little possibility of influencing the French government's monetary policies despite the (often ignored) provision for consultations prior to policy changes, and an even dimmer prospect of creating stronger national currencies, the francophone countries have seen the CFA franc fall in value by over 55 percent against the U.S. dollar since 1979. For the net oil importers (all zone countries except Congo, Cameroon, and Gabon), this has meant crushing increases in local currency costs of goods, notably of dollar-priced petroleum, imported from outside the franc zone (affecting about three-fifths of francophone imports). It has also increased inflationary pressures, and made heavier the burden of servicing external debt not denominated in French francs.

Beryl Goldberg

Abidjan, Ivory Coast: "No African country's creditworthiness has fallen more spectacularly than that of Ivory Coast"

Moreover, membership in the CFA zone has not shielded many francophone countries from the rash of reschedulings which have taken place since 1982. Of Africa's $5.5 billion total estimated public sector reschedulings, an estimated $2 billion belonged to CFA countries, including Ivory Coast, Gabon, Senegal, Togo, Niger, and the Central African Republic.

The benefits of recent devaluations—given that the majority of mineral exports are denominated in U.S. dollars—have been offset by the continued depression of commodity prices, the slowness of the world economic recovery, and protectionism. Also, as the French franc loses value against other currencies, economic ties between the CFA zone and France become even tighter. This is reinforced further as French goods become more competitive and loans denominated in FF more attractive in relation to those from other countries. Therefore, a substantial jump in France's trade with the CFA zone is projected. Historically, nearly 25 percent of the zone's total exports go to France, and France supplies over 35 percent of all imports.

Theoretically, inflation differentials between one or a group of a countries and another will affect exchange rate parities. Failing this mechanism, huge distortions in trade and financial flows result. Domestic inflation in the zone in the last ten years has averaged about 5 percent higher than in France, while the CFA franc has been fixed at a parity of 50 to 1 FF. The result has been that the CFA is overvalued against its big brother. This overvaluation, coupled with the big devaluation of the CFA against "outside" currencies, reinforces further economic ties between the CFA countries and France. As the FF falls in value relative to other hard currencies, CFA purchases from other industrialized countries become too expensive, while at worst, the price of French goods remains unchanged.

The ready convertibility of the CFA currency and unrestricted capital flows within the zone were originally designed to produce a stable currency, stimulate trade from and within the area, and serve, therefore, as a major attraction to foreign investors. Concurrently, the CFA member foregoes the right of autonomy in monetary, credit, and interest rate policies.

In practice however, francophone Africa's virtual lack of control over move-

Francophone Africa Selected Economic Indicators

BIS-REPORTED COMMERCIAL BANK DEBT ($ millions)	1979	1980	1981	1982	1983
Benin	27	54	92	120	190
Cameroon	801	1,036	979	1,046	1,069
Central African Republic	21	8	26	14	10
Chad	44	27	17	10	7
Congo	315	403	432	805	905
Gabon	1,090	993	765	701	646
Ivory Coast	2,429	3,032	3,218	3,387	3,095
Niger	251	376	336	334	220
Senegal	368	382	423	410	320
Togo	400	385	321	253	170
Burkina Faso	29	19	26	37	40

MEMORANDA	1979	1980	1981	1982	1983	1984[1]
Discount Rate (%)	8.0	10.5	10.5	12.5	10.5	10.5
CFA Francs/US$ (end of year)	201	225.8	287.4	336.3	417	450
% Change	+4.0	-9.1	-21.4	-14.5	-19.4	-7.2

1. Projected.

ments of capital, profits, and remittances has resulted in unilateral outflows of these transfers to France. In the context of francophone Africa's balance of payments, in addition to the great use of French ships and insurance companies for freight shipments, these transfers account for most of the deficits on the invisibles accounts, particularly in some member countries, such as Ivory Coast, where there are large contingents of French advisers.

Moreover, foreign investment has been either negligible, as in the smaller countries, or rather modest, averaging below $100 million a year in countries such as Congo, Ivory Coast, and Gabon. The sole exception, Cameroon, with an average $130 million per year, seems to be explained more by the country's oil wealth than by the monetary system in place.

French aid, however, has been negligible when compared to the level of CFA reserves at the French treasury. More often than not, such aid comes with strings attached that are more in France's interests than in the interest of long-range economic development for the zone. In all due fairness, for France, now emerging from its own economic recession and short of foreign reserves, an expansion in economic aid at this point in time may be too much of a burden. In late 1983, the French authorities refused some cash-strapped members' requests to draw hard currencies other than the FF.

Western bankers' perceptions of francophone Africa's creditworthiness appear to have been more a function of the borrower's actual or potential oil wealth than based on membership in the CFA franc zone. A closer examination of the pattern of external commercial indebtedness of francophone countries shows that the share of the main borrowers, which interestingly either are, or have the potential to be net oil exporters—Cameroon, Congo, Gabon, and Ivory Coast—account for over 80 percent of the total. Meanwhile, some members, particularly those from the Sahel, have been, or are now, effectively barred from the markets. Two main credit risk rating systems confirm these observations; Nigeria, Ivory Coast, and Gabon are rated higher than Kenya, Niger, Mauritania, Senegal, and Tanzania.

A case in point: No African country's creditworthiness has fallen more spectacularly since mid-1982 than that of Ivory Coast. Its total external debt was an estimated $7.3 billion at the end of 1983, up more than 85 percent from the level at the end of 1979. About 50 percent of the debt was owed to Bank for International Settlements-reporting banks, and almost half of it was denominated in U.S. dollars. As a result, the strengthening of the U.S. dollar and the weakness of the French franc are believed to have added over $500 million to debt servicing costs. The debt service ratio more than doubled from an estimated 18 percent in 1979 to over 50 percent in 1983.

Ivory Coast's severe liquidity crunch is largely the result of the commercial loans it acquired in the late 1970s, which are scheduled to mature in 1984 and 1985. Although the 1977 commodities boom was short-lived, and the subsequent deterioration in the terms of trade was almost immediately felt, inadequate policies led to ever deeper budget and external accounts deficits which were financed by external borrowing; it was probably believed that declines in commodity prices were only temporary, and that the country would soon benefit from substantial oil revenues. But oil production increased much more slowly than originally expected; the Ivorian balance of payments problems became structural rather than cyclical, and in

Alain Noques Sygma

French President Francois Mitterrand meeting with African leaders: "It is believed that the entire CFA franc zone went into deficit with the French treasury in 1983"

1981, the country decided to enter into a three-year IMF facility worth SDR 484.5 million. The stabilization measures did not produce the intended corrective results—perhaps because commodity markets remained depressed—and in December 1983, the authorities requested a rescheduling of $1-1.2 billion in term debt falling due in 1984.

But in the meantime, Ivory Coast had run a debit position of at least $650 million with the French treasury and an estimated $125 million in external payments arrears. No longer did Ivory Coast have easy access to the syndicated loan market to compensate for its inadequate supply of investment capital flows. Suddenly, international bankers had become apprehensive because of the high debt service ratio and the news that oil reserves were less than expected. It is important to recognize that the market's reluctance was not justified by any sudden deterioration in the Ivorian economy, which was operating exactly as prescribed by the IMF stabilization program, but was more a reflection of the general debt crisis in 1982 and depressed world oil markets.

In contrast to the Ivorian case, Congo and Cameroon have been considered relatively better bets. At least, in Congo's case, these positive perceptions have been based on well-demonstrated oil wealth and a relatively low debt burden. Both countries managed to increase their commercial bank debt between 1981 and 1983—in Congo, almost doubling in 1982.

Another factor crucial to investment and to economic development is interest rate policies. Until recently, there

"The minuses of membership in the franc zone more than counterbalance the pluses."

has been a significant gap between interest rates in francophone Africa and those in France. The application of a rigidly uniform discount rate (central bank lending rates to domestic financial institutions in need of funds) across the board in francophone Africa is difficult to defend, for it ignores the diversity of the CFA economies in terms of size, markets, resources, and overall level of economic development. In other words, the cost of money in the CFA zone is the same in every country, whereas the rate of return on investment varies considerably from one country to the next. In very few respects are the investment climates in Chad and Gabon comparable.

While it is difficult to compare international interest rates, interest rate differentials between the CFA zone and France have tended to favor the latter. For example, the difference between savings rates in France and francophone Africa as a group widened in 1979, requiring an upward adjustment of the African rate against the French in 1980, probably in order to check capital outflows. In countries like Ivory Coast, the fact that the CFA rate lagged behind the French rate contributed to undesirable early remittances of expatriate salaries and profits. Given that foreign interest rates fluctuate considerably, it would be desirable if interest rates in the zone were accordingly allowed some flexibility.

Membership in the CFA zone has conferred some degree of international confidence in member states, and has checked the emergence of black markets so prevalent elsewhere in Africa. This would explain why Mali has rejoined the UMOA and why other African countries, notably Equatorial Guinea, have petitioned for CFA membership despite the steady drop in the value of the French franc against most major hard currencies over the past three years—especially against the U.S. dollar.

Still, the minuses of membership more than counterbalance the pluses. Although a "hard" currency, the CFA franc's value internationally depends on the health of the French economy. Francophone Africa's leaders are ultimately responsible for rethinking the currency alignment their countries adopted on independence. There are other choices available to them, such as tying the CFA franc to a trade-weighted basket of currencies that would include for example, the French franc, the U.S. dollar, the German deutschmark, and even Nigeria's naira. But essential to the success of such an alignment would be a relaxation in the rigid parity of the CFA franc to the French franc, from today's 50 to one, toward a more realistic rate. □

No More Room for Maneuver

Failed development strategies and persistent drought have forced Mali's military leaders to take a sharp U-turn toward economic liberalism. But does the IMF have the answer?

BY HOWARD SCHISSEL

Mali represents a critical test case in Africa for the economic reform philosophy of the World Bank and the International Monetary Fund (IMF). These international financial agencies are badly in need of a success story south of the Sahara to overcome the reticence of African and other Third World countries to adopt their ultra-liberal economic remedies, which are often perceived as worse than the original illness.

The prescriptions put forward to cure Mali's deeply rooted economic malaise were a classical IMF package: trim the budgetary deficit and revitalize public finances as a means of correcting structural economic imbalances; reduce domestic and external arrears to restore confidence in the economy; liberalize the trading sector, particularly in the area of cereals; and radically curtail the dimensions of the state sector.

In many ways, Mali is an ideal laboratory in which to experiment with the IMF formula. For one, all avenues short of radical reform had been exhausted by 1980. The economic imbalances had reached critical proportions, and the government of President Moussa Traoré had lost most of its room for maneuver. From the political point of view too, the stage was set for a new deal. A wide consensus had developed among the ruling elite—a tandem of military officers and technocrats—that things had to change, for the situation had become intolerable. In addition, the military had shown that if necessary, it was willing to brutally suppress any social or political opposition to the new policies.

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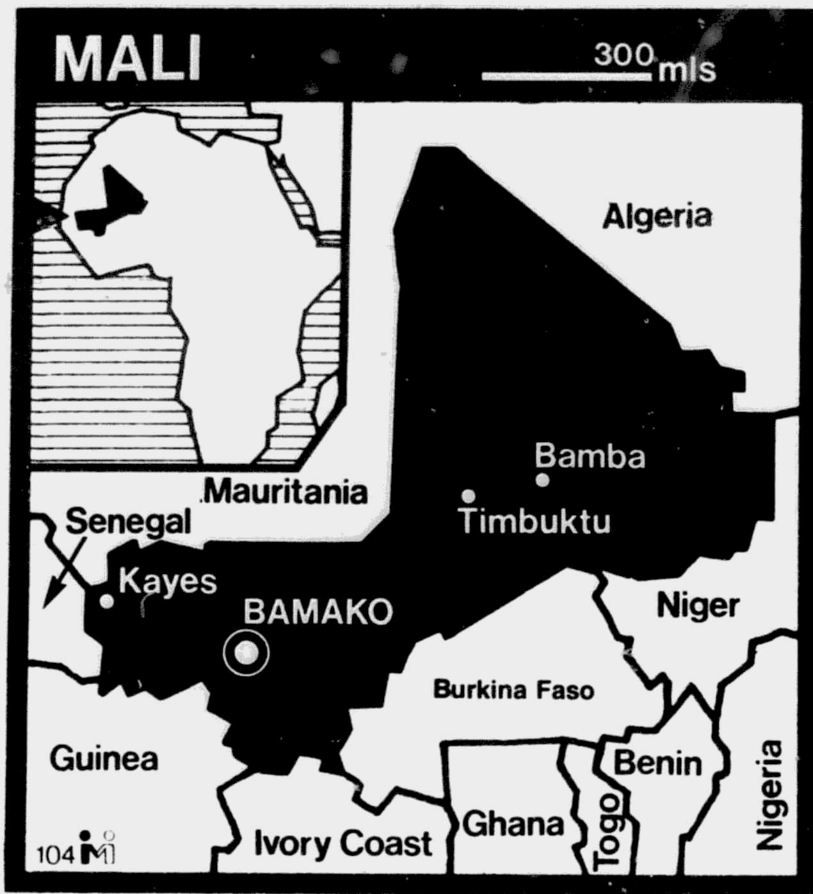
With little organized resistance, Mali has taken a sharp "U-turn" toward economic liberalism. But the Traoré administration is also cognizant of the political risks involved, as the living standards of the urban population, already among the lowest on the continent, have started to suffer, and promised improvements for the rural masses are at best still years away.

Mali has indeed come a long way since the first heady days of independence under the late President Modibo Keita. With Nkrumah's Ghana and Sékou Touré's Guinea, Mali stood for a radical revision of West Africa's colonial past. The stated aim of the Keita administration was to put the Malian society and economy through a socialist transformation, which was thought to be the best way of assuring rapid growth and economic independence. The state was the principal vehicle for carrying forward economic reform, adopting a monopoly over external trade, assuming all banking activities, and nationalizing all private industry of any significant size. The surpluses to be generated by public sector companies and the taxes levied on the rural economy were to finance a rapid march toward industrialization.

Reality, unfortunately, did not correspond to theory. The public sector failed to generate profits, most parastatals becoming costly "white elephants." The rural economy responded poorly to attempts to push collective agriculture and farmers reduced output because state marketing monopolies did not pay incentive prices for cereals and other produce. Corruption and nepotism flourished in the state administration. Mali's 1962 withdrawal from the franc zone also proved to be a costly failure. Faced with soaring inflation and disruption of the trading network and approaching the limits of expedients to finance the budget deficit, the government was obliged to sign a monetary agreement with France at the end of 1967, restoring the convertibility of the Malian franc in exchange for a 50 percent devaluation and strict monetary and budgetary discipline.

But it was already too late for Mali's brief experiment with "scientific socialism." As in Ghana in 1965, the military put an end to Keita's socialist experiment in 1968. The military government critically reviewed the policies of the early 1960s, but did little to carry out basic reforms. It was as if the new leaders found that the state sector, once stripped of its socialist pretensions, provided a convenient vehicle for personal enrichment and social control through the provision of employment and low cost cereals for the urban dwellers. The Traoré regime undertook only piecemeal reforms, such as boosting agricultural producer prices.

But in the early 1970s, Mali was badly affected by the Sahelian drought, particularly in the northern half of the country. Per capita food production steadily declined, reinforcing Mali's structural cereals deficit. The cattle-producing sector was devastated, impoverishing nomadic herders and reducing one of Mali's traditional sources of hard currency earnings through exports to the



richer states to the south. The rural population flocked to the urban centers in search of emergency food aid, and many preferred a precarious existence in shanty towns to the uncertainties of earning a livelihood by working the land. The drought also provided the opportunity for rapid enrichment of a handful of government officials. An entire neighborhood of luxury villas in Bamako, derisively called "the drought quarter," was said to be financed by funds amassed through the illegal sale of food aid.

Although, according to World Bank statistics, Mali is the twelfth poorest country in the world and the fourth poorest in Africa in terms of gross domestic product per capita, it has the potential not only to feed itself, but also to provide its population with a decent standard of living. More than other states in the Sahel region, Mali has failed to tap a significant part of its economic potential.

For example, Mali boasts the greatest agricultural possibilities in the area: its acreage of arable land represents 22.6 percent of the total of the seven Sahelian states, and it also has considerable irrigated farming potential thanks to the Niger River. Less than a quarter of irrigable land is used, and then often inefficiently. The ratio of cultivated land to cultivable land area is below the Sahelian average of 19 percent and well below the Food and Agriculture Organization's (FAO) optimum level of 30 percent. Furthermore, Mali's enterprising farming community has not been encouraged to raise labor productivity or modernize its cultivation methods.

FAO estimates put annual cereals production in the period between 1967 and 1970 at some 854,000 tons—a per capita average of 170 kilos. Although annual production climbed between 1975 and 1978 to 1.08 million tons, the per capita average stagnated at 167 kilos because of population growth. FAO experts reckon that about 250 kilos of cereals per annum are required to adequately feed a Malian. Consumption of meat products has also declined as herds dwindled in size because of drought. The fishing industry, providing a cheap and renewable source of protein, has also declined. The catch from the country's rivers was 125,000 tons in 1970; between 1980 and 1982, this figure fell to between 80,000 and 100,000 a year.

The principal reasons for the crisis in the rural sector were declining terms of trade and costly technical and organizational failures. Mali, like many other countries in Africa, chose to maintain grain prices at as low a level as possible in order to indirectly subsidize the urban populace. Studies of the Malian agrarian economy underline that profit margins were simply insufficient to stimulate rural producers. Development projects for irrigated rice were poorly coordinated. Each new acre of land brought under irrigation was matched by another going out of production because of lack of maintenance.

The only area which has experienced growth over the last decade is cotton cultivation in the better-watered southern part of the country. It is the only major crop showing consistent yield and acreage increases. While procuring good earnings for farmers and valuable hard currency for the government, cotton has tended to monopolize the most fertile lands, thereby limiting the surface area accorded to food production. With cultivation of this cash crop spreading to central Mali and areas surrounding Bamako, food production could suffer further.

Mali's state administration is plethoric and inefficient, while the parastatal sector, consisting of 55 enterprises, of which seven are joint ventures with local and foreign private partners, is a millstone around the exchequer's neck, as most parastatals are solidly in the red. A recent IMF study found that Mali spends 79 percent more on government wages and salaries than might be expected considering its income level and economic structure. By comparison, Burkina Faso and Niger, two Sahelian neighbors with similar economic characteristics, spend 26 percent and 10 percent less than expected.

State enterprises employ about 15,000 people and account for some 70 percent of industrial output and an important share of trade and transport activities. These companies suffer from

the same factors which have bedeviled most parastatals in Africa—overstaffing, poor management, badly calculated investments, outdated technology, and rigid price regulations. The contribution to GDP by government-owned companies is insignificant, just over 5 percent.

Public enterprises survived on short-term credits which were rescheduled, creating a liquidity crisis and a dangerous inflationary spiral. With little wealth created by the public sector, the wages paid to employees increased demand, particularly for imported goods, thereby further exacerbating the balance of payments deficit.

A 1980 World Bank memorandum on the Malian economy unequivocably stated: "The structure of the state-owned Malian economy is characterized by a series of complex transfer mechanisms which allow a plethoric civil service and students to receive more than 90 percent of the country's budgetary resources and guarantee employment for a minuscule portion of the Malian workforce in an inefficient parastatal sector; this relatively privileged sector of the population also almost exclusively benefits from an assured supply of consumer goods. The resources permitting this come not only from the rural world, but from all potentially efficient and productive activities which are—in the current state of affairs—incapable of investing. All the internal mechanisms of the Malian economy work toward the transfer of resources from the have-nots to the haves and from the productive to the non-productive."

In 1980, with Western donors "no longer willing to continue to throw their money into the sand," the Malian government began to formulate a comprehensive reform program. The main thrust of the measures aimed at stimulating production, improving economic efficiency, ameliorating the balance of payments position, and stimulating public savings. The areas singled out for thorough reform were public finances, the public and private enterprises, and the rural economy.

In May 1982, the IMF granted Mali a $34 million standby credit on the basis of measures already carried out and in line with the new redressment efforts to be undertaken through the end of 1983. The World Bank, for its part, approved an International Development Association credit to finance a broad program of technical aid and studies, to pave the way for additional reforms and future structural adjustment credits. In December 1983, the IMF agreed to another standby arrangement worth $42.3 million, running until May 1985, whose purpose was to support reform of public finances and enterprises and to encourage private sector activities.

The most significant immediate change in the economy provoked by the IMF-inspired reform scheme involved the overhauling of the cereals market and pricing policies. An agreement reached in 1982 between the government and food donors dismantled the monopoly of the Malian Office for the Marketing of Agricultural Products (OPAM) and approved the licensing of private traders. The purpose of this scheme was simple—to restore farmer incentives by re-establishing the free market for cereals, which in turn was supposed to increase producer prices. A safety valve included in the program was the role to be played by village cooperatives who were to take over a share of the local market, thereby preventing usurious prices from traders.

In reality, however, local cooperatives, because of insufficient credit facilities, were not able to play their part. OPAM's share of the cereals market plummeted from 30 percent to a mere 5 percent. Private traders, many of whom were linked to leading politicians or army officers, moved in to corner the market with a 90 percent share. Private traders, as elsewhere in the world, attempt to pay as little as possible for their products at the source and then sell to consumers at as high a price as possible. With the government unable to regulate the market, especially during a drought year as in 1983, producer prices failed to rise significantly, while consumer prices in the towns literally soared. As expected, farmers were not stimulated to produce more. The result of the reform of the grain market has simply been to

Camerapix

President Moussa Traoré: Turning inefficient state enterprises over to the private sector

shift the profits to be made by intermediaries from the state administration to the private sector.

A purge of the public sector was high on the list of IMF priorities, because in 1981, the parastatals chalked up a loss of $14.3 million—a heavy burden for the parlous Malian economy. Addressing the ruling party, the Democratic Union of Malian People (UDPM), in early 1983, President Traoré summed up his government's approach in these terms: "Recovery of the public sector demands that the state turn over to the private sector those activities where public ownership and management have failed or proven inefficient."

The most immediate effect of this policy was the restriction of the state import-export monopoly, the Malian Company for Imports and Exports (SOMIEX), to just seven basic commodities and the closing of all but a handful of its retail outlets. Other state firms, like Air Mali, are up for grabs, but few local traders or foreign businessmen are rushing in to take over. It is likely that privatization will be limited to trading activities and a few other lucrative sectors like public road transport. Private banking has also been encouraged. The country's only private bank, la Banque Internationale pour l'Afrique Occidentale (BIAO), has been opening new branches for the first time since the 1960s. A second institution, Bank of Africa-Mali, was started up at the end of 1983. A speculative venture, it has already practically ceased operations because of financial irregularities. Shoddy management practices are apparently not solely a monopoly of the public sector.

The state budget deficit, running at about 20 percent of total expenditures, was a special target of IMF action. To rein in spending, the government was obliged to curtail scholarship expenditures, suspend automatic hiring of all graduates in the public sector, and restrain public sector wages. These measures touched off serious disturbances in student circles, which were brutally repressed by the armed forces. This potent medicine has started to produce results—the budget deficit was slashed from 20.5 billion French francs in 1980 to FF9.5 billion in 1983, and to a projected FF6.5 billion this year.

Little progress has been made in absorbing the balance of payments deficit, which stood at FF9.9 billion in 1983, against FF9.6 billion in 1981. Public transfers in the form of gifts and loans failed to grow sufficiently to make up for the deterioration in the invisibles balance. As a percentage of GDP, the balance of payments deficit has remained practically stationary at 16.8 percent in 1983, compared with 18.2 percent in 1980. Mali's foreign debt as a percentage of GDP stands at some 80 percent, putting it in the critical range. However, after restructuring, the debt profile remains favorable, with less than 10 percent of exports and public transfers needed for making debt repayments in 1983. During the 1986-88 period, this ratio is expected to edge slightly above the 10 percent mark.

After years of negotiation and financial house-cleaning, Mali finally rejoined the franc zone last June. The Malian franc was phased out over a three-month transitional period and the CFA franc became the only legal tender last September. The changeover caused some psychological resistance because the CFA franc is worth twice the defunct Malian franc. Although the value of salaries and payments remains the same, its translation into CFA francs appears to halve the sums. Likewise, private traders sought to profit from the introduction of CFA francs by maintaining prices at former levels, but expressing them in new currency, thereby boosting real prices by 50 percent. The government has stepped up policing efforts in the markets, but it has little real power to control prices.

Beyond the technical problems, Mali's IMF-inspired reform program is likely to have important political consequences. Since the armed forces took over in 1968, their power has been based on a tacit alliance between the military, private traders, civil servants, and public sector employees. This latter category, along with the students, has been the principal loser from the measures so far enacted and stands to suffer even more in the next stages of reform.

For example, civil servants face the prospect of minor salary increases over the next few years and had considered the low price of food staples as part of their compensation. The curtailment of the administration and public enterprises threatens the livelihood of some 20,000 people, about 15 percent of the salaried sector. The lower ranks of the military are also liable to suffer from the liberalization of the rice trade, unless the government makes special efforts to compensate them. All together, those directly affected by the reforms number about 500,000 out of a population of 7 million. But they account for half of the urban population, and nearly all those with formal education. By antagonizing them, the Traoré regime is dangerously cutting itself off from its political base, especially since its support in the countryside is largely symbolic.

As it now stands, the beneficiaries of the Malian economic reform will be the senior army officers, many of whom are engaged in lucrative transport, trading, and ranching activities, top politicians and civil servants, and the trading sector. Not only can they extend their operations into new spheres, but the CFA franc will enable traders to brush up their profit margins. It remains to be seen, however, if traditional traders will be able to accumulate sufficient resources to convert their activities to more directly productive ventures which will provide a fillip for economic growth and create employment for Mali's increasingly well-educated youth.

After 16 years in power, President Traoré's regime has exhausted most of its domestic political credit. Although the social situation has remained relatively quiet since the student unrest in 1980, the authorities are troubled by the regional political context. The revolutionary government of Captain Thomas Sankara in neighboring Burkina Faso is viewed with apprehension in Bamako ruling circles. The recent foiled coup attempt against President Seyni Kountché in Niger was another sign of the regional malaise, as was the unexpected crumbling of Sékou Touré's system in Guinea.

The Malians remain fatalistic about their country's future. This outlook was aptly summed up in a banner hung across one of Bamako's principal arteries: "Act, because it is never too late to do a good job." But the problem for contemporary Mali is that time is growing increasingly short to do that "good job." □

Lesotho

The Economic Squeeze

Despite recent efforts to assert its economic independence, Lesotho's fortunes remain at the mercy of South Africa's regional designs.

BY JOANMARIE KALTER

It is Friday evening on the border, and a long line of miners streams back into Lesotho on weekend leave. They come from the Welkom gold mines in the Orange Free State, and though visibly tired, they cross the Maseru bridge into the capital with confidence in their step. Just ahead, women line the roadsides, selling bread and chickens, laughing and calling out greetings. From here, the men crowd into buses that will take them to their home villages, down dirt roads, across mountains and ranges, traveling far into the night. This is a joyous weekly ritual, for these miners carry satchels of food and clothing and bring money home in their pockets—the money that is the lifeblood of Lesotho.

But it was here, too, at the Maseru bridge, just over a year ago, that South Africa staged its "slowdowns." Police on the South African side searched every vehicle, carefully and slowly, sending Lesotho a powerful reminder of its vulnerability. Traffic was backed up for miles, and Lesotho's supply of fresh food, including milk and vegetables, was choked off.

The narrow Maseru bridge links Lesotho to South Africa like a giant umbilical cord. From this relationship flow the fruits of Lesotho's seeming prosperity, and also its unique set of problems. In this small mountain kingdom—officially classified by the United Nations as one of the world's 25 least-developed countries—shops are well-stocked, produce stands overflow, citizens are well-dressed, and gas is so plentiful that noonday traffic jams snarl the sunny streets of the capital. But it is a tenuous prosperity, for South Africa supplies Lesotho with virtually everything—all the electrical power, all the gas, half the food. "Britain betrothed us to our neighbor as a labor reserve and market," says J.R.L. Kotsokoane, secretary to the cabinet. "We have been trying to change that relationship, but it has not been easy." Indeed, some would say Lesotho's dependence has only grown greater.

South African farms and mines employ 160,000 Basothos—fully 40 percent of Lesotho's male work force, and four times as many as find employment in Lesotho itself. As a member (along with Botswana and Swaziland) of the Southern African Customs Union, the Lesotho government receives a rebate on the South African goods it imports. And together with the remittances from its migrant labor, these funds now account for more than 70 percent of Lesotho's operating revenues. With a growing population of 1.4 million in a country the size of Maryland—where only 13 percent of the land is arable, and steadily eroding—food imports have more than doubled over the last decade; this year's drought will drive productivity even lower. Said Thabang Motsohi, director of civil aviation at the new international airport, "We still depend on South Africa for our lifeline. And when South Africa squeezes, we suffocate."

There are signs now of just such a squeeze:

- As South Africa mechanizes its mines and hires more South African blacks, Basotho mine employment declines: from 123,500 workers in 1981, to 117,700 in 1982, to 102,000 in 1983. Because contracts for the more skilled and experienced of the Basotho miners are more likely to be renewed, and their salaries to rise, total earnings have continued to grow. But the hardest hit have been young miners with only a few years' experience; in Lesotho, where 20,000 new job seekers enter the market each year and no more than 2,500 new jobs are domestically created, this squeeze in mine employment is a tightening vise.
- A new South African tax system in effect since March 1984 will, for the first time, tax Basotho miners and farmworkers—despite a 1973 labor agreement that specifically left any such taxes as an option for the Lesotho government to levy. Indeed, under pressure from the International Monetary Fund to bring its budget more into balance, Lesotho was considering such a tax itself. "There was no prior consultation from the South Africans on this," said Kotsokoane, "and we are concerned because our people are looking to the government and asking: 'How are you going to protect us? What are you going to do?' "
- A commission of the Southern African Customs Union approved a change in the formula under which Lesotho receives its payments, eliminating a two-

Joanmarie Kalter is a freelance journalist who has recently returned from Lesotho. She received financial and logistical support from the United Nations Development Programme for the preparation of this article; the views expressed herein are her own.

Mike Williams

Lesotho's King Moshoeshoe II (left) and Prime Minister Leabua Jonathan at last year's SADCC conference in Maseru: "Lesotho's dependence on South Africa can never be broken, it can only be minimized"

year lag in reimbursements. Where Lesotho received $56 million in 1981, it would now be entitled to $40 million more—money sorely needed for development. But, for the first time in the history of the customs union, South Africa refused to honor the commission's decision.

Certainly, South Africa's economy itself is in a weakened state—the country's military spending, the drought in the western Transvaal, and the world recession in mining have all contributed to a record $3.2 billion deficit. And South Africa has an unemployment problem of its own. But Lesotho's officials attribute the squeeze to "subtle economic destabilization," and say its ultimate goal is twofold—to maintain South Africa's economic dominance and to force Lesotho to recognize the "homelands," the cornerstone of the apartheid system.

Witness South Africa's proposed "constellation of states," they say—an association that would expand the common market of the customs union to include the bantustans, and provide access to the rich funds of a regional development bank. Membership not only would involve de facto recognition of the homelands, but would undercut the efforts of the region's black-ruled members of the Southern African Development Coordination Conference to forge new economic links among themselves. Witness, too, the blind eye turned to the activities of the Lesotho Liberation Army (LLA), the insurgent group that uses South African territory as a base for its attacks. While the war it wages is a minor one, Lesotho must increasingly divert its resources from development to defense; military expenditures in its 1984-85 budget are almost three times those for agriculture. And when Lesotho recently protested about LLA activities launched from the homelands, South Africa's advice was to seek a solution directly with homeland leaders.

For Lesotho, an island in a threatening South African sea, economic dependence can never be broken, it can only be minimized. "Agricultural yields must be increased, industry expanded and most of all, jobs created," says Kotsokoane. Yet even in its development tasks, Lesotho depends on South Africa.

Consider the Food Self-Sufficiency Program (FSSP). With low yields as a result of the use of traditional farming techniques, and with land sorely limited, the government in 1980 launched a program that would increase productivity, in the short-term by concentrating modern agricultural technology on selected sites, and in the long-term by educating farmers in its use.

Moeketsi Mohapi was one of 640 farmers to volunteer his five-acre plot in Makhoathi, 10 km. south of Maseru. The government brought in tractors to prepare his field, provided seeds and planted them, weeded with high-quality herbicides, and harvested his crop. At the end of the season, the government paid itself with part of his corn, and left the rest for Mohapi.

Yet in the first two years of the program, Lesotho depended entirely on both South African machinery and personnel. And in its third and fourth years, though the South African technical staff had gone, the program's inputs of machinery, seeds, herbicides, and fertilizer were still South African—"all except the jute bags from Bangladesh," said Anthony Phakoana, FSSP's director.

And how has the program fared? Mohapi used to realize 50 bags of corn from his fields, which now yield 100; but once the government takes its share, he keeps only a few bags more. For the government, problems in management and the recent drought have kept yields at only half their targets, and the program has not yet come close to covering its costs. Perhaps only for the South African contractors has Lesotho's self-sufficiency program so far been a clear success.

"No, we cannot count on agriculture for our breakthrough," says P.P. Mofolo, director of the Lesotho National Development Corporation (LNDC).

"We must attract industrial enterprises. If they are small in scale, they can eventually be run and manned by our growing Basotho work force."

It was to that end—job creation—that the LNDC was created in 1967. And in the past several years it has concentrated on attracting such small-scale joint ventures with a generous incentive package, including a six-year tax exemption, 100 percent repatriation of profits, and duty-free access, as a signatory of the Lomé Convention, to the lucrative EEC market.

Yet as generous as the package is, only 5,000 new jobs have been created in the last four years—for 80,000 new job-seekers. Why? Lesotho is simply saturated with cheap, high-quality South African goods, frustrating any new starts in domestic manufacturing. Its potential market is small. And geopolitical uncertainties, particularly in the wake of the December 1982 raid by South African commandos, in which 42 people in Maseru were killed, have frightened off investors.

But worst of all is the competing incentive package South Africa recently offered in its homelands: Companies that locate there receive rebates—in cash—of up to 95 percent of the wages that they pay to employees. They also receive rail rebates. Harbor rebates. Electrical rebates. Cash training rebates of 125 percent—with the top 25 percent exempt from income tax. Interest subsidies on loans and housing. "South Africa is pouring money into the homelands," says a European economist in Lesotho, "and it is a major setback to industrial development here." According to Mofolo, "It would be economic suicide for us to match it."

The LNDC has had some modest successes, however. A fruit and vegetable cannery initially funded by the UN Development Programme and UN Capital Development Fund has concentrated on such labor-intensive and drought-resistant crops as asparagus—which can be peeled only by hand, and for which there is great demand in Europe. Though a similar cannery in South Africa is much larger and more efficient, turning out 200 times as many cans per minute, Lesotho, as part of the Lomé Convention, can sell its asparagus without the EEC's 23 percent duty, and thus has a competitive edge.

But ironically, most of Lesotho's new industries are South African subsidiaries in search of "internationally respectable" outlets. They enjoy Lesotho's duty-free EEC access and its ability to trade with other black African countries, while Lesotho enjoys the South Africans' capital investment and management skills. There is the new industrial estate at Maputsoe, where manufacturing of umbrellas, shoes, and swimsuits is entirely South African-owned. There are the new Holiday Inn and OK Bazaar shopping mall in Maseru: 50 percent South African. The Maloti Mountain Brewery is managed by South Africans. And even the cannery received its initial asparagus seeds from South Africa; when last year's bean and peach crop were destroyed by drought, the cannery simply imported them from its neighbor. Indeed, South Africa has been responsible for the LNDC's most conspicuous new investment—which turned into its most striking failure. Lesotho leased the land at Letseng-la-Terai to De Beers for a diamond mine; when De Beers pulled out in 1982, citing depressed world market conditions and lower-than-expected yields, Lesotho

Joanmarie Kalter

Miners on weekend leave returning to Lesotho from South African gold mines: "South Africa employs 40 percent of Lesotho's male workforce"

lost more than 800 jobs and, after labor, its largest export item.

In the face of this utter dependence, the government of Prime Minister Leabua Jonathan bravely persists in denouncing apartheid at every opportunity. "I think it's mad," says a young musician in Maseru, echoing the thoughts of many in the opposition.

But there's a method to the madness, for Lesotho has used its plight to attract a flood of international aid. Technical assistance, capital loans and grants, and

Runway construction at Lesotho's new international airport: "The airport is six times more costly than any other project Lesotho has ever seen"

food aid totaled $48.6 million in 1977; by 1982, they had swelled to $220 million. Indeed, foreign aid accounts for 60 percent of Lesotho's development funds—and many of the major donors are, curiously, those Western nations most deeply committed to the South African economy. They have made Lesotho one of the largest per capita aid recipients in the world.

But it is a strategy with problems of its own. Take the case of the new international airport, now in construction at Mazenod, 20 km. south of the capital. With $54 million from 10 international funding organizations, the airport is six times more costly than any project Lesotho has ever seen. Scheduled for completion by May 1985, the new facility will accommodate larger and heavier planes in Lesotho's export trade with other black African countries—and free it of dependence on South Africa's Jan Smuts Airport.

Never mind that Lesotho does not produce any exports that cannot now be accommodated on its present airfield. "We hope to develop those," says one of the planners. Never mind that it does not have the larger planes to make use of the airport. Never mind that maintaining it will be a continuing drain on Lesotho's economy—and that those maintenance supplies will come from South Africa. And never mind that Lesotho will still be dependent on South Africa's airspace and on its roads to deliver petroleum—both of which can easily be blocked. "The world responds to Lesotho's need to break dependence," says the planner, "and aviation is always glamorous." He pauses, then adds, "though I do quietly consider that there are more desperate needs here."

Lesotho has attracted so many expatriate aid workers that they now replace the former British administrators as the country's elite class. They dine in restaurants with names like Boccaccio's and Auberge. They swim in the pool at the Maseru Club. And where the Basothos once worked as gardeners and servants for the British, they now do so for the aid workers. From the local people's point of view, one wonders whether much has changed.

Matjeka Pali, 20, a recent technical school graduate, has accepted a job as a plumber in the South African mines. Asked why he doesn't put his skills to use at home, he replies, "In Lesotho, the locals don't make much. Contracts come, but most of the money goes toward paying expatriates."

Paradoxically the one project that promises Lesotho its brightest future is not one of international aid but one of cooperation with South Africa. The $2 billion Highlands Water Scheme (now in the study stages) will allow Lesotho to sell its one plentiful resource—water—to neighboring South African farmlands and industrial regions. This liquid asset could eventually double Lesotho's current annual revenues, as well as provide irrigation for its own lowland areas. But the money will not flow for another 10 to 20 years.

In the meantime, Lesotho faces a crisis of unemployment and growing pockets of poverty. Six percent of its population now commands a third of its national income, while in mountainous and remote rural areas, land is becoming ever more sparse. Where there were fewer than 2,000 landless families in 1970 (13 percent of the population), there were 35,000 landless families (more than 20 percent) by 1980. The wages of migrant labor, which have provided such rural areas with a living they could not have earned from the land, will soon become more scarce. And the numbers of Basotho youth, unable to find employment either in South Africa or at home, will grow—and grow restless.

A teacher from the National University of Lesotho takes in the peaceful vista of Maseru with the sweep of his arm—the South African-run shopping mall, the lunch-time picnickers, the horses and cows that graze in the midst of busy streets, and the neat stone houses that pepper the hillsides beyond. "There is a saying here," he laughs. "We may live in the armpit of South Africa, but it's a comfortable armpit."

Then he grows more serious and adds, "At least, that is, it's comfortable for now." □

Sparring with the IMF

The failure of IMF programs in Africa raises questions regarding the Fund's relevance to Third World economies. In Tanzania's case, the prolonged and inconclusive negotiations may have exacerbated the country's problems.

BY REGINALD HERBOLD GREEN

The International Monetary Fund (IMF) has become a major factor in African economic negotiations—and in African economic demonology. Africa has become a quicksand swallowing up IMF programs with, in most cases, little to show for them. The resulting public debate has generated more smoke and sparks than lucidity or light.

Does this matter? Clearly to most African countries and their people it does. Low-income economies—especially those of sub-Saharan Africa—generally adjusted to and recovered from their 1973-75 economic crises. Since 1979, however, they have been gripped by a nearly universal economic malaise from which, for all but a few, there is little evidence of early recovery. For most sub-Saharan African economies, the IMF is now a lender of the first (and often only) resort. Once concessional aid and reserves are exhausted, mobilization of International Development Association (IDA), bilateral, structural adjustment, and balance of payments support funding is contingent upon the IMF's approval of their stabilization and recovery programs. It matters more generally if one believes—whether on mutual economic interest, global security, financial system maintenance, or humanitarian and moral grounds—that Africa's continuing economic crisis is of global concern.

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Tanzanian President Julius Nyerere: "His 1980 and 1983 meetings with the IMF were peculiarly disastrous"

The argument which follows is within the broad context of the IMF and of African economies as they exist, and implicitly assumes that what is possible at present is reform designed to prevent deterioration or to win limited gains, not a total restructuring of the system. A general review of the IMF's approach to sub-Saharan African economies is followed by an examination of these points with respect to Tanzania.

The massive deterioration in terms of trade, increasing debt service costs, drought, and external aggression are shocks which have buffeted a majority of African economies since 1979. As these negative trends will not easily be reversed, substantial and painful adjustment is necessary either by the IMF's route or some other. The basic criticism of IMF programs is that they do not result in statistically better economic performance, but do entail significant political costs.

The IMF was created as the international financial adjustment mechanism for the world capitalist external payments system. Since the global system is predominantly capitalist, even socialist states must relate to it in capitalist ways. The IMF opposes controls on trade and payments—nationally and domestically—and prefers the manipulation of market instruments (e.g. exchange rates, interest rates, producer prices) to any alternative economic management instruments.

The Fund is not in any rigid sense monetarist. Though it lays some stress on monetarist methods and processes, it does not subscribe to the theorem that free markets make free men, if only because concern with freedom—other than relative freedom of markets—is not on its agenda. Indeed, IMF officials privately accept that the price of adopting IMF programs is likely to be loss of office via electoral or other methods.

The IMF has been ideological in a negative sense in showing a lack of interest in the impact of its programs on the vulnerable—the poor and unemployed, women and children, and low

income consumers of basic services. The argument is that little is known and less can be done about distribution, and that restoration of balance and overall growth matters much more (although over 1983-84, the managing director began to express the view that the IMF should be more open to client states' attempts to shield their vulnerable groups from at least some of the costs of adjustment programs).

The standard IMF model presupposes that external imbalance is caused by overheating through rapid expansion in the use of resources, without a comparable increase in production, leading to external account deficits. The cure therefore lies in rapid cuts in resource use, preferably by cutting government spending and consumer real incomes to reduce pressure on money supply and imports and, via reducing domestic demand, shifting production from home to export markets. Supply enhancement does not play a significant role in the IMF's stabilization programs. This flows from the premise that demand expansion is the key problem.

This model ceased to apply in Africa after 1979. Reduction of supply, not expansion of demand, triggered the economic decline of most countries. In many cases, the unit purchasing power of exports has fallen by one-quarter to one-half, and drought has reduced overall national production by up to 10 percent in several others. Real imports and real government spending have fallen, causing breakdowns in basic infrastructure and public services. Import strangulation has resulted in further production declines (including export production), and erosion of the revenue base. Domestic policies have in many cases exacerbated these problems.

IMF missions in Africa have not adapted their model to varying economic structures, their prescriptions to diverse economic situations, nor their proposed instruments and timing measures to government proposals for alternative adjustment routes and sequences. A senior analyst who had seen both the Ivory Coast and Burkina Faso proposals remarked that only the countries and the figures varied, otherwise the IMF packages for these two very dissimilar economies were virtually identical.

Devaluations are almost always prescribed in a single dose, rather than gradually. There has been some recognition of the fact that massive devaluations produce massive inflation which wipes out any external price gains. Therefore, in some cases, regular devaluation adjustments (taking into account a situation where domestic inflation is higher than in a country's trading partner) have been prescribed.

Higher interest rates, irrespective of their effects on savings or inflation; abolition of food and other consumer subsidies; and "liberalization" of imports (i.e. substituting high prices for market management) are all elements in IMF prescriptions. However, country proposals for phasing measures so that the costs are at least parallel to or lag behind possible gains; for concentration on supply enhancement (not demand reduction); and for use of selective pricing or other measures to limit burdens on vulnerable groups are treated as attempts to avoid adjustment, rather than as efforts to devise adjustment routes more suitable to domestic conditions.

The IMF's Criteria: How Appropriate?

IMF program criteria in Africa are almost all macromonetarist, involving exchange rates, levels of external borrowing, domestic credit formulation, wage ceilings and producer price increases, and external commercial payment and debt arrears. These conditions are set with definite targets to be met quarter by quarter. Failure to meet "trigger clauses" causes suspension or renegotiation of the program.

The targets are open to criticism on the following counts:

- They are too numerous, i.e. a single target on current account deficit would serve as well and would provide more flexibility for alternative programs.
- They are all macromonetary and tend to be divorced from real changes.
- Most relate to inputs and not output, e.g. growth of exports or real government revenue.
- Little account is taken of sectoral or distributional impact.
- Single targets, as opposed to ranges, are inappropriate given the levels of uncertainty inevitably surrounding economies as poorly documented and as open to exogenous shocks as those in Africa.
- There are no built-in mechanisms to alter targets if, despite full performance on the government policy and practice side, exogenous events or failure of the economy to respond falsify the results, or positive overall movement is too slow.

The lack of success of IMF programs in Africa—to a large extent drawn up by IMF missions—and the substantial errors in many projections raise questions as to the adequacy of the IMF model, the quality of its global economic forecasts, and the competence of its country missions.

The IMF's insistence on measures with high social, political, and economic costs, but not resource transfers which could soften costs and speed output recovery, has caused countries to delay applying for programs and has lengthened negotiations. As a result, their imbalances become worse than if the IMF's stance had encouraged earlier applications and shorter negotiations.

The IMF's reputation for putting forth "take it or leave it" proposals and for pontificating on issues well beyond those actually under negotiation hardly contributes to smooth relations with would-be borrowers. It is debatable whether or not the IMF deters other lenders or donors until it has reached agreement with a country. However, the Fund and the World Bank tacitly agree that the Bank will not differ openly on proposed IMF programs (especially devaluation), nor will it grant structural adjustment or sectoral support credits until a Fund program is concluded.

Fund programs in Africa are, with few exceptions, inadequate to achieve lasting adjustment, i.e. regaining manageable current account deficits, budgetary balance, and growth rates. The inadequacies of the programs manifest themselves in the following respects:

- Financing is insufficient, in most cases less than 25 percent of existing current account deficits, even when imports are already cut to levels inconsistent with minimum adequate utilization or maintenance of existing capacity.
- Financing is over too short of a period.
- The repayment terms are too harsh

(over at most ten, or normally six years from initial drawings), whether the external economic environment has allowed rebuilding of import capacity or not.

The IMF has argued that it is not in the business of providing long-term loans, but rather short-term adjustment financing. However, it is apparent that many African economies cannot adjust and stabilize in less than five years. Nor can they stabilize at all without substantial bridging finance to restore imports to the level necessary to rebuild government revenue and export bases and to reduce commercial arrears. The barrier to IMF acceptance of this argument may be cost—a more adequate sub-Saharan Africa program might require net drawings of $22.5 billion per year for five years, plus interest rate subsidies to hold the cost to borrowers to 6 percent a year (assuming 4 percent OECD inflation rates). At present, the IMF does not have the resources to mount such an enlarged program and several of its key members would oppose attempts to raise the necessary finance.

The IMF has, to date, done little to mobilize World Bank structural adjustment programs and bilateral balance of payments, sectoral, and rehabilitation soft credits and grants to meet the minimum external financing needs for countries to achieve adjustment along with rehabilitation and renewed growth.

Tanzania As An Example

Until 1979, Tanzania's relations with the IMF were mutually satisfactory. In 1974 and 1975, Tanzania used substantial low conditionality drawings, especially the compensatory financing and oil facilities. Its adjustment left it with a recurrent government surplus, 6 percent output growth, a food surplus, and rising external reserves over 1975-76. However, the 1979 and 1980 agreements collapsed at their first quarterly review and the 1981-84 period has been marked by time-consuming, often acrimonious and fruitless negotiations, with no agreement forthcoming.

Tanzania's basic disagreement with the IMF is not ideological, if by that is meant IMF capitalism is at odds with Tanzanian transition to socialism. The major ideological disagreement has been over distribution. Tanzania's commitment to protecting the real incomes of minimum wage earners and peasants and to sustaining or expanding access to basic services has not met with much IMF favor or understanding. However, failure to agree on a program has never overtly turned on this issue.

Tanzania's post-1978 problems—apart from the $700 million cost of the war to depose Idi Amin in Uganda—have stemmed primarily from the collapse in the terms of trade and from the drought over 1979-84. These factors forced the government to cut back imports and recurrent spending, which in turn eroded maintenance, capacity utilization, the government revenue base, and exports. The government then accumulated $500-600 million in external commercial debt equal to 25 to 30 percent of recurrent revenue.

Tanzania was imprudent in 1977-78. It liberalized imports and budgeted a large current account deficit for 1977-78—on specific and repeated IMF advice. Its 1977-80 recurrent budgets were (unlike those before or since) fiscally reckless. In 1978-80, it used supplier credit to sustain domestic fixed investment and allowed commercial arrears to accumulate. However, these were secondary failures—the basic problems were infrastructure maintenance, productive capacity utilization, supplies of incentive goods, declining manufacturing output (by 50 percent over 1978-83), which eroded real tax revenues, and above all, shortage of foreign exchange. Unused capacity could not be shifted to export production; falling world commodity prices acted as a disincentive to production; import cuts constrained both food and export output.

IMF Rigidity and Tanzanian Reactions

Given the total divergence of IMF and Tanzanian perceptions of the underlying economic problems, negotiations centered on three particular measures: devaluation, food subsidies, and producer prices.

Tanzania has consistently sought small (5 to 15 percent), phased devaluations; the Fund has sought large "shock" measures, 25 percent in 1979 and 1980, 60 percent thereafter. Discussions between the IMF and Tanzania from 1979-81 over devaluation of the Tanzanian shilling did not result in an agreement. The IMF's request for a massive devaluation resulted in a "no devaluation" reaction. As a result, actual exchange rate changes were delayed by about a year. Had the IMF agreed to phased adjustment, the 17 shilling to the dollar rate of June 1984 could have been reached in mid-1983.

In 1980, food subsidies were cut and limited to one product, maize meal. Thereafter, subsidies accounted for about 2 percent of recurrent spending. IMF demands for total removal of subsidies created a mirror-image opposition to change, which, when combined with the difficulty of phasing out subsidies when real wages were falling, delayed any additional action until 1984, when a 35 percent minimum wage increase and decentralization of grain marketing permitted their abolition.

From 1980 on, increases in producer prices outpaced the cost of living and climbed even faster than wages. IMF demands for a 25 to 50 percent real increase, in the face of falling availability of consumer goods and minimum wage

Tanzania Information Services

Villagers weeding a maize field: "Government food subsidies were cut and limited to one product, maize meal"

consuming power, were literally impossible. Indeed, the 40 percent average increases of 1983 and 1984 appear more likely to raise inflation and marketing body deficits rather than output.

The targets in the 1979 program were unrealistic—in the middle of a war whose duration and cost were unknown, this was hardly surprising. Those in the 1980 program might have been met, despite an unanticipated collapse in the terms of trade, had actual arrears been estimated correctly (the IMF insisted on scaling down the Tanzanian estimate); had the World Bank structural adjustment program been concluded as projected; and, had the IMF agreement remained in force allowing drawings.

Since then, IMF-proposed targets have been so rigid with respect to monetary magnitudes and so optimistic over the impact on prices of large devaluations that their adoption would have led to further failed agreements, failure to pay government wages and salaries, collapse of education and health services, and/or inability of enterprises to hold even constant inventories, let alone expanded ones, to restore output. From 1981-82 on, the rate of domestic credit formation has been held below that of inflation; real government spending has been cut; and government finance has been held near targeted levels. Tanzania saw these as austerity measures and as an indication of some success in planning and management. The Fund did not.

The record of Fund and Tanzanian economic projections over 1979 to 1981 suggests that neither side was very accurate, but that the Fund was less so. The Fund repeatedly based its data on inappropriate criteria, e.g. it computed cost of living by random purchases and not by official prices, and agricultural output by overall physical estimates, subsequently priced and divided between household consumption and marketed output. Fund mission personnel hardly inspired confidence in their analytical or empirical expertise. In 1980, Tanzania, against its better judgment, agreed to several target adjustments which turned out to be based on bad guesses or misplaced optimism.

The Fund's negotiating tactics have been characterized by consistent lack of tact. The IMF's criticisms of Tanzania extended far beyond issues and policies actually under negotiation, to discussions of overall economic strategy and management. The Fund ignored Tanzania's efforts to adjust downward resource use and to promote exports (which, oddly, seemed of no interest to Fund missions with the sole exception of producer prices; indeed in 1984, the IMF is believed to have advocated reimposition of export taxes). The IMF also did nothing to create a working relationship with the Treasury or Bank of Tanzania and did a great deal to mobilize domestic opposition to any adjustment measures.

The 1980 and 1983 mission meetings with President Nyerere were peculiarly disastrous. The first—probably unintentionally—presented a still negotiable set of proposals as a "take it or leave it" ultimatum, and the second combined a broad critique of socialism and self-reliance with an assertion that Tanzania had failed to adjust at all. Neither meeting should have been held. In both cases the IMF's minatory, headmasterish tone and the president's predictable negative reaction led to recrimination and delay.

Based on present quota levels, the potential IMF funding available to Tanzania over three years is on the order of $400 million. A fairly conservative estimate of the five-year requirement to clear arrears, restore import levels to a point adequate to reactivate idled basic productive capacity, and to restore infrastructure, basic services, and the tax base is at least $2 billion: $750 million from the IMF, $500 million in World Bank structural adjustment lending, and $750 million in rehabilitation, sectoral, and balance of payments support from bilateral sources. Even based on the most optimistic assumptions, repayment could not begin until the seventh year and would need to be phased over at least nine years. In other words, Tanzania's requirements are twice the IMF's present lending level, and a doubled repayment period would be needed for the adjustment program to stick.

On "linkage", the Fund's present position is obscure. In 1980, the jointly-drafted "letter of intent" noted that additional World Bank and bilateral finance were necessary for the Tanzanian adjustment program to succeed. However, the IMF did little or nothing to help ensure that they were forthcoming. Over 1981-84, the deadlocked negotiations with the Fund have also prevented negotiation of a structural adjustment program (or a set of sectoral support programs) with the World Bank and have to varying degrees discouraged bilateral sources from responding to Tanzania's proposals for expanded funding for adjustment and rehabilitation. If a Tanzania-Fund agreement is reached, it will lend weight to Tanzania's efforts to convene a conference to secure Bank and bilateral finance.

Tanzania has not avoided, or since late 1979, sought to avoid, adjustment. It has cut real imports by about 50 percent and per capita expenditures by almost as much since 1978. Fiscal and monetary policy have been tightened, spending reoriented toward production, and basic services and management improved. Major efforts to reorient production and investment toward exports have been made. With steadily shrinking import capacity, these measures have bought time and averted the economic collapse which otherwise would have come in late 1980. The decline of output has been held to 2.5 to 3 percent a year, but at a cost of growing arrears and a day-to-day juggling of both foreign exchange and real resources. Time has been bought, but to what end?

Unless an IMF-Bank-bilateral package can be achieved or a totally unexpected gain develops (such as a 50 percent terms of trade improvement or a substantial oil discovery), these efforts will only limit hardship and avert a total collapse. In this respect, Tanzania is like many other African countries—it cannot overcome an externally caused crisis solely by domestic means. A more flexible IMF approach, backed by more finance, could be a significant component of a five-year rehabilitation and recovery program. But without significant changes in the IMF's present stance with respect to sub-Saharan Africa overall, such a development seems unlikely. As John Williamson wrote in 1982: "The resulting perpetuation of a tragedy does not reflect credit on any of the parties." □

Opinion

A Strategy for Africa's Financial Management

There are a number of options that African leaders can avail themselves of to maximize their financial, trade, and investment opportunities amid the current economic crisis.

BY EKWOW SPIO-GARBRAH

With Africa's economic and financial condition in mid-1984 showing little improvement or cause for immediate optimism, it has become more urgent than ever for African governments to pay closer attention to the interrelated tasks of managing debt, maintaining good relations with the international financial community, attracting foreign investment, and promoting exports and tourism.

Of course, these tasks would be simpler and less arduous if most of Africa's debts could be cancelled at a stroke or if a massive new Marshall Plan-type reconstruction program could be devised for Africa; if U.S. deficits and interest rates could be reduced and Africa's primary commodity prices increased; or if substantial new funding could be provided for the multilateral financial institutions—the International Monetary Fund (IMF) and the World Bank.

Unfortunately, the world is not so simple. Nor are African nations sufficiently organized to achieve these objectives. So while striving for these and other laudable medium-term goals, African governments need to take short-term actions that would minimize the continent's financial hemorrhage.

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African countries are still suffering from the effects of the recent recession in industrialized nations: a collapse in commodity prices, declining aid and external capital flows, wide swings in exchange rates of the major convertible currencies, and high interest rates. Africa's economic health has, as usual, been subject to the debilitating vagaries of the international economic environment. These external factors are severe by themselves. But they are compounded by a wide range of variables occurring within Africa, such as excessive government spending and financial mismanagement, unrewarding exchange rates, fiscal and monetary policies, a notable unwillingness to provide incentives to agriculture—the most productive sector of African economies—and, in some countries, overly adventurous political experiments that have aggravated the continent's chronic post-colonial instability.

Added to these problems are natural disasters—droughts, desertification, bushfires, livestock and human diseases—and the man-made tragedies of internecine and border conflicts, coups, mass deportations, and refugee problems. The combination foretells disaster that is both predictable and well-chronicled.

A constructive approach to addressing some of these issues lies not so much in the fashionable restatement of the well-known causes, but in concrete proposals for managing the controllable elements while working to assuage the effects of the uncontrollables.

There have been numerous reports and proposals to remedy Africa's economic crisis. However, few meaningful corrective steps appear to have been taken. From the Cancun and Williamsburg summits last year to the recent London Economic Summit, from Commonwealth Secretariat meetings and numerous conferences within the United Nations system to annual reviews by the World Bank and the IMF, there is clear recognition, amid the pious declarations and solemn pronouncements, that Africa's condition is dire.

African governments, for their part, issued the "Lagos Plan of Action" in 1981 to guide their collective economic emancipation. The UN Secretary General, for his part, has appointed the Executive Secretary of the UN Economic Commission for Africa (ECA) as his special representative for Africa's economic crises. And in clear recognition of Africa's worsening financial condition, the ECA, OAU, and the African Development Bank jointly organized a meeting of African finance ministers in Addis Ababa in June to discuss the debt situation.

While Africa's debts may not seem as overwhelming in absolute figures as those of Latin America, they are serious when measured in terms of debt service requirements and ratios such as GNP to debt, annual debt to annual exports, or even per capita debt. According to an

Ghana Information Services

Locally produced textiles in Ghana: "African textiles, processed wood products, seafood products, handicrafts, jewelry, and spices hold particularly good prospects for certain foreign markets"

ECA report, Africa's outstanding external debt is estimated to have increased to $150 billion at the end of 1983, from $143 billion in 1982. This, the ECA calculates, represents about 180 percent of the value of Africa's annual exports of goods and services, up from 161 percent 1982 and 138 percent in 1981. Additionally, to compensate for the drop in concessionary lending and grant aid, private commercial lending to Africa increased from 32.5 percent of total capital inflows in 1971 to 39.5 percent in 1980. At the same time, average interest rates on these loans jumped from 4.2 percent in 1971 to 10.1 percent in 1981 and are higher today.

Clearly, to the extent that levels of productivity, production, rates of capital investment, and export growth are lower in Africa than in Latin America, it is that much more difficult for African countries to relieve themselves of their debt burdens. While it should be noted that this burden varies from country to country and is exacerbated by the high population growth rates in many parts of the continent, ironically the lower absolute debt of Africa vis-à-vis the Latin American debtors reduces the bargaining power of African debtors in negotiations and subjects them to higher rates and fatter front-end fees and service charges then their Latin American counterparts.

Not surprisingly, more than 30 African countries have found themselves at the feet of the IMF in the last three years. According to that institution, 26 African countries were among the 37 nations whose multilateral debts were rescheduled, mostly by the Paris Club, between 1975 and October 1983. Of the 27 sovereign debt agreements rescheduled or negotiated during the first nine months of 1983, eight involved African countries. At the end of 1982, eight African countries were among the 27 most indebted countries. Currently, the IMF is supporting economic adjustment in at least 18 African countries with financing of a paltry $3 billion. Several countries also are negotiating with the Fund for standby, extended fund, enlarged access, or compensatory financing facilities.

While the IMF invariably recommends an unpalatable economic diet and strict financial regimen for most of its developing country members, there is no reason why African governments should intensify domestic political instability by casting the IMF as a "neo-colonial devil" prior to negotiations. African officials who ultimately agree to "sup" with the Fund, accept its policies, and promote them in their countries, soon find themselves defending "devilish" policies to their disbelieving populaces.

A country has to either accept membership in the Fund—knowing its preferred policies and even working with like-minded nations to change those policies at the multilateral level—or decide, as some countries have done, to have nothing to do with it. Certainly, nearly 40 years after Bretton Woods, and with significant changes in the global financial configuration, the IMF is in need of reform. But this must be done multilaterally. Since the IMF has no real domestic African constituency except its member governments, Africans who criticize their leaders for merely talking to the IMF find that they have to swallow their words once they accept positions in government.

Beyond the lessons of dealing with the IMF, African finance ministries and central banks need to project more precisely the time profiles of their debt obligations and forecast more conservatively their export earnings, domestic revenues, and future access to various sources of finance. They must also monitor more effectively their potential for refinancing or prepaying their debts, not only to adapt loan maturities to revenues generated by projects financed and to take advantage of new borrowings on better terms where possible, but also to factor in unanticipated expenditures and reduced export earnings.

Obviously, improved ability to project, forecast, monitor, and adjust various internal and external macroeconomic expectations requires that African governments focus more closely on efficient collection and analysis of their debt statistics, including borrowings by autonomous public corporations or even private entities that borrow with government guarantees. These analyses may be highly complex and should involve computer-based models and sensitivity analysis because of the volatility of interest rates and the need to consider a multiplicity of internal and external scenarios. No matter how it is done, there can be scant excuse, for example, for the wide disparity in claims that existed between Nigeria and its creditors during debt negotiations last year. (At one point during those talks, Nigeria estimated its short-term debts at $3.3 billion while its foreign creditors claimed that it owed $6.6 billion.)

Beyond knowing at all times the current status of their debts, African governments must maintain a prudent but persistent search for the best combination of external financial instruments. A good borrowing strategy must, for ex-

ample, diversify the currency exposure of external loans to minimize the impact of interest rate and exchange rate fluctuations. Debt currency diversification would, for many African countries, also imply a widening of trade and investment partnerships.

Again, while devaluations ought to be approached cautiously, there must be a philosophical willingness, when necessary, to adjust to appropriate exchange rates, since inappropriate rates, over time, generate cost-price distortions that negatively affect a country's consumption and investment patterns and its trade balances. Certainly, inappropriate rates make export-oriented and import-competing activities less profitable, unjustly rewarding briefcase-toting middlemen and penalizing productive export-crop producers.

At the continental level, African countries should begin to play a more active role in international debt discussions, since there is no doubt that they, rather than the larger debtors in Latin America, are most squeezed in the drying-up of international lending. While numerous high-level meetings among Latin American debtors have not resulted in debt repudiation or a debt cartel (and the advisability of these is dubious), the major commercial banks are aware of the medium-term potential for taking such radical measures. As such, the banks are in a more compromising mood then ever before. In preparation for the worst, some have already drawn up debt repudiation strategies, including the possible seizure and attachment of liquid mobile and immobile national assets held by sovereign debtors overseas.

As Lord Lever, former economic and financial adviser in the cabinets of British Prime Ministers Harold Wilson and James Callaghan, wrote in the *Wall Street Journal* of June 7, 1984: "The banking system of the West has become hostage to its overseas creditor. We are not dealing with the isolated misjudgments of two or three banks or the default of individual debtors. We are faced with the worldwide overcommitment of an interlocking banking system and potential default of a scale that could exceed the entire capital and reserves of most of the world's famous banks. . . ."

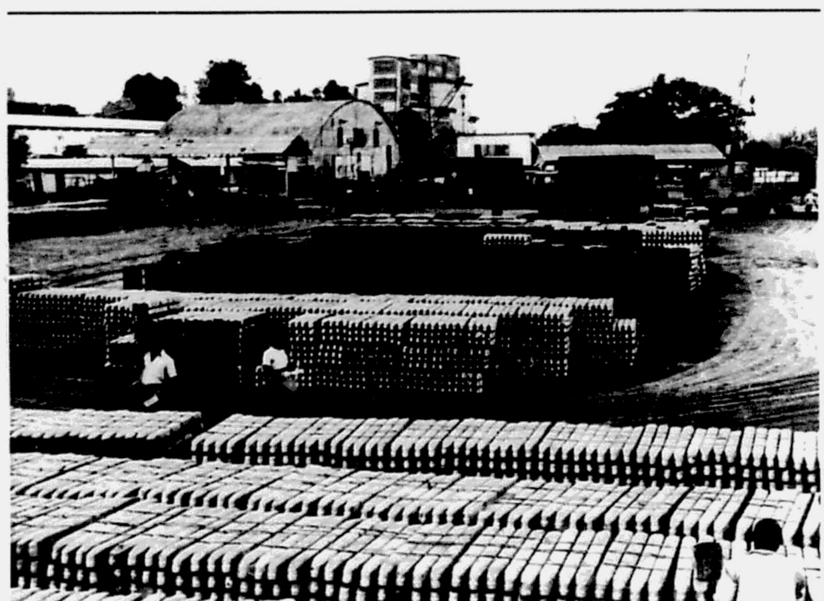
On the heels of the near collapse of the Continental Illinois Bank of Chicago (the eighth largest U.S. bank) and a short-lived "scare" run on Britain's Midland Bank and Manufacturers Hanover, the latter and other banks, such as Citibank and Chase Manhattan, have been persuaded by the financial markets to adjust their quarterly financial reports to reflect their non-performing loans.

With these developments, which are bound to affect loan availability, major African debtors, such as Nigeria, Ivory Coast, Zaire, Zimbabwe, Sudan, Kenya, and Gabon, need to mount effective international financial relations and economic information programs that can explain persuasively to commercial and investment bankers and their regulators major projects and capital investments undertaken with past borrowings, and describe how new loans will serve not only to enable repayments, but also for investment in self-repaying and productive sectors of their economies. Donors' conferences, visits by finance ministers to major creditor banks, or increased reliance on multilateral institutional lending will not do the trick entirely.

For example, Nigeria—with a $17 billion foreign debt, a 21.7 percent debt service ratio, a 24 percent debt-to-GNP ratio, and an estimated $4 billion current account deficit—or Ivory Coast—with a $9.4 billion foreign debt, a 44.5 percent debt service ratio, a whopping 116.9 percent debt-to-GNP ratio, and a $1.16 billion estimated current account deficit—simply cannot expect to continue doing business as usual without the help of finely tuned international financial relations efforts, which can, among other things, help shave off fractions of percentage points from their interest rates.

And while the reverse capital transfer from developing countries to the industrial nations could continue—the net negative transfer swelled to $17 billion last year, from only $4 billion in 1982—African countries can attenuate the negative impact of such capital shortfalls by fostering more realistic attitudes and creative approaches to foreign investment. Doubtless, the foreign investor intends to make a profit, but the host government should expect the same.

Contrary to African intellectual mythology, foreign investment in a country is not a zero-sum game. However, the odds may be stacked in favor of the investor if a government lacks either the will or the capacity, or both, to negotiate in its own interest and to supervise the investor's activities effectively. By identifying, selecting, and contracting with investors based on a country's stated investment and economic development priorities, a government can benefit from foreign capital, technology, and skills while providing the investor with incentives and the ability to transmit legally earned profits.


Zambia Information Services

Zambian copper being exported from Dar es Salaam: "Africa remains the world's richest continent in natural resources"

Africa remains the world's richest continent in natural resources. There is no reason why an inordinate fear of multinational corporations or overly zealous adherence to political dogmas should be permitted to impede the continent's development for the benefit of all its peoples.

In seeking investment, African governments cannot passively expect investors to come to them. What they get with that attitude are fly-by-night businessmen who are looking for a quick kill, and whose head offices may exist only on their business cards. A search for serious investors with long-term interest in a country is a slow, meticulous process best handled by professionals with in-depth knowledge of the foreign markets and industrial sectors in which a government is interested. Once serious investors are identified and attracted, government negotiators can take over. It is painful, if not shameful, to read African countries' investment brochures that are several years out of date and that contain introductions signed by deposed presidents or dismissed ministers.

A more serious and professional approach to export promotion is another way in which governments can try to manage debts and increase foreign exchange availability. True, Africa's major exports are unprocessed commodities that are subject to external price manipulations. But because prices are determined on the basis of current and future demand and supply projections, there are many creative, yet unexplored, ways through which primary commodity producers can collectively engineer higher prices for their output. In addition, notwithstanding the cold winds of protectionism, there are lucrative export market niches that African governments can identify and exploit for their fledgling manufacturing industries.

The Lagos Plan of Action endorsed import substitution industries as best for Africa, whereas the World Bank's 1981 report, *Accelerated Development in Sub-Saharan Africa*, recommended export-oriented industries. But there is no reason why governments cannot plan import substitution industries that will initially satisfy internal and regional demand and eventually supply overseas export markets as well. African textiles, processed wood products, seafood products, handicrafts, jewelry, and spices hold particularly good prospects for certain foreign markets.

Another potential source of foreign currency liquidity for African governments is the tourism sector. Here, despite feared socio-cultural problems, many African countries have promoted tourism for quite some time and have gained valuable experience. But even well-known tourism destinations, such as Kenya, Senegal, Morocco, and Ivory Coast, face serious and often better organized competition from Caribbean, South American, and Pacific countries. Increasingly, African countries will require creative approaches simply to maintain their current traffic, especially as airline costs zoom into the stratosphere.

With increasing numbers of Africans now opting to live and work overseas, African governments can learn a lot from the southern European nations and from such countries as Turkey, Pakistan, India, and Egypt, which earn considerable amounts of foreign currency from remittances from their nationals working abroad. But, once again, Africans living in the diaspora will only respond to exchange rates that do not undermine the value of their transfers.

With the failure of the London Economic Summit to address the mounting problem of global debt, developing countries, including African nations, now realize that they must seek their own salvation. Whether to seek immediate reductions or a cap on interest rates (as some foreign bank regulators have proposed), to ask that bank service fees be tied to the real cost of funds, to demand an extension of payment periods and longer maturities, or to seek the alignment of a country's debt service to a percentage of its export receipts are questions over which Africa's central banks and finance ministries can no longer dither.

Other proposals for ameliorating Africa's debts that are worthy of consideration include the conversion of some project financing of resource-based industries into equity (although some countries could see this as a diminution of sovereignty) and the encouragement of the practice reportedly begun by some German and Swiss banks of converting a sovereign borrower's dollar debts into the currencies of the lending banks (to reduce the harmful effects of dollar appreciation). Also worth consideration are the use of variable maturity loans, contingency-based payments, or foreign lending insurance facilities.

To be sure, foreign bank regulators and legislators prefer more stringent loan loss provisions for the banks: the U.S. Federal Deposit Insurance Corporation and the Comptroller of the Currency have proposed, for example, that U.S. lenders be required to maintain a minimum capital-to-asset ratio of 5.5 percent to minimize under-capitalization. The banks, for their part, are eager to protect their shareholders' earnings. It is estimated, for instance, that a $5 drop in the price of Citibank stock could cost its roughly 59,000 shareholders $600 million.

The short-term prognosis for Africa's economic health remains gloomy. While the continent's economic malaise is partly caused by uncontrollable external forces, African governments have the collective power to influence some external variables to their own benefit. And clearly they can do more about those domestic factors that are within their control.

At the very least there has to be greater coordination and consultation among African debt agency officials, just as creditors consult with each other to adopt common positions. Additionally, efforts to seek reform of the IMF and increased funding for the multilateral institutions should be pursued. And pressure for reductions in tariff and non-tariff protectionist barriers in the industrial countries should be maintained.

Questions remain: Will African governments seek to maximize their financial, investment, trade, and tourism options in a complex, competitive, interdependent global economy or will they seek options bordering on disengagement from the international economy? Will they continue to mortgage the enormous potential for material growth of their economies through conscious or unintended restraints on entrepreneurship, and blatant mismanagement? And will some of them relieve themselves of their misconceived policies that have led to the dashed hopes and thwarted aspirations of their peoples? □

Reagan's Private Sector Initiative in Africa

The Reagan administration is promoting its private enterprise approach as a solution to many of Africa's economic problems. Congressman Don Bonker suggests that there is nothing new in this approach, and he questions how effective it really is.

BY DON BONKER

When the Reagan administration with great fanfare unveiled its "new" private sector approach to development in 1981, it raised fears among many observers in Congress and in the development community that the basic human needs philosophy underlying U.S. foreign aid programs would become emasculated by, if not altogether lost in, a magic-of-the-marketplace mentality. Rather than seeking to incorporate this "new direction" into the existing programs of the Agency for International Development's (AID) functional and regional bureaus, as had been done in the late 1970s with environmental and natural resource concerns, the administration set about creating a new structure—the Bureau for Private Enterprise (PRE). With the Reagan administration attaching great importance and prestige to it, PRE was initially perceived more as a competitor than representative of a new emphasis to be integrated into existing programs. Nowhere would this perception of competition with the basic human needs approach to development seem more apparent than in Africa.

Had the global economy been stronger, the administration's new direction might well have been translated into appeals for increased trade and reductions in aid. But the end of the energy crisis, combined with the U.S. recession, put U.S.-African trade on a sharp downward trend. In 1982, for example, U.S. imports from sub-Saharan Africa fell by 15 percent, due particularly to declines in oil purchases from Nigeria. In the same year, U.S. exports were off by almost 7 percent, from $6.6 billion in 1981 to $5.4 billion by 1982. In the face of such trade stagnation, and the severe debt problems encountered by some African nations, trade-promotional aid became the basis for the administration's program.

Now, well into the fourth year of the Reagan administration, it is appropriate to ask how the free enterprise rhetoric has been translated into AID and other government foreign assistance programs in Africa, and what impact these programs have had on development in the continent.

AID's Bureau for Private Enterprise, headed until recently by Elise Dupont, is the bureaucratic centerpiece of the free enterprise emphasis. Since its creation in early 1981, the bureau has operated on a budget of about $15 million per year. PRE also oversees some $150 million annually in funds "set aside" under AID's regular regional and functional programs. A special revolving fund, approved by Congress in 1983, will enable the bureau to finance small projects and reinvest in new projects without dependence upon annual authorizations and appropriations, once a $60 million initial capitalization level is met. The fund has a ceiling of $100 million and will be replenished by loan repayments. No more than 20 percent of the revolving fund's total resources can be allocated to any one country. By the end of fiscal year 1984, out of a total budget allocation of some $40 million, PRE will have loaned $6.5 million for specific projects and will have provided an additional $1 million in technical assistance to countries in Africa—about one-fifth of its total resources.

The Bureau for Private Enterprise got off to an agonizingly slow start. The first year was spent sending out survey missions made up of representatives of the U.S. private sector, contracting out for reports on the private sector climate in selected countries, and conducting seminars by the Young Presidents' Organization. Finally, in early 1982, the bureau got around to project development, deciding to "target" its activities in 12 countries. Three sub-Saharan countries made the target list: Ivory Coast, Kenya, and Zimbabwe. Two projects in Kenya have begun, but negotiations are still ongoing on several in Zimbabwe and Ivory Coast. In addition, divestiture of a state-owned farm has been completed in Malawi, and projects in Liberia, Mali, Zambia, and Sudan are on the drawing board, al-

Congressman Don Bonker (D-Wa.) is chairman of the House of Representatives Subcommittee on International Economic Policy and Trade.

though these countries are not on the target list.

To date, PRE's principal focus in Africa has been Kenya, and the country has, in fact, already run up against the 20 percent funding ceiling on the revolving fund's commitments. In January 1983, PRE signed a $2.5 million loan to the Kenya Commercial Finance Corporation (KCFC), matched by $2.5 million in local currency from KCFC's own funds. The combined $5 million is earmarked exclusively for lending to small and medium-sized private Kenyan agribusinesses and light manufacturing enterprises. Nearly one-third of the $5 million had been disbursed to 18 sub-borrowers by April of this year. The sub-loans range in terms from four to six and one-half years, and so far, 78 percent have gone to new businesses. All of the recipients are small enterprises located in rural areas. Among the sub-borrowers are a milling operation for corn and other cereals, a sugar cane hauling service from farm to factory, a tractor-leasing operation, a distributor of animal feeds and farm implements, village bakeries, a new manufacturing facility for multi-use adhesives, and a plant for insulated electric cables.

PRE has also loaned $2 million to a local tannery in Kenya to produce leather products for export. The loan is for 12 years (with a two-year grace period) at a 10 percent interest rate. The bureau has also provided support to a $1 million program to formulate management training courses for accountants through the Accounting Association and Institute for Certified Public Accountants; for loan officers with emphasis on the needs of small businesses through the Banking Association and Institute for Banking; for strengthening the management and consulting skills of the Kenya Women's Finance and Trust; and for the establishment of a small business microcomputer training center at Kenya Polytechnic. The contributions of the participating institutions will constitute more than 50 percent of total project cost.

Kenya has also been the beneficiary of the only two "set-aside" projects in Africa: $41 million in follow-on funding to the Kenya Commercial Bank project, and a $1 million community-level small business development project. These are programs with a specific private sector component, supported by AID functional and regional bureau accounts.

In Zimbabwe, PRE has funded surveys of the local business environment by Business International for use of local and U.S. investors, and lent support to a private trading company to provide financing for export and import services to accelerate trade as part of its technical assistance efforts.

PRE provided funding for a similar survey of the business climate in Ivory Coast, and recently helped with the creation of a joint agricultural consultative committee there for the purpose of identifying investment and joint venture opportunities.

The bulk of the administration's efforts in Africa, however, have emerged from pre-existing aid programs such as the Housing Guarantee and Agricultural and Rural Development programs. These programs have long had a private sector emphasis. In Africa, as in other parts of the world, farms constitute the vast majority of private businesses. Since it created the housing guarantee program in 1961, AID has used the U.S. private sector as a conduit for housing development projects by guranteeing loans to Third World housing authorities which, in turn, purchase materials and services from the private sector.

So far under the Reagan administration, about $80 million in housing guarantee funds have been authorized for projects in Africa out of a total program of some $400 million. Since fiscal year 1981, Botswana has received $15 million under this program; Zimbabwe, $36 million; Kenya, $20 million; and Ivory Coast, $10 million. In 1984, $148.6 million out of the total $350 million agricultural and rural development program is scheduled to be expended in sub-Saharan Africa with emphasis on agribusiness, rural industries, and private agricultural service enterprises.

The Trade and Development Program (TDP), affiliated with AID, has proved probably the most innovative and effective at involving the U.S. private sector in developmentally worthy projects. It is, again, a program that preceded the current administration, but with strong Congressional support, the administration has increased its funding. Congress raised its authorized funding level steadily from an initial $3.8 million in 1980 to more than $20 million in 1984. It is currently operating on $13 million annually—the amount requested by the administration and appropriated. Africa's share of TDP project funding has gradually grown over the years from 4.5 percent in 1980 to about 13 percent in 1984.

The program provides funds for feasibility studies by American firms of projects that are not only developmentally sound but, if carried out, would result in substantial U.S. exports. The theory on which the program is based—that feasibility studies performed by American firms give an inside track for follow-on exports of materials and services—has proven itself. More than $40 in follow-on U.S. exports have been directly generated for each federal dollar expended under the Trade and Development Program.

Recent TDP-funded feasibility studies and projects in sub-Saharan Africa include:

- In Swaziland, a $75,000 study of the feasibility of manufacturing construction-quality brick and ceramic tile, which presently must be imported. The U.S. firm conducting the study is a potential investor in the project if it proves attractive.
- In Kenya, a $350,000 study of the feasibility of expanding the port of Mombasa, the best natural East African harbor north of Durban. If the expansion project is eventually undertaken, it represents an opportunity for more than $200 million in U.S. exports.
- In Gabon, a $250,000 feasibility study of port and road construction to facilitate the development and marketing of the country's forestry resources. This investment has already led to purchases from the U.S. of more than $675,000 of goods and

services related to port and road projects.

- In Nigeria, a $93,000 feasibility study of opportunities for American agribusiness investments there has led to the delivery or contract for some $37 million in U.S. goods and services. Another $185 million in American products and services are expected to be realized within the next four years.

The Overseas Private Investment Corporation (OPIC) is yet another element of the administration's private enterprise approach. Created by Congressional initiative in the first Nixon administration, OPIC provides political risk insurance and, in some cases, investment guarantees for developmental projects in less developed countries. OPIC has organized investment missions to Ivory Coast, Ghana, Nigeria, Cameroon, and Kenya. Partly as a result of these missions, in fiscal years 1980-83, 23 percent of OPIC insurance and financial guarantees went to projects in sub-Saharan Africa, although that region has traditionally attracted only about 5 percent of total U.S. foreign investments. During the previous three years, OPIC provided $344 million in political risk insurance and $155 million in loans and loan guarantees, accounting for about $900 million in new U.S. investment in the region. Since 1978, OPIC has paid $33 million in claims to U.S. investors on projects in Africa, all of them for losses due to inconvertibility of funds.

OPIC's review of projects for developmental value, which has been closely scrutinized by Congress, includes not only generation of local employment, but foreign exchange earnings, generation of tax revenues, and related economic activity. The 53 OPIC-supported projects in sub-Saharan Africa in 1980-82, 60 percent of which were in countries with per capita incomes of $680 or less in 1979 dollars, are expected to generate 7,000 new jobs, $612 million in foreign exchange savings, $133 million annual tax revenues, and $709 million in related economic activity.

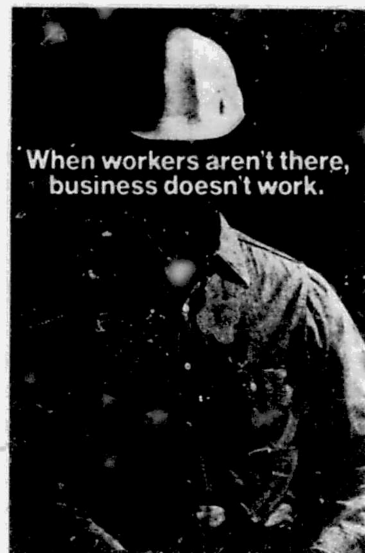
Unfortunately, despite its expanded role in foreign policy-making and in shaping foreign assistance programs, Congress still lacks the capability to evaluate the quality of many of these programs at the project level. It must depend heavily on the bureaucracy's skills in selecting projects that truly contribute to the basic human needs mandate. The increased emphasis on follow-on export benefits, which the "private enterprise" approach includes, surely increases the risk of increased U.S. support for projects which are less than optimum from the viewpoint of their development impact. At the same time, there is no indication that private enterprise involvement is, by definition, less developmental than government-sponsored, public sector projects.

"A number of AID missions have found themselves rewriting existing projects to highlight their private sector benefits in order to jump on the bandwagon."

All of which is to say that, in practice, there is very little new in the "private enterprise" approach. At worst, it is a somewhat deceptive rewrapping of existing programs and practices. As could be expected, a number of AID missions as well as the functional and regional bureaus in Washington have found themselves rewriting existing projects to highlight their private sector benefits in order to jump on the bandwagon. The most graphic evidence of the deceptiveness involved the attempt, in testimony by various administration officials, to portray Economic Support Funds (ESF) as part of the "private enterprise" approach because monies under that program are available to pay foreign current account deficits, many of which are unpaid accounts with foreign firms for imports.

At best, the private enterprise initiative demonstrates a renewed emphasis on the importance of private sector activity and the contribution it can make to economic development. This has enabled an administration otherwise hostile to government-supported foreign aid to justify and maintain such programs. As such, it would appear to be a small price to pay for the preservation of these critical programs.

For African nations, the private enterprise direction has unsurprisingly meant no dramatic increase in U.S. foreign assistance, nor has the relatively small amount of funding devoted to this effort taken a huge bite out of traditional foreign assistance accounts. It may even have helped to preserve at least pre-existing levels of support. U.S. bilateral aid to Africa has increased from about $200 million in 1975 to about $800 million this year, and the U.S. continues to provide about 10 percent of all Official Development Assistance to Sub-Saharan Africa. The major (and perhaps only) impact one can clearly point to is that the policy has tended to benefit private sector-oriented economies, like Kenya's, at the expense of governments in the region which prefer greater public sector involvement. Even that redistribution within the continent, however, has been less than could have been expected from the vigor of the administration's early rhetoric. □



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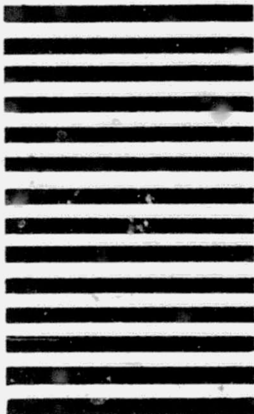

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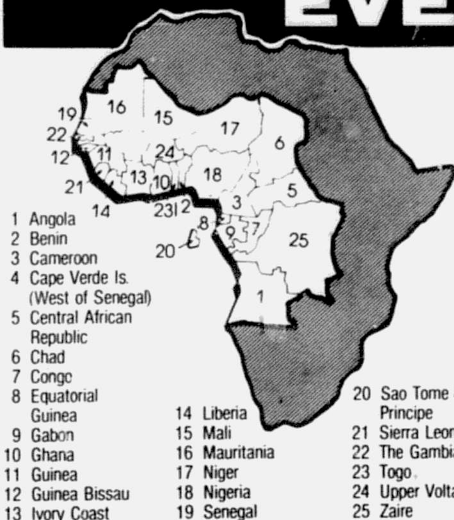

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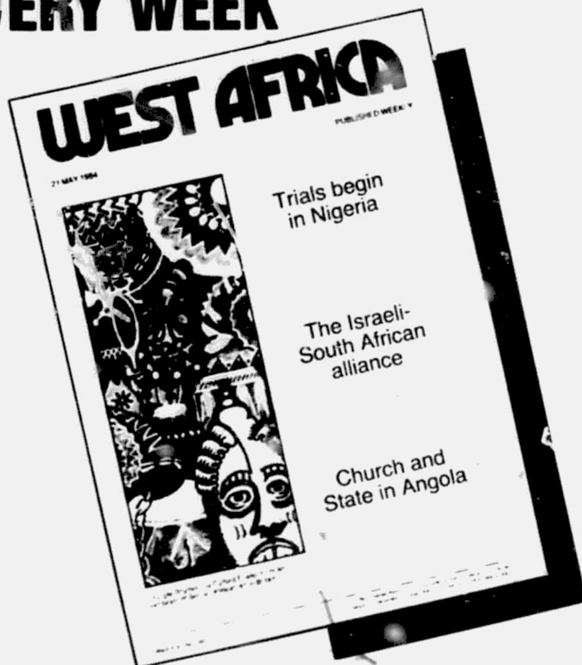

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