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Prospects for Economic Reform in Sub-Saharan Africa (U)

National Intelligence Estimate

This Estimate represents the views of the Director of Central Intelligence with the advice and assistance of the US Intelligence Community.

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Key Judgments

Western-backed policy reforms will bring modest improvement in prospects for economic growth in those countries of Sub-Saharan Africa that undertake them. But the key reforms—budget reductions, privatization, and deregulation—will continue to be adopted grudgingly and unevenly over the next five years, with occasional reversals. Even in those countries likely to carry out a full reform program, such as Ghana and Senegal, achieving self-sustaining economic growth is a distant goal that will require substantial Western assistance over many years.

Reform Obstacles and Incentives

Many African governments have already made politically "easy" reforms, such as devaluing their currencies and increasing agricultural prices, but will be much more cautious in adopting changes that burden powerful groups, such as eliminating subsidies or privatizing public enterprises. Despite political obstacles, however, we believe that the reform movement will take firmer hold in Africa over the next five years:

- Particularly in agriculture, economic reform has recorded demonstrable successes that will help make other policy adjustments more politically palatable.
- Net Western aid is likely to increase, and a larger portion of it will be conditioned upon implementation of reforms.
- Reforms gradually will spawn their own domestic constituencies, particularly among farmers and those entrepreneurs who take advantage of more open markets.

Outlook for Growth

Most African economies will do well to grow faster than population. Even for those countries that assiduously pursue reforms and are aided generously by the West, progress will be impeded by Africa's fundamental problems:

- Largely unskilled labor forces, often weakened by disease and in some countries threatened by the AIDS pandemic.
- Weak markets for most exports.
- Unpredictable weather, pest infestations, and environmental degradation that severely handicap agriculture.
- Rapid population growth, the highest of any major region in the world.
- Deeply ingrained corruption.
- Inadequate transportation, utilities, and communications.

These problems, together with political uncertainties and in some cases internal wars, will continue to cloud Africa's investment climate as well as hamper growth.

Africa will remain the world's poorest continent for the foreseeable future. For those Sub-Saharan countries whose natural resources and political leadership offer the potential for self-sustaining growth—such as Botswana, Cameroon, Ghana, Ivory Coast, Kenya, Nigeria, Senegal, and Zimbabwe—development may not follow the pattern of the newly industrialized economies of East Asia; there are many countries in Asia and Latin America better positioned than those in Africa to take advantage of the "growth through exports" contest. Instead, sustainable African growth is more likely to be based on indigenous development involving improvements in agriculture and small-scale manufacturing for local and regional markets.

Implications for the United States

Of the eight Sub-Saharan countries most important for US interests, at least half have poor prospects for sustaining reform programs. Because US bilateral aid is less than 10 percent of total aid to the region, our bilateral programs are likely to play a diminishing role in influencing the reform effort. The best opportunities for leverage will lie increasingly in multilateral organizations such as the IMF and World Bank.

African leaders who have achieved little short-term success from reform—in part because of their own lack of commitment—are likely to become more difficult in their relations with the United States:

- As their economies stagnate or worsen, Liberia, Somalia, and Zaire may well attempt to trade more heavily upon their facilities access arrangements with the United States.
- The most hard-pressed leaders, such as Zambia's Kaunda, will intensify demands for debt forgiveness, commodity price guarantees, larger Western bailouts, or restructuring the global economy rather than their own.

The Soviet Union will manipulate Third World concerns about debt and trade in an effort to put the West on the propaganda defensive in Africa and elsewhere. But prospects are slim for expanded Soviet influence growing out of the economic reform process in Africa, and Moscow is likely, in fact, to further encourage its African clients to seek aid from the West.

Table 1
Prospects for Economic Reform in Key Sub-Saharan African Countries [a]

	US Interests	Progress on Economic Reform	Outlook for Further Reform
Liberia	US access the most extensive in Africa. Access to port of Monrovia and Roberts International Airfield. Low-frequency navigational aid station, Voice of America transmitter, diplomatic communications relay stations.	Poor, particularly in budget area.	Poor. Commitment is lacking and corruption will persist.

[a] See annex B for a more comprehensive discussion of reform prospects.

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Discussion

After more than two decades of experience with ineffectual economic policy based upon heavy state intervention, antipathy to private investment, and dependence on external aid, Sub-Saharan Africa[1] has recently been coming to grips with the need for fundamental change in its approach to economic policy. Many African states have begun a process of economic reform, which includes reducing government spending, removing economic regulations, privatizing state enterprises, and opening their economies to foreign trade and investment.

Despite its halting progress and frequent failures, the economic reform movement in Africa represents a fundamental shift in economic policy making. It parallels similar movements occurring elsewhere in the world—Vietnam, China, Eastern Europe, and the Soviet Union, for example, and to a lesser extent in Western countries with socialist governments—where there is disillusionment with the economic results of state control over the economy. Seen in historical perspective, this broadly based movement is unique: never before have so many governments worldwide tried—however hesitantly—to reduce their own power for the sake of economic progress.

During the five-year period this Estimate covers, issues related to economic assistance will be a key element in US relations with Africa. Some 30 Sub-Saharan African countries are pursuing or are about to undertake economic reform programs endorsed by the International Monetary Fund (IMF) or the World Bank. These programs enjoy the strong support of bilateral aid donors, who have made economic reforms a condition for further aid and debt relief. However, in many African countries, implementation of economic reforms is taking place in difficult economic situations characterized by low levels of income and consumption, limited social services, and relatively weak administrative capacities. In addition, many of the reforms involve significant political risks, adversely affecting powerful, entrenched political elites.

US Interests in Sub-Saharan African Economic Performance

The United States has modest strategic, economic, and political interests in Sub-Saharan Africa, all of which are affected by the region's economic performance. The United States obtains some of its strategic materials and about 10 percent of its imported petroleum from Africa. Access to air, naval, and communications facilities, particularly those on the Indian Ocean, is of increasing, though not crucial, interest. Denial or restriction of Soviet military access is a companion concern. Because African states comprise about one-third of the world's nations and are a significant voting bloc at the United Nations, the United States has an interest in moving them closer to the West through economic reforms that emphasize private institutions and reduction of state control. Africa is not an important market for US exports, however, and US private investment in Africa is only a small fraction of total US foreign investment.

To the extent that economic reform efforts contribute to better economic performance, US interests are likely to be promoted. Economic growth clearly would ameliorate the debt situation as well as serve humanitarian objectives, while economic decline can contribute to political instability.

[1] This Estimate deals with the 45 African nations south of the Sahara, except South Africa. Annex B presents short case studies on reform in eight countries of particular interest to the United States: Kenya, Liberia, Nigeria, Senegal, Somalia, Sudan, Zaire, and Zimbabwe.

Moreover, even where commitment to reform is sustained, the economic benefits will only gradually relieve Africa's economic problems. The United States has strongly supported the emphasis on economic reforms, and the extent to which these reforms succeed will greatly affect Africa's future as well as US interests and influence on the continent.

Reform: A Response to Economic Decline

Sub-Saharan Africa, the poorest region on earth, has been becoming more destitute. Gross national product (GNP) per capita has been shrinking during most of the 1980s (see annex A). Food production per capita has fallen substantially since the early 1970s. International borrowing has left many African countries with a debt-service burden that absorbs a significant and growing share of their export earnings. Economic development of the kind now experienced by some once-impoverished nations in Asia has simply not taken hold in Africa.

Substantial economic contraction during the 1980s notwithstanding, rising economic pressures have rarely led to regime changes. Increased external assistance may have slightly cushioned the downturn in many countries, but this is far from the whole story. Often overlooked are the employment and income generated in the informal sectors of African economies. These help to explain the relative social and political calm of the past decade and will continue to operate as shock absorbers against short-run dislocations caused by economic reforms. Informal sectors mushroomed because strongly interventionist governments made participation in the formal economy too expensive in terms of time or money for the average citizen. Individuals, frustrated by endless bureaucratic delays for everything from building permits to authorizations for the slaughter of animals, started their own unregulated, untaxed businesses. The informal sector is particularly important throughout Africa in construction, distribution, and services, and also for manufacturing of consumer goods such as shoes and clothing.

The Debt Situation

Sub-Saharan Africa's burgeoning debt reached $135 billion in 1988 and is increasing more rapidly than any other region's debt. We expect total Sub-Saharan debt to continue mounting well into the 1990s and debt servicing to remain a problem; restructuring and rescheduling will remain essential to ease the debt burden. (See table 2.)

Faced with the prospect of default, many African debtors have appealed urgently for relief from Western creditors. The appeals are having some success. For example, because of growing recognition that Africa faces prolonged difficulty in repaying its debt and that even concessional lending terms have led to a rising debt burden, the Group of Seven Western industrial nations recently responded by rescheduling concessional debt. They also have approved a plan that allows them three options for relieving the burden of existing, nonconcessional debt service on the poorest debtors (mostly in Sub-Saharan Africa): reducing interest rates, partially forgiving delinquent payments and rescheduling the balance, or granting a longer repayment period for rescheduled amounts. Nonetheless, many African debtors are likely to continue losing their struggle to keep up with heavy repayment burdens and will rely on more frequent reschedulings; though Sub-Saharan debt is only 13 percent of the total for all less developed countries, a disproportionate amount of new arrearages among developing countries will occur in Africa during the next several years.

Table 2
External Debt Position, 1982 and 1987

	Total Debt (*million US $*)		Ratio of Debt to Exports, 1987 (*percent*)	Debt Service as a Share of Exports (*percent*)	
	1982	1987		1982	1987
Total Sub-Saharan Africa	**70,771**	**126,264**	**349**	**19**	**26**
Of which:					
Kenya	3,154	4,975	278	23	32
Liberia	779	1,430	318	10	21
Nigeria	14,560	36,670	496	17	34
Senegal	1,703	3,255	364	11	32
Somalia	1,219	1,951	1,561	10	90
Sudan	5,951	8,124	1,121	24	14
Zaire	4,309	6,497	333	10	15
Zimbabwe	1,781	2,259	124	13	35
Total LDCs	**720,008**	**983,270**	**165**	**21**	**21**

This table is Confidential

Many factors have contributed to Africa's economic distress, but badly flawed economic policies often have been pivotal. Overly centralized, statist approaches, in particular, have discouraged food production and contributed to trade deficits, resource misallocation, uncontrolled government spending, and inflation. In addition, the African labor force is generally deficient in skills and in many places is weakened by disease. Recurring droughts, pest infestations, and environmental degradation have taken their toll on agriculture. Population growth of more than 3 percent per year (the highest of any region in the world) exceeds Africa's capacity to provide education, jobs, and health care. Meanwhile, the AIDS pandemic is potentially devastating to Africa's best-educated government and business elites, though it is unlikely to reduce significantly overall population growth.[2] Because of technological change, African primary products are of diminishing importance in world markets; exports of minerals and basic commodities are stagnant, and manufacturing for export has yet to take root in Africa. Inadequate infrastructure, small markets, political instability, and misguided economic policies further discourage private investment, both domestic and foreign (see figure 1).

Because fundamental weaknesses characterize most Sub-Saharan African economies, only two possible developments offer hope for improvement:

- *Increases in prices for primary commodities*—on which most African economies depend heavily—have brought relief and even temporary prosperity to some African countries in the past, but we see no significant relief coming from this source for most commodities during the next five years. At best, any commodity price increases would probably be only temporary because these prices are cyclical. Moreover, past experience is not encouraging. African governments have rarely made good use of revenues from previous commodity price surges and have squandered billions of dollars' worth of foreign

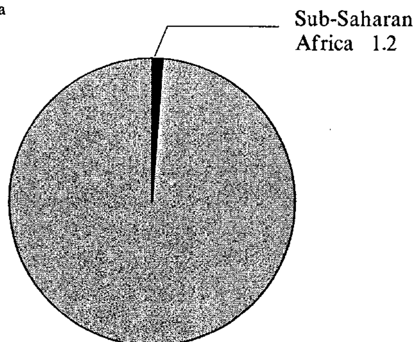
[2] For a detailed discussion of the AIDS pandemic in Africa, see SNIE 70/1-87 (Secret, June 1987, *Sub-Saharan Africa: Implications of the AIDS Pandemic.*

Figure 1
Trends in Key Economic Variables for Sub-Saharan Africa

Percent

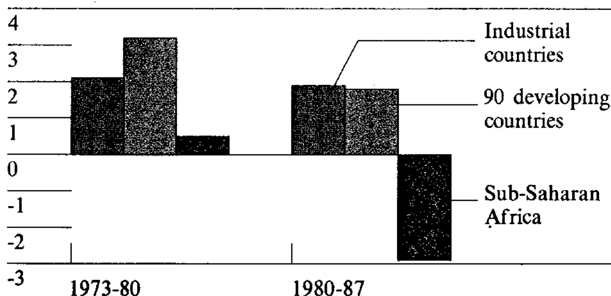
Share of the world economy is small . . .

Sub-Saharan Africa's Share of Global GDP[a]



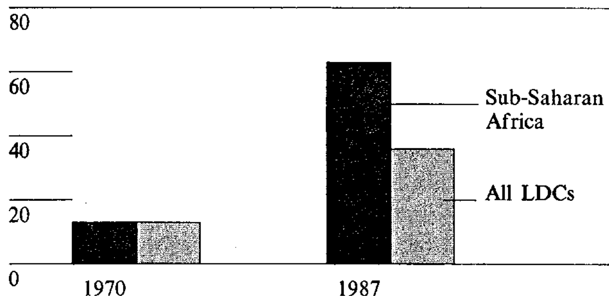
. . . and getting smaller.

Average Annual Growth of Real GDP Per Capita[a]



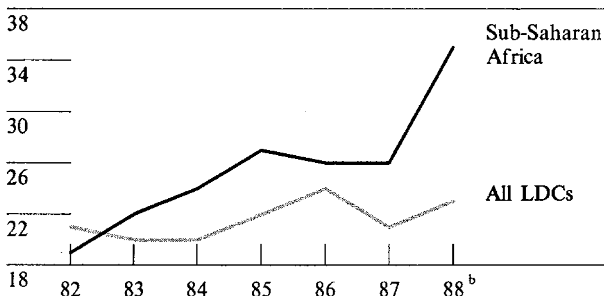
Debt is increasing . . .

Debt as a Share of GNP[a]



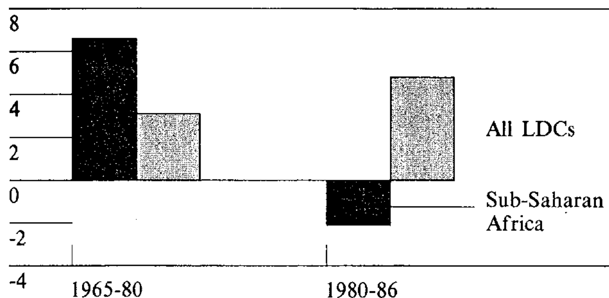
. . . beyond Africa's ability to service it.

Debt Service as a Share of Exports



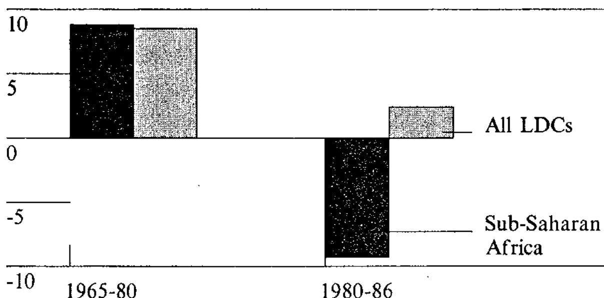
Trade is contracting . . .

Average Annual Growth of Exports[a]



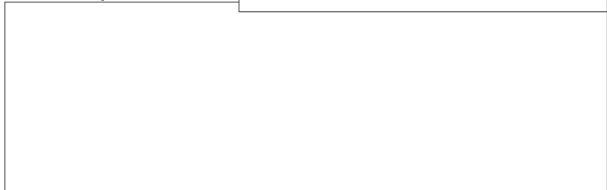
. . . and investment is drying up.

Average Annual Growth of Gross Domestic Investment[a]



[a] Source: World Bank.
[b] Estimated.

exchange earnings.



- *Sustained policy reforms* to attack deep-rooted inefficiencies in an economy are another path to improved performance. A recent, highly publicized report by the World Bank concludes that, among African countries, strong reformers have outperformed weak reformers by a significant margin over the 1985-87 period (see inset and table 3 on page 6).[3] There is evidence that a combination of reforms and substantial external assistance has led to higher agricultural growth, improved export and investment performance, and stronger growth in gross domestic product (GDP). But successful reform requires sustained implementation. The ability of fragile African governments to sustain adjustment programs in the face of imposing political and economic obstacles is open to serious question.

The Political Dynamics of Reform

"Economic reform" encompasses a host of specific actions meant to reduce the role of government in the economy and to instill greater reliance on the market mechanism to determine prices and allocate resources. The main reforms that have been recommended by Western aid donors have focused on liberalizing trade and encouraging private-sector initiative.

While the economic arguments for reform are gaining acceptance, the question of what gets done is essentially political. Disillusionment with traditional policies will not, by itself, ensure that appropriate reforms are adopted. Instead, the most basic political dynamic of economic reform will continue to be how the question of "who gets what" is answered by the self-interest and power of key political factions. This is complicated by the fact that achieving the full benefits of reform requires a long-term commitment. African rulers want economic gains, but in the near term they are inhibited by the perceived costs of political discontent associated with initiating reform. On the other hand, economic deterioration and declining aid levels caused by failure to adopt economic reforms can endanger a regime's long-term political viability.

Forces Favoring Reform

The main internal impetus for reform is economic failure. As it becomes more and more obvious that the prevailing statist economic policies are not working, support for change builds and leaders who share the dissatisfaction with the status quo have an easier time promoting their new policies. When Ghana hit rock-bottom in 1983, for example, with gross food shortages and malnutrition throughout the country, it was relatively easy for Party Chairman Rawlings to marshal support for reform plans drawn up with the help of Western donors. No one had much more to lose, and the government had no money left with which to continue its failed policies. Similarly, in many other African countries—for example, Tanzania, Guinea, Madagascar, and Benin—overextended governments are simply being forced by insolvency to reform.

A second force for reform is intellectual acceptance, or at least a change in perception by government leaders of which policies work. We believe that disillusionment with Marxist economic models and better understanding of market forces are spreading, particularly among the growing number of top economic managers. Such proreform attitudes, however, do not yet penetrate very deeply in bureaucracies often staffed by locally trained officials who benefit from the status quo and are not well versed in the technical issues. Pragmatic approaches nonetheless are being explored in certain African universities where a few market-oriented scholars have joined faculties that were once almost uniformly socialist in character.

[3] *Africa's Adjustment and Growth in the 1980s*, World Bank–UNDP, March 1989. (U)

Does Economic Reform Foster Economic Growth?

A recent study by the World Bank concluded that the average annual rate of GDP growth for 14 Sub-Saharan African countries rated as strong reformers was 3.8 percent during the period 1985-87, while seven countries with weak or nonexistent reform programs grew by only 1.5 percent. The strong reformers also showed better results in agricultural production, investment, and savings. (See table 3.) (U)

We judge that this evidence supports the connection between reform—provided it is accompanied by substantial foreign financial assistance—and improved economic performance. The positive impact of economic reform in agriculture is particularly significant. The study also compared performance during the period 1985-87 with that during 1980-84, with results suggesting that the impact of reform is gradual but that sustained commitment pays off. Nevertheless, even the best performing countries have so far managed rates of growth in agriculture and in overall output that barely kept pace with population growth. Moreover, although economic reform will contribute to growth, the ability of African countries to achieve self-sustaining economic growth has not yet been demonstrated; significant levels of foreign assistance will remain a necessary element if reform is to be effective.

Table 3
Economic Reform and Growth in Africa: Results of World Bank/UNDP Study

Indicator	Period	Reform Programs [a]	
		Strong	Weak
Growth of real GDP (*percent*)	1980-84	1.2	0.7
	1985-87	3.8	1.5
Growth of agricultural production (*percent*)	1980-84	1.4	1.8
	1985-87	3.4	2.6
Growth of real domestic investment (*percent*)	1980-84	−3.5	−7.0
	1985-87	1.9	−4.8
Gross domestic savings as a share of GDP (*percent*)	1980-84	7.8	0.9
	1985-87	10.7	5.6
Growth of real per capita consumption (*percent*)	1980-84	−2.4	−1.5
	1985-87	0.7	−0.9

[a] Excludes countries experiencing strong shocks from severe weather or commodity price fluctuations—especially oil exporters. Strong reformers: Central African Republic, Gambia, Ghana, Guinea, Guinea-Bissau, Ivory Coast, Kenya, Madagascar, Mauritania, Mauritius, Senegal, Tanzania, Togo, and Zaire. Weak reformers: Benin, Equatorial Guinea, Liberia, Mali, Sierra Leone, Somalia, and Zambia.

This table is Unclassified.

These internal pressures for change are reinforced from the outside by conditionality, whereby foreign lenders and aid donors require specific reforms in exchange for continued assistance. This approach to aid has grown in importance during the 1980s because of Africa's increasing need for financial support to meet external debt and other balance-of-payments obligations. Budget austerity is usually among the first conditions imposed.

Conditionality is unlikely to bring sustained reform, however, unless creditors cooperate to maintain pressure and also resist debtors' attempts to exercise counterleverage. For example, when the government's commitment to reform is weak, the availability of alternative, unconditional financing can remove the incentive to reform; the World Bank cited French lending to Ivory Coast as a reason Abidjan chose not to meet the loan conditions called for by the Bank. Other countries (Somalia and Zaire, for example) are confident that their importance to US strategic interests allows them to stall on reform and still receive economic assistance, with the result that negotiations with the IMF are protracted and implementation is spotty.

Conditionality nonetheless is likely to remain a fixture of Africa's relations with the West. It can aid African leaders who favor reform by giving them a powerful excuse for resisting antireform pressures from recalcitrant leaders and elites in their own countries. Even when African governments use the IMF and World Bank as scapegoats for economic failures, this is often a tactic of political convenience that masks an underlying recognition of the necessity of reform. With foreign assistance equivalent to a large portion of government spending (well over half in countries such as Burkina, Mali, and Tanzania), aid donors will continue to have direct leverage for reform.

Obstacles to Reform

The main obstacle to reform will continue to be opposition by groups of potential losers—government workers who stand to lose their jobs or influence, consumers who stand to lose subsidies, and elites who benefit from corruption. In Ghana, mere rumors of impending cuts in subsidies for students led to widespread protests at universities. In Nigeria, an attempt to raise fuel prices by reducing subsidies caused riots. We believe that support for reform by potential gainers (such as farmers and exporters who would benefit from higher prices) will remain weak and unorganized in most African countries. As a result, political expediency will continue to dictate slow headway on economic reform, which will begin with broad measures to stabilize the economy—such as selected budget cuts and devaluation—that often are easiest to implement. When these reforms are in place, the process becomes more difficult because reforms targeted on specific sectors of the economy—such as privatization and removal of subsidies—begin to hit entrenched interests.

Ideology also remains an obstacle to reform. African socialism—the dominant postcolonial economic philosophy—still has a strong hold among elites, who often equate private enterprise with foreign domination and exploitation. Some African leaders still blame "rich nations" for poor economic performance, resist efforts to liberalize policy affecting foreign investment, and attempt to undermine fledgling reforms by exploiting disappointment when results are not immediate.

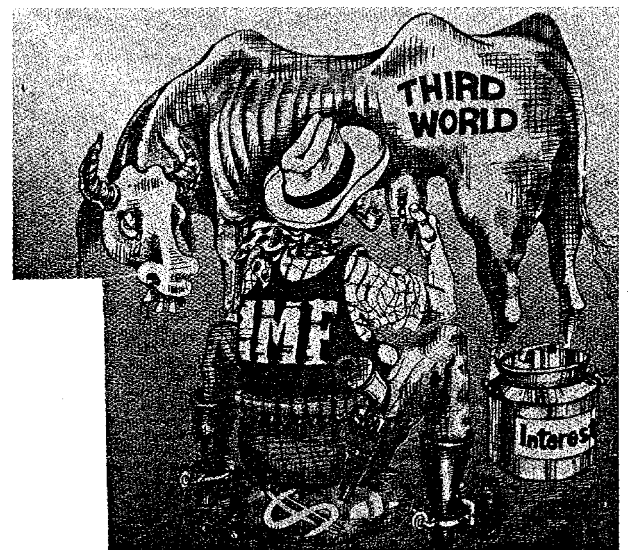


Figure 2. Milking the Third World dry: an African perspective. (U)

Where results are slow to come, disillusionment with reform erodes confidence and commitment. Such "reform fatigue" can result in temporary backsliding, as occurred in Zaire and Ivory Coast. Moreover, painful reforms that bring no early results make the leadership vulnerable politically.

What Is Needed, What Works

Reform programs negotiated with African countries have been based on a combination of economic necessity and political feasibility. Under IMF and World Bank programs, economic stabilization precedes structural adjustment reforms. Budget and trade reforms are the principal stabilization measures required, even though large budget cuts often generate considerable political opposition. Among the structural reforms, the raising of administered agricultural prices is relatively easy politically; significant agricultural reforms have been undertaken in at least 15 African countries. In contrast, reducing the size and number of government enterprises stirs considerable political opposition, and progress has been slow.

Stimulating investment over the longer term requires a multifaceted policy, involving not just an easing of specific regulations and the provision of economic incentives but also a fundamental change in the business climate that even the most reform-minded African regimes will bring about only gradually.

Budget Reforms

With so many African governments facing unsustainable deficits, it became obvious in the early 1980s that budgets needed to be tightened; large public sectors were drawing resources away from the private sector and squandering foreign assistance on wasteful bureaucracies that have provided more than half of the formal employment in some countries. Moreover, large bureaucracies and extensive government control over the economy have facilitated corruption on a scale that seriously retards economic growth. In Zaire, for example, President Mobutu has diverted billions of dollars from funds intended, among other things, for investment in infrastructure and other sectors of Zaire's economy. In countries such as Liberia, spending is hard to control because key officials are empowered to spend independently of formal appropriations; in such a climate, efficient allocation of public funds is difficult. In Kenya, government officials demand a rakeoff on most private investment initiatives, with much the same effect as a heavy tax on investment.

Official creditors, unwilling to finance unsustainable economic policies, have forced spending curbs on African governments as one of the first priorities of economic reform. But potentially severe political problems are stiffening African resistance even when spending restraint seems to be the only resort. The most troublesome problems are those associated with the hardships experienced by fired government employees and consumers who suddenly lose subsidies. Opposition from these sources is the main reason for slow progress on budget reform. For this reason, spending limits have fallen disproportionately on public capital formation and social services, where the political opposition is the weakest. Moreover, budget restraint that is not offset by external assistance constrains domestic spending and reduces the level of economic activity.

The Reform Menu

Reforms affecting the foreign sector:

- *Align the official value of the currency with its true market value by instituting a foreign exchange auction or at least by depreciating the official rate. Remove controls.*
- *Reduce tariffs and other barriers to imports.*
- *Reduce obstacles to exports, such as high taxes and regulations.* (U)

Reforms affecting the domestic economy:

- *Limit credit expansion and raise interest rates to promote saving.*
- *Remove price controls.*
- *Improve the environment for investment by removing restrictions and by instituting measures that encourage investment.*
- *Improve incentives in agriculture, particularly by eliminating regulations and the marketing boards that set prices.* (U)

Reforms in the government:

- *Reduce overall spending levels.*
- *Reduce government employment.*
- *Improve management and budgetary controls.*
- *Improve the tax structure and the revenue collection system.*
- *Privatize, rationalize, or liquidate government enterprises.* (U)

African governments that have attempted reform have by now made most of the spending adjustments that were relatively easy in political terms, and we believe that their resistance to further reductions will stiffen. For example, President Mobutu will continue to clash with the IMF over its insistence that he strictly control Zaire's budget. Moreover, African finance and planning ministers, meeting recently under the auspices of the UN Economic Commission for Africa, opposed budget cuts by citing the serious

social costs of austerity measures. Nevertheless, further discipline in African budgets is necessary. Although the data are rough, it appears that government spending in Africa is now a substantially larger portion of GNP than it was in the early 1970s, and that in recent years restraint in one part of the budget was often outweighed by increases elsewhere.

Better budget management is likewise a vital part of reform, but in many countries corruption and a lack of administrative competence hamper implementation. As a result, some revenue remains uncollected and substantial expenditures often go unrecorded and uncontrolled; in some cases, for example, government-owned companies are used by senior officials as sources of funds for unbudgeted expenses. Because most African governments have difficulty policing their own expenditures, requirements for better management are fairly common among the conditions imposed by creditors. Such stipulations are difficult to monitor and enforce, however, and the problem is compounded by the shortage of trained and skilled technocrats. The OPEX[4] project in Liberia—the most extreme example of external imposition of managerial improvement—is unlikely to be duplicated elsewhere because no other African government appears willing to give up so much sovereignty to foreigners, regardless of the need. More fundamentally, graft and corruption are intrinsic to the system by which some rulers, such as Mobutu, retain power by paying off opponents with government-financed favors.

Exchange Rate and Other Trade-Related Reforms

African nations need to adopt a full range of foreign-sector reforms if they are ever to compete successfully in world markets. But many African rulers are attracted to exchange rate controls that allow them to allocate foreign exchange to favored sectors or individuals. The result has been uncompetitive exports, artificially cheap imports, trade deficits, and other economic distortions.

[4] US Operational Experts, the team of financial analysts that began working within Liberian economic ministries in January 1988 to improve management and budgetary control. It was canceled by the United States in December 1988 because of the uncooperativeness of the Liberian Government.

The IMF has been the leading proponent of reforms that would install market-determined foreign exchange rates or at least devalue currencies toward appropriate levels that would draw resources into more productive uses. Devaluation is frequently an initial, crucial reform requirement for a stabilization program by the IMF. African governments have had to accept this condition mainly because of their inability to maintain overvalued currencies (as a result of a lack of foreign exchange) and also because of their increased understanding of the economic harm done by currency controls and appreciation of the gains from reform. For exports, however, the benefits of devaluation will be limited to those few goods where Africa is already established—basic commodities and some agricultural products. Competing in world manufacturing markets is unforeseeably distant, but devaluation also will encourage indigenous production for domestic consumption by making imported alternatives more expensive.

Devaluation also entails political costs, however. When controlled exchange rates are grossly out of line with market rates, major devaluations can trigger stiff opposition from consumers who have become used to cheap imports and resent the perceived austerity resulting from rapid devaluation. Devaluation boosts prices of imports—including food and luxury goods—almost at once, while the benefits to the export sector are gradual. Thus, plans to liberalize exchange controls, even gradually, often result in some immediate political backlash in countries such as Nigeria and Zambia, especially among urban and government elites.

Similar obstacles impede the implementation of other trade reforms, such as tariff reductions and removal of quantitative import restrictions. Because they usually do not bring quick, economywide results and may not directly benefit currently powerful groups, such reforms have been pursued only reluctantly by most Sub-Saharan countries. Furthermore, taxes on international trade are an important source of government revenue (often over 40 percent) in most low-income

countries, a dependency that stands in the way of tariff reduction. Such obstacles notwithstanding, foreign-sector reforms will remain a central feature in stabilization programs.

Agricultural Reforms

Reforms that raise incentives for agricultural production are among the most successful in African experience. When individual land ownership and security of tenure have been encouraged, markets freed from state control, and prices allowed to rise in response to market demand, output has risen. Thanks to pricing policies that allow farmers a profit, for example, Zimbabwe's booming agricultural sector produces food for famine relief in neighboring states. Similar policies—albeit on a limited scale—have proved successful in Senegal, Ghana, Zaire, Mali, and elsewhere. In contrast, many African governments typically have used marketing boards to appropriate a large share of the revenues from exports and to keep a lid on prices paid by domestic consumers. Hence, farmers have received artificially low prices. Marketing boards have tended to bring general rigidity and bureaucracy to the farm sector in countries such as Kenya, Tanzania, and, until recently, Ghana.

We believe that, as the success of agricultural reforms becomes better known, they will be adopted more broadly. The main barrier to agricultural reform—opposition by urban consumers who benefit from artificially low food prices—will, however, remain politically powerful, particularly as consumers' buying power is pinched by other austerity measures. The challenge to African leaders is to translate the economic self-interest of those who benefit from agrarian reforms into effective political support capable of offsetting urban resistance.

Reforming State-Run Enterprises

State-run enterprises account for a large share of employment and income in most African countries. Improving their efficiency is essential for long-term growth, but, because of entrenched political opposition, little headway has been made. Options range from closing down uneconomic operations, to putting the enterprises on a commercial footing, to privatizing them. During the next five years, we expect little progress overall. Most efforts will be devoted to improving the efficiency of existing enterprises, with varying results. In extremis, governments will liquidate or attempt to privatize unprofitable government enterprises. Liquidation is politically the most painful and least likely measure to be adopted, even though it is the best option for uneconomic, chronically money-losing enterprises. Mali, for example, sold all of Air Mali's planes and equipment to several buyers.

Government ownership and control over large portions of the economy has in nearly every case proved to be a major impediment to efficiency and economic growth. Because such enterprises often intrude upon or even monopolize industries that, in most cases, would be better left to the private sector (manufacturing, hotels, airlines, trucking, refineries, for example), they inhibit private investment and interfere with the efficient use of resources. Moreover, as a result of overstaffing, poor management, corruption, and inadequate controls, government enterprises have operated at a loss, acting as a major drain on the budgets of almost every African nation. In Gabon, for example, several directors of parastatals received salaries of more than half a million dollars each in 1987, though all of the three dozen companies they managed lost money. Reform programs have focused on reducing overstaffing and establishing financial controls to put such enterprises on a sounder commercial footing, improvements that would also facilitate eventual privatization. Too little evidence is available, however, on which to judge the likely effectiveness of such reform efforts in improving the performance of state enterprises.

Privatization programs vary greatly from country to country. Mali has embarked on an ambitious program that, if carried out, would leave the government running public utilities and little else. Nigeria has less extensive, though significant, plans and is selling shares in state enterprises. But, by and large, privatization in Africa is moving slowly. Since public enterprises are frequently used to create jobs en masse, opposition by employees and managers, who know they would be fired, is the main barrier to their privatization. Some nominal privatization plans call for governments to retain substantial stock ownership

Table 4
Summary of Public Enterprise Reforms Implemented in Sub-Saharan Africa, 1988

Type of Reform	Number of Countries With Reforms Implemented	Number of Enterprises Affected
Privatization [a]	19	80
Liquidation [b]	13	78
Rehabilitation	15	56
Management contracts	17	54
Performance contracts	15	16
Management autonomy	13	NA
Autonomy to governing boards	7	NA
Price setting	14	NA
Improved accounting and auditing	12	NA

[a] Sales of shares.
[b] Sales of assets.

Source: The World Bank.

This table is Unclassified.

and require the new management to retain redundant workers, provisions that repel potential buyers. Governments also resist privatizing companies that are showing a profit, ignoring the main benefit of privatization—greater efficiency. In addition, high-level government officials who skim revenues from public companies resist privatization and potential buyers are inhibited by loose accounting practices; in Ghana, for example, 18 state enterprises proved unsalable because there were no financial records. Finally, private ownership often means bringing in foreign management, always unpopular in Africa.

Encouraging Investment

Self-sustaining economic growth will not take place without more productive investment, yet private investment in the formal sector—from both foreign and domestic sources—is generally moribund and, we believe, unlikely to improve significantly. Indeed, loss of capital, through disinvestment by foreign-owned firms and capital flight, is widespread. Much of the malaise stems from the general lack of profitable economic opportunities in Africa—markets are small and purchasing power weak—but in many cases it also reflects a poor investment climate traceable directly to bad policies. Even in Kenya, policies designed to promote business ownership by indigenous Kenyans necessarily interfere with investment by foreigners and non-African Kenyans. In Zimbabwe, the ratio of investment to GNP declined from a healthy 20 percent in 1982 to under 12 percent in 1986, with a shift in the composition of that investment from the private sector to the usually less productive public sector. Potential investors have been stymied by endless redtape, labor and foreign exchange regulations, price controls, and uneasiness about the security of their property against nationalization, given the government's deeply rooted suspicion of foreign investment. Although Zimbabwe has yet to enact an "investment code" or take other concrete steps that would improve the investment climate, Mugabe recently announced plans that, if fully implemented, would significantly liberalize regulations governing investment.

Most African governments have been wary of the power that foreign investors might gain in the local economy. Hence, they generally have paid only lipservice to removing barriers to foreign investment and the incentives they have made available have been few and ineffective. Although fear of ceding economic sovereignty remains strong, political resistance to removing obstacles and offering investment incentives has shown signs of weakening recently and could probably be overcome in most countries by determined leadership.

Apart from direct incentives, such as tax credits or reduced regulations, investors also must be assured that reforms will be sustained and that the government will not revert to policies of nationalizing investment, restricting repatriation of profits, or impeding domestic investment. Thus, even where appropriate investment incentives are offered, they may be insufficient to surmount the greater barriers that stem from

political instability, uncertainty, corruption, or inadequate markets. For example, extensive reforms and incentives in Nigeria had no appreciable effect on investment. Consequently, prospects for significant improvement in the overall investment climate will remain guarded, at best, for the next five years, and most African countries will continue to depend on other sources of stimulus to growth.

Outlook

We foresee some improvement in Africa's economic conditions during the next five years, with considerable variation from country to country. There is no prospect of rapid growth continentwide, however. Even with a radical improvement in growth, made possible by sustained external aid and reform, Africa would remain a low-income region for many years to come. For example, if GNP per capita of $370 (the average in Sub-Saharan Africa) were to grow by an average annual rate of 5 percent—a sharp increase—after 30 years it would have reached only $1,600.

We believe the evidence is strong that economic reform brings results. The imposing political obstacles to economic reform notwithstanding, we see some reason to expect progress. First, economic reform has gained at least a foothold in Africa during the 1980s. Despite loudly voiced opposition from some African leaders, economic reform has recorded many demonstrable successes, particularly in agriculture, that will help make reforms more politically palatable.

Moreover, Western aid donors are likely to continue making aid conditional upon economic reform. Planned increases in multilateral aid to Africa, together with an improving understanding of how to administer conditional aid, will make this force for change more powerful than it is now. Sub-Saharan Africa is likely to receive net inflows of aid over the course of this Estimate, and donors will increasingly target aid on countries that adopt reform.

Internal opposition to reforms is likely to diminish because of the growth of domestic political constituencies that stand to benefit. Given the relative success of relaxing farm price controls, farmers are the most likely constituency to support reform. Additional support could come from those manufacturers who would be able to compete in foreign markets because of realistic exchange rates. The political ground will shift only slowly, however, since it will take time for farmers and entrepreneurs to increase their political influence.

Paradoxically, some forms of economic improvement, such as cyclical increases in commodity prices, may reduce the commitment to economic reform. Many African leaders will continue to regard cyclical lows in commodity prices as one-time aberrations and cyclical highs as permanent plateaus. After years of austerity, they would be tempted to use new revenues to resume the free-spending policies of the past, particularly those that would solidify their political positions.

Barriers to Growth Remain

Whatever the progress in reforming economic policies, Africa's other fundamental problems will continue to impede economic growth. Continuing environmental deterioration will restrict economic progress, particularly in the Sahel and the Horn. Drought has caused damage that even several years of above normal rainfall will not restore. Such countries as Ethiopia, Sudan, and Somalia will almost certainly continue to request massive relief aid from the West. Deforestation and accompanying erosion will persist throughout Africa; the forests of countries such as Ethiopia, Kenya, and Ivory Coast already have been substantially depleted. As a result, timber, crop, and livestock yields in many countries will be severely reduced, and traditional wood and charcoal fuels will become increasingly scarce. In West Africa, unrestrained offshore fishing by foreign vessels—especially Soviet—is threatening fishery resources.

The number of AIDS cases will rise sharply in several African countries, judging from the current rates of HIV infection. Already impoverished families will be burdened increasingly with caring for the sick and dying. While it is certain that some countries will lose

enough key managers and other professional workers to cause noticeable operational problems, it is too early to determine the economic impact continentwide of the AIDs pandemic.

Even in those nations with better economic prospects, political turmoil—or the threat of it—may overtake reform. In Nigeria, for example, the return to civilian rule planned for 1992 would most likely result in a government too weak to follow through on all of President Babangida's reforms. In Kenya, President Moi will face growing opposition as living standards decline, in which case oppression rather than reform would be his likely response. In other countries—Somalia and Sudan, for example—festering insurgencies will crowd reform from the political agenda.

These harsh political and economic realities will reduce near-term prospects for sustained reform. We expect a continuation of inconclusive economic policy adjustments by most African governments, along with protracted negotiations over reforms that will be initiated largely to mollify lenders and survive current crises. Debt relief and new money will ease the burden of economic adjustment and help forestall political instability in those countries that adopt reforms, but others (Liberia, for example) probably will have to hit rockbottom economically before they become ready to make fundamental changes.

Longer Term Prospects

Even though we see no dramatic improvement in the economic hardship that plagues most of Africa, growth is now occurring in parts of the world that not long ago were nearly as poor as Africa. The ingredients for eventual self-sustaining economic progress are present in some parts of Africa, but development there may not follow the pattern of the newly industrialized economies of East Asia. Many countries elsewhere are better equipped for "growth through exports" contest—for example, China, Brazil, and others in Asia and Latin America. Instead, sustainable African growth is more likely to be based on indigenous, grassroots development, involving gradual improvements in agriculture and the expansion of small scale, labor-intensive manufacturing and services directed to African markets. The relatively vibrant informal sectors are pointing in this direction. This would be a slow process, and net inflows of external aid would be required for many years.

Implications for the United States

Successful implementation of economic reforms in Africa will advance the interests of the United States. African leaders with little to show by way of short-term success from reforms are likely to become more difficult to deal with, however. Indeed, of the eight African countries of most importance to the United States, we judge at least half to have poor prospects for sustaining reform programs. Some think that they have great leverage with the United States, believing that their strategic importance entitles them to drag their feet on reform without losing US aid. As their economies stagnate or worsen, countries such as Liberia, Zaire, and Somalia may attempt to trade even more heavily upon their access arrangements with the United States.

The magnitude of the direct US aid commitment to Africa is not sufficient to yield much leverage over African policies. With its bilateral aid at less than 10 percent of total aid to Africa (see figure 3 on page 15), the United States is not a dominant force. Even Liberia, which receives more than 40 percent of its aid from the United States, could not be induced to cooperate with the OPEX agreement.

The most economically hard-pressed African leaders will call increasingly for external solutions to their economic problems. As their economies falter and their debts mount, these leaders will be attracted more to ways of transferring the burden to the developed world. Most will intensify demands for unconditional debt forgiveness combined with continued or expanded aid; commodity price guarantees will also get revived attention. Such African leaders generally have an exaggerated view of the importance of Africa and its right to assistance. They are likely to show renewed interest in "total solutions" that call for restructuring the world economy in the belief that the

Are There Any Bright Spots?

Some African countries possess greater potential than most—resources, competent policymaking, and relative political stability—to begin modest but sustained economic growth as long as they remain or become committed to reform:

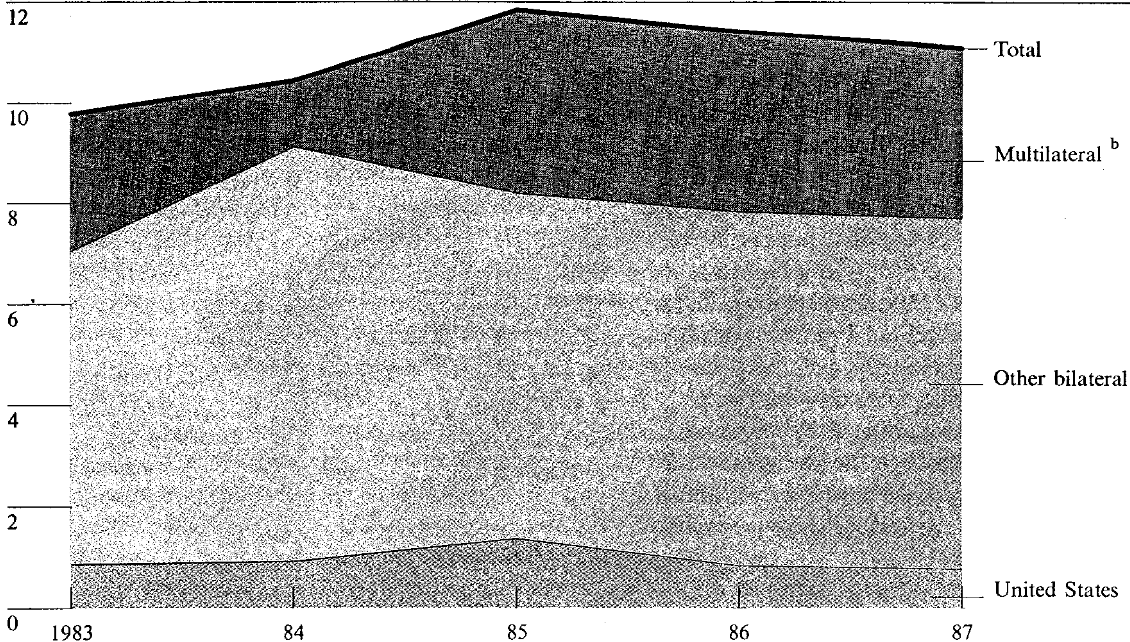
- ***Botswana**, already growing rapidly, has a strong but narrowly based market economy centered on diamond mining. Its conservative fiscal policy, sound foreign exchange position, and attractive investment climate represent good potential for broadening growth and development.*
- ***Cameroon** has only recently faltered, largely because of a fall in oil and other commodity export prices and weak political leadership. Moreover, borrowing and spending have been excessive, but Cameroon could resume its growth with revamped policies.*
- ***Ghana** is an established primary product exporter that has implemented coherent economic reforms. Its relatively well-educated labor force and sustained commitment to reform augur well for future growth, but Ghana remains vulnerable to fluctuations in commodity export prices.*
- ***Ivory Coast**, too, has recently faltered because of an increasingly confrontational stance toward reform, a decline in revenues from agricultural exports, and paralysis in senior decisionmaking. But it has an attractive investment climate, sound infrastructure, and a number of skilled farmers and businessmen able to contribute to growth if policy and leadership improve.*
- ***Kenya** has a tradition (relative to the rest of Africa) of free enterprise and a core of skilled farmers and small businessmen. It also is well supplied with external financial assistance.*
- ***Nigeria** still has sizable earnings from oil, which could be helpful in promoting development if they were used efficiently. It has a better-than-average infrastructure and core of educated workers, but the transition to civilian rule could well undermine reform policies.*
- ***Senegal** has a pool of relatively educated manpower and strong leadership committed to economic reform. Despite limited natural resources and the vulnerability of agricultural production to adverse weather, its recent track record with reform holds the promise of further progress.*
- ***Zimbabwe** is well endowed with agricultural and mineral resources and possesses established manufacturing and service sectors. Because of these factors, the country's economic potential is among the highest in Sub-Saharan Africa, but the government's willingness to undertake additional reforms is uncertain.*

Other countries with ample resources for sustained growth do not have the political stability (for example, Angola) or the committed leadership (for example, Zaire) to embark on a path of sustained growth in the next five years.

rest of the world, rather than they, needs to reform. Such proposals often take on moral and ideological overtones regarding the alleged obligation of wealthy nations—especially the United States—to bail out the poor nations.

Some African leaders may be receptive to Soviet economic initiatives in the United Nations and other forums. Skillful manipulation of Third World concerns about debt and trade could put the West on the

Figure 3
Trends in Aid to Sub-Saharan Africa,[a] 1983-87



[a] Net disbursements of Official Development Assistance.
[b] Estimated for 1987.
Source: OECD

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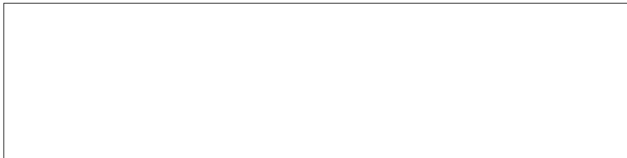
propaganda defensive in Africa and elsewhere. Recently, Moscow proposed the suspension of interest payments on Third World debt, an increase in concessional Western loans, and the establishment of a "new international economic order." Although such themes play well in Africa, most African leaders are aware that tightfisted Soviet economic assistance is no substitute for Western aid, and they will be in no position to shun Western advice and conditionality.

We see only a very limited potential for expanded Soviet influence growing out of the economic reform process in Africa. Traditional Soviet-style economic planning has never had much appeal in Africa; to the extent that economic reforms demonstrate the superiority of market-based policies, disinterest in statist approaches will be reinforced. Whatever their disillusionment or impatience with reform, Africans with few exceptions do not view recourse to Communism as an alternative. Indeed, the Soviets' own recent interest in economic reform may place them in a less adversarial relationship with the West when it comes to guiding African economic policy. The Soviets are beginning to encourage market-based policies in some African client states; Angola and Mozambique, for example, have enacted a fairly broad slate of economic reforms, and Moscow has encouraged freer markets and discouraged rural collectivization in Ethiopia, albeit with little effect so far. Ethiopian reforms are

largely cosmetic, forced by financial constraints and designed to secure funds from the World Bank and European Community. Although such Soviet flexibility may allow Moscow to retain influence, it also offers the West the possibility of increased access and influence in those states.

Most European nations will continue to support economic reform, mainly through multilateral organizations. In bilateral aid, commercial interests and political concerns are often of higher priority, however.

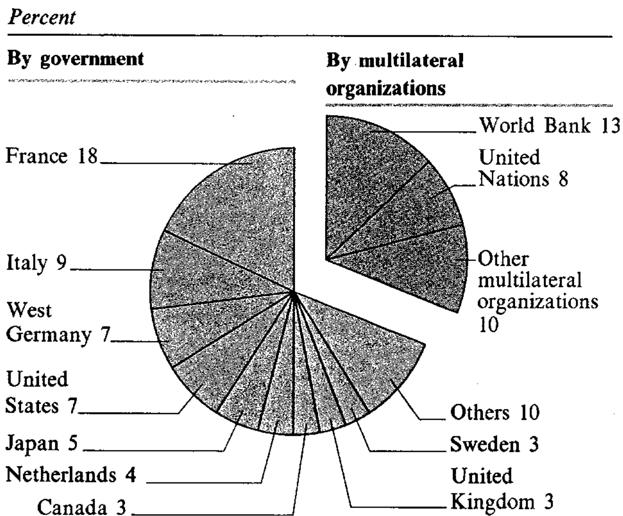


Nonetheless, French assistance is becoming tied increasingly to economic reform, a trend that is likely to be strengthened by measures associated with economic unity in the European Community (EC) in 1992. Indeed, we expect an expanded EC role over the next five years in delivering economic assistance to Africa.

Japan will continue to increase its financial aid to Sub-Saharan Africa. Sensitive to its position as a leading trading partner of South Africa, Japan has made particular overtures of aid to Frontline States, such as Mozambique and Zimbabwe, and also to Nigeria and Zaire. As part of its drive for a greater role in the World Bank and International Monetary Fund, Japan will increasingly attempt to shape the policies of those organizations. Japanese private-sector investors, however, continue to show little interest in Africa.

Given the diversity of motivations and objectives among other developed nations, together with the relatively small and declining portion of total aid under US control, US bilateral aid will play a diminishing role. The best opportunities for US influence on the reform process will lie increasingly in the multilateral arena. We believe that strong Western economic assistance to support economic adjustment programs in Africa will be sustained over the period of this Estimate. The region will continue to benefit particularly from increased structural adjustment lending by the World Bank, greater cooperation and financing from bilateral and other multilateral donors, additional IMF resources, and debt relief from the Paris Club. We expect these and similar initiatives to be maintained and to contribute substantially to the reform effort.

Figure 4
Sources of Economic Aid to Sub-Saharan Africa, 1987



Source: OECD

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Annex A

Economic Performance of the 20 Most Populous Countries in Sub-Saharan Africa [a]

	Population, 1986 (*million*)	Per Capita GNP, 1986 (*US $*)	Per Capita Aid, 1986 (*US $*)	Average Annual Real Growth of Per Capita GNP (*percent*)	
				1965-80	1980-86
Total Sub-Saharan Africa	**424.0**	**370**	**23.1**	**2.8**	**−3.0**
Of which:					
Cameroon	10.5	910	21.3	2.3	4.8
Somalia [b]	5.5	280	94.3	−0.2	1.9
Senegal [b]	6.8	420	83.8	−0.4	0.3
Burkina	8.1	150	35.0	1.5	0
Kenya [b]	21.2	300	21.6	2.7	−0.7
Malawi	7.4	160	27.9	3.2	−0.8
Zimbabwe [b]	8.7	620	25.8	1.4	−1.1
Rwanda	6.2	290	33.8	1.6	−1.5
Ethiopia	43.5	120	14.8	0	−1.6
Mali	7.6	180	49.1	2.0	−1.9
Zaire [b]	31.7	160	14.1	−1.4	−2.0
Uganda	15.2	230	13.1	−2.0	−2.3
Sudan [b]	22.6	320	41.7	0.8	−2.4
Tanzania	23.0	250	29.5	0.4	−2.5
Ghana	13.2	390	28.2	−0.8	−2.7
Zambia	6.9	300	66.8	−1.3	−3.5
Ivory Coast	10.7	730	17.5	2.5	−4.3
Niger	6.6	260	46.6	−2.3	−5.4
Nigeria [b]	103.5	640	0.6	5.4	−6.3
Mozambique	14.2	210	29.7	−2.4	−11.4

[a] Ranked by growth of per capita GNP, 1980-86.
[b] Of particular importance to the United States; excluding Liberia, which is not among Africa's 20 most populous countries.

Source: The World Bank.

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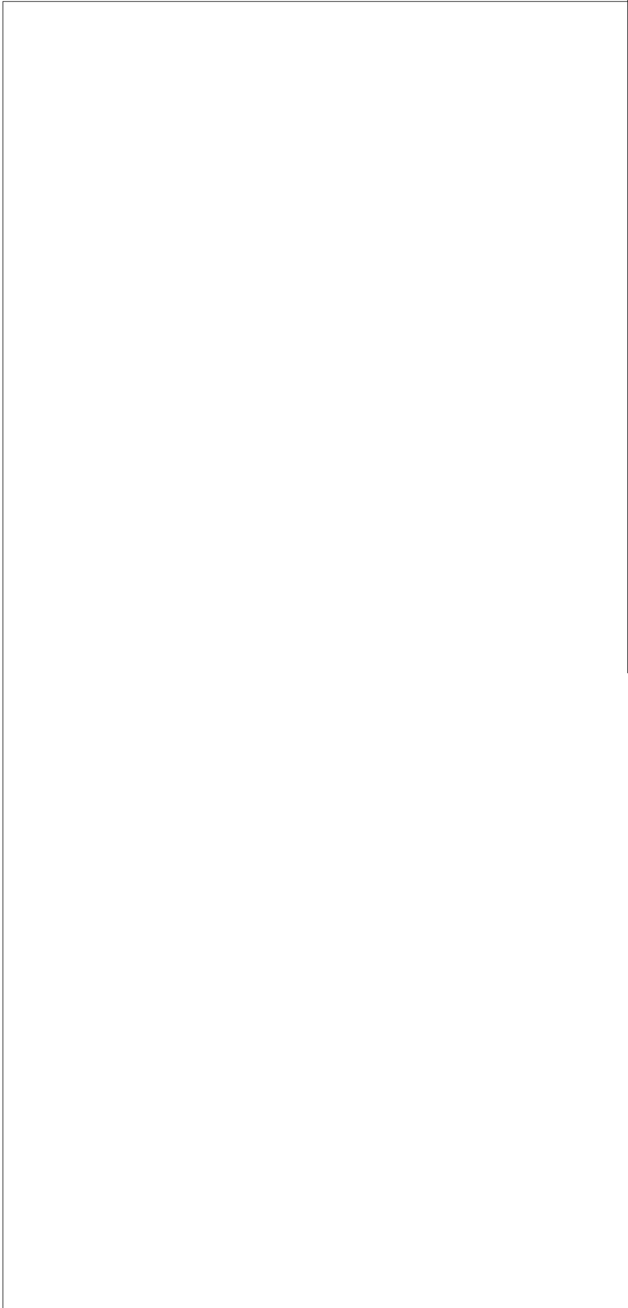
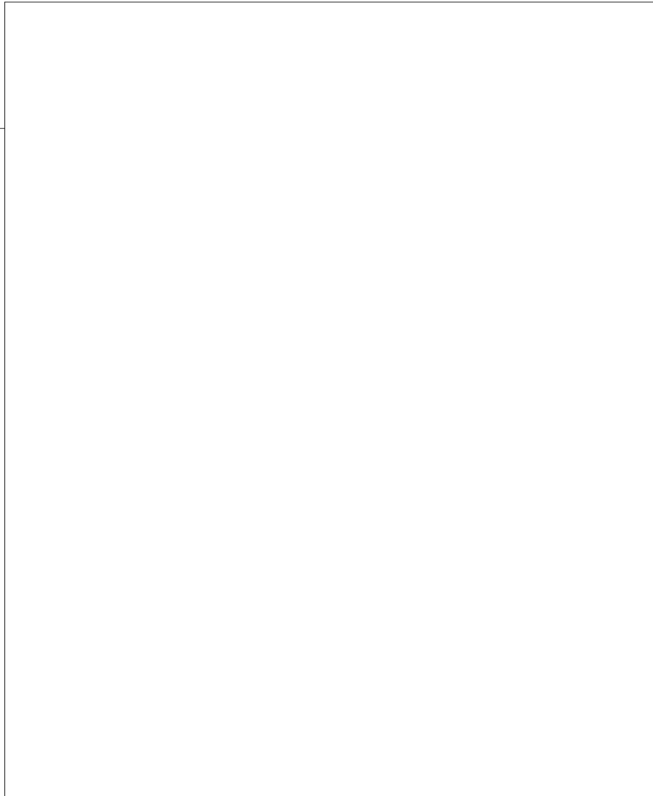
Annex B

Prospects For Reform in Key African Countries

Prospects for reform vary widely from country to country, including among eight countries where the United States has significant interests.





Liberia

In January 1988, the United States sent a team of 17 financial experts to Liberia to improve management and reduce corruption. These US Operational Experts (OPEX) recognized that Liberia's first priority should be to achieve greater budget discipline. At first, OPEX received a passable degree of cooperation from President Doe and the ministries, and some progress was made. But by late 1988 extra-budgetary expenses had risen from 20 percent to 30 percent of the budget. A visiting IMF team in October 1988 was appalled at the state of Liberian finances and the lack of any effort to remedy the situation. Because of Liberia's backsliding, the United States terminated the program, which was to have lasted two years. Without even the modest discipline that OPEX imposed, Liberia's finances are sure to deteriorate.

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The OPEX agreement was unique in attempting to put key portions of economic administration into foreign hands. Though ultimately unsuccessful, the fact that it was attempted reflects the broad extent of US influence in Liberia and that country's fundamental dependence on US assistance.

In addition to its short-term budget muddle, Liberia faces numerous longer term reform problems. Several parastatals, such as the state-owned petroleum refinery, need to be made more efficient or privatized. Currency reform is a priority; the current dual exchange rate system invites corruption and discourages foreign trade.

As in so many other African countries, the fundamental obstacle to reform in Liberia is the entrenched interests of those who have turned the current system to their advantage. In the ministries, mid- and low-level bureaucrats stand to lose their jobs. More efficient parastatals, or their privatization, would mean great reductions in the work force and replacement of most managers by foreigners. In the private sector, those who have secured lucrative market positions by bribing government officials would be forced to compete.

Liberia's economy is unlikely to regain even its 1979 level of prosperity for some years. Nevertheless, the economy is doing significantly better than is reflected in the official statistics, which miss the growing but unreported activity in the informal sector. In addition, illegal activities will continue to mask growth. For example, timber exports are booming, but, because of huge underreporting of income to evade taxes, the magnitude of this economic growth cannot be measured.

President Doe will undermine reforms that impair his personal access to government revenues. In spite of Liberia's high degree of dependence on the United States, he has resisted the reform process. Doe is likely to be reelected in 1991 and will become less friendly to the United States if he continues to perceive US demands as growing and US support as declining.