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## Debt issues in Africa: Thinking beyond the HIPC initiative to solving structural problems

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Discussion Paper No. 2002/35

## **Debt Issues in Africa**

Thinking beyond the HIPC Initiative to  
Solving Structural Problems

Alemayehu Geda \*

March 2002

### **Abstract**

This paper attempts to answer the following question: If the HIPC Initiative is fully successful and managed to write-off all debt that is owed by Africa, will the debt problem be over? The answer is 'no'. This pessimist answer is arrived at by examining the historical origin of African debt and the structural problems the continent is confronted with. The literature about the origins of the African debt crisis lists a number of factors as its cause. The oil price shocks of 1973-74 and 1978-79, the expansion of the Eurodollar, a rise in public expenditure by African governments following rising commodity prices in early 1970s, the recession in industrial countries and the subsequent commodity price fall, and a rise in real world interest rate are usually mentioned as major factors. Surprisingly, almost all the literature starts its analysis either in the early 1970s or, at best, after independence in 1960s. The main argument in this paper is that one has to go beyond this period not only to adequately explain the current debt crisis but also to propose its possible solution. The conclusion that emerges from such analysis is that the African debt problem is essentially a trade problem. Thus, long-run solution to debt points to the importance of addressing trade and trade related structural problems in the continent.

Keywords: debt, trade, Africa

JEL classification: F1, F34, F35, N77, E44

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## 1 Introduction

Notwithstanding the highly publicized debt relief initiative of the highly indebted poor countries (HIPC), the African debt problem is one among a myriad of problems the continent is facing. A number of studies, in particular on the debt of the Latin American countries, have attempted to explain the origin of the debt crisis. This literature attributes the developing countries' debt (including that of Africa) to shocks generated in the early 1970s. In this paper an attempt is made to explain the historical origin of the African debt crisis. It is argued that understanding the African debt and proposing its solution requires understanding its historical origin. The paper is organized as follows. In section 2 an attempt to provide a brief summary of the policy debate on the African economic crisis is given. This is primarily intended to show the general context under which the debt problem is understood by major institutions. This is followed by section 3 where the external finance problems of Africa will be described. Section 3 focuses on the structure of the African economies created by its colonial history and its impact on the current debt problem. Section 4 examines the evolution of the debt problem from 1970s onward. Section 5 concludes the paper.

## 2 Background on African debt and macro policy debate

### 2.1 Africa's economic crisis: What caused it?

There are three sets of contending explanations for Africa's economic crisis. The first is set out in the 1981 World Bank *An Agenda for Action* (also known as the Berg Report) and a number of subsequent World Bank publications. An alternative explanation, associated with the UN Economic Commission for Africa (ECA 1989a) is outlined in the *African Alternative Framework to Structural Adjustment Programs* (AAF-SAP). Finally, there exists a third view, which is less clearly associated with any particular institution and is largely held by academics of a Marxist orientation. This is often offered as a critique to the other two explanations. Although the scope of all three sets of explanations is general and encompass every aspects of the African economic crisis, we focus mainly on how problems in the external sector of the economy are explained. Nevertheless, by referring to this wider debate, we aim to locate the problems and the role of the external sector in a wider context.

The *Agenda for Action* (1981) argues that Africa's problems relate to underdeveloped human resources, political fragility, problems of restructuring colonial institutions, inheritance of poorly shaped economies, climate, geography and population growth. Set in the context of these problems, the disappointing performance of the external sector is, perhaps, a little more understandable. The Bank argues that in spite of external shocks associated particularly with the rise in oil prices in 1973-74 and 1978-80 and a decline in world demand for primary commodities, the balance-of-payments problems experienced by most African nations since the 1970s generally cannot be attributed to deterioration in terms of trade.<sup>1</sup> With the exception of mineral exporters, it is suggested

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<sup>1</sup> However, the Bank acknowledges that many African nations were faced with unfavourable terms of trade during the early 1980s.

that terms of trade for most African nations have, in fact, been either favourable or neutral.<sup>2</sup>

The main cause of the balance-of-payments problem, according to the Bank, has been a decline in the volume of exports. The decline in the terms of trade faced by African nations is attributed to three factors. First, structural changes in the composition of world trade; trade in commodities growing at a slower rate than that of manufactures has resulted in a decline in the African share of total world trade. Second, drought and civil strife have negatively affected Africa's supply capacity. And third, trade restrictions and agricultural subsidy policies of the industrial countries represent a barrier to African trade.<sup>3</sup> The Bank goes on to argue that the failure of Africa's export sector may be explained in terms of three *main* factors. First, government policy has tended to be biased against agricultural and export production. Second, the increased consumption associated with rapid population growth has placed a burden on resources, which might otherwise have been used by the export sector. And third, inflexibilities in the African economies are seen as an obstacle to diversification. The Bank's insistence that policy failure represents the main explanation for Africa's economic crisis, and the consequent emphasis on the need for reforms, have continued in the publication of its long-term perspective study (World Bank 1989). Moreover, as recently as 1994, the Bank continued to argue that orthodox macroeconomic management represents the road to economic recovery in Africa and, hence, more adjustment, not less, is required (World Bank 1994). This assertion has been the subject of criticism, coming from a host of different sources (see *inter alia* Adam 1995; Mosley *et al.* 1995; Lall 1995).<sup>4</sup>

A number of other analysts have arrived at conclusions in line with those of the Bank. Van Arkadie (1986), while sympathetic to the problems posed by external shocks, argues that stagnating or falling output has had an important impact on export earnings. On the latter point the World Bank (1989) argues rather vigorously that declining export volumes, rather than declining prices, account for Africa's poor export revenue. Grier and Tullock's (1989) analysis supports this view. Based on their survey of empirical studies into the causes of the African economic crisis, Elbadawi *et al.* (1992) also found domestic policies to be important. White (1996b), citing the case of Zambia, argues that economic decline following the country's independence may largely be attributed to economic mismanagement. Using a simple pooled multiple regression equation for 33 African countries, Ghura (1993) also finds significant support for the Bank/IMF viewpoint. Easterly and Levine (1996) suggest political instability, low levels of schooling, deterioration in infrastructure, as well as policy failures as possible

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<sup>2</sup> In subsequent publications, notably *Africa's Adjustment and Growth in the 1980s* published jointly with UNDP, the Bank argues forcefully that Sub-Saharan Africa has been in relatively 'good shape' compared to other parts of the developing world and that policy mistakes have been the *principal* cause of its economic crisis. However, the ECA (1989b) argues that the Bank has based its conclusions on 'pseudo-statistics' and selective reporting. Re-examination of the data by ECA analysts would tend to suggest that the Bank's argument cannot be substantiated (see ECA 1989b and Mosley and Weeks 1993 for a brief summary).

<sup>3</sup> However, according to the Bank, the effects of the protectionist policies of developed nations may be rendered less significant due to the low capacity of African manufacturing, the inability to produce temperate products as well as the continent's preferential status within the EEC. See also Amjadi *et al.* (1996) for a recent argument along these lines as well as proposals for possible policy conditionality plan for privatizing African shipping lines.

<sup>4</sup> See White (1996a) for a review of this debate.

causes of Africa's growth problems. They conclude, however, that policy improvements alone are likely to boost growth substantially. (See also Collier and Gunning 1999 for a similar argument.) Although the above survey is not exhaustive, the aforementioned works would tend to lend strong support to the Bank/Fund's viewpoint. The logical conclusion to be drawn from this survey, therefore, is that the remedy to Africa's economic problems is to implement structural adjustment programmes (SAPs).

In contrast, the ECA (1989a) prefers to explain Africa's problems in terms of deficiencies in basic economic and social infrastructure (especially physical capital), research capability, technological know-how and human resource development, compounded by problems of socio-political organization. The ECA sees inflation, balance-of-payments deficit, a rising debt burden and instability of exports as resulting from a lack of structural transformation, unfavourable physical and socio-political environment, as well as an excessive outward orientation and dependence. The ECA study suggests that weaknesses in Africa's productive base, the predominant subsistence and exchange nature of the economy and its openness (to international trade and finance) have all conspired to perpetuate the external dependence of the continent. Hence, one of the striking features of the African economy is the dominance of the external sector. This has the effect of rendering African countries quite vulnerable to exogenous shocks.<sup>5</sup> Consequently, according to the ECA viewpoint, perceiving African problems in terms of internal and external balance problems and seeking a solution within that framework (most notably through the implementation of structural adjustment programmes) implies not only the wrong diagnosis but also the wrong treatment. The ECA study argues that '... both on theoretical and empirical grounds, the conventional SAPs are inadequate in addressing the real causes of economic, financial and social problems facing African countries that are of a structural nature' (ECA 1989a: 25).

Based on this alternative diagnosis and the major objectives of the *Lagos Plan of Action* (OAU 1981), the ECA formulated an African alternative framework to the Bank/Fund's policy recommendations. The ECA framework focuses on three dynamically interrelated aspects, which need to be taken into account:

- i) *The operative forces* (political, economic, scientific and technological, environmental, cultural and sociological);<sup>6</sup>
- ii) *The available resources* (human and natural resources, domestic saving and external financial resources); and
- iii) *The needs to be catered for* (i.e. focusing on vital goods and services as opposed to luxuries and semi-luxuries).

The adoption of this general framework would allow the different categories of operative forces to influence not only the level and structure of what is produced but also the distribution of wealth. Moreover, these forces may then influence the nature of

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<sup>5</sup> In contrast, Collier and Gunning (1999) argue that the lack of openness represents one of the major causes of poor performance of African economies.

<sup>6</sup> This basically includes the system of government, public enterprises, the private sector, domestic markets, research and development, forces of nature and climate, ethnicism and society's value system, external commodity markets and finance and transnational corporations.

the needs to be catered for and the degree of their satisfaction. At a concrete level this is envisaged to include a number of policy directions. First, improving production capacity and productivity, mobilization and efficient use of resources, human resource development, strengthening the scientific and technological base, and vertical and horizontal diversification. Second, improving the level and distribution of income, adopting a pragmatic balance between the public and private sectors, putting in place 'enabling conditions' for sustainable development (particularly economic incentives and political stability), shifting of (non-productive) resources, and improving income distribution among various groups. And, finally, focusing on the required needs, particularly in relation to food self-sufficiency, reducing import dependence, re-alignment of consumption and production patterns, and managing of debt and debt servicing.

Just as many have argued in favour of the Bank/IMF view, so too have many analysts come out to support the ECA's position. Thus, various studies have emphasized Africa's extreme dependence on primary commodity exports (see Ngwenya and Bugembe 1987; Fantu 1992; Adedeji 1993; Alemayehu 2002). Setting this discussion in a broader historical context, these studies have highlighted the impact of colonialism in establishing the rules by which Africa might participate in the world economy. According to these rules, African nations produced raw materials and agricultural goods for Europe's industries. Further, it is argued that this pattern of trade has changed very little since the time of political 'independence' (Fantu 1992; Adedeji 1993). Indeed, Stefanski (1990) argues that understood in the context of direct continuum with the colonial experience, Africa's economy still depends on external factors to a much greater degree than any other developing region. As a result of this dependence, Africa's economic crisis is seen as being intricately interconnected with external factors such as falling terms of trade, declining demand for African exports and related external shocks (Stefanski 1990; Adedeji 1993). Collier (1991) also argues that abrupt external shocks (be they negative or positive) have represented important causes of the poor long-term economic performance of Africa.<sup>7</sup> Ali (1984) has touched on another dimension of the problem. He argues that for most African nations, the mitigation of their problems depends not only on the characteristics of the commodities they export (and specifically their elasticities) but also on the presence or absence of the necessary market staying power. Wheeler (1984) has made an exploratory econometric analysis of the sources of stagnation and suggests that 'environmental' factors (especially terms of trade and international conditions of demand) have had a greater impact on growth than policy variables. Indeed, based on Ghura's recent econometric analysis (1993), world interest rates represent a further significant variable, which should be added to Wheeler's list of adverse 'environmental' factors.<sup>8</sup>

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<sup>7</sup> Collier (1991) cites the Zambian economy and copper price as a classic example of negative shocks. In Collier's opinion two errors are made: first, the price fall was treated as temporary, and second, foreign exchange shortages were handled by rationing. Notwithstanding an acknowledgement of the effect of negative shocks, he emphasized poor policies in what he called 'controlled' economies as representing a major problem. However, it could be argued that the root cause of these policy problems lies in the structure of the economy of these countries, and in their external trade in particular. Taken in this light, policy problems, per se, may be of only secondary importance.

<sup>8</sup> However, Ghura (1993) is extremely optimistic in stating that judicious macro and trade policies may stimulate growth in Africa, even if external conditions do not improve. This viewpoint is essentially similar to the types of empirical studies undertaken in support of Bank-type policies.

The negative impact of dependence on the exports of primary commodities is reflected in three interdependent phenomena:

- i) A decline in prices faced by exporters ('terms of trade');
- ii) Instability of exports earnings; and
- iii) An absolute decline in levels of demand and supply.

Attempts to compensate for the deterioration in the exchange rate faced by exporters by increasing supply have resulted in a further decline in prices (Fantu 1992; Stefanski 1990; Stein 1977). Stein (1977) examined export trends in East Africa (Uganda, Kenya and Tanzania) to determine the causes of the divergence of each country's export growth from that of the world. He finds that unfavourable commodity composition<sup>9</sup>—as opposed to the favourable/unfavourable nature of its market and increased competitiveness—went a long way in accounting for this divergence. Because African countries depend on a few commodities whose prices swing cyclically and may decline over time, these countries face export-earning instability. Naturally, such instability adversely affects their economies. However, Fosu (1991) examining the evidence for Sub-Saharan Africa argues that export instability *per se* is less important than fluctuation in capital formation (capital instability) in affecting economic growth. Yet as his own work shows, high export instability in Sub-Saharan Africa may render export proceeds a relatively unreliable source for funding investment projects. This usually forces countries to depend on external finance (discussed at length below).

The third view differs from the other two in its understanding of what crisis means in the African context. For these analysts a crisis '... has a connotation of systemic breakdown, but more generally it can refer to a moment or a specific time period in the history of a system at which various developments of a negative character combine to generate a serious threat to its survival' (Lawrence 1986: 2). Sutcliffe (1986), for instance, argues that the African crisis represents the continuation of a complex process of polarization trends. It emanates from Africa's economic dependence. For him, the African crisis is best understood in terms of the combined result of long-term secular effects of imperialism suddenly aggravated by the impact of a global capitalist crisis. Thus, according to these viewpoints, Africa's problems are best understood as resulting from long-term underdevelopment, following dependency theory,<sup>10</sup> and short-term vulnerability, following international aspects of crisis theory (Amin 1974a and 1974b; Ake 1981 cited in Ofuately-Kodjoe 1991; Sutcliffe 1986; Harris 1986; Onimode 1988; Moyo *et al.* 1992). In general, these writers are against the view that there is a 'norm' from which African countries are in a temporary deviation with the associated implications and that these countries may return to that norm given a particular adjustment measure (Harris 1986). Harris and Mamdani, for instance, argue that the IMF and Bank's ultimate objective is not to correct distortions in a free market international system, but to construct such a system (Harris 1986). In doing so, these

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<sup>9</sup> This is measured as the divergence in the rate of growth of a country's exports from that of the world as a whole over the period under study, multiplied by the total exports of the country in question. This is taken from a simple model, which specifies the different factors affecting exports (see Stein 1977).

<sup>10</sup> See Leys (1996) and Ofuately-Kodjoe (1991) for critiques of the dependency theory in the African context.



institutions may undermine any attempt to create an independent, integrated and self-sustained (African) economy (Mamdani 1994).

While there are areas where the first two approaches both converge and diverge, the third explanation for Africa's economic crisis firmly opposes both. Thus, the core of the disagreement between the views of the Bank and ECA centres on 'the role of the market' mechanism<sup>11</sup> (Oskawe, quoted in Asante 1991: 179). While the Bank believes the market mechanism to represent the fundamental instrument of resource allocation and income distribution, the ECA questions this viewpoint. Thus, while the Bank focuses mainly on financial balances, the ECA considers a much broader transformation as an enabling condition for the former. The Bank emphasizes the export sector, but the ECA strategy advocates selectivity (see also Asante 1991). While the Bank expresses concern about anti-export bias and population policy, the ECA prefers to emphasize the need to ensure total structural transformation and food self-sufficiency. While the Bank places more emphasis on short-term policies than on Africa's long-term needs, the ECA strategy (as defined in the *Lagos Plan of Action*) stresses the importance of also addressing issues of long-term transformation along with these short-term policies.<sup>12</sup> However, these institutions do agree on some major issues, such as the need for human resource development, improving the efficiency of parastatals, and sound debt management. The ECA analysis is quite comprehensive in addressing the causes of the crisis and in suggesting not only short-run solutions but also a framework for long-term transformation.<sup>13</sup> Thus, the analysis of the external sector of Africa adopted in this study is conducted within this broader context. Within this perspective, it is not difficult to show that the African debt crisis has developed as part of the broader external economic problem of the continent.

## 2.2 Background on the African debt

One of the major external problems of African countries is external financing in general and the debt crisis in particular. As can be seen from Table 1, Africa's total external debt grew nearly 25 fold from a relatively low level of US \$12.6 billion in 1971 to nearly US \$300 billion today. The most important component of this foreign burden is outstanding long-term debt. The use of IMF credit became important in the late 1970s and early 1980s when structural adjustment and enhanced structural adjustment facilities became significant components of flows to Africa.

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<sup>11</sup> Makandawire (1989 cited in Elbadawi *et al.* 1992) summarizes the two contending views about the cause of African crisis as structuralist and neoclassical. He notes:

The structuralist view is one which highlights a number of features and 'stylized facts' that almost every point contradicts the neoclassical view ... class based distribution of income rather than marginal productivity based distribution of income; oligopolist rather than the laissez-faire capitalist market; increasing returns or fixed proportion functions rather than 'well-behaved' production functions with decreasing returns and high rates of substitution; non-equivalent or 'unequal exchange' in the world rather than competitive, comparative advantage based world system; low supply elasticities rather than instantaneous response to price incentives.

<sup>12</sup> See Stewart (1993) for a discussion of this issue.

<sup>13</sup> See, however, Helleiner (1993) who argues for an emerging consensus on this issue.

Table 1  
Major debt indicators of Africa (in billions of US dollars, unless otherwise stated)

	1971	1975	1980	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998
<b>Total external debt stock (EDT)</b>													
East and Southern Africa (ESA)	4.9	11.4	28.3	55.4	85.2	88.8	91.1	93.4	101.4	106.0	104.0	103.2	107.3
North Africa (NA)	5.1	12.9	51.3	75.0	93.0	90.9	88.7	86.7	94.1	99.6	98.0	92.2	94.4
West and Central Africa (WCA)	3.9	8.2	32.2	51.7	91.7	94.2	90.9	94.7	98.2	103.9	101.7	94.5	98.1
Sub-Saharan Africa	8.8	19.7	60.8	107.1	176.9	183.4	182.7	194.8	221.3	235.4	231.8	223.1	230.1
All Africa	13.9	32.6	112.1	182.1	269.8	274.2	271.4	281.5	315.4	335.0	329.9	315.3	324.5
<b>Long-term external debt (total, all Africa)</b>	11.9	27.2	84.6	140.1	227.7	231.7	227.2	234.0	253.0	266.9	260.9	249.2	256.3
<b>Multilateral (DOD)</b>													
East and Southern Africa	0.5	1.4	4.0	8.9	18.9	20.7	21.5	23.4	25.9	27.7	28.0	28.0	29.8
North Africa	0.2	0.6	4.1	7.2	12.4	13.8	14.2	15.4	17.0	18.4	18.2	17.2	18.5
West and Central Africa	0.5	1.2	3.6	7.8	19.4	20.9	21.7	22.8	25.3	27.1	26.7	25.6	27.3
Sub-Saharan Africa	1.0	2.6	7.6	16.7	38.2	41.6	43.2	46.1	51.2	54.7	54.7	53.6	57.0
All Africa	1.2	3.2	11.7	23.9	50.6	55.4	57.4	61.4	68.2	73.0	72.9	70.7	75.6
<b>Bilateral</b>													
East and Southern Africa	2.6	5.0	11.1	23.7	36.6	37.3	37.2	36.8	39.2	40.0	39.5	38.2	39.8
North Africa	3.0	6.0	17.5	31.9	36.6	37.8	38.2	38.1	44.4	49.8	50.7	48.0	49.1
West and Central Africa	2.0	3.2	6.9	10.5	33.9	36.7	37.1	37.0	40.4	42.8	41.2	38.7	40.7
Sub-Saharan Africa	4.6	8.3	18.1	34.2	70.5	74.0	74.4	73.8	79.6	82.7	80.7	77.0	80.5
All Africa	7.6	14.3	35.6	66.1	107.2	111.7	112.6	111.9	124.0	132.6	131.4	125.0	129.7
<b>Private creditors (DOD)</b>													
East and Southern Africa	1.1	2.6	5.4	8.6	13.3	13.3	13.0	13.0	12.9	13.5	12.6	12.6	12.3
North Africa	1.2	4.8	21.0	23.8	34.5	30.8	29.0	27.3	26.1	24.5	21.5	18.7	17.6
West and Central Africa	0.7	2.3	10.8	17.6	22.1	20.2	14.5	14.6	13.9	13.4	12.2	10.6	10.6
Sub-Saharan Africa	1.9	4.9	16.3	26.3	35.4	33.9	28.2	33.4	34.6	36.8	35.1	34.7	33.6
All Africa	3.0	9.7	37.3	50.1	69.9	64.7	57.2	60.7	60.8	61.3	56.6	53.4	51.1
<b>Interest and principal arrears (%of total external debt)</b>													
East and Southern Africa	0.3	3.6	10.3	16.4	21.1	25.2	28.4	32.5	34.0	36.7	35.0	34.2	35.4
North Africa	1.5	0.2	0.9	6.9	6.3	0.9	0.3	0.3	0.3	0.4	0.5	0.5	0.5
West and Central Africa	2.8	3.9	1.6	3.1	9.6	10.3	14.1	19.2	19.5	21.9	23.8	22.7	25.6
Sub-Saharan Africa	1.4	3.7	5.6	10.0	15.2	17.5	21.2	25.0	24.2	26.3	26.2	25.5	27.5
All Africa	1.4	2.3	3.5	8.7	12.1	12.0	14.4	17.4	17.1	18.6	18.6	18.2	19.6

Source: World Bank 'Global Development Finance' (2000).

Table 2  
Major debt indicators of Africa (in billions of US dollars, unless otherwise stated)

	1971	1975	1980	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998
<b>Net transfer on debt</b>													
East and Southern Africa	1.09	2.19	2.48	2.49	2.07	0.80	2.45	0.84	-0.04	0.47	-0.45	1.65	-1.32
North Africa	0.54	4.68	2.25	-0.06	-5.64	-3.39	-5.71	-5.85	-2.80	-3.33	-3.58	-4.86	-5.97
West and Central Africa	0.40	1.12	4.01	-1.89	-0.27	-2.22	-2.02	0.83	-2.80	-0.57	-1.33	0.31	-3.28
Sub-Saharan Africa	1.50	3.31	6.56	0.55	1.78	-1.18	0.74	2.53	5.48	2.01	-2.57	0.15	-6.48
All Africa	2.04	7.99	8.81	0.49	-3.86	-4.57	-4.98	-3.32	2.68	-1.32	-6.15	-4.71	-12.45
<b>Aggregate net transfer</b>													
East and Southern Africa	1.08	2.30	4.18	5.37	7.62	7.57	7.55	6.46	5.66	5.76	3.77	5.37	4.13
North Africa	0.46	5.19	2.95	2.60	3.08	0.54	-0.75	-1.80	0.39	-1.54	-0.23	0.29	-2.20
West and Central Africa	0.29	1.14	1.16	-1.28	2.32	1.80	1.49	4.19	5.45	3.05	2.77	2.52	1.95
Sub-Saharan Africa	1.43	3.41	5.11	4.44	9.23	8.97	8.83	10.21	11.75	15.36	8.66	13.33	6.68
All Africa	1.90	8.60	8.06	7.04	12.31	9.51	8.08	8.41	12.14	13.81	8.43	13.61	4.48
<b>Technical cooperation grants (as percentage of total grants)</b>													
East and Southern Africa	61.81	36.39	36.77	32.06	24.31	25.61	26.44	28.94	24.26	29.06	33.98	31.25	24.94
North Africa	38.70	16.33	58.53	39.71	20.31	22.50	31.49	52.21	38.85	51.19	40.04	43.32	33.25
West and Central Africa	51.54	46.90	54.37	36.61	30.04	31.78	35.62	37.18	26.81	32.06	30.01	32.53	28.86
Sub-Saharan Africa	61.36	49.23	42.60	35.52	29.76	31.79	32.91	33.86	28.45	30.70	32.69	31.30	27.82
All Africa	50.03	32.78	50.57	37.61	25.04	27.14	32.20	43.04	33.65	40.94	36.36	37.31	30.53
<b>Debt (EDT)/GNP (%)*</b>													
East and Southern Africa	19.87	23.12	44.32	77.66	99.45	94.71	115.66	116.12	141.51	133.18	114.93	103.40	111.55
North Africa	29.33	31.56	57.07	84.27	71.98	75.11	68.30	67.02	69.68	68.75	61.36	58.15	55.81
West and Central Africa	21.35	27.61	59.61	106.68	121.16	127.89	147.63	167.20	158.63	145.95	146.27	163.02	
Sub-Saharan Africa	14.55	15.52	23.45	56.37	63.01	63.68	62.91	70.99	82.57	77.57	73.82	67.74	72.32
All Africa	21.94	23.54	40.26	70.32	67.50	69.39	65.61	69.00	76.13	73.16	67.59	62.94	64.07
<b>Debt service ratio (%)*</b>													
East and Southern Africa	8.54	9.63	14.23	21.89	20.87	21.73	18.79	17.55	14.86	21.26	15.26	12.39	15.49
North Africa	21.77	8.52	22.27	30.24	32.96	34.58	37.21	36.49	29.86	24.48	21.15	20.10	22.38
West and Central Africa	5.28	6.88	13.16	22.08	19.29	18.12	15.83	14.52	21.12	18.98	18.39	15.92	17.08
Sub-Saharan Africa	..	..	7.20	17.58	12.92	12.46	12.28	9.20	14.57	15.29	14.22	14.72	14.68
All Africa	..	..	14.73	23.91	22.94	23.52	24.74	22.84	22.21	19.88	17.69	17.41	18.53

Notes: \* Simple arithmetic mean (based on those countries that have relevant data; Net transfer = Loan disbursements less amortization and interest payment [as defined in World Debt Tables]; Aggregate net transfer = Aggregate net resource flows (loan disbursements less amortization) plus official grants (non-technical) and foreign direct investment (FDI) less interest payment and FDI profit [as defined in World Debt Tables]).

Source: Based on World Bank 'Global Development Finance' (2000).

Another dimension of the structure of African debt is the changing pattern of its creditors. Based on Table 1, it can generally be said that bilateral debt is the most important component of the total debt. This is followed by multilateral debt. Private inflows are showing a declining trend. A final observation is that a larger share of the official debt is on concessional terms (see Alemayehu 1997 for detail). It is also interesting to note that the debt problem is aggravated by capitalization of interest and principal arrears, which constitute nearly a quarter of the external debt.

Although the share of African debt in the total debt of the developing countries is very low, its relative burden is very high. As can be seen from Table 2 (see Alemayehu 1997 for details) the debt to GNP and debt service ratio rose from 20 per cent and 9 per cent in 1971 to 100 per cent and 17 per cent, respectively, in 1997. Both had reached as high as 110 per cent and 25 per cent, respectively, in the late 1980s.<sup>14</sup> The burden of debt on meagre resources can also be seen from net transfers to the sub-regions. It is interesting to note from Table 2 that if grants and net foreign direct investment inflows are not included, African countries have been transferring resources on a net basis to the developed countries since 1985, the figure going from a low of 1.7 billion in 1985 to nearly 7 billion in 1997. Moreover, a good part of grants (nearly 35 per cent) goes to 'technical experts' that came from the North.

In sum, the last three decades have witnessed an unprecedented increase in the level of African debt. This debt is characterized by its predominant long-term nature, the growing importance of debt owed to bilateral and multilateral creditors, a trend away from concessionality to nonconcessionality and an increasing importance of interest and principal arrears (usually capitalized through the Paris and London clubs) in the growth of long-term debt. Debt burden indicators also reveal that the African debt is extremely heavy compared to the capacity of the continent's economies, in particular their export sectors. Moreover, African countries in general have been characterized by net outflows since the mid-1980s. The performance of these economies coupled with the mounting debt surely shows that African countries are incapable of simultaneously servicing their debt and attaining a reasonable level of economic growth, not to speak of poverty alleviation.

Whereas the mere size of debt is not ordinarily an economic problem in itself, being manipulated by rescheduling and similar temporary arrangements causes serious problems with regard to its relative size to the economy (capacity level) and subsequent impacts on the economy. In this respect three interrelated implications of the debt problem can be singled out. First, the servicing of the external debt erodes the meagre foreign exchange available for imports. This has led to the import compression problem that adversely affects both public and private investments. This issue has become the main feature of African macroeconomics. Second, the debt stock creates a debt overhang problem that could shatter the confidence of both foreign and domestic private investors who are usually sensitive to uncertainty. The declining trend of private

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<sup>14</sup> By and large these figures show the average scenario. However, there are some exceptions. Burundi and Guinea-Bissau in the WCA region had a debt service ratio of 40 per cent and 94 per cent, respectively, by 1992; Uganda and Madagascar in the ESA region had a ratio ranging from 40-70 per cent and 50-60 per cent, respectively, from the mid-1980s. In terms of debt-to-GNP ratio, Mozambique recorded 300-580 per cent from the mid-1980s to early 1990s; Guinea-Bissau had a debt-to-GNP ratio of 130-300 per cent from 1980-90. Similarly, Congo and Côte d'Ivoire had a ratio close to 200 per cent in the mid-1980s (World Bank World Debt Tables, electronic 1994).

investment (as share of GDP) in most African countries from the late 1970s onwards can partly be attributed to this factor. Finally, servicing of debt in the African context induces enormous fiscal pressure, which has an adverse effect on public investment (as can be seen from the declining share of public investment in GDP from the late 1970 onwards in most African countries) and on physical and social infrastructure. Thus, the debt issue is a crucial part of the overall economic crisis facing Africa. The important question is, How does this crisis come about?

The literature on the origins of the African debt crisis lists a number of factors as its cause. The oil price shocks of 1973-74 and 1978-79, the expansion of the Eurodollar, an upswing in public expenditure by African governments following increases in commodity prices during the early 1970s, the recession in the industrialized world and subsequent fall in commodity prices, as well as rises in real world interest rate are all cited as major factors. Surprisingly, almost all of this literature focuses on the post-independence period, with a greater part of the analysis contained therein relating to the 1970s, 1980s and 1990s. The main argument set out in this paper is that we need to extend the analysis to the pre-independence period if we are adequately to explain the current debt crisis and to propose possible solutions for its resolution. From this point of departure, the following section traces the historical formation of the African economic structure incapable of handling the current debt crisis.

### **2.3 The historical origin of Africa's economic linkage with the industrialized countries (the North)**

Following Amin (1972), African economic history may be classified into (i) the 'pre-mercantilist period' (from pre-history to the beginning of the seventeenth century); (ii) the 'mercantilist period'<sup>15</sup> (from the seventeenth century to 1800) characterized by the operation of the slave-trade; (iii) the 'third period' (from 1800 to 1880) characterized by attempts to set up a European dependent African economy; and finally, (iv) the 'period of colonization' in which the dependent African economy became fully established (Amin 1972: 106). This section will not discuss the details of Amin's periodization. Rather, after briefly reviewing the economic history of the other periods, it focuses mainly on the colonial period, during which time the economic structure African countries inherited at the time of independence became established.

#### *2.3.1 African trade before Western Europe*

Pre-colonial African economic interactions with the rest of the world and especially Europe, date back many centuries before culminating in fully-fledged colonization in the latter part of the nineteenth century.<sup>16</sup> During the first part of this period, Africa had autonomy in its linkages with the rest of the world<sup>17</sup> (Amin 1972). However, during the

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<sup>15</sup> See Amin (1974: chapter 2) on the mercantilist period.

<sup>16</sup> Amin (1972) has termed this the pre-mercantile period.

<sup>17</sup> Wallerstein characterizes the trade of the period as trade in 'luxuries', with such trade being undertaken between external arena and not in an integrated world economy framework. Wallerstein and Amin define luxuries as those goods, the demand for which comes from the part of the profit that is consumed. Suraffa defines luxuries as goods that are not used in the production of other goods. However, he took it as trade/exchange in which 'each can export to the other what is in his system socially defined as worth little in return for the import of what in its system is defined as worth

sixteenth century, African trade centres moved from the savannah hinterland to the coast to reflect changes in European trade, which shifted increasingly from the Mediterranean to the Atlantic (Hopkins 1973).

Various studies have documented how pre-colonial Africa was characterized by the production of diversified agricultural products (see, for instance, Rodney 1972). The internal trade of the continent was distinguished by regional complementarities with a broad natural resource base. Thus, a dense and integrated network was set in place, dominated by African traders, which included, *inter alia*, trade among herdsmen and crop farmers, supply of exports and distribution of imports. This was dominated by trade in salt, West African ‘spices’, perfumes, resins and kola nuts, of which the latter was the most important (Amin 1972; Hopkins 1973; Neumark 1977; Vansina 1977; Austen 1987). Brooks’ (1993) account of the economic conditions prevailing in this period provides an impressive insight into African trade at the time. Specifically, one is struck by (i) the extent of local and long-distance trade; (ii) the range of goods traded; and, (iii) the degree of processing of commodities (for instance in textile manufacturing, dyeing and metalworking) particularly in West Africa. According to his account, the major commodities traded among West Africans in pre-colonial times included salt, iron, gold, kola, and malaguetta pepper and cotton textile. Of these, kola and malaguetta pepper were important not only in West Africa but also in the trans-Saharan trade. Indeed, this trade was so extensive that Europeans were able to obtain malaguetta pepper at inflated prices from Maghreb<sup>18</sup> middlemen from at least the fourteenth century onward (Brooks 1993). Moreover, during this period Europeans were able to purchase cloth from Morocco, Mauritania, Senegambia, Ivory Coast, Benin, Yorubaland and Loango for resale elsewhere (Rodney 1972; Hopkins 1973). It is curious to note that in a geographic and economic sense, North Africa was connected, rather than separated, by the Sahara to other parts of the continent.<sup>19</sup> It is also worth noting that the quality of many of these processed goods was quite comparable with products originating in other parts of the world. For instance, the level of manufacturing of textiles in pre-colonial West Africa was so sophisticated that these were traded not only in West, North and Central Africa but also in the European markets (see Hopkins 1973: 48 for detail). Moreover, none of the goods brought by Europeans supplied any of the basic or unfulfilled needs of African societies. Indeed, similar commodities and/or substitutes were obtainable through West African commercial networks. Specifically, African artisans of the time manufactured high quality iron, cotton, textiles, beers, wines and liquors (Brooks 1993). Austin argues that this trade, sometimes referred to as the ‘Sudanic economy’, represents ‘an ideal African development pattern: continuous and pervasive regional growth with a minimum of dependence upon foreign partners for provision of critical goods and services’ (Austen 1987: 48). However, this autonomy in traditional industries was to be undermined by subsequent events (Konczacki 1990).

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much’. Or, in Alpers’ phrase ‘trade from which each side believed itself to be profiting’ (Wallerstein 1976: 31 and footnote 3).

<sup>18</sup> Maghreb refers to North Africa.

<sup>19</sup> This stands in sharp contrast to the current categorization of North Africa as geographically and economically distinct from Sub-Saharan Africa. For a justification of this view, see Sommers and Assefa (1992) and various IMF/World Bank classification schemes for Africa.

Early development patterns in Africa varied among the regions. In contrast to West Africa, East and Southern Africa (ESA) were characterized by a well-established economic interaction with the Arabian and Asian countries, long before the arrival of the Europeans. More specifically, this part of Africa supplied a range of products such as gold, copper, grain, millet, and coconut to the Middle East and Indian Ocean economies. There also existed a dynamic caravan trade and commercial plantations long before the onset of European colonial rule. According to Austen, the towns in this part of Africa degenerated into little more than entrepôts for raw material exports and manufactured imports, rendering them dependent on the external economy (Austen 1987). However, as documented by Kjekshus (cited in Leys 1996), during the mid-nineteenth century, prior to the onset of the colonial period, the interior of what is now mainland Tanzania carried an estimated 4.5 million heads of cattle. Indeed, the entire coastal region also supported a rich agricultural and pastoral economy (quoted in Leys 1996: 111). Further, Nzula *et al.* (1979)<sup>20</sup> argue that the region was characterized by peasant production, which was mainly a natural and closed economy with a substantial number of people leading a nomadic existence. The existence of an independent and autonomous economy dating back to antiquity is also well documented in Ethiopian history.<sup>21</sup> Amin (1972) also notes that African societies of the pre-colonial period, this region included, developed autonomously. Thus, it can be reasonably concluded that even though its economy was not as complex as that of West Africa, the ESA region nevertheless had some degree of autonomy in its economic activity and was not as dependent on the export of commodities, particularly to Europe.

To sum up, there seems to have been a long history of integrated and autonomous economic activity in most regions of Africa with local and long-distance trade playing a linking role. This is not an attempt to paint a 'golden past' for Africa. Rather, it is meant to underline the fact that Africa had a healthy and fairly independent economic system before colonialism intervened to force a structural interaction with Europe.

### *2.3.2 The formation of a commodity exporting and external finance constrained economy*

The period leading up to the industrial revolution and the sixteenth and seventeenth centuries in particular witnessed the beginning of the shaping of the African economy according to European demand. A clear example was the pressing demand for gold coin in Europe, and the subsequent search for gold in West and Central Africa (WCA).<sup>22</sup>

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<sup>20</sup> The original work was written in 1933.

<sup>21</sup> The commonly argued case that since Ethiopia was not colonized, it represents a 'counterfactual' for how other parts of Africa might have developed in the absence of colonialism is a very weak one. First, a good part of the history of Ethiopia has been a record of wars under the ideology of either religion, region, nationality or a combination of these. This has created a serious crisis in the agricultural sector (see Gebrehiwot 1917). Second, Ethiopia's past has been marked by the existence of two clearly distinct antagonistic classes: the landed aristocracy and the peasantry, with corresponding state structures (see Gebru 1995). Given the history of conflict that has marred Ethiopia's past, the main preoccupation of the landed aristocracy and the church was to maintain its power. Third, colonialism had the effect of disrupting the dynamic caravan trade which linked the Southwest parts of Ethiopia to the rest of the East African region. And finally, Ethiopian independence was basically a besieged one. Since hostile and powerful colonial forces encircled the country, this naturally had an influence on its political and economic structure. More specifically, Ethiopia developed into a militaristic nation with a dependent economy based on the export of commodities and import of manufactures.

<sup>22</sup> First by the Portuguese, and later by the British, Dutch, Germans and Scandinavians.

Indeed, the demand for labour needed for the American gold rush was instrumental in the formation of the European slave trade (Rodney 1972). The shaping of the African economy by Europe began even before formal colonization.

With the onset of the industrial revolution in Europe, Africa lost its remaining autonomy and was reduced to being the supplier of slave labour for the plantations of America (Amin 1972). The European slave trade, and the so-called 'triangular trade' (both of which are beyond the scope of this paper) are widely discussed issues in the economic history of Africa. Resistance to the slave trade was silenced, not only by co-opting local chiefs, but also by sheer force, facts which have been documented in areas which are now Angola, Guinea and various other parts of the continent (Rodney 1972). (See also Bernstein *et al.* 1992 for a brief summary of the triangular trade.) Moreover, this era witnessed a widespread expansion of European control, which was undertaken with the dual aims of (i) incorporating new areas to primary crop production through the use of African land and labour (which were priced below world market prices) and (ii) increasing the level of production of existing primary commodities. On the import side, cheaper and purer iron bars, and implements such as knives and hoes were made available, displacing some of the previous economic activities undertaken by local blacksmiths. This had a knock-on effect in terms of reducing the levels of iron smelting and even a decline in the mining of iron ore (Wallerstein 1976; Baran 1957).<sup>23</sup>

Within the ESA region, cloves grown in Zanzibar and Pemb islands for export to Asian and European markets were the first cash crops successfully produced prior to European colonialism. Mainland estates, dominated initially by Arab and Asian traders, were engaged in externally oriented production through the sales of copra, sesame seed and oil-yielding materials, with France as the principal market (Munro 1976). Following colonization, peasant cash cropping developed in East Africa. However, unlike in the WCA region, this was mainly the consequence of both political injunction and regulation. Such imposition from above was usually resisted, the Maji-Maji uprising in today's Tanzania being a case in point. In other instances, cash cropping simply failed to take hold, as in the case of a cotton scheme proposed for Nyanza province in Kenya (Munro 1976). However, in spite of these initial setbacks, the colonial powers were eventually successful in implementing their policy of introducing cash cropping to the region.

As described above, there existed a reasonable degree of trade linkage with Europe in the pre-colonial period. Leaving aside the slave trade, the export of primary commodities by African colonies to Europe was the main feature of this trade. Thus, even before the onset of the colonial era, the seeds of Africa's subsequent role (as the supplier of raw materials and foodstuffs for Europe, and a market for European

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<sup>23</sup> In describing the impact of underdeveloped nations' interaction with Western Europe, Baran noted '[the population of these nations] found themselves in the twilight of feudalism and capitalism enduring the worst features of both worlds. Their exploitation is multiplied, yet its fruits were not to increase their productive wealth; these went abroad or served to support parasitic bourgeoisie at home. They lived in abysmal misery, yet they had no prospects of a better tomorrow. They lost their time-honoured means of livelihood, their arts and crafts, yet there was no modern industry to provide new ones in their place. They were thrust into extensive contact with advance of the West, yet remained in a state of the darkest backwardness' (Baran 1957: 144). Perhaps we should not be surprised that Baran's description, written nearly four decades ago, remains relevant today.



manufactures) as well as its dependence on external finance had already been sown.<sup>24</sup> Or, to take a slightly different perspective, the progressive move from the production of primary products to processing of these products (by Africans and in Africa) was interrupted. This represents the first pre-designed attempt to articulate African economic activity to the requirements of the outside world. This development was vigorously followed up during the colonial period as a consequence of (i) the so-called imperial self-sufficiency in raw materials scheme, (ii) the impact of the First and Second World Wars, and (iii) financing requirements for the creation of public utilities designed to serve (i) and (ii).

i) The imperial self-sufficiency scheme

As noted above, the export structure associated with colonialism did not arise by accident. Instead, it was preceded by various experiments to produce agricultural products in demand in the developing European industries. A French experiment to produce crops similar to those produced in America, the establishment of plantations in Senegal during the 1820s, British experiments with 'model farms' in Niger during the 1840s and cotton experiments<sup>25</sup> in Senegal, Nigeria and the Gold Coast (Ghana) all represent cases in point (Hopkins 1973). In Germany, commercial interests persuaded Bismarck, initially reluctant to create a colonial empire, that overseas territories could provide raw materials for its industries as well as markets for their products (Longmire 1990). This growing demand for raw materials, the search for markets for finished products from Europe, inter-European competition, and a number of other factors conspired to form the basis upon which colonialism was to evolve.<sup>26</sup>

During the colonial period, one of the main phenomena which strengthened primary commodity exports from European colonies in Africa was the so-called *imperial self-sufficiency scheme*. Thus, British, French and Belgian textile industries sought to obtain cotton from Africa and invested accordingly. A similar scheme was also developed for tobacco. This was administered both by colonial governments and by some European based companies (Munro 1976) and resulted in an expansion in colonial trade. With the onset of colonialism, the centre of African trade shifted from the hinterland to the coast, and the composition of this trade also changed in response to the demands of the increasing external orientation of the economy (Amin 1972). For example, expansion in the production of palm products and groundnuts was directly linked with increased demand for inputs required in soap and candle factories, lubricants (particularly for the railways) and European economic growth in general (Hopkins 1973).

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<sup>24</sup> Imports of palm oil by Britain, groundnuts by France, palm kernels (for cattle cakes) by Germany and (for the manufacturing of margarine) by the Dutch represented the main items traded during the nineteenth century prior to the onset of formal colonialism at the end of that century (for a description of this, see particularly Chapter 4 of Hopkins 1973).

<sup>25</sup> These were prompted by the so-called 'cotton famine' in Europe, after the American Civil War.

<sup>26</sup> The motives underlying colonialism represent a widely debated topic. For instance, Austen (1987) argues that 'within [the] general context of intense multifaceted international competition, the economic rationale for African colonization was to a considerable extent pre-emptive-designed to assure access to potential rather than actual markets and commodities as well as trade routes ... to Asia' (Austen 1987: 116).

At the same time, the processing of such primary products in Africa was actively discouraged, except in white settler colonies. Indeed, this was the case even when factories were owned by Europeans. For example, in Senegal, the proportion of groundnuts that could be processed prior to export to France was strictly controlled (Fieldhouse 1986; Fyfe quoted in Wallerstein 1976: 36; Onimode 1988). In Angola, the Portuguese prevented the operation of flourmills so the country exported wheat to Portugal and imported it back again as flour (Konczacki 1977). According to Austen (1987), the fact that colonial governments (with the possible exception of the Union of South Africa) saw themselves primarily as representatives of the 'mother' (colonial) country benefiting from the existing pattern of trade, explains why they pursued policies that designed to block efforts directly and indirectly at local industrialization.

In order to achieve the dual objectives of inducing the colonies to be both suppliers of inputs and the markets for manufactured goods, various methods of coercion were employed. Africans were forced by superior firepower to abandon small-scale manufacturing industries and trade with rival European nations (Dickson 1977). At the same time, large European firms were encouraged to concentrate on growing and trading agricultural products. This was easily achieved. Specifically, African peasants moved into cash cropping (i) to ensure access to the European goods to which they had become accustomed in a limited way during the pre-colonial era; (ii) to earn cash which was required to pay various taxes, and finally (iii) as a result of force.<sup>27</sup> In certain cases, Africans were simply exterminated to pave the way for settlers.<sup>28</sup> In other parts of the continent, Europeans directly controlled the production of such commodities as cotton, sugarcane and tobacco (Amin 1972). Indeed, in some areas such as British East Africa, the law required farmers to grow a minimum acreage of cash crops. However, these peasants were not wholly dependent on cash crop production. They also produced food for own consumption, this being an advantage to big firms, as it enabled them to pay only minimal wages which did not have to cover maintenance of the labourer and his family (Rodney 1972). Nevertheless, colonial authorities ascertained that the extent of such food production was not adequate for self-sufficiency. For instance, in British Guinea it was a criminal offence to grow rice (at a time when it was imported from India and Burma) because it was feared that this could divert labour from the sugar plantations (Frankel 1977). Thus, in this manner Africa's economic role basically as a producer of primary commodities continued to be shaped to serve Europe's industrial and commercial interests.

## ii) The First and Second World Wars

The impact of World War I was devastating on the African colonies. Although trade was disrupted during the period, African colonies were nevertheless forced to supply commodities to finance the war. The end of the war was followed by a surge in major commodity prices and hence high export earnings for the colonies (Munro 1976).

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<sup>27</sup> There are many examples of Africans being forced into cash crop production. This occurred in Tanganyika (today's mainland Tanzania), in the Portuguese colonies, in French Equatorial Africa and French Sudan (Mali). In Congo's Brazzaville, the French enforced cotton cultivation by banning traditional agricultural activities. These policies of coercion were resisted to the extent possible. The revolts in Tanganyika and Angola represent cases in point (see Rodney 1972; Austen 1987).

<sup>28</sup> This was the policy followed by Germany in what is now Namibia. Indeed, the extermination of Africans was so extensive that when they discovered diamonds, the Germans had to look for migrant labour from other regions (see Longmire 1990).

Similarly, World War II resulted in an increased demand for primary commodities, especially those with strategic military importance such as vegetable oils, metals and industrial diamonds (Munro 1976; Burdette 1990). This had the effect of reinforcing the commodity producing and exporting role of the European colonies in Africa. In addition to the direct effects of the war, the post-war reconstruction of Europe, rising levels of European incomes and removal of restrictions on consumer demand and commodity stockpiling engendered by the outbreak of the Korean War in 1950, resulted in the price of African exports surging to unprecedented heights (Munro 1976). Consequently, when war erupted or was expected to erupt in the colonizing countries, commodity production and exports by African colonies were boosted by non-price mechanisms. Further, the end of the war was usually also followed by a commodity price boom and an increase in the export of commodities, this time through the operation of the price mechanism. In the process, the specialization of the European settlements in Africa as producers and exporters of primary commodities became firmly established.

### iii) Financing public utilities and commodity export

In general, in the pre-1929 international financial order which was dominated by government bonds (i.e. portfolio investment), Asian and African colonies had little choice with regard to the nature of their involvement in international financial systems. Political considerations were at the heart of access regulation to capital markets (Bacha and Alejandro 1982). Besides, such inflows to Africa were generally negligible (UN 1949). Capital inflows from World War II (WWII) onward were increasingly in the form of foreign direct investment (FDI). There was a moderate flow of such capital from the United States and Britain to Africa. However, such investment (especially investment originating in the United States, which was the largest supplier) was concentrated mainly in South Africa, Egypt and Liberia, the latter relating to the introduction of a shipping line by the United States (UN 1954). In almost all cases, the investment went into plantations and mineral extraction (UN 1949).

The colonial period also witnessed a flow of loans and grants from European centres to the African colonies. These funds were mostly spent on public infrastructure development such as railways and roads to link ports to export production sites, and, to a lesser extent, on schools and health facilities. This was undertaken with the aim of developing the primary commodity-exporting capacity of the colonies (see UN 1954). In some circumstances the colonial powers were also motivated by military strategic considerations. It is estimated that from the mid-1940s to 1960, only 15 to 20 per cent of such inflows were allocated for social and production sectors, while the rest went into infrastructural development (Munro 1976). The nature of these financial flows to the colonies also differed before and after World War II. In general, it can be said that the pre-WWII flows came mainly in loan form, while the post-World War flows, and especially those from France, increasingly incorporated a grant element (see also Austen 1987: 197-202 for details). However, the repayment of this debt created serious difficulties to the colonial administrators.

These financial difficulties were exacerbated by the instability in the global commodity market and the resultant vulnerability of the African colonies. Indeed, various analogies may be drawn between the current debt crisis and the situation then. For instance, after the Great Depression (1929-32), African exports declined by about 42 per cent. The depression also resulted in a contraction of the credit flowing to the colonies, leading to

a serious incapacity to service debt owed to the 'mother' (colonizing) country. Since colonies were not in a position to default on these debts, there was effectively no way out for them. This had repercussions for every African economy, with widespread bank failures, retrenchment programmes in colonial administrations and liquidation of businesses (see Munro 1976: 150-3 for details).

Setting off a vicious cycle, the financial difficulties being experienced by colonial governments forced the colonies to vigorously follow a policy of producing export commodities at the expense of other alternatives (Munro 1976; Austen 1987). Peasant cropping, with its attractive minimum cost for colonial governors, was chosen as a convenient vehicle to address the problem. This, the so-called the 'peasant path' to financial solvency, became a universal phenomenon throughout the colonies, and especially in the present day WCA. It was attained by the forced involvement of ordinary peasants in the primary commodity export sector. At times this coercion was so harsh that ordinary peasants were not paid in cash, but in bills of credit to the administration's head tax (Munro 1976). In the British colonies of East Africa a similar emphasis on the 'peasant path' was also followed (Munro 1976).

In summary, with the processes discussed above the foundations for the existing economic structure of African countries were laid down during the colonial period. This was achieved through two channels; first, by directly contributing to the expansion of an enclave of primary commodity-exporting economies. And second, by bringing about a situation of indebtedness, it further accentuated the importance of these activities as the source of foreign exchange required for settling the debt. Although this general pattern was applied throughout the African colonies, some variations existed across the regions. The next section addresses this issue.

### *2.3.3 The three macroregions of colonial Africa: the Amin-Nzula category*

Although colonialism shaped the production structure in a similar pattern across Africa, one may nevertheless observe certain variations between different macroregions. Leaving aside North Africa, Nzula *et al.* (1937)<sup>29</sup> and Amin (1972) divide the continent into three distinct regions based on their colonial structure:

- i) *Africa of the labour reserves* (Nzula *et al.* 1979 label this 'East and Southern Africa');
- ii) *Africa of the colonial economy* (Nzula *et al.* label this the 'British and French West Africa'): and
- iii) *Africa of the concession-owning companies* (Nzula *et al.* label this the 'Belgian Congo and French Equatorial Africa').

The fundamental distinction between these regions is derived from the manner in which the colonial powers settled the 'land question' (Nzula *et al.* 1979: 36).

In West Africa, commodity production did not take the form of plantations. Furthermore, the mineral wealth of the region remained largely untapped until quite recently (Amin 1972: 115). The amount of African peasant land expropriated was also negligible (Nzula *et al.* 1979). However, in spite of this, the control and growth of the

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<sup>29</sup> The English translation appeared in 1979.

commodity sector was governed by European interests, while land remained in the hands of small peasants. The mechanisms for this control were as much political as economic (Amin 1972). Hopkins lists a number of reasons why plantation-based production never became fully established in West Africa. First, some traders were opposed to plantations for fear that they might compete with the export sector for scarce capital (such objections were voiced, for example, by businessmen such as Lever and Verdier). Second, the few plantations that were established, failed because of lack of capital and ignorance about tropical conditions. The third and perhaps most important reason was that small peasants had already succeeded in forming an export economy on their own. Moreover, establishing plantations would have created conflict with traditional land rights. Furthermore, some crops such as groundnuts would not have been suited to plantation agriculture (Hopkins 1973). Finally, it is worth pointing out that it was not necessary to develop formal plantation agriculture, since it was possible to influence the nature of production and control the export supply of peasants through monopolistic trading practices, customs restrictions, fiscal controls and appropriate credit arrangements (Nzula *et al.* 1979).<sup>30</sup>

In much of today's Central Africa and part of Southern Africa, concessionaire companies, usually supported by their European state, dominated the entire economic structure through their involvement in mining, fishing, public works and communication, and even taxation (see Seleti 1990). In these regions, the indigenous population was reduced to semi-slavery, and exploited by open and non-economic forms of coercion on the plantations and mines (Nzula *et al.* 1979; Austen 1987). The establishment of these concessionaire companies was further facilitated by the indigenous population fleeing and seeking refuge in the more inaccessible parts of the region. Discouraged by this population exodus, the colonial authorities encouraged adventurer companies to 'try to get something out of the region' (Amin 1972: 117). The activities of these companies were organized in line with the needs of the 'mother country'. One example of this was the demand for raw materials required in the European war effort. Thus, the mining companies, in cooperation with colonial officials, designed and determined the nature of their enclave activity to meet the increased demand for copper and other base metals required by the European war industries (Burdette 1990).

In Southern and Eastern Africa, both systems referred to above were intricately interwoven with a number of specific features (Nzula *et al.* 1979). In this region, steps were taken, frequently by force, to create a small—and often insufficient—reserve of labour comprising land-owning peasants and the urban unemployed to meet the labour demands of mineral extraction and settler agriculture (Amin 1972; Nzula *et al.* 1979). This labour was further supplemented by interregional migration. Other economic instruments, such as taxation, were also used to create reserve labour for European plantations and mining (Seleti 1990; Konczacki 1977). The reduction of the cost of labour in such regions to mere subsistence levels rendered the exports of the colonies competitive compared to similar goods produced in Europe. Clearly, the formulation of such a structure was 'as much political as economic'<sup>31</sup> (Amin 1972: 115; Seleti

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<sup>30</sup> See also Amin (1972) for a political and social analysis of how the region's commodity production and exports were controlled.

<sup>31</sup> Pim (1977) places this at the centre of his investment analysis and argues that the main investment was in areas with extensive mineral wealth, plantation possibilities and a mass of unskilled labour. This involved heavy expenditure in communications, which required an expansion of the export

1990: 47). However, since the focus of this paper is on the economic aspect, we will not dwell on such political considerations here. Rather, we simply observe that during this period, an economic structure was set in place, which became characterized by the export of primary commodities.

By the end of the colonial period, what had been achieved in all these macroregions was the creation of a commodity-exporting economy and virtual monopoly of the African trade (both import and export) by Europe (see Hopkins 1973). The commodity export-led strategy was vigorously followed during this period. As a result, not only did production for overseas markets expand at a high rate, but also several new items (especially foodstuffs) began to appear on the import list (Hopkins 1973). In some cases, European business interests were so pervasive that they created a protected market for dumping their manufactured goods.<sup>32</sup> Summarizing the stylized facts of the colonial period, Konczacki describes the economic pattern of what is called ‘matured’ colonialism<sup>33</sup> as having three distinct components. First, both imports (which were mainly manufactured goods) and exports (mainly raw materials) were fixed with the mother country. Second, capital investment in the colony was determined according to the trading interest of the mother country, and concentrated in the exporting enclaves. Finally, a supply of cheap labour was ensured through a variety of mechanisms (legal, monopolistic employment and through other economic instruments [Konczacki 1977]). Indeed, it is worth noting that this pattern has not changed fundamentally even today. Another important characteristic of this period relates to technological change. For example, if one focuses on cotton production, during the colonial era Africa

... was concentrating almost entirely on export of raw cotton and the import of manufactured cotton cloth. This remarkable reversal [compared to the pre-colonial period] is tied to technological advance in Europe and to stagnation of technology in Africa owing to the very trade with Europe (Rodney 1972: 113).

Colonialism further exacerbated this situation. As Amin notes, when we speak of the exchange of agricultural products against imported manufacture (i.e. the terms of trade), ‘the concept is much richer: it describes analytically the exchange of agricultural commodities provided by a peripheral society shaped in this [colonial] way against the product of a central capitalist industry (imported or produced on the spot by European enterprises)’ (1972: 115).

To sum up, it has been shown that African nations already possessed an integrated and autonomous economic structure prior to their intensive interactions with Europeans during the colonial period. It is hard to speculate what the future of such a structure might have been in the absence of colonialism. However, it goes without saying that it would not have been what it is now, since the present is clearly the result of a specific

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sector for its finance. The latter, in turn, required a large labour supply, which was secured by direct and indirect compulsion, affecting every aspect of native life.

<sup>32</sup> France was in possession of such a protected market in West Africa. The protectionist policy was the result of pressure from the French metallurgical, textile and chemical industries, which had difficulty competing with Britain (Hopkins 1973). Portuguese industrialists had also created such protected markets in Africa, especially for their textile industry (Seleti 1990).

<sup>33</sup> Portuguese colonialism does not qualify as ‘matured’ in his analysis.

historical process. More specifically, historical interaction with today's developed countries has shaped the structure of the economic activity of African nations, particularly in the areas of international trade and finance. Indeed, economic domination, accompanied by colonization, has further cemented this structure. Given such a historical process, it is not surprising to find that almost all African nations had become exporters of a limited range of primary products, and importers of manufactured goods by the time of independence in the 1960s.<sup>34</sup> This was further compounded by a demand for external finance, when export earnings were not sufficient to finance the level of public expenditures required for maintaining and expanding the commodity-exporting economy. This structure has not changed in any meaningful way in the post-colonial era. Thus, when one examines the financial problems of Africa (which, I am arguing, relate to its role as a primary commodity exporter) one is compelled to conclude that these problems are a direct outcome of its historical process.

### **3 The implication for the post-independence period**

In the previous section I have explained how a primary commodity and external finance dependent economy was created in Africa. The impact of the subsequent (after political independence) events—the boom in commodity prices, the oil price shocks of 1973-74 and 1978-79 and the evolution of African debt from the early 1970s onward—would be difficult to understand unless an explicit link is made between the historically formed structure and the pattern of trade and finance in the decades 1970-90. This section briefly summarizes the phenomenon. This evolution of African trade and finance in the post-independence period can be categorized under three periods.

#### **3.1 The late 1960s and early 1970s**

The first period refers to the late 1960s and early 1970s, and is marked by the first oil shock and the rise in commodity prices. The commodity price boom is followed by a sharp bust in 1974 and again after the 1977 coffee and cocoa boom (Figures 1 and 2). The response in most African countries was a rise in government expenditure, in the infrastructure sector in particular. When commodity prices fell, governments were unable to cut expenditure but were also in need of maintaining on-going projects. This was accompanied by increased borrowing resulting from improved credit worthiness, as export commodity prices rise and a belief in the cyclical nature of prices when these decline. This pattern is examined and can be seen from the development of trade and finance in the sample countries included in this study.<sup>35</sup> (See Alemayehu 1997 for details). The major point that emerges is that following the rise in commodity prices and access to loans, there was a rise in public expenditure. Given the inherited colonial

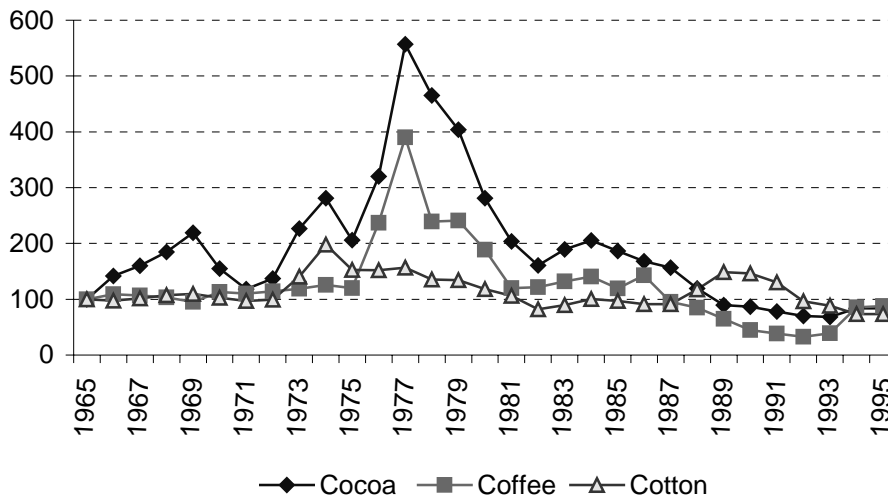
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<sup>34</sup> In virtually all African countries, one to three commodities account for 50-90 per cent of total exports. Indeed, in the period 1982-86, it was one product in 13 African countries, two products in 8 countries, three products in 6 countries, and finally four products in 8 African countries that accounted for over 75 per cent of export earning (see Adedeji 1993 for details).

<sup>35</sup> This list includes Zambia, Sierra Leone, Tanzania, Ghana, Zambia, Kenya, Malawi, Nigeria, Egypt (see Alemayehu 1997 for detailed information about the evolution of the pattern of trade and finance since 1970 in each of these counties picked from each macroregion outlined in this paper).

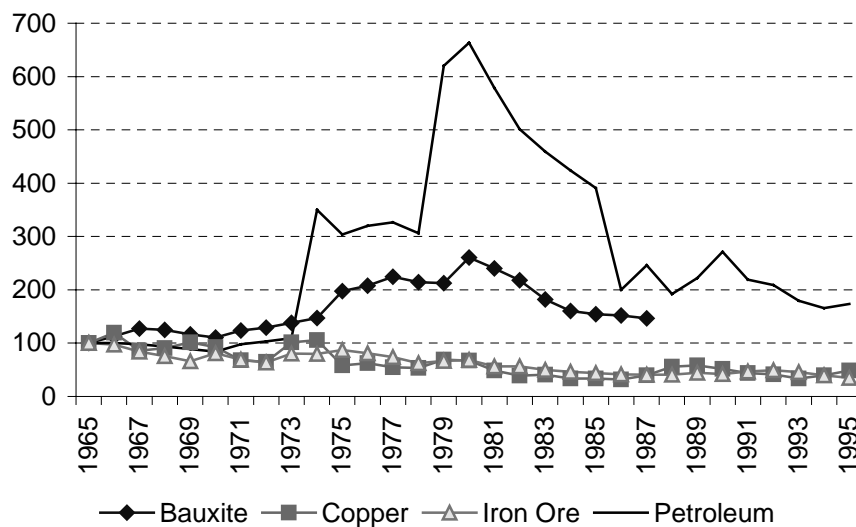
structure which necessitated spending on social and physical infrastructure, the increase in government expenditure (and the beginning of debt creation) was not a policy mistake, as seems to be depicted in the good part of the African debt literature. This spending is necessitated by fundamental problems, which are structural/historical and the resulting policies are the reflection of this fact (see Alemayehu 1997).

Figure 1  
Price index of some major agricultural export commodities of Africa (1965=100)



Source: Alemayehu (1997).

Figure 2  
Price index of some major mineral export commodities of Africa (1965=100)



Source: Alemayehu (1997).



The above analysis shows that the period 1970 to the mid-1970s was characterized by a rise in the price of commodities on which African countries had specialized for historical reasons. It was also a period during which the imports of capital and intermediate goods (mainly to develop infrastructure) increased. This effort was complemented by foreign borrowing. It is at this particular juncture that almost all countries were hit by the first oil price shock. The resulting shock was tackled in part by resorting to external financing, as in the case of Ghana, Zambia, Sierra Leon, and many other countries. The same was true in Kenya (although the price of coffee rose in the first half of 1970s but fell in the second half, causing Kenya to finance its balance-of-payment deficit with a rise in private capital inflow). Malawi also experienced similar problems and private capital inflows (especially of supplier's credit) were important in solving the balance-of-payment difficulties. Another way of viewing the latter phenomenon is to consider the additional external finance (which eventually turned into debt) requirements as a policy response to the external shocks the African countries were facing (see Balassa 1983 and 1984; Hardy 1986; Ezenwe 1993). The question is whether such policy responses were rational. Should the shock be seen as a temporary one? These shocks were believed by both the African governments and the creditors to be temporary. Given this belief (that is, the expectation of an eventual rise in commodity prices) and given the then prevailing low real interest rate (which was even negative, see Khan and Knight 1983), it seems reasonably rational that both lenders and borrowers responded in the same way. As it turned out, the frustration of these expectations (secular decline in commodity price and rise in real world interest rate) placed an enormous burden on Africa and not on northern creditors.<sup>36</sup>

In all these cases, the rise in commodity prices during this period was followed by an increase in government expenditure. True, there were also domestic policy problems in managing public expenditure, but the nature of public expenditure did not constitute reckless spending, as is usually implicitly implied in the African debt literature. For instance after the first oil boom, nearly 80 per cent of public expenditure in Nigeria was earmarked for physical and social infrastructure. Capital expenditure was twice that of current expenditure. Public expenditure on trade, industry and mining rose from 7.3 per cent in 1970-74 to 26 per cent in 1975-80, transport from 21.3 per cent to 22.2 per cent in the two periods while general administration dropped from 22 per cent to 13.6 per cent (Mohammed 1989).<sup>37</sup> Current expenditure in Zambia, contrary to Nigeria, was nearly 75 per cent of total expenditure in 1970-74 and this is largely attributed to the Zambianization policy, which was dictated by the inherited colonial structure (see Mwale 1983). Nonetheless, from 1972 (strengthened in 1974) the government attempted to curb current expenditure. For instance, consumer durable import was reduced from 28 per cent in 1974 to 18 per cent in 1978. Similarly, subsidies with the attending political costs had been reduced in the early 1970s (Mwale 1983). In general by the mid-1970s, public and private consumption had been substantially reduced from its high 1970 level (Mulalu 1987). In Sudan the rise in government expenditure after

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<sup>36</sup> The situation was a little different for oil exporters (see Alemayehu 1997 for details).

<sup>37</sup> This investment was not without results, either. After this expenditure, almost universal primary education was achieved, more health infrastructures were built, and infant mortality rate declined by more than a third. However, the public enterprises built were seriously affected by the recession in the North, high import content (59-60 per cent), and lack of domestic demand which adversely affected their capacity to be self-sufficient (see Mohammed 1989).

the early 1970s was largely due to decentralization, infrastructure development and debt servicing (Galil 1994), a pattern similar to many African countries (see Alemayehu 1997 for detail).

Consequently, following the rise in commodity prices and access to loans there was also a rise in public expenditure. However, this in itself was not a mistake. The expenditure was not reckless, given the inherited colonial structure that necessitated spending on social and physical infrastructure to address the hitherto neglected sections of the population, the prevailing hope in technology transfer through import substitution, and the uncertainty about commodity prices. In fact in most African countries, the relative share of functional expenditure hardly changed after the general commodity boom in 1973-74 and the 1976-77 boom for cocoa and coffee exporters. Capital expenditure changed, however, because of the import substitution strategy pursued (see Alemayehu 1997). In retrospect, it could be perceived as a policy problem, but it is difficult to expect these infant government structures (they themselves being the result of a unique historic process) would have had full foresight of the commodity price decline.<sup>38</sup> Even if they had had this insight, the root cause of the problem was the deterioration of the terms of trade. The policy problem that emanated from the failure to predict the commodity price collapse and manage demand was a secondary one. This argument, however, should not be taken as an endorsement of the white elephant investments carried in some African countries. Perhaps the major domestic policy problem associated with the rising expenditure was the way in which the import substitution (IS) strategy was conducted. While the IS strategy was a sound one, it was carried out in the context of a disarticulated production and consumption structure. The latter in particular is vivid in the neglect of the industrial and agricultural linkages (as it was based on the urban elite's patterns of consumption); future demands for recurrent cost of intermediate inputs; and development of the human capital required. However, *the fundamental problems were structural/historical and the resulting policies are therefore a reflection of this reality and hence secondary in their effect.*<sup>39</sup>

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<sup>38</sup> Even an international institution like the IMF which was supervising the economic evolution of some countries (Zambia) did not foresee some of the events, let alone the then-governments of Africa. Observing this, Mulalu (1987) noted the irony of IMF's blame of the Zambian government, despite its close monitoring of the country since 1975.

<sup>39</sup> One common observation is that certain East Asian countries under colonial rule (Korea, Singapore and Hong Kong) have developed while Africa has not. Such comments are not credible because the historical parallel is completely different. Hong Kong and Singapore prospered as entrepôts due to direct British colonial interest. Moreover, they are city-states, not comparable to African colonies. Probably the only comparable country is Korea and, to some degree, Taiwan. However, the Japanese colonialism (which was as harsh as the others) aimed at creating heavy industry and self-sufficiency in its empire and has thus done better than the colonizers in Africa. Some figures may substantiate this point. Taiwan and Korea experienced higher GDP growth than their colonizer (Japan) between 1911-39; their infrastructure developed (Taiwan at independence had 600 kilometres of rails and 3,553 kilometres of road where there were none before). By the end of the colonial period, primary school enrolment in Taiwan stood at 71 per cent and a similar pattern is observed in Korea. Owing to geopolitical factors (the Cold War) Korea, for instance, obtained US \$6 billion in grants from USA between 1946-78 compared to US \$6.89 billion for the whole of Africa. US military deliveries to the two countries in 1955-78 stood at US \$9 billion, compared to the combined figure of US \$3.2 billion for Latin America—one can imagine what the economic impact of this might have been (see Chowdhury and Islam 1993). In Korea alone, aid financed nearly 70 per cent of total imports and equalled to 75 per cent of total fixed capital formation (see Haggard 1990 which also provides the political economy of this event). Hopefully, the above facts show that the Asian experience cannot be compared to the situation in Africa.

This pattern was compounded by another development in the global financial markets. The oil price hikes not only forced oil importers to become more dependent on borrowing, they also created what is called the OPEC surplus-*pax Arabica* (Bacha and Alejandro 1982). This surplus was circulated through the international banking system. The Euromarket became an important source of financing for a number of African countries, which had never borrowed before (Krumm 1985; Mistry 1988). The situation was reinforced by the second oil price shock (Kruger 1987 and Salazar-Carrillo 1988 cited in Taiwo 1991; Ezenwe 1993). The new borrowed funds were spent on mining companies and major public projects. But in general these loans were characterized by harder terms. When the second oil price hike came in the late 1970s, with commodity prices continuously deteriorating (Figures 1 and 2), most countries were unable to absorb the shock (Krumm 1985), and by the end of the decade, total external debt had grown almost ten fold.<sup>40</sup>

### 3.2 The late 1970s and early 1980s

The second period refers to the late 1970s and early 1980s. The end of the 1970s had witnessed the second oil price shock.<sup>41</sup> Major commodity prices continued to decline, prompted, *inter alia*, by the recession in the industrial countries. The early 1980s were also characterized by an increase in real interest rate in the industrial world, chiefly due to the lax fiscal and tight monetary policy of the US.<sup>42</sup> By 1981, the real foreign interest rate was 17.4 per cent compared to -17.9 per cent in 1973 (see Khan and Knight 1983: 2). The latter aggravated the interest rate cost of the nonconcessional and private debts that became increasingly important during this period (see Alemayehu 1997 for detail). This development prompted many African governments to continue borrowing (and get credit) on the assumption of a cyclical turn-around in commodity prices. These new loans were used to finance enlarged oil bills and to avoid sharp politically/socially disruptive cutbacks in public expenditure (Mistry 1988). The experiences of most countries (Ghana, Zambia, Malawi, Tanzania, Sierra Leone, Libya and Nigeria, discussed in detail in Alemayehu 1997) during this period generally confirm this pattern.

### 3.3 The late 1980s to the 1990s

The third period refers to the late 1980s to the 1990s. This period, similarly to the late 1970s, was marked by continually declining commodity prices and the deterioration of

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<sup>40</sup> However, Taiwo (1991) using regression analysis based on data from eleven sub-Saharan African countries (1970-88) noted that the most important factor for the debt crisis was the relative (periphery to centre) level of economic development (measured as the ratio of per capita income of LDC to industrial world) and, to a lesser degree, terms of trade, relative prices, real cost of borrowing and openness of the economy.

<sup>41</sup> However, collapse of the oil price from its 1979 peak, although revitalizing the oil-importing countries, adversely affected the oil-exporting economies of North Africa and some of the countries in West and Central African regions (mainly Nigeria).

<sup>42</sup> Furthermore, the terms for African countries were harder than even those for South Asian countries. For instance, African countries in 1980 paid an average interest rate of 6.6 per cent on loans with an 18-year maturity. The comparable figures for South Asian countries were 3.1 per cent and 30 years (van der Hoeven 1993: 1).

terms of trade. For the period 1985-90 when a large number of African countries undertook adjustment programmes, the deterioration in the barter terms of trade of nine major export commodities resulted in a 40 per cent decline in average export revenue (compared to 1977-79 average) despite a 75 per cent increase in export volume (Husain 1994: 168). As a result, African countries became more vulnerable to further indebtedness. Moreover, the capitalization of amortization and interest payment through the Paris and London clubs rescheduling had also started pushing the debt stock upward (van der Hoeven 1993 and Alemayehu 1997). This pattern is obvious from the reports of many countries examined in detail in Alemayehu (1997).

Given this general pattern from the mid-1980s to early 1990s, African economies had become extremely indebted by the 1990s. Moreover, apart from investment in infrastructure (like the transport sector) which needed external finance for its maintenance, almost all countries had become dependent on external finance for securing imported intermediate inputs and ensuring the smooth functioning of their economy. (See Ndulu 1986; Ngwenya and Bugembe 1987; Fantu 1992; Rattso 1992a and 1992b; Mbelle and Sterner 1991). Thus, throughout the two decades analysed, the value of imports was persistently increasing in most countries.<sup>43</sup> This recurrent import-demand problem was compounded by actual running down of the capital stock, including infrastructure.

Thus by late 1980s and early 1990s, such historically structured economies in Africa were vulnerable to events such as the recession of the industrialized economies, following the global monetary shock of 1979-81, which depressed commodity prices. This was also a time when the world economy witnessed (i) the emergence of high, positive real interest rate throughout the 1980s which increased the debt service burden of indebted countries, (ii) protectionism in the world market for agricultural products and low technology manufacturing which hampered diversification attempts, and finally, (iii) the prevalence of repeated official and private rescheduling, often at punitive terms (see Mistry 1991: 10-11 for detail). This crisis increased the role of multilateral finance despite the unacceptable terms—policy conditionality. Thus, another major development in the 1980s and early 1990s was the growth of multilateral debt, especially that owed to the World Bank and African Development Bank and, to a lesser degree, the IMF. The main reasons for an increase in debt owed to multilateral agencies were (i) the stepping-in of these multilateral banks to finance the partial bailout of commercial banks in the 1980s (see Alemayehu 1997 for detail), (ii) the fact that these debts were denominated in SDR and ECU while most African countries earned their currency in US dollars, which had depreciated against both SDR and ECU for the last 30 years<sup>44</sup> and finally (iii) the growth of adjustment financing (Mistry 1994

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<sup>43</sup> An interesting area of further study is to explore the impact of services (especially insurance and shipping), which seriously affected a number of small countries in Africa.

<sup>44</sup> According to Mistry (1996) if this fact is taken into account, one needs to question the concessionality of this debt. For instance, the effective average annual exchange-risk adjusted cost of a concessional debt in US dollars may be 4-6 per cent annually instead of the 1 per cent or lower coupon rate that such a debt nominally carries. Besides, the residual principal value of the concessional debt, which needs to be repaid, had increased by between 30-45 per cent in US dollar terms, aggravating the debt servicing problem of African countries. Thus, if the concessional loan is borrowed in US dollars in the first place, it is as expensive as the market debt. This exchange rate effect not only effectively reduces the concessionality of such debt (from 80 per cent, which donors usually say, to 40-50 per cent) but also makes African countries vulnerable to the macroeconomic policies of the industrialized countries (Mistry 1996: 26).

and 1996). In sum, African countries by the 1990s found themselves not only being extremely indebted but also structurally unable to pay back their debt.

#### 4 Conclusions

The descriptive analysis at the beginning of this paper reveals that the current level of debt is beyond the capacity of the continent to service, indicating that the insolvency issue is at the heart of the African debt crisis. Various contending explanations on the causes of the problems of Africa's external economy in general and its external finance in particular have been put forward in the literature. These range from explanations that emphasize policy as the main problem to those that favour historically formed structures. A third view focuses on the systemic nature of the crisis. The recent literature on the origins of African debt problems limits itself largely to the events of the 1970s and late 1980s. Certainly these are crucial but explain only part of the story. The analysis of the African debt crisis needs a historical review to explain how a weak and vulnerable economic structure was created as the result of Africa's specialization as a primary commodity exporter. I have shown that this was the case in Africa. Such an analysis also explains how this structure paved the way for indebtedness by creating the necessity for borrowing and by making debt servicing difficult.

It is interesting to ask whether the financial, physical, human and institutional 'capital' inventories from the colonial era have somewhat reproduced themselves in the last three decades. Undoubtedly, the answer is yes. There are at least four fundamental reasons for this. First, the demand from the previous colonial powers and hence the pattern of trade and finance has not changed fundamentally. By 1988, for instance, 88 per cent of Sub-Saharan export went to Europe (see Sommers and Assefa 1992 for details). This old division of labour was strengthened by what is called the Lomé Convention (see Amin 1996). Second, the new agents that came to power after 'independence' attempted diversification. This was largely a failure not only because of the conceptualization of the whole process, notably the disarticulation of agriculture and industry, but also because fundamentally such efforts required huge investments, which were beyond the capacity of these post-independence agents. This severely limited the policy options available. Third, despite the post-'independence' reconciliation of both political radicals<sup>45</sup> and the moderates<sup>46</sup> to the African perspective by Emperor Haile Selassie of Ethiopia and hence the OAU formation in 1963 (see Amin 1996), their subsequent existence in power is informed by maximization of short-run gains subject to the constraint of inherited trade and financial structure. This necessarily implies reliance on primary commodities and loans instead of structural transformation. Finally, since the mid-1980s (for some countries even earlier) the economy of Africa was essentially (mis)managed by the Bank and the Fund which itself is a failure (see Adam 1995; Lall 1995; Mosley and Weeks 1993; Mosley *et al.* 1995, ECA 1989b among others). It is within this broader framework that the

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<sup>45</sup> That is to say, radical departure from colonial pattern-Casablanca (Nasserism, Algerian FLN, Nkrumahism and to a degree followers of Lupumba).

<sup>46</sup> That is to say, adaptation to the pattern-Monrovia groups (Côte d'Ivoire and Kenya being the main ones).

specific problem of the African external finance and debt crisis and its macroeconomic ramifications should be understood.

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