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Africa's Transition to Pluralism: Economic and Investment Implications

by Witney W. Schneidman

This issue of *CSIS Africa Notes* distills an exchange of views on economic implications of the transition to political pluralism in Africa that took place at an all-day October 1992 conference hosted by the CSIS African Studies Program in collaboration with the World Bank and the Global Coalition for Africa. The 60 participants in the forum included executives of corporations and banks, past and present officials of the U.S. and African governments, area specialists from a range of multilateral development agencies, and independent analysts. (See page 4 for the agenda, chairs, speakers, and commentators.) Some highlights of the meeting:

- Several participants referred to this new era as Africa's "second independence." At the same time, it was recognized from the outset of the day's discussion that the winds of change now sweeping through the continent are of a different character than those accompanying the end of colonial rule in the 1950s and 1960s. Three decades ago, the goal—the achievement of political independence—was unambiguous. The complex socioeconomic challenges of the 1990s, on the other hand, lack easy or obvious solutions.

- More than 30 African countries are in the process of transition from an authoritarian civilian or military government to one that is more pluralistic. In 1992 alone, 18 countries have held national elections and/or constitutional referendums. Although six of these polls led to disputed results, and in some other instances elections have been rescheduled, there was consensus that for the first time since independence, Africans outside of their countries' ruling elites—intellectuals, workers, clergymen, journalists, and community leaders—have embarked on a determined struggle to escape the destructive pattern of authoritarianism and economic decline.

- The struggle for power between entrenched autocrats and newly formed opposition groups made up of an array of political organizations, civic associations, and trade unions has been explicitly sanctioned, albeit in an uncoordinated manner, by Africa's most significant bilateral and multilateral donors and abetted by an increasingly free flow of information and ideas.

- The movement to create more accountable political systems is in large part a response to the failings of the first generation of Africa's leaders. Unworkable economic policies and the exploitation of productive assets for personal gain deprived large segments of the population of the benefits of independence.

- Recent changes in the international environment have also worked against Africa's autocrats. The collapse of Communist regimes in Eastern Europe and the Soviet Union diminished the credibility of many of the continent's "Marxist" governments and demonstrated that public pressures could lead to political changes even in the face of repressive, strongly authoritarian regimes. The end of the cold war also removed a powerful distorting influence on the perceptions of some outside observers, especially those who tended to view events in Africa primarily in terms of the Soviet-U.S. rivalry. Kenya's Mwai Kibaki and World Bank Vice President Timothy Thahane were among the participants who stressed the need for awareness of specific local conditions and situations in each country when analyzing, and trying to shape, changes in Africa.

- It was generally agreed that an election should be viewed as a key part of a transition process but not as the culminating event. Indeed, as Samba Ka, a Senegalese historian, noted in his commentary, there are numerous factors that go into a successful transition. For example, demobilizing the military is an increasingly important condition for elections. Angola's September 1992 election was cited as illustrative of what can happen when bilateral donors focus primarily on the electoral process and neglect to allocate sufficient resources for the creation of a unified military (as stipulated in the transition timetable worked out in 1991). Only 10 percent of the envisaged new army had been established by the elections; both the MPLA and UNITA retained control of significant forces.

- The pace of transition has economic implications. In instances where transitions have been relatively smooth and swift (e.g., Mali, Zambia, and Benin), the new leaders have been able to commit themselves to the difficult decisions needed to implement economic reform. Protracted political change has sometimes (as in Madagascar) inhibited reform and even undermined previous hard-won economic gains. On the other hand, despite three years of near stalemate in South Africa's political negotiations, that country's economic debate has evolved from polarization over nationalization to a consensus on the importance of job creation.

- A range of other factors were cited by conference participants as essential to ensuring fair and free elections and establishing a viable pluralistic regime: educating voters, providing candidates sufficient time to define their agendas, creating an environment conducive to the free flow of information, adroit handling of the *ancien régime,* managing popular expectations for rapid economic and social advancement, and determining a suitable degree of involvement in the election process for international observers and the United Nations.

- One of the most difficult—and frequently ignored—problems bedeviling the transition is inadequate attention by African leaders to the critical issues of fissiparous subnationalism and ethnic diversity. Several participants suggested that federalism may have to be given more consideration as a means of disaggregating centralized state power, balancing competing ethnic claims on economic resources, and protecting freedom of association (including ethnic organizations). Federal governments on the continent may find that national political loyalties can be strengthened rather than weakened by diffusing autocratic power and providing cultural autonomy.

- Although bilateral donors can provide support for some of the modalities of change in Africa, the strengthening of civil society is an exceptionally difficult problem that few donor assistance programs are presently equipped to handle. It was suggested that donors should refocus energies on strengthening private sector institutions and nongovernmental organizations to counter the predominance of the state and enhance pressures for public accountability.

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- Although the World Bank is constrained by its charter from involvement in the internal political affairs of its member countries, Vice President for Africa Edward V.K. Jaycox reaffirmed the Bank's policy position that good governance is the vital underpinning of economic reform. The World Bank first raised this theme in its 1989 study, *Sub-Saharan Africa: From Crisis to Sustainable Growth,* which affirmed that "underlying the litany of Africa's problems is a crisis of governance." The Bank defines good governance as the accountability of government officials and the civil service for public funds; transparency in procedures, investment decisions, and appointments; predictability in public policy; open access to information; and respect for the rule of law by governments and institutions.

- As Jaycox noted, it is the World Bank's position that incorporating its principles of governance into the democratization movement will bolster the political and economic transition under way in sub-Saharan Africa, thus enhancing the capability of governments to meet the expressed needs of their citizens. In addition, adherence to these principles will help strengthen indigenous human capacity in the areas of policy analysis and development management. Capacity building, in turn, will reduce Africa's reliance on foreign technical assistance, which currently includes about 100,000 expatriate advisers at an expense to donors and African governments of around $4 billion per year.

- Structural adjustment programs have played a key role in arresting the economic free-fall of the 1980s. During that decade, Africa's economies were highly uncompetitive, with many on the brink of collapse, and the sub-Saharan region became overly reliant on foreign assistance. As a result, the region receives about four times the worldwide level of per capita assistance, averaging about $32 per capita and 8 percent of GDP (compared to $9 per capita and 2 percent of GDP for the rest of the developing world).

- Although much of the commentary focused on Africa's problems, there was also some good news. For the 20 countries that pursued structural adjustment under the World Bank-led Special Program of Assistance (SPA) during its first three years of operation (1988-1990), indications are that economic decline has been arrested and recovery is beginning to take hold. Growth increased from an average annual rate of 1 percent at the start of the 1980s to 4 percent during 1988-1991, and was positive in per capita terms. By contrast, the growth rate of non-SPA African countries has only been about half that of those pursuing structural adjustment, and has not kept up with population growth.

- In addition to this modest but encouraging growth, there has also been a significant liberalization of the exchange and trade systems of a number of African countries. As Assistant Director of the IMF's African Department Paul Acquah noted, Gambia, Ghana, Madagascar, Malawi, Mozambique, Nigeria, Tanzania, Uganda, and Zambia are examples of countries that have achieved important reforms in this area along with domestic price liberalization. The acceptance and implementation of these policies are grounds for cautious optimism, but much more needs to be done, especially in the area of regulatory reform and privatization.

- In an exchange among corporate executives and bankers that focused primarily on Ghana, Equator Bank President Franklin Kennedy commented on the importance of these reforms for the ability of African nations to attract foreign investment. Referring to a private sector investment fund Equator Bank is managing, Kennedy said that over half of the applications and proposals for business projects had come from Ghana. These overtures are viewed with interest by the fund's managers because the Ghanaians have begun investing in their own country, a development that may lead to good business partnerships. Foreign investors can also be assured of a level playing field from a regulatory perspective, even though the road to democratic governance is still uncertain. In addition to the predictability of investment laws, Ghana's political leaders have set positive examples in their commitment to economic reform. It was seen as especially encouraging that public discussions of the economic reform program indicated acceptance of the need for adjustment and austerity. It is largely for these reasons, Kennedy and other corporate participants observed, that new investment capital has begun flowing into Ghana.

- In his luncheon address, Kenya's Mwai Kibaki noted the growing realization in Africa that the state cannot possibly fulfill the expectations that emerged in the first generation of Africa's independence. Thus, scaling back the role of the state and managing these inflated hopes is one of the principal challenges facing Africa's reformist leaders.

- There was general agreement that the need for economic reform is widely and increasingly acknowledged, notwithstanding the fact that at least in the short term the reform process may inflict additional burdens on some segments of society already struggling mightily to improve their standard of living. As Samba Ka described the

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October 14, 1992
Washington, D.C.

Welcoming Remarks
Helen Kitchen
Director of African Studies
CSIS

Morning Session
Moderator: Chester A. Crocker
Research Professor of International Relations
Georgetown University

1. An Overview of the Transition to Pluralism
   Ambassador Jeffrey Davidow
   Senior Deputy Assistant Secretary for African Affairs
   Department of State

2. Implications of This Transition for Economic Development in Sub-Saharan Africa
   Edward V.K. Jaycox
   Vice President
   Africa Region
   World Bank

Discussants: Mima Nedelcovych
U.S. Executive Director
African Development Bank
(Abidjan, Côte d'Ivoire)

Samba Ka
School of Advanced International Studies
The Johns Hopkins University

Luncheon Session
Introduction of the Speaker:
Michael Samuels
President
Samuels International Associates, Inc.

Luncheon Address:

"What Have the Last Three Decades Taught Us About Africa's Quest for Development?"

Mwai Kibaki
Chairman of the Democratic Party and former Vice President and Minister for Finance, Kenya

Discussion

Afternoon Session
Prospects for Growth, Development, and Investment by the Year 2000

Moderator: Warren Weinstein
Director
Operations and New Initiatives
Bureau for Africa
USAID

1. Paul Acquah
   Assistant Director
   African Department
   International Monetary Fund

2. Elliot Berg
   Vice President for Policy and Research
   Development Alternatives, Inc.

Discussants: Harris Mulé
African Capacity Building Foundation
(Harare, Zimbabwe)

Roy Stacy
Senior Adviser
Global Coalition for Africa

situation, Africans never rejected austerity per se. They did reject austerity-for-the-masses imposed from above while corruption was allowed to continue. When structural reform programs were openly debated, their potential for success—and the willingness of the populace to accept the new hardships—was much greater. In his successful 1991 campaign to unseat President Kenneth Kaunda, Zambia's Frederick Chiluba emulated Ghana's leaders by telling the electorate that he would end subsidies and initiate tough economic reforms if elected president.

- As political and economic reform takes hold, Africa's relations with the international economic system must undergo changes. The Global Coalition for Africa's Roy Stacy pointed out that Africa is suffering a major problem in its terms of trade. For example, revenues from Uganda's coffee exports fell by almost 50 percent between 1985 and 1990, despite an increase in export volume. Recovering market share and increasing export diversification are two critical challenges facing many African countries in this decade. Africa's trade troubles mean that official development assistance (ODA) will have to be maintained until private investment capital can make up the difference. Given the fact that private investment has fallen to $900 million in 1989 from a peak of $2.3 billion in 1982, the prospects are not good, Ghana's experience notwithstanding.

- Most conference participants believed that ODA flows to Africa are likely to decline over the next few years. In many respects this has already begun. It was noted that Sweden, long one of the donors most committed to African development, had recently announced a 10 percent cut in its foreign economic assistance program. Sweden's action was seen as a reflection of the budgetary constraints that a number of other donors are facing, along with pressure to respond to the new needs in Eastern Europe. Another factor cited was that traditional assistance is being diverted to humanitarian emergencies (e.g., Somalia and the drought in southern Africa). Even though gross ODA flows amounted to $16.1 billion in 1990 and surged to $21.1 billion in 1991, net economic developmental resource transfers to sub-Saharan Africa, which averaged about $8 billion a year during 1980-1985 and reached a high of $12.7 billion in 1989, dropped to $11.7 billion in 1991. Moreover, as a percentage of GDP, economic assistance from OECD countries on average fell from 0.5 percent in 1982 to 0.35 percent in 1990.

- The likelihood of a decline in foreign assistance is a mixed blessing. Elliot Berg, vice president for policy and research at Development Alternatives, Inc., observed in his conference address that it could be a positive development for countries that rely on aid for more than 5 percent of their annual expenditures because it would force them to manage their resources more effectively. The same could also be true for the bilateral and multilateral donors who have committed about $20 billion in development assistance to Africa but have been unable to disburse it. The World Bank's Dunstan Wai took the position that the transition to democracy requires a fundamental shift in lending, away from expatriate-based technical assistance to African capacity building. Stacy made the follow-up point that there ought to be a departure from assistance predicated on narrow commercial interests to an effort to meet the genuine needs of Africa. Furthermore, there is a need for more effective coordination among donor agencies, more learning from previous development efforts, and more creative approaches for reaching the poorest segments of society.

- There appeared to be a general consensus among donor spokesmen that criteria for economic developmental assistance are changing significantly. Constraints on assistance will be coupled with new conditions in order to reward African states making efforts to reform their systems of government and economies. The United States, France, Britain, Germany, and the European Community are examples of donors that have begun to evaluate the degree of pluralism, respect for human rights, and in some instances levels of defense spending, among other factors, as criteria for allocating assistance. Even the Japanese have made their concerns known, especially in the multilateral agencies, that their experience with privatization should be seen as a model for developing nations in Africa.

- The new context of lending will require changes in African attitudes as well. As Wai argued, African governments requesting donor assistance can no longer expect to get away with camouflaging corrupt and inept administrations with cries that conditioning economic support on domestic changes uncomfortable to the local elite amounts to a violation of national sovereignty. He maintained that governments will have to be prepared to sacrifice some autonomy if they expect to get aid, because it is the pattern of governance that will determine who receives what type and level of assistance.

- In addition to utilizing existing resources more efficiently, donors and African governments alike need to create new incentives for domestic and foreign investment to fill the ODA gap.

- There was general agreement that drastic measures are needed to reduce Africa's foreign debt, which rose from $6 billion in 1970 to $134 billion in 1988. The debt overhang is a major impediment to attracting foreign investment. Note was made of a 1990 British proposal, the so-called "Trinidad Terms," which would include rescheduling all eligible Paris Club debt obligations, raising debt relief (through write-offs and reduced interest rates) to two-thirds, extending maturities from 14 to 25 years, and aligning repayment more closely to export capacity. While the Paris Club (a group of 15 to 20 mostly OECD creditor governments) seeks a consensus on these terms, some governments have moved forward unilaterally (e.g., by canceling ODA debt).

- Another key variable in the growth of African economies is the domestic savings rate. The previously cited World Bank study, *Sub-Saharan Africa: From Crisis to Sustainable Growth,* anticipated that the 1989 rate of 11 percent would double by the year 2000, and reach an annual average rate of 16 percent over the 1990s. Although a number of countries (e.g., Botswana, Kenya, Mauritius, Cameroon, Swaziland, Guinea, Congo, Zimbabwe) have savings rates within that range or above, it will not be easy for the majority of countries in the region to improve domestic savings rates without political and economic policy stability.

In Sum

The sense of the conference at day's end appeared to be that the success of the current transition to more pluralistic systems of government is by no means guaranteed. Senior Deputy Assistant Secretary of State Jeffrey Davidow cited Georgetown University Professor Carol Lancaster's published observations that if pluralism is to succeed in Africa, the conditions that have given rise to democracy elsewhere in the industrialized and developing world (e.g., strong public institutions, differentiated and nationally based political parties, and a political culture of tolerance, debate, and compromise) will have to follow rather than precede political change in Africa.

This does not mean, however, that pluralism in Africa cannot succeed. It does require that socioeconomic development (i.e., improved living standards combined with economic growth) accompany the political transition. The need to balance socioeconomic development with the establishment of democratic processes and institutions remains the fundamental challenge. Although many countries in the region are farther along in this than ever before, the social, economic, and political gains that have been made over the last five years can still be reversed. Nevertheless, as Harris Mulé commented, most Africans are committed to these reforms and the prospects for sustaining them are good.

It was the view of participating World Bank officials that a number of lessons have been learned in the area of economic reform. One is that no country in sub-Saharan Africa has adopted the full array of structural adjustment policies. Those which have implemented reforms most rigorously, such as Ghana, Lesotho, and Mauritius, have grown at 4-5 percent per year. It is also apparent that farmers respond to the liberalization of markets and prices most actively. Most studies indicate that the poor do not suffer in the short term and benefit strongly in the long term from economic reform programs.

On the other hand, structural adjustment programs need (1) to be more cautious about trade reforms, given the poor supply response from local industry, which is often unable to compete internationally when tariffs are suddenly removed and (2) to give a greater sense of local ownership of the reform programs to both governments and the populace. In short, the World Bank has to expand the policy dialogue beyond the borrowing governments—and to convince the latter of the benefits of gaining the support of key social sectors for implementing austerity measures. More attention should also be given to indigenous capacity building as well as to the pace of civil service reform. The bottom line is that it is impossible to have successful adjustment without a stabilization of the basic macroeconomic indicators such as inflation, exchange rates, and fiscal deficits.

Looking toward the future, Elliot Berg presented a balance sheet of positive and negative factors that will impact on Africa's development in the rest of this century. In Berg's view, political stability will be more extensive and civil strife will be reduced in the region, especially in southern Africa. Export revenues most likely will increase relative to the 1980s, when an all-time low was recorded. Greater amounts of debt relief are also likely, and new technologies may increase agricultural productivity. He anticipates that new entrepreneurial efforts will create unanticipated opportunities that could speed development.

The negatives that might frustrate Africa's growth include reductions in resource inflows, especially ODA, that would offset any increase in export earnings. Political instability (although not always as severe as in Liberia and Somalia) will persist in parts of Africa. Over the next five years, francophone countries will have to resolve the difficult problem of their overvalued currency. Rapid population growth will continue to absorb resources, and the impact of the AIDS crisis could be devastating. Finally, it will be difficult to reduce expenditures in a democratizing environment because leaders frequently rely on populist rhetoric in such situations, a state of affairs that discourages tough economic decisions.

In this context, Warren Weinstein, director of operations and new initiatives at USAID's Bureau for Africa, noted that with increased liberalizations, a new degree of political accountability and transparency may materialize that could instill in Africans greater confidence about investing in their own economies. A spurt of domestic investment would also encourage foreign investors to take a new look at Africa. Another challenge presented by the liberalizations, Weinstein pointed out, was opening the decision-making process to a range of inputs while synthesizing often disparate voices into policies that lead to stability and economic growth. Cooperation between the government and nongovernmental organizations is essential for achieving consensus on an indigenous economic policy that favors growth and alleviates poverty.

Witney W. Schneidman, who has been senior coordinator of the CSIS Working Group on South Africa since 1991, recently joined Samuels International Associates, Inc. as vice president. He previously served as a consultant in the office of the World Bank's vice president for the Africa region; as a senior analyst in the South Africa Review Service of the Washington-based Investor Responsibility Research Center Inc.; and (1987-1990) as a South Africa analyst in the State Department's Bureau of Intelligence and Research. He received his Ph.D. from the University of Southern California's School of International Relations, where he wrote his dissertation on U.S. policy toward Portugal, Angola, and Mozambique; a master's degree in political science from the University of Dar es Salaam; and a B.A. cum laude (in history) from Temple University in Pennsylvania. His previous contributions to *CSIS Africa Notes* have been "Conflict Resolution in Mozambique: A Status Report" (February 1991) and "Who's Where in the Debate on 'Nationalization' in South Africa" (July 1990).

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