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# Adjusting in Africa: For whose benefit?

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*In posing the above question Peter Henriot reviews the current situation in Africa – a continent which has been undergoing various forms of adjustment for a generation. During this period world trade, investment and financial flows have been increasingly liberalised. At the same time global economic policies have major and almost instantaneous effects on the countries of sub-Saharan Africa. Although the region appears to have been bypassed by globalisation if one looks solely at its share of trade and investment volumes, the impacts of the liberalised world economy have been very much felt.*

*Peter Henriot's analysis examines the ethics of adjustment policies, in particular the impact of trade liberalisation, debt servicing and SAP conditions. There are three key challenges in building a just economy: promoting economic and social rights, strengthening civil society to monitor and influence economic policy and building international networks to support structural change in favour of the poor.*

*The article also looks at the ethical issues which arise when we ask who is benefiting from this adjustment. It concludes by suggesting possible alternative approaches to adjustment which would require change in both developed and developing countries. A key aspect of any alternative is securing adequate resources to finance development whether this is through debt relief, increased aid flows, fairer trade rules or regulated and ethical investment. The alternatives proposed fit with the key concepts of global ethics which form*

*part of Catholic social teaching but also have a wider application as they are based on the human rights principles enshrined in the Universal Declaration of Human Rights.*

## Africa: adjusting to globalisation

When one examines the process of globalisation in an African context, one must admit that this is the fourth stage in the global impact of external forces on the continent. The first phase was the slave trade, when European, American and Arab traders stole Africa's most precious resource, its women, men and children, for the benefit of economic progress outside of Africa. The second stage was colonialism, when Africa was divided up geographically, dominated politically, exploited economically, and damaged culturally, all for the benefit of outsiders, some of whom lived on the continent. The third stage, called "neo-colonialism" by Pope Paul VI in his great social encyclical *Populorum Progressio*, was centred around the structures of an international economic order (trade, investment, aid and loans, technology, etc.). It was termed a geo-political order (Cold War manipulations) by Catholic social teaching and which primarily benefited the so-called developed countries. The world is now in the midst of the fourth stage, a globalisation driven by a neo-liberal economic ideology and a communications revolution which integrates financial, information and cultural processes, in such a way that is once again primarily for the benefit of outsiders.

What has been the consequence of this new globalisation for Africa? Both the 1997 UNCTAD *Trade and Development Report* and the 1997 UNDP *Human Development Report* have highlighted that unfettered globalisation has contributed to increasing inequality between and within countries. While recent global figures show some improvements in Africa, when dis-aggregated these statistics reveal that the economic status of a majority of sub-Saharan African states has either stagnated or is in decline. Even where rates of GDP growth have increased this process has been precarious and fragile and its benefits have been unevenly distributed. A few statistics graphically illustrate this:

Of the 44 least developed countries in the UNDP Human Development Index ranking, 33 are in Africa. Zambia, for instance, has slipped from 136th lowest place out of 174 in 1996, to 142nd in 1997, to 146th in 1998.

The external debt of sub-Saharan African now stands at $235 billion, with more money going out of Africa through debt servicing than is available to meet basic needs such as health, education, food, water and sanitation.

Foreign aid has fallen off dramatically in recent years, particularly in the period from 1990-1997 when in real terms it fell by a quarter.

While direct foreign investment has increased it has been primarily concentrated on a few countries, such as the Republic of South Africa, Nigeria and Angola.

In some circles it is popular to speak of an "African Renaissance," but in political as well as economic terms such a view is premature and somewhat misleading.

# The ethics of adjustment in Africa

In order to fit into the globalisation process, Africa must "adjust" its economy. In reality this primarily means that the African people must adjust their belts even though the vast majority already live in poverty. This adjustment is occurring in three major areas:

*a)* economic reform under structural adjustment programmes (SAPs);

*b)* participation in the liberalising global trading environment as perscribed by the World Trade Organisation;

*and*

*c)* servicing a huge external debt.

Each of these areas raises major ethical concerns when one poses the question: Adjustment for whose benefit?

*a) Structural adjusment programmes*

There is no question that in recent years African economies have had to make major structural changes in order to be both more efficient and more equitable. The collapse of industrial and agricultural capacities, the decline in social services, the deterioration of physical infrastructure and the lack of foreign investment, all these have been signs of the need to move away from over-centralised command economies, their inefficient and sometimes corrupt management, and their ineffective and often inequitable subsidy schemes.

Zambia is an example of a country where economic reform was undoubtedly much needed. However, the reform process was pushed forward with unnecessary haste, ideological rigidity, and social insensitivity. The structural adjustment policies – designed, proposed and indeed imposed by the International Monetary Fund and World Bank – were challenged as far back as 1988 by the United Nations' Economic Commission for Africa. In ECA's "African Alternative Framework for Structural Adjustment Programme" the Commission challenged and critiqued the process of structural adjustment as essentially being a short-term fiscal management programme rather than a long-term economic development programme. However, as the decade which has elapsed since then has shown, such adjustment does have long-term impacts. As implemented throughout Africa, it has entailed a shock treatment package of austerity measures. It has brought some economic indicators such as inflation and budget deficits under control while at the same time causing dramatic declines in social indicators such as education and health. As such it has placed a premium on fiscal rectitude as opposed to human development.

Indeed the recently completed external review of the Enhanced Structural Adjustment Facility (ESAF) programme of the IMF has revealed that economic reforms in Africa have lacked appropriate timing and phasing and suffered from inadequate flexibility and insufficient attention to their social consequences. In a country like Zambia, ESAF has not and is not working for the majority of people, as the country experiences massive retrenchments in formal sector employment, drastic declines in school enrolment along with disturbing rises in mortality and morbidity rates.

Zambians are told that structural adjustment programmes are necessary if the country is to be able to participate fully in the global economy. While there may well be *pain* in the short-run, the government and the IFIs emphasise that there will be *gain* in the long-run. But Lord Keynes' oft-cited remark that "In the long-run we will all be dead!" could have no truer application than in a country like Zambia. For here the life expectancy has fallen from 54 years a decade ago to 44 years today – the consequence of severe poverty exacerbated by austere economic reforms.

Meanwhile Zambians, especially women and children who are the most vulnerable to poverty, continually ask: Who is supposed to benefit from all this adjustment? It is certainly not the majority of Zambians, the 70% of the population whom the World Bank points out live below the absolute poverty line. More broadly when one poses the question have the poor in Africa benefited from such adjustment, the answer is a resounding no. Therein lies the core of the ethical challenge to structural adjustment as it presently operates. As two basic principles of Catholic social teaching are the promotion of the common good and a preferential option for the poor, structural adjustment measures imposed on Africa are in clear violation of these principles

*b) Trade liberalisation*

There have been many critiques of the Uruguay Round of trade negotiations and its impacts, the primary one being that its benefits are distributed very unfairly. Recently a Zambian newspaper had as its headline "Africa hasn't benefited from global liberalisation". The article repeated figures frequently offered to assert that while Europe will accrue an $80 billion gain from the liberalised regime, China $40 billion, Japan $25 billion and the United States $18 billion, Africa as a whole would in effect experience a $3 billion loss.

Indeed, Africa would not substantially benefit from the free trade regime but would face a loss of some of the very instruments that had been core components of East Asian development strategies – strategies so often held up as models for Africa to follow. This point is made in the 1998 UNCTAD Investment Report where the authors note that the multilateral trade disciplines introduced by the WTO regime "prohibit the use of some key policy tools to promote exports and protect infant industries" and have "reduced the scope for using measures such as trade-related subsidies and imposing conditions on FDI, and for practices such as lax enforcement of intellectual property rights...."(pp.220-1). As it stands the WTO regime pushes a trade liberalisation model which reduces the scope of African countries to protect their infant industries or to apply export subsidies to areas of strategic importance.[1]

A central feature in current efforts to further liberalise trade and investment is the the Africa Growth and Opportunity Act, proposed by the US. This bill parallels the North America Free Trade Agreement (NAFTA) arrangements between the US and its neighbours. Many objections have been voiced in the US by African solidarity groups who point out that as it stands this bill will benefit US corporate interests rather than the majority of Africa's poor people. Included among the eligibility criteria for African countries seeking to avail of trade and investment opportunities offered are adherence to harsh economic adjustments similar to those imposed under the SAP conditionalities of the IMF and World Bank. The Africa Faith and Justice Network based in Washington DC has cautioned against such an approach, noting that this SAP-based economic reform has already caused significant harm to Africa's poor. The Act, "represents a 'trickle down' model that would grant foreign investors unrestricted access to Africa's natural resources and set the stage for exploiting its workers. It contains no binding debt relief provisions, labor protection measures or environmental standards."[2] It is easy to see why President Clinton had to stand by in embarrassed silence earlier this year in South Africa while President Mandela spoke critically of this Act.

Another economic liberalisation measure that raises considerable ethical concern is the proposed Multilateral Agreement on Investment (MAI). Negotiations on this agreement were stalled earlier this year, in no small part due to the strong international mobilisation of NGOs who opposed its provisions. However, the MAI proposal once sunk (and as such earning itself the name "the MAI-tanic" as countries vied to add on exceptions to the proposed agreement), is surfacing again, as efforts are underway to shift negotiations from the OECD to the WTO.

Espoused by its proponents as a mechanism for promoting "a level playing field for foreign investment worldwide", the MAI, if implemented in Africa, would deprive governments of any ability to regulate the activities of transnational corporations (already limited in any case), and ro guarantee minimum social and environmental protection for its citizens. Governments would also have an even more diminished role in shaping national development strategies and priorities.

Linking these policy debates to the ethical principles provided in Catholic social teaching, which include solidarity among nations and peoples, and designing an economy which puts people first, it is clear that there is a long way to go before a global ethic rather than global profitability is central to economic decision-making. The liberalised trade regime currently being pursued under the guidance of the WTO does not promote ethical principles. On the contrary, it distorts the benefits, priorities and future directions of global relationships more and more in favour of the rich and powerful of the world.

### *c) Debt servicing*

Much has been written about the massive foreign debt burden facing the world's poorest nations, especially in sub-Saharan Africa. Two lessons are particularly pertinent.

First, the debt burden is primarily a *political* problem. True, it is also an economic problem, with economic roots and economic solutions. But it is primarily a political problem because it can only be solved through creating the political will to establish effective, equitable and sustainable debt relief for the poorest countries. Such relief has, for political reasons, been given historically to Germany after World War II, to Poland after the fall of the Soviet Union and to Egypt after the Middle East settlements. A massive injection of credit was speedily found by the international community to bail out economies in Asia so as to avoid total economic collapse. Yet concerted and rapid action to tackle the chronic debt problem which has prevented development and fuelled conflict in the poorest countries has not been forthcoming. Wherein lies the cause of the differing response? The answer is that while Asia is economically important the richest nations in Africa are not. Financial crises carry more weight than long-term humanitarian disasters.

Second, the exit to the debt problem that will be most desirable in terms both of efficiency and equity is the Jubilee proposal for the cancellation of the unpayable debts of the poorest countries. The Heavily Indebted Poor Country initiative (HIPC) is not the solution. Debt servicing is a major block to development in Africa. Development requires economic growth which requires an expansion in human, social and physical capital – educated, healthy and committed people, roads and other infrastructure. But debt servicing drains scarce resources away from investment in the social sectors of education, health, roads and so on. This is true in Zambia (where this year's budget allocates more for servicing our immense debt of $7.1 billion than for all education and health programmes combined) and throughout Africa.

The World Bank in its 1996 report entitled *Taking Action for Poverty Reduction in Sub-Saharan Africa* recognises this when it states: "on average debt service payments as a ratio to GDP are about 5%. Compare this with the average public expenditure by countries in sub-Saharan Africa on health as a percentage of

GDP, namely 2.5%, and the burden of debt service payments on the provision of social services becomes starkly obvious." (p. 45)

In 1996 the World Bank and the IMF, acknowledging both the unpayable character and the social consequences of the debt burden, establised the highly indebted poor country (HIPC) initiative. Its key goal is to achieve an "exit" to the debt problem by establishing "sustainable" levels of debt servicing for the countries covered. While the HIPC provides a limited amount of debt relief for a minority of countries it has been sharply criticised for five reasons:

*It is too little* – only a portion of debt is struck off the books, and huge debt servicing remains (e.g., Mozambique's annual debt service will only fall from $113 million before HIPC to $100 million after HIPC).

*It is too late* – countries become eligible only after several years of adjustment programmes and most will not benefit until after the year 2000.

*It is too limited* – 41 countries are eligible for consideration under HIPC, but many more poor countries deeply in debt are excluded.

*It is too rigid* – eligibility depends upon strict adherence to structural adjustment reforms, which by and large are discredited (even in the latest *official* ESAF reviews) as they have produced inadequate, unsustainable and inequitable outcomes.

*It is unrealistic* – debt sustainability is measured primarily in terms of arbitrary levels of debt to exports and revenues without considering the realistic levels of available resources for social and productive priorities, i.e. the focus is on guaranteeing debt servicing rather than meeting basic human needs.

In essence HIPC is a *creditor's* scheme which focuses on debt payments rather than a debtor's scheme to restore the possibilities of development. Its emphasis is on making countries good debtors in terms of repayments as opposed to good developers who prioritise resource allocation towards sustainable development.

Therefore a more radical approach to debt relief is necessary if a type of development that has poverty eradication at its core is to be achieved. Hence the call for the the cancellation of the *unpayable debts of the poorest countries*. Naturally debt cancellation is not a panacea which alone will lead to sustainable development but sustainable development cannot happen without some debt cancellation. In this approach the term unpayable debt can cover that portion of a country's foreign debt which cannot be repaid without sacrificing expenditure on basic human needs such as health and education or can include odious debts incurred by dictators to the detriment rather than the development of the country.[3]

Taking again the case of Zambia: in their joint ecumenical pastoral letter issued in August 1998 the country's three major church bodies (Catholic, Protestant and Evangelical) stated: "Zambia's total debt is clearly unpayable. Zambia *cannot* pay back because the debt burden is economically exhausting. It blocks future development. Zambia *will not* pay back because the debt burden is politically destabilising. It threatens social harmony. Zambia *should not* pay back because the debt burden is ethically unacceptable. It hurts the poorest in our midst."

For those whose policy advocacy work is guided by the principles of Catholic social teaching, the central ethical concern for debt relief is obvious. Community and solidarity, common good and the option for the poor, all these principles cry out for debt relief in Africa. This would be "adjustment" that would truly benefit the people.

## Alternatives and hopes

In conclusion, three challenges to the current process of economic liberalisation are apparent. These challenges or alternatives offer hopes for building a type of globalisation spoken of by John Paul II in his 1998 World Day of Peace statement, namely a "globalisation without marginalisation, a globalisation with solidarity".

The first challenge, and one which is most appropriate on the occasion of the 50th Anniversary of the Universal Declaration of Human Rights, is the importance of *promoting economic and social rights* in relation to trade, investment, and financial policies and their impacts on Africa. The Universal Declaration of Human Rights and its associated Covenants cover economic and social rights, a point reiterated by Pope John XXIII in his 1963 social encyclical, *Pacem in Terris.* Furthermore the 50th Session of the UN Commission on Human Rights, meeting in Geneva in August 1998 adopted a resolution on "The international economic order and the promotion of human rights". The

UN Sub-Commission on Prevention of Discrimination and Protection of Minorities also intends examining ways through which the primacy of human rights norms and standards can be better reflected in international and regional agreements and practices. This work will cover the impacts of WTO policies and SAPs and will also look at how UN human rights bodies and mechanisms can play a central role in this regard. The ascendancy of an unfettered market in our increasingly globalised economy has undermined many human rights protections for workers, consumers, women, the environment. What is urgently required is for an ethical mandate and framework so that human rights standards can govern globalisation rather than the present situation where they are subservient and hence often ignored.

A second challenge is that posed by the activities of *civil society* in promoting a just economic order, at global, national and local levels. This involves popular participation in good governance efforts. In Zambia there is a struggling but vital civil society which includes non-governmental organisations (NGOs), community based organisations (CBOs) and churches. The church through the work of the Catholic Commission for Justice and Peace has a number of key projects. One is the training of local justice and peace and development groups around the country as part of a SAP monitoring project which gathers information on the impact of economic reforms on the poor. This covers measurement of the cost of living where the minimum wage is compared to the cost of a basket of goods in different regions for a family of six, as well as access to education and the impact of retrenchments in formal sector employment. Besides conscientising local people for a deeper understanding of their economic situation, this information is used at the national and international levels in advocating more socially just policies.

Based on this information and other inputs from civil society as well as government sources, the Commission is able to do a detailed budget analysis through which it prepares pre-budget submissions and post-budget reviews which emphasise the budget's social and ethical dimensions and which inform and encourage broad public debate. The Commission also has a project focusing on Zambia's debt whose objective is to secure equitable and sustainable debt relief. Key to this is promotion of what it terms "social conditionality from below": i.e., monitoring debt negotiations and allocation of income from debt relief, so that the social and productive sectors of society will benefit and Zambia will not fall again into heavy and unfruitful debt situations.

The third challenge is the growing *call for international solidarity.* In the face of a process of economic globalisation which puts profits before people, what is needed is increased co-operation among individuals and groups who are working for the integral and sustainable development of the entire human community. While Northern NGOs' resources are essential in funding projects in Zambia and elsewhere their role in harnessing solidarity, compassion and commitment among their constituencies in support of structural change is vital.

Something Trócaire's Director, Justin Kilcullen, said at a recent conference on debt has stayed with me. He reminded us of the need to stay *prophetic* and, like Jesus in the temple (John 2:13-17), become *angry* at the injustices and exploitations around us. Perhaps this paper has not been marked with anger. But it is there within me, believe me, in the reality of life in Zambia. To give the actual answer today to the question: "Adjusting in Africa: for whose benefit?" cannot help but stir anger. To give a different, alternative and ethical answer for tomorrow, cannot but stir hope. Let us turn our anger into hope.

## Footnotes

1 It is worth noting that the severe fiscal constraints facing African governments as a result of debt servicing also limit their scope for allocating expenditures to export subsidies and export promotion or for support to infant industries.

2 *Around Africa*, June 1998

3 For a detailed analysis of a human development measure of debr sustainability see Trócaire North South Issues Paper, No. 21, *Towards a Human Development Approach to Debt Relief* by Henry Northover, David Woodward and Karen Joyner, September 1998 and CIDSE – International Co-operation for Development and Solidarity/Caritas Internationalis Policy Paper, *Putting Life Before Debt*, April 1998.