TESTIMONY BEFORE THE SENATE FOREIGN RELATIONS COMMITTEE

CORRUPTION, THE AFRICAN DEVELOPMENT BANK AND AFRICA'S DEVELOPMENT

By

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Statement

I am extremely grateful and honored to be called upon to testify before the Senate Foreign Relations Committee again – my second time in two years – regarding corruption and the activities of the African Development Bank.

For the past 30 years or more, I have been actively involved in the promotion of genuine, grass-roots development in Africa for the obvious reason that, not only am I an African but the African continent remains the least developed in the Third World in spite of immense mineral wealth. Therefore, African development remains close to my heart.

Over the past four decades since independence in the 1960s, all sorts of foreign aid agencies and multi-lateral development banks (MDBs), including the World Bank and the African Development Bank have been involved in Africa's development, pumping more than $500 billion into Africa. But the results have been negligible. Most Africans are worse off today than they were at independence in the 1960s. Much of the funds came in the form of soft loans, for which the African people are liable to repay. Africa's total foreign debt today stands at $350 billion. There is something maddening about this state of affairs. American taxpayers not only wasted their money but we Africans have to repay for loans from which we derived little or no benefit. Obviously, something has gone fundamentally wrong with these MDB loan programs. This year American taxpayers are going to shell out $1 billion to the MDBs. You can throw American taxpayers money away but don't ask the suffering African people to pay it back.

I would like to focus my testimony today on the African Development Bank loan programs and begin by making a few key points. I will then follow with additional elaboration. These points are more fully developed in a paper I will submit for the Record.

1. **Overall Performance of AfDB Loan Portfolio**

AfDB lending programs have not performed well to achieve their intended objectives. The Bank is slow in updating information at its website. The latest that it has at its website for its portfolio performance is for 1997. For that year, 31 percent of the Bank's entire portfolio was considered "problem projects" and unlikely to attain their development objectives. Worse, of the on-going projects, 40 percent were considered to be at risk. This means that over 70 percent of the Bank's portfolio is "non-performing."

Corruption within the African Development Bank – kickbacks, bribery, and commissions on projects – are difficult to document or prove due to their illegality, although nepotism, administrative and staff problems are known to pervade the AfDB. But these are not the main culprits behind the poor performance of the Bank's portfolio.

2. **The Environment of Corruption, Collapsed States and Coconut Republics**

Rather, the AfDB – like the World Bank -- has been a victim of the environment in which it operates. The Bank operates in a sea of "coconut republics" where "government" does not exist. What exists is a "vampire state," where the machinery of the state has been hijacked by a phalanx of gangsters and thugs to enrich themselves, their cronies, tribesmen and exclude everyone else. The richest persons are heads of state and their ministers and quite often the head of state himself is the chief bandit. In 1997, the fortunes of African heads of state were published by *French Weekly* (May, 1997) and reprinted in the Nigerian newspaper, *The News* (Aug 17, 1998):

1. General Sani Abacha of Nigeria 120 billion FF (or $20 billion)
2. President H. Boigny of Ivory Coast 35 billion FF (or $6 billion)
3. Gen. Ibrahim Babangida of Nigeria 30 billion FF (or $5 billion)
4. President Mobutu of Zaire 22 billion FF (or $4 billion)
5. President Mousa Traore of Mali 10.8 billion FF (or $ $2 billion)
6. President Henri Bedie of Ivory Coast 2 billion FF (or $300 million)
7. President Denis N'guesso of Congo 1.2 billion FF (or $200 million)
8. President Omar Bongo of Gabon 0.5 billion FF (or $ $80 million)
9. President Paul Biya of Cameroon 450 million FF (or $70 million)
10. President Haile Mariam of Ethiopia 200 million FF (or $30 million)
11. President Hissene Habre of Chad 20 million FF (or $3 million)

Speaking to representatives of African civic groups meeting in the Ethiopian capital, Addis Ababa, to prepare the African Union to be launched in South Africa, Nigeria's President, Olusegun Obasanjo, said that "corrupt African leaders have stolen at least $140 billion (£95 billion) from their people in the decades since independence" (*The London Independent,* June 14, 2002; web posted).

Foreign aid has not been spared, either. Says The Economist (Jan 17, 2004): "For every dollar that foolish northerners lent Africa between 1970 and 1996, 80 cents flowed out as capital flight in the same year, typically into Swiss bank accounts or to buy mansions on the Cote d'Azur" (Survey; p.12). At the Commonwealth Summit in Abuja, Nigeria on December 3, 2003, former British secretary of state for international development, Rt. Hon Lynda Chalker, revealed that 40 per cent of wealth created in Africa is invested outside the continent. Chalker said African economies would have fared better if the wealth created on the continent were retained within. "If you can get your kith and kin to bring the funds back and have it invested in infrastructure, the economies of African countries would be much better than what there are today, she said (*This Day* [Lagos], Dec 4, 2003). On October 13, 2003, Laolu Akande, a veteran Nigerian freelance journalist, wrote that:

> "Nigeria's foreign debt profile is now in the region of $25-$30 billion, but the president of the Institute of Chartered Accountants of Nigeria, ICAN, Chief Jaiye K. Randle, himself an eminent accountant and social commentator has now revealed that individual Nigerians are currently lodging far more than Nigeria owes in foreign banks. With an estimate he put at $170 billion it becomes immediately clear why the quest for debt forgiveness would remain a far fetched dream" (http://nigeriaworld.com/columnist/laoluakande/articles.html)

In August 2004, an African Union report claimed that Africa loses an estimated $148 billion annually to corrupt practices, a figure which represents 25 percent of the continent's Gross Domestic Product (GDP). "Mr. Babatunde Olugboji, Chairman, Independent Advocacy Project, made this revelation in Lagos while addressing the press on the survey scheduled to be embarked upon by the body to determine the level of corruption in the country even though Transparency International has rated Nigeria as the second most corrupt nation in the world" (*Vanguard,* Lagos, Aug 6, 2004. Web posted at www.allafrica.com).

This is the environment in which the AfDB operates and over 95 percent of its clients are ministries and agencies of these "governments." In 2003, 121 project loans were approved by the AfDB; 98 percent went to government ministries and agencies. So far this year, 19 project loans have been approved, as posted at its website; only two went to non-government borrowers.

4. **Mission Creep and Problem Portfolio**

The Bank often deals with crafty bandits, who hijack and corrupt such buzzwords as "development", "democracy," "foreign investment" and "rule of law." Development" to the ruling vampire elites means developing their pockets and they seek "foreign investment" by investing the loot in foreign bank accounts.

Ask them to privatize state enterprises and they would sell the companies to themselves and their cronies at fire-sale prices. In 1992, in accordance with loan conditionalities, the Government of Uganda began a privatization effort to sell-off 142 of its state-owned enterprises. However, in 1998, the process was halted twice by Uganda's own parliament because, according to the chair of a parliamentary select committee, Tom Omongole, it had been "derailed by corruption," implicating three senior ministers who had "political responsibility" (*The East African*, June 14, 1999). The sale of these 142 enterprises was initially projected to generate 900 billion Ugandan shillings or $500 million. However, by the autumn of 1999 the revenue balance was only 3.7 billion Ushs.

Ask them to respect the rule of law and they would rather bend the law to respect their whims. In January 2000, the ruling party's (KANU's) gang of thugs known as *Jeshi la Mzee* ("the old man's army"), attacked a group of opposition leaders outside parliament who were protesting against the resumption of IMF assistance. "It was the protesters, not the thugs, who were arrested" (*The Economist*, Feb 5, 2000; p.42). Said *The Economist* (March 16, 2002): "In Zimbabwe, the thieves are in charge and their victims face prosecution" (p.18).

Ask them to trim their bloated bureaucracies and limit government intervention in the economy and they will establish a "Ministry of Less Government Intervention." Ask them to establish a market-based economy and place more emphasis on the private sector and they will create a "Ministry of Private Enterprise," as Ghana did in 2002.

Ask them to establish democratic pluralism and they will create surrogate parties, appoint their own Electoral Commissioners, empanel a gang of lackeys to write the constitution, inflate the voter's register, manipulate the electoral rules and hold coconut elections to return themselves to power. Even African children could see through this chicanery and fraud. Said Adam Maiga, from Mali: "We must put an end to this demagoguery. You have parliaments, but they are used as democratic decoration" (*BBC News* website, May 10, 2002).

Ever noticed that since September 11, 2001 and the U.S. declaration of "war on terrorism", all sorts of African despots have also claimed to be fighting terrorism in order to win U.S. sympathy and aid? Never mind that these tyrants are themselves the real *state terrorists!* The regimes of Omar Bashir of Sudan, Yoweri Museveni of Uganda and Robert Mugabe of Zimbabwe were all fighting terrorists! Even former President Charles Taylor of Liberia established an Anti-Terrorist Unit to terrorize the people!!

Aided by a gaggle of intellectual collaborators, they resist any attempt at reform. Reform becomes a charade, the rule of law a farce. Eventually, the coconut republic implodes: Somalia (1993), Rwanda (1994), Burundi (1995), Zaire (1996), Sierra Leone (1997), Liberia (1999), and even Ivory Coast (2000), where the AfDB was headquartered.

The AfDB is often duped by these gangster regimes and co-opted to become an extension of their treasury. The Bank's original mission has now become so elastic that it has lost its meaning. The terms -- "poverty-reduction" and "capacity building" have been perverted or corrupted by these governments to define every project submitted to the Bank for funding. Currently, the Bank has approved a loan for "capacity building of rural women in Ethiopia" – whatever that means. Here are some examples of projects of dubious value that are being funded in 2004 by the AfDB posted at its website (www.afdb.org):

- Jan 15: AfDB and Djibouti Sign Loan and Grant Agreements totaling the Equivalent of US$ 5.94 Million to finance the Basic Health services Reinforcement Project (Health I Project)
- Jan 16: AfDB and Senegal Sign a US$ 35.67 Million Loan Agreement to finance the Private Sector Adjustment Support Program (PSASP) in Senegal
- March 5: In response to the deadly earthquake, which occurred in the Al Hoceima region on 23 February 2004, the AfDB provided, through an accelerated procedure, an emergency grant of $500,000 to Morocco. The assistance, obtained from the Special Emergency Relief Fund of the AfDB, was intended to meet part of the foreign currency cost of humanitarian aid for the victims of the earthquake.
- March 17: AfDB approves a Loan and a Grant of $37 Million to finance Healthcare Development in the Democratic Republic of Congo
- March 17: AfDB approves a Loan and a Grant of $7.74 Million to finance the Education Sector Support Project in the Democratic Republic of Congo
- March 31: AfDB Provides Education Sector Support To Chad
- April 12, 2004: AfDB, Liberia sign humanitarian emergency grant agreement
- May 5, 2004: AfDB and Tunisia sign a loan agreement for railway infrastructure modernization.

Sudan

The AfDB is providing "Institutional Support to the Government for Poverty Reduction." The project has two main components, namely, (a) Short-term training courses for Government personnel from the Ministry of Finance and National Economy and Social Sector Ministries, and the carrying out of short-term studies in key policy areas; and (b) the provision of technical assistance and (c) Computer & office equipment.

AfDB is also providing "Humanitarian Emergency Relief Support to the Victims of the 2003 Floods" in Sudan. The proposed humanitarian relief assistance entails the provision of kits to prevent cholera and water-borne diseases, drugs and supplies, spraying equipment and chemicals for environmental sanitation. It will complement the assistance provided by other donors in different areas of need

Tanzania

AfDB is funding the following projects:

Rural Marketing Program involving the following components: (i) Market infrastructure and facilities; (ii) Market organization; (iii) Marketing information and communication systems; (iv) Agricultural marketing policy and regulations and (v) Extension, research and training.

Support for Strategic Plan Action Plan for Vocation & Technical Education Project. The project consists of the following 4 components: (i) Upgrading renovation & construction of vocational training centers; (ii) Improvement of the quality in Graphic School; (iii) Curriculum & Staff development and (iv) Project management. Environmental Category II

Institutional Support in the Ministry of Finance. The projects will consists of the following components: (i) Aid information management system; (ii) Training (short-term courses, workshops and study tours); (iii) Purchase of vehicles & computers; (iv) Strengthening the

Government technical audit systems and (v) Provision of technical support to the ADB Desk Office.

Ghana

Emergency Relief to Drought Victims.

Health Services Rehabilitation III
The project will comprise the following components: (i) strengthening district health services; (ii) support to the national blood bank; (iii) support to the national HIV/AIDS control program and (v) support to the Project Management Unit.

Senior Secondary School Support Project III.
The key components are: (a) Expand access; (b) Improve quality of Teaching and Learning; (c) Management Efficiency.

Poverty Reduction Support

There are many conceptual and practical problems with many of these loan projects. First, loans to African government ministries and agencies for development purposes reinforces the statist (state-led) development approach that has failed miserably in Africa. Africa's post colonial history shows that the vampire state has been the major obstacle to development. Why should the AfDB be providing more loans to the state and not the private sector where wealth is created?

Second, allocating more AfDB loans to the state or modern sector defies common sense. There are three Africas: modern, informal, and traditional Africa. They do not operate by the same logic and rhythm. The vast majority of the African people live in the informal and traditional sectors. Agriculture is the main occupation of the people. Africa cannot be developed by ignoring the two sectors; nor can they be developed without understanding how they work. But these were precisely the two sectors African leaders and elites neglected. The AfDB is repeating this error. The Bank's commitment to agriculture has remained low at 18.5 percent of its total portfolio and its agricultural portfolio's performance has been the worst. "Performance of the agricultural portfolio is below the Bank's average performance. In 1997, 16 percent of 142 agricultural sector projects were rated as problem projects with respect to implementation progress (IP). Twenty-three percent of the agricultural sector projects were rated unlikely to attain their development objectives (DO)" (Agricultural and Rural Sector Policy, 2000. Posted at
http://www.afdb.org/projects/polices/pdf/agri_policy_apr2000.pdf?n1=7&n2=1&n3=0 0.

Third, it is debatable whether AfDB should be in the humanitarian relief assistance business but the increasing provision of Bank loans for basic programs such as education and health care is of concern. These are services which a normal government should provide its citizens out of tax receipts under normal circumstances. But then again, a normal government does not exist in much of Africa. Of more immediate concern, however, is the increasing involvement of the AfDB in the "policy reform" area.

Billions of dollars were spent by the World Bank, multi-lateral institutions and foreign donors to bribe or cajole recalcitrant African despots to implement political and economic reform. But the democratization process, which gained momentum after the collapse of communism in 1989 has been stalled or reversed by political chicanery and strong-arm tactics. In 1990, only 4 of the 53 African countries were democratic. This tiny number grew to 15 in 1995 but shrank somewhat to 13 in 1997 and bounced back to **16 in 2004**: Botswana, Benin, Cape Verde Islands, Ghana, Kenya, Madagascar, Malawi, Mali, Mauritius, Namibia, Nigeria, Sao Tome & Principe, Senegal, Seychelles, South Africa and Zambia. Even then, the application of a rigorous definition of "democracy" would reduce this number. Besides periodic elections, democracy requires a constitution that is freely negotiated, a neutral and independent media, an independent judiciary, an independent central bank, as well as a neutral and professional armed forces -- requirements which some of the "democratic" countries listed above would fail to satisfy.

The record of economic reform sponsored by the World Bank and the IMF is even more dismal. According to UNCTAD (1998), "Despite many years of policy reform, barely any country in the region has successfully completed its adjustment program with a return to sustained growth. Indeed, the path from adjustment to improved performance is, at best, a rough one and, at worst, disappointing dead-end. Of the 15 countries identified as `core adjusters' by the World Bank in 1993, only three (Lesotho, Nigeria and Uganda) are now classified by the IMF as `strong performers" (p.xii).

The World Bank itself evaluated the performance of 29 "adjusting" African countries it had provided more than $20 billion in funding over the ten-year period, 1981-1991. Its Report, *Adjustment Lending in Africa,* released in March 1994, concluded that only six African countries had performed well: The Gambia, Burkina Faso, Ghana, Nigeria, Tanzania, and Zimbabwe. It may be noted that 6 out of 29 gives a failure rate in excess of 80 percent. More distressing, the World Bank observed that "no African country has achieved a sound macro-economic policy stance" (p.6). Barely a year later, however, this number had shrunk to two: Burkina Faso and Ghana. By 1995, SAP was on the verge of collapse in Ghana. By March 2001, the incoming Kufuor administration had placed Ghana, the Bank's "star pupil" on the HIPC intensive care unit and on July 5, 2002, the outgoing World Bank Resident Director in Ghana admitted that the Bank probably made a mistake in tagging Ghana an "economic success story." Ghana's real per capita income is about 10-15% below 1983 level when the structural adjustment program was launched in 1983.

5. Lack of Enforcement Mechanisms

Projects approved by the AfDB are supposed to have been "vetted" by national governments in transparent processes. The Bank may also set guidelines on transparency, oversight, cost control and accountability measures. But it cannot enforce them since Bank representatives reside in most client countries often with a skeleton staff for basic tasks excluding public liaison. The total absence of full resident missions in some countries of operation makes it difficult to evaluate the projects it finances, disseminate information and engage in public dialogue. AfDB also has to be careful in its oversight activities without interfering with the political process or becoming ensnared by it. If it becomes too involved, it risks becoming an "enabler." Therefore, even if the Bank becomes squeaky clean, it can only take tepid steps such as holding conferences and workshops on corruption or withdrawing from the Lesotho Water Project that was riddled with corruption. Bank reform without a concomitant "environmental reform" would be meaningless.

6. Improving the Bank's Operational Efficiency

Assuming that the "environment" remains as it is and cannot be reformed, then the following suggestions will be made to improve the AfDB's operational efficiency.

Its scope of operations needs to be limited. Original objective of promoting regional development to meet especially energy needs has been submerged in favor of a far more expansive purview that now serves as an extension of domestic treasuries. It has further been expanded. The African

Development Bank Group has already approved $372.5 million for NEPAD infrastructure projects (AfDB Financial and Operational Analysis, 2003. Posted at http://www.afdb.org/financial/pdf/adb_financial_presentation_may2004e.pdf

NEPAD (New Partnership for Africa's Development) undertakes "to respect the global standards of democracy, whose core components include political pluralism, allowing for the existence of several political parties and workers' unions, fair, open, free and democratic elections periodically organized to enable the populace to choose their leaders freely." It also includes a "peer review mechanism" by which African leaders who misrule their countries would be subject to criticism by fellow African leaders according to commonly agreed standards. NEPAD was trumpeted as "Africa's own initiative," "Africa's Plan," "African crafted," and therefore "African owned." While African leaders deserve credit for at least making the effort to craft an "African initiative," NEPAD is fatally flawed in many ways.

First, it turned out NEPAD too was modeled after a foreign plan: The U.S. Marshall Aid Plan, which rebuilt Europe after World War II. How could it be "African crafted" when it is a copy of the Marshall Aid Plan? How could Africa claim ownership over someone else's idea? Furthermore, the $64 billion in investment NEPAD sought from the West, reflected the same old aid dependency syndrome.

Second and more serious was the blatant dishonesty and double-speak that infected NEPAD. Speaking at the four-day OAU Civil Society conference (June 10-14, 2002), President Obasanjo of Nigeria noted that the involvement of civil society is required in order to make the on going establishment of African Union (AU) and NEPAD successful. "I would like to reiterate that much of what Africa has today gained in the areas of political and social sphere have been derived from the direct influence of Civil Society Organizations (CSOs). This attitude should continue," he added (The Daily Monitor, Addis Ababa, June 14, 2002). Prime Minister Meles Zenawi on his part said that the role of civil society is essential in making a sustainable development and integration in Africa. Meles noted that the success of African Union with NEPAD lies in collective efforts of all Africans at the grass root levels (The Daily Monitor, Addis Ababa, June 14, 2002). NEPAD also claims to be "people-oriented. Yet, NEPAD was "crafted" without consultation with Africa's NGOs and civic groups.

No civic group, church, political party, parliament or democratic body took part in its formulation. Only a small coterie of African leaders deliberated on the document, excluding the political leadership of the rest of Africa. In fact, most governments and civil society organizations in Africa first learnt about NEPAD from the western media when President Thabo Mbeki presented it in Davos at the World Economic Forum in January 2001 after a chaotic evolution. Then dubbed the Millennium Partnership for African Recovery (MAP), crafted by Presidents Mbeki and Bouteflika, it was merged with the Omega Plan, spearheaded by President Abdoulaye to create the Compact For African Recovery by the Economic Commission for Africa (ECA), which subsequently metastasized into NEPAD.

A furor erupted in Africa when it became clear that NEPAD was crafted more to placate Western donors rather than address issues of concern to the African people. On Jan 9, 2001, representatives of some 200 social movements, organizations and institutions, meeting in Bamako, Mali, issued "The Bamako Declaration," strongly condemning the lack of consultation with civic society. Another joust came in March 2002, when the Southern African Catholic Bishops Conference (SACBC) slammed NEPAD, calling the plan "ambiguous" and some of its proposals "dubious." The Bishops averred that "NEPAD may not achieve its purpose because of lack of consultation with those the plan would affect" (*Mail & Guardian* (Johannesburg). March 8, 2002). In fact, such has been the history of other grandiose initiatives and mega-plans announced by African leaders at various summits to address Africa's woes. Nothing is subsequently heard of them.

For real African development, the AfDB should:

A. Limit to 20 percent of its portfolio lending to African government ministries and agencies. The statist development model has not served Africa.
B. Limit its lending to countries on the verge of implosion. AfDB lost many of its investments to state collapse.
C. Focus on the informal and traditional sectors where the vast majority of the African people. Genuine economic development must come from small-scale projects and with micro credit, poor Africans can lift themselves out of poverty and prosper. On June 24, 2002, the BBC posted on its website the successful tales of three African entrepreneurs. The following is a short account of their stories.

Bamako, Mali: In the space of five years, Mariam Jaras Dirassouba rose from being a housewife to a bank manager. She had been unemployed with no access to credit and few opportunities to generate cash to support her family. Her story began when she and a group of Malian women started borrowing small sums of money of up to $50 from an Oxfam-backed local organization. With their loans, the women started money-making projects, including selling spices or kindling in the local markets. Their success led the women to demand training to set up a cooperative bank to help their friends and neighbors. When the number of women grew to 260, the bank was in a position to issue big loans of $1,000 or more to finance much more ambitious business plans, including a mango juice factory and a cloth dying business. Mme Jaras Dirassouba became the manager. Thus, the women gained the skills to access the formal banking system while giving other women the chance to borrow money to start out in business.

Kebemer, Senegal: Collecting rubbish gave a new financial freedom to a group of women in the small town of Kebemer. The women borrowed money to buy a horse and cart, employed rubbish collectors, and earn a salary by cleaning up the streets on a daily basis. Since the local authorities lacked funds, garbage piled up, causing illnesses among the children playing outside. When people saw the benefits of the daily service, they were willing to pay for it. The project has not only reduced health problems, but it has also created income and employment for 20 people. The idea of a new force of dustbin women was first conceived in 1998 and got off the ground after Christian Aid provided the loan for the first horse and cart. The women then earned enough money to buy more than 300 dustbins and 10 horses and carts, and employ administrators to organize the project, spanning 500 homes. There were profits left over to invest in new money-making projects, including traveling to Mauritania and Gambia to buy shoes for resale in their local towns.

Dekaya, Ethiopia: Bee-keeping is a traditional activity in Dekaya in southern Ethiopia, using hives made out of hollow logs. Farmers introduced more innovatively designed hives from Germany while still making the hive out of local wood. The improvements raised productivity, with each hive producing about 26 kg of honey, compared to the 3 kg produced with the old-fashioned method. About 150 farmers benefited from the new technology, after Action for Development provided technical training and the loans for the first hives to be used. The farmers then set themselves up as a cooperative, with the aim of securing their own loans from banks to buy new hives in the future. With such success, the children could go to school, have access to better accommodation, and one man has been able to build a new house with the money raised from selling honey.

The problem is, it is foreign charities which are providing these small but productive micro-credit. I believe this is the area where the AfDB should be structured to be in, rather than providing loans to crooked African governments.

Thank you.