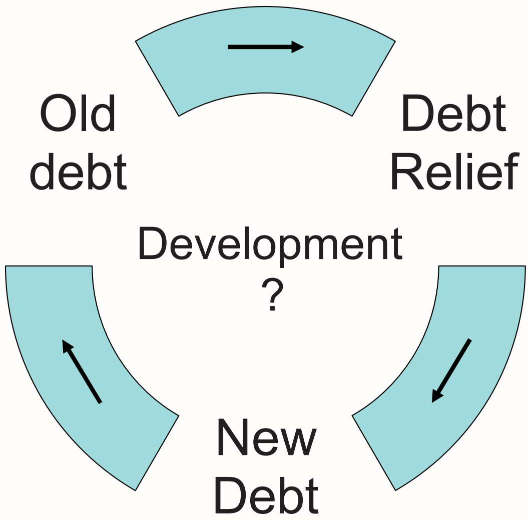
Debt Relief and Development in Africa



Konrad Adenauer Stiftung

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Foreword

The G8 action plan on debt relief, initiated after the G8 Meeting in Gleneagles in 2005, received overwhelming public interest and raised considerable hope. Expectations regarding NEPAD were high, certainly being a positive signal.

However, shortly after the gathering many voices raised their concern, also from Africa, the continent which, supposedly, has benefited most from debt relief.

There is no doubt: debt does not help development. On the other hand: money alone does not help development, either. It all depends on the way funds are used and on those who use them.

The question if Africa is rich or poor initiated the debate in this publication. Looking at it superficially, the answers seems to be rather clear, but if one analyses the question more profoundly, additional and new issues emerge. The crucial question at stake is how can a debt relief programme contribute to Africa's sustainable development?

It is the aim of this publication, following a conference on debt relief and development in Africa, held in Windhoek/Namibia from 5 to 6 December 2005, to explore this issue further.

I am extremely grateful to the participants of this conference who have contributed without prejudice and openly to the discussions. My appreciation also goes to the Namibian Institute for Democracy for their support in organizing the conference and having prepared this publication.

Dr. Wolfgang Maier

INTRODUCTORY REMARKS

Dr. Gerhard Wahlers

Conference on Debt Relief and Development in Africa
Windhoek / Namibia 5 - 6 December 2005

Ladies and gentlemen,

The topic of our conference is debt relief and development in Africa. Obviously, this event has been organized after the July meeting this year in Scotland where the eight (8) richest countries in the world, the so-called G8, agreed to write off 40 billion US dollars in debt owed by 80 countries around the world. And out of these 80 countries 40 are located in Africa. We know that this programme could be extended to another 20 countries, bringing the overall debt relief to an amount of 55 billion Dollars.

In the meantime, the International Monetary Fond (IMF) and the governors of the World Bank also agreed on this package. This initiative has to be seen within the framework of discussions surrounding the achievements of the Millennium Development Goals, more specifically, about goal number one to reduce absolute poverty by half. This, and the massive increase of developing aid, is an initiative called the "BIG PUSH". European participants in Gleneagles/Scotland promised an increase of developing aid to 0.7% of their GDP.

This increase was justified by the findings of the Commission for Africa, which had stated during the run-up period of the summit that many African states had made substantial progress by holding regular elections and a noted increase in good governance. The discussion on debt relief is not new and not limited to the developing world. Right after World War I the famous economist John M. Keynes warned that the existence of huge debt, which had accumulated in European countries fighting the war, was a menace to financial stability everywhere.

He stated that a debitor nation does not love its creditors. Obviously, as we all know, his advice was not heeded. This mistake was not repeated after World War II, the Marshall Plan was initiated and development in Europe took a very positive step. However, economists and scholars point out that this tool is not necessarily effective under different circumstances in a different political, social and economic context.

The reaction to the G8 debt relief initiative is twofold. When we look at how this issue is discussed in public by those who are interested in development policy, we see - on the one hand - that they primarily welcome this step as an important aid measure for the developing world. Among those supporting debt relief, we have people taking a more sceptical approach regarding overall debt of poorest countries in the world. (I found calculations indicating total debt of around 550 billion Dollars). Supporters of debt relief say that its scope is much too small.

Then - on the other hand - we have others having doubts about debt relief and that it actually is an appropriate tool to initiate development. They point out that debt relief funds go primarily to the same government palms that have wasted money in the past. They point to the fact that countries having written off debt become financial pariahs, or they say that debt relief encourages borrowers to take an excessive amount of new loans, expecting the loans will be forgiven at some stage in the future anyway. Hence we reward those countries that “do not use the money properly while punish those who don’t”.

This in this discussion already shows that the issue of debt relief is not only limited to financial operations but is part of a wider discussion on how to help the developing world effectively. While having the debate, we should be aware that in Germany and many other European countries we are currently struggling with fiscal solidity.

In Germany, a newly formed coalition, the great coalition under the leadership of chancellor Angela Merkel, has agreed with regard to the budget gap to drastically cut spending and, at the same time, to increase value added tax by 3%. Within the European Union finance ministers of the member states have not been able to agree how to finance the next financial term of the EU budget. This means that an astute observer of current discussions should at least doubt the promises made. I believe it will be increasingly difficult to reach the promised goal of 0.7% of our GDP soon.

I do have another concern also being linked to the budget issue mentioned. In the light of these budgetary constraints, and due to the fact that the people actually feel that they do have less money in their pockets, scrutiny of what is financed with tax payers money is increasing. Within the European Union growing scepticism among the population can be noted. People are not convinced that money spent in various areas of development is always used wisely. I do hope that latest expectations assuming that more aid will automatically lead to poverty reduction in the world will not backfire.

Talking about Africa, I do believe that for us as Christian Democrats solidarity with the poor is a major motive. Freedom, justice and solidarity have to guide our international work. But besides showing solidarity with the poor, the motives why Western countries engage in Africa often have rather negative connotations - fighting terrorism, fighting illegal immigration, fearing a health crisis or facing future environmental challenges in Europe are quoted as reasons to engage with Africa.

This I do think obviously does not suffice to build a partnership between the western world and Africa. I firmly believe that we do need this partnership and in order to have it we need a sustained basis. The initiative of German president Horst Köhler who, as many here will know, does have wide experience in development policy issues, will lead in the right direction. He warned in an interview with the German weekly DIE ZEIT that we, the West, must beware of patronising Africa yet again and he pointed out that, regrettably, there are too many cases of corruption in Africa. He stated that the core problem of poverty in Africa is home-grown and cannot be reduced to the consequences of colonialism alone.

He thinks that it is crucial that the sovereign states of Africa acknowledge their responsibility including the awareness and need of having to shape their own future. This will mean that our deliberations will not be limited to the question of debt relief only but also need to focus on the potential and huge opportunities African countries have to offer as well as on how to use development aid more efficiently.

We, the Konrad Adenauer Foundation, want to be part of this debate and it is my aim to feed the results of our debate today and tomorrow into discussions we have in Germany and on the European level.

Please allow me to thank you for the privilege to be among this very distinguished group of scholars and practitioners, and I look forward to an interesting dialogue.

Thank you so much.

Africa: Rich or Poor from a Political Perspective*

Dr. Joseph Diescho

I must confess that I was really agonising about the right disposition to answer the question before us. So you will forgive me when I marry my background as a political science student, as an economics student, a theologian of some merit, but mainly my current preoccupation in Africa. I am trying to assist the regular folk to understand the dilemma of the African continent. I look at this dilemma as it pertains to those who are in the decision-making positions and as it pertains to those who have to keep on their toes elected officials. So I have been busy for the last two years or so to assist a major organisation in South Africa named ESKOM to come to grips with the context in which it has to execute the responsibility of leadership not only in South Africa but in the 36 African countries where the company has footprints, where the political systems failed the people of Africa. You go over there and you see that they have massive monstrosities of power and energy utility facilities, and they have collapsed because the political system has failed. So they turn to South Africa for assistance and to lift up the economies in these particular countries.

I will attempt to do four things this morning during the few minutes I have with you.

1. First, I shall query the definition of poverty and contextualise this definition in African experiences today.

2. Second, I shall take the position that will say that I believe that Africa is poor.

3. Third, I shall look at some of the challenges facing Africa today in mortgaging a better future in the context of the debate on whether we are rich or poor.

4. Lastly, I shall make some remarks on the debate about debt relief and debt cancellation.

Many things have been said, written and commented on why Africa is in her current state. If we look at the panoply of literature beginning mainly with Walter Rodney who argued that Africa's underdevelopment was a direct consequence of the development of Europe, we can appreciate the preoccupation of African leaders' dependency upon their former colonial masters. They have internalised the logic that Europe, for all intents and purposes, underdeveloped Africa because the continent was seen mainly as an outpost of interest of Europe and in many ways as a repository of resources that were needed for the use of the European communities and not for the African people.

Rodney built on the earlier text by W.E.B. Du Boys who argued that Africa was in

** Verbatim transcript of the speech delivered by Dr. Diesho during the conference "Debt Relief and Development in Africa" on 5th December 2005.*

fact raped in the process of developing the western metropolis. So we have studied all those development/underdevelopment theories, they were very helpful at that time, and remain helpful even today. However, it is very difficult now to hold on to those theoretical works such as the Bible because Africa has been free for over 40 years now. Still the disease of underdevelopment persists. It is therefore hard for some of us to continue to blame it on colonialism because there must be a point at which African decision-makers and rulers, in fact, need to take responsibility for both - what is going well in Africa today, as well as the myriad failures so well known across the beautiful, yet not too happy, continent. It is not that simple to say that we were pillaged, we were raped and therefore suffering should continue to be the order of the day. Therefore I follow in the footsteps of the late Claude Ake of Nigeria, a very notable social scientist who argued that the politics of postcolonial Africa continue to underdevelop Africa. The politics of Africa underdevelops Africa.

The extend to which there is glorification of those who hold positions of power, the extend to which one can say we are all victims of the pornography of political power, that we stopped to think and question and even remain restless as we were during the colonial period. Claude Ake was supported in a major way by Basil Davidson who authored a book "The Black Man's Burden" wherein he argues that the biggest tragedy on the African continent today is the extent to which African leaders have inherited the nation state, created in Europe, conceptualised in Europe, for the purpose of serving the European sociological and political environment and social set-up. Africa inherits that institution in toto, and post-colonial leaders do not edit it, they do not modernise it, they do not adapt it to suit the circumstances of Africa and therefore the centre has collapsed. To evoke William B.Yeates, when the centre does not hold, things fall apart. This we have seen in Africa, the actions of the centre causes things to continue to fall apart. Therefore if one looks at the classical definition of poverty, its application is problematic in the contemporary African context. According to the Encyclopaedia Britannica poverty is described as the state of a person who lacks money or material possessions. Now you go to rural Senegal, even rural Uganda, you find people who do not have 2 dollars in a year. Are they poor? Their relationships are very rich. They have their cattle, they have their goats, they have what they need to continue their lives but if you go to them and ask them "how many dollars do you use a day?" They say zero, then they are very poor. They are not poor. They are not rich, but they are not poor. So we need to understand perhaps Karl Marx in a different and new way. Karl Marx challenged the then existing philosophy of poverty when he turned it around. Instead of continuing the Philosophy of Poverty, he suggested a Poverty of Philosophy.

Africa's poverty has to be seen and ought to be interpreted in the context of the poverty of the knowledge we have about Africa. We do not fully understand the African set-up. African problems will not and cannot, shall not be solved immediately by giving people plenty of dollars. The malaise is deeper than that. The arrangement of power is at the heart of Africa's underdevelopment.

I am suggesting, that we have not begun to listen to the African voices and we need to do that a bit more. I was instructed, very helpfully if you like, by the researches we have been conducting in South Africa with regard to political leadership and I take my leave from there, only to make myself better understood. In the process of developing a training programme that will assist corporate leaders in ESKOM, the organization commissioned a study that went to all groups in South Africa, linguistic and cultural groups, to understand what they understood in their own specific contexts by leadership. The researchers talked to the Jewish communities, Indian communities, coloured communities, different fractions of the white communities and indeed the African communities, which constitutes 79% of the total South African population. The outcome of that investigation is that it is the 79% that has the least understanding of itself. That's 80% right there that has a serious deficit of what makes and constitutes a leader in South Africa's post-colonial history and their current circumstances. In other words, the Africans both in South Africa and in Namibia have internalised the notion of a leader as one who fought against colonialism.

A leader today in the minds of the majority of Africans is the person who survived the struggle against colonialism. And it stops there. Who leads then, when colonialism is no more. Therefore, we continue to judge one another in terms of "where were you in the struggle?" I mean in Namibia this is very clear if you ask questions about the political order of the day. The first thing you will be asked is: "Where were you during the struggle?" So your relevance, your vitality, your role stops right there. I know there will be other perspectives this morning and tomorrow. The issue here, however, is politics rather than economics.

Let me name a few areas, which make me convince myself that Africa is poor. I am really not talking about the economic delineations of poverty, we will hear that and we heard that from more informed economists. The Economist Magazine not too long ago, opinionated in a rather outstanding piece "Africa, the hopeless continent". Robert Guest last year authored a book "The shackled continent". It is very difficult for some of us to believe that we are hopeless and/or shackled. Some say Africa is marginalized, some of us have great difficulty accepting the marginalisation of Africa because it is all we have. We can be marginal to others, but not to ourselves!

What is clear is that there are still difficulties that we need to handle. Why do I say that Africa is poor despite the existence of reservoirs of material resources? 80% of the world's manganese, chrome, more than 50% of the world's available resources, gold, diamonds, copper, zinc, uranium. Yet if you ask an ordinary person in Namibia who does not live in Windhoek how many diamond rings they have used in their lives, you the questioner will sound very unintelligent because: is that an irrelevant question? They would not even understand the question.

There are diamonds; there is uranium; yet, the people remain poor. Ask them if they know someone who has worked in the mines, and the answer will give the whole perspective of the history of this country. People produced what they never consumed, and continue to consume what they do not produce. The question should be directed to the so-called political leader who must explain what is going on that he/she is the only person spotting expensive jewellery in the whole tribe! In the context of independent Namibia and free Africa, we have the whole world of ironies and definitions of poverty.

Why then is Africa poor?

First, Africa is poor because Africa does not have a very concise, helpful sense of self-understanding, self-definition, self-appraisal, self-affirmation, self-direction. What Africa thinks of itself is what other people have said. 'Until Lions have their own historians, all tales about hunting will glorify the hunter', goes an old African saying.

Second, African states have not begun to manage their own information technology. They have inherited the lexicon of poverty. And sometimes they like to be poor. It is good to be poor because we can fundraise on the backs of our poverty. Maybe we shall be more congruent with what we wish to be saying if we speak not of poverty but our poorness.

In this sense one has to pay homage to the current crop of African leaders who for the first time under the rubric of NEPAD acknowledge that Africa has not begun to manage her rich resources and space, and by stating that Africa's biggest resource is her people. It is the people of Africa who must believe in themselves and prepare themselves, generally, and their youth, specifically, to manage their God-given resources. Those of us who were raised in the Christian tradition will remember the teaching that we are here to watch over other creations. But Africa does not appreciate what it has.

Third, the disdain of Africa's intellectual capital makes Africa to continue to be poor. We know that more than 400 Nigerian professionals are in the U.S. We know that more than 1800 medical practitioners trained in Zimbabwe post independence are working in South Africa. We know that many qualified nurses and midwives from South Africa are working in England, to name but a few examples of the brain drain that continues to pillage Africa's most precious resources. The list goes on and on. I live in South Africa because there is no job for me in Namibia; it is as simple as that. Yet, African countries continue to go and borrow resources from the world saying we are poor. Just three weeks or so ago, Zambian President Levy Mwanawasa was at Harvard University and more than ten times in his speech he told the audience his country was poor and asked the audience for assistance. Most of the people in the audience were students! Zambia has been independent for how long now? It is almost a song now, we are poor. We need to turn that song into "we must and shall overcome".

Another major difficulty is how decision- and policy-making positions in Africa continue to be dished out and distributed to and amongst those who are the most incompetent in the nations. This leads to a severe incapacity to align and attune resources of the nations according with development goals and programmes that would help the nation move along the paths of sustainable development. The yardstick of appointing decision makers continues to be comrades, friends, and loyal members of political or ruling parties. It gets worse when nations still have the liberation movement alive and gobbling up political and economic spaces.

What happens is that people are put in charge and in management of the affairs and issues of the nations. The point is that the life of the nation is placed arbitrarily in the hands of people who could have been very good at fighting a war, a liberation war when it was required of loyal nationalists to do so. It is important to give these freedom fighters the respect and love they deserve for bringing their nations where they are today, yet they cannot take Africa into the Promised Land. What reality creates immediately is a schism in the nation--those who wallow in their own self-congratulation, self-triumphalism despise everybody else who was not with them or who bears a different perspective. Hence those who speak out that the nations' affairs are not managed appropriately are called names such as imperialist agents, reactionaries, or other descriptions that bring scorn to them in their daily lives, let alone bar them from participation in the nations' economic lives.

I am thus very pleased to see that we have an advisor to Ugandan President Museveni here, and I was beginning to take him on yesterday on the bus, when I said that Museveni has become an embarrassment to many of us in Africa. I still maintain that position as one who looked up to Museveni for the good things he said when he assumed power in 1986. I say that because that's a major problem we always have in Africa that we are critical only when we are not in the inner circles of the political and economic system. The moment the president or minister appoints us we become the biggest defenders of the system that is failing anyway, and as we have said ourselves before we were co-opted. We must all guard against what I describe as the Jonathan Moyo syndrome. Professor Jonathan Moyo was the worst critic of Zimbabwean President Robert's system. Yet the moment Mugabe brought Moyo into the fold of ZANU-PF, Moyo became the best defender of the system and the worst offender of human rights. We need to decide now as Africans: what do we want to do for ourselves?

Africa needs leaders who understand the business of governance and accountability. The misunderstanding of monetary affairs is what continues to make Africa and all of us poor. What do I mean by that? It is very difficult to countenance some of the monetary practices we see in African countries. If we are in fact poor then we clearly DO NOT BEHAVE POOR! Classical is a recent story in South Africa. The story goes that a very powerful team from the European Development Bank visited South Africa to look at possibilities of support to and partnership with sectors in the South African economy. Yet, South Africa was saying, 'Come and look and help us in our own efforts to move towards real development'. Apparently the requirements of the European institutions is that these dignitaries fly in the economic class between Johannesburg and Cape Town due to the shortness of the flight. What is most interesting is that the representatives of the South African economic sector who came to this meeting in Cape Town arrived on a chartered jet-- to ask for money from the Europeans who cannot afford to fly even business class to the very meeting! History illustrates that when we Africans go to raise funds, we are better dressed then those offering to help us with their money. Is this not in essence making fools of ourselves?

Here in Namibia we have the debate and dilemma of corruption. Corruption by way of misadministration, malpractice or simply theft has a wider area of operation than we think. Part of the donor fatigue is the frustration that the donor community has with the wastage of money they give. Here it must be stated that the syndrome of corruption is not an exclusive province of African leaders. It is not only the Africans who are corrupt.

The donors are also part of the corruption because where there is a corruptor, there is a corruptee, there is a corruptive process, there is a corrupt relationship and there is a corrupt outcome. The money with which our leaders become corrupt is not their own money. Somebody else gives that money. When the late Zairian dictator Mobutu Seseseko left so much money in European bank accounts he didn't even know how much money he had. His advisors were all of European nationalities.

Here I want to appeal to the donor communities in Windhoek to begin to accept part of their failure and responsibility in the wastage of state money. For instance, just last week, when Namibian President Pohamba was in Germany, the headlines were all about how Germany was considering "more aid for Namibia". The discussion about more aid is not and cannot be a discussion of equals. For all intents and purposes, that is a discussion between a beggar and an interested giver. To what extent can we say Namibia is equal with Germany when Namibia always goes with a begging bowl?

Here is the reality and where it begins to make or not make sense: I am told that Germany after unification has eighty-two or so million people. Yet Germany has how many cabinet ministers? Thirteen. Eighty plus million people, thirteen ministers. Now here comes the President of Namibia, representing a tiny population of 1.8 million people yet with 27 ministers in his cabinet. This is where the system of political governance begins to corrupt everything in the country. Tell me that this is not corruption of what should have been good governance. It is this lack of accountability that has failed and continues to fail Africa!

Bad governance continues to be one of the hallmarks of our poverty. It is very sad and it must be mentioned for all to hear how we are continuing to make fools of ourselves. That the representatives from the developed world based in Namibia have been silent on this very bad practice is just as bad as those who are in the practice as such. State expenditure on the ostentatious behaviour of African Heads of State like the Namibian President cannot be justified. For instance, when the Namibian President goes to Botswana, all cabinet ministers must accompany him to the airport to say good-bye to him, when they just met with him the day before! Not only are the ministers required to go to the airport on his departure; they are also required to be there when he returns. And woe unto those who are seen not to be there to show their respect! Their job and political security could be seriously jeopardised. There is more. Heads of Missions and Embassy representatives also go to accompany the President to the airport and receive him when he comes back. Now, Ladies and Gentlemen, who is fooling whom? Can those who sponsor this silly behaviour of our leaders really respect the African leaders when they continue to do that with their money?

This is leading to the so-called debt cancellation debate. These African leaders have the audacity to say cancel the debt that we accumulated from your help when we do these foolish things! Here I am really appealing to the donor community to assist our leaders to become more realistic with the little money that we have today.

So the challenges ahead, my friends, are:

First, there ought to be a beginning to appreciate the agricultural sector in Africa. I have asked many black decision makers both in Namibia and South Africa if they have or know friends who are in the agricultural sector, those who are producing food for the market. No! They do not. The so-called Black Economic Empowerment is targeted more towards the creation of a tiny very rich, extremely rich black elite of politically connected individuals. Most of it tends towards the mining sector and other lucrative sectors, not food production. A country that does not produce its own food cannot claim to be self-reliant. A country that does not feed itself is therefore poor.

If we are really serious about assisting Africa to overcome poverty, we need to start to respect the definition of the World Bank. When people do not have food to eat everyday, they are poor. If people have to depend on handouts to feed their families, they are poor. I am surprised that the donor community has not engineered some measure of persuading our leaders to set up agricultural sectors where the young people in Namibia/South Africa and elsewhere are taught to produce food, store food, manage food, protect food and improve on food production. I am talking about food security. Look at many countries that have all the minerals but have to borrow money to buy food. That is very sad. Now you can give me the most expensive watch, a Rolex, you can give me the most expensive Mercedes Benz, and I am hungry, then I remain poor. So we need to think about how African people subsist to survive, and channel our resources there.

Africa is failing to meet the challenges in the Millennium Development Goals of halving poverty by the year 2015. Then African leaders say it is the world that is failing us because we are getting the funds to look after our leaders' life styles. This is very difficult to understand. When are we going to begin to look at what we have and tune our resources, human and natural, to look after the needs of the people here? If we are poor than we must behave poor, and change our conditions and circumstances. The developed nations were where we are today, and they changed that by learning to crawl, then toddle, then run before they could fly. We want to show off that we can fly on other people's accounts. Clearly that is not right!

And that is what Ali Mazrui aptly describes as a syndrome of borrowing the wrong things. We Africans like to borrow the wrong things from the West. To paraphrase Mazrui, Africa has borrowed the culture of consumption but not the culture of production. Africa has borrowed the culture of ostentatious showing and displaying of what we have but not the habit of creating, not even maintaining what is available. Significantly, Africa has borrowed the culture of wearing expensive wristwatches, but never watch the wrist watches to be punctual!

A major challenge for us is the challenges of governance. The debate, therefore, about debt relief and debt cancellation has to be reconceptualised. I do understand the rhetorical language that debt must be cancelled. The question, however, is: How do you cancel the debt that was accumulated by dictators? By whose mandate do you cancel that debt, and who will benefit? Action Aid International and some NGO formations in Africa have begun to assist us to say that discussion about debt relief or debt cancellation must no longer be confined to state representatives only. Civil society must come to hold sway on the debate to the extent that the civil society participants should direct the discussion that may lead to a very positive outcome of debt relief namely, when the debt is forgiven or reduced, it is the people that benefit, not the ruler that is forgiven. I hope I am making my point here, namely, those who stole from the people should not be the ones to be forgiven. They must still account for the resources they have plundered—to the people on whose backs they accumulated the resources.

About two years ago when the G8 met, and the G8 told the representatives of the African Union to enter into communication with their civil societies back home, Presidents Thabo Mbeki and Olusegun Obasanjo were on the radiophone from Washington, D.C. to answer questions from their respective countries. Could they not have thought of it naturally as leaders, without the donor community requiring it as part of the fundraising process? Why must it take other nations to remind African leaders of what they must do as a matter of course, namely engage civil society and other relevant stakeholders in the affairs of their nations? It is now common practice that when our leaders go to the world to ask for help, they drag with them representatives of the private sector and civil society. Company CEOs and traditional chiefs get a call from the State House when a fundraising trip is on the cards: “His Excellency wants you to come, get your best suit, you are going on the aeroplane as part of the delegation to Germany or America.” So that the President can say “I have these leaders with me.” In fact they are not part of the debate. Worse, they are not part of the preparations of the trip. In the end, they end up costing the state more than their fair share of the yields of the trip.

It is important that donor communities need to work much more directly with civil society components in our respective countries, and I am very gratified to see that in Namibia this is happening. We have a President who has an ear, has openness; he has a heart to begin to listen much more organically to the voices of civil society. I thus hope and pray that that debate will continue so that the Private Public Partnership (PPP) is strengthened in our debate.

Germany has a very crucial role to play in Namibia, and that role can become more meaningful if the participants are not only those from government. Please help African leaders listen to their own people because they have not begun to listen yet. If the donor community embarks on programmes and projects that will make more positive and practical harmonious conversations between civil society and the representatives of state, I am positive that the issue of poverty will be tackled much more realistically to yield medium and long term results. Chinua Achebe, the Nigerian writer, has given us a warning about current reality in African politics. As far back as 1958, in his seminal novel, The Man of the People, Achebe gave a rendition of what needs to be said even today with more amplification. He writes: ‘The trouble with our new nation was that none of us had been indoors long enough. We have all been in the rains together until yesterday. Then a handful of us the smart and the lucky and hardly ever the best...had scrambled for the one shelter our former rulers had left, and had taken it over and barricaded themselves…and from within they sought to persuade the rest through numerous loudspeakers. This argument should cease and the whole people speak with one voice…’ That call for loyalty to a few or perfect man leads to blind loyalty, to silence, to inaction, to non-productivity. That is at the heart of Africa’s poorness!

Africa- Rich or Poor- an Economists Perspective*

Dr. Geoffrey . A. Onegi - Obel

Chairman, Uganda Securities Exchange Ltd

I thank the foundation for inviting me to come and share with you on this very important subject.

However, I should like to make a few remarks. After Dr. Diescho's very exciting political perspective, you are now going to suffer under a very dull financial treatment of this subject by a half-baked economist's perspective.

You will have to forgive my treatment and perspective on this subject because I am not an economist as such - I am an Investment Banker. I understand financial instruments better than economic theories and so on. I understand financial issues better than economic theories, so you will forgive me.

However, I think my attempt at this subject might not be too far off, because as an Investment Banker, what we do is to use economic data generated by economists to structure instruments for pricing in the economy. We can therefore price anything – from a commodity to, for example, a country or nation state through a sovereign rating. So I think we are quite close there, and I will not be too far off on the main topic of an 'economists perspective' on whether Africa is rich or poor.

First of all on the subject of expensive watches – taking a look at this watch on my wrist. This is a Chinese-made watch. It tells you what the Chinese are up to world-wide – they are breaking every rule in the book of economic development – even as traditional economists continue to predict an 'economic meltdown' in China year after year. The supposedly dangerous 'double digit' real growth rates financed by domestic savings and exports continue to transform China's social and economic variables year after year with no meltdown in sight.

The lesson of China to Africa – and by implication Asia, is that while the principles of development economics [AID, Investment and Productivity] may stand and endure, those principles alone cannot yield optimal results for developing economies in Sub –Saharan Africa. It is the domestic application of those enduring principles of economics [AID, Investment, and Productivity], that will produce better than MDG results.

Secondly, while it is possible to have the key economic indicators of continents and sub-continents aggregated to generate various benchmarks for the pricing of assorted risks at household, national, regional and continental levels, Africa is a large aggregate

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[1] *Verbatim transcript of the speech delivered by Dr. Onegi-Obel during the conference "Debt Relief and Development in Africa" on 5th December 2005.*

of complex and differently endowed countries. One has to be careful not to be misled into the paradigm of Africa as one 'country'. Accordingly, I am going to treat this subject under three (3) broad parameters:

First Aid, second Development, that is the Development Function, and then, lastly, MDG goals.

And since Dr. Diescho has provoked me, I think he was being deliberate, he was trying to make me say something about my portfolio as a Senior Presidential Adviser on Trade - and about President Museveni and the situation in Uganda, I will later say something about that, too.

The AID function

But let me start by the first parameter and that is Aid.
There is a broad constituency now among Africans leading to the conclusion that we should desegregate Aid from the Development Function. In my view Aid clearly belongs in the emergency room of sovereign economies and countries. Why should we do that? Because AID cannot and will never be a development program. It can only be an emergency program, quite adhoc, designed to alleviate poverty and human suffering contingent to some natural – or in the case of Africa - even man-made disasters.

The history of Aid is well known to all of us. Aid in Africa came about at the turn of the century, when missionaries were coming into Africa to win souls - hot on the heels of the famous merchants for the Partition of Africa. The highly motivated missionaries came with their vocation, skills and medicines – this was AID. On the other hand, the merchants of the metropolis partition countries came with a more earthly objective and without any notion of AID – to make as big a margin as possible on the trade between their bangles, mirrors and other cheap goods, in exchange for the valuable raw materials of the 'dark continent'.

But the point here is that even historically Aid belonged in the emergency room. Accordingly, Aid should be divorced from the concept of development. And why do I say so? I say so because the numbers are now very clear.

The Development Function

It is universally [excluding Africa] accepted that Development is about jobs, nothing else.

Aid does not create jobs in African countries and it will never do so – because by definition, it is of an emergency nature, and it was never meant by the ODA economies to create jobs anyway in African countries. The development function is about job creation. No matter how many or how much the economic indicators in an economy show, no matter the economic performance of the economy anywhere in the world, so long as you are not creating jobs, you are not going anywhere.

So, in our simple understanding we have decided to say that since aid does not create jobs and has a nominal relationship with the development function, it should be put where it belongs- in the emergency room of governments in Africa. We can then look at the challenge of generating jobs and monetising our African economies without the 'Policy Confusion' that comes when AID is wrongly factored as a significant variable for economic development.

Let us now look at what creates jobs. The first step required is obviously a paradigm shift in our operating an awkward 'Aid can lead to development' growth model - in favour of domestic savings and the exports of finished, as opposed to primary, products.

This paradigm shift is urgent and necessary. If I may illustrate. We have tracked one US dollar of World Bank IDA 0.75% concessional Aid from Washington. By the time this 'concessional aid' arrived in Kampala, it was 20 (twenty) cents. It left Washington as 1 US dollar, by the time it arrived in Kampala, it was 20 cents.

Now, as you know, World Bank IDA money attracts the lowest rate, 0.75% on the dollar per annum. Now, the maths showed that when we are paying back this now notional one US dollar- [you remember that we started of with one dollar, that is now 20 cents]- we are also paying for the 80 cents, which we never received. And then it does not stop there.

On top of paying the 80 cents, which we never received, we also had to convert this notional one US dollar into Ugandan Shillings. Now, during that process of conversion, our Central Bank issues Treasury Bills to, what they call in World Bank speak, 'mop up the excess liquidity' generated by that conversion process. During the process of that conversion, the general interest rate regime in the economy is pushed up on the Uganda Shilling .

What came in the shape of one notional dollar, at 0.75%, was now, after being converted into the local currency, in the upper double digits on the shilling. This is what is known elsewhere as the crowding – out effect of aid. I think Dr Greg Mills will talk about that.

Domesticating Foreign Direct Investment.

Now, once you have accepted that, you have to ask yourself: do we really need this aid? In my view and the view of many like-minded people, we really do not need that kind of aid. Assuming that I have somehow persuaded all of you that we have to disaggregate Aid from the Development Function. We begin to see clearly that development is a function of domestic savings – even in Africa – not withstanding the tenuous 1US Dollar a Day Theory.

It is a global perspective that countries will grow, and economies will generate jobs, based on the savings engineered in the domestic economy, described in the literature as Domestic Direct Investment [DDI].

Countries and economies do not expand and grow and create jobs because of just Foreign Direct Investment [FDI]. Without a significant DDI function, whatever FDI inflows generated will be on the short end and of the speculative type. The lessons of China and Asia for Africa is that we in Africa have to domesticate foreign direct investment with domestic direct investment, in order to yield any significant growth, which causes GDP expansion and therefore generates jobs. That is paradigm shift imperative.

Homeownership, Education and Health Savings Products

Now what are the components of domestic direct investment? What causes domestic direct investment? All of us know that domestic direct investment is driven by three engines [DDI]: 1) the home ownership industry; 2) education, the education function; 3) and the health function.

If you want citizens to save, all you have to do is to direct them towards a savings product, which allows them to own a home. If you want citizens to save, all you have to do is to persuade them, and that will not be very hard, that the children have to be educated through a saving for education product. If you want citizens to save, all you have to do is to convince them and it will not be very hard to plan for their health through a savings for health product.

Now, some of you are now wondering what this gentleman is talking about. Savings products in Sub-Saharan Africa where people are supposed to live on 1 US dollar a day? Now, Dr. Diescho has already told us that in reality, we Africans are not as poor as we think. He is correct.

In the absence of savings products in African economies as well as the enabling monetary and fiscal policy regime, citizens convert their disposable incomes in cows, chickens, goats and so on. Incredibly, official monetary policy in Africa is 'cash management of the dominant budget process'. This official monetary policy is underwritten by the multilateral lending institutions and keeps the informal sector in Africa dominant - and outside the reach of monetary and fiscal policy. In other words, the economy does not intermediate our goats, cows and chickens. Now, if it does not, what does a typical so-called poor African with his goats, cows and chickens and 1US Dollar a Day do?

He goes and remains in the savings vehicle, which he/she relates to: cows, goats and chickens. Now, whose fault is that? That is the policy function, it is the domestic policy function. If we do not, as governments in Africa, if we do not send policy signals to our citizens which they understand, that is where we end up. We end up, like my own country. My country Uganda is referred to as one of the better performing economies in Africa, with high growth rates of 6/7% per annum over the last, actually 10/15 years and we are told that is fantastic.

But when you look at the Ugandan economy with my kind of eye glasses, you will find that that 6/7% growth in GDP points p. a., which is supposed to be exemplary, it is on a very narrow GDP base, which is not expanding.

I would rather have 2/3% points of GDP growth on a wide and expanding GDP base.

What point am I trying to make here? I am suggesting that if we want to engineer GDP expansion so that it creates jobs in our economies, we must go back, we must effect a paradigm shift in our growth model and look at those three variables I talked about: home ownership, education and health. Those are global savings variables.

The so-called miracle of the so-called Asian dragons had everything to do with those three savings variables of homeownership, education and health – which three variables are the ones which by causing the inter-mediation of cows, goats and chickens, generate domestic savings which can then be used to domesticate FDI.

Now, this brings me down to the MDG goals.

It is now also quite clear that in our countries in Sub-Saharan Africa, if we are to achieve even the very lowly MDG goals, in my view we have to grow by a minimum of at least 8% points per annum. Now where does that put the so-called high performing Uganda with its 6/7%? If we are to achieve the very lowly MDG goals, we have to grow by a minimum 8% on a sustained basis.

Now having said that, are we poor? I think it is quite obvious that we are poor. Because even the MDG goals, which are staring us in the face, as I am talking now, are not achievable unless we effect a paradigm shift in favour of domestic savings in our growth model.

We are poor because we have not dis-aggregated Aid from the Development Function, and we shall continue to remain poor if we do not do that. We are poor because, and in spite of, our huge natural and human resources.

In our world of finance, we define a developed country as one which presents the widest and most diverse range of saving instruments in the economy, the poorest are those which present the fewest and most primitive forms of saving instruments. If you come to Uganda, an exemplary economy in Africa, and you stay for one year, the first thing that will strike you is that no-one will come to you to try and sell you a savings product. From January to December, no-one will disturb you.

The second thing that will strike you is that in the so-called high performing economy there are hardly any financial benchmarks worth talking about. The few dominant instruments which are issued by our Central Bank and the Ministry of Finance are on the short end of any tenor - with derivatives of the one year treasury bill as the most actively traded.

There is no medium to long-term policy signal in the shape of a long-term note. In other words, what am I saying?

In the so-called high performing or better performing African countries you will be lucky if you found a ten, twenty or thirty year treasury signal, where the government is saying that in terms of monetary and fiscal policy, over the next ten, twenty, thirty years - this is the managed monetary and fiscal policy signal an investor can expect, domestic or foreign.

Instead what do you find, you find that as governments we take the short position. In our own economies, we are saying officially as governments through the signals which we send out, and I am talking here about the monetary and fiscal policy signals which we send out, we ourselves are saying that we are very risky. That is what we are doing officially – sending a short signal to investors. And you know who helps us do this? The World Bank and the IMF. That is why it is also an official policy of both our governments and our bilateral partners that we should manage our budgets on a cash basis. All members of the donor community here know this.

And we all know that cash is the most expensive instrument for inter-mediation. Anybody who uses cash does not want to take any risks. Now here we are officially as the Government, as a Senior Presidential Advisor, Minister of Finance, we are telling you as well as our domestic investors that 'look at this country which we are in charge of, this country which we are governing is very risky, so you better invest short' – because even we as a government operate on a cash basis.

That is why we are poor, that is why we are poor and we shall continue to remain poor unless, and very soon, we effect a paradigm shift on that policy signal, on that monetary and fiscal policy signal.

President Museveni

Now, as promised let me talk a little bit about President Museveni, since I was provoked by Dr. Diescho.

And because of time I am going to talk about President Museveni in context. President Museveni came to power in 1986. He had what he called a Ten-point Programme. The most important item on that ten point programme was point number five (5). Actually, he developed the Ten-point Programme before he took power.

Point number five talked of the policy imperative for Uganda of an integrated, independent and self-sustaining economy.

Now, when I heard about this point number five, I was then publishing a newspaper called "The Financial Times of Uganda" and Museveni was not yet in power. I dismissed this imperative on the ground that it sounded something decidedly very communist. And we debated this among ourselves in our group in the private sector and dreaded this man we knew would take state power and who sounded very much like a communist. We debated this very seriously and we said how do we deal with this imperative, which is about to come? Now, in the process of our debates, we had a complete about- turn in our thinking. Why did we?

Because we discovered that the core imperative of any independent self-sustaining economy is financial sector depth, which again in turn depends on domestic savings.

Now, when this gentleman Museveni came to power, he started off with the programme to implement this so-called Point Number Five and its imperatives.

The first thing he was told by the donors and their local agents was, wait a minute, you are still coming out of, as Dr, Diescho said, you in Uganda are still coming out of a legacy of an economy destroyed by war and economic mismanagement, and so on and so forth. So do not rush, let us first stabilise the economy.

They advised President Museveni to first subscribe to the World Bank stabilisation programs and later recovery programs and measures. And I think we are all familiar with the stabilisation and recovery measures - these are the famous sub-Saharan Africa programmes, which today are known as the PEAP (Poverty Eradication Action Plan) and described in the PRSP (Poverty Reduction Strategy Papers) papers.

So, the long and the short of it is that President Museveni was persuaded by development partners to take a short position on the Uganda economy and to wait a bit, to wait and postpone financial sector deepening strategies, to wait on the establishment of special purpose vehicles like public-private partnerships, to wait on all those things until the economy is stabilised and recovered , until we have achieved 'macro-economic stability'.

The final point and short of this protracted waiting period is that, up to today President Museveni and the rest of Uganda and many African countries are still waiting. We are still under various forms of stabilisation and recovery measures, under the PEAP programmes. What macroeconomic stability we have is without medium to long term visibility. I remember one attempt was made at financial sector deepening by our partners. This was what is called the Medium Term Competitive Strategy - the MTCS. The donors here are familiar with that. But the MTCS has never seen the light of day. So we are still waiting.

But some of us have said, really, enough is enough. The PEAP programmes, the PRSP papers are very interesting, but they belong in the Aid or emergency room of African economies. In the PEAP and PRSP papers there is nothing about jobs, there is nothing about financial sector deepening and related financial instruments, there is nothing about domestic savings.

So when Dr. Greg Mills of the Oppenheimer Brenthurst Foundation came with an initiative which appears to be an antidote to the Blair Commission's pro AID Report, I and many of us in Africa breathed a sigh of hope. We are rallying behind the Oppenheimer initiative, and will work very hard to put the Blair Commission Report which basically entrenches the old parameters and frameworks of Aid – where it belongs – outside the required framework for the development challenge in sub-Saharan Africa.

Concluding remarks: the Africa Brand Deficit

We are poor because of failed policies and failed programs which do not have the key ingredients of National Branding and Signalling (the so called Brand Deficit), and value Addition Strategies in Goods and Services Production through the domestication of Foreign Direct Investment (FDI) inflows with Domestic Direct Investment (DDI) programs which capture household savings with medium/long term visibility.

Whether a large country, small country, mineral endowed or not, we are poor because even the relatively successful of the SSA/PEAP economies measured by the popular standards of FDI inflows (Uganda, Kenya, Tanzania, Ghana, Gabon, Nigeria, Swaziland jointly present stable macro economic variables without the necessary and key medium to long-term visibility.

Social challenges facing Africa, focusing on the subject: "Africa Rich or Poor – What difference does it make ?

Veronica de Klerk

I am deeply honoured to address such a distinguished audience during this significant conference on "Debt Relief and Development in Africa" - and I thank the Konrad-Adenauer-Stiftung and the Namibia Institute for Democracy, for facilitating this interesting dialogue and splendid opportunity to share my views on the social challenges facing Africa today, in the context of the subject put on the table this morning: "Africa: rich or Poor – What difference does it make?".

…And while contemplating on this particular subject, I could not help but experience a sense of gratitude for the special blessings which, my organisation, Women's Action for Development, experienced while working as community developer among the poorest of the poor in the rural areas of Namibia for more than a decade, and to reap the rewards which were continuously forthcoming from our training interventions.

It has been equally enriching to walk the road with the most marginalized to empowerment and self-realisation.

It has further been most encouraging to experience the commitment of His Excellency, the President of the Republic of Namibia and the Namibian government towards the upliftment of the rural poor, and particularly towards marginalized women.

But the real reward lies in witnessing those humble women who before feared the crack of dawn if they had to enter the hall in which decision-makers gather, but who are today, confidently and freely addressing decision-makers and large crowds of people in their regions, to solve their own social problems and to speak out for a cause as bold lobbyists for social change.

Due to my heavy involvement with the upliftment of the rural poor, through the valued sponsorship of our main donor, the Konrad-Adenauer-Stiftung and other local and international donors, I thankfully had ample opportunity to formulate an opinion on the situation of poverty in our beloved continent, Africa.

When I therefore state my case openly and frankly on this burning issue which has been put on the table today, I am stating it with sincerity and as a daughter, born on African soil.

…..And because Africa and its people are so close to my heart, there can be no other way than to speak out frankly on the wrongs, in the firm belief that there is hope for Africa - which is so rich in material wealth, but so poor in the development of those who should be utilising it.

Ladies and Gentlemen:
In Europe there is a saying, that there is always something new out of Africa. In this case, it is the dichotomy, or confusion if you like, that the second largest continent on earth - the cradle of human kind, with a wealth of practically every useful mineral, oil and gas, with an awesome array of the best climate types, flora and fauna which makes it a tourist haven - is the absolute poorest on Earth!

The question is: Where did Africa go wrong not to have developed a head-start as our Creator very clearly intended it to happen? Africa was blessed, from the beginning, with a multitude of natural wealth – and equally blessed with the first of mankind to utilise it!

Why did people - whose ancestors long ago moved away from their heimat Africa, advance so much faster? So much so, that they developed a need for Africa's natural resources and people as slaves, for which they could plunder and maraud the Continent while the latter were the "helpless" onlookers.

The reality is that Africa was plundered, colonised and oppressed, because it allowed itself to be plundered, colonised and oppressed. And that for me, encapsulates the reasons for the slow development of our Continent.

It is all too easy to ascribe Africa's backlog to it being the playground of foreign forces - all of whom are minuscule to the dormant power of Africa. For some or other reason the head-start potential of Africa never materialised. Instead small sharks could effortlessly fill their bellies with easy prey from the abundance which this giant could offer.

I see that same inertia, which way back caused Africa to be the proverbial "Eldorado" (the land of gold) which could be robbed at will, still today in the Continent's slow progress to become the economic force which it can be.

The basic ingredients forming the foundation for the development we see happening outside Africa, just never seem to come together for us in Africa.

If one compares Africa with Japan for example, in terms of size, natural wealth, population etc, there is really nothing to compare. Yet, Japan has the second largest economy in the world, whereas Africa has well over a dozen of the poorest countries in the world.

The only inference one can make is that the reasons for Africa's backlog should be sought in its people. Why it is so, that those who ever continuously pushed the boundaries of expansion further away from Africa, developed into highly industrialised nations while those who remained here, today constitute the nations for whom debt relief is contemplated, is beyond comprehension.

But if I put a giant magnifying glass over Africa, to look more closely to what is actually going on here, what do I see? I observe a number of suspicious similarities in various countries on the Continent that, we as Africans, should do honest introspection about.

My magnifying glass sees huge families with too many mouths to feed; too many single-parent households headed by women who, by the grace of God, and through their perseverance, are keeping their off-spring alive.

Ladies and Gentlemen: Feeding and clothing the millions of children of Africa is no joke, neither is allowing all of them to have a good education to unleash Africa's dormant potential! That is a bit more than what the meagre resources of women can reach. Even those with great potential have to languish in the struggle to help raise the other siblings.

In that way they only become part of the intensifying vicious circle of poverty which goes on from generation to generation.

For anyone of those talented children to rise from the flat plain of their impoverished existence to reach great heights, the chances are rather slim.

Forgive me therefore for saying that Africa's obsession with large families, irrespective of their levels of income, is similar to that of a heavy weight around the waist of a swimmer. The explosive population in Africa is dragging it down, and the worst is that development assistance is simply neutralised by this heavy burden of uncontrolled population growth.

The reality is that African parents who decide on large families for which they cannot take financial responsibility, are further impoverishing Africa, while also denying their children better opportunities in life, than mere survival.

It has been most unfortunate that donor countries have been closing their eyes to this reality for fear of causing offence. But it is here where donor countries can make a difference by funding family planning programmes for the masses more forcefully, and by educating African nations on the importance of dropping those practices that further impoverish the Continent.

If donor countries can do this, they will be doing Africa a great favour in contributing towards facilitating an important mind shift, because as we speak, millions of children are being stripped of their rights to acquire a good education to sustain themselves in life and to contribute meaningfully towards the economy of their respective countries.

My magnifying glass is further focussing on other cultural practices which further impoverish the poor in Africa - and another one of these is huge expensive weddings which usually last for more than a day.

Namibia is no exception because I was once invited to such a wedding in a generally arid region of the country. Poverty was visible all over the community, but the wedding where I had to make a speech, told a different story.

12 bridesmaids in the most expensive outfits and 12 bestmen, all clad in similar colour suits and hundreds of guests paraded into the hall embellished to flatter the queen. The tables lamented under the weight of the food for a feast that would last for two days and the entire town's inhabitants, of course, did not shy away from attending.

This picture is still so vivid in my mind, because in the more affluent sections of society such costly weddings have become outmoded and practically unheard of.

The bride and the bridegroom looked stunning and enjoyed the admiration of all the guests, until after the wedding, when they had to face a N$40 000,00 debt, which they could not pay, because the newly wedded husband was unemployed!

Ladies and Gentlemen, I am still keeping my magnifying glass focused on my beloved Continent and I see that hundreds of guests come closer to a house where it is clear that yet another huge feast is about to start. It is also clear that there is enough food for everyone to enjoy, and even enough for the guests to take home as well.

The humble little house where the people are congregating for the feast speaks of simplicity and actually, poverty. But while the crowd eagerly pushes closer to the pots, I notice that the people are actually mourners who have come closer for the traditional post-burial feast, because if the bereaved family fails to hold that feast, I am told, all kinds of evils will befall the family.

The original gesture of hospitality to invite close family who travelled very far to attend the funeral to enjoy a meal after the funeral, has long been discarded. Post-burial feasts have taken its place even among the poorest of the poor, while the huge debts will be dealt with later on.

In similar fashion, my magnifying glass on our traditions and cultures picks up large sums of money which exchange hands for Lobola when our sons want to get married. I also see witch-doctors being paid sizable sums of money by very poor people to "keep the evil spirits away from families", or to "track somebody down who caused the family harm."

It is so sad to see how many poor people in Africa pay expensively for a wide variety of mooties to find a job, to find a wife or to win a lottery. Hard earned monies are paid over to people who thrive on the fear and ignorance of the gullible poor.

Ladies and Gentlemen, my magnifying glass invariably detects some "African Governments and vampire-like politicians" - to use the description of Martin Meredith in his book: "The State of Africa: A history of fifty years of Independence".

In this book he asks the pertinent question: "How has a Continent with so much potential become the poorest in the world?"

Yes, Ladies and Gentlemen - unfortunately and to our shame, Africa has produced a number of leaders who simply continued their legacy to rob their own country and their own people in the shortest possible time of as much wealth as possible, after the colonial forces were all kicked out of the Continent.

People who dared to show the slightest sign of dissent, are brutally oppressed, and such leaders usually surround themselves with luxury and comfort, while the people who put them in leadership roles - in good faith - are starving and unemployed!

I should however, hasten to say that there are some oases in the desert as far as good humble, honest and hard-working African leaders are concerned - and I thank God for those leaders.

But, in fact, it cannot be denied that donor nations cannot simply ignore all the mentioned malignancies of Africa, while pouring their taxpayers' monies into bottomless pits! Something tangible has to be done to address and avoid those malignancies in future!

Donor countries have the power in their hands to compel corrupt Governments and leaders to change their ways and to do away with harmful practices which impede the development of their people and further impoverish them.

If money and other forms of assistance are just blindly dished out without pressure from donor countries to change, the continuation of all the ailments are merely encouraged and will continue unabated!

This is so sad, because it amounts to "sparing the rod to spoil the child".

Ladies and Gentlemen, if my views seem very un-African, it is just because it irks me tremendously that some donor countries view my Continent as a special case for which a different yardstick and much more leniency should be used, because I do not believe that this kind of behaviour will be tolerated in their own countries!

In the process, the corruption of leaders, major incompetence of governments and the violation of human rights are condoned as "not so bad after all".

The process of calling anyone to order for the sake of the long term good of a country, is always a painful process for which sacrifices will have to be made.

Is it not true, that if all the important world bodies, such as the United Nations and its affiliated bodies, the International Monetary Fund, the World Bank etc, would have called corrupt governments and leaders to order with a firm hand long ago, greater discipline and more progress would have prevailed in Africa?

The G8 nations have recently agreed to write off the debt of the poorest nations in the world - more than a dozen of which are in Africa. Namibia thankfully does not count among those for whom debts are written off, and I am so proud that our country is still doing well, economically.

We heartily welcome this noble gesture by the G8 nations and we thank them for that, since it will relieve those struggling countries of an enormous inhibiting burden on their economic growth. But although it will leave them with a clean slate, those countries will simultaneously need development assistance to kick-start their ruined economies, to put them on the path of economic prosperity again.

…..And it is at this point that I, as a developer of the poor, plead for stringent financial disciplines to be enforced by donor countries, the World Bank and the International Monetary Fund.

If those countries which stand to benefit from debt relief, are left to continue like before, the poor people on the ground will not enjoy any benefits from debt relief and new investor incentives.

For those people it will be all the same – Africa Rich, or Africa Poor – what difference does it make?

The same vicious circle will complete itself once more, and a number of years from now, debt relief for a longer list of countries, will certainly be on the agenda of donor countries, once again.

Allow me therefore, to caution, that if development aid is not closely monitored to achieve its set goals, and in particular to benefit the poor on the ground, I am afraid that it will become well-intended assistance, with long-term harmful consequences.

It is no secret that government officials in some countries that receive donor aid, detest the requirements, which are usually attached to such aid because those requirements force them to apply discipline and accountability!

African Governments and leaders should strive to proudly demonstrate to the taxpayers of benevolent countries, how their assistance jump-started economic growth and prosperity in African countries. This is after all, much more honourable than to adopt an arrogant attitude of: …"they owe it to us, anyway…".

Ladies and Gentlemen, the idea of discipline to be a prerequisite for development assistance is not new - not at all!

Donor countries should not give it up as un-enforceable along the way, because that attitude led to the billions of Dollars of debt - nothing of which can be seen from the state of the poor in those countries today.

Women's Action for Development regularly deals on the micro level with similar problems that donor countries, the World Bank and the IMF, have to cope with on the macro level, and for whatever it is worth, I want to mention the following:

WAD provides development assistance to groups of poverty-stricken rural women. The process starts with preparatory training being an un-negotiable pre-condition.

This includes subjects such as: personal hygiene, nutrition, family planning, HIV/AIDS and malaria awareness, the establishment of savings clubs, etc, to add impetus to the organisation's holistic approach of developing people.

This basic training is followed by income-generating projects training, while groups are trained for viable market-oriented projects only. Projects must earn an income from which group members should survive. They also receive effective financial training, as well as training on aspects of group dynamics to be able to deal with problems within the group.

A very important aspect of income-generating project training is Savings Clubs training. But an important spin-off of a Savings Club is that it expresses in hard cash, the consequences of a large family.

In the process, savings club members are very soon sensitised that those members with small families have more money in their savings accounts simply because they have less expenses, as compared to those with larger families who are compelled to withdraw money more often. This is therefore, a practical selling point for family planning.

The second, even more empowering part, is the socio-political leg of the WAD training programme.

In this section WAD members are trained on their rights and responsibilities as Namibians. They are trained in the contents of important laws which affect their daily lives, such as the Namibian Constitution, the Married Persons' Equality Law, the Affirmative Action Law, the Domestic Violence Law, the Child Maintenance Law, etc.

Such training is imperative because it serves no purpose if community members, living in far-flung rural areas, are not familiar with the contents of their own laws, and how they can be protected in terms of those laws.

If people are familiar with the contents of laws, they would know how to act when their interests and rights are infringed upon. On the other hand, they would invariably transfer such information over to their children, their family members, neighbours etc, to become real agents for social change.

Ladies and Gentlemen, in the African context, it is a fact that many such laws are being legislated in the parliaments of Africa today, but it is no secret that much ignorance still prevails among the masses of African people, regarding the contents of important laws which affect their daily lives.

If the contents of gender-related laws, or any other law for that matter – are not brought to the people at grassroots, for all practical purposes, there is no such legislation.

In this regard, I see a burning necessity for donor countries to play a profound role for African people on the ground to be trained in the contents of their laws.

Funds and more funds are needed to train local and regional leaders who are close to the people, on the contents of laws. Similarly, the population should be made aware in workshops of the contents of laws.

If people on the ground are more informed, they would become more assertive and confident to address their social problems, and this will make it more difficult for potentially corrupt leaders and Governments to use development aid for their own purposes.

Target groups for such training should be church leaders, traditional authorities, institutions of higher learning, youth movements, NGO's, the police etc, while workshops of the aforementioned nature should be used to identify longstanding harmful cultural practices and how such practices are forbidden by specific laws.

Workshops should further clearly expose the world of harmful cultural practices vis-à-vis laws passed in Parliament to make them a living reality.

Another area for which donor monies can be fruitfully utilised is to establish closer links and working relationships between NGO's and Governments.

NGO's are unfortunately viewed as a threat to Governments in most African countries, because NGO's are in closer contact with the people on the ground. NGO's and Governments should however, work together as partners to achieve common goals more effectively.

Ladies and Gentlemen, I cannot conclude without mentioning the impact HIV/AIDS has on the development of people at grassroots level where my organisation operates.

It seems as though the more rural communities are trained on how to protect themselves against HIV-infection, the more African men believe that they don't wear socks when they go to bed.

…..And the more women refuse to submit to HIV-positive unprotected men, the more men insist on unprotected sex. If women dare to refuse, they are beaten up badly, and are often chased out of the house unceremoniously.

If she goes to the police, he tells her he cannot open a docket against her husband because it is just a "domestic affair" even though he could see how badly her husband has violated the Domestic Violence Law. She is then told to go back and apologise to her husband.

If she turns to her church, she knows that some churches do not encourage the use of condoms. If she turns to her parents, they tell her that they are too poor to care for her and her children. They advise her to go back to her husband and to try to persuade him to practice protected sex. And the sad part of it all is that she goes back to her husband; loses the battle; submits to his wishes; and brings the death sentence upon herself.

…And when she dies, just more AIDS orphans are added to the already staggering numbers.

That, Ladies and Gentlemen, is the dilemma facing rural women in Africa today!

Our most effective weapon to counteract the spread of the pandemic, is therefore, through education and training – and more education and training!

The world will simply have to pull all plugs to empower the ignorant masses about all the aspects of the scourge. There are still too many people out there who as yet, do not fully realise that AIDS is real; that it kills; and that it is draining the economies of African countries!

Ladies and Gentlemen: My humble plea today is to invest in training, training, training Africa - and to closely monitor the track of donor money.
Un-negotiable conditions should be attached to donor aid, while checks and balances should be put in place to monitor adherence to it – there is no other way!

If donor countries are really serious about lifting Africa out of its problems, they should shake off any remnants of feelings of guilt for having colonised Africa in years gone by.

Those who refuse to accept the conditions of donor countries should summarily forfeit that assistance, while donor countries should do everything in their power not to create conditions which will cause a recurrence of the debt relief exercise which is underway.

…And while we, in Namibia are profoundly thankful towards donor nations for all the commitment and financial assistance which has been forthcoming from them to Africa over so many years, my urgent plea is: "Please help Africa to truly help itself".

It is dangerous for donors to want to be the "good guys" and to close their eyes to the realities of the past, because I am positive that donors are sure to eventually turn their backs on Africa if we are heading for yet another debt relief exercise in future again.

I therefore, humbly call upon donor nations to ensure that their training assistance reaches the people on the ground to the maximum extent of their aid.

Many in Africa prefer to wrap debt relief in the most acceptable wrapper. We should however, never be oblivious of the reality that those African Governments whose debt are now written off for whatever reasons, failed to achieve all the good intensions and promises. They could not bring about the economic wealth that was foreseen when the loans were granted.

These measures are imperative if we want Africa to grow and prosper. Africa's power undoubtedly lies in the ingenuity and creativity of its people and their ability to take charge of their own destiny.

So let us all hope that we will never land in that quick sand pit of debt again, in which we will all go down and sink deeper, the more we move to get out.

…And as we journey on the road to good fortune and prosperity, may God bless Africa and its people!

Thank you!

Debt Relief and Development in Africa: The Political Aspects

Jürgen Schröder, Member of the European Parliament

Any political aspect of debt relief and development in Africa (and elsewhere) bears a psychological component to some extent. When dealing with political aspects of debt relief, we should ask ourselves what are - or could be - the psychological consequences of it. In addition, we could assume that, from a psychological point of view, debt relief means giving something to a person despite different financial or economic points of view.

Having said this, I should like to illustrate this by means of three examples (or patterns). And at this time of the day it may be appropriate to start with a fairy tale – one of those charming Russian fairy tales I used to read when I was a boy:

Once upon a time there was a man who had a son. One day, the father said to his son: "You are now grown-up and may leave for the big wide world to earn your own money."

After one year, the son returned home, gave his father the money he said he had earned, but the father took the money, threw the coins into the open fire and said to his son: "I can see from your eyes that you did not earn the money yourself." And the son let it happen without protesting.

And the angry father sent his son into the wide world a second time. After another year the son returned home, gave his father the money he said he had earned, but the father took the money, threw the coins into the open fire and said to his son: "I can see from your eyes that you did not earn the money yourself." And again the son let it happen without protesting.

And, as is the case in any good fairy tale, anyone would be given a third (and last) chance, so the son had to go into the wide world a third time. After another year the son returned home, gave his father the money he said he had earned, but the father took the money, threw the coins into the open fire and said to his son: "I can see from your eyes that you did not earn the money yourself." But this time the son did not let it happen without protesting: he put his bare hands into the open fire, grasped at the coins and took them out – one after the other. And when the father saw this, he gave his son a hug and said to him: "At last, my son, I can see that the money you brought home is money that you really earned yourself. …"

In a nutshell, it is quite clear why the son did not pass his father's test the first and second time, and it is also clear why he was successsful in his third attempt:

- *Anybody's self-esteem (or self-respect) strongly correlates with their ability and willingness to act, to be active, to meet the challenge, to be themselves, not to be dependent on others.*

My second example: I should like to go back to the time of socialism in former East Germany, where I am from. It's not a fairy tale since fairy tales were fairly rare in those times.

In order to promote the level of cultural education of working-class people (in particular as far as appreciation of classical music was concerned), the Party with a capital P ordered the following: Workers in nationally-owned companies were to be given concert tickets at a price of 3 East German Marks a piece, which was a trifle.

Mention should be made of the fact that in East Germany the quality of classical concerts (or 'serious' music in general) was very high. There were outstanding orchestras (well subsidized by the State, which in my view was a good thing), and there were brilliant soloists as well. It should be added that a lot of those outstanding artists were from the Soviet Union. And it should also be mentioned that contrary to official propaganda, in East Germany there was a lot of prejudice against anything that was 'Russian': from the Russian language to Russian musicians.
To cut a long story short: The rows of seats in the concert hall reserved for the working class with their cheap tickets remained empty. As a result, tickets were distributed for free. The result can easily be imagined: The rows remained empty. …

What is the morale of that story?

- *There is a problem whenever the value of a gift or donation is not adequately appreciated by its recipient, even if the motive of the donor is appreciated or neglected.*

Before I try to connect these statements with our topic – the political aspects of debt relief – please allow me to give you a third example, which should illustrate a third complex of problems:

My third (and last) example is taken from the present.
Since Germany's reunification, people in the former East (now the Eastern part) have experienced a lot of change however, it goes without saying that not everything was or has been in favour of everyone. But for the overwhelming majority of people in the new German Länder the situation has dramatically changed for the better. Or to put it another way: In 1989 the ancien régime in East Germany was already dead even before it was swept away by the peaceful revolution. Thus, 15 years ago, there was no alternative for East Germans; instead, from a realistic point of view, there was one option left: to be united with the former Federal Republic of Germany.

And this is what the majority of East Germany's first freely elected lawmakers voted for (I had the honour to belong to them) in 1990: With this mandate, Germany was reunited.

Within a short time, water and air pollution in the Eastern part could be reduced by 95%; in private households, natural gas was used instead of lignite (brown coal); hospitals and homes for senior citizens were largely reconstructed; people's pensions rose considerably; flourishing landscapes emerged for all those who had eyes to see them; and last but not least – people could at last live in a State founded on the rule of law.

These enumerated facts do not include the new highways. In fact, the new Länder do not only have the latest state-of-the art telecommunication system but meanwhile also have a network of motorways which is better than that in the old Länder of the Federal Republic.

It is true that motorways are not everybody's express choice. However, highways are needed in order for the economy to flourish. There are also motorway service areas (highway restaurants) which hardly anyone from Eastern Germany would have asked for, simply because people did not know that they existed. Now they are there, open for everybody, above all for truckers: motorway service areas with restrooms (for example) of a quality that would match that of many a first-class hotel in other countries. And all these fine things are taken for granted. The main reason for this phenomenon is that those who use them did not have to struggle for them to be built.

They are simply there. Full stop. …

To repeat this, many people seem to have (almost) forgotten everything I've just mentioned, or they are likely to take everything for granted. Am I unfair towards my fellow countrymen and –women? I don't think so. I refer only to all those who have recently been voting for parties that are putting all those achievements in question. And I refer also to those who, up to 1989, would have jumped in air out of joy if they had been able to vote freely, and now they abstain from voting.

Having said this, I do not even reproach these people. I think politicians have been making big mistakes by promising too much even before East Germans had formulated their wishes.

In comparing the previous pattern (with rows of seats in concert halls left empty by the GDR working class) with the latter one taken from current East Germany's trucker paradises, we can state:

- The working-class non-concertgoer *did not accept the goods offered* – he simply lacked what could be called acquired taste, whereas those East German motorway service users mentioned (let's call them truckers) *have welcomed the goods offered,* even if they take them for granted now.

- However, there is another difference: while in the case of the non-concertgoer *the motive of the donor was either appreciated* or was considered irrelevant, the situation of the trucker is different: he is very likely *to misjudge (or wrongly assess) the motive of the donor*. If there are so many fine things one has not asked for, why on earth should anyone have to put them there? Usually things like this are being done whenever someone feels guilty. …

Let's look again at the statement given with regard to the non-concertgoer:

- *There is a problem whenever the value of a gift or donation is not adequately appreciated by its recipient, even if the motive of the donor is appreciated or neglected.*

And now let's add a statement concerning our truckers:

- *There is a problem whenever the motive of a donor is not adequately appreciated by its recipient, even if the value of the donation in question is appreciated (or neglected).*

Let me shortly comment on the term 'gift'. There will be some to argue that all those nice things mentioned, for example, in connection with the trucker's paradise are, strictly speaking, not a gift but the result of men's and women's work. In a way this is true. However, only to some extent. In fact, it is not the German State (or government or chancellor or whoever) that gives presents to the population. This way of thinking was typical during socialism, where all good things people received were provided by the Party.

Nevertheless, under the conditions of today's all-German social market economy we could and should still speak of gifts – namely, gifts from the former Federal Republic to the new Länder – that is to say, gifts from those Germans who for decades had a chance to live in a society that allowed them to become prosperous to those Germans who for decades had not lived like that. If we look at things that way, we should be honest enough and admit that old-age pensions paid in the new Länder are not paid in equivalent of the work done in the former GDR. They are a moral equivalent but no economic or financial equivalent.

To **summarize** the lessons learnt:

- *(1) As tells us the Russian fairy tale: Nothing can replace one's own efforts and achievements.*

The only thing that can be given without damaging the self-respect of others is help for self-help – a fishing-rod but not a fish!

Translating this into practice in Africa means that everything should be done by the West to stop telling Africans what to do. Africa (like Russia or the new German Länder) will recover best if people are allowed to work on their own. For this to be achieved, the miracle of capital must be allowed to work, and for this to materialize, legal property rights are the most important prerequisite – something Africans know themselves.

However, there are areas in which help (in the sense of help for self-help on the part of the West) is appropriate, debt relief being part of it. But before debt relief in the sense of a donation is implemented, the following should be taken into account:

- *(2) As tells us the non-concertgoer pattern: The recipient of a gift must be able to appreciate its value.*

That is, if a debt of an African country is forgiven by a Western partner, the African recipient must not think that the money available after the debt relief should go onto a private Swiss bank acccount or should be used to buy fresh arms from the Chinese or others.

Debt relief should always be seen in the context of fulfilling the Millenium Development Goals of the United Nations.

If it cannot be guaranteed that debt relief will be used by the recipient to improve people's life, there should be no debt relief at all.

- *(3) As tells us the trucker's pattern: The recipient of a gift must be able to appreciate the donor's motive.*

If Africans feel that the West's motive of debt cancellation is a motive of guilt, then something must be changed. Either there is – perhaps - a feeling of guilt, in which case the donor should rethink its behaviour. Or else, this feeling of guilt is wrongly assumed by the recipient, in which case the recipient should rethink its behaviour.

Last but not least, let's try to answer the question: Are there any options in choosing our recipients?

I'm afraid the answer is: No.

Therefore – let me repeat –, if potential recipients fail to grasp what the gift of debt relief really means, there should be no debt relief. The same applies to recipients who misunderstand the donor's motive. Instead, the financial means available should – at least partly – be used to enhance political education: in some cases, this may be applied to those in power, but in the majority of cases it should be applied to people at grassroots level, ideally via NGOs (as present here at the conference).

From a Christian Democratic point of view, lack of political education among Africans can be mended best by supporting activities of local foundations: Africans' education, in general, and political education, in particular, will for a long time remain our main objective.

Africa beyond Aid and Debt Relief

Greg Mills [1]

Contemporary wisdom appears to agree that the solution to dealing with Africa's poverty is to increase aid and expand debt relief.

The British Chancellor of the Exchequer, Gordon Brown, called for a 'Marshall Plan' for Africa, devising an International Financing Facility (IFF) scheme to borrow against future aid commitments in order to finance massive aid increase. His Prime Minister, Tony Blair, called for a 'big, big push' to meet the goals for 2015. The same conclusion was drawn by his Africa Commission and 460-page report. Jeffrey Sachs, the head of the UN Millennium Project, in his The End of Poverty, also called for a big push in increased foreign aid to deal with poverty in order to meet the UN Millennium Development Goals.

Jacques Chirac's plan is based on the requirement of US$50 billion to double global aid flows, being a small sum in comparison to those generated by the global economy. His government's Landau Commission recommends the following: the creation of new funds through international taxes or levies on a variety of cross-border activities, including international financial transactions such as currency sales; or - the flow of foreign capital to tax or bank heavens; and - more ambitious plans favour taxation of aviation and shipping fuel. Again, this will pivot development and prosperity and the flow of more money to Africa.

As much as all of this is politically appealing - such the 'big aid push' and 'debt relief' paradigm flies in the face of the record of aid expenditure in Africa – of more than US$600 billion spent over the past forty years while continental per capita incomes have, on average, fallen. And if it was so easy to develop Africa by simply increasing aid and spending small amounts in key areas (such as malaria prophylactics), it is worthwhile asking: would this not have happened already?

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[1]Dr Mills directs the Johannesburg-based Brenthurst Foundation, dedicated to improving African economic performance. www. thebrenthurstfounation.org. This article is based partly on fieldwork in Vietnam, Taiwan, Costa Rica, El Salvador and Mexico during September and October 2005, and was prepared for the conference on 'Debt relief and development in Africa' hosted by the Konrad Adenauer Stiftung, the Namibian Institute for Democracy and the Namibian Economic Policy Research Unit (NEPRU), Windhoek, 5-6 December 2005.

But there may be ways to change aid transfers to Africa's advantage. In the light of the Gleneagles G8 commitment to double assistance to Africa and to widen debt relief, how can more aid be better used? Other questions in this regard include the following:

- How might (and, indeed, can) external assistance best promote Africa's development? And business in Africa?
- Why has Africa's share of global foreign investment remained small?
- Why is domestic investment in Africa remaining low?
- What, from the record, will it take for states to become rich(er)?
- What measures can be put in place to promote foreign direct investment, especially beyond the oil sector where much FDI is anticipated?
- What sort of business might Africa be involved in over the next ten years? Is this likely to be what is practiced in the US, Europe and Asia today? If so, which areas of business are most likely in Africa? If not, which areas might be prevalent in Africa and why?
- How can Africa absorb new technological tools underpinning modern economies?
- Is there an 'alternative' formula without aid for African growth? Indeed, is this not the only sustainable formula for growth?
- How might business and government combine efforts in the aid business in Africa?
- How might the cost of investment capital in Africa be reduced?
- Finally, related to the above, how might we best understand the 'science of influence' in terms of developing appropriate policy solutions to better employ aid and the proceeds of debt relief?

The conventional wisdom on African growth and aid

The aforementioned United Nations' study conducted by Sachs and his colleagues advocates a two-decade increase of foreign aid to Africa in identifying five structural deficits forming the 'poverty trap': the continent's high transport costs and small market size; its low-productivity agriculture; high disease burden; long history of malign external interventions; and very slow diffusion of technology from abroad. What is needed to exit the 'trap', Sachs argues, is a 'big push' in seven areas: raising rural productivity; tackling the disease burden; making primary education universal and expanding secondary education; financing urban development; mobilising science and technology; gender equality; and regional integration. Presumably reflecting the complexity of the cause of poverty, the report proposes 449 steps to achieve the 18 UN Millennium targets.

In his book on the topic, *The End of Poverty,*[2] Sachs argues for a 'global compact to end poverty', based on increased and consistent resource flows, along with a realistic assessment of what the target states can and cannot provide in return. All of this will be provided under a new 'framework' that he describes as the 'Millennium Development Goals-Based Poverty Reduction Strategy'.

[2] *Jeffrey D Sachs, The End of Poverty. London: Penguin, 2005, esp. pp.266-287.*

Although there is little one can take exception to in his overall diagnosis of the problems facing Africa and other developing countries, Sachs' proposed core solution – to increase aid as a way to improve governance and thus development prospects – defies the historical record as much as they reinforce the conventional wisdom of Tony Blair, his Africa Commission and pop star friends.

Nonetheless, those advocating this wisdom appear to have got their way, even though the cheque is still in the mail. The outcome of their collective wisdom: The Gleneagles G8 summit agreed to double African aid to US$50 billion by 2010. Presuming that this promise does not go the way of similar targets (such as the 1980 Brandt Commission's plan to increase global aid expenditure to 1% of GDP by 2000), this means that annual spending on individual Africans would increase from US$30 per capita today to little under US$50, taking into account projected population increases. And this does not reckon for the fact that currently around half of the aid is tied to the donor providing it, through debt relief measures, technical assistance, emergency assistance, consultancies and interest charges. Sweeping debt relief proposals change this picture somewhat, but not that much, potentially reducing the debt stock by up to US$55 billion from the current levels of some US$295 billion (US$204 billion for sub-Saharan Africa).

Even so, how much of an impact could this make?

Assessing aid

In assessing the value of aid beyond Africa, President Thabo Mbeki recently penned an expansive column in *New African,* [3] comparing the Asian development experience for the benefit of African and other emerging markets.

The president concentrated on the presence of a number of factors fuelling the Asian 'miracle', factors he argues that Africa has not been able to benefit from. These include the role of the United States in supporting and nurturing anti-communist states in the region (including Japan, South Korea and Taiwan) through a variety of means, including aid and trade access. Japan was similarly 'co-operatively committed' to the region's development. He argues that the economic trajectory of the Asian tigers was reliant less on free trade and foreign investment, however, than on import substitution, foreign aid and protectionism. He also identifies the importance of domestic savings – particularly high corporate savings accumulated because of this protected environment – in providing the 'necessary development capital'. President Mbeki draws a number of interesting conclusions in pinpointing the reasons for East Asia's take-off, most notably that this 'represented a conscious, purposeful and determined response by the most powerful country in the world to what it considered to be an imminent communist danger to its survival. To ward of this strategic danger,' he says, 'the US was ready to spend whatever was necessary and required.' Moreover, 'It understood that so big was the challenge it faced that it could not rely on 'the market', the private sector, and especially foreign direct investment, to provide the resources to meet this challenge. In the end, this translated into aid and loans.'

[3] *'Mbeki, Africa, the truth and the Asian miracle', New African, March 2005.*

While the President focused on the importance of aid in developing the Asian tigers, the contrast in the manner in which they utilised such assistance with African efforts could not be more contrasting. The USAID disbursement to Taiwan, for example, totalled US$1.4 billion (80% of which was in the form of loans, and 20% as grants), the loans having to be repaid in full with interest. The money was primarily used to fund the 'land to the tiller' agriculture land reform programme and to develop infrastructure including dams, power generation, airports and ports.

Vietnam, to take a more recent example, receives more than US$2.5 billion annually in aid. Yet while the country remains dependent on relatively high levels of foreign aid, unlike in many African examples, this is much smaller than the productive sector. As one World Bank specialist put it, 'We donors are told we are important but not essential. Vietnam will never allow itself to be in a position where it is aid-dependent, reflecting its high level of nationalism and desire to protect its independence,' to be expected perhaps from a country that has experienced 17 major wars in the last 1,000 years. And aid amounts to some 1% of GDP (the average in Africa is around 10%), most aid is channelled into infrastructure projects rather than budget support.

Further afield, Costa Rica received US$1.2 billion in aid from the United States during the 1980s, mainly to ensure the Central American republic remained an island of stability in that region's series of civil wars at that time. Most of this money was channelled into infrastructure spending, mainly on roads, and the extension of electricity and telephone services throughout the country.

By comparison, nearby El Salvador received four times this amount, but much of this was diverted to fighting a brutal conflict which cost the lives of 75,000 of its citizens. Even in the case of Costa Rica, however, aid was only a fraction of the development solution. The states of Central America – Nicaragua, Costa Rica, Panama, Honduras, El Salvador and Guatemala – offer big contrasts in terms of their international success and competitiveness, and show that government policies have a huge impact on foreign investment. Costa Rica's outward-oriented, export-led development resulted in an average annual growth rate of nearly five percent in the 1990s, and has made it Latin America's largest high-tech exporter to the US. The big lesson from Costa Rica's economic turnaround is, in the words of former trade and industry minister Alberto Trejos, 'not a lesson about reaping an export-driven growth crop, but how to be able to plant the right crop 50 years ago'. The right 'crop' is the high quality labour force, and high productivity. Costa Rica's four million people enjoy adult literacy of 96%, higher than even the US, the result of free and mandatory education since 1870 and a focus on gender equality. But the government also deliberately targeted multinationals (notably Intel as a high-tech market leader), used their regional market access, and put in place the conditions that investors wanted. They did it themselves, learning lessons from other successful states.

No wonder the economist William Easterly has reflected that we live in 'utopian times'. As he observes, 'American President George W Bush has dispatched the U.S. military to spread democracy throughout the Middle East, G-8 leaders strive to end poverty and disease sometime soon, the World Bank promises development as the path to world peace, and the International Monetary Fund (IMF) is trying to save the environment.' But, as he notes, in reality 'this hurt efforts to help the world's poor. …It is promising more than you can deliver. It is seeing an easy and sudden answer to long-standing, complex problems. It is trying to solve everything at once through an administrative apparatus headed by 'world leaders'. It places too much faith in altruistic cooperation and underestimates self-seeking behavior and conflict. It is expecting great things from schemes designed at the top, but doing nothing to solve the bigger problems at the bottom.' [4]

Assessing debt relief

Africa, as noted, owes some US$295 billion to debtors, of which around 20% is to private lenders. Much of this was accumulated during the 1970s and 1980s. Between 1970 and 2002, Africa received US$540 billion in loans – and in the same period paid back some US$550 billion in principal and interest.

The Gleneagles G8 summit agreed that 18 nations – 14 of which are in Africa – will immediately be forgiven all remaining debts. [5]

[4] *William Easterly, 'The Utopian Nightmare', Foreign Policy, September/October 2005.*
[5] *This table is taken from Abe McLaughlin, 'What debt relief means for Africa', Christian Science Monitor, 13 June 2005.*

Eventually some 38 countries will be forgiven their debts under this scheme once they have reached a 'completion point' in their HIPC (Highly-Indebted Poor Country) review process conducted by the IMF and World Bank. Already under the HIPC process launched in 1996, the debt stock of poor countries has been reduced by some US$50 billion.

But debt relief is not, like aid, all that it is made out to be. A critique of the Gleneagles proposal on debt relief focuses on ten issues, that it:

- Cancels, at most, one-sixth of Africa's debt stock.
- Leaves out major countries which have a disproportionate impact – both negative and potentially positive – on their regions, such as Nigeria, which is heavily indebted to the tune of US$36 billion.
- Might spark a new cycle of aid dependency as countries apply for new loans.
- Could raise the cost of borrowing, especially from private investors.
- Is not guaranteed. The bulk of the debt – some US$16.7 billion – has to be paid back to multilateral institutions such as the World Bank and African Development Bank by G8 nations in 2008.
- Will save only US$1.5 billion annually which is supposed to be spent on education, healthcare, agriculture and infrastructure development. But not only is this is relatively small amount given African needs and when spread across 14 nations, but there is no guarantee that this money will not be spent on debt service but in the sectors specified. Indeed, it is questionable whether this money will be realised at all given that many of these debts were not being serviced.
- Takes attention away from African, 'homegrown' solutions such as the New Partnership for Africa's Development (NEPAD).
- Does not offer a better model than the money already been saved by debt forgiveness, which has not been translated into African development, at least on the scale hoped for and required.
- Reinforces negative perceptions of Africa and, in so doing, raises the perception and premium of risk in failing to differentiate between African states especially when viewed from outside.
- Finally and crucially, like its aid counterpart, the 'debt relief model' does not address the need for African entrepreneurship, and does little to improve productive capacity and reduce the cost of doing business.

On the last point, the focus on debt relief and aid – like the focus on trade reform – stresses the question as to 'how' Africa might develop, rather than deal with the 'what' – 'what' is the economic basis that will employ integrative trade tools or that will emanate from aid expenditure, 'what' Africa will produce.

For the history of economic growth in developing countries shows the importance of getting all the inputs right, of which aid and debt relief are just a component, along with governance, infrastructure, market access, the targeting of foreign investors, and the development of appropriate policy designed to take advantage of comparative advantages.

The aid paradigm and economic growth

Despite enormous application, the failure of a multitude of developmental economists to find appropriate remedies for sub-Saharan growth for many years, illustrates not only that the search for the elixir of growth is not perfect, but that the problem with African development has often been political rather than economic. And as Easterly points out in The Elusive Quest for Growth, it also reflects a failing to apply the basic principle of economics to policy – that is, people invariably respond to incentives – money – better than other things. And growth, he reminds, 'betters the lot of the poor and reduces the proportion of people who are poor', freeing up people from hunger and disease, and reducing mortality.[6] Studies show that growth increases of above 8% in the 1980s and 1990s led to a virtually corresponding reduction in poverty; while similar rates of contraction led to double the effect on poverty increases. There is a human dimension to this: as Easterly notes, 'Poverty is not just low GDP; it is dying babies, starving children, and oppression of women and the downtrodden'. Put differently, as Lant Pritchett and Larry Summers have argued, the deaths of about half a million African children in 1990 could have been avoided if Africa's growth in the 1980s has been 1.5% higher.[7]

The link between increased volumes of aid and these necessary steps for growth has not been established. Similarly, greater trade openness is alone insufficient for economic growth. Neither is foreign direct investment by itself enough for development. It is the extent of overall integration of all of these aspects that is important. But getting the basics right and consistent should inevitably lead to market-oriented policies capable of sustained rates of economic expansion. As Easterly argues,[8] 'Free markets and democracy are far from an overnight solution to poverty -- they require among many other things the bottom-up evolution of the rules of the game, including contract enforcement and fair political competition. Neither can democratic capitalism be imposed by outsiders … The evolution of markets and democracy took many decades in rich countries, and it did not happen through 'big pushes' by outsiders … Progress in wealthy countries arrived through piecemeal steps, gradual reforms, incremental improvements, and experimental probing, accompanied by gradually accelerating economic growth, rather than through crash programs.' As he observes, 'The problems of the poor nations have deep institutional roots at home, where markets don't work well and politicians and civil servants aren't accountable to their citizens.' Increased aid is unlikely to strengthen this link of accountability.

There are other problems with aid expenditure and debt relief, including: a lack of absorptive capacity even of current flows (one of the reasons that much is spent on the donors rather than the target state); the corruption that aid fuels; the impression it cements of Africa as uniformly a basket-case worthy mainly of handouts rather than productive investment; that aid crowds out private investment; that it reduces the scope for developing appropriate African financial institutions and mechanisms

[6]*William Easterly, The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics. Cambridge: The MIT Press, 2001, especially pp.8-15.*
[7]*Cited in Easterly, ibid, p.9-10.*
[8]*Foreign Policy, op cit.*

for financing development on a sustainable basis; that the agenda remains determined from outside; and, that aid places African states on short-term, emotionally- (rather than commercially-) driven aid cycles.

No doubt to some extent these problems are mollified by the target state's hopefully improved commitment to good governance, but still African aid needs to act not just as financial assistance has done traditionally – as a temporary salve – but as an investment for the future, in the best manner of capital, effecting compounding returns.

Aid for development

In trying to improve the impact and extend the legacy of aid, much recent attention has been on improving skills. As Eritrea's president Issaias Afewerki famously put it in 1998, 'If you teach someone to fish, instead of giving him fish, then he has a sustainable future. … in the long term, success can only come from inside us.' Eritrea is not a good example given its subsequent lurch towards war with its neighbour Ethiopia and Issaias' internal security crackdown, destroying any governance value. Although training efforts should not be abandoned, their impact cannot be isolated from the need for general improvements in governance and the related need for a meritocracy in which they can be employed. They are at best an 'over-the-horizon' solution, taking much longer than the tenure of current political leadership.

Hence the debate around aid has to shift, fundamentally, to find ways in which such transfers can be used as a seed – a catalyst – for higher rates of growth in the short-term, even though some African states will still require aid as a form of charity for humanitarian relief.

Here there are a number of possible solutions, which demand changing both the *language* and *content* of aid.

The first challenge is thus for Africa to devise a new formula for using aid in a manner that encourages private sector investment and thus commercial sustainability to projects.

A fresh focus on private-public-partnerships in infrastructure could assist. This requires, however, first the identification of those sectors in which the return of capital – whether public or private – is greatest from a perspective which emphasises long-term returns in terms of human welfare, productivity and economic growth. Second, the attraction of private funds on a matching basis for infrastructure projects, inherently serving to reduce risk and encourage a long-term investment view. Third, the identification and establishment of a suitable management structure for these funds on a commercial basis by the public-private consortiums involved.

From a business perspective, this would apply a commercial logic to project roll-out; from a partner-governmental perspective it would offer both the necessary expertise and the efficient use of funding resulting in a positive donor-government-business delivery cycle. This type of management structure necessarily privileges and prioritises those African states that have a demonstrable capacity to deliver this management, differentiating and favouring those with good governance records.

Africa beyond Aid and Debt Relief

It would greatly assist Africa's cause to demonstrate the vast economic and commercial potential by showing a list of Public-Private-Partnership-type projects that had been prioritised and modelled from a business perspective. For African good governance exemplars aid would thus be used to assiduously lead investment in the development of human capital, and social and physical infrastructure rather than be used for short-term consumption.

It is also important, however, to change public perceptions in the societies in which the aid originates about what this new money is for: it is an investment and is distinct from humanitarian aid for a different category of states and is dealt with through different mechanisms. Africa thus also needs to change the language of aid in seizing the agenda in a positive rhetorical manner.

Rather than have (sometimes) well-meaning Western political leaders and NGOs paint an agenda of 'doubling aid' and 'sweeping debt relief' – which inadvertently or not reinforces negative stereotypes about African leadership and uniform perceptions of African state capacity – African leadership has to develop a strategic vision and language of 'Africa beyond Aid'.

Africa beyond Aid could rhetorically encompass the following components:

- Not doubling but quadrupling aid by attracting matching private sector investment to the increases promised through the G8.
- Promoting countries as beneficiaries with good governance and reformist records.
- Investing in Africa not for humanitarian reasons or to contain negative spill-over effects such as terrorism or refugee flows, but rather for more positive reasons of strategic business positioning.
- Steering the logic and altering the language from hand-outs to hand-ups.
- Stressing the need to differentiate Africa, in terms of the governance and especially business conditions between states.

All of this emphasises the need to change the language of aid from charity to investment, and the nature of the relationship from dependency to partnership, and the logic of such partnership from donor-government to donor-business-government.

Conclusion: No quick fixes

Like his political and politically-minded musician friends, Jeffrey Sach[9] has illustrated his big push thesis with simple calculations to show how easy and cost-effective it is to assist the world's poor, ranging from improved agriculture inputs, health

[9]*See, for example, The End of Poverty, op cit, pp.234-236.*

care especially on malaria, investments in education, the extension of power and communications, and the provision of safe drinking water and sanitation. As noted above, this begs the question: if so much money has already been spent on African aid and for so long, why have these 'easy' solutions not yet been carried out?

For there is no single answer to Africa's developmental challenges, no silver bullet, and no quick fixes. Capacity defies the ability to make linear projections about the impact of aid. Even those solutions accepted as likely if politically problematic such as removing Western agricultural protectionism and subsidies, should not be presumed to work. Even Sachs admits that 'If Europe cuts back on its subsidies for staple crops (wheat, maize), the results for Africa would well be negative, not positive, since Africa is a net food-importing region; consumers of food would pay higher prices for food, whereas farmers would benefit. In short, liberalise trade in agriculture, but do not believe it to be a panacea. The benefits will accrue overwhelmingly to the large food exporters: the United States, Canada, Argentina, Brazil and Australia.'[10] This does raise, however, the imperative of agricultural reform as a focus of aid agencies and government attention alike in Africa, even though it is relatively unsexy topic. Unlike Asia, Africa has experienced a routine fall in food production per capita in recent decades. Yet Asia's rice revolution predated its digital revolution.

Moreover, the necessary components of success – good governance, careful leadership committed to popular welfare, conditions to ensure economic growth – do not demand rocket science either. This recognises the growing difference between Africa's 50+ states, some of which have managed impressive growth rates over the past 30 years, others of which have clearly, too, gone backwards. Over the past decade, ten African countries have enjoyed average growth rates above 5%, and 16 more than 4%, even though the continent's growth in the 1990s remained comparatively at under 3% when viewed against the average of 3.7% for all low- and middle-income countries worldwide. Solutions to different problems have to go beyond simple, sweeping solutions such as increasing aid, to country- and sector-specific analysis of problems. It raises the central question: why do some countries grow, and others fail to do so? In answering this, solutions to African development problems have to tackle difficult issues beyond believing that governance will solve all problems for all states equally – that, in Sachs' terms, poverty itself is the cause for economic stagnation.[11] There are critical, existential issues – of borders and geography – which have to be visited in explaining ongoing and serial dysfunctionality. Otherwise the usual expectations of African state behaviour will be, guess what, business as usual.

Not all aid expenditure is worthless or futile. Humanitarian assistance is necessary to rescue the worst case situations. But many external strategies for African engagement take sweeping views of Africa, rather than the more differentiated perspectives that are demanded by the varying situations of African states. Attention has to be given to understanding the means required to reinforce the success of those African states which have successfully pursued reforms and identifies the lessons from their

[10] *Ibid, p.282.*
[11] *Ibid, p.56.*

recovery, and what can be done about those African countries considered to be weak, failing or failed states. Certainly Africa's least successful states have a massively disproportionate impact, not only on external perceptions of Africa, but also on the attention of the international community. No matter how much outside powers proclaim their desire to encourage positive developments in Africa, in practice they spend most of their time on 'fire brigade' operations forced on them by African failures. The more successful states suffer both from this diversion of attention, and also from the direct impact of cross-frontier destabilisation: refugees, arms flows, looting of resources, terrorism, etc.

The response, both global and regional, has generally been merely to reiterate the standard mantras of African reform – state reconstruction, democracy, sound economic management and so forth – which have much to offer other parts of the continent, but which are of limited if any relevance to parts of the continent in which the basic conditions for effective statehood have not been met, and which (at least in some cases) are unlikely ever to be met. Is it not time for a hard-headed, blue-skies look at what can reasonably be expected of Africa's failed states, and at how both their own neighbours and the international community as a whole should respond to the challenge that they present?

Rather than promising more aid in the hope of achieving grandstanding goals, better use of existing aid resources should also come from greater feedback from the targets of aid expenditure – people and businesses. Understanding from businesses exactly what is required for them to make investments in Africa will, for example, assist greatly in identifying key areas for productive infrastructure expenditure and in devising appropriate policies, but also in attracting the investment necessary for sustained growth. Greater feedback will also assist in holding aid agencies more accountable.

There needs thus to be a sharper concentration on the increasing levels of divergence in African trajectories, and the different policy responses that these now call for, both within Africa, and from the external world. Much of the policy literature continues to ignore these differences, yet we can no longer plausibly talk about 'Africa' as though it were a single lump. Should we not instead craft approaches geared, first, to different groups of states; and, second, to the specific circumstances of states within each group, which may vary significantly from one another?

In the interim, aid and debt relief are no more the solution to Africa's problems as democracy to the Middle East's, and are no easier to deliver and spend the results effectively than it is to spread democratic values.

Effective Development in Africa: A Politicians View

Dr. Conny Mayer

Meaning and goals of „effective Development“

Let me start by thanking Konrad Adenauer Foundation and its representative, Dr. Wolfgang Maier, for the invitation to address you today. I appreciate it very much. I will be happy to answer any questions you may have at the end of my presentation.

The subject of my contribution is “Effective Development in Africa”. My task is to discuss the subject of effective development from the viewpoint of a politician. I was a member of the German parliament until September this year. I was a member of the “Portfolio committee for development and economic cooperation”. I hope that I am the right person to let you know more about how a donor-state politician from Europe, and especially from Germany, thinks about development and economic cooperation. Moreover, I would like to share our experience after the Second World War, as a totally destroyed country, with you. At that time, we needed to develop our economy and we needed to develop our democracy.

My first question regarding the subject is: „What is Effective Development“? I do not want to preempt the question of how this should be done in Namibia, but I was asked to discuss my view as a German politician regarding our partners in Africa.

Does effective development mean that all people have enough to eat? But what does this “enough to eat” mean? Does it mean a home for everybody? Or are we talking about the macro-level of economics? An economy without debt but with a strong economic growth? By the way, Germany is heavily endebted. We have had hardly any growth. Or does effective development mean a change to democracy? With freedom of speech and participation in elections? Or, at least, does it mean equal opportunities for all citizens? Think of France over the past weeks. They have had riots and nearly a civil war, because the young, especially migrants, are demanding equal rights for themselves.

I am not the right person to tell you what the goals of the African countries are. But I would like to mention what our objectives are. These are the Millennium Development Goals. The fight against poverty, as recently said by the government, is our paramount objective. We want to assist developing countries in reaching that objective, including the eight sub-goals before 2015. That is what our Europen partners should do and we promised at the world summit in 2000. I do not have to highlight the eight sub goals because I am sure you know them.

Development strategies of German politics

Let me start with a preliminary remark: the focus of my contribution is German Development Aid. In this context, I would like to mention that we are doing quite a lot together with multilateral organisations. The most important is the European Union and, of course, the United Nations with all its sub-organisations. In 2004, we actually spent more than 35 percent of our development budget on multilateral organisations. The European Union and the worldwide state community are fighting together against poverty and hunger in the world. We are fighting together to reach the Millennium Development goals by 2015.

In Germany, we also have different actors who are working in development and economic cooperation. First, what we call state development aid. In addition, many others actors are involved in development aid. For example churches, political foundations, schools and universities, chambers of commerce, communities and a huge number of non-governmental-organisations like clubs and foundations.

I would like to introduce you in the next minutes to the German system of development aid. I am sure; a lot of you know already everything about this. But just to give a complete overview of what we are doing to help you to realize “effective development”.

I am coming to my first point. Let me discuss the issue of debt relief. I will start with this point, because it is the topic of our conference. It is not the most important area of German development aid, although we are spending more than 25 percent of our development budget on debt relief.

Debt Relief

Since yesterday morning, we have heard nearly everything about debt relief. Please allow me to just give you an idea of what we as German politicians think about debt relief. Our goal of debt relief is to help poorest countries to come out of this vicious circle of debt, interest, write-off and more debts: to have money available for development and social upliftment. Again in an attempt to achieve the Millennium Development Goals.

One essential issue is how one can make sure that available money is spent effectively to combat poverty. How can one make sure that money does not end up in the pockets of corrupt politicians? This can be highlighted by the fact that more money of the state budget is spent on social support and upliftment. Let me add another question that has not been answered fully yet: “How can one control what is happening with the money. Transparency of state budget is essential in this area. Nobody can entirely estimate what the middle and long-term effects of debt relief are. Is it an instrument to enforce market-oriented policy?

I would like to summarize the following: The meaning of debt relief as an instrument of development and economic cooperation has increased. On the one hand there are positive results, on the other hand there are still open questions and doubts.

Besides debt relief, there are more strategies of development and economic cooperation.

Humanitarian Aid

Just for sake of completeness I would like to remind you that humanitarian aid is one of the most important tasks for our Ministry of Development and Economic Cooperation and the Ministry of Foreign Affairs. Humanitarian aid means urgent assistance after war or civil war and after environmental destruction: for example, the Tsunami disaster in southeastern Asia. Or think of Pakistan and the horrible earthquake. Another example is the help for refugees in Sudan and its neighbouring countries. The goals of humanitarian help are to give people food and shelter, to rebuild destroyed infrastructure such as roads.

Financial and technical cooperation

My next point is financial and technical cooperation. There are different organisations in Germany and I just want to mention the most important ones. First, GTZ is responsible for technical cooperation. Second, KFW is a bank owned by the German state and responsible for financial cooperation. Furthermore, there is DED, the German Development Service, bringing development workers to developing countries. Beside these state organisations, I have mentioned this already, there are several other organisations such as Churches and NGOs.

We are not engaged in all developing countries of the world. However, the Ministry for Development and Economic Cooperation assists 70 countries. In these countries, we support between one and three areas. Such an area can for example be health and HIV/Aids, environment, water, or decentralisation. These areas feature in written agreements. Every second year, the German government and the partner country government have to review the documentation. These agreements are based on the Millennium Development Goals.

Aid through dialogue

I am coming to the last strategy - that is Aid through dialogue. For me this point is very important. Development through dialogue is what we are doing at this conference. You might be hearing some new aspects of debt relief and development. Moreover, I myself am certainly learning a lot in discussions with you.

The most important organisations in this area are political foundations like the Konrad Adenauer Foundation. As a former member of the German Parliament, I appreciate very much the constructive work that representatives of the Konrad Adenauer Foundation are doing worldwide. I was responsible for Western Africa for my party. Whenever I had a question, I did not hesitate to ask its representatives in one of these African countries

Let me come back to the topic of my contribution. “Effective Development in Africa: A Politican’s View“. As I have told you at the very beginning of my contribution, I do not wish to tell you what is wrong and what is right. I do not want to tell you, what you have to do in order to reach the objective of developing your country. However, I should like to mention that Germany is spending every year an amount of more than four billion Euro on development and economic cooperation. Our taxpayers and the parliament want to know precisely what the German government is doing with that huge amount of money. Therefore, we need to have key criteria for our development aid. Now, I would like to present these key criteria to you.

Key criteria for Development

I would like to introduce you to five major topics. First: good governance; second: respect for human rights; third: Rule of Law; fourth: ownership; fifth: market-oriented economy.

Good Governance

What do we mean when we talk about good governance? A good government needs to accept and allow free, secret and equal elections. Every citizen must have the opportunity to vote. Parliaments that are elected in free elections must not be hindered and be recognised. This will include the opposition. Besides that, in our opinion, a good government needs to let civil society participate in politics, even in decision-making. For example in the German parliament, we usually invite experts to committees to advise us on difficult questions, before we decide. I would like to add that good government also means accountability to the voters.

Good Governance moreover means for us that the state budget is transparent. This point is very important when we talk about debt relief. Taxpayers in Germany will not understand why money is spent on the military or ends in the pocket of corrupt politicians. This is my last point: Germany's development partners need to fight seriously against corruption. Do not misunderstand me. Corruption is a problem in Germany as well. Moreover, most of the time it is not parliament convicting government, but the media. Corruption is not a problem only at the federal level. It is a subject for communities and member states (the Länder), too. I am sure you are familiar with the corruption index of Transparency International. It shows clearly and objectively, where a country is listed.

Respect for Human Rights

The second key criteria for development are those points that are typically enshrined in the constitution. For example: freedom of expression and demonstration, freedom of association, freedom of speech and freedom of the press. We would expect these forms of freedom to be observed and protected. We have good experience with paying serious attention to human rights. In Germany, it is an ongoing process.

Let me give you an example: people in Germany are allowed to demonstrate. Wherever they want and whenever they want. Before demonstrating, they have to inform the community. Despite our horrible history with the Nazis and anti-semitism there are still people with a racist attitude in Germany. We do not like to allow them to demonstrate. Nevertheless, we have to permit this. Our constitution provides for freedom of speech and freedom of association. However, we have recently passed a law that forbids any demonstration activities around the Brandenburg Gate, which would give the impression of the old days under the Nazis. This is one of the symbols of our New Berlin after the fall of the Berlin Wall but also a symbol of the terror under Hitler.

Rule of Law

We have already covered good governance and human rights. The third key criterion that I will focus on is the Rule of Law. What we see as important in this area is first of all the independence of the judiciary. Nobody should be arrested without a reason. Everybody should be entitled to have defence. The international business community considers this third point as essential. For example: when I ask companies in Germany why they are not investing in Africa they always mention this point. They tell me that in many countries there is too little Rule of Law.

I will summarize these three points: good governance, attention to human rights and Rule of Law. This is what we understand when we are talking about democracy. I would not tell you as an African how to organise democracy in your country. Nevertheless, I will say that our experience with democracy, in the way I have described it, made it possible for Germany to recover after the Second World War. That brings me to my next point, which is ownership.

Ownership

Let me explain what we understand by ownership. First of all the government should place high priority on development and social upliftment. In fact not only the government should do this but also the leaders in business, academics, medicine, communities and civil society. All citizens should show responsibility. For us as a partner it is a problem if countries develop an attitude of dependence. That is the opposite of what we wish to achieve. What we want our partners to demonstrate is initiative. We ask the leaders not to stifle projects that allow initiative and self-help.

Market-oriented Economy

My last point is market-orientated economy. In our experience, the fastest way for a country to reach financial independence and wealth is through a market-oriented economy. This was exactly our experience following the Second World War.

I hope that with these 5 points I have been able to give you a good overview of what we are expecting from our partners. In addition, I really hope that by sharing our experience after the Second World War, I could explain why we are thinking that the mentioned criteria are so important. In those days, we did not have democracy and wealth.

Political requirements for economic development

Prof. Dr. Peter Molt

There is internationally new attention for Africa's development. As you know, commissioned by the British Prime Minister a Commission for Africa has recently elaborated an extensive report on a new approach to Africa's development and the challenge to reach the Millennium Development Goals in 2015 also for Africa. This report has been reflected by the final communiqué of the G8-summit in Gleneagles and to a lesser extent by the recently adopted new Africa strategy of the EU. Germany has launched a specific initiative. On the invitation of the President of Germany, Mr. Köhler, former managing director of the IMF, at the beginning of November 2005 a meeting of the president with a number of African Heads of State took place in Bonn to launch a new partnership with Africa.

The underlying tenor of all these documents and meetings is to initiate a new start of relations with Africa based on mutual trust, confidence and understanding. The old concept of political conditionality, which has been one of the overarching principles of the Cotonou-Convention between the EU and the AKP-states and also of many bilateral aid agreements is put aside. The reasoning behind the new approach is that with the reorganization of the Organization for African Unity and its renaming to African Union as well as the establishment of NEPAD, the New Partnership for Africa's development, African governments and their leading politicians finally are showing their willingness to assume the primary responsibility of political and economic reforms required for a positive development of African development. The AU with its enlarged competences and setting-up of new organs could take care of conflict prevention, conflict settlement, peace-keeping and the fight against international terrorism. NEPAD, primarily with its new instrument, the African Peer Review Mechanism (APRM), would trigger economic progress in reform-minded states. The expected positive achievements would in turn induce other states to follow the path of necessary reforms. The EU and its member states and the other industrialized countries could concentrate their efforts to financial support. Through a massive and substantially increased aid, the could initiate a "big push", financing the basic services of primary education and health, as well as infrastructure and agricultural development. Extended debt relief would enable the benefiting poorer states to have a new chance to start allover economic development.

Overcoming continental and regional obstacles

It is the question, whether AU and NEPAD will really meet these optimistic expectations. There are good reasons to have some doubts.

The AU remains as its predecessor, the OAU, a very heterogeneous organization. The recent cases of tolerating the dangerous political paths of the leaders of some countries, such as Zimbabwe, Sudan, Togo and Ivory Coast, cast serious doubts of AU's capacity of conflict prevention, not to speak of the crucial case of the DRC and the conflicts in the Great Lakes area. These examples show, that the AU may have difficulties to reach an agreement in matters touching on the immediate interest of their members. We should not forget that it took almost three decades for the European community to agree on the desirability of a common foreign policy. There is also the not very convincing experience of the Organization of American States (OAS). Why should the member states of the AU, with their overemphasis on national sovereignty and unity, behave in a more enlightened manner? Beyond any doubt there is a strong feeling and tradition of African solidarity, at least in rhetoric. But what is the scope of these feelings? Was the reorganization of the AU not mainly motivated by unspecified fears of further international marginalization and the international ambitions of some larger states and their leaders?

The northern countries should give the AU a fair chance but not be led astray by wishful thinking. There are particularly in Europe unfounded illusions about the AU. Let me give you an example. The president of the European Commission, José Manuel Barroso, said in his address to the last summit of the AU (4/7/2005) under the headline “From Schuman to Sirte, a tale of two unions” , that the example of the EU, which proved to be thus successful in attracting the Eastern European countries, could be doubled by the AU: he expressed his hope, that African reform oriented countries would induce likewise the other African countries to follow their example. Similar illusions were nourished in the past by the World Bank which expected a domino effect of reforms. But, as the international community learnt in East Africa and the Great Lakes area as well as in the Mano river area, the domino effect went in the opposite direction: instead of extending reforms there was a contagious effect of political and economic instability.

It is not difficult to discover the reasons for the negative domino effects and the inefficiency of AU to prepare the path for the necessary reforms. A number of African leaders may have well understood that they must reform the politics and economics of their countries. But to which extent can they overcome the prevailing structures of their countries presenting serious obstacles to relevant reforms? It is not by the proliferation of committees and secretariats that the process of reform may be fostered.

What explains the success of the European Community? Apart from specific political reasons, such as the disastrous European wars, the decline of international power as a consequence of World War Two, the Cold War and the pressure from the United States conditions the success due to institutional arrangements:

- The development of rules and the introduction of joint politics were experimented with by a relatively small nucleus of democratic welfare states, the community of the six, later slowly enlarged over four decades. But in spite of the slow growth, the process of integration was not easy, and we experience at present new difficulties due to the enlargement.
- One of the most important features of the EU is the supranational character of the Union, meaning that important competences of the member states are permanently transferred to the Community. The European Union is a new form of a confederation of states and definitively more than a regional organization.
- States wishing to become members of the EU have to fulfil certain political, social and

economic standards to be admitted, they must be truly democratic states and be ready to take over the existing legislation of the EU, the so-called "aquis communautaire".

It is obvious that, in spite of the similarity of their set-up, the AU is quite a different organization. It continues to be a very large, economically and politically very diverse organization with 53 member states, it is only theoretically supranational. The criterion of becoming a member is to be an African state geographically. There are no specific criteria.
To demonstrate the political diversity of the AU member states it cannot be overlooked that out of 48 states south of the Sahara – according to Freedom House - only

- 11 member states feature in the category "free"
- 21 "partially free"
- 16 "not free"

The classification of Freedom House reveals a disturbing but decisive phenomenon. Some of you know perhaps the conclusion of the book of Chabal/Daloz "Africa works" . They describe the structural weakness of many African states, coming to the conclusion that the transfer of the modern state to Africa has been deficient in many instances. The state in many African countries is determined by disorder as a political instrument. Perhaps the conclusions of Chabal and Daloz may be exaggerated, but altogether they should not be neglected.

Emphasizing the diversity of African states as well as the limited competences of AU does not mean, that the reform of OAU to become AU is not important. But as OAU in the past, the AU continues to be primarily a regional organization of the UN: It is still easier for the AU, as for the former OAU, to reach agreements on claims, such as a permanent seat in the UN security council, or better conditions of the WTO, etc. But it still remains difficult for the AU to agree on how to settle internal conflicts or to force unwilling member states to respect human rights and democratic principles. The story of the mediation of president Mbeki in the Ivory Coast is a good example of how difficult it is to mediate in African conflicts. Therefore one should not diminish the importance of the new structure, but also see its limitations. In the best case the AU will be a useful institution to discuss African issues and to be a mediator in intra-continental conflicts. Its most important feature will probably be to deploy African peace forces under a mandate of the United Nations and in cooperation with NATO and EU.

NEPAD merits perhaps a more positive look. However, in many aspects it's original conception being an alliance of reform-minded countries would have offered better opportunities to reach its goals than the present inclusion into AU. The recent statements regarding African Peer Review Mechanism (APRM) shed light on the difficulties to implement the process. It was not such a good idea to include countries with many internal problems, like Rwanda and Kenya, in the first APRM round. The start of NEPAD has been rather slow and the conduction of APRM will require quite a number of years. We do not yet know whether the APRM will take up the really relevant matters and whether there will be a consequent follow-up of its recommendations. NEPAD could be a very useful instrument but unfortunately again we should also see its limitations and be critical about its capacity to become the answer to the economic and social problems of the continent.

Regional organizations such as SADC could have more actual significance than the continental organizations. They have a limited number of member states which makes it easier to reach decisions. Their problems are easier to be identified and to be followed up. They also have, at least in the case of SADC and ECOWAS, one or two powerful members. Powerful countries, such as South Africa or Nigeria, have an obvious interest in peace and development in their region. Why should South Africa be interested in the problems of Chad and Niger, what should Nigeria care for Swaziland? The development of trade and markets, the crucial questions of water and of energy resources, the extension of communication and infrastructure and particularly the guarantee of peace and security are more easily dealt with in the regional context.

I am no expert on SADC. Certainly, most of the expectations existing ten years ago have so far not come true. As it may be the case, the strengthening of regional organizations remains an important issue! Private capital investment – originating from local or international accumulation – looks in the first instance for security. If long-term security is not guaranteed, international capital will look for other opportunities. Private investments are also influenced by the size of the market. I may add that the protection of emerging industries will be only possible in a regional context. And finally, the provision of technical advice, fostering of trade capacities and the allocation of public development aid, for example from the European Union, to regional entities are easier or less complicated. The probability that a higher percentage of these inputs will meet its goals – a clearly crucial question - is larger than in the case of individual countries or on the continental level. In spite of all the shortcomings regional economic communities are the key to economic growth.

Counterproductive foreign aid

Having been critical about the political capacity of NEPAD, AU and the performance of regional communities I shall turn to the problems of foreign aid provided by the industrialized countries to Africa. European politicians and quite a few development experts prefer to say that Africans themselves have to take care of the necessary reforms. Among them it has become a set phrase to appeal to the responsibility of African leaders and elites. But it is all very well to say that. There cannot be any doubt that Africa still suffers under the long-term damages of colonization and the confused and rushed decolonization. We cannot change any more these facts. Nevertheless, it is cynical to say that the disastrous consequences, which in the end have done no good either for the colonial powers nor for Africans, have meanwhile been compensated by billions of dollars in foreign aid.

The real scandal is that the former colonial powers and the other industrialized countries – not in words but by their behaviour – have not really cared to configure their aid in a way to repair or at least to limit or diminish the damages formerly done. The inefficiency of foreign aid to Africa can be explained by its configuration, which did not take into account the postcolonial conditions. In the first decades after decolonization aid very often was nothing more than a continuation of the colonial "mise en valeur", increasing the value of former colonies by exploiting their resources. Later aid modalities followed the Washington consensus and the misconceived philosophy of structural adjustment. I could list many quotations of development analysts which prove the fundamental mistakes and errors of development aid. The causes may be still discussed, the failure is not any more contended (see US National Security Strategy of President Bush of 17/9/2002).

Again I shall limit my remarks to a few but pertinent issues.

The deplorable situation in some countries is – as in the case of the decolonization process – due to the once more confused and rushed intervention after the turn of the nineteen hundred-nineties. Personally I have been a close witness of the democratization process in the Great Lakes area. The transition of power to Museveni in Uganda, the reaction to the genocide in Rwanda and the removal of the Mobutu regime have been engineered by Western powers in a disastrous way. In retrospective it was utterly ignorant or arrogant how the USA, the UK and France and, influenced by them, the IBRD and IMF intervened in this conflicts, followed their assumed national interests but also their idiosyncrasies. Due to this experience I have become very sceptical about the application of political conditionality. The pressure to organize democratic elections without established democratic parties, the neglect of the strength of ethnic identities, the blindness regarding the disintegrating effects of given constitutions and electoral systems, and the overlooking of the propensity to violence are in retrospective incomprehensible.

Today, the wind has changed again. Particularly the USA seems again more interested in political stability of government. They are again ready to tolerate autocratic regimes as long as they respect on their outside some formalities, do not apparently violate human rights and if they are not too obviously corrupt. Façades of democracy are willingly accepted instead of insisting on gradual improvements and steps towards responsible government.

If we consider the aid allocations and modalities for pro-reform governments serious doubts are allowed whether they will serve their end. The survival of a growing number of governments is only facilitated by massive budget aid. The EU at present gives more then 30% of their aid to 16 African countries in the form of budget aid. A further increase including 14 more countries is scheduled. Already, the budget of a growing number of countries is to more than 30% financed by foreign aid. These modalities are justified with the alleged "ownership" handed over to the recipient country. As one lucid expert remarked, budget and program aid is leading us back to central planning of development, as practiced in the nineteen hundred sixties.

One cannot deny that the traditional and still largely prevailing manner of supporting a multitude of projects managed more or less by donor agencies had its serious shortcomings. It weakened the responsibility and the influence of the central administration. In fact local development activities escaped often its control. But the effects of project aid for the local beneficiaries were often better than the ones of government run activities. It is beyond doubt that on the one hand an important share of this aid did not reach its destination and was consumed as overhead by aid agencies and their experts. But on the other hand its by-product was a certain anarchic and creative competitiveness, an open market for new initiatives and ideas.

Through the new modality of budget and program aid African governments hope to regain control over planning and the utilization of resources. This may work in countries where the share of budget aid in relation to the gross national product is still limited. But this is not the category of countries, to which the new modality preferably is being applied. Budget and program aid is predominantly given to weak and very poor countries, to countries which cannot finance their budgets by their own, sometimes up to only 50%, and in which the share of aid of the national product is more than 20 or 30%. This means, that in such countries the politically responsible institutions, such as parliaments, are deprived of their core functions and that the real decision-making power is handed over to foreign controllers or experts, who are politically not accountable. The whole process tends to create a kind of quasi-protectorates, financially fully dependent on foreign donors, but only theoretically bound to observe a minimum of political standards in human rights and peoples participation. This may be a better solution than the continuation of autocratic rule or a chaotic democratic process. However, the adverse effect is that progress to responsible governance is blocked. Government, parliaments and other responsible protagonists are concentrating their efforts to find ways and means to make the system work for their own specific and particular political and economical interests, in other words, that they concentrate their efforts to discover the loopholes and enlarge them. Africans have learnt this already under the colonial system and have become experts to evade institutionalized controls. In short, the new modalities do not encourage them to increase their own efforts, to see their own responsibility and to strengthen democratic public institutions.

Besides the so-called "ownership", "decentralization" is another in-word. The idea behind it is to shift responsibility to the local level and people. But unfortunately donors often do not work through the established official institutions but tend to develop parallel structures, such as ad-hoc committees, NGOs, etc. The institutionalized core cells of democratic participation of the people are by-passed. In private talks with my friends in Western Africa I hear more and more often that the new aid system has the side effect of reinforcing the influence of traditional authorities which have been deprived of power by the new modern elites right after independence. But it is doubtful that these traditional forces, often deformed and corrupted already under the colonial rule, are more qualified promoters of peoples' interests than the postcolonial elites.

Additionally, the concentration of aid for economically deficient or not viable states is reducing the pressure for regional cooperation. Why should a government seek to improve economic productivity, diversification and increased trade capacities through regional cooperation as long as it is maintained and spoiled by direct budget allocations?

I know that it is a taboo to mention that the political map of Africa is characterized by quite a number of not viable states. Everyone is aware that the configuration of African states had nothing to do with the right of self-determination of people, but followed the colonial borders and, as particularly in the case of the former French empire, a decolonization policy of "divide et impera", that means to shape the new states in a way to retain a maximum of influence of the former colonial power. In this respect it is useful to recall the European example. A precondition of the economic growth in Europe, in the nineteenth century, particularly in Germany and Italy, was the merger of existing states. Another example: one of the assets of Asia today is that India, Indonesia and the Philippines did not fall apart. Unfortunately the configuration of states in Africa, as left behind by the colonial powers, cannot be changed any more. Therefore more efforts must be deployed to extenuate the consequences of African balkanization through supra-national sub-regional cooperation.

Let me turn still to another issue. One of the new recipes of the G8 and World Bank strategy for Africa is the massive financing of basic education and health services. Additionally, the "big push" for Africa's development, proclaimed by the Commission for Africa, should be used for infrastructure and rural development. Perhaps these preferences are justified by the bad experiences of the industrial projects and the failed structural adjustment programs of earlier development decades and by the search of a new legitimacy for development aid among the governments and peoples of donor countries. Undoubtedly this choice, euphemistically imbedded in the "new comprehensive development framework" invented by the World Bank, deserves serious attention. But I do not see how these preferences will lead to substantial and sustainable growth. They do not suffice. The qualified formation of a social, economic and administrative elite seems to me equally indispensable. In many African countries the quality of higher education has been considerably diminished or altogether lost. The lack of adequate job opportunities has been another obstacle. But it seems to me indispensable to give serious consideration to the improvement of the competence of a young African elite. This may be not pertinent for Southern Africa or the larger countries of the continent, but it is an serious question for the poor and small countries.

Last but not least, in order to improve the living conditions of the growing population, Africa cannot survive without more jobs, that means the growth of modern industries and services. The economic growth rates of some African countries serve as argument for Africa-optimism. But in fact, growth of gross national product, where it took place, is still mainly due to increased production of extractive industries, primarily of petroleum, and to the massive influx of foreign aid. On the other hand the export of cash crops, the monocultures of the colonial regimes, are less and less competitive with the more advanced countries of Asia and Latin America. How to foster industries and services in Africa South of the Sahara and North of the Lampoon? In the longer term, Africa South of the Sahara cannot hope to solve the problem of employment and migration only through extractive industries and agriculture without developing centres of modern industrial production and services.

One of the often quoted and well known features of African economy is, that an important share of capital earned for instance by royalties or trade lands in safe heavens outside the continent. It is estimated that about 40% of capital accumulated in Africa are tansferred in this way. Countries which in recent years had considerable income particularly from oil royalties, such as Gabon, Congo-Brazzaville, Equatorial Guinea, Angola, Nigeria and Sudan have - contrary to the Near East countries - not made good use of their income.

On the other hand, world private capital investment is avoiding the continent. In other words, if African countries would succeed to create attractive and stable conditions for investment, they could repatriate flight capital and attract outside capital for sustainable economic growth. This is the leading idea behind NePAD and the report of CFA (Commission for Africa). However, as far as I can judge from Germany the performance in this regard is today worse than two decades before, where quite a few middle-sized entrepreneurs invested in Africa. It would require a major political effort to change capital flows in this direction.

Again, I therefore come back to underline the necessity to concentrate efforts on the regional level. This is also valid for the task of improving the investment climate. In this context often the example of the successful Marshall Plan for European recovery after World War II is quoted and seen as an example to provide fresh capital for Africa's development. At present there is a campaign for a Global Marshall Plan. The protagonists of such new instrument overlook usually the fact that the situation in Europe after World War II was quite different from the situation in Africa today. Also the Marshall Plan was a unilateral initiative of the USA. Today, we have the World Bank and its branches as well as the African Development Bank and other regional banks as investment instruments with different processes of decision making. Nevertheless, the setting up or upgrading of regional investment funds in order to limit risks and to attract shared private-public resources for financing of small and medium sized industries should be considered. Although this is nothing new and similar undertakings have failed in the past, one should try a new start in those regions, which offer best results, since there are no other options for the necessary growth of the non-agrarian private sector. We should not be discouraged by the difficult conditions for the creation of regional investment funds funded through ODA, although it is doubtful whether much progress can be made in the years to come.

Future prospects

There was much cheering after the meeting of the G8-summit with African presidents in July. However, since then the world political climate has changed again. We don't yet know whether and how the European Union and its member states, which finance the lions share of ODA for Sub-Saharan Africa, will meet their promises of Gleneagles. Perhaps the UK and France and some smaller countries will come forward with fresh money, in the case of Germany and Italy, the chances are not good.

The USA will most probably continue to build up the Millennium Challenge Corporation. Whether IDA 14 will be further upgraded we do not yet know. The EU promised only maintaining its aid effort to the ACP countries at least at the level of the 9th EDF.

For another time the ritual of international development financing seems to be carried out: big announcements and promises are finally not honoured. But at least one accomplishment can be noted: Africa's development is back on the international agenda and seen at least in Europe as a serious challenge - although the task to make all ends meet and to get all protagonists on the same line is a Herculean work. The odds for its success are at best mixed.

Breyten Breitenbach has, a few days ago in Beirut in a sweeping blow, reiterated his conviction that reforms in Africa have failed so far and that Africans should not expect support from the USA and Europe, but rather re-invent their continent themselves. One does not have to share his radical point of view to come to admit that he touches many sore points. The de-politicization of aid and its massive increase, as proclaimed in the CFA and Millennium report and dear to the insider-discussion of development experts will not really touch at the roots of the challenge and will therefore not lead to substantive change. The main obstacles are political.

There are a good number of well-intented Africans with good ideas and proposals. There are, in spite of many shortcomings, encouraging steps toward legitimate democratic governance, meaning freedom and political stability. But to consolidate progress, Africans need to go ahead step by step and not seek remedies in gigantic new programs and large funds of foreign aid. The regional level will play in this respect a crucial role, and particular Southern Africa has a lot of assets and a chance to go ahead and become a leader of Africa's renaissance.

6 December 2005

MORE IS NOT ENOUGH: EFFECTIVE DEVELOPMENT AID FOR AFRICA?

Dr. Peter Nunnenkamp

Abstract

Most African countries run the risk of missing the Millennium Development Goals by far. Therefore, the United Nations are demanding a massive increase in development aid, and the Action Plan for Africa of the G8 promises focussed aid for Africa. On the one hand, this leads to the question of the extent to which local conditions for a productive utilisation of aid are in place in African countries. On the other hand, one should scrutinise donor assurance that aid for Africa is allocated according to criteria making aid effective. In both respects, considerable gaps appear between words and action. In particular, it is indicated that the allocation of aid has thus far hardly been determined by changed economic and institutional conditions in developing African countries.

I. No lack of good intentions

Empty promises from donors of development aid have a long history. In 1970, donors already accepted, in principle, the 0.7 percent target. The United Nations General Assembly then agreed as follows: "Each economically advanced country will exert its best efforts to reach a minimum net amount (of official development assistance; ODA) of 0.7 percent of its gross national product by the middle of the decade" (quoted from UNDP 2005:59). Twenty years later, the portion based on the gross national product of these countries provided as development aid was exactly the same as in 1970, namely 0.34 percent. By 2002, it had fallen to 0.23 percent.

The 0.7 percent target was confirmed on many occasions, nevertheless. The so-called Monterrey Consensus reached at the 2002 UN Conference on "Financing for Development" promised "concrete efforts towards the 0.7 percent target of the gross national product as ODA for developing countries" (UNDP 2005:2005f.). Two years before, the "biggest summit of all times", according to the UN, issued the UN Millennium Declaration. The declaration stated that member states should, among other things, halve the population share of extremely poor people (those who have to live on less than one dollar a day) by 2015 to make sure that all children complete primary school.

These good intentions have not been limited to a substantial increase in development aid. Simultaneously, the allocation of aid was to be made more efficient in the sense that aid should be directed to countries with particular needs offering favourable conditions for the productive use of aid. At the same time, President Bush surprised participants at Monterrey with a declaration that the United States would increase its aid by 50 percent, but exclusively to governments practising good governance, investing in education and health, and respecting human rights and freedoms. [1]

[1] *Regarding the Millennium Challenge Account of the United States, compare Clemens and Radelet (2003).*

The Action Plan for Africa designed by the G8 at their 2002 summit in Kananaskis includes similar announcements which specifically relate to the African region (Auswärtiges Amt 2002). The G8 promised to respond with effective official development aid to the formation of the New Partnership for Africa's Development (NEPAD), an initiative of African leaders for economic and political reform: "This will lead to a concentration of our resources for countries demonstrating the political and financial intention to practise good governance, to respect the rule of law, to invest in their people, and to pursue policies that encourage economic development and combat poverty" (Auswärtiges Amt 2002:2).

In what follows the – still uncertain – prospect of reaching the 0.7 percent target will be less in the foreground of the discussion. Instead, the focus is on whether the distribution of aid among developing countries ensures that poverty is effectively reduced. There are several reasons for this question. Firstly, according to earlier research, it seems as though development aid did not primarily aim at poverty alleviation. Schraeder et al. (1998) refute donor rhetorics defining development aid as an altruistic instrument of their foreign policies. Alesina and Weder (2002) point out that the allocation of aid has been decisively determined by the political and economic self-interest of donors. According to Alesina and Weder (2002), there is no evidence that corrupt regimes received less aid. According to Collier and Dollar (2002), the practice of giving aid differs radically from an optimal allocation of aid in terms of poverty alleviation. Dollar and Levin (2004:13) state the following: "In the second half of the 1980s, aid was allocated indiscriminately to well governed and poorly governed countries alike."

Secondly, according to recent findings, the effectiveness of aid could be improved drastically if it were well targeted. Influential studies such as those of the World Bank (1998), Burnside and Dollar (2000) and Collier and Dollar (2001) argue that aid should be concentrated on developing countries which, on the one hand, are particularly needy and, on the other hand, meet the local requirements for the productive utilisation of aid. The criteria for neediness are in no way undisputed, and there is furthermore also debate regarding which local conditions should be considered as most important for aid to be growth-stimulating and likely to help reduce poverty. There is, however, broad consensus that aid should be given more selectively than has traditionally been the case.

Thirdly, both the World Bank and bilateral donors vow that they have already taken these findings into account in their donor practice. The World Bank states that the allocation of its aid has improved "dramatically" in recent years (Word Bank 2002:69). Representatives of the OECD declare that donors have increasingly taken developmental concerns into account since the end of the Cold War (Isenman and Ehrenpreis 2003:7). The German Minister for Economic Cooperation and Development, Wieczorek-Zeul (2003), points to "distinct changes in the behaviour of donors that increasingly support good governance by higher ODA-transfers". Such statements find support from an analysis by Dollar and Levin (2004) that offers empirical evidence for the fact that in the recent past, donors have differentiated between poorer and wealthier developing countries, as well as between those practising good and bad governance.

The study of Dollar and Levin (2004) is, however, disputable on several grounds. Apart from methodological objections, [2] the empirical evidence remains ambiguous: some important donors such as France and the United States have focused their aid neither on very poor nations, nor on those practising good governance. Overall, bilateral development aid seems to be distributed less selectively, as the authors themselves concede. Furthermore, it is still an open question how to judge the targeting of aid when the analysis is done for development aid given to Africa. It makes sense to focus on Africa because this region can be regarded as most problematic in terms of poverty alleviation and aid effectiveness, as is shown in the next section.

II. Starting points in Africa

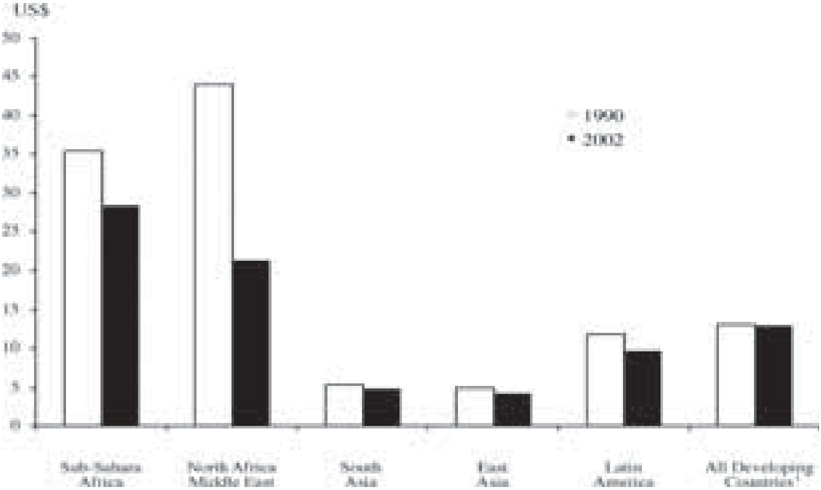
The dream of a world without poverty [3] remains a pie in the sky, particularly in the light of the situation in Africa. Depending on the definition of the poverty line, up to two thirds of the extremely poor lived in sub-Saharan Africa at the end of the nineties (Sala-i-Martin 2002). The population share of the absolute poor (according to the definition of the World Bank) has stayed constant at about 45 percent in that region since 1990. The UN report “Investing in Development: A Practical Plan to Achieve the Millennium Development Goals” views sub-Saharan Africa as “the epicentre of crisis” (UNDP 2005:9) and states that most African countries are in danger of missing all, or at least most, of the Millennium Development Goals.

The UN report therefore calls for effective and substantially increased development aid, especially for Africa, which has been largely ignored by private direct investments (UNDP 2005:5). But this unquestionable need should not obscure the fact that the often-lamented “aid fatigue” of donors could eventually be traced back to the fact that aid to Africa has proven to have little effect.

In per capita terms, sub-Saharan Africa clearly received more (bilateral and multilateral) development aid in 1990 (US$35) than all developing countries together (US$13: Diagram 1). Nevertheless, most African countries showed economic decline (Nunnenkamp 2003). In 2002 the average per capita income in sub-Saharan Africa was less than in 1970. [4] For example, in 1970 the per capita income in Ghana was comparable to that of South Korea. In 2002, it only amounted to 12 percent of the Korean per capita income, according to purchasing power parity.

[2] *For more detail, see Roodman (2004).*
[3] *The motto “Our dream is a world without poverty” decorates the main entrance to the World Bank.*
[4] *Figures of the World Bank (2004) for per capita GDP in constant US$.*

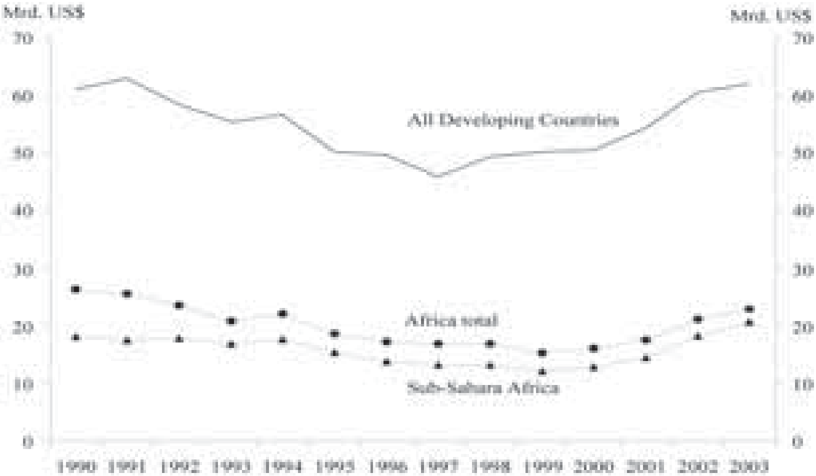
Diagram 1 - Per-capita development aid received (US$): Africa compared with other regions



[1] Countries with low and average per-capita income according to World Bank definition. Source: World Bank (WDI 2004).

This may explain why "donor mood" has changed for the worse during the nineties, especially with respect to Africa. The net disbursements of development aid to Africa – calculated in constant prices – declined by 42 percent until 1999 (Diagram 2).[5] Despite a distinct increase over the past two to three years, the aid allocated to sub-Saharan Africa only regained the level of 1990 in 2002.

Diagram 2 - Development aid (net payments) all donors with constant prices for 2002, 1990-2003



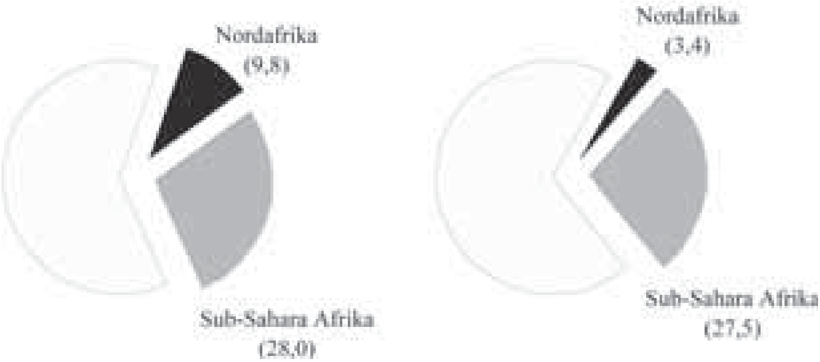
Source: DAC Online Database (http://www.oecd.org/dataoecd/50/17/5037721.htm).

During the period 2001 to 2003, sub-Saharan Africa's share of overall development aid reached almost 28 percent. But since the share of aid allocated to northern African countries has declined remarkably, there can be no talk of strong donor focus on the continent. The G8 Action Plan for Africa promises to change this so that "in total half or more of our new development aid will be awarded to African countries" (translated: Auswärtiges Amt 2002:3).

Especially with regard to Africa, one should not only make more funds available, but also distribute aid in such a manner as to reach objectives. [6] According to the recent UN report, this should not be too difficult. Apart from widespread need, a number of developing countries – among them many African countries – are said to have considerably improved local conditions for aid to be effective. The view that "pessimism with regard to Africa is uncalled for" (Wieczorek-Zeul 2003) is based on several factors:

- In widespread parts of Africa, governance is deemed to be good (UNDP 2005:32). Furthermore, the blame for remaining problems with good governance has not been put on the "ill will of the leaders" but on financial constraints and a lack of technical expertise in public management (UNDP 2005:35).

Diagram 3 — Africa's share in entire development aid (vH)[1]



[1]Including aid to transformation countries (part II of source) - Source: DAC Online Database (http://www.oecd.org/dataoecd/50/17/5037721.htm).

- Approximately two dozen African states are willing to submit to the African Peer Review Mechanism (APRM), forming a core element of NEPAD. It is hoped that through this mutual evaluation a stronger stimulation of political and economic reforms and, consequently, a productive utilisation of development aid will be achieved.
- IMF and World Bank give several African countries credit for the creation of local conditions which, in the context of the so-called PRSP process (Poverty Reduction Strategy Paper), allow for successful poverty reduction.

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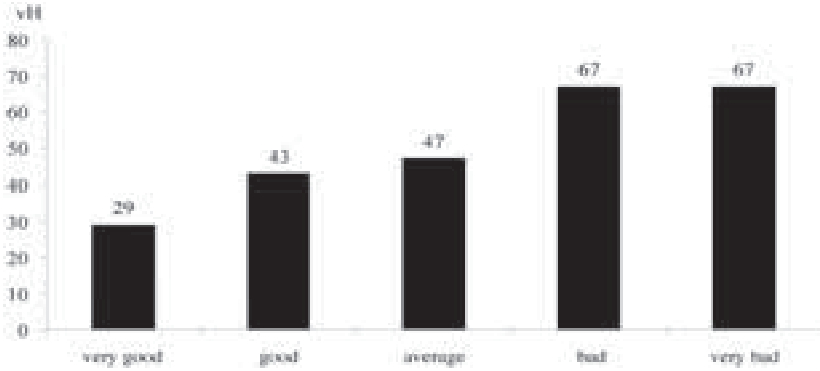
[5] *Development aid to all developing countries reached its lowest point in 1997 at minus 25 percent.*
[6] *This was also stated by the G8 in the Action Plan for Africa.*

However, the positive assessment of governance in large parts of Africa should be put into perspective. The first qualification emerges from the Country Policy and Institutional Assessment (CPIA) undertaken by the World Bank. The CPIA includes a multitude of indicators reflecting economic and institutional conditions in developing countries. Thus far, the World Bank's findings have only been published to place countries in five groups (quintiles) allowing for a ranking of local conditions from very good (CPIA 1) to very bad (CPIA 5). [7] The distribution of African countries amongst CPIA groups 1 to 5 raises reasonable doubt regarding good governance in the region. The worse the local rating of conditions, the greater the share of African countries in the respective group (Diagram 4). Moreover, the CPIA classification has improved for only 11 of 38 African countries since 1999. [8]

Diagram 4 - Evaluation of economic policy and institutional framework conditions[1] : Africa in Comparison[2] (Proportion of African countries in the respective group)

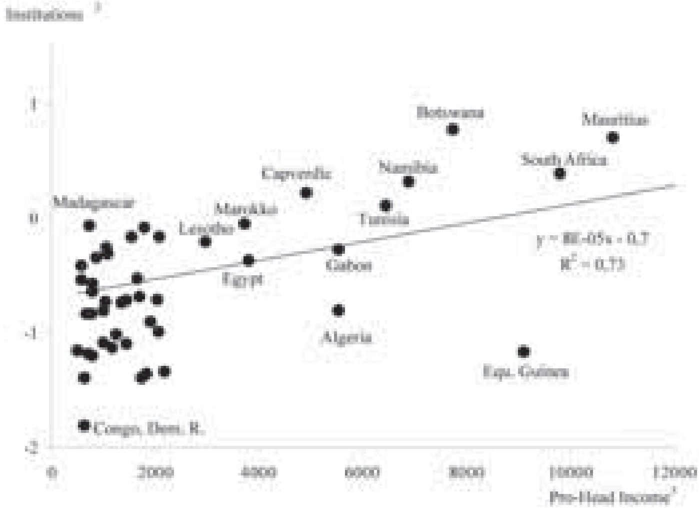


[1]Country Policy and Institutional Assessment (CPIA) by World Bank for 2003.— [2] In total 76 developing countries with access to concessionary IDA loans. - Source: International Development Association (IDA) (http://siteresources.worldbank.org/IDA/Resources/QuintilesCPIA2003.pdf)

In the light of the critique levelled against the CPIA , the information on institutional development given by Kaufmann et al. (2003) may be taken as an alternative measure to reveal the quality of governance in Africa. Kaufmann et al. present an assessment of six institutional factors: voice and accountability, political stability, government effectiveness, the regulatory quality, the rule of law, and the control of corruption. Indicator values stretch from 2.5 to minus 2.5, with higher ratings referring to better institutional policies. In what follows, the average of all six indicators will be assessed. Moreover, the institutional development of African countries will be "standardised", taking into account the fact that countries with a low per capita income would typically have less developed institutions. In other words, institutional conditions are only seen as less developed when they fall behind the normal pattern which is drawn from the correlation between per capita income and the institutional development found across all developing and industrial countries.

[7] This deals with a total of 76 developing countries that have access to credits from the International Development Association (IDA).
[8] Compare in this regard Section IV.
[9] For instance, Kanbur (2004a) criticises the fact that, despite limited validity, instrumental variables such as public expenditure and import duties have been considered, whereas performance variables have been largely ignored.
[10] See also Sachs et al. (2004).

Diagram 5 - Institutional development of African states as compared to normal pattern[1], 2002



[1] The normal pattern is determined by the regressive straight line reflecting the statistical correlation between per-capita income and institutional development on average for all developing and industrialized countries.
[2] Average of all six institutional indicators for 2002; Span scope from 2,5 to minus 2,5, higher values being a reference to developed institutions.
[3] US$ in purchase parity for 2002.
Source: Kaufmann et al. (2003); World Bank (WDI 2004).

At first sight, Diagram 5 seems to confirm the statement of Sachs et al. (2004:120) that no evidence could be found that “Africa’s governance, on average, is worse than elsewhere once we control for income levels.” About half of the African countries are above and below the normal pattern, respectively. But it is precisely in poorer countries in the region where institutions are less developed than would be expected. Even when taking their low income levels into account, two thirds of the countries with a per capita income of no more than US$2 500 (in 2002, according to purchasing power parity) are characterised by bad institutions. Furthermore, institutional conditions have worsened in most African countries considering the change in the average of the six indicators of Kaufmann et al. (2003) between 1996 and 2002. [11] This does not really speak in favour of good governance in large parts of the region.

It is also doubtful that participation in APRM alone would guarantee better local conditions for the productive use of development aid in future. At present, it is hardly possible to measure how strict the evaluations would be, and to what extent critical assessments of particular countries would lead to behavioural changes. Mathaho (2003) finds that many African political decision-makers disapprove of the APRM because of the funding provided by Western donors, and he is sceptical as to whether the members of the jury would put much pressure on those countries which are unwilling to reform.

[11] There has been a negative change in 30 of the 53 African countries for which statistics are available. The median of insti tutional development (measured against all six indicators) has decreased from -0.5 to -0.7 for the overall sample of African countries.

Furthermore, Mathoho believes that there is a distinct possibility that the evaluation criteria could have been watered down. According to Kanbur (2004b), the APRM represents a positive development, but he states that "its design will have to be improved for it to be truly successful."

III. Targeting aid to poor African countries

The question of whether words are turned into action could, however, not only be asked of those countries receiving development aid. The donors should also be able to confirm that they adhere to efficiency criteria when allocating their aid. It would not be the first time if gaps were to appear between word and deed on the side of the donors. [12]

In empirical studies, where the question is asked whether the aid of the donors is allocated in accordance with indicators of need, the per capita income of recipient countries is used as the primary criterion (e.g. Dollar and Levin 2004, as well as Berthélemy and Tichit 2004). Here, two additional criteria are employed to assess whether aid is well targeted:

- The incidence of absolute poverty [13] is taken into consideration in order to investigate whether the allocation of aid is in line with the central aim of the UN Millennium Declaration, which is to cut absolute poverty by half.

- Furthermore, the proportion of aid that is spent on education, health and the provision of water is taken into account. This criterion is also based on the UN Millennium Declaration, in which these sectors are priorities. [14]

The allocation of aid is assessed on the basis of net disbursements, because these better reflect the factual behaviour of the donors as opposed to aid commitments. Regarding sector-wise aid, however, no data on disbursements are available, and commitments have to be relied upon. The concentration of aid on particular groups of developing countries is measured in two ways: the percentage that one group of developing countries receives as disbursements to all countries for which the requested data are available, and the disbursements per capita of the population in developing countries. [15] In this section, and the next one, we consider the development aid of all bi- and multilateral donors taken together. In addition, we consider German bilateral aid for the assessment of German aid against the average.

For the calculation of aid shares as indicated in Diagram 6, all available countries are divided into two groups. The median of the per capita income and the incidence of

[12] *Apart from the literature already cited in Section II, see Breuning (1995).*

[13] *Measured as the share of the population who have to live on less than one dollar per day, taken from Chen and Ravallion (2004).*

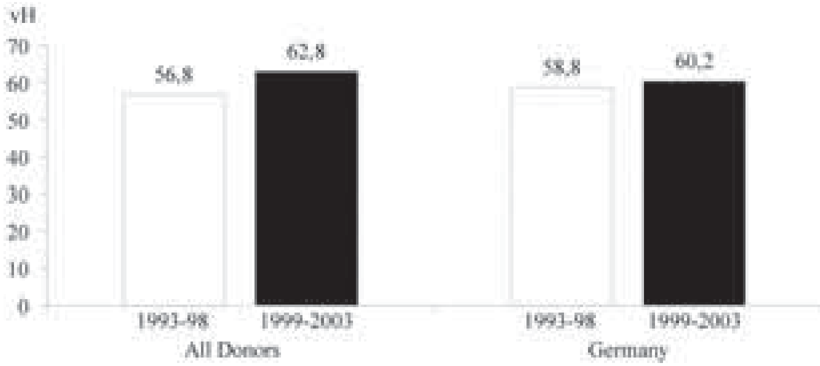
[14] *For instance, by 2015 it should be achieved that all children should complete their primary school education. The signifi cance of the health sector ensues from the goals of reducing the mortality rates of children and women, stopping the spread of HIV/AIDS and combating infectious diseases such as malaria. A further goal is to reduce by half the share of the popula tion who do not have access to clean water and sanitary facilities by 2015.*

[15] *In this way, we take account of objections which could be raised against the one as well as the other measure. Apparently, the share calculation is determined by large developing countries such as China and India. The question with the per capita calculations is how to treat outliers. For details, see Nunnenkamp (2005).*

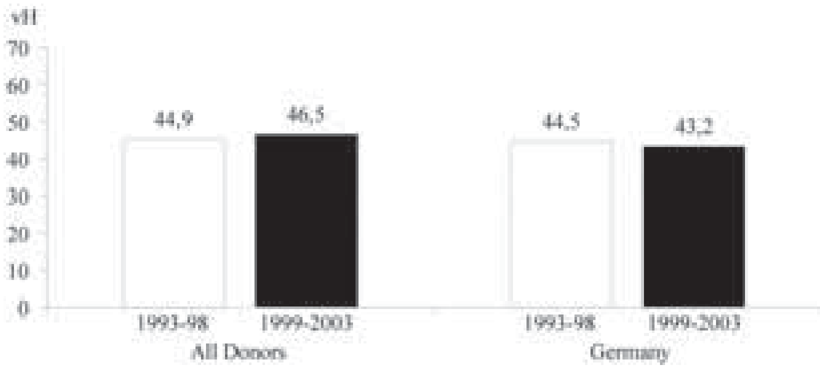
absolute poverty, respectively, serve as the dividing line. With the per capita income as criterion of the need for aid, it is shown that the poorer half of the recipients clearly received more development aid than relatively advanced economies. Moreover, the share of total aid from all donors going to the poorer half of recipients has increased by six percentage points in the recent past. Nevertheless, one cannot speak of a strong concentration of aid on countries with a low per capita income. This group includes, among others, the highly populated countries Nigeria, Ethiopia and the Democratic Republic of the Congo. This means that in 1999, 60 percent of the population of all countries investigated lived in the group with a low per capita income, which fairly precisely represents the share of this group in the disbursement of development aid.

Diagram 6 - Development Aid Concentration on Poor African Recipient Countries (%-share in all recipient countries with available data)

Recipients with per-capita income under Median[1]



Recipients with absolute poverty through Median[2]



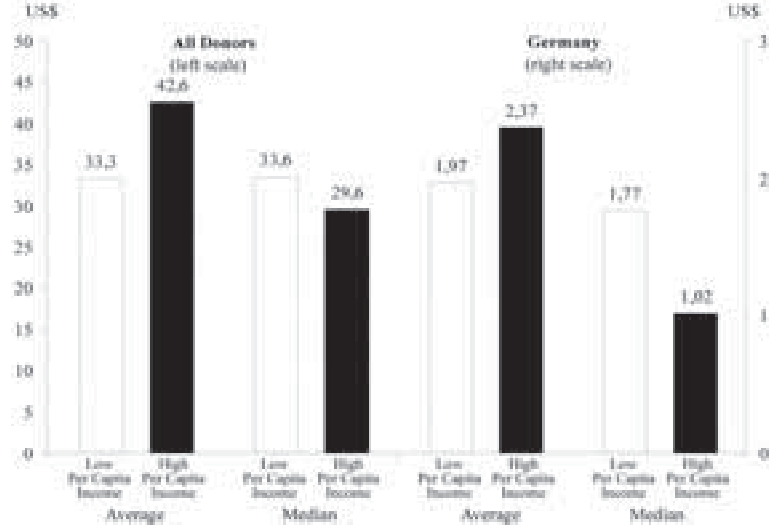
[1] *In purchse power parity; for 1999.*
[2] *Part of population having to live on less than 1 US$ per day; for 1999.*

Source: DAC Online Database (http://www.oecd.org/dataoecd/50/17/5037721.htm); World Bank (WDI 2004); Chen and Ravallion (2004).

Doubts as to whether aid actually reaches the most needy African recipients as a matter of priority becomes stronger when, instead of the per capita income criterion, the incidence of absolute poverty is taken as a criterion. All the shares shown in Diagram 6 for countries where absolute poverty exceeds the median clearly stay under the 50 percent mark. The shares also fall behind the population share of this group of countries (48 percent). Similarly, we find hardly any evidence that donors have strengthened the poverty orientation of aid in recent years, which is remarkable in noting how much the political debate in the donor community has focused on poverty reduction at least since 2000. The focus of German development aid for African recipients with high absolute poverty levels has even declined.

It is possible that the current impression could be due to the fact that the calculation of aid shares has been influenced by highly populated developing countries. To counteract such a bias, Diagram 7 shows a comparison between received development aid on a per capita basis of groups for countries both beneath and above the median. When viewed like this each country receives the same weighting. However, a comparison of per capita disbursements is also not unproblematic. The results depend on how outliers, typically small countries receiving unusually high per capita aid, are treated. For example, during the period 1999 to 2003 Cape Verde received per capita aid from all donors in the order of eight times the median for all African developing countries. Closely followed by the Cape Verde, Namibia received ten times the median from German donors.

Diagram 7 - Per-capita development aid to African recipient countries with low or higher per-capita income[1] , 1999-2003[2]



[1] Average or Median of per-capita aid payments. Per-capita income (PCI) in purchase power parity for 1999; below or above Median.
[2] Period-average related to population in 2001.

Source: DAC Online Database (http://www.oecd.org/dataoecd/50/17/5037721.htm); World Bank (WDI 2004).

Small developing countries receiving unusually high per capita aid generally show a relatively high per capita income. This contributes to the fact that the average per capita aid to relatively advanced countries exceed average per capita aid to less advanced countries. During the period 1999 to 2003, this was true for both all donors and for the bilateral aid of Germany. This is in sharp contrast to donor assurance that their aid is orientated on the needs of developing countries. Only if one limits the influence of outliers by comparing the median – instead of the average – of per capita aid between both groups of developing countries is a clear advantage shown – at least with regard to German aid – for the poorer group of countries. Even then, however, only a small advantage is apparent for very needy developing countries when looking at the total of all donors.

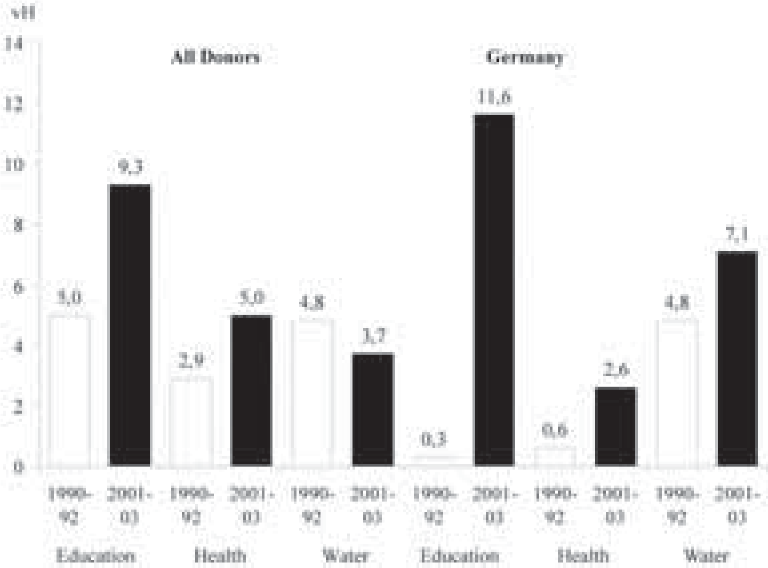
As indicated above, apart from the features of the income and poverty levels of developing countries, the sector-wise allocation of aid commitments also offers points of reference for establishing the extent to which donor behaviour is in line with the goals of the Millennium Declaration. Diagram 8 indicates the shares of the total commitments of aid for the various sectors which, according to the Millennium Declaration, should enjoy priority. For 2001 to 2003, education, health and the supply of water accounted for 18 percent of total commitments by all donors, and 21 percent of German commitments. In particular, German aid to these sectors has increased in significance. In contrast to the country-wise allocation of aid, the sector-wise allocation thus shows a clear re-orientation.

However, it is doubtful whether this re-orientation is sufficient to reach the goals of the Millennium Declaration:

- As concerns water supply, the increase in the share of German aid hides the fact that the nominal amount of commitments in this sector of US$315 million from 2001 to 2003 (annual average) wasn't any higher than the nominal amount for 1990 to 1992. In fact, the nominal amount of commitments by all donors in this sector even decreased by 10 percent over the same period.
- The very distinct growth in the share of the education sector should also be qualified. The bulk of commitments is still made in favour of higher levels of education. Basic education, the importance of which is emphasised in the Millennium Declaration, in comparison still plays a minor role in practical aid allocation. This is especially true of German aid: of the US$520 million which on average was committed to the education sector from 2001 to 2003, only about US$70 million was allocated to basic education.

All in all, in allocating their aid, donors placed less emphasis on the criterion of need in developing countries than might have been expected based on officially stated goals.

Diagram 8 - Share of sectors Education, Health and Water Supply in development aid pledges for Africa: All donors and Germany



Source: DAC Online Database (http://www.oecd.org/dataoecd/50/17/5037721.htm).

IV. Targeting aid to well governed African countries

According to the World Bank, the targeting of aid has also improved because donors increasingly favour recipient countries offering economic and institutional conditions ensuring the productive use of aid. [16] A critical assessment of this optimistic view stumbles upon several difficulties. The rating of local conditions by the World Bank is based upon the previously mentioned Country Policy and Institutional Assessment (CPIA). On the one hand, the CPIA rating scheme is disputable. On the other hand, the analysis must also remain within the format of the classification of all rated countries into quintiles (CPIA 1 = very good conditions to CPIA 5 = very bad conditions), because the precise ratings for the various countries have not yet been made public. [17]

The CPIA classification is used to determine the share of aid for developing countries in sub-Saharan Africa with very good and good conditions (CPIA 1 and 2). In addition, a comparison is made between the per capita aid to countries in CPIA groups 1 and 2,

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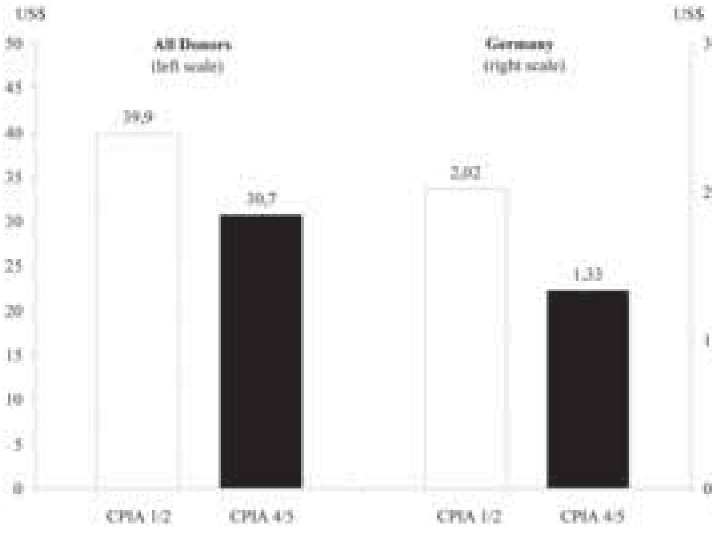
[16] *See World Bank (2002:29): "Financial assistance is being increasingly allocated to countries that have reasonably good policies and institutions – that is, countries that can best use aid for poverty alleviation."*

[17] *The CPIA classification is published by the International Development Association only for countries with access to IDA credits (http://siteresources.worldbank.org/IDA/QuintilesCPIA2003.pdf). However, this holds no disadvantage for the analysis which follows. Rather, it helps avoid distorted results that the analysis is restricted to countries of sub-Saharan Africa with access to IDA credit. The alignment of development aid with local conditions could be systematically underestimated if countries with relatively high per capita income offer better conditions (which is especially likely with regard to institutions) but receive less aid because of their advanced economic development. The likelihood of such a distortion is minimised because countries which exceeded the income limit for IDA credit (per capita income of US$865 in 2003) are not taken into account.*

and countries in groups 4 and 5. [18] If donors had recently concentrated more strongly on local conditions for a productive use of aid to sub-Saharan Africa, not only should the per capita comparison have been in favour of CPIA groups 1 and 2, but the share of aid allocated to these groups should also have increased over time.

During the period 2001 to 2003, the per capita criterion for well targeted aid was met by the total number of donors as well as by Germany (Diagram 9). Germany's focus on developing countries with good and very good conditions was stronger than that of the total number of donors. [19] Contrary to expectations, however, Germany's focus, like that of all other donors, had been stronger – and not weaker – in the more distant past (1998-2000) than in recent years. [20] In the case of all donors, the median of per capita aid to CPIA groups 1 and 2 hardly changed since the period 1998 to 2000, whereas the median for CPIA groups 4 and 5 increased from US$23 to almost US$31. In the case of German aid in 1998-2000, the median for developing countries in sub-Saharan Africa rated as good and very good still amounted to two-and-a-half times the median for badly and very badly rated recipients (US$2.7, as opposed to US$1.1).

Diagram 9 - Per-capita development aid[1] to countries in Sub-saharan Africa with good or bad framework conditions[2], 2001-2003



1 Period-average in relation to population in 2002.
2 Median for CPIA-groups 1 and 2 (very good and good framework conditions) as well as CPIA-groups 4 and 5 (bad and very bad framework conditions); CPIA classification for 2002.
Source: DAC Online Database (http://www.oecd.org/dataoecd/50/17/5037721.htm); World Bank (WDI 2004); World Bank (IDA (CPIA)).

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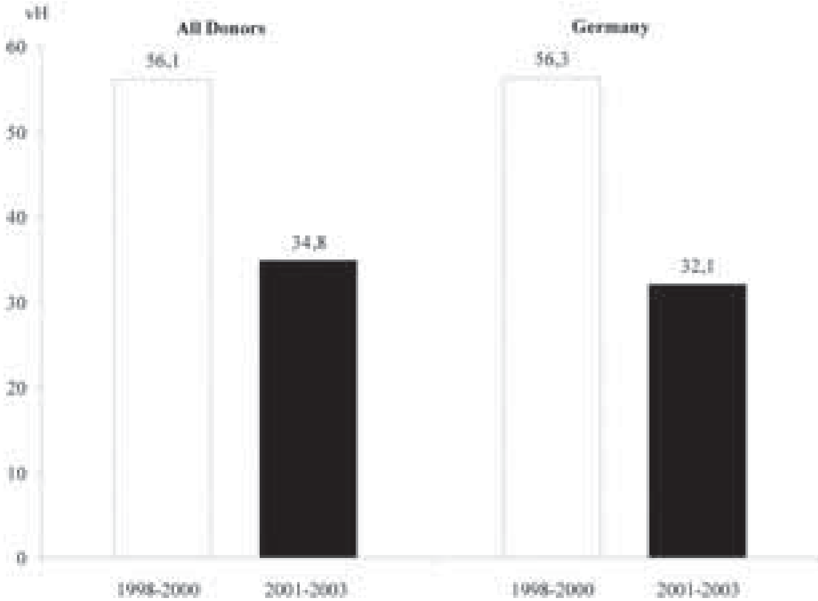
[18] CPIA groups 1 and 2 as well as CPIA groups 4 and 5 are taken together to achieve a sufficient number of observations. Sub-Saharan Africa is especially badly represented in CPIA group 1. See also Section II.
[19] In the case of German aid, the median for CPIA groups 1 and 2 exceeded the median for CPIA groups 4 and 5 by more than 50 percent (all donors: 30 percent).
[20] The results for 1998 to 2000, which are not indicated separately here, are based on the CPIA classification of the year 1999.

Tracing the share of aid to groups 1 and 2 against all rated sub-Saharan countries since 1998 also shows that the targeting of aid according to local conditions weakened markedly (Diagram 10). For instance, the Ivory Coast received more development aid from Germany, despite the fact that its rating dropped from CPIA 1 in 1999 to CPIA 3 in 2002.[21] The same is true for Mozambique. More striking, though, is the fact that during the period 2001 to 2003, almost a third of German development aid to sub-Saharan Africa was allocated to the Democratic Republic of the Congo and Cameroon alone, even though IDA rated the local conditions in these countries as very bad or bad. The multiplication of the aid to the Democratic Republic of the Congo[22] may be justified with the argument that political stabilisation and economic reconstruction of this country required a massive input on the part of donors. However, in the light of the persistently bad economic and institutional conditions, it is doubtful whether the aid can be used productively.

Diagram 10 - Share of development aid to countries in Sub-saharan Africa with good and very good framework conditions[1], 1998-2003[2]



[1] All countries in Sub-Saharan Africa with CPIA evaluation=100.
[2] Period-average.

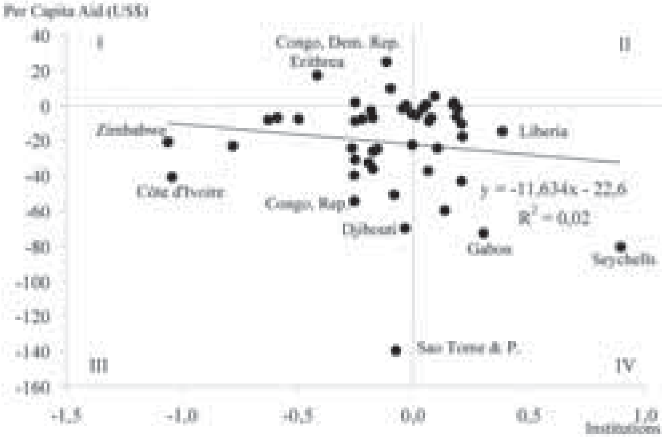
Source: DAC Online Database (http://www.oecd.org/dataoecd/50/17/5037721.htm); World Bank IDA for CPIA

[21] Calculated in per capita terms, however, German aid to the Ivory Coast only increased by 4 percent (see Table 1 below).
[22] In comparison with 1998 to 2000, 20 times more aid was given by Germany in 2001-2003, and 15 times more by all donors. This steep increase resulted primarily from the debt relief granted in 2003.
[23] However, Nunnenkamp (2005) finds little evidence that the reaction of aid commitments to changed local conditions is faster and stronger than the reaction of disbursements.

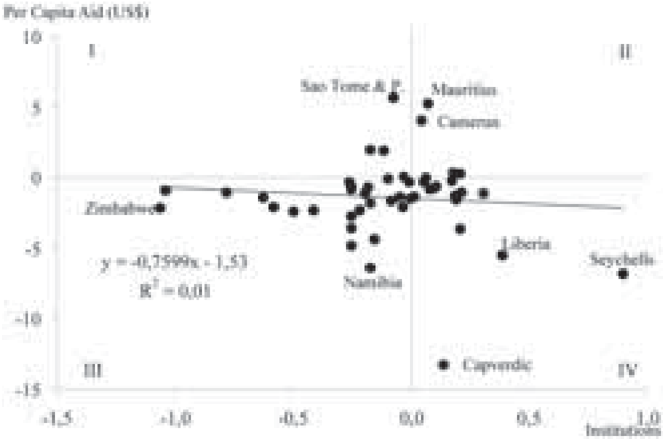
In isolated cases, whether and to what degree the allocation of aid should be orientated towards the CPIA classification would always be controversial. When it comes to reacting to changed conditions, trade-offs between conflicting goals cannot be excluded. For example, the required predictability of financial aid, which makes it possible for recipient countries to plan ahead, sometimes negates the possibility of the immediate reduction of aid in a case where conditions are worsening. Furthermore, donors point to the fact that, because aid might have been committed years before it is actually disbursed, the allocation of aid cannot easily be adapted to changed conditions. [23]

Diagram 11 - Correlation between changing institutional framework conditions[1] and changing per-capita aid[2] to countries in Sub-Saharan Africa

a) All donors



b) Germany



[1] Average institutional development in 2002 minus average institutional development in 1996.
[2] Annual average per-capita payments in 1999-2003 minus annual average per-capita payments in 1993-1998.
Source: DAC Online Database (http://www.oecd.org/dataoecd/50/17/5037721.htm); World Bank (WDI 2004); Kaufmann et al. (2003).

Table 1 — Reaction of Development Aid [a] towards a change of classification of local framework [b] in African recipient countries [c]

Recipient Countries	CPIA	All Donors			Germany		
		increased	constant	reduced	increased	constant	reduced
	with improved CPIA (11)						
Burkina Faso	+		0				–
Djibouti	+		0				–
Kenia	+	+					–
Kongo, Dem. Rep.	+	+			+		
Kongo, Rep.	+			–			–
Madagaskar	+		0				–
Mali	+	+					–
Ruanda	+			–			–
Senegal	+			–			–
Sierra Leone	+	+			+		
Tansania	+	+					–
	with unchanged CPIA (16)						
Angola	0	+					–
Benin	0	+					–
Burundi	0	+				0	
Guinea	0			–			–
Guinea-Bissau	0	+					–
Kamerun	0	+			+		
Kapverden	0			–			–
Komoren	0		0				–
Mauretanien	0	+			+		
Niger	0	+					–
Sao Tomé & Principe	0		0		+		
Sudan	0	+				0	
Togo	0			–			–
Tschad	0	+					–
Uganda	0	+				0	
Zentralafr. Rep.	0			–			–
	with deteriorated CPIA (11)						
Äthiopien	–	+					–
Côte d'Ivoire	–			–		0	
Eritrea	–	+			+		
Gambia	–	+					–
Ghana	–	+				0	
Lesotho	–	+				0	
Malawi	–		0			0	
Mosambik	–	+			+		
Nigeria	–	+			+		
Sambia	–	+			+		
Simbabwe	–			–			–

[a] *Change of Development Aid per capita, 2002/03 minus 1998/99*
"constant": less than 10 % change
[b] *CPIA-Classification 2003 in comparison to 1999*
[c] *Total of 38 countries with access to IDA credit*
Quelle:DAC Online Datenbasis (http://www.oecd.org/dataoecd/50/17/5037721.htm);IDA (http://siteresources.worldbank.org/IDA/Resources/QuintilesCPIA2003.pdf).

Despite such qualifications, however, Table 1 gives a surprising picture of how development aid (per capita disbursements in 2002/03 in comparison to 1998/99) reacted to a changed rating of local conditions (CPIA in 2003 in comparison to 1999). While German per capita aid to most countries in sub-Saharan Africa decreased by more than 10 percent, in most cases the per capita aid of all donors increased by more than 10 percent. Nevertheless, Germany does have in common with all other donors the fact that the allocation of aid was scarcely influenced by whether the CPIA classification of the developing countries in sub-Saharan Africa became better or worse:

- The total of all donors could be credited with the fact that at least for five of the eleven developing countries, aid increased following improvements in the CPIA classification. By way of contrast, apart from two exceptions, German aid decreased in spite of improved classifications.
- Especially for the total of all donors, the reaction to a poorer CPIA classification stands in stark contrast to an efficient redistribution of aid. Almost without exception, countries whose classifications had deteriorated received higher overall aid. The German allocation practice shows no particular pattern for this group of countries.

The picture remains highly ambiguous when assessing changes in local conditions on the basis of data provided by Kaufmann et al (2003) on institutional development in sub-Saharan African countries, instead of the CPIA classification provided by the World Bank. The data of Kaufmann et al. go back to 1996, so that this longer period of observation allows for the fact that it takes some time to redistribute aid. In what follows, changes in institutional conditions are measured by the average of the six individual indicators. A positive difference between the average ratings of 2002 and 1999 indicates institutional improvements. The difference is set against changes in the per capita aid to countries in sub-Saharan Africa between the period 1993 to 1998, and the period 1999 to 2003. In the case of an efficient redistribution of aid, a positive correlation should be apparent between these two variables. [24]

In reality, however, there is a completely insignificant correlation between the change in the institutional conditions and the change in the per capita aid to 48 countries in sub-Saharan Africa for which both these variables are available. This is true for both the aid of all the donors (correlation coefficient of 0.003) and for German aid (0.14).

In some contrast to Table 1, the aid of Germany, as well as that of all donors, only increased for a few developing countries in sub-Saharan Africa (Quadrants I and II in Diagram 11) when the period of observation is extended. This is true irrespective of whether the institutional conditions became better (Quadrant II) or worsened (Quadrant I). More than half of all 48 countries lie in Quadrant III. However, countries with improved institutional conditions are not spared decreases in development aid, either by Germany or by all donors. On the contrary, most developing countries with improved conditions are found in Quadrant IV. This is underlying the weak correlation between changed institutional conditions and changes in per capita aid.

[24] *We calculate the (non-parametrical) Spearman rank correlation, because the institutional variable has a limited variance by definition.*

V. Summary and Conclusions

Most African countries are in danger of failing to reach the Millennium Development Goals. It is especially the main goal of halving the share of the population that lives on less than one dollar per day by 2015 that seems unattainable in Africa. The United Nations thus demands a massive increase in development aid. The most important donor countries have agreed upon an Action Plan for Africa in which they promise to concentrate their aid on that region. The donor countries have further announced that they will support the initiative taken by African leaders towards political and economic reform within the framework of the New Partnership for Africa's Development (NEPAD) through a well targeted distribution of aid. Aid should in particular reach those countries which are in special need and at the same time offer supportive local conditions for the productive utilisation of aid.

Against this background, the question is, on the one hand, to what extent the local conditions for the productive utilisation of aid already exist in African countries. On the other hand, the assurance of the donors that the distribution of aid for Africa according to efficiency criteria is questionable. In both respects, substantial voids still exist between words and deeds.

The Millennium Project of the United Nations led by Jeffrey Sachs states that wide parts of Africa show better governance than is generally alleged. This positive assessment is questionable for different reasons. Since 1999, only a few African countries have achieved a better rating of local conditions in terms of the so-called Country Policy and Institutional Assessment (CPIA) of the World Bank. Most of the particularly poor countries of the region are characterised by weak institutions, even when their low income levels are taken into account. The quality of their institutions has, in fact, mostly worsened over time. It is an open question whether participation in the African Peer Review Mechanism in the framework of NEPAD alone would secure better conditions for the productive utilisation of development aid in future.

All the more, it all depends on whether donors grant aid selectively. Thus far, there is no question of the allocation of aid having been efficient:

- Several indicators suggest that the focus on the most needy African countries is considerably weaker than could be expected, given the declarations of the donors. The countries with a high incidence of absolute poverty received a surprisingly small share of the aid of all donors, and also of German aid. Similarly, it has not been confirmed that development aid has been increasingly aimed at poverty reduction in the recent past.
- Certainly, African countries in which the local conditions had been rated as good by the World Bank received higher aid per capita than countries with badly rated local conditions. However, the preferential treatment of the first group of countries has been reduced over time.
- In particular, the empirical evidence contradicts the view that the allocation of aid has been determined by changes in the economic and institutional conditions in African countries. Almost without exception, countries with deteriorating CPIA

> ratings received higher aid disbursements from all donors in recent years. The correlation between changes in institutional conditions since 1996 and changes in per capita aid to African countries proved to be completely insignificant.

In the light of this evidence, it is not enough to demand massively increased development aid to reach the Millennium Development Goals for Africa. It is far more important to ensure the productive utilisation of aid. To this end, we need more than promises and declarations of intent from both the recipient countries and the donor community.

The pessimism with regard to Africa will remain virulent as long as large parts of Africa do not succeed in achieving the basic institutional conditions for aid to be effective. African countries will therefore be measured against whether the NEPAD initiative of some leaders will lead to wide-ranging economic and institutional reforms across the region. This question cannot currently be answered. All the more so, the contribution of bilateral and multilateral donors to overcoming the pessimism with regard to Africa must not be confined to promises to steer more aid to this region. Only when the allocation of aid is well targeted to poor African countries with reasonable local conditions will donors effectively contribute towards reaching the *Millennium Development Goals*.

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DEBT RELIEF AND DEVELOPMENT IN AFRICA

RÉSUMÉ

André du Pisani*

Under the aegis of the Konrad-Adenauer Stiftung (Country Office, Windhoek), and the Namibia Institute for Democracy (NID), academics, researchers, civil society representatives and practicing politicians and former politicians, discussed and reflected on three interlinked sub-themes under the overarching theme of Debt Relief and Development in Africa.

Following a wide-ranging and admirable introduction to the theme by Dr Gerhard Wahlers, Divisional Head for International Co-operation of the Konrad-Adenauer Stiftung, Berlin, the scholarly exchange coalesced around three interconnected sub-themes, these were: Africa: Rich or Poor?, Debt Relief and Development in Africa and Effective Development in Africa. Each of these sub-themes was introduced by presenters from a particular perspective – political, economic, social and developmental- and from different academic disciplines. In most cases, a facilitated, rich discussion followed the respective presentations.

This brief Resume attempts to distill the primary arguments and their implications for development in Africa. It follows the structure and sequence of the two-day conference, and where possible, points to the linkages among the different presentations.

Monday, 05th December 2005

Introduction: Dr Gerhard Wahlers, Konrad-Adenauer Stiftung, Berlin

In his introductory address, Dr Gerhard Wahlers provided an excellent opening and gave a focus to the conference. Outlining the immediate context that spawned debt relief at the G8 Meeting at Gleneagles in Scotland in July 2005, he located the debate within the earlier agreed to United Nations Millennium Development Goals (MDGs), most notably the target to half absolute poverty globally by 2015. The recently published Commission for Africa – Our Common Interest: An Argument (commonly known as the Blair Commission), too, was accredited with providing intellectual and political thrust to the decision of the G8 to forgive debt for 18 countries, 14 of which are in Africa.

Usefully, the presenter reminded the participants that debt relief has a longer lineage than the July 2005 G8 summit. In the post-World War I period economists such as John Maynard Keynes saw debt as a source of global instability. The argument that debt relief should form part of an overall development policy mix, too, is not new, having been around for two decades or more. Fiscal solidity, however, remained a problem even for powerful economies in the European Union (EU). Debt forgiveness on its own would be meaningless unless it is paralleled by solidarity with the poor and informed by principles of freedom and justice at the global level. There was indeed a compelling case for engaging with Africa in a genuine partnership, one robustly anchored on these values and informed by the understanding that the primary drivers of poverty are often internal. Consequently, the focus should be broader than debt relief and should extend to the many development opportunities the Continent offers and ways in which targeted development assistance could be put to more productive use.

SUB-THEME 1: AFRICA RICH OR POOR?

Paper 1: Africa rich or poor from a political perspective? – Dr. Joseph Diescho (South Africa/Namibia)

In a philosophically imbued rendition, Dr Joseph Diescho invoked the writings of William Edward du Bois and Walter Rodney, two famous Pan-Africanists, as well as of Claude Ake and Basil Davidson two distinguished scholars, to argue that 'the pornography of political power' that continued to characterize the post-colonial state in Africa, was the worm in the apple as far as Africa's underdevelopment went.

Taking his cue from Basil Davidson and William Bennett Yates – the latter, famously argued that 'the centre does not hold' - Diescho opined that the notion of the nation state was a European construct and foreign export to Africa. Consequently, the configuration of public power was at the heart of the continent's malaise. The real issue was political not economic. Drawing on the results of an ESCOM trans-cultural study on leadership in South Africa, he lamented the absence of self-understanding and self-definition amongst black South Africans.

In his exploration of the sources of poverty and underdevelopment in Africa, Diescho, identified five principal sources. These were:

1. Lack of self-definition and self-worth.
2. The inability of NEPAD to manage its human resource capital.
3. Disdain for Africa's intellectual capital – as exemplified by the brain drain that robs the continent of some of its best minds.
4. Misunderstanding and mismanagement of monetary affairs – made worse by corrosive corruption in private and public life, and
5. the inability or unwillingness to reign unproductive state expenditure in.

In a reflective consideration of the primary challenges that emanated from the above fractures, Diescho ventured three key suggestions. These were:

1. Appreciate the capital importance of the agricultural sector and of food security for national and continental development.
2. Terminate the syndrome and the practice to 'borrow the wrong things from the West' – notably the culture of corruption and the impulse of ostentatious living, and
3. reconceptualise the debate on debt relief in ways that would value the voice

and contribution of civil society, as for example in instituting productive and sustainable public-private partnerships (PPPs).

Diescho ended where he started, on a philosophical note, when he invoked novelist Chinua Achebe's prophetic voice that said 'the trouble with our new nation is that none of us have been indoors long enough, we have all spent too much time in the rain. Some of us started to run towards the shelters that our colonial master left behind. They are the smart, lucky ones but hardly the best'. With this argument, Achebe and Diescho emphasized the need for critical self-reflection and self-understanding as a sine quo non for national development and self-respect.

Stirred by Diescho's presentation, the ensuing discussion of his ideas focused on three key points. These were: Firstly, the paper's primary concern with the legacies of colonial rule and state imposition in Africa. Secondly, the need to understand that post-colonial relations between Europe and Africa were on the whole not productive nor in the interest of Africa, and thirdly, the negative impact of IMF and World Bank-supported Structural Adjustment Programmes (SAPs), particularly on the rural and the urban poor.

Paper 2: Africa Rich or Poor from an Economist's Perspective – Dr. Onegi-Obel (Uganda)

In a closely-reasoned paper, Dr Onegi-Obel addressed three issues of concern to the overall theme of the conference: the notion of aid and its distinctiveness from the notion of development, the development function and the UN Millennium Development Goals (MDGs).

On the first, that of aid, it was argued that it belonged to 'the emergency room'. Intrinsically, aid was unable to create employment. Moreover, aid often distorted local currency markets and deepened external dependence. 'Development' on the other hand, was about employment creation as a consequence of domestic savings and domestic direct investment (DDI). The latter, domestic direct investment, rested on three key components, namely (a) home ownership, (b) education, and (c) the provision of public health. For development to become sustainable, the Gross Domestic Product (GDP) had to expand across all three of the above social sectors.

For Africa to meet MDG targets, the continent had to grow at 8 percent per annum in real terms on a sustainable basis. Thus, from an MDG and wider human development perspective, Africa was poor. Informed by the Ugandan experience under President Museveni, Onegi-Obel, argued the case for a medium- to long-term development perspective in which an 'integrated, independent and self-sustaining economy' was key. To achieve the latter, domestic savings remained a vital component of any strategy.

On his analysis, the following components were vital in ensuring national development:

1. Financial sector deepening.
2. Having a Medium-Term Competitive Strategy (MTCS).
3. Employment creation – the real antidote to poverty.
4. Domestic savings and investment, and
5. a focused policy dialogue with key stakeholder groups.

In discussion, various important issues were raised by the participants. The most relevant of these included, among others: Firstly, the need to contrast the predominantly short-term perspective of many donors against longer-term national development perspectives. Secondly, the primacy of democracy for poverty reduction; the former denotes choice, the latter the absence of choice. Thirdly, the importance of a tax regime conducive to domestic savings. Value Added Tax (VAT) penalized the poor and did not act as an incentive for domestic savings. Fourthly, the trend among some development partners to make social investments with a longer time-frame, for example in education, health and democracy building. Fifthly, the proposition advanced by the presenter that aid did not stimulate development was refuted on the ground that the local conditions under which such aid was being provided and managed were all important. Finally, there was the prospect of a more productive relationship between trade and development, with debt an absorptive function of the local economy.

Paper 3: Africa: Rich or Poor – what difference does it make? – Veronica de Klerk, Namibia

From a micro perspective, and with passion, Veronica de Klerk emphasized the primacy of human agency for national and continental development. On her analysis, the primary source of Africa's underdevelopment lay in its people and in the broken social structures that came to characterize the human landscape. One of the paradoxes was that there were too many single-parent families, while at the same time, there were also too many large, extended families. In addition, 'harmful cultural practices' such as expensive weddings and elaborate feasts often took place at the expense of the poor. Vampire states with their predatory elites and their corrosive corruption, too, detracted from national development efforts.

In proposing a way out of present difficulties, de Klerk argued for 'universal standards on corruption and development', as well as the coupling of debt relief to strict fiscal management. The latter, fiscal discipline also had to be a condition for development assistance. In terms of social and other policy interventions, the following were proposed:

1. Training in the domains of saving clubs and income generation had to become a precondition for development support.
2. Socio-legal training was necessary for the effective functioning of local entrepreneurs.
3. There was a need for a robust policy framework that governs NGO-Government

interaction, and

4. Gender-based violence and HIV/AIDS deserved special recognition on the part of development partners.

In the discussion that followed the presentation, the issue of 'harmful cultural practices' made for lively debate, with interventions that stressed the potential harmful impact of development and emancipation on 'sound' cultural practices. Another matter that was raised concerned the need for development interventions to respond to structural issues such as governance, global trade, citizen participation and access to information relevant for development.

SUB-THEME 2: DEBT RELIEFAND DEVELOPMENT IN AFRICA

Paper 4: Debt Relief and Development: The Political Aspects – Jürgen Schröder, Member of the European Parliament

Based on personal experience with the reintegration of Germany and informed by current political thinking and development practice in the European Union (EU), Jürgen Schröder emphasized the psychological dimensions of debt. Self-esteem provided the energy for greater self-reliance and prudent fiscal management; noting that 'nothing can replace one's own efforts and achievements'.

The thread that ran through his presentation was captured in the phrase 'help for self-help'. The recipient of any gift had a moral obligation to value the gift. Similarly, debt relief had to be cast within the framework of the MDGs with a clear pro-poor focus. Thus, the purpose of debt relief had to be clearly understood by all concerned.

The discussion made for various interventions that sought to highlight key issues relevant to the overall theme of the conference. Principal among these, have been the following:

1. How to ensure that debt relief impacted positively on the poor?
2. How to keep political elites to their promises to practice more accountable and prudent fiscal governance?
3. How to get the European Union in its foreign and trade policies to remove trade barriers?
4. How to deal with new debt not covered under the 2005 G8 decision?
5. Calls were made for a more principled approach to and dialogue on debt relief. Part of such a dialogue had to include a discussion on the transfer of resources from the advanced capitalist economies to Africa.
6. Three specific policy instruments were suggested that could, when implemented together, facilitate employment creation. These were: regular business climate assessments, value chains and regulatory impact assessments.

Paper 5: Debt Relief and Development: The Economic Aspects – Dr Greg Mills

(South Africa)

In an admirable presentation informed by research and insights culled from leading development economists, Dr Greg Mills of the Brenthurst Foundation in South Africa, reflected upon and critiqued much of the current thinking on the topic. He started his presentation by referring to contemporary wisdom that appears to agree that the solution to dealing with Africa's poverty was to increase aid and widen debt relief.

Among those who championed variations of this approach were the British Chancellor of the Exchequer Gordon Brown who has called for a 'Marshall Plan' for Africa, the British Prime Minister, Tony Blair with his 'big, big push' and noted economist Jeffrey Sacks, in his recently published The End of Poverty.

As much as this approach was politically palatable, Mills questioned its viability in the light of several penetrating questions. These included, among others: 'How might (and, indeed, can) external assistance better promote African development? Why did Africa's share of global foreign investment remain small? Why was domestic investment in Africa low? Was there an 'alternative' formula without aid for African growth? Indeed, was it not the only sustainable formula for growth'?

Returning to the United Nations' study on poverty undertaken by Sachs and his colleagues, Mills critiqued the study's five structural deficits that formed the 'poverty trap': the continent's high transport costs and small market size; its low-productivity agriculture; high disease burden; long history of malign external intervention; and very slow diffusion of technology from abroad. While agreeing with the Sachs study's overall diagnosis of the challenges facing Africa, the study's proposed core solution – to increase aid as a way to improve governance and thus development prospects, came in for sharp criticism on the basis that it 'defies the historical record' and reinforced the conventional wisdom of Blair and his Africa Commission.

In a penetrating critique of both aid and debt relief, Mills concluded that both tended to focus of 'how' Africa will develop, instead of 'what' the most appropriate economic basis would be for the continent's development. History showed the importance of getting 'all the inputs right', of which aid and debt relief were just a component, along with governance, infrastructure, market access, the targeting of foreign investors, and the development of appropriate coherent policy designed to take advantage of comparative advantages.

In exploring Africa beyond aid and debt relief, the paper argued for African leadership to "develop a strategic vision and language of 'Africa beyond Aid'". Such a vision should provide for significant higher levels of private sector investment; promoting countries as beneficiaries with good governance and reformist records, and investing in Africa not just for humanitarian reasons or to contain negative spill-over effects, but rather for reasons of strategic business positioning.

The paper concluded that there were no quick fixes to the problems of underdevelopment and that differentiation informed by different political and economic trajectories had to be considered by the continent's principal development partners.

In a rich and varied discussion that followed the delivery of the paper, the focus fell on what it would take to reform the business environment in Africa? The idea of strategic cooperation between the private sector and the State was mooted, while the investment and business environment required a fundamental rethink that went beyond the cost of doing business in Africa. The free movement of people and of skills was vital for a healthy business environment. Finally, skepticism was voiced on the ability of external aid to improve both the national policy environment and governance.

Paper 6: Namibia: Rich or Poor? – Robin Sherbourne (Namibia)

Locating Namibia within the lower middle-income group of countries, and reflecting on the country's skewed income distribution, Robin Sherbourne considered both positive and negative political and economic factors in responding to the question; 'Namibia: Rich or Poor'?.

On the *political* side of the equation, he identified the following positives and negatives.

Positive factors	**Negative factors**
Independence came late (second-third comer advantage)	Size of the national economy
Liberal constitution	Independence after a protracted liberation struggle
International goodwill	Ethnically diverse population
Independence as communism collapsed	White settler population who tended to disen-gage and self-enclose
National reconciliation	

Coming to *economic factors,* the following were identified as positives and negatives.

Positive factors	Negative factors
No inherited debt	Poorly educated population
Good infrastructure	White settler population – complicated socio-economic transformation
High-aid per capita	
Functioning market economy	
Liberal constitution	
Significant resource endowment	

Against these factors, Sherbourne reviewed Namibia's growth since independence in 1990 and concluded that GDP growth averaged between 3 and 4 percent a year in the period 1991-2001. Population growth on the other hand averaged 2.6 percent over the same period. Overall the average income growth was 1 percent a year with precious little redistribution of income.

Since independence the economy has made a modest dent on employment creation, with perhaps 30 000 jobs created over the past decade. Unemployment, strictly measured, increased from 19 percent t o 31.1 percent in the period 1991-2000. Non-agricultural employment growth was mainly in the services and public sectors.

The budget deficit has remained high and has been principally financed by local borrowing. By 2005 it peaked at 33 percent of GDP, despite a government target of 25 percent. Foreign aid per capita has been the highest in Africa and has reached 1 percent of GDP by year end (2005). Aid, however, did not boost growth much.

Considering that the positives outweighed the negatives, the question arose: Why did Namibia not do better? Sherbourne ventured several explanations. These included, radical balancing of the civil service meant that it became bloated and largely inefficient; the nation-building project was partly pursued at the expense of redistribution and social justice; and labour market regulations complicated employment creation.

Finally, Sherbourne opined that effective government and prudent public enterprise governance (of 42 public enterprises only 3 made a profit) were key ingredients for national development. There was also a need for greater investment in policy development and many more export-oriented businesses, as well as a more appropriate education system to provide in the human resource needs of the economy.

In discussion that followed the presentation, failure to create jobs was seen as key to the country's future. South African corporate business interests also came in for criticism, particularly in their neglecting to build a local entrepreneurial and managerial class. Income and asset inequality was identified as being particularly detrimental to economic growth.

Tuesday, 06th December 2005

SUB-THEME 3: EFFECTIVE DEVELOPMENT IN AFRICA

Paper 7: Effective Development in Africa: A politician's view – Dr. Conny Meyer, former Member of Parliament (Germany).

The presenter linked the notion of 'effective development' to achieving the UN Development Goals (MDGs), especially the target set for poverty reduction by 2015. Focusing on German Development Aid, Dr Meyer made a distinction between 'state development aid' and other forms of development aid, such as humanitarian aid and financial and technical co-operation. The rationale behind debt relief was to assist developing countries to achieve their social goals as embodied in the MDGs. Aid had to b given through dialogue only.

Dr Meyer identified four neo-liberal criteria for 'effective development', there were: good governance, the protection and promotion of human rights, the rule of law and a market economy.

Paper 8: The Political requirements for Africa's economic development – Prof. Dr. Peter Molt (Germany)

In locating his rendition of 'the political requirements for Africa's economic development', Prof. Dr. Peter Molt, reminded the audience of renewed interest in Europe on the matter of Africa's development. Such interest was evident in among others, the recently released Commission for Africa Report, the global development challenges outlined in the MDG's and political initiatives, also in Germany, to engage African leaders on the future development trajectory of the continent. On his analysis, the underlying tenor of all of these initiatives was to forge new Afro-European relations anchored on mutual trust, confidence building and understanding. Significantly, such initiatives signaled the end of political conditionality as embodied in earlier trade agreements. The reason for such a shift in policy on the part of the Europeans, emanated from the African Union and the New Partnership for Africa's Development (NEPAD). Both of these acknowledged and demonstrated a willingness on the part of African governments to assume primary responsibility for the continent's development. The African Peer Review Mechanism (ARPM), in particular, mirrored this new approach to development and could have positive implications for those states who undertook economic and political reforms.

According to the presenter, the European Union (EU) and other development partners should concentrate their efforts on financial support in the form of the financing of basic services such as primary education, health and infrastructure and agricultural development. Extended debt relief would enable the poorer nations to prime their development efforts afresh.

The question whether the AU and NEPAD would be able to meet the optimistic outcomes widely expected of them, however, gave rise to some doubts. For example, the recent indecision on the part of the AU in respect of Zimbabwe, Sudan, Togo and the Ivory Coast, signaled that national sovereignty often outweighed democratic principles, human development and human security. The politics of solidarity counted for more, particularly when the interests of influential states were at stake.

Contrasting the experiences that produced a relatively successful EU and those that spawned the AU, the presenter sounded a note of caution; while the AU reflected some of the EU's institutional architecture, it was ultimately, very different. The AU's stark economic and political diversity meant that that it was a supranational organization in theory rather than in practice. Structural weakness characterized many states in Africa, while their politics was that of 'disorder' rather than of 'order'. Here, Professor Molt struck a similar cord to that in Dr Diescho's earlier paper. Both expressed their deep concern over state weakness and faltering governance.

Regional organizations such as the Southern African Development Community (SADC) - notwithstanding their weaknesses- could potentially play a more significant role than the AU, and provided scope for more productive economic and political intercourse with the EU.

Foreign aid and the political conditionality that all too often accompanied it and the often disastrous transitions to democracy such as in the cases of Uganda, Rwanda and the Great Lakes, have had decidedly negative implications for development. The survival of a growing number of African regimes was possible only in the context of massive budget aid from the EU. At the time of writing, the EU gave more than 30% of their total aid to 16 African countries in the form of budget aid. A further increase of this type of aid to 14 more African countries was planned. The paper also critiqued the effectiveness of project assistance, especially since such assistance ended up weakening the responsibility and capacity of the central state.

Since budget aid went predominantly to states in Africa with weak institutional capacity and with low policy coherence, it paradoxically ended up weakening such states even more. Moreover, it greatly devalued democratic governance and citizen participation and turned many states into 'quasi protectorates' with a high degree of dependence on foreign 'experts' and capital.

Calls by development partners for 'local ownership' and for 'decentralisation', generally ignored the very people the development was ostensibly meant for. The G8 and the World Bank strategy of comprehensive development, with its emphasis on basic education and health care, too, came in for criticism. While such a strategy might have merit, its success, however, was contingent upon well qualified social, economic and bureaucratic elites. Tertiary education, too, has been considerably weakened and was in need of urgent improvement.

A significant percentage of capital accumulated in Africa – one estimate had it that as much of 40 % - was being repatriated to non-African countries. This was one of the explanations for why states with considerable energy reserves and oil royalties – Angola, Congo-Brazzaville, Equatorial Guinea, Gabon, Nigeria and Sudan – failed to emulate their Near East neighbours in making good use of their income.

One of the central challenges was that private capital investment tended to avoid the continent. Conducive investment environments supported by political effort were needed to change capital flows in the direction of private capital investment. In conclusion, the paper argued for a regional approach when it came to foreign aid and other forms of assistance, but warned that the obstacles in the way of Blair's 'big, big push' were formidable, notwithstanding encouraging steps towards legitimate democratic governance.

Paper 9: More is not Enough: Effective Development Aid for Africa? – Dr. Peter Nunnekamp (Germany)

The paper started with a bold warning: 'most African countries run the risk of missing the Millennium Development Goals by far'. This was the immediate context that spawned international calls for increasing aid and development assistance to Africa. This, in turn, gave rise to two key questions. Firstly, the extent to which local conditions were in place for the productive utilization of such aid, and secondly, the appropriate criteria for the allocation and use of such aid? The paper concluded that in many cases the allocation of foreign aid had not been shaped by changed economic and institutional conditions within African countries.

Tracking the history of development aid to Africa since the 1970s, the paper showed compellingly that aid to the continent, especially in the 1980s, had hardly been optimally allocated and targeted so as to contribute towards poverty alleviation. Contrary to the claims of many foreign aid providers to Africa, their aid continued to be indiscriminate and poorly targeted.

Although in per capita terms, sub-Saharan Africa received more bilateral and multilateral development aid in 1990 than all other developing countries, many African economies showed an economic decline a decade later. In real terms, the 1990 average per capita income in sub-Saharan Africa was below that of 1970. In the period 2001-2003, sub-Saharan Africa's share of global development aid approached 28 percent.

Invoking the World Bank's (WB) controversial Country Policy and Institutional Assessment (CPIA) framework, the paper reflected on governance using the World Bank's five-point scale (CPIA 1 – 'very good', to CPIA 5 – 'very bad'). Since 1999, the CPIA classification had improved for only 11 out of 38 African countries.

The presenter also presented ideas from new-institutional economics, in particular the work of Kaufmann and his colleagues (2003), as an alternative framework for assessing six institutional factors. These were: voice and accountability, political stability, government effectiveness, the regulatory framework, the rule of law and the control of corruption. Indicator values ranged from 2.5 to minus 2.5, with higher ratings corresponding to better institutional policies.

In terms of Kaufmann et al. (2003), the institutional context – inclusive of governance

– had in fact deteriorated in the case of several sub-Saharan countries over the past few years. The African Union's (AU) ARPM mechanism, while a positive development, would have to improve its design for it to be more effective.

The paper showed that instead of the per capita income criterion, the incidence of absolute poverty should be used in determining the effectiveness of aid. Measured thus, aid has had a much more limited impact on poverty alleviation. Moreover, sector specific aid, such as for education and health, too, proved to have been relatively ineffective and it was doubtful if the goals embodied in the MDGs would be reached. Targeting aid to well governed African countries, as proposed by the World Bank and its CPIA, too, proved rather controversial.

Ultimately, the paper concluded that based on empirical evidence, there was an insignificant correlation between changed institutional conditions and a change in the per capita aid to 48 countries in sub-Saharan Africa for which both these variables were available.

The paper concluded, after a thorough examination of data and trends, that most African countries were in danger of failing to reach the Millennium Development Goals. It was especially the core goal of halving the share of the population that lived on less than one US dollar per day by 2015 that seemed the most unattainable. In charting a new course, the paper argued that aid should in particular be targeted at countries with special need, while at the same time such countries had to offer supportive local conditions for the productive utilization of such aid. Available indicators suggested that the focus on the part of donor countries on this category of countries was much weaker than could reasonably be expected.

In the light of available evidence, demanding a significant increase in development aid so as to achieve the Millennium Development Goals for Africa might not suffice. It was more important to ensure the productive utilization of such aid. To achieve this end, there was a need for more than good intentions and promises on the part of both the recipient countries and the donor community.

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