Conference Summary

Africa Beyond Aid
Potsdam, 3–4 April 2006

This conference took place over two days in Potsdam, with the support of the Konrad Adenauer Stiftung, the Danish International Development Agency, DANIDA and The Brenthurst Foundation Participants were invited to share their views on a variety of subjects relating to the efficacy of aid in Africa. The conference considered a new strategic paradigm for employing aid for African development. Instead of focusing on increasing aid as a key development strategy — the conventional wisdom — participants examined both what it would take to end aid to Africa and what the curtailing of aid to Africa might mean. The central question that the conference dealt with was: In the light of the G8 commitment to double aid to Africa to US$50 billion by 2010, how can aid be better used, with an eventual focus on decreasing aid for at least some countries?

Key issues in this regard included the following.

- Topically, will the Africa Commission assist in promoting continental development?
- How might (and, indeed, can) external assistance best promote African development and business in Africa?
- How is it possible to best promote governance and democratisation?
- Why has Africa's share of global foreign investment remained small?
- Why is it that domestic investment in Africa remains low?
- What, from the record, will it take for states to become rich(er)?
- Foreign direct investment (FDI) in Africa is mainly limited to the oil sector. This is likely to increase rapidly over the next decade. What measures might be put in place to promote FDI in other areas of Africa's economy?
- What sort of business might Africa be involved in over the next ten years? Is this likely to be what is being carried out 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?
- What will it require for Africa to absorb the new technological tools underpinning modern economies?
- Is there an 'alternative' formula for African growth that does not include aid? Indeed, is this not the only sustainable formula for such growth?

- How might business and government combine their efforts in the aid business in Africa?

3 April 2006

Sketching the Problem

In their introductions, **Dr Gerhard Wahlers** and **Dr Greg Mills** drew attention to the G8 summit, the report of the Commission for Africa and the Millennium Development Goals, all of which had brought Africa's development problems into focus. While many improvements had been achieved, the growth requirements now were to create stable political frameworks and bring about the adoption of the rule of law to attract the investment needed for economic growth. The question of whether or not aid had a part to play in Africa's development needed to be carefully examined with a view to making aid no longer necessary.

During **Session One**, Dr Phyllis Pomerantz was in the chair and **Robert Calderisi** presented the first paper on **The History of Aid Expenditure in Africa**. His basic claim was that enough aid was flowing into Africa, but it had been mostly used ineffectively and it had often become demeaning to both sides. Powerful evidence suggested that the poor performance was caused by failings in policies rather than the choice of projects, and aid worked best where reasonable political and economic policies were already in place Donors' objectives were not always consistent with intended results, and funds did not always reach intended beneficiaries. Essentially, aid was slowing the process of political change.

Dr Joe Siegle delivered the next paper on **Lessons and Prospects for Aid, African Democracy and Governance**. He observed that never in history had so many Africans lived in nominally democratic states, reflecting international trends since the end of the Cold War and successful challenges to autocratic styles of government. More significant rates of growth had been recorded for countries that were genuinely democratic, while those dependent on oil and minerals have tended to grow more slowly, as the income flows help keep their autocratic governments in power. Conflicts are also more common in autocratic states, but often the politics of the Cold War helped to keep oppressive regimes in place. The pertinent suggestions and observations emerging from the paper were: more support is deserved by those accepting the need for accountability; steady progress is difficult, but countries that stay the course are unlikely to backtrack; help with incentives and good institutions can make decisive differences for investors; autocracies are likely to use aid to bolster their power and deepen corruption; autocracies experience a disproportionate number of the humanitarian catastrophes that plague Africa; and the response of donors should be more targeted and supervised.

Dr Brett Schaefer then presented his paper: **Economic Freedom and African Development**. He pointed out that the total gross domestic product of 48 countries in the region was lower than that of The Netherlands and per capita food production had fallen every year since 1962. About a quarter of all aid had been sent to Africa, but in no case had a development success story been attributable to economic assistance. Rather, an inverse relationship was apparent, but a positive correlation was clearly evident if measures of economic freedom and per capita incomes were compared. The evidence was therefore that appropriate economic and political policies were the key to economic growth. In the discussions led by respondents Jan Kiso and Clarence Tshitereke, the leverage of democratic systems was given further emphasis by observations that no democratic countries had ever declared war on each other and that wealth could be shown to be directly related to democratic governance. However, distortions had been imposed to the disadvantage of developing countries, such as limited access to markets, subsidies and incorrectly valued exchange rates. Countries that aspire to membership of larger economic blocs could be given more help, but many wealthy states are showing some reluctance to permit them to join such blocs
More could have been done to promote democratic principles, but while colonial powers were in control, they had not encouraged people to challenge their authority, partly because Africa was caught up in the Cold War through much of that time. Now China's potential influence is growing rapidly and offers of foreign aid from other countries are emerging to counter it. Aid dependency might therefore continue and this could draw future debates into the same debt cancellation and peer review objectives of the past.

Questions on what donors and aid-receiving countries need to do to promote economic growth led to observations that some Far Eastern countries were far from democratic, but had achieved remarkable growth rates. Economic freedoms were thought to account for these, but gradually improving levels of political freedom usually followed, as improving freedoms in one area usually lead to demands for more freedom in others.

Mobile phones and access to radio stations were paving the way for expressions of opinion and demands for accountability, and challenges to government morality were now more easily voiced. Because the conduct of governments can be questioned more directly, Zimbabwe's Mugabe is thought to have 'looked East' to deflect morality questions arising from critics in the West.

Also, democracies do not always have the strength to defend themselves, and countries with recently achieved democratic status can still be politically unstable, and some have succumbed to *coups d'état*. Support from the wealthier countries for desirable development projects could produce a positive contagion effect, but no means of forcing change had been found to deal with governments that abuse their citizens or their countries' resources.

Means needed to be found to hold political leaders to account and to distinguish between procedural democracy and institutional democracy. Elections could be extremely disruptive in politically divided countries and aid could not be based on party political issues. The over-riding fact was that aid worked best in a good policy environment and donors had to make a judgement on where aid would make a useful difference.

Debate on whether rich mineral resources were always a curse led to observations that they had not been so for Botswana, in contrast to Equatorial Guinea and many other countries. The experience and policy decisions of richly endowed Western countries, such as Norway, could be shared.

Despite Africa's resources, it was the only stagnating continent, and moves to alleviate suffering had to be made, particularly on the readily measurable challenges of child welfare, nutrition and clean water. Narrowly defined, but achievable goals were better than broad, sweeping targets, but the focus should be on the way that aid can assist in the needed institution-building process.

Session Two was chaired by Dr Peter Molt and started with a paper from **Dr Geoffrey Onegi Obel** on **Aid and African Financial Sector Development: Pointers from Asia**. He pointed out that African financial institutions had struggled without much success, but questioned whether more aid was needed. He regretted the absence of capable policy makers, as it was many of the decisions of incompetent policy makers that had held back the creation of the needed institutions. He described the policy environment as hostile, which resulted in organisations such as the Uganda Stock Exchange working in a policy vacuum.

Asian examples showed how policies had been chosen to deepen the involvement of financial institutions by improving each economy's ability to attract investment. Africa needed to follow suit by building the right financial infrastructure, strengthening resistance to cyclical financial shocks, developing the capacity to produce competitive finished goods and improving on the poor savings performance of African economies.

Dr Roger Bate then presented his paper on **Aid and Health-care in Africa**, and offered considerable evidence that despite more pledges of assistance than ever, the delivery has been disappointing and often counter-productive. Allocations from the World Health Organisation had actually fallen, while the promised contributions from the World Bank and the US Agency for International Development (USAID) had not been fulfilled. Ties to US suppliers imposed by USAID had made some programmes ineffectual and flawed measuring techniques had permitted poor performances to be described as major successes.

Considerable sums in aid sent over many years had not been used by most countries to create their own health services. Many imposed heavy taxes on medical equipment and drugs and most governments could be accused of doing too little to improve upon the areas over which they had some control. Policy changes should be targeted at encouraging private sector participation and overcoming corruption, but donors should be more demanding in setting their requirements for further funding.

Michael Holman presented the next paper on **Aid, NGOs and African Development**, in which he questioned the value of the contributions of non-governmental organisations (NGOs), which had multiplied in number and influence far beyond their ability to adapt to their responsibilities. The foreign NGOs had set out to respond to Africa's deepening crises of debt, disease, war and disaster, but their practical work often reflected ideological battles relating to capitalism or socialism that in turn reflected their home country biases. These had influenced policies on privatisation, water and telecommunications charges, and on controls over radio stations and the Internet.

Because NGOs are so involved in running operations ranging from ministries to mines to railways, more foreigners are in Africa today than 50 years ago and Africa's management capacity is weaker now than it was then. This is partly because skilled Africans leave to look for work abroad as foreigners arrive to take up short-term contracts. The true state of the continent is misrepresented in statistics and the deception is largely the result of NGO reporting. Competition among NGOs and closer ties among them and their business counterparts would help.

Respondents Nic Dawes and Holger Hansen led discussion on these papers. Afro-pessimism and donor pessimism were thought to have come through each of the presentations, and the clear need was to arrive at systems that would make aid more successful. Antagonisms among donors, NGOs, governments and business sectors arose because the right balance had not been achieved. Many books currently describe what has gone wrong in Africa, while many others describe Asia's successes.

Democracy had tended to follow economic successes and the different treatments offered to Asian countries arose from this. However, NGO administration failures were partly to blame and heavier involvement of the private sector was needed. For NGOs and aid agencies, staff postings were often too short and too little guidance was left behind once staff had left. Often this allowed agencies to hide the misuse of funds.

Some assistance might be sought from private sector activities that were proof that business confidence could respond to opportunities if ownership was secure and profits could be repatriated, even if uncertainties affected other issues. Economies succeed if they can make and sell things, so

resources, both government and aid, should be used to create the infrastructure needed to build productive capacity.

Donor support was automatic for efforts to combat diseases like HIV and polio, so no political initiatives were required. The World Bank should seek deeper involvement in project selection and management, but countries often lacked the practical ability to make effective use of the funds. More explanations of the complexities involved in funding projects were needed, but many were afraid of giving ammunition to critics.

On health, the competition between the superpowers during the Cold War had inadvertently made the first 40 years of aid ineffective, while also affecting hopes of good governance that were often worsened by regional refugee problems. Aid money inflows had also caused pricing distortions and excess liquidity, making it difficult for developing countries to send out encouraging longer term signals to promote investment.

The accountability of NGOs needed to be improved, but as 85% of their funds flowed through the hands of government, many NGOs were too weak to bring about change. The preferred local investment required better savings ratios, but African savings habits were affected by old-fashioned traditional views. While Asian business could draw on high savings levels that were invested for growth, African businesses tended to look for subsidies that made the problems worse.

A higher degree of focus on what investors wanted was now more apparent in the policies of some aid agencies, but the associated financing problems were not seen as the province of aid. However, it was felt that some aid organisations could direct some of their support into establishing or strengthening the lending institutions' procedures and assist with releasing mortgage funds onto the market.

4 April 2006

Finding the Solutions

Gilton Chiwaula chaired **Session Three**, and the first paper, **Aid, and African Agriculture — Lessons and Prospects**, was presented by **Dianna Games**. Her central theme was the very low food production performance from almost every African country, despite these countries being flooded with donors, NGOs and aid, and despite agriculture employing 80% of their populations. Few countries had realised even a fraction of their agricultural potential. Traditional rights of chiefs to land were still dominant, research was on the decline, interference in prices affected growers and made subsidies to consumers necessary, marketing authorities' involvement affected revenues and distribution, and exchange rate management affected export revenues.

With subsidies, government capital requirements from capital markets affected savings and productive investment. Election-driven policies plus poor leadership and a lack of market access affected revenues for hundreds of thousands of growers, and most land was unused. Poor yields were common, but proof that good yields were possible had come from the forced migration of Zimbabwean farmers to Mozambique and Zambia, where yields had increased dramatically. Contract growers were also showing that better results were possible.

Dr Greg Mills addressed the next subject, **Aid and African Infrastructure**. He first drew attention to supply-side constraints that emerged from an eight-country study. These fell into interacting policy and strategy categories, the first affecting the development of export industries and the second being affected by limited export revenues — and further affected by the low technology base, poor legal and regulatory institutions, and limited access to credit.

Although varying widely, Africa had lower-than-world-average figures for energy consumption, telecommunications, transport capacity, and access to water and sanitation services. Large amounts of aid had flowed into infrastructural development from many sources, but many of the projects have been hard to justify commercially and real needs had not been well understood. The help of private investors who would place emphasis on returns could be of special value.

While a great many infrastructural development needs were obvious, most African countries were being held back by severe problems, including the lack of commercial revenue models that could provide financial backing for projects, the lack of national capacity in programming and management skills, the crowding-out effect of government involvement, the confusion of donors that permitted governments to play one donor off against another, lack of control over money, and regional weaknesses that have resulted in inadequate planning and funding.

In the discussion that followed, led by respondent Jon Bech, policy choices were again identified as a major issue and the view was expressed that projects were successful only when appropriate policies were implemented. Failures in this respect had led to many white elephants. Other factors that affected the success of projects included the lack of ownership and property rights, as well as ineffective control over land that was subject to the rights of traditional leaders.

Irrigation schemes should be private rather than public sector or donor investments, specially for lower population density areas; all appropriate infrastructure projects should be seen as poverty-reduction projects; and donor funding should be in the form of technical training that could become self-perpetuating in a few years.

Donors were said to have difficulty dealing with governments on agricultural projects, and new thinking was arguing for these to be treated as private or business sector ventures. This could help reduce the formation of cartels by donors, but governments also behaved as cartels.

Smaller scale and more basic projects and maintenance should be left to private sector operators, as was happening with regard to Namibia's extensive road network and South Africa's roads, railways and ports. No open-skies policy existed in Africa and its air-space was the most regulated in the world.

Humanitarian aid had often led to construction projects that did not work well, and state or donor assistance often made subsistence farmers more dependent. A break from subsistence farming could be achieved by offering ownership rights and title to land, thus allowing the farmers to become credit-worthy entrepreneurs. The success of Zimbabwean farmers displaced to neighbouring countries offered lessons to others that security of tenure, skills, good yields and knowledge of markets could make all the difference.

Many donor-funded infrastructural development models had failed, but government involvement in the process had prevented proper analysis of the causes. New financing models should be adopted to take better advantage of corporate structures that could effectively combine state, donor and loan finance to achieve excellent results.

For **Session Four**, the chairperson was Holger Hansen. The first paper was delivered by **Ross Herbert** on **What Might a Post-aid Africa Look Like?** His views on aid were that dramatic changes were needed to counter the dependency and distortions it caused and the corruption that arose from its use. However, governance would not be easily transformed, because the leaders guilty of poor governance usually derived direct benefits from their behaviour.

Africa's need to become self-sufficient and competitive was not being assisted by aid, and major reforms should include stricter conditionality and policy changes to get more agreement among donors in order to more carefully spell out incentives and penalties, prevent humanitarian issues from displacing good governance targets, reform the donors' aid management methods, agree on growth strategies for the use of aid funds, strengthen the commercial infrastructures of receiving countries and more effectively fight corruption.

Richard Dowden then presented his paper: **New Thinking on Aid Expenditure**. He thought that countries should have to qualify for aid by doing the right things, and that by doing the right things, they would soon no longer require aid. However, he noted that increasing prosperity is often seen

as a threat to political power, so some governments preferred to hold prosperity in check.

Ideas that had worked in the Far East but had not worked in Africa suggested that the problems lay with the politics of Africa. African leaders exploited the guilt of the colonial powers and resisted efforts to overcome the problems caused by political policies, often claiming that cultural constraints not understood by the West keep these issues beyond the compass and influence of donors.

Alex Singleton delivered the final paper on **Reforming Aid and Development Institutions**. Referring to recent initiatives taken under the theme, Make Poverty History, he made the point that apart from success with immunisation programmes, aid fatigue had affected Africa, and the aid industry was challenged to continually reinvent itself in order to remain relevant. As the debate was now on whether more aid was needed or none at all, the call for reforms should be taken seriously.

Business methods and procedures needed to be more effectively adopted by NGOs, and poor governance should cease to be so limiting an issue when donors dealt with authorities. Also, strategies could be revised and incentives offered to achieve the right results, global funding should be made available in order to establish property rights and the institutions that support them, officials responsible for aid expenditures should be made more accountable and aid planners studying written treatises on the subject should avoid being led astray by the prejudices of their authors.

In the closing discussion, led by respondents Phyllis Pomerantz and John Robertson, the arguments for radical revisions of the aid mechanisms and motivations were thought to have been a consistent thread through the whole conference, but the need for aid was recognised to stem from the inadequate flows of investment.

In the days of Rhodesia, when investor confidence responded to security of tenure and property rights, the country became the best developed in Africa next to South Africa, without any help from aid. Since independence, the evidence has shown that the government has been unwilling to compete for power with market forces, and because property rights conferred power upon owners, the authorities could claim that such rights were not traditionally recognised and should be set aside. Cultural change was therefore needed to encourage the adoption of the ideas needed to achieve economic growth in a competitive world.

The needs identified ranged across finding ways to pragmatically deal with investors' practical requirements, to assist industrialists to make and sell things profitably, to devise positive forms of conditionality, to establish growth paths that espoused national rather than donor objectives and to encourage contractual agreements between donors and recipients. Under

current conditions, Africa could too easily be dismissed as an 'incentive-free zone'. Cultural arguments should be swept away by more carefully packaging and selling the longer term benefits of property rights, and aid had also to be packaged as an incentive for better performance rather than as compensation for poor performance.

Concerns were expressed that Chinese involvement in Africa could become a threat, as the country had substantial foreign reserves as well as high ambitions, and it could not be brought under the influence of the World Bank or aid agencies. Reforms would remain difficult while China was helping African countries to defend failed systems, but China might then exploit weakened countries more thoroughly.

From Africa, the response should be to accept the need for radical solutions, but to generate these in Africa. The objectives should include better incentives for savings and investment, all with a view to making aid flows unnecessary.

In the **Concluding Session**, Dr Mills outlined some ways forward for the project. If we are to devise appropriate aid exit strategies, he believed it was necessary to understand, firstly, what the binding constraints to development are on a country-by-country and sector-by-sector basis. This requires, of course, an understanding of the basis of the economy/political economy in each country case study.

Such an analysis of 'binding constraints' should examine the following sets of factors.

- Reputational factors: These depend on change and communication.
- Substantive and common factors: These include domestic and cross-border infrastructure; better skills training and education programmes; institutional capacity development; macroeconomic policy fundamentals; human security; better governance and democracy, including accountability and transparency; and a facilitative attitude to entrepreneurship and business.
- Specific factors: What are the constraints inhibiting economic growth in each country, the removal of which would lead to more widespread employment and effective poverty reduction?

A second aspect to further analysis, which is part and parcel of the studies above, would then be to examine the 'how' question — how aid might better be expended, in terms of the relationship with the private sector and NGOs, the focus on urban (versus rural) aid, and whether to go for greater conditionality or budget support.

With this in mind, the conference concluded with a proposal to establish an aid exit strategy for several countries, along with a number of cross-cutting

sectoral and comparative studies, and to encourage formal contractual agreements between donors and recipients. Efforts were needed to more carefully present the longer-term benefits of property rights and aid had also to be packaged as an incentive for better performance rather than as compensation for poor performance.

From Africa, the response needed was the acceptance of radical solutions, but these also had to be generated in Africa by Africans. The aid donor's objectives should be to introduce better incentives for savings and investment, all with a view to making aid flows eventually unnecessary.