Strengthening Africa's Economic Performance

BRENTHURST DISCUSSION PAPERS 4/2006

THE 2,000-DAY CHALLENGE: PLANNING AN END TO AID IN AFRICA

Michael Holman & Greg Mills[1]

Executive Summary

The use of aid as a development tool is a contentious issue. After nearly 50 years of independence and development efforts backed by more than half a trillion dollars of Western aid, most of Africa's citizens are poorer than ever. A radical review of donor aid policy is surely long overdue.

The discussion falls between the moralists, who argue that the world is obliged to provide aid to Africa and other developing nations, and the sceptics, who dispute the feasibility of aid as a development tool. Yet there is a middle path between the two extremes that suggests we should employ aid specifically for humanitarian purposes; and also with a clear and targeted strategy and for a limited period for Africa's development.

This middle path would lead to Africa and its donors committing themselves to phasing out Western aid over the next five years, with the aim of replacing foreign lending by African resources, drawing on a combination of:

- higher domestic savings;
- greater use of land ownership and houses as collateral;
- implementing incentives to secure a higher share of foreign direct investment (FDI);
- taking advantage of international trade reforms;
- implementing measures to encourage the private sector and reverse capital flight, including an amnesty for those who have broken the law by illegally sending money abroad; and
- tougher action by banks to stem illegal transfers.

* * *

[1] Michael Holman is a London-based columnist and novelist and was the *Financial Times* Africa editor from 1984 to 2002; Dr Greg Mills heads the Johannesburg-based Brenthurst Foundation dedicated to strengthening African economic performance, and which, together with the Konrad Adenauer Stiftung and Danida, is devising the terms and conditions of an 'Africa beyond Aid'; see <http://www.thebrenthurstfoundation.org>.

© The Brenthurst Foundation/ Michael Holman & Greg Mills. Please note the views herein are the authors' alone.

Introduction

The Africa aid business is booming. Yet the region is failing and the gap between the continent and the rest of the world is widening all the time. After nearly 50 years of independence and development efforts backed by more than half a trillion dollars of Western aid, most of Africa's citizens are poorer than ever. A radical review of donor aid policy is surely long overdue.

In the year that has followed the release of Tony Blair's Africa Commission report calling for a doubling of aid to Africa to alleviate, in the prime minister's own words, the 'scar on our conscience' caused by Africa's dire predicament, the leaders of the G8 agreed at the July 2005 Gleneagles summit to double aid to US$50 billion by 2010, of which 50% would go to Africa. The 25 members of the European Union committed themselves to double aid to US$80 billion by 2010, and in September 2005, 15 members of the United Nations agreed to achieve the target of donating 0.7% of their gross domestic product (GDP) as aid. In the same month, there was a global commitment to cancel US$55 billion of debt to 18 countries, 14 of which were in Africa.

The use of aid is a contentious issue. The discussion falls between the moralists, who argue that the world is obliged to provide aid to Africa and other developing nations, and the sceptics, who dispute the feasibility of aid as a development tool. Yet there is a middle path between the two extremes that suggests we should employ aid specifically for humanitarian purposes; and also with a clear and targeted strategy and for a limited period for Africa's development.

This middle path would lead to Africa and its donors committing themselves to phasing out Western aid over the next five years, with the aim of replacing foreign lending by African resources, drawing on a combination of:

- higher domestic savings;
- greater use of land ownership and houses as collateral;
- implementing incentives to secure a higher share of foreign direct investment (FDI);
- taking advantage of international trade reforms;
- implementing measures to encourage the private sector and reverse capital flight, including an amnesty for those who have broken the law by illegally sending money abroad; and
- tougher action by banks to stem illegal transfers.

Taken together, with minds concentrated by the five-year timetable, these proposals will allow Africans themselves to take charge of their continent's recovery.

Aid is a poor investment

History suggests that aid to Africa is a very poor investment if reducing poverty is the aim. Conservative calculations have estimated that mainly Western donors have ploughed US$580 billion into Africa since independence nearly a half century ago. Yet Africans today are poorer, on average, than they were 30 years ago.

This has been the effect mainly of poor governance coupled with widespread instability resulting from vulnerable post-colonial states and immature statehood. Despite mostly the best of intentions, aid played its part by propping up dictators, such as the worst cases of US-led assistance to Mobutu's Zaire and Soviet support for Menguistu's

Ethiopia, but more commonly by removing the link of accountability between leadership and their populations.

This changed dramatically following the end of the Cold War and of the imperative to offer support on strategic, East–West ideological grounds. But the record of aid has scarcely improved, even though the imposition of strict conditions — so-called 'conditionalities' — on African governments also waned during the post-Cold War period, in the belief that self-policing in the form of direct budget support was not only easier on the donors, but enabled the aid programmes to be more home-grown and entrenched within local government policy, negating the need for continuous donor oversight and reporting, and giving locals a greater sense of 'ownership'.

Considerable damage also continued to be done to the cause of African development through a shift away from spending on infrastructure, a policy influenced by those international non-governmental organisations (NGOs) that questioned the long-term environmental costs of this bricks and mortar approach. Moreover, aid has continued to distort African markets, removing the imperative for Africans themselves to develop the sort of domestic financial instruments necessary for long-term development and financial independence.

Generally, we need to hear much more about these pernicious effects.

Who gets rich on aid?

International NGOs, by-and-large the champions of increasing aid, have long patrolled the moral high ground of Africa's best interests. In a vicious tautology, however, they are the foremost profiteers from the African aid business. Unsurprisingly, it is hard to find an NGO benefiting from donor expenditure in Africa that advocates a lower rate for such expenditure. The same could be said for the donor agencies themselves, and for those recipients who find it easier to seek assistance and solace from abroad than from among their own citizens. This also usefully allows the political tactic of placing the blame for failure — and the cost of self-sufficiency — on the external domain. That and the absence of a correlation between aid and economic growth are key reasons why Africa needs more financial aid like an alcoholic needs a stiff whisky. This is borne out by a wealth of statistics: Africa on aid has averaged just 0.33% growth over the past quarter of a century, well below the 5% per capita growth it is calculated the continent is required to surpass continuously over the next 35 years to reach middle-income status.

This does not, of course, mean that we should not care about the cause of African development. This is not just a question of altruism, but real interest. If Africa goes down the tube, the rest of the world will soon feel the consequences. Disease knows no boundaries; nor do migrants, or terrorism.

Africa itself does not want aid — like other regions, it wants to finance its recovery through its own resources and through foreign direct investment. Africans, more than anyone else, recognise that aid saps initiative, creates some of the very problems it is trying to resolve and undermines self-respect. There is at the same time a tendency by politicians to highlight the risk that an alternative strategy will involve disruption and warn of potential disasters. Yet Africa is already a disaster, enduring a daily Calvary. Let us remind ourselves: three million children die under the age of five each year of preventable disease, with AIDS adding ever-increasing numbers to that total.

Yet the aid process continues, while, at the same time, annual capital flight equals annual aid inflows, and has done for 25 years; and every year Africa's brightest and

best leave to work abroad, while 100,000 foreign 'experts' come to work in Africa. Post-Gleneagles, of course, they will be helping to spend the promised additional aid, which will presumably have the same dismal effect. Either we are mad; or we are in the grip of an aid lobby dominated by a vicious self-interest.

Devising an exit strategy

Nonetheless, since Messrs Blair, Bono, Bob Geldof and others appear to have won the argument for the meantime and the 'more aid' die is cast, how might aid be put to better use?

Africa has to begin to conceptualise a strategy of an 'Africa beyond Aid', with the aim of achieving a situation where aid is no longer needed for the continent's development. To successfully execute such an exit strategy, a number of things have to occur.

- An exit strategy demands an appreciation of the differences between recipients, in order to understand the critical drivers for socio-economic transformation. While some issues (the need for peace and human security, better soft and hard infrastructure, improved institutional capacity, and better policy and governance) are common to all, many are highly specific to individual countries.

- Regarding those issues common to all, Africa's voice is barely heard. Africa must speak up for itself — and this means a greater role for civil society, including the private sector.

- Africa's talent must be encouraged to return. This effort should employ, *inter alia*, a computerised database matching needs in Africa with skills available among Africans living in Europe and North America.

- Africa's capital must return. Punishing those Western banks that have profited from Africa's corruption may be overdue and may offer some moral salve, but this will have a marginal financial and developmental impact. Only if the people who took the money out see sound commercial reasons for reinvesting in Africa will it ever come back. Africans also have to assist in recovering lost capital by punishing the local banks responsible for facilitating the outflows, and offering capital flight amnesty to individuals.

- Africa's statistics are mainly sucked out of thumbs, and can hardly be considered accurate guides to development policy. Development demands statistics that are reliable. These should be compared with the changing levels of private sector activity.

- Drop conditionality — reform brings its own reward. If conditions have to be implemented for the sake of domestic political constituencies within the donor nations, keep them simple and focused on the areas of greatest difference. For example, make it imperative that the radio airwaves are deregulated to encourage the dissemination of free political and economic thinking, and include a commitment to deregulate the ports and skies.

- Reform the givers. Is it really necessary to have the multiplicity of 1945-origin development institutions that exist today? Should they not be streamlined into one body, with clearly defined goals — including sensible headquarters-to-field-staff ratios — and a limited lifespan? Should the World Bank really be giving soft loans to China — is this in development's or the Bank's best interests?

- Aid should itself be spent on funding those areas with greatest impact on African development, including community radio stations, the printing of books and support for centres of excellence. Land reform is crucial for realising collateral value and stimulating African economies.

- Targets are no enough. True, achieving the Millennium Development Goals does provide a degree of policy focus, but their attainment will not necessarily make African economies more competitive or able to stand on their own two feet. Ultimately economic prosperity depends on the ability to make and sell things: using aid to achieve this goal is of the most long-term benefit.

- All this requires, in turn, developing tactical measures to use aid in ways that promote economic growth in Africa. While there is certainly a role for humanitarian assistance for the basket cases, improved economic performance is ultimately the only sustainable continental poverty alleviation strategy. If the goal is economic performance, each and every country needs to identify and assess the constraints inhibiting economic growth. This is also a way of dealing with the continent-wide reputational problems that tend to drag perceptions down to the level of the poorest performers, contrary to Africa's recent positive overall growth record.

Focus on the 'how'

Identifying the areas in which to spend aid also demands finding more effective methods — the 'how' — for utilising and directing aid flows. For example, African governments themselves should increase domestic savings by introducing specific financial instruments underwritten by donors, thus limiting aid largely to the form of guarantees. These instruments might usefully include:

- *education bonds* that offer a guaranteed rate of return, to be used for education only;
- *development bonds*, also giving a guaranteed rate of return; and
- *social security funds*, many of which are currently badly managed, with a poor return. An equal portion should be allocated between public and private sector fund managers.

Together with African governments, donors and business should also develop new methods for funding infrastructure development, where donor money could be used to spur the flow of private interest, equity and expertise, and to mitigate risk.

A lack of detailed analytical information and regulatory oversight is an impediment both to the liquidity and operation of African capital markets. Donor support for an African share index, and assistance for regulatory reforms of the African financial sector would be an investment in improving African economic competitiveness. The aim should be to double the number of listed companies to more than 2,000 in sub-Saharan Africa.

The bottom line

Aid inflow to Africa is now around US$20 billion per annum, much of which is tied to debt relief, however, or expenditure in the donor nations themselves. To put this figure into perspective: If Africa's domestic savings were to double in five years to a level of 30% of GDP (which would still be short of that of the Asian tigers), there would be a pool of US$100 billion available for investment. From external sources, outside of South Africa's already developed market, bonds could aim to bring a further

US$7.5 billion into the marketplace, around just one-tenth of East Asia's medium- to long-term bond market. If FDI were doubled, it would mean a further US$15 billion would become available; while stemming capital flight (about US$20 billion in outflows a year, the same as aid inflows) and encouraging the repatriation of illegal transfers by cracking down on banks and through a continent-wide amnesty should aim, together, to gain another US$7.5 billion annually.

Put all this together, and by the end of five years, the level of inflow of capital from external sources to Africa could be around US$30 billion, 50% more than existing aid inflows.

The bottom line? Africa should aim to accentuate the positive in its development relationship with the rest of the world. One way to achieve this would be to tailor its development programmes around a shared objective to wind up all aid programmes in 2,000 days. It would be a busy, but extremely exciting and dynamic five years.

©The Brenthurst Foundation/Michael Holman & Greg Mills