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## **BRENTHURST DISCUSSION PAPER 5/2007**

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CONFERENCE SUMMARY\*

# Africa Beyond Aid II

BRUSSELS, 25–26 JUNE 2007

## INTRODUCTION

In his introduction, **Greg Mills** set the scene for the second round of 'Africa beyond Aid' conference process by describing the two main visions or paradigms of global development current today. One is led by politicians and celebrities, including some academics. It argues that poor countries are poor because their people are sick and uneducated. It insists that the West has a moral duty to heal and school poor Africans, Asians and Latin Americans by spending billions more dollars on aid programmes. Its adherents claim that inputs of smart Westerners armed with lots of Western money can solve the problems of poor countries and 'make poverty history'. Although this model has done a tremendous amount of harm, proponents of this view claim now that 'tweaks' in the system can remedy these failings, not least by creating better incentives for performance.

The other vision is led by no one in particular, but it is embraced by successful economies in both the developed and developing worlds. It argues that people in poor countries are sick and uneducated because they are poor. It insists that countries never reduce poverty because of aid, but only when they make their countries more attractive and fair places for everyone to do business. The answer, in terms of this model, is not a set of targets for increased expenditure or benchmarks for education and health, but rather another set of indicators related to the costs and complexities of doing business. This demands in part redefining what 'development' is: broad-based growth in entrepreneurial activity and real incomes for poor people, and not gains in health and education levels *per se*.

However, the 2005 G8 commitment to double aid to Africa (which was reiterated at the 2007 Heiligendamm G8 summit) to US\$50 billion by 2010 appeared to have answered the key question that we are all in our different ways professionally concerned with — *how best to develop Africa* — in terms of the former paradigm: i.e. through more, better-delivered aid.

With this in mind, the **Brenthurst Foundation, Konrad Adenauer Stiftung and DANIDA** collaborated to convene a meeting in Potsdam in April 2006, where participants were invited to share their views on a variety of subjects relating to the efficacy of aid in Africa. This programme 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 — the event examined both what it would take to end aid to Africa and what the curtailing of aid to Africa might mean. The meeting outlined some ways forward. Notably, if we are to devise appropriate development strategies, we have to think of an Africa beyond aid. It is necessary, in this regard, to understand, firstly, what the binding constraints to development are on a country-by-country and sector-by-sector basis, since all African countries have their own unique cost structure and mix of reasons why it is too expensive or risky to do business there. This requires, of course, an understanding of the basis of the economy/political economy in

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\* This summary has been drafted by Drs Terence McNamee of the London-based Royal United Services Institute ([www.rusi.org](http://www.rusi.org)) and Greg Mills of the Brenthurst Foundation ([www.thebrenthurstfoundation.org](http://www.thebrenthurstfoundation.org)).

each country case study. Understanding these better will help in targeting external assistance.

A second aspect to further analysis is to examine the 'how' question — how aid might better be expended in terms of the relationship with the private sector and non-governmental organisations (NGOs), the focus on urban versus rural aid, and whether from an external perspective to go for greater conditionality or budget support.

Thus this second 'Africa beyond Aid' meeting has been convened to take these discussions a step further by seeking answers to eight questions:

1. Is the aid-development paradigm correct for Africa, and for its partners?
2. Are there better ways to spend aid money?
3. Is there a more appropriate set of indicators for development than the United Nations' Millennium Development Goals (MDGs)?
4. What do recent developments — including the role of China in Africa — mean for the aid-development model?
5. Can aid better be used to further African developmental interests, by country and by sector?
6. What sort of mechanisms do we have to develop for resource-rich countries, especially those rich in hydrocarbons? For example, 80% of hydrocarbon-rich countries are classifiable as autocracies, with all the governance and other problems that this raises.
7. What is the relationship between trade and aid — what strategies should African countries adopt in the short term to rescue Doha and beyond?
8. Can we envision and plan for an Africa beyond aid?

Professor **Holger Hansen**, chair of the board of DANIDA, noted in his opening that by representing a donor organization he ran the risk of having to carry 'the donors' burden'. He took his point of departure in some of the dilemmas and challenges that aid to Africa is facing. First of all, aid policy is increasingly seen as part of foreign policy in general and trade and security policy in particular. Secondly, there is an increasing awareness of the diversity within the African continent and an emphasis on the need to differentiate between the various categories of state: fragile states, post-conflict states, etc. For a donor country like Denmark this has led to a request for a new paradigm. Instead of continuing many years of concentrating on the best functioning countries as the major recipients, Denmark should take the Paris Declaration with its donor harmonization seriously and focus on fragile states like Liberia, Sierra Leone, Sudan and Somalia. Thirdly, this radical demand for change is modified by the need to finish the work properly and in particular to face a number of new challenges: alarming population growth and the very unusual demographic pyramid with almost half the population being under 20, and related to that the speedy process of urbanization. This creates a need for a reorientation of the aid programmes, for instance an adjustment of the division of aid money between rural and urban areas and not least a stronger emphasis on the private sector with its potential for job creation.

The overall aim for aid programmes these years is the achievement of the Millennium Development Goals in 2015. The increase in the aid volume has meant considerable investments in trying to achieve the goals. But it leaves us with two crucial questions: the chances of sustainability after 2015 in view of the big aid investments which actually corresponds with an increasing aid and donor dependency; and the chances of implementing an exit strategy after 2015, or at least give some thoughts to 'An Africa beyond Aid'. These questions are hardly addressed in the various country strategies. All this stands in contrast to an Asian country like Vietnam where Denmark has planned an exit over the next ten years. It is therefore highly relevant to address the issue of Asian experiences and especially to ask and answer the question: What lessons can be learned?

In his introduction, **Frank Spengler** affirmed that the worldwide activities of the Konrad Adenauer Stiftung focus on the promotion of democratic and pluralistic systems. To strengthen democracy in Africa, the Konrad Adenauer Stiftung proposes a reorientation of development assistance to reform-oriented states. Furthermore, the European Union (EU) should formulate 'Joint European Guidelines on Democracy' to significantly support democratic processes in our neighbour continent.

Spengler asserted that the significant interest of China in Africa is, in principle, a positive step, because it opens up new options for African states. However, these options should be used for the broadening of the participation of civil society and transparency in general and should not cement the continent's traditional dependency on the exploitation of its natural resources.

A sustainable development partnership with Africa should, he argued, be based on a shared or comparable value system guided by joint interests. The rule of law, good governance and a value-oriented pluralistic party system are the basic elements of an enabling environment for development. Without these framework conditions, economic growth and political stability will not be sustainable — and these are preconditions for a strategy centred around the theme of 'Africa beyond Aid'.

## **SESSION ONE: INTERNATIONAL AID AND CO-OPERATION WITH AFRICA**

In **Session One**, the first presenter was **Stefan Mair**, who examined new initiatives emerging from the G8 meeting at Heiligendamm. He expressed profound dissatisfaction with these initiatives. The summit communiqué lists several such initiatives, such as the G8 Action Plan for Good Financial Governance in Africa, the Capacity Development Initiation for Regional Economic Communities in Africa and, last but not least, a promise to provide a substantial amount of money to fight HIV/AIDS, malaria and tuberculosis. But what it failed to do is set G8–Africa co-operation back on the track of the G8 Africa Action Plan approved at the 2002 summit, which, Mair argued, still provides the best formula for co-operation between the G8 and Africa because of the exemplary process of consultation it involved and its identification of the right priorities — establishing peace and security; strengthening institutions and governance; and speeding up trade, investment and economic growth. Mair asserted that what put paid to the G8 Africa Action Plan more than anything was the Commission for Africa and the ill-advised 'money for the big push' message of the Gleneagles summit in 2005. Unfortunately, that was still the dominant theme at Heiligendamm, due in part to the major media campaign fronted by celebrities asking again and again: 'Where is the money you promised then?' He concluded by forcefully recommending that more attention be paid to communications strategy, so that research and evidence that challenges the primacy of such thinking has a much deeper resonance with the public than hitherto.

The second presenter, **Klaus Rudischhauser**, argued that EU development policy is about to go beyond aid. The largest single donor in Africa — the tenth EU Development Fund (EDF) tranche for 2008–13 is now €22 billion — the EU today is focused on both aid effectiveness and striking a wide-ranging partnership with Africa. With regard to the former, the EU is targeting 50% of the funds for budgetary support (up from 27% in the last EDF), requiring a high-degree of responsibility by partner governments. This funding will in the future be distributed on the basis of 'governance profiles' evaluated against the weaknesses and credibility of partner governments. The EU–Africa partnership is intended to bring about a joint strategy for Africa (which is to include issues such as climate change and trade) with which to develop a political partnership, promoting peace and security, and to jointly address global challenges. In the discussion, the EU's plan to develop an Africa-wide partnership was viewed as precisely the wrong policy, since it did not promote excellence and differentiation (the African reality), but rather a one-size-fits-

all policy premised on the lowest-possible African denominator. If the EU is serious, it needs to pick out a limited group of states that meet key governance criteria.

In his paper, **Alberto Trejos** asserted that aid should be seen as part of the problem with African development, often being a substitute for donors doing the right thing — notably making difficult decisions in their own countries (such as those regarding trade access) through which to ensure African development. Aid can not only result in unintended negative macroeconomic consequences (such as Dutch disease), but can also encourage rent-seeking behaviour and the mindset prevalent among recipient states that they cannot 'go under' even if they pursue the wrong sets of development policies. Fundamentally, aid seldom relates to providing assistance in the areas required for development: human capital, technology, non-urgent reforms, competitiveness and trade. In order to be able to use aid more effectively, there is a need to understand how countries develop and how to help them do it from outside. There is a need, too, to build in incentives into the aid system, focusing on institution- and capacity-building, linking development incentives to success rather than failure and not entrenching the interests of the worst performers.

The last presenter of Session One, **Jonathan Coppel**, observed that there is a role to be played by identifying constraints to investment in African countries, thereby increasing the 'sweet spot' for businesses. This can be achieved partly through regional investment incentives, and policy assessment and capacity-building tools. There is need in this regard to focus on those obstacles to investment that exist 'behind the border', the non-tariff and other regulatory and bureaucratic barriers that impede investment, including tax regimes, infrastructure, corporate governance, human resources, public governance, competitiveness and finance regimes. Growth is the main driver for poverty reduction, and investment is a precursor to growth. Since foreign direct investment (FDI) is relatively low in Africa, there is an urgent need to identify constraints and develop an appropriate investor 'road map'.

### **Discussion**

The discussion that followed Session One highlighted the importance of picking out the high performers on governance. It was suggested that the link between aid and governance ought to be more explicit. Is denying aid to African countries that do not meet certain standards of good governance a viable policy? In this regard, there was a distinction drawn between relationships and partnerships: donors often do not have the luxury of *not* dealing with certain regimes, because often it is their populations who are most in need. So, in that sense, we have no choice but to continue to have relationships with them, though equally we should remember that *partnerships* are qualitatively different — and more effective — types of arrangements, and their establishment should be contingent on good governance practices.

A key theme of the discussion centred on the ways in which the 'aid issue' often crowds out discussion on trade. The United Kingdom's Commission for Africa included substantial points on the importance of trade and promoting a liberal trade environment — but that part of the report has been all but ignored. Several discussants observed a paradox at the heart of the development debate: Western leaders do not feel they have to make the tough decisions on trade so long as they maintain high levels of aid — which is one reason why trade is faltering and, by extension, growth remains poor. At the same time, with aid continuing to flow into Africa, its leaders are lacking incentives to do more on trade. Why has 'trade or die' thinking not had much resonance in Africa? Critically, Africa must stop thinking that the path to survival is to get more aid. Indeed there is a proclivity for small businesses to become leaches on the aid system; and some of Africa's best brains and expertise have become 'professional leaches'. Instead of focusing on how to create wealth and add value to the economy, they focus all their efforts on potential means to capitalise on aid flows. More energy needs to be invested in mobilising industry.

In response to criticism of the aid industry, it was forcefully asserted by one of its representatives that the starting point of the industry is *solidarity* with those less fortunate than ourselves ('ourselves' being the West). Underpinning this solidarity was the idea of *subsidiariness*: that aid must serve to put partners in positions where they can solve their own problems.

The issue of budget support generated considerable debate. As a percentage of aid, it varies between 20% of the total and 100%, depending on the recipient. It was noted that frequently budget support is more donor- than recipient-driven. For developed countries, it is, in many ways, more attractive to give money than relinquish a share of their market. But it is risky: few countries are able to properly account for where all the money goes, so, in effect, budget support can severely undermine governance. As such, it was suggested that budget support needed to be *incentivised*, i.e. tied to the achievement of specific indicators and closer monitoring. By doing so, budget support can have the benefit of placing the responsibility back on partner governments — which is a good thing — and, with monitoring, ensure that money doesn't get diverted to self-aggrandisers.

The discussion in Session One ended with two points, one on China, the other on MDGs. There was consensus on the fact that MDGs have become an enormous force, and in many cases have perverted aid programmes, creating policies that are nothing more than palliatives that do nothing to create jobs and stimulate growth. As such, we need to restructure aid on the basis of what the *real* dynamics on the ground are. On China, there was recognition that it has fundamentally transformed the aid environment. The implications of this transformation for democratisation are as yet unclear, though there are serious concerns that it will hinder efforts and reverse the momentum of democratisation. The EU is seeking to approach things differently from China, in accordance with a 'values partnership', embodied in the joint EU–Africa Strategy.

## SESSION TWO: COUNTRY STUDIES

**Michael Holman** began Session Two with an appraisal of Kenya. There, he argued, aid is not working: the strategy is folly, as it is creating a dependency culture. What's more, it is creating the problems that it is meant to address. There is a myth propagated by Kenyans that aid is less important to the country than donors make out, but, in reality, aid is still an important component of development in Kenya. The problem is that graft and corruption are endemic; and politics and business are insidiously intertwined. But the NGO and international communities are largely oblivious to this reality. Holman made three key proposals: the role and responsibility of foreign aid donors in Kenya needs to be radically assessed and scrutinised, and a study should be commissioned into the leading agencies (UNDP, UNWP, Oxfam, DfID and the EDF); a new performance index for economic growth, which draws on private sector statistics, should be drawn up; and the aid programme for Kenya needs to be revamped in a manner that leaves control in the hands of Kenyans, not international donors.

**James Kibera** provided a more upbeat perspective on Kenya and affirmed that aid can be of great benefit if the process and method of delivery are right. Along with the problems fuelled by Kenya's increasing urbanisation, he highlighted a lack of confidence among Kenyans as the country's principal hurdle to overcome. Indeed, he suggested that this lack of confidence contributes to the corruption and other negative trends observed by Michael Holman. His key point was that there is real value in aid, but it was the superior attitude of donors and lack of faith in local actors to lead and drive forward initiatives that was proving so pernicious. Kibera then drew on the experience of donor involvement in Kenya's coffee industry to demonstrate the importance of: leadership and local initiative; devising relevant and specific strategies, not general approaches (to

agriculture, for instance, when what is required should be specific to coffee); and only initiating programmes when a clear exit or end point for the development partner can be ascertained. He ended his presentation by calling for all those actively involved to break away from critique and start devising solutions, programmes and plans.

**Dianna Games** assessed the current situation in Zambia, noting its unique predicament at the intersection of maximum debt relief (US\$3.8 billion in debt relief) and growth. It is a tenuous situation, she warned, where the misuse of aid could seriously undermine the good things happening in the country. Zambia has benefited from record highs in copper prices, predicted to remain on the rise. At the same time, Zambia's private sector is in a poor state, effectively marginalised by the aid industry, which at present has all the access to and influence over the government. Thus, the key issues identified by Games centred on the lack of entrepreneurial growth and the lack of capacity in Zambia — neither of which have been a priority with the donors. The effect has been short-termism and poor political governance, and frequent mismatches between the political priorities of the government and the demands of the donors, who have a marked tendency to withhold funds at short notice.

**Christopher Clapham** examined the unique place of Ethiopia in the aid and development debate. Ethiopia is known globally as a state with recurring food insecurity, but it is also a state of major strategic significance — one that is highly centralised and that, historically, has had a strong sense of its own interests. As such, it poses unique and complex challenges for external actors. It claims to be pursuing an Asian-style model of development, but, in reality, state ownership of all land is built into the Constitution, the state is deeply embedded in the private sector and the attitude towards FDI has been grudging. In general, Ethiopia's development policies do not conform to donor priorities, and there is a pervasive attitude of 'government knows best', a view emboldened by the country's charismatic and persuasive leader. Prime Minister Meles Zenawi's rule is increasingly autocratic, but as a key ally of Washington in the 'war on terror', his damaging internal policies are tolerated — and donors continue to have little control over what happens to their aid. China is not yet a major player in Ethiopia, but it is conceivable that its influence may grow, especially as China is seen as a potential hedge against possible Western imposition of political conditionalities (e.g. relating to human rights or the Eritrean question).

The respondent, **Flavio Bello**, stressed the (often overlooked) accountability of donors — to their own populations, to European member states, and so on. He remarked that Ethiopia is a classic illustration of the fact that development is a business — and, whatever is happening on the ground, the business must go on. He affirmed the need for donors to be much more results-oriented and to engage in and establish robust monitoring mechanisms and dialogue with local governments.

In his presentation on Malawi, **Ross Herbert** stressed the need above all for prioritisation. Precious little has been done to measure the impact and effectiveness of aid in Malawi, or devise plans to tackle the myriad impediments to progress in the country. There is no planning process or forecasting; everything is just based on guesstimates. Very little has changed in Malawi since independence; the country continues to suffer huge economic swings, and donor confidence remains low. Indeed, because of the acute capacity deficit, donors struggle to even work in this environment, there is no management of how aid is dispensed, and no oversight over where money went and how performance has been affected. Herbert emphasised the urgent need for Malawi to focus on the planning process, i.e. on drawing up a growth plan. Critical in this regard is the creation of a core management team for aid usage that is stable and consistent; chopping and changing must cease.

**Mauro De Lorenzo** examined Rwanda, arguing that in some respects it has turned into a new model of good development — safe, stable, with little corruption and open to

private sector initiatives and growth. Yet Rwanda also presents a paradox — it is 60% dependent on direct budget support. What is interesting about the country is that the government is trying to create its own policy space. Rwanda challenges what development is about, whether it is the relationship between recipient governments and their own people or about the donor community and recipient governments. De Lorenzo suggested that Rwanda may illustrate that good policy never comes from donor conditionality or pressure: it must come locally. Part of what drives Rwanda is its own bitter experience with international institutions, who failed to halt the genocide, and thus the country has little faith in them. Rwanda is also convinced that the international community doesn't understand its priorities. One key element in Rwanda is its consistent and clear leadership. International investors are impressed by President Paul Kagame — and on the basis of his leadership alone, many decide to invest. But often they are not coming to make money as much as they want to be part of his vision of Rwanda. The main problem holding Rwanda back and discouraging investors is the lack of focus on the things that make Rwanda too expensive to do business in, namely very high transportation and energy costs.

**Do Duc Dinh** assessed the lessons from Vietnam — an important case because it is a developing country that has, under various administrations, used a large amount of foreign aid since the 1950s, and hence experienced big changes in the role of aid, and how it can affect development in both positive and negative ways. Professor Do looked in particular at the two main periods that represent the contrasting features of aid usage to meet Vietnam's national policy goals. The first period of aid addiction (1945–85) demolished development motives; the second period (1986–present) of aid for development used aid effectively to fuel development. He noted that aid has been important in Vietnam's development, but not decisive. Crucial to Vietnam's success was that it took ownership of its own development; it was not passive, rather it led the process. The key lessons he drew were the need to shed aid dependency, set clear priorities for aid distribution, enhance efficacy and realistic use of aid, serve targets of the recipients, build confidence in negotiation, realign aid with poverty reduction, diversify and ensure that debt payments are made.

### **Discussion**

Much discussion centred on the thorny cases of Ethiopia and Kenya. The massive inflow of aid is in many cases a double-edged sword, nowhere more so than in Ethiopia. On the one hand, budget support has served to enhance the capacity of central government. Its record with vast top-down structures such as the national airlines and the military is impressive. Yet aid has not improved governance in Ethiopia; if anything, it has made it worse. One discussant suggested that such substantial aid flow means that the government can afford *not* to develop meaningful linkages with its own population. Nor has aid helped to encourage private sector growth and investment, or any forms of government collaboration with industry. And as long as the United States — by far Ethiopia's biggest donor — perceives its relationship with Ethiopia through the lens of security considerations, aid is not likely to serve as a spur to improved governance.

Regarding Kenya, the discussion focused on how aid can be de-institutionalised. At present, for instance, Kenya could not sustain its education and health system without donors, but that form of aid becomes circular. What's more, there is no detailed report that adequately accounts for what the EU has done in its aid programmes in Kenya, and no way of measuring their cumulative effect. How can we establish the right enabling environment, where systematic rather than transient improvements can be brought about and strong built-in mechanisms established?

It was also observed that the slowing down of aid to Kenya has had the effect of pushing Africa into the arms of China, illustrated by the latter's recent acquisition of oil exploration rights off Kenya. But one of the major problems in Kenya was that it was not capitalising on the private equity potential in Africa — no spur to beneficiation, there is

no concession environment for it. A key hurdle to overcome is endemic and widespread corruption, especially petty corruption, which affects virtually all commercial road traffic. While Kenya has sound legislation and procedures on paper, in reality, across-the-board rent-seeking occurs.

The case of Rwanda also figured prominently in the discussion, owing in large part to its notable development successes in the wake of the devastating 1994 genocide. One of the key points of debate was whether leadership in Rwanda is essentially just the president, or is it a team effort? Other key questions to emerge from the discussion were: Are the preconditions in Rwanda generalisable or repeatable? If not, how can it be considered a model? How did accountability in Rwanda evolve? Where does it come from?

The divergent paths of Eritrea and Rwanda were also explored. Both countries have had a very traumatic passage to the present, and both have high levels of commitment to popular welfare, a strong relationship with their diasporas and a strong sense of external threat. But on all the indicators, Eritrea has, in contrast to Rwanda, been a total disaster. One of the problems identified in the former is that there is no public discourse. And the two countries have used aid in very different ways. Part of the story may lie in US security policy: Washington has been a keen supporter of Rwanda, but not Eritrea.

Other key questions raised in the debate were: Why is the 'language of diplomacy' used so reflexively in aid circles when it is, instead, blunt speaking that is desperately needed? How do you deal with unhealthy business–government relationships, in cases where the dividing line between them is not so clear? (e.g. the seeming paradox of Kenya). What is the role of external shocks? On this last question, the Vietnam example threw up a number of potential lessons. It was argued that had aid to Vietnam not been cut, it probably would not have experienced the great development rebound it experienced. So shocks can stimulate reform, encouraging states to adopt a 'deliver or die' mentality. Critical to Vietnam's success was that it took ownership of its own development; it was not passive, but rather led the process. But also important was the external shock of the end of the Cold War, which was a big determinant of the path it took. What shape could such shocks take in Africa?

### **SESSION THREE: IDENTIFYING SOLUTIONS**

**Robert Calderisi** assessed the Indonesian example, drawing out a number of key policy lessons for Africa from that country's recent development experience. He noted that as recently as the early 1980s, Indonesia lagged far behind the 'tigers' of the region, with structural and institutional weaknesses similar to those in Africa. Moreover, like Africa, Indonesia also depended on a wide range of commodity exports, including oil. Yet during a twenty-year period when Indonesia was having great success in reducing poverty, Africa was becoming poorer and poorer. Indonesia, for a time the World Bank's largest borrower, was a good user of aid. It also deployed its natural resource earnings much more wisely than Africa, investing in smallholder agriculture, strengthening basic health and education, and managing — not submitting to — external assistance. It developed a strong, well-motivated civil service and created credible mechanisms for policy growth. Throughout, a high degree of ambition was also present among its increasingly better-trained people. On balance, Indonesia represents for Africa perhaps the most pertinent example from the East Asian experience.

**Jan Kiso** analysed how South Korea has managed its transition from an agrarian economy to a fully industrialised country within one or two generations. He suggested that South Korea — one of the first countries to transform itself from an aid recipient to a global player — has set a good example for Africa in terms of investment in education, health and a disciplined workforce as building blocks for development. But in other ways, Kiso argued, South Korea does not provide a positive template for Africa. Many of its

reforms were undertaken by an at-times brutal military dictatorship, and for all its enlightened economic leadership, it has a long record of political instability. Although South Korea's success can be pinned down to a mixture of domestic protectionism and export subsidies, together with *dirigiste* but enlightened economic planning, its record remains controversial today.

**Joseph Siegle** identified strategies to support democracy through aid. He noted that the ledger may be improving, but it is still not especially positive: there has been a huge upsurge in democracy promotion since the end of Cold War, but at least half of African states are still leaning towards autocracy. He examined what impact aid has on promoting democracy, suggesting that there are great challenges in measuring this relationship. He emphasised that democratisation is a *process* involving the shaping and development of norms and values — it is not just a technocratic exercise, and it is more than just holding an election. He cited qualitative analysis that suggested that aid does have a positive impact on democratisation, but it's not as powerful as domestic factors, leadership in particular. He argued that there is evidence that political conditionality has been helpful. Thus, donors should continue to set high expectations and, through conditionality, provide incentives for civil society to democratise; equally, donors should reduce funding for autocracies. One suggestion was a democracy response fund, which provides timely assistance to new democratic leaders.

**Stephan Malherbe** examined HIPC (the Heavily Indebted Poor Country initiative) and the infrastructure puzzle. He suggested that what we mean by 'infrastructure' is nothing more than large shared platforms for output of intermediate services for the processes of production and trade. Infrastructure services tend to display massive scale effects, which means that where it is not readily available — or is available at poor quality — self-provision by individual business is exceedingly expensive. That is the position in which many African firms find themselves with respect to transport and energy, according to Malherbe. He explained that the infrastructure puzzle — infrastructure is most needed and potentially beneficial where it is least adequate, yet it is in those very places where resources to fund it are scarcest — cannot be solved by the private sector alone; and a role for the state — ideally as part of public-private partnerships — is not only justified, but essential. It is in the developing world where the overall benefits of the infrastructure often handsomely exceed the revenues that can be generated by it. Here the HIPC process of debt relief can play an important role: this process of financial rehabilitation can enable governments to provide the kind of support required for infrastructure investment to accelerate. However, the way that HIPC is currently conceived hinders rather than facilitates the process. Taken together, MDG-centred Poverty Reduction Strategy Papers and HIPC debt ceilings force priorities on governments within what is seen as the acceptable set of government priorities: crudely, away from infrastructure and in favour of social spending. Malherbe argues that a shift in both mindset and approach is required. And it needs to be recognised that increased access to capital — for infrastructure investment and other uses — is the purpose of debt relief.

The responder, **Peter Molt**, drew attention to the acute difficulties faced by fragile African governments in attempting to emulate East Asian development paths. He emphasised that the correlation between aid and economic growth and democratic transition seems to be *not* proven. He added that the neo-patrimonial societies of Africa are not a product of post-colonial regimes, but rather are deeply rooted in African history — and, as such, we must assume that the way to democracy on the continent will be long and uncertain. Aid, for many reasons, is not solving the real development problem of Africa. Democratic transition should alleviate poverty — but it will not necessarily lead automatically to sustained growth. Without a massive increase in jobs, there will be no sustainable growth, agriculture and manufacturing. Molt noted that anti-poverty programmes are largely left to foreign actors, and that we should be wary of the term 'ownership' — which can be misleading, often masking the foreign levers of power.

**Jeffrey Herbst** assessed new aid models for African infrastructure, especially in the area of public–private partnerships (PPPs) and private finance initiatives (PFIs). He observed that with the exception of cellular technology infrastructure, there has been very little PFI in infrastructure within Africa (save in South Africa). Indeed, within Africa there has been something close to a cellphone revolution, with the highest rates of growth in the world. He explained that the key reasons for this revolution were as follows: the start-up costs are relatively small; you can deploy the technology directly to the customer base precisely; and, thirdly, the service can be metered — and, as such, it can serve large numbers of relatively poor people. Government involvement is relatively low, because it is not really necessary. Another area of infrastructure Herbst highlighted was water — access to potable water is a key determinant of life expectancy, but it doesn't lend itself to PPPs: politically, it is almost impossible to cut people off if they don't pay. This is why foreign aid is very important in water infrastructure. Another area, electricity, does not have the same salience as water — thus, there is less foreign assistance — and it involves very significant up-front costs. As for airports, railroads and ports, these are areas where there should be a huge market for foreign investment and involvement (South Africa has been very successful in this respect). The key question for African governments is which infrastructure projects are best suited to foreign aid and which are most appropriate for private investment. A final key aspect of infrastructure highlighted by Herbst was the branding of African countries. He asserted that branding must be considered part of states' inventory of assets and part of their infrastructure. Countries across the world are trying to do the same things as and compete with African countries — but Africa's reputation is weak, and foreign investors don't like the brand. Therefore, African countries need to consider branding themselves individually, not as part of Africa as a whole. They need to explain why their product should have a premium, and why it should be bought.

**John Robertson** cast a wide perspective in identifying sectoral initiatives for economic growth in Africa. The historic problem in Africa is that the signal initiatives that have marked its development have been taken overwhelmingly by external actors. Indeed Africans themselves have done their best *outside* Africa. So, in discussing Africa, we cannot avoid the cultural and sociological spheres: are Africans constrained — *vis-à-vis* economic growth — by their traditional beliefs and customs? We need to tackle this question head on. One such persistent belief has been that large families are the key to survival — but this idea has had an insidious effect on growth. Africa's response is to step up calls for more aid. But is it helping to keep in place the very problems it seeks to solve? Too many African cultures, according to Robertson, reward compliance and conformity. People dare not show initiative. He highlighted, in particular, property rights — which are crucial, but essentially a foreign concept in Africa. Historically, capital has needed to come from somewhere else because of this absence of property rights, and this has been a terrible handicap. This, according to Robertson, was a shift that transformed Europe, and that same shift must take place in Africa for it to make a significant leap forward. In Europe, this was turned from dead capital to live capital; this transformation could unlock flows of capital to Africa that would dwarf aid.

In response, **Hartwig Fischer** spoke from the German government's perspective on the need to foster genuine partnerships with African nations. The aim should be to inculcate over time self-reliance, good governance, decentralisation and the widest possible involvement of populations in donor-funded projects. He advocated more partnerships with high schools and universities, and also triangular relationships with India and China to push forward projects in Africa.

**Mark Napier** examined Africa's financial sector, noting several reasons for optimism. Firstly, Africa's commercial banking sector is already highly profitable and mainly private sector-led. Secondly, it will benefit strongly from new technological innovation, opening up new markets that the sector has not been able to reach profitably hitherto. Thirdly, massive donor-financed financial sector reform programmes are under way in many

African countries. And, lastly, there is increasing consensus among the multilateral and donor community that financial sector development will in future be market-led, with access central to the vision of market-led development. But Napier struck a note of caution by emphasising that financial sector reform is technically complex, requiring specialist skills that are not in abundance in Africa, while serious information deficiencies also hinder market development. Africa's financial markets are also, in the main, fragmentary and small; this discourages new entrants and enfeebles competition, and so the profits of incumbent players stay high and access levels remain low. Some steps towards regional integration have been taken, but not enough. Governments should be encouraged to set quantifiable targets for the achievement of inclusive financial markets and make policy choices that are consistent with these objectives. While the direction in which Africa's financial systems are heading is broadly correct, there is a need, and an opportunity, to accelerate processes of change and also to shape the outcomes of processes that are under way. Napier concluded by noting that donors can play a useful role in financial sector development (especially in building an information infrastructure, and in areas such as policy development support, financial literacy and capacity-building), but they should avoid the direct provision of financial services unless these are designed to encourage the private sector.

**Nick Mabey** examined the broad impact of climate change on the African continent and investigated how strategically best to address the emerging challenge. People living on the African continent will, he argued, be among the first to experience a significant impact on their livelihoods from human-induced climate change. Geographically, the continent already provides some of the harshest and hottest living conditions, where subsistence livelihoods are most exposed to climate variation. Climate change will change rainfall patterns, resulting in reduced agricultural yields in much of the continent, leading to population migration out of some areas. Most African states will encounter more difficulties in adapting to climate change, as their economic structures are less resilient and political structures are less stable than in the developed world. This represents a major future source of instability for the whole of the continent and, indeed, the global system. Mabey suggested four strategic approaches on how African states should co-ordinate their response to climate change. These are: (i) understanding the regional climate change vulnerabilities; (ii) preparing for climate change impacts; (iii) gaining from new market opportunities; and (iv) combating the continent's own greenhouse gas emissions. Mabey asserted that the implementation of such a comprehensive strategy would significantly assist the African continent in addressing the climate change challenge.

The respondent, **Ingo Badoreck**, emphasised the widely ignored fact that *there is* money in Africa, citing the example of a German bank in the Democratic Republic of the Congo (DRC) that now has 12,000 accounts on its books. But he added that African businessmen and -women lack the skills to present a proper business plan, and they lack the most basic documentation, even business cards. Further drawing on recent experience in the DRC by citing the development of a proposed dam that continues to be held up due to environmental concerns, Badoreck stressed the need for much more work in integrating climate and development strategies. Lastly, he noted that in the DRC there was a tremendous gap in the professional training sector, and stressed the need to establish more professional training centres.

### **Discussion**

The trade-offs between sovereignty and donor interests were examined. The importance of agriculture — long seen as an aspect of underdevelopment — in Africa's development was also highlighted. It was noted that within East Asia, the highest performers were the ones not rich in natural resources, but rather those states led by enlightened autocrats. These countries engaged significantly in trade, had an attitude of self-reliance and stuck to their plan. The following lessons emerging from the East Asian example were highlighted: ensuring macroeconomic stability, removing key technical functions of

government from immediate political arena into a ring-fenced agency and effective consultation with the private sector.

Are these applicable to Africa?

There was disagreement on the issue of conditionality. In the case of Indonesia, it was noted that that government refused conditionality — and rejected some major studies by the World Bank — on a number of occasions, and probably benefited from doing so. African countries need, too, it was argued, to say no to large parts of aid or conditions on aid. They need to be more selective, and they would earn more respect from their citizens and other governments if they did so. On the issue of democracy, it was stressed that it need not be seen in the context of a growth dividend; it is, instead, a good in its own right.

The 'credibility problem' was also raised. What is perhaps missing, it was suggested, were big gestures to alert the world that the status quo in Africa is no longer good enough. Credible actions that send a strong signal are needed, in other words. One that might work, it was suggested, would be to curtail national airlines. These are privileged in Africa way beyond their actual economic worth to African nations; it would be much better to look at key logistical points instead, and even kill off a national airline if that was the sound economic decision. This would send a credible signal to the outside world.

One of the ongoing problems with huge infrastructure projects stressed in the discussion has been follow-on maintenance — e.g. massive road projects that, once built, typically fall into disrepair over a relatively short period. A point that raised heated discussion related to population growth — how do demographics relate to development in Africa? Is high population growth one of the reasons that Africa will continue to be mired in underdevelopment, or is it more complex than this? The statistics suggest that we cannot predict with accuracy what will happen to population growth in Africa. What we do know is that there are very disproportionate relationships and trends throughout Africa. Population growth should not be seen as necessarily bad for growth. It was also noted in the discussion that tourism has largely been overlooked — yet the micro-linkages of tourism are hugely important, since tourism feeds on a significant amount of private and public infrastructure.

The issues of regional integration and promoting inter-regional trade were also raised. One discussant suggested that the African market is so limited and regional trade so minuscule that it would be better to think globally. Promoting regional infrastructure, on the other hand, seems much more viable, and increasingly that might be a fruitful avenue for donor activity.

It was remarked that very little had been said during the conference about remittances — yet the potential for remittances to benefit and fuel development in Africa is enormous. There was some concern expressed that the current relentless focus on microfinance institutions to some extent undermines the commercial sector. Is microfinancing the precursor to leading people to a commercial credit system, or does it harm the formal commercial sector? On microfinance, it was argued that there is a role for such institutions, but we need to recognise that innovative and important as they are, their outreach is extremely low — a lot less than 5% in most cases. The vision needs to be of increasing formality over time.

There was general agreement that financial sector reform and improvements were critical. In this respect, the government needs to have a clear vision of the kind of financial sector it wants to create. Moreover, there should be a tremendous premium on leadership, with governments saying to banks: 'This is how we want to do things'. Also important are the operating conditions. At present, there are too many constraints, from

access to IT skills, to work permits and corruption. Another key concern should be how to engage the informal sector and how best to reach it.

Climate change in Africa is a *mega-trend* and several discussants observed that there is no choice for Africa but to move towards sustainable development and reduce risk of climate vulnerability. But will the market mechanism deliver some of the solutions, or do we need more public action? One discussant noted that the key issue is risk management — it is not about solving the problems of Africa's economy. Significant investment is needed to improve Africa's adaptive capacity, but efforts must also be undertaken to devise new and innovative business solutions. African business can already see, in the current debate over non-organic certification, some of the potential harm to its industries that national and international climate change-related policies might create. All agreed that climate change is one issue that Africa and all nations cannot afford to be ideological about.

## SUMMARY

In his final remarks, **Gerhard Wahlers** briefly cast an eye across the global political landscape, noting that modern Russia and China throw up challenges to Western donors and to the cause of democracy promotion. Those two countries, in particular, raise difficult questions about the relationship among democracy, development and stability. He noted that in the Middle East, democracy is weak, whereas in Latin America, we have witnessed democratic regimes that have not adequately addressed poverty in many places. Against this worrying background, it is critical, he argued, that Western donors and foundations energetically reach out to Africans and involve them at every stage of their programmes — and encourage local ownership of such programmes.

In his **Summary** of the conference, **Greg Mills** asserted that, while taking care to avoid the sweeping notion that aid is bad *per se* (because it is not), there are multiple contradictions in aid as a development tool.

- ◆ Aid seeks the means to develop with the help of outside assistance, yet into doing fuels an externalist 'assistance' mindset and all the antagonism and harmful stereotyping that this engenders.
- ◆ Aid seeks to build internal capacity, *but* can produce a set of negative incentives, including rent-seeking, the crowding out of the private sector, and a belief that one cannot 'go under' since there will always be an aid lifebelt. Also, aid can perversely be linked to failure rather than success, if money is primarily donated according to level of per capita income.
- ◆ Aid seeks to ensure African development while it gives some donors an excuse not to make tough domestic concessions on trade. Similarly, African leaders might not feel the imperative to 'trade or die' — the global and more recently Asian route to development — since they feel their path to survival and development is not trade but aid. We may not be setting the right incentives for leaders.
- ◆ Aid regimes propose complex solutions to similarly complex problems, but big aid pushes *à la* Gleneagles encourage (if not entrench) a notion that silver bullet 'all-in' answers to Africa's problems can be engineered.
- ◆ Aid can have a diversionary impact. Although it may seek to emphasise African responsibility, it can produce the opposite effect by distorting and even undermining the accountability link between domestic constituents and their government. For instance, aid projects usually ignore parliaments altogether, thereby reducing the ability of African legislatures to hold the bureaucracies accountable.

- ◆ There is a desire to act on a co-ordinated African response (e.g. the EU–Africa partnerships), but such a strategy undermines the need for differentiation, and risks African solidarity over effectiveness.
- ◆ There is a clash between governance and democracy conditionalities and the upholding of donor interests, a contradiction heightened by both the ‘war against terror’ and the advent of the China–Africa aid/investment phenomenon. This tension may also be described as the distinction between aid as a tool of development and governance, on the one hand, and as a tool for foreign policy, on the other.
- ◆ Finally, there is a contradiction between the media/pop-star/celebrity-academic emotional effect on the aid business and doing the right empirical thing.

This analysis in turn leads to a number of things that Africa and the donors can do:

### Constructive Donor-Recipient Development Directions

WHAT THE DONORS CAN DO	WHAT AFRICA CAN DO
<ol style="list-style-type: none"> <li>1. Realise development is more than just about money, and advocate this view: It’s about governance, capacity, planning, incentives, leadership, expertise, priorities, and local responsibility.</li> <li>2. Develop a differentiated response to African countries and needs. Big pacts risk the negative effects of solidarity.</li> <li>3. Contemplate signaling that aid is not forever: business as usual has costs, just as external shock has development value. And the aim of aid should not be to simply put domestic donor consciences at ease.</li> <li>4. Consider the effects of HIPC and revise the process as necessary, remembering that the purpose of debt relief is to increase the range of development options, not the opposite.</li> <li>5. Focus on driving better policy through targeted advice, preferably working directly with African decision-makers; and focus on the type of projects that limit bad incentives and rent-seeking — notably certain types of infrastructure, education and land reform, given their immense collateral political and economic value.</li> <li>6. Drop the diplomatic language.</li> </ol>	<ol style="list-style-type: none"> <li>1. Align with a development-through-growth mindset, and give this effect through a focus on macroeconomic stability, including suitably providing the necessary resources to a reform technocracy. In this, realise comparative advantages and constraints — globally, regionally and nationally — and realise the advantage of long-term investor time-horizons. Say no to donors whenever donor priorities do not align with local priorities.</li> <li>2. Establish local ownership through domestic policy clarity and the setting of clear priorities that match capacity.</li> <li>3. Understand what success looks like and set development benchmarks: notably reducing aid as a share of GDP/government expenditure, benchmarking your competition and targeting taxation collection along with banking levels. Be transparent, and be willing to be gauged against these benchmarks.</li> <li>4. Use aid — and debt relief — as a catalyst for growth, focusing on investor needs, for which honest private sector dialogue is important.</li> <li>5. Develop alternative financing models for infrastructure; and take care to use aid for those areas of infrastructure where private investment is unlikely — notably water and electricity generation.</li> <li>6. Brand countries and sectors through excellence and differentiation.</li> </ol>

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