

① AFRICAN FORUM AND
NETWORK ON DEBT AND
DEVELOPMENT

② Reality check on
development aid

REALITY CHECK

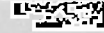
ON DEVELOPMENT AID

TOWARD A MORE RESPONSIVE
AID REGIME IN THE CONTEXT
OF AU AND NEPAD





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Towards a more responsive aid regime



PREFACE

This Reality Check was timed to coincide with the Second Summit of the African Union (AU) scheduled for Maputo, Mozambique in July 2003. It is a Call for the AU to review the current Reality of development aid and to take measures to reshape the relationship that currently defines it in order for it to be responsive to African development and in particular for aid to contribute to poverty eradication.

This edition of Reality Check is an African component of a global Reality of Aid Project (), an annual independent assessment of the effectiveness of development aid. AFRODAD is in the process of consolidating a loose African network to analyse, articulate and offer options for enhancing the quality of interaction between African countries and their development partners for the benefit of the African people.

Material for this Reality Check is drawn from previous research and is based on national workshops held in Kenya and Zambia in June 2003, examining reality of aid. The underlying theme is "Governance and promotion of Rights". The experiences with Poverty Reduction Strategies in ten African countries where AFRODAD undertook research during 2002 and 2003 provides an interesting insight into issues of aid seen from the PRSP perspective.

We hope you will support our call for an effective and responsive aid that will promote equity and sustainable development in Africa.


Barbara Kalima
AFRODAD Coordinator.



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Introduction:

For many African countries, justifications for development aid relate to a perceived inherent lack of capacity of the continent to rescue itself out of the quagmire of poverty and crisis in which it is trapped. Aid is therefore expected to help provide a wide range of opportunities for making significant improvements in social and economic services including transport, communications and physical infrastructure as a basis for a strong industrial sector and therefore, favourable conditions for the improvement of the living standards of the African peoples.

While aid has come to Africa in different forms and has contributed to positive change in some areas, as is in the case of humanitarian assistance, it has in general not fulfilled its expected impact on sustainable development. Africa and Africans have experienced frustrations of power imbalance, manipulation, and erosion of their ability to own the development process as a result of seemingly having no choice but to accept aid conditionalities imposed by their donors. In the end development aid paradoxically seems to be "glue" that synergetically binds development policy, debt and trade to become one of the instruments of African domination by the current neo-liberal development paradigm.

This reality has forced us, as civil society organisations, to make **Calls** on the AU, as part of its responsibility, to take concrete steps towards redressing this unfortunate reality; to articulate and reshape the nature of the relationship between Africa (and therefore African countries and peoples) and the rest of the rich powerful nations who continue to dominate and therefore distort the long term development of the continent and its peoples. The African Union must define regional policy that will operationalise development aid in a way that will be responsive to Africa's development needs; in particular, that of eliminating poverty on the continent. In line with this, we make specific recommendations which should be articulated by the various organs of the AU for implementation.

A Background Note on Governance and Rights


The issue of Governance has become increasingly important in recent years. Not only because good governance has become the rhetoric and conditionality of donors;² the very fact that Africans have become increasingly poor and the gap between Africa and the rich nations has widened greatly, has imposed the question of governance in Africa.

In the African context, good governance demands that there be a demonstrated commitment to eradication of poverty and fulfillment of human and people's rights (political, economic, social and cultural). Fulfillment of these rights constitutes an important component of good governance and must be promoted. This poses a real challenge to African leadership in the political, citizen and civil society arena. However, they should stand up to their responsibility and play their expected role to overcome Africa's mal-development.

It is encouraging to note that African political leaders are learning that peace, security, democracy, good governance, human rights and sound economic management are conditions for sustainable development.³ The real challenge lies in whether or not the African leadership; individually or as a collective body in the African Union can overcome its weaknesses and establish the conditions for sustainable development.

What constitutes peace, security, democracy, good governance, human rights and sound economic management seem to be clear. *The African Charter on Human and People's Rights* which was adopted under the OAU on June 17 1986 and entered into force on October 21, the same year clearly states that "freedom, equality, justice and dignity are essential objectives for the achievement of the legitimate aspirations of the African peoples"⁴

All African countries have, under the Charter, committed themselves to securing that all rights of the African peoples shall be met. These rights, which are also enshrined in the *United Nations Universal Declaration of Human Rights*⁵ and the *International Covenant on Economic, Social and Cultural Rights* include: the right to health (which include a healthy environment, access to adequate health care, nutrition, sanitation, and to clean water and air); the right to food (which guarantees all people the ability to feed themselves and also obligates states to cooperate in the equitable distribution of world food supplies); the right to housing (which means access to a safe, habitable, and affordable home with freedom from forced eviction); the right to work and just work conditions (which gives everyone the opportunity to earn a living wage in a safe work environment, and also provides for the freedom to organize and bargain collectively); and the



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right to education (which guarantees free and compulsory primary education and equal access to secondary and higher education). Then there are the cultural, civil and political rights which also need to be observed, respected, protected, fulfilled, promoted and safeguarded.

As a delegated authority, the State will for sometime remain an important institution for development processes in Africa. Its mandate is to secure that all citizens enjoy all rights as stipulated in the African Charter. The failure of the State to accomplish its mandate, as is the case in many countries in Africa today, is a violation of rights of the African people. In fulfilling its mandate, the State must, among other things understand the nature of the state and its role: how the state engages its citizens in a delegated accountable and responsible way; the policy making process and the level and depth of participation of stakeholders; and the value base of such policies and therefore their impact on people. The state should also be in control in its relationship with other states and play a constructive role in global governance and the relationship between the powerful and the weak states. The African State must of necessity defend the interests of the African people.⁷

The *Maastricht Guidelines on Violations of Economic, Social and Cultural Rights*⁸ provides the following notions which are useful and practical in the relationship between the State and the citizens:

- a). All rights impose obligations on the state to respect, protect and fulfill them. Thus, the failure of States to provide essential primary health care to those in need may amount to a violation of human rights. (Article 6);
- b). Resource scarcity does not relieve States of certain minimum obligations in respect of the implementation of economic, social and cultural rights. (Article 10);
- c). Violations of rights include the active support for measures adopted by third parties which are inconsistent with economic, social and cultural rights (Article 14c). (A good example is support to Structural Adjustment Programmes, inconsistent macro-economic policies of the World Bank and the IMF and the liberalization policies under the WTO which cause loss of development);
- d). States are responsible for violations of economic, social and cultural rights that result from their failure to exercise due diligence in controlling the behaviour of such non-state actors;

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Underlying Assumptions of Development Aid and their implications:

There are many underlying assumptions about development aid on which development aid is anchored. While some assumptions may be realistic and can be improved on, some are naïve. Here we list a few that may be interesting to discuss and pursue with the underlying notion that it is the realistic assumptions on which we need to build on and the false assumptions we need to challenge and counteract.

Realistic Aid Assumptions to be Built on:

- a). Development aid can be used to redress capital deficiencies (financial, physical and human). In the same light it can be used for meeting the shortfalls in resources aimed at various investments;
- b). Development aid can stimulate local demand and be a basis of increased domestic investment thereby stimulating increased production and exchange and consequently increased incomes;
- c). For global goods (e.g. health and education), development aid could be used to narrow the gap between the rich and poor nations;
- d). If aid is used for consumption, and in such a way that it does not contribute to internal growth and development, it can create a dependency syndrome which weakens the recipient government and its peoples;

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- e). Africa still has to build up a leadership in the political, citizens and civil society arena that will eradicate the current aid dependency syndrome;
- f). Africa is not poor. It is adequately endowed to use all its human and natural resources to benefit its peoples.

False aid assumptions to be dispelled:

- a). Aid is free. It is also value free.
- b). Northern donors are genuinely interested in Africa's development in its own right.
- c). The interests that are threatened by Africa's poverty are sufficient enough to stimulate increased donor aid.
- d). There is genuine partnership between Africa and the donor nations and institutions.

False NEPAD Assumptions on Aid:

- a). Africa's continued marginalisation and the social exclusion of the majority of its people constitutes a serious threat to global stability. It is the other way round: Africa does not pose a threat to global peace in its state of marginalisation!
- b). The developed countries will be the ones to lead the process of changing the disparity between them and Africa. No, Africans must proactively take the lead to close the growing gap.
- c). The institutions (IMF, World Bank and WTO), systems (neo-liberalism and conditionality) and processes (domination) that have contributed to Africa being poor are the same ones that will develop Africa. A new shift away from these institutions, systems and processes to more fair and transparent ones is imperative and possible!!
- d). Africa can still develop without changing the real nature of how it has been integrated in the

global economy over the many centuries. Africa has been integrated into the global economy for many centuries but in an unequal way that must be transformed.

e). The G8 government and institutions are a good development partner for Africa's long term development. No, the interests and policies of the G8 countries are the ones that keep Africa in its state of marginalisation and poverty! There is a need to build a genuine partnership which currently does not exist.

f). Africa needs US\$ 64 billion per year from the developed countries. No, Africa must stop the financial leakages which are more than US\$ 75 billion (US\$ 60 billion in annual terms of trade losses and US\$ 15 billion in annual unwarranted Debt repayments every year to mention a few!).

As we shall show below, the current development aid regime is a conditionality regime and, if it is not changed, will continue to play a role in undermining the development of the African continent.

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The African Reality of Aid

Motivation for Aid: What Motivates Donors to give Aid?

Historically, the very beginnings of development aid in the 1960s are graced with noble intentions¹⁰ with the purpose of aid being "to help poorer countries move forward in their own way into the industrial technological age so that the world will not become more and more starkly divided into the haves and have not, privileged and less privileged".

Today's stark reality of a world of the haves and have not and the privileged and less privileged, is a manifestation of the nature of the system which creates such an imbalance. Common knowledge and recent studies confirm that the patterns of allocation of foreign aid from various donors to receiving countries is dictated by political and strategic considerations, much more than by the economic needs and policy performance of the recipients.¹¹ Studies also show that only at the margin, countries that democratize receive more aid, all things being equal.¹² It is obvious that there is no coherence in the behaviour of donors.¹³ This is perhaps obvious because of their strategically different interests. Coherence is therefore something of a tall order in bilateral relations.

As noted by discussed in the national workshop on reality of aid in Zambia,¹⁴ there is hardly any convincing argument for development aid. Those that rationalize it provide arguments that in essence are a consequence of inaction to address the cause. One hears things like: "Zambia needs foreign aid because her terms of trade with the rest of the world do not favour her; Zambia needs foreign aid because it cannot attract private capital due to a poor incentive regime: or that

it cannot raise enough domestic resources". These problems can be tackled and addressed; and are therefore not necessarily a justification for aid dependency as is the case in Africa today. The United Nations family rests its aid motivation on the value system enshrined in the United Nations Charters. The same cannot be said of bilateral donors, let alone the multilateral institutions, the World Bank and the IMF.

Again, as noted in the Zambian discussions,¹⁵ IMF assistance to Zambia has been counter productive rather than facilitating to Zambia's economic recovery. The Fund is seen to be more interested in putting its own debt collection interests ahead of Zambia's interests. A large part of Zambia's bilateral grant flows to Zambia is diverted to servicing the obligations to the IMF.¹⁶ Thus what is assumed to be development aid to Zambia, in fact goes to the IMF. How would anyone in this world expect the millennium development goals to be achieved without changing this particular type of aid relationship?

Aid and Conditionality:

Conditionality today remains the operative instrument of the motivation for aid. Today's aid is a conditionality regime, period. While many examples can be offered on how individual donor countries use development aid to realize their political and economic ends, more frightening for Africa is the common motivation for development aid that is upheld on behalf of the donor countries by themselves in their aid packages and especially by the IMF and the World bank, to whom they have delegated the power to impose the neo-liberal agenda. While the conditionality is for the neo-liberal agenda, the real problem lies in domination and control. All countries that receive aid must do the same things dictated by the common good of the powerful nations for *their* benefit!

It is with no exception that all African HIPC countries must follow the prescription of the Bank and the Fund! These policies, discussed and now understood by all African countries, do no more than entrench poverty rather than alleviate it. We use the PRSP experience to further elaborate on the essence about conditionality and donor dominance that is already obvious

Poverty Reduction Strategy Papers (PRSPs):¹⁷

In September 1999, the IMF and World Bank jointly launched the Poverty Reduction Strategy Papers (PRSPs) as a new approach to lending to low income poor countries. They renamed the Enhanced Structural Adjustment Facility (ESAF) the Poverty Reduction and Growth Facility (PRGF). The PRSP effectively became the new approach for debt relief for HIPC's and for concessionary funding for low income and poor countries. This new approach was supposedly to be country-driven, with broad participation of civil society, elected institutions and relevant international financial institutions (I F I s) .

According to the guidelines produced by the International Financial Institutions (IFIs), the goals of poverty reduction had to be developed within the context of the International (Millennium) Development Goals (IDGs). The PRSP also acts as a framework for coordinating development assistance. All countries seeking assistance under the HIPC initiative are required to have a PRSP in place at the decision-point or an interim PRSP (I-PRSP). To access debt relief, countries must have adopted a PRSP and made some progress in implementing it (for at least 1 year) by the completion p o i n t .

Link With Structural Adjustment Programmes (SAPs)

The PRSP has been hailed as a new and innovative approach to concessionary lending to low income countries. In practice, PRSPs have elements that undermine what was supposed to be the novelty in them, country-driven and owned processes and outcomes. They take the macroeconomic framework based on the Poverty Reduction Growth Facility (PRGF) as given. While civil society participation was on the PRSP (social dimension), the PRGF, which contains the macroeconomic framework and the bulk of conditionalities, remained outside the domain of consultations. PRSPs make the assumption that the macroeconomic framework of the PRGF is consistent with poverty reduction. However, all the ten country studies undertaken by AFRODAD highlight the disjuncture between macroeconomic policies of SAPs and PRSP objectives.

PRSPs have sought to further liberalise markets, and especially the trade regime, promote market-based land and other policies, cost recovery in the provision of social services and privatisation of State Owned Enterprises (SOEs). In this context, the private sector is seen as the engine of growth. Market-driven policies avoid an analysis of power relations, which ultimately determine inequality and

poverty. The unequal access to resources, especially land and capital, largely explains poverty and deprivation. Thus, by focusing on markets, PRSPs have largely avoided remedies that call for a redistribution of resources. Without redistributing resources, it is impossible to address poverty in a sustainable manner.

In the ten AFRODAD studies, it emerges clearly that civil society was concerned about the shroud of secrecy around the PRGF and its macroeconomic framework. Case study after case study pointed at the incompatibility between the PRGF and PRSP. Quite interestingly, civil society used its past experiences with SAP policies to telling effect, and went on to recommend alternatives. These alternatives were largely ignored in the final PRSPs.

Notwithstanding these observations, PRSPs provide a departure from SAP policies in some respects. PRSPs have protected and focused on social development, ring-fencing expenditures in the social sector, a development that did not happen under SAPs. In some instances, alternative measures were accepted in the PRSP, such as the continued protection of cashew nuts in Mozambique, abolition of primary level school fees in Tanzania and health fees in Uganda. The linking of identified poverty reduction priority areas to the budget is an added value from PRSPs.

PRSPs adopted new concepts such as country-driven, civil society participation and national ownership of processes and outcomes. These concepts were not necessarily new to civil society, but rather to the IFIs and their programmes. In all the ten country studies, it is acknowledged that governments played a central role in the PRSP processes, to the extent of dominating them. Because the blueprints for preparing PRSPs were given by the IFIs, there was a tendency for governments to do what they felt was wanted by these organisations – a case of self-censorship. This was reinforced by the conditionality linking PRSPs to debt relief, which resulted in governments rushing the processes in order to quickly qualify for debt relief.

However, civil society groups, especially those already involved in some economic policy advocacy such as debt, mobilised for participation. With assistance from donors, spaces were opened up for participation. In the case of Malawi, the Malawi Economic Justice Network (MEJN) was born out of the desire to participate effectively through a co-ordinated effort. In Zambia, the Civil Society for Poverty Reduction (CSPR) was formed to spearhead civil society participation. Realising the limitations of a rushed process, civil society in Zambia created a parallel process through which it developed a comprehensive input, two-thirds of which found its way into the official PRSP. In countries such as Mauritania and Rwanda, the PRSP process started with a public

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awareness programme, which helped to develop a better understanding of the issues of engagement.

Linking PRSPs to debt relief compromised the ownership of PRSPs. To governments, the ultimate price of a PRSP was accessing debt relief, which became the driving agenda of the processes. Ownership was also sacrificed by making the PRGF sacred, implying the macroeconomic framework was taken as given.

Ownership was also questioned when it emerged that the issues identified were strikingly similar across countries, and opened the old debate on one-size fits-all policies. The typical areas prioritised are education, health, agriculture, water and sanitation, economic infrastructure and environment. The overarching or crosscutting issues were gender, HIV/AIDS and the environment. The IFIs have admitted that governments under pressure for resources tend to focus more on what they think will

Issues Emerging Out of PRSPs

The level of civil society participation in economic decision-making was, prior to the PRSP process, weak in most countries. It was also characterised by mutual suspicion (in Malawi, Mozambique and Zambia). Civil society groups were underdeveloped (Burkina Faso and Mauritania for example). In all cases, the studies acknowledge that PRSPs afforded hitherto marginalized civil society groups an opportunity to participate in economic decision-making. In the process, it created a new basis for partnerships between civil society, government and donors which did not exist in the past.

The PRSPs drew a lot from past policy programmes. In most cases, governments were already implementing SAPs and had developed poverty alleviation programmes by the start of the PRSPs. These programmes were largely informed by a neo-liberal framework that eschews state intervention and promotes the role of markets in the economy. In such cases, the poverty programmes, after some adjustments, were adopted as the I-PRSPs. The major difference was that PRSPs defined priority poverty areas linked to the national budget, unlike past policies whose link to the budget was tenuous.

Lessons Learnt

Both negative and positive lessons emerged from the PRSP processes. The positive lessons include the importance of public awareness and capacity building for effective participation. All reports point to shortcomings in the area of capacity building of civil society in particular. Indeed, capacities within government were found lacking, especially at the local authority level (e.g. in Mozambique). The concept of broad-based participation engenders partnerships which are critical for the development of countries. In some countries, innovative approaches such as parallel processes were established (e.g. in Zambia) to enrich the processes.

On the negative side, linking PRSPs to conditional debt relief was found to be the most problematic. More importantly, it emerged that the macroeconomic framework and the PRSP are not compatible, with the former exacerbating rather than abating poverty. It also emerged that the concept of debt relief is inadequate. *What is required is debt cancellation.* While growth is an important aspect of poverty reduction, it emerged that it is an insufficient condition; civil society groups recommended for broad-based growth. An alternative human-centred approach to development based on **economic rights** was suggested as a sustainable basis for poverty eradication. It emerged clearly that for participation to be full, all aspects should be opened up to the processes (including the macroeconomic framework). This dominance of the IFIs over the PRSP process is unacceptable.

Recommendations around PRSPs

The studies made many recommendations on ways forward. The following are worth noting:

a). African governments must open up spaces for democratic participation. It is clear that effective participation requires an enabling environment based on good governance. It is therefore critical that such an environment be established;

It is necessary to create a culture of participatory democracy, by amongst other things, establishing permanent institutions for stakeholder participation as is the case in South Africa in relation to budgetary processes. Governments should also play a role in assisting to build capacities, especially at decentralised levels. It is critical for African governments to go back to their alternative development strategies and in particular, the *Arusha Declaration on Popular Participation*. In this regard, it is necessary to build consistent policy frameworks for poverty

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