Development Aid to Sub-Saharan Africa
a Dutch perspective.

I thank you very much for the opportunity to discuss development aid with you.

Development aid is not a topic that preoccupies most of you for the larger part of your days. I noticed that development aid is a very rare topic in opinion programs in most countries and when it is, discussions are all too often limited to one-liners. The positions taken are generally that either aid is throwing money down the drain or that aid is the panacea for solving all problems in underdeveloped nations and that all we need to do is dedicate more money to the cause.

Today I would like to discuss development aid in a more measured way, to sketch a picture in grey scales instead of in black and white one-liners.

What I am about to present is largely based on my many years of reading about development in Sub-Saharan Africa and on my own African experience; the assessment of the instruments of aid is largely based on analyses made by the Aid Assessment Unit of the Dutch Ministry of Foreign Affairs. What I am about to present is solely my personal, private view, and is not necessarily the view of the Netherlands, the ministry or the minister.
I will start by presenting to you the obstacles I see to economic development, distribution of wealth and fighting poverty in Sub-Saharan Africa.
I will then give you some ballpark figures of the aid disbursed.
Then I will discuss some forms of development aid, and the major sectors the Netherlands aid has been spent on.

The western, industrialized, developed nations have a clear and rather homogeneous view on the direction for development in Sub-Saharan Africa: democracy, fight against poverty, more equal distribution of income and wealth, and we want governments of developing nations to respect the rules of governance and transparency, to plan ahead and to live within their means.
We tend to forget that democracy and the right for everybody to vote are relatively new concepts in our own countries. Voting rights for women are only 90 years old in the Netherlands, universal voting rights date from 1965 in the USA, they date from 1971 on federal level in Switzerland, and in 1990 the last resisting Swiss Canton finally emancipated women and considered them to be citizens.
We tend to forget that not all groups in our countries agree on the objectives of fighting poverty, on more equal distribution of income and wealth and on the role the government should play to reach these goals.
If all governments of western, industrialized, developed nations abided by the rules of governance and transparency, if they planned ahead and if they lived within their means, we would not face the recession and the financial problems we are having now.
I do not promote complacency for Sub-Saharan Africa. I do think that these objectives <u>are</u> conducive to improving the welfare and wellbeing of the Sub-Saharan population. But when asking African governments to abide by these objectives, we should remember how difficult it was and still is to abide by these objectives ourselves.

If turning the countries of Sub-Saharan Africa into industrialized, developed nations were an easy task, that task would have been completed by now. Ergo: it is not an easy task.

We have established - within the framework of the United Nations - medium term objectives as a stepping stone to further development: the MDG's.
The Millennium Development Goals are eight international development goals that all 193 United Nations member states and all large international organizations have agreed to in 2000 and these goals are to be achieved by the year 2015.
These goals are:

- 1. Eradicate extreme poverty and hunger. For example: Halve the proportion of people living on less than $1 a day; Halve the proportion of people who suffer from hunger.
- 2. Achieve universal primary education. For example: all children, girls and boys, can complete a full course of primary schooling.
- 3. Promote gender equality and empower women. For example: Eliminate gender disparity at all levels of education.
- 4. Reduce child mortality rates. For example: Reduce by two-thirds the under-five mortality rate.
- 5. Improve maternal health. For example: Reduce by three quarters the maternal mortality ratio.
- 6. Combat HIV/AIDS, malaria, and other diseases. For example: halt and begin to reverse the spread of HIV/AIDS.
- 7. Ensure environmental sustainability. For example: Integrate sustainable development into country policies; reduce significantly the loss of environmental resources and biodiversity; halve the proportion of the population without sustainable access to safe drinking water and basic sanitation
- 8. Develop a global partnership for development. For example: Develop further an open, predictable, and non-discriminatory trading and financial system; commit to good governance, development, and poverty reduction – both nationally and internationally.

These goals are not perfect and have been largely criticized academically. However, if we are able to achieve these goals by 2015, the world will be a much better place for the most vulnerable amongst us. Unfortunately, while the world has made progress, it is unlikely that any of these goals will be fully reached by 2015, and on some goals very little progress has been made. I encourage you to Google MDG's, to read about progress, and maybe to see what you can do to assist in better achieving these very basic goals.

The countries of Sub-Saharan Africa face challenges that make it very difficult to achieve these goals.
I will discuss the following challenges:

1. The post-colonial nation state.
2. Lack of access to our markets for goods from developing nations
3. I want to highlight one product in particular, sensitive for Sub-Saharan Africa: cotton
4. International pressures to open up their markets to international trade.
5. Global warming.

1. The post-colonial nation state.

Most of Sub- Saharan Africa has been colonized for an extensive period of time, either by western nations or by individuals. The main countries doing so were France and the UK. The most significant colonizing individuals were: Cecil Rhodes and King Leopold II of Belgium. Cecil Rhodes (who amongst other accomplishments founded De Beers) obtained – at cost -

a Royal Charter from Queen Victoria, and set on to colonize large parts of southern Africa (covering now Zimbabwe, Zambia and Malawi). King Leopold II was the founder and sole owner of the Congo Free State; now the Democratic Republic of Congo (DRC).
The countries thus formed were centrally governed by white administrations, and their borders cut through lands traditionally occupied by the many different African tribes.
This concept of centrally governed nation-states was totally alien for the Sub-Saharan African population.
To keep this part of the presentation short, I simplify. Traditionally Africa was divided in a large number of relatively small territories; the ruler was powerful and enjoyed privileges and relative wealth in which his extensive family shared; the ruler knew his subjects; decisions were traditionally made by the ruler after consulting with the population or the elders; if a ruler was wise and non-controversial, a member of his family was to be the next leader upon the demise of the ruler; if the ruler made bad decisions no subject would protest and the position of the ruler would not be challenged during his life; if a ruler made a lot of bad decisions the population or the elders would chose a king from a different family. It was therefore also in the interest of the extended family of the ruler to ensure that the ruler made wise decisions. We call this a countervailing power since John Kenneth Galbraith.
This is not to say that all was peaceful in pre-colonial Africa and that domination by one tribe or kingdom over others did not occur.
When the colonial powers left the countries thus formed, the power vacuum was filled by well-placed nationals. The new leaders of the nation states did not have the traditional regular contact with their subjects or their group of elders; the leaders did have an extensive family that shared in the wealth the new leaders had access to. To go from the acquired central power to a democratic nation that also cares for its most vulnerable is a very long and difficult road. Typical examples of new leaders of nation states are Kenneth Kaunda of Zambia and Julius Nyerere of Tanganyika and subsequently Tanzania. I encourage you to Google them.

A sad example of a new leader of nation state is Robert Mugabe, president of Zimbabwe (*previously Rhodesia),* who managed to eliminate all his contenders for power, who has ruled the country since its independence in 1980, who inherited the pearl of Africa (as Mwalimu Nyerere called it), who managed to run the economy into the ground, ruined the national currency, and still runs the country as if it was his personal fief, corrupting one election after the other and sharing wealth only with his inner circle.
Fortunately there are shining exceptions to the process I just described. In my opinion, the shiniest example is Zimbabwe’s western neighbor, Botswana. The present borders of nowadays Botswana date from about 1885 when the then most powerful king of that territory, Khama the Good, turned it into a protectorate of the UK.
Botswana became independent in 1964. The leader of the independence movement and most powerful of the eight kings of the territory, Seretse Khama became its first president. His behavior was exemplary, he made Botswana into a democracy, he had no tolerance for corruption etc etc.. He died after having been reelected twice and was succeeded by his vice-president Masire, who continued the good leadership of Seretse Khama. After having being reelected 3 times, Masire passed on power to Mogae, until then governor of the central bank, a subject from a different kingdom! Masire is now a member of the Global Leadership Foundation. Mogae continued to rule in the spirit of Seretse Khama, was reelected twice and passed on power to the son of Seretse Khame, Ian Khama.
Mogae is the winner of the 2008 Ibrahim Prize for Achievement in African Leadership.
Botswana remains a perfect and transparent democracy, free of corruption, living well from the diamond mines that were discovered after its independence, seeking diversification in tourism and in becoming a financial center.

2. Lack of access to our markets for goods from developing nations.

For agriculture to become a currency earner, the developing world needs access to the market of the developed world. With the fast pace of urbanization in Sub-Saharan Africa, the need for employment in industry and services, becomes ever more pressing.
Great hopes were vested in the Doha Development Round, the current but clinically dead trade negotiation round of the World Trade Organization that started in 2001. The objective of the Doha round was to lower trade barriers. The biggest stumbling block for the negotiations to succeed is the agricultural subsidies disbursed by the European Union and the US.
As long as the developed world keeps its borders closed for agricultural and industrial products of the developing world, or puts the developing world in a difficult position through subsidies of its own production and import duties on products from the developing world, the biggest chance for development is blocked: trade not aid.

3. Cotton.

The world cotton production is about 120 million bales (of 480 lb each) per year.
The largest producer of cotton is China, about 27% of the world production. China consumes 40% of the world total. China used to produce much less and import much more cotton. Subsidies of about 25% of the world market price were a stimulus to produce more domestically. As of now Chinese producers receive 20¢ per pound in subsidies.
The US is the world third largest producer of cotton, with 13% of world production. The US consumes only 24% of its production, does not import cotton and exports 75% of its production (mainly to China). The US is by far the largest exporter, exports 12 million bales of cotton, and has a share in world exports of cotton of over 30%.
The large production of cotton in the US is caused by a considerable subsidy: the US government paid out an average of 3 billion USD a year in cotton subsidies over the last ten years. This averages to about 20¢ per pound or 10% of the world market price. I was surprised to learn that most of the subsidies went to large scale farmers and not to the marginal small farms.
In the European Union only two countries produce cotton: Greece and Spain.
Greece produces 1.4 million bales (1% of world production) and exports 80% of it.
Spain produces only 235,000 bales (.2% of world production) and consumes the vast majority of it.
The EU subsidizes - through the Common Agricultural Policy – the Spanish and Greece cotton production to the extent of 80¢ per pound.

One should not but one can argue that the Chinese subsidy protects the vital national interest of supply security to the garment industry. Subsidies in the US and the EU only protect the interests of a limited number of farmers (< 2000 in the US).

Most countries in Sub-Saharan Africa produce cotton. All of Sub-Saharan Africa produces 4.4 million bales or 3.5% of world production. The US export 3 times more cotton than all of Sub-Saharan Africa.
While cotton is a minor contributor to the economic activities in industrialized countries - .1% of all merchandise trade -, for African countries cotton is an essential contributor to foreign exchange earnings. For instance, for Benin 86%, Mali 76%, Burkina Faso 68%. Cotton is a major source of employment: twenty million people depend on cotton cultivation for their livelihood; almost all are working on their small scale family owned farms.

If subsidies were curtailed in industrialized countries, cotton production would decline and world prices would increase. Africa would increase its world market share and would profit from higher export prices. Income would rise and poverty would be reduced.
Eliminating subsidies on cotton would be a very significant engine of growth and reducer of poverty.
A lot more than a level playing field is needed, but without it hopes for a better life for millions of Africans are curtailed and our subsidies favor only a few thousand farmers in the industrialized world.

The welfare and wellbeing of the cotton growers in Africa can be further improved by the widening of the scope of the Fair Trade Cotton Market, set up by Max Havelaar. The cotton producers must deliver better graded cotton and provide better working conditions amongst other things. Max Havelaar reduces the transaction cost and pays better prices. Fair Trade cotton is sold under several trademarks. It is up to the cotton buyers in the industrialized world and brand owners of cotton products to turn this into a large success by insisting that Fair Trade cotton be used to manufacture their goods.

4. International pressures to open up their markets to international trade.

The international financial institutions tend to provide blue print policies to countries for the improvement of the state of their economies. A constant element is the opening of their borders to international competition.
One of the most influential documents in the early 1980s was the World Bank's controversial and critical Berg report, which attributed the lagging economic development of most Sub-Saharan Africa countries to excessive state control, over-protection of the productive sector, inefficient central governments and widespread corruption. The report called for radical measures to promote economic liberalization, thereby justifying the structural adjustment programs imposed by the World Bank and the IMF. Notwithstanding criticism the World Bank and the IMF persisted in the 1990 to impose fiscal discipline, privatization, deregulation, foreign investment and trade, infrastructure and social services (from: "Backgrounds and Facts on the Netherlands' Africa Policy").
Allow me to quote Aruni Mukherjee: "Thus, we can arguably conclude that free trade is only beneficial for developing countries either when it is practised uniformly throughout the global market or if it is conducted selectively. Forced liberalisation of the capital markets of East Asia led to the 1997-8 crisis. Similar stories exist elsewhere like Argentina, Ethiopia, Kenya, etc. Pressurizing countries to formulate policies to liberalise their economy almost forcibly and resort to free trade has often yielded disastrous results. Adamant insistence on balancing the budget and withdrawing government arm from the economy as a condition of granting loans has become the norm with the IMF and this kind of forced free trade has proved damaging to the country's development quite often. IMF insistence on cutting government subsidies has led to a 2% fall in income levels in the world's poorest region, Sub-Saharan Africa."

In my view the most successful planner of economic development is the late Korean President Park Chung-hee. President Park brought South Korea from the third poorest nation in the world on its way to the 12th largest economy in the world. He decided Korea would produce for the world market and would use the domestic market to let the infant industries grow.
Transplanting this concept, one could imagine the creation of trade zones of developing nations, in which locally made goods are traded freely or freer, and where goods from the

industrialized world will face import duties, which duties will be transparently used to improve the social and physical infrastructure of the region. Examples of these economic zones are: the revived East African Community (EAC), the Economic Community of West African States (ECOWAS), Southern African Development Community (SADC).

In my view the industrialized world should provide assistance and encouragement to these communities and allow these communities to promote their industrial capacity.

5. Global warming.

While Africa produces less than 4% of the world's greenhouse gases, it is the continent most sensitive to the effects of global warming. As the poorest continent it has also the least means to fight and mitigate the effects of global warming. The pace of deforestation in almost all Sub-Saharan Africa countries is 4 times faster than in other ITTO-countries. Clearing of forest takes place for agriculture, production of tropical hardwood and roundwood for the industrialized market (= 10% of world production of ITTO countries) and mining. The accelerated deforestation is further aggravating the outlook on failed harvests and increased desertification.
The ongoing disaster in Somalia is caused by a 4-year long draught and the Somali rebels who refused foreign aid access to the needy: introduction of draught resistant plants, distribution of humanitarian aid on the spot, organization of and assistance to those who are forced to leave their homestead and land.

In my view the development of Sub-Saharan Africa will get the greatest boost by attending to the challenges I just mentioned.
Not attending to these challenges forms the greatest threat to the development of Sub-Saharan Africa and to the effectiveness of aid to Sub-Saharan Africa.

Providing aid is a task that requires the utmost care:

- Aid risks to reach groups or individuals for whom the aid was not intended;
- Interventions into the life or production methods of the most vulnerable may have adverse effects and can affect negatively the welfare and wellbeing of the most vulnerable groups.

I will now give you some ball park figures of Development Aid:

In 2010 all developed nations provided in total 125 billion USD in development aid; the poorest continent, Africa, receives only 40 million (or just 1/3 of it). To put that in perspective: 1 billion people live on less than 1 USD/day and 3.5 billion people live on less than 2 USD/day. So all of the developed world sets aside about 7c/day for the poorest people, and a considerable share of it does not reach the target group. Transaction cost being one of the reasons. All development aid represents .31% of GDP of the developed nations. That is less than half of the agreed .70% GDP.
Only 5 countries respect the international norm of .70% GDP: Sweden, Norway, Denmark, Luxemburg, and the Netherlands.
Through the sheer size of its GDP, the USA provides the largest sum of aid, even though

The United States' aid represents .21% of GDP: well below the world wide average. According to Vaughn's US Foreign Aid Summary, one-third of ALL US AID goes to Israel and Egypt. These 2 countries receive one-third of the total aid, the majority of which pays for armaments. Yet, neither is a "developing" country. 1/3 of the US ODA goes to Sub-Saharan Africa.

The Netherlands disburses USD 7 billion/year in ODA; USD 3 billion through international organizations such as UNDP, UNICEF, WFP, and USD 4 billion through direct aid. Half of the Netherlands' aid goes to Sub-Saharan Africa.

It is my firm conviction that aid is improving the welfare and wellbeing of the most vulnerable in Sub-Saharan Africa. When discussing the instruments that are being used to disburse aid, I will focus on the dangers. I do in order to alert you to the pitfalls in development cooperation.

I will discuss the following instruments:

1. Debt Cancellation

Between 1998 and 2006 20% of the Dutch bilateral aid to Sub-Saharan African was spent on Debt Cancellation.
Accumulated unserviced loans are a stone around the neck of the poorest countries considerably reducing the discretionary spending power of the governments of developing countries. The loans consist of earlier development cooperation loans, debt to World Bank and IMF and commercial loans. 90% of debt cancellation concerned commercial loans. The main beneficiaries of debt cancellation were DRC and Nigeria.

I draw your attention to three strange aspects of the debt cancellation:
i. Commercial loans are generally covered by export insurance provided by institutions such as the US ExIm Bank where the political risk is reinsured by the government. The premiums are paid by the buyer. The seller has an own risk of 5 to 10% of the value of the contract. When the ministers of development cooperation cancelled commercial debt, they wrote checks to the ExIm Banks or to the minister of Finance for 100% of the unpaid debt. The premiums paid by the developing nations were therefore 100% profit. The sellers still paid their 5 to 10% share in the risk, increasing further the profit made by the ExIm Banks and ministries of Finance.
ii. The 2002 Monterrey Consensus specified that debt cancellation would be financed by new money beyond the .70% of GDP. This turned out to be a dead letter, as almost all developed nations continue to provide well less than .70% of GDP in aid, and the countries that do spend more than .70% paid the debt cancellation from their current accounts. Debt relief of commercial loans took place at the expense of poverty reduction in poor countries.
iii. Especially the inclusion of Nigeria in the debt relief is questionable. Nigeria does not belong to poorest nations; Nigeria has huge oil revenues from which the inhabitants of the Niger Delta hardly benefit (allow me the remind you of the struggle of the Ogoni People and killing of Ken Saro-Wiwa); the debt relief operation was followed immediately by large new loans from China, guaranteed by oil deliveries.

It is my conviction that debt relief is a major instrument in development cooperation, but is should be an instrument of the past. Donors should refrain from providing aid through loans and provide only gifts. The risk of commercial loans should be borne by the ExIm Banks of the world who collect premium from the developing countries and by the ministries of finance who reinsure the political risks.

2. General budget support.

About 15% of the Dutch bilateral aid to Sub-Saharan African was spent on general budget support.

When a developing country shows sufficient transparency in their income and expenditures, donor countries can decide to disburse aid in a lump sum put in the coffers of the developing country.
Discussion of utilization of available funds and prioritization of certain sectors will take place in general terms and at the same time with all donors.
This way of disbursing aid vastly reduces the administrative burden of frequent bilateral discussions.
When the receiving country can decide what sectors are to be prioritized and how much money will be spent in these sectors and on what activities, this greatly improves on the sense of ownership of the governments. This, however, is an idealistic description of freedom of decision by receiving governments. The policy discussions with the donors is rather intense; the influence of the IFI's and the donors on the selection of priorities as major. The receiving government is acutely aware that if the policy discussions do not satisfy the donors, the change of receiving aid is aversely affected
In order to perform the planning tasks themselves they will receive capacity building assistance from the developed nations, improving on the efficiency of government activities.

In general terms one sees a positive impact on government performance, policy-making and cooperation between donors and receiving governments, but is unclear of the effect on poverty reduction and economic growth is greater than other forms of aid where donor have more control over the selection of priorities and the spending of money.

A big concern is corruption. Bigger budgets can attract bigger efforts by those in power to appropriate a part of the bigger pie.

3. Sectoral support.

About 50% of the Dutch bilateral aid to Sub-Saharan African was spent on sectoral support. In this form of aid the receiving country has much less influence on the prioritization of the social sectors, as it is the donor country – and often the their embassy - that decides how much money will be spent on what sector and very often on what activities.

The main sectors to which sectoral support was given are:

- Education
  10% of bilateral expenditures, mainly primary education
- Healthcare
  10% of bilateral expenditures, primary reproductive health, children's health, HIV/AIDS
- Agriculture and rural development. Regretfully, with the increased attention to the social sectors, the attention for agriculture and rural development dwindled. In my view it is of the utmost importance that sufficient attention and money is spent on income generation in the rural areas. First of all because it is an essential way to

reduce the very fast urbanization in developing countries. Secondly, because services provided by socials sectors should ultimately be paid for by the recipients of these services. If income generation does not receive sufficient attention the hope of self-sustained social services will be idle.
- Environment and water.

In order to reduce the heavy burden of policy discussion between the receiving country and the donors in each of the sectors, great efforts have been put into donor coordination, in which the priorities and sector approaches of the various donors are aligned. This alignment can take very advanced forms, in which all but one donor become silent partners. The active donor discussed policy in that sector with the receiving government, agrees on the accountability with the receiving country, reports to the other donors on progress and provides the audit report.

4. Project aid.

If donors not only decide what activities should take place in certain sectors, but also define and execute these activities under their own control, donors provide project aid.
This form of aid that is still very popular with many donors, generates the largest administrative burden on receiving governments, is the hardest to coordinate amongst donors, is the least sustainable.
However, there are circumstances under which a more distant form of aid is impossible. I think project aid is the most relevant form of aid in fragile states.

5. Humanitarian Aid

15% of the Dutch bilateral aid to Sub-Saharan African was spent on humanitarian aid.

In general terms humanitarian aid is disbursed on the principle of the humanitarian imperative: if people starve, they must be fed; if people die of a disease, they must receive medical aid, regardless of the affinity we have with those who govern these people.
The idea of humanitarian aid is that this assistance is given for a limited period of time, is generally given to people who have been displaced or who were victims of a natural disaster (in Sub-Saharan Africa generally draughts).

The application of the humanitarian imperative limits the freedom of policy. While it is important to limit the time of aid distribution to avoid donor dependency and to keep alive the desire of the population to take care of their own food, all too often the donors are compelled to provide humanitarian aid for many years.

Providing humanitarian aid to displaced persons does not assist these people to return to their homestead and take up the hard task to provide their own livelihood.

To conclude:

I do hope that I have conveyed the message that development aid is important, that it does work, but that there are many pitfalls in providing aid.
I do hope that I have conveyed the message that providing trade opportunities and assistance in conquering the challenges Sub-Saharan Africa faces are at least as important

as providing aid.
I do hope that I have provided food for thought such that we can have a substantial discussion on the topic of development aid.

I thank you for your time and interest.