



Aid Effectiveness versus Development Effectiveness: Making European Aid Work for Africa

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GR:REEN Roundtable Report



Introduction

Since the launch of the Paris Declaration on Aid Effectiveness in 2005, debate around the manner in which aid does, and should, contribute to social and economic development in Africa has intensified. Endorsed by more than 100 signatories – including donor and recipient country governments, regional development banks and multilateral agencies – the Paris Declaration constituted a broad consensus within the international community that it was necessary to move away from an aid regime grounded in the priorities of donor countries and towards an approach to international aid that was led by, and reflective of, the interest of developing countries.

Proponents of a new approach to the way that aid is administered in Africa have tended to criticise the effectiveness of past and present aid mechanisms in reaching the continent's poor – those most in need of assistance – even amid a tendency for traditional foreign aid mechanisms to target poverty. Moreover, concerns related to evidence of the maladministration of donor funds, both in donor countries and in recipient states, murmurs that donor countries are looking to downscale their aid disbursements, and accusations that foreign aid is often used purely as an instrument to further the economic and foreign policy agendas of donor countries have surfaced with increasing regularity.

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The coming together of the international community at the 4th High Level Forum on Aid Effectiveness – organised and hosted by the Organisation for Economic Co-operation and Development in Busan, South Korea, at the end of November 2011 – has once again brought to the fore discussions on how to ensure that development aid to Africa is more effective. Against this backdrop the University of Cape Town's Graduate School of Business, under the auspices of the GR: EEN FP7 Project, hosted on Friday 9 December 2011 a roundtable discussion to explore the notion of aid effectiveness vis-à-vis development effectiveness within the context of European aid to Africa. The roundtable panel consisted of: Professor Ben Turok, a leading member of the South African Parliament with extensive experience of dealing in aid issues; Mr Francis N'gambi, Founder and Chairperson of the Malawi Economic Justice Network; Ms Catherine Grant, Programme Head of the Economic Diplomacy Programme at the South African Institute of International Affairs; Mr Antoine Michon, French Consul General in South Africa; and Dr Mzukisi Qobo, Senior Lecturer in the Department of Political Science at the University of Pretoria.

A Shift in Direction: From Aid Effectiveness to Development Effectiveness

In contextualising the discussion, it was noted that Africa's economic profile has improved substantially in recent years, diminishing the importance of foreign aid. The continent's total tax revenue has expanded to reach US\$ 400 billion, approximately 10 times greater than the equivalent figure disbursed in development aid to the continent. Today, aid only represents a small portion of the continent's combined gross domestic product (GDP).

Africa's profile in the international arena has improved in tandem with the continent's burgeoning economic performance. Buoyed by its growing stature within the international arena, Africa has pushed for a greater say in the manner in which international aid is provided and administered. This has been reflected in a new international opinion on Africa, which has provided a favourable launching pad from which the continent's leaders have insisted that Africa, and not donor countries, should take the lead in decision-making around how, where and when development aid should be applied on the continent.

Despite the consensus reached through the Paris Declaration, question marks have been raised around its implementation and the commitment of its signatories from the donor community to their existing pledges and the Declaration's broad principles of ownership; alignment; harmonisation; managing for results; and mutual accountability. In light of this, leaders across the continent have demonstrated a strong commitment to owning Africa's developmental agenda within the context of foreign aid – demonstrating a strong, coordinated voice in the aid reform process. This has been underscored by the launch of the African Platform for Development Effectiveness, which has called for the replacement of aid effectiveness with development effectiveness.

Since the Paris Declaration – which called for a new approach to aid grounded in greater harmonisation, less proliferation of aid initiatives and the eradication of the manipulation of aid for political reasons – Africa has been the home of fertile discussions on reforming aid and the global aid architecture amid unhappiness that donors continue to determine the aid agenda. This has been manifested in a “new African position” on development aid, which has sought to change the ideology of aid effectiveness to development effectiveness. At present, this position is reflective of a number of emergent issues. For instance, it was argued that the opinion held by the majority within Africa is that there is an unfinished aid agenda. At the same time, the African position is grounded in a call for the creation of a new international development cooperation architecture within the context of the growing prominence of South-South trade and development cooperation. Even so, Africa’s leaders recognise the need to develop an ‘exit strategy’ in order to overcome the continent’s chronic dependence on aid.

It was explained that the new African position is formalised through four principles enshrined in the African Platform for Development Effectiveness. These principles state that Africa must maintain ownership of its own development programme; African leadership must be primary; there must be accountability by governments and donors; and donors must make use of African countries’ own systems when administering aid and, where necessary, must include aid to assist African states to develop their own capacity and expertise. More specifically, the African position is grounded in the belief that no country in the world has developed its economy through poverty relief and, instead, calls for aid to serve as a catalyst for development by playing a proactive role in assisting economic processes such as infrastructure development and capital investment. In the view of Africa’s leaders, this necessitates a serious examination of the way aid is currently implemented and, ultimately, requires fundamental changes to the aid architecture.

Encouragingly, it was noted that the world has accepted the new African position. This has set the scene for a new inclusive global partnership for development cooperation. In some senses, this is already in place in the formative sense in the existing patterns of South-South cooperation, which are developmental in nature and linked to economic development as opposed to the focus of aid targeting poverty that has characterised traditional dynamics of North-South cooperation.

The experience of foreign aid in Malawi was cited as an example of the shortcomings of the traditional patterns of North-South cooperation. Today, per capita GDP in Malawi is amongst the lowest in Africa, and the country’s dependence on aid is palpable – with aid accounting for an estimated 40 percent of the national budget. Despite this, the Malawian government has complained that it has not received the aid that it has been promised, meaning that it has been forced to borrow in commercial financial markets to cover recurrent costs; resulting in an unsustainable level of debt which currently stands at US\$ 1.2 billion. Much of this stems from the withholding of foreign

aid to Malawi through the Common Approach Budget Support (CABS). With the donors in the CABS group¹ reporting to the International Monetary Fund (IMF), any concerns expressed by the IMF that the Malawian government is not adhering to stipulated macroeconomic conditions effectively leads to a withdrawal of donor funds. The resultant loss of budgetary support has had harsh repercussions for Malawi's already dire economic plight.

Within this context, it was argued that Malawi represents a clear example of an African country that urgently needs to find an exit strategy out of aid dependence. With its wealth of natural resources, it was suggested that the implementation of an effective strategy and legal framework to manage the country's natural resources and add value to them would represent a possible way out of this cycle of chronic dependence on foreign aid.

In spite of widespread recognition of the shortcomings of traditional aid policies, and strong support within the international community for Africa's new position insisting that aid effectiveness should be replaced by development effectiveness, a number of contradictions between the position taken by Africa and the developments at Busan were highlighted. For instance, it was noted that while there has been boisterous talk of an exit strategy from aid dependence, the Busan Declaration retains a strong emphasis on holding developed countries accountable for their aid commitments. At the same time, amid burgeoning South-South cooperation, aid commitments made by the Southern partners (such as China, Brazil and India) remain voluntary and there is a sense that there is a lack of willingness on the part of these partners to enter into accountability agreements. The example of Malawi is a case in point, where there is evidence of a lack of participation by the Southern partners in the coordination of aid mechanisms in the country and a clear absence of formal commitments.

Conclusion

The Paris Declaration represented a milestone in the development community, reiterating the commitment of donor countries and recipients to the Millennium Development Goals, facilitating pledges for increased aid disbursement from donors, and cementing the principles of ownership, harmonisation and a coordinated, results-oriented approach to development aid. Six years on, in the wake of the 4th High Level Forum on Aid Effectiveness in Busan, Africa's coordinated call for a shift away from aid effectiveness towards development effectiveness has received widespread support from the international community. The general consensus among African countries is that foreign aid should be targeted towards infrastructure development, capital investment and capacity building if it is to have the desired effect in facilitating social and economic development on the continent. Moreover, African states are pushing to take the lead in decision-making related to the manner in which development aid is applied on the continent. This has created the foundation for much-needed reform of the international aid architecture, particularly in

¹ The group of donors in the CABS group that provide general budget support to Malawi includes the United Kingdom, Norway, the African Development Bank and the European Commission.

terms of the mechanisms associated with how, where and when foreign aid is implemented.

Despite these encouraging developments, the debate that unfolded during the course of the roundtable discussion suggests that there remains room for improvement. In particular, there is still a need to devise meaningful exit strategies to reverse the cycle of aid dependence that plagues many African countries. At the same time, there is a need for a greater level of ownership and planning on the part of African foreign aid recipients. For their part, amid the new reality of the growing influence of South-South cooperation, there is a need for the Southern partners to demonstrate a greater level of commitment to the accountability agreements and principles that underpin the new African position on development effectiveness.