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Foreign aid in Africa: an analysis of its costs and benefits.

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STLNOS001

A minor dissertation submitted in partial fulfilment of the requirements for the award
of the degree of Master of Social Science in International Relations

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Date: _____

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To my almighty Father and creator, to whom I owe all that I am, thank you for your provision and the endless blessings that you have showered on me, all the days of my life, as you promised.

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DEDICATION

This dissertation is dedicated to my parents, MaTogu S'bongile Setlaba, and Ntate Mokoena Simollang Setlaba. This degree marks a significant milestone in my journey of living out one of the life lessons that you have taught me, never to set boundaries on my capabilities or the goals and dreams that I have for my life. My dream is for this dissertation to bring some insight into the challenges that the voiceless, disadvantaged, poor and destitute face, and, in so doing, seek to find a way to better their lives - a lifelong commitment that you both have lived by.

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ABSTRACT

It is a common assumption that foreign aid has to benefit recipient countries, by, among other things, stimulating growth, reducing poverty and improving governance. While Africa has received massive inflows of aid since the 1960s, the Continent is still saddled with a number of challenges. These include, poor economic performance, growing poverty, a high level of corruption, poor governance and a general deterioration in the quality of life of its people. The contradiction between the assumption and reality has led, in recent years, to a raging debate over the effectiveness of foreign aid in mitigating Africa's underdevelopment. This dissertation examines some of the dominant arguments in this debate, and shows that while foreign aid has been beneficial to Africa in some respects, its negative impact on the Continent's economic growth and general development should not be discounted. For this reason, Africa should seriously reconsider its heavy dependence on aid.

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ACRONYMS

ADB	African Development Bank
AIDS	Acquired Immuno-Deficiency Syndrome
AU	African Union
DAC	Development Assistance Committee
EC	European Commission
ECA	Economic Commission of Africa
FAO	Food and Agriculture Organisation
FDI	Foreign direct investment
GDP	Gross domestic product
GNI	Gross national income
GNP	Gross national product
HDI	Human Development Index
HIV	Human Immunodeficiency Virus
IDP	Internally displaced person
IFI	International financial institution
IMF	International Monetary Fund
MDG	Millennium Development Goal
NEPAD	New Economic Partnership for Africa's Development
ODA	Official development assistance
ODF	Official development finance
OECD	Organisation of Economic Co-operation and Development
PPP	Purchasing power parity
SADC RVAC	Southern African Development Community Regional Vulnerability Assessment Committee
SADC	Southern African Development Community
SAP	Structural adjustment programme
UN	United Nations
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNDP	United Nations Development Programme
WB	World Bank
WFP	World Food Programme
WHO	World Health Organization

WTO

World Trade Organization

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CHAPTER 1

INTRODUCTION

1.1 Title

Foreign aid in Africa: an analysis of costs and benefits.

1.2 Background to the research

Prospects for economic growth in much of Africa looked promising following the demise of colonialism in the 1960s. Economic growth measured by estimated per capita Gross Domestic Product (GDP) indicated that in the first half of the century the Continent's¹ growth was significant; it overtook that of Asia by 1950.² By the 1960s, a growth rate of 7% was recorded, which surpassed that of the countries of the Pacific region.³ The immediate post-independence period was marked by "political self-determination in Africa [,] and economic growth [,] proceeding hand-in-hand".⁴

However, the tide was reversed when, between 1965 and 1990, several countries endured negative per capita growth; in comparison, East Asia's per capita growth reached 5%, and Latin America's 2%.⁵ By the 1980s, per income GDP had declined by 5% below the average of all low-income developing countries; and between 1990-1994 it declined by a further 6.2%.⁶ By 2003, the World Bank (WB) estimated that per capita GDP in East Asia was five times higher than that of Africa.⁷ In 2005, it was estimated that Sub-Saharan Africa, a region with 10% of the world's population, produces a dismal 1% of global GDP.⁸

¹ Unless otherwise stated, the Continent refers to the African Continent, comprised of 53 countries.

² Organisation for Economic Cooperation and Development (OECD) "Monitoring the world economy" (Paris: OECD Development Centre, 1995)
http://www.ggdc.net/maddison/Monitoring_the_world/1995_Monitoring_the_World/Chapter1.pdf
[accessed 16 December 2010].

³ W. Easterly, and R. Levine, "Africa's growth tragedy: policies and ethnic divisions," *Quarterly Journal of Economics* 112 (1997): 1203.

⁴ P. Collier, and J. Gunning, "Why has Africa grown slowly?" *Journal of Economic Perspective* 13, no. 3 (1999): 3-22.

⁵ Easterly and Levine, "Africa's growth tragedy," 1203.

⁶ P. Collier, and J. Gunning, "Explaining African economic performance," *Journal of Economic Literature* 37, (1999): 64.

⁷ Ndulu, *Challenges of African growth*, 4.

⁸ W. Easterly, "Can foreign aid save Africa?" Clemens Lecture Series. Minnesota: Saint John's University (25 August 2010) Lecture.

Foreign aid is dispensed to stimulate economic growth.⁹ Following the precedent found in the literature of foreign aid, this dissertation defines foreign aid or official development assistance (ODA) as does the Development Assistance Committee (DAC) of the Organisation of Economic Co-operation and Development (OECD): foreign aid is the transfer of concessional resources from one government to another, or from a government to an international aid agency or a nongovernmental organisation which, in turn, transfers those resources to poor countries.¹⁰ The qualifying criteria for foreign aid are three-fold: “(i) it has to be undertaken by official agencies; (ii) it has to have the promotion of economic development and welfare as its main objective; and (iii) it has to have a ‘grant element’ of 25 per cent or more”.¹¹

Approximately a quarter of global aid intended to meet the Millennium Development Goals (MDGs) was allocated to Africa.¹² In fact, Africa receives the largest share of foreign aid. Since the mid-1970s, foreign aid to Africa has been allocated to meet “development needs, oil price shocks, harvest failures, world economic recession and the African development crisis”.¹³ According to the Economic Commission of Africa (ECA), aid represents the largest single capital flow into Africa; it exceeds foreign direct investments (FDI), as well as remittances.¹⁴ Aid commitments have fluctuated over the years. Net ODA commitments increased from an average of US\$4.9 billion in the 1970s, to US\$12.45 billion in the 1980s; and increased to US\$25.2 billion in 1990.¹⁵ Between 1995-2004, total net aid dropped to US\$23.4 billion, compared to the US\$27.3 billion received between 1985-1974.¹⁶ Of the \$10 billion of real net ODA that was allocated to Africa in 1971, 80% was earmarked for sub-Saharan Africa, and 0.4% for North Africa. By 1990, when real aid disbursements reached their peak at US\$32.9 billion, US\$23

⁹ M. Hlavac, *Determinants of multilateral official development assistance: Evidence from a panel study of countries in sub-Saharan Africa* (New Jersey: Princeton University Press, 2008), 2.

¹⁰ C. Lancaster, *Aid to Africa: So much to do, so little done* (Chicago: University of Chicago Press, 1999), 36.

¹¹ R. Cassen, *Does aid work?* (Oxford: Oxford University Press, 1994), 2.

¹² H. Abbas, *Aid to Africa: Redeemer or coloniser?* (Cape Town: Pambazuka Press, 2009), vii; B. Abegaz “Multilateral development aid for Africa,” *Economic Systems* 29 (2005): 434.

¹³ Organisation for Economic Cooperation and Development (OECD) “Twenty-five years of Development Cooperation: A Review, 1985 Report”, (Paris: OECD Development Centre, 1985).

¹⁴ Economic Commission of Africa (ECA) *Economic Report on Africa 2003: Accelerating the pace of development* (Addis Ababa: Economic Commission of Africa, 2004), 51.

¹⁵ E. Loots, “Aid and development in Africa: The debate, the challenges and the way forward,” *South African Journal of Economics* 74, no. 3 (2006): 365.

¹⁶ Loxley and Sackey, *Aid effectiveness in Africa*, 166.

billion was allocated for sub-Saharan Africa, compared to US\$9 billion for North Africa.¹⁷

Countries in sub-Saharan Africa have received more than US\$30 billion in foreign aid over the past four decades.¹⁸ Yet, despite the aid, the region and the Continent continue to experience declines in real per capita income for a significant portion of the population; public and private capital accumulation have had a modest impact on economic growth; returns on investments show little improvement; and, there have been frequent eruptions of political instability.¹⁹ The region has “fallen behind the rest of the developing world by virtually any measure”, including receding to the margins of global affairs in trade, production and FDI.²⁰ The Continent has been, and continues to be, home to the largest number of collapsed, failed or failing states in the world, even though it possesses an abundance of material and human resources.²¹

Historically, Africa’s economic growth has been regarded as aid dependent.²² This has, of course, led to vigorous arguments as traditionally, aid is viewed as a temporary intervention which is meant in the long-term, to facilitate self-reliance for the recipient.²³ The persistence of aid, combined with its failure to achieve growth and development, are the reasons why foreign aid has occupied a central position in the deliberations of scholars, policy makers and governments concerning the environment necessary to support Africa’s economic growth. Contention surrounds a number of factors, *inter alia*, the effect (if any) that foreign aid has had on economic growth, governance, and development. This dissertation recognises, and argues, that foreign aid has yielded both positive and negative impacts on growth, development and governance throughout Africa.

¹⁷ Loxley and Sackey, *Aid effectiveness in Africa*, 165.

¹⁸ T. Moss, “Current issues in development assistance to Sub-Saharan Africa”, *Sub-Saharan Africa: Regional Overview*, (2005): 4.

¹⁹ Easterly and Levine, “Africa’s growth tragedy,” 1203; S. Devarajen, W. Easterly, and H. Pack, “Low investment is not the constraint on African Development,” *Economic Development Cultural Change* 51 (2004): 547-571; Collier and Gunning, “Why has Africa grown,” 3-22.

²⁰ J. Carlsson, G. Somelekae and N. van de Walle, *Foreign aid in Africa: Learning from country experiences* (Sweden: Motala Grafiskam 1997), 7; Calderisi, *The trouble with Africa*, 2.

²¹ W. Zartman, “The African State,” in *Towards Africa’s renewal*, ed. J. Senghor, and N. Poku, 17. (England: Ashgate Publishing Limited, 2007).

²² Loxley and Sackey, *Aid effectiveness in Africa*, 163.

²³ Carlsson, Somelekae, and van de Walle, *Foreign aid in Africa*, 1-15.

1.3 Statement of the problem

Foreign aid disbursements are one of a number of responses, that donors have tried, in order to assist Africa to meet a myriad of challenges. These challenges are said to include negative economic growth, weak governments, poverty, unemployment, poor standards of health and deplorable education levels.²⁴ Foreign aid to Africa has a long history, dating back to the early 1960s, the years that marked the birth of independence for many African countries.²⁵ Over the past half-century, Africa has received approximately US\$1 trillion of foreign aid, yet poverty has increased, and economic growth has stagnated.²⁶ The current average per capita income for the Continent is lower than at the end of the 1960s.²⁷

This dissertation highlights the fact that despite there being a long history of aid, and aid being justified as a strategy for growth and poverty reduction, aid seems to have failed to show progress on both accounts for much of Africa.²⁸

This raises a number of questions: Is foreign aid responsible for Africa's continued poor economic performance? Has Africa become dependent on foreign aid? Has foreign aid promoted growth and in so doing averted further underdevelopment? Is foreign aid to blame for the breakdown of accountability between governments and their constituencies, or, has foreign aid only served to advance the interests of donor nations?

1.4 Research question

What have been the costs and benefits of foreign aid in Africa?

1.5 Methodology

This research uses a qualitative method, a literature study. A thorough survey of the literature was conducted, in order to fully grasp the issues pertinent to the foreign aid debate.

²⁴ J. Manor, *Aid that works: Successful development in fragile states* (Washington D.C: The International Bank for Reconstruction and Development/The World Bank, 2007), xi.

²⁵ J. Glennie, *The trouble with aid: Why less could mean more for Africa* (New York: Palgrave Macmillan, 2008), 10.

²⁶ P. Pomerantz, *Aid effectiveness in Africa: Developing trust between donors and governments* (New York: Lexington Books, 2004), 1.

²⁷ Pomerantz, *Aid effectiveness in Africa*, 1.

²⁸ S. Amin, "Aid for development," in *Aid to Africa: Redeemer or Coloniser*, ed. H. Abbas, and Y. Niyiragira, 53 (Cape Town: Pambazuka Press, 2009); Cassen, *Does aid work?* 2.

The researcher consulted various types of publications. These included academic journals, books and reports, which dealt with foreign aid. In addition, the researcher referred to policy documents, surveys and reports prepared by international and regional organisations, for example, the United Nations (UN), United Nations Development Programme (UNDP), the African Union (AU) and the Southern African Development Community (SADC); and reports and publications from key donor agencies, such as the DAC.

1.6 Research objective

The primary objective of this dissertation is to analyse the costs and benefits of foreign aid in Africa, in order to gain greater insight into the Continent's economic growth dilemma. It is hoped that greater insight will lead to effective strategies to address the challenges that have prevented the Continent from advancing.

1.7 Chapter layout

The dissertation is divided into the following six chapters:

Chapter 1: Introduction

This chapter presents the background to the problem that this dissertation seeks to address. The research question, methodology and research objectives are also indicated.

Chapter 2: Background to Africa's foreign aid needs: an analysis

This chapter highlights the underlying factors which predispose Africa to rely on foreign aid.

Chapter 3: Literature review

This chapter provides a discussion of the literature on foreign aid. A number of themes feature in the literature. The dominant themes include the aid-growth relationship, aid effectiveness and the impact that foreign aid has on governments and governance. These and a number of other themes are discussed in this chapter.

Chapter 4: Costs and benefits of foreign aid

This chapter identifies the costs and benefits that foreign aid has brought to the Continent.

Chapter 5: Conclusion

As the final section, this chapter provides a summary of the arguments made in the dissertation.

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CHAPTER 2

BACKGROUND TO AFRICA'S FOREIGN AID NEEDS: AN ANALYSIS

2.1 Introduction

Despite receiving foreign aid, international engagements and numerous 'grand plans' over several decades, average incomes in most African countries have only improved marginally from where they were in the 1960s.²⁹ Economic performance has been poor; poverty has increased, food insecurity has become more acute, weak government institutions have become more prevalent, and the disease burden is widespread.³⁰ These challenges are complex and multi-dimensional; they involve historic, economic, social, cultural, political, governance and environmental factors.

Africa's growth lags behind that of other regions by almost every measure.³¹ According to recent projections, the majority of African countries are unlikely to achieve most of the MDGs. The MDGs are set, among other things, on eradicating poverty and hunger, achieving universal education, improving maternal health, and combating Human Immunodeficiency Virus (HIV), Acquired Immuno-Deficiency Syndrome (AIDS), malaria and other diseases.³² "For the masses of Africa, incomes are lower than they were two decades ago, health prospects are poorer, malnutrition is widespread, and infrastructures and social institutions are fast breaking down".³³ Instead of becoming "entangled in the 'treadmill' of international trade" and development, Africa has fallen behind and is caught up in cycles of poverty and economic underperformance.³⁴

There is no shortage of theoretical attempts to explain Africa's poor economic performance. One of the earliest accounts was Wallerstein's World Systems Theory. According to this theory, Africa's position on the periphery of the global economy is to blame for its continued underperformance, relative to those at or near the centre.³⁵ The Dependency Theory, developed in the 1950s, provides a similar perspective on the

²⁹ Morton, *The poverty of nations*, 1.

³⁰ Manor, *Aid that works*, xi.

³¹ P. Englebort, "Pre-colonial institutions, post-colonial states, and economic development in tropical Africa", *Political Research Quarterly* 53, no. 1 (2000): 7.

³² R. Thiele, P. Nunnenkamp, and A. Dreher, "Do donors target aid in line with the Millennium Development Goals?" *UNU-WIDER Discussion Dissertation*, no. 2007/04 (2007): 1.

³³ C. Ake, *Democracy and development in Africa* (Washington D.C.: The Brookings Institute, 1996), 173.

³⁴ Calderisi, *The trouble with Africa*, 3.

³⁵ I. Wallerstein, *The modern world-system: Capitalist agriculture and the origins of the European world economy in the sixteenth century* (New York: Academic Press, 1976), 229-233.

paradox of why “economic growth in advanced industrialised countries did not necessarily lead to growth in the poorer countries”.³⁶ According to this Theory, this situation was the result of a historical process, that altered the “structure of the world economy such that it favour[ed] some countries to the detriment of others[,] and limit[ed] the development possibilities of the subordinate economies”.³⁷ Consequently, Africa, Asia and Latin America have become subordinate to the developing nations, as well as instruments for leveraging the growth and expansion of the latter.³⁸

Whilst African states are not homogenous, and have different histories, geographies, population sizes and economies, there are characteristics that are common to most. It is argued that the common characteristics are responsible for the Continent’s vulnerability to a number of challenges, and have thus created opportunities for a flood of foreign aid into Africa.³⁹ Most African countries have a “neo-colonial economic structure, [which is] dominated by agriculture, extraction of raw materials, and a sizeable public sector”; the export sector also retains a heavy imprint of the colonial past.⁴⁰ Most African countries have heavy international debt burdens as a result of a history of heavy inflows of aid, and difficulty repaying foreign loans. This combination has exacerbated aid dependence across the Continent.⁴¹

A number of factors have been used to justify foreign aid. These include Africa’s colonial past, poor economic growth, weak states, crises of legitimacy and political instability, poverty, widespread disease including HIV/AIDS, lack of clean water and sanitation, environmental degradation, untransformed agricultural practices and food insecurity. Whilst it is recognised that there may be other factors, those included in this dissertation have featured in the literature on foreign aid, and in particular in relation to Africa’s weak economic growth and development.

³⁶ V. Ferrero, “Dependency theory: An introduction,” (1996): 1

<http://www.mtholyoke.edu/acad/intrel/depend.htm> [accessed 10 January 2010].

³⁷ Ferrero, “Dependency theory: An introduction,” 3.

³⁸ Ferrero, “Dependency theory: An introduction,” 3.

³⁹ H. Hansen, G. Mills, and J. Herbst, *Africa beyond aid* (Johannesburg: The Bernthurst Foundation, 2009), 18.

⁴⁰ Carlsson, Somelekae, and van de Walle, *Foreign aid in Africa*, 14.

⁴¹ Carlsson, Somelekae, and van de Walle, *Foreign aid in Africa*, 14.

2.2 Colonial legacy

Africa has a long history of colonialism. The 15th century C.E. saw the beginning of European voyages of exploration that took adventurers, merchants and soldiers across the seas to the West, South and East of the African Continent.⁴² Various European nations fought each other and African peoples and rulers for access and then control of African lands and resources.⁴³ By the beginning of the Twentieth Century most of Africa was under the control of European nations.⁴⁴ The first to arrive were the Portuguese; the French British, German, Dutch, Spanish and Italians followed in the course of the next five centuries. It didn't take long for the colonisers to establish markets, extract resources and infuse their ideas, technology, as well as political and ideological systems, which continue to influence Africa decades after independence.⁴⁵ One argument presented in this dissertation is that "the process of colonization of most of Africa by Europe also had a major impact on the local authorities, altering the evolution of political institutions and putting Africa on a trajectory that almost certainly contributed to the disappointing development outcomes seen since independence".⁴⁶ It is evident that several modern African countries have been unable to transform the state and its institutions which were inherited from their colonial predecessors. As such, economic growth has not been achieved because the colonial state's centralisation of power was designed to extract resources to benefit the colonisers.⁴⁷

Newly independent African states inherited colonial states that had been organised with the purpose of exporting crude materials to European and American factories. This was made possible through low-cost labour, which ultimately guaranteed colonial enterprise profitability.⁴⁸ This "extractive relationship" between the colonial powers and African states had a devastating impact on the Continent's domestic resource base. During the colonial period significant quantities of Africa's mineral and agricultural resources were exported by the colonial powers. The unequal balance of

⁴² R. Findlay, "The roots of divergence: Western economic history in comparative perspectives," *The African Economic Review* 82, no. 2 (1992): 158

⁴³ Findlay, "The roots of divergence," 160.

⁴⁴ Findlay, "The roots of divergence," 160

⁴⁵ T. Moss, *African development: Making sense of the issues and actors* (London: Lynne Rienner Publishers, 2007), 19-26.

⁴⁶ Moss, *African development: Making sense*, 19.

⁴⁷ Englebert, "Pre-colonial institutions, post-colonial states," 9.

⁴⁸ D. Kalyalya, K. Mhlanga, A. Seidman, and J. Semboja, *Aid and development in Southern Africa: Evaluating a participatory learning process* (New Jersey: Africa World Press Inc, 1988), 42.

trade to the economic model of the colonial past continued after independence. Africa is still an exporter of primary (agriculture and mining) goods whose prices have fallen over time, and is an importer of manufactured 'value added' goods whose prices have tended to increase.⁴⁹ Africa's position on the global trade game-board has not stimulated economic growth.

The colonial power imposed a tax on agriculture and made it difficult for the dispossessed of fertile lands to sell their African cash crops. This made it impossible for most Africans to make a decent earning by means of agriculture, forcing many to migrate in search of wages.⁵⁰ The result of this was "a stratified society with a sharply skewed income distribution", which the newly independent states inherited.⁵¹ At independence, the major tasks facing African states were readdressing the unequal income distribution and fostering economic growth. These tasks have posed great challenges for many states, which required expertise and knowledge which many African statesmen did not pose as a result of colonialism.

Colonialism had a devastating impact in Africa. Not only did it alter domestic markets and labour, it also caused a decline in the performance of the Continent's economies. The newly independent states simply did not have the financial means, or the comparative advantage required to establish and create enabling environments to reverse the burdens of colonialism, or at the very least to compete in global trade. Foreign aid was seen as the means to reverse the damage resulting from colonialism.

2.3 Africa's growth experience

Africa's growth trajectory has been marked by low or negative trends. One explanation for the disappointing performance is the Continent's major savings gap.⁵² The low savings combined with a weak financial sector, the changing international economic environment and unpredictable growth conditions in Africa, have compromised Africa's growth.⁵³ The average savings rate in Africa overall is significantly low, averaging 19% between 1965 and 1973, and 23% between 1974 and 1980.⁵⁴ Economists hold the view

⁴⁹ J. Graaf, *Poverty and development* (Cape Town: Oxford University Press, 2007), 37-38; Ferrero, "Dependency theory: An introduction," 3.

⁵⁰ Kalyalya, Mhlanga, Seidman, and Semboja, *Aid and development*, 42-43.

⁵¹ Kalyalya, Mhlanga, Seidman, and Semboja, *Aid and development*, 42-43.

⁵² Lancaster, *Aid to Africa*, 19.

⁵³ Ndulu, *Challenges of African growth*, 1-200.

⁵⁴ Ndulu, *Challenges of Africa growth*, 7

that savings and investment are key to spurring growth in developing countries.⁵⁵ More specifically, it is often prescribed that a quarter of national budgets should be invested to initiate and sustain growth. Foreign aid has been justified as a tool to close that gap and therefore serve as a catalyst for fuelling growth.

Economic growth, which has been defined as the “change that includes both growth in national production and income and an improvement in the standard of living of the poor”, has fluctuated since independence; it has shown little improvement over the last three decades.⁵⁶ This is disappointing because during the same time between the 1960s and 1980s, Korea recorded increases in real per capita income of over 700%.⁵⁷ Africa’s growth record shows a low potential for growth. Growth averaged at 1.7% per annum in the 1970s and 1980s, it improved slightly during the 1980s to 2.3% per annum. The significant population growth averaging 2.5% per annum in 1960 and over 3% per annum in the 1980s was an added strain which curbed economic growth.⁵⁸ It was envisioned that foreign aid would reverse the low levels of economic growth.

Whilst there is great diversity among African states, many are characterised by poor macroeconomic structures, which have failed to foster increased rates of economic growth.⁵⁹ Other regions of the world continue to outperform those in Africa. In 2005, the GNP of OECD countries was US\$28,086 compared to US\$528 in Africa.⁶⁰ The *2006 African Development Report* recorded the Continent’s decline in real per capita GDP growth of 0.2% between 2004 and 2005.⁶¹

According to Nafziger, the roots of Africa’s economic crisis in the 1980s and 1990s can be traced to the Continent’s “inability to adjust to the 1973-74 oil shock, exacerbated by a credit cycle in which states over-borrowed at negative real interest rates in the mid- to late 1980s”.⁶² During that period, many countries were forced to

⁵⁵ T. Jappelli, and M. Pagano, “Savings, growth and liquidity constraints,” *The Quarterly Journal of Economics* 109, no. 1 (1994): 109.

⁵⁶ Lancaster, *Aid to Africa*, 14.

⁵⁷ Lancaster, *Aid to Africa*, 19.

⁵⁸ Lancaster, *Aid to Africa*, 14-15.

⁵⁹ S. Wiggins, “Lessons from the current food crisis in Southern Africa,” in *Food security in Southern Africa: Causes and responses from the region*, ed. S. Drimie, 23. (Johannesburg: Institut Francais d’Afrique du Sud, 2003).

⁶⁰ A. Poku, N. Renwick, and J. Porto “Human security and development in Africa,” *International Affairs* 83, no. 6 (2007): 1160.

⁶¹ African Development Bank (ADB) *African Development Report 2006* (Oxford: Oxford University Press, 2006), 13.

⁶² E. Nafziger, “Inequality and conflict,” in *Why study African economic development?*, ed. E. Nnadozie, 295. (London: Academic Press, 2003).

resort to the international financial institutions (IFIs) for foreign aid in the form of structural adjustment programmes (SAPs).⁶³ Countries in sub-Saharan Africa continue to pay external debt with significant interest. In 2006, the region's debt balance stood at US\$303.6 billion.⁶⁴ Africa's debt burden has been a major impediment to increasing investment and savings, and eradicating poverty as resources are diverted to servicing debt rather than stimulating growth and development.⁶⁵

Even though some countries on the Continent experienced growth between 1977 and 1999, per capita GNP growth was insignificant or negative.⁶⁶ Countries such as Egypt, Botswana, Mauritius, Swaziland and the Seychelles recorded 4% growth per annum, while Uganda, Malawi, Tanzania and Morocco recorded a less promising rate of 2.4%.⁶⁷

A combination of poor macroeconomic structures, low savings and meagre investments have increased Africa's vulnerability and set the Continent on a negative growth path. This background has been used to justify the massive infusion of foreign aid.

2.4 The weak state

Africa has the unfortunate label of being home to the largest number of failing states.⁶⁸ According to Jackson and Rosberg, "state institutions and organisations are less developed in the sub-Saharan region than almost anywhere else".⁶⁹ The formation of political systems—a pivotal prerequisite for stimulating economic growth—has not been realised for many African states.

Much of the socio-economic challenges facing Africa are associated with bad governance, which in turn has hindered economic growth and investment, increased transaction costs and diverted public funds from delivering public goods.⁷⁰ Mills states that the question of leadership and the failure of African leaders to stimulate growth are

⁶³ T. Zack-Williams, "Africa at the Millennium," in *Africa in crisis: new challenges and possibilities*, ed. T. Zack-Williams, D. Frost, and A. Thomson, 1 (England: Pluto Press, 2002).

⁶⁴ Poku, Renwick, and Porto, "Human security and development," 1167.

⁶⁵ African Development Bank (ADB), *African Development Report 2006*, 13.

⁶⁶ E. Nnadozie, *Why study African economic development?* (London: Academic Press, 2003), 1

⁶⁷ Nnadozie, *Why study African economic*, 4.

⁶⁸ Zartman, "The African state," 17.

⁶⁹ R. Jackson, and C. Rosberg, "Why Africa's weak states persist: The empirical and the juridical in statehood," *World Politics* 35, no. 1 (1982): 1.

⁷⁰ Poku, Renwick, and Porto, "Human security and development," 1165.

largely to blame for the abject poverty that continues to exist in Africa.⁷¹ In most cases, government leaders have failed to distribute wealth among the poor, and instead have directed it to the elite. Nigeria is such a case, where oil wealth has enriched the elite minority.⁷² It is estimated that 1% of the population has benefited from 80% of Nigeria's oil wealth, while the number of people living on less than a dollar a day continued to escalate from 19 million (of a population of 70 million) in 1970, to 90 million in 2000.⁷³

Africa has failed to take advantage of the opportunities opened up by globalisation, because the Continent has been laggard in integrating with the global economy.⁷⁴ Calderisi has taken this point to the extreme by suggesting that the "world economy is against Africa".⁷⁵ This is demonstrated by the continually increasing rate at which the Continent faces marginalisation in global trade, investment and production.⁷⁶ FDI has slumped to less than 1% for the Continent.⁷⁷ Africa's share of world exports have decreased: between 1970 and 1980, Africa's exports grew by 2.8%, exports from South Asia increased by 3.6%.⁷⁸ Africa's narrow export range limits prospects for international trade.⁷⁹ Technological advancement which Lim cites as a key driver for economic growth for any country, is limited in Africa.⁸⁰ "When comparing the relative contributions of technological progress and factors of production to growth in real per capita GDP in developed countries between 1960 and 1985, 75% of it was due to technology".⁸¹ During that period, the figure for developing countries as a group, was 14%, whilst Africa it was a disconcerting 0%.⁸² According to van Niekerk, this statistic explains why Africa is unable to compete in the global economy.⁸³

⁷¹ G. Mills, *Why Africa is poor: And what Africans can do about it* (Johannesburg: Penguin Books, 2010), 2.

⁷² Mills, *Why Africa is poor*, 2.

⁷³ G Mills, *Why Africa is poor*, 2.

⁷⁴ S. Guttal, "Globalisation," *Development in practice* 17, no. 4-5 (2007): 526-527.

⁷⁵ Calderisi, *The trouble with Africa*, 14.

⁷⁶ Calderisi, *The trouble with Africa*, 14; A. van Niekerk, "Investigating the marginalization of Africa: Evidence and explanations," Dissertation delivered at The Economic Society of South Africa (ESSA) Conference (2007): 3.

⁷⁷ Zack-Williams, "Africa at the Millennium" 4.

⁷⁸ van Niekerk, "Investigating the marginalization of," 3.

⁷⁹ R. Kappel, "Africa's marginalisation in world trade: A result of the Uruguay Round agreements," *Inter Economics* 31, no. 1 (1996): 33-34.

⁸⁰ D. Lim "Explaining the growth performances of Asian developing economies," *Economic Development and Cultural Change* 42, no. 4 (1994): 836.

⁸¹ Lim, "Explaining the growth performances," 836.

⁸² Lim, "Explaining the growth performances," 836.

⁸³ van Niekerk, "Investigating the marginalization of," 3.

The recent global financial crisis has devastated Africa's economy. The Continent's major economies-which account for 65% of regional GDP-have been affected the worst.⁸⁴ As global trade collapsed, "South Africa, Nigeria, Algeria, Egypt, Morocco and Angola have all experienced a significant decrease in their GDP growth rates – even up to 99% in the case of Angola (from 2007 to 2009)".⁸⁵ The International Monetary Fund (IMF) reported that collectively, Africa's growth rate declined by over 70%, from 3.6% in 2007 to 1.7% in October 2009.⁸⁶

From the above, it is hard to believe that Africa has received significant quantities of foreign aid over many decades. In 1996, foreign aid worldwide totalled nearly US\$55.5 million, of which a third (nearly US\$17million) went to the countries of sub-Saharan Africa.⁸⁷ Following commitments by the 2005 G8 Gleneagles Conference, calls have been made to double aid to Africa to US\$50 billion by 2010- yet total foreign aid had increased exponentially from US\$2 billion in 1970, to US\$8 billion in 1980, US\$17 billion in 1990, and US\$24 billion in 2002.⁸⁸ In 2005, the Democratic Republic of Congo received US\$362 in aid per capita, Zambia US\$81, Liberia US\$72, Mozambique US\$65, Namibia US\$61, Mali US\$51 and Guinea-Bissau US\$50.⁸⁹ Yet, the Continent's economic performance continues to be dismal.

Even though foreign aid seeks to promote economic development, many accounts illustrate aid's failure on both counts.⁹⁰ Indeed the statistics presented above show little prospect for growth output. At the same time however, the recent World Bank Report titled *Assessing aid: What works, what doesn't and why*, noted that foreign aid has "at times been a spectacular success and (at others) an unmitigated failure".⁹¹ In Botswana's case in the 1960s, as well Ghana in the 1990s, foreign aid transformed entire sectors, improving people's access to schools, clean water, sanitation, electricity, health, infrastructure and development.⁹² On the other hand, cases such as Zaire (now

⁸⁴ van Niekerk, "Investigating the marginalization of," 3.

⁸⁵ van Niekerk, "Investigating the marginalization of," 3.

⁸⁶ International Monetary Fund (IMF) *World economic outlook-October 2009: Sustaining the recovery* (Washington, D.D.: International Monetary Fund, 2009): 90.

⁸⁷ Lancaster, *Aid to Africa*, 38.

⁸⁸ Hansen, Mills, and Herbst, *Africa beyond aid*, 17.

⁸⁹ V. Levy, "Aid and growth in Sub-Saharan Africa: The recent experience," *European Economic Review* 32, no. 9 (1988): 1777.

⁹⁰ Loots, "Aid and development," 364.

⁹¹ World Bank (WB), *Assessing aid: What works, what doesn't and why* (Oxford: Oxford University Press, 1998): 1.

⁹² World Bank (WB), *Assessing aid: What works*, 1.

the Democratic Republic of Congo) showed little positive impact. Instead, the opposite seems to have been the result. There were no improvements in the lives of the citizenry. Corruption, the accumulation of wealth by the elites, misguided reports, theft and financial mismanagement were the order of the day.⁹³

Most African states are characterised by weak institutions, ineffective government and questionable leadership, all of which have increased the Continent's vulnerability and undermines its ability to tackle the challenge of economic growth.

2.5 Crises of legitimacy and political instability

Legitimacy is achieved when there is consensus over the rulers and the 'rules' within a system.⁹⁴ In terms of this definition, many African states lack legitimacy. Goldsmith attributes the lack of legitimacy to the way in which independence was achieved.⁹⁵ Many countries "typically attained independence through agreements with the colonial powers, instead of earning it through the establishment of effective control over their populations".⁹⁶ The allegiance of the domestic populace has not yet been won in many African states.

The frequent outbreak of civil wars and episodes of political instability are a manifestation of this crisis of legitimacy. Between 1958 and 1981 there had been more than 41 successful coups in 22 African countries.⁹⁷ From 1981 to 1996, nearly 50% of African countries had experienced episodes of violent conflict; some had lasted just over a month, and some for more than 20 years. During the 1980s and 1990s, these conflicts claimed the lives of more than four million people, including seven heads of states. They have also swelled the number of refugees and internally displaced persons (IDPs) across the Continent.⁹⁸ In addition, the conflicts have "generally wrought destruction of property and human lives [that have] adversely affected the nascent institutions of

⁹³ World Bank (WB), *Assessing aid: What works*, 1.

⁹⁴ O. Holsti in P. Englebert, "Pre-colonial institutions, post-colonial states, and economic development in tropical Africa", *Political Research Quarterly*, Vol. 53, no. 1 (2000): 7; A. Goldsmith, "Foreign aid and statehood in Africa," *International Organization* 55, no. 1 (2001): 128.

⁹⁵ Goldsmith, "Foreign aid and statehood," 128.

⁹⁶ Goldsmith, "Foreign aid and statehood," 128.

⁹⁷ W. Gutteridge, "Introduction," in *The armed forces of African states*, ed. R. Booth, 4 (London: International Institute for Strategic Studies, 1970).

⁹⁸ Goldsmith, "Foreign aid and statehood," 128.

governance”.⁹⁹ In short, the lack of legitimacy has compromised the capacity of states in Africa to respond effectively to the many challenges besetting the Continent.

In Senegal, Guinea-Bissau, Liberia, Cote d’Ivoire, Ghana, Nigeria, Chad, Sudan, Ethiopia, Uganda, Democratic Republic of Congo, the state’s legitimacy has been challenged by rebellion and internal lawlessness.¹⁰⁰ According to Poku *et al*, in these states, “though government may be accepted, the political institutions through which its powers are exercised are often treated with remarkable indifference by large sections of the citizenry ... [However,] the fact is that in large tracts of Africa the state is entirely absent – in physical presence as well as in the provision of basic services to the population, including of course security and development”.¹⁰¹

Where there is on-going or repeated political instability it is not possible to “generate the necessary consensus ... [that a government must have if it is to successfully carry out essential and often] painful reforms for long-term development”.¹⁰² In weak states or in states where government institutions are ineffective, the formulation and implementation of economic policies that encourage economic growth has proved impossible. It is for these reasons that a fifth the annual allocations of aid earmarked for the promotion of democracy (some US\$2 billion) is directed to Africa.¹⁰³ Much of this type of aid carries with it conditions that require a recipient government to implement vigorous reforms, which create institutions that will amongst others, stimulate economic growth and development.

Political instability and conflict disrupt “economic activities as ... [they are accompanied by the] destruction of economic infrastructure, degradation of the environment” and damage communication systems. Unstable countries do not attract investments from outside. All the above have failed to produce sustained economic growth.¹⁰⁴ Ndulu notes that countries exposed to political instability have average

⁹⁹ J. Akokpari, “You Don’t Belong Here’. Citizenship, the state and Africa’s conflicts. Reflections on Ivory Coast,” in *The roots of African conflicts. The causes & costs*, ed. A. Nhema, and P. Zeleza, 88 (Pretoria: UNISA Press, 2008).

¹⁰⁰ Poku, Renwick, and Porto, “Human security and development,” 1157.

¹⁰¹ Poku, Renwick, and Porto, “Human security and development,” 1157.

¹⁰² K. Gyimah-Brempong, “Political instability,” in *Why study African economic development?*, ed. E. Nnadozie, 263 (London: Academic Press, 2003).

¹⁰³ J. Siegle, “Effective aid strategies to support democracy in Africa,” Prepared for the ‘Africa Beyond Aid’ Conference, Brussels: Konrad Adenauer Stiftung (24-26 June 2007): 1.

¹⁰⁴ F. Stewart, *How does conflict undermine human development?* (Oxford: University of Oxford, 2007), 1.

incomes 50% lower than those that do not.¹⁰⁵ Similarly, investment ratios in physical and human capital have been proved to be 50% lower in conflict areas.¹⁰⁶

It is clear, therefore, that Africa's recent history of conflict and political instability has had negative consequences for economic growth.

2.6 Ethnic diversity

A strand of the literature proposes that the reason why weak institutions and poor policies exist in Africa is because of the Continent's rich ethnic diversity.¹⁰⁷ This view is echoed by Easterly and Levine who argue that "ethnic diversity has led to social polarisation and entrenched interest groups in Africa and has thereby increased the likelihood of selecting socially sub-optimal policies as ethnic representatives in government fail to internalize the entire social costs of the rent-creating policies they adopt".¹⁰⁸

Political conflict has been linked to the pervasiveness of patronage in retaining control over the state and resources.¹⁰⁹ Akokpari describes how many states have shown tendencies to "manipulate associated ethnic and chauvinistic sentiments to its advantage as well as to those within their grouping, thereby excluding the so called 'strangers'.¹¹⁰ The manifestation of patronage has been demonstrated in appointments based on ascriptive factors rather than merit. This has generated conflict amongst those who do not have access to the lines of power, which ultimately undermines growth.

2.7 Poverty, disease, lack of clean water and sanitation

Widespread and extreme poverty is a major challenge to Africa's capacity to achieve sustained economic growth.¹¹¹ Poverty has risen exponentially as a result of Africa's poor economic and growth performance. According to Poku *et al*,

¹⁰⁵ Ndulu, *Challenges of African growth*, 123.

¹⁰⁶ Ndulu, *Challenges of African growth*, 123.

¹⁰⁷ Englebert, "Pre-colonial institutions, post-colonial states," 8.

¹⁰⁸ Easterly and Levine, "Africa's growth tragedy," 1203.

¹⁰⁹ L. Arriola, "Patronage and political stability in Africa," *Comparative Political Studies* 42, no. 10 (2009): 1339.

¹¹⁰ Akokpari, "You don't belong here," 88.

¹¹¹ Ndulu, *Challenges of African growth*, 4.

*Africa is the only region to have regressed in terms of poverty in the last 40 years; extreme poverty is twice the average global rate and the actual number living in that condition has grown from 150 million to 300 million, more than 40% of the region's population.*¹¹²

Though Africa is home to 10% of the global population, it is home to 30% of the world's poor.¹¹³ In 2009, sub-Saharan Africa's purchasing power parity (PPP) was an average annual income of US\$1.681, 50% lower than the next poorest population, South Asia.¹¹⁴

Malaria is endemic to much of Africa. Of the 300 million people who have contracted malaria worldwide, some 270 million (90%) cases are found in Africa. Most of the patients are children under the age of five.¹¹⁵ Poverty is one of the major factors for the extremely high prevalence in Africa. The World Health Organization (WHO) states that 37% of all cases of diarrhoeal illnesses occur in sub-Saharan Africa, only 50% receive oral hydration therapy; in Asia, 70% of cases receive treatment.¹¹⁶

The *2006 Human Development Report* notes that ill health undermines productivity and economic growth, by "trapping vulnerable households in cycles of poverty".¹¹⁷ Declines in health standards are associated with lack of access to clean water and sanitation; 314 million people in sub-Saharan Africa are affected. This has added to the pressure on governments to augment national health budgets. Many governments have been forced to seek foreign aid in order to rollout the necessary health programmes and projects.

In recent decades, HIV/AIDS has emerged as one of Africa's most serious health threats; it has claimed hundreds of thousands of lives. In 1990, HIV/AIDS claimed lives at a rate of 10 people per minute, or about 5500 a day.¹¹⁸ By 1992, the WHO estimated that 3 million Africans were infected with HIV. By 1996, the figure had risen to 10 million.¹¹⁹ In 2000, among 15-49 year olds, infection rate was 10% in Zimbabwe,

¹¹² Poku, Renwick, and Porto, "Human security and development," 1160.

¹¹³ A Poku, Renwick, and Porto, "Human security and development," 1160.

¹¹⁴ Mills, *Why Africa is poor*, 6.

¹¹⁵ M. Azevedo, "Health and economic development," in *Why study African economic development?*, ed. E. Nnadozie, 183 (London: Academic Press, 2003).

¹¹⁶ Azevedo, "Health and economic development," 183.

¹¹⁷ United Nations Development Programme (UNDP) *Human Development Report 2006* (New York: Palgrave Macmillan, 2006): v.

¹¹⁸ Azevedo, "Health and economic development," 185.

¹¹⁹ Azevedo, "Health and economic development," 185.

compared to 18% in Botswana.¹²⁰ The *2010 UNAIDS Global Report on Global AIDS Epidemic* reports that in sub-Saharan Africa alone, 22.5 million adults and children are living with HIV, compared to 20.3 million in 2001. The figures for South and South-East Asia are 4.1 million and 3.8 million respectively.¹²¹ Women and girls aged 15-25 years constitute more than 50% of people living with HIV. The Joint United Nations Programme on HIV/AIDS (UNAIDS) recognises that in order to address this staggering statistic, “protecting women and girls from HIV means protecting [them from] gender-based violence and [by] promoting [their] economic independence from older men”.¹²²

As a result of HIV/AIDS, the life expectancy of people in Africa is the only Continent with an average life expectancy of less than 60 years. Life expectancy in Swaziland is 30 years.¹²³ HIV/AIDS “strikes people in the most productive age groups and is essentially 100% fatal”.¹²⁴ HIV/AIDS has devastating implications for macroeconomic growth. A decline in life expectancy and an increase in mortality means a sizeable cut in the Continent’s working population, which in turn results in reduced economic productivity.¹²⁵ Since more and more families have to draw on savings and investments in order to meet heavy medical expenses, there is less money for the education, health care and feeding of children. Ultimately, “prospects for longer-run economic growth and development will decline”.¹²⁶

2.9 The environment, agriculture and food insecurity

The agriculture sector plays a pivotal role in Africa both in terms of its contribution to the GDP of most states, as well as a source of food for most countries. About 75% of Africa’s population are either engaged in or dependent on subsistence farming and

¹²⁰ K. Ishikawa, *Nation building and development assistance in Africa* (Tokyo: Macmillan, 1999): 71.

¹²¹ Joint United Nations Programme on HIV/AIDS (UNAIDS) *Overview: UNAIDS Report on the Global AIDS Epidemic* (Geneva: WHO Library Cataloguing-In-Publication Data, 2010): 5.

¹²² Joint United Nations Programme on HIV/AIDS (UNAIDS) *Overview: UNAIDS Report on the*, 12.

¹²³ D. Moyo, *Dead aid: Why aid is not working and how there is another way for Africa* (London: Penguin Books Ltd, 2009): 5.

¹²⁴ L. Bollinger, H. Stover, and M. Palamuleni, “The economic impact of AIDS in Malawi,” (2000): 3 <http://allafrica.com/download/resource/main/main/id/00010518.pdf> [accessed 11 January 2011].

¹²⁵ United Nations Department of Economic and Social Affairs (UN DESA) “The impact of AIDS,” (2004): 81 http://www.un.org/esa/population/publications/AIDSimpact/91_CHAP_VIII.pdf [accessed 11 January 2011].

¹²⁶ United Nations Department of Economic and Social Affairs (UN DESA), “The impact of AIDS,” 81.

agriculture for their livelihood as well as their food. Yet, only 6% of the Continent's land is arable given the highly mountainous topography.¹²⁷

The AU noted that in 2006, the agricultural sector accounted for 60% of total employment, 20% total exports and 15% GDP. The importance of "accelerating agricultural growth in African countries is therefore crucial [,] not only for achieving food security and reducing hunger but also for generating employment and trade".¹²⁸ Unfortunately, agriculture has stagnated in much of Africa, most countries that were previously self-sufficient in food production, now import food and are recipients of foreign aid. It is estimated that "a staggering 40% of all Africans go hungry ... [and are] classified as extremely poor (surviving on less than 1 US\$ a day)".¹²⁹ There is a need for Africa to diversify its economies and follow suit with global trends, according to which the agricultural sector should play a smaller role within economies.¹³⁰

African government's commitments to transform policies, and reform land, to develop infrastructure and give access to rural farmers have yielded little results. Instead, efforts have distorted markets, and further contributed to a decline of agricultural production.¹³¹

Africa's environment is historically vulnerable to frequent droughts and famines. In Lesotho for instance, recurrent droughts when seasonal rains fail, frequently affect food supply and production.¹³² The Lesotho government was forced to declare a state of famine between 2000 and 2002 because the rains did not fall.¹³³ The 2006/7 crop season saw temperatures higher than the preceding five years and the lowest levels of precipitation in the past three decades.¹³⁴ Erratic rainfall in a region that is dependent

¹²⁷ M. Azevedo, "Geo-economy and history," in *Why study African economic development?*, ed. E. Nnadozie, 48 (London: Academic Press, 2003).

¹²⁸ African Union (AU) "Status of Food Security and Prospects for Agricultural Development in Africa," Mali: AU Ministerial Conference of Ministers and Agriculture (2006): 1.

¹²⁹ A. Kuyvenhoven, *Africa, agriculture, aid* (Wageningen: Wageningen University, 2007), 5.

¹³⁰ Ndulu, *Challenges of African growth*, 53.

¹³¹ S. Ehui, and I. Orike, "Foreign development assistance to food security in Africa in the last decade: Lessons for tomorrow", Nigeria: AAAE Conference proceedings (2007): 577; Nafziger, "Inequality and conflict," 300.

¹³² N. Ansell, E. Robson, L. van Blerk, F. Hajdu, and C. Ikchipeta, "Averting 'New variant famine'," *Briefing Notes* no. 4 (2008: 1) <http://www.brunel.ac.uk/11154/CHG1/BN4FoodSecurityinLesotho.pdf> [assessed 28 October 2010].

¹³³ Kingdom of Lesotho *Lesotho Livelihoods-Based Vulnerability Assessment (LBVA): April-May 2003*, (Maseru: Government Printers, (2003), 2.

¹³⁴ A. Lieberg, W. Shiferaw, A. Golebiowski, and S. Montembault, "FAO/WFP Crop and Food supply assessment mission to Lesotho," (2007): 13.

on agriculture and vulnerable to food shortages, can only be augmented through foreign aid.

Domestic markets in Africa have increasingly become less able to meet the demand as a result of a decline in productivity. In the mid-1970s, Lesotho's domestic market provided 50-70% of the nation's food. In 1984, however, only 40% was produced; there was a further decline to only 30% by 2008. In 2003/4 a joint Food and Agriculture Organisation (FAO)/and World Food Programme (WFP) Report stated that the domestic cereal supply, estimated at 118 200 tonnes, did not match the national consumption requirement of 320 700 tonnes.¹³⁵ This situation meant that commercial imports which were projected at 288 700 tonnes, and food aid at 32 000 tonnes were needed. Even when taking into account the external contributions, there is still a sizeable gap and shortfall in Lesotho's ability to meet the nation's food requirements.¹³⁶

As a Continent dependent on agriculture, whose markets are unable to meet domestic needs, and whose policies are inappropriate Africa is left vulnerable. Foreign aid is seen as a continued necessity in the midst of agricultural uncertainty and food insecurity.

Food insecurity is a major challenge across the Continent, both at a micro level (individuals and households) and macro level (for the entire population). In 2002, the SADC Regional Vulnerability Assessment Committee (RVAC) estimated that 15.2 million people were in need of food in Lesotho, Malawi, Mozambique, Zambia and Zimbabwe, requiring up to 3 million tons of cereal to meet their nutritional requirements.¹³⁷ According to a 2005 FAO Report, Africa ranked highest in terms of levels of malnourishment, with almost 33% of the population or 200 million people considered to fall within that category.¹³⁸ According to the Report, daily consumption of calories is below the recommended level of 2100 kcal for 33% of African countries: Ethiopia; Kenya; Rwanda; Tanzania; Angola; Madagascar; Mozambique; Zambia; and Sierra Leone. The Democratic Republic of Congo, Burundi, Eritrea and Somalia have the lowest consumption level of only 1800 kcal.¹³⁹

¹³⁵ Food and Agriculture Organization/World Food Programme, (FAO/WFP) *Special Report FAO/WFP Crop and Food Supply Assessment Mission to Lesotho* (Rome: FAO/WFP, 2001): 1 .

¹³⁶ Food and Agriculture Organization/World Food Programme FAO/WFP, *Special Report FAO/WFP*, 1.

¹³⁷ Wiggins, "Lessons from the current," 23.

¹³⁸ J. Boussar, B. Daviron, F. Gerard, and T. Voiturez, *Food security and agricultural development in sub-Saharan Africa: Building a case for more support* (Rome: Food and Agriculture Organisation, 2005), 3.

¹³⁹ Boussar, Daviron, Gerard, and Voiturez, *Food security and agricultural*, 3.

Food insecurity remains a major challenge for African countries if cyclical food shortages, which have negative consequences for hunger, health, social relationships and economic activity, are to be avoided.¹⁴⁰ The causes for food insecurity are complex. On the supply side, low productivity has led to shortages of staple foods such as maize.¹⁴¹ Furthermore, a lack of investment in the agricultural sector, instability of global markets, and increasingly unfair trade environments have exacerbated food insecurity in Africa.¹⁴² Agricultural policies have depressed agricultural productivity in several countries, Zimbabwe and Zambia are examples. Unfavourable economic environments in Lesotho and Swaziland, and uncontrolled price variations in Malawi and Mozambique have compromised agricultural production.¹⁴³ On the demand side, the problem of access to food is due to “the weak economic growth resulting from unsuccessful macro-economic policies; a poor balance of payments situation; highly skewed patterns of income and wealth distribution ... [as a result of past] short-sighted colonial policies; high levels of unemployment and land tenure insecurity; the failure of governance, both as a lack of accountability and opposition to democratisation; and, financial management”.¹⁴⁴

The lack of food security has in more recent decades been compounded by HIV/AIDS. HIV/AIDS has created a new category of highly vulnerable households who have incurred a significant reduction in livelihoods from subsistence farming.¹⁴⁵ According to the United Nations Commission for Africa, the impact that the HIV/AIDS epidemic has added new dimensions to food insecurity: “1) household-level shortages are attributable to adult morbidity and mortality, as is the rise in numbers of dependents; 2) loss of assets and skills results from increased adult mortality; 3) [an enlarged] burden of care for sick adults and children orphaned by AIDS; and 4) vicious interactions exist between malnutrition and HIV”.¹⁴⁶

¹⁴⁰ J. Dubois, “Food security, vulnerability and social sustainability,” in *Food security in Southern Africa: Causes and responses from the region*, ed. S. Drimie, 15 (Johannesburg: Institut Francais d’Afrique du Sud, 2003).

¹⁴¹ Wiggins, “Lessons from the current,” 44.

¹⁴² Y. Adballa, “Causes of food insecurity in Southern Africa: An assessment” (MA diss., University of Stellenbosch, 2007), 1.

¹⁴³ Dubois, “Food security, vulnerability and,” 15.

¹⁴⁴ Adballa, “Causes of food insecurity,” iii.

¹⁴⁵ A. de Waal, and A. Whiteside, “New variant famine: AIDS and food crisis in southern Africa,” *Lancet* 362 (2003): 1234.

¹⁴⁶ de Waal and Whiteside, “New variant famine: AIDS,” 1234.

According to Dubois, HIV/AIDS has increased vulnerability to food insecurity as it “slowly destroys the basic individual’s capabilities, i.e. their capacity to do things, by increasing the difficulty of going to work, cultivating fields, meeting their peers and, more generally, living correctly”.¹⁴⁷ The UN estimated that in 2000, 9.6% of Zimbabwe’s agricultural labour force was lost, whilst Malawi experienced a loss of 5.8%. In terms of cattle production, Zimbabwe witnessed a decrease of 29%, 49% for vegetables, and 61% for maize, all as a result of a member of a household dying from HIV/AIDS.¹⁴⁸

2.11 Conclusion

This chapter has outlined Africa’s growth context ,which it is argued, has increased the Continent’s need for external assistance in the form of foreign aid. The chapter has shed some light onto certain features which are common to many African states, and that have predisposed the Continent to underperform economically and to stifle growth. These include Africa’s colonial history, weak states, crises of legitimacy, political instability, poverty, and disease.

¹⁴⁷ Dubois, “Food security, vulnerability and,” 17.

¹⁴⁸ Dubois, “Food security, vulnerability and,” 17.

CHAPTER 3

LITERATURE REVIEW

3.1 Introduction

This chapter provides a discussion of the literature on foreign aid. Among the dominating themes are aid effectiveness, the aid-growth relationship and aid's impact on governments and governance. After decades of capital transfers in the form of foreign aid to Africa, little advancement seem to have been made in addressing the Continent's challenges. This is despite the fact that foreign aid's objectives are the promotion of economic growth and poverty reduction.¹⁴⁹ Questions continue to be raised about the relationship between aid and growth, aid and governance, and how effective aid is in achieving these objectives. Whilst some are of the belief that foreign aid has been developmental and has yielded positive output in the African context, others assert that Africa's growth has, in fact, been retarded by foreign aid. The literature on foreign aid can be classified into two broad categories - those that deal with its effectiveness, and those with the aid-growth relationship. It is fitting therefore, in this chapter to explore the debates raised currently in the literature.

Before entering the discussion, this section begins with a conceptual outline of foreign aid.

3.2 Conceptualising foreign aid

As mentioned earlier, the usage of the term foreign aid or ODA in this dissertation follows the official definition proposed by the DAC of the OECD. According to the definition, foreign aid is the transfer of concessional resources from one government to another or from a government to an international aid agency or a nongovernmental organization, which, in turn, transfers those resources to poor countries.¹⁵⁰

Foreign aid falls within the broad category of official development finance (ODF), which includes all types of financial flows from the governments of developed countries and multilateral agencies to the developing world. Foreign aid and ODF can be classified as either bilateral or multilateral. The former is administered by agencies of donor

¹⁴⁹ R. Durbarry, N. Gemmill, and D. Greenaway, *New evidence on the impact of foreign aid on economic growth* (United Kingdom: Centre for Research in Economic Development and International Trade, 1998), 1.

¹⁵⁰ Lancaster, *Aid to Africa*, 36.

governments, and is tied, which usually means that it must be used to procure goods and services from the donor country. The latter-multilateral aid-is funded by contributions from wealthy countries and is administered by agencies such as the UNDP and the WB. The transfer of private concessional resources, military aid, credits for the promotion of a donor country's exports, public resource transfers between prosperous countries, international bribes, tributes, or funding for covert action against another foreign organisation or government is not included in this definition.¹⁵¹

Agencies recognized as contributors of ODA include the UN and UN Administered Funds, the European Commission (EC), the IMF, the WB, the World Trade Organisation (WTO), regional development banks and other multilaterals.¹⁵²

A number of observations can be made about foreign aid: that there are several types of aid; multiple reasons for giving aid; positive and negative impacts; and, aid can be in the best interest of donors and/or recipients. Foreign aid can be allocated in the form of cash (concessional loans or grants), in kind (e.g. food aid) or in the form of debt relief or cancellation of debt.¹⁵³ Most aid has been in the form of monetary grants and loans.¹⁵⁴ According to Lancaster, the main non-financial form of aid has been food, which is typically surplus agricultural production from major donor countries. Debt cancellation has constituted a significant component of foreign aid in Africa where a sizeable number of countries face heavy debt.¹⁵⁵

Foreign aid transfers fund an array of activities: "budgetary and balance of payments needs in recipient countries; investment projects and research activities; economic and political reform programs; technical advice and training; and, humanitarian relief".¹⁵⁶ Aid is intended to achieve various outputs, e.g. allowing the recipient government to expand activities they are already committed to, and by so doing, enable the recipient to use resources more effectively and productively, such as training government officials in technical programmes. Aid can also act as an incentive or as a payment for the recipient to "act in ways favoured by the donor by conditioning

¹⁵¹ World Bank (WB), *Assessing aid: What works*, 6.

¹⁵² K. Smith, "OECD list of international organisations: Official contributions to which may be reported in whole or in part as ODA", (2009) <http://www.oecd.org/dataoecd/36/16/31724727.pdf> [assessed 28 October 2010].

¹⁵³ C. Lancaster, *Foreign Aid: Diplomacy, development, domestic politics* (Chicago: University of Chicago Press, 2007), 11.

¹⁵⁴ Lancaster, *Aid to Africa*, 37.

¹⁵⁵ Lancaster, *Aid to Africa*, 37.

¹⁵⁶ Lancaster, *Foreign Aid: Diplomacy, development*, 11.

it on desired behavior on the part of the recipient (e.g. adopting economic policy reforms or supporting the donor government's position in international forums) [;] or reducing or eliminating it [aid] when recipients behave in ways unwelcome to the aid-giving government".¹⁵⁷ In addition, Lancaster mentions that aid can be used to fund investment projects (e.g. schools, roads and infrastructure development) and programmes (e.g. economic policy reforms).¹⁵⁸

The justification for foreign aid has evolved over the years, but rests mainly on three factors which determine how the allocation is to be used: altruism; political ideology, foreign policy and commercial interests; and, economic development.¹⁵⁹ Firstly, according to altruism, foreign aid represents a manifestation of donor concerns for the well-being of less developed countries, and seeks to reduce poverty and inequality in the world. Secondly, foreign aid has also been used as a means to advance and pursue foreign policy, and/or commercial and political ideologies. During the Cold War for instance, foreign aid was used to spread communism. In the same way, socialist donors promoted their ideologies and the adoption of socialist systems using aid. And finally, foreign aid has been seen as a tool to achieve greater economic development, among other development imperatives, such as: "poverty alleviation; the spread of democracy; gender issues; social development; and the expansion of markets (including providing a hospitable environment for foreign investment".¹⁶⁰

Donor motivations for allocating aid vary. Whilst the promotion of economic development in recipient governments is typically one of the stipulated goals that foreign aid seeks to advance, it is not always the only one.¹⁶¹ Donor motivations vary from pure altruism and moral duty- e.g. concern for the poor, to the pursuit of national self-interest, such as national security and commercial gain.¹⁶² The debates relating to donor motivations for aid allocation can be summarised into the following categories: moral arguments; economic arguments; commercial and economic interests; political and strategic; and, to a lesser extent, national cultural objectives.

¹⁵⁷ Lancaster, *Foreign Aid: Diplomacy, development*, 11.

¹⁵⁸ Lancaster, *Aid to Africa*, 38.

¹⁵⁹ F. Tarp, *Foreign aid and development: Lessons learnt and directions for the future* (London: Routledge, 2000), 2.

¹⁶⁰ Tarp, *Foreign aid and development*, 2.

¹⁶¹ Lancaster, *Aid to Africa*, 75.

¹⁶² J. Eaton, "Foreign capital flows," in *Handbook of development economics*, ed. H. Chenery, and T. Srinivasan, 55 (New York: Northholland, 2008); S. Browne, *Beyond aid: From patronage to partnership* (United States of America: Ashgate Publishing, 1999), 7.

The moral arguments for foreign aid allocation are usually centred on providing support for economic and social progress, and the reduction of poverty.¹⁶³ Lancaster shows how the moral argument behind the allocation of aid has been used as both a means and an end to promote policy. The thinking around how aid achieves economic and social progress has evolved over the years. In the post-war period, aid was used to stabilise the economies of countries. In the 1970s, aid focused on redistribution among the poor. The 1980s, witnessed a shift of emphasis to aid playing a greater role, including a tool to undertake economic policy reforms in order to achieve economic growth.¹⁶⁴ The decades following have witnessed a shift with poverty reduction playing a more prominent position in the allocation of aid.

As already mentioned, donor governments frequently pursue other motives by means of their aid programmes and allocations. A number of donors allocate aid in order to promote a particular religion, language or set of values. In such instances, foreign aid is allocated to recipients that demonstrate an interest in adopting the religion, language or values, and the accompanying practices and ideology.¹⁶⁵ Diplomacy and 'high politics' are played out through aid, in order to advance foreign policy objectives, such as garnering support and votes in the UN, gaining diplomatic recognition or establishing military bases.¹⁶⁶ Similarly, commercial and economic motives are advanced in various ways, including conditionality or tying the funds in such a way that they can only be utilised to procure goods and services in the donor country. Conditionality and the tying of aid is achieved in four ways:

Firstly, ODA grants and loans ... [are] provided on the premise that the recipient country returns the money with interest according to the financial terms stipulated in the loan agreement. Secondly, ODA grants and loans being provided by tying procurement of any goods or services to the donor country. Thirdly, ODA grants and loans may be tied for specific development projects under supervision of the donor. And lastly, the grant or loans ... [are] distributed in accordance with the recipient country's compliance with an agreed set of policies *vis-à-vis* the domestic economy.¹⁶⁷

¹⁶³ Lancaster, *Foreign Aid: Diplomacy*, 13.

¹⁶⁴ Lancaster, *Foreign Aid: Diplomacy, development*, 14.

¹⁶⁵ Lancaster, *Aid to Africa*, 77.

¹⁶⁶ Lancaster, *Aid to Africa*, 75-76.

¹⁶⁷ Tarp, *Foreign aid and development*, 93.

3.3 The aid-growth relationship

Numerous scholars have deliberated on the relationship (if any) between aid and growth. This comes as no surprise, considering that the stimulation of economic growth is a major objective for foreign aid. The literature offers a variety of views on this matter. In summary, the views can be categorised as follows: there is no correlation between aid and growth; there is a positive correlation between aid and growth; and finally, a negative correlation between aid and growth

An important general observation about foreign aid studies, is that most utilise econometric analysis to conduct cross-section studies at the macro-level, they make use of single-equation estimate techniques¹⁶⁸. This method has produced various and often contradictory results. In fact, the technique has perpetuated what Mosley terms the 'micro-macro' paradox, which conceals the differences that exist between the macro and micro levels¹⁶⁹. Cassen *et al* note that studies conducted at the micro level, find aid to be more effective in stimulating growth and reducing poverty, whilst those at the macro level have tended to yield ambiguous results, and often fail to find that aid has had any significant impact on growth.¹⁷⁰

The belief that foreign aid promotes economic growth, rests on three premises: "firstly, that the key to economic development is the availability of capital; secondly, that underdeveloped countries are too poor to provide the capital for themselves; and thirdly, that centralised and comprehensive economic planning and control of government is an essential requisite for economic development".¹⁷¹ However, as the discussion below will show, vigorous scholarly enquiry has both contested and supported these propositions.

The literature highlights the differences between growth and development. Of particular interest is the strand in the literature that asserts that growth can be achieved without development. The point of departure perhaps can be taken from Samuel who states that there is clear disjuncture between rhetoric and reality: "the performance of the economy, the increasing gap between the goal of macroeconomic development and social development and the complete lack of political will and

¹⁶⁸ Durbarry, Gemmell, and Greenaway, *New evidence on the*, 2.

¹⁶⁹ P. Mosley, *Overseas aid: Its defence and reform*", (United Kingdom: University Press of Kentucky, 1987), 67.

¹⁷⁰ Cassen, *Does aid work?* 23.

¹⁷¹ M. Friedman, *Foreign economic aid: Means and objectives* (United States: Stanford University, 1995), 5.

economic agenda for long-term social development show how the rhetoric belies reality. Growth without development will deepen inequality and have dangerous socio-political consequences that could undermine the very essence of freedom and democracy".¹⁷²

3.3.1 No correlation between aid and growth

A number of studies have shown significantly low correlation coefficients between aid and growth. Griffen and Enos conducted empirical studies of 15 African and Asian countries based on the United Nations data for the period 1972-64.¹⁷³ Their findings show that "foreign assistance is not associated with progress".¹⁷⁴ The authors go as far as to suggest that even if a nation achieves a degree of growth, none of it can be attributed to foreign aid. Griffen and Enos do not indicate what this growth can be attributed to. They do, however, admit that they provide little evidence to justify their propositions, their conclusions are supported only by the largely out-dated UN data. Lensink and Morrissey take a similar stance; they state that "if one finds an effect of aid on growth, it is likely that this arose at least primarily through a link between aid and investment" and not as a result of foreign aid.¹⁷⁵

Radelet *et al* also find that "aid has no effect on growth, and may actually undermine growth".¹⁷⁶ The findings presented by Mosley, Mosley *et al* and Boone provide similar accounts, which show little or no relationship between aid and growth.¹⁷⁷

Radelet continues to identify other ways in which aid does not support growth. Firstly, foreign aid has been observed to serve and keep corrupt governments in power, thus creating an environment which is conducive for those governments to adopt poor economic policies and postpone reform. Secondly, foreign aid has all too often been

¹⁷² J. Samuel, "India- growth without development: Rhetoric and deprivation", *The Social Impact of Globalisation in the World-Social Watch Report 2002*, No. 6, (2002): 112.

¹⁷³ K. Griffin, and J. Enos, "Foreign assistance: Objectives and consequences", *Economic Development and Cultural change* 18, no. 3 (1970): 317.

¹⁷⁴ Griffin and Enos, "Foreign assistance: Objectives and," 317.

¹⁷⁵ R. Lensink, and O. Morrissey, "Aid instability as a measure of uncertainty and the positive impact of aid on growth", *CREDIT Research Dissertation 99/2* (1999): 4.

¹⁷⁶ S. Radelet, M. Clemens, and R. Bhavnani, "Aid and growth: The current debate and some new evidence", *Centre for Global Development Working Paper 44* (2004): 1.

¹⁷⁷ P. Mosley, "Aid, savings and growth revisited", *Oxford Bulletin of Economics and Statistics* 42, no. 2 (1980):79-96; P. Mosley, J. Hudson, and S. Horrell, "Aid, the public sector and the market in less developed countries", *Economic Journal* 97, no. 387 (1987): 616-641; P. Boone, "The impact of foreign aid on savings and growth", *Centre for Economic Performance Working Dissertation No. 50*, (1994): 1.

wasted by the elite governors of recipient nations. Thirdly, foreign aid has reduced both government and private saving. And, finally, aid is said to undermine private sector incentives to improve productivity or investment because it results in the currency of recipient nations appreciating, thereby undermining the profitability of tradable goods.¹⁷⁸ The results of studies by Dowling and Hiemenz, Boone and Singh are similar those of Radelet *et al* in that they support the assertion that aid has no effect on growth in recipient nations.¹⁷⁹

3.3.2 Positive correlation between aid and growth

Papanek conducted a cross-country regression analysis of 34 developing countries using data from the 1950s, and of 51 developing countries using 1960s data, to assess the impact of foreign resources on growth and on the relationship between foreign resources and savings.¹⁸⁰ The results indicate that “aid, unlike domestic savings, can fill the foreign exchange gap as well as the savings gap”¹⁸¹. Unlike foreign private investment, aid is “specifically designed to foster growth, and more importantly, is biased toward countries with a balance-of-payments constraint”.¹⁸² Similarly, Levy, found there to be a strong, positive correlation between aid and economic growth, and between investments in Africa between 1968 and 1982.¹⁸³

Loxley and Sackey’s study of 40 African countries over a 28 year period indicates that aid has a positive impact on per capita income growth for the Continent as a whole.¹⁸⁴ This study is particularly valuable as it involves a significantly larger sample than most other studies. In addition, the use of aid-growth stratification to categorise countries, and a transition matrix to highlight significant changes that may have occurred during the period under observation, produced significant data outcomes. The findings indicate that during the period 1975-1984, 12.5% of African countries could be classified as recipients of significant volumes of aid, with positive per income growth.¹⁸⁵

¹⁷⁸ Radelet, Clemens and Bhavnani, “Aid and growth: The,” 3.

¹⁷⁹ Radelet, Clemens and Bhavnani, “Aid and growth: The,” 3.

¹⁸⁰ G. Papanek, in R. Williams, “The role of exports and foreign capital in Latin American economic growth,” *Southern Economic Journal* 45, no. 2 (1978): 412; G. Papanek, “Aid, foreign private investment, savings, and growth in less developed countries,” *The Journal of Political Economy* 81, no. 1 (1973): 122.

¹⁸¹ Papanek, “Aid, foreign private investment,” 122.

¹⁸² Papanek, “Aid, foreign private investment,” 122.

¹⁸³ Levy, “Aid and growth in,” 1793.

¹⁸⁴ Loxley and Sackey, *Aid effectiveness in Africa*, 163.

¹⁸⁵ Loxley and Sackey, *Aid effectiveness in Africa*, 163.

Between 1995-2004, 13% of the countries sampled had moved from negative growth per capita income to positive growth, largely attributable to increases in aid. The most noteworthy growth occurred in Tanzania, Zambia and Chad.¹⁸⁶ Burkina Faso, Gambia and Mali received high quantities of aid, and reflected significant increases in per capita income.¹⁸⁷ The argument made by the authors is that the growth in per capita incomes would not have been realised without the infusion of aid into these countries, thus justifying their assertion that aid has a positive impact on growth.

International financial institutions such as the WB and the IMF, have concluded that simply allocating foreign aid directly to governments has proved insufficient for promoting economic development and growth. What is required is an appropriate policy environment.¹⁸⁸ The WB's 1998 study of 56 aid receiving countries found that those with "good policies (low inflation, a budget surplus and openness to trade) and good institutions (little corruption, strong rule of law, effective bureaucracy) benefit[ed] from the aid they got ... (whilst) those with poor policies and institutions did not".¹⁸⁹ Guillaumont and Chauvet concur, stating that if the policies "are good, aid will be efficient, if they are not, aid will be useless, at best".¹⁹⁰

The WB emphasises a stable macroeconomic policy environment in particular, as necessary for rapid economic growth.¹⁹¹ Fischer suggests in a study published in 1993, that it is through macroeconomic stability that an environment that is conducive for growth is created.¹⁹² Such an environment is one that has the following features: "low and predictable inflation; appropriate real interest rates; real exchange rates which are competitive and predictable; stable and sustainable fiscal policy; and a balance of payments which is perceived as viable."¹⁹³ Kormendi and Meguire's go further in their empirical investigation across a sample of 47 countries, using a set of macroeconomic

¹⁸⁶ Loxley and Sackey, *Aid effectiveness in Africa*, 163-171.

¹⁸⁷ Loxley and Sackey, *Aid effectiveness in Africa*, 171.

¹⁸⁸ C. Hefeker, "Project aid or budget aid? The interests of governments and financial institutions," *Review of Development Economics* 10, no. 2 (2006): 241.

¹⁸⁹ B. Osei, "How tied aid affects the cost of aid-funded projects in Ghana," *AERC Research Paper* 137, (2003): 1.

¹⁹⁰ P. Guillaumont, and L. Chauvet, "Aid and performance: A reassessment," *Journal of Development Studies* 37, no. 6 (2001): 66.

¹⁹¹ World Bank (WB) "Adjustment lending: An evaluation of ten years of experience," *Policy and Research Series*, no. 14 (1990).

¹⁹² S. Fischer, "The role of macroeconomic factors in growth", *Journal of Monetary Economics* 32, no. 3 (1993): 2.

¹⁹³ Fischer, "The role of macroeconomic," 2.

hypotheses relating to economic growth.¹⁹⁴ They include additional factors such as monetary variance, risk-return trade-off in aggregate technology, supply side concerning the effects of government spending, the 'openness' of a country with respect to international trade, and inflation on capital stock.¹⁹⁵

3.3.3 Negative correlation between aid and growth

Some scholars identify the effect of foreign aid on growth to be negative. Using 22 less-developed countries for the period 1956-1968, Voivodas found aid to have had a negative impact on growth, although the negative effect was not so significant.¹⁹⁶ Voivodas concluded that economic growth could, instead, be explained by the "positive and significant contribution of exports". Voivodas' findings thereby refute Papenek's position that growth is achieved by aid closing both the savings and foreign exchange gap in an economy.¹⁹⁷

Weisskopf refutes the assertion made by scholars such as Chenery and Strout regarding foreign aid's 'additionality' to domestic resources, as a benefit, serving to boost economic growth.¹⁹⁸ According to Weisskopf, "foreign capital in form represents an addition to the total supply of resources available to a country[,] and thereby increases the possible magnitude of domestic expenditures", which is not conducive for economic growth.¹⁹⁹ Unlike Chenery and Strout, Weisskopf regards foreign aid as an additional resource, which only serves to stimulate domestic spending by recipient countries which does not encourage economic growth.²⁰⁰ Jepma also supports this position, stating that foreign aid crowds out private saving, supports public consumption, and has no significant impact on macroeconomic growth in recipient countries.²⁰¹ Moss *et al* take this further, highlighting that foreign aid has had negative

¹⁹⁴ R. Kormendi, and P. Meguire, "Macroeconomic determinants of growth: Cross-country evidence", *Journal of Monetary Economics* 16, no. 2 (1985): 141.

¹⁹⁵ Kormendi and Meguire, "Macroeconomic determinants of growth," 141.

¹⁹⁶ ¹⁹⁶ Durbarry, Gemell, and Greenaway, *New evidence on the*, 2.

¹⁹⁷ C. Voivodas, in R. Williams, "The role of exports and foreign capital in Latin American economic growth," *Southern Economic Journal* 45, no. 2 (1978): 412; Papenek, "Aid, foreign private investment," 122.

¹⁹⁸ Chenery, and Strout, "Foreign assistance and economic," 680.

¹⁹⁹ T. Weisskopf, "The impact of foreign capital inflow on domestic savings in underdeveloped countries," *Journal of International Economics* 2, no. 1 (1972): 25.

²⁰⁰ Weisskopf, "The impact of foreign," 680.

²⁰¹ C. Jepma, *On the effectiveness of development aid*, World Bank unpublished (1997).

effects on the development of institutions, what they term the 'aid-institutions paradox'.²⁰² The authors conclude that this is achieved as follows:

states which can raise a substantial portion of their revenues from the international community are less accountable to their citizens and under less pressure to maintain popular legitimacy. They are therefore less likely to have the incentives to cultivate and invest in effective public institutions. As a result, substantial increases in aid inflows over a sustained period could have a harmful effect on institutional development in sub-Saharan Africa²⁰³

Lavy and Sheffer's examination of Egypt suggests that Egypt, after receiving exorbitant quantities of aid, is in fact worse off now than in the early 1970s.²⁰⁴ The infusion of these volumes of aid exceeded the country's absorptive capacity and ability to utilise the aid effectively. In order to compensate for the excess of resources, the government of the time stimulated consumption through subsidies. Financial adjustments had to be made to facilitate this process. The long-term effects of this policy are devastating; it will take decades to reverse them.²⁰⁵ Morton's assessment of the situation in Sudan, follows a similar line. Morton concludes that donors fail to consider the limited absorptive capacity of several developing countries, in this case the Sudan. Instead, "the volume of aid just grows and grows without regard for [the recipient's] chances of being able put [the aid] to productive use", for the purpose of economic growth.²⁰⁶

Bauer asserts that foreign aid does not directly benefit the very poor, as the funds are first directed to the recipient government.²⁰⁷ This method of transfer increases the government's resources, patronage, and power in relation to the rest of society. "The resulting politicization of life enhances the hold of government over their subjects and increases the stakes in the struggle for power".²⁰⁸ Foreign aid therefore,

²⁰² T. Moss, G. Petterson, and N. van de Walle, "An aid-institutions paradox? A review essay on aid dependency and state building in sub-Saharan Africa," *Center for Global Development Working Paper Number 74* (2006): 1.

²⁰³ Moss, Petterson, and van de Walle, "An aid-institutions paradox?" 1.

²⁰⁴ V. Lavy, and E. Sheffer, *Foreign aid and economic development in the Middle East: Egypt, Syria and Jordan* (New York: Praeger Publishers, 1991), 23.

²⁰⁵ Lavy and Sheffer, *Foreign aid and economic*, 23.

²⁰⁶ Morton, *The poverty of nations*, 16.

²⁰⁷ P. Bauer, *The development frontier: Essays in applied economics* (Hemel Hempstead: Harvester/Wheatsheaf, 1991): 45-46.

²⁰⁸ Bauer, *The development frontier: Essays*, 45-46.

“has enabled many governments to pursue policies that plainly retard economic growth and exacerbate poverty”.²⁰⁹

Boone studied the long-term effects aid for the period 1971 - 1990. He points out that aid does not significantly increase economic growth rates, investments or improve human development indices.²¹⁰ Boone specifies two reasons why foreign aid does not encourage economic development: “poverty is not caused by capital shortage, and it is not optimal for politicians to adjust distortionary policies when they receive aid flows”.²¹¹ Boone’s observations demonstrate that aid increases consumption, but higher consumption does not benefit the poor.²¹² The infusion of resources in the form of food aid is, therefore, not an appropriate response to promote human development or alleviate poverty. Furthermore, there was an insignificant impact on human development indicators such as infant mortality and primary school enrolments. In summary, Boone notes that “even while particular programs such as immunization and research can be effective, the bulk of long-term aid programs have had little impact on human development and investment (which are pertinent for growth) between 1971 and 1990”.²¹³ Boone’s findings are consonant with the results of Friedman’s 1995 study. Though the objectives of foreign economic aid are commendable, Friedman argues, the means are, however, inappropriate to the objectives.²¹⁴ “Foreign economic aid, far from contributing to rapid economic development along democratic lines, is likely to retard improvement in the well-being of the masses, to strengthen the government sector at the expense of the private sector, and to undermine democracy and freedom”.²¹⁵

Erixon draws much the same conclusions. Aid has largely been counterproductive over the past fifty years: “it has crowded out private sector investments, undermined democracy, and enabled despots to continue with oppressive policies, perpetuating poverty” and delaying much needed reform.²¹⁶

Gani *et al* summaries the various arguments relating to the negative impact of aid into two schools of thought. The first school is derived from the Dependency Theory,

²⁰⁹ Bauer, *The development frontier: Essays*, 45-46.

²¹⁰ P. Boone, “Politics and the effectiveness of foreign aid”, *European Economic Review* 40, no. 2 (1996): 322.

²¹¹ Boone, “Politics and the effectiveness,” 322 .

²¹² Boone, “Politics and the effectiveness,” 322.

²¹³ Boone, “Politics and the effectiveness,” 322.

²¹⁴ M. Friedman, “Foreign economic aid”, *Yale Review* 47, no. 4 (1982): 500-516

²¹⁵ Friedman, *Foreign economic aid: Means*, 16.

²¹⁶ F. Erixon, “Aid and development: Will it work this time?” *International Policy Network*, (2005): 3

according to which underdevelopment is a state that characterises the periphery, and is achieved through exploitation by the developed market economies, which in turn, further entrench and perpetuate their dominance over the periphery. This reveals, therefore, that underdevelopment is not the absence of a process, but rather a state imposed on developing countries through the acts of the developed market economies.²¹⁷ The second school, “claims that aid inevitably expands the role of government, distorts market signals and finances more investment than the private sector would undertake if it were given the chance”.²¹⁸

3.4 Aid effectiveness

Aid effectiveness has been a recurring issue regardless of the objectives pursued, but more especially in relation to poverty reduction and economic growth. There are a number of factors that affect the effectiveness (or lack thereof) of foreign aid. These include: donor motivations for aid allocation; donor practices; donor-recipient relations; targeting of beneficiaries; the quantity and quality of aid; aid-types; and aid conditionality, to mention but a few. Irrespective of one’s view of foreign aid, there is general consensus that the role of foreign aid is to “assist poor nations in minimizing their levels of misery and deprivation so as to allow them to make improvements in their standard of living”.²¹⁹ The effectiveness of aid programmes therefore, should be measured against these objectives, and should constantly refer to the need for sustainable results and poverty reduction.²²⁰

Most studies on aid effectiveness in Africa tend to conflate Africa with other countries of the developing world. The danger with this, is that they fail to fully “capture the reality [,] that Africa is quite unique in its socio-economic orientation compared to other developing regions in Asia and Latin America”.²²¹ In the African context, the aid effectiveness debate has become more rampant within regional bodies, for example the New Partnership for Africa’s Development (NEPAD), which has made calls for the

²¹⁷ A. Gani, and M. Clemes, “Aid type and its relationship with human well being”, *International Journal of Social Economics* 30, no. 6 (2003): 667

²¹⁸ Gani and Clemes, “Aid type and its,” 667-8.

²¹⁹ Gani and Clemes, “Aid type and its,” 667.

²²⁰ Pomerantz, *Aid effectiveness in Africa*, 2.

²²¹ Loxley and Sackey, *Aid effectiveness in Africa*, 163.

Continent to assess the efficacy of foreign aid as a tool for growth, and for domestic policy responses to be formulated.²²²

3.4.1 Donor motivations and practices in aid allocation

The World Bank's recent Report entitled *Assessing aid: What works, what doesn't, and why*, points out that foreign aid has had two objectives, right from the early years of the post-World War II era; the Report notes that these objectives are potentially incompatible:

"The first objective was to promote long-term growth and poverty reduction in developing countries; the underlying motivation of donors was a combination of altruism and a more self-interested concern that in the long term, their economic and political security would benefit if poor countries were growing. The second objective was to promote the short-term political and strategic interests of donors. Aid went to regimes that were political allies of major Western powers. Thus the strategic and developmental objectives were potentially, but not necessarily, at odds".²²³

One can sum up the above as follows: the allocation of foreign aid by donors has been motivated by two factors, namely 'recipient need' and the 'donor interest'.²²⁴ Kim, on the one hand, argues that aid is a response to world poverty, that arose from ethical and humane concerns, and is an external manifestation of a 'sense of obligation' on the part of the rich for the disadvantaged.²²⁵ On the other hand, Mason argues that the strategic interests of the donor countries are the primary driver for aid, which means therefore that donor interests outweigh those of the recipients.²²⁶ Ruttan attempts to synthesise the two positions by stating that foreign aid has been used, both in the pursuit of domestic economic and strategic interests of donors, as well as out of the sheer moral and ethical responsibility of residents of wealthy countries towards residents of poor countries.²²⁷ McGillvray's summation of the literature is that "developmental or

²²² NEPAD *The New Partnership for Africa's Development (NEPAD)*, Nigeria: OAU (2001)

²²³ World Bank (WB), *Assessing aid: What works*, 7.

²²⁴ R. McKinley, and R. Little, "A foreign policy model of US bilateral aid allocation," *World Politics* 30, no. 1 (1977): 58

²²⁵ K. Nossal, "Mixed motives revisited: Canada's interest in development assistance," *Canadian Journal of Political Science* 21, no. 1 (1988): 35

²²⁶ E. Mason, *Foreign aid and foreign policy* (New York: Harper and Row for the Council on Foreign Relations, 1993), 3

²²⁷ V. Ruttan, "Why foreign economic assistance?," *Economic Development and Cultural Change* 37, no. 2 (1989): 411-412

humanitarian concerns, including the reduction of poverty, [in fact] receive a relatively low or even zero weight” in donor’s considerations about the allocation of aid.²²⁸ According to Ruttan, both recipient need and donor interests cannot be discarded, on logical or theoretical grounds; arguing that empirical evidence in support of both is weak, therefore, both feature as considerations in the allocation of aid.²²⁹

It has been argued that “if aid [was] to be allocated on the basis of recipient needs, the poorest countries should receive more, and the richest countries less”.²³⁰ Findings presented by McKinley and Little suggest, however that aid policies are not necessarily geared towards providing assistance to the poorest countries.²³¹ Guillaumont and Chauvet propose that aid effectiveness is determined by environmental factors, which are exogenous to the recipient nations.²³² These include, terms of trade trends, climatic shocks and exports instability. If aid is to be successful, donors should target nations, which are not able to absorb external shocks because of their economic climates, which make them more vulnerable, and, therefore, are not able to meet their development priorities.²³³

It is evident therefore that donors ask two questions when they are considering aid allocations: Whether to allocate aid to a given potential recipient? And, in case of a positive answer, how much aid to give to this recipient?²³⁴ It is also suggested that donors pursue political and strategic interests, and allocate aid simply to complement the donor’s political strategy. Ruttan mentions that one of the issues that need to be investigated further is the conflict between the short-term political strategic objectives for donors, versus the long-term political development gains for the recipient country, ultimately affects aid effectiveness.²³⁵

A similar argument, made by Alesina and Dollar, is that for donors, aid allocation is as much a political, as an economic decision. Examples of such political considerations include colonial ties, political alliances and the policy performance of the recipient. “An

²²⁸ G. McGillvray, “Aid effectiveness and selectivity: Integrating multiple objectives into aid allocations”, *DAC Journal* 4, no. 3 (2003): 7

²²⁹ Ruttan, “Why foreign economic assistance?,” 411.

²³⁰ J. Berthelemy, and A. Tichit, “Bilateral donors’ aid allocation decisions- a three-dimensional panel analysis,” *International Review of Economics and Finance* 13, no. 3 (2004): 255

²³¹ Berthelemy and Tichit, “Bilateral donors’ aid allocation,” 255.

²³² Guillaumont and Chauvet, “Aid and performance: A,” 66.

²³³ Guillaumont and Chauvet, “Aid and performance: A,” 66.

²³⁴ L. Dudley, and C. Montmarquette, “A model of the supply of bilateral foreign aid”, *American Economic Review* 66, no. 1 (1976): 132

²³⁵ Ruttan, “Why foreign economic assistance?,” 413.

inefficient, economically closed, mismanaged non-democratic former colony [but which is] politically friendly to its former colonizer, receives more foreign aid than another country with similar levels of poverty, a superior policy stance, but without a past as a colony".²³⁶ Countries that have democratised, generally receive exponentially increased foreign aid by up to 50%.²³⁷

Cline and Sargen challenge the literature's earliest models for aid allocation, namely Chenery and Strout's 1966 'two-gap' model as well as Adelman and Morris' performance criteria approach. The 'two gap' model rests on the premise that aid contributes to the domestic saving gap that not only characterises developing nations, but is also the reason for their lack of economic development.²³⁸ According to this model, the gap in these regions is reflected in their respective investment and savings, which implies that developing countries have insufficient savings and/or foreign capital. The role that aid plays is that of a 'filler' for both the domestic savings basket (the internal gap), as well as the import gap (the external gap).²³⁹ Cline and Sargen's critique of this model is based on the model's assumption that recipients are equally in need. The model pays no regard to their differences in per capital income levels. Secondly, the model "introduces a negative incentive effect into allocation"²⁴⁰. The poorer the savings or export effort, the wider the gap and the larger the aid recommended".²⁴¹ Adelman and Morris are of the view that aid allocation should be determined by performance criteria.²⁴² Cline and Sargen critique them for the following reasons: subjectivity in determining key variables such as 'degree of commitment of leadership to promoting economic development,' as well as its inconsistency in considering the element of equity in country allocation.²⁴³

According to Dollar and Levin, Denmark, the United Kingdom, Norway, the Netherlands and Sweden give consideration to poverty levels in prospective recipient

²³⁶ A. Alesina, and D. Dollar, "Who gives foreign aid to whom and why?", *Journal of Economic Growth*, Vol 5 (2000): 33

²³⁷ Alesina and Dollar, "Who gives foreign aid," 34.

²³⁸ Chenery, and Strout, "Foreign assistance and economic," 673-733.

²³⁹ Chenery, and Strout, "Foreign assistance and economic," 679-733.

²⁴⁰ W. Cline, and N. Sargen, "Performance criteria and multilateral aid allocation", *World Development* 3, no. 6 (1975): 384

²⁴¹ Cline and Sargen, "Performance criteria and multilateral," 384.

²⁴² I. Adelman, and C. Morris, "Performance criteria for evaluating economic development potential: an operational criteria", *Quarterly Journal of Economics* 82, no. 2 (1968): 260-280

²⁴³ Cline and Sargen, "Performance criteria and multilateral," 384.

countries, while France and the United States do not.²⁴⁴ This confirms Berthelemy's view that all donors are not the same in their determination of aid allocation. They use different indicators, for example, recipient need and donor interest.²⁴⁵

The United States, as a major contributor of aid, is highly criticised for its motives for allocation. Zimmerman, for instance, argues that the US's allocation of aid is not conducive for development, and is biased towards middle income countries.²⁴⁶ Alesina and Dollar's studies find the US's bilateral aid to be motivated principally by geopolitics (especially during the Cold War), and, secondly by commercial interests, and then followed by humanitarian concerns.²⁴⁷

Developing countries have appealed to donors to co-ordinate their efforts to improve aid effectiveness. It is envisioned that through collaboration, poverty reduction efforts may yield better outcomes and effect more significant levels of change. As the alleviation of poverty is an international public good, it is emphasised that the best way to achieve this, is through co-ordination and collaboration.²⁴⁸ However, there is downside to improving co-operation among donors, it may reduce the recipient government's responsibilities.²⁴⁹

3.4.2 Donor-recipient relationship

The literature suggests that the nature of the relationship between donors and recipients has an impact on the effectiveness of foreign aid. According to a recent report by the World Bank's Commission on International Development, which is entitled *Partners in Development*, "partnerships between the rich countries and the poor, as the latter struggle for development and poverty reduction, has been part of the approved rhetoric in the development community for a long time".²⁵⁰ How this is to be achieved remains largely unexplained and unexplored.

²⁴⁴ D. Dollar, and V. Levin, "The increasing selectivity of foreign aid, 1984-2003," *World Development* 34, no. 12 (2006): 2034-2046

²⁴⁵ Berthelemy and Tichit, "Bilateral donors' aid allocation," 255.

²⁴⁶ R. Zimmerman, *Dollars, diplomacy and dependency* (Colorado: Lynne Rienner, 1993), 63

²⁴⁷ Alesina and Dollar, "Who gives foreign aid," 33-63.

²⁴⁸ G. Torsvik, "Foreign economic aid; should donors cooperate?," *Journal of Development Economics* 77, no. 2 (2005): 504

²⁴⁹ Torsvik, "Foreign economic aid; should," 504.

²⁵⁰ L. Pearson, *Partners in Development: Report of the Commission on International Development* (New York: Praeger, 1969), 23.

Whilst encouraging good relations between donors and recipients seems valuable, Patel mentions that:

the concept of genuine partnership in development ... lacks credibility ... [as] there has never been any real sense of equality between donors and recipients [,] even when they attend the same consortium meetings and sit around the same table in many other forums. For the recipient to be frank about the policies or attitudes of donors in a forum where aid is to be distributed [,] is about as difficult as the proverbial passage of the camel through the eye of a needle. Criticism of donor policies, even when it comes from non-recipients, is seldom answered in the manner in which recipients are obliged to answer the most far-reaching criticism of their own policies. There are obviously two sets of rules... A mere equality of opportunity in engaging in dialogue cannot establish parity in decision-making... The doctrine of mutuality in monitorship or genuine partnership in development is impractical.²⁵¹

The nature of aid assistance programmes has been heavily criticised for their donor-driven character. Some scholars point out that this is counterproductive for positive developmental output.²⁵² Wangwe adds that in addition to the donor-driven agenda of programmes, a lack of recipient ownership, weak management capacity of recipients, and aid conditionality have compromised aid effectiveness.²⁵³ In order to change this, Mkandawire and Soludo want African countries to take more of the initiative, not only by developing 'home-grown' strategies, but also taking it as their prerogative, that African countries should lay down the role and the nature of foreign aid in Africa, and not simply take directives from donors.²⁵⁴ Helleiner notes a "disconnect" between donor rhetoric regarding partnership and what happens in the field.²⁵⁵

3.4.3 Quality and quantity of aid

Lensink and White postulate that the quantity of aid inflows to a recipient is vitally important. According to them, an inflow of aid above a certain level has negative

²⁵¹ I. Patel, "Aid relationship for the seventies," in *The widening gap: Development in the 1970s*, eds. B. Ward, L. D'Anjou, and J. Runnalls, 305 (New York: Columbia University Press, 1971).

²⁵² G. Helleiner, "External conditionality, local ownership and development," in *Transforming development: Foreign aid for a changing world*, ed. M. Freedman, 1 (Toronto: University of Toronto, 2006)

²⁵³ S. Wangwe, *Foreign aid, debt and development in sub-Saharan Africa* (Tokyo: Economic and Social Research Foundation, 1998), 15.

²⁵⁴ T. Mkandawire, and C. Soludo, "Our continent, our future: African perspectives on structural adjustment", *Journal of Sustainable Development in Africa* 1, no. 2 (1999): 121

²⁵⁵ G. Helleiner, "Towards balance in aid relationships: Donor performance monitoring in low-income developing countries", *CIS Working Dissertation 2000* (2000): 3

implications for growth and effectiveness.²⁵⁶ This concern is also raised by other scholars, who posit that “high levels of aid may signify, or induce, aid dependence, rather than lay the basis for self-reliant development as aid is intended to [do]”.²⁵⁷

Interestingly, the hypothesis presented by Olsen *et al* suggests that the quantity or volume of assistance allocated to countries, particularly during emergency situations, is determined by three variables: firstly, the intensity of media coverage of the crisis; secondly, donor’s political interest in the emergency; and thirdly, the ability of humanitarian organisations within the affected country to respond.²⁵⁸

In addition to the quantity of aid, the quality of aid allocated affects aid effectiveness. There are significant accounts of the importance of the quality of aid allocation in the literature. Collier and Dollar, as well as Burnside and Dollar make the point that if aid is to achieve its goals and be more effective, it should be targeted to recipients that are most in need.²⁵⁹

3.4.4 Multilateral versus bilateral aid

Thiele *et al* test whether the provision of bilateral and multilateral aid is in line with the MDGs.²⁶⁰ Their results reflect that “donor patterns differ in the extent to which their sectoral aid allocation is conducive to achieving major MDGs”.²⁶¹ Overall, aid has been directed towards the MDG relating to the fight against HIV/AIDS, while others, such as the MDG for primary education, have received less attention. This example shows the disparity between donor rhetoric and actual aid allocation.²⁶²

In contrast to the work by Dollar and Levin, Canavire *et al* find no suggestion that multilateral aid is more poverty and policy oriented than bilateral aid.²⁶³ In fact, it was

²⁵⁶ R. Lensink, and H. White, “Are there negative returns to aid?,” *The Journal of Development Studies* 37, (1999): 42-65

²⁵⁷ Lensink and White, “Are there negative returns,” 1.

²⁵⁸ G. Olsen, N. Carstensen, and K. Hoyen, “Humanitarian Crises: What determines the level of emergency assistance? Media coverage, donor interests and the aid business”, *Disasters* 27, no. 2 (2003): 109

²⁵⁹ P. Collier, and D. Dollar, “Aid allocation and poverty reduction,” *European Economic Review* 46, no. 8 (2002): 1475 -1500; C. Burnside, and D. Dollar, “Aid, policies and growth”, *American Economic Review* 90, no. 4 (2002): 847-868

²⁶⁰ Thiele, Nunnenkamp, and Dreher, “Do donors target aid,” 1.

²⁶¹ Thiele, Nunnenkamp, and Dreher, “Do donors target aid,” 1.

²⁶² Thiele, Nunnenkamp, and Dreher, “Do donors target aid,” 1.

²⁶³ G. Canavire, P. Nunnekamp, R. Thiele, and L. Triveno, “Assessing the allocation of aid: Developmental concerns and the self-interest of donors”, *Kiel Working Dissertation*, no. 1253 (2005): 1

found that the export-related self-interest of donor countries, as well as colonial ties provided strong incentives for the allocation of bilateral aid.²⁶⁴

Even though the allocation of aid may be determined by recipient need, to a greater or lesser extent, bilateral aid is more likely to be tailored to advance the economic and strategic interests of the donor.²⁶⁵ Cassens explains that “national interest is the most obvious donor motive in bilateral aid and that donors support countries with which they have strong cultural, economic, political and strategic ties”.²⁶⁶

Yasin differentiates the impact that aid has on growth, according to aid type- whether multilateral or bilateral.²⁶⁷ Yasin’s panel data study of 11 sub-Saharan African countries during the period 1990-2003, carries out an assessment of the relationship between aid and FDI. (The importance of FDI in achieving growth cannot be overstated. In addition to it stimulating new technology, it creates new employment opportunities, unlocks external market opportunities for both the source and recipient nations, eases domestic capital flight abroad, and for the recipient has overall a positive impact on economic growth and productivity.)²⁶⁸ The results found bilateral aid to have a positive influence on FDI, which is stimulated through trade openness, growth of the labour force and exchange rates.²⁶⁹ Papanek and Schnieder and Frey support the positive relation between bilateral aid and FDI.²⁷⁰ For them, bilateral aid is usually allocated with a condition that the recipient country implement economic reforms. It is these economic reforms that create an environment that attracts FDI. Multilateral aid is not able to achieve this kind of growth. The “positive and significant influence of [official] bilateral ... development assistance on foreign direct investment [,] is that the recipient countries [,] need to formulate policies that improve their economic relationship with the donor countries in order to attract greater foreign direct investment flows from the multilateral corporations located in these [i.e. donor] countries”.²⁷¹

²⁶⁴ Canavire, Nunnekamp, Thiele and Triveno, “Assessing the allocation of aid,” 1.

²⁶⁵ R. Ram, “Roles of bilateral and multilateral aid in economic growth of developing countries,” *Kyklos* 56, no. 1 (1994): 97

²⁶⁶ Ram, “Roles of bilateral and,” 97.

²⁶⁷ M. Yasin, *Official development assistance and foreign direct investment flows to sub-Saharan Africa* (Oxford: Blackwell Publishing Ltd, 2005), 23

²⁶⁸ C. Harris, *Private participation in infrastructure in developing countries: Trends, impacts and policy lessons*, (Washington D. C: World Bank, 2003): 6

²⁶⁹ Yasin, *Official development assistance and*, 23.

²⁷⁰ Papanek, “Aid, foreign private investment,” 120- 130; F. Schneider, and B. Frey, “Economic and political determinants of foreign direct investment,” *World Development* 13, no. 2 (1985): 161-175

²⁷¹ Yasin, *Official development assistance*, 23.

3.4.5 Aid-type

It is only recently that Clemens *et al* and Mavrotas and Nunnekamp have made calls for aid to be disaggregated given the heterogeneity of foreign aid.²⁷² It would be foolish, therefore, to assume that all types of aid would have the same effect in recipient countries. The importance of this is highlighted by Cassen, who emphasised that disaggregation could in fact change our understanding of how aid really works in practice.²⁷³

In addition to disaggregating aid according to the type of aid, the composition of aid should also factor-in differences in donor motivations and aid allocation, for “if aid is heterogenous [,] and each of its components is driven by different donor motives [,] and exerts different macroeconomic effects in the recipient countries, using a single figure for aid results in an aggregation bias that may blur empirical results”.²⁷⁴

Neumeyer emphasises the need to disaggregate aid, and the effectiveness thereof, according to the type of aid. As his study shows, the allocation and effectiveness, for instance, of food aid is significantly different to that of other forms of aid.²⁷⁵ However, Hopkins refutes Neumeyers hypothesis, stating that food aid as a resource is no different to any other form of aid.²⁷⁶ Dearden and Ackroyd go further in outlining the similarities between financial and food aid. According to them, both are resource transfers and there is no economic difference from the recipient between food or non-food aid assistance.²⁷⁷

Gani and Clemes examine the relationship between aid type and human well-being. Their findings reveal that aid directed to provide education and water correlate positively with human well-being in low-income countries.²⁷⁸

²⁷² M. Clemens, S. Radelet, and R. Bhavnani, “Counting chickens when they hatch: The short-term effect of aid on growth,” *Center for Global Development Working Dissertation 44* (2004); G. Mavrotas, and P. Nunnenkamp, “Foreign aid heterogeneity: Issues and agenda”, *Review of World Economics* 143, no. 4 (2007): 586

²⁷³ Moss, Petterson, and van de Walle, “An aid-institutions paradox?” 2.

²⁷⁴ Mavrotas and Nunnenkamp, “Foreign aid heterogeneity: Issues,” 587.

²⁷⁵ E. Neumeyer, “Is the allocation of food aid free from donor interest bias?”, *Journal of Development Studies* 41, no. 3 (2005): 394

²⁷⁶ R. Hopkins, “The politics of adjustment: The African case,” *Food Policy* 13, no. 1 (1988): 50

²⁷⁷ P. Dearden, and P. Ackroyd, *Reassessing the role of food aid*, (London: Butterworth & Co Publishing Ltd, 1989): 218

²⁷⁸ Gani and Clemes, “Aid type and its,” 666.

3.5 Aid and governance

More recently, the relationship between aid and governance has been an issue of discussion in policy discourse. One cannot dispute that governance issues are crucial in achieving improvements in economic and social outcomes. It is by no coincidence that UN Security General, Kofi Annan stated that “good governance is perhaps the single most important factor in eradicating poverty and promoting development”.²⁷⁹ In Africa, however, good governance remains elusive for many countries.²⁸⁰ Given that aid has come to play an important role in Africa, it seems natural that this dissertation unpacks the relationship (if any) that aid has on governance. The literature suggests that, while aid has played its part in improving institutions, economic management, delivering public goods and services, as well as increasing self-reliance, in some countries aid has failed to have any positive effect.

In the literature, there is general consensus about what governance is, and why it matters. Firstly, governance refers to a process. Secondly, governance exceeds the ambit of government, and involves the nature of relationship between the state and society. And thirdly, governance refers to the set of rules that regulate public life.²⁸¹ Good governance therefore refers to “the form of institutions that establish a predictable, impartial and consistently enforced set of rules for investors”, as well as clear separation of powers between the legislature, the judiciary and the executive organs of the government.²⁸²

3.5.1 Favourable incentives for governance

There is some evidence that foreign aid has improved and increased the ability of African states to govern well.²⁸³ This has been achieved through policy advice, training and education programmes that have infused innovative ideas about governance and management. Goldsmith adds that “African policymakers today express far more

²⁷⁹ Overseas Development Institute (ODI) “Governance, development and aid effectiveness: A quick guide to complex relationships,” *ODI Briefing Dissertation March* (2006): 1

²⁸⁰ K. Mansaray, “Achieving good governance: The role of women in policy making,” in *African development and governance strategies in the 21st century*, ed. B. Onimale, 94 (London: Zed Books, 2004).

²⁸¹ Overseas Development Institute (ODI), “Governance, development and aid,” 1.

²⁸² S. Knack, “Aid dependence and the quality of governance: Cross-country empirical tests”, *Southern Economic Journal* 68, no. 2 (2001): 310; Mansaray, “Achieving good governance: The,” 94.

²⁸³ Goldsmith, “Foreign aid and statehood,” 124.

favourable attitudes towards markets and competitive politics than they did in the past. The spread of liberal ideas is partly attributable to foreign aid".²⁸⁴

3.5.2 Unfavourable incentives for governance

The literature highlights how aid has impede governance in the Continent. According to Goldsmith, Africa "makes disappointing political and administrative headway- this despite a growing amount of Africa's aid being earmarked to improve the quality of government".²⁸⁵ For Knack, aid undermines the quality of governance because it "weaken[s] accountability, encourag[es] rent-seeking and corruption, foment[s] conflict over control of aid funds, siphon[s] off scarce talent from the bureaucracy, and alleviat[es] pressures to reform inefficient policies and institutions".²⁸⁶ Knack demonstrates his argument by using cross-country data which provides evidence for the erosion of the quality of governance using indices such as the rule of law, corruption and the quality of the bureaucracies.

Brautigam, points out that, if governance is to be improved, good leadership and good institutions are essential.²⁸⁷ Unfortunately, in African many counties lack such institutions, which means that aid has failed to facilitate the development of those prerequisites. Instead, the high volumes of aid that have been delivered to countries with weak institutions, have generated greater institutional problems so that the effectiveness of government institutions is not improved.²⁸⁸ "In aid dependent countries, donor agencies and foreign experts often take over many of the critical functions of governance: substituting their own goals for an absent leadership vision, using foreign experts and project management unites in place of weak and decaying public institutions, and providing finance for investments whose operation and maintenance is neither planned for nor affordable".²⁸⁹ In such cases, foreign aid hampers growth, rather than being a part of the solution.

The volume of aid that a recipient receives affect dependence and the impact on governance. Aid dependence, as defined by Brautigam, refers to a "situation in which a

²⁸⁴ Goldsmith, "Foreign aid and statehood," 124.

²⁸⁵ Goldsmith, "Foreign aid and statehood," 123.

²⁸⁶ Knack, "Aid dependence and the," 310.

²⁸⁷ D. Brautigam, *Aid dependence and governance* (Washington D.C.: Almquist & Wiksell International, 2000), 5

²⁸⁸ Brautigam, *Aid dependence and governance*, 1.

²⁸⁹ Brautigam, *Aid dependence and governance*, 1.

country cannot perform many of the core functions of government, such as operations and maintenance, or the delivery of basic public services, without foreign aid funding or expertise”.²⁹⁰ Lensink and White extend this definition by adding that “a country is aid dependent if it will not achieve objective X in the absence of aid for the foreseeable future”.²⁹¹ Statistical analysis using OECD data indicates that there is a significant negative relationship between quality of governance and volume of aid received.²⁹² This is because aid when received over a sustained period of time, can compromise good governance and institutional performance.

The literature also suggests that aid has been found to increase political instability, because controlling a government is more important to a donor country than promoting good governance in a recipient country. Maren attributes Somalia’s civil wars to competition for control over the government, and large-scale food aid.²⁹³ Political instability is not conducive to good governance, nor does it create an environment which enables growth.

Aid creates what Moss *et al* refer to as an ‘aid-institutions paradox’.²⁹⁴ Foreign aid is said to decrease the incentive for a recipient government to invest in effective institutions, because the government is not accountable to its citizens for the use made of resources which are sourced externally. There is little pressure on government to retain popular legitimacy.²⁹⁵ Moss et al focus on the adverse effects that aid has on the one of the primary functions of the state – the collection of revenues. This function is vital, as “the ability of the state to collect revenues is critically linked to state capacity ... [T]he central role of revenue collection in political development and state-building has long been accepted”.²⁹⁶

3.6 Conclusion

This chapter has surveyed some of the literature on foreign aid. It has focused on the aid-growth relationship, the aid-governance relationship, and aid effectiveness, in

²⁹⁰ Brautigam, *Aid dependence and governance*, 2.

²⁹¹ R. Lensink, and H. White, “Aid dependence: Issues and indicators,” (Stockholm: Ministry of Foreign Affairs (1999)

²⁹² Brautigam, *Aid dependence and governance*, 16.

²⁹³ C. Maren, *The road to hell: The ravaging effects of foreign aid and international charity* (New York: The Free Press, 1992), 27.

²⁹⁴ Moss, Petterson, and van de Walle, “An aid-institutions paradox?” 2.

²⁹⁵ Moss, Petterson, and van de Walle, “An aid-institutions paradox?” 1.

²⁹⁶ Moss, Petterson, and van de Walle, “An aid-institutions paradox?” 10.

particular. The various perspectives presented in this chapter show that the correlation between aid and growth can be negative, positive or null. Put differently, aid can deter growth, stimulate growth or have no impact at all.

The chapter noted that the effectiveness of aid is also affected by other factors: donor motivations; donor practices; donor-recipient relationships; and aid-type to mention a few.

The impact that aid has on governance and governments was also raised. In some instances, aid has encouraged good governance, and in others, it has undermined accountability, increased patronage and ultimately compromised institutional efficacy and growth.

University of Cape Town

CHAPTER 4

COSTS AND BENEFITS OF FOREIGN AID IN AFRICA

4.1 Introduction

This chapter analyses the costs and benefits of foreign aid in Africa. A number of case studies are used for illustrative purposes. This is necessary given the significant and seemingly permanent role that aid has come to play in the Continent. The challenges that African governments face include economic stagnation, underdevelopment, financial volatility, humanitarian catastrophes, and conflicts.²⁹⁷ The question, therefore, is whether aid has proved beneficial or destructive in the context of ameliorating these and other challenges.

4.2 Aid-growth relationship

The ability of foreign aid to stimulate economic growth has been the subject of major debate. A survey of the literature indicates that whilst foreign aid has yielded growth in some recipient countries, it has had negative impacts on growth in others.

There is a school of thought that sees foreign aid as having a positive impact of growth. Carlsson *et al* are of this persuasion.²⁹⁸ They cite the case of Botswana to demonstrate that aid can act as a catalyst in boosting economic growth.²⁹⁹ Botswana is a “successful example” of a positive relationship between foreign aid and economic growth.³⁰⁰

Before it became independent, and prior to receiving any foreign aid, Botswana was one of the poorest countries in the world with per capita income of US\$240.³⁰¹ Minimal investments made by the colonialists, and great social and economic inequality are not conditions which would favour growth.³⁰² According to Lindgred’s data, Botswana’s per capita GDP was US\$407 in 1820, compared to US\$1453 in Italy,

²⁹⁷ Carlsson, Somelekae, and van de Walle, *Foreign aid in Africa*, 16.

²⁹⁸ Carlsson, Somelekae, and van de Walle, *Foreign aid in Africa*, 16.

²⁹⁹ Carlsson, Somelekae, and van de Walle, *Foreign aid in Africa*, 16.

³⁰⁰ K. Togo, “Development assistance and economic growth: A case study of Botswana”, *Musashi University Discussion Paper No. 48* (2008): 1

³⁰¹ Carlsson, Somelekae, and van de Walle, *Foreign aid in Africa*, 16.

³⁰² D. Acemoglu, S. Johnson, and J. Robinson, “An African success story: Botswana,” *CEPR Discussion Papers*, no. 3219 (2001): 1

US\$1508 in France and US\$1946 in Germany.³⁰³ By independence, GDP had risen to \$1119, a marginal increase when compared with that of Italy, France and Germany's GDP which grew to US\$9504, US\$13187 and US\$14731, respectively.³⁰⁴ Average life expectancy in Botswana was low, 34 years, compared to 38 years in Germany.³⁰⁵ Botswana's society was considered to be among the most hierarchically stratified of any in the Southern African region.³⁰⁶ It is significant that unemployment, especially for rural populations that were dependent on the earnings of migrant workers, was significantly high.³⁰⁷

Botswana's economic performance has been transformed; it now bears little resemblance to its pre-independence status. Much of the success that this small landlocked country has enjoyed is due to the transformations that the government has implemented, made possible by foreign aid. Beginning in the 1960s, Botswana received funding from the United States and the British Government.³⁰⁸ Foreign aid provided the means that enabled the government to diversify the economy. As a result of receiving aid for some three decades, from 1965 to 1985, Botswana has experienced "the most rapid rate of growth of gross national product (GNP) per capita (8.3%) of any country in the world".³⁰⁹ So significant was the growth that the today the country is a "middle-income country with a GDP per capita of over USD 2000".³¹⁰

Botswana's improved through the establishment of infrastructure. According to the Ministry of Finance and Development Planning, the Botswana Government adopted social and economic reforms that boosted government revenue and spending, resulting in dramatic increase from US\$34 million, in 1970, to US\$ 2 billion, in 1994.³¹¹ Indicators of social wellbeing relating to education, health, mortality rates also showed significant improvement. The number of people living below the poverty line, decreased by more

³⁰³ M. Hlavac, "Pre-independence Botswana, 1820 – 1966: Historical trends, contributing and countervailing factors", *MPRA Paper no. 26026* (2010): 3

³⁰⁴ Hlavac, "Pre-independence Botswana," 3

³⁰⁵ Hlavac, "Pre-independence Botswana," 4.

³⁰⁶ K. Good, "Interpreting the exceptionality of Botswana," *The Journal of Modern African Studies* 30, no. 1 (1992): 69

³⁰⁷ Acemoglu, Johnson, and Robinson, "An African success story, 1.

³⁰⁸ N. Parsons, "Botswana History Pages", (1999) <http://ubh.tripod.com/bw/bhp5.htm> [accessed 27 December 2010]; Encyclopedia of the Nations "World Leaders 2003: Botswana Foreign Policy" <http://www.nationsencyclopedia.com/World-Leaders-2003/Botswana-FOREIGN-POLICY.html> [accessed 15 January 2011]

³⁰⁹ C. Harvey, and S. Lewis, *Policy choice and development performance in Botswana* (London: Macmillan, 1990), 16.

³¹⁰ Carlsson, Somelekae, and van de Walle, *Foreign aid in Africa*, 16.

³¹¹ Botswana "Budget Speech", (Botswana: Ministry of Finance and Development Planning) (1994)

than 10%.³¹² Infant mortality rates fell from 98 per 1000 births in 1970, to 38 per 1000 in 1998.³¹³ Life expectancy at birth showed similar improvement, increasing from 55 years in 1971, to 67 years in 1997.³¹⁴

From the outset, Botswana's Government priorities were "ending grants-in-aid from Britain; diversifying sources of aid to reduce dependence on one donor; and attracting private foreign investment".³¹⁵ In the beginning, up to 50% of the Government's budget to develop transportation, human resource development, agriculture and emergency food relief, was financed by aid. It is estimated that aid inflows peaked at US\$ 240 million in the 1980s, when Botswana was the highest recipient of aid in the world.³¹⁶ By 1993, only 5% of the Government's expenditure was provided by aid, compared to 45% in 1973 and 20% in 1982.³¹⁷ Botswana's economic breakthrough has seen it phased out as a recipient of foreign aid.³¹⁸ It is hardly conceivable that this small country, which had a been one of the poorest in the world prior to independence, now boasts an economy which grew by of 7.5% annually from 1970 to 2004, and since has been the largest global producer of diamonds.³¹⁹ So great has the positive impact that foreign aid, that according to Williams, Botswana now has "the best credit risk on the Continent, a risk competitive with countries in central Europe and East Asia".³²⁰

Ghana presents another example of the positive role that foreign aid can play in improving economic growth. During the late 1970s and early 1980s, Ghana experienced a severe socioeconomic crisis: economy weakened as there were substantial declines in real GDP per capita.³²¹ According to the African Development Bank (ADB), "the country's ability to finance growth was restricted by low domestic savings, poor performance of export commodities, and decline in capital inflows".³²² Inflation

³¹² H. Siphambe, "Dimensions and measures to reduce poverty in Botswana", *Pula: Botswana Journal of African Studies* 17, no. 2 (2003): 20

³¹³ Siphambe, "Dimensions and measures to," 21.

³¹⁴ Siphambe, "Dimensions and measures to," 21.

³¹⁵ Carlsson, Somelekae, and van de Walle, *Foreign aid in Africa*, 19.

³¹⁶ Carlsson, Somelekae, and van de Walle, *Foreign aid in Africa*, 19.

³¹⁷ Carlsson, Somelekae, and van de Walle, *Foreign aid in Africa*, 19

³¹⁸ W. Williams, "Foreign aid to Africa" (2006): 2 <http://econfaculty.gmu.edu/wew/articles/06/aid.html> [accessed 15 November 2010]

³¹⁹ Togo, "Development assistance and economic, 2.

³²⁰ Williams, "Foreign aid to Africa", 2

³²¹ African Development Bank (ADB) *Ghana-agricultural sector rehabilitation programme: Program Performance Evaluation Report (PPER)* (Tunisia: Operations Evaluation Department (OPEV), 2002): vi

³²² African Development Bank (ADB) *Ghana-agricultural sector rehabilitation programme*, vi.

management was ineffective despite attempts at intervention.³²³ Economic deterioration eroded social infrastructure, healthcare, education, transportation and communication; and, the Government lacked the resources need to transform the country.³²⁴

Between 1983 and 1990, reforms that were made possible by foreign aid, encouraged 5% growth of real GDP. Inflation declined from 142% to 36% and “the overall balance of payments also went from a large deficit to a significant accumulation of international reserves”.³²⁵ Macroeconomic stability and debt relief were achieved through sound macro policies.³²⁶

According to the IMF, “Ghana is entering a new phase in its economic development where it has a historic opportunity to accelerate growth so that within a decade it can reach the MDGs and move to middle income status”.³²⁷

Intervention in the agricultural sector resulted in growth at an “annual rate [on average] of 2.8% [between] 1984-90 ... [of] 2.7% in the early 1990s, and [of] 4.4% in the second half of the 1990s”.³²⁸ The benefits of the continued growth of the agricultural sector had a ripple effect on the overall economy, which witnessed an annual growth rate of 5.7% between 1983 and 1989 and 4.4% in the 1990s.³²⁹

Budget allocations to the social sector have reduced poverty in Ghana. According to the Ghana Living Standards Survey, 38% of Ghana’s population lived below the poverty line in 1988. This rate had fallen to 31.4% 4 years later.³³⁰ Surveys conducted in 2001, indicate the consumption per capita and incomes rose by 12% in the 1990s.³³¹ The levels of education have risen by over 27% (previously 53% of the population had been illiterate), which has led to a 3% increase in per capita consumption.³³²

³²³ M. Ocran, “A modeling of Ghana’s inflation experience: 1960 – 2003,” *African Economic Research Consortium* Research Paper 169 (2007): 1

³²⁴ Price, “Neo-colonialism and Ghana’s economic,” 165.

³²⁵ Carlsson, Somelekae, and van de Walle, *Foreign aid in Africa*, 79

³²⁶ International Monetary Fund (IMF), “Ghana, the IMF, World Bank and IFC – 50 years of Reliable Partnership” (2007) http://www.mofep.gov.gh/imf_imf_50.pdf [accessed 17 September 2010]

³²⁷ International Monetary Fund (IMF), “Ghana, the IMF, World,” 1.

³²⁸ African Development Bank (ADB) *Ghana-agricultural sector rehabilitation programme*, vii.

³²⁹ African Development Bank (ADB) *Ghana-agricultural sector rehabilitation programme*, vii.

³³⁰ E. Aryeetey, and A. Cox “Aid effectiveness in Ghana,” in *Foreign aid in Africa: Learning from country experiences*, ed. J. Carlsson, G. Somelekae, and N. van de Walle, 81 (Sweden: Motala Grafiska, 1997)

³³¹ F. Tel, *Education, incomes, poverty and inequality in Ghana in the 1990s* (Oxford: University of Oxford, 2001), i

³³² Tel, *Education, incomes, poverty and*, I; Aryeetey, and Cox “Aid effectiveness in Ghana,” 81.

There is another school of thought that argues that foreign aid has a negative impact on growth. Some scholars go as far as to suggest that foreign aid has had a devastating effect on Africa's growth. Tanzania is such a case that illustrates the harm that foreign aid and donors can have on economic growth and poverty reduction. The economic strategy pursued during the first five years following independence was inspired by the World Bank.³³³ According to the strategy as laid out in the Arusha Declaration, priority was given to "promoting egalitarian development, rural development, provision of basic needs for the masses ... [by] plac[ing] the major means of production, distribution and exchange under the control of the State".³³⁴ The country faced significant challenges because of poverty and inequalities. It was urgent therefore that the basic needs of the population were address. It was envisaged that aid would serve to support this strategy, by encouraging growth and self-reliance. Much of the aid that Tanzania received was earmarked for economic infrastructure to provide power, roads, railways and clean water.³³⁵

During the 1970s and 1980s, Tanzania was the major recipient of bilateral aid, which averaged around US\$27.1 million annually.³³⁶ Over the years, however, aid inflows were unpredictable and did not match what had been stipulated in the agreements between the donors and the Government of Tanzania. Aid flows gradually dropped from US\$700 million in 1982, to US\$490 million in 1985.³³⁷ This meant that there were insufficient funds and resources to support the growth and development strategy. Consequently, the period 1973-1988 saw Tanzania's economy contract at an average rate of 0.5% a year, and average personal consumption declined by 43% over a 20 year period when an estimated \$10 billion were received in aid.³³⁸ The effects continue to be felt in Tanzania, where up to 36 million people still live on an average annual per capita income of \$290.³³⁹

³³³ Economic and Social Research Foundation (ESRF) "Aid effectiveness in Tanzania: The case of Danish aid," *Policy Dialogue Series*, no. 007 (1997): 1

³³⁴ Economic and Social Research Foundation (ESRF) "Aid effectiveness in Tanzania," 1.

³³⁵ E. Rotarou, and K. Ueta, "Foreign aid and economic development: Tanzania's experience with ODA," *The Kyoto Economic Review* 78, no. 2 (2009): 170

³³⁶ Economic and Social Research Foundation (ESRF) "Aid effectiveness in Tanzania," 3.

³³⁷ Economic and Social Research Foundation (ESRF) "Aid effectiveness in Tanzania," 3.

³³⁸ T. Ayodele, F. Cudjoe, T. Nolutshungu, and C. Sunwabe, "African perspectives on aid: Foreign assistance will not pull Africa out of poverty," (2005), i http://www.cato.org/pub_display.php?pub_id=9292 [accessed 25 September 2010]

³³⁹ Ayodele, Cudjoe, Nolutshungu, and Sunwabe, "African perspectives on aid," 2.

Tanzania remains dependent on foreign aid, it has been unable to becoming economically self-reliant³⁴⁰ Tanzania no longer has ownership of its own development agenda.³⁴¹ According to Rotarou and Ueta, approximately 40% of the national budget and 80% of the development budget is funded by foreign aid, which makes it one of the country's most dependent on aid.³⁴² In addition, "the net ODA/gross national income (GNI) ratio has increased from 10.6% in 2005 to 17.4% in 2007."³⁴³

Foreign aid has not had an impact of poverty reduction, nor helped Tanzania's advance towards meeting the MDGs.³⁴⁴ Rotarou and Ueta point out that despite receiving significant volumes of aid, "is still one of the poorest countries in the world [and faces] many challenges to its economic development".³⁴⁵ The 1999 Tanzania Human Development Report noted that the country ranked 156 out of 174 countries in the Human Development Index (HDI) in 1999. Furthermore, 51% of the population live on less than \$1 a day, and about 42% of those live in absolute poverty on less than \$0.75 cents a day.³⁴⁶ Life expectancy at birth is 47.9 years, compared to 52.0 years in Kenya.³⁴⁷

In light of the above, the researcher observes that foreign aid has had negative effects on growth as well as poverty reduction, as the situation in Tanzania shows. It is recommended therefore, that Tanzania and other countries in a similar predicament should perhaps look for alternative sources to finance development.

4.3 Aid effectiveness

A large proportion of the literature on foreign aid seeks to assess whether aid works or not. Success in redressing poverty is a frequently used measure of assessing the effectiveness of aid. One school of thought has it that aid is indeed effective in reducing poverty, as well as in encouraging economic growth. On the other hand, some scholars posit that foreign aid has proved unsuccessful on both fronts.

³⁴⁰ Economic and Social Research Foundation (ESRF) "Aid effectiveness in Tanzania," 2.

³⁴¹ Economic and Social Research Foundation (ESRF) "Aid effectiveness in Tanzania," 6.

³⁴² Rotarou and Ueta "Foreign aid and economic," 169.

³⁴³ Organisation for Economic Co-operation and Development (OECD) *2008 Survey on monitoring the Paris Declaration: Making aid more effective by 2010*, (Paris: OECD-DAC)(2008)

³⁴⁴ Rotarou and Ueta "Foreign aid and economic," 157.

³⁴⁵ E Rotarou and Ueta "Foreign aid and economic," 158.

³⁴⁶ United Nations Development Programme (UNDP) "Tanzania Human Development Report: The state of progress in human resource development," (2000): I

<http://www.tzonline.org/pdf/Tanzaniahumandevlopmentreport.pdf>

³⁴⁷ Ayodele, Cudjoe, Nolutshungu, and Sunwabe, "African perspectives on aid," i.

Some scholars argue that “aid can help governments more quickly and effectively meet with development objectives, and can improve the standard of living of the poor”.³⁴⁸ Proponents include Jeffery Sachs, who alludes to the ability of aid to fight poverty by encouraging economic growth; and Stiglitz and Stern, who campaign in support of foreign aid, because it has been effective in the relieving of poverty in many countries³⁴⁹ According to these scholars, as a result of foreign aid, indices which rate education and health have risen. Thus, aid has in some instances, become part of the solution to Africa’s challenges.³⁵⁰

The World Bank Report entitled *Assessing aid: What works, what doesn’t and why* states that “poverty reduction in developing countries is closely related to per capita income growth”.³⁵¹ Loxley and Sackey, for example, hypothesize that aid has reduced poverty as a result of the positive impact that it has had per capita income growth.³⁵² Using a sample of 40 countries over a 28 year period, the authors demonstrate how aid receiving countries experienced growth in from 3.8% in 1974-84, to 6% in 1985-94.³⁵³

An opposing school of thought demonstrates the costs that foreign aid has inflicted on recipient countries. Zambia is a case in point. Zambia experienced increased poverty and economic stagnation due to aid. Zambia has received foreign aid for a considerable length of time. Aid has been directed to reducing poverty. The economic, social and productive sectors have received a substantial share of aid as well.³⁵⁴ According to the Zambian Government, poverty is “lack of access to income, employment opportunities, normal internal entitlements by citizens to such things as freely determined consumption of goods and services, shelter and other basic needs of life that include education.”³⁵⁵ However, as the study conducted by Saasa and Carlsson demonstrates, poverty reduction remains largely ‘unaccomplished’ in Zambia.³⁵⁶ The immediate post-independence era from 1964 to the early 1970s registered growth and

³⁴⁸ Brautigam, *Aid dependence and governance*, 1.

³⁴⁹ J. Sachs, *The End of Poverty: How we can make it happen in our lifetime* (London: Penguin Publishers, 2005), 16; Radelet, Clemens, and Bhavnani, “Aid and growth: The,” 1-2.

³⁵⁰ Brautigam, *Aid dependence and governance*, 1.

³⁵¹ World Bank (WB), *Assessing aid: What works*, 1.

³⁵² Loxley and Sackey, *Aid effectiveness in Africa*, 164.

³⁵³ Loxley and Sackey, *Aid effectiveness in Africa*, 166.

³⁵⁴ O. Saasa, and J. Carlsson, *Aid and poverty reduction in Zambia: Mission unaccomplished* (Spain: Grafilur Artes Graficas, 2002), 71

³⁵⁵ Government of the Republic of Zambia (GRZ) *National Poverty Reduction Strategic Framework*, (Lusaka: Ministry of Finance and Economic Development, 1998.

³⁵⁶ Saasa and Carlsson, *Aid and poverty reduction*, 1.

economic prosperity largely due to copper's performance in global markets. However, from the mid-1970s, the tide turned.³⁵⁷ The combination of external shocks from the oil crisis, a decline in copper prices, and a failed attempt to diversify Zambia's economy, reversed the gains of. Consequently, social indicators fell, inflation boomed, while GDP stagnated. This should come as no surprise. The influx of any large sum of money into any economy, no matter how advanced, presents problems. Moyo built an argument on this observation that aid magnifies such problems as mentioned above, especially in countries that are "by their very nature, poorly managed, weak and susceptible to outside influence, over which [outside influence] domestic policymakers have little control".³⁵⁸

The volume and composition of aid received by Zambia has been conditional. It is dependent on the reform of its economy as a means of reducing poverty. Financial support has fluctuated depending on the extent to which Zambia has embraced reforms suggested by outsiders. For instance, when the Government adopted structural adjustment programmes between 1983 and 1987, Zambia was rewarded assistance. However, when the Government decided to abandon the IMF/World Bank supported SAPs, many donors withdrew support.³⁵⁹ The fluctuation in aid flow crippled Zambia's growth potential. Despite a steady increase in aid since 1973, poverty reduction and economic stimulation have not been realised. Zambia's economic performance has been negatively affected.

Zambia, like Mozambique, Uganda and Mali, is classified as one of the most indebted in the low-income category. Much of the debt was incurred in the 1970s, "with the debt overhang emerging in the 1980s when economic performance started to deteriorate rapidly and the balance of payments position continued to worsen".³⁶⁰ Over time, Zambia's external debt stock has increased. It reached S\$ 3.7 billion in 1992, US\$4.2 billion in 1994 and US\$7.143 billion in 1997. In 1996 however, aid had declined by 70% to US\$636 million.³⁶¹

³⁵⁷ Saasa and Carlsson, *Aid and poverty reduction*, 24.

³⁵⁸ Moyo, *Dead aid: Why aid*, 60.

³⁵⁹ Saasa and Carlsson, *Aid and poverty reduction*, 66.

³⁶⁰ Saasa and Carlsson, *Aid and poverty reduction*, 26.

³⁶¹ Saasa and Carlsson, *Aid and poverty reduction*, 26.

The percentage for those living below the poverty line has continued to increase. In 1991, the figure stood at 69.7%, soaring to 73.8% by 1993.³⁶² This burgeoning of poverty has occurred despite the fact that social infrastructure has received a significant share of aid. In fact in 1995, contributions to this sector stood at US\$191 million.³⁶³ Even though donors supported the development of economic infrastructure, the economy has failed to improve.³⁶⁴ The deterioration was so harsh that in 1985, the World Bank demoted the country from the status of low-middle income to low-income.³⁶⁵ By 1992, after receiving aid for many decades, inflation had reached 190%.³⁶⁶ It is evident therefore that in the case of Zambia, there is no positive correlation between aid and the stimulation of economic growth and poverty reduction.

Opponents of foreign aid question the motives underlying aid allocation by donors, which so often do not favour growth in recipient nations; and rather seek to advance the economic, commercial, strategic and political interests of donors. According to Murithi, “the reality in Africa is that aid to a large extent is synonymous with influence peddling, which is in effect a hidden form of manipulations, control and coercion – or colonialism”.³⁶⁷ It is clear that donors do manipulate the terms according to which aid is allocated to suit their agenda, rather than take a directive from the recipient.

Traditionally, foreign aid has been viewed as a temporary intervention, on the part of donors, which complements the recipient nation’s efforts. Foreign aid has become a more permanent feature in Africa’s development trajectory. The number of countries dependent on foreign aid has increased significantly. Some scholars go as far as to state that “aid has become a considerable force in the national economy, making countries more or less completely dependent on it”.³⁶⁸ The *1995 World Bank Development Report* provides some insight into the magnitude of some states’ dependence on aid, by analysing the percentage of a recipient’s GNP that is derived from foreign aid. In 1995, aid constituted a significant 40% of Tanzania’s GNP, while Zambia

³⁶² Saasa and Carlsson, *Aid and poverty reduction*, 16.

³⁶³ Saasa and Carlsson, *Aid and poverty reduction*, 69.

³⁶⁴ Saasa and Carlsson, *Aid and poverty reduction*, 24.

³⁶⁵ Saasa and Carlsson, *Aid and poverty reduction*, 24.

³⁶⁶ Saasa and Carlsson, *Aid and poverty reduction*, 24.

³⁶⁷ T. Murithi, “Aid colonisation and the promise of African continental integration,” in *Aid to Africa: Redeemer or Coloniser*, ed. H. Abbas, and Y. Niyiragira, 1 (Cape Town: Pambazuka Press, 2009)

³⁶⁸ Carlsson, Somelekae, and van de Walle, *Foreign aid in Africa*, 7

reflected 23.6%, Burkina Faso 23.6% and Mali with 13.5%.³⁶⁹ Mozambique, a recipient of significant volumes of foreign aid is heavily aid dependent, with over 53% of its population living below the poverty line. Similar situation can be said for Malawi, where 60% of the population live below the poverty line, and the country is heavily dependent on aid.³⁷⁰ This dependency on aid has distorted the Continent's development efforts considerably, either by producing the 'Dutch disease' or by lessening the "autonomy and resilience of national institutions by ... [the systemic]devalu[ation of] indigenous capacities, technologies, and cultures".³⁷¹

Erixton summarises the negative effects that foreign aid has had. Recipient nationals have derived little benefit from aid. Instead, "it has crowded out private sector investments, undermined democracy, and enabled despots to continue with oppressive policies [that], perpetuat[e] poverty".³⁷²

4.4 Aid and governance

The literature indicates that aid can have an impact on governance. As we have seen repeatedly, some scholars document the positive aspects, while others highlight the negative consequences.

One school of thought asserts that aid has the ability to stimulate effective government reform. It is through this reform enabled by foreign aid, that progress can be made towards addressing challenges relating to economic growth, development and governance. A number of surveys point out that "little progress can be made in African countries unless their governments are strongly committed to development rather than, say, personal enrichment".³⁷³ Some authors make the claim that foreign aid has yielded benefits when in government's establish priorities, implement policies and develop institutions.³⁷⁴

The Ugandan case illustrates how effective governance can make systematic changes which improve the lives of the poor. With a history of brutal war and consequent poverty, the Ugandan Government was able not only to reduce the number

³⁶⁹ World Bank (WB) *World Development Report 1995*, (Washington D.C.: World Bank, 1996)

³⁷⁰ African Development Bank (ADB), *African Development Report 2006*, 34.

³⁷¹ Carlsson, Somelekae, and van de Walle, *Foreign aid in Africa*, 12

³⁷² Erixon, "Aid and development: Will," 3.

³⁷³ R. Bolton, *Aid and other dirty business* (UK: CPI Cox & Wyman, 2008), 103

³⁷⁴ R. Calderisi, "Turning on the lights: A short history of foreign aid in Africa," in *Africa beyond aid*, eds. H. Hansen, G. Mills, and J. Herbst, 80 (Johannesburg: The Bernthurst Foundation, 2009).

of people living below the poverty line from 56% to 38%; it has also been able to reverse the spread of HIV/AIDS, it reduced the prevalence from 18% to 6%, between 1995 and 2005.³⁷⁵ Whilst credit is due to the Government, much of the progress made would not have been realised were it not for the large amounts of foreign aid and technical support which complement home-grown programmes. Aid provided the requisite resources and assistance that the country was unable to come up with on its own.

Foreign aid has supped the transition to democracy; Mali, Ghana, Mozambique and Benin are cases in point.³⁷⁶ Funds derived through aid have supported the democratic process, generated economic momentum and sustained constituency interest during the transition period. Aid was also used, for example, to finance voter registration, the drafting of new constitutions, judicial reform and the strengthening of civil society organisations.³⁷⁷ In summary, foreign aid has acted as a resource to “countries starting down a democratic path (that) often lack the institutions [necessary] to implement the basic functions of democracy”.³⁷⁸

Mali’s democratic transformation provides a valuable case study. Mali is one of the poorest countries in the world. According to Siegle, “development assistance provided to Mali’s new democracy” demonstrates how aid can “enable the simultaneous pursuit of economic reforms, poverty alleviation, and the building of democratic institutions”.³⁷⁹ Prior to receiving foreign aid, Mali endured 23 years under one party military rule.³⁸⁰ Between 1980 and 1990, which was during the period of military rule, per capita income shrank by 20% to a low US\$250. Konare was appointed as president of Mali in 1992 as a result of discontent with President Traore’s leadership. Central to the new leadership was the “rooting out corruption, ending entrenched patronage, increasing taxes, scaling back public expenditures and privatizing a number of public enterprises, among other reforms”.³⁸¹ Donors provided foreign aid to support the proposed reform programmes. Chief amongst these were plans to increase primary

³⁷⁵ Bolton, *Aid and other dirty*, 104.

³⁷⁶ J. Siegle, “Democratic divergence in Africa: Lessons and implications for aid,” in *Africa beyond aid*, eds. H. Hansen, G. Mills, and J. Herbst, 56 (Johannesburg: The Bernthurst Foundation, 2009).

³⁷⁷ Lancaster, *Foreign Aid: Diplomacy, development*, 48.

³⁷⁸ Siegle, “Democratic divergence in Africa,” 57.

³⁷⁹ Siegle, “Effective aid strategies to,” 11.

³⁸⁰ Siegle, “Effective aid strategies to,” 11.

³⁸¹ Siegle, “Effective aid strategies to,” 11.

school enrolments, to improve the social infrastructure, (for example the public health care system), as well as vigorous economic restructuring.³⁸²

The reform process has encouraged Mali's democratic development. According to the Freedom House democracy indices, Mali is categorised as a democracy undergoing consolidation, meaning that the country has "established democratic political systems and ... [is] in the process of institutionalizing these processes to a point where autocratic reversions are highly unlikely".³⁸³ Economic reforms have also resulted in the economy growing by 2.5%, and there has been a reduction of inflation of 16%. Inflation dropped from 23% to 7% by 1996.³⁸⁴ In essence, the establishment of democracies, has been translated into economic growth and improvements of living conditions.³⁸⁵

The literature provides accounts of the negative consequences that foreign aid has had for governance. For example, how aid limits many recipients' ability to define and create their own policy space. Many recipients have had little choice, as to how the aid they receive should be utilised, as well as the policy framework through which it should take place. Many donors, in fact, prescribe policies, and the recipient "governments have little choice but to follow the guidelines ... even though the policy priorities and implementation mechanisms that emerge from those templates may not be their own".³⁸⁶ In the long-term, this has not been conducive to stimulating and developing African solutions to African. Prescriptive top-down policies that the donors demand be followed, do not allow for local innovation and ownership. Much aid carries the donor agenda, which will often clash with that of the recipients.³⁸⁷ Consequently, there is a huge gap between local interpretations and external assessments of what Africa's challenges and solutions are. This is a major problem.

The infusion of foreign aid has also been linked to a weakening of democratic accountability. Knack suggests that "by expanding the government's resource envelope, aid reduces (the government's) need to explain its actions to its citizens, which may

³⁸² Siegle, "Effective aid strategies to," 10.

³⁸³ Siegle, "Effective aid strategies to," 3

³⁸⁴ International Monetary Fund (IMF) "IMF approves three-year loan for Mali under the ESAF", IMF Press Release no. 96/22, April 12, 1995

³⁸⁵ Siegle, "Effective aid strategies to," 4.

³⁸⁶ Hansen, Mills, and Herbst, *Africa beyond aid*, 21.

³⁸⁷ Ndulu, *Challenges of African growth*, 189.

reduce its need to govern well”.³⁸⁸ Furthermore, poor governance leads to a deterioration of the institutions which are necessary for maintaining a good investment environment, as the government is unable to maintain the rule of law, or limit corruption, or uphold the independence of the judiciary.³⁸⁹ While aid seeks to build internal capacity in recipient countries, it can produce negative consequences, for example it can undermine “the idea of shared accountability of the executive and legislative branches”. All too often, parliament is not involved in the distribution of foreign aid, which means that the executive arm of government is not held to account in the Legislature.³⁹⁰ Mwenda uses Uganda to demonstrate how “foreign aid and debt relief can exacerbate problems by postponing reforms and the emergence of a transparent and accountable government”.³⁹¹ Foreign aid seemingly provides a source of “unearned” revenue, which constitutes up to 50% of the national government’s budget. The recipient government does not have to disclose this revenue to its citizenry, nor is it accountable to them for its use.³⁹² As a result, government’s divert public resources to service other needs, which usually benefit those who are in line for political patronage line. So rife is this problem, that about 20%, or US\$40 million, of the annual expenditure which had been allocated for use by the military, was either unaccounted for, or lost because of corruption. It is argued that foreign aid has increased the magnitude of this problem. The argument proposes that in the absence of foreign aid, recipient government’s would be less inclined to misappropriate or mismanage funds, and would be more accountable to their constituencies.

Corruption has become endemic throughout Africa. It is more prevent in aid receiving countries. Much of the literature attributes the association of corruption and h foreign aid to a breakdown between the different tiers within government as well as between government and its constituencies. Mwenda notes how corruption has affected the rollout of essential services and public goods, for example education. In Uganda, for instance, corruption was so deeply entrenched that only 13% of the Country’s education

³⁸⁸ R. Rajan, and A. Subramanian, “Does aid affect governance?,” (2002)
http://www.aeaweb.org/annual_mtg_dissertations/2007/0106_1430_2002.pdf

³⁸⁹ Rajan and Subramanian, “Does aid affect governance?,” 1.

³⁹⁰ Hansen, Mills, and Herbst, *Africa beyond aid*, 15.

³⁹¹ A. Mwenda, “Foreign aid and the weakening of democratic accountability in Uganda,” *Foreign Policy Briefing* 88 (2006): 1

³⁹² Mwenda, “Foreign aid and the,” 1.

budget ever reached schools.³⁹³ The rest was “captured by local officials and politicians”.³⁹⁴

4.5 Conclusion

This chapter has analysed the costs and benefits of foreign aid to Africa. On the one hand, foreign aid has improved economic development and governance, and had helped reduce poverty by developing social infrastructure. On the other hand, aid has undermined economic growth, encouraged corruption, and choked local markets.

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³⁹³ Mwenda, “Foreign aid and the,” 3.

³⁹⁴ Mwenda, “Foreign aid and the,” 3.

CHAPTER 5

CONCLUSION

This dissertation analysed the costs and benefits of foreign aid in Africa. Foreign aid literature indicates that whilst aid has been a catalyst in realising positive economic growth and development in some cases; in others, aid has retarded growth, increased dependency and exacerbated poverty (despite the fact that aid is allocated to promote economic growth and reduce poverty).³⁹⁵ The purpose of this dissertation was not to provide solutions to the Continent's challenges regarding economic growth and development, but rather sought to contribute to the on-going debate about the role that foreign aid plays in Africa.

The aid debate has raged for over 45 years.³⁹⁶ Much of the literature attempts to assess whether aid has worked in terms of achieving its stated objectives of stimulating economic growth and reducing poverty.³⁹⁷ In keeping with the dominant discussions in the literature, this dissertation highlighted pertinent issues that were central to the aid debate in the context of Africa's development.

Chapter one introduced the dissertation and set the contextual background for the study. Despite receiving the largest share of global aid for several decades, much of Africa has seen little improvement in economic growth and poverty reduction.³⁹⁸ Instead, economies seem to have stagnated, and poverty become more pronounced as income per capita has continued to decline faster in Africa than in any other region.³⁹⁹ On the one hand, there are cases like Botswana, which demonstrate foreign aid's potential to play a positive role in the development of a country. Foreign aid enabled Botswana to realise a 4% increase in economic growth, which transformed the economy and provided resources for the government to develop infrastructure, as well as improve access to schools and health.⁴⁰⁰

On the other hand, there are cases like as Mozambique and Malawi, which demonstrate foreign aid's destructive effect on recipient nations. Despite receiving

³⁹⁵ R. Cassen, *Does aid work?* (Oxford: Oxford University Press, 1994), 2.

³⁹⁶ Loots, "Aid and development," 368.

³⁹⁷ Cassen, *Does aid work?* 2.

³⁹⁸ Abbas, *Aid to Africa: Redeemer*, vii.

³⁹⁹ Collier and Gunning, "Explaining African Economic Performance," 64.

⁴⁰⁰ Nnadozie, *Why study African economic*, 4; World Bank (WB), *Assessing aid: What works*, 1.

significant volumes of aid, the number of those living below the poverty line has increased, and both countries are heavily dependent on aid.⁴⁰¹

Chapter two analysed Africa's economic and development context. One argument was that there a number of features that are unique to Africa that increase the Continent's vulnerability in the face of a myriad of challenges. These have been the basis upon which foreign aid has been justified. Put differently, Africa's colonial history, the nature of most states, poor economic performance, susceptibility to crises of legitimacy and political instability, have increased the Continent's vulnerability and provided the context and need for the infusion of aid.

Chapter three provided a review of the literature on foreign aid. As a point of departure, the chapter conceptualised the term foreign aid according to the official definition provided by the DAC of the OECD. In addition, the various schools of thought, which have deliberated over the justification of aid, were discussed. These included the economic arguments, as well as those of a moral nature. The chapter summarised the major themes in the literature under three categories: aid-growth relationship; aid effectiveness; and, aid and governance.

Chapter four analysed the costs and benefits of foreign aid using case studies, for the purpose of illustration. Overall, it seems that whilst foreign aid has provided the requisite resources for transformation of institutions, governments and social infrastructure, in some cases; it has also exacerbated corruption, curtailed legitimacy and accountability of the government to its citizens and compromised economic growth and poverty reduction, in others.

Chapter five has highlighted the general arguments presented in the dissertation and concludes the study.

Overall, it was argued that Africa continues to depend on aid. While aid has generated some benefits, such as the case of Botswana, it has also hampered and devastated prospects for economic growth and development, as demonstrated by cases such as Zambia. It is for these reasons, that this dissertation calls for governments, policy makers and scholars alike to seek to find better alternatives to foreign aid, and in so doing mitigate the Continent's heavy dependence on aid.

⁴⁰¹ African Development Bank (ADB), *African Development Report 2006*, 34.

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