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Development aid in South Africa: a contribution or impediment
to poverty alleviation?

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of the degree of MPhil in Development Studies

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Compulsory declaration

This work has not been previously submitted in whole, or in part, for the award of any degree. It is my own work. Each significant contribution to, and quotation in, this dissertation from the work, or works, of other people has been attributed, and has been cited and referenced.

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Abstract

South Africa has been experiencing steady economic growth since 1994, but is increasingly battling with development issues such as persisting poverty and growing socio-economic inequality. This apparent contradiction is part of the complex South African development landscape in which development aid has gradually shifted from being transitional to a stable factor in development processes. Possible limitations and potential of development aid are set out by the dominating schools of thought; mainstream, neoliberal, and radical left. The main aim of this thesis was to evaluate if and how development aid contributes to poverty alleviation in South Africa according to the theoretical and historical arguments of these schools of thought.

To evaluate these arguments, I used a combination of qualitative and quantitative sources. A literature and policy review was used to identify social, political and economic conditions of global trends in development thinking and their respective pitfalls, and to identify how trends in South African development aid approaches changed after 1994. Quantitative data such as the Aid Dependency Ratio, Gini coefficient, and GDP trends, were collected from metadata sources such as the OECD, and the World Bank to evaluate how these indices changed over time.

During apartheid, development aid to South Africa was channelled through anti-apartheid organisations. Since 1994, however, foreign development aid has been redirected to South Africa's new government to secure the transition to democracy. Since then the government has played a central, dominant role in the allocation of development aid to poverty relief programmes, but has prioritised economic stabilisation.

The South African government presently has capacity problems to spend its current development budget. An indiscriminate increase of development aid would worsen this problem. In addition this could harm South Africa's monetary stability, create aid dependency in certain sectors, and is unlikely to reach the poor due to an inadequate institutional framework, while an abandonment of development aid would threaten the NGO sector. However, better-focussed or redirected development aid resources could indeed contribute to capacity building of government institutions or secure the independence of NGOs.

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Abbreviations

ANC	African National Congress
AsgiSA	Accelerated and shared growth initiative - South Africa
DAC	Development Assistance Committee
EU	European Union
GDP	Gross Domestic Product
GEAR	Growth, Employment, and Redistribution
GNI	Gross National Income
IDT	Independent Development Trust
IMF	International Monetary Fund
MDG	Millennium Development Goal
NGO	Non Governmental Organisation
NP	National Party
ODA	Official Development Assistance
ODI	Official Development Institute
OECD	Organisation for Economic Cooperation and Development
RDP	Reconstruction and Development Programme
SAP	Structural Adjustment Programme
SWAPO	South West Africa People's Organisation
UK	United Kingdom
UN	United Nations
UNITA	National Union for the Total Independence of Angola
US	United States
WWII	World War II

Chapter 1. Introduction

1. Background

In spite of its growing economy and the government's efforts to redistribute resources, South Africa is still experiencing growing inequality in wealth and income distribution (Hoogeveen & Özler 2005). Growing civil unrest amongst the poorest classes of the South African population suggests that development is not reaching its entire people adequately (Kanbur et al. 1999:73). Development aid in the form of foreign currency grants has often been suggested as a possible solution to counteract such persisting poverty (Arnold 1979). In fact, many socio-economic Non Governmental Organisations (NGOs) in South Africa justify their existence on this principle (Budlender & Dube 1999:345).

After the 1994 pivotal elections development aid redefined its appearance in South Africa (Hearn 2000; Ngeleza et al. 2000). Instead of opposing apartheid policies by aiding civil society organisations, donor focus shifted towards supporting the new government through short-lived, transitional aid in order to facilitate and secure the establishment of a democratic and equal society. However, this short-term transitional aid often turned into long-term development aid because of persisting and increasing complexities in the South African development landscape (Ngeleza et al. 2000:35).

In the mid-1990s the South African development landscape consisted of a complex web of internal and external facets. Internally, the country suffered from deep socio-economic divisions, hardly any change in the relation of power and control (Alexander 2002:146), institutional capacity problems, skill shortages (Luiz 1996:148), and setbacks in the economy (Elbadawi & Hartzenberg 2000:3).

Externally, South Africa had to deal with protectionist trade partners in a harsh international environment (Venter 1994:10). Early political uncertainty, prolonged periods of droughts (Elbadawi & Hartzenberg 2000:3), persisting high unemployment (Alexander 2002:148), increasing crime rates, and a rapidly increasing HIV-related public health crisis have hampered post-apartheid socio-economic development since (Terreblanche 2002:42-44).

African politicians have criticised present development aid as minimal, and have called for more and better targeted aid, including to South Africa (Bond 2001:80) (Manuel 2003:19). However, theorists have questioned if the current South African economic-ideological framework in which development aid operates is appropriate and adequately addresses the full complexity of local development issues (Terreblanche 2006; Bond 2001).

This study seeks to investigate the manner in which an increase in development aid could contribute to the struggle against poverty in South Africa. More specifically, I will explore the potential implications of a doubling of development aid in the light of past experiences within South Africa's economic and development framework. Since there is no consensus on the mechanism of development aid, I will first elaborate on the wider theoretical debate and history of development aid before quantifying the present contribution of development aid to the socio-economic development of South Africa. The final part of this thesis will discuss the South African development situation and will elaborate on the potential effects of development aid on the social and economic dynamics of South Africa.

2. Debate on development aid

Most of the aid-receiving countries today, in particular those located on the African continent, are relatively poorer than they were in the 1960s despite large

financial investments by donor countries (Collier 2006:188; Morrissey 2006:78). This apparent contradiction has led to a vigorous debate among a wide spectrum of development theorists on the impact of development aid on poverty alleviation (see, e.g., Jayasuriya 2006). This debate should, therefore, be taken into consideration when studying this role of development aid in South Africa. However, a comprehensive review of all views and opinions on the effectiveness of development would go beyond the scope of this thesis. I will therefore limit myself to the three most distinct and common schools of thought following Szirmai (2005:609-610): (i) the mainstream view, (ii) the neoliberal right view, and (iii) the radical left view. The meaning of concepts such as 'right', 'left' and 'mainstream' are context dependent and vary slightly across space and time (Thérien 2002:448). The distinction made here refers to a wide spectrum of attitudes rather than to a mere dyad (Thérien 2002:448). To gain a better understanding of the arguments against or in favour of development aid I first categorised the selected theorists into the subsequent fundamental mainstream views and then compared the theorists' theoretical differences within each category. Even if theorists fully agree on the fundamental theoretical framework, they can still strongly disagree on the argumentation or reasoning of fellow scholars.

For the comparison of the variations within a school of thought I selected two of the most prominent and distinct theorists within each school of thought to exemplify the differences and the diversity within each school. The advantage of this approach is that it that subsequent arguments can be analysed in depth, illustrating the thoughts and backgrounds of the different positions within each school of thought. The downside of this approach, however, is that only a limited number of theorists can be discussed. Since my aim was to create a representative picture of the main

three thoughts, I selected theorists based on their influence on other scholars, on their innovative thinking, and on their holistic view on global development issues.

In addition the identification and understanding the principal differences of these schools of thought is a prerequisite to evaluate the different arguments in the current development aid debate and will be important guiding principles for this study.

2.1 Mainstream view

The mainstream view represents the current prevailing attitude among donor countries, governments in aid-receiving countries, officials in national, international development organisations, or development bureaucracies, aid workers, and young idealist intellectuals (Szirmai 2005:609-610). Irrespective of the poor results of development aid in Africa, this view considers development aid as part of a sustainable solution to the socio-economic problems of developing countries. Numerous reports and books discuss how mainstream theorist and organisations see a role for aid in development processes. This section, as already suggested, will look at two theorists: Jeffery Sachs, the former World Bank director, and Jan Pronk, Chair in the Theory and Practice of International Development at the Institute of Social Studies.

(i) Sachs approach to end poverty

In his book *The End of Poverty* (2005b), Jeffery Sachs presents a detailed plan to successfully end poverty globally within two decades that has strong similarities with Rostow's classic stages of growth (Rostow 1953). He metaphorically speaks of climbing the "ladder of development" (Sachs 2005b:73). With every rung, countries benefit from improved dynamics of self-sustainable growth. However, trapped countries cannot "get their foot on the ladder" and therefore will not benefit from the dynamism of self-sustaining economic growth (Sachs 2005b:73). The poverty trap

idea is central in Sachs' development approach; countries trapped in a vicious circle of poverty, unable to self-generate adequate investment. If domestic savings alone are too little to finance investments one can speak of a financing gap. Additional development aid can fill this gap.

Sachs identifies eight major categories of problems that can trap countries in a vicious circle of economic stagnation and decline. Firstly, the problem of the poverty trap; when no sufficient income is generated for investment. Secondly, the physical geography of a country can hamper development. Some countries just have to invest more in infrastructure than others, e.g., landlocked countries. Thirdly, there can be a fiscal trap. The population can be impoverished to such an extent that there are no taxes to collect, or the government is incapable or too corrupt to collect taxes effectively. In other cases a country can be plagued by a pressing debt from the past, which frustrates future growth. Other problem categories are governance failures, lack of innovation, and trade barriers or subsidies in the world market. Furthermore, the cultural environment of a developing country can work as an obstacle to development, e.g., social norms can prevent women from accessing education. Lastly, a country can be trapped demographically. This occurs when its population is growing faster than its capital.

Amongst suggestions such as debt cancelling, Sachs advocates for an increase of Official Development Assistance (ODA) to USD 60 per person per year¹. Development aid can act as a source of investment and enable poor countries to increase the growth of their economies and to experience social development. An increased Gross Domestic Product (GDP) will on its turn create greater tax income

¹ The average flow of 2000 - 2004 was around USD 15 per person per year (McCawley 2006:89)

and increase government revenues. Ultimately, the self-generated income through taxes should take over the task of development aid.

(ii) *Pronk's catalyst idea*

Jan Pronk is an expert in development issues after years of working as Minister of Development Co-operation in the Dutch government (1973-1977 and 1989-1998), and as Special Representative of the Secretary General of the United Nations (UN) to Sudan (2004-2006).

In a recent publication *Aid as a Catalyst* (2004) Pronk specifically engages with the role of development aid as catalyser of development. Building on the catalyst idea of Rosenstein-Rodan (1961), Pronk supports the idea that development aid should be applied to help creating domestic capacity or to manage conflicts by generating other resources such as domestic savings, international private capital, foreign markets, or skills and capacity. The essence of this approach is that development aid is no longer regarded as the primary mover of development processes but rather as a facilitator.

Pronk's position on development aid as a catalyst is based on two principals. First, a substitution effect can occur when development aid substitutes domestic savings. Subsequently, the emergence of an entrepreneurial class or institutional reforms may possibly be frustrated in the short term. In the long run, however, these effects will be outweighed by catalysing effects such as opening up of new opportunities and enhancing efficiency of production. Secondly, Pronk argues that it is likely that development aid will stimulate processes of development but that development aid is no guarantee for economic growth. Although Pronk acknowledges that no proof exists of a casual positive effect of development aid on economic growth, he does not regard this absence of proof as proof of absence.

In addition to investment in growth, other resources such as an improvement of health care or land redistribution can also make considerable contributions to the well-being of the poor. Parallel and subsequent investments in social sectors should therefore be made to ensure that the poor will benefit from a trickle down effect from investments.

Pronk regards improving the living standard of the poor as a vital aspect of successful development aid. He incites for “good aid”, demand-driven grants that are adapted to country-specific capacity and culture (2004:10). Pronk rejects donor-set preconditions for development aid such as good governance², as development aid can also be applied as a means to improve local governance by facilitating political stability and peace. Pronk’s good aid, therefore, should contribute to the establishment or re-establishment of social, economical and political conditions under which sustainable development can be achieved.

(iii) Similarity & difference

The view shared among mainstream theorists, such as Sachs and Pronk, is that development aid can have a positive effect on development. However, there are differences between these mainstream theorists in the understanding of development processes and on the role of development aid therein. Sachs, for example, argues that there is a direct relationship between development aid and economic growth. Pronk, on the other hand, argues that development aid in one form or another can help to meet development objectives and indirectly contribute to economic growth. Be that as it may, both advocate the general standpoint of increasing development aid.

² Donor assesses the country’s good governance by measuring bureaucratic competence, rule of law, and levels of corruption (Bräutigam 2000:35).

2.2 Neoliberal view

Neoliberalism refers to a structure of beliefs that is founded on notions of individual freedom, political democracy, self-regulated markets and entrepreneurship (Peet 2003:8). Neoliberal theorists reject the mainstream idea that development aid is an effective tool to eradicate poverty. In their view development aid and government interference disrupts the economic processes.

The main characteristics for neoliberal development thinking is that it seeks the solution to poverty alleviation in *laissez-faire* economics³ and in a reduction of the state's role as a "night-watchman" (Chang 2003:47). Especially during the mid-1980s and 1990s, this neoliberal approach to development has been highly influential on development strategies (Peet 2003:13). To gain a better understanding of neoliberal criticism on the international aid system, I selected two neoliberal theorists who have engaged in research on development aid: Melvyn Krauss and William Easterly.

(i) Krauss' perspective on development failure

In his book *Development without Aid* (1983), Melvyn Krauss identifies and discusses what he regards as the main cause for the development failures in developing countries: the Western social-democratic ideology. Krauss' development thinking has been influenced by three main factors: (i) his stay at the London School of Economics where he worked with various neoliberal thinkers⁴, (ii) his residence in different European welfare states where he became familiar with the socio-economic ideology of these states, and (iii) his time at the Hoover Institution at Stanford

³ The principal of these *laissez-faire* economics is based on the assumption that the market is the best way to initiate growth through a self-sustaining balance between supply and demand (Chataway et al. 2000:479). Markets are expected to generate prices that balance the supplies and demands for each commodity under the conditions of perfect competition (Peet 2003:5).

⁴ For example Peter Bauer. Bauer did not accept the mainstream ideas on development policies and development aid (Bauer 1971).

University during which he collaborated as a visiting scholar with Milton Friedman⁵ and where he published his 1983 book.

Krauss regards development aid as an impediment to economic growth in two ways. On the one hand, development aid causes an over-appreciation of the recipients' currency. This causes exports to be more expensive than imports, which is harmful to local competitive sectors. On the other hand, development aid permits developing countries to pursue policies that damage economic growth. Krauss identifies three of such damaging policies that are central to the social-democratic ideology.

The first social-democratic policy that Krauss identifies as damaging is the provision of extra money to a development government's budget through an increase of local taxations, a supply-side development finance. He argues that this is a trick to create more spending-money for the local governments, hampering the overall growth of developing countries. High taxation subsequently deters people from putting more effort into working as they would see more of their money flowing away to the government, resulting in lower incomes and fewer savings.

Secondly, Krauss regards protectionism as a social-democratic idea that damages development. In developed countries protectionism prevents the bankruptcy of ailing firms, industries and regions by restraining international competition. In developing countries protectionism shields infant industries from the world market, preventing them from becoming self-sustainable and developing fully to be as competitive as the established international counterparts.

Finally, Krauss regards the securing of certain economic rights such as workers' rights as having catastrophic economic implications. In developed countries

⁵ Milton Friedman was a part of the second generation of neoliberals (Peet 2002:9)

certain non-viable sectors are government-supported to prevent large-scale dismissals. Developing countries, however, will not develop the necessary market force to compete on the world market when such economic rights are adopted here too and will miss out on the opportunity of becoming a cheaper alternative to expensive Western labour.

Krauss argues that the world economy should operate on a free market basis by removing social-democratic policy obstacles and by minimising government interference. This would encourage further development and progress especially in developing countries. Krauss explains this principle with an illustrative example: it is the size of the pie that you want to make larger so that everybody gets a bigger piece, rather than cut the smaller-sized pie into more equal pieces (1983:190).

Krauss concludes that the focus of development strategies should be on accelerating growth, and not on promoting equity as this will be a spin-off effect of economic growth. Key features that facilitate prosperity are multinational corporations, free-floating exchange rates, and a greater private sector participation rather than protection, development aid, and high taxes through government involvement. In this model economic growth will help the poor by increasing the living-standard of both rich and poor, rather than redistributing the limited available wealth of a country.

(ii) *Easterly's tragedy of aid*

William Easterly is a professor in Economics at the New York University and has worked at the World Bank (1985 – 2001) for more than fifteen years. Easterly has written extensively on development aid and the international aid system but is mostly renowned for his work on the weaknesses of the financing gap model (Easterly 1999).

In Easterly's latest book on development aid *The White Man's Burden: why the West's efforts to aid the rest have done so much ill and so little good* (2006) he gives a full account of his views on the "tragedy of aid" and why more than USD 2.3 trillion of development aid over fifty years have brought meagre returns (Easterly 2006:4). To explain the origin of this tragedy, he distinguishes between two development approaches: (i) the Planner approach as the equivalent of mainstream Western development assistance, and (ii) the Searcher approach as the equivalent of agents for change in Easterly's alternative approach.

The main distinguishing feature between Planners and Searchers is a difference in supply or demand thinking. The Planners approach is to determine what the developing country needs and to impose development planning upon developing countries, without taking local demand into account. This is in contrast to the Searchers, who determine the demand first to anticipate on the local consumers through market-based interventions. Easterly's Searchers have a far broader base among the people in development countries than the Planners. The approach of the Searchers, therefore, provides a better and more constructive foundation to development aid. To alleviate global poverty the West should stop imposing global blueprints for development and let the poor help themselves.

Easterly argues for a stronger emphasis on "home-grown development" as only insiders have the necessary knowledge to find solutions fitted to local problems (Easterly 2006:6). A quotation from a recent publication in *Wall Street Journal* reflects fully Easterly's idea on eradicating poverty: "the free market is no overnight panacea; it is just the gradual engine that ends poverty" (Easterly 2007:11). However, he does acknowledge that free-market solutions cannot be applied to each and every case.

Easterly acknowledges that the poorest people do not have the resources to motivate markets in meeting their desperate needs. In other words markets are not interested in these people as investing in poor people's needs is not profitable. Here, development aid projects should be inventive and not apply blueprint-plans as has been done in the past. The financing of development projects, he concludes, should work like a market mechanism: projects are remunerated according to their success rates.

(iii) *Similarity & difference*

The neoliberal consensus is that the market is the single most important factor for sustainable growth and development, and that development aid is an impediment rather than an instrument to achieve this. However, there are important differences between neoliberals in the role that development aid should have in local development processes. Krauss, for example, advocates a total abolishment of the aid system and is convinced of the success of a free-market system while Easterly takes a less rigid standpoint, acknowledging that in some instances short-term aid is needed to help the poorest of the poor.

2.3 Radical left

The radical left refers to a school of thought that is highly critical of capitalism, favours socialism, and often employs a Marxian analysis (Griffin & Gurley 1985:1089). In sharp contrast to the mainstream and neoliberal view, radical left theorists consider development aid as a burden, creating dependency and upholding underdevelopment rather than as a means to alleviate poverty. Because of major development failures in the 1970s, most left-wing critiques on the effectiveness of development aid have their origin in this period (Szirmai 2005:611). There is not

enough space in this study to discuss all radical left theorists. Therefore, I limited myself to a representative northern and a southern hemisphere perspective.

(i) *A northern perspective by Hayter*

Hayter's previous employer was the Overseas Development Institute (ODI) in London, an institution following the mainstream view on development aid. As a result of her work, Hayter became increasingly critical of the mainstream view and decided to cluster her critique in the book *Aid as Imperialism* (1971). Hayter's book title is provocative and leaves no doubt about the take-home message that development aid upholds the control of powerful nations over others. Her book is predominantly based on her interest and experience in Latin America. She argues, however, that her analysis of development issues is applicable to the rest of the periphery.

Hayter attributes the failure of development aid to aid receiving governments having to adopt policies constructed by donor agencies or countries. She regards development aid as leverage to impose economic policies targeted at financial and monetary issues, in particular to achieve fiscal and monetary stabilisation. The implementation of such imposed policies, however, results in low or negative rates of per capita growth. Hayter argues that development aid is used by developed countries as a means to maintain a position of control and influence over developing countries. Therefore, Hayter concludes, development aid is a modern form of imperialism.

Hayter proposes two alternative paths to achieve development of the poor: through structural reforms or revolution. The first alternative implies gradual simultaneous reforms to positively affect growth, resulting in a gradual redistribution of income and less inflation. However, Hayter notes that classical reformist governments such as Chile and Colombia have not been particularly successful. The alternative is the creation of a socialist state through a revolution, e.g., Cuba.

Of the two alternatives, Hayter tends towards the socialist state solution. Although she has her reservations to proclaim the revolution in Cuba as successful, as an overall decline in national product has been observed in this country, she is nevertheless impressed by Cuba's small successes such as a relatively low unemployment rate. Either way, Hayter sees no room for development aid to alleviate poverty because it obstructs local development and creates an exploitive relation between North and South, serving the interest of the donor only.

(ii) *A southern perspective by Bello*

Walden Bello's ideas take after the theorists Samir Amin (1985) and Karl Polanyi (1944). Like Amin and Polanyi, Bello can be identified as an anti-capitalist and an advocate of a radical change of the present capitalist system. Anti-capitalists oppose the present capitalist international system as the system maintains powerful monopolistic structures. These monopolies are thought to exploit people and countries for their own benefit (Bond 2004:833-834).

In his report *Prospects for Good Global Governance: the View from the South* (2002) Bello criticises the current global system and proposes an alternative model of a decentralized, pluralistic system of global economic governance. The United States (US) Treasury's influence on the World Bank⁶ and the International Monetary Fund (IMF) is so dominant that these institutes primarily cater for the interest of the US economy and international corporations at the cost of developing countries. Bello, therefore, regards the current development paradigm and the influential US Treasury as the basis for a series of development aid failures.

⁶ Although the World Bank group consist of five different structures, in this text World Bank refers merely to the two main structures: the International Bank of Reconstruction and Development (IBRD) and International Development Agency (IDA).

The current international system is export-orientated, a major obstacle for developing countries according to Bello. The problems identified by Bello are: (i) higher risk of becoming dependent on foreign investment and foreign financial markets, (ii) little prospect of income and land redistribution, (iii) constant emphasis on economic growth and promotion of macroeconomic stability, on legal and political conditions in the interests of foreign capital, and on unrestricted functioning of the market, (iv) lack of accountability of the private sector, (v) transnational cooperations undermining community cooperatives, private enterprises, and state enterprises, and (vi) undemocratic formal decision-making systems of the Bretton Woods Institutions.

Bello states that poverty cannot be solved by just throwing money at it. Development aid will only be successful if the present global capitalist system is radically changed. Therefore, Bello argues for a break with the current global economic system through “deglobalisation”, implying a reorientation of current economies (Bello 2002:24).

Bello’s deglobalisation entails a shift from predominantly producing for export to producing for own local markets and creating financial resources for development from within. He applies Polanyi’s idea of “re-embedding the economy in society, rather than having society driven by the economy” (Bello 2002:24). Important in this approach is the establishment of a plural world system where interaction between organisations is based on equality. Such framework would allow developing countries to pursue a development strategy that is suited to their local needs and values, their unique mix of constraints and opportunities, and their rhythms as societies (Bello 2002:2).

(iii) *Similarity & difference*

The consensus amongst radical left theorists is that development aid in the current world system is not working for developing countries and is beneficial to the powerful, developed countries alone. Solutions to resolve this development problem, however, differ between these theorists. Bello, for example, advocates a radical break with the system by proposing an entirely new plural system in which development aid plays a positive role. Hayter, in contrast, rejects development aid all together, even in a new socialist system.

2.4 Significance of the debate

Currently there is a heated debate between theorists on the effects and usefulness of development aid but no sign of imminent consensus. Even within the three main schools of thought we find disagreements among theorists. The issues that are raised by the various theorists (e.g., poverty trap, trickle down effects, catalysing effect, free market processes and their effect on development, dependency, and deglobalisation) already give a good indication of the wide range of factors that need to be considered when evaluating the possible effects of development aid in South Africa.

As pointed out by Pronk, there is no proof of a causal positive relationship between development aid and economic growth. However, this does not mean that development aid cannot have a positive, catalytic effect on economic development. Moreover, economic growth is an inscrutable process, more dependent on complex dynamics of specific time and places than the aid industry initially assumed (Sogge 2002:174). By considering history, theory, and practice, one can learn from past mistakes and take these into consideration when drafting future policy on the function of development aid for poverty alleviation.

3. Concept of development aid

Development aid is addressed differently by politicians, development organisations, schools of thought, and even between schools of thought. The American typology, foreign aid, is often used interchangeably with ODA (e.g., Friedman 1985 in Svensson 2000; Easterly 2006). In other parts of the world scholars tend to refer to development aid rather foreign aid (e.g., Lensink & White 1999; Jayasuriya 2006). Other terms found in the literature are international development aid (Zeylstra 1975), development assistance (Manuel 2003), and international aid (Easterly et al. 2004).

In this thesis, I will use the term development aid as a co-operation between countries in the form of financial flows with a developmental intention. Development aid comes thus per definition from abroad. However, in the course of this thesis, I will distinguish between development aid provided to the South African government and provided directly to South African civil society.

Development aid includes project aid and programme aid whereby the former refers to a grant or loan provided to a government agency or NGO for a specific project or outcome (Hoy 1998:5). Programme aid refers to a policy-based loan to a receiving government to create certain economic conditions in the recipient's country, or to support balance of payments (Hoy 1998:5). The concept of development aid generally excludes emergency aid, technical assistance, military aid, political support, export promotion, or cultural propaganda (Zeylstra 1975:15). Also private activities such as missionary work, industrial investment, external commercial loans, and private foreign investment are excluded from this definition (Zeylstra 1975:15).

Where ODA is explicitly used in the text, it refers to the definition as set by the Organisation for Economic Cooperation and Development (OECD) (OECD; see

Box 1). This ODA can take various forms such as financial grants, technical assistance or loans.

Box 1. The definition of Official Development Assistance (ODA)

ODA consist of flows to developing countries and multilateral institutions provided by official agencies, including state and local governments, or by their executive agencies, each transaction of which meets the following two criteria: (i) it is administered with the promotion of the economic development and welfare of developing countries as its main objective, and (ii) it is concessional in character and contains a grant element of at least 25 percent (calculated at a rate of discount of 10 percent).

Source: Riddell (2007:19)

4. Research design and methodology

The main aim of this thesis is to investigate the extent to which development aid improves poverty alleviation in South Africa. To answer this question I analysed and interpreted a combination of quantitative and qualitative data to evaluate how three possible development aid directions would affect future poverty alleviation efforts in South Africa. These directions were (i) no change in present development aid flows, (ii) a complete abandonment of development aid, and (iii) a doubling of development aid. The advantages and disadvantages of each direction are based on the ideas of the dominating schools of thought (mainstream, neoliberal, and radical left) and on identified pitfalls in past global development aid.

Since the emerging of the development aid industry after World War II, different development aid doctrines have been dominant such as free-market fundamentalism or the Structural Adjustment Programmes (SAPs). I have reconstructed the establishment, successes and failures of the main approaches and their respective historical and political backgrounds using a combination of peer-reviewed journal articles and books. I did background checks of each author and

compared interpretations of historical facts with that of other schools of thought to ensure a fair balance of opinions. I made use of articles and books that were available from South African university libraries, or were available online and had an ISBN or DOI⁷ number.

Due to its former apartheid regime, South Africa has been through a historical development that is incomparable to any other country in the world. Today the aftermath of the apartheid regime is seen in a number of areas. The most striking legacy is the vast inequality along racial lines as is still experienced today. It is therefore necessary to identify if and how previous development aid has affected the present-day South African development aid landscape.

To study the South African development aid landscape I used the same written sources as indicated in the previous sections. In addition, I quantified trends in development aid flows using published financial reports such as the National Treasury South Africa, African Development Report, United Nations Development Programme: South Africa, World Bank, the OECD International Development Statistics dataset, and donor policy documents. This OECD dataset is a comprehensive compilation of the volume, origin and types of aid and other resource flows to developing countries on the Development Assistance Committee (DAC) List of ODA recipients between 1960 and 2005, and is drawn from Member countries responses to questionnaires issued by the OECD Secretariat (OECD 2007a).

To analyse present-day development aid to South Africa, I quantified recent ODA flows to South Africa (1993 – 2005) using the OECD data. This time-series of ODA data was compared with trends in poverty and inequality measurements such as the Gini coefficient, the GDP, and the poorest quartile contribution to the GDP. In

⁷ A DOI number is the digital variant of an ISBN number and ensures that these electronic publications will remain unchanged and available through the web portal of its publisher

addition, I made a qualitative analysis of post-apartheid development aid and the role of NGOs therein to assess the development aid dependency of South Africa.

5. Ethical considerations

Although this study is entirely based on secondary, readily published data sources there are still ethical issues one needs to take into consideration in the discussion and conclusion stages (Taylor 1994). Choices of words or conclusions drawn in this thesis could be misinterpreted or cited out of context by readers such as donors, governments, or other target groups. A change in the current aid system can affect interest groups in the South African society differently, depending on their social backgrounds. This research aims to be an unbiased, scientific analysis of the effects of development aid in the development of South Africa and any conclusions drawn from this study must therefore be interpreted using the definitions and literature background as laid out in this entire thesis.

6. Outline

This essay has five different chapters, including this one. To gain a good understanding of the emergence of development aid in development thinking, I analyse how the different development aid approaches from the 1950s onwards have affected the current approaches in development aid throughout the world in Chapter 2. I elaborate on the ideas behind the Marshall Plan and the subsequent aid plans for developing countries, development aid in the Cold War period with special attention to the Structural Adjustment period, and engage with the function and format of the post-Cold War development aid to its current form.

Past development aid in South Africa is analysed in Chapter 3. To put development aid to South Africa in its context, I consider development and military

aid during the apartheid era. In addition I examine the shifts and continuities in development aid with the change to a democratic government in 1994.

Chapter 4 is a synthesis of the previous chapters. In this chapter I discuss whether an increase or doubling of development aid in the current economic and ideological system is the solution to South Africa's poverty issues.

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Chapter 2. History of development aid

The current debate in development thinking has been triggered by different criticisms on failures of the past development aid approaches. Global trends in development approaches necessarily affect development at a national level because of the interconnectiveness of the global system (Sachs 2005a:10). Many useful lessons, therefore, can be drawn from the global history of aid to designing contemporary strategies to advance development aid impacts (United Nations 2006:4).

This chapter gives an overview of the history of development aid, starting with the development aid initiatives that emerged at the end of the 1940s to today's development consensus. This will enable me to identify potential pitfalls for possible future development directions in South Africa. I will, therefore, identify the various development approaches since World War II (WWII), their respective successes and failures in the political and socio-economic contexts of their time.

1. Post-WWII development strategy - the Marshall Plan

The roots of the current international aid system can be traced back to several initiatives following the end of WWII (Ali et al. 1999:504). One of the first development aid initiatives was the Marshall Plan; a development formula proposed by the United States (US) Minister of Foreign Affairs to rebuild post-war Europe. This formula is even today supported by a number of theorists, for example by Jeffrey Sachs (2005b). The first ten years following the end of WWII were years of reconstruction. After two World Wars (1914 - 1918 and 1939 - 1945) there was not

much left of Europe's economy⁸. The once flowering European city centres had been shot to rubble and infrastructures critically damaged.

These post-war circumstances raised fear among European and US economists and state officials for a repetition of the Great Depression (1929) as a result of the high unemployment and inflation rates. Marshall feared that "bottlenecks clogging the recovery", especially in the coal industry as the lack of coal, would make it impossible for post-war Europe to produce steel and machinery or to generate electricity (Kapstein 1984:56). To avoid further economic stagnation and to initiate economic growth, a macro-economic approach was launched in 1947 by the US to rebuild Western Europe (Kapstein 1984:56).

The rationale behind this development approach assumed that an "influx of capital from outside provides the spurt of growth that would make economic 'take-off' possible" (Ali et al. 1999:505). Over USD 13 billion was allocated to the sixteen European nations participating in the Marshall Plan between 1948 and 1951 alone (Kapstein 1984:57). Support for industrial development in poor countries would bring positive spillovers in terms of trade and investment opportunities and trickle down to the poor (United Nations 2006:11). Continuous economic growth and social stability since have transformed these Western Europe countries into welfare states.

The process of gradually turning into welfare states raised Western social awareness of persisting inequalities in the world (Myrdal 1989:8). The Marshall Plan had proven itself as a very successful tool for enhancing economic development into globally competing economic powers and within only a few years the US extended their Marshall Plan idea to the rest of the world (Edmunds 1968:14). The believe was that what is good to rebuild European countries would also be good for peripheral

⁸ Europe refers to the war-affected countries in Western Europe.

countries. This created a base for the modernistic development thinking that did not take differences in culture or history into account, and considered development as western modernisation (Szirmai 2005:495).

2. Development aid to the “underdeveloped” world

From the 1950s onwards, broad development issues such as income distribution and poverty alleviation were increasingly placed on the development agenda of the US. The 1950s can be regarded as the decade of US hegemony in development aid, as the US alone in that decade accounted for 2/3 of total development aid (Hjertholm et al. 1998:11). The first indication of US development concerns beyond their Western European allies was when the US president, Harry S. Truman, dedicated his inauguration speech to emphasise the US role to “embark on a bold new programme for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas” (Truman 1949).

This sudden expressed concern by the US and other Western development institutions for the large number of poor people in the world originated from an increase of Cold War related conflicts between the US allied and Soviet allied countries (Peet 2003:115). During the late 1950s and early 1960s, therefore, one of the US strategies to increase its global political influence was by supporting countries through financial, military, or political resources. Firstly the US focussed on communist-neighbouring countries to block communism from spreading. Later the US extended its focus to developing countries throughout the world, to create a stronger US and allies block. Development aid proved to be a convincing tool in preventing developing countries from joining the communist block (Hjertholm & White 2000:11-12). In return, Russia and China applied the same politically

motivated development strategy, turning the Third World⁹ into a hot-spot of ideological conflict (Peet 2003:114).

In the years after the WWII the majority of development aid resources came from the US as the countries in Western Europe were mainly concerned with their own reconstruction process (Edmunds 1968:13). However, some development support materialised between the old colonial structures and former colonies. In this early period of development aid, the ex-colonial powers were strictly involved in developing their former colonies.

For example, the so-called Colombo Plan, launched by Commonwealth countries United Kingdom (UK), Australia, Canada, and New Zealand in January 1950, aimed at providing aid to the countries of the former British India, present-day India, Pakistan, and Bangladesh. This included the establishment of a Consultative Committee to provide the necessary framework for adequate international cooperation efforts to promote economic and social development to the Asia-Pacific countries and to improve the living standards of its peoples (Consultative Committee 2007). However, no prior research had been undertaken on the practical implications of development theories. Early development aid can therefore be regarded as a massive experiment (Chakravarti 2005:1).

Similar to the UK, France's post-war development aid was also tightly connected with decolonisation and the objectives of their decolonisation policies. In the case of the French, the objective of aid was far and foremost strategic-political,

⁹ This terminology refers to development countries. It finds its origin in Sauvy (1952) "ce Tiers-Monde, ignoré, exploité, méprisé comme le Tiers-État" referring to Third World non-aligned countries, in addition to First World (US allies) and Second World (communist block). Throughout the years, the term has been politicised and now regarded as subjective (Rapport & Overing 2000:18-19). I therefore adopt the term developing country. However, in this specific context it contributes to the narrative to use these time-related terms.

meaning that aid was predominantly used to maintain cultural, economic and political strings with Francophone Africa (Szirmai 2005:586).

Development aid was also increasingly used as a tool to promote or restore a country's reputation (Szirmai 2005:586). For example, through large scale participation in multilateral assistance the Netherlands sought restoration of its international reputation after the international condemned Dutch police actions in Indonesia during the Indonesian fight for independence.

3. Elements of post-WWII war development strategies

The following elements have been prominently present in post-WWII development strategies: (i) growth in Gross Domestic Product (GDP), (ii) extensive governmental planning, (iii) intervention, and (iv) a preference for large-scale investment (Szirmai 2005:313-314). The political landscape of the 1950s was characterised by an influx of new, developing nations (Hjertholm & White 2000:10). The main policy objective of these now independent countries was economic growth, as their governments widely supported the idea that social inequalities would be eliminated through economic growth and modernisation *per se* (Thorbecke 2000:19).

This idea was similar to that of the Marshall Plan: by providing necessary capital, developing countries would accumulate sufficient savings to propel them into self-sustained growth (Thorbecke 2000:23). Money that was spent on broader social programmes, education, or health was generally regarded as a waste of scarce resources (Peet 2003:114). Development was primarily contextualised by Europe and the US and therefore imbued by western traditions. Consequently, monumental projects such as building dams, roads, harbours or airports were the norm rather than the exception during the first decade of post-WWII development aid (Peet 2003:115).

Nowhere else but in Europe, however, did the Marshall Plan approach its goals of propelling impoverished nations into welfare states. One of the reasons that the Marshall Plan worked so well in Europe was that an entire framework for development was already in place. The financial influx of US dollars was sufficient to “stimulate restoration” of the management personnel, skilled labour, capital equipment, industries, functioning factories, existing customs relations, structured education systems and legal systems that had already been in place before the war started (Edmunds 1968:15). Developing countries entering the world system had totally different economic, social and cultural conditions.

Early development aid conveniently ignored local circumstances such as ethnic structures, populations, manners, behaviours, economic conditions, life style, or environmental conditions (Nabudere 2006:34). The assumption of modernistic development doctrine was that development would occur in a linear pattern, from traditional to modern. In addition, developing countries had no industrialised framework to rebuild. Such essentially different development conditions, however, were never specifically considered by Western development theorists, policy makers or politicians (Szirmai 2005:495).

Although the ideology of development aid did not change dramatically during the 1960s, the way development aid was provided did. There was a general shift from project aid to programme aid. By 1955, the World Bank had expressed its concerns around project based aid since “experience has shown again and again that monumental projects are not necessary useful projects” (in Peet 2003:115). Although most people in poor countries work in the agricultural sector, this sector had thus far been largely neglected by Western development aid (Peet 2003:116). In the course of the 1960s the World Bank became more lenient towards programme lending rather

than supporting large transportation or electrical power related projects (Peet 2003:115). This change in approach led to a widening of sectorial coverage of lending and a gradual shift from industrial infrastructure investment towards the agricultural investment.

4. Greater emphasis on Basic Needs

By the end of the 1960s some major development problems surfaced. Firstly, the income distribution within development countries remained skewed or had even widened. The number of people in a state of poverty, *i.e.* below the normative minimum income level or standard of living, was very large and continued rising (Thorbecke 2000:28; Edmunds 1968:15). Furthermore, large numbers of developing countries had to deal with increasing levels of unemployment and urbanisation because of their deteriorating economic situation. Moreover, the position of the developing world within the world economy had worsened. This was reflected in an increased balance-of-payments pressure, rapidly mounting foreign indebtedness, and debts servicing burdens (Thorbecke 2000:28). The growth in global poverty and inequality was an acute problem, one that could not be ignored by development theorists and policymakers.

In the early 1970s, the concerns to address acute developing problems gave rise to the Basic Needs approach, which had a considerable influence on development aid at that time (United Nations 2006:84). The goal of this approach was to interlink development and human needs by providing a level of subsistence to all so that no one starves and all are capable of being productive members of society (Max-Neef 1991:16; Spalding 1990:91). In the allocation of financial resources there was now increased attention of accessible basic goods and services, rather than only on the economic output (Peet 2003:120).

Opposed to the notion that a surplus of the “advanced” industrialised sector would spill over onto other sectors, the rural and informal¹⁰ sector were now regarded as the way through which development could be achieved (Hart 2006:17). This Basic Needs approach regards small-scale forms of production as more efficient to reach the poor than large scale industries. In the Basic Needs approach individual choice was often subordinated to the greater good (Spalding 1990:91). State regulation in productive activities was, therefore, central in the ‘basic needs’ strategy.

During the 1970s there was an increase of public investments in projects benefiting the poor (Thorbecke 2000:32-33). These poverty alleviation programmes were accompanied by massive resource flows (Hart 2006:17). However, this poverty focus only briefly dominated the development agenda, as emergency balance-of-payments problems pushed Basic Needs from the development agenda (Hjertholm & White 2000:13). Within a few years free market fundamentalism became the dominant doctrine in development (Sogge 2002:173).

5. The effect of the 1980s debt crisis on aid

At the end of 1970s the position of multilateral institutions, especially that of the World Bank and the IMF, had become increasingly dominant due to a complex of factors such as the devaluation of the sterling and the oil crisis (Hjertholm & White 2000:9). Through this newly acquired power position, the World Bank was leading both the policy dialogue and the research agenda (Hjertholm & White 2000:13). The IMF on the other hand had evolved from a “means of collaboration on exchange rates and payments mainly under industrialised countries” into a “means for the First World to control over the Third World economic policy” (Peet 2003:71). Strictly speaking

¹⁰ The informal sector entails two types of activities; (i) survival activities, such as casual jobs, temporary jobs, unpaid jobs, subsistence agriculture, multiple job holding, and (ii) unofficial earning strategies such as illegal businesses (World Bank 2007a).

the IMF is not a donor. However, its influence stretches far into the donor community through their development approaches, strategies and advices (Chakravarti 2005:74).

The international political climate of the 1980s radically changed development aid and its environment due to a global economic stagnation (Thorbecke 2000:33). The main critical events of this slowdown in the world's economic growth were (i) two great oil price hikes in 1973 and 1979-1980, and (ii) the resulting debt crisis of 1982 (Mosley et al. 1991:5). "Petro-dollars" lent by private commercial banks had been the principal source of external finance of development countries (Mosley et al. 1991:9). However, the lending source dried up overnight leaving developing countries in the cold with extremely high debts. Development aid was unable to fill up the excessive financing gap that had resulted from these events (Mosley et al. 1991:9).

The economic crisis of the 1980s was the most serious economic setback since the depression of 1929, forcing many countries to adjust their economies in order to accommodate external shocks. This gave rise to development aid in the form of Structural Adjustment Programmes (SAP) enclosing several market-oriented policies with macroeconomic stability at their core (Owusu 2003:1657). The SAPs, widely advocated by the World Bank and other financial institutions, were swiftly adopted by donors (Szirmai 2005:565). The message was sent to aid receiving governments countries to change their countries towards more export-orientated economies (Peet 2003:77). Minimal state regulation along with privatisation, trade liberalisation, and limited state budget deficits would assist developing economies to overcome their economic setbacks (Peet 2003:77).

In addition to these SAPs, there was a strong sentiment among donors to drastically reduce aid. Because of the global economic stagnation, there was no broad political support for development aid any longer. Instead domestic private capital

flows of developing countries should pay for development (Thorbecke 2000). Hence, development aid during this period shifted towards a “stop-gap measure” for economic recovery (Thorbecke 2000:38).

To be regarded in this period for grants or loans fiscal and economic adjustment policies were imposed as a requirement (Owusu 2003:1658). However, these SAPs failed to adequately address social, cultural, and environmental development issues as a result of this conditionality (Peet 2003:140). In many developing countries the SAP policies achieved marginal poverty alleviation and certain policies even made life worse for the poor (Lopes 1999:511,514,517).

6. Post-Cold War development aid

The fall of the Berlin Wall in 1989 initiated the ending of the Cold War. By 1991, the Soviet Union had dissolved and, after years of being development aid donors, the now former Soviet States had turned into net receivers (Hjertholm & White 2000:14). Development aid was no longer needed to ensure political allies as was done during the Cold War. The ending of the Cold War can, therefore, be regarded as one of the main reasons for the aid fatigue observed in the early 1990s (Raffer & Singer 2001:66).

6.1 Washington Consensus

Many theorists refer to the development thinking of the 1990s as the period of the Washington Consensus (see, e.g., Hart 2006; Stiglitz 2002), a policy advice published by the Washington-based institutions for Latin America (Williamson 2000:251). In spite of major changes in global politics in the 1990s and the decline in development aid resources, the general approach of the Washington Consensus did not differ much from the unsuccessful SAPs (Thorbecke 2000:38). Only a few small

changes were observed of which the shift from conditional to selective development aid was the most prominent. Selective development aid rejects interference by donors in choosing development strategies. Instead countries are selected based on *a priori* criteria such as good governance (Szirmai 2005:587; Stiglitz 2002:242). Economic development, however, still did not materialised in most of the developing countries.

Box 2. Washington Consensus

The main elements of the Washington Consensus:

- fiscal discipline,
- a redirection of public expenditure priorities toward fields offering both high economic returns and the potential to improve income distribution, such as primary health care, primary education, and infrastructure,
- tax reform by lowering marginal rates and broaden the tax base,
- interest rate liberalisation,
- a competitive exchange rate,
- trade liberalisation,
- liberalisation of inflows of foreign direct investment,
- privatisation,
- deregulation, and
- secure property rights.

Source: Williamson (2000:251)

The continuous failure of many development aid projects led to a questioning of the Washington Consensus development approach (e.g., by Stiglitz 2002). It became clear that the SAPs in Africa, a typical example of the Washington Consensus approach, did not adequately address the structural causes of the continent's crisis. The social costs of the SAPs were too high and threatened the long-term development of Africa (Owusu 2003:1659).

Critiques from the left, supported by a numerous cases of failed neoliberal market and fiscal reforms, were eventually picked up by the World Bank and other agencies in the late 1990s. Most of today's theorists and donors agree that market-reform, as emphasised by the Washington Consensus, does not lead to an achievement of development aid targets. On the contrary, income inequality tends to increase under

aid-driven structural adjustment, especially where an economy is growing and aid conditionalities are tough (Sogge 2002:147).

6.2 Post-Washington Consensus

Towards the end of century donor focus started changing towards an emphasis on human development rather than economic growth alone (Erixon & Sally 2006:69). Donor ideology refocused on basic needs, involving state and civil society during the various stages of the development process (Erixon & Sally 2006:69; Hjertholm & White 2000:9). In practice, this approach allocated a larger role to receiving governments to allow anticipating on inefficient externalities of the dynamic market forces. For example, when domestic markets fail to address matters of common good because of the lack of profitability, e.g., health care in rural areas (Stiglitz 2004:2).

One of the main critiques on the Washington Consensus came from the former Senior Vice-President and Chief Economist of the World Bank (1997 – 2000), Josef Stiglitz. He identified the shortcomings of the Washington Consensus such as too little understanding of economic structures of developing countries, or a too narrow set of objectives and instruments (Stiglitz 2004:2). To improve future development rates, Stiglitz suggested tailor-made development reform packages as an alternative, and referred to this approach as the post-Washington Consensus.

Stiglitz' approach was that tailor-made packages should be designed by the developing countries themselves, allowing room for the country's own judgement, and exploring which development policy suits specific circumstances best. Although not all theorists agree with Stiglitz's term of a post-Washington Consensus (Maxwell 2007; Sumner 2006), in general this term is now widely accepted to describe the current consensus on present-day development aid approaches (Bond 2004:820).

6.3 Millennium Development Goals as overarching framework

The current post-Washington Consensus approach is heavily influenced by the Millennium Development Goals (MDG). These MDGs provide a globally agreed set of objectives as a guideline, or framework, aiming to reduce poverty with 50 percent by 2015 and to convert other important development issues such as healthcare, gender inequality, and environmental issues into action plans. The international community joined forces to provide more finance for development through Official Development Aid (ODA) (Addison et al. 2005:113). Many donors and development projects have adopted this MDG action plan in their current development policies (Cornwall & Brock 2005:1048).

Currently, development aid is mostly distributed in the form of multilateral aid to governments or is targeting specific programmes such as famine, HIV/AIDS, or education for all (Maxwell 2007:2). In accordance with the MDGs, the development agenda of the World Bank - one of the key multilateral donors - has abandoned its reform attitude. The World Bank now uses the MDGs as guidelines by including concerns for powerless, voicelessness, and vulnerability, and to address non-economic development issues such as a lack of food, shelter, and other basic necessities. The effect of the MDGs on current development is underlined by the fact that some theorists now use the MDGs as an over-arching framework to describe the current development agenda (see, e.g., Maxwell 2007; United Nations 2006).

With the current development approach aiming at encouraging development of the African region, specific features of the original Marshall Plan of the 1950s are reintroduced (United Nations 2006:7). Effective public expenditure management is encouraged by emphasising high-quality governance and good policies. The previously tolerant attitude of donors towards development recipients has changed

drastically and is no longer unconditional. Moreover, donors have started using development aid as a means to award or penalise countries on the basis of its governments' performances (Hjertholm & White 2000:14). McCawley's metaphor of the current international development agenda as a "Christmas Tree" (2006:93) is therefore spot on: present development aid exists of a motley selection of tactics that have often re-emerged from different development aid periods of the twentieth century.

7. Conclusion

Global trends in development aid have been affected by different prevailing political and socio-economic conditions. The successful Marshall Plan inspired subsequent development thinking to allocate vast amounts of resources into large scale projects aimed at increasing the GDPs in periphery countries. However, western development thinking overlooked local circumstances and different economic, social, and cultural conditions. Therefore, a reintroduction of an unadjusted Marshall Plan approach was likely to fail.

The Basic Needs approach of the 1970s comprised of large sums of development aid involving intensive donor and government interference. In contrast to the Marshall Plan approach, this development approach did take the agricultural sector into consideration and focussed on basic needs, like food, shelter, education etc. to alleviate poverty. Global economic recession, however, led to an abandonment of the costly Basic Needs approach. Instead western countries imposed Structural Adjustment Programmes on developing countries to stabilise local economies in the 1980s. This approach left the poor even worse off than before. In spite of these social disadvantages, the Washington Consensus of the 1990s continued this approach, advocating an even further liberalisation of global markets.

The current Post-Washington Consensus is a selection of past development approaches, advocating an integrated tackling of economic and social issues. However, key lessons of the Washington Consensus, e.g., that potentially profitable markets need to be in place before market liberalisation is successful, are often overlooked. This is especially the case for remote, rural areas, where market mechanisms often do not follow western-style free-market principles.

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Chapter 3. Past and present development aid to South Africa

The apartheid history of South Africa is the single most important factor distinguishing this country from other African countries (Aliber 2003:474). Before possible future development aid directions in South Africa can be evaluated, the framework within which present development aid is allocated needs to be reviewed against the development aid history of this country. This history has not only affected foreign development aid to South Africa, but to the entire southern African subcontinent (Love 1999).

The aim of this chapter is to identify the historical framework of present development aid to South Africa, to evaluate how the role of development aid has changed during the apartheid era and after the 1994 elections, and how the South African government allocates development aid to poverty alleviation. First, I will qualify the roles and motives of development aid to the civil society of South Africa during the apartheid era, and how these roles and motives changed since the 1994 general elections. Subsequently I will quantify the role of development aid since 1994 by using existing metadata sets on Official Development Aid to South Africa, country statistics, and reports from the South Africa government.

1. Development aid during apartheid

After World War II (WWII) the United States (US) emerged as a hegemonic power in the world. The US was able to expand its power by granting financial loans and development aid such as the Marshall Plan. In addition, the coupling of the gold price with the dollar enabled the US to dominate the International Monetary Fund (IMF) and the World Bank (Peet 2003:37-39). These institutions operated using a carrot-and-stick principle: without IMF membership no admission to the World Bank,

and without conformation to the IMF no development aid assistance from the World Bank (Padayachee 1987:31). Consequently, the IMF could independently open or close development aid and loan possibilities (Padayachee 1987:39).

In the same post-WWII period, South Africa too was experiencing major changes in its political landscape. The National Party (NP) won the general election in 1948 and institutionalized the apartheid system. This system attempted to promote strict separation of races and led to an uneven economical, geographical, and political development (Beinart 2001:3).

1.1 Foreign donors supporting apartheid

Development aid through government catered for white interests only until the 1990s (Bond 2001; Swilling & Russell 2002:11-12). In addition, the government attempted to control all development aid flows to South Africa. The Fund Raising Act of 1978 criminalised seeking or receiving donations from the public unless this had been authorised by the Director of Fundraising from the government (Habib & Taylor 1999:75). This forced South Africa based anti-apartheid Non Governmental Organisations (NGOs) to seek funding resources underground or to cease their activities.

Until 1982, the South African government was able to take out loans from the IMF (Padayachee 1987:48). In spite of increasing public pressure and negative advice from within the IMF board, the US continued securing its economic interests in South Africa by pressuring the IMF to grant loans to South Africa's racial capitalist system (Padayachee 1987:45-48). After 1982, however, pressure from the international community made it undesirable for the IMF and Western governments to openly allocate development aid to the South Africa government (Klotz 1995; Padayachee 1987).

Even during the mid-1980s, when apartheid was rampant, countries with a longstanding and deep-seated relationship with South Africa such as the Netherlands, West Germany, the United Kingdom (UK) or the US, had little intentions to economically detach from South Africa (Arnold 1979:62-67, 83). Arnold (1979:31) suggests that South Africa was indirectly supported by allocating development aid to neighbouring countries. Indeed, the ODA to Botswana, Lesotho, and Swaziland was at its peak during the last decade of apartheid (see Figure 1). Due to their topographical situation, 90 percent of development aid to these countries was indirectly supporting South Africa's economy too (Arnold 1979:31). This ODA to neighbouring countries diminished the effect of economic embargos against South Africa.

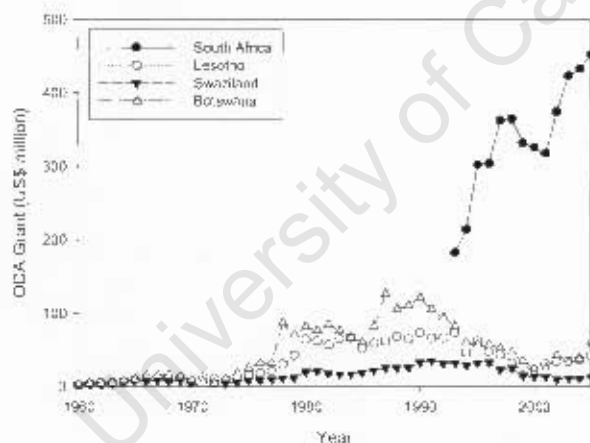


Figure 1. ODA grants from the DAC to South Africa, Lesotho, Swaziland & Botswana.

Note: ODA grants include grants for technical assistance and grant-like flows, i.e., loans by donors in the currency of the donor country but repayable in the recipients' currency. ODA grants exclude reparations and indemnification payments to private individuals, insurance and similar payments to residents of developing countries, and loans extended in the recipients' currencies (Source: OECD (2007c)).

An indirect means to support apartheid was the US support to National Union for the Total Independence of Angola (UNITA). The South African apartheid

government and the US had the UNITA rebel group as a common ally against the self-proclaimed Marxists government in Angola (Schraeder et al. 1998:315). During the Reagan administration (1981-1989) economic and military aid to UNITA took openly place (Yoon 1997:586). With this alliance, the US actively supported the apartheid government in its strategy to maintain the political system in South Africa (Schraeder et al. 1998:315).

1.2 Foreign donors opposing apartheid

As early as the 1960s, Scandinavian countries have been actively supporting anti-apartheid organisations. These included trade unions, community organisations, various youth, students and women movements, as well as business, lawyers and religious associations (Hearn 2000; Marais 2001:109). Denmark has been the first country to provide such anti-apartheid aid, followed by Norway and Sweden (Hearn 2000:817). By the mid-1980s, more countries had joined the embargo against South Africa and supported anti-apartheid movements. From the mid-1980s until 1994, the US and the European Economic Council¹¹ both supported South African anti-apartheid movements with USD 340 million (Hearn 2000:817).

Cold war development aid tactics (see Chapter 2.6) have also played a considerable role in South Africa's apartheid history. When the political situation in South Africa deteriorated after the 1976 Soweto uprisings, anti-apartheid assistance started including military aid. For example, the African National Congress (ANC) members followed training programmes in the Soviet Union, including military training. In addition, the Soviet Union and East Germany provided military assistance to multiple liberation movements throughout southern Africa such as the ANC and to the South West Africa People's Organisation (SWAPO) (Arnold 1979:106).

¹¹ Now the European Union (EU).

1.3 Apartheid and development aid

The uniqueness of development aid to South Africa during apartheid was that grants were given, legally or otherwise, to South Africa's civil society directly. Through the support of anti-apartheid movements, development aid aimed at dismantling the apartheid system. At the global political level, however, economic gain or political influence has been put first. The US in particular has pursued an ambivalent policy. This is illustrated by the US' support of the apartheid government's loan applications and anti-communist conflicts, in spite of international public pressure, while at the same time allocating resources to anti-apartheid NGOs (Klotz 1995).

2. Foreign aid during the transition period

With the dismantling of apartheid in the 1990s, South Africa entered a tremulous stage of transition. Development aid in this period was aimed at securing a successful change to a stable democracy (Hearn 2000). However, development aid was not entirely altruistic and donors often had political or economic motives.

An illustrative example of politically motivated development aid is the Taiwanese aid to South Africa during the 1990s. Taiwan donated USD 10 million to South Africa, in return for South Africa's intention to recognise Taiwan instead of the People's Republic of China (PRC). However, when South Africa reversed their standpoint for economic reasons in 1996, Taiwan promptly suspended further grants and loans to South Africa (Bond 2001:82).

During the transition period development aid has also been used to influence South Africa's economic policies. Western countries were seeking strong allies and reliable trading partners in developing countries. For that reason, donor officials

regularly reminded the South African government that development cooperation would serve mutual interests (Budlender & Dube 1999:331). For example, the US pressurised the interim government to adopt the IMF's approach of "redistribution through growth" instead of "growth through redistribution" and to adopt US economic ideology (Terreblanche 2002:83; Habib & Padayachee 2000:248).

The ANC's aim was to make up for the apartheid's development backlogs through quick economic growth requiring steady economic growth. One way to achieve this was to attract more international financial markets to South Africa. Western governments made it clear that South Africa could expect a flood of foreign investments if it were to adopt orthodox, market-friendly economic policies (Gumede 2005). This pressure affected the post-apartheid economic policy direction of the ANC towards recognising the IMF as a strategic development partner (Bond 2001:68).

In 1993, the transitional government borrowed USD 850 million from the IMF (Bond 2001:68). The secret conditions for this loan implied that the economic policy would continue as before regardless of the outcome of the 1994 election. These conditions aimed to reassure Western investors and included a policy similar to structural adjustment programmes such as lower import tariffs, cuts in state spending, etc. (Bond 2001:68). Consequently, post-apartheid economic strategy was international and friendly towards the free market system, in accordance with US and Europe (EU) economic strategies (Terreblanche 2002:101,106).

The newly established confidence of foreign donors in the South African government led to a radical change in the distribution of South African development aid. Since 1994, development aid has largely been allocated to the South African government so that development issues could be addressed by the government directly (Hearn 2000:817). Consequently, direct financial assistance to the civil

society, NGOs and private development initiatives decreased significantly (Hearn 2000:817). Many NGOs have either discontinued their activities due to a lack of funding after the elections in 1994 or joined forces with the government (Bornstein 2000:194).

With the transition to democracy, there was a shift amongst donors from aiding the anti-apartheid organisations in civil society to aiding democracy by financially supporting the South African government. During this period development aid was referred to as transitional aid, facilitating and securing the establishment of a democratic and equal society (Ngeleza et al, 2000:35; Schneider & Gilson 1999:265). This development aid was seen by many as a short-term phenomenon which would only last until the end of the century (Schneider & Gilson 1999:265). In practice, however, development aid to South Africa has been increasing since 1994.

3. Post-apartheid aid

South Africa experienced a major shift in allocation of development aid resources, from an initial funding of anti-apartheid organisations to present-day funding of an ANC-led democratic government (Harley & Rule 2003). After 1994, donors regarded South Africa as a "potential locomotive for change" (Ishikawa 1999:88). Post-apartheid aid was expected to be short-term, supporting the establishment of a reformed South African society.

3.1 Donors motives for development aid to South Africa

In the begin period of post-apartheid, the South Africa government received large donor contributions to establish its new democracy and to grapple with the legacy of apartheid (Padayachee 2006:1). In 1995 alone, South Africa received more

than USD 600 million of total official development aid from DAC-countries (see Table 1).

Table 1. Country Contributions of ODA in US\$ millions to South Africa, 1995.

Countries	Total receipt (net)	Total ODA	ODA loans	ODA grants	TA grants	Total official**
Canada	42.8	8.8		8.8	3.4	44.9
Denmark	22.9	22.9	0.1	22.7	1.2	22.9
France	50.8	17.9	15.4	2.5	2.3	17.9
Germany	424.6	22.9		22.9	22.9	24.5
Japan	1331.3	4.3		4.3	3.2	293.2
Netherlands	44.5	44.5		44.5	14.3	44.5
Norway	20.0	20.0		20.0	5.8	20.0
Sweden	33.2	19.6		19.6	3.7	19.6
United Kingdom	634.0	23.9	0.4	23.5	22.7	23.9
United States	443.0	107.0		107.0	107.0	107.0
Other DAC	149.3	26.7	0.0	26.8	19.8	26.7
Total DAC	3202.4	318.5	15.9	302.6	206.3	645.1

¹ Total net receipts includes: 1. ODA, Net 2. OOF, Net 3. Private Sector Flows, Net. In addition to Official Development Assistance, this heading includes in particular other official bilateral transactions which are not concessional or which, even though they have concessional elements, are primarily trade facilitating in character i.e., Other Official Flows; changes in bilateral long-term assets of the private non monetary and monetary sectors, in particular guaranteed export credits, private direct investment, portfolio investment and, to the extent they are not covered in the preceding headings, loans by private banks. Flows from the multilateral sector which are not classified as concessional are also included.

**Total Official Flows: The sum of Official Development Assistance (ODA) and Other Official Flows represents the total gross disbursements by the official sector at large to the recipient country.

Source: OECD (2007b)

Japan was the first and single largest donor of the new South African government by assigning USD 293.2 million of total official aid in 1995 alone (Table 1). Japan hoped to contribute to the establishment of an economic zone in southern Africa with South Africa as an engine of development as Deputy Director-General of Middle Eastern and African Affairs of the Japan Ministry of Foreign Affairs Mr. Kaoru Ishikawa (1999:97) illustrates in his book on development assistance in Africa:

“Japan hopes to contribute to the establishment of an economic zone in Southern Africa, with South Africa as an engine of development (...)
Japan will promote economic liberalisation by supporting institution

building and private-sector activities, and this will be an important element to Japanese assistance" (Ishikawa 1999:97).

The Japanese were not alone in ascribing a leading regional role to the new South Africa. Also the Netherlands has ascribed this role to South Africa as the following statement by the Dutch Ministry of Development Cooperation illustrates:

"[South Africa] has the potential to be the political and economical engine of the region (...). It is important to support the leading role of South Africa on the continent. The present programme for development cooperation contributes to a stable and democratic course of the South African transformation" (MinBuZa 2006, translation by author).

The US and the EU have been important official foreign development aid donors to South Africa since the 1990s. From 1994 – 1999, the US provided ~ USD 530 million to South Africa, while the EU provided an additional USD 420 million (Hearn 2000:891; OECD 2007b). Other significant foreign donors to South Africa are the Nordic countries, Germany, and the UK, providing between USD 15 million and USD 45 million annually since 1994 (Hearn 2000:891; OECD 2007b).

The idea that development aid would only be for a brief transitional period has been stressed by Sweden in its report *Country Strategy for Swedish Development Cooperation with South Africa 2004-2008*:

"Following the ANC's electoral victory and the constitution of a Government of National Unity, the humanitarian programme was transformed in 1995 into a regular development cooperation programme, aiming both at supporting democratic reform and consolidation and contributing to poverty alleviation...A point of departure in the

transformed development cooperation programme was that Swedish assistance should be provided in strategic areas during a brief transition period" (Swedish Foreign Ministry 2007).

In short, foreign donors considered development aid to South Africa after the dismantling of apartheid to be short-term transitional, supportive of the emerging democracy and building on a strong regional economic and political force.

In this period the development institutions World Bank and IMF only played a minimal role as a lending institution to South Africa (Hearn 2000:819). Nevertheless, both had a significant influence by providing the South African government with policy advice on land reform, housing, health care, public works, infrastructure, industrial development and macroeconomic policy (Hearn 2000:819; Bond 2001:55,69).

3.2 A Marshall Plan for South Africa?

The newly elected government inherited a socio-economic system with a racially skewed history of oppression and exploitation that had left a large proportion of its population marginalised, poor and without adequate health, housing, and water (Padayachee 2006:1). To resolve these inherited issues, the government considered adopting a reconstruction programme similar to the Marshall Plan (Naidoo 2006:111).

The ANC eventually adopted the Reconstruction and Development Programme (RDP) addressing the initial development problems of post-apartheid South Africa. This RDP document formed the base for the new government's approach to reduce poverty and inequality (May 2000:3,7). The RDP was resembling the Marshall Plan in being a demand-driven approach involving large infrastructure

programmes, increased public investment, and higher social security spending (Naidoo 2006:111-112).

However, the RDP development aid amount did not even come near the immense financial injection of the Marshall Plan to Europe. The USD 13 billion allocated between 1948 – 1951 to Europe would be worth approximately USD 73 billion¹² today, while DAC donors only allocated just over USD 10 billion in the period 1995 - 1997. Naidoo (2006) gives four additional reasons why South Africa's reconstruction plan did not succeed in the same manner as the reconstruction plan in Europe:

"First, South Africa had a very low savings rate and this gap could not readily be met through international flows, given the recent transition. Second, borrowing from abroad was seen as expensive and risky because of the poor appetite of foreign lenders for extending credit to the new government. Third, the capacity of the public service to roll out a massive investment programme was far short of expectations. Lastly, the trend in the South African economy was that when public spending increased and domestic demand rose, domestic suppliers were not able to respond to the increased demand. An increase in government spending would result in an increase in imports" (Naidoo 2006:111-112).

Apart from a massive investment in infrastructure, the RDP policy document gave little specific indications on what economic strategy was to be followed (Aliber 2003:475). This lack of concrete recommendations eventually backfired on the programme. By early 1996, the macro-economic Growth, Employment, and Redistribution programme (GEAR) was taken up by the South African government, to

¹² Calculated by using the GDP deflator (Williamson 2007)

deal with pressing economic issues like the sharp depreciation of the South African currency (Mokate 2000:58). However, this programme too prioritised economic growth above poverty alleviation.

3.3 Development aid distribution

Current development aid to South Africa comprises only 1 percent of government expenditure (World Bank, 2007b). However, this percentage is misleading as the impact of development aid can have a far greater impact than the figure suggests (Budlender & Dube 1999:308). A large part of the South African national and provincial budgets (~90 percent) is spent on salaries and other fairly fixed costs (Bond 2001:81). Relative to the remaining budget that is available for reprioritisation, development aid thus constitutes an important contribution. For example, donor contributions to the RDP in the first years were more than double the contribution of the South African government (Budlender & Dube 1999:308). To a certain extent development aid can, therefore, be partially shifted according to donor priorities (Bond 2001:81).

Donor priorities in South Africa have been in concurrence with the global development aid agenda of current development aid, focussing both on economic development and basic needs (see Chapter 2.6). The distribution of ODA to South Africa (see Table 2, below) shows that 'Social infrastructure and services' is by far the largest post of ODA allocation. In 2005, however, the sector 'Economic infrastructure and services' still received the third largest influx of ODA. This indicates that, more than ten years after 1994, donors still consider economic development in South Africa as an important development issue that requires the support of foreign donor resources.

Table 2. Sectorial distribution of DAC donor money to South Africa, 1993-2005.

Sectors	1993	2005	1993	2005
	(USD million)		(%)	
Social infrastructure & services	27.5	45.4	46	40
Education	37.5	146.9	20	13
Health and population	2.6	183.4	1	16
Water supply and sanitation	-	4.1	0	0
Economic infrastructure and services	14.5	160.1	8	14
Transport and communications	2.3	9.3	1	1
Energy	0.2	12.2	0	1
Production sectors*	6.6	19.1	3	2
Agriculture, forestry and fishing	3.8	13.4	2	1
Industry, mining and construction	2.1	3.6	-	0
Trade and tourism	0.8	1.9	0	0
Multisector**	14.1	88.5	7	8
Programme assistance***	0.3	8.3	0	1
Food aid	0.3	8.3	0	1
Emergency assistance	14.5	2.1	8	0
Unallocated/unspecified	3.8	5.8	2	1
Total	191.1	1121.2	100	100

*Direct input to the production of the sectors agriculture, manufacturing, trade, banking, and tourism.

**Economic sector of destination rather than to the type of goods or services provided.

*** All general developmental contributions other than debt reorganisation, made available with no pre-imposed sector allocation.

Source: OECD (2007c)

Foreign development aid entering South Africa does not directly flow into the hands of the ones in need. In fact, there is a complex aid system in which development resources such as development aid, technical assistance, material donations or loans, circulate before reaching the beneficiaries. The complexity of the development aid distribution system can be illustrated with a flowchart (see Figure 2, below). Inevitably, a substantial part of the development aid resources is absorbed by this system to support itself.

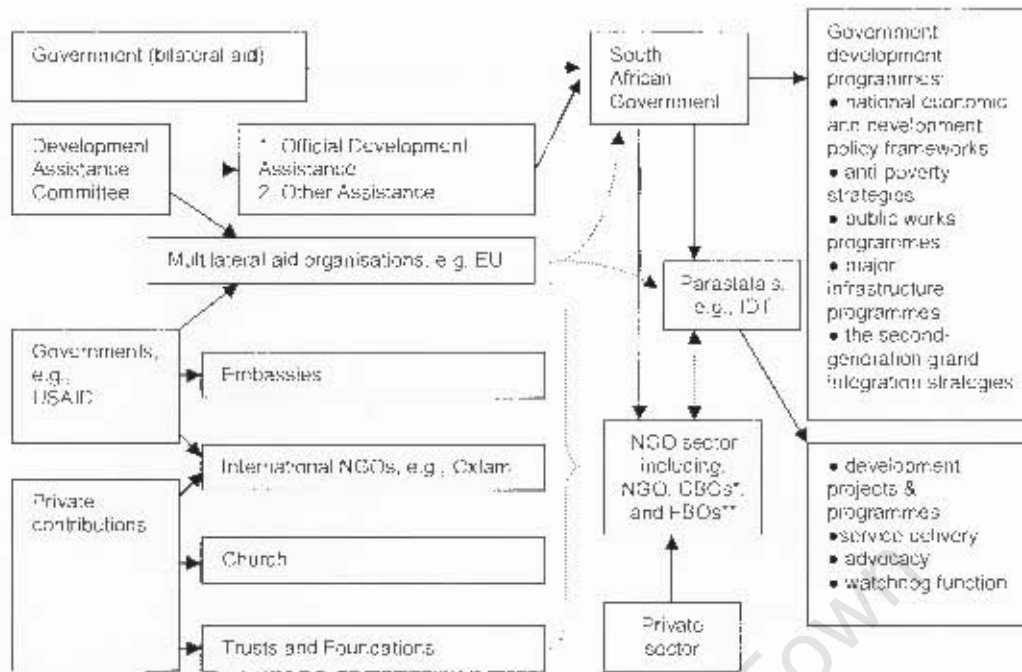


Figure 2. Flowchart of development aid resource flows aimed at South Africa

* Community Based Organisations (CBO)

** Faith Based Organisations (FBO)

The South African government has a strong influential role in this complex development system. In the post-apartheid period, development aid is predominantly allocated directly to the government for further allocation. In fact, development aid has been budgeted by the government as a large part of the spending budget of the RDP. Additionally parastatals¹³, e.g. the Independent Development Trust (IDT), have been formed to carry out poverty alleviation projects for which the government was lacking capacity (Aliber 2002:17-18).

Although some South Africa based NGOs did not overcome the period of aid fatigue of the 1990s, others managed to drastically increase their influence. At the end of the 1990s, the NGO sector was increasingly becoming a major force in the South

¹³ Aliber (2001:50) refers to a parastatal when finances are used from both government and donor resources.

African economy. By 1998 the NGO sector had grown into a ZAR 9.3 billion industry, comprising 1.2 percent of the Gross Domestic Product (GDP) (Swilling & Russell 2002:15).

Presently international funding of South African NGOs is mostly project-based (Bornstein 2000:195). As a result, the internal structures of NGOs are increasingly difficult to finance as donors are unlikely and unwilling to pay for indirect costs such as overhead or salaries (Bornstein 2000:195). Therefore, NGOs are increasingly turning to the South African government to obtain funding resources (Swilling & Russell 2002:11; Harley & Rule 2003). This is illustrated by the South African government's contribution of ZAR 5.8 billion in 1998 to the non-profit sector, 42 percent of this sector's total funding (Swilling & Russell, 2002:35). This created a growing dependence of NGOs on governmental support, and has been suggested to diminish the power of NGOs to criticise the government (De Jager 2006:107).

3.4 Is development aid still transitional?

A clear distinction can be made between development aid during the apartheid and post-apartheid periods. Prior to 1994, development aid had been generally supporting anti-apartheid movements in the South African society. However, from 1994 onwards a major injection of development aid supported the new democratic government (Schneider & Gilson 1999:265). This post-1994 development aid was designated as transitional aid:

“Aid to South Africa is framed as ‘*transition support*’ for the emerging democracy” (Department of Finance, interview with the Director, International Development Finance, Pretoria, 11 June 1997 in Schneider & Gilson 1999:265).

This transitional aid was regarded as a short-term intervention to support a stable and rapid transition to democracy. This aid was initially expected to become redundant by the end of the twentieth century at the latest (Schneider & Gilson 1999:265). However, as the end of the century was coming near there was no decline in or even talk of reducing development aid to South Africa. In 2000, the Department of Finance even stated in an International Development Co-operation report that the duration of development aid should be extended:

“All donors came to South Africa through transitional aid, which was expected to be short lived. More and more donors are realising that the complexities of the South African development landscape are such that there is a need for them to extend their support by a few more years” (Ngeleza et al. 2000:35).

Also donors became aware of the need to extend development aid to South Africa. In May 2002, the President of Japan’s International Cooperation Agency (JICA), Mrs. Sadako Ogata, reassured South Africa of Japan’s commitment to continue donating development aid:

“Japan, through JICA, will strengthen technical and development aid to Africa, particularly with a focus on community development and empowerment of people through capacity building, Ogata said. President Mbeki, in turn, assured South Africa’s leading role in supporting the development also of its neighbouring countries” (JICA. 2004).

Also Sweden reassured its development aid relation with South Africa. However, Sweden acknowledges that present development aid has entered an entirely new partnership as compared to aid during apartheid and the transition to democracy:

“Over the last decade, Sweden’s partnership with South Africa has thus developed in three stages, from humanitarian support via regular development assistance to broader cooperation. While the latter still needs consolidating, it rests on a solid base thanks to the two previous stages...the present development cooperation shall be transformed into broader cooperation, based on mutuality and joint financing” (Swedish Foreign Ministry 2007).

As a result of foreign donors continuing their support to the South African government, the amount of net ODA to South Africa increased from USD 487 million to 700 million between 2000 and 2005 (World Bank, 2007b). The South African government does not seem to be worried about possible negative effects of development aid. Moreover, South Africa’s finance Minister Trevor Manuel has even recently emphasized the supportive role that development aid can play in poverty alleviation in Africa and South Africa:

“All African economies, even those of South Africa, Nigeria, and Egypt, are small. Thus, the whole global environment – trade, international finance, and development aid – needs to be supportive of growth and to provide the right incentives for small African states to pursue reform” (Manuel 2003:18).

Trevor Manuel indicates that development aid has to adjust as followed to be supportive of growth:

“There needs to be more [development assistance] than the recent slight reversal of the trend of declining aid levels...Accelerated progress also requires more and better-targeted financial support for poverty reduction, particularly in policy areas important for achieving the Millennium

Development Goals (MDGs) - education, health, clean water, and sanitation" (Manuel 2003:19).

It is difficult to put an exact time period on a transition period. However, in the case of the Marshall Plan only three years of large financial input to Europe was enough to propel Europe's economic growth. After this period, the amount of development aid quickly declined. It is not surprising that hundred fifty years of uneven South African development take more than a couple of years to overcome. In fact, development aid to South Africa has become as a permanent part of the development landscape. Referring to present-day development aid to South Africa as transitional aid may, therefore, no longer be appropriate.

4. Conclusion

After thirteen years of democracy the 'transitional' affix to development aid is questionable. The ODA figures show how development aid has gradually become a stable factor in the South African society, either acting through the government or through civil society. There is no consensus amongst theorists if present development aid as a permanent source of income to South African development landscape has a significant positive effect to poverty alleviation.

Chapter 4. Future development aid in South Africa

Development aid to South Africa has gradually established itself as a permanent factor in the South African development landscape. Instead of providing initially short-term support to a transitional political system, development aid is currently being applied to address the complex South African development issues as a permanent form of collaboration between donors and the South African government (see Chapter 3). This change of relationship, however, means that the effectiveness and possible downsides of development aid must be reconsidered, for example the risk of aid dependency.

In the present development landscape, aid to South Africa is predominantly allocated by donors directly to the South African government. Through allocation of funds the government can strongly affect the course of development aid according to their own priorities, such as reducing the South African budget deficit and or stimulating Gross Domestic Product (GDP) growth (Biggs 1997; Harsch 2001). The Non Governmental Organisation (NGO) sector is an important sub-contractor of government development projects and NGOs are heavily dependent on government sources for their incomes.

The current debate between development theorists from various schools of thoughts is focussed around the various aspects of development aid and alternative ideas to achieve poverty alleviation (see Chapter 1). This chapter aims at investigating the critiques of the dominating schools of thought, the mainstream, neoliberal, and radical-left idea, in a South African context and how proposed alternatives would shape the South African development landscape in its efforts of poverty alleviation.

1. Trickle down

The South African government regards growth of its economy as the main requirement for poverty alleviation (Manuel 2003:18). This is reflected in its development programmes such as GEAR and Accelerated and shared growth initiative - South Africa (AsgiSA) which have a strong emphasis on macro-economic reform similar to the Washington Consensus (Biggs 1997:48-49; AsgiSA, 2006; Williamson 2000). One of the reasons that economic development is given much attention in South Africa's development approach is because of an assumed trickle-down effect as spin-off of economic growth.

According to this neoliberal trickle-down effect, economic growth is likely to occur in regions with investment power, often industrialised and urban areas (Roodt 1996:314). In accordance with the mainstream view, a trickle-down effect of this growth will spin off to those with less or no investment power such as people living beneath the poverty line (Sachs 2005b). Given recent economic growth of South Africa over the last couple of years, an average GDP growth of 2.8 percent between 1994 - 2003 (Naidoo 2006:111) a trickle-down effect should be noticeable by now.

Hoogeveen & Özler (2005) found that per capita household expenditures in South Africa actually declined for the lowest classes over the period 1995 - 2000 and, in spite of a growing GDP, inequality has increased. In 2001, the poorest quartile of the South African population only contributed 1.3 percent of the total national income while the bourgeois elite (16.6 percent of the population) generated 72 percent (Terreblanche 2002:36). These indices illustrate that the accumulation of wealth as a result of economic growth has not benefited the poorest quartile in South Africa.

The different classes of South Africa's society are primarily along racial lines and a legacy of unequal development during apartheid (Padayachee 2006; Adato et al.

2006). The largest part of the lower classes of South African people live and work in the rural areas (Amin 1997:9). The underdevelopment in lowest classes of this society is, especially in the rural areas, so strong that these classes are unlikely to profit from any trickle-down effect as too little economic growth will occur in their immediate surrounding (Frank 1966:27). A neoliberal form of capitalism in which development aid is merely allocated to industrialised and urban areas would worsen the situation for the poorest and weakest of society (Hart 2006:22).

2. Government capacity

The majority of development aid resources, including Official Development Assistance (ODA), are directly allocated to the South African government to encourage an integrated development approach for poverty alleviation. However, the South African public sector is experiencing major capacity problems, resulting in development backlogs, and frequently in a freezing or even returning of unused development resources.

An illustrative example of South Africa's capacity problem is the Department of Welfare (Marais 2001:207) and the Department of Social Services (Bond 2001:81) spending only fractions of their poverty relief budgets. To resolve its capacity problem, the South African government channels development aid through parastatals such as the Independent Development Trust (IDT) to achieve poverty reduction (Aliber 2002:18), or through NGOs to provide service delivery (Harley & Rule 2003). This interdependence, however, creates another problem.

A large part of the NGO sector's financing comes from the South African government. In 1998, this contribution already made up 42 percent of the total NGO budget (Swilling & Russell 2002:35). Consequently, many of these organisations feel both financially and politically pressurised to focus on service delivery using fast-

track methods (Marais 2001:285). This pressure distracts NGOs from focussing on sustainable, long-term development approaches, people-centred participatory processes, community capacity-building, etc. The pressure on NGOs also undermines the autonomy of these organisations.

The South African government presently lacks the capacity to set up and manage poverty alleviation programmes or to allocate development funding effectively (Bond 2001:144). As the current capacity is already inadequate, it is questionable if a large-scale increase of aid would be proportionately as effective (Kraay & Raddatz 2007:317). Yet, donors continue focussing on the South African government to redistribute development aid instead allocating resources to the NGO sector directly. Increases of development aid influxes should consider focusing on sustainable capacity building at all levels of society, rather than on increasing the burden of an already overstretched bureaucratic system (Bond 2001).

3. Aid dependency

The creation of a state of aid dependency is one of the main arguments of neoliberal theorists against large-scale foreign development aid influxes (e.g., Friedman 1958 in Svensson 2000:443; Gupta et al. 2006). Development aid generates dependency by allowing countries to artificially raise the recipient's government budget above its self-generated income (Friedman 1958 in Svensson 2000:443). Such state of aid dependency results in high tax rates, which discourages people to work and traps aid recipient countries into a continuous need for development aid (Krauss 1983; Collier 1999:528).

According to Bräutigam's (2000) aid dependency threshold of >10 percent of the Gross National Income (GNI)¹⁴, South Africa is clearly not aid dependent with a GNI of only 0.3 percent. This low GNI is considered as a major positive feature of South Africa's economic system by neoliberals. However, this GNI index is misleading as the proportional amount of development aid to projects is much higher than 10 percent (see also Chapter 3.3.3, page 48). Under the current development aid trend unprofitable sectors, such as Health and Education may become even more dependent on aid than they already are (Schneider & Gilson 1999:270).

The radical left considers anything less than a total abandonment of foreign development aid as a serious threat to the sovereignty of local economies as donor countries could use development aid as leverage to facilitate political or legislative changes in the recipient's country. Such power tools could, for example, be used by power blocks such as the United States or the European Union to direct South African socio-economic structures to their respective benefits. Therefore, the radical left argues, that this global system should be replaced by an economic model that allows both the core and the periphery to have equal opportunities to develop.

However, a total abandonment of foreign development aid would have large, negative impacts on the current NGO sector of South Africa. It would remove an income source from a sector that addresses poverty issues currently neglected by the government. Although the NGO sector has its limitations (see, e.g., Swilling & Russell 2002) it can be considered as an important counterbalance to the current South African capitalist market economy. Therefore, more direct support of local NGOs by development aid donors may achieve a more effective improvement of the

¹⁴ GNI is the total value of all finished goods and services produced by a country.

well-being of the poorest than an abrupt doubling of aid directed to the South African government.

4. Relaxed budget constraints through development aid

The current trend of increasing development aid, supported by mainstream theorists, will increase recourses for development purposes in South Africa. However, the current development aid framework is not a machine that produces development when money is entered¹⁵. Rather development aid relaxes the budgetary constraints that hold back government development spending such as pro-poor services and infrastructure investments (Addison et al. 2005:114).

The 10 million South Africans that are currently in desperate need of social grants make up approx. 20 percent of the total South African population (Terreblanche 2006). A doubling or even quadrupling of foreign development aid would, therefore, still only be a metaphorical drop in the ocean with this huge number of people in need. Nevertheless, an increase of foreign development aid, even if only temporarily, could have interesting potential to improve the current development aid framework, so that projects are executed more swiftly and more professionally.

While the direct economic spin-off of development aid increases may only be marginal, some theorists are of the assumption that an increased perception of people that their needs are taken seriously and are addressed promptly will already improve their well-being (see, e.g., Easterly 2006). However, development promises that are not kept or only addressed after a long period of time will create cynicism, frustration and resentment (Doucouliagos & Paldam 2006:246). This prediction has strong

¹⁵ This illustrative clarification is made by Herman Specker, Head Outcome Measuring, Dutch Ministry of Foreign Affairs (in Van de Wiel 2007:12).

similarities with the frustration and social unrest in South African areas where service is yet to be delivered (Roux 2005:58).

5. Exchange rate

Large influxes of foreign currency can lead to an artificial overvaluation of the recipient's currency, as there is now more 'hard currency' against the recipient's currency. This has a negative effect on the export of the recipient's country, because it will now cost foreign buyers relatively more local currency to buy a product (Szirmai 2005:287). This currency problem has been identified by Krauss as a major economic disadvantage of development aid influxes to developing countries (see page 8). When imports are cheaper than exports an impediment is created for the internal market growth.

Currency volatility has been identified by South Africa as discouraging investors in tradable goods and services outside of the commodity sector. This volatility was also the reason that South Africa turned down a Japanese loan of USD 75 million (Bond 2001:58). Significant foreign aid influxes should, therefore, always be considered with caution and may have persisting negative side-effects on the economies of the recipient's country.

While an overvaluation of the South African currency may be advantageous for the import of essential foreign intermediate goods, there will be severe negative effects on South Africa's export industry such as the agricultural sector. A sudden doubling of development aid influx would therefore result in a loss of employment in this sector.

6. Conclusion

In the current economic and ideological framework of South Africa, an increase in development aid is unlikely to be the most efficient contribution to achieve sustainable poverty alleviation. The post-apartheid government's attempt to alleviate poverty through the Reconstruction and Development Programme, a Marshall Plan-like approach to uplift South Africa's poor, failed to materialise and is currently replaced by a strategy that prioritises economic growth, similar to the Washington Consensus. Similar to the failing of the Washington Consensus during the 1980s and early 1990s, this development approach has thus far not achieved its goal of uplifting the poorest of South Africa's people. On the contrary, income inequality has been increasing since 1994.

The current status of development aid to South Africa is being regarded as transitional by both the South African government and donors. However, this status of temporariness prevents NGOs and development programmes to establish a solid basis for sustainable, long-term development approaches, or to gain the trust of underprivileged and poorly serviced communities. Acknowledgement by donors and the South African government that development aid in South Africa is going to stick around for a long time to come will facilitate the founding of such broad, long-term programmes to address the full complexity of South Africa's persisting poverty issues.

The current economic and ideological framework of South Africa has allowed apartheid inherited poverty issues to get worse. This has not necessarily been a lack of willingness, but rather the consequence of a misjudgement of prioritizing economic and fiscal adjustments and a lack of development capacity. This government-steered approach has resulted in insufficient service delivery and cynicism within communities-in-need. An indiscriminate increase of development aid would worsen

this problem. However, better-focussed or redirected development aid resources could indeed contribute to capacity building of government institutions and secure the independence of NGOs.

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Footnotes:

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