THE IMPACT OF FOREIGN AID IN SUB-SAHARAN AFRICA: PROBLEMS AND PROSPECTS

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ABSTRACT

At face value, foreign aid is generally extended either to contain crises situations or promote development. In Africa, it appears that foreign aid has failed on both counts. One crucial question being asked by experts is, why has there been so little development in sub-Saharan Africa despite so much aid? Indeed, even the World Bank has admitted grudgingly that assistance programs have been either ineffectual or had very small development impact on recipient countries. This study seeks to examine foreign aid effectiveness and management. Focusing on the nature of the relationships between donors and recipients, the study argues that to foster economic development in Africa, a need exists for a transformation in aid relations away from fragmented donor-driven projects and programs to a predictable long-term support to African owned programs.

The work addresses these challenges by reviewing current debates and analysis of new forms, instruments, promises, and direction of development cooperation. Donor discourses, which are on ownership, partnership, less conditionalities, and more empowerment, are not always followed in practice. In fact, the objective reality is that foreign aid donors usually target an assortment of aid instruments at diverse objectives. That notwithstanding, foreign aid (generally) can only be effective in achieving the objectives set by donors when it is planned, structured, and implemented in partnership with aid recipients. Clearly, the nature of the relationships between donors and recipients has a critical influence on the effectiveness of development aid. So far, the current aid experience is that the relationship between African governments and their aid donors is characterized by a vast inequality.

As such, this study takes the position that there is no viable alternative to Africans taking effective charge of their destiny and deliberately creating conditions that are essential for effecting desirable change in the region's fortunes. It also takes the position that Africa's development partners such as the international financial institutions should actively seek to create and nurture the space needed by Africans for the realization of their developmental goals.

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DEDICATION: This work is dedicated to my wife Meg Nwakaego with love.

DECLARATION

Except where explicitly indicated to the contrary, this study is the original work of the author. This thesis has not been submitted before to another university.

Anene Peter Nwokediuko

ABBREVIATIONS

ADB:	African Development Bank
APPER:	African Priority Programme for Economic Recovery
APR:	African Peer Review
AU:	African Union
BWIs:	Bretton Woods Institutions
CAS:	Country Assistance Strategy
CDF:	Comprehensive Development Framework
CEPR:	Center for Economic and Policy Research
CIDA:	Canadian International Development Association
DAC:	Development Assistance Committee
EC:	European Commission
ERP:	Economic Rehabilitation Programme
EU:	European Union
FDI:	Foreign Direct Investment
FOB:	Freight On Board
GDI:	Gross Domestic Investment
GDP:	Gross Domestic Product
GNI:	Gross National Income
GNP:	Gross National Product
HIPC:	Highly Indebted Poor Countries
IDA:	International Development Association
IFC:	International Finance Corporation
IMF:	International Monetary Fund
LDC:	Less Developed Countries
NEPAD:	New Partnership for African Development
NGO:	Non-Governmental Organization
OAU:	Organization African Unity
ODA:	Official Development Assistance
OECD:	Organization for Economic Cooperation and Development
OPEC:	Organization of Petroleum Exporting Countries
PRSPs:	Poverty Reduction Strategy Papers

SAL:	Structural Adjustment Lending
SAPs:	Structural Adjustment Programmes
SINTIC:	(Mozambique) National Union of Cashew Workers
SSA:	Sub-Saharan Africa
UNDP:	United Nations Development Programme
UNECA:	United Nations Economic Commission for Africa

Table of Contents

Contents

List of Tables

List of Figures

CHAPTER ONE

1.1 Introduction

Africa is currently faced with the challenges to accelerate growth, reduce poverty, build up its human resources, and create an environment that encourages the development of the private sector. At the same time, globalization has raised the stakes for many states by offering greater opportunities for faster economic growth while raising significantly the risk of marginalization for African countries that fail to integrate into the global economy. For the past twenty years, the degree of aid dependency in Sub-Saharan Africa has been growing. For instance, between 1975-1979, seventeen African countries showed a mean annual Official Development Assistance (ODA) of over 10 percent of gross national product (GNP). Within the period 1980-1989, the number of African countries in this heavily aid dependent category rose to twenty-five. During 1990-1997, there were thirty-one aid recipients whose ODA averaged more than 10 percent of GNP (World Bank, 1999). These countries account for about 365 million people or close to two-third of the sub-Saharan African (SSA) population. Between 1990 and 1998, the number of people living in poverty actually increased in SSA, from 242 million to 291 million. Furthermore, although the number of people living on less than a dollar each day (absolute poverty) declined in the same period by 5 percent in other parts of the world, the change in Africa was barely discernible (Devarajan *et al,* 2001: xvii). Social indicators such as level of literacy, life expectancy, and health have been deteriorating. During the first half of the 1990s, per capita incomes in Sub-Saharan Africa fell by 1.3 percent per year. Africa stands out as the worst performing region in the world during that period. African economies have invested a smaller share of GDP than comparable regions and a smaller share of investments has gone to the private sector (Bigsten, 1999: 174).

As a share of GDP, Sub-Saharan Africa receives nearly five times more aid than any other region. The share of aid to GDP was on average 16 percent in 1994. It was as high as 101 percent in Mozambique and 30 percent in

Tanzania (Bigsten, 1999: 174). One reason for the high gross flows is the high debt burden that was accumulated by many African countries from the mid-1970s onwards. For example, in the Republic of Congo and Mozambique external debts were more than 300 percent of GNP (World Bank, 1997). In essence, despite the development efforts of the past twenty years Africans are getting poorer. In fact, the scale of poverty and suffering on the continent has remained daunting.

Since the end of the Second World War, economic development in Sub-Saharan Africa has been disappointing. The increasing integration of national economies into global markets has changed dramatically (and promises to continue doing so), the volume and character of international resource flows – foreign aid inclusive. Globalization is carrying with it the threat of continued marginalization of Sub-Saharan Africa (SSA) from the global development processes. SSA faces marginalization in trade, as preferential trading arrangements are diluted by moves in the direction of both multilateral trading arrangements and the associated multilateral tariff reductions. As a whole, Africa's share in world trade (the bulk of which is still confined to the exportation of primary goods and the importation of non-primary intermediary, capital, and consumption goods) has declined considerably in the last three decades (Wangwe, 1998). Furthermore, the African share of global trade has declined steadily over the past forty years from 4.1 to 4.9 percent during 1960-65 to 2.3 percent in the 1990s.

Secondly, the region faces marginalization in investment, one of the critical ingredients of development. Since the early 1990s, Foreign Direct Investment (FDI) flows have gone to regions with perceived higher returns as a result of the market size and access to natural resources. In 2000, FDI inflows to Africa (including South Africa) dropped bringing down the continent's already low share in world inflows to below one percent (UNCTAD, 2001). FDI declined from 10.5 billion in 1999 to $9.1 billion in 2000. According to the World Investment Report 2001, the decline is largely the result of slowdowns in a small number of countries, including Angola, Morocco, and South Africa –

Africa's main recipient countries. However, for many nations, FDI continues to play an important role in financing capital formation[1]. In the continent, FDI continues to concentrate in a small number of countries endowed with resources, especially oil. FDI inflows to Sub-Saharan Africa are concentrated in three countries – South Africa, Nigeria, Angola while the rest goes to Egypt, Morocco, and Sudan in 2000 (UNCTAD, 2001).

Thirdly, the region faces marginalization in rapid global technological advances due to the absence of requisite financial and human infrastructure to support such advances. For instance, the global information revolution and, in particular, the communications sector, seem generally to have bypassed Africa given that the region accounts for only 2% of the world's telephone lines most of which are in a few large cities (Wangwe, 1998).

Furthermore, the prospects of future aid flows to SSA remain uncertain due not only to budgetary pressures in many donor countries but also to competing claims on donor resources and changes in the ranking of strategic and economic interests especially following the end of the cold war. The European Commission (EC), the traditional aid giver to Africa has changed the distribution as most of its ODA are in favor of other regions. For example, there was a fall in the real value of EU aid to SSA from over US$2 billion in 1988/89 to $1.6 billion in 1999 (OECD, 2001). This decline shows that the total EU development aid to SSA dropped dramatically from 61 per cent in 1988/89 to 31.3 percent in 1999, whereas aid to other regions grew from 39 to 68.7 percent in the same period (OECD, 2001). The shift of EU aid flows has favored Central and Eastern Europe and the new states of the former Soviet Union.

In absolute terms, Africa's net official development assistance (ODA) receipts totaled $86.5 billion between 1993-1997 (OECD, 1999). When this figure is put in perspective, net foreign direct investment in Africa was only $9.5 billion for the same five-year period (1993-1997) (World Bank, 1999b). This situation

[1] Table showing the FDI in selected countries as published by World Investment Report 2001. Attached as appendix1.

is exacerbated by a new and highly troubling development. Development aid is currently facing an unprecedented crisis, which is linked to budget reductions in developed countries. Between 1992 and 1997, foreign aid from developed countries decreased by 21 percent, the sharpest decline since the creation of the Development Assistance Committee (DAC). In 2000, the Official Development Assistance/Gross National Income (ODA/GNI) ratio for all DAC members shifted from 0.24 percent to 0.22 percent, a far cry from the international target of 0.7 percent and well below the general trend of the past 20years[2]. In spite of an ever more sophisticated rhetoric, the developed countries devote few concrete efforts to poverty alleviation. In 1998, basic education and health care, received respectively 1.4 percent and 1.7 percent of all foreign aid. Furthermore, the assistance given to the group of the 48 least developed countries has been on the decline (Therien, 2002: 458).

There are two principal forms of development aid – non-strategic and strategic — that emerged during the 1940s. On the one hand, non-strategic aid comprises of multilateral assistance and more altruistic forms of bilateral aid, which were intended primarily to respond to the objective development needs of the recipient countries. On the other hand, aid is strategic when it is given based on geopolitical, historical, or commercial reasons, which serves respectively the political, cultural and market influence of the donors (Browne, 1999: 14-15). In this study, the word 'aid' will be used to mean official development assistance (ODA). The guardian of official information about aid is the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD); its annual volume contains the most commonly used aid statistics (Lancaster, 1999: 189). In principle, official development assistance is meant to spur economic development in the recipient countries through the financing of investment projects, research funding and technical assistance, and support for economic and political reforms. The issue of foreign aid effectiveness in Africa is an important one. The widespread practice of tying aid to trade reduces the value of aid for

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[2] OECD website: http://www.oecd.org/oecd/pages/home/displaygeneral/0,3380,EN-document-590-17-no-12-22966-0,FF.html.

recipients. Indeed, donors, their companies, and their experts retain three-quarters of the financial value of bilateral technical assistance funds.

Africa starts the 21st century as the poorest, most technologically backward, most debt distressed, and most marginalized continent in the world. It accounts for 12.5 percent of the world's population but produces only 3.7 percent of global GDP (IMF, 1999). In 1999, the life expectancy at birth was 47 years, infant mortality per 1000 birth was 92, while in 2000, the female illiteracy rate and per capita gross national product (GNP) stood at 26 percent and $480 respectively (World Bank, 2001: 66). Foreign aid is supposed to promote development but it has apparently failed to do so in Africa. One crucial question being asked by experts is, why has there been so little development in sub-Saharan Africa despite so much aid?

1.2 Research Methodology

This study involves the trends in development aid during the 1990s. The 1990s is used as a point of departure because that decade serves as a unique 'hinge' period between the end of the Cold War and the transformed international environment. This period coincided with the time that donors' ODA contributions were at the lowest ebb ever. It also coincided with the World Bank's grudging admission that the imposition of assistance programs on the recipient countries was either ineffectual or had a very small development impact. Foreign aid has been one of the most significant external links for much of Sub-Saharan Africa. An attempt is made in this study to examine foreign aid trends as well as their overall effectiveness and management. The central argument of this study centers on the nature of the relationships between donors and recipients, which has a critical influence on the effectiveness of development aid. There has been an unequal relationship between African governments and their donor partners. Basically, the relationship has been characterized by the passivity of the recipients and the dominance of donors. This work, therefore, argues that a transformation in aid relations away from fragmented donor-driven projects and programs to a predictable long-term support to African owned programs is necessary to foster economic development. The study also attempts to examine other challenges associated with the low level of aid effectiveness. Equally examined are the efforts by the World Bank to encourage aid donors and recipients to work harder towards aid effectiveness. This work addresses these challenges by review of current debates and analysis of new forms, instruments, promises, and direction of development cooperation. Donor discourses which are on ownership, partnership, less conditionalities and more empowerment are not always followed in practice where there is a variety of aid instruments for varying purposes and with different objectives. Aid can only be effective in achieving the objectives set by donors in partnership with recipients if donors are convinced that reforming the aid system will lead to less dependency on aid and this will promote growth and development.

1.3 Realist-Idealist Arguments on Foreign Aid

Unfortunately, the ongoing debate over foreign aid regime has remained controversial in the intellectual world, given that there is a general lack of scholarly understanding about the determinants of foreign aid programs. In international relations, there are two leading theories of foreign aid, the realist paradigm and the idealist paradigm. Over the years, however, realism has dominated the debate. While realists argue that "foreign aid programs are shaped with the interests of the aid-giving countries primarily in mind" (Mason 1962:3), the idealists maintain that "aid [is] a response to world poverty which arose mainly from ethical and humane concern" (Lumsdaine, 1993:3).

1.3.1 The Realist Argument

The dominant conceptual lens for understanding the foreign aid regime of the cold war era, assume that aid policies are driven primarily by the strategic interests of nation-states (Schraeder, et al, 1998: 297). According to this viewpoint, international relations are conducted in a Hobbesian state of nature in which national security and self-preservation become the primary, if not the exclusive, objectives of states. As a result, foreign aid is perceived as only minimally related to recipient economic development and the humanitarian needs of recipient countries are downplayed (1998: 297). Realists argue that states are the principal or the most important actors on the international political stage (Viotti & Kauppi, 1993: 5). States act to maximize what is often called the "national interest". As a way of thinking about the world, realism is distinguished by its "pessimism regarding moral progress and human possibilities" (Gilpin, 1984: 304). This pessimism is rooted in both human nature and the international system.

Sarah Tisch and Michael Wallace (1994: 70) in their book, "Dilemmas of Development Assistance", assert that most realists believe that "…development aid is a tool used by states to help maintain the status quo of the international system". In addition, they argue that all states act to maximize their self-interest. In other words, while rich states donate money to improve their international economic position, the poor states accept money to build their economies and strengthen their governments (Tisch and Wallace, 1994: 70). The realist argument throws light on the role of government in developing economies such as those of African states. A government is obligated to play an integral role in its economy. The realists argue that the "government in developing country should implement protectionist policies, such as imposing tariffs, in order to help the economy to grow" (Tisch & Wallace, 1994: 70).

The sovereignty of a nation-state is crucial in realist theory. In this case, a state gives aid in order to maximize its own interests; therefore, a donor can attach conditions to the fund, which would benefit it, and not the recipient country. Obviously, this could weaken seriously a state's ability to make its own policy decisions. However, if a needy nation decides not to accept conditional aid, its sovereignty may still be weakened through poverty and the resulting inability to control economic and social problems (Tisch & Wallace, 1994: 68).

Kanbur et al (1999) argue that the lack of recipient ownership in the development process is due to more than just a recipient country's weak leverage with donors. They maintain that even if the system was changed to include input from recipient governments, it is unclear whether that input would reflect the needs of their citizens. Many developing countries lack the analytical skills to identify effectively their own priorities and projects that need funding. As such, they are often unable to assert their needs to donors. Kanbur et al also maintain that even if central governments have that capacity, they often do not encourage ownership of the development process on the part of their citizens, often the ones who are most affected by the success or failure of the reform or project. Many developing countries lack transparency, accountability, and public discussion that allow citizens to participate effectively in government activities (Kanbur et al, 1999: 23-24). A collaborative research on Africa by van de Walle and Johnston concluded:

> Because they rarely encourage policy debates about the use of aid resources, central administrations rarely understand the needs and priorities of the local communities. Even the projects that ministry officials understand and support may not be owned by the beneficiaries themselves [sic] (van de Walle & Johnston, 1997: 55).

Kanbur et al conclude that simply receiving aid flows has often been more important to the recipient country governments than ensuring that the aid funds projects and reforms desired by its people. Ironically, this lack of 'ownership' has meant that the money they have received has had much less benefit on ordinary citizens than it should have had (Kanbur et al, 1999: 24).

1.3.2 The Idealist Argument

The idealists' start from a principle that Roger Riddell has tailored down to a few words: "aid is a moral issue" (Riddell, 1987:17). They argue that the governments of developed countries have a moral obligation to provide foreign aid to the less fortunate developing countries. In the words of Miller and Feinberg:

> Development should be understood as a process designed progressively to create conditions in which every person can enjoy, exercise and utilize under the Rule of Law, all his human rights, whether economic, social, cultural or political. Every person has the right to participate in, and benefit from, development in the sense of a progressive improvement in the standard and quality of life. The primary obligation to provide development, in such a way as to satisfy this right, rests upon each state for its own territory and for the persons under its jurisdiction. As the development process is a necessary condition for peace and friendship between nations, it is a matter of international concern, imposing responsibilities upon all states. A state promoting its own development within its available resources is entitled to the support of other states in the implementation of its policies (Riddell, 1987: 24).

Idealists emphasize that the benefits of assistance are relatively large in proportion to the long-term costs of not assisting needy countries. The idealist adherents challenge the realist assumptions in every respect, advancing a vision that is not only more positive regarding the motivations of individuals and state actors but also more optimistic about their potential for cooperative relations. Contrary to the realist argument that the state is obligated to pursue narrowly defined national interests, idealists lay emphasis on the rule of law, international organization, and morality. Power is not seen as the major influence on the international stage. They perceive human nature as fundamentally good (unlike the realists who see human beings as bad and motivated by their self interests). To idealists, a conception of interstate relations that is based on relentless competition, ignores the record of cooperation that emerged in the late twentieth century, and serves as a self-fulfilling prophesy of future conflict. Unlike their realist counterparts, idealists are particularly optimistic about the potential utility of foreign aid for ameliorating Third World poverty and promoting broadly shared economic development.

The above discussions on realist and idealist paradigms illustrate the substantive and undercurrent principles that help to give shape to the foreign aid policies of governments. These two perspectives have influenced the giving and receiving of development assistance in Sub-Saharan Africa and elsewhere. In this study, the realist approach will be employed in assessing the effectiveness of foreign aid in enhancing African economic development. Clearly, states are unified actors with distinct national interests, which arise not only from their cultural values but also as a result of their specific position and circumstances within a competitive global environment. Therefore, aid is used by governments to advance their national interests, whether diplomatic, commercial or cultural. Foreign aid business involves a bargaining process. The donors want a specific set of outcomes in return for their aid. To enhance their chances of achieving those outcomes, donors often impose conditions for their aid and insist on the compliance of recipients for continued aid disbursements. Recipients, of course, want aid without conditions. These donor-recipient exchanges can be considered the strategic result of cooperative bargaining games. Acceptable outcomes for players are aid arrangements within each player's win set, varying according to which side pulls the other closest to its preferred position (Kanbur et al, 1999:2). This has resulted in a plethora of highly differentiated and diversified aid delivery systems within the recipient countries. These dynamics have led to the current unsatisfactory system – a system that, because of its high degree of intrusiveness, creates aid dependence and undermines ownership by the recipient country. This will be demonstrated under the case study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Historical Background of Foreign Aid

Foreign aid was a product of the immediate post-World War II period that saw the creation of the United Nations (UN), the beginning of decolonisation, and the inception of an East-West struggle for ideological influence and hegemony. The origins of aid determined the motivations that fuelled its steady growth (Browne, 1999: 5). Indeed, since the success of the Marshall Plan in promoting the economic recovery of Western Europe in the immediate post-war period, economic aid has been considered an important means of assisting the economic development of poor countries. A considerable literature has grown around the role and significance of foreign aid in the development process. In a well-known 'two-gap' model elaborated by Chenery and Strout (1966), aid promoted development by adding to domestic savings as well as foreign exchange availability, thus helping either the savings-investment gap or the export-import gap. Some authors, however, queried whether aid did, in fact, have a beneficial impact on growth, pointing to the inverse relationship that appears to exist between investment and domestic savings, and the likelihood that aid will increase the capital output ratio (Bauer, 1971; 1991: 55). These arguments, in turn, have been sharply criticized mainly on the grounds of misrepresentation of a complex relationship – the assertion is that a model that allowed for the interrelationships between aid and savings, and investment and growth would show that aid could influence both investment and growth positively (Hoy, 1998: 12).

Whether or not foreign aid will promote economic development in particular cases –evidently, much depends on the type of aid, its terms and conditions, its links with trade and other financial flows and its relevance to overcoming specific development constraints – the underlying assumption of the development aid literature has almost invariably been that aid is given by donors for the purpose of promoting development (Maizels & Nissanke, 1984:

879). Particularly, during the earlier decades of post-WW II aid, the message of official aid reports generally tended to stress the humanitarian aspects of aid as well as its usefulness in promoting social stability in the recipient countries. The development motif of aid has continued to be an important element in official reports of donor governments as well as the reports of the principal international donor body, the OECD Development Assistance Committee (DAC) (Maizels & Nissanke, 1984: 879). At the same time, many donor governments have indicated that, in their aid allocations, they also take their national interests into account, whether these be conceived largely in terms of maintaining spheres of influence, political or military alliances, or simply promoting their own export trade.

2.2 Theories of Foreign Aid

There is a large and diverse literature on the impact of foreign aid on development. However, because of the conceptual difficulties and controversial nature of many of the ideas, this study will offer only the most summary description in order to indicate the location of this research in a broader discourse. This discourse on aid and development has taken place at both theoretical and empirical levels, and in a number of disciplines (Lancaster, 1999: 5).

The literature that has evaluated the impact of foreign aid on development falls into two broad approaches – the contextual and instrumental approaches. The contextual approach tends to be more theoretical and considers the impact of aid on development as a function of the broader economic and political context in which it is provided. The instrumental approach is more empirically oriented and evaluates the impact of aid largely in terms of the success and failure of the program and project it finances (Lancaster: 1999: 5), which relies on in-depth research or case studies of particular foreign aid programs. The empirical literature thus far is inclusive. The qualitative literature generally argues that foreign aid can help development if the policy environment is favorable to growth.

The contextual approach is an umbrella designation that includes many approaches. One such approach, which is associated with writers such as Andre Gunder Frank (1967), Samir Amin (1973), and Walter Rodney (1972), tends to emphasize the relations of power between the rich and poor countries. For example, the dependency school of thought views underdevelopment and poverty as a consequence of the exploitation by powerful capitalist countries. Dependentistas have viewed aid as a tool of capitalism to reinforce exploitative behavior and, therefore, deepen underdevelopment and poverty (Hayter, 1981:1971: 83).

Another development theory that is closely related to the dependency school emerged in the 1970s. This is called the 'World System Theory', which is associated with theorists such as Immanuel Wallerstein (1974) and Albert Bergesen (1983). Their analyses were on a global level; a three-tier model of 'core', 'periphery', and 'semi-periphery', which divides the world into three zones that are defined on the basis of a society's level of development and incorporation into the world system, and the political-economic content of such incorporation. The main feature of the modern world system is the transfer of surplus from the periphery to the core of the system, which was conceptualized in a manner similar to the Frankian 'metropolis-satellite' model of domination and exploitation.

Furthermore, another related approach on development aid emerged in the 1990s. Like the dependency school, Deconstructionism was inspired partly by the great disparity of power between the rich, developed West and the poorer developing regions of Asia, Africa, and Latin America. This approach is associated with anthropologists such as Arturo Escobar (1995: 9) who argued that the idea of development and the concepts and discourse it has engendered is an invention of Western capitalism, with the intention of creating an avenue for the exercise of power over the Third World. In this conception, the writer views foreign aid as a tool for the exercise of power, with little relevance to the lives of the recipients. Also Bauer and Yamey (1982) state, “The foreign aid that created [the Third World] did not originate from the pressure on the Third World, but rather was introduced and organized by the West. Thus by foreign aid did the West create a Third World, and one hostile in itself”.

Another approach, which has been the main influence on aid policies is provided by the *laissez faire* development specialists. These *laissez faire* specialists who were popular during the 1950s and 1960s viewed underdevelopment as a result of the lack of savings and investment in poor countries. Tony Killick (1986) defines this period as the ‘dirigiste period’. He argues that economists in this period put emphasis on maximizing economic growth, which they believed would be achieved by a planned program of massive investment and industrialization. Economic policy in this period stressed planning, active state involvement in economic activity and an inward-looking strategy of industrialization (Killick, 1986: 99). The countries that pursued these policy prescriptions faithfully would expand gradually their economic sectors until their entire population received the benefits of modern society. This was a ‘production-centered’ strategy for development. Economic growth and investment would eventually translate into benefits for people by means of the ‘trickle-down’ effect. The dominant constraints to economic growth were widely seen as internal rather than external – partly in indigenous institutions and attitudes, but as stated above, for many the overriding constraint was seen to lie in the low rate of savings of national income (Hunt, 1989: 51). Furthermore, it was assumed that states (including the poor countries) could plan and implement effective development policies and programs. Where state capacity was weak, technical assistance could overcome that weakness. Deficiencies in resources could be remedied with increased amount of money and technical assistance from external sources in the form of concessional loans and grants from foreign governments. Foreign aid would thus help stimulate growth and reduce poverty. This was the view articulated by Hollis Chenery and Alan Strout (1966: 680).

The traditional development theory thus holds that development is primarily a function of capital investment; and that the greater the flow of capital in the form of foreign investment and official development assistance (ODA) to poorer countries, the more their development. Economic development was equated with rising national per capita income.

This approach was challenged by the work of Peter Bauer (1971: 126-127) who was skeptical of the ability of states to play a positive role in managing development but much more confident of the ability of markets (if left alone by governments) to spur growth. He argued that the main impediments to growth were misguided government policies and that foreign aid would simply strengthen and even expand those impediments.

The 1980s and 1990s saw a mixture of these two contrary views of the capacity and roles of states and markets and their implications for foreign aid. The failure of many states in the developing world to promote healthy growth led the *laissez faire* economists to argue that the influence of states over markets needed to be circumscribed. Anne Krueger (1986) asserts that foreign aid could be effective in promoting development when provided to states as an incentive to encourage policy and for regulating reforms, which would free markets and stimulate investment and growth (Krueger, 1986: 57-78).

The evolutionary optimism for the future of the developing countries is epitomized in the work of Walter Rostow, one of the principal architects of modernization theory. Roger Riddell believes Rostow "can be seen as the bridge between the politics and economics of aid" (Riddell, 1987: 87). Rostow argues that in time all societies would become liberal capitalist democracies. Through a process of economic growth, developing countries would arrive at the 'take-off' stage. Rostow believed that aid had a very important role to play in economic development:

> The assistance which countries need from outside if they are to develop is of two kinds. In the first place they need capital, both to establish the preconditions of growth and make sure during the second stage that

> growth is maintained until they reach a point where they can be reasonably sure of maintaining it out of their own increasing output … But in addition to capital they will also need a great deal of technical assistance, a transfer of knowledge and skills from other parts of the world, to permit them to make effective use of both their own meagre supplies of capital and of whatever capital is available from abroad… (Millikan & Rostow, 1957: 49-65).

Rostow further asserts that aid is only needed in the period prior to 'take-off'. It is not that external capital is no longer required but rather that at this stage the normal channel of international capital supply can be relied on to take over the burden of any net capital inflow still required (Millikan & Rostow, 1957: 54). Like many growth theorists, Rostow sees aid as an interim measure, which seeks to give developing countries a helping hand on their road to self-sustaining development.

Foreign investment provides the stimulus for growth while foreign aid, in the form of grant and technical assistance, provides a boost for the economy in order for the country to make the optimum use of both domestic and foreign investments. Diana Hunt (1989) highlights the fact that Rostow's theory exerted significant influence on foreign aid analysis from the mid-1950s to mid-1960s. This was particularly so in the discussion of a country's 'absorptive capacity' – the ability to absorb effectively an increase in investment made possible by financial aid (Hunt, 1989: 105). Rostow emphasises the importance of institutional change and change in the values and beliefs of traditional societies as a precondition for successful take-off. This is often an aspect which critics of modernization theory overlook, deriding such theorists for only paying lip-service to the multi-disciplinary nature of the problems of development (Higgot, 1983: 20). However, David Korten (1991), in an article entitled "People-centered Development: Alternative for a world Crisis", argues that even when modernization theorists do consider people's participation, it is only in terms of their economic functions as labourers and consumers (Korten, 1991: 7).

In assessing the impact of foreign aid on development using the instrumental approach, the writer Graham Hancock (1989) asserted that as a tool for development foreign aid is fundamentally flawed by the misguided policies, bureaucratic inefficiency, self-interest, and corruption of officials of aid agencies and should be terminated. A more important contribution to the instrumental approach of assessing aid and development, although more sober and balanced, were the works of Howard White (1992), Paul Mosley (1995), and Peter Boone (1994). This group of writers assessed the impact of aid based on available evaluations, studies and other empirical materials. They examined the statistical relationship between aid flows and economic growth, and found no significant or systematic relationship between aid and growth but suggested that aid either was too small to have impact or was not able to deliver the growth benefits it promised. A 1996 quantitative study done by Craig Burnside and David Dollar of the World Bank found that when monetary, fiscal, and trade policies in recipient countries were taken into account aid had a positive impact on growth in supportive policy environments (Lancaster, 1999: 9).

Another group of analysts took a different approach. Robert Cassen (1994) examined the evaluation of a large number of aid-funded projects and programs in various parts of the world and concluded that aid was effective in achieving its goals most of the time. Where aid was ineffective, Cassen referred to the donors' multiple goals other than development as the key factor. For example, in Kenya, the multiple objectives (commercial, geo-political, bureaucratic, and humanitarian) of donors strongly influenced aid programs. The net result in some sectors was greater capital intensity than is warranted by the country's factor endowment. Other scholars such as Paul Mosley, Jane Harrigan, and John Toye (1992) examined aid for policy reform and found a mixed record of effectiveness in World Bank structural-adjustment lending (SAL), with political conditions in borrowing countries themselves playing a key role. In a study for the World Bank, Tony Killick (1991) primarily blamed recipient countries' policies for apparent failure to improve economic performance. Like Cassen, Killick identified the non-developmental goals of donors as a contributor to the poor performance of aid.

A study conducted by Oxfam (non-governmental organization) in 2002, asserts that there is a glaring absence of accountability on the part of donors and the recipients. They concluded that only by ending the 'business as usual' approach to Africa can the situation change (Oxfam, 2002). The growing strength of African civil society, combined with the efforts by some African leaders to chart a new course, appears to give Africa a real chance of tackling the root causes of poverty and conflict in the continent. African leaders, under the New Partnership for African Development (NEPAD) initiative, are working together with G8 leaders to tackle these problems, which offer new opportunities to finally redress the failures and develop a new basis for partnership with the region.

This study builds on the findings of many earlier studies of foreign aid effectiveness in achieving set objectives and development. The study agrees with Graham Hancock (1989: 189) who asserted that as a tool for development, foreign aid has failed due to misguided policies, bureaucratic inefficiency, corruption, and self-interest on the part of donors but disagrees with him that aid should be terminated. Rather than terminating aid projects, aid donors and recipients should work toward achieving consensus on how best to work together and effectively in fomenting economic development. This could be achieved where the donors are called upon to provide adequate levels of resources to reinforce local capacities and to improve the coherence and coordination of their aid policies. The recipients, for their part, may be asked to adopt sound macroeconomic and fiscal policies and to foster the rule of law. This was the vision articulated in *Shaping the 21st Century* published by the OECD in 1996.

This study argues that the recipients would do better with less traditional patronage and more opportunities to take control of their own destinies. The opportunities to do so today are greater than they have ever been and the development assistance efforts of the international community should concentrate on enhancing Africa's prospects.

2.3 Perspectives on the Rationale for Foreign Aid

There are proponents and critics of foreign aid. The arguments on aid have been seen from two perspectives, moral and economic points of view. The moral arguments are clearly normative or value-laden, with no real possibilities of assessing their validity. In contrast, evidence can be gathered to test the economic consequences of aid – although different interpretations of the evidence are always possible and disagreements over the conclusiveness of the test are common.

2.3.1 Moral Argument for Aid

According to Roger Riddell (1987), the moral argument on foreign aid has three propositions. First, is the *absolute argument* for aid; this reflects altruism or concern for the welfare of others. Essentially, human beings have basic needs that must be met for a decent existence. When possible, efforts to relieve human suffering should be made. Therefore, aid to help poor is justified (Riddell, 1987: 117). Bauer discarded the absolute argument for aid, saying: "Global egalitarianism is based on the idea that people's requirements are fundamentally the same everywhere" (1987: 118). This idea is obviously unfounded.

Second is the *relative argument* for aid. The gap between rich and poor nations is large and growing – as they are in many nations, between the upper- and lower-income classes. A redistribution of resources from the rich to the poor should subtract less from the utility of the rich than it adds to the utility of the poor. In the words of Arthur Lewis, "the need to reduce a wide and widening gap in incomes between rich and poor countries is now much invoked in support of international wealth transfers" (Bauer, 1981: 120). Thus, total utility may be increased with more egalitarian distribution of income and resources. It should be noted that there are aid advocates who maintain that this idea is irrelevant to the case. Classical macroeconomic theory assumes that utility is not cardinal (that is, it cannot be quantitatively measured) and that interpersonal comparisons of utility cannot be made. Bauer argues that while aid certainly removes resources from the donors, it does not necessarily, or even generally, raise income in the recipient countries. It may, therefore, not reduce the gap between them (Bauer, 1981: 120).

The third moral argument for aid is based on *restitution* or redressing the past injustices inflicted on the poor nations by the rich nations during the colonial period. This is in line with the claims of the radical (Marxist) school of development, which asserted that the underdevelopment of the Third World nations is due to exploitation by the developed countries. Thus, the developed countries are morally obliged to compensate the less developed countries for past transgressions (Riddell, 1987: 117). Lord Bauer (1981: 122) argued that the acceptance of the idea of restitution may serve to reinforce the feelings of guilt in the West, but feelings of guilt unaccompanied by a sense of responsibility for the consequences of the policies inspired by them have brought about results which are extremely harmful to many of those affected by these policies. Bauer not only discounts the need for aid, but also maintained that although poverty is endemic, people are poor either by choice or defect of character. He contends that: "a disproportionate number of the poor lack the capabilities and inclination for economic achievement, and often for cultural achievement as well" (Bauer, 1981: 114). Bauer concluded, "the attitudes, values and beliefs, which keep many people poor, are often an integral part of their lives. They often also give meaning to their lives, so that attempts forcibly to eradicate them could lead to spiritual collapse" (Bauer, 1981: 115).

Like Bauer, other critics argue that ODA is unnecessary, ineffective, and even counterproductive. Moreover, the moral basis for aid is disputed. Some reject the notion that nations or governments have any obligation or right to intervene, whether to relieve suffering or address basic needs or promote development. Individuals of course, are free to contribute to charities and international agencies of their choice. Governments, however, should not impose philanthropy on taxpayers by using tax revenues for foreign aid. Bauer's arguments notwithstanding, Roger Riddell (1987) concluded that the moral basis for aid is legitimized if foreign aid does help or has the potential of helping to meet the needs of the poor in developing countries (Riddell, 1987: 15).

2.3.2 Economic Argument for Aid

Foreign aid can help to cover a balance of trade deficit without adding to foreign indebtedness. When received, foreign aid is a credit on the current account of the balance of payments. It is a unilateral transfer of resources that can be used to relax factor scarcities that constrain growth and development. For example, grants of foreign exchange can allow recipient nations to import needed intermediate and capital goods. Investments are important for economic growth and development – in the infrastructure (transportation, telecommunications, power generations, and the water and sanitation systems) and in human capital formation, public education, primary health care, and child nutrition. These costly public investments, while yielding high social returns in the long run, are often beyond the budgets of governments in developing economies. Foreign aid can be vital, therefore, especially for the low-income economies, not only for funding but also for technical expertise in devising and implementing the development projects.

Furthermore, public sector investments on the physical infrastructure and human resource development should complement more direct productive private-sector investments in agriculture, mining, manufacturing, and services. For example, investing in a high quality public education system will yield a literate and skilled labor force available for employment in the private sector. An efficient transportation network will increase the productivity and international competitiveness of the private sector. In short, public investment can enhance and stimulate private investment, both domestic and foreign, in a nation. Foreign aid can promote not only the growth and development of the recipient countries but also it may produce dividends for donor nations. Rising per capita incomes and expanding markets in the less developed countries (LDCs) are good for the exports, national incomes, and employment in the developed countries. Economic progress may promote political stability. Economic liberalization fostered through foreign aid may encourage political liberalization and more democratic forms of government. Furthermore, economic development leads to lower fertility rates, relieving population pressures on resources and environment (Bauer, 1981: 126). Clearly, the net effect of effective foreign aid is positive and beneficial to both recipients and donors.

2.4 Donor Interests: Scholarly Perspectives

There are several issues that are related to foreign aid, which generated a body of literature (Serageldin, 1995: 13). These issues can be divided into two broad groups: the motivation for aid and the effectiveness of aid in achieving greater welfare for people in the recipient country. Nevertheless, it is important to recognize that in many donor countries political issues, especially during the cold war, were behind the support for aid. Political motives have not been universal, however. The motivation for aid has ranged from pure 'altruism' – that is, concern for the poor and for correcting unequal distribution of income, especially due to a lack of natural resources – to the pursuit of national objectives, such as national security and commercial benefits (Eaton, 1989; Browne, 1999: 1). Although some studies have shown that bilateral aid tends to be driven by the donors' perceived national interests rather than by humanitarian needs or what the developing countries perceive as their economic needs (Serageldin, 1995: 14), Eaton (1989) argues: "Once multilateral aid is taken into account there is more evidence that the recipient needs are an issue". Since the end of the Cold War, the United States has been concerned about the potential spread of weapons of mass destruction, especially if combined with political instability. The U.S. maintains that if internal conflict in a developing country becomes a regional conflict, it could have dire consequences for her allies if it involves the use of nuclear, chemical, or biological weapons – not to mention the potential impact on the regional and global environment. The foreign aid spending of other bilateral donors has also tended to follow their political or economic interests. Japan, for instance, devotes the majority of its aid to countries in Asia with which it has strong economic ties. France gives most if its aid to its former colonies, as does Britain (Cassen, 1994: 205). In contrast, some of the aid donors, such as the countries of Scandinavia, tend to devote their resources to countries that they perceive as being the most needy (O'Neil, 1997: 35).

There are different motives behind the giving of aid, as are the definitions of what actually comprises aid. Projects and programs, which have received aid, have been varied and there have been varied levels of successes (Bean, 1994: 47). As has been stated previously, aid is used synonymously in this study with Official Development Assistance (ODA), and broadly follows the definition established by the Organization for Economic Cooperation and Development (OECD) in the 1960s. According to Robert Cassen:

> A large proportion of aid has never been subjected to evaluation. The project evaluations that exist are frequently not comparable. Even without such difficulties, there are unfathomable questions about the interaction between aid activities and the milieu of policies and circumstances in which they are conducted. Clearly, the precise degree of the effectiveness of aid is in the end unknowable (Cassen, 1994: 1).

Analyzing the effectiveness of foreign aid has been one of the major problems with which aid analysts have to grapple with. The latest academic evidence suggested that donors had little control over how a recipient government used the funds for a particular project. Aid was so highly 'fungible' that to a considerable extent donors were in reality augmenting the resources available to the government (Collier & Dollar, 2001: 1). A study carried out by Boone (1995) showed that aid had no significant effect on growth. This implies that despite the appearance that aid was channeled by donor agencies into useful development projects, in reality, aid was under the control of recipient governments, which were wasting it (Collier & Dollar, 2001: 2). Furthermore, some antagonists of aid have argued that foreign aid does not contribute significantly to economic progress in developing countries. Aid that was intended to foster development may enable some regimes to divert money to other, perhaps unproductive activities. They continued that aid is wasted in countries that do not have technical or administrative ability to absorb and use it properly. Furthermore, the recipients of aid may use it to fund projects that are poorly conceived and planned. For instance, roads or other large projects may be built and left un-maintained and unused. This would lead to the destruction of more productive resources that could be put into other use (O'Neil, 1997).

While some writings on aid condemn the whole enterprise, there are also favorable accounts of aid (Sogge, 1996: 11). A study of the experiences of seven countries in SSA indicated that in all of them except Botswana there have been more failures than successes (Carlsson *et al*, 1997). However, the case studies also demonstrate that aid to Africa has some notable achievements to its credit. Alongside many disappointments, aid has financed many development projects and programs which achieved high internal rates of return, including schools, health centers, bridges, roads, and manpower training programs (1997).

An earlier work on aid by Robert Cassen, "*Does Aid Work?*", shares the view that there is nothing wrong with aid, but that its virtue is not to be taken for granted.

> In the broadest sense, this report finds that most aid does indeed 'work'. It succeeds in achieving its developmental objectives (where those are primary), contributing positively to the recipient countries' economic performance, and not substituting for activities that would have occurred anyway (Cassen, 1994: 7).

Another attempt at a nuanced analysis of aid effectiveness was Burnside and Dollar (2000) who argued that aid is more effective in better policy environments. Contrary to the views expressed in the work of Cassen and Burnside & Dollar, Graham Hancock (1989) asserts that his book is an attack on official aid organizations. He defined aid as:

> A publicly-funded enterprise, charged with grave international responsibilities, that has not only been permitted to wall off its inner workings from public view but that also sets its own goals, establishes how these goals are to be attained and in due course passes judgment on its own efforts (Hancock, 1989: xiv).

Hancock concludes that aid has developed a life of its own away from public scrutiny and accountability. It is a dangerous tool in the hands of donors, who are able to reconstruct and change international relationships in line with their own principles and goals of the donors themselves (Bean, 1994: 48). Hancock believes that local-level initiatives, relevant and realistic strategies, and the energy and enterprise of the poor in the Third World have been ignored. He concluded that "aid is not bad, however, because it is sometimes misused, corrupt, or crass; rather it is inherently bad, bad to the bone, and utterly beyond reform" (Hancock, 1989: 182-183).

Peter Bauer, a strong opponent of foreign aid states further that:

> Whatever happens in the recipient countries can be adduced to support the maintenance or extension of aid. Progress is evidence of its efficacy and so an argument for its expansion; lack of progress is evidence that the dosage has been insufficient and must be increased. Some advocates argue that it would be inexpedient to deny aid to the speedy (those that advance); others, that it would be cruel to deny it to the needy (those who stagnate). Aid is thus like champagne: in success you deserve it, in failure you need it (Bauer, 1981: 90-91).

Peter Bauer has argued that aid has serious, distorting consequences in the political life of recipient countries. Aid is generally transferred to the government of those countries, which tends to increase not only the government's power, resources, and patronage relative to the rest of society but also the stakes in any struggle for control of that power. People will spend relatively more of their time focused on the outcome of political administrative decisions, thereby diverting attention, energy, and resources from more productive activities. This may encourage tension and disturbances that can lead to the outbreak of civil armed conflict (Bauer, 1991: 9).

In many cases, foreign aid has sustained governments in their pursuit of economically counterproductive political and economic policies. Such policies include the persecution of particular groups, restrictions on private sector and the inflow of private capital and enterprises, confiscation of property, price policies that discourage agricultural production, and the expropriation of foreign capital and enterprises. To add salt to injury, when the pursuit of such policies worsens the economic performance of an aid recipient, the country may qualify for still more aid because its situation is deteriorating (Bauer, 1991: 9-10).

Contrary to Bauer's view of foreign aid, Neil Karunaratne (1979: 184) categorically stated that aid is the 'engine of development' in the less developed countries. Teresa Hayter (1971:9) contends that any contribution of aid to the welfare of the Third World is incidental and must be balanced against the negative effect. She went further to state: "aid can be regarded as a concession by the imperialist powers to enable them to continue their exploitation of the semi-colonial countries" (Hayter, 1971: 9).

The above introduction provides a glimpse into the complex debate surrounding the effectiveness of foreign aid. The roles, motives and also its definition will be treated in the subsequent sections. Stephen Browne (1999), states that donors have provided aid partly because many of their actions have made it necessary. He also argues that aid is never given freely. He warns that to an un-diminishing degree aid is bound up in packages, which attract the eye but constrain the hand, of the recipient. (Browne, 1999: 5). This is underscored by the central argument of this study, which maintains that a transformation in aid relations away from fragmented donor-driven projects to predictable long-term support to African owned programs is necessary to foster economic development.

Traditionally, aid is situated within the context of donor countries' development cooperation policies that in turn are defined by various other considerations such as their foreign and security interests and policies. The 'motivating factors' affect the administration and the impact of foreign aid by undermining ownership and, therefore, the sustainability of the African development process (http://www.afrodad.org/html/aid.htm). The ten countries that are home to two thirds of the world's poorest people receive only one third of all aid; in other words, the richest 40 percent of developing countries receive twice as much aid as the poorest 40 percent (UNDP, 1996: 51). For instance, Egypt and Israel whose economies are far stronger than those of almost every country in Africa, receive nearly a quarter of all United States foreign aid, most of which are military or strategic assistance (Hoy, 1998: 23). For the most part, aid policies are focused on specific countries rather than on broad objectives such as alleviating poverty. Evidence has shown that while donors use aid to create and foster the impression among the recipient countries that aid is beneficial to them, aid has failed to improve the situation of the poor as it has promoted the real interest of donors (Lahiri & Raimondos-Møller, 1999: 21). It is commonly believed that often the donors give aid with the understanding that the recipients in return would import more from the donor countries. On the other hand, African countries are compelled to accept aid as a result of their continued weakness and economic vulnerability and in view of their urgent short term needs.

Carol Lancaster has argued that the aid policy of donors and aid allocations were not always based on considerations of promoting economic and social development in African countries. She maintained that in a number of cases in Africa, aid was provided for purely "political reasons". With huge pressures from legislators, it was not surprising that a situation emerged in which aid was used to support corrupt governments. She went further to state that the poor allocative choice and faulty implementation of aid are caused by the fact that most aid agencies are "political entities" and, therefore, are subject to all types of pressures. Furthermore, aid agencies not only lack adequate capacity despite expanded missions and mandates but also the leverage to implement programs and projects that would yield high returns to human development in Africa. Moreover, it has been observed that aid agencies were often under pressure to spend available resources as quickly as possible for political reasons and to support their governments' non-economic agendas and in ways that favor particular leaders. Consequently, donors' policies and practices were partly responsible for the problem of aid ineffectiveness in

Africa. Lancaster further argued that the bureaucratic procedures of agencies had been a major contributory factor to their inefficiencies. Moreover, duplication of efforts by numerous agencies and non-governmental organizations was not uncommon in Africa. She stressed the importance that donors and aid recipients reevaluate the institutional framework for aid delivery and the need to review "aid targets", hence, the need for redesigning the aid relationship (http://www.uneca.org/eca_resources/Major_ECA_Websites/joint/panel.htm).

2.5 FOREIGN AID: ITS SOURCES, NATURE AND IMPACT IN AFRICA

2.5.1 Introduction

This section seeks to examine the economic impact of aid. Here, the key aspects of foreign aid and development, specifically the impact of the policy and institutional environment in African countries, and the political relationships between African governments and aid donors will be examined.

There has been continuous debate in the development front (particularly in the Western world) that the economic policies adopted by African governments after independence inhibited the ability of aid to contribute to the continent's development, as much as they inhibited development itself. Prior to the introduction of structural adjustment policies in the 1980s, many African countries were in serious economic crisis, which soon required urgent external response. The oil price shocks of the early 1970s and the related inflationary pressures not only plunged the global economy into a tailspin but also pushed much of Africa's already fragile economies to the brink of collapse. This was due to the abrupt shift and adverse effects of the resulting negative terms of trade. As pervasive economic stagnation and balance of payments disequilibria set in, many African countries sought help in the strong western capital markets awash with petro-dollars. By 1980, the combined effects of the stagnation and extensive borrowing "left most of the economies severely stressed, in debt, and in dire need of structural reconstruction" (Uzodike, 1996: 25). Unfortunately, as the need arose for intervention by the international community, the crisis that soon followed the Mexican default in 1982 served to accelerate the shortage of capital flows to developing countries – further exacerbating the African crisis (Uzodike, 1996: 26). These impulses combined to motivate what Nicolas van de Walle (2001) called the "adjustment regime". The purposes of the adjustment regime were to manage Africa's economic crisis, with the ultimate objective of promoting stability in the region, while simultaneously pushing through fundamental reforms. The introduction of Structural Adjustment Programs (SAPs) was not only seen as a shift in World Bank policy but also as introducing profoundly destabilizing effects on the implementing governments. Beyond those, the shift effectively blocked a major alternative source of non-policy based lending while simultaneously serving to increase the level and intensity of external conditionality and African dependence (Uzodike, 1996: 26; van de Walle, 2001: 213).

SAP policies have not provided the panacea that the World Bank and the IMF expected. Indeed, for the whole of the 1980s, the net aggregate effect of reforms on the adjusting countries was largely negligible or negative. Although there were a few isolated cases of strong performances such as Ghana, close examination often led to controversies about the nature and quality of the improvements. Nevertheless, since the 1990s, there have been substantial improvements in economic performances of many African countries with average growth rates of about four percent. Indeed, the strong performances of countries such as Botswana, Mauritius, and South Africa have coincided with the opening up of these countries to foreign investments and efforts to increase participation in world trade. Political and economic reforms have created hope that in the new millennium, Africa will be more integrated into global trade, finance, investments and communications[2].

Clearly, foreign aid has provided one of the most significant external links for much of Africa. In order to attract the much needed development assistance,

[2] http://www.unu.edu/hq/academic/Pg_area4/Wangwe.html

African leaders came up in 2001 with a new development framework, the New Partnership for African Development (NEPAD). A look at NEPAD's documents and speeches by people close to the idea shows the advantage NEPAD enjoys over its predecessors. According to the inaugural Africa Union chairperson, President Thabo Mbeki of South Africa, the brain behind NEPAD and the man credited with propelling the idea to the top levels of the industrial world, it is a program of Africans by Africans for Africans. Africans will be responsible for its success or failure. Therefore, they must hold each other accountable for implementing the development goals by living up to an agreed-upon benchmark – much in the way that the EU imposed strict performance conditions in the 1990s for European countries wishing to join it. We will now examine foreign aid, its management and associated relationships, and draw some lessons from the discussion.

2.5.2 The Nature and Limited Efficiency of Foreign Aid Allocations

Foreign aid is defined as "a transfer of concessional resources from one government to another or from a government to an international aid agency or a non-governmental organization (NGO) (which, in turn, transfers those resources to poor countries)" (Lancaster, 1999: 36). As already mentioned, development aid is used synonymously with Official Development Assistance (ODA) and broadly follows the official definition established by the Development Assistance Committee (DAC)[3]. This committee was established by the Organization for Economic Cooperation and Development (OECD), (sometimes referred to as the "rich men's club" because of its membership, which comprises most industrialized countries in the world) as an outcome of the 1961 Resolution on the Common Aid Effort. The DAC defined foreign aid as:

[3] The member countries of DAC are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, and United States.

> Those flows to developing countries and multilateral institutions provided by official agencies that meet the following test: 'it is administered with the promotion of economic development and welfare of the developing countries as its main objectives, and it is concessional (that is, low interest rate and/or longer pay back period) in character and contains a grant element of at least 25 percent' (OECD, 1993:11).

ODA excludes private transfers of concessional resources (for instance, private contribution to NGOs for relief or development work abroad), military aid, credits for the promotion of a donor country's export, international bribes, political development programs, tributes or funding for covert action against another government or foreign organization (Lancaster, 1999: 36-37).

Since the success of the Marshall Plan in promoting the economic recovery of Western Europe after the Second World War, economic aid has been regarded as an important means of assisting the economic development of poor countries. Development should be "the war against global poverty, starting from the recognition that it is an investment not only in the development of poor nations but also in the security of rich nations" (UNDP, 1993).

As discussed earlier in this chapter, aid had gone to Africa not only for assorted reasons but also with conditions often specifically stipulated by the donors. For instance, focusing on their national interests, donor governments sometimes use aid allocations to develop or maintain their spheres of influence, political or military alliances, or to promote their own exports (Maizels & Nissanke, 1984: 879). According to a recent World Bank publication, "Donors use aid to advance their values, their commercial interests, their cultural aspirations and their diplomatic and political objectives" (World Bank, 2000: 152). In the same way, many economists insist that the tying of aid reduces its value, thus effectively raising the real interest rate (Bean, 1994: 50). But the donor countries (for instance, Canada) have in the late-1990s expressed their willingness to untie aid. This would serve as a measure of commitment to aid effectiveness, value for money, and sustainable development in developing countries. With the acceptance of a comprehensive development model – and all that this entails – tying practices are seen as being incompatible with the promotion of effective development partnership, local ownership, and capacity building strategies. Members of the OECD's DAC have agreed that untying aid procurement would constitute an important step towards implementing the development partnership strategy *"Shaping the 21st Century"* (CIDA, 2002: 33).

Developing countries have long argued that 'aid tying' is inefficient because it limits choice and reduces their ability to make their own decisions on how to allocate the resources available to them, including resources provided by the donor countries (CIDA, 2002: 33). It is also widely agreed that tied aid fundamentally undermines the principle of local ownership and stands in the way of improved donor coordination as well. A 1991 OECD study "*The tying of Aid*", prepared by Catrinus Jepma, provides another evidence that tying reduces the value of aid and encourages dependency and wasteful spending. The study also found that direct excess costs of tied aid have been estimated to range between 15 to 30 percent. This means that developing countries pay on average 15 to 30 percent more for goods and services procured under tied requirements than they would if they were not bound by tied-aid policies and could buy from comparable low-cost suppliers (Jepma, 1991: 36). Furthermore, some studies have shown that 'aid tying' undermines aid effectiveness and biases aid away from poverty reduction and sustainable development by supporting commercial interests in donor countries, to the detriment or exclusion of commercial participation and procurement in developing countries (CIDA, 2002: 34).

2.5.2.1 Bilateral Aid

Bilateral aid refers to assistance provided by one country to another. Usually, the specific detail of the arrangement is between the donor and recipient. Not surprisingly, this often results in the donor having direct control (donor-driven) on the manner in which the aid is both provided and utilized (Bean, 1994: 54). The motives for providing aid vary not only among countries but also within one country over time. Quite often, the most important motive is the donor's national interest. Donors support countries with which they have, or intend to have, strong ties. These ties may be cultural, economic, political, or strategic (Cassen, 1994: 205).

Different agencies within the donor government typically represent these various interests. For instance, the Ministry of Foreign Affairs focuses on political and security objectives; the Ministry of Trade concerns itself with commercial objectives; and at times, the offices of Prime Ministers and President may have varied interests including economic, cultural security, and political goals (Lancaster, 1999: 74). Often, the objectives or motivations of the donors may be either transparent or can be gleaned from the patterns of published aid disbursements. Sometimes donors expect straightforward economic benefits – more bilateral trade access to agricultural or mineral resources – a practice known as tied aid. In a newer form of tied aid, the donor offers aid as subsidized credit for the purchase of its exports. Donor governments then justify aid budgets by arguing that they promote their commercial objectives and exports. The tying of funds may have hidden costs for the recipient. The Development Cooperation 1994 report, put out by the OECD's Development Assistance Committee, cites the following:

- The aid may be given with the best interests of the donor in mind, not those of the recipient country.
- The subsidy involved in concessional aid may benefit the exporter rather than the recipient.
- Linkages between the development projects and the local economies are not formed. Thus, the local economy may derive little long-term benefit from the projects (OECD, 1995: 28-29).

Whatever the motivation of the donor, foreign assistance will probably influence the development process of the recipient.

2.5.2.2 Multilateral Aid

The multilateral aid system can be divided into a fully global system (United Nations system), a regional aid system including the regional development banks in Latin America, Asia, and Africa, and multilateral aid programs of the European Union that is directed by the commission in Brussels, which are in addition to the national 'bilateral' aid programs of individual EU member countries. There are also other multilateral institutions such as OPEC Special Fund, Arab Bank for Economic Development in Africa (BADEA), and a host of others (Raffer & Singer, 1996: 41).

All donors channel a portion of their official assistance through intermediary international agencies that allocate this collective aid to the needy countries. This is multilateral aid, and the largest player in this system is the World Bank (Hoy, 1999: 53-58). By the end of the 1960s, there was increasing pressure on Northern countries to distribute their aid multilaterally rather than bilaterally. At the beginning of the 1970s, only 10% of all Official Development Assistance (ODA) was allocated to multilateral institutions. By 1985, however, multilateral aid constituted roughly 30% of all aid (Raffer & Singer, 1996: 40). There was strong support for the multilateral system despite severe criticisms. Critics of bilateral aid claimed that duplication and confusion are virtually inevitable when, for example, fifteen donor countries spend separate aid packages with varying demands and objectives to a single recipient government. For instance, in Kenya, different aid workers from various bilateral programs created infrastructural confusion while attempting to assist with that country's water supply difficulties. They ended up providing the country with eighteen different makes of water pumps (1996: 15).

There is also an argument in favor of multilateral aid since no single government has control over the disbursement of such aid. This makes it less political than bilateral aid. Equally, the potential advantages of multilateral aid compared to bilateral aid are enormous. Multilateral organizations often have more knowledge and experience in their particular field than individual donor countries. The World Bank has stressed that its lending decisions are based solely on economic considerations and are not influenced by the politics of either recipient or donor countries (Hoy, 1999: 44). Indeed, the Reagan administration disliked the World Bank for the simple reason that the bank did not adequately reflect U.S foreign policy interests. This obviously gives some credence to the bank's argument. The U.S congress sometimes opposes allocations for multilateral institutions because they believe that funds are made available to countries that actively oppose the United States or that have socialist, state-controlled economic systems (1999: 55). Some analysts have argued that multilateral institutions "can establish systems of international competitive bidding to purchase goods and services at the lowest possible cost and maximize the real value of aid flows" (O'Neill, 1997: 34). However, despite the advantages accorded to multilateral aid, the donor countries that are the major contributors to the fund influence sizeable amount of the aid allocations.

The central functional specialty of the multilateral financial aid organizations (IMF, IBRD) is promoting and supporting the economic reforms necessary for creating a policy environment that is conducive to economic growth. Those activities include opening trade regimes, minimizing restrictions on the private sector, and building economic infrastructure (Mellor & Masters, 1991: 360). During the 1990s, the World Bank added political reforms (protection of property and human rights, maintaining the rule of law, enforcing contracts) as a prerequisite for extending their loans. Unfortunately, many of the potential advantages of multilateral aid are lost in practice as a result of poor cooperation, lack of coherence, misplaced priorities, and bad management.

2.5.3 Foreign Aid: The General Assembly Target

The quantity or type of the development assistance affects the usefulness of aid in promoting economic and social development. The amount of foreign aid given to developing countries worldwide, and Africa in particular, is small compared to the size of the economies. June O'Neill (1997: 47) has argued that more aid is not always more effective. She maintains that too much foreign aid given to one recipient might overwhelm its ability to use the aid effectively and productively. Yet, even a small quantity of aid can be useful in achieving results, depending on its purpose and how it is spent (O'Neil, 1997: 47). In order to encourage the inflows of aid from the developed countries to the developing countries, the United Nations has established a target for the donor countries, which they are expected to reach. In the official aid statistics, ODA is expressed as a percentage of the Gross National Product (GNP) of each donor country.

In 1970, the General Assembly adopted a Strategy for the Second UN Development Decade, which stated: "Each economically advanced country will progressively increase its official development assistance to the developing countries and will exert its best efforts to reach a minimum net amount of 0.7% by the middle of the decade" (Hancock, 1989: 44). Furthermore, the Assembly resolved in 1980 that:

> A rapid and substantial increase will be made in official development assistance by all developed countries, with a view of reaching and, where possible, surpassing the agreed international target of 0.7% of the GNP of developed countries. To this end, developed countries, which have not yet reached the target, should exert their best efforts to reach it by 1985, and in any case not later than the second half of the decade (OECD, 1985: 68).

Alesina and Dollar (1998) find that each of the five principal donors appears to follow different directions. The United States targets one-fourth of its aid to the Arab Republic of Egypt and Israel, strategically important partners in the Middle East, whereas France and United Kingdom (as discussed in the preceding sections) allocate most of their aid budgets to their former colonies. Japan's aid is largely directed to other Asian countries, and Germany evidently targets the economies of Central and Eastern Europe, mirroring its own commercial interests. Alesina and Dollar suggest that the motives that donors followed in the past in allocating aid were mainly strategic. They equally found that political, historical, and strategic connections play a bigger role in screening countries for aid than economic needs or performance (Alesina & Dollar, 1998:13-15). Warren Nyamugasira (2000) has argued that

> Aid has failed to produce self-reliance or equitable growth mainly because there has been too little effective aid, often coming too late. Against the scale of needs, net aid, now and in the unforeseen future, is rather small for most countries with many poor people, creating 'aid under-dose' that seriously weakens the recipients' capacity to survive and be creative. Recipients still look to the outside for answers: for food and ideas, for technology and used clothing, for toys and fertilizers, which come in sufficient quantities to keep recipients expecting more but never in enough quantities and quality to make them independent (Nyamugasira, 2000: 4).

Despite the resolution reached by the UN General Assembly urging the OECD-member countries to increase their aid contributions to a minimum of 0.7 percent, only very few countries have managed to reach the agreed target — as table 4.3 below shows from the recent figures in 2001. In the 2001 data, fourteen of the 22 member countries of the DAC reported a rise in ODA in real terms, and the average effort of DAC countries remained at 0.40 percent. Denmark with 1.03% of ODA/GNI, Luxembourg with 0.82%, Netherlands with 0.82%, Norway with 0.83%, and Sweden with 0.81%, France maintained 0.32%, Canada with 0.22%, Germany and United Kingdom contributed 0.27% and 0.32% respectively, while United States is at the bottom with 0.11%. Although the U.S. is the lowest on the table in terms of the percentage ODA/GNI contributions, it remains the highest contributor in aggregate terms. Jagdish Bhagwati (1985: 195) argued that official aid target is meaningless unless there is 'subsidiary' targets' concerning the share of grants and the terms and conditions on the loan. He believes that if the purpose of aid programs is to transfer resources to the LDCs, it is better done through grants, which removes the central problem of aid programs – debts.

TABLE 1: NET OFFICIAL DEVELOPMENT ASSISTANCE FLOWS FROM DAC COUNTRIES (2000-2001).

	2001		2000		
DAC countries	**ODA/GNI US$m (current)**	**ODA/GNI %**	**ODA/GNI US$m (current)**	**ODA/GNI %**	**% change 2000 to 2001 in real terms**
Australia	**873**	**0.25**	987	0.27	-4.0
Austria	**533**	**0.29**	423	0.23	27.3
Belgium	**867**	**0.37**	820	0.36	6.9
Canada	**1 533**	**0.22**	1 744	0.25	-9.4
Denmark	**1 634**	**1.03**	1 664	1.06	-1.6
Finland	**389**	**0.32**	371	0.31	5.7
France	**4 198**	**0.32**	4 105	0.32	3.6
Germany	**4 990**	**0.27**	5 030	0.27	0.8
Greece	**202**	**0.17**	226	0.20	-10.0
Ireland	**287**	**0.33**	235	0.30	20.4
Italy	**1 627**	**0.15**	1 376	0.13	18.6
Japan	**9 847**	**0.23**	13 508	0.28	-16.6
Luxembourg	**141**	**0.82**	123	0.71	16.1
Netherlands	**3 172**	**0.82**	3 135	0.84	-0.5
New Zealand	**112**	**0.25**	113	0.26	-2.5
Norway	**1 346**	**0.83**	1 264	0.80	6.8
Portugal	**268**	**0.25**	271	0.26	-0.2.5
Spain	**1 737**	**0.30**	1 195	0.22	43.9
Sweden	**1 666**	**0.81**	1 799	0.80	2.4
Switzerland	**908**	**0.34**	890	0.34	0.1
United Kingdom	**4 579**	**0.32**	4 501	0.32	4.4
United States	**11 429**	**0.11**	9 955	0.10	12.4
TOTAL DAC	**52 336**	**0.22**	53 734	0.22	0.5
Average Country Effort		**0.40**			

Source: OECD: Development Assistance Committee 2001 Report (OECD, 2002)

2.5.4 Decline of Aid Flows

While the providers of Official Development Assistance have become more selective, it has not translated into a significant increase in assistance to good performing countries – instead, aid flows have fallen for almost all African countries. In 1999, the net official development assistance to Sub-Saharan Africa dropped by $1 billion to $12.3 billion from the preceding year, and it was well below the $18.1 billion received in 1994. Countries such as Ghana, Mozambique, Uganda, and Tanzania that were acknowledged as making determined efforts to improve their policies received less official aid in 1999[4]. In March 2002, the EU and the U.S. pledged at the International Conference on Financing for Development held in Monterrey to significantly increase their development assistance over the next three years. While this was an important step to reverse the continuing decline, it still falls far short of the agreed target (http://www.johannesburgsummit.org/html/media_info/pressreleases_factsheets/finance_trade.pdf).

Despite the persistent decline in foreign aid flows to Africa, the majority of the aid have not only failed to reach the countries most in need but also they have failed to support the sectors most critical to the poorest populations in the world. Despite the fact that majority of people in Africa depend on agriculture, less than one-sixth of all aid resources support agriculture. Development aid tends to favor the urban sector, where the poorest do not live.

Financial flows are increasingly being dominated by private capital flows to developing countries. For instance, in 1996, private capital flows exceeded US$240 billion, which equaled six times its level at the beginning of the decade. In fact, the five-year period between 1991 and 1996, private capital flows overtook and dwarfed the levels of Overseas Development Assistance (ODA) (Stiglitz, 1997). Unfortunately, Africa has been largely by-passed by these expanding private capital flows, a situation which has not helped to

[4] http://www.usinfo.state.gov/regional/af/a2041001.htm. Accessed August 2002.

offset the impact of the global decline in the volume of ODA flows (ADB, 1997). Prospects of future aid flows to Sub-Saharan Africa remain uncertain due to a combination of factors such as budgetary pressures in many donor countries, competing claims on donor resources, and changes in ranking of strategic and economic interests especially following the end of the Cold War.

As aid donors and recipients continue adapting to the post-Cold War environment, foreign aid remains embroiled in controversy throughout the industrialized North as aid administrators, politicians, and the general public debate the proper role of foreign aid as an instrument of foreign policy. For example, in the United States this debate resulted in deep cuts in aid transfers to most developing countries. Despite the cut, the United States still remains the largest donor (in aggregate) amongst the OECD member states. Some industrialized countries, such as the Scandinavians[5], maintained their aid programs in the early 1990s and up to 2001 but tend not only to subject them to increased scrutiny but also have redirected some of the aid to achieve tangible policy objectives (OECD, 2002).

It has been argued that development aid has not always been well used. It has sometimes propped up corrupt governments and been wasted on bad projects (Hancock, 1989: 192; Lancaster, 1999). Yet despite its negative press, official development assistance (ODA) has played a critical role in supporting human development. It has played a vital role in financing access to basic services. For instance, in Uganda, school enrolment rates increased from 54 percent to 80 percent between 1996 and 1998 after education charges were phased out (Oxfam, 2002: 20). This was as a result of innovations of the sector reform program and the international donors. The Ugandan government, in its efforts on poverty reduction through intervention developed a strategy "Poverty Eradication Action Plan" in 1997, with key features that includes programs aimed at improving Universal Primary Education. The Poverty Eradication Action Plan emphasizes improved governance through

[5] Denmark, Norway, Sweden, and Luxembourg.

enhanced transparency and accountability for resources directed to the Poverty Action Fund (Devarajan et al, 2001: 126). The lesson from the Ugandan case is that it enforces the importance of ownership in any reform effort. Where governments have strong national poverty-reduction strategies, aid generates very large returns. The changing environment is epitomized by the adoption of Poverty Reduction Strategy Papers (PRSP) intended to strengthen ownership and broaden civil society representation on public spending priorities. However, there are serious problems with the PRSPs. Consultations with civil society have been mixed and, in some cases, governments', the IMF and the World Bank have adopted schedules that preclude effective dialogue. Yet, the PRSP framework marks an important step in the right direction. Important benefits are emerging despite patchy performance. For example, in Ghana the influence of civil society through the PRSP process has helped to focus attention on the more deprived areas in the North of the country; and in Ethiopia the process set out strategies for improvements in primary education, notably by reducing gender-based inequalities (Oxfam, 2002: 20). In the past, the effectiveness of aid has been compromised by bad policies, both of donors and some corrupt African governments. Obviously, reforms are needed on the part of Northern and African governments if real progress is to be made.

2.5.5 Donor-Recipient Aid Relationships

Despite much donor rhetoric on the need for aid recipients to own development programs and the importance of building new forms of donor-recipient partnerships, aid-supported programs are still basically donor-driven (Helleiner, 2000: 19). According to Lester Pearson's Report titled "Partners in Development", "Partnership between the rich countries and the poor, as the latter struggle for development and poverty reduction, has been part of the approved rhetoric in the development community for a long time" (Pearson, 1969).

A critique of the Pearson Report in the 1970s, I. G. Patel correctly anticipated the problems that would inevitably bedevil the aid relationship for a period of thirty years from the time the report was released.

> Unfortunately, the concept of a genuine partnership in development ... lacks credibility. There has never been any real sense of equality between donors and recipients even when they attend the same consortium meetings and sit around the same table in many other forums. For the recipient to be frank about the policies or attitudes of donors in forum where aid is to be distributed is about as difficult as the proverbial passage of the camel through the eye of a needle. Criticism of donor policies, even when it comes from non-recipients, is seldom answered in the manner in which recipients are obliged to answer the most far-reaching criticism of their own policies. There are obviously two sets of rules ... A mere equality of opportunity in engaging in dialogue cannot establish parity in decision-making ... the doctrine of mutuality in monitorship or genuine partnership in development is impractical ...(Patel, 1971: 305).

By the mid-1990s, the donor-driven character of aid programs and the limited local ownership that inevitably accompanied them had brought many analysts and policymakers to the realization that a new kind of partnership between the rich and the poor nations was required in aid relationships (Helliener, 2000:1). Along this spectrum, the aid relationship between the donor community and African countries has been debated on a shifting ground, as Adam and O'Connell (1997) observe, from the "capital shortage" diagnosis in the 1960s and 1970s, to the "policy failures" diagnosis in the 1980s, and finally to the "institutional failures" diagnosis in the 1990s. Accordingly, the perceived role of aid in Africa's economic development has also evolved: from that of filling the emerging financial gaps by injecting donor resources; to insisting on market-based economic reforms through privatization and de-regulation; and finally to attending to institutional bottlenecks and political regimes (Nissanke, 2000: 6). Adam and O'Connell (1997) asserted that the failure of the African state is the chief culprit for the donor's undue influence. Elbadawi and Ndulu (1995) conclude, "SSA [sic] has been more severely impacted by adverse external shocks but it has also failed to deliver a growth enhancing policy environment — be it at the economic level or in terms of stable and effective governance structure". Equally, Samuel Wangwe has noted that the effectiveness of foreign aid depends not only on policy environments but also on a number of other conditions. The typical problems include weak management capacity of recipients; poor aid coordination among donors, which has led to the proliferation of parallel aid projects; lack of recipient ownership of the development agenda; and problems associated with the design of aid conditionality. Wangwe particularly emphasized that aid programs are more successful when the recipient government not only has the capacity to identify and articulate its own priorities and programs but also the ability to implement, monitor, and evaluate the resulting programs. He noted that low ownership of the development program is common across Africa since the introduction of SAPs, in which aid has been donor-driven rather than being a product of discussions, mutual agreement, and genuine commitment (http://www.unu.edu/hq/academic/Pg_area4/Wangwe.html).

The ownership question acquired increased salience in discussions of development problems and practices during the mid-1990s, not least in the African context where successes with IMF-World Bank-driven 'structural adjustment' programs and donor-driven projects seemed so scarce. A new consensus emerged, which the World Bank itself summarized in a report on aid effectiveness:

> Typically, assistance programs that the recipient country perceives as being imposed end in failure or have only a small development impact. Government and beneficiaries do not feel they have a stake when they have not contributed to the development of a program. Furthermore, 'home-grown' programs may be more effective in incorporating institutional capacity, reflecting the needs of different domestic constituencies, and addressing constraints (World Bank, 1995: 6).

According to the chairman of the OECD's Development Assistance Committee (DAC):

> If donors believe in local ownership and participation, [sic] they must seek to use channels and methods of co-operation that do not undermine those values. External support must avoid stifling or attempting to substitute local initiative... The principles of self-reliance, local ownership and participation, which underlie the partnership approach, are inconsistent with the idea of conditions imposed by

donors to coerce poor countries to do things they don't want to do in order to obtain resources they need. That view of conditionality was always of dubious value. Treating development cooperation as partnership makes clear that it is obsolete (OECD, 1996a: 7).

Eveline Herfkens, Minister for Development Cooperation of the Netherlands, in a discussion on "Policy Reform and Aid Effectiveness" in Africa emphasized the importance of a "new aid relationship" that is based on shared values and mutual appreciation of donors' and recipients' roles in making aid effective. She stressed that the tendency of some donors to bypass key Ministries while attempting to implement programs and projects in African countries created conflicts rather than partnerships. She went further to state that the need for cooperation between donor countries and recipient countries was imperative for improving aid effectiveness[6]. Quite often, donors impose projects on African countries. Furthermore, recipient countries have had to contend with large number of expatriates from donor countries as well as with different agencies. The net result of an environment like that has been frequent duplication of efforts. Herfkens concludes that improving the effectiveness of aid in Africa would require shared responsibilities. Aid donors need to improve ownership of aid-funded programs and projects by Africans and ensure that aid is "demand-driven" and not "donor-driven". There is need for donors to improve the reliability of aid flows and make them more responsible.

Paradoxically, despite these widely recognized research findings and pronouncements from the highest bodies in the development arena towards new forms of development partnership between aid donors and recipients, there appears to be ever-increasing degrees of external interference into the domestic political affairs and economic policymaking of African countries (Helleiner, 2000: 2). Particularly sensitive in Africa was donor imposition and failure of the 'technical assistance' which had been, by all standards, quite ineffective in the creation and development of indigenous capacity (World Bank, 1996). In this area also, agreements on impressive new principles for "new orientations in technical cooperation" – emphasizing the need for long-

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[6] Herfkens, H. E. Eveline. www.uneca.org/eca_resources/Major_ECA_Websites/joint/panel.htm. Accessed February 2003.

term capacity building and for local control at all stages by the intended beneficiaries had been achieved within the DAC of the OECD (OECD, 1995: 21).

Nissanke (2000) has argued that the appropriateness of economic policies and political institutions cannot be assessed in isolation from the prevailing country specific conditions. The policy failure has often been blamed on the African governments and institutions in terms of poor policy environments and their incapacity, but the donors should also take a fair share of responsibility for imposing, in the name reforms, a series of restrictive conditionality that they (donors) claim to be universally appropriate under any condition. Genuine partnership in development would require not only the monitoring of aid-recipient country performance but also the performance of aid-donor countries and organizations by independent assessors drawn from around the world (including the recipient state).

2.5.6 Conclusion

This chapter has provided a general overview of the problems associated with the developmental effectiveness of foreign aid in Africa. The chapter has equally shown that aid donors had the major say not only over which country to give aid but also how the aid would be used. In light of all this and given that donors have had so much influence over whom they have aided and how their aid was used in Africa, it seems reasonable to ask: 'why has their aid not been more effective?'

The lack of consensus on the details of development strategy has meant that donors and recipients find it difficult to agree on how best to pursue development. Although this was true in the past, there is a growing awareness among members of the international community that if aid is to be more effective in advancing development, there is a need to move toward a system of development assistance that not only ensures country ownership of development strategy but also minimizes the intrusiveness and lack of coordination among donors.

CHAPTER THREE

AFRICA'S ECONOMIC DEVELOPMENT

3.1 Introduction

Economic development has been defined in various ways. The concept is used by some to refer only to economic growth – the expansion in national production and income. For some others, the concept includes the achievement of an array of conditions, such as high levels of per capita income, wide access to social services, political empowerment, human security, and gender equality (Lancaster, 1999: 14). In this study, economic development refers to a process of economic change that includes both growth in national production and income and the improvement in the standard of living of the poor.

Africa has continued to be the 'sick man' of the world. Current perspectives on trends in Africa are gloomy, shaped by stark pictures of misery, starvation, and death in many areas over the past twenty-five years. Other contributing factors to the gloomy outlook towards Africa include: discouraging statistics on overall economic performance; rampant civil conflicts resulting from social disintegration and exclusion; growing numbers of refugees and internally displaced persons; rising poverty especially amongst women and children; economic collapse and growing indebtedness; and threats of a creeping desert as well as recurrent drought resulting partly from environmental degradation. The net effect is a growing consensus that Africa is a continent in serious trouble (Deng, 1998: 1-2). The above portrayal of Africa undoubtedly captures many elements of the harsh reality of the region in recent years (Ghai, 2000: 1). In the 1980s and 1990s, Africa came close to being labeled by some commentators as beyond repair and destined to sink ever deeper into the infernal cycle of impoverishment, chaos, and violence (2000: 1). These pessimistic prognoses led many to call for dramatic changes in then social, economic, institutional, and political trends and for reorientation of policies and development priorities.

According to Deng,

> [The] drive to undertake simultaneously economic and political reforms has raised legitimate concerns within the African policy community. Moreover, given the seemingly overloaded agenda of African development, it is unlikely that meaningful economic growth could be achieved at the turn of the century without a comprehensive policy framework that would guide decision-makers and other stakeholders in formulating appropriate strategies for economic development and social progress in Africa (Deng, 1998: 5).

Much of the above pessimism stems from the failure of many African countries to regain the momentum of economic growth lost in the worldwide recession of the early 1980s. In the preceding 30 years, Sub-Saharan Africa had increased its GDP by more than 3 percent per year on average. The recession brought economic growth to a halt. Indeed, GDP fell by 17 percent from 1980-1985. In 1985, GDP increased by only 1.2 percent despite two years of recovery in industrial market countries (World Bank, 1986c: 39-40). External public debt grew rapidly through the 1970s and early 1980s, and by 1984 reached an accumulated total equivalent to half of the GNP (Gross National Product) of low-income Sub-Saharan nations. Service on this debt itself rose to almost 4 percent of GNP in 1984 and 14 percent of export earnings of these nations, with even higher percentages reported in low-income African economies (ECA, 1986: 60; World Bank, 1986a: 214). At the same time, gross domestic investment (GDI) and most industrial production stagnated (ECA, 1986: 18-24).

Other indicators have been equally discouraging. The Sub-Saharan African health, mortality and adult-literacy levels have deteriorated at comparable rates. Life expectancy at birth now stands at 49 years, and 34 per cent of the region's populations are classified as undernourished. African infant-mortality rates were 107 per 1,000 live births in 1999, compared to 69 for South Asia, and 32 for Latin America. Nearly 9 per cent of Sub-Saharan 15 to 49-year-olds is living with HIV/AIDS — a figure that soars above those of other regions.

Tuberculosis cases stand at 121 per 100,000 people; respective figures for South Asia and Latin America are 98 and 45 (UNDP, 2001: 144, 165, 169).

3.2 Africa's Experience of Development

The disengagement of the British government from Ghana in 1957 was generally regarded as the beginning of decolonization in sub-Saharan Africa. Much of the rest of Africa gained independence by the mid 1960s. At that time, one of the principal concerns for the majority of African governments on the attainment of independence was the rapid fulfillment of economic expectations. Independence was projected not merely as an end but as a means towards attaining the good things of life that had been denied to the people during the years of colonial rule. During this early post-independence period, government leaders were poised to satisfy the rising expectations of their citizens. In the process, they sought to protect and diversify state economies and foreign trade patterns. They sought to educate and provide employment for their citizens and to overcome the problems of development, which could be a source of domestic instability in the future. The awareness on the part of governments of the need to develop their economies led to efforts to harness both international and domestic elements contributing to development. Because of the external involvement in the development process, development plans became fashionable for nearly all-African countries and most produced programs, which contained exaggerated expectations (Akinrinade and Barling, 1987: 8-14). In fact, in order to achieve some of the stated objectives in the development plans, many African countries would have had to depend not just on resources available domestically but, substantially, on external contributions. This is because underdevelopment, the principal characteristic of most African economies, manifests itself not only in terms of material insufficiency and popular dissatisfaction but also in the means to overcome them.

Beginning from the late 1970s, an increasing number of African countries began to experience economic stagnation or decline. The crisis acquired increasing momentum in the 1980s even as countries that had performed well in the two preceding decades started to show signs of stress and strain. At the end of the decade, there were few countries that were able to escape the deepening social and economic distress (Ghai, 2000: 2). These declines were seen as a sharp reversal of the social and economic achievements in most countries in the post-World War II period.

The economic crisis was noticeable at all levels and in all areas. There was a substantial decline in the industrial and agricultural production per capita. Export earnings declined, as did the volume of imports. There was a big drop in average consumption of goods and services. Public and private investment fell precipitously. Real wages and salaries declined sharply for most categories of workers. The rates of urban unemployment went up. The per capita volume and quality of essential services such as health, education, housing and water deteriorated in most countries. The physical infrastructure of roads, electricity, communications and building suffered from disrepair and poor maintenance (Ghai, 2000: 2).

Sub-Saharan Africa external debt rose to $227.2 billion in 1996 as against $84.2 billion in 1980 while the region's total of disbursed public and publicly guaranteed debt was estimated at over $169 billion by 1996. Total Debt service as a percentage of GNP rose from 3.6 percent in 1980 to 5 percent in 1996 (World Bank, 1998: 240-244). Paradoxically, as the external debt and the cost of servicing them increased, foreign aid began to decline. Furthermore, the most heavily indebted poor countries at the beginning of the twenty-first century have been obliged to restructure and reschedule their external obligations repeatedly, not diminishing the outstanding debt but seeing it increase while its composition harden around a growing multilateral core. Yet, while the international community can mobilize about $100 billion to bail out the middle and higher income countries of Asia – equivalent to about half of the total outstanding debt of the 41 Heavily Indebted Poor Countries

(HIPC), no HIPC was cured of its debt problem in the 1990s. In late 1998, the World Bank and the International Monetary Fund (IMF) joined nongovernmental organizations (NGOs), churches, and civil society in a global consultative review, which led to an endorsement to cut external debt service (World Bank, 2002: 331). In exchange for debt reduction, the beneficiary governments would be required to implement sound policies and poverty reduction strategies.

As mankind enters the third millennium, most African countries are still facing the problem of choosing an appropriate strategy for development. After more than forty years of independence, Africa's economic performance is still the weakest amongst the developing regions of the world, and the constraints to development are being increasingly felt. This was mainly because the economic policies implemented in Africa produced conditions that could not be sustained economically.

3.3 Development Strategies in Africa

The economic strategies adopted during the first decade of independence in Africa considered industrialization to be the engine of economic growth and the key to the transformation of traditional economies, essentially because of the uncertainty over the outlook for commodity exports and the acknowledged desire to reduce dependency on imported manufactured goods. African policymakers also felt that governments should play a major role in implementing these strategies. Consequently, and generally with the full support of creditors, multiyear development plans were devised. Typically, they involved investments in a vast array of basic industries with concomitant implementation of an arsenal of price control regulations and exchange allocations (McCarthy, 1994:123-125).

For some observers, the reasons for the weak economic performance of African countries are linked to factors over which they have no control: bad weather, low world commodity prices, and insufficient aid flows. Others, however, blamed the set of policies that were implemented, especially the inadequate macroeconomic framework and the weakness of the economic incentive structure (McCarthy, 1994: 124). Studies of this question have analyzed in depth the reasons for the failure of development strategies in Africa. These observers argued that the insufficiency in development spending when compared with the needs of productive sectors such as agriculture, industry, and mining was the major reason, and for the fact that enough attention was not given to agriculture in particular. Also neglected were measures to encourage small-scale producers to raise their productivity and appropriately modernize their operations.

A close look backward in search of the African vision of development during the early years after independence showed that such a vision was largely reflected in the writings, statements, manifestos, programs, and actions of some governments led by the first generation of African leaders that came to power immediately after colonial rule (Deng, 1998: 12). A comparative study of the literature showed that most of the African states were essentially, or at least claimed to be, benevolent social guardians at the time of political independence. But with the passage of time and change of leadership, a majority of these states deviated from the path of social guardianship and disintegrated into various forms of post-colonial statehoods including: neocolonial, integral, prebendal, patrimonial, bureaucratic-authoritarian, and revolutionary-socialist states (1998: 12). The net result of these regime types was socio-economic and political collapse in many countries. This, in turn, necessitated a search for causal explanations and policy instruments that would reverse the region's growing impoverishment and devastation. This followed the neoclassical argument on the economic decline around Africa. One of such causal explanations put forward by neoclassical economic theorists ascribed the economic failure to the inappropriate policy choices of post-independence regimes. The World Bank, in what some have referred to as the "notorious" Berg Report, diagnosed the regional economic malaise and issued a sweeping injunction for reform (Lewis, 1996: 96; van de Walle, 2001: 210).

Peter Lewis (1996), writing in support of the report, argues that the observed facts were uncontroversial: at the end of Africa's second post-independence decade, most countries in the region experienced the stagnation or decline of growth rates, the erosion of per capita incomes, de-industrialization, food shortages, sluggish exports, chronic fiscal deficits, and mounting external debt (1996, 96). The Berg Report attributed these problems to a common syndrome of economic statism pursued by governments of diverse ideological preferences. Statist policies, which combined to create debilitating economic distortions included: excessive government intervention in domestic markets; bloated and extravagant public sectors; protectionism and restrictive investment regime; widespread bias against agriculture; overvalued exchange rates; price controls; assorted subsidies; uncontrolled spending; and heedless foreign borrowing. Cumbersome administrative regulations stifled trade and investment. The neoclassical prescription for recovery was blunt: "get the state out of the market and reintegrate African economies into the global economy" (Young, 1982: 326; Lewis, 1996: 96).

Adebayo Adedeji (1995) argued that the economic stagnation in Africa is attributed mainly to the legacy of colonial development and to Africa's position as a subordinate and dependent region in the international division of labor. The disarticulation of African economies and their reliance on primary commodity exports while importing a broad variety of inputs and processed products are adduced as central impediments to dynamic growth (Adedeji, 1995). This led to a dramatic decline in Africa's share of world exports, especially commodities exports, and a rise in its volume of imports. The decline of raw material prices in relation to the relatively constant prices of imported manufactured goods escalated the deterioration in the terms of trade (McCarthy, 1994: 124). This escalation was extremely difficult to control because

> [a]ttempts to build a domestic industrial base in the poorer countries ran up against the difficulty of competing with manufactured imports from industrial countries, which benefited from economies of scale and from years of accumulated industrial experience. There was only one conclusion. A domestic manufacturing sector in the developing countries could only be born and nurtured if they were protected against competition from imports... Protection would be achieved by imposing high import duties on imported manufactured goods or by restricting what could be imported (McCarthy, 1994: 124-125).

The year 1985 must be taken as an important watershed between the old approaches to modernization, development, and the new shift in focus from state-directed development to neo-liberal free-market ideology. It must be seen as the watershed in the legitimacy of the African post-colonial state and the beginning of its collapse. In fact, this change in focus came about because of the debt crisis, which was set in motion by Mexico's failure in 1982 to service its debts. In that year, the deteriorating situation in many African countries forced the Organization of African Unity (OAU) to seek an alternative development plan. The implication was that the status-quo arrangements had placed the continent in a dependency relationship with the developed world. An alternative strategy contained in the Lagos Plan of Action put forward a strategy based on self-reliance with the ultimate aim of creating an African Economic Community by the year 2000 (ECA, 1989: 10). It was in response to this plan that the World Bank came out with its series of reports such as "Accelerated Development in Sub-Saharan Africa", sometimes referred to as Berg Report, as mentioned earlier in this study.

The World Bank's 1979 Development Report had emphasized the engulfing crisis on the African continent. The Berg report now blamed this state of affairs on the slow growth of exports and criticized the poor policies which African governments were accused of having pursued. In the meantime, the crisis had intensified with the result that African states were forced to adopt an emergency program called the African Priority Programme for Economic Recovery, 1986-1990 (APPER). The program pointed out the weakness of African economic development and tried to reassert some of the Lagos Plan of Action objectives but because of the already weakened situation in the continent, it was difficult to pursue the self-reliance approach even if this would have been possible under normal conditions. It was this new emergency program, in a reformulated language, that was submitted to the United Nations Special General Assembly for support in 1985. The accompanying paper to the emergency program argued that there was no way African countries could raise resources for the implementation of the crisis program given their estimated annual debt-service obligation of $16.6 billion to $24.5 billion was anticipated between 1986 and 1990. The paper argued: "if all the domestic resources being mobilized to finance APPER are used in servicing the debt, the African countries will still not be able to meet their debt obligations, let alone have resources left to finance APPER" (Lewis, 1996: 96-97). This was at a time when the World Bank, the International Monetary Fund, and the donor communities were implementing the "Washington Consensus" Structural Adjustment Programmes, to embark on the liberalization and privatization of the economies that the globalizing forces demanded.

In order to provide the African countries with a political rationalization of the new demands to adjust, the World Bank published another policy paper in 1989 entitled "Africa: From Crisis to Sustainable Growth", which sought to give a more comprehensive theoretical and ideological backing to the changes. This position challenged the earlier theories of political development by advancing what Beckman (1992) called " a political theory of adjustment" (Lewis, 1996: 97). This policy paper adopted a broader perspective to the adjustment process by raising social, political, and cultural issues and seeking ways to resolve the crisis.

Furthermore, political analysts came up with an alternative model for economic decline. This perspective, takes its root primarily in the Weberian tradition of historical sociology, which also draws upon recent theories of the state in developing countries (Bayart, 1993: 19; Lewis, 1996: 98-99). From this perspective, the central causes of economic degeneration are found in the prevalence of weak authoritarian regimes in Africa and in the constellation of patron-client relationships that underpinned the authority and rule of so many governments (Hyden, 1993; Callaghy, 1993: 573). Nicolas van de Walle (1994) posits that the state-centric analyses highlights the dominance of neo-patrimonial regimes throughout Sub-Saharan Africa because they reflect the outward features of institutionalized administrative states while operating essentially along patrimonial lines. Though rooted in historical patterns of authority and social solidarity, neo-patrimonial rule emerged during the post-independence era as African leaders consolidated their fledgling regimes through an array of personal linkages and patron-client networks. Beneath the veneer of formal bureaucracy, legal procedure, and constitutional order inherited from the colonial state, neo-patrimonial states have been organized on the basis of kinship, faction, and clientage. Power in such regimes are concentrated and personalized, entailing discretionary control over broad realms of public life. The personal prerogatives of the ruler typically eclipse the authority of laws and organizations, fostering a weak and unstable institutional arena (Lewis, 1996: 99).

By the end of 1980s, both the World Bank and United Nations Economic Commission for Africa (UNECA) pointedly recognized the role of governance in economic recovery, and they called for more responsible and participatory government as a requisite for development (World Bank, 1989: 1; Hyden, 1993: 329; Lewis, 1996: 101). According to the World Bank (1994), the new emphasis is on the restructuring of the African state in order to make it supportive of its long-term strategy for the liberalization of the market forces and entrepreneurial potentials of African society.

The adoption of Structural Adjustment Programs has reduced the area of intervention by post-colonial governments seeking to promote the interests of their people. This much can be said to have been the actual objective of multilateral institutions, which have acted consistently to promote globalization in Africa to the advantage of the dominant economic interests that control the world economy. Although these adjustments have affected virtually all countries in the developing world alike, it can be observed that unlike the Western countries, the African post-colonial states have been made to adopt policies, which are openly against the interests of the vast majority of their populations (the Mozambique's cashew nuts case study demonstrates this claim – as will be seen in the subsequent chapter). The SAP policies are all liberal economic policies. This has resulted apparently in the decreased role of the government in the economy and the focus on free trade. Like their colonial counterparts, the African post-colonial state elites continue to play the role of post-colonial governor over their populations in the interest of international financial capital and those of a small local group whose interests coincide with those of the global financial oligarchy – who were soon called "Big Men" (Lancaster, 1999: 27).

> Big Men can provide their followers with access to the state's resources. "Jobs for the boys" in the civil service, government boards and public corporation can be furnished by legal illegal means. They can … channel low-interest loans and contracts from public agencies to their friends and allies…. Some patrons will also supply their clients with opportunities for illegal gain from public office; or, at least, they may allow illicit practices to go unpunished for fear of losing support. Corruption is one such opportunity – accepting or extorting bribes for decisions or actions taken in public capacity. Others include theft of public property, the illegal appropriation of public revenues (fraud) and nepotism…. (Sandbrook, 1985: 94).

To this extent, democracy has been undermined and the whole nation-building project has failed to be consolidated. African states, therefore, have failed to mature into nation-states. Basically, they have remained at the level of "imagined communities" (Anderson, 1991: 6). Globalization and the process of SAPs have contributed to this weakness.

3.4 Development Challenges in Africa

The development challenges facing most African countries at the beginning of the 21st century are complex and multidimensional – involving economic, socio-cultural, political, and environmental factors that cannot be adequately addressed through separate and isolated intervention. In human development, socio-economic indicators have worsened, reflecting greater number of people in poverty and higher inequality than in other regions (ECA, 2001: 48). Exacerbating the situation is high population growth rates, which combined with low incomes, have lowered per capita income growth rates. The net effect of which is high dependency ratios (World Bank, 2000b). Despite the fact that almost all countries in Africa have embraced the neo-liberal policies since the mid-1990s, the region has continued to wallow in crisis. Africa's links with the global economy are still based primarily on the export of natural resources. Its role in the international trading system is largely as a supplier of commodities and valuable natural resources such as diamond, coltan, and oil. The erosion in Africa's world trade between 1970 and 1993 represents a staggering annual income of $68 billion, or one-fifth of the region's GDP. Africa was unable to diversify into new areas of business due to poor policies, geographic limitations to economic diversification and low investment, especially in infrastructure. Shortcomings in governance deterred private investments and Africa saw a massive capital flight and loss of skills to other regions (especially the Western world). By 1990, almost 40 percent of private wealth had left the region (World Bank, 2000).

Furthermore, many countries in Africa are heavily indebted. Foreign indebtedness now poses a fatal impediment to Africa's development and the future prospects for many countries are daunting. At the end of 1998, annual debt service payments from Sub-Saharan Africa to the richest countries amounted to $15.2 billion or 15% of exports while the total debt for that year stood at $231 billion[7]. The total debt has since increased to about $300 billion. At the global level, there are calls for total cancellation of Africa's debts. Though the current debt relief plans of the World Bank and IMF, Enhanced HIPC Initiative is a modest advance, it has failed to resolve Africa's debt crisis, as such a measure too little, too late, and too encumbered with conditionalities (as in Mozambique's cashew nut case-study illustrated in chapter four).

The HIV/AIDS pandemic in particular poses a great threat to development in Africa. The epidemic has erased many of the development gains of the past

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[7] http://www.jubilee2000uk.org/analysis/reports/africa.pdf

generation (for example, life expectancy has been cut by 10 years in many parts of Southern Africa) and threatens to undermine the rest. Twelve million African children or more have been orphaned. Nearly 25 million Africans are living with HIV/AIDS – far more then other regions – and the vast majority of them are adults in the prime of their working and parenting lives. The tragedy of the epidemic is compounded by the fact that it is preventable. But unless far more aggressive action is taken across the continent, HIV/AIDS will continue its rapid advance and progressively choke off other development efforts (Oxfam, 2002: 16-19).

Finally, Africa has seen more than its share of conflicts. Poverty, unemployment and low education feed into conflict and are more important causes than Africa's ethnic diversity. Conflict has imposed large costs on African countries – costs that can hardly be afforded – both in human and in economic terms. Recent estimates suggest that conflict could reduce African growth by as much as 1.5 percent of GDP per year (http://siteresources.worldbank.org/IDA/Resources/strategy/Paper.pdf).

In the past decade, many African countries have made important economic reforms, improving macroeconomic management, liberalizing markets and trade, and widening the space of private sector activity. Where reforms have been sustained and underpinned by civil peace, they have raised incomes and growth, and reduced poverty. Political participation has increased sharply, paving the way for more accountable governments. The end of the Cold War has changed the focus of assistance policies to performance. In that regard, globalization and new technology offer huge performance potential for Africa. Over the past decade, the net result has been an encouraging improvement in performance (World Bank, 2000). To sustain this, positive growth will be essential for poverty reduction. For instance, in order to prevent an increase over the next 15 years in the number of Africa's absolute poor, an annual growth of more than 5 percent will be required – nearly twice the level achieved since 1973. And to achieve the International Development Goal of halving severe poverty by 2015 will require average annual growth of more than 7 percent over the period, as well as a more equitable distribution of income. Low incomes, high inequality and rapid population growth mean that Africa needs a higher growth rate than other regions. Hurdles of achieving these growth rates include an enormous savings gap, flagging investment rates, and the de-capitalization of Africa's economies. Obviously, if Africa's economies are going to grow rapidly and raise consumption at the same time, an extended period of concessional financing will be needed (World Bank, 2000).

As the preceding sections in this chapter have shown, the agenda facing Africa is large and complex. Solving these enormous problems is the primary responsibility of all African countries. Good governance – which involves sound leadership, improved state capacity and institutions, empowered citizens, the rule of law, and increased transparency – will be essential to provide the enabling framework to carry through on human and economic development as well as forging new relationships with donors. Political instability and conflict can destroy progress in building capacity and institutions and can arrest development efforts. At the same time, weak governmental capacity can lead to inadequate policy framework, poor use and impact of development resources, and slower development. Fortunately, these issues now seize Africa and its leaders and the most recent initiative in tackling them is the New Partnership for Africa's Development (NEPAD). While Africa must take the prime responsibility and leadership for its own development, Africa's partners must support this process, by providing funds, assisting in capacity building, debt relief, conflict resolution, and improved access for African countries to European and North American markets. In the light of the discussions above, it is worth noting that no amount of aid from the developed countries would have any significant impact in the continent if African leaders are not committed to good governance, transparency, and accountability.

CHAPTER FOUR

CASE STUDY: THE WORLD BANK

4.1 The World Bank

The World Bank was created at the end of World War II to fulfill the functions considered crucial to world economic recovery and growth: full employment and the re-establishment of order and stability in a post-war economy (Griesgraber & Gunter, 1996:2). At a conference held in Bretton Woods, USA in 1944, a consensus was reached that a World Bank should be set up to help provide funds for the reconstruction of war-torn Europe. Later, this mandate was expanded to encourage, primarily through its guarantees and long-term facility, project lending to developing countries to help promote their economic growth. The main source of development finance provided by the World Bank was supposed to come from contributions and callable capital from member governments (rich industrialized nations) and also from borrowing on international capital markets for on-lending to poor nations. The Bank was thus expected to function as the intermediary and machinery for recycling surplus resources between global capital markets and underdeveloped countries. The World Bank eventually commenced operations in June 1946. Ten years later, the International Finance Corporation (IFC) was set up as part of the World Bank Group to lend to private borrowers looking to invest in developing countries. In 1959, the International Development Association (IDA) was created to provide 'soft loans' to poorer borrowers[8]. The World Bank and its affiliate institutions – the IFC and IDA -- are known as the 'World Bank Group'. They are administered from the same building – World Bank headquarters in Washington, DC – and by the same staff. However, they are funded in entirely different ways and attach very different terms to the loans that they make (Hancock, 1989: 52). These institutions remain the three major components of the World Bank Group.

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[8] Lancaster, C. (1999: 184-185). "Aid to Africa: So Much to Do So Little Done", with emphasis added.

The World Bank was created as an international non-state actor with its own rights. Although much of its policies and programs are carried out by its own group of professional staff, the Bank is often heavily influenced (captured or controlled) by its most powerful members. For example, the United States' government has considerable influence on IDA allocations to most developing countries. In part, this is because the U. S. is the largest contributor to IDA fund in real terms (as shown in table 2.4.2). Nevertheless, despite the outside influence over its allocative decisions, the management is largely professionalized and enjoys a considerable amount of policy and managerial autonomy over most aspects of the organization's activities (Lancaster, 1999: 184).

This study has chosen the World Bank as a case study because it is regarded as the premier aid agency in the world. Compared to other agencies, it has the most comprehensive and accessible evaluation studies and summaries of evaluations of its aid. Since many of the projects are assessed on the basis of their economic rates of return, they can be compared across sectors and countries over time. The Bank also produces studies of the effectiveness of its interventions in particular countries and particular sectors. The various studies are among the most forthright of any donor in their descriptions both of successes and failures of Bank-financed projects and programs throughout the world and they give us important insights into Bank programs such as the causes of the problems surrounding the effectiveness of Bank aid in Africa. Such valuable analyses are not usually available in the often less rigorous or less informative evaluations of other aid agencies (World Bank, 1995: 28). In this chapter, the Mozambique cashew nut production will be used as a case study to illustrate how World Bank-imposed policies prevented the country from resolving the problems related to the growing and processing of cashew nuts.

4.2 The World Bank Aid

Since its establishment, the World Bank has been involved in mobilizing resources for financing development. However, the quality and quantity of its lending, its resource mobilization capability, and its willingness to take risk have all been found wanting in many countries (over the years). At the initial stage, the Bank financed government-guaranteed development projects and programs through sector and project loans; later, it began to shift to policy lending predicated on an intricate set of conditionalities (Griesgraber & Gunter, 1996: 3-4).

The World Bank has two 'windows' through which it makes loans: the traditional non-concessional window, and the concessional window of its affiliate, the IDA (Griesgraber & Gunter, 1996: 3-4). Legally, they are separate organizations, though in practice they share common staff, management structure, policies, and rules. The World Bank's non-concessional loans are given mainly to middle-income countries by using funds borrowed at commercial rates in world capital markets. Most borrowers of non-concessional loans have annual per capita income levels well below $5,280 ceiling on eligibility. These loans are repayable over a 10-20-year period at interest rates slightly higher than those the Bank pays to borrow funds (Sanford, 2002: 743).

By contrast, the International Development Association (IDA) makes loans to the world's poorest countries. Because of its lending terms and its exclusive focus around the objective of poverty reduction, the IDA's assistance is more suited to the needs of many poor African countries. It is often described as the 'soft-loan affiliate of the World Bank' because it provides interest-free finance and also because repayments of principal – which do not begin until ten years after signature of loan agreement – are spread relatively painlessly over periods of up to fifty years (depending on the situation) (Hancock, 1989: 52; Sanford, 2002: 743). The borrowing country pays a three-fourth of 1 percent service charge to IDA; the World Bank uses that to cover IDA administrative costs (Sanford, 2002: 743). All IDA loans qualify as Official Development

Assistance because of its concessional terms. Most IDA borrowers have annual per capita income levels below the $885 ceiling for eligibility (2002: 743). IDA loans are funded out of the money contributed by the multilateral aid budgets of the World Bank member countries (mainly the big five – Britain, United States, Japan, Germany, and France).

Presently, the United States contributes about 20 percent of IDA's new resources (Sanford, 2002: 743). As soon as the IDA's uncommitted funds are used up, the donors negotiate new plans (every three years) to replenish its resources. The World Bank's member governments, under the IDA12 Replenishment recommendations by IDA Deputies, were required to provide SDR 8.65 billion in order to enable the IDA to commit a total of about SDR 15.25 billion between 1999 and 2002. In principle, Africa's share of IDA resources was projected at approximately 50 percent as long as the performance of individual countries warrants it[9]. Not surprisingly, the IDA is the largest source of development finance for Africa. However, IDA commitments to Africa have plummeted in recent years due to governance and security issues found in some countries[10].

The Bank relies on a country programming process to make its lending decisions. This process involves the development of an overall framework for lending, called a Country Assistance Strategy (CAS). This document (which is drafted in consultation with the borrowing government but not a joint document) includes priorities for Bank lending and the country's portfolio performance. The Bank's country economic and sector work is also part of the documentation that provides the basis for lending decisions. The staff of the Bank often oversees its lending process, which involves both the identification of projects and the implementation of project decisions. This has resulted in the undermining of the borrowing countries' ownership of the projects (Warren & Stokes, 1985: 18-19).

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[9] http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/IDA/0. Assessed May 2003.
[10] http://www.challengeglobalization.org/html/news_notices/spring2001. Assessed April 2003.

The World Bank made its first loan to an African country in 1950 when it financed a road rehabilitation project in Ethiopia (Lancaster, 1999: 185). With decolonization, more African countries joined the World Bank and began to receive loans. By 1970, a total of thirty-six African countries had joined the Bank and received at least one loan. By 1996, all African countries had received loans from the institution (Lancaster, 1999: 185). IDA provides 10 percent to 20 percent of total aid flows to Africa. IDA12 period (2000-2002) projected an increase in IDA commitments to Africa to $10.3 billion compared to $7.6 billion during the IDA10 period and $6.6 billion during the IDA11 period. This target was not met (as projected) by the end of IDA period (2000-2002). The World Bank argued that the lower IDA lending commitments in Africa was the net result of country specific factors such as the violent conflicts in Cote d'Ivoire, Eritrea and Ethiopia, and the political crisis in Zimbabwe. An additional factor contributing to the decline in commitments, according to the World Bank report, is the continuing shift in sectoral composition away from infrastructure and toward the social sectors, public sector management, and institution building. This shift has the effect of lowering the average size of loan allocations[11]. However, on the regional composition, Africa received the largest level of IDA lending commitments. Its share of total lending was 47 percent, down from 50 percent in the preceding year (with Ethiopia receiving SDR 363 million as the largest borrower). The report showed that the primary reasons for the lag in IDA12 commitments were related to conditions found in Africa, particularly the region's 'volatility' due to political instability, violent conflicts, and poor governance issues.

Disbursements of the Bank funds on the regional level to Africa for the fiscal year 2000 were lower at $1.8 billion from $2.1 billion in 1999. This was as a result of 45 percent decline in disbursements from adjustment lending. Also Political uncertainty (in Cote d'Ivoire) and natural disaster (in Mozambique) slowed down lending to some major borrowers. However, disbursements in fiscal year 2002 reached $2.6 billion, compared to $2.2 billion in fiscal year 2001, and the $2.2 billion annual average for the five preceding years (World

[11] http://www.worldbank.org/ida/progressreportida12.pdf. Assessed May 2003.

Bank, 2002)[12]. Ethiopia had the highest level of disbursements in the African region with $437 million. This is an increase from $270 million in fiscal year 2001. Other countries with substantial disbursements included Uganda with $256 million, Ghana $204 million, Zambia $187 million, and Tanzania with $170 million[13]. By and large, the amount of funds committed and disbursed to Africa is far less than the size of the economies.

It should be noted that the one-fifth of Africa's total population that live in countries affected by political instability are currently either cut off completely from IDA assistance or receiving vastly reduced assistance because of political instability. Therefore, a large number of Africa's people currently benefit little (if at all) from IDA assistance. The World Bank also attributes the reduction in IDA to each country's own performance record on which IDA allocations are based. The good news for Africa is that those performance indicators, which include progress on macroeconomic as well as social and governance conditions, have been improving on the whole for the region despite wide disparities among countries (World Bank, 2002)[14].

In response to recent changes in the international development environment, IDA seems to work more closely with borrowers and other development partners. The World Bank claims that Poverty Reduction Strategy Papers (PRSPs), prepared in a participatory manner by IDA countries, offer an opportunity to align donor strategies more closely with country strategies. Research carried out by the World Bank has shown that aid is most effective in spurring growth and poverty reduction in countries that have a strong commitment to reforms. The Bank further states that the IDA led all development institutions in directing its assistance to countries that pursue poverty-reducing policies. The IDA employs a performance-based allocation system to channel its resources to countries that are undertaking reforms. Through targeted allocations, effective leveraging of resources, and country-based strategies, the World Bank claims that the IDA is helping the poorest

[12] World Bank Annual Report (2002). http://www.worldbank.org/annualreport/2002/chap0502.htm
[13] http://www.worldbank.org/ida/progressreportida12.pdf. Assessed May 2003
[14] World Bank Annual Report (2002). http://www.worldbank.org/annualreport/2002/chap0502.htm

countries to participate in the global economy while also promoting equity and inclusive growth for their poorest citizens (World Bank, 2002).

The performances of both the IDA and the World Bank have been frequently critiqued by NGOs and academics. These evaluators were concerned with the Bank's 'Structural Adjustment' reform policies, which tied lending to some conditionalities such as the privatization of state-owned enterprises, increasing exports, removing subsidies and price controls for farmers, reducing government spending on education and health, and devaluing currencies. At the time of its establishment, there was no thought of the Bank ever getting into policy conditionality as a basis for its lending programs and, indeed, this was never the case for Western European countries which were the first beneficiaries of the Bank's lending programs. They argued that structural adjustment reforms have been planned with too little regard for the impact on poor people and many have resulted in severe social hardships. The structural adjustment programs and projects are often designed in Washington or with a borrowing government's finance ministry without prior consultation with the affected populations. Some Bank programs and projects have been widely criticized for waste, environmental destruction, social dislocation, and even corruption. The Bank has also been widely criticized (even by its own staff) for the centralization of its activities. For instance, a survey carried out in 1995 on the issue of decentralization elicited this view: "The Bank's rigor, thoroughness, professional expertise and ability to bring to bear global experience are highly valued, but its unwillingness to adapt to the unique conditions, needs and requirements of individual countries is seen as inadequate" (Kapur *et al*, 1997: 1148).

Furthermore, the Bank has been accused of undemocratic governance. The voting power of the World Bank board is based on financial contributions rather than on the principle of "one country one vote". The world's five richest countries hold almost 40 percent of votes, of which the United States share is 17 percent. This imbalance of voting power steers the Bank toward the interests of the industrial countries. Yet, the Bank has little leverage over the policies of those industrialized countries, which often do not practice what they preach through the Bank about fiscal, monetary, trade, or adjustment policies. Furthermore, some countries have used IDA funds to help pay back their loans to the World Bank. Such debt repayments are sapping scarce resources away from investments in health care, education, and other human development. Although the bank introduced a modest debt reduction initiative – Highly Indebted Poor Countries (HIPC) – for a limited number of countries, it has failed to address adequately the root causes of indebtedness in poor countries such as those found in Africa.

Finally, civil society organizations in both industrial and developing countries have exerted considerable pressure on the World Bank, directly and through their own governments, to address these issues. In response, the Bank has initiated some reforms, especially under the current president, James Wolfensohn. For example, the Bank has adopted a plan to increase popular participation in projects and policies; increased lending for health, education, and population; and initiated a joint bank-NGO review of the social and economic impact of structural adjustment. However, changes in practice have lagged behind changes in rhetoric and in policy (Bread of the World, 1997).

4.3 Reorienting the World Bank

During the 1990s, the World Bank was characterized by changes in its development policies. At an annual conference, James Wolfensohn (the President of the World Bank Group), emphasized how far development thinking has been altered by contrasting the 1990s with the present: "there is very little talk about macroeconomic theory in the traditional sense" (Wolfensohn, 1998: 59). In the same way, Ravi Kanbur (a former director of the World Bank), acknowledged the 'complete flip around' during the 1990s in the World Bank's approach to development (Kanbur & Vines, 2000: 95). The World Bank seems to be succeeding in reorganizing itself as an institution with a coherent outlook and a new sense of purpose. Even the Bank's erstwhile critics in non-governmental organizations (NGOs) have seen the Bank as quite distinct from the IMF and also as a truly progressive organization (Pender, 2001: 405).

In its "World Development Report 1999/200", the World Bank made an unprecedented criticism of its own past policies. In contrast to previous conclusion that Africa failed to grow because it did not implement World Bank recommendations, the Bank now accepts that in important instances the prescribed policies were adopted but failed. As the report states, "Some countries followed the policies of liberalization, stabilization, and privatization but failed to grow as expected" (World bank, 1999: 16). Joseph Stiglitz (1998: 9) also argues that, "Some countries have closely followed the dictates of the model, but have not seen especially strong economic performance". James Wolfensohn in conceding the failure of the development policies states that, "we have learned that when we asked governments to take the painful steps to put their economies in order we can create enormous tension" (Pender, 2001: 405). In sum, there is a clear rejection of the Bank's past approach to development and a repeated commitment for the need for comprehensive change. A World Bank study, "Aid and Reform in Africa", published in 2001 has revealed that economic reforms in Africa have largely failed because donors have employed their instruments indiscriminately throughout the continent regardless of the different prevailing circumstances. The report synthesizes the findings of case studies of aid and reforms in 10 African countries. Its contents reflect a shift in World Bank attitude towards policy reforms in Africa from a donor-driven to domestic initiative (Achieng, 2002).

4.3.1 World Bank Policy Shift: The Comprehensive Development Framework

By 1995, the economic policies that were promoted by the World Bank were different in both nature and degree from the structural adjustment promulgated in the 1981 Agenda For Action. The change did not consist of a redefinition of the macroeconomic stabilization and liberalization goals set out earlier; rather, it embraced extended time frames to achieve those goals and the inclusion of more targets, especially with respect to human investment and basic service provision, poverty reduction and, more recently, good governance.

The structural adjustment programs, consisting mainly of macroeconomic elements, were initially meant to run for three years. According to IMF and World Bank proponents, the key ingredients of adjustment are reform and restructuring based on new macro-economic policies such as a firm anti-inflationary monetary policy, a sustainable fiscal strategy and a realistic exchange rate, a market-friendly environment for growth, a liberal trade and exchange regime that fosters international trade and investment, active social policies (including well-targeted social safety net provisions), and good governance. In addition, it sought to reduce external imbalance to levels readily sustainable based on reasonable projections of soft official finance (IDA) and, for less poor countries, prudent commercial borrowing (van de Walle, 2001: 74-84). But the disappointing performance of structural adjustment prescriptions resulted in wide outcries in many developing countries.

The critics of the World Bank and IMF-SAP policies had argued that SAPs were intended to extract as much debt repayment as possible so as to avoid the equitable sharing of loan losses between creditors and borrowers and to make those economies conform to a single economic model compatible with the long term interests of a world economy dominated by rich industrialized countries. There was criticism also regarding the impact of SAPs on the environment and natural resources of the indebted countries and on commodity prices as all nations competed to expand and restructure simultaneously in a shrinking international market. Furthermore, there were accusations that SAP strategies for recovery failed to take account of the specific conditions of countries; problems related to competitive currency devaluation resulting from the requirement to liberalize foreign currency; reduction in the availability of resources for the realization of economic, social and cultural rights, weakening role of the State, and of the social consequences of reducing state expenditure (Pender, 2001: 397).

The net effects of such criticisms and the objective reality of generally poor state performances have been to set off significant changes in the World Bank approach to conditionality. These shifts were in response both to external criticism of SAP dictates as well as to internal ideological debates between the proponents of sustainable development policies on the one hand and the hardened economic reformists on the other. Ultimately, however, the real shift came from the failure of economies which had already embraced SAPs, particularly the South-east Asian nations whose economic collapse in the mid 1990s showed the world that IMF/World Bank strategies were not foolproof (Pender, 2001: 397).

Effectively, the Structural Adjustment Lending (SAL) and the policy of conditionality that was attached to it have been terminated (Pender, 2001: 397). They have been replaced with what the World Bank called Comprehensive Development Framework (CDF). The World Bank described it as "an attempt to operationalize a holistic approach to development" (World Bank, 1999/2000: 21). Launched by the Bank President on 21 January 1999, the CDF's holistic approach has become the premise for subsequent World Bank development policy. The World Bank stated that the CDF is anchored not on conditionality, but on a relationship of partnership between itself as "Knowledge Bank", and the borrowing government, having full 'ownership' of policies it chooses to pursue (Pender, 2001: 397; Dante, 2002: 5). According to the World Bank, the CDF is not a blue print but voluntary, and each country must decide on, and own its priorities and programs: "Countries must be on the driver's seat and set the course. They must determine goals and the phasing, timing and sequencing of programs.... We must support and help them to establish, own and implement the strategy" (World Bank, 2000: 9).

4.4 Donors Influence on World Bank Aid

Unlike the bilateral aid programs that are characterized by the diplomatic and other priorities of the donor states and little or no commitment to development, the World Bank - theoretically - should not be subject to pressures to allocate funds to poor performers for non-developmental purposes. Although some analysts maintain that the Bank has not been compelled to lend to poor performers in pursuit of non-developmental goals, it has often proved reluctant to discontinue its lending to those poor performers. For instance, the Bank continued lending to Zaire, under Mobutu's government, which was well known for incompetence and corruption (Lancaster, 1999: 188). This could be the result of pressures from its dominant shareholders such as the United States for strategic and geopolitical reasons. Perhaps a good illustration of big power influence on Bank policies is the sharp decline of IDA lending commitments and disbursements to Zimbabwe in 2002-2003 due to what the donors labeled the abuse of the human rights of its citizens. This is despite the fact that some other countries such as Tanzania, Congo (Brazzaville), Madagascar, Haiti, and Sudan were not being treated similarly in spite of severe human rights problems.

Member states constrain the Bank through several avenues outside the board. One involves periodic replenishment negotiations of IDA. As with government agencies, periodic decisions on funding provide those making the decisions with an opportunity to press for their favored policies. Member states have sought to condition their contributions on a variety of policy changes. For instance, the Japanese have demanded a larger share of voting rights to accompany their increased contributions. The French have, it has been said, demanded special arrangements for their clients in Africa. United States has pressed for greater attention to the environment, closer collaboration with the IMF, and controls on administrative expenditures by the Bank (Lancaster, 1999:197).

Like other aid agencies, the Bank itself has not remained passive during negotiations involving its funding. It has lobbied for higher levels of IDA by pressing heads of state (usually from the borrowing governments) to urge the heads of reluctant contributor governments to support large levels of funding. For example, the Bank reported it persuaded President Julius Nyerere of Tanzania to approach Swedish Prime Minister Olaf Palme to lobby other leaders of developed countries on behalf of IDA in 1975. Also it was successful in getting Indian Prime Minister Indira Gandhi to urge British Prime Minister Thatcher to support a generous IDA replenishment in 1982. Mrs. Gandhi was so effective that Mrs. Thatcher subsequently lobbied other G-7 heads of government also to support a high IDA replenishment (Kapur *et al,* 1997: 1148).

There is a wide consensus that new approaches to aid should be underpinned by four key principles: selectivity in choosing aid recipients; designing activities with participation of beneficiaries and implementing them in partnership with other donors; strengthening capacity of recipients at all levels; and above all restructuring aid delivery mechanisms to make recipients responsible for development. The World Bank, in consultation with many IDA donors, has emphasized the need for the Bank to expand its efforts, especially in the areas of harmonizing lending procedures and focusing dialogue around PRSPs (http://siteresources.worldbank.org/IDA/Resources/strategy/Paper.pdf). At the annual plenary meeting, hosted by the United Nations Economic Commission for Africa (ECA) in Addis Ababa, Ethiopia, from January 16-17 2003, the Ethiopian Prime Minister Meles Zenawi urged the donors to base all aid on the Poverty Reduction Strategy Paper (PRSP) and channel most aid directly through national budgets (http://web.worldbank.org/WBSITE/EXTERNAL/NEWS). Ultimately, Africa has remained the greatest single challenge for the international community in general, and for the IDA in particular. That suggests not only that the IDA should be prepared to continue providing the critical resources that Africa needs but also to work together with all development partners to ensure a more effective impact on the region.

The study will now turn attention to the case of the Mozambique cashew nuts industry as an example of questionable and counter-productive World Bank advice. We will look closely at both the nature and impact of the Bank's "aid" and advice on the cashew industry.

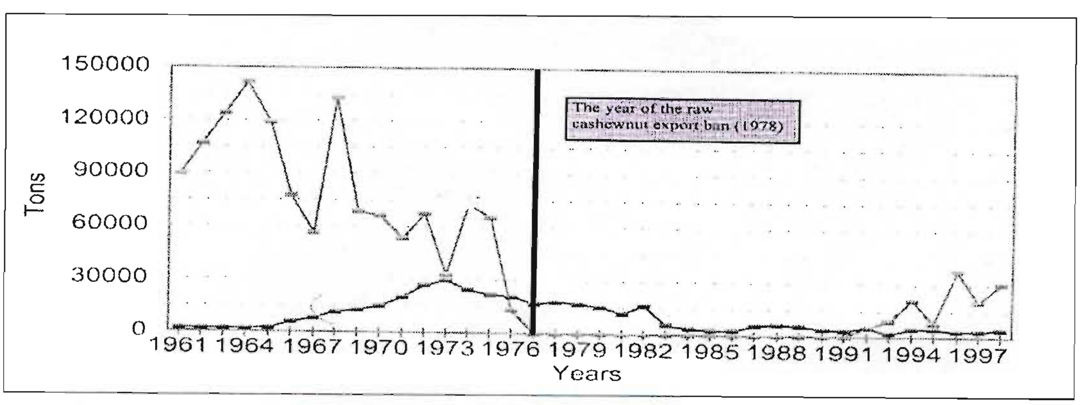
4.5 THE WORLD BANK AND MOZAMBIQUE'S CASHEW NUTS PRODUCTION

4.5.1 Introduction

The collapse of Mozambique's cashew nut industry has become a *cause celebre* for many critics of the globalization movement. The World Bank had prevailed on Mozambique's government in the early 1990s to liberalize the cashew sector and to remove restrictions on exports of raw cashew nuts. The Bank hoped that resources would be allocated more efficiently and the incomes of cashew farmers would be boosted. The policy was met with fierce opposition from the domestic cashew-processing industry, which ironically had just been privatized. After ten years of political strife, international controversy, and ongoing reform, the consequences remain hotly contested. For its part, the World Bank continued to defend its policy action while its opponents blamed the institution for the closure of cashew factories and worsening the suffering of the workers.

Historically, the cashew sector constituted a significant part of Mozambique's economy, providing income to several million individuals across the country. In the 1960s, Mozambique produced as much as half of the world total of cashew nuts. Although the processing of cashew nuts began before the 1960s, much of the total production resulted from the activities of small-scale producers. This changed over the ensuing decade with the entry into the industry of bigger and more modern producers. By the 1970s, the country had 14 processing factories with a total processing capacity of approximately 150,000 tons of raw cashew nuts. Processing peaked in 1973 (as shown in figure 1 below) when 149,800 tons of cashews were processed for export. Thereafter, however, the sector went into a long decline due to a combination of adverse policies, civil war (1982-1992) and South Africa's policy of regional 'destabilization', and the World Bank's structural adjustment reforms. The latter, which began in 1987, brought new tree planting to a halt. Following Mozambique's independence in 1975, the government banned the export of raw cashew nuts in order to re-invigorate domestic cashew processing and add crucial value to its exports earnings. With that, Mozambique became the first African country to process cashew nuts on an industrial scale. Quickly, large mechanized factories replaced small manual-processing systems (Deloitte & Touche, 1997: 2). Since then, the industry declined so dramatically that Mozambique processed a total of only 8,000 tons of raw nuts in 1999/2000 (MacMillian et al, 2002: 4).

Figure 1: Exports of Cashew Nuts in Mozambique (1961-1998)



Source: http://www.aec.msu.edu/agecon/fs2/mozambique/flash16e.pdf

4.5.2 Cashew Nuts under World Bank Liberalization Policy

Following World Bank advice, the government loosened restrictions on raw cashew production in the late 1980s when Mozambique undertook its first SAP with the World Bank[15]. According to the Bank, the program (the 1987-1990 Economic Rehabilitation Program -ERP) was aimed at decreasing overall administrative controls in order to restore market incentives to promote production and trade (Tarp, 1990: 183). In 1992, the Mozambican government lifted the export ban on raw cashew nuts, freeing limited quantities of raw nuts for export. However, a 60 percent tax on the difference between the freight on board (FOB) and factory gate prices and a quantitative restriction of 10,000 tons were imposed (McMillian, 2002: 6). In 1993, the tax was lowered to 30 percent; the quantitative restriction was maintained at 10,000 tons. In 1994, the export tax was maintained, but quantitative restriction was loosened. In 1995, the quantitative restriction was lifted and the export tax was reduced to 20 percent of the freight on board (FOB) value in 1995/96 and then to 14 percent in 1996/97 and 1997/98 (Deloitte and Touche, 1997; McMillian, 2002: 6). Faced with domestic opposition on the reductions of the export tax, Mozambique's parliament passed a bill in 1999 that increased the tax to between 18 and 22 percent, the exact amount to be determined each year, depending on the market condition (McMillian, 2002: 6). Despite licensing restriction and, later, a steep export tariff deterrent for the export of raw cashew nuts, the Mozambican cashew processing industry was unable to sustain either quality or quantity of output.

The World Bank liberalization policy was sharply criticized by the Mozambique cashew processing industry. They argued that government had agreed to protect factory owners if they rehabilitated or modernized their facilities. Following the liberalization of cashew industry, Mozambique started exporting raw cashew nuts to India – thereby depriving the local cashew nut processing factories access to adequate supplies of the raw material. Not surprisingly, the role of the World Bank in the cashew industry's dramatic decline in

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[15] Mozambique became a member of the Bretton Woods Institution in 1984.

Mozambique has been controversial. The Bank's pressure for full liberalization of the cashew sector left the Mozambican government straddled between the local opposition (which demanded greater commitment to the protection of the interests of the cashew processing industry including a protective export tariff on raw cashew nuts) and the World Bank (which demanded total elimination of the protective tariffs and other policies).

As Joaquim Chissano, the Mozambican President acknowledged in a television interview,

> It was Mozambique's poverty that forced the government to accept the demand from the World Bank to liberalize the trade in cashew nuts. We cannot say no. We had to measure the consequences. We had to liberalize the export of raw cashews in order to obtain other benefits from the Bretton Woods institutions. (AIM, June, 2003. electronic version).

In Chissano's view, the cashew industry was sacrificed to ensure World Bank and IMF backing for Mozambique's access to HIPC debt relief initiative. However, he admitted that liberalization was 'prejudicial', and that Mozambique would have rejected the World Bank dictate 'if the country had been richer'. His government had adopted the controversial World Bank policy framework, which was based on Hilmar Hilmarsson's 1995 report on Mozambique's cashew industry. In the report, Hilmarsson had strongly advised the adoption of a comprehensive liberalization strategy for the nation's cashew industry.

4.5.3 The First World Bank Study

Given the importance of cashew and the significance of its decline, the World Bank commissioned a study of the cashew industry by Hilmar Hilmarsson (a World Bank consultant) in 1994, which was released in mid-1995. Based on the comparison with other countries and technology employed, this report concluded that Mozambique's industry, as structured in 1994, was so inefficient that "the value of the processed kernels was less than the value of the raw nuts had they been exported directly. Cashew processing is a losing industry in Mozambique" (Hilmarsson, 1995: 2-4). The study further argued, "Mozambique's smallholder producer has the distinction of being the poorest paid producer in the world. The only option was to liberalize exports. "Some factory employees will lose jobs … but increased cashew production and multiplier effects will more than make up for that" (Hilmarsson, 1995: 2-4; Cramer, 1999: 1252). The report further argued,

- that peasants earned only 20 percent of the world market price compared to 50 percent in other cashew producing countries;
- that only 1,500 people were working in the factories;
- that the industry lost foreign exchange because the value of the processed kernels was less than the value of the raw nuts had they been exported directly because Mozambican factories produced only 43 percent of whole white kernels (demanded by the U.S. market) compared to 70 percent for India (Hilmarsson, 1995: 4, 27, 34).

The Bank had hoped that there would be sufficient competition at the market level to ensure that reducing export tax would increase the export price and, therefore, the producer price. Although it managed to convince the government that 'liberalization and privatization' were appropriate, they disagreed on the extent and the timeframe for the effective activation of the policy. Thus, while the Bank favored immediate and complete elimination of the tax, the industry favored a gradual and partial reduction of the tax (World Bank, 2000a).

Following the release of the report, the processing industry rebutted the claims, arguing that Hilmarsson not only knew very little about the industry but also had failed to hold discussions with them. They maintained that all the data used in the study were based on the worst possible year – the transition year from state to private ownership – and took no account of the special costs inherited by the new owners as a result of the damage from civil war that had recently ended. They also maintained that many roads were closed or in bad condition, resulting in high transportation costs and irregular power supply (Hanlon, 2000: 34).

Furthermore, the Cashew Industry Association (Aicajú, Associaçãodos Indústrias de Cajú) rebutted the Hilmarsson report, which claimed that peasants earned only 20 percent of the world market price compared to 50 percent in other cashew producing countries. The industry claimed that the 1993/1994 producer price for cashew nuts was the lowest in a decade and was 34 percent of the export price of raw nuts, but in the subsequent year it moved up to 41 percent. Furthermore, they rejected claims by Hilmarsson's report that only 1,500 people were working in the factories. Instead, they insisted that in mid-1996 the workforce had increased to 8,867 and was close to its normal level of 10,000 (Hanlon, 2000: 34).

Hilmarsson's claim that the industry lost foreign exchange because the value of the processed kernels was less than the value of the raw nuts had they been exported directly because Mozambican factories produced only 43 percent of whole white kernels (demanded by the U.S. market) compared to 70 percent for India (Hilmarsson, 1995: 34) was challenged by the cashew industry, arguing that low productivity was because the factories had not been modernized, and also cited the problem of raw cashew nuts being smaller in Mozambique than India as a result of tree disease and age (Hanlon, 2000: 34). Moreover, the Bank overlooked not only the unfair advantages held by India (which had become the world leader in cashew production) but also that India's cashew industry was heavily subsidized and depended more on manual labor – notably of peasant children – to shell the nuts, a system that was cheaper but exposes workers to the toxic fluid contained in cashew shells.

Beyond all that, the Cashew Industry Association also advanced several other arguments including the following points:

- The study had been done without talking to the people in the industry, and had fundamental flaws;

- Globalization had the effect of lowering health and safety standards at the work place;
- It was a myth that peasants would gain;
- The Mozambican economy was in serious danger of becoming too dependent on a single buyer of raw cashew nuts – India;
- The study was carried out before privatization without telling potential buyers, and was only published after privatization; and
- Buyers of the newly privatized factory had been cheated because they had an implicit (and in some cases explicit) promise that there would be protection until they get the industry back on its feet (Hanlon, 2000: 35).

Despite strong criticisms of the Hilmarsson report from the Mozambican government officials, the cashew industry, and the trade union calling for the reconsideration of the policy, Hilmarsson's proposal was adopted as World Bank policy in mid-1995 when the World Bank's Country Assistance Strategy (CAS) Report required Mozambique to liberalize raw cashew marketing and export to satisfy "base case" conditions and qualify for approximately US$ 400 million of loan assistance (World Bank, 1995a). According to Kekobad Patel, head of the Mozambican Cashew Industry Association, "At the time Mozambique needed over US$ 400 million in support from the World Bank for our economy and the Bank would only release the funds if trade in cashews was liberalized" (UN IRIN, 2002). This is in line with the IMF/World Bank's SAPs in developing countries seeking financial assistance. However, according to the World Bank's former Mozambique Country Director Phyllis Pomerantz, there was no specific "conditionality" (McMillian, 2002: 5). Yet, apparently following the direct intervention of the World Bank's president, James Wolfensohn, in February 1997, the Bank announced its commitment to a domestic processing industry. Wolfensohn was approached by angry industrialists who claimed that the World Bank was responsible for the problems the industry was having procuring raw cashew nuts. Wolfensohn responded by authorizing another study on the cashew industry (McMillian et al, 2002: 7).

4.5.4 The Second World Bank Study

In 1997, following the criticism from Mozambique's media and trade unions, an independent study by an international consultancy firm (Deloitte & Touche) was commissioned by the Ministry of Industry, Trade and Tourism and funded by the World Bank, and was released in September 1997 (Deloitte & Touche, 1997). The study came out in favor of protecting the processing factories for some period of time as argued by the Mozambican Cashew Industry Association; it argued that Hilmarsson's study 'should be abandoned'. Also, it argued that the net outcome of the implementation of the Hilmarsson report would be the destruction of the Mozambique cashew processing industry. As solution, the study proposed a 'fundamental change in policy' (Hanlon, 2000: 41). The new study raised several points:

- Indian subsidies to its industries 'tilt the playing field' and make competition unfair
- 'Improved management practices continue to contribute to factory efficiency' in the newly privatized Mozambican factories, with a steady increase in the percentage of 'whole white' nuts. Mozambican workers are as efficient as the Indian ones.
- Mozambique earns an extra US$130 per tonne by processing its own cashew kernels, in contrast to earnings from exporting raw nuts. This extra earning 'alone is sufficient reason to support the processing industry against competition from India'. The study called for an increase in the raw cashew export tax.
- Peasants did not gain any thing from liberalized exports; the traders held all extra profits (Hanlon, 2000: 37; Fauvet, 2000: 15).

Joseph Hanlon, an opponent of World Bank policies, has criticized the Bank for infringing on Mozambique's sovereignty and forcing it to accept policies against its will (Hanlon: 2000: 42). Along the same line, Christopher Cramer (1999: 1253) argues that the World Bank has (at times) appeared to falter in its own approach. The Bank, he argued, not only advocated free market policies on the basis of textbook microeconomic assumptions but also claimed that liberalization would stimulate an expansion in the processing industry, with new firms entering the industry and a shift toward more labor-intensive production leading to new employment opportunities (Cramer, 1999: 1253).

As it turns out, those claims may have been wishful thinking. Despite the liberalization of the exports of raw cashew nuts, cashew production in Mozambique has continued to be on the decline. Boaventura Mondlane, the secretary general of Mozambique's Cashew Workers Union (SINTIC), admitted that there is little chance that any of the large cashew processing factories that were forced to close down in recent years will be able to re-open in the foreseeable future (Mozambique File, 2003: 18). But why were free market theorists and proponents of liberalization policies so wrong about the cashew industry in Mozambique? In a *New York Times* editorial, Paul Krugman (a free market proponent) criticized the opponents of the World Bank's intervention in the Mozambique cashew industry, particularly Robert Naiman of the *Center for Economic and Policy Research*, for not fully understanding the case. Krugman asserted that the rural peasant farmers, who lack political power, were forced to bear the cost of the export, which forced them to sell their crop cheaply to the domestic processing industry. The export tax, according to Krugman, was a means of protecting the processing industry and its relatively small number of politically influential factory owners and workers. He concluded by saying that the export tax had a net negative impact on Mozambique and that the World Bank was justified in making loans conditional on reducing the export tax (Krugman, 2000: 23).

Krugman's criticisms were bolstered from other quarters. Paul Fauvet's argument that farmers did not gain anything from liberalized export was criticized by Graham Mann, arguing that reducing the tax on raw cashew exports, as advocated by the World Bank, led to increases in farm-gate (producer) prices between 1996 and 1999. Mann further asserts that the producer benefits would have continued had the government fully implemented the World Bank policy and completely eliminated the export tax. Mann counters the opposition's claims that the factories failed because of an inadequate supply of high quality raw cashew nuts. He states: "more than half of the factory owners who complain about not having nuts for their factories were also exporting raw cashew nuts in all sorts of discounted arrangements with India" (McMillian, 2002:31). Mann concluded that factories did not fail due to inadequate supplies of raw cashew but because of poor business decisions.

An independent study by Margaret Mcmillian, Dani Rodrik & Karen Horn Welch (2002) titled "When Economic Reform Goes Wrong: Cashews in Mozambique", concluded from an economic point of view that India has effective "monopsony" power in the purchase of raw cashew nuts from Mozambique. They also found that the market for processed cashew is more competitive than the market for raw cashew. Thus moving from the export of processed nuts to the export of raw nuts entails a term of trade loss for Mozambique (McMillian et al, 2002: 21). Ironically, the liberalization of the export market in Mozambique may have actually increased India's bargaining power. The countries exporting raw cashew to India do not collaborate with each other in setting prices or quantities, and individually their market power vis-à-vis India depends on the number of exporters per country (2002: 21). For example, Mozambique's first exporter of raw cashew nuts to India was competing with only three other exporters (Deloitte & Touche, 1997). As a result of market liberalization, the number of exporters more than tripled in number. This increase in competition at the export level – intended to benefit farmers – reduces Mozambique's bargaining power vis-à-vis Indian importers of raw cashew nuts[16].

The continued reactions from the cashew processing industry on liberalization policy of the World Bank led to the introduction of a bill in the Mozambican Parliament in 1999, entitled: "Proposed Bill for the Cashew Sub-Sector Reindustrialization in Mozambique". The bill proposed that the export of raw cashew nuts be banned; that priority should be given to first supply the local plants; and that market prices be set at the producer level (McMillian et al

[16] Quenum & Associates. Economic analysis: True Causes behind the Collapse of Mozambique's Cashew Nut Industry http://www.businessafrica.hispeed.com/africabiz/cashew_management.htm. Assessed July 2003.

2002: 31). In October 1999, the National Assembly passed a law providing for an increase in the export tax on raw cashew nuts from 14 percent to 18-22 percent and for a first right to purchase raw nuts for the indigenous processors (Fauvet, 2000: 15; IMF, 2001). However, despite the increase in the export tax, there has been significant exit of firms from processing due to the problem of obtaining sufficient raw material resulting from low smallholder production.

In January 2001, the Mozambican government placed a temporary embargo on the export of raw cashew nuts to India (AIM, January, 2001). The government action was in response to suspected massive under-invoicing by exporters who blamed the low prices on the poor quality of the Mozambican nuts, as per the assessment of the Indian buyers and the pre-shipment inspection company (2001). Nevertheless, the net effect of this ban has been two-pronged: increased unemployment for workers in the processing sector and worsening poverty conditions for the disorganized, scattered, and mostly poor and food insecure farmers all over the country.

4.6 Conclusion

Having considered the various arguments surrounding the collapse of Mozambique cashew nut industry, it was discovered that the situation in the cashew sector is multi-faceted. The debate shows that the World Bank may not be singularly responsible for the collapse of Mozambique's cashew nut industry. This is despite persistent claims by the cashew processing industry that the liberalization of the trade in raw cashew nuts was the major cause of the collapse. In one way or another, the Bank may have 'shot in the air the goose' that is Mozambique's second largest foreign exchange provider to the national budget. However, the World Bank's imposition of its reform program on Mozambique (even when the people rejected the policy) may be a sign of the Bank's insensitivity. Perhaps, President Chissano was correct when he pointed that Mozambique "had to liberalize the export of raw cashews in order to obtain other benefits from the Bretton Woods institutions" (AIM, June 25, 2001). Specifically, Mozambique complied with the World Bank's liberalization policy in order to qualify for HIPC debt relief. In essence, the cashew processing industry was sacrificed for reduced debt. Responding during a parliamentary debate to opposition complaints that the government was taking orders from foreigners, the Prime Minister of Mozambique, Pacoal Manuel Mocumbi, acknowledged: "We are a country that begs, and beggars have their sovereignty curtailed" (Fauvet, 2000: 18). This has important implications for International Financial Institution (IFI) reforms given that reluctant governments are placed in positions where they are forced to trade external assistance for their preferred policies. Clearly, the fact of compellance creates a context not just of potential inertia or blackmail in implementing policy frameworks but also of overall policy ineffectiveness or failure.

On the other hand, the Mozambican authorities may have been partly culpable for the collapse of the cashew industry by opting to accept the World Bank's (and IMF) recommendations to sell raw cashew nuts instead of processed products. There is no evidence of meaningful assessment of the credibility or viability of either the suggested policy framework or how to enhance it. The government made little effort to manage the political fallout that should have been quite predictable *ex ante.* According to Cramer (1999), the lack of economic data and feedback between the then public companies in charge of the cashew nut industry and the Mozambican authorities may have been fatal.

Nevertheless, whatever the reason for the failure of the Mozambican cashew industry, it is obvious that without an increase in the supply of raw nuts, there will be no vibrant processing industry in Mozambique. According to former World Bank Country Director, Phyllis Pomerantz, the government of Mozambique neglected the importance of farmer supply response. Pomerantz argues that there is a communication gap between cashew nut farmers and the government about the reforms in the cashew sector. She maintains that the even if the government fully intended to make good on its promises, it would have been of little use if the farmers were not informed about the shift in pricing. The farmers were not only sidelined in designing the reform package but also were largely unaware of substantial reforms taking place (McMillian et al, 2002: 27).

Mozambique's cashew nuts case illustrates several themes now dominant in analyzing development. Policy reforms that are imposed by the multilateral lenders (for example, World Bank, IMF) are rarely conducive for desirable outcomes in recipient countries, particularly in Africa. The credibility problems that the Mozambique program encountered were created partly because the government's cashew sector liberalization policy was viewed as a World Bank policy – something the government was doing to qualify for World Bank (and IMF) loans. Because the Mozambican government did not have full "ownership" of the reform program, the government found itself in a poor position to sell the program to a public that is already skeptical.

CHAPTER FIVE

CONCLUSIONS: WAY TO SUSTAINABLE DEVELOPMENT IN AFRICA

This study is neither exhaustive nor does it provide all the solutions. It seeks merely to stimulate further the on-going debate on the role of foreign aid in the economic development of Africa, to inform initiatives that look more closely at Africa's problems and possible solutions and, finally, to make some suggestions on how aid can contribute to Africa's transformative goals. The study has reflected on why African countries have not created conditions sufficient for sustained socio-economic development, and why external support has not reinforced a coherent agenda for long-term development. It has also attempted to outline the agenda and conditions necessary to make progress in these two directions. The study focused on the issues surrounding the concept of ownership of aid programs and projects by Africans as against the usual donor-driven arrangements that have engulfed the donor-recipient aid relationships since the inception of development cooperation.

The gravity of the situation in Africa has attracted greater attention in recent years. This has led to controversies and views within and outside Africa as to the exact nature of the measures needed to deal with the African crises. However, there have been some positive signs. A broad and growing consensus in policy analysis has emerged in recent years among both the development institutions and researchers. This recognizes that long-term development in Africa requires comprehensive approaches and policies that go beyond adjustments as prescribed by the Bretton Woods Institutions (BWIs) (Rasheed, 1996: 17). This broad consensus is reflected in major institutional and inter-governmental policy documents such as the OECD's Economic Cooperation 1997; the World Bank's "A Continent in Transition: Sub-Saharan Africa in the mid-1990s"; and the ECA's Human Development Report in Africa, 1995.

One crucial aspect of that consensus is that African countries must take charge of their own destinies. Recently, Africans and their development partners have proclaimed the desirability of this seemingly obvious objective. The tricky issue is whether Africans, in reality, are able to take the initiative seriously. This could happen if there is mutual interest and genuine desire by both African governments and their development partners to achieve this goal. While the Africans must be aggressive in their approach to this issue, success will be a shared responsibility of the Africans on one side and their partners on the other. A new ethic in international development cooperation with Africa must emerge if Africa is to change its fortunes for the better.

Africans are increasingly holding their governments to account: they are actively demanding change and greater inclusiveness. Local and regional media are speaking openly and freely against enormous odds about highly political issues. Local non-governmental organizations are pressing their governments to fight HIV/AIDS and increase access to reproductive health. Peace building and conflict resolution efforts at local levels across the continent are increasing.

Most significantly, African governments have recognized the need for concerted action and have demonstrated new political will to achieve this. In July 2001, they transformed the OAU and created an ambitious new structure, the African Union (AU), with a view to reinvigorating collective action across the continent. The AU has approved a key initiative by African leaders, the "New Partnership for African Development" (NEPAD). It argues that Africa's future is in its own hands, and called for a new relationship between Africa and the international community based on a commitment to good governance, democracy, and human rights. At the same time, African leaders will endeavor to prevent and resolve conflict and instability, thereby creating and nurturing conditions conducive for investment, growth, and development. The NEPAD documents recognize that Africa cannot be understood without an understanding of the legacy of the continent's history and its interaction with the rest of the world (Oxfam, 2002: 24).

At the global level there appears to be greater willingness to help address the crisis in Africa. It is still unclear whether this will lead to the dramatic change in political will that is required. The NEPAD initiative has been well received by the main development players in Africa, including the G8, the European Union, the UN, and the World Bank. International donors appear to be in agreement about Africa's unique problems and the need for special arrangements in a range of development areas. They applaud African governments for taking ownership and responsibility for the development process, and promise to support them in doing so.

More recently, this broad consensus received renewed attention and more forceful articulation in the main document of the New Partnership for Africa's Development (NEPAD), which seeks primarily to eradicate poverty, to put Africa on a path to sustainable development, to address persistent underdevelopment throughout the continent, and to ensure that Africa is accepted as an integral part of the globalizing world. This broad consensus also recognizes that only Africans can reverse the continent's socio-economic retrogression and that economic and political changes require enhanced and sustained levels, and better coordinated patterns, of external support (http://www.hsrc.ac.za/gis/papers/AfricanRenaissance/policyFramework.html).

In this study, it was argued that African countries must assume primary responsibility for, and take charge of, their development destiny. Africa's bilateral and multilateral partners have often proclaimed the desirability that African countries take ownership of reform programs, mobilize domestic resources and establish sectoral investment priorities. While all these are laudable goals, the issue is broader and more complex than it appears on the surface. It is of crucial importance to note that there are two aspects that need to be recognized in this regard: first, the overall context and objectives of desired development initiative, and second, whether African countries are actually able to take the initiative in charting their own development paths. Past attempts by African leaders to implement such programs failed due to their failure or inability to take ownership of the process. Now, a new set of circumstances including widespread democratization of African states and the influence of globalization are at work and may provide more propitious context within which the new initiative (NEPAD) can succeed. Amongst other things, the success of the initiative may entail that African leaders will drive the process as part of a consultative and participative process involving all African nations as well as the people of the continent.

While the international partners have contributed to the declarations and compacts in line with the emerging consensus on long-term development objectives in Africa, conditionalities have largely been framed around economic reform programs. Aid relationships have been difficult to change in low-income countries such as many of those in Africa. Despite much donor rhetoric on the need for recipient ownership of development programs and the building of donor-recipient partnerships, aid-supported programs are still basically donor-driven. The continuing imbalance in aid relationships is manifest in many ways. An important and previously neglected dimension of the problem is the imbalance in performance monitoring as between donors and recipients. Whereas the behavior and performance of African countries is measured and assessed in ever-increasing detail within the international community, the behavior and performance of their donor partners receives only cursory attention, except at an aggregate level that is of little operational usefulness to individual recipients. When it comes to performance monitoring, as in so many other spheres, the powerful (the donors and the WBIs) still call all the shots (Helleiner, 2000: 24-26).

Genuine partnership in development requires the monitoring, by independent assessors, of individual and collective donor performance at the level of individual aid-recipient developing countries (Helleiner, 2000: 19). The Heads of State and Government Implementation Committee of the NEPAD adopted a proposal in Abuja for an African mechanism in March 2002. This proposed African Peer Review (APR) mechanism is expected to strengthen African ownership by allowing credible assessments of economic and corporate governance in African countries by Africans. Moreover, it will contribute to mutual accountability, demonstrating to African citizens and the international community that African countries have the political will and commitment to conduct self-monitoring and corrective action where needed (http://www.africaaction.org/doc02/eca2002b.htm). What remains to be seen is the effectiveness of the APR process, with the continued social and political problems in Zimbabwe still unresolved, the international community is using that as a test for the African leaders. Ideally, the APR process is expected to provide convergence of interests for African countries and their development partners. By providing a means for assessing progress towards mutually agreeable performance targets and standards for both donors and recipients, it will move away from the old model of donor-imposed conditionalities.

From the country case study used in this study, it was obvious that the World Bank imposed on Mozambique reform policies, which were designed without adequate regard to local realities and domestic politics. Not surprisingly, the policies have produced negative consequences – including the collapse of the Cashew Nuts processing industry. The World Bank had hoped that resources would be allocated more efficiently and that incomes of cashew farmers would grow. However, the Mozambican authorities were partially culpable for blindly accepting the policy advice without coming up with alternative proposals that would save the cashew industry that constituted a big part of the country's economy. The World/IMF approaches to the conditionality reform have often failed to tackle the central problems. Streamlining and coordinating the Bank's conditionalities through processes such as PRSPs would be more realistic assumptions and projections rather than stipulating processes to be followed. According to Warren Nyamugasira, cited by Charles Abugre (2000) in an article entitled: *'Transformation at last, or new instruments of domination? Analysis and Experience with the IMF and World Bank Poverty Reduction Strategy (PRS) Initiative'*, "There is need to allow different countries to pursue different paths. Multilaterals (for example IMF and World Bank) are known for being prescriptive. They may already have a paper outline what PRSPs should look like, before one has even been written". The 'one-size-fits-all' IMF-designed economic policies have been foisted on poor countries regardless of each country's own circumstances. As a result, these governments often exercise little control over their economies -- as was the case with the

Mozambique Cashew industry. Not surprisingly, many SAPs have failed – often largely because governments have felt little sense of ownership of their reform programs.

It is crucial for the World Bank to embrace the African position that what is required is adjustment with transformation. The view here is that the Bank would need to concentrate on a pragmatic, non-ideological development paradigm anchored on a human-centered strategy in which people's welfare is seen as the main focus of the development process. Such an approach to development will generate faster sustainable increases in the rate of economic growth, reduce poverty, and build capacity in its widest context – infrastructural, human, institutional, and technological (Whaites, 2002: 4).

Moving towards a new and effective partnership with Africa that benefits Africans will require a major shift – both within and outside the continent. Throughout its history, Africa has been exploited: during the slave trade by a desire for labor, and in the colonial period by the scramble for land and wealth. During the Cold War, Africa was used as an ideological battleground to further geopolitical strategies and objectives. Africa's relationship with the Western world has been far from a true partnership. While much has changed, much also remains the same (Oxfam, 2002: 26). However, a true partnership is like a successful 'romantic' relationship. Both partners have their own interests but commit to work together towards not only satisfying each other's needs but also sharing a mutual understanding and respect within a long-term commitment.

However, in order for this genuine partnership to emerge, it will require different kinds of engagement at global, regional, and national levels between the international community and African leaders, underpinned by a new commitment to accountability from both. At the global level, there is a need to create the conditions for effective global governance that supports a new kind of partnership with Africa. It is at this level that issues of global trade, investment, business partnerships and financing, and international engagement must be addressed, based on the accountability of all sectors and mutual rights and responsibilities (Oxfam, 2002: 27).

At the regional level, there is need to reinvigorate forms of political and economic cooperation, especially with regard to peace building and peacekeeping measures. It is perhaps at this level that the best chance lies for finding new approaches to deal with those accused of committing war crimes, crimes against humanity, profiteering from war economies, and corruption (Oxfam, 2002:27).

At the national level, there is need to create the conditions that allow African countries to function as legitimate states, with a social contract between their governments and their people. This means that states are accountable to their citizens, and capable of providing them with security and rule of law, conditions for safe and secured livelihoods, as well as public services such as health and education. This will require much greater engagement with social movements and civil society on the part of the African leaders (Oxfam, 2002: 27).

At each of these levels, practical mechanisms and procedures are required to enforce accountability. Prosperity and peace in Africa can only be achieved if the local, national, regional, and international dimensions of the current crisis are addressed. Nevertheless, the current partnership paradigm practiced by most donors is akin to 'cruising bars for the best one-night stand', with little understanding of the other's needs and no long-term commitment -- a point that is exemplified by the country case study of this work.

Another aspect that merits emphasis is the interplay between the political and economic factors. The socio-political realities are such that very few countries are immune to political destabilization and social unrest. These realities and the lesson that showcase in countries such as Liberia, Burundi, Democratic Republic of Congo, Sudan, Cote d'Ivoire, Zimbabwe and, most recently, the military coup in Sao Tome and Principe, are some of the problems that demand urgent attention if sustainable progress is to be achieved.

Finally, from the experts' point of view, the NEPAD initiative appears to provide the key elements of the evolving "New Aid Relationship" that are being advocated by African leaders and their international development partners. African leaders have recognized that they hold the key to the development of the continent and they have formulated a comprehensive development approach that focuses on the key areas for partnership anchored on mutual interest, shared commitments, binding agreements and, most importantly, the ownership of development processes. If the donors largely determine the design and the terms upon which development assistance is provided to African countries, the aid relationship can be characterized as essentially hierarchical. If the views of the aid recipients remain unidentified, unformulated or submerged, this would continue to have dire consequences for the transformative and sustainable development of Africa. Indeed, there is growing evidence that unless scope is provided to the recipient side actors to assume important responsibilities, aid effectiveness is likely to remain low or fluctuating, and the sustainability of donor aid efforts will remain doubtful. National planning processes and courses of national development in African countries should be seen as most effective where they are led under local responsibility and control. In order to arrive at this ideal situation, gaps need to be reduced and closed at the various intervention levels.

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Appendix

Appendix 1: Foreign Direct Investment Inflows to Selected Countries in Africa, 1995-2000

(Millions of U. S. dollars)

Country	1995	1996	1997	1998	1999	2000
Botswana	70	70	100	96	37	30
Lesotho	275	286	269	262	136	233
Mauritius	19	37	55	12	49	277
Mozambique	45	73	64	213	382	139
Namibia	153	129	84	77	111	124
Swaziland	44	22	15	165	90	37
Uganda	121	121	175	210	222	254

Source: World Investment report 2001.