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**Aid and Debt - Progress since 2000? Will \$50 billion be granted
annually by 2010?**

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ABSTRACT:

Objective: This paper aims at analyzing some of the most recent trends in development cooperation with a view to examining global rights and responsibilities, and issues of equity in efforts being made to reduce poverty in Africa. It will explore how aid contributes to poverty reduction and the whole questions of ownership and partnerships in international development cooperation between Africa and the rich world.

One of the greatest political challenges in this millennium is to ensure improved international development cooperation to eradicate poverty and promote poor people's basic rights. This means a much greater commitment by Northern donors to high quality aid programmes that work in the best interests of poor people. It also means recognising the importance of the wider economic and political context in which aid programmes operate, in order to improve the prospects for inclusive social and economic development.

With rising poverty around the globe - in both the North and South (with Africa continuing to manifest the worst indicators) - such development cooperation is not so much an option or a political choice for Northern action. It is rather, an obligation both morally and for reasons of self-interest; in an increasingly interdependent world where many issues can only be resolved internationally. Northern governments should regard development cooperation as an investment in their own futures.

Economic globalisation means that development cooperation between and among Northern and Southern countries should have a much higher priority in national and international politics where 'domestic' and 'foreign' issues are increasingly blurred. The eradication of poverty should be regarded as an international public good that promotes peace, security and environmental sustainability. The onus thus falls on everyone - individuals as well as governments - to take action.

The reality, however, is that despite the number of promises already made, Northern states and institutions are palpably failing to give priority to development cooperation. Debt remains a crisis, particularly for the most severely indebted countries in Africa - and for many of their people who struggle every day to feed their families, pay for critical medical treatment or send their children to school. It is a crisis whose other face are disease, illiteracy and early death. Until the world realises that globalisation is real and dependent on the well being of poorer nations, the struggle for resource reallocation will remain an uphill one.

On 6 January 2006, the International Monetary Fund (IMF) cancelled the debts owed to it by 19 of the world's poorest countries. This is likely to change the lives of millions of people. Across Africa, lifting the burden of debt will allow millions to be directed to fighting poverty instead of repaying rich countries. African governments have developed poverty plans and clear methods for spending the money saved to help their citizens, instead of allowing the finance to be wasted through corruption. However, much more debt cancellation is still needed. Over 60 countries, many of which are in Africa, will fail to reach the Millennium Development Goals unless their debts are fully cancelled.

The message that would emerge is that massive allocations of global resources are made when the economic stability and well being of the developed countries appear to be threatened. The calls for investment in development and human rights remain, unfortunately, only rhetoric and have not yet succeeded in generating a comparable response. A way is urgently needed to address developing world indebtedness, which is a major aspect of the resource problem for the basic social sectors.

1. Political overview

Sub-Saharan Africa is a continent where absolute poverty continues to grow, where conflicts and diseases including HIV/AIDS have killed millions of people over the past decade, and where the capacities of often undemocratic forms of governments have been weakened even further by decades of structural adjustment policies imposed by the World Bank, the IMF and major donors. The world community has so far displayed a fair amount of concern and even some serious rhetoric, but precious little action. Currently, millions of Africans die each year because they are too poor to stay alive. They die in hospital wards that lack drugs, in villages that lack anti-malarial bed nets, in houses that lack safe drinking water, and in environments characterized by ignorance and lack of basic education.

Despite the rhetoric and self-interest surrounding calls for increased aid flows to Africa, the fact is that aid has not really worked for the continent. Many have argued that it has instead been used as a tool to impose development paradigms, expenditure and investment patterns and even forms and concepts of governance that have left Africa trapped in an aid syndrome which only begs for more development aid.ⁱ While the arguments for increasing the effectiveness of development aid may have some merit, the very existence of the aid trap and dependency demands more serious analysis and solutions.

In 2000 and before the attacks in New York and Washington, the international community led by the United Nations had already made important commitments to increasing aid to help ease poverty in the South. The Millennium Declaration issued by the UN a year before 9/11 called on all countries to “spare no effort to free our fellow men, women and children from the abject and dehumanizing conditions of extreme poverty.”ⁱⁱ In September 2005, the Special UN World Summit to review progress with respect to the Millennium Declaration reiterated the longstanding goal for the rich countries to devote 0.7% of their Gross National Income (GNI)ⁱⁱⁱ to Official Development Assistance (ODA)^{iv}.

In July 2005, leaders at the G8 Summit in Gleneagles, Scotland focused on Africa and climate change. They agreed to double aid to Africa and to eliminate outstanding debts of the poorest countries. The G8 nations will together increase aid to developing countries by around \$50 billion a year by 2010. Of this, at least \$25 billion will go to Africa. The G8 leaders also promised increased support for African peace keeping forces to help to deter, prevent and resolve conflicts in Africa, and pledged additional investment in education and the fight against HIV/AIDS, malaria, tuberculosis and other killer diseases.

Since this Summit, some limited but welcome progress has been made on debt cancellation for the poorest countries. The most important gain perhaps was the recognition that the poorest countries required 100% debt cancellation. The cancellation of the IMF debt is the first part of the deal struck by the G8 in 2005 to cancel debts owed by up to 40 of the world’s poorest countries to the World Bank, the IMF, and the African Development Bank. On 6 January 2006, the IMF cancelled the debts owed to it by 19 of the world’s poorest countries. This is likely to change the lives of millions of people. For these countries, 14 of which are in Africa, the deal is worth \$1 billion a year for 40 years. In Ghana the money saved is being used for basic infrastructure, including rural feeder roads, as well as increased expenditure on education and health care. In Tanzania, the government is using the money saved to import vital food supplies for those affected by drought. In Zambia, this reduction in its total stock of debt from \$7.1 billion a few years ago to \$500 million now is enabling the government to announce free basic health care, in a country where one in ten children die before their first birthday. Across Africa, lifting the burden of debt is allowing millions of dollars to be directed to fighting poverty instead of repaying rich countries. However, in one case, that of Nigeria, the ‘Paris Club’ group of creditors, dominated by the G8^v, also agreed to cancel \$18 billion of Nigeria’s \$30 billion debt in return for Nigeria repaying the remaining \$12 billion which constitutes 40% of the costs of the debt deal from its own resources during 2006. And while new conditions were not attached to this debt relief, the countries receiving it have already had to meet several years of harmful IMF and World Bank

conditions under 'stabilization' and 'adjustment' programmes, in order to qualify.

It is, however, extremely important to urgently address the problem of 'illegitimate' debts that countries incurred under military dictatorships and undemocratic governments, which were often used for purposes unrelated to poverty reduction. South Africa, which continues to repay \$22 billion of debt accrued under the apartheid regime, is a case in point. Likewise, the Democratic Republic of Congo and Kenya continue to pay back debts that were lent recklessly to unaccountable governments. In this respect, cancellation of almost two thirds of Nigeria's debt established an important precedent. The G8 must now discuss debt cancellation for a wider group of countries that are outside the HIPC initiative.

2. Development cooperation and the Millennium Development Goals

Why Aid for Africa?

In theory, international aid should redress capital deficiencies (financial, physical and human) in poor nations as well as boost local demand and supply. The reality, however, is that aid is driven by other motivations. We consider the following issues that have been the subject of considerable debate:

- International aid is integral to donor countries' development cooperation policies, which in turn are defined by their foreign and security policies. Certain 'motivating factors' on the part of donors does undermine ownership, and therefore the sustainability of the African development process.
- Donors use aid to create and foster the impression among recipient countries that it can help them but it has failed to improve the situation of people living in poverty; it has rather promoted the interests of donors.
- Some politicians and business people in donor countries promote aid out of self-interest, in terms of securing foreign policy influence, constituency support or commercial benefits.
- Some aid officials and NGOs are also self- interested, in terms of career and financial opportunities. Some are guided by genuine humanitarian instincts or solidarity.
- African countries are compelled to accept aid because of their continued weakness and economic vulnerability, and their urgent short-term needs.
- The economic justification for aid is based on a perceived inherent lack of capacity of the African continent to rescue itself from the quagmire of poverty and crisis.

- International aid and the conditions attached to it have undermined decades of collectively negotiated governance processes in Africa, destroying the values that held societies together in favor of outsider definitions of leadership and development. Aid is not, therefore, the appropriate vehicle to enforce 'good governance' on the continent.
- Measures introduced by the International Monetary Fund (IMF) and the World Bank, such as Structural Adjustment Programmes (SAPs), the Enhanced Structural Adjustment Facility (ESAF) of 1987, the Heavily Indebted Poor Countries (HIPC) Initiative, the Poverty Reduction and Growth Facility (1999) and recently the Poverty Reduction Strategy Papers (PRSPs) have failed to achieve their objectives. The impoverishment of the majority of the world's inhabitants has continued apace. There is growing consensus on the failure of the policies of the IMF and the World Bank to reduce poverty and on the need for alternative policies that make a real difference to the lives of people living in poverty.
- Civil society organizations (CSOs) in the recipient countries also expect donor aid to alleviate poverty and lead to sustainable development.
- Both aid and debt are working as instruments of control and domination of African countries by developed countries. Debt servicing has drained public budgets, leaving aid investments without adequate support in the form of counterpart funds and additional domestic resources to operate and maintain facilities.
- Unsustainable debt and aid are the products of an aid regime that is driven by imbalances of global power. Debtor countries need to take more proactive positions and demand that donor countries use all aid to write off all loans to poor nations. A zero-debt-crisis development option is now required. There should therefore be 'No Aid, No Debt'.
- The public who pay the taxes that fund aid often express their wish that it should be directed at poverty reduction and self determination.
- Donors expect aid to induce governments to adopt policies and programmes that lead to improved economic performance as well as facilitate the implementation of such programmes

Despite the recent focus on good governance as a condition of aid, there is the argument which suggests that the whole aid system undermines good governance. Many in Africa believe that aid has tended to enrich the political and economic elite, to strengthen central, as opposed to local, government institutions, to benefit men more than women and children, and urban more than rural areas. In so doing, it has increased polarisation among different groups in society.^{vi} Again, as noted by the World Bank, 'a typical poor country receives 90% of GDP through international aid, but the poorest quartile of the population

consumes only 4% of the GDP and aid reaches less than 10% of the African population. ^{vii}

There are those who are also arguing that development aid has undermined Africa's own development ideas. Initiatives that have been thwarted include: the Lagos Plan of Action of 1980; the Alternative Country Plans developed by Zambia and Tanzania when they broke relations with the IMF in the mid 1980s; the UN-led African Alternative to Structural Adjustment of 1989. These and other programmes, through which aid recipients tried to develop and formulate new development agendas, promoting African self-reliance were not taken seriously. They were denied development finance in favor of SAPs, which have been disastrous for Africa. These issues must be fully addressed if Africa is to break the impasse of its underdevelopment. In countries such as Tanzania and Zambia, the failure of aid (among other things) to address development problems has led to calls for more aid which, instead of addressing the problems, has perpetuated dependency. Developmental benefits could have been achieved if aid had been well-directed, especially towards enhancing local productive capacity and stimulating local demand for goods and services. Africans are becoming increasingly aware of the underlying factors that prevent aid being as effective as they have been led to believe it would be.

Aid and the Millennium Development Goals (MDGs)

In December 2005, the UN General Assembly agreed that pledges made at the 2002 Monterrey Consensus on Financing for Development would be reviewed in 2008^{viii}. The Monterrey Consensus did not only launch new aid commitments by several donors (the European Union, the US, and Canada), but also committed UN member states to the MDGs. The MDGs are important steps which would indicate progress in meeting the international community's commitments to economic, social and cultural rights. These goals aspire to bring greater poverty focus to ODA in efforts to halve the proportion of people living in absolute poverty and hunger as well as to achieve several social development goals by 2015. The MDGs are important steps which would indicate progress in meeting the international community's commitments to economic, social and cultural rights. In the lead-up to the September 2005 UN World Summit, the UN Millennium Project estimated the additional financing gap needed to achieve the MDGs to be \$46.6 billion for 2006, rising to \$73.5 billion by 2015.

With respect to the achievement of the MDGs, 42 of the 47 countries in Sub-Saharan Africa are considered off-track for half of the targets and 12 countries for all of the targets. Many of the MDGs are considered to be "simply unrealistic for many countries" where the world community is "asking [them] to perform at the top end of the world's historical experience of the best performers of the last 50 years". The rate of growth expected of Sub-Saharan Africa, after a decade of very

marginal growth, has in fact only been accomplished by 5 developing countries in the world in the past 15 years. In primary education, for example, the expectation is progress at a rate over 11 years that took rich countries close to a century.

Some studies conclude that the emphasis should not be on whether a country is failing to meet a target, but on its obligation under international human rights law to make maximum sustained progress against poverty. Aid can play a role, but there are other critical policies such as debt cancellation, eliminating IMF and World Bank structural adjustment conditionalities, democratic governance, gender equality, fair trade and more equitable international institutions that set limiting parameters for this progress. MDG Goal Eight, focusing on North South development partnership, with its weak targets, bias towards trade and investment liberalization, and lack of timelines, fails to deliver much hope in many of these important areas.

A more effective approach to ending poverty is one that stresses universal human rights obligations as guiding principles for the policies of all countries and the multilateral system. Countries with the resources and power to shape the international system have a particular obligation to structure these policies so that poor countries and poor people can maximize progress in realizing their rights guaranteed by international law. Without such an approach, progress is likely not to exceed historical patterns of slow improvements for many countries. Incremental advances, assisted by large aid infusions, will be accompanied by growing inequality at global and national levels as a result of the continuance of Northern-driven liberalization policies in trade and investment, which potentially create conditions for a reversal of progress in later years.

Unfortunately, the MDGs are largely silent on basic issues of citizens' civil and political rights, empowerment and improved equality (non-discrimination). While the MDGs express concrete goals, they nevertheless ignore the politics inherent in working for their achievement in many countries. The freedom to exercise political and civil rights is crucial to the realization and defence of economic, social and cultural rights. Underneath the concept of participation which is prominent in the discourse of many development actors are a series of internationally guaranteed rights: freedom of association (including access to information), freedom of the press, freedom of association and assembly, and the right to participate in public affairs.

3. The Issues with Debt Cancellation - will it be making a difference?

As noted earlier, Northern countries have now accepted that the poorest countries required 100% debt cancellation. Unfortunately, this recognition comes

with many strings attached. In September 2005, the governing bodies of the World Bank and the IMF approved a debt cancellation package for a select 18 developing countries that have completed their intensive HIPC (heavily indebted poor countries) conditionalities with these institutions. This package covers approximately \$40 billion in debt for the initial 18 countries (and with a further 20 countries possibly eligible in the future, this amount could increase), at a cost of more than \$10 billion to donors over the next 10 years, all of which will be eligible as ODA.

As already mentioned, Nigeria's creditors agreed to cancel \$18 billion or 60% of Nigeria's outstanding debt in October 2005. However, to receive this cancellation package, Nigeria had to agree to pay its creditors, the richest nations in the world, \$12.4 billion in debt servicing arrears within the next few months, a sum far greater than the benefits from the September debt deal for Africa in the next decade.^{ix}

Donors will be counting significant additional amounts of debt cancellation as ODA in the next several years. CSOs have long called for comprehensive unconditional debt cancellation for more than 50 of the poorest indebted countries as a foundation for sustainable poverty reduction. Resources are available within the International Monetary Fund and the World Bank to cover a substantial portion of this cancellation. Where donors contribute bilateral funds to pay off the full value of debt cancelled, only a small part of this cancelled debt each year relates to the annual savings by the indebted countries for the service payments that they were actually making at the time of cancellation. This latter amount is the real contribution to new resources for developing countries from debt cancellation. As it stands now, donors will be able to meet a major part of their commitments to future aid "increases" with little of these paper increases actually available to meet the needs of the poor. CSOs have long call for debt cancellation to be additional to ODA.

The Gleneagles G8 Summit in Scotland in July 2005 signaled an aid increase of \$50 billion per year by 2010, with increased attention to urgent development needs in Africa. The September UN Summit acknowledged these aid increases, and world leaders renewed their commitment to meet the MDGs, with particular attention to women's human rights. It is important to note, however, that in spite clear evidence that the MDG target on eliminating gender disparity in primary and secondary education by 2005 has not been met, donors did not make new additional commitments to reach the MDGs. The 2006 DAC Development Cooperation Report notes the collective failure shared by all countries to meet the 2005 target on gender equality. It is becoming more apparent that at least some of these commitments for timetables to increase aid are rather dubious. With a continued focus on the "war on terrorism" as well as large debt cancellations for

Iraq and Nigeria, there is a real danger that a significant part of the \$50 billion in additional aid will not reach Africa and the poorest countries.

The PRSPs and what difference will aid cancellation make with this?

Much of donor aid to Africa remains highly conditional on African governments' complying with donor policy prescriptions and terms that undermine these governments' accountability to their citizens. The UK-sponsored Commission for Africa noted that aid to Africa "is accompanied by many onerous conditions that are often of dubious value," which have increased under IMF-World Bank approved PRSPs. There is ample evidence showing how conditionalities weaken the effectiveness of foreign aid. As noted in the Reality of Aid 2002 Report, "conditionality defeats the objectives of development cooperation because it enhances the inequality in the aid relationship. In many cases, it is contrary to the objectives of development for the recipient country and it abets the lack of accountability, undemocratic governance, and even corruption."^x

With the IMF/World Bank lending programmes now focusing on poverty reduction, this approach, built on the principles of the Comprehensive Development Framework^{xi} implied that countries would design their own development strategies focused on poverty reduction as well as compile a Poverty Reduction Strategy Paper (PRSP). In principle, PRSPs were a) to be developed in a participatory way, b) to be nationally owned and c) to lay out a policy framework and agenda for tackling poverty.^{xii}

The key element of the new approach was the focus on poverty reduction in the administration of the

Enhanced HIPC Initiative, which was to grant deeper and quicker debt relief as well as pave the way for new grants and soft loans for the HIPC countries.^{xiii}

One of the main features of the enhanced HIPC is the mandatory requirement of eligible countries to prepare a PRSP. Most African countries have for a long time drawn up their own homegrown Poverty Reduction Strategies (PRS) as long-term planning tools based on local priorities and aspirations. The PRSP is an innovation in internationally financed development initiatives, born out of recognition of the inadequacy of previous initiatives to address the core problem of poverty, given that people living in poverty had not been part of the process to address it. In preparing the PRSP, governments are expected to show clearly the links between macro-economic policies and agreed international social development goals to be reached by 2015.

Most analysts have questioned the effectiveness of PRSPs. This is because the primary objective of the enhanced HIPC of granting deeper and quicker debt relief has not materialised. PRSPs are meant to be country-driven, prepared and

developed transparently with the broad participation of civil society. This is intended to allow for identification of local priorities and needs and making choices based on thorough debates, dialogue and consensus building. In practice, however, effective decision-making, veto power and the 'seal of approval' still remain with the International Financial Institutions (IFIs) who dictate what PRSPs should contain. Moreover, because HIPCs want debt relief and future concessional loans as soon as possible, they are compelled to make sure the strategies meet IMF and World Bank expectations. The PRSP process should normally be led by Government and must involve civil society. It should also be coordinated largely by donors who would provide budgetary support rather than fund projects. National actions and international cooperation and commitments would therefore facilitate the achievement of the various goals. However, there are inconsistencies which show that the broad macroeconomic objectives of most countries that have been involved in the process are inconsistent with the poverty reduction goals. One of the reasons for this inconsistency is the tension between the desire to provide debt relief quickly and the lack of a proper poverty reduction framework. Debt relief must therefore be de-linked from the PRSP process and a consensus and commitment reached by both donors and recipients that resources freed through debt relief be directed towards social development. The exclusive role of monitoring poverty reduction programme performance should be given to a wider constituency, including civil society as well as the World Bank, IMF and UN agencies

4. The aid/debt synergy

Will \$50 billion be granted annually by 2010?

We have already noted that the Gleneagles G8 Summit in Scotland in July 2005 pledged an aid increase of \$50 billion per year by 2010, with increased attention to urgent development needs in Africa. Much of this money had in fact already been committed, and 25% of the increase is from non-G8 donors. Even so, substantial new sums were promised, of between \$15 - 20 billion annually by the end of the decade.

These G8 promise include:

- An EU wide commitment to raise aid spending to 0.56% of national income by 2010, worth some \$38 billion, with at least half going to Africa.
- An EU commitment to build on this, and reach the UN aid target of 0.7% of national income by 2015 (and 2013 in the case of the UK).
- A proposal from the US to double aid to Sub-Saharan Africa, as part of a \$5 billion increase.
- An increase in Japanese aid of \$1 billion in 2006, rising to \$3 billion extra in 2010.

- A doubling of aid from Canada from 2001 worth \$1.5 billion extra by 2010.

If all these promises are kept, then by 2010 the rich countries will collectively be giving 0.36% of their income in aid, which means they will be halfway to reaching the UN aid target of 0.7% which they agreed in 1970. Secondly, on aid effectiveness, the G8 promised to substantially improve the quality of its aid, and ensure that it leads to sustainable benefits for poor people. In particular, the Gleneagles communiqué acknowledged that the conditions attached to aid have often failed or proven counterproductive when it recognized the right of developing countries to, “decide, plan and sequence their economic policies to fit with their own development strategies”^{xiv}. Likewise, the G8 recognized the need to allocate aid on the basis of need when it pledged to focus on low income countries committed to growth, poverty reduction and good governance. Finally, they committed to implement and be monitored on the aid effectiveness targets for 2010 which they adopted at the Paris High Level Forum in March 2005. These targets do not address either ‘tied aid’, the practice of requiring aid to be spent on goods and services from the donor country, or the removal of economic policy conditions from aid programmes. Nonetheless, if implemented these targets would have a significant impact on the quality of aid.

However, given the trends in development cooperation as we see it today, it is highly unlikely that \$50 billion will be granted by 2010. The UN and international civil society organizations have issued ambitious calls for global finance that current commitments will certainly fall short of. Millennium Goal Eight calls on donors to commit to “more generous aid for countries committed to poverty reduction.” However, the early signs on aid volume are not encouraging. In 2005, 85% of the aid increase showing up in donors’ accounts was the result of the write-off of Iraqi and Nigerian debt – in the case of the UK, over one third of all aid in 2005 was the result of these deals. ^{xv} Excluding debt cancellation and tsunami related emergency aid, between 2004 and 2005 global aid increased by 7%, putting donors behind schedule in terms of providing an additional \$50 billion by 2010.

Given the current trends, it is highly likely that debt cancellation will continue to account for most of the rise in aid until 2008. Because most of this debt was not being serviced, the headline figures are misleading –only a small proportion of the rise is a genuine resource transfer to African countries. The upshot is that, when the debt-related spike in aid figures has passed, donors will face the challenge of increasing their real ‘cash’ spending on aid dramatically in the space of just two or three years.

The challenge is greatest for countries such as Germany, which must more than double its aid by 2010 to meet the EU target, and Italy, which must almost triple it. These countries and others urgently need a year-by-year road map for progress towards 0.56% if the promise is going to be kept and the aid spent effectively. Yet at present, these countries are not meeting expectations. Even in the UK, where the government has publicly committed to reaching the target, the underlying rate of increase in aid, once debt relief is excluded, is insufficient. Although the Department for International Development (DFID)'s core departmental budget has increased significantly, by itself this accounted for less than half of the overall aid spend in 2005.

On 'better aid', the G8's performance again falls far short of what is needed. Although the UK government committed to ending harmful policy conditions in 2005, and the G8 communiqué echoed this language, other rich countries have been reluctant to cut the strings they attach to their aid. So far, no other G8 member has followed the UK's example, or pressed for significant reform of the World Bank and IMF's own use of conditions.

What needs to happen next?

The donor countries still have sufficient time to deliver their promises, provided they act now to set concrete plans for doing so. To date progress has been mixed: Japan still has no clear timetable for disbursing the \$10 billion extra aid over five years pledged at Gleneagles; there has been no clear indication that Canada will increase aid in the budget of the new Canadian government; and in the EU, Italy and Germany have yet to provide details as to when they will meet their pledges. The coming months provide a narrow window in which to address these issues.

In terms of the 'better aid' agenda, donor progress has been similarly halting and patchy. In particular, donors need to act on the pledge in the Gleneagles communiqué and change their aid policies to remove harmful conditions attached to the disbursement of aid. At the moment, some countries, led by the US, are actually pushing for greater levels of conditionality due to concerns about corruption, although Germany has made more recent progressive statements.

War on terror remains chief priority with the US spending \$8bn a month in Iraq alone
Simulations made by the Development Assistance Committee (DAC)^{xvi} Secretariat show that the performance of US ODA will not improve between 2006 and 2010, remaining at 0.18% of its GNI by 2010. To meet the G8 Summit commitment to Africa and other donors, much of the load will have to be carried by European Union donors, which promised to increase ODA from the 2004 level of 0.35% of GNI in 2004 to a projected collective average of 0.56% in 2010. Meanwhile U.S. military and security/ anti-terrorism budgets have been

expanding considerably. While donors grudgingly commit new resources to ODA to fund the MDGs, money is readily available to fund military and strengthened security for counter-terrorism. The United States has often been regarded as the most unwilling among the donors to make concrete future pledges for the global fight against poverty as it continues to spend tens of billions of dollars to finance its military operations in Iraq, Afghanistan, and other regions. Based on the latest available comparative data in 2003^{xvii}, the U.S. spends 76 times more for its war in Iraq compared to its total ODA for health; 196 times more compared to education, and 480 times more compared to water supply and sanitation, all critical sectors for achieving the MDGs. While the U.S. military budget greatly exceeds that of all other industrial countries, these latter countries still devote considerable resources to their military. Global military spending in 2004 for the first time exceeded \$1 trillion.

5. Some policy considerations and recommendations

Africa definitely needs aid. However, the form that this aid takes and what alternatives are available is now the issue. As a continent, Africa will have to look at the process of accessing or receiving aid, the management of the process and the ultimate outcome. Africa must accelerate reform. And the developed world must increase and improve its aid, and stop doing those things which hinder Africa's progress. The developed world has a moral duty – as well as a powerful motive of self-interest – to assist Africa. We need to change the aid regime to a 'win-win' situation in which the giver and the recipient are satisfied and ultimately contribute to Africa's development. As Africans we need to define what we mean by our own development, set our own agenda and then give the donor countries our prescription. We need a new kind of partnership – that is a new kind of development, based on mutual respect and solidarity, and rooted in a sound analysis of what actually works.

If aid is to continue:

- We the Africans should be part of the systems that govern aid.
- We as aid recipients should be able to manage the processes of the aid regime.
- The issue of conditionalities and ownership should be addressed by the giver and the receiver being open to each other.
- For the sake of ownership, we as recipients should be involved in the proposals for development aid. The same should be done for the conditionalities.

We need an urgent fresh start at the international level with all the participants in the process having an equal opportunity, notwithstanding the fact that the playing field is not level. We also have to live within our means and be aware of

the limitations and have these addressed, at the same time being mindful of our depleting resources while maximizing our opportunities. As a continent, we as Africans need to be more productive and use resources more efficiently, by redirecting aid to development, concentrating on that which we can do best and having systems that are home-grown and sustainable. We must also reduce Africa's dependence on aid. One way to do this is to adhere to conditions that uphold traditional systems, patterns of governance and justice, strengthening positive aspects of our cultural heritage and discarding negative and harmful ones as well as upholding the values of social capital. External influences should be compatible with citizens' aspirations. Participation should mean that citizens are consulted on a regular basis, their voices heard in making policies and decisions that affect them. They should be able to exercise as much as possible their internationally guaranteed rights. The process should encourage consensus to build a sense of belonging and ownership.

Participation of all should be embedded in our development strategies. Assigning of roles and responsibilities to different parties in the public sector will help ensure that there is accountability and ownership of the process. More emphasis is needed on micro-level issues, especially the improvement in the social sectors and in poverty reduction. Improved governance and management of aid within governance and civil society organizations will mean there is efficient use of resources. Competence and a good understanding of the conditions and conditionality put forward by donors will enable us Africans to reject what we see as damaging. A well-versed consortium of aid recipients is needed to lobby and push forward a collective agenda and common position on external aid. This consortium should have the capacity to negotiate for resources and get more appropriate responses from donor agencies for better conditions that will address the strategic needs of the peoples of the recipient countries. They should also go with demands that range from civil and political rights to public goods and services, and other rights and freedoms. Attention should also be paid to other aspects of poverty that do not necessarily depend on economic growth. This would go with the ability of recipient governments to initiate programmes that are pro-poor and of CSOs to intensify the role of safeguarding the citizens.

Donors should be consistent when they apply conditionality for aid; the current inconsistencies make them suspect and expose their socio-economic and political strategic interests, which in most cases are to their own benefit. If the sovereignty of the African continent is to be restored and poverty attacked meaningfully, the synergy between debt and aid needs to be better understood, with positive aspects being strengthened, while negative ones are done away with. Both debtor and creditor countries should work towards strengthening the UN System and establishing other global governance institutions, such as the Global

Central Bank, a Global Investment Trust and Transfer Mechanism and a fairer WTO, as suggested by the UNDP Human Development Report in 1999. Within Africa, there is the need to be frank about corruption, incompetence and conflict in the continent

In the light of the above, we make the following specific recommendations:

(a) All developed countries must increase their development aid to the level of 0.7% of their Gross Domestic Product (GDP) as agreed upon internationally. For poor countries in sub-Saharan Africa which need it, the objective must be 100 per cent debt cancellation as soon as possible. This must be part of a financing package for these countries – including those excluded from current debt schemes – to achieve the MDGs.

(b) The democracies in Africa – South Africa, Nigeria, Senegal, Botswana, Zambia and Tanzania and others must join together to issue a call for action to overcome deficiencies rapidly in the short to medium-term.

(c) Debtor countries should form a Debtor Cartel to repudiate loans and establish the basis for a more equitable and democratic framework to negotiate debt and aid exit mechanisms, as well as aid/debt trade-off mechanisms.

(d) Donor/creditor countries should use all aid to write off all loans to poor nations and so create a zero debt-crisis development option: ‘No Aid, No Debt’.

(e) Donor countries should reduce and eliminate trade barriers to manufactures of poor countries, to increase their external viability in the context of fair trade.

(f) New global mechanisms to redistribute financial resources from the richer to the poorer regions of the world, such as a global tax on currency transactions should be developed under the UN system to replace current aid regimes.

(g) HIPC debt relief must be de-linked from the PRSP process. Real national ownership of poverty reduction frameworks can only happen if the threat of ‘conditionality’ by the IMF and the World Bank is removed from the backs of vulnerable governments. Linking debt relief to the preparation of the PRSP removes the ‘autonomy’ of countries to come up with a framework that clearly makes the connection between macroeconomic policies and poverty reduction goals. This requires time, research, and exhaustive consultation with broad sectors of their populations.

(h) The IMF Poverty Reduction and Growth Facility (PRGF^{xviii} formerly ESAF) should be abolished, since it is merely a financing facility paid for by bilateral

donors to clear up the debts owed by HIPC governments to the IMF. The Fund can clear up debts owed to it through gold sales (revaluation process) rather than through voluntary contributions from bilateral donors. Bilateral resources going to the PRGF should instead go to the African Development Fund and the African Development Bank for the institution to foster African development.

(i) The African Development Bank needs to be strengthened and the role of the Economic Commission for Africa enhanced. The IMF and the World Bank must be reformed, so that they can give higher priority to Africa's development. They should not be used as debt collection agencies for the big creditor countries, but should have their roles restored in helping all the 182 of their member countries, not just the rich ones, in the pursuit of enlightened globalization. They also need to become more accountable both to their shareholders and to their clients, and to give Africa a stronger voice in their decision-making.

(j) The United Nations should establish a fair and transparent arbitration mechanism on debt. Such structures as the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards, the Permanent Court of Arbitration (PCA) in The Hague and the United Nations Commission on International Trade Law could have their mandate expanded to include arbitration on debt and insolvency laws. In addition, UN specialized agencies have a core role to play in the ending of poverty. It is time to empower the U.N. Children's Fund (UNICEF), the World Health Organization (WHO), the Food and Agriculture Organization (FAO), the United Nations Development Programme (UNDP) and many others to do the job on the ground, country by country.

Notes

ⁱ As was acknowledged in the New African Initiative, the limit of donor driven debt relief initiatives has now been reached. A new partnership in the international community is required to ensure that Africa removes itself from the dependency syndrome that the aid regime imposes.

ⁱⁱ The Millennium Declaration was adopted by 189 Member Nations of the UN on September 18 2000. The Millennium Declaration outlines the signatory countries' commitment to achieving the Millennium Development Goals (MDGs). The MDGs include: (1) Eradicate extreme poverty and hunger, (2) Achieve universal primary education, (3) Promote gender equality and empower women, (4) Reduce child mortality, (5) Improve maternal health, (6) Combat HIV/AIDS, malaria and other diseases, (7) Ensure environmental sustainability, and (8) Develop a global partnership for development. For more details about the MDGs, please visit www.un.org/millenniumgoals/index.html.

ⁱⁱⁱ Most OECD countries have introduced a new system of national accounts which has replaced Gross National Product (GNP) with GNI. As GNI has generally been higher than GNP, ODA/GNI ratios are slightly lower than previously reported ODA/GNP ratios.

^{iv} Official Development Assistance is what is often referred to as aid, of which at least 25% must be a grant. The promotion of economic development or welfare must be the main objective. It must go to a developing country as defined by the DAC.

^v The Paris Club is an informal group of financial officials from 19 of the world's richest countries, which provides financial services such as debt restructuring, debt relief, and debt cancellation to indebted countries, and their creditors.

Its members include Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, Norway, Russia, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

^{vi} See the Commission for Africa, *Our Common Interest*, London: Penguin Books, 2005

^{vii} The World Bank, *World Development Report*, 2005.

^{viii} The Monterrey Consensus was the outcome of the 2002 Monterrey Conference, the United Nations International Conference on Financing for Development. It was adopted by Heads of State and Government on 22 March 2002. Over fifty Heads of State and two hundred Ministers of Finance, Foreign Affairs, Development and Trade participated in the event. Governments were joined by the Heads of the United Nations, the International Monetary Fund (IMF), the World Bank and the World Trade Organization (WTO), prominent business and civil society leaders and other stakeholders. New development aid commitments from the United States and the European Union and other countries were made at the conference. Countries also reached agreements on other issues, including debt relief, fighting corruption, and policy coherence. Since its adoption the Monterrey Consensus has become the major reference point for international development cooperation.

^{ix} It should be noted that this is happening in a country where more than 80 million people live on less than US\$1 a day.

^x See *The Reality of Aid 2002 Report, An Independent Review of Poverty Reduction and International Development Assistance, The Reality of Aid Project*, Edited by Judith Randel, Tony German and Deborah Ewing, Development Initiatives, IBON Foundation, Inc., Manila.

^{xi} The Comprehensive Development Framework is an approach by which countries can achieve more effective poverty reduction. It emphasizes the interdependence of all elements of development - social, structural, human, governance, environmental, economic, and financial. It encompasses a set of principles to guide development and poverty reduction, including the provision of external assistance. The four CDF principles are:

- Long-term, holistic vision
- Country ownership
- Country-led partnership
- Results focus

The CDF is essentially a process: it is not a blueprint to be applied to all countries in a uniform manner. It is a new way of doing business, a tool to achieve greater development effectiveness in a world challenged by poverty and distress. In the short run, the CDF establishes mechanisms to bring people together and build consensus, forges stronger partnerships that allow for strategic selectivity, reduces wasteful competition, and emphasizes the achievement of concrete results. It will help donors become more selective in what they do. In the long run, the CDF enhances development effectiveness and contributes toward the central goal of poverty reduction and reaching agreed targets such as the Millennium Development Goals.

^{xii} . In terms of their principal defining characteristics, PRSPs: (a) Are summaries of comprehensive, long-term development plans drawn up in a participatory manner to reduce poverty, and including a diagnosis of the causes of poverty, prioritization of public policies to reduce poverty, targets for selected intermediate output and outcome indicators, and monitoring and evaluation systems; (b) Are a requirement for debt relief under the enhanced HIPC Debt Initiative when endorsed by the IMF and the World Bank Executive; (c) Set out how money saved through debt relief and received from grants and soft loans will be spent on poverty reduction.

^{xiii} The Boards of the IMF and World Bank approve a country's PRSP before a lending programme is agreed. They would accept a PRSP on the basis of the coherence of the policy strategy, which is assessed in terms of its objectives and policy content, and would review the extent of governments' consultations with civil society and how governance issues are addressed.

^{xiv} See the Summit documents – G8 Gleneagles 2005 on www.g8.gov.uk

^{xv} Although the financing gap has been reduced by the renewed focus on aid targets and timetables, and the commitments made in 2005 to achieve the 0.7 percent target, the G8 countries are currently off-track to reach this target, and are failing on key steps to reform aid. The U.K is off-track to reach the 2010 European target of giving 0.56% of national income in aid, once debt relief is excluded. Ireland has already reneged on its 0.7% by 2007 commitment and pushed its target date to 2012. Japan, meanwhile, has effectively reneged on its \$10 billion commitment made at the G8 Gleneagles meeting for new aid money for Africa to 2010. As the countries furthest from the target, Germany, the US, and Italy must meet the lion's share of the G8 aid increase, yet are dragging their heels on their pledge.

^{xvi} The Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD) is a forum for consultation among 21 donor countries, together with the European Commission, on how to increase the level and effectiveness of aid flows to all aid recipient countries. The member countries are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, UK, and USA. DAC sets the definition and criteria for aid statistics internationally.

^{xvii} See The Reality of Aid Report 2006, Focus on Conflict, Security and Development Management Committee The Reality of Aid, IBON Books *Quezon Cit, Philippines*, Zed Books, London

^{xviii} The Poverty Reduction and Growth Facility replace the Enhanced Structural Adjustment (Loan) Facility (ESAF) and is the name given to the IMF Loan Facilities to developing countries.

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