Donald Kaberuka acknowledges that over the past 50 years, development policy has come a long way and that it continues to evolve – with diverse goals, players and instruments. This chapter looks at the development aid experience in Africa to draw out some of the lessons, and suggests ways forward.

In many ways, Africa has been a test-bed over the past five decades, reflecting shifts in donor policies and practices as well as changes in the geopolitical climate.

Looking forward, Kaberuka stresses that development is about much more than aid: development co-operation – true partnership – requires dialogue and participation among recipients, traditional and non-traditional donors, and the private sector. He concludes that development aid – and the OECD Development Assistance Committee (DAC) – still have a key role to play in Africa.
In many ways, Africa has been a test-bed for development aid over the past 50 years, reflecting shifts in donor policies and practices as well as changes in the geopolitical climate. Overall, the impact has been positive, although difficult to quantify in isolation from other factors. Development co-operation beyond aid still has a positive role to play in Africa. This chapter provides an overview of these five decades draws out some of the lessons learned and suggests ways forward.

Development aid policy

Development policy has evolved and continues to do so. At first, aid was seen as post-colonial and temporary. It focused initially on external infusions of essentially bilateral finance in support of a development model assumed to follow a path of government-led industrialisation. When it became evident that this was not reducing poverty as expected – and had not necessarily led to better health or education – the focus shifted towards more direct socioeconomic targets. An increasing amount of aid began to be directed to the social sectors and to responses to humanitarian and emergency needs, with many bilateral donors reducing their allocations to agriculture and infrastructure.

In the 1980s and 1990s, however, African debt exploded in the face of high interest rates. The donor response was macroeconomic and conditional: it was agreed to subject debt relief to stricter policy prescriptions, insist on structural adjustment and look for reductions in the role of the state and state enterprises. This became known, in short, as the Washington Consensus. To address the debt burden of many African countries and reduce it to long-term sustainable levels, the Heavily Indebted Poor Countries (HIPC) Initiative was agreed in 1996.

Despite these efforts, limitations remained. It was apparent that effective development required a strong governance and institutional foundation. In response, aid was to be concentrated on supporting those countries considered to be good performers. But this resulted in “donor darlings and orphans”, neglecting fragile and failed states and their impact on their neighbours.

More recently, much of the donor discourse has been about making aid more effective and achieving results. For the first time in history, with the Paris Declaration on Aid Effectiveness in 2005, benchmarks were set for donor practice; these were reviewed and updated in Accra in 2008, resulting in the Accra Agenda for Action.

Over the same period, policy has been supported by successive quantitative development targets, but has clearly not been driven by a commitment to achieve them. The United Nations (UN) General Assembly agreed in 1970 that economically advanced countries should increase their aid and make their best “efforts” to provide 0.7% of gross national income (GNI) by the middle of the decade. The Monterrey Consensus in 2002 called for donors to “make concrete efforts” towards this target. Nonetheless, to date, this target has been reached by only a handful of donors.
Although there was a steady increase in aid to Africa until the early 1990s, this was followed by almost a decade of decline, which picked up rapidly this century as disbursements of debt relief were brought to book (Figure 3.1). In recent years, successive G8 Summits have made or reaffirmed pledges to provide more support. In particular, at the Gleneagles Summit in 2005, the G8 promised to double aid to Africa by 2010. Political pressure has maintained this relatively high level of commitment, although delivery has fallen well short of the targets agreed.

Multilateral aid arguably provides for a more equitable distribution of aid, based on transparent criteria that are free from national political preferences. Nonetheless, as a proportion of total aid it has grown slowly, from about one-fifth in 1970 to one-quarter by 1985, hovering since then at around one-third.

At the same time, there has been a massive increase in the number of development actors, including bilateral, multilateral, non-governmental and philanthropic organisations. We have seen the development of more diverse goals, more players and more instruments, with the introduction of more vertical initiatives and funds initiated by donors. Despite this, the choices for developing countries have not increased: country programmable aid (CPA) – the programmable portion of aid that supports national development priorities – excluding technical assistance, has remained steady at 41% of donors’ gross bilateral aid during the past decade.

This simplified snapshot underlines the fact that the main shifts in policy as well as in the allocation and composition of aid have been determined essentially by the suppliers, notwithstanding rhetoric around respect for country ownership and priorities. Donors, of course, have legitimate interests and are answerable to their own taxpayers; but the results are often confusing and sometimes contradictory. Nor is there any certainty about what works best. Africa, therefore, has had to adapt and respond, and managing this complexity remains a major task. It is evident that there is no one development strategy that will fit all; Africa is a huge and very diverse continent of 54 countries.

"... there has been a massive increase in the number of development actors, bilateral, multilateral, non-governmental and philanthropic organisations."

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**Figure 3.1. Net official development assistance to Africa by donor (Constant USD 2009 billion)**

![Net official development assistance to Africa by donor](http://dx.doi.org/10.1787/888932512119)

The global context

The political context for development aid has also evolved over time, reflecting the broader interests of state actors. Political interests determined the allocation and the composition of aid, as well as the tying of aid finance to supply from the donor country. In the early years, Cold War competition between East and West was manifest, each side seeking influence in Africa – for example, in the Democratic Republic of the Congo (DRC), Ethiopia and Somalia. This changed with the fall of the Berlin Wall, as evidenced by the drop in aid from major donor countries in the 1990s.

Globalisation and financial liberalisation have brought a greater sense of interdependence to the world, with the financial crisis vividly demonstrating how quickly contagion can spread. Today, there is recognition that no country is immune; even the least integrated continent – Africa – was affected. Previous policy prescriptions about the role of the market and the nature of the developmental state have been called into question.

Most recently, the turmoil in North Africa has turned the spotlight to the need for shared and inclusive growth, for job creation and for more voice and accountability.

Undoubtedly, however, the biggest shift in the landscape has been the rapid and continuing economic rise of Brazil, Russia, India, China and South Africa (BRICS), in particular China. Although seen as “new donors”, India and China in particular have had a long engagement with and in Africa. Together with Brazil, they are now major trading partners for Africa. Their imports of minerals and raw materials from Africa have multiplied over the past decade – Brazil’s trade, for instance, has multiplied six-fold. And African exporters have benefitted from the increase in commodity prices. BRICS investment in Africa continues to increase, largely in the above-mentioned sectors, with increasing interest in technology transfer and South-South lesson-learning.

The 2010 G20 Summit in Seoul marked an important paradigm shift. Growth is now highlighted as the policy objective, with priority given to supporting the drivers of growth. There is recognition that progress depends on a wide range of factors and that it must be underpinned by wider coherence of trade, investment, aid, migration and domestic policy. Aid is no longer the most important flow to the majority of countries in Africa. It is only one element in a mix of financial flows: remittances, trade, and domestic and external investment. So Africa cannot rely on aid, but has to look for additional resources, unlocking entrepreneurship across the continent.

In the 1960s and 1970s, growth rates in Africa were not that different from Asia; but then Africa suffered almost two decades of stagnation. Nearly all African economies had large budget deficits, double-digit inflation and growing debt burdens; basic commodities were in short supply and poverty was rampant and growing. There was little external investment and much capital flight. Growth began to pick up again in the late 1990s until a decade of growth was temporarily checked by the financial crisis.

The results, measured against progress in Asia or against the Millennium Development Goals (MDGs), are disappointing. There has been real progress on some fronts: for instance, literacy rates have increased from 28% in 1970 to almost 60% today; and school enrolment has mushroomed. But too many African countries still remain low on the list of indicators of social development: of the 177 countries listed in the Human Development Index (Chapter 2), the bottom 35 are from sub-Saharan Africa.
But this does not mean that aid to Africa should be seen as simply a history of failure, of wasted money. Over the past decade, many countries have implemented much stronger economic policies – as shown by their control of inflation, improved public finances, current accounts and business conditions. At an average of 5.6% per year, Africa was one of the fastest growing developing regions immediately before the 2008 financial crisis. And by and large, macroeconomic stability has been maintained despite the increases in food and fuel prices. The policy and institutional reforms undertaken by most African countries have borne fruit, supported by increased aid flows and debt forgiveness.

Today, 26 out of 33 African countries potentially eligible for Heavily Indebted Poor Country/Multilateral Debt Relief Initiative (HIPC/MDRI) debt-relief assistance have reached the completion point, qualifying for irrevocable HIPC debt relief and MDRI debt cancellation. Under the HIPC Initiative, the World Bank Group has provided USD 2.9 billion (51.3% of the total USD 5.7 billion committed) in nominal terms to Africa. Generally, African countries have weathered the financial crisis well and are rebounding. Africa has demonstrated new-found resilience and the majority of African leaders have committed to maintaining their programmes of reform. Africa now has the potential to be a pole of growth.

There are numerous success stories to illustrate this progress at the project level, and overall, the rate of project success is positive. Performance at the country level has been variable across Africa and over time. But there are examples of sustained progress: for example, Botswana has been a model of sound policies and good governance; Rwanda has rebounded from genocide to stability and sustained annual growth; Guinea Bissau is graduating from the African Development Bank’s (AfDB) soft loan window and is now able to borrow more on less concessional finance.

Lessons learned

One stark lesson from the past 50 years is that there has not been enough attention to promoting integration. Africa remains poorly integrated into the global economy, accounting for about 3.5% of global trade. Africa’s 16 landlocked countries face an additional challenge, as they also depend on transport networks through coastal countries to connect with the rest of the world. Africa would benefit from better economic integration, not only with the world at large, but also within the continent. It is evident, for instance, that regional integration functioned as a “buffer” to the financial crisis, in particular in Eastern Africa.

Creating regional infrastructure hubs and pooling resources would unlock economies of scale and lower costs. But these are long-term projects, often fraught with political and technical difficulties and requiring sustained multi-year funding. Few donors provide significant resources for regional projects and even the multilaterals have had limited funds available.

The consensus is that growth in Africa will be private sector-led. Yet private sector development has received too little attention, with limited direct investment from most donors. Poor infrastructure – in particular inadequate and unreliable power supplies – continues to be a major factor hindering the private sector. Addressing Africa’s infrastructure gap would boost the continent’s economic performance and foster integration.
It is now well established that infrastructure boosts growth. Infrastructure improvements added about one percentage point to Africa’s \textit{per capita} economic growth from 1990 to 2005 – higher than the contribution made over the same period by macroeconomic stabilisation and structural policies. Bringing the region’s infrastructure up to par with the rest of the developing world, however, will require investing about USD 93 billion a year – or 15% of the region’s gross domestic product (GDP) – for the next decade. Only about half of this is currently covered. Traditional sources of finance will not be enough; innovation and reform are essential to generate more resources.

Fortunately, we have moved beyond the rather sterile initial debates on the comparative value of aid and trade, and on the use of mixed credits. Evidence shows that there are positive links between openness to trade and economic growth – provided, of course, there is the supply capacity. Unfortunately, successive rounds of multilateral trade negotiations have highlighted the difficulties that many low-income countries face in capturing the benefits from new market access and trading opportunities.

Trade preferences of OECD countries are important for Africa and have generated significant benefits. Estimates vary, but research suggests that the value of these preferences amounts to some 4% of beneficiary country exports – rather higher than the benefits generated by United States or Japanese preferences. The difference arises from higher preference margins, greater commodity coverage and less stringent rules of origin.

Mauritius offers a specific example of success. There, sugar exports at a price exceeding the world price allowed the country to diversify its industrial base, including by building a vertically integrated clothing industry capable of matching competition even from China. Similarly, African Growth and Opportunity Act (AGOA) preferences enabled Kenya, Lesotho and Swaziland to develop their clothing industries. European Union (EU) trade preferences permitted Botswana to build up its beef exports, and Kenya its horticultural exports to the EU. More recently, these preferences are being challenged with African countries being urged to liberalise their imports, but this is a risky undertaking for countries with a weak fiscal position reliant on trade taxes.

Public-private partnerships offer considerable advantages, although experience to date has been mixed. For instance, some 40% of water contracts involving the private sector have been cancelled before completion; rail concessions have also been fraught with miscalculations, unrealistic expectations and undercapitalisation. Rates of return in Africa have been high, but private investors often lack the local expertise and experience necessary to succeed. Mechanisms such as guarantees or co-investments with international financial institutions can help assuage the risks for private investors associated with investing in difficult environments. Innovative financial structures can also boost returns in projects otherwise not commercially attractive.

A clear lesson is that Africa has to look beyond external finance to meet its development needs. In practice, financial flows from other sources already outstrip aid, as shown in Figure 3.2.

It is understood that improving the investment climate is good for domestic as well as foreign investors. But more must be done to deepen the financial markets in Africa. African finance is too bank-based, overly concentrated and non-competitive. Money is short-term and expensive; banks provide
little equity and bond markets are dominated by governments. New instruments can help mobilise alternative sources of funds, providing increased access and new channels of delivery. New sources need to be tapped, including pension funds, sovereign wealth and private equity funds. Local currency infrastructure bonds are emerging as a mechanism to mobilise domestic resources towards infrastructure, including from small investors. Gaps in infrastructure and in particular in energy provide a positive opportunity for investment.

For its part, Africa needs to have a hard look at the benefits it obtains from the rapid growth in mineral exploration and from the rise in commodity prices; it must also be accountable for the use it makes of those resources. Too little investment to date adds value in Africa or promotes job opportunities, skills development or technology transfer. Land concessions and proposals for investments in large-scale agriculture for export and biofuels should also be carefully appraised; too often there are systemic consequences (e.g. use of dwindling water resources or impact on domestic food security).

The debate on climate change has to some extent been conducted separately from the one on development. This is a mistake. They are intimately interconnected, especially in the area of adaptation. In addition, there is a real trade-off for poorer countries, which already see their scarce development resources potentially diverted to climate action – despite the rhetoric that climate funding should be new and additional. This is a serious issue for Africa: while the continent contributes less than 4% to global warming, it is already affected by climate change, bearing considerable adaptation costs and attempting to mitigate risk. Studies suggest the economic loss to Africa could be on the order of 1.5-3% of GDP annually by 2030. Africa must be engaged fully in the climate change debate and decision-making; African perspectives and interests have to be taken into account. Development planning and policy must adapt accordingly.

“...Africa needs to have a hard look at the benefits it obtains from the rapid growth in mineral exploration ... ”
Chapter 3
Development and aid in Africa: What have we learned from the past 50 years?
Donald Kaberuka

In sum, these lessons underline the fact that the business of development in Africa is now very different than it was in the past. It requires new approaches, longer-term perspectives, innovation. It also has to be more accountable, but not just to the donors. North Africa has given us all a sharp reminder that headline macroeconomic progress is not enough; we have to reduce inequalities to respond to – and be accountable to – the people we seek to serve.

The way forward

The evidence from Africa is clear. Development is about much more than aid. Development co-operation, true partnership, requires dialogue and participation among recipients, traditional and non-traditional donors, and the private sector. Development aid still has a key role to play in Africa, and the OECD Development Assistance Committee (DAC) remains relevant. But both will fulfil their potential only if they:

- are based on true partnership, with full participation of recipients in policy making
- are driven by the priorities of the recipients and the development path they choose
- are part of an integrated, global policy of engagement
- are coherent and co-ordinated with policies on trade, investment, climate and migration
- reduce fragmentation
- provide more predictable and less volatile flows of aid
- improve the investment climate and African competitiveness
- leverage private-sector investment and promote trade
- produce results achieved on the ground
- promote domestic accountability within Africa
- support economic integration within Africa and with the world outside.

There are two key questions for the DAC itself:

First, who participates in policy discussion and development? African participation is essential if a true partnership is to be achieved. In addition, non-traditional donors such as the BRICS need to be engaged in debate and policy development. And as is clear from the suggestions above, the debates have to cover more than just aid; purposeful linkages must be made to other relevant policy areas. Ways of engaging with the private sector, non-governmental organisations (NGOs) and civil society also must be found.

Second, what should be the targets or benchmarks against which progress is measured? For me, the Millennium Development Goals (MDGs) remain important indicators and have more public traction than any other. But I hope that more effort can be given to developing time-bound, measurable targets at the country level – targets that capture the aspirations and goals of particular societies. These can then serve as the basis for resource allocation and as indicators of progress, as well as means of recipient-government accountability to its own citizens. Similarly, while the target of 0.7% GNI has become less important, less relevant as a single measure of commitment, it retains significance as an indicator of the relative effort being made by the richer countries.
Notes

1. CPA excludes, among other things, debt relief, emergency assistance, humanitarian relief and overheads. CPA has remained steady during the past decade at 54% of donors’ gross bilateral aid, with a slight drop in 2005-06 due to large debt relief operations in these years.