Africa in Fact

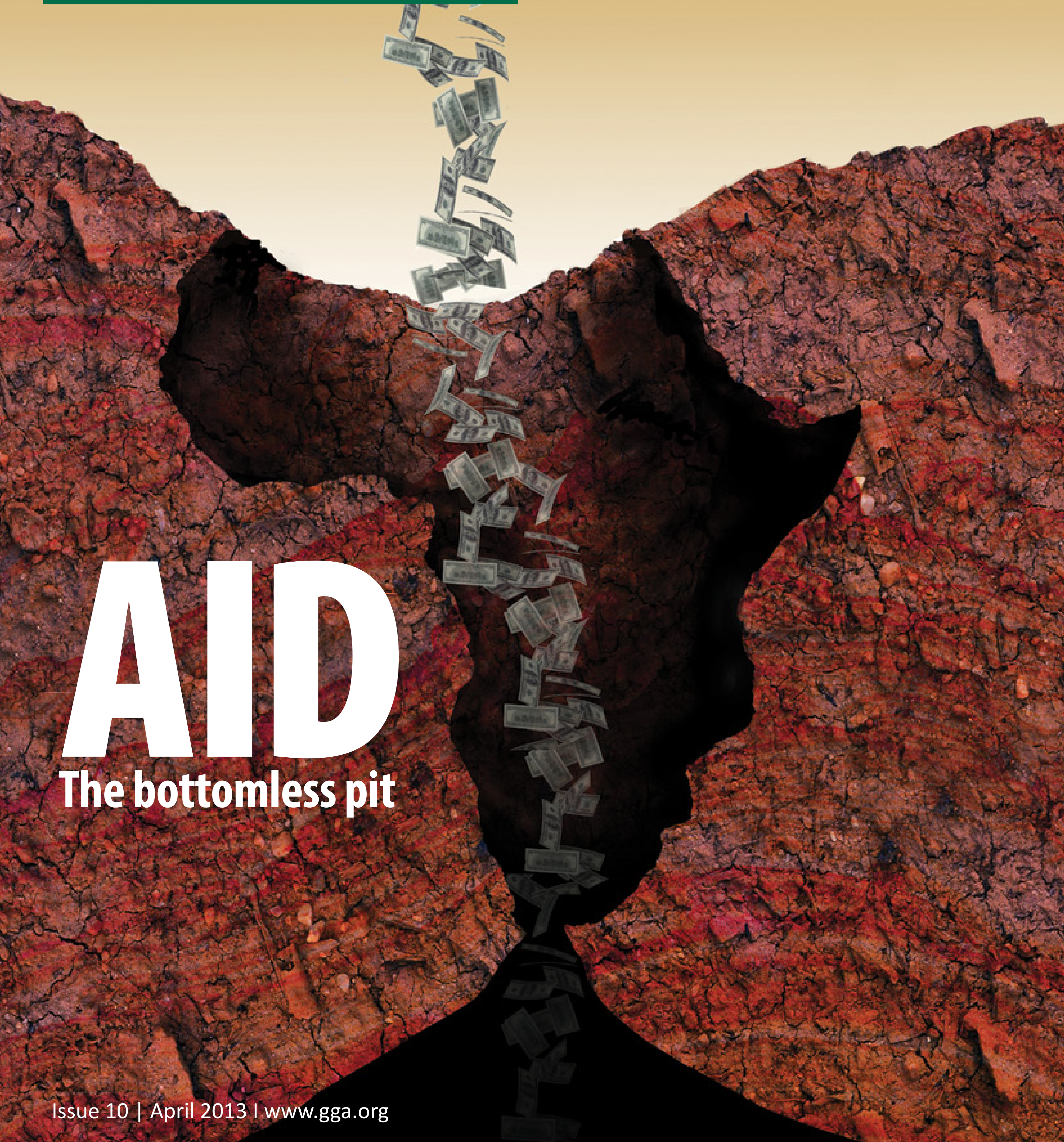
The Journal of Good Governance Africa

Mali: misrule and misused foreign aid

Nigeria's stolen aid slays development

Making money from misery

The dictatorship and the donor darling



AID

The bottomless pit

Issue 10 | April 2013 I www.gga.org

Let aid fade

For more than half a century, the international community has emptied half a trillion dollars in aid into Africa, according to the Organisation for Economic Co-operation and Development. The aim of these generous donations—motivated sometimes by altruism, sometimes by contrition about colonialism, other times out of self-interest—was to build political and economic alliances, improve living conditions and lift people out of poverty.

Yet while the world's aid poured in, most of the continent's economies floundered. Poverty spread and deepened. Africa cemented its image as the world's basket case. Today the continent, with almost 15% of the world's population, accounts for less than 3% of global GDP, according to the World Bank.

How did this happen? Critics of foreign aid are becoming increasingly vocal. They claim that aid has failed to improve people's lives and has instead lowered their living standards.

Corrupt and incompetent officials have squandered and misappropriated these funds. For instance, the Gambian president, Yahya Jammeh, has amassed a sizeable fortune through opaque channels and uses foreign aid to fortify his power, according to a 2012 report by Freedom House, a think-tank.

Aid cripples Africa and fosters dependency. Why bother to build a well-governed state and a dynamic economy with a local tax base when revenues can be acquired much more easily from abroad? In this sense foreign aid is as pernicious as a rich endowment of natural resources. It makes it too easy to acquire wealth.

Fortunately, Africa's dependency on aid is diminishing. Governments are starting to raise more money from citizens and companies than from foreign donors. In 2010 $8.69 dollars in taxes were raised for every dollar received in aid, according to the African Economic Outlook website. However, it is concerning that most of the hike comes from taxes on sales of natural resources, especially in oil-exporting countries.

As an indication of growing investor interest in Africa, foreign direct investment overtook foreign aid for the first time in 2005 and has exceeded it ever since, according to the African Development Bank. By 2010 Africans living abroad were sending home more money in the form of remittances than African governments were receiving in official aid.

Emancipation through aid has failed. Emancipation from aid is replacing it as African governments take charge of their destinies. They are improving governance and creating favourable conditions for their citizens to create wealth and gain self-sufficiency. It comes down to political will, but also in the end, self-interest.

John Endres
CEO of Good Governance Africa

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Africa in Fact is published by Good Governance Africa

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Misrule and misused foreign aid paved the way for the jihadist war

Mali: how to avoid making the same mistakes

by Isaline Bergamaschi

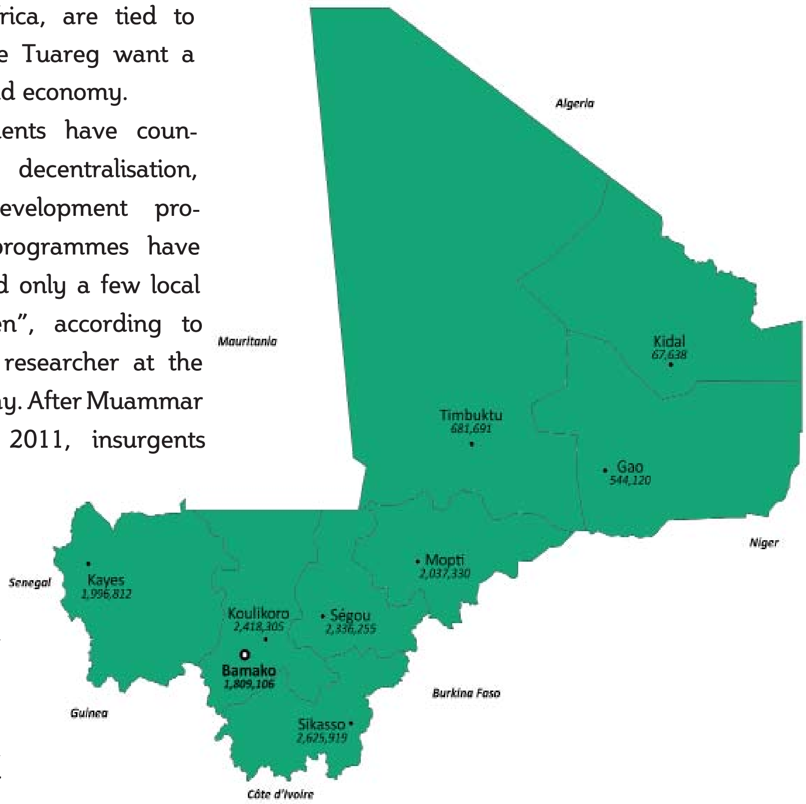
While French and now African troops battle Islamist insurgents in Mali's north, the government in the southern capital of Bamako plans to hold nationwide elections in July 2013. Will this latest stumble towards democracy succeed? Will it solve the problems that led to this impoverished country's crisis—poor governance and more specifically, the squandering of its foreign aid?

Since independence from France in 1960, Mali has suffered droughts, rebellions, two coups and 23 years of military dictatorship. After a free and fair election in 1992 and ten years of democratic transition, the military deposed the president in a third coup in March 2012. A month later, Tuareg rebels seized control of northern Mali.

Focusing on Mali's "Islamist terrorist threat" overlooks the complex roots of Mali's crisis. For decades the Tuareg, a traditionally nomadic, but increasingly sedentary, group have been seeking greater autonomy for their northern homeland that is scarred by chronic drought and now facing major environmental devastation. Their main grievances, as with other disputes throughout Africa, are tied to resources and land. The Tuareg want a voice in Mali's politics and economy.

Mali's governments have countered with repression, decentralisation, demobilisation and development programmes. But these programmes have either failed or benefited only a few local notables and "big men", according to Morten Bøås, a senior researcher at the University of Oslo, Norway. After Muammar Gaddafi's downfall in 2011, insurgents joined forces with Islamist movements and organised kidnapping, smuggling and drug networks operating in the Sahel. After the March 2012 military coup, they succeeded in taking control of northern Mali and were marching south towards

The great divide



Source: World Bank, 2013
Mali's population by region

Bamako when the French troops arrived.

The military overthrow of President Amadou Toumani Touré, known as ATT, was quick and nearly bloodless. It succeeded largely because ATT was unpopular and corrupt and did little to improve the lot of Mali's 14.5m people, whose per capita income in 2012 was $610, according to the World Bank. Critics had accused ATT's government of networking with drug traffickers and selling off vast swathes of fertile land to international firms at discount prices.

ATT had accomplished this through his politics of "consensus", a coalition of all political parties and some civil society groups that in effect neutralised any opposition. This alliance not only intensified corruption but, even worse, it hindered efficient decision-making. Most candidates running for president in elections that had been scheduled (before the coup) for April 2012 had worked in ATT's government, thus offering little chance for real turnover. The military takeover succeeded because party politics was deemed opportunistic and completely discredited.

Over the last few decades, this history of failed governance has left Mali poor and heavily dependent on foreign aid. Structural adjustment programmes in the late 1980s further weakened the state's public services, particularly to the poor. Many civil servants and public enterprise employees were retrenched. In education, religious groups filled the vacuum created by the government. International donors also tried to help, but prioritised primary education at the expense of Mali's only university. The nation's youth are poorly trained and while national unemployment was at 9.6% in 2011, the rate was about 15.4% for 15–39 year-olds, according to the African Development Bank.

As of 2009, Nordic donors and Canadian diplomats have insisted on modernising the family code and giving more rights to women, leading to a battle between secular leaders and thousands of Malians mobilised by popular imams such as Mahamoud Dicko, president of the Islamic High Council of Mali.

Some conditions attached to aid have further destabilised the country. Since 2000 the World Bank has pressured the government to privatise the Compagnie Malienne de Développement des Textiles, responsible for supervising cotton production. (This highly strategic economic sector provides income for one-fourth of Mali's population.) Mali's cotton sector lacked the capacity to implement the World Bank's programme. The government's own resistance to the privatisation and reform agenda have disrupted the production chain. Consequently, producers in the country's south have lost income and trust in the government.

As of 2009, Nordic donors and Canadian diplomats have insisted on modernising the family code and giving more rights to women, leading to a battle between secular leaders and thousands of Malians mobilised by popular imams such as Mahamoud

Dicko, president of the Islamic High Council of Mali.

Equally problematic was former French President Nicholas Sarkozy's insistence that the Malian government sign immigration agreements to accelerate the deportation of illegal Malians living in France. The government refused for economic reasons: in the south-western region of Kayes, whole villages survive on remittances sent by relatives in France.

The three-pronged strategy adopted by donors—privatising cotton production, reforming the family code and tightening immigration—was deeply unpopular. It succeeded in widening the gap between the ruling elite and the electorate.

Aid agencies and the government "chew and digest" every public policy together with little regard for the grassroots realities and regional dynamics, said a representative of the Agence Française de Développement, France's official aid financing institution. In addition, donors turned a blind eye to the regime's delinquency and maintained Mali's status of "donor darling," a privileged recipient of foreign aid.

Budget support, that is, aid delivered directly to the treasury, grew and grew. It rose from 12% to 42% of Mali's total aid since 1999 and accounted for almost one quarter of Mali's public expenses in 2009, according to a joint evaluation by the EU, Belgium and Canada.

This aid stream powered ATT's politics of "consensus". Corruption scandals swamped programmes ranging from the Global Fund to Fight AIDS, Tuberculosis and Malaria to the US anti-terrorism efforts in the Sahel. Suspicion that high-ranking generals had "eaten" this money—a popular expression—was a central motive of the putschists. Donors' political dialogue with the government deteriorated into a purely technocratic exercise. When they tried to engage with the private sector, funders chose to favour an urban, donor-oriented, professional civil society not that different from the government.

Poverty rates by region, and % of population

	Region	*2001*	*2006*
Total		64.4	58.1
Urban		32.9	32.0
Rural		75.7	70.1
Kayes	South	67.3	55.1
Koulikoro	South	79.4	54.7
Sikasso	South	84.4	84.6
Ségou	South	58.5	67.4
Mopti	South	67.5	58.9
Timbuktu	North	45.0	48.5
Gao	North	42.5	37.4
Kidal	North	43.4	8.4
Bamako	South	29.2	14.4

Source: UNDP, 2008

Aid in northern Mali helped finance a policy of decentralisation, which was adopted by the government in the 1990s and aimed at co-opting the Tuareg threat, according to Jennifer C. Seely of the University of Denver, who has written extensively on African politics. It improved access to basic social and health services such as clean water or vaccines.

But in the past decade, international donors have reduced their activity in northern Mali. Their lessened presence began when national surveys showed that poverty in the regions of Gao, Kidal and Timbuktu was below national levels. Also, as incidents of drug and cigarette trafficking and the kidnapping of Westerners increased, donors became too scared to visit northern Mali, or simply could not get there. Crime made it more expensive to build new roads or fix the old ones. The few NGOs, churches and other charitable associations that have ventured there run poorly-funded projects lacking coherent vision or planning.

Youna Touré, former coordinator of a European project in Gao, and many others disagree that funds were lacking in northern Mali. Instead, money was poorly used. First, the central government in Bamako limited its allocation to the north. Then, at the local level, fraudulent deals privileged projects badly designed by public bodies and private firms at the expense of the intended recipients, particularly women and youth. After the March 2007 Kidal Forum, a meeting of international donors and the Malian government, a Malian economist alleged that ATT was not committed to development projects in northern Mali and predicted that the country would erupt in five years' time. From 2009 to 2012, the president's injection of millions of euros into Mali's northern cities was a muddled and desperate attempt to buy off Tuareg leaders and ease tensions at a superficial level.

The French armed intervention succeeded in chasing armed groups out of northern cities in January, February and March 2013. In its aftermath, interim authorities adopted a roadmap for a transition to democratic governance. Development assistance has resumed and the international community has pledged considerable funds to Mali.

Here are some recommendations on how to spend this money more effectively than in the past.

First, the three main branches of international aid—military, security and humanitarian—which have so far been used to deal with the crisis are not enough to tackle the conflict's root causes and pave the way for the post-conflict scenario. Donors need to adopt a long-term development perspective. Their projects should encourage growth by assessing economic potential and identifying alternative activities to trafficking, smuggling and Islamism. One option could be co-ordinated support to the cattle, meat, milk and leather industries, all essential to livelihoods in Mali's northern regions.

Second, donors and governments should think of Mali as one nation and not divide it into north and south. Mali's crisis is multi-dimensional and not limited to its Sahelian parts. If future aid is distributed disproportionately to one area, resentments could rise. Aid agencies can help create the egalitarian conditions under which all Malians feel included, better protected by their state and more willing to confront their "big men" countrywide. To do so, aid agencies must not only listen to the central government, but also engage with citizens, elected leaders and social groups at the regional level.

Finally, donors should critically assess the priorities and implementation of past aid efforts. They must not approach governance through standardised, one-size-fits-all approaches, but rather through methods that promote inclusive politics and economic growth. Social services should focus on quality and not only coverage. Donor procedures should be amended so that disbursements are relevant to recipients. Monitoring and follow-up should concentrate on enhancing control and accountability while diminishing corruption. GG

Nigeria: theft of development aid is a subset of broader corruption

Stolen aid slays development

by Adeyeye Joseph

When a major foreign funder of one of Nigeria's biggest public health campaigns threatened to cut vital aid in November 2012, the country's civil society knew it could be a telling, if not fatal, blow.

In the preceding six years, the Global Fund to Fight HIV/AIDS, Tuberculosis and Malaria had splashed $474m on health initiatives throughout Nigeria.

But a value-for-grant audit carried out by the fund earlier in 2011 found that three out of its six Nigerian partners had misapplied or misappropriated $7m in grants. One of the three, the National Agency for the Control of AIDS, is a government body.

Worried that the threat could set Nigeria's HIV/AIDS campaign back by several years, the attorney general and minister of health quickly formed a task force to investigate the crimes. They vowed to bring its masterminds to justice. But nearly two years later, none of those responsible has been brought to book.

Pinched and pocketed

	Main task	*Illegitimate expenses**
Yakubu Gowon Centre for International Co-operation	Procurement and distribution of malaria drugs and mosquito nets	$3,742,854
National Agency for the Control of AIDS	AIDS treatment, support and co-ordination of national AIDS plan	$763,087
Christian Health Association of Nigeria	Incorporation of a TB programme into the primary health care system	$2,501,846
Total		**$7,007,787**

Source: The Global Fund To Fight AIDS, Tuberculosis and Malaria, 2011

* Costs that are not allocated, irrelevant, or without sufficient, legitimate or any supporting documentation.

Such failed promises are reflective of Nigeria's half-hearted approach to fighting corruption, says Joe Okei-Odumakin, one of Nigeria's civil society leaders. She is not alone. Most Nigerians see the government's well-publicised anti-corruption campaign as a huge charade.

It is a cynicism that is well grounded. In the last decade, the country's main anti-graft body, the Economic and Financial Crimes Commission (EFCC), has arraigned over 50 senior political figures on corruption charges, including the speaker of parliament, federal ministers, former governors and dozens of legislators.

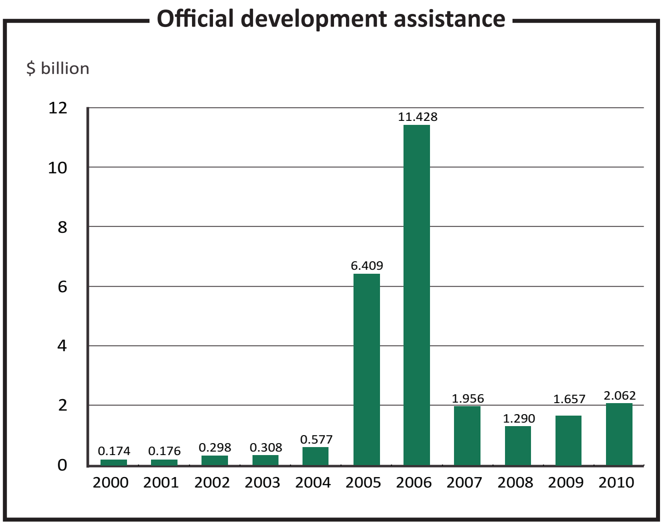
But only a few have been convicted. Justice grinds slowly in Nigeria. Some cases are more than ten years old and are languishing in the courts. Nigeria's corrupt big men are infamous for side-stepping the country's inefficient, and sometimes corrupt, judicial system.

Corruption is particularly rife in the oil and gas sector, where a 2012 audit showed that the state oil firm, the Nigerian National Petroleum Corporation, had failed to remit $4.84 billion in oil proceeds into government coffers.

Theft and misappropriation of development aid are thriving, too. They are a subset of Nigeria's ubiquitous corruption, Ms Okei-Odumakin says. "The government has not shown interest in prosecuting those who steal aid because of its tolerance for corruption generally. Government officials who steal [from] their country's budget should not be expected to treat foreign grants or aid differently," she says.

The theft of grants and aid is also common. "The unfortunate aspect is that some civil society activists are also as corrupt as thieving government officials. We have had cases of non-governmental organisations that were blacklisted by foreign donors because they could not account for funds received," Ms Okei-Odumakin adds.

Ethiopia is currently the continent's biggest aid recipient. But Nigeria, Africa's most populous country, with 162m people, and one of its richest, is also awash in aid dollars. In 2005 Nigeria was second only to Iraq as the world's biggest recipient of aid and grants, largely because of an $18 billion dollar debt write-off by the Paris Club of creditor nations, according to the Organisation for Economic Co-operation and Development.



Source: UN, 2012

Foreign grant inflows into Nigeria have always been substantial, according to Reuben Alabi, an economist at Ambrose Alli University, Edo State, Nigeria. Though the total value of grants and aid dropped in the oil boom years, it picked up again after the return of democracy in 1999, he adds.

"As a result of the oil boom, Nigeria's per person income increased sharply, from $250 in 1973 to $1,000 in 1980," he writes in a paper analysing the impact of foreign aid in Nigeria. This triggered Nigeria's re-classification as a middle-income country, so official development assistance naturally declined. "The end of the oil boom and the economic crisis of the mid-1980s led to a drastic fall in per capita income; Nigeria was then re-classified as a low-income country in the year 1989."

Nigeria received $577m in official development assistance and aid in 2004, $6.4 billion in 2005, and $11.4 billion in 2006, but the amounts fell to $1.9 billion in 2007, $1.3 billion in 2008 and $1.6 billion in 2009 in current US dollars, the latest figures available, according to Professor Alabi.

Corrupt government officials and others steal most of these funds, says Nuhu Ribadu, the former EFCC chairman. "My pet example is the £220 billion [$405 billion] of development assistance that has been stolen from this country since independence to date by past leaders," he claimed at a 2006 conference in Abuja.

Studies have also shown that foreign aid and grants are often not channelled to critical areas where the majority of Nigerians would benefit. Professor Alabi's study showed that foreign aid in 2012 was expended mostly on administration, which received 26.9% of total aid. In the same year, 5.4% of aid was allocated to agriculture; 9.4% to energy and mining; 1.9% to industry and trade; and 6.8% to transportation.

Nigeria's millenium development disasters

Millenium Development Goals (MDG)	*Target*	*Progress*
Extreme poverty	Halve the proportion of population below $1.25/day	Off target
Hunger	Halve the proportion of undernourished population	On target
Education	Achieve universal primary education	No data
Gender equality	Achieve gender parity in schooling	Some progress
Child mortility	Reduce child mortality by two-thirds	Some progress
Maternal health	Reduce maternal mortality by three-quarters	Off target
Combat HIV/AIDS	Reverse the spread of HIV/AIDS	Off target
Environmental sustainability	Double access to safe drinking water	Some progress
	Rank (out of 137 countries)	90

Source: Centre for Global Development, 2011

On target: likely to meet MDG by 2015; some progress: unlikely to meet target; off target: conditions have worsened

The result is that critical sectors, such as education, health and agriculture, suffer despite donor agencies pumping millions of dollars into projects in these sectors each year. Not surprisingly, Nigeria's development indicators have worsened despite four decades of continuous aid. Nearly two-thirds of Nigeria's people live on less than a dollar a day, according to the country's National Bureau of Statistics; a third are illiterate; and polio, which has been virtually eradicated in nearly all parts of the world, is rebounding in the country's north.

Corruption and the poor prioritisation of aid are mainly responsible for the little impact that donor funds are having on Nigeria's development. For instance, a recent study by the Independent Commission for Aid Impact, a British watchdog, criticised a six-year primary education programme for its insignificant impact on the community and

British bucks for basic education

Programme (duration)	*Expenditure to date, $m*	*Future allocation, $m*
Universal basic education (2003–2008)	26.18	0
Girls' education programme (2005–2008)	38.90	0
Girls' education programme (2008–2012)	21.54	0
Girls' education programme (2012–2019)	1.35	152.75
Educational support (2008–2014)	90.36	35.75
Total support	**178.33**	**188.5**

Source: Independent Commission for Aid Impact, 2012 advised the United Kingdom to cancel its funding. An additional £126m ($188m) had been budgeted for 2013 to 2019.

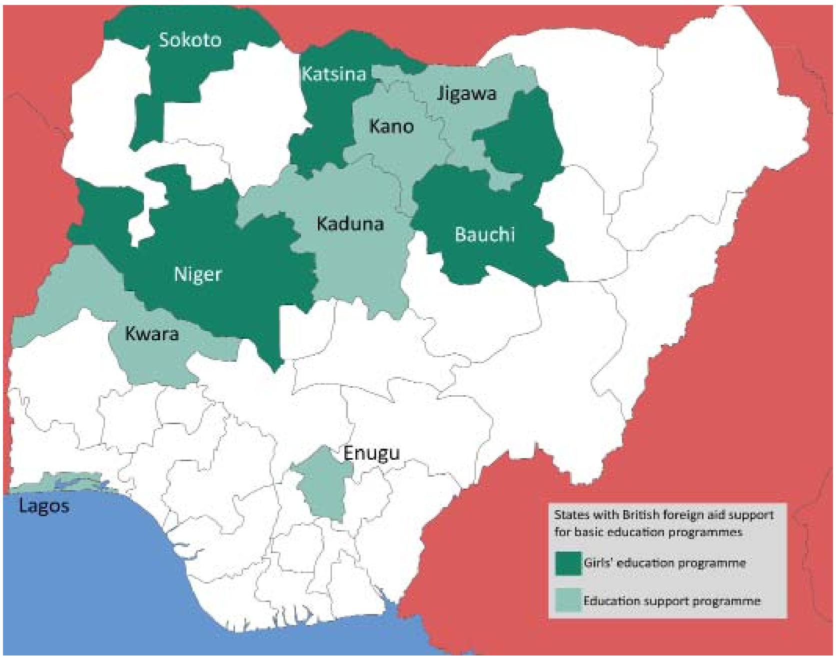
"The impact of foreign aid is not felt in Nigeria," argues Sola Bakare, a lecturer at one of Nigeria's state universities. "There is a negative relationship between foreign aid and output growth," he adds.

The way forward is for public and private institutions to block loopholes and ensure that those who steal foreign grants are prosecuted. Transparency is also essential. In 2012, "Nigerian oil exports were worth almost $100 billion, more than total net aid to the whole of sub-Saharan Africa," said David Cameron, the British prime minister, at the January 2013 World Economic Forum in Davos, Switzerland. "Put simply, unleashing the natural resources in these countries dwarfs anything aid can achieve—and transparency is critical to that."

Debo Adeniran, the chairman of a Nigerian anti-graft group, the Coalition Against Corrupt Leaders, echoes Mr Cameron. "Nigerians should rise to reclaim their country," he says. "The National Assembly should look beyond cyber crimes or advance fee fraud [called 419 scams after the relevant paragraph in Nigeria's criminal code] and make legislation that looting [the] public treasury is a crime punishable with severe losses and repercussions on the perpetrators."

Ms Okei-Odumakin suggests that donors should take a cue from the AIDS Global Fund: conduct more value-for-grant audits and shut the tap when grantees misappropriate funds. "Donors, agencies and countries, should be stricter with those who use funds," she says. "They should demand accountability and cut off supplies where grant funds cannot be properly accounted [for]." GG

Royal road to learning



Source: Independent Commission for Aid Impact, 2012

Famine in the Sahel: schmaltz without substance

by Richard Stupart

In 2004 Sudanese soldiers surrounded and laid siege to the town of Kailak in Darfur. Its residents soon began to starve and die. But somehow, foreign reporters covering the Darfur crisis failed to file stories on this tragedy.

The void on Kailak's deliberate starvation is sadly emblematic of the persistent failure of Western media to shoulder its responsibilities when covering humanitarian disasters. Reporting is all too often shallow and insubstantial.

Mainstream journalism's stories on famine, in particular, are often too simplistic. They frequently fall into stereotypical sentimentality, describing victims as voiceless and skeletal, desperately needing food, medicine and other forms of humanitarian aid. Rarely do their reports on famine question whether governments or other groups might either have provoked or prevented this hunger. Instead, newspapers and television news splash images of starving people and dire stories of how desperately food is needed. Too often these stories are slickly-produced appeals of a "don't ask questions, just donate", variety.

More depressingly, an analysis of reporting on the 2011–12 famine in Somalia by television networks such as the BBC, CNN and Al Jazeera suggests that this is unlikely to change any time soon.

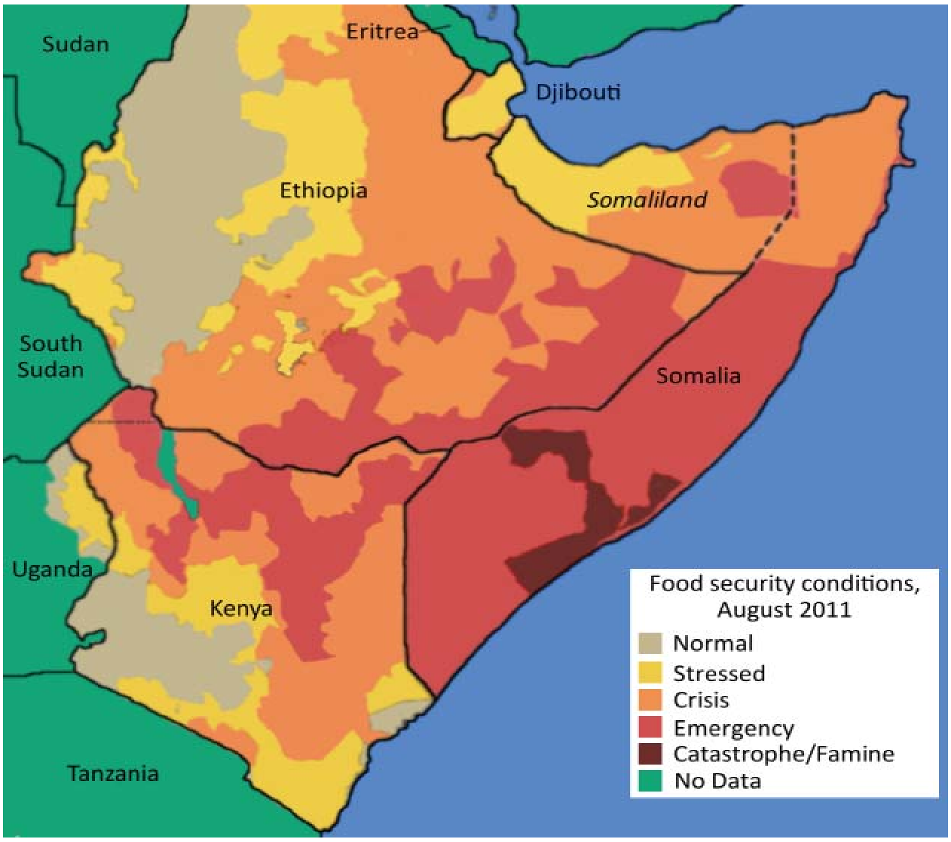
Failure of seasonal rains and reduced agricultural output were partly responsible for the famine that devastated the Horn of Africa in the last two years. But Western journalists described Somalia's hunger as the product of drought alone. This incomplete and inaccurate reporting can be blamed on laziness, a wilful misrepresentation of the region's history and politics, or both. Ethiopia and Kenya also suffered, but saw nothing approaching the levels of mass hunger reached in Somalia. The differences in the effects of drought are so obvious that a map of malnutrition across the Horn suspiciously resembles the political boundaries of the countries affected.

To paraphrase Nobel prize-winning economist Amartya Sen, famine is the outcome of people lacking access to food and not of a food production shortage. When starvation struck Somalia, normal market mechanisms to reallocate food to areas where it was needed most—common in economies that are stable and established—failed completely. Somalia's history is one of chronic unrest. Various groups involved in its continuous conflict contributed directly to aggravating the hunger.

Deterring disasters like Somalia's famine requires preventive action. This means resolving the political and security issues that drive Somalia to starve while Kenya and Ethiopia survive.

Enter the mainstream press and major humanitarian aid agencies: media coverage of disasters rarely stirs national governments to change their policies. Its money-spinning effect on humanitarian agencies, by contrast, is significant. As a result,

The hungry Horn



Source: World Food Programme, 2011

NGOs have increasingly solicited newspaper, radio and television coverage, confident that positive reports boost public donations, according to Simon Cottle of Cardiff University and David Nolan of the University of Melbourne.

It is a lucrative strategy. French charity Médecins Sans Frontières (MSF), winner of the 1999 Nobel peace prize, is probably the most celebrated example. It is the world's largest recipient of privately-donated aid money, taking in donations of $1.1 billion in 2010 alone. If it were a country, MSF would have the third-largest humanitarian aid budget after the US and the UK.

If it were a country, MSF would have the third-largest humanitarian aid budget after the US and the UK.

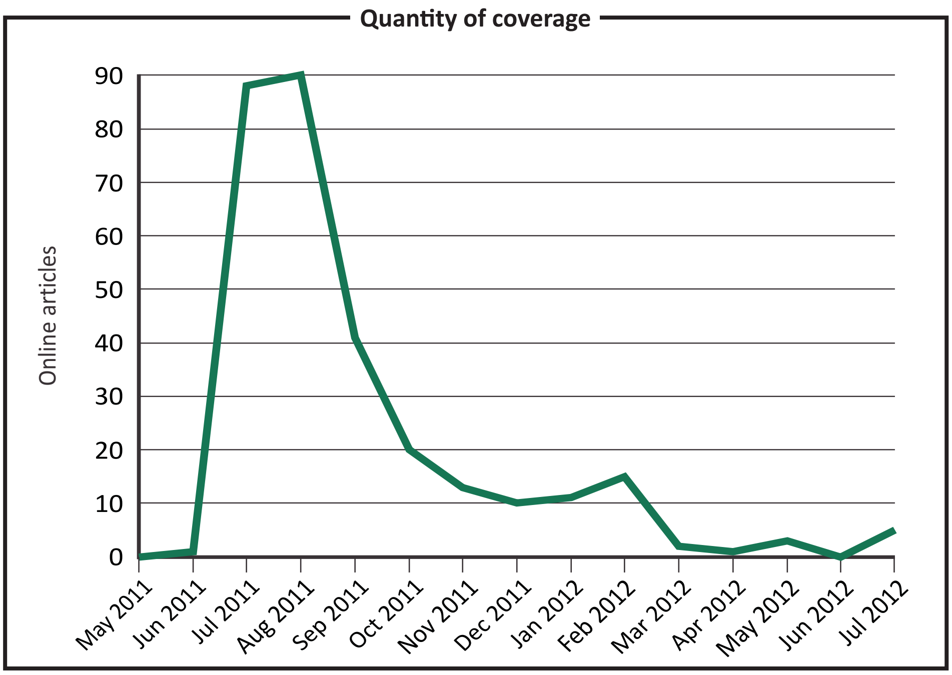
Philip Brown, of the economics department at Colby University in the US, and Jessica Minty of the Analysis Group, an American economic consulting firm, examined donations to seven aid agencies in the wake of the 2004 tsunami that devastated south-east Asia. Their study indicated that one minute of additional television coverage on the evening news broadcast of CBS (a US television station) was worth $94,920 in additional revenue to key aid groups.

Humanitarian agencies often make big bucks when the media gives significant attention to a disaster, turning it into what Toby Porter of Oxfam GB describes as a "noisy emergency". This effect has been understood since the 1984 famine in Ethiopia that gave the world Live Aid.

In 1984 Oxfam stepped in to help after receiving a frantic telegram from BBC reporter Michael Buerk: "Help...need urgent advice on where I can leap in and out quickly with pictures of harrowing drought victims etc., to be edited and satellited [sic]...money no object, nor distance, only time." Inspired by the media attention to the famine, Live Aid produced a musical broadcast that was watched by 1.9 billion people and raised $80m in donations.

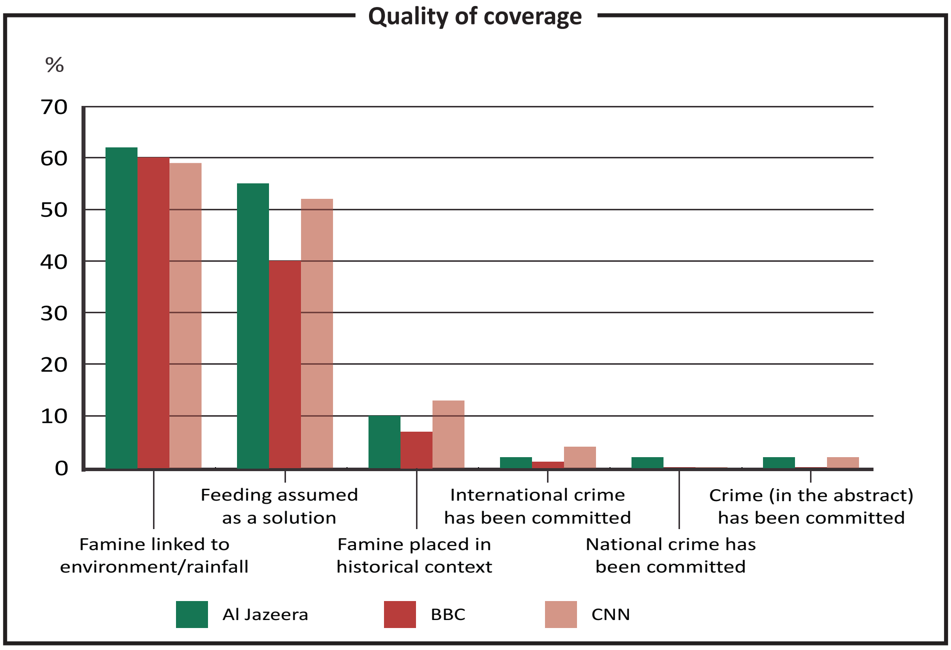
The sooner a disaster is covered—and the longer media attention persists—the more money aid agencies collect. The corollary, as noted by Virgil Hawkins of Osaka University, is that disasters with a poor media profile attract little funding. In 1999 *Los Angeles Times* reporters Anne Simmons and Christian Miller remarked on this phenomenon in comparing the levels of reporting and aid between Kosovar refugees and those in African disasters: "The allocation of aid per refugee to this intensely covered conflict was 11 times greater than that for Africa—refugee camps for Kosovars had basketball courts, supermarkets, and some had a higher ratio of doctors per person than many communities in the USA."

In the case of Somalia's recent famine, early warning systems had revealed signs of food shortages months in advance. But a timeline of BBC, CNN and Al Jazeera's online portals shows minimal coverage of the Somali famine before the middle of July



Source: Richard Stupart

Online coverage by BBC, CNN and Al Jazeera of the 2011-12 Somalia famine



Source: Richard Stupart

Online coverage of the 2011–12 Somalia famine by Al Jazeera, CNN and BBC News

2011. Then at a press conference on July 20th, the UN declared the hunger in Somalia a famine. Thereafter media coverage exploded, only to slump a few weeks later. As former BBC Africa editor Martin Plaut explained: "Frankly, the British media are only going to be interested for a week. After that they aren't interested. So then it gradually tails off."

If media exposure determines the extent of public funding for humanitarian agencies, the non-existence of press reports during the early stages of a disaster should be troubling. By the time the Somali famine became a cause célèbre, it required much more funding than it would have done if journalists had reported on it earlier.

Also, the media concentrated almost exclusively on drought as the trigger of the famine, rather than on Somalia's historic instability. Scant space was given to the criminality of the Shabaab, a militant Islamist movement, in denying communities the ability to move to cities to seek food. Nor was there much focus on the transitional federal government, whose troops were caught looting grain warehouses for profit.

If famine is to cease in places like Somalia, history and politics should be pondered in providing humanitarian aid. Parties involved in directly exacerbating the famine—the Shabaab in Somalia and the Sudanese government in Kailak in 2004—should be named and exposed. Such coverage could coexist with calls for food donations. For the most part, it does not.

As long as media reports on disasters are late and provided without historical context—as with the 2011–12 coverage of famine in Somalia—humanitarian responses will be inadequate, short-lived and superficial. Long-term pre-emptive solutions will also remain elusive.

The international community turns off the aid tap
by Daniel Howden

Jaqueline Mukagatete lives somewhere between Rwanda's past and its future. She shells peas while sitting on the step of what will be, when it is finished, her new concrete house. Only a stone's throw away is the traditional mud-and-wattle hut where she still sleeps at night.

The 32-year-old mother of four says she is proud of the new home and eager to start a new life.

The Mukagatetes are among 100 families who have moved to the Kitazigurwa-Ntebe "model village", a two-hour drive outside of Rwanda's capital, Kigali. It is one of several similar collective villages in the small mountainous central African state. They are intended to help families escape the poverty trap in a single generation. Smallholders have been scraping a living in subsistence farming for years. Their tiny plots are spread out over the surrounding hills. Now they live in identical houses lining the streets of these new villages. Each one has a small lawn outside and a naked electric light bulb hanging from a cord inside.

Projects like this model village, only a mile away from the rural home of President Paul Kagame, are emblematic of the regimented, aid-intensive route Rwanda has taken to development. It is a strategy that has enjoyed considerable support from the Unites States, Britain and other major donors. Rwanda until last year depended on aid equivalent to more than 40% of its budget.

The results have been remarkable. Development experts have feted the country for achieving what they call the "hat-trick": rapid growth, sharp poverty reduction and reduced inequality. That compact is now threatened by international condemnation of Rwanda's interference in its vast and chaotic neighbour, the Democratic Republic of Congo (DRC).

Giant leaps

Living standards	*2005–06*	*2010–11*
Net attendance rate in primary school	86.6	91.1
% of households with improved sanitation	58.5	74.5
Literacy rate (% of population 15–24)	76.9	83.7
% of households with electricity as primary source of lighting	4.3	10.8
% of households with improved drinking water	70.3	74.2
Mean time (in minutes) to reach healthcare centre	95.1	59.9
% of individuals with savings accounts	9.2	20.6
% of population identified as poor	56.7	44.9
% of population in extreme poverty	35.8	24.1
Gini coefficient	0.71	0.64

Source: National Institute of Statistics of Rwanda, 2011

Mr Kagame's government has steadfastly denied a UN report that concludes that it commands, recruits and finances armed rebels in the eastern DRC. Those denials have failed to stop a backlash from donors, led by Britain which, after internal wrangles, froze its aid budget last year. Other European Union countries have followed suit and only the United States has restricted itself to a symbolic cut in military assistance of $200,000.

Its 11m inhabitants make Rwanda the second most densely populated nation in sub-Saharan Africa. It faces a huge challenge to feed itself.

Rwanda has capitalised on guilt over international failures during the 1994 genocide—when about 800,000 people were murdered in three months—to earn aid dollars and plaudits. But this recent sudden shift in perceptions has surprised long-term observers and raised concerns that development lessons learned in Rwanda will be discarded.

Rwanda is starkly different from its East and Central African neighbours and sometimes appears to be a giant laboratory for development studies. Nothing symbolises the ambition and speed of the country's modernisation effort more than the Kivuwatt project on Lake Kivu—the deep and dangerous body of water that divides Rwanda from the eastern DRC.

Kivu is one of the world's three exploding lakes, saturated with carbon dioxide and methane from the surrounding volcanoes. An explosion in which the lake's gases are suddenly released, what scientists call a "turnover", would be "the biggest catastrophe humankind has experienced", according to Finnish engineer Jarmo Gummerus, who is working on the power project. The gases would either suffocate or incinerate the 2m people living on the lake's shores.

The solution has been to build a hi-tech barge weighed down with gleaming steel tanks that now sits in the bay at Kibuye, on the Rwandan side. When it is finished the project will extract the methane and convert it into electricity. With a contract from the Rwandan government, the US-based energy company Contour Global is building the plant, which is paid for by loans from development banks and private investors.

The ambition of the first phase of the Kivuwatt project may yet represent the high watermark for Rwanda's development push. When it is switched on later this year, the $140m project will increase the nation's power generation by a third.

Its 11m inhabitants make Rwanda the second most densely populated nation in sub-Saharan Africa. It faces a huge challenge to feed itself. The government has responded by terracing the "land of a thousand hills" on an epic scale. Totemic policies like a ban on plastic bags mean that its rivers and drainage ditches are not choked, unlike their counterparts in Uganda and Burundi.

Some of the biggest achievements from Rwanda's development laboratory have come through direct budget support: aid that goes to the government, rather than NGOs—an approach donors favour in countries where government corruption is rife.

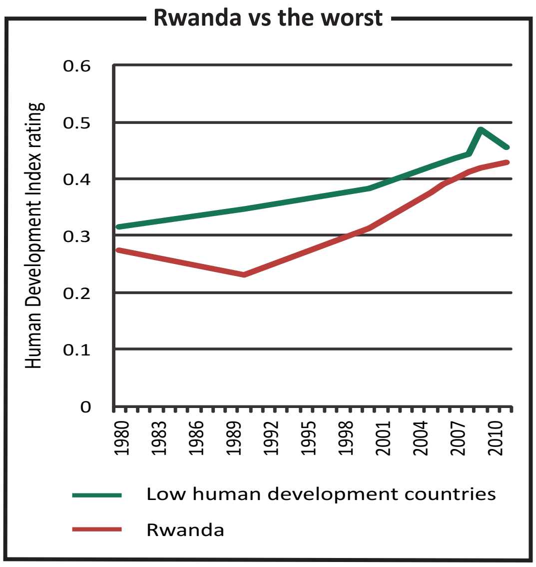
Rwanda is on course to meet the UN's global anti-poverty targets, the Millennium Development Goals. In education, for instance, foreign aid has financed new schools, trained teachers, developed learning materials and improved access. A recent report by the Overseas Development Institute found that budget support had met government and donor objectives and had been "extremely positive".

These kinds of results have made the country a "donor darling" and a vital proving ground in the debate over whether foreign aid works. It was the star performer in Britain's Department for International Development (DfID) annual report in 2012 after receiving $112m that year. The report card highlighted a surge in primary school enrolments; a sharp drop in the population living below the poverty line; and a near doubling in the number of births attended by a skilled midwife. Only one line in the report mentioned the need for a "transition to inclusive politics and enhanced human rights".

A senior Western diplomat warns that the fallout from eastern Congo has ruptured donor relations with Kigali: "Rwanda's relationship with the rest of the world has changed." The cost of that change is measurable. Rwanda's finance ministry expects GDP growth, previously forecast to rise to 7.8% in 2013, to be 1.5 percentage points lower. Inflation, which had crept up to 6.6%, is expected to rise even higher. Foreign currency shortages in Kigali have created a small black market there for the first time since 1994.

Meanwhile the vision of transforming a subsistence farming economy into a middle-income services hub by 2020—based on annual growth of 11%—is fading. Rwanda's Cuban-style health system with 90% coverage is creaking. Bonuses to doctors and nurses worth up to 40% of their salaries have already been cut, due to the suspension of aid.

For the architects of Rwanda's aid-driven accomplishments, like the respected governor of the Central Bank, Claver Gatete, the suspension of committed funds is a betrayal. A model based on direct budget support, developed with Britain, was close to making Rwanda an "aid graduate" that could have taught other poor countries how to develop. Without that aid, he says, this is "no longer a guarantee". The ability to make the best use of it has also gone.



Source: UN, 2012

The signal being sent to multilateral donors and lenders is as important as the money at issue, he argues. The World Bank, the International Monetary Fund and the

African Development Bank have all delayed significant funding decisions until a clearer signal emerges from the US and the EU.

Mr Gatete, a former ambassador to the UK, summed up the consternation felt by his compatriots with three questions: Are there poor people in Rwanda? Did the money reach them? Did any of it go missing? He answers the first two questions with “yes”. The third answer is “no”.

There is also considerable surprise among Rwanda’s fledgling opposition that the aid tap has been turned off because of events in the DRC rather than repression at home. Foreign critics point to the complete absence of a free media and the prohibition of credible opposition groups as evidence that donors are supporting a dictatorship in Rwanda. (So far, the aid cut-off has not reduced the fighting in the DRC, but it may have encouraged the on-going talks.)

Victoire Ingabire, who tried to challenge Mr Kagame at the last election in 2010, was recently jailed for eight years on charges that included “genocide denial”. Other party leaders admit to “looking over their shoulder” and avoid criticising the government directly.

Jailed for questioning genocide

In a report advising the Commonwealth against admitting Rwanda four years ago, respected Kenyan scholar Yash Pal Ghai said the country was not a state with an army but “an army with a state”.

One of the responses to the aid shortfall has been the new Agaciro (Dignity) Fund, similar to a war bond, which relies on voluntary contributions. In its first two weeks of operations last year it raised $11.7m. But this fund cannot replace aid, as it is effectively a tax on public sector pay. This one-off act of defiance will be felt in reduced consumer spending and does not inject money into the economy.

China has also provided soft loans worth $36m but neither will adequately replace larger Western aid flows.

In Ms Mukagatete’s model village there is disciplined determination to look forward: “We can never go back to how we were,” she says. “My children will not live how we have lived.”

People are told to put in decorative plants and instructed to grow kitchen gardens. All residents are expected to work on their own homes as well as the construction of new homes. For all the collectivism, houses still cost between $7,500 and $10,500 to build. That money is going to be harder to find in the new, harsher aid climate.

Chinese take-aways
by Lucy Corkin

China is financing and building bridges, dams, highways, power plants and rail lines from southern Angola to Sudan in North Africa. It is one of the continent's most significant yet controversial spenders on infrastructure.

Keen to get its hands on Africa's mineral wealth, China, through its state-owned Export-Import Bank (Exim), has extended resource-backed credit lines to the Democratic Republic of Congo, Ghana, Zimbabwe and other countries. However, the details the bank uses to finance these projects are not well known. Many see these package deals as foreign aid handouts and a strategy to curry favour with African governments while elbowing out Western donors.

But dig a little deeper and what emerges is that China Exim Bank is neither making grants nor providing aid. It is making loans like other commercial banks. What some mistake for aid, is actually trade financing on the continent.

China first entered Angola as a financier in 2004, when its Exim Bank signed an agreement extending $2 billion of credit lines to assist Angola in rebuilding its infrastructure, which had been devastated by 27 years of civil war.

Over the years, China has increased these credit lines to Angola several times and they reached about $10.5 billion between 2004 and 2010 with China Exim Bank alone. A key feature of these infrastructure loan projects is that they call for Chinese construction companies to be the main contractors.

In Angola's case, the initial loan is repayable at the three-month London Interbank Offered Rate (LIBOR) plus 1.5% over 17 years, including a grace period of five years. This loan is cheaper than the oil-backed credit previous Western financiers extended to the Angolan government.

Exim Bank structures its loans so that there is a revenue stream that supports the debt repayment. The agreement requires Angola to supply China with a fixed amount of oil on a quarterly basis, which is valued according to the international spot price on the day of shipment.

The price that China pays is determined by current international market prices. China Exim Bank loans thus have elements of market-related commercial loans. However, the China Exim Bank repayment terms are much more favourable to Angola than the oil-backed financing arrangements brokered by Western institutions, which were often based on a fixed price per barrel at a significant discount to market prices.

These deals do not have as much of a grant element as public loans from Korea or India, where the interest rate is less formidable. Where China Exim Bank provides advantageous terms for Angola is in the length of the repayment terms: 17 years compared to 4 to 5 years demanded by European commercial banks.

China Exim Bank's loans to Angola 2004–2007

	Value	Purpose	Interest rate	Commissions and fees	Guarantee
2004	$2 billion (1st tranche)	Public investment projects	3-month LIBOR +1.5%	0.3% management fee 1.0% arrangement fee (N/A) 0.3% commitment fee	Contract of petroleum supply
2007	$500m (supplement to 1st tranche)	Public investment projects	3-month LIBOR +1.5%	0.3% management fee 1.0% arrangement fee (N/A) 0.3% commitment fee	Contract of petroleum supply
2007	$2 billion (2nd tranche)	Public investment projects	3-month LIBOR +1.5%	0.3% management fee 1.0% arrangement fee (N/A) 0.3% commitment fee	Contract of petroleum supply

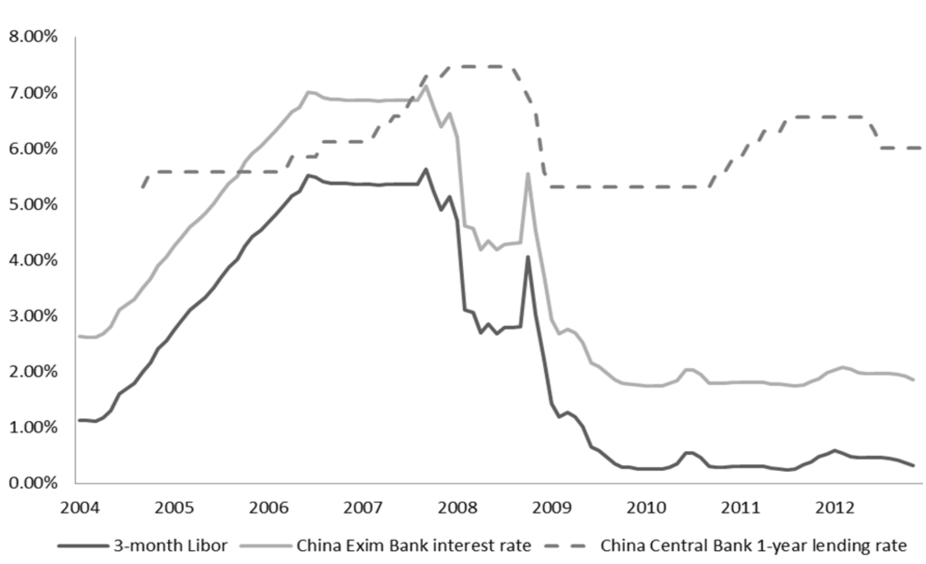
Source: Japanese embassy in Angola

A further bone of contention is how to label these loans. China Exim Bank's credit lines do not fall neatly into the categories of trade, aid or investment. Instead, they display characteristics of all three.

Several organisations, including the World Bank, have remarked on the "deeply concessional" nature or low interest rate of Exim Bank's loans to Angola. Few of these loans fit the Organisation for Economic Co-operation and Development's (OECD) definition of official development assistance: "flows of official financing to developing countries which have an economic development or anti-poverty purpose and are concessional [interest rate or grace periods more generous than market loans] in character with a grant element of at least 25% (using a fixed 10% rate of discount)."

Comparing the lending rate of China's central bank with Exim Bank's loan to Angola provides the percentage of the loan that can be called aid. China's foreign aid department, located within its Ministry of Commerce (MOFCOM), is required to

Cutting rates and creating interest



Source: Money Café, Reuters and author's own calculations subsidise the difference between these two lending rates. China Exim Bank's floating interest rate renders an average grant component of 17% for the life of the loan, falling below the 25% grant element required by the OECD. Therefore this loan does not meet the OECD definition of foreign aid: it is not concessional because its grant portion is not high enough.

China Exim Bank's credit lines initially helped to ease Chinese (mostly state-owned) companies' investment in Angola's construction sector. Although many Chinese companies entered the market with the help of China Exim Bank, they are now pursuing contracts independently of the state credit line, according to the Chinese ambassador in Luanda, Angola's capital. Even contracts separate from the credit line do not necessarily entail direct investment. Actual recorded Chinese foreign direct investment was just under $350m in 2010, whereas Chinese construction companies signed contracts worth about $22 billion in 2009.

Public investment projects financed by China Exim Bank's 2004 loan

Phase I

Sector	*Number of contracts*	*Total value ($)*
Health	9	206,100,425
Education	8	217,158,671
Energy and water	8	243,845,111
Agriculture	3	149,753,214
Transport	1	13,840,468
Social communication	1	66,905,200
Public works	1	211,684,101
Total	**31**	**1,109,287,188**

Phase II

Sector	*Number of contracts*	*Total value ($)*
Health	1	43,805,500
Education	3	229,642,314
Energy and water	3	144,902,615
Agriculture	1	54,006,958
Fisheries	3	266,847,509
Post and telecommunications	4	276,307,189
Public works	2	89,490,000
Total	**17**	**1,105,002,085**

Source: Center for Strategic and International Studies, 2008; Angolan Ministry of Finance, 2007

The loans themselves are not considered investment as they are structured so that the Angolan government repays them in full. The credit mechanism (on paper at least) converts Angola's oil revenues directly into public infrastructure construction contracts with Chinese companies, and ties into Angola's public investment programme.

Angola is currently China's largest African trading partner, primarily due to China's hunger for crude oil. According to the Angolan Ministry of Petroleum's latest available statistics, 39% of the country's crude exports went to China, accounting for 15.7% of China's total oil imports. According to UN Comtrade (the world's trade database), Angola is the fifth-largest African market for Chinese exports but these are dwarfed by Chinese imports of crude oil, resulting in China running a large trade deficit with Angola.

The Chinese embassy in Angola has made it a priority to increase Chinese exports to balance these trade figures. As a result, the procurement policies linked to

China Exim Bank's loans take on the strategic purpose of reducing its trade deficit with Angola.

Exim Bank still funds most of the Chinese projects in Angola. Its loan conditions require that no less than 50% of the project procurement be sourced in China. Some space exists for African governments to negotiate the terms for hiring local labour, as in Angola. But Exim's lending is still prescriptive as the bank's primary function is to stimulate demand for Chinese goods and services.

Rumble in the jungle

In the end, these loans are neither aid, trade nor investment, but part of a larger package focused on export promotion. MOFCOM's foreign aid department subsidises a portion of the loan, but not enough for the entire loan to be considered foreign aid. Nor can they be considered investment only. Rather, they are a way to secure oil and open up markets for Chinese (predominantly state-owned) companies' goods and services.

Exim Bank finances the building of much-needed African infrastructure by Chinese companies, which, according to Angolan officials, would be cheaper than corresponding Brazilian or Portuguese tenders if there were open bidding. However, these transactions are open to corruption. The International Monetary Fund, the World Bank and others have criticised them for their lack of transparency. In the end, the success of China Exim Bank's resource-backed deals rests on African governments' skills at the negotiating table, their management of the loan implementation and their supervision of the infrastructure projects that the country's natural resources have financed. GG

Following IMF directives, Mrs Banda reaps international praise, but poverty and protests persist

Malawi: mind the gap

by Elliot Ross

The historian Dame Margery Perham was a major architect of the British colonial technique of indirect rule. "The great gap between the culture of rulers and ruled" was "the basic difficulty" with this method, she wrote. "People do not understand what we want them to do…or, if they understand, do not want to do it."

The solution, according to Dame Margery, was "to instruct the leaders of the people in the objects of our policy, in the hope that they will, by their natural authority, at once diffuse the instruction and exact the necessary obedience."

Christine Lagarde, the IMF's boss, may have felt something resembling Dame Margery's frustration when she visited Malawi in January 2013 to review the institution's structural adjustment programme. Malawi's president, Joyce Banda, is more or less compliant with the urgings of Western technocrats such as Ms Lagarde, but the people Mrs Banda must try to rule are not impressed.

After years of being frozen out by her predecessor, Bingu wa Mutharika, Mrs Banda has restored the IMF to the top table of Malawian policy-making. At the fund's behest, she has pushed through a sweeping programme of reforms, principally a massive 50% devaluation of its currency in May 2012 and the removal of major subsidies on fuel and other commodities, all in the name of attracting foreign investment. The immediate prize was a three-year loan of $157m. The IMF had withheld these funds from the recalcitrant Mr Mutharika, along with an $80m credit facility. But as a reward for Mrs Banda's currency devaluation, it restored them in June 2012.

Malawi's multilateral creditors, $m

Creditor	*June 2010*	*June 2011*	*June 2012*	*% change 2010–12*
International Development Association	219.5	269.7	294.1	34.0
African Development Fund	145.1	162.4	166.4	14.7
African Development Bank	2.8	1.1	–	–
International Monetary Fund	130.0	152.4	141	8.5
European Investment Bank	18.1	28.8	26.2	44.8
International Fund for Agricultural Development	70.9	78.7	78	10.0
Nordic Development Fund	30.3	33.8	28.6	-5.6
Arab Bank for Economic Development in Africa	29.0	29.7	31.6	9.0
Organisation of Petroleum Exporting Countries Fund	20.4	23.8	29.3	43.6
Eastern and Southern African Trade and Development Bank	–	4.6	3.3	–
Saudi Fund	–	–	1.2	–
Total multilateral	**666.0**	**784.9**	**799.7**	**20.1**

Source: Malawi Ministry of Finance, 2012

Public multilateral debt accounted for 72% of total public debt in 2012. Total debt amounted to roughly $1.1 billion.

The economy has not responded well. Bloomberg recently reported that the kwacha is now the worst-performing currency in Africa. A Malawian research organisation, the Centre for Social Concern, puts the rise in the cost of living for the average low-income urban family at 20% in 2012. Inflation is above 30%; food shortages are spreading; and the cost of fuel and other commodities has been rocketing since the devaluation.

Last November the cost of petrol rose from 539 kwacha ($1.78) a litre to 606 kwacha ($2). Another hike in early February saw it rise further to 704.30 kwacha ($1.71). Two years ago, in February 2011, an increase from 256 kwacha ($1.72) to 290 kwacha ($1.95) was considered unsustainable.

Malawians reacted to the latest fare hikes by staging public protests in January, and then again in February. Civil servants and teachers went on strike, demanding a 67% pay rise. After two weeks without lessons, the city's primary school children organised their own march through Blantyre in support of their teachers. They smashed windows at a school named after Joyce Banda and sat in the road blocking traffic before tear gas dispersed them. The strike was broken only when government acceded to a 61% salary increase for the lowest-paid civil servants, saying they would find the money from somewhere.

In its latest review, published in late February, the IMF announced a new $20m loan, while noting nervously the "growing public outcry over falling living standards".

"The IMF is in panic mode," says Professor Thandika Mkandawire, a development economist at the London School of Economics. "The social consequences of the policies are dire. The IMF is blaming this on poor implementation of social measures, whatever that means."

Ms Lagarde acknowledges that the reforms have not gone according to plan. Nonetheless, during her visit to Lilongwe, she ordered Mrs Banda to persevere with the IMF agenda. Ms Lagarde left Malawi with a statement offering "congratulations" to Joyce Banda for her "bold" economic policies, and urging her to "stay the course". Demonstrators in Blantyre, Lilongwe and Mzuzu took to the streets. They sang slogans insisting Ms Lagarde is unwelcome in Malawi and accused the president of selling out the country to the IMF. In its latest review, published in late February, the IMF announced a new $20m loan, while noting nervously the "growing public outcry over falling living standards".

Mrs Banda is a compelling and contradictory figure. Africa's second female head of state, she is leading her country at a particularly puzzling historical conjuncture. If she is not careful she may not last long in State House. It was inside the very first month of her presidency that Mrs Banda made the decision that will surely define her tenure: rushing through a devaluation of the kwacha that saw it drop 50% against the dollar. It looked like a bold move at the time. To many observers the devaluation seemed the only plausible option to engineer a rapprochement with an international community that had grown weary of the irascible Mr Mutharika and had withdrawn budget support.

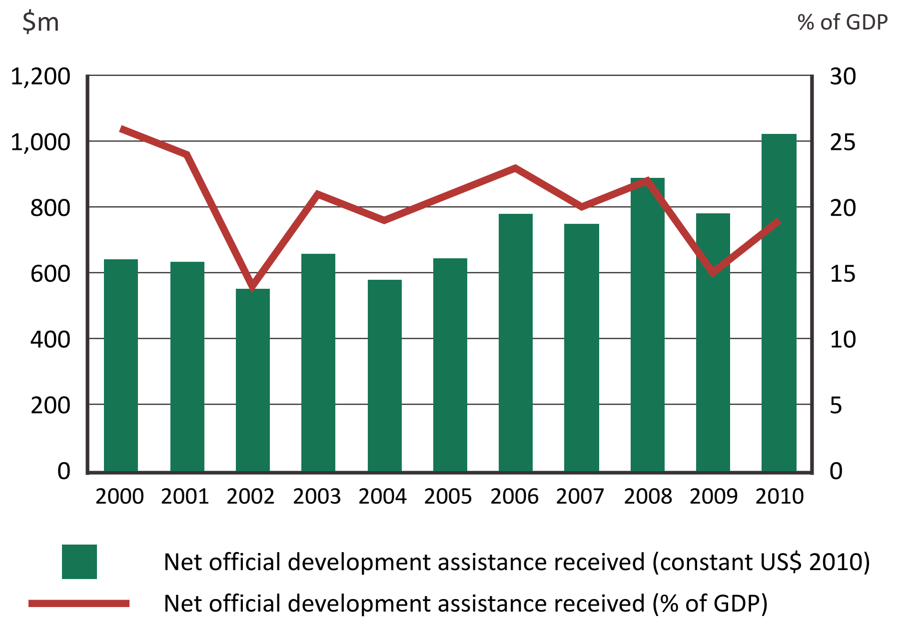
But his sudden death in April 2012 was followed by a brief but highly-charged stand-off which yielded one of the most dizzying political turnarounds in modern southern African political history: the ascension of Mrs Banda, more than a year after Mr Mutharika had ejected her from the Lilongwe political machine. When she formed her own political movement, the People's Party, the members were so few in number that their bright orange uniforms signalled an optimism verging on the hare-brained.

There are three questions worth asking at this intriguing moment. The first two concern the balance of Malawi's electoral calculus and future economic reforms in the developing world. In plain terms: will Joyce Banda lose the election in 2014 if she follows through with the IMF demands? What would this defeat mean for the way global economic institutions go about their business in the Third World?

The third question relates to the broader historical and economic currents that underlie the current Malawian situation. In particular, how is it that for just $157m, the Bretton Woods institutions can still dictate the monetary policy of a country such as Malawi in 2013?

The question of Malawi's reliance on global financial institutions has not always been so perplexing. This dependence, however, ought to have declined, with China established as a major partner and international energy companies hovering for big resource contracts. The government continues to draw 40% of its budget from foreign

Malawi's dependence on foreign aid



Source: World Bank, 2012

donors. The IMF's own figures estimate that nearly half of the country's 15m population live on less than $1 per day.

The Malawian economy has been heavily dependent for many years on its agricultural sector, as the continent's largest exporter of burley tobacco. Last year the International Tobacco Growers Association estimated that the crop accounted for 70% of Malawi's foreign exchange earnings, and 15% of total GDP.

The country's much-vaunted relationship with China, fostered over the past decade, is not sufficient to allow Malawi to ignore IMF directives. With Chinese financial and technical support, a grand new parliament building has sprung up in Lilongwe; a national stadium is on the way. While Joyce Banda does not imitate her predecessor by wearing a Chinese-collared shirt, relations appear to remain very cordial.

But whatever China is getting from Malawi, Malawi is not gaining much in the way of hard financial clout. In his second term, Mr Mutharika ruled as though the only international relationship Malawi needed was with China. Western donors withdrew. Ordinary Malawians soon found themselves suffering a nationwide shortage of foreign exchange, fuel and medical supplies.

What about Malawi's natural resources? The country seems to have discovered considerable oil beneath Lake Malawi, creating tensions with neighbouring Tanzania, which also borders the lake. This find has come at precisely the right moment, just when economists around the world were scratching their heads over how Malawi's economy will function when the world tobacco market finally peters out. Still, it will probably be a number of years before the Malawian treasury takes in its first petro-kwacha.

Until then, Mrs Banda has to govern with whatever funds are available to her. In September 2012 she spoke to a private audience at the plush Waldorf Astoria hotel in Manhattan. One of the first things she did after taking office was to examine the national finances as Mr Mutharika had left them. These, she said, were comparable to the numbers one might expect to find in the current account of an ordinary private individual in the United States.

It is a striking claim, and one that certainly helps explain why Mrs Banda was willing to take such a sizeable political gamble to get hold of the IMF's $157m. But it also gets to the heart of one of the defining contradictions of Mrs Banda's presidential style: she is a gender-rights activist who often sounds like a saleswoman. She attempts to perform simultaneously both these roles on the international stage.

She has learned to speak in the public relations-style language of the business school circuit. She sells Malawi as an attractive investment opportunity, a place to do business. This is no incidental concern, since encouraging foreign direct investment is the fundamental objective of the IMF reforms. Yet in the very same Western capitals, Mrs Banda is feted as a pioneer for the rural poor and women's rights. She convinces most when she offers Malawi as a sob story.

The two lenses through which Mrs Banda depicts Malawi—near basket case on the one hand, confident emerging market on the other—simply do not make sense when offered together. Ordinary Malawians are telling her that they have had enough of "donor-fearing" politics.

Wanted dead or alive: foreign aid in Africa

by Tolu Ogunlesi

Every year billions of dollars in development aid stream into sub-Saharan Africa. Western countries and multilateral agencies like the World Bank and Britain's Department for International Development (DfID) are the continent's major donors.

Some countries in Africa depend on these grants and loans more than others. Overseas development dollars make up about 40% of landlocked Malawi's annual budget. In contrast, oil-rich Nigeria's foreign aid portion of annual spending is less than 6%, according to the Organisation for Economic Co-operation and Development (OECD), a think-tank.

Africa has a dismal track record of transforming foreign aid into development: many African countries are poorer today than they were at independence. Of the 49 countries on the UN's 2012 least developed countries list, 33 were from sub-Saharan Africa. Only two African countries—Botswana and Cape Verde—of the 35 originally listed in 1971, have graduated from this designation. Clearly, something is wrong. Where have the hundreds of billions of aid dollars given to Africa gone?

This spectacular failure of foreign assistance has led to heated debate in recent years about the usefulness of aid, and strident calls for its overhaul. Among the more prominent voices is Zambian economist Dambisa Moyo, author of the 2009 polemic "Dead Aid: Why Aid is Not Working and How There is A Better Way for Africa", a *New York Times* bestseller which was received with equal measures of acclaim and controversy.

Ms Moyo classifies aid into three categories: "humanitarian or emergency" (triggered by wars and natural disasters), "charity-based" (from non-profits and foundations), and "systematic" (from richer countries and development financing institutions like the World Bank and DfID)—also known as official development assistance (ODA).

Systematic aid, in terms of size, dwarfs the other two kinds, Ms Moyo argues. It often fails to achieve its goals: providing infrastructure, fighting poverty, disease, hunger and illiteracy, and building government skills. "Across the globe the recipients of aid are worse off; much worse off," she wrote. "Aid has helped make the poor poorer, and growth slower."

It is a radical argument to make, one echoed by British journalist Jonathan Foreman. The bulk of foreign aid is "'development aid' intended not to help in emergencies, but to foster prosperity", he wrote in a January 2013 article for the UK's *The Spectator* magazine. But "after 60 years and $3 trillion of development aid, with one big push following another and wave after wave of theories and jargon, there is depressingly little evidence that official development aid has any significant benign effect on third-world poverty," he wrote. It is "at best useless and at worst counterproductive".

Equally disturbing is the selectiveness with which Western donor countries engage with African countries, depending on what benefits are at stake. The West often turns a blind eye to corruption and gross human rights abuses in the countries they depend on for much-needed natural resources. They ply dictators and warlords with aid in exchange for access to everything from coltan to crude oil. However, when China does the same, signing unconditional oil-for-infrastructure deals with African autocrats, these Western countries are the first to protest loudly.

In many cases, aid disbursement is tied to unrealistic conditions, which sometimes triggers the displeasure of the recipient country. In October 2011 David Cameron, Britain's prime minister, threatened to cut aid to countries with anti-homosexuality legislation. This led Ugandan presidential aide John Nagenda to accuse the British government, in a BBC interview, of displaying a "bullying mentality".

The World Bank, the IMF and celebrities such as Bob Geldof and Bono huddle at the other end of the aid debate. With them stand countless numbers of local and international non-profit and aid agencies, which rarely examine the effects of foreign assistance. These groups have created a business model for surviving on international grants, which they often manage to spend with minimal respect for transparency and accountability.

Nigeria clearly does not need foreign aid. Yet in 2011 the country received $1.72 billion in development aid, according to the OECD. This represented less than 6% of Nigeria's budget for that year and less than 2% of its total oil earnings.

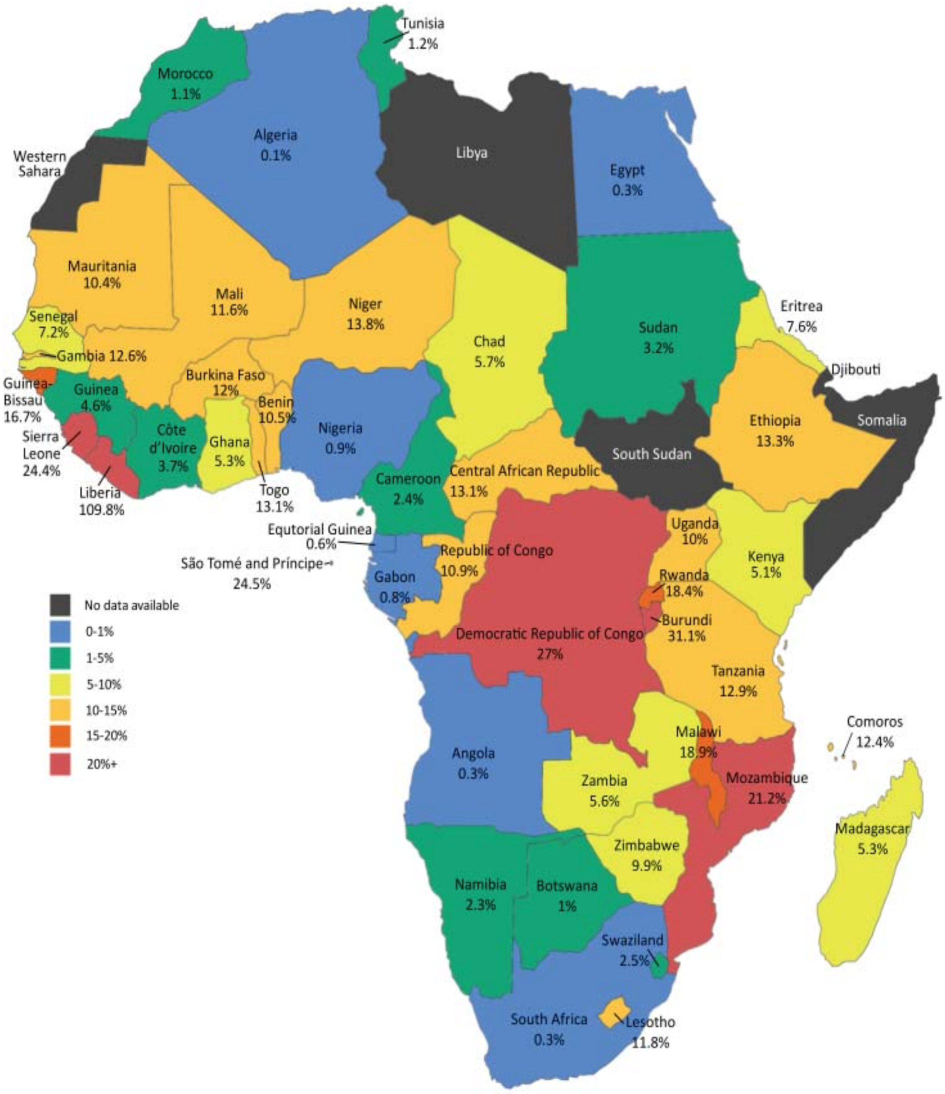
Some African governments recognise the importance of weaning themselves off their foreign aid fix. "True independence would come to Africa only when the continent boosts its internal trade and rids itself of its dependence on external aid," Nigerian President Goodluck Jonathan said during a state visit to Botswana in September 2012.

With 162m people, Nigeria has the largest population in Africa. This West African country is one of the world's top ten producers of crude oil, which generates 80% of the government's annual revenues. Nigeria clearly does not need foreign aid. Yet in 2011 the country received $1.72 billion in development aid, according to the OECD. This represented less than 6% of Nigeria's budget for that year and less than 2% of its total oil earnings.

"Nigeria has only a limited capacity to absorb aid effectively, partly because it has such a large oil income," argued British economist Paul Collier in the chapter he contributed to "The Debt Trap in Nigeria". The Nigerian government's oil revenue "is a foreign resource inflow analytically equivalent to aid".

Tighter spending controls and a lower tolerance for corruption would go a long way towards releasing the resources needed to fund development in Nigeria.

Hooked on aid



Source: World Bank, 2013
Official development assistance (ODA) as a proportion of GDP, 2010

About 70% of Nigeria's annual budget currently goes towards maintaining a bloated government bureaucracy and a 2012 parliamentary probe revealed that fraudulent management of a petrol subsidy programme cost the country more than $6 billion between 2009 and 2011.

Unlike Nigeria, Malawi is a land-locked country of 15m, and was, until recently, resource-poor. This south-eastern African country will continue to depend on foreign aid until it is able to harness its recent discovery of oil and gas in Lake Malawi. Donations from the US, Britain, the World Bank and the IMF make up about 40% of its budget. They delivered about $750m in development assistance in 2011, on a budget roughly equivalent to $1.9 billion, according to the OECD.

Like Nigeria's Mr Jonathan, Joyce Banda, Malawi's president, would like to end this foreign aid dependence. "We must move very quickly from aid to trade," she told the *The Wall Street Journal* in 2012. "We cannot sit here and lament and cry for foreign exchange that's coming from donors, because then we have no control. It will come or it will not come. What we need to do is grow crops and export, manufacture and export."

In general, this requires a careful and patient approach, but options do exist for some quick moves. Under the leadership of Mrs Banda's predecessor, Bingu wa Mutharika, Malawi embarked on questionable spending ventures, like the 2009 purchase of a $22m jet and dozens of Mercedes limousines. When she became president in April 2012, Mrs Banda promised to sell the aircraft and 60 of the limos. In January 2013 the government finally announced the opening of a bidding process for the airplane's sale.

Until aid-dependent countries such as Malawi are able to stand on their own, the way forward is to find smarter ways of delivering and utilising aid in Africa. "We have learned that policies imposed from London or Washington will not work," said James Wolfensohn, a former World Bank president, in March 2002. "Countries must be in charge of their own development. Policies must be locally owned and locally grown… We have learned that corruption, bad policies and weak governance will make aid ineffective."

Net ODA received, 2010

(% of central government expense)

Congo (DRC)	196.29
Burkina Faso	99.28
Togo	91.55
Sierra Leone	89.56
Mali	79.76
Ethiopia	69.64
Benin	69.48
Uganda	61.45
Zambia	32.92
Ghana	26.10
Kenya	22.57
Côte d'Ivoire	20.51
Seychelles	18.86
Mauritius	5.69
Tunisia	4.61
Botswana	3.69
Morocco	3.57
Egypt	0.94
South Africa	0.88

Source: World Bank, 2013

Eventually the aim should be to ensure the radical "aid-free solution to development" proposed by Ms Moyo. Western countries should scale down their protectionism—the "restrictive trade embargoes" that she says cost Africa up to $500 billion annually. Of course, African countries could and should do the same to promote trade amongst themselves. Another Moyo solution: bring banking services to the multitudes at the bottom of the economic ladder and encourage them to save.

Diaspora remittances to the continent are already a significant source of much needed financing (see page 33). The World Bank estimates that diaspora remittances to sub-Saharan Africa amounted to about $30 billion in 2012. Nigeria alone accounts for two-thirds of this sum.

Providing support to the private sector—such as the removal of bureaucratic bottlenecks and improving access to cheap funding—is equally critical. Useful as foreign aid is, says Charles Robertson, an economist at Renaissance Capital, a Russian investment bank, "it won't invigorate the private sector on its own. That depends on African entrepreneurs." GG

Diaspora-driven development

Sending money back home beats foreign aid

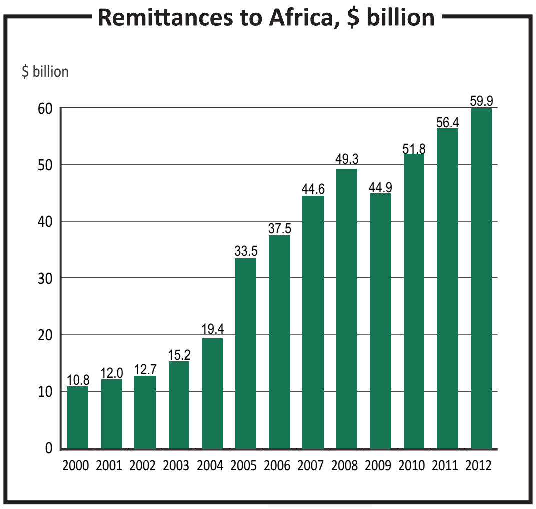
by Adams Bodomo

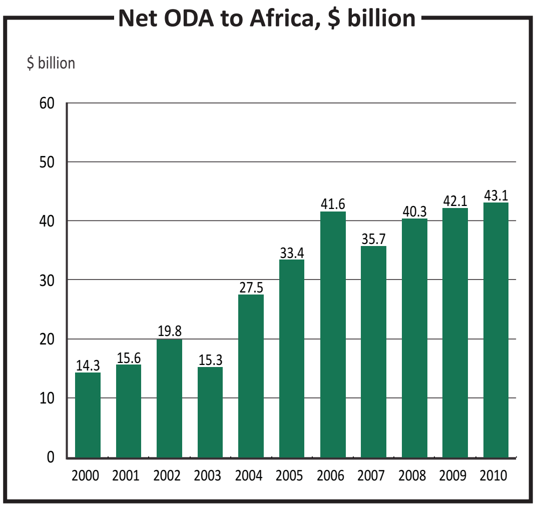
The African diaspora is a major source of foreign income—so large that it now outstrips foreign aid sent by Western donors. Nearly 140m Africans live abroad. The money they send back home, remittances, is worth far more—in value and usefulness—than the development donations sent by Western financial institutions.

The exact amount of these remittances is unknown because not all of it is sent through official banking channels. But the official volume to the continent has gradually increased over the years, from $11 billion in 2000 to $60 billion in 2012, according to the World Bank. As a proportion of gross domestic product (GDP), remittances in Africa range from next-to-nothing to almost 5%.

Worldwide remittances to developing countries were $351 billion in 2011, far exceeding the $129 billion in official development assistance (ODA), according to the World Bank.

The remittances paid by Africans living abroad also rival official aid to the continent. Total diaspora contributions to Africa in 2010 stood at $51.8 billion compared to the roughly $43 billion in ODA, according to the latest figures from the World Bank.



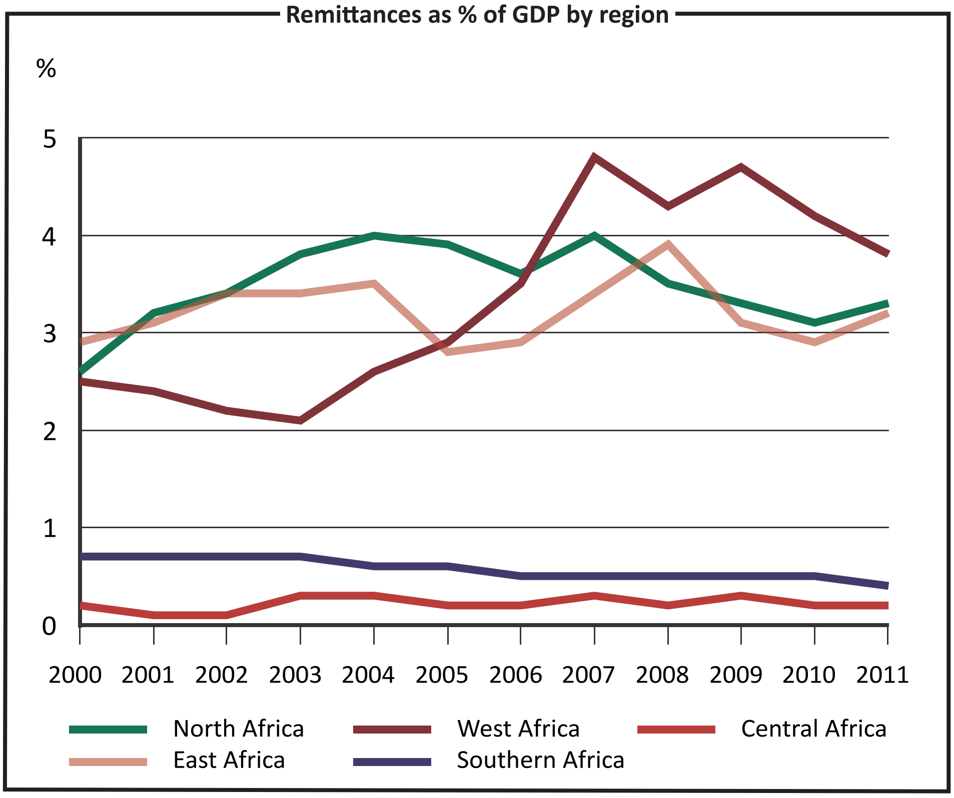


Source: World Bank, 2012

Figures are in current $, figure for 2012 is a World Bank estimate

The payments are bound to grow even higher because new diasporas are emerging in economically fast-developing areas of the world. Currently, more than 70% of the remittances that flow to sub-Saharan Africa are from the West. But this pattern may change because of the economic downturn in many of these countries. Instead, a growing percentage of remittances will come from new African diasporas in places like Brazil, China, India and Russia.

Figures obtained from interviewing about 1,000 African diaspora members in China indicate that Africans send home anywhere from $1,600 to $16,000 per person annually. About half a million Africans live in China. If all were to send money back home, it could add up to anywhere between $800m and $8 billion a year. (This does not include the value of the merchandise bought in China and sold in Africa, which is not considered a remittance but nonetheless is a large contribution to trade from diaspora Africans.)



Source: African Economic Outlook, 2012

Figures for 2011 are estimates

Africans living abroad send money back home through wire transfers that can be tracked. But they also send money unofficially through parcels in the mail or deliver it personally on visits to the family. Up to 75% of remittances sent to Africa arrive through informal channels, according to African Development Bank estimates, suggesting the total amount is up to four times higher than official sums.

Not only are diaspora remittances more substantial than recorded, but they are also more beneficial than foreign aid. Africans living abroad send money home on a regular basis directly to family or friends, who can judge their needs better than the government. These monies go directly towards paying school fees, building houses and growing businesses.

Of course, sometimes families mis-spend their remittances, but this waste is nothing compared to the misappropriations and legendary inefficiencies in the foreign aid industry.

In her book "Dead Aid", Dambisa Moyo lists myriad inefficiencies related to foreign aid and exposes the magnitude of official corruption involved in its management. In 2004 experts argued before the US Senate Committee on Foreign Relations that roughly $100 billion of World Bank funds spent on development had been lost to corruption, she reported.

Africa loses about 12% of remittances to banking fees. In 2012, of the $60 billion sent by exiled Africans about $7 billion never made it into their relatives' accounts.

Remittances are more efficient than foreign aid because they come without conditions, for the most part. They are gifts of love to family members meant to bring about the development of the family—and hence the nation.

Foreign aid funds, on the other hand, are not free gifts. As with most bank loans, strings are attached. Donor institutions, especially, impose conditions such as structural adjustment programmes, public sector deregulation and privatisation. Sometimes they even demand the overhaul of the country's political system before providing funds. A case in point is British Prime Minister David Cameron's recent threat to withhold aid from Uganda and other countries in which homosexuality is illegal.

Some recipient governments and their citizens view these demands as a neo-colonial tool to influence or control their nation's socio-economic and political development. In many cases there is little evidence that conditions on aid have led to marked improvements in recipient countries' economies, mostly because of corruption and inefficiency.

But remittances reaching Africa could be even greater. Exorbitant transaction costs, compounded by the nature of remittances (mostly small amounts sent frequently) gobble up a large part of the money sent to Africa. On average almost 9% of global remittances are lost to banking fees. Africa is the worst hit, losing about 12%, according to the World Bank. So, in 2012, of the $60 billion sent by exiled Africans about $7 billion never made it into their relatives' accounts.

Given the clear advantages of remittances over foreign aid funds and the large amounts they represent, it is disappointing that African governments have not implemented more robust policies to attract remittances.

One way would be to involve diaspora Africans in their country's political systems by allowing them to vote from abroad. Another idea, already implemented very successfully by Israel, India and most recently Ethiopia, are diaspora bonds, a debt security issued by a country to its own diaspora to tap into their assets.

Giving African migrants a greater say in the economic and political governance of their countries could foster greater investor confidence. GG

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