

Article

Foreign Aid and Development Debates in Post-apartheid South Africa

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Introduction

In spite of a long (1991-98) recent period of economic prosperity, donor aid by OECD member states accounted for less than a quarter of one per cent of their GDP in 1998, the lowest figure since statistics began in 1950. For increasingly dependent recipients in sub-Saharan Africa (aside from South Africa), aid/GDP ratios had soared from six per cent during 1975 to 1984 to 13 per cent during the early 1990s. As persistent underdevelopment and corruption generated aid fatigue, the real value of North-South aid fell during the 1990s by a third (*Financial Times*, November 11, 1998). In January 1995, President Nelson Mandela famously criticised Bill Clinton for his \$600 million three-year US Agency for International Development package: 'It's peanuts. We would have expected from the United States far more than that'. Yet even in declining amounts, aid remains a vital determinant of many recipient countries' political and economic conditions. Relations between aid and development also reveal a great deal about international and local power structures and struggles.

South Africa was pledged approximately \$5 billion in foreign development-related aid from 1994-1999, an enormous sum compared to other (more desperate) African countries. The grants and loans that were 'pledged'—though not fully committed, disbursed or implemented—to Pretoria between 1994 and 1999 included vast funds from the European Union (EU) (\$1.75 billion), United States (US) (\$800 million), and Japan (\$550 million). The degree to which funding actually reached beneficiaries has been highly variable, with 'delivery' areas like rural water or roads recording very low levels. One report judged that the aid record of the largest donor, the EU, was 'abysmal' in part because its ratio of money actually committed to that pledged was just 51 per cent and the amount

disbursed compared to that committed was only 13 per cent.¹ Even by mid-1999, fully two-thirds of the previous five years' worth of EU pledges had not been spent (Montes et al 1999). Yet while government could not disburse its own development-related monies (in housing, infrastructure, land reform and many other fields) due to lack of capacity, foreign donors simultaneously shifted from funding civil society to funding the state, as described below.

Although it is small in comparison to the wide variety of state spending programmes (at just two per cent of the national budget), aid contributes a substantial share to South African development, particularly capital projects. Given that the state must spend a large amount of its budget (90 per cent) on recurrent costs, foreign aid can be decisive in shifting capital expenditure into areas donors decide – although sometimes without much reference to sustainability, maintenance and infrastructure. It was presumed that many aid missions would end their work after 1999, once democratic development policies were established and implementation got underway, but most have continued to justify a presence on the basis of unfulfilled programme and project implementation.

Studies of post-1994 aid to South Africa are only now beginning in earnest.² Donors, state officials and civil society recipients are reliant for assessments upon popular perceptions sometimes captured in the media, and upon hidden consultancy reports. The largely negative character of the former, and apolitical nature of the latter, are themselves of interest. Until a more comprehensive investigation into donor activity is published,³ this article can merely capture some of the main debating points that have arisen in both popular and behind-scenes analysis. Three key issues that emerge from even an initial review of the aid industry include aid as a tool of foreign policy leverage; the appropriateness of hard-currency loans for development; and the uneven impact of donor aid on civil society. Each is considered below.

Dependency and leverage

The incentives for donors to give aid are diverse. David Sogge argues that the economic agenda behind much aid has included access to markets, commercial rivalry and acquisition of local primary products. Beneficiaries include

agribusinesses; purveyors of arms, aircraft, vehicles, pharmaceuticals and engineering services; and universities, which accepted African bursary holders... Consultants and other bearers of technical assistance

for SSA have accounted for about one-third of all aid flows... [As a result,] public sector management is weakened, due to national policies being segmented into discrete projects designed by and for the aid system; internal brain-drain to agencies from the public service; and aid agencies developing 'kingdoms' in specified provinces, cities or 'development corridors', thus distorting internal relationships and blocking coherent national policy development... The aid system has shifted accountability toward foreign funders and away from voters and taxpayers, undermining citizen-state reciprocity. (Sogge 1998)

Concerns over dependency and increasing donor leverage remain widespread. Less than a year after South Africa's first democratic election, the then president of the National Union of Mineworkers, James Motlatsi, pronounced, 'South Africa must be independent of foreign aid... Then we will be able to get on with our independence without having to look continually over our shoulders in case we are being destabilised' (SAPA January 19, 1995).

The degree to which aid influences policy in South Africa is hotly debated. The influential policy advisory role of the World Bank, often through 'donor coordination' projects, has tended to reinforce the perception that aid is tightly bound up with the broader neoliberal agenda of shrinking the state. Although virtually no loans were requested by South Africa, there have been many other means of World Bank policy persuasion, including 'just-in-time policy availability', training sessions and strategic visits by South Africans to Bank headquarters. Bank teams have successfully introduced neoliberal policy advice in areas such as macroeconomic policy, the basic housing and infrastructure programme, land reform, national water pricing, welfare programme cuts, and the like. In even a policy matter as obscure (yet as vital) as bulk water pricing, the Bank describes its advisory role as 'instrumental' (World Bank 1999).

Yet while there is usually some motivation by donors to induce policy changes, this is not always successful. Foreign aid 'has had no net effect on the recipients' growth rate or the quality of their economic policies', according to World Bank aid researchers David Dollar and Craig Burnside in a seminal study of post-1970 donations which attempts to shift blame for ineffectual neoliberalism to aid recipients. 'We got into thinking we could induce countries to reform. But it turns out this was wrong'.⁴ The occasional unreliability of foreign aid as policy leverage is reflected in the case of Taiwanese donations to South Africa. In 1994, these were apparently aimed initially at currying political favour with the ANC – a donation of \$10 million to the party prior to the first election was cited as one basis for

retaining South African official recognition of Taiwan instead of the People's Republic of China⁵ – and later at development. Thus when in 1996, South Africa reversed position by recognising the PRC, the furious Taiwanese foreign minister John Chang suspended grants to South Africa worth \$80 million and loans worth \$50 million.

Debate has also raged over the EU's South African interests, particularly in relation to the March 1999 EU-SA free trade agreement, to which continued grant aid is integrally tied. The 12 year deal allows South Africa slightly more time than EU firms for adaptation to declining import protection. But extremely severe competition from European imports is anticipated in sectors as diverse as clothing and automobiles. The free trade agreement was controversial in part because at the last moment, in April 1999, Germany and Holland requested a brand new (seemingly unrelated) repatriation clause for illegal aliens from South Africa, and because southern European countries demanded greater agricultural protection, particularly against South African use of traditional name brands of alcohol.⁶

Tied service contracts represent a highly visible way in which foreign aid supports donor constituencies. These are not unlike the tied commodity import programmes that are popular amongst aid agencies so as to assure donor-country sales of farm and related equipment to aid recipients. Even conservative commentator Simon Barber of *Business Day* newspaper alleged that Clinton's \$600 million South Africa aid package for 1994-96 was a 'sleight of hand' because \$72 million were for US export promotion and at least \$75 million were not in grants but rather guarantees on housing loans (*Business Day*, May 24, 1994). US donor programmes came under further suspicion as Republican Party pressure emerged in 1995 to cut the US government aid budget, for defenders argued that they benefited Americans as much as South Africans.

As former US representative to the United Nations Andrew Young noted when organising his 'Constituency for Africa' (against the 1995 Republican Party threat to cut aid), 'We get a five to one return on investment in Africa, through our trade, investment, finance and aid. Don't you see? We're not aiding Africa by sending them aid, Africa's aiding us.' At the same Constituency for Africa meeting, Washington-based aid consultant Joseph Szlavik warned African aid recipients to 'pay more attention to their voting in the United Nations, trying to meet the US position more often than they currently do. By moving forward, African countries will be able to "win friends and influence people" as the saying goes' (Bond 1995).

Most evidently, this was the case when in early 1997 President Clinton threatened to withdraw aid shortly after South African Cabinet approval (in December 1996) of arms sales to Syria, which the US considers a terrorist state. According to one press report: 'In the toughest public warning it has ever issued to President Nelson Mandela's government, the Clinton administration said yesterday it was "deeply concerned" by cabinet's provisional approval of a R3 billion arms sale (aim-enhancing gear for Soviet-made tanks) to Syria, and might be obliged under US law to suspend aid to SA' (*Business Day*, January 16, 1997). Although Mandela replied in March 1997 that it was immoral to abandon countries that had supported the ANC in the anti-apartheid fight 'on the advice of countries that were friends of the apartheid regime' (ie, the US), Defence Minister Joe Modise confirmed that a marketing permit was issued for the arms but that, in the wake of the US warning, 'We did not tender, as no documentation was received from Syria' (*Star*, March 19, 1997).

Later, South Africa's 1997 Medicines and Related Substances Control Amendment Act (especially section 15c) raised a major controversy because it threatened the interests of US (and to some extent European) pharmaceutical companies by promoting cheaper generic drug imports (Bond 1999). In response, the companies used congressional allies to pressure (unsuccessfully) the US government in 1998 to 'prohibit aid to the South African government until Congress receives a report containing the plan of action "to negotiate the repeal, suspension or termination of section 15c"' (*Business Day*, July 20, 1998). Only political pressure from grassroots South African and US activists was sufficient to reverse the US strategy in late 1999.

What sometimes appears as overt US involvement in South African politics is also widely condemned. At the 50th conference of the ANC in December 1997, Mandela harshly criticised USAID policies for having a political agenda, especially in support of NGO opposition groups (*Business Day*, December 16, 1997). As *Business Day* interpreted, 'When government first voiced its concern about NGOs receiving foreign donor support, fears were heightened that Pretoria wanted to undermine the independence of NGOs - a crucial feature of these organisations'. On the other hand, noted a *Business Day* editorial writer,

South Africa needs to be careful of unnecessarily alienating foreign donors. Aid agencies should not be confused with charities. Whether one likes it or not, they are instruments of foreign policy, designed to

further their governments' political and commercial interests. (*Business Day* March 16, 1998)

A confidential 1998 internal US government report more explicitly accused USAID officials of 'extreme and unqualified meddling' in South Africa policy-making (*Business Day*, February 2, 1998). Key Mbeki advisor Rev Frank Chikane commented at the time that donors must 'loosen aid strings, including the use of foreign nationals', who should be 'a last resort in development projects. If the necessary expertise is not available in South Africa, it will be sourced from anywhere in the world, not necessarily from the donor nation as is now currently the practice' (*Business Day*, February 19, 1998).

Currency risk on loans

A major aid industry trend is the evolution of donor grants into loans. The most active aid-related lenders were the EU and Japan (whose grant/loan ratios were \$740/\$675 million and \$40/\$500 million, respectively). Should South Africa take foreign aid in the form of hard currency loans? According to the *Reconstruction and Development Programme*, 'The RDP must use foreign debt financing only for those elements of the programme that can potentially increase our capacity for foreign earnings' (ANC 1994). As the South African National Civic Organisation explained in its 1994 report *Making People-Driven Development Work*,

The reason for the hard line on foreign borrowing is threefold. First, South Africa is awash with capital, and at least in the short term does not need to borrow abroad. Second, and more important, is the much reported foreign debt trap. Foreign loans are denominated in foreign currency – dollars, yen, ecu, etc. During the coming years, the Rand will continue to devalue against those currencies, so that even if the interest rate is very low in dollar terms the effective cost in Rands may be much higher. This, in turn, is cyclical. If foreign borrowing is high then international financial institutions such as the IMF push for further devaluation, which further increases the Rand repayments. Thus, the more foreign debt South Africa takes, the more onerous become the repayment conditions. Many countries – including industrialising ones like South Africa – have been caught in this trap and found that supposedly soft loans became a millstone around their neck. Third, no foreign loan is truly unconditional – there are always restrictions on the use of the loan or on government economic policy, and these impose a substantial hidden cost.

The RDP foreign loan provision was widely accepted, even in the business press (see Bond 2000). Thus in 1998, South Africa turned down \$75 million worth of Japanese loans (for KwaZulu-Natal bulk water development and Eastern Cape rural road upgrading) because, as one report noted, 'the requirement to provide only yen-denominated loans was making Japanese loans only marginally cheaper. This signals an increasingly cautious approach to foreign aid by government'. The Department of Finance itself explained, 'Due to exchange rate risks, and increased costs associated with taking out forward cover, the landed cost of the loans is only marginally cheaper than loan facilities on the local market' (*Business Day*, March 2, 1998).

However, foreign development lending still continues, particularly to South Africa's major foreign parastatal borrowers, such as the Development Bank of Southern Africa. With the currency suffering periodic declines (including two bouts of 30 per cent nominal devaluation over a few weeks, in early-1996 and mid-1998), repaying such loans in cases where there are no offsetting hard currency income sources, is potentially cost-prohibitive. For many years, South Africa avoided a World Bank loan estimated in the range of \$750 for basic infrastructure. As Kgalema Motlanthe put it, 'Once you start taking loans from the World Bank and IMF, they can tell you even who your finance minister must be' (*Business Day*, June 6, 2000). Yet as *Transformation* was going to press, rumours resurfaced of that loan's resurrection in the Departments of Provincial and Local Government, and Finance.

Civil society expectations

The most debilitating experience for many civil society organisations since 1994 was being unceremoniously dumped by donors, at a time when donor funding for government was going unspent. According to the South African NGO Coalition (Sangoco, an advocacy group with 3,000 member organisations):

Despite the commitment signalled by Government in the *Reconstruction and Development Programme* (RDP), NGOs and CBOs in South Africa have come to experience a massive crisis of unparalleled proportion in the present transition. The root of the crisis lies in the major funding squeeze that the sector is experiencing. Major international donors, corporate and other donors, anticipating the new government would step in to fund this sector have reprioritised their allocation of development finance, withdrawn or claim that they are

putting their money in government for the RDP. This has resulted in the sector experiencing a major funding drain and many organisations collapsing.⁷

Yet at the same time, a proliferation of Northern-based NGOs and donor agencies appeared in South Africa, with some taking on functions of support to community development once performed by organic South African NGOs. As a result, South African civil society organisations have lobbied strenuously for an indigenous donor agency. The main vehicle chosen by the government to channel foreign aid to NGOs (including Community-Based Organisations, other development organisations and the labour movement) is the National Development Agency (NDA) (formerly known as the Transitional National Development Trust) (TNDT). The TNDT emerged, in a bureaucratic and tardy manner, during the intensifying funding crisis immediately following the first democratic elections in 1994. It is generally accepted that the establishment of the TNDT and NDA represented belated and inadequate responses to the decline in funding.

Perhaps the two most widely held concerns on the establishment of a conduit of funding from government to civil society are the long delays in these structures becoming operational, resulting in lengthy 'funding gaps', and the small amounts of money assigned to these institutions. The two funding gaps occurred between 1994 and 1997 and from 1998 until 2000 when, after many delays, the NDA became operational. Even as late as mid-2000, however, many TNDT recipients were denied NDA funds and folded (*Sunday Independent* 2000). The South African Government promised to fund the NDA to the tune of R50 million in its first year of operation, R165 million in the second year and R265 million in the third, which represents an increased commitment. This is nevertheless still well short of the amount required to provide adequate support to the sector. The Independent Development Trust's promised contribution of R100 million is well short of the support it could provide, given its reserves in excess of R1 billion. The EU, as the only major contributor to the NDA's TNDT aside from government, played an important role, yet the contribution of R70 million to date represents an average of a mere R15 million a year. A further EU promise of ECU30 million over three years represents a declining ratio of EU funding compared to government funding.⁸

Conclusion: attributing blame

The information presented above is largely critical in tone, although this should not detract from extremely positive experiences that many

beneficiaries have enjoyed with donors, at various levels. However, perceptions of foreign aid are more often tinged with cynicism if not outright suspicion, for the good and bad reasons described above.

To conclude, it may be useful to assess whether complaints about foreign development aid recorded above are convincing, in view of the South African government's own enormous shortcomings in managing aid. The ANC had, after all, promised to 'introduce measures to ensure that foreign governmental and non-governmental aid supports the RDP' (ANC 1994) – but, in fact, failed to do so, in part because its own policies often directly violated the RDP (Bond 1999).

To some extent, contradictory policies, poorly-designed programmes and unsustainable projects were major factors in the failure of foreign-funded development. Financial sustainability was a perennial problem, for typically once capital spending has generated some form of physical infrastructure, donors have achieved what they want and move on to the next project, without sufficient concern about recipients' ability to afford recurrent operating and maintenance costs of the project. This was remarked upon by then-finance minister Chris Liebenberg: 'Donors often insist that aid is used to build something like a hospital or township but forget that the government is left to put in the infrastructure and maintenance which puts a tremendous strain on the budget which is struggling to meet basic needs' (*Mail and Guardian*, July 21, 1995).

Moreover, the South African government's own oversight of donor activity left much to be desired. The representative responsible for managing aid – in the case of the European Union's \$1.75 billion, for example – was the Deputy Minister of Finance (from 1994-96, Alec Erwin, and from 1996-99 Gill Marcus). As the EU's 1999 *South Africa Country Review* put it, however,

there is no real involvement [by the Deputy Finance Minister]... in terms of policy dialogue on national priorities and the main focus of EU support. As far as coordination is concerned, no framework has been set up for dialogue between government and the donor community as a whole; the dialogue is organised at bilateral level between SA and the donor concerned.

Moreover, in fields like education and health, according to the EU's *South African Country Review*, there was 'no real institutional framework for donor coordination; it is the case with the Ministry of Education, to a lesser extent with the Ministry of Health, and this has a negative influence

on the implementation of the programme'. Although this was partly due to the provincial responsibility for implementation in these areas, the Department of Trade and Industry was also criticised by the EU for 'weak capacities at technical and administrative level' (1999).

It may be possible to conclude, therefore, that there are extremely good (and some bad) reasons for foreign aid to have generated negative perceptions in the post-apartheid era. Many of these reasons can, ultimately, be located at the levels of specific policies, programmes and projects within the South African state. However, enough additional concerns about the agendas and modus operandi of donors are raised by these experiences, to suggest the need for thorough-going reform. Stronger quality control and criticism by civil society aid recipients is a crucial prerequisite for such reform.

Notes

1. Commitments failed to translate into disbursements and implementation for several reasons: an overly bureaucratic RDP Office (which initially funded aid-related projects on a reimbursement basis, not up-front, and had excessively complex requirements for project business plans); a requirement to flow funding via the general revenue fund; parliamentary oversight; project tendering requirements; the imposition of Value Added Tax on aid; complex donor procedures; conflicts with government; and an increasingly demobilised civil society. See Bratton and Landsberg (1998a).
2. See, for example, Bratton and Landsberg (1998b), Budlender (1999), Budlender and Dube (1999), Heard (1999), Love (1999).
3. Such research is underway in the Department of Finance and the University of Natal-Durban Centre for Social and Development Studies. A good model is the study of Lesotho aid by Ferguson (1994).
4. *Financial Times*, April 14, 1997. See the authors' 1997 summary and their 1998 book.
5. Opposition political party leader Tony Leon concluded, 'Our whole foreign policy is based on the electoral debts of the ANC. When the ANC is short of cash it runs off to the Gulf states or to Morocco for help' (*Mail and Guardian*, December 8, 1995).
6. Just as importantly, the deal has been criticised by regional policy-makers for lack of transparency and for its potentially devastating impact on (non-South African) regional manufacturing firms (in view of far more competitive European firms using South Africa as a trading base to penetrate into the region). Zimbabwe and Zambia even imposed new protectionist barriers against South African imports, in the wake of 40 per cent of Zimbabwe's

manufacturing output disappearing from 1991-1995, and 75 per cent of Zambia's formal sector jobs evaporating during the same period.

7. Submission of the South African NGO Coalition to the Advisory Committee Investigating the Feasibility of the Establishment of a National Development Agency, undated.
8. Concerns have been articulated, off-record, that the EU has insisted on micromanaging TNDT development priorities, as a result of a regular insistence on its right to give the go-ahead on individual projects to be funded from the EU contribution to the TNDT.

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