Aid to Africa at Risk: Covering Up Corruption

by

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"We've covered that now." Corruption in Africa that is. Irish rock star Bono, short-listed for the Nobel peace prize, was promoting the cause of the Sub-Saharan poor on late-night television before a visit with President Bush at the White House. The message was clear: The American people, who are generous at heart but fearful that aid monies will be hijacked by corrupt regimes, can now dust off their checkbooks. Wish it were so, Bono. But the facts speak otherwise.

No one can dispute Bono's concern for Africa. His concerts have moved the aid debate off the conference tables of finance ministries and into the global public conscience. To give more to needy nations is on every list. But corruption prevents aid from benefiting or even reaching the poor and has instead enriched and entrenched a series of destructive governing elites. How to give wisely, cost-effectively and directly for the benefit of the poor remains the elusive goal.

Rich nations are now poised to fund an exponential increase in development funding for the world's poorest countries. But after 40 years and US$ 500 billion of failed aid to Africa, giving in the same old ways will simply pour more money into what corruption renders "a leaky begging bowl"[1].

A US$ 4 Trillion Ransom for the Global Poor

At the Gleneagles 2005 Summit, chairman Tony Blair placed development aid at the top of the agenda and the other leaders went along. The debt of 36 poor nations would be cancelled and payments on US$ 50 billion of bad loans to the World Bank and the African Development Bank assumed by rich governments. If UK Chancellor of the Exchequer Gordon Brown has his way, debt forgiveness will be expanded to all poor countries, solvent or not. The price-tag: US$ 400 billion. Next came a pledge to double aid monies for poor nations by 2010. The price-tag: US$ 50 billion annually. By 2015, the increase will be raised to US$ 100 billion per annum. These are just the first installments.

The Millennium Development Goals, endorsed in Monterrey in 2002, which seek to halve extreme poverty among the 1.1 billion people that live on less than US$ 1 per day,

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[1] George B. N. Ayittey, Africa Unchained, page 323, 2005.

are gaining momentum. To satisfy what has become a global moral imperative to rebuild poor economies from the bottom up and to remold their societies to a democratic ideal, the United Nations demands that rich nations pay an annual levy of 0.7% of national income or $250 billion each and every year. This would rise with economic growth to over $300 billion per year in a decade (in constant 2005 dollars).

In early 2005, members of the European Union unanimously committed to pay their share, although clearly worried about where to find the funds. They hope to force US consent and for good reason. Of the massive increase in aid monies, the United States, which is now responsible for a 20% share of world aid, would be compelled to contribute 50%. Total world cost: $1.6 trillion for the first decade; then $2.8 trillion more to complete the task for the remaining half of the world's poor.

50% and More Into Africa: Aid at Risk

Half of all new aid has been stamped for shipment to 43 countries in Sub-Saharan Africa and, by 2015, the continent would be awarded 62% of global development funds or US$ 125 billion a year. Just two years of this annual mega-commitment would exceed all of their debt accumulated over the last 30 years.

Africa has been the graveyard of development aid. It remains the only continent where the proportion of the population in extreme poverty is growing---at latest count 46% or 313 million in 2001. Even as many once poorer nations have climbed out of poverty, three decades of decline, or at best stagnation, have seen per capita incomes fall 25%. But multilateral agency planners promise that this time will be different.

Corruption is not just one of the causes of intractable poverty in Africa. It is the root cause. The long litany of contributing factors advanced by recent United Nations and UK government Commission reports to explain or excuse 40 years of economic failure---from war to famine; from rotting infrastructure to epidemic disease---are not causes but consequences of pervasive pillage by a long line of leaders gone bad.

The most accurate assessment comes from a rational private sector that is not swayed by promises nor by Ministries of Corruption and a few token severed heads on the city gates. While donors debate the fine points of "good governance", which has been loudly proclaimed as the *sine qua non* of aid giving, Africa's own are voting with their Cedis, Naira, Schillings and Francs and their feet. Forty per cent of African savings are held outside the continent, some US$ 700-800 billion. (In Asia the rate is 3-6%.) Skilled and educated workers emigrate at the rate of 70,000 a year. Foreign direct investment is attracted only by mineral wealth at a time of world scarcity. At the first sign of genuine reform, the private sector will be on the plane to Africa before the first UN discussion committee convenes.

Africa's leaders have rational expectations. Since 1970, violent changes in regime have taken place 100 times in 30 countries and are still making headlines in the current news.

What better strategy in a risky environment than to be short-term greedy, to grab with both hands at an accelerated rate?

The stolen dollars stashed away in private accounts in off-shore banks cannot be accurately tallied: At the low end, Prime Minister Blair's Commission for Africa believes the sum to be US$ 95 billion or the equivalent of more than half of poor Africa's external debt; others estimate the level in excess of US$ 500 billion. The taking has been streamlined. Royalties from oil wells and diamond mines; proceeds from government monopolies of agricultural exports; and aid monies were all neatly packaged to go. Records are conspicuous by their absence. Leaders that may not have a personal future leave nothing behind for national futures.

Corruption is not unique to Africa, but long-term secure horizons foster a less destructive business plan. A consistent levy of moderate tributes in other regions has allowed room for development and for elites to maximize profits as the economy prospers.

If need, in and of itself, is the criterion, Africa is the first place where aid should be directed. It holds the most poor without access to private capital and who must depend on official generosity to underwrite the cost of basic needs. (China may hold more poor but has the resources to take care of its own.) But impoverished Africa is the last place where money should be poured into national treasuries without strict controls.

The Best of the Worst isn't Good Enough

Corruption has now been officially declared the deal breaker in any serious commitment to development aid but those who are devoted to doing good, without counting the cost, continue to refuse to look it in the face. The years since 1970 have brought little change since Nobel laureate Gunnar Myrdal wrote: "One of the most flagrant examples of bias…is the virtual taboo against including the important fact of corruption in the analysis of the development problems of underdeveloped countries. It is possible to read hundreds of books and articles…without even encountering the word "corruption"."

Now the word is everywhere but as damaging evidence, real-time and overwhelming, continues to pile up, a new generation of ostriches is scratching holes to bury their heads in the sand. Otherwise there will be almost no destination marked "Africa" to which the mammoth stockpile of funds can be bundled up and shipped off.

Columbia University's Jeffrey Sachs, the moving force behind the UN Millennium Project, has found a way to open the door for massive giving. In the official report to the UN Secretary-General and in his 2005 best-seller *The End of Poverty*, he insists that corruption and poverty march in tandem (which leads and which follows is not clear) and that African regimes are no more venal than comparably poor nations. To this end, he reworks the judgments of two major indexes (the 2002 World Bank Governance Indicators and the 2003 Transparency International Index) and recalibrates African ratings to take account of relative poverty. In a circular reasoning, a new rating system is devised where African nations are effectively compared mostly to each other.[2] Twenty-six out of Sachs' thirty-three countries who are at the bottom in the original reports move up to "good" or "average". Abracadabra: Instant qualification for generous unrestricted aid. (See Table I.)

Two more years of independent ratings show no cause for optimism. All Sub-Saharan nations languish at the bottom of governance and corruption assessments with no improvement to encourage confidence. (See Table II.)

Aid without Risk

Relative corruption is meaningless. Extenuating circumstances are irrelevant. Absolute corruption is the issue. There are no sterling success stories of poor but corrupt countries that have blossomed under aid.

As the world contemplates an unprecedented transfer of taxpayer funds to faraway places, good governance on the receiving end must be convincingly demonstrated over time. In the interim, rich nations must underwrite more aid but in a meaningful manner: Grants that address the most basic needs of the poor, paid out only for performance; endowments that do not lend or spend but protect resources and draw upon income to leverage funds in the capital markets. It is naïve to send aid to Africa without strict supervisory strings attached.

Performance-based grants will still have their enemies. They are demanding and intrusive. They block the spoils system in the developing world that, for years, has annexed aid money for personal gain and entrenched political power. Some poor governments may reject the terms without regard for the plight of their people. Public outcry will follow. But, rich donors cannot be more desperate to give than the regimes of needy nations are desperate to receive.

These grants have a hidden benefit. Soul-searching judgment calls on good governance will be self-solving. Wherever the poor are high on the list of national priorities, wherever reform is in concrete deeds and not in empty words, leaders will welcome a geometric rise in resources whatever the constraints and work to earn donor trust. As they prosper, the hold-outs on their borders will be forced to follow.

See **"Grants: A Better Way to Deliver Aid"** published by the Joint Economic Committee of the US Congress, January 2002; an International Economics Report from the Gailliot Center for Public Policy at Carnegie Mellon University.

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[2] African nations number 36 out of the total of 48 governments world-wide that comprise the subset with per capita income on a purchasing power parity basis below $2,500 in 2002.

Table I

Corruption in Africa: Governance Ratings Revised to Justify Aid

Country	Sachs' Revised World Bank Governance Indicators Ratings, 2002*	Actual World Bank Governance Indicators Ratings, 2002**	Sachs' Revised Transparency International Index Ratings, 2003*	Actual Transparency International Index Ratings, 2003***
Benin	Good	Below Average	NA	NA
Burkina Faso	Good	Below Average	NA	NA
Ghana	Good	Below Average	Average	Bad
Madagascar	Good	Below Average	Good	Bad
Malawi	Good	Below Average	Good	Bad
Mali	Good	Below Average	Good	Bad
Mauritania	Good	Below Average	NA	NA
Senegal	Good	Below Average	Good	Bad
Cameroon	Average	Bad	Average	Very Bad
Central African Republic	Average	Very Bad	NA	NA
Chad	Average	Bad	NA	NA
Congo, Rep.	Average	Very Bad	Average	Very Bad
Côte d'Ivoire	Average	Very Bad	Average	Very Bad
Eritrea	Average	Bad	NA	NA
Ethiopia	Average	Bad	Good	Very Bad
Guinea	Average	Bad	NA	NA
Kenya	Average	Bad	Average	Very Bad
Mozambique	Average	Below Average	Good	Bad
Niger	Average	Bad	NA	NA
Nigeria	Average	Very Bad	Average	Very Bad
Rwanda	Average	Bad	NA	NA
Sierra Leone	Average	Very Bad	Good	Very Bad
Tanzania	Average	Bad	Good	Very Bad
Togo	Average	Bad	NA	NA
Uganda	Average	Bad	Average	Very Bad
Zambia	Average	Bad	Good	Very Bad
Angola	Bad	Very Bad	Bad	Very Bad
Burundi	Bad	Very Bad	NA	NA
Congo, Dem. Rep.	Bad	Very Bad	NA	NA
Sudan	Bad	Very Bad	Average	Very Bad
Zimbabwe	Bad	Very Bad	Average	Very Bad
Liberia	NA	Very Bad	NA	NA
Somalia	NA	Very Bad	NA	NA

* Jeffrey Sachs, *The End of Poverty*, 2005, pp. 313-314. Millennium Project, Report to the UN Secretary-General, *Investing in Development*, 2005, p. 147. Sachs uses the terminology of "poor" for low-scoring countries. To avoid confusion with the level of poverty of the country, the term "bad" has been substituted.

** In the World Bank Governance Indicators, 0 is the mean score. Countries with scores from -0.50 to -0.01 are categorized as "below average," -1.00 to -0.51 as "bad," and less than -1.00 as "very bad."

*** In the Transparency International Index ratings, countries are rated on a scale of 1 to 10. The lowest score of any country in 2003 is 1.3. If a country's score is between 3.77 and 5.00, the country is categorized as "below average." Scores between 2.53 and 3.76 are categorized as "bad" and 1.30 to 2.52 as "very bad."

Table II

Corruption in Africa: No Improvement in Sight

Country	Actual World Bank Governance Indicators Ratings, 2004*	Actual World Bank Governance Indicators Ratings, 2002*	Actual Transparency International Index Ratings, 2005**	Actual Transparency International Index Ratings, 2003**
Benin	Below Average	Below Average	Bad	NA
Burkina Faso	Below Average	Below Average	Bad	NA
Ghana	Below Average	Below Average	Bad	Bad
Madagascar	Below Average	Below Average	Bad	Bad
Malawi	Bad	Below Average	Bad	Bad
Mali	Below Average	Below Average	Bad	Bad
Mauritania	Below Average	Below Average	NA	NA
Senegal	Below Average	Below Average	Bad	Bad
Cameroon	Bad	Bad	Very Bad	Very Bad
Central African Republic	Very Bad	Very Bad	NA	NA
Chad	Very Bad	Bad	Very Bad	NA
Congo, Rep.	Very Bad	Very Bad	Very Bad	Very Bad
Côte d'Ivoire	Very Bad	Very Bad	Very Bad	Very Bad
Eritrea	Bad	Bad	Bad	NA
Ethiopia	Very Bad	Bad	Very Bad	Very Bad
Guinea	Bad	Bad	NA	NA
Kenya	Bad	Bad	Very Bad	Very Bad
Mozambique	Below Average	Below Average	Bad	Bad
Niger	Bad	Bad	Very Bad	NA
Nigeria	Very Bad	Very Bad	Very Bad	Very Bad
Rwanda	Bad	Bad	Bad	NA
Sierra Leone	Bad	Very Bad	Very Bad	Very Bad
Tanzania	Below Average	Bad	Bad	Very Bad
Togo	Bad	Bad	NA	NA
Uganda	Bad	Bad	Very Bad	Very Bad
Zambia	Bad	Bad	Bad	Very Bad
Angola	Very Bad	Very Bad	Very Bad	Very Bad
Burundi	Very Bad	Very Bad	Very Bad	NA
Congo, Dem. Rep.	Very Bad	Very Bad	Very Bad	NA
Sudan	Very Bad	Very Bad	Very Bad	Very Bad
Zimbabwe	Very Bad	Very Bad	Bad	Very Bad
Liberia	Very Bad	Very Bad	Very Bad	NA
Somalia	Very Bad	Very Bad	Very Bad	NA

* In the World Bank Governance Indicators, 0 is the mean score. Countries with scores from -0.50 to -0.01 are categorized as "below average," -1.00 to -0.51 as "bad," and less than -1.00 as "very bad."

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