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A Millennium Growth Agenda for Africa

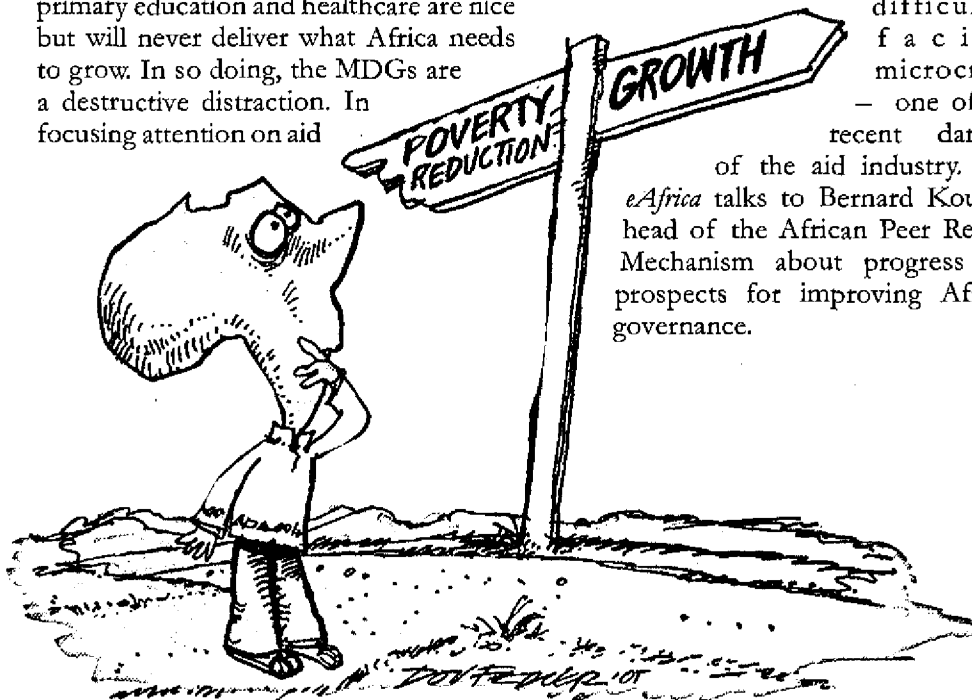
THE nations of the world unanimously approved the Millennium Development Goals (MDGs), which commit humanity to radically reducing poverty. But they never asked a most basic question: how will meeting the MDGs make the poor more economically competitive and self-reliant?

The aid industry has seized on Africa's struggle to make progress on the MDGs as justification for massive new funding. But more of the same will not help. The MDGs will not help Africa for a simple reason: they focus on the wrong thing. The MDGs focus on alleviating the symptoms of poverty – but do nothing to solve Africa's underlying problems that make it uncompetitive.

The continent will only reduce poverty in the long term through industries that make things the world wants to buy. Giving free primary education and healthcare are nice but will never deliver what Africa needs to grow. In so doing, the MDGs are a destructive distraction. In focusing attention on aid volumes, they distract attention from the harder and more vital questions of why aid has not worked effectively thus far.

The nations in Asia and Latin America that have made the most progress in reducing poverty have not done so by following an aid-based MDG approach. Instead, they have spent two decades removing obstacles to business. They fixed infrastructure, simplified rules, entrenched clearer commercial laws and offered needed support services.

If directly chasing poverty alleviation goals won't work, what would? To spark a wider debate, this issue of *eAfrica* puts forward an alternative agenda – a set of Millennium Growth Goals with special emphasis on measures that would boost business competitiveness and job creation in Africa. This issue examines the simplistic aid debate and dissects the difficulties facing microcredit – one of the recent darlings of the aid industry. And *eAfrica* talks to Bernard Kouassi, head of the African Peer Review Mechanism about progress and prospects for improving African governance.



Verbatim

"Everyone knows about ABC (abstinence, being faithful and condomising), except many of us fail in the B category." – Mbhazima Shilowa, Premier of Gauteng province in South Africa, saying people need to take responsibility in curbing the spread of HIV.

"Any interrogation needs to follow a certain process, but as you can see, I am well ... I have all my limbs." – Aubrey Welken, a South African Secret Service agent imprisoned for a year in Zimbabwe, on how he was treated in custody, soon after arriving back in South Africa.

"We need to try and break the hard shell of this individual and let him know that it's not his country. It's our country, the people's country and if he doesn't want to rule them according to the way they desire to be ruled then they can get rid of him." – Bishop Paul Duffy, a Zambian cleric, on President Levy Mwanawasa's insistence that the country won't have a constituent assembly.

"I'm staying with her as a husband - but at the same time I'm looking after her as a parent… I know that this is wrong, but because of the poverty here in this village, the parents can't afford to care for their daughter and support her needs." – A 43-year-old Malawian man married to a 12-year-old girl. Malawi is considering raising the legal age of marriage to 18 years from 15 years.

"I am excommunicated? It reminds me of the Pope when he excommunicated Martin Luther. It didn't stop reformation." – Jesaya Nyamu, Namibia's former trade minister, after being expelled from the country's ruling Swapo for allegedly creating a split in the party.

"We are not afraid of an election. Elections will be called in two years' time, for now lets concentrate on development." – Mwai Kibaki, President of Kenya, ruling out snap polls after the government lost a vote to have a new constitution in a recent referendum.

"You have no idea where Nigeria even is – you're just greedy and want the money." – Sonny, a Nigerian former email scammer, speaking of foreigners who fall to the '419 fraud' trap.

"Zimbabweans deserve better." – Yvonne Chaka Chaka, a South African musician and UN Children's Fund spokesperson for malaria, urging the international community to lend greater support to Zimbabweans who continue to face growing hardships.

"Now that everything is finished and money is coming in, the government is doing whatever they want regardless of the agreement they have signed with World Bank or commitments they have made to use oil money to fight poverty." – Delphine Djiraibe of the Chadian Association for the Promotion and Defence of Human Rights, on the country's oil boom and how the government is reneging on its promises.

"I am the elected president of Liberia, not Ellen Sirleaf. They stole my victory, and I am here to say loud and clear that I am the winner of the elections." – George Weah, Liberia's defeated presidential candidate.

"We will resist until we make sure that the dirty decision is reversed. We are not going into exile. We are going to teach South Africa and the world a lesson." – Nkosi Mphendule, a South African Communist Party organiser, on the municipal demarcation of borders that has resulted in violent protests from resistant communities.

"We are at a critical time. Never has there been such a great crisis for the mission." – Jean-Marie Guehenno, UN peacekeeping operations head in Eritrea, a day before the deadline set by the Eritrean government for the UN to pull out as tensions mount with neighbouring Ethiopia.

Paying for Broken Promises

IN THEIR first referendum since 1963, Kenyans took to the polling booth in November to vote on a new constitution. The result was a resounding 'no' vote that was both stinging rebuke to incumbent president Mwai Kibaki and a sign of intensifying political conflict.

When Kibaki swept to power in 2002 at the head of a reform-minded coalition, the event was heralded as an African velvet revolution. Forty years of cronyism, graft and autocratic rule ended with promises to deliver effective free public services, fight the cancer of corruption and limit presidential powers through a new constitution.

Yet the fairy-tale triumph of good over greed has stubbornly eluded Kenyans. Kibaki started well, delivering on promises of free education and healthcare and sacking much of the judiciary and all of the government's procurement officers for corruption. In the euphoria of those early days taxi passengers – believing the era of corruption would end – leapt from vehicles and beat policemen seeking bribes. However, reformist zeal soon encountered a tenacious return of the ethnic cronyism of old. When corruption began to taint his own government, Kibaki did little in the face of vehement warnings from donors and the public. His own anti-corruption czar quit and went into hiding.

And Kibaki reneged on his most prominent promise: to adopt a new constitution within 100 days of taking office. His predecessor, Daniel Arap Moi, had concentrated power almost exclusively in the presidency. While in opposition, Kibaki argued that 'the immense powers [granted to Moi] had transformed the Kenyan president into an authoritarian imperial monarch, exercising feudal powers'. In Moi's final years, a constitutional convention had drafted a new constitution to balance a largely ceremonial presidency with an executive prime minister. Once in office, Kibaki rejected the draft and pushed a new version that kept power in the presidency.

Although Kibaki marshalled the full powers of the state behind the referendum, Kenyans rejected the constitution by a significant margin: 3.5 million voted no while 2.5 million voted yes. Kibaki lost in seven of eight provinces, winning only in his home province. In retaliation, he sacked the entire cabinet shortly after the votes were counted.

The president's close associates, led by Vice-President Moody Awori, added to the humiliation by declaring on voting day that the outcome of the referendum would amount to a vote of confidence or no-confidence in Kibaki's government, with a strong bearing on the next elections set for 2007.

'The Kibaki presidency is damaged goods. It may be patched up. But it will never be whole'

Kibaki's difficulties are compounded by the complexity of the 15-party coalition that brought him to power. To keep the peace among participating parties, Kibaki's National Alliance Party of Kenya (Nak) signed a pre-election Memorandum of Understanding with his main rival, Raila Odinga's Liberal Democratic Party (LDP). Odinga was to be prime minister and Nak and LDP were to share cabinet positions and senior public service and diplomatic posts on an equal basis, in addition to consulting on major national issues. But when Kibaki made his first appointments in January 2003, he openly favoured Nak, especially old men from his Mt Kenya region. LDP felt shortchanged.

In June 2004, Kibaki surprised both friend and foe by appointing to the cabinet members from the Kanu party that had been overwhelmingly rejected by voters. In a swift reaction, former Foreign Affairs minister Kalonzo Musyoka, said: 'Kibaki has let down the whole continent by having a movement kind of government, abandoning the coalition which we had worked hard for. It is obviously a retrogression.'

But the move did not come as a surprise. In June 1982, Kibaki had been instrumental in amending the constitution to make Kenya a *de jure* one-party state.

Kibaki's attempt to hang on to power mirrors a similar scenario in neighbouring Uganda where, President Yoweri Museveni, initially seen to have saved Uganda from several years of civil war, is now emerging as an autocrat intent on clinging to power.

Following Kibaki's defeat at the referendum, his chances of recapturing the top seat in 2007 appear slim. Constitutional lawyer Ababu Namwamba argues that Kibaki's presidency is badly wounded.

'The Kibaki presidency is damaged goods. It may be patched up. But it will never be whole. Not even a new cabinet will take away the indelible stain, the permanent limp in his regime,' observed Namwamba. 'Kibaki has resurrected the demons of tribalism and nepotism we buried in 2002, and allowed the impression to pervade that corruption thrives as he watches. He stalled the reform train whose momentum propelled him to State House after two failed bids. He has demonstrated inability to honour agreements bearing his very signature,' he said.

As long as the Orange Democratic Movement (ODM) – that combines LDP and the official opposition Kanu – remains united, chances are that voting patterns reflected at the referendum will be repeated in the 2007 general elections. – **Zachary Ochieng and Fred Oluoch**

COMMENT

Aid to Africa: More Doesn't Have to Mean Worse

WHY are we condemned to conduct the public debate about aid to Africa in such grossly simplified terms?

The sound bites around this year's G8 seem to be dominated by just two points of view. One uses the shocking statistics on unmet needs in Africa as a sufficient basis for urging substantially increased funding flows. The other scores telling points against an approach that worries so little about feasibility but fails to offer an alternative vision for aid.

Thus, a ping-pong ball is batted back and forth between two positions:

- The needs of the peoples of Africa are enormous and urgent. It is a moral outrage that we cannot meet them, even in the most basic ways. So, a massive increase in aid resources and debt relief is the minimum acceptable response.
- What matters is feasibility. If aid were a way of meeting development objectives, it would have done so long ago. Aid is in some ways part of the problem, and more aid is certain to mean worse aid. So, massively increasing aid flows is either irrelevant or seriously unwise.

It is hardly surprising if people subjected only to these limited points of view are confused.

That situation would be easier to justify if understanding of the issues were in short supply. But the fact is we have a massive amount of relevant knowledge – quite a lot of it enshrined in well-known reports, books and declarations. We certainly know enough to root the G8's deliberations in a perspective that is both more realistic and more hopeful than the current ping-pong.

Quantity versus quality: We should first of all concede that elements of the sceptics' case are well founded. All the evidence on past performance suggests that aid flows are not what make the difference between successful developing countries and unsuccessful ones; aid can facilitate – it has never done more than that. Political scientists are also quite clear that aid can be part of the problem, because of the way it takes the pressure off political leaders who might otherwise be forced to perform better by market forces or their own taxpayers. Economists tend to find a positive statistical relationship between aid and economic growth, but don't agree about what it adds up to. Anyway, as the aid-to-GDP ratio increases diminishing returns naturally set in.

Net Disbursements of Aid to Sub-Saharan Africa

USD million at 2002 prices and exchange rates

	1987-1988 average	1992-1993 average	1999	2000	2001	2002	2003
Total DAC	10 450	10 602	7 611	8 383	8 604	11 399	15 122
Total Multilateral	5 304	6 731	4 418	4 445	5 787	6 658	5 527
Overall Total	16 516	17 423	12 149	13 003	14 523	18 405	20 711

Source: OECD Donor Assistance Committee

Fix what's broken

In the aid case, we don't just know that aid can be ineffective. We know quite a bit about why this is so – about the precise factors that limit the positive and increase the negative impacts of external assistance. This understanding provides a solid enough basis for specifying what needs to change in order for a larger financial effort by the rich countries to be useful.

So, more aid to Africa may well mean worse aid. But it doesn't have to. There is a real opportunity to make 2005 the year not just when aid volumes began to revive, but when the past relationship between aid quantity and aid quality was turned around.

What needs to change: The factors influencing aid effectiveness are not restricted to conventional 'aid quality' issues. They affect both sides of the aid relationship. It is not the case either that all the faults lie on the donor side or that recipient-side failings are the only significant obstacle. For quantitative improvements in aid flows to become associated with enhanced effectiveness, the two types of limitation on quality would need to be tackled simultaneously and with equal vigour.

On the donor side, quality means:

- better value for money – a vigorous assault on tied aid and on the promotion of narrow donor interests;
- firmer commitments and more predictable financial flows, so that where countries have clear policies these are able be planned and implemented;
- greater efforts to deliver aid in ways that strengthen country institutions and the incentives for governments to make clear policies;
- better understanding of countries' social, political and administrative systems, so that fewer mistakes are made in channelling support; and
- a more careful and coordinated selectivity in allocating aid, so that basic

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human needs are met whenever feasible but the changes in institutions that are needed for long-term development are effectively supported as well.

On the recipient side, quality means:

- better value for money again – an assault on waste, as well as leakages of all kinds, using methods that work in the context;
- more predictable funding flows to ministries and implementing agencies, implying a stronger commitment to good practices in public financial management;
- greater insistence on aid modalities that strengthen institutions and policies, and the defeat of the vested interests that surround the usual free-for-all in project funding;
- consistent, high-level support for the unpopular but essential reforms in administrative systems; and
- a political project focused on state-building, in which the satisfaction of citizens' basic needs has a central place within a long-term vision of national development.

We know that both these sets of changes are necessary if more aid is to be provided in a way that improves and doesn't reduce aid effectiveness. Yet we allow the public debate to be conducted as if matters were far more simple, in one sense or the other.

This alternative vision of possible change is, of course, a bit more complicated, as well as more challenging in political terms, than the ones now dominating the air waves. It is not likely to pull campaigners into the streets in their thousands. But it is both realistic and hopeful. It deserves at least a fraction of the hearing that is currently being devoted to simplistic moral appeals and crude rebuttals. – **David Booth is a Research Fellow of the Overseas Development Institute. This article is reprinted from the Overseas Development Institute.**

Aid Pledges on the Rise

PLEDGES to boost development aid have come at an accelerated pace in recent years, which has sparked attempts to measure just how aid levels will go if the pledges come through.

Tight budgets in Germany, Japan and the US and ongoing disagreement over the European Union's next five-year budget cast doubt over future trends, but the Organisation for Economic Cooperation and Development (OECD), the club of the world's most developed nations, points to much higher aid spending in the next five years.

According to Richard Manning, chairman of the OECD Donar Assistance Committee (DAC) that tracks aid pledges and practices, recent pledges – if fulfilled – would mark the largest expansion of aid since the DAC was formed in 1960. However, at 0.36% of gross national income of donor nations, the pledges are significantly below the 0.5% achieved in the DAC's early years and well below the target of 0.7% of GNI that many donors have agreed to meet.

'Recent pledges, if fulfilled, would mark the largest expansion of aid since the DAC was formed in 1960'

Assuming that aid donors follow through on their recent pledges, the OECD estimates that global donor aid would increase from $78.8 billion in 2004 to $127.9 billion in 2010. Roughly, half of that increase would likely go to sub-Saharan Africa.

Experience suggests there has often been a large gap between aid pledges and aid delivery. On average disbursements have been only 92% of pledges, according to the World Bank[2] And many of the new pledges include large amounts dedicated to debt relief. These involve no allocation of cash because the money was loaned long ago. Once debt relief is out of the way, donor countries will face the hard choice of having to dramatically increase payments to keep on track with their pledges to double aid by 2010.

Since 1999 disbursed aid to sub-Saharan Africa has risen from around $12 billion in 1999 to an estimated $22 billion in 2004. But much larger pledges have been made at the 2005 Gleneagles G8 summit and at the EU Council Summit (June 2005).

The United States claims to have already tripled its commitment of development aid to Africa since 2002, mostly through its Millennium Challenge Account, and it has boosted spending on Aids, malaria and TB from $0.6 billion in 2002 to a proposed $2.2 billion in 2005. The European Union has pledged by 2015 to increase its aid spending to meet the United Nations target of giving 0.7% of gross national income to aid, with an interim target of increasing aid to 0.56% of GNI by 2010.

At the UN Summit in September 2005, China pledged to create a $10 billion aid programme. In December, Japan announced a new $10 billion aid programme designed to assist poor countries in trading with Japan. And Chile introduced a levy on airline tickets to fund development, which may be followed by some EU members.

If that money comes through, it will have a major impact on African budgets. In 22 of 52 low-income countries, foreign aid already accounts for more than half of all state spending, according to a recent analysis by the Washington-based Centre for Global Development. The centre examined six scenarios for spending the influx of aid and concluded in the average scenario, aid would represent more than half of state spending by recipient governments in 35 of 52 countries and in 17 it would exceed 75% of government spending. – **Ross Herbert**

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Why the Millennium Development Goals Won't Help Africa

WITH apparent enthusiasm the UN, most development aid donors and agencies, academics, politicians and journalists seem to have embraced the UN Millennium Development Goals (MDGs) as a prime measure of development progress.

But a basic question has never been asked or answered: will the pursuit of the MDGs help or hurt development, particularly in Africa?

The rationale for setting poverty reduction goals seems simple and straightforward. The world has a predilection for making grand promises and failing to follow through. And a great part of development aid benefits developed-world contractors, goes into wasteful unsustainable projects or is pilfered by recipient governments. As a result, Africa particularly has little to show for the more than $1 trillion in aid and loans it has consumed since independence.

Establishing some goals and measuring countries against them is one way to try to move the aid industry beyond its focus on promises to the actual delivery of results.

In contrast to the Cold War era, when loyalties in the East-West battle often determined aid flows in spite of obvious waste and corruption, the MDGs have contributed to a constructive global debate about how to make aid more effective. But in many ways, the MDGs are having a negative effect on development efforts.

'The world has a predilection for making grand promises and failing to follow through'

The MDGs are divided into eight broad goals, which include 18 targets or sub-goals (see list on page 10). The first eight of the targets are measurable while the final 10 are more subjective and political (see Goals sidebar). For example goal 8 – develop a global partnership for development – is composed of targets such as making available technology, affording decent jobs to youth and addressing the special needs of landlocked and island states.

'The MDG spawn so much rhetoric because they reflect the perceived callousness and ineffectiveness of IMF-backed structural adjustment'

Offering a cover-up

The MDGs also provide a kind of political camouflage that diverts attention from more vital questions about why aid agencies don't deliver long-term results. Instead of debating why agencies choose badly conceived projects or rethinking the staff incentives that lead to impulsive aid spending, aid is shrouded in layer upon layer of poverty reduction rhetoric. Indeed, an industry has grown up around discussing and tracking the MDGs. Websites and books are dedicated to them. Aid workers must account for them and statisticians measure them. A Google search found 7,130,000 web pages on them.

The MDGs spawn so much rhetoric today because they reflect the perceived callousness and ineffectiveness of IMF-backed structural adjustment. In response to runaway deficit spending and kleptocracy in the 1970s and 1980s, the IMF imposed basic fiscal disciplines, demanded that governments slash wasteful spending, stop fuelling inflation through unrestrained printing of money, privatise and liberalise markets. The abrupt way IMF reforms were implemented created a popular backlash among the poor. In response, the IMF and other donors began trumpeting poverty reduction as the main goal, which was imposed on countries seeking aid or debt relief. The MDGs were the culmination of this shift in thinking from getting fundamentals right to ameliorating the effects of poverty.

Vast developmental efforts have been inspired to address MDG symptoms. But numerical goals always create unintended behavioural consequences. In asking governments to measure their success based on reducing the visible signs of poverty – low incomes, hunger, disease – the MDGs focus on symptoms rather than causes. If a salesman is given bonuses based on the number of sales regardless of their value, he will invariably seek more small orders than large ones, potentially missing higher sales revenues. If he is rewarded for revenue alone, he may just as readily ignore small customers as a waste of time. Depending on the business, either incentive could be disastrous. So it is with poverty.

In poorly managed countries whose bureaucracies have gone for generations without measuring their performance against any standard, measurement intuitively sounds good. But the MDGs oversimplify. If countries succeed in getting girl

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children into primary school, does it meant that they have succeeded in promoting gender equality and empowering women?

Spoken too soon

Such oversimplification can mean declaring victory prematurely. It can also mean misdirection of resources.

Take education. The goal of universal primary education is politically appealing but does it lead to development? Could Africa not achieve more growth by diverting some primary school funding into technical schools to turn out the bricklayers, carpenters and electricians that are in chronically short supply in the continent? In a world of unlimited resources, more education is better than less. However, when resources are limited it is necessary to balance primary education with secondary, vocational and tertiary. By focusing on gross enrolment, Africa is neglecting a more crucial problem: Its schools have a very poor record in imparting knowledge to students.

Many factors contribute, including unqualified teachers, weak teacher training, low salaries, inept administration, lack of supplies, poor-quality books and teaching aids, teaching in unfamiliar colonial languages, and teaching methods based on rote learning. Zambia illustrates the problem. In the colonial era, elite schools for the children of colonial administrators taught in the colonial language while so-called native schools used indigenous languages. As a point of political symbolism, Zambia's first post-colonial government decreed that all children would be taught in the colonial language. No one cared that there were too few teachers or that very few rural families spoke English. Thirty years passed before a systematic effort was undertaken to measure literacy. It found that three-quarters of primary school graduates were functionally illiterate because they sat through lessons in an alien tongue.

'Is the continent less competitive because it lack money or does it lack money because it lacks products people want to buy?'

In assessing the appropriateness of the MDGs, it is first necessary to ask what exactly are the development problems holding Africa back? Is the continent less competitive because it lacks money or does it lack money because it lacks products that people want to buy and the technologies needed to make more out of its natural resources? Being underdeveloped leads to maternal mortality, death by preventable childhood disease and other maladies, but curing those symptoms immediately would not give Africa the know-how needed to stand as a developed region.

'Africa will never escape poverty. Instead it will face an eternity of keeping the harsh effects of poverty at bay with aid handouts'

Out of focus

The MDGs will fail to develop Africa because they do not focus on growth and productivity. Without growth, Africa will never escape poverty. Instead it will face an eternity of keeping the harsh effects of poverty at bay with aid handouts. That is not a recipe for successful self-reliance.

Even if one assumed that the MDGs were all met by the target date of 2015, it is quite possible, indeed probable that Africa would be further behind economically than today. Even if Africa went beyond the MDGs and addressed its conflict, governance and educational problems, it is likely the rest of the world will move ahead at a much faster pace and steadily out-compete Africa in the few markets that it holds. China has the surplus capacity, low wages and stable infrastructure needed to wipe out Africa's limited manufacturing industry. And the competitive tropical agricultural producers in Latin America and Southeast Asia could steal away all of the coffee, tea, cocoa, sisal and horticulture markets in which Africa has a modest foothold.

The MDGs took hold of development thinking because many assumed that the market-oriented reforms of IMF structural adjustment did not spark rapid growth and in many cases increased unemployment. Many politicians and analysts reached the wrong conclusion that Africa was a special case and that focusing on growth could not work as it has elsewhere in the world.

The structural adjustment era did not prove growth strategies wrong. It demonstrated that structural adjustment was necessary but insufficient. It was more about restoring fiscal sanity but needed additional growth reforms to directly address the high costs, bureaucracy, poor infrastructure, capricious governance and skills shortages that impede African business.

A cost too great

Structuring African aid and government activity around the MDGs will come with a very great opportunity cost. The continent may spend the next decade and all available resources and still not fully address the health, hunger and educational symptoms of poverty. In so doing, the MDGs divert attention from investments that can directly boost growth and jobs and thus create more resources in future for social programmes.

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In fairness, criticising the MDGs for their lack of growth focus is not enough. What would a more growth-oriented set of targets look like? To spark debate, here is a first draft of such a set of African Millennium Growth Goals:

1 Strengthen commercial infrastructure: African business is harmed by unreliable expensive utilities and inefficient, poorly maintained infrastructure. Fixing it will directly boost competitiveness.

■ **Double the proportion of roads that are pothole free and in good condition by 2010.** Surveys of African investors repeatedly cite the poor quality and high cost of African transport as a major impediment to commercial competitiveness both within Africa and for export markets.

■ **Invest in new electricity generation and distribution to remove all blackouts and load sharing within five years.** Business generally and manufacturers specifically cite the routine power outages as an impediment to business. One survey in Uganda found that 25% of investment capital went to the purchase of private generators because business could not function with the unreliable electricity provided by state-owned producers.

■ **Double port capacity and speed of customs clearances by 2010.** African ports are chronically slow, inefficient and capricious in management of customs. Increasing port efficiency will allow more goods to be sold in a year, cut transport costs, boost export competitiveness and lower the cost of capital tied up in goods in transit.

2 Invest in rural economies: Two-thirds of Africans live on farms or indirectly depend on them, but African governments neglect key support services that could boost growth.

■ **Double operational expenditure and real wages in agricultural research and extension services by 2010.** For many years Africa has cut investment in agricultural research and training for farmers. Investment in research and training in new agricultural techniques and seeds can directly assist food security, boost rural incomes and increase exports.

■ **Double national grain storage capacity by 2008.** Africa suffers chronic food insecurity, alternately allowing bumper crops to waste and paying premium prices for emergency food during droughts. Investment in well-managed food storage and security systems could stabilise prices and encourage farm investment because farmers would face predictable prices. More predictable incomes would allow farmers to invest more in productive farm technology.

■ **Subsidise the sale on a commercial basis of small-scale irrigation equipment.** India, Bangladesh and Malawi, among others, have achieved dramatic increases in small farmer productivity and welfare by encouraging the commercial sale of subsidised small-scale irrigation technologies, which allow production during drought years, enable multiple crops per year and higher yields.

■ **Offer tax incentives to exporters and processors using contract farming models.** Many commercial crops must be centrally processed before export. While governments struggle to provide agricultural training, inputs and credit, such commercial processors offer an effective one-stop shop that assists small farmers. The firms educate farmers, work out the right proportions of inputs, offer credit and a ready market at agreed prices, the combination of which has produced big gains in rural incomes. This contract farming model should be encouraged with tax incentives and assistance with infrastructure. It has been used successfully in the tobacco, coffee and tea industries. South African Breweries in Uganda uses such a model to procure the grain needed for its beer. Other successful contract farm companies include Clark Cotton in Zambia, Blue Skies fresh fruit exporters in Ghana, and horticultural processors in Kenya and South Africa.

■ **Invest in national dairy processing, cold storage and marketing to capture the unrealised value of Africa's large livestock herds.** Africa has significant indigenous knowledge of livestock management and large herds but realises very little of the potential profit and food value of dairy products. Investment in cooperative dairy processing societies can increase rural incomes and food security.

■ **Create or expand research and certification bodies to assist farmers in meeting phyto-sanitary, quality and packaging standards needed for agricultural exports.** Africa's climate offers the potential for substantially greater agricultural, livestock and fish exports but small farmers lack the ability to research and conduct the required tests to certify that products meet import-country standards. Investing in cooperative national or even regional testing centres and member-based marketing boards could assist small farmers in learning about and accessing lucrative foreign agricultural markets. Government marketing and testing monopolies have proven unwieldy and unresponsive but commercial associations of farmers, with government assistance to testing and research centres has proven effective in harnessing the untapped potential of African farmers.

■ **Double annual investment in rural feeder roads.** Small farmers can only realise the value of their crops if they can get them to market. Investment in rural feeder roads can expand market access and boost rural development.

3 Invest in skills and research: The MDG focus on primary education

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will do little to help Africa compete, where the far more commercially valuable skills are imparted in secondary, vocational and tertiary education. Africa can only catch up to the rest of the world and boost the competitiveness of its products if it invests in technical skills. A concerted programme to identify skills shortages and deliver them will boost growth.

■ **Triple the yearly output of skilled and semi-skilled workers.** African businesses report severe shortages of many technical workers, including electricians, carpenters, bricklayers, plumbers, and mechanics. Direct investment in technical schools and tax incentives for companies to take on apprentices can boost the pool of these commercially valuable workers.

■ **Triple the yearly output of university trained accountants and project managers.** The UN Millennium Project and the Commission for Africa, among others, note that there is a severe shortage of capacity in financial management, accounting and project management, among other areas. This affects Africa's capacity to digest aid and is equally an impediment to business growth.

■ **Enact patent sharing and royalty laws to enable universities to collaborate with the private sector on needed industrial and agricultural research.** The success of electronics, chemical, pharmaceutical, agricultural and other industries in the US, Europe, Brazil and Asia were based on close collaboration between universities and industry, who were encouraged to work together through laws allowing sharing of royalties, patents and launching of joint ventures. Africa should do the same.

■ **Cut in half the fees paid by students in technical, scientific and engineering disciplines.** Africa produces too many graduates in humanities and social sciences while facing a shortage of technical and scientific skills. Experimenting with incentives and differential tuition rates could encourage more students to study in commercially valuable areas.

■ **Boost investment in maths and science at secondary school level.** The shortage of scientific graduates from university results from inadequate preparation at high school level. Greater investment in maths and science at lower levels will have commercial payoff for Africa.

4 Increase lending and savings: An estimated 40% of African wealth is invested abroad while African businesses cite lack of credit as a top impediment to growth. Africa can boost growth through strategies to boost the savings pool from which loans can be made and ensure that more money goes into productive lending.

■ **Cut interest rates to 15% or less in five years.** The world over, governments cut interest rates to boost investment and growth. But African interest rates are prohibitively high because of high inflation rates, deficit spending and efforts to prevent currency depreciation. A concerted programme to curtail deficits, limit inflation and cut interest rates would increase the amount of borrowing for productive industrial expansion.

■ **Strengthen bank regulation to write off bad loans, avoid political lending and increase commercial lending.** African banks are weak, poorly regulated and often at risk of collapse because of unrecoverable loans to politically powerful people. Investing in stronger regulation would boost the amount of productive lending by writing off bad debts and ensuring sound lending practices.

■ **Create a computerised national identification system and registry of loan defaulters.** Banks are reluctant to lend because it can be impossible to recover bad debts or determine who is a bad credit risk. Two strategies are needed to help banks with the problem. Most countries lack a computerised national identity system. They also lack a register or tracking system for loan defaulters. Both systems working together can reduce loan defaults and give banks more confidence to lend.

■ **Invest national pension savings in Africa rather than the developed world.** As President Thabo Mbeki noted, African national pension funds invest billions of dollars outside Africa that could be productively invested in the continent. By one estimate, government employee pension funds in 14 African nations had total assets of $127 billion.

5 Raise domestic revenue: Africa is chronically short of developmental funds, but could do much more to increase the revenue available for a growth agenda.

■ **Tax luxury goods, including expensive cars and consumer electronics, to fund expanded investment.** Does anyone really need luxury cars, home theatre systems and gourmet imported foods and alcohol? Imposing stiff taxes on such items across the continent would raise needed revenue and help direct funds into more productive efforts.

■ **Cut in half spending on government use of mobile telephones, vehicles and international travel.** Governments spend vast sums on luxuries that could be cut.

6 Promote justice and the rule of law: The failure of African courts to deliver fair and timely justice is closely related to the unwillingness of banks to lend and the fear of foreign businesses to invest. Investing in court competence and efficiency would also pay broad political dividends to disillusioned citizens, who face demands for bribes when they seek help from police and courts.

■ **Double the capacity of courts and cut by two-thirds the time and**

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cost of securing judgements in commercial matters.

7 Remove bureaucratic obstacles to business: The World Bank's annual survey of impact of regulation on business found Africa to be the most difficult continent in which to do business. The 2005 survey found it takes an average of 434 days and 35.9 procedures to enforce a contract in sub-Saharan Africa. It takes an average of 11 procedures and 63 days to start a business with costs running three times the average per capita income.

- **Cut by two-thirds the number of steps and the amount of time needed to open a business.**
- **Cut by two-thirds the number of steps and the amount of time needed to obtain land for commercial purposes.**
- **Convert land ownership from customary to freehold title by 2015.**

8 Level the commercial playing field by fighting corruption: Corruption is regularly cited as a top impediment to investment in Africa. It diverts business away from the most efficient, warps and delays government decision-making and moves money out of productive uses into private pockets.

- **Double the funding and staff at anti-corruption authorities, auditors general, tender boards and financial/audit control departments.**
- **Adopt model transparent tendering laws.**
- **Pass laws clearly defining conflict of interest for government workers to forbid the relatives of politicians and civil servants from participating in state tenders.**
- **Pass laws requiring the full disclosure of wealth held by parliamentarians, ministers, presidents, judges and senior civil servants. Disclosure must be open to the public and media and not sealed in a closed parliamentary register.**
- **Require all businesses to disclose all payments to government officials directly and through any outside agents or proxies.**
- **Enact freedom of information laws to enable citizens and the media to gain access to all tendering documentation in a timely manner.**
- **De-criminalise libel and remove licensing requirements on journalists and media establishments.**
- **License independent commercial radio and television to operate over the whole national territory in African states. – Ross Herbert heads the SAIIA Nepad and Governance Project**

The Millenium Development Goals

1 Eradicate extreme poverty and hunger

- By 2015 reduce by half the proportion of people living on less than a dollar a day
- By 2015 reduce by half the proportion of people who suffer from hunger

2 Ensure universal primary education

- Ensure that all boys and girls complete a full course of primary schooling

3 Promote gender equality and empower women

- Eliminate gender disparity in primary and secondary education preferably by 2005, and at all levels by 2015

4 Reduce child mortality

- Reduce by two thirds the mortality rate among children under five

5 Improve maternal health

- Reduce by three quarters the maternal mortality ratio by 2015

6 Combat HIV/AIDS, malaria & other diseases

- Have halted by 2015 and begun to reverse the spread of HIV/AIDS
- Halt and begin to reverse the incidence of malaria and other major diseases

7 Ensure environmental sustainability

- Integrate the principles of sustainable development into country policies and programmes; reverse loss of environmental resources
- Reduce by half the proportion of people without sustainable access to safe drinking water
- Achieve significant improvement in lives of at least 100 million slum dwellers, by 2020
- Develop further an open trading and financial system that is rule-based, predictable and non-discriminatory, includes a commitment to good governance, development and poverty reduction— nationally and internationally
- Address the least developed countries' special needs. This includes tariff- and quota-free access for their exports; enhanced debt relief for heavily indebted poor countries; cancellation of official bilateral debt; and more generous official development assistance for countries committed to poverty reduction

8 Develop a global partnership for development

- Address the special needs of landlocked and small island developing States
- Deal comprehensively with developing countries' debt problems through national and international measures to make debt sustainable in the long term
- In cooperation with the developing countries, develop decent and productive work for youth
- In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries
- In cooperation with the private sector, make available the benefits of new technologies— especially information and communications technologies.

African Peer Review Mechanism: A Progress Report

eAfrica spoke to Dr Bernard Kouassi, who was appointed CE of the APRM in January. Prior to his appointment, he was Executive Secretary and CEO of the food security organisation, _Securité Alimentaire Durable en Afrique de l'Ouest Centrale_ based in Burkina Faso. He has served as Secretary-General of the Pan African Institute for Development in Cameroon and as a Specialist Manager of USAID assistance to the African Development Bank. He has a PhD in Business Administration from the University of Michigan and a Master of Business Admin from the University of Cincinnati and a _Licence en Sciences Economique_ from the University of Abidjan.

Q: Why is Africa subjecting itself to peer review?

A: We need to put together a kind of permanent dialogue with all stakeholders. We need to get beyond the kind of politics in which we fear blame and don't want to discuss problems openly. Peer review is a system for promoting an open national consultation about solving problems. With APRM we are trying to engineer a better public consultation without the acrimony. It is a cultural change so people have a platform to consult on issues that previously they weren't consulted over. It is a way of educating people and involving them in decisions.

When you do research as an academic what do you do? You consult your peers. You call your colleagues with your idea and they give you its strengths and weaknesses. You sharpen your idea, revise it and then bring it to the professors. In Africa we are doing peer review because heads of state feel they need each other to improve governance in our continent. It does little good to impose conditions from outside and such conditions don't help Africa learn for itself what works and doesn't. There are areas where some countries have strengths and others have weaknesses. By sharing we can improve. The important thing to remember is that this is not a policing function but a peer learning function.

Q: How does APRM relate to countries experiencing active crises which refuse to participate?

A: If APRM were mandatory, it would no longer be a peer review. It would be a kind of scorecard approach that would make it a policing institution to reward and punish. If countries are not ready and not comfortable with peer review, that is okay. For peer review to work, participants have to have the will to make it work. Without that it cannot succeed. For countries in crisis that are regularly blamed in the media, they won't participate because they fear that they will just be attacked and made to look ridiculous. We need to help those countries see that they can get past the blame game and in countries that do peer review it is okay to lay problems out publicly and discuss solutions. If you force them, they would only participate reluctantly, not want to reveal the real issues and thus not get much out of it.

Q: How do you assess the progress with APRM to date?

A: Overall, we have made good progress and have built one of the most important and innovative systems to improve governance. Some have said that we are moving more slowly than we should, but when you build any new organisation it takes time to do it right. It must be funded. It must be staffed. It needs sensitization so that people understand the process. When we began we thought the whole process would take nine months per country. But it took more than a year because the process is so comprehensive and must involve all stakeholders. If countries do a household survey, as several have done, designing the sample set can take a long time and the questionnaire also takes time. To analyse areas like corporate governance, health policy and fiscal management take time to identify who the real experts are. In addition to issues at the secretariat, many countries themselves have not been ready. Self-assessment takes time. The country being reviewed must set up a focal point, decide on a governing council, work out ways of gathering input from experts and the public and they have to raise funds. Quite a number of countries thought that the whole peer review would be funded from the $100,000 that they gave to the secretariat, but the cost of the secretariat is far beyond that. To do the research, hold public meetings, verify results, conduct surveys and cost out an action plan takes money that countries have not anticipated. So far countries have spent $1 million to $2 million on their internal self-assessment. Because of such issues, countries have been slow to present themselves for review. Until they do, the secretariat cannot go in.

Q: Heads of state have asked the secretariat to accelerate the pace of reviews. How do you plan to do that?

A: We think we will have the ability to do 12 reviews a year but anticipate probably eight reviews in the next year, assuming the countries are ready and present themselves for review. We need to expand secretariat staff but don't need

all the expertise here. We are identifying outside experts who have knowledge of specific areas of governance and we utilise outside consultants, including from our partners in the African Development Bank, UN Development Programme and UN Economic Commission for Africa. But we think we are ready. The real hold up is in countries getting themselves organised and doing their self-assessments. One country was scheduled to be reviewed at this time and was to get started in February but still has not moved. That is something the secretariat can't rush.

Q: In each of the countries so far, there has been some element of controversy over how civil society should be involved, with governments tempted to over-control the process. Shouldn't there be clear guidance from the secretariat about the nature of civil society input and the composition of the governing council that conducts the self-assessment?

A: If you read all the APRM documents they are clear that civil society must be involved at every stage, and if government attempts to control the whole process, we will refuse to allow it. We say there must be equitable representation of civil society on the governing council and in the processes used to gather input for the report and in creation of the plan of action, which are the steps the country pledges to take to rectify the problems identified. The secretariat cannot force anyone to do anything, but if we look at the governing council and there is not equitable representation of civil society, we will not evaluate you. It must have broad based civil input.

Q: It seems in some of the early countries, the government began making plans for peer review without fully understanding the process and civil society also has not had enough understanding to know how to participate. What is being done to communicate more broadly and effectively about the process?

We would like national commissions or governing councils to do more to communicate with society. There are civil society representatives on the councils and they are responsible for reaching out to society. If they are not doing their job, we cannot do it for them. We expect every stakeholder to take information to their constituencies.

Q: But it takes a long time for civil society to organise itself to make an intelligent input and understand what it would like to ask of government in designing the APRM self-assessment. Don't you agree there needs to be much more public communication well before a governing council is set up and a process put in place?

A: People should be consulted more. That is true. That is the culture we are trying to promote. As a secretariat we are too small to communicate directly with all the constituencies across Africa and we have to start our engagement with each country at some point. We write to the government to say we are ready and we bring a support mission to meet with government to outline the process and agree on a memorandum of understanding. After that support mission, if NGOs have been excluded or don't like the process, they can tell us that. I would agree that it would be useful to have some news articles and opinion columns getting people aware of the process and letting them know the modalities of civil involvement.

Q: Nepad has had influence on the global level in winning aid and debt relief. But it has had significantly less success influencing what happens at the national level within Africa. It seems a missed opportunity to not use APRM to expressly ask countries what they are doing to advance the various Nepad infrastructure, agriculture and other plans. How do you deal with the Nepad agenda?

A: At the time the APRM was developed, the Nepad sectoral strategies were not in place. The questionnaire was designed with Nepad and AU staff. We are not assessing Nepad as such but we do assess, for example, poverty reduction and how people can govern better to achieve the Millennium Development Goals. There would be value in asking more about specific Nepad plans, such as agriculture and infrastructure. We have asked Nepad for suggestions on questions but until we get them, we must go with what we have. I should say that although there is an APRM questionnaire, it is not something that is to be applied dogmatically. It is suggestive and if other issues are relevant to a country, they are encouraged to express the issue and the solutions in ways that make sense. The countries so far have done that.

Q: What is the long-term value of APRM?

A: For once in our lives we as Africans get a chance to identify positive ideas on how to improve Africa and share them. Second, there is great value in instigating an ongoing public dialogue involving all stakeholders in a country. Third, peer review is about creating a culture of introspection, of self-assessment, of thinking where am I, how did I get here and how can I improve my condition. Fourth, APRM is an opportunity to share experiences among our people to learn new ways, especially among heads of state.

Q: What is the most important thing Africa needs to understand about peer review that perhaps it does not?

A: APRM is not a scorecard. Many people don't see it as peer learning but as a scorecard used to blame people. This is an area where we need to do a lot of work. Its value is in promoting learning and conversation. The process is expensive, but I am convinced that the return on that investment will be high. Why do I say that? Once we identify our problems and do something about them through a programme of action, it is a signal to anyone wanting to invest that this continent is going to improve.

Political Blindness: Claiming Credit Before Checking Reality

'THE key issues confronting our people are job creation and poverty alleviation.'

Attribute that quote to any African leader, from lowly municipal manager to country president, and the chances are it would be applicable, overwhelmingly so. It is, after all, a great vote-catching line. Ebrahim Rasool, premier of South Africa's Western Cape province, used it last year when launching the Red Door initiative, a $18 million training programme aimed at enabling emerging entrepreneurs to break into the micro-enterprise sector.

Lynn Brown, Western Cape Minister of Finance, Economic Affairs and Tourism, paints a picture of a one-stop shop for micro-businesses, 'with all the help they need'. She has set a three-year rollout target to open another 26 Red Door offices, adding to the nine currently operating. It would hopefully produce 20,000 'micro survivalist businesspeople' with 60,000 employees between them.

But that claim, say Red Door staff, is little more than political puffery. Like many state and aid-driven projects to help the poor, the political need to claim success has led politicians to commit funding before determining if the project is working. In June, delegates to the African Economic Summit (AES) 2005 in Cape Town were escorted to Red Door's signature office in Khayelitsha, a township 30 minutes from the city.

At AES, politicians talked of speeding up, expanding the service and focusing on aggressive outreach programmes, staff on the ground talked of slowing down. Bonita Daniels, a Red Door manager, conceded that references to training were exaggerated. The training programme then consisted of only three modules. Although 4,484 people had visited Red Door in its first year, they were only given a rudimentary course, lasting a few hours, on basic business knowledge, planning and advice on applying for state and provincial tenders. There is no follow through.

Red Door managers, who prefer not to be quoted, have pressured the Western Cape government to radically slash the numbers, and bring in a genuine mentorship programme. Each trainee, if their suggestion goes through, would be assigned a 'navigator', who will take the delegate on each step of the journey, from a broadened training programme, through to actually winning a tender. They will also assist the would-be entrepreneurs in sourcing funds from the Department of Trade and Industry.

'Too many job-creation interventions fall into the trap of measuring themselves against input, because that is the easy part. It's not how many people come through the door looking for help, it's how many actually get work because of the process,' said Danny Meyer, who assists small businesses in Namibia.

As MD of SMEs Compete – a donor-funded initiative to help Namibian small- and medium-sized companies – he has seen many entrepreneur-creation initiatives fail. The problem, according to Meyer, is that while Red Door sounds good from a lofty political level, it has failed to identify what assistance would make a major difference in the lives of entrepreneurs. Red Door offers basic courses of a few hours to visitors, but can't say how the information conveyed will make a difference.

One of the problems, said Meyer, is the people doing the actual consulting. 'Despite the evident enthusiasm from the ones we met, it seems from talking to them that none of them have run their own businesses. They might have the theoretical knowledge, and apparently many have worked for financial institutions, but they have never been at the coalface.'

Gisele Yitamben, the founder of Asafe, a programme aimed at empowering women entrepreneurs in Cameroon, shares the concerns. 'The whole thing is too superficial. I see the main focus on getting numbers through the door, which is in itself meaningless. Interviewing people, and perhaps even facilitating loans, is not job creation.'

Asafe has been running for 17 years, and in 2004 worked with over 20,000 women. 'When we started we had the same problems that I think the Red Door will have. We tried to do too much too quickly. Our turning point came when we pulled back, identified a few people that had potential, and then took them through a process that culminated in actual work. It is a two- to three-year learning experience.'

However there are a few success stories, said Daniels. One is Sizisa Ukukhanya Services. Owner Bongani Ndinisa says that Red Door remodelled his business plan and used it to facilitate funding for a painting contract that his company had won, but did not have the working capital to complete. Based on the success he set up Koncoshe Capital, a micro-loans company that lends money to other start-up businesses that cannot obtain funds through the formal channels.

'Koncoshe's success is great, but I question where the job creation aspect comes in?' said Meyer. 'All I see is a middleman between the banks and entrepreneurs who is adding to the cost of obtaining money.'

Says one of Red Door manager: 'The common expectation is that once we listen to their stories we will facilitate loans. It's not our business. But in reality what can we possibly teach people that have been in a micro-business that cannot possibly employ more than one person?' – **Ted Keenan**

Hype and Hope: The Worrisome State of the Microcredit Movement

2005 has been declared the 'Year of Microcredit' by the UN, thus acknowledging the journey of microcredit from an obscure experiment in the mid-1970s to the status of a worldwide movement. The movement has captivated not just the entire development aid industry, but journalists, editorial writers, policy makers and much of the general public in both the North and the South.

Microcredit is what you might guess – credit in tiny amounts. The term, and the practice, came into being when a few aid agencies began offering loans of as little as $10 or $20 to poor people with no collateral in the developing countries. As with many other new ideas in development, microcredit was meant to be a response to a more profound understanding of third world poverty – in this case the awareness that millions of working poor were stuck in a kind of capital-paucity hell, one so banal in its minute details that Marx himself would probably have overlooked the problem.

Imagine a shoeshine man in Nairobi who can buy the shoe polish but cannot afford the brush. He has to rent the shoe brush from someone else, paying an exorbitant percent of his earnings to that owner of 'the means of production.' Imagine people needing cash for emergencies (poverty is very much about the risk exposure of people for whom a child's minor illness becomes a major economic crisis) whose only option is to borrow from a money lender at an effective annual interest rate of 1,000%.

Is credit a human right?

If these poor people could get small loans at manageable rates, they could break out of the cycle of poverty, or so the theory goes. John Kenneth Galbraith spoke to the point 30 years ago. 'The function of credit in a simple society is, in fact, remarkably egalitarian. It allows the man with energy and no money to participate in the economy more or less on a par with the man who has capital of his own. And the more casual the conditions under which credit is granted, and hence the more impecunious those accommodated, the more egalitarian credit is.'

Thus, the shoeshine man could own his own brush; the rickshaw driver his own rickshaw; the seamstress her own sewing machine. It is not surprising that Mohamed Yunus, founder of Bangladesh's Grameen Bank and grandfather of the microcredit movement, has called credit a 'human right.'

Yet microcredit is an almost perfect case of a phenomenon that has come to characterise much of development assistance – a widening gap between reality and propaganda. For while the promise of microcredit is irresistible – help the poor out of poverty using their own entrepreneurial energies, and in the process get our investment back – the hoped for poverty reduction impact of microcredit remains elusive. While much has been learned about managing microcredit in a sound manner, many newcomers to the field succumb to the temptation to trumpet success prematurely.

A sign in a restaurant in Dakar reads: 'You want credit, me not give, you angry. Me give credit you not pay, me angry. Me rather you angry'

I began working in microcredit in the early 1980s and have formally evaluated over 30 microcredit programmes in 18 countries in Africa and Asia. In the course of the evaluations work I have talked with and visited the activities of roughly 700 to 800 microcredit recipients. When I started in the field, the term microcredit had to be explained to almost everyone. Many who did understand the term, such as World Bank economists, scoffed at the idea. Today the World Bank funds a great deal of it.

Microcredit on a macro scale

In 1995 and 1996 the World Bank's 'Sustainable Banking with the Poor' Project conducted a worldwide inventory of institutions providing microfinancial services to at least 1,000 clients and who were operating microcredit services with a poverty reduction mission for at least three years, including commercial banks, credit unions and NGOs. The list included about 1,000 such institutions. As a participant in the project, I guestimate there are 3,000 to 5,000 providers absent the minimum criteria used in the survey.

Practically every traditional aid donor got involved in the sector. Today a conservative 'guesstimate' would be at least 10,000 operators, large and small, with hardly a single country in the world left out. Virtually every development project I see these days, from maternal and child health, to women's education, to soil conservation, to social forestry, to old fashioned integrated rural development, has a 'microcredit component'.

The hope has bred hype. Pro-microcredit editorials abound. World-class papers like the *New York Times, The Wall Street Journal* and *Le Monde* write about it, and scores of books have been published, including *The Miracles of Barefoot Capitalism*; *Pathways Out of Poverty*; *Hands Around the Globe*; *Back Alley Banking*; *Defying the Odds*; *Give Us Credit*; *The Price of a Dream*.

In February 1997 a huge 'Microcredit Summit' was held in Washington. Accompanied by the booming theme from the film 'Chariots of Fire', three huge screens showed the first of three video segments, the inspiring story of Makgomo Mangena, a 'microentrepreneur' from South Africa. Hillary Clinton spoke about microcredit in the presence of the president of the World Bank, the head of Canadian CIDA, the prime minister of Bangladesh, the Queen of Spain, and the president of Uganda. Almost all the 2,000 delegates signed on to the goal that emerged from the Summit: 100 million of the world's poorest families receiving microcredit by the year 2005. Microcredit had come to be seen as a real answer to poverty.

The UN General Assembly and Kofi Annan announced the year 2005 as the UN's Year of Microcredit, and in the fall of 2004 at a Microcredit Summit follow-up meeting in Jordan, Annan stated that 'microcredit has been one of the success stories of the last decade', while USAID's microfinance unit claimed that microfinance 'has tremendous potential to generate income and expand employment?' The new website of the 'International Year of Microcredit' is even more unequivocal about the development potential of microcredit: 'Currently, microentrepreneurs use loans as small as $100 to grow thriving businesses... leading to strong and flourishing local economies.'

Africa is increasingly on the microcredit agenda. The UNDP has recently committed its energies to raising $500 million for an expansion of its microcredit programme in Africa.

Does microcredit lead to development

Economic development is often conflated with short-term poverty reduction, which is in turn confused with a mere lightening of the burden of poverty ('poverty alleviation'). But development and poverty alleviation are about as similar as clearing a swamp to eradicate mosquitoes is the same as applying a repellent to one's skin to keep the mosquitoes away for a few hours. To date, there is little evidence that microcredit leads to economic development.

There is also an important difference between credit used for enterprise growth, productivity and job creation, and credit used to smooth the ups and downs in the cash flow cycle of the poor (especially in the seasonally dependent rural areas)? If microcredit results only in making the lives of the poor a bit less terrible, is that sufficient reason to laud it? And if borrowers repay microloans does this automatically mean that microcredit is a useful intervention in poverty reduction? And if it is marginally useful, is it cost-effective?

Where does microcredit properly belong? Solely in the realm of banks and other formal financial institutions? Or can it also be practiced successfully by NGOs and other non-bank institutions that may depend on subsidies in order to reach a larger number of poor clients? And what about the distinction between informal credit systems (which exist virtually everywhere in the developing world) and the new formalised ones we call microcredit? Why intervene at all if informal systems (like rotating savings and credit associations run by extended families or groups of friends and acquaintances) already exist?

'If microcredit results only in making the lives of the poor a bit less terrible, is that sufficient reason to laud it?'

These are just some of the questions that should be answered to clarify what can rightly be expected from microcredit. There is room in this article only to address a few of these questions, but at the least I hope to temper the high expectations of microcredit, point to some of its very real limits, and suggest where the real future challenges lie.

Historical perspective

For most of history, credit has had more detractors than enthusiasts, and the availability of credit to the average person in the 'north' hardly figured in its development. For most of the history of what we now call the 'advanced industrial nations', borrowing money from others has been a tainted temptation, if not a source of shame. Which led Shakespeare to advise: 'Neither a borrower not a lender be'.

As recently as 50 or 60 years ago most people in the 'developed' countries had little contact with financial services or formal credit. A working class or rural American, Briton, or Frenchman tended to see banks as institutions for businessmen and the rich. Many people believed that if you could not pay for something, you could not (and should not) buy it. The working person, if he had contact with a bank had a small savings account, or by the 1950s, at best a mortgage.

The $2 trillion in consumer debt in the US alone testifies to a sea-change in attitudes. But two important facts remain: First, the development of the advanced industrial countries did not depend on the average middle class or poor person having access to credit. The rise of the middle class (a relatively recent phenomenon) depended upon economic growth – the expansion of the economy – which created jobs which led to buying power. And second, the large majority of people in the North are not entrepreneurs and never will be. The closest most of us get to entrepreneurship is a childhood experiment in selling lemonade on a suburban sidewalk – with mom supplying free cups and lemonade.

Are we (as we have tended to before) assuming the poor of the developing world are a different order of human being than we are? If the large majority of us in the advanced economies are not entrepreneurs, and have had in our past little sophisticated contact with financial services, and if most of us use credit, when we do, for consumption,

why do we make the assumption that in the developing countries, the poor are budding entrepreneurs who will use credit wisely for investment in income production?

'Business' or merely survival activity?

The economic contexts in which most poor operate (especially in Africa) are not modern economies so much as default modes.

Much of microcredit use in sub-Saharan Africa fits the old saying 'all dressed up and no place to go'. Much of Africa offers an infertile context for borrowing as the only customers available to the poorest are other very poor people. In such infertile economic contexts, the people at the bottom are by definition the ones who 'need' credit the most, but can do the least with it.

In part because microcredit continues to be targeted to the very poor, the majority of microcredit in Africa goes to clients like these (examples are from my field evaluation notes):

- A lady in rural Malawi, age 35 with three children, breaks rocks into smaller pieces using a small hammer. She sets out the piles of small rocks on the roadside hoping to sell to construction crews as aggregate for concrete. She sells a few piles a week to contractors working on a nearby aid agency sponsored road project. Once the road is finished, she will have no more market.

- A woman in Nairobi who buys 150 gram packets of spice and re-packages them in tiny plastic bags of 5 to 10 grams. Her 'capital' investment is a stapler. She works from a stall that is actually a one square metre space in her house, with the goods displayed in a window that faces the street. The packets are stapled to strips of cardboard, 10 to a strip, cut with scissors from whatever she can find. Lately she's been using old cigarette cartons. I look at the wall of her space and see perhaps 20 strips with 6 to 8 packs per strip hanging there. Why is she adding stock if these have not sold yet? She doesn't answer the question. She tells me that more and more women in the neighbourhood are doing this; there are other microcredit NGOs besides the one she is associated with and people see that all they need is a pair of scissors and a stapler, which they can buy with their microcredit. In addition her expenses have gone up. Because of competition she now has to scrounge more to get old cigarette cartons or other sources of cardboard strips. Now she is paying someone to scout pieces of cardboard for her. Within a radius of 300 metres there are 20 baggers and sellers of spices, all women, and all using the same kinds of plastic and staplers.

'The economic contexts in which most poor operate (especially in Africa) are not modern economies so much as default modes'

- A lady in Mamou, Guinea selling small piles of dried chilli peppers, and red pepper paste. She has been in business for eight years. Her main turnover comes from buying a 1 kilogram can of red pepper paste for 12,000 Guinea Francs (about $3.63 in March 2005) and then bagging it into tablespoon size bags which she sells at 100 GF each. By midday on the day I speak to her she had sold 60% of one can, and if she sells the whole can she'll gross 14,000 GF. After deducting the price of the plastic bags which come in several sizes, her profit is about 1,500 GF ($0.45) or about 12.5% on her investment. She does not count the 'opportunity cost' of her time or labour.

- A woman in a peri-urban market outside Kampala selling rice by the cup from a 50 kilo bag. She is in the same area as a dozen other women rice sellers and her rice is no different than that sold by the others; the price is basically the same. How does she get customers? She allows them to buy on 'credit'.

- A man who patches bicycle tires in the 'mechanics' section of the main Niamey (Niger) market place. He is located in the open, and squats on the ground. He has a hand pump, a small can of rubber cement, some patches, a few wrenches and two screwdrivers.

'Much of Africa offers an infertile context for borrowing as the only customers available to the poorest are other very poor people'

These microcredit clients are all in a sense 'helped' by microcredit. But as one delves into the details of their 'business activity', as I have done many times, it emerges that the clients with the most experience got started using their own resources, and though they have not progressed very far – they cannot because the market is just too limited – they have enough turnover to keep buying and selling, and probably would have *with or without the microcredit.*

For them the loans are often diverted to consumption since they can use the relatively large lump sum of the loan to pay for food, medicine, etc. during a time of crisis. Since the mid-1990s much research on microcredit use has found that it often goes to 'help the poor smooth consumption over periods of cyclical or unexpected crises…'[1] Again, there is no question that such a use of credit helps the poor, but this is fundamentally not what the majority of microcredit enthusiasts claim it can do – start or expand a viable business activity.

Indeed, in part because of what has been aptly called 'microfinance evangelism,' the prospect of significant returns from microcredit made available to solid enterprises has become *less* likely.[2] This is because those who can really leverage a small loan are not the poorest or the most destitute. Yet it is those people – somewhere between poor and well-off

– who have already got a *genuine* business going against all odds. They began their businesses the way most people in the history of the world have, by borrowing informally from friends, relatives, other traders, or using own savings.[3] But this slightly more affluent class has much greater potential to create jobs, growth and underpin widespread economic development than the destitute. They could use a loan *not* of $20 – but of $2,000 – to import equipment or build larger premises.

Too rich for credit

This has been my experience observing the poor in their use of microcredit, and it is corroborated by the research: '...the better off the borrower the greater the increase in income from a microenterprise loan. Borrowers who already have assets and skills are able to make better use of credit. The poorest are less able to take risks or use credit to increase their income. Indeed, some of the poorest borrowers...became worse off as a result of micro-enterprise credit, which exposed these vulnerable people to high risks...'[4]

Following a misplaced dedication to poverty alleviation, many donors require that microcredit programmes target the poorest of the poor and exclude those with slightly more income but far more potential to put a loan to good use.

This is the paradox of microcredit: the poorest people can do little productive with the credit, and the ones who can do the most with it are those who don't really need microcredit, but larger amounts with often longer credit terms.

'The poorest are less able to take risks or use credit to increase their income'

The poorest clients, or those with the least experience – like the rock breaking lady – who was enabled to buy the hammer she uses, end up often in a dead end as the market 'niche' they have entered closes. The others are simply part of the general phenomenon that is the 'informal sector' in today's Africa. They are there not because they chose to be entrepreneurs but because there is nothing else they can do to make a little cash.

An additional limitation is that many microcredit clients are reduced to 'copycat' behaviour, everyone selling the same thing, and more sellers saturating the market as more microcredit is made available. In this sense, expanding microcredit can actually lower incomes.

'The poorest can do little productive with the credit and the ones who can do the most don't really need microcredit'

In some places, Bangladesh for example, microcredit is such a common development intervention that many people borrow from one project to repay another. In that context, even if a woman borrower increases her volume of sales by 100% say from 10 bunches of bananas to 20, she is still limited by her inability to add any value to what she sells, limited by her low skills, and the copycat pattern that almost always prevails at the low end of the informal sector, where the 'barriers to entry' as the economists call it, are low. To be sure there are cases where microcredit has helped someone to build up a tiny business; to enable someone to buy a bicycle and thus become an owner of a productive asset, but such examples are far fewer than the cases of those who are caught in subsistence activities with no prospect of comparative advantage.

The informal sector in much of Africa is in fact a default mode, a function of failing economies. It is not the incubator of economic growth but a holding action where everyone (including government employees) is forced to go since little else is available to them.

The women in the spice or pepper paste repackaging 'business' are, an MBA might argue, 'discovering a market niche', but if so it lies literally at the bottom of the barrel. The sellers of single cigarettes, razor blades, tea bags, or cubes of sugar, are market atomisers. They exist because there is such limited purchasing power. To suggest, as the UN's International Year of Microcredit website does, that these women are budding entrepreneurs standing at the threshold of participation in the wider economy, who play a key role in wealth creation is an illusion.

What would permanently help these women, and if not them, their children, are governments that get their acts together and provide structures, laws, and institutions under which people's evident interest in getting ahead in the world could be transformed into reality. Such interventions, however, require a far larger, more coordinated effort, such as organised efforts to train farmers, buy their produce, and certify, package and find export customers for it. To the extent that microcredit it is hyped as a genuine broad-based solution to poverty, it is a diversion.

Rhetoric versus reality

In March 2005 I was in Mamou, Guinea, evaluating a UNDP microcredit project. I recalled something I had seen earlier on the USAID website, describing a client of a programme supported by USAID in Guinea, by coincidence also in Mamou:

'Mme Kadidiatu Barry, a PRIDE/Finance client in Mamou, has successfully managed a series of micro-loans to run a modest business selling sweet cakes to school children in the courtyard of a nearby school. Before she hooked up with the local school, Madame Barry used to travel long distances to other towns to sell her wares, leaving her six children at home to fend for themselves for days and weeks at a time.

However, through management counselling and investment capital from PRIDE/Finance, Madame

Barry has found a market close to her home, allowing her to fulfil her family responsibilities, and run her business at the same time. She is proud of the two-room house she has since built to replace the hut on her property, and is now teaching her daughter how to manage her first micro-loan. She is in the process of diversifying her activities by creating a small boutique next to her home to sell commercial food products.

Beyond the easy story

It is easy to read such enthusiastic stories about microcredit and not question what is really going on. It does seem, after all, a little mean-spirited to raise questions about such inspiring stories. I have met people like Madame Barry. They are honest, hard-working people.

But there is considerably *less* here than meets the eye, and for that reason, it *is* indeed worth taking a closer look. Mme Barry for example was evidently in 'business' before she got her microcredit loan. Yet the implication in the vignette is that she could not have begun to be successful without the microcredit programme. The empirical evidence, as noted earlier, suggests this is not so. Those with real entrepreneurial ambition find ways to make a go of it. The rest tend to fail, or live at a subsistence level whether they have access to credit or not.

Making sweet cakes is not technically challenging. Almost anyone can do this ('low barriers to entry'). Market forces are market forces and pretty soon others are selling sweet cakes to school children ('copycat behaviour'). In short what we are not told in these moving vignettes is that the Mme Barrys of the world (especially in such economic disaster areas as Guinea) have no comparative advantage and are unlikely to go beyond the marginal activity they now have.

Not quite smoke and mirrors, it's true, but there is obfuscation, and it runs pretty much throughout the microcredit movement. After years of official development effort and billions spent on microcredit these stories are pretty much the sole face of the microcredit movement; the one thing a great many organizations have to put forward as a justification to continue to do what they do.

The little serious research we do have on microcredit's impact shows that it helps poor people bridge cash flow gaps in their consumption cycle, and it can give more confidence to women.[5] But it is a stretch to go from these limited outcomes to the 'business' imagery of phrases like 'successfully managed', 'management counselling', 'investment capital', 'diversifying her activities' which are meant to suggest that Mme Barry is one of the foundation stones of a newly emerging economy.

'The microcredit movement has become, in a sense, a victim of its own propaganda'

What Jagdish Bhagwati has said about globalisation's effects on America almost a decade ago applies today to everyone who wants to engage in sustainable economic activity, not just to firms and industries, but more and more to anyone in a commercial activity, anywhere: '...what we are facing now is a new and steadily encroaching economic universe in which the nature of comparative advantage is becoming thin, volatile, kaleidoscopic and creating vulnerabilities for industries, firms, and workers... The continuing integration of the world's financial markets, the increased transnationalisation of production by multinationals, and the convergence in technological ability among the OECD countries, have all combined to make competition among firms across nations fierce...The margins of competitive advantage have, therefore, become thinner: a small shift in costs somewhere can now be deadly to your competitiveness.'[6]

Ignoring this encroaching reality, every microcredit organisation wants to convey an impression of economic effectiveness. Consider the website of FINCA International, a 20-year-old pioneer in a microcredit method called 'village banking'. FINCA operates on three continents including Africa where it has programmes in the DRC, Malawi, South Africa, Tanzania, Uganda and Zambia.

Today, the village banking method – as practiced by FINCA and many other nonprofit agencies in more than 32 countries worldwide – possesses all the characteristics of a successful anti-poverty tool. It represents a lasting solution by providing the poor with the means to increase their incomes. It targets women, who are the poorest segment of the global poor, and yet the most significant force in family nutrition. It is cost-effective, providing not grants, but credit that returns to the village bank to be used by other members of the community.

The village banking method's most valuable feature is that it offers a long-term solution to some of poverty's worst suffering – malnutrition, preventable disease, illiteracy, inadequate housing – by helping the poor create their own solutions with dignity and self-reliance.'

We are meant to pick up on the phrases 'successful', 'powerful', 'anti poverty tool', 'lasting solution', 'long term solution', etc. And this tactic is no accident. FINCA spent about $1 million dollars of its 2003 budget of $45 million dollars on fund-raising and marketing.

Undercutting real gains

The microcredit movement has become in a sense a victim of its own propaganda. The hype has bred demand to have more donors focus on the field and that has created more microcredit projects and components of projects, to the point where an aid donor and a development programme are not perceived as legitimate if they do not have microcredit as part of their

portfolio of interventions. As more and more operators have got involved, the quality of microcredit operations has deteriorated just as the serious veteran players have reached the point of perfecting their lending techniques. This is all the more disturbing since microcredit operations are technically demanding and throughout the movement's history relatively few projects have performed optimally from a financial standpoint.

Consider the UNDP, which is on the verge of a major expansion of its microcredit activity in Africa. In 2002 it took the bold step of asking an outside agency (CGAP – the Consultative Group to Assist the Poor – a microfinance secretariat representing many donor agencies and housed in the World Bank) to undertake a 'peer review' of its portfolio of microfinance projects.

Using a five point scale, CGAP evaluated 66 UNDP microfinance projects. Here is a selection from the final revised report, 'Review of UNDP Microfinance Portfolio':

'The average grade for all UNDP's projects is on the lower end of 'Weak'. Out of 66 graded projects, only 14 projects (21%) were rated 'Good', and 28 projects (42%) were judged 'Unacceptable'. This unhappy picture places UNDP toward the lower end of the spectrum of donor agency effectiveness in microfinance – a finding that is consistent with the results of the peer review process…No trend of improvement is visible: recent projects did not score materially better than older projects.'

'There are so few challenges to microcredit, so much to we all want to believe in such a seemingly simple solution to poverty'

Where microfinance was a component in larger projects, the report states 'not a single component got a good rating'. As for community managed revolving loan funds (similar to the village banking method promoted by FINCA), the report states clearly: 'Performance of community-managed revolving loan funds was so consistently bad that this model never represents a sensible gamble.'

'If microcredit plays a role in staving off worse poverty, then it is not, and cannot be, a bad thing'

The report has not deterred the UNDP from embarking on a major expansion in Africa, where in more than a few countries there is as yet no fertile ground for microcredit.

Avoiding questions of Impact

It is curious that there are so few challenges to microcredit, so much do we all want to believe in such a seemingly simple and straightforward solution to poverty. The reality is that the movement has in large part shied away from rigorous studies of impact, and increasingly turned inward to focus on the performance of the lending entity.

Richard Rosenberg, the author of the CGAP report on the UNDP portfolio, captures the matter of impact succinctly: 'It is notoriously difficult and expensive to quantify household benefits resulting from financial services and to demonstrate causality, so it is not practical for most projects to produce such impact studies.'

Instead the movement has relied on proxies for impact, the rate of loan repayment for example – the idea being that, as Rosenberg states: 'If the clients are willing to pay enough interest to cover all the costs of their loans, and repeatedly repay those loans in order to keep access to the service, then they are 'voting with their feet', – i.e., demonstrating that they judge the benefits of the loans to be greater than the costs.'

But the 'voting with their feet' proxy, reasonable as it may seem, is not a substitute for full impact studies that not only trace the use of the credit but also the nature and level of the client's poverty. Money is fungible and in many cases the repayment money may come from other borrowing, from remittance income donated by a relative working abroad, or from a wage earner in the family. In others the ease of repayment may reflect the fact that the client is fairly well-off and not really poor. We simply do not know in the majority of cases whether the client's repayment means the client is using her 'business' activity as the source of repayment.

The 'so what' argument is often brought in at this point in a discussion of impact. If microcredit plays a role in staving off worse poverty, then it is not, and cannot be, a bad thing. I believe, on the contrary, that it *can* be a bad thing, if microcredit gets in the way of grappling with solutions to the problem of poverty that are genuinely promising. And that, my experience tells me, is what is now happening.

Hype prevents microcredit progress

Among some of the leading veteran practitioners of microcredit, there is recent evidence of a deep questioning of microcredit orthodoxy along with considerable discomfort with what has been happening in the field. ACCION, an American microfinance NGO working in Latin America; BASIX, a development oriented microfinance bank in India; the Kenya Rural Enterprise Programme (KREP), which created KREP Bank in 1999; and a handful of others – with decades of experience, and who know firsthand the limits of microcredit – have created a small group, now called the Development Finance Forum. In 2004 the Forum put out a paper called 'Capital Plus'. The central premise of the paper is that 'development' – permanent poverty reduction through sustained economic development – has been leached out of the microcredit

movement. One of the key questions the group asked was: 'How do we break the orthodoxy of minimalist credit, especially the myth that everybody wants to be self-employed, and how do we tell the truth about the limitations of microcredit, particularly with reference to the poorest?'[7]

Even the best performing microcredit organizations; those that embody 'best practices' and have their technical act together in terms of efficiency and loan collection, have in a sense forgotten about developmental impact. The book *Beyond Micro-Credit* puts it well:

'Technical experts in micro-finance need to see that there is more to the provision of micro-financial services than technical and managerial inputs to enhance performance and efficiency. Micro-finance organisations may be well managed financial organisations, but are they developmental? Indeed, if micro-finance is to achieve any developmental outcomes, the nature of these inputs must be shaped and guided by a clear understanding of the developmental outcomes sought.'[8]

Development is the current frontier of the microcredit movement, and the toughest challenge of all. In the end it is easy to give out microcredit, and using best practices developed over the years, even relatively easy to get the money repaid. But the marginal developmental returns from microcredit simply don't warrant the enthusiasm nor the money spent so far.

To fulfil the promise of long-term change, much harder things need to be undertaken and these cannot be undertaken everywhere, nor by every player in the development aid business who comes along, because they require sophisticated skills, vision, research, and risky experimentation. To move forward, the best operators of microcredit need to become banks, move more seriously into savings mobilisation, and learn to deal with banking policy and other aspects of the enabling environment. They need to come to terms with the constraints imposed by political correctness – by beginning to lend to real small businesses, and not to the subsistence activities in the informal sector. Finally, it needs to be acknowledged by even those who are ready to engage in such higher-level interventions, that like microcredit itself, the lessons of these successful lenders cannot be applied everywhere, not in the same way.

And so we come again to familiar territory in the development industry. An idea that, after all, can produce some modest changes in the life of poor people (cash flow smoothing, confidence building, etc.) but that really works well only in some circumstances, is carried off by hype and urgency, offered as much more than it really is,

'In the end it is easy to give out microcredit, and using best practices developed over the years, even relatively easy to get the money repaid'

and applied everywhere. As it grows it is inevitably caught up in the decades-old incentive structure of the development aid industry – people and institutions are rewarded for mobilising and moving money, and for acting on the mistaken notion that the way to solve poverty is to go directly to the poor themselves. Since the 1970s, time and again our industry ignores complex and contextual approaches to development (institutional, legal, governance, and other reforms) in favour of superficial feel-good solutions that produce at best marginal changes, but satisfy the need to be perceived as 'doing something for the poor'. The tough question needs to be asked: Is the goal to ease the pain or to cure the disease? – **Thomas Dichter is a consultant and author of** *Despite Good Intentions: Why Development Assistance to the Third World Has Failed.*

(Endnotes)

[1] Bennett, Lynn and Cuevas, Carlos, *Journal of International Development*, Special Issue: Sustainable Banking with the Poor, 8 (2), 1996.

[2] Rogaly, Ben, 'Microfinance evangelism, 'destitute women' and the hard selling of a new anti-poverty formula', *Development in Practice*, (Journal) 6 (2), 1996.

[3] Anthropologist Clifford Geertz' comments on the nature of the bazaar economy in the 1950s (long before microcredit) show the importance of private informal credit (even when more expensive than formal credit) as an integrative factor in the bazaar. 'These credit balances... [binding larger and smaller traders together]... are only half-understood if they are seen only as ways in which capital is made available, for they set up and stabilize more or less persisting commercial relationships.' Geertz, Clifford, *Peddlers and Princes: Social Development and Economic Change in two Indonesian Towns*, Chicago, Illinois, University of Chicago Press, 1963, page 36.

[4] Johnson, Susan and Rogaly, Ben, *Microfinance and Poverty Reduction*, Oxfam and ActionAid, Oxford and London, U.K., 1997, p. 11.

[5] see for example, Littlefield, Morduch and Hashemi, 'Is Microfinance an Effective Strategy to Reach the Millennium Development Goals?,' CGAP Focus Note No.24, January, 2003, www.cgap.org/docs/FocusNote_24.pdf.

[6] Bhagwati, Jagdish, 'The Global Economy and American Wages' in *The New Republic*, 19 May 1997.

[7] *Capital Plus: The Challenge of Development in Development Finance Institutions – A Practitioner Perspective*, Development Finance Forum, Chicago, 2004, p. 1.

[8] Fisher, Thomas and Sriram, MS, *Beyond Micro-Credit: Putting Development Back into Micro-Finance*, Vistarr Publications, New Delhi, 2002. p. 21.