

Will money solve Africa's development problems?

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INTRODUCTION

The John Templeton Foundation serves as a philanthropic catalyst for research on what scientists and philosophers call the Big Questions. We support work at the world's top universities in such fields as theoretical physics, cosmology, evolutionary biology, cognitive science, and social science relating to love, forgiveness, creativity, purpose, and the nature and origin of religious belief. We encourage informed, open-minded dialogue between scientists and theologians as they apply themselves to the most profound issues in their particular disciplines. And, in a more practical vein, we seek to stimulate new thinking about wealth creation in the developing world, character education in schools and universities, and programs for cultivating the talents of gifted children.

This booklet neatly embodies our approach to the Big Questions: the contributors are scholars and thinkers of the first rank, they address a perennial and much-disputed subject, and they bring to bear—in civil, elegant prose—a range of different perspectives. By assembling this “conversation,” we intend to promote a dialogue that transcends familiar rhetoric and stock answers. We aim to turn discourse on the Big Questions in a more thoughtful, considered direction. It is our hope that this booklet will be a lasting resource for students, teachers, parents, scientists, clergy, and anyone else engaged with the great issues of human nature and purpose.

Two additional “conversations” on Big Questions at the core of the Foundation’s mandate may also be of interest to readers. They can be found online at the following addresses:

Does the universe have a purpose?

www.templeton.org/purpose

Does science make belief in God obsolete?

www.templeton.org/belief



Ashraf Ghani

Chairman of the Institute for State Effectiveness.

Adviser to the UN for the construction of the Bonn Agreement for Afghanistan.

Finance minister of Afghanistan from 2002–2004.

Yes.

If it is invested in enhancing African capabilities to integrate the continent into global networks of knowledge and creating prosperity and stability. This will mean confronting and overcoming a triple failure: corruption and abuse of power by African governments, predatory practices by extractive industries, and the waste of resources by an uncoordinated and ineffective aid system.

Africa will acquire a strong voice when it is represented by credible leaders and managers. Such people cannot be produced without investment in the appropriate institutions. Currently, about \$5 billion per annum is provided in the form of technical assistance to meet donor requirements. Directing a significant portion of this money toward investment in institutions will produce stakeholders focused on creating a positive change.

New ground has been broken with the Extractive Industries Transparency Initiative (EITI). Since rule of law is critical to accountability and transparency, short-, medium-, and long-term mechanisms for insuring proper use of natural resources in Africa are required. To create a level legal playing field, Africa's interests must be represented by the best legal minds in the world, and the proceeds from extractive industries must be publicly disclosed.

African entrepreneurs encounter significant national and international constraints to business development. While there is favorable legislation in Europe and North America for African exports, access to information that allows Africa to benefit from these laws is limited. The necessary knowledge for taking advantage of legislation exists within corporations that are leading the global effort in corporate social responsibility and social entrepreneurship. These organizations could partner with African businessmen to ensure exports meet the standards necessary for developed countries.

Infrastructure planning in Africa has not allowed for sub-regional and regional integration, or improved Africa's access to global markets. As reliable infrastructure is a prerequisite for participation in the global economy, the strategic horizon for Africa's infrastructure needs to be between ten and twenty years. Such a strategy requires moving from the current one to three-year budget cycles of the aid system to predictable, long-term financing mechanisms (such as trust funds) that will guarantee the effective use of resources.

There is sufficient evidence that poor people are able to both prioritize and manage the use of limited resources. A programmatic approach, along the lines of the successful rural development programs in Afghanistan and Indonesia, would enable the most excluded segments of the African population to become stakeholders in systems of good governance and carry-out development themselves.

After many decades, some African leaders are setting an example for others by leaving office voluntarily. However, governance in Africa is still not utilizing a state-building approach that emphasizes the fact that

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states have both rights and obligations to their people and other countries. African states must enter into a double compact: with their citizens, on measurable criteria for the performance of state functions; and with the international community, on systems of accountability and transparency. Only then can we judge state effectiveness and ensure long-term state-building strategies are in place for sustained investment over the minimum of twenty years necessary for lasting change.

It is time to address the needs of Africa seriously and harness the potential it has through a commitment by the international community — a commitment similar to that made to decimated nations after World War II. The circumstances may be different in Africa, but the imagination and resources necessary are the same and the costs of failure would be equally as devastating.



*Dr. Donald Kaberuka
President of the African Development Bank.
Former minister of finance of Rwanda.*

No.

Not as long as there are issues such as prolonged violent conflict, bad governance, excessive external interference, and lack of an autonomous policy space. Alone, money cannot solve Africa's development problems. Proof, if any was needed, is the fact that many of Africa's natural resource-rich countries score very low on human development indicators.

Africa's development challenges are multifaceted. Colonial history still looms large. Money cannot undo that history. Five decades after independence we are still grappling with building the nation-state. On the one hand, whole nations were split up by artificial boundaries to form separate independent countries, while on the other hand, several nation-states were lumped together within these same artificially delineated borders. To this already complex picture was added the impact of Cold War rivalries among major powers, which extended to the African theatre.

No amount of money can build the damaged trust between a government and its citizens. Decades of defective political and economic governance, and the failure by early post-independence governments to deliver on the promises of independence spun disillusionment and led to unfulfilled expectations paving the way to undemocratic dictatorial rule, the demise of the rule of law, ethnic strife, and economic and social chaos.

In extreme cases these conditions led to a string of very weak or failed states.

This said, we must realize money is still needed and Africa will, for a while, require external support by way of concessional finance, given its limited domestic savings. Remember, 40% of Africans live in landlocked states, often as far away as 2,000 kilometers from a maritime port. Building infrastructure that links countries and expanding market size and diversity requires significant resources; so do fighting HIV/AIDS and educating Africa's children.

The good news is that a new generation of African leaders is determined to make a difference. In the last two years, Africa has made substantial progress on the economic and governance fronts. We are encouraged by the sustained strong macroeconomic and structural reforms on one hand, and improved governance on the other. These will go a long way toward reducing the risks and costs of doing business—prerequisites for stimulating both domestic and foreign investment, the only means to create wealth.

Lastly, Africa must be given a chance to meaningfully integrate into the global trading environment in order to sustain growth performance. It will not happen if international commitments such as those made at the Gleneagles G 8 Summit are not met. The Doha Trade Round negotiations need to succeed. These negotiations have been called a Development Round because they frontload the interests of developing countries such as those in Africa. At the end of the day, we are all God's children and he gave us one world in which we are interdependent.



Edward Green

Director of the AIDS Prevention Research Project at Harvard's Center for Population & Development Studies.

No.

By now we should have learned. Donor nations have spent billions of dollars for development schemes in post-colonial Africa, yet there is little to show for this beyond dependency and corruption. Yet current policy and sentiment seem to advocate more of the same. Pop music and movie stars join celebrity academics in trying to shame wealthy nations into committing ever-expanding funds to address African poverty and ill health. This grand scheme mentality has remained immune from the feedback that failed programs ought to have provided. As for the intended beneficiaries, we find a psychological colonialism that has brainwashed the poor into believing the solutions to their problems are to be found in the technical know-how and largesse of wealthy countries.

A recent book, *The White Man's Burden*, by William Easterly, challenges “utopian social engineering” by international development experts he calls planners, for whom poverty is an engineering problem with technical solutions only they can concoct. Needed instead are searchers, who go to Africa with humility, open minds, and ability, to learn and discern what works and what doesn't in different cultural settings.

Public health is one of the few areas of development that has achieved some genuine, sustained results. Yet we need only examine the Western response to AIDS, one of Africa's worst problems, to see replication of every mistake made by planners over the past half-century. Evidence is mounting that the Western biomedical model of AIDS prevention — condoms, antibiotics for sexually transmitted infections, and testing people for HIV infection — has been largely ineffective in Africa. More recently, billions of dollars has gone into treating AIDS with expensive antiretroviral drugs, an unprecedented public health intervention with as-yet unknown effects on the future of the pandemic. Availability of these drugs has not reduced the rate of new HIV infections in the U.S.

African AIDS is driven primarily by those men and women who have multiple, concurrent sexual partners. The global prevention model focuses on medical devices and does not actively promote partner reduction, or even address multipartner sex — dismissing this inaccurately as an abstinence-only scheme. Yet, largely before Western technical advisors showed up, Uganda developed its own response to AIDS based on common sense, sound public health principles, and cultural/religious compatibility. Its emphasis on partner reduction (zero grazing) was appropriate to the type of generalized epidemic Uganda faced. HIV prevalence fell by an unprecedented two-thirds between 1992–2004. The cost? During the early years of major behavior change, \$0.23 per person, per year. Meanwhile, the AIDS prevention investment per capita in South Africa and Botswana, where Western-favored approaches are funded, is hundreds of times higher. Yet these countries have among the highest HIV prevalence anywhere and it has been difficult to demonstrate the impact of these expensive programs on HIV infection rates, where it counts. Alas, most Western donors seem to have learned nothing from all this. Until the reasons for this are examined openly and objectively, the wealthy nations are likely to continue repeating the mistakes of the past.



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Only If..

It empowers citizens.

African entrepreneurs are the key to solving Africa's development problems. It is they who can drive their continent's economic growth and it is they who can make their governments better. If money is invested engaging the organic and transformative potential of local entrepreneurs, Africa will flourish. If money is poured into government bureaucracies — which hold back these entrepreneurs — Africa will continue to languish.

Big money to governments in Africa, as it does elsewhere, empowers bureaucracies, promotes statism, and weakens government incentives to increase tax revenues through economic growth. Furthermore, economic assets are often kept in the hands of the state, leading to monopolies, stagnation, and the opportunity for extortion. As a bitter cherry on top, the more the red tape increases, the more discouraged entrepreneurs get and a vicious cycle ensues.

There are many instances where money — funding entrepreneurs and non-governmental bodies — does wonders in Africa. These examples are often cited by development gurus who then claim that aid in general is helping Africa, justifying any aid — including that to governments. But there is a clear pattern: money to entrepreneurs and non-governmental bodies helps; money to governments hurts.

A look at the history of England explains why outside money to governments is damaging. In the 13th century, after the advent of property rights, the monarch was forced to convene a group of citizens as a tax-legitimizing device. That group's name? Parliament.

Over several centuries, parliament capitalized on the monarch's chronic need for money and, indeed, made sure the crown did not gain financial independence. Every time a monarch came to parliament to pass a new tax bill, parliament obliged, but only after exacting more liberty from the Crown. Over time, parliament emerged as the more powerful branch of government. In hindsight, the two keys to the successful economic and democratic growth of England were:

- (a) the monarch's shortage of money, not its adequacy; and
- (b) the lack of aid from outside.

Likewise, in today's sub-Saharan Africa, the opportunity exists to put into motion true economic development. It will not happen by deluging African leaders with aid dollars, but rather by adopting practical ways to help Africa's citizens thrive. Their increased strength is the best way to remove blockages to progress in the long run.

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First, rich countries must be challenged to remove trade barriers for African countries now, irrespective of African trade policies. With global market access, Africans would automatically attract private investment to their countries, despite their institutional weaknesses. These institutions would become stronger over time as businesses began to flourish. Private investments capitalizing on access to global markets would necessarily employ Africa's low-cost labor, thus creating jobs. This is in stark contrast with companies extracting mineral resources in Africa, employing very few people relative to size of the business.

Next, small entrepreneurs must be helped with seed money in increments of \$10,000 to \$20,000 (in contrast to the approach of mega-institutions who tend to direct billions into state bureaucracies). Even these relatively small cash amounts can be broken up into several installments, each of which is provided under certain pre-determined performance criteria. Just like they do everywhere else in the world, these entrepreneurs would create jobs, products, services, and — let us not forget — choices. It is precisely such jobs, entrepreneurs, and choices that form the bedrock of flourishing democracies.

What goes naturally with supporting small entrepreneurs is introducing technologies that cost-effectively empower individuals, an area where Western knowledge can obviously add value. Such technologies multiply people's abilities and deliver genuine aid to citizens directly. A pair of wheels, for example, provides invaluable assistance in moving a heavy load of bricks.

Heightened productivity gives rise to four exciting benefits. First, as individuals control what they produce and consume, their lives improve. Second, when citizens accrue increased economic clout, institutions are forced to become more responsive to their needs. Third, by becoming more productive, users are able to pay for productivity tools, creating opportunities for entrepreneurs to launch profit-seeking enterprises to provide such tools. This is why businesses selling computers and cell phones sprang up naturally in Africa. Finally, profitable businesses attract imitators, unleashing competition. Competition gives rise to innovation, specialization, scalability, lower prices, higher wages, and a host of other good things including curtailing potential abuses by businesses. It's a virtuous cycle of organic economic growth that, like a mighty wheel, can move the entire continent.

We must also take practical action toward building healthcare infrastructure by working with local groups. Imagine if President Bush promised, on behalf of the United States, to give \$1 million to match any grassroots group (meeting certain organizational and self-sustainability criteria) that can come up with \$1 million of its own. With only \$1 billion, one thousand such clinics would spring up with real roots in the ground, possibly attracting African doctors back into their homeland from Western countries. This is only one of many kinds of grassroots enterprises that can be effectively encouraged.

Finally, those of us in developed countries can also give direct aid to Africa by purchasing African products. And if rich countries want to further help Africa, they can issue vouchers to their own citizens to encourage the purchase of African goods in Western stores.

The time has come for us to stop pouring billions of dollars into bureaucracies. Instead, we must activate the billion brains in Africa, each of whom will tame those bureaucracies and make the continent a global economic powerhouse.



*James Shikwati
Founder and director of the Inter Region Economic Network.
CEO of The African Executive business magazine.*

No Way.

The problem in Africa has never been lack of money, but rather the inability to exploit the African mind. Picture a banana farmer in a rural African village with a leaking roof that would cost \$100 to fix. If one purchased \$100 worth of his bananas, the farmer would have the power and choice to determine whether the leaking roof is his top spending priority. On the other hand, if he is given \$100 as a grant or loan to fix the roof, his choice would be limited to what the owner of the big money views as a priority. Out of 960 million Africans in 53 states, there are innovators and entrepreneurs who, if rewarded by the market, will address the challenges facing the continent.

If money was the key to solving problems, banks would send agents on the streets to supply money to afflicted individuals. But banks only offer money to individuals who successfully translate their problems into opportunities. A \$7 million British compensation to 228 Samburu herders in Kenya in 2002 did not stop them from turning into paupers by 2007. Money in itself is neutral. Big money viewed as capital has led strategists (who depict Africa as trapped in a cycle of poverty) to argue for massive inflows of money as the only means of escape from poverty. Viewing money as a receipt for value, a creation, and a resultant effect of exchange between different parties offers a chance to translate African problems into opportunities.

As Lord Peter Bauer aptly pointed out, “Money is the result of economic achievement and not a precondition.” How can Africans engage in activities that will lead to economic achievement? The key is to transform the mindset of the 50% of the African population below age 20 to focus on turning African problems into opportunities. In Africa today, there are entrepreneurial opportunities to feed an estimated 200 million hungry people, kill billions of malaria causing mosquitoes that threaten the lives of an estimated 500 million, and develop infrastructure.

Africa has enormous capital in the form of natural resources that include oil, hydroelectric power, diamonds, uranium, gold, cobalt, 70% of the world’s Coltan and 34% of its cassiterite. Coltan and cassiterite are strategic in the production of cell phones, laptops, and other portable electronic products. If Africans employed the power of reason, the global cell phone industry that churns out 25 cell phones per second would provide a huge source of revenue for respective countries; thereby widening their menu of choices.

Focusing on the African human mind as capital will help translate resources into wealth, thereby helping to solve Africa’s problems. Money’s usefulness and value will only spring from rational responses to the challenges that face the continent through exchange of products and services at the village, national, continental, and international levels.



Professor James Tooley

*President of
The Education
Fund,
Orient Global.*

Yes.

But only if the money comes as investment. Africa doesn't need aid from governments and international agencies. Over the last 40 years, aid to developing countries has reached \$2.6 trillion, 25% of which has gone to sub-Saharan Africa. It has notably failed to eliminate poverty. Philanthropy should have only a limited role — for disaster relief — and helping policy makers promote good governance, the rule of law, and property rights. What Africa needs in order to overcome its problems is the same as that of any other region or country: flourishing enterprises that provide employment and create wealth.

This is true even in my field — education. Less than 60% of the adult population of sub-Saharan Africa can read and write with understanding. And for every 100 men, only 76 women are literate.

Like a raging bonfire, adult illiteracy is fuelled by lack of schooling, or poor quality schooling. An estimated 40 million primary-school-age children in sub-Saharan Africa are not in school and in half of the countries less than 60% finish the full course of schooling. But staying the course isn't such a great idea either. The United Nations recently reported that, "Most poor children who attend primary school in the developing world learn shockingly little."

A common response to these problems is to call for billions more in aid for public education. The poor must "be patient," the development experts opine, because public education needs first to be reformed to rid it of corruption and inefficiencies.

But there is another way of solving this problem and it is being illuminated by, of all people, some of the poorest parents on earth. These parents are abandoning public schools en masse to send their children to budget private schools that charge low fees of a few dollars per month, affordable even to families living on poverty-line wages. In the shantytowns of Lagos, Nigeria, for instance, or the poor rural areas surrounding Accra, Ghana, or in Africa's largest slum, Kibera, Kenya, the majority of schoolchildren — up to 75% — are enrolled in private schools.

Recent research has shown these budget private schools are superior to government schools because teachers were much more likely to be teaching when researchers checked in on classrooms unannounced, facilities were often better equipped with drinking water and toilets, and academic achievement was much higher, even after controlling for background variables. All of this was accomplished for a fraction of the per-pupil teacher cost.

The existence of this burgeoning private sector reveals ways in which big money — actually, even small money — could help solve Africa's problems if channelled as investment rather than aid. The key is to follow the lead of the poor parents. They do not want public schools, where teachers do not turn up or, if they do, do not teach. They want private schools, where teachers are accountable to them through the school principal.

This entrepreneurial breakthrough in private education has opened up a creative new frontier for investors interested in helping improve the quality of African education. Orient Global has created its \$100 million

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Education Fund which is investing in private education opportunities in developing countries, including the research and development for a low cost chain of schools; Opportunity International has just announced its Microschools of Opportunity program to disburse loans of a few thousand dollars or less, at commercial interest rates, to help school entrepreneurs build latrines, refurbish classrooms, or buy land. In the past, aid agencies have literally thrown billions trying to get schools to improve their curriculum or teaching. These interventions are not sustainable and fade away as soon as the donor-funded experts move on. You will often find the supplied computers and videos in the government head teachers' homes, not the school.

However, private schools are operating in intensively competitive markets. They are hungry for innovation if it can be shown to improve standards and increase market share. Investors can back research and development to find out what works to improve educational outcomes, then partner with entrepreneurs to ensure successful methods are brought to market. The problems of sustainability and scalability that so bedevil aid intervention are solved.

Investors can go even further. Buying into trusted brands enables the poor to overcome information asymmetries that exist in any market. Why not in education, too? Already small embryonic brands are emerging. Some educational entrepreneurs have four or five schools, and are eager to extend further. Investors could assist expansion-minded proprietors in accessing loan capital, or create a specialized education investment fund to provide equity to limited liability companies to run chains of budget private schools. Or investors could engage in a joint venture with local educational entrepreneurs to set up a chain themselves. Many of the private schools already offer free scholarships to some of the neediest children, helping solve the problem of educating the poorest of the poor. Recent research has found 5–10% of places provided free of charge in private schools, so other schools could channel some of their surplus in the same way.

Education is often held up as a key area where Africa needs big money from governments and international agencies to solve its problems. That's not what the experience of the poor in Africa seems to be telling us. It's time we listened to them.



*Michael Fairbanks
Co-founder of OTF Group and the SEVEN FUND, which provides grants for enterprise solutions to poverty.*

I Thought So..

But now I don't.

There is that threadbare maxim: If you hold a hammer in your hand, every problem looks like a nail. What happens, then, when all we hold in our hand is a checkbook?

Checkbook Development suggests that poor nations cannot build the skills necessary to solve their own problems. There is, however, a notable exception.

The President of Rwanda, Paul Kagame, called me to his office to assist him to build private sector capacity and improve export competitiveness. I informed him that it would not be possible for the amount of money and time he budgeted to do my job and train Rwandans at the same time. He told me the story of when he had finally accumulated enough money to provide back pay for his troops who were fighting to end the genocide. He asked them if he could use the money, instead, to purchase helicopters to help end the war sooner. Not a single soldier objected.

President Kagame purchased the aircraft from countries on the condition that they also provide pilots. He then persuaded those pilots to fly missions into enemy territory, and, at the same time, train Rwandans to fly. His tactics, in a land of no roads and a thousand mountains, shortened the war, and saved lives.

Every nation needs money to upgrade and improve the lives of their citizens; and it is good when a rich nation helps a poor one after a devastating act of God, or to meet a basic human need. But, too often, when one nation aids another it is based on a massive infusion of financial capital in return for changing monetary, trade, investment, fiscal, sectoral, and wage policies. This is often the right advice, but there is a trade-off, too. The nation with all the money often assumes the decision rights; and the responsibility for a nation's future must always reside with the citizens of that nation, not with foreign advisors, and certainly not with its creditors and donors.

This sort of checkbook development confuses compassion and generosity with over-responsibility for fellow human beings. Explicitly or implicitly, the donor is telling them how to run their country, and in the process, without meaning to, can rob citizens of emerging nations of their most precious assets — dignity and self-reliance.

Rwanda receives little foreign aid. The leaders of the World Bank had introduced me and several other experts to President Kagame and promised to pay the cost of our work; but they needed two years to program it, and Rwanda did not have two years. President Kagame understood that poverty was destroying the cornerstones of his country's society: tolerance, trust, aspirations, and hope. He decided to pay our salaries from the proceeds of his privatization program, but he stipulated that we begin immediately, and that we pay him back if we did not do what we said we could do. He further demanded,

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“I want you to be like those pilots who flew the aircraft and trained Rwandans.” I asked, “Do you want me to help you kill the enemy, too?” He said, “I want you to help me kill poverty.”

Rwanda doesn't have money, but it is a nation without the rampant fatalism often fostered (however unintentionally) by benevolent people. Its leadership has had the courage to challenge the underlying assumptions of international aid, and that has led to growth of almost 20% per year in subsistence wages in its key export sectors.

The responsibility for its own future lies squarely on the shoulders of its men and women.

Not a single Rwandan objects.



*William
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DC.*

No

In fact, after fifty years of trying and \$600 billion worth of aid-giving, with close to zero rise in living standards in Africa, I can make the case for “No” pretty decisively. Aid advocates talk about cheap solutions like the 10-cent oral rehydration salts that would save a baby dying from diarrheal diseases, the 12-cent malaria medicine that saves someone dying from malaria, or the \$5 bed nets that keep them from getting malaria in the first place. Yet despite the aid money flowing, two million babies still died from diarrheal diseases last year, more than a million still died from malaria, and most potential malaria victims are still not sleeping under bed nets.

Clearly, money alone does not solve problems. What is needed instead are business, social, and political entrepreneurs who take responsibility for, say, making sure medicines reach victims, rather than more grandiose slogans about comprehensive administrative solutions that only serve as publicity vehicles for raising yet more money for ineffectual aid bureaucracies. Entrepreneurs would be accountable for results, in contrast to the aid bureaucrats and rich country politicians who make promises that nobody holds them accountable for keeping.

As for facilitating African development, free enterprise has been the tried and true vehicle for escaping poverty everywhere else (see China and India most recently) and it is patronizing to suggest that it won't work in Africa. The hope of Africa comes much more from someone like businessman Alieu Conteh, who started a hugely successful cell phone company in the Democratic Republic of the Congo amid the chaos of civil war, than it does from celebrity aid advocates like Bono. Africans are far from being condemned to be helpless wards of rich donors: homegrown economic and political freedoms will allow Africans themselves to solve their own problems.