IS AID A CURSE OR A BLESSING TO AFRICA? THE CASE OF UGANDA

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Abstract: *The role of foreign aid in promoting growth and development in general is a debatable issue and remains unsettled at both the theoretical and empirical level. It is evident that the African continent has substantially received large amounts of foreign aid since the 1960s, but little improvement has taken place or observed in its socio-economic development. This essay considers the statement as to whether foreign aid is a blessing or a curse to Africa. Uganda will be used as a cases study in this paper.*
Keywords: *Africa; foreign aid; Uganda*

1. Introduction

Foreign aid is an important source of income in developing countries and carries potential to play a key role in promoting economic growth. Some literature on economic growth emphasizes positive role of foreign aid in the process of economic development. Foreign aid inflow influences the process of growth by reducing the saving investment gap, increasing productivity and transferring the modern technology to those nations that do not have it, for example: most of the developing countries have received some machines and those who operate them in the form of aid. However, in the story of aid is different in the neoclassical growth framework, which argues that the benefits of foreign aid inflows are of temporary nature. The African continent has heavily relied on foreign handouts and borrowings to finance its economic development. This strategy has increased its dependency on external resources today. Africa has received around US$568 billion in the form of foreign aid since the 1960s and 2003 Mwenda, (2006), but the benefits of this aid flows have not yet stretched to the whole continent and societies which means that foreign aid has failed to transform the economic conditions of Africa. The literacy rate is still at a very low rate and other social indicators such as employment, health and education also do not present an encouraging picture. Saving rates have remained low and the trade gap has widened Husain, (1999). Some scholars have argued that foreign aid has not been utilized for development of the African economy; rather it has been served the interests of influential people like the donors and the people with power in recipient countries. The overall situation discussed above needs further

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investigations, therefore it is a need find out what foreign aid has really done to the so called black continent, as there are heated debates on this form of assistance. By doing so, the paper will start by defining the key concepts to familiarize the reader with some challenging concepts he may encounter, it will go further to make an investigation of what different scholars say or argue pertaining to the issue of aid in Africa, here the paper will focus on seeing whether aid has done any improvements in Africa and if so, is it sustainable. To further explain understand this paradox of aid, one of the African countries 'Uganda' will be used as a case study. Some recommendations and conclusions will be drawn at the end of the discussion.

2. Definition of concepts

Foreign aid

According to Mwenda (2006) foreign aid refers to the transfer of concessional resources from one government to another or from a government to an international agency or a nongovernmental organization which in turn transfers those resources to the poor.

Aid dependence

Manasse, et.al (2004) defines dependence a situation in which a government or entity receiving concessional external assistance would suffer serious economic and possibly political repercussions if that aid significantly was to be reduced or eliminated**.**

3. Literature review

This section will discuss whether aid has been sustainable of unsustainable in the African continent. It will do so by reviewing what different scholars say pertaining to this issue of foreign aid. The impact of foreign aid on economic development has always been a controversial issue. In the 1950s, 1960s and 1970s, the rich countries used foreign aid to fill the gaps in resources, encouraging domestic investment and industrial development under the belief that foreign aid could help developing countries to accelerate the "take off" into self-sustained growth by generating new domestic investment (Rostow, 1960). Most economists argue that foreign capital inflow is necessary and a sufficient condition for economic growth in developing countries. They claim that there is a positive correlation between foreign aid and economic growth because it complements domestic resources and also supplements domestic savings to bridge saving investment gap. These groups of scholars also believe that foreign aid provides additional financial resources which in turn help to achieve the short term growth targets. Besides that, they also claim that aid assists to close the foreign exchange gap, as it provides excess to modern technology and managerial skills and allows easier excess to world markets. The British Department for International Development (2000) also argues that development assistance through aid could contribute to poverty reduction in countries pursuing sound macroeconomic policies. Canadian International Development Agency (2002) cites World Bank researchers' compelling evidence that good governance and sound policy environment are the most important determinants of aid effectiveness. In contrast another strand of literature asserts that external capital exerts significant negative effect on the economic growth of the recipient countries. According to this view, foreign aid is fully consumed and substitutes rather than complements domestic resources. It is argued that foreign aid is used to import inappropriate technology, distorts domestic income distribution and encourages a bigger, inefficient and corrupt government in developing countries. Foreign aid is also thought to displace domestic savings, which in turn retards investment and economic growth (Abrego & Ross, 2001). Similarly, (Agenor, 2000, Chen, 2006 and Manasse et.al, 2004) notes that foreign aid is basically a tool that is designed to hurt rather than helping the poor. (Chen, 2006 & Manasse et.al, 2004) continue to argue that this tool goes back to its rulers whose spending policies are determined by their own personal and political interest, among which the position of the poor has very low priority. On the other hand, the conditionality's imposed by the donor agencies may constrain the autonomous policies the recipient countries may like to pursue. Many empirical studies suggest that foreign aid has not contributed profoundly to the economic growth and development of the recipient countries but rather it has a tendency towards increasing inequalities among different groups (Mariano & Delano, 2005). The governments of the rich countries normally claim that they are providing "aid" to help the third world countries to escape from the underdevelopment and poverty state, but much of this aid has failed or is failing to alleviate poverty. Moreover, the increasing tendency towards providing loans instead of grants and tying aid had left many third World countries in debt burden cycle. More money may not be the best solution to poverty for the simple reason that capital is a byproduct of the development process, not its prerequisite. According to Patillo & Luca, (2004) foreign aid has actually stifled domestic reform and, consequently, undermined the basis for long-term economic growth and prosperity for the African continent. Debt cancellation has also been identified as moral hazard. As Reinhart & Savastano (2003) argue, most African countries borrow money and allow the politicians and bureaucrats to steal and misuse the money. When the state fails to repay the loan, international donors forgive it. Such an approach according to Reinhart & Savastano (2003) penalizes good performers and rewards corrupt and incompetent borrowers. It does not create the right incentives for better loan management. Debt cancellation induces governments to think that they can borrow and spend money in any way they like without paying the price for their actions. Throwing money at governments is certainly not the right way to make them fiscally prudent Instead of using resources saved from debt cancellation to improve the welfare of poor citizens; governments may be tempted to squander them on ostentatious consumption. Easy money can turn even potentially responsible governments into reckless spenders as it is the case in most African countries today ever since the 1960s. Foreign aid has made the poor get poorer and the richer getting richer. Advances in development are, all too often eaten up by an even faster growing population and the real gains turn out to be minimal. The curse of debt burden increases each and every single day. As Arnold (1979) asserts: "Aid has now been provided for more than a quarter of a century. Yet the countries which qualified for development assistance as colonies 25 years ago still need aid today. There is little change in their real economic position: 'catching up' is a receding myth. Since this is the case, it is relevant to ask what aid has achieved over this period." (p. g 213). Most African countries inherited an economic and political structure at independence from which it has been extremely difficult to break free from. A few have tried to do so, with indifferent success. Here one can argue that the development paths pursued by African countries were broadly established for them a t independence, to alter the inherited approach required a political insight and determination as well as access to some technology that in most cases was simply not available. In a similar vein Arnold (1979) argues that Western economic penetration in Africa, at the time of independence, was of such an order that virtually none of the weak economies of the continent have been able to individually break free. The curse of natural resources has been documented in several studies. Sachs and Warner (2001) show that resource-rich countries grow slower than other countries and that this finding is robust to controlling for geography, resource abundance per capita and mineral versus agricultural resources. Natural resources and foreign aid share a common characteristic: they can be appropriated by corrupt politicians without having to resort to unpopular, and normally less profitable, measures like taxation. Aid sustainability from the above discussion therefore cast doubts about the effectiveness of foreign aid as a tool for economic growth and sustainable development in developing countries.

4. Historical background: before Protectorate in 1893

Peasant agricultural production has been the predominant economic activity since pre-colonial times in Uganda. Most Ugandans were subsistence farmers long time before the arrival of the Europeans. After declaring Uganda, a protectorate in 1893, Britain pursued economic policies that drew Uganda into the world economy primarily to serve Britain's late nineteenth -century textile industry. Cotton cultivation increased in importance after 1904, and once it became clear that cotton plantations would be too difficult and expensive to maintain, official policy encouraged smallholder farmers to produce and market their cotton through local cooperative associations (Arnold, 1979). By 1910 cotton had become Uganda's leading export. In the following decades, the government encouraged the growth of sugar and tea plantations. Following World War II, officials introduced coffee cultivation to strengthen declining export revenues, and coffee soon earned more than half of Uganda's export earnings. Uganda enjoyed a strong and stable economy in the years approaching independence. Agriculture was the dominant activity, but the expanding manufacturing sector appeared capable of increasing its contribution to GDP, especially through the production of foodstuffs and textiles. Some valuable minerals, notably copper, had been discovered, and water power resources were substantial. In 1967 Uganda and the neighboring countries of Kenya and Tanzania joined together to form the East African Community (EAC), hoping to create a common market and share the cost of transport and banking facilities, and Uganda registered impressive growth rates for the first eight years after independence. The economy deteriorated under the rule of President Idi Amin Dada from 1971 to 1979. Amin used nationalist, militarist rhetoric and ill-chosen economic policies to eliminate foreign economic interests and build up the military establishment. In 1972 he expelled holders of British passports, including approximately 70,000 Asians of Indian and Pakistani descent. Many Asians had been active in agribusiness, manufacturing, and commerce. Their mass expulsion and Amin's efforts to expropriate foreign businesses undermined investor confidence in Uganda. Amin also increased public expenditures on military goods, a practice that contributed to escalating foreign and domestic debt during the 1970s. By 1980 the economy was nearly destroyed. Following Amin's departure, successive governments attempted to restore international confidence in the economy through a mixture of development plans and austere government budgets. Beginning in 1980, the second government of Milton Obote obtained foreign donor support, primarily from the International Monetary Fund (IMF), by floating the Uganda shilling removing price controls, increasing agricultural producer prices, and setting strict limits on government expenditures. These recovery initiatives created real growth in agriculture between 1980 and 1983. The lack of foreign exchange was a major constraint on government efforts, however, and it became a critical problem in 1984 when the IMF ended its support following a disagreement over budget policy. During the brief regime of Tito Lutwa Okello in 1985, the economy slipped almost out of control as civil war extended across the country therefore foreign aid came into play to intervene the situation that the county was going through (Arnold, 1979).

4.1. Uganda Today: After independence- Around the 1990s

Foreign aid is important in Uganda because it finances free primary education, free basic health care, and infrastructure rehabilitation and maintenance. However, Corruption in Uganda is endemic. For example, a (2004) study by Ritva Reinikka from the World Bank and Jakob Svensson from Stockholm University found that 20 percent of Uganda’s total public expenditure went for education in the mid-1990s. From this study, only 13 percent of Uganda’s sizable education budget never reached the schools. The rest "was captured by local officials (and politicians)." Uganda implemented significant economic reforms in the 1990s because of the domestic economic and political factors in that country. That development led many observers to label Uganda as an economic success story and brought the country debt relief and an increase in foreign aid. But foreign aid, which makes up 50 percent of the Ugandan government's budget, is providing the government with an independent source of "unearned" revenue (Mwenda, 2006). Since foreign aid makes almost half of the Ugandan budget, this allows the government to avoid accountability to Uganda's citizens. Moreover, foreign aid enables the government to pay its bills without having to undertake further necessary economic reforms. Similarly, debt relief to Uganda has had some unintended consequences. It has enabled the government to borrow more money and remain highly indebted by significantly increasing its level of absolute debt. The country's debt as a share of gross domestic product is still more than 50 percent (Mwenda, 2006). The government is wasting much of the new money on military equipment and political patronage. Similarly the army payroll includes thousands of "ghost soldiers," whose salaries go straight into the pockets of the army officers, this clearly indicates that foreign aid acts as a subsidy for government corruption and incompetence in Uganda as the donated aid creates disincentives to reform tax administration and to streamline public expenditure. Mwenda (2006) argues that if donors could turn off the aid taps, the government of Uganda would likely be forced to reform its imprudent fiscal policies or stare regime collapse in the eye. In Uganda's case, debt relief served as a license for the government to borrow even more. HIPC, foreign aid to Uganda averaged US$593 million per year (Mwenda, 2006). In the six years after HIPC, it averaged US$783 million per year. That means that, after HIPC, foreign aid inflows to Uganda increased by 32 percent. Uganda does not need more foreign aid. Rather, it needs to improve its tax administration by investing in better staff and motivating them with better pay and better facilities. It needs to tackle the problem of tax evasion by the rich and well connected. Most important, the government needs to put into place incentives for people to pay taxes

5. Recommendations

- Africa is a large and diverse continent comprising 54 countries. Each of those countries faces unique challenges that may indeed require different policy and political interventions together with different strategies on how to tackle its problems e.g some just need advise not aid in the form of money.
- The current obsession with increasing aid and debt cancellation ignores many of the difficulties that most African countries share therefore debt management policies should be made for the relevant problem a country faces.

- Poor policies needs to be improved to avoid developing countries accumulating debts
- Policies should not be imposed but should rather incorporate people 's views on what could be done
- If at all the international; financial institutions really want to assist developing countries, they should cancel their debts to zero rather than creating some conditions to debt cancellation.
- Grants not loans should be given to developing countries if at all the IFIs want to develp the third world countries rather than indebting them.
- Developing countries should not be too much reliant on aid, they should rather explore other means to support themselves.

Conclusion

Most people would agree that donating money to a good cause is a positive thing. But, looking deeper into aid and development, a more complex picture emerges. In some cases, foreign aid has been more damaging than helpful undermining local economies, prolonging wars and triggering corruption. Africa is more dependent on aid than any other continent and its citizens have had little choice about whether to accept it or not. It is quite clear that foreign aid has often presented more challenges than opportunities to aid recipients. In the sixty-plus years aid has been mandated by government versus relying solely on private donations we've seen small improvements across the world, from reducing poverty to slowing population growth to curing and preventing diseases. Progress that otherwise would have been absent without an outpouring of foreign support. In addition the impact from aid has not been proportionate to the amount of money donated. Foreign aid's biggest downside is that no clear, effective system has been put in place to hold aid recipients and their governments accountable for resources illegally taken from public sector coffers a long-standing, and still very present, trend in most Africa countries.

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