

**THE IMPACT OF AID DEPENDENCE ON SOCIAL DEVELOPMENT: THE
CASE OF ZIMBABWE**

BY



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**THIS THESIS SUBMITTED TO THE UNIVERSITY OF FORT HARE, FACULTY OF
MANAGEMENT, DEVELOPMENT AND COMMERCE IN FULFIMENT OF A
MASTER OF SOCIAL SCIENCE DEGREE IN DEVELOPMENT STUDIES**

SUPERVISOR: PROF S BUTHELEZI

YEAR 2008

Declaration

I Tinashe Nyatoro declare that this thesis that I hereby submit for the degree of Master of Social Science in Development Studies at the University of Fort Hare, is my own work and has not previously been submitted by me for a degree at another university.

SIGNATURE

TN

DATE

19/03/2009



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Abstract

The purpose of this study was to look at how a foreign aid dependent economy is vulnerable to external manipulations. This study came up with the conclusion that foreign capital dependence is detrimental to long-term social, economic, and sustainable development of developing countries. The study also noted how foreign aid is used as a foreign policy instrument by western countries to influence the behaviour of the developing countries.



The study noted that Zimbabwe is an aid dependent country hence its vulnerability to external manipulation. This has been demonstrated by capital flight from Zimbabwe since 1997. Multilateral Financial Institutions, the European Union, United States of America and other bilateral donors withdrew their financial support to the country due to policy disagreements with the Zimbabwean government. This incidence of donors withdrawing their financial support to Zimbabwe raises fundamental questions as to whether the African state is autonomous or is it possible for the African state to delink itself from the current global international market and at what costs? What has come out very clearly from this study is that a dependent state has no autonomy to decide on its domestic and foreign policies without considering the interests of its donors, and hence its vulnerability to external manipulations.

Dedications

Dedicated to the one who shall be the mother of children, Learnmore Nyatoro, my late parents (Godfrey and Martha), and all the progressive forces fighting for democracy in Zimbabwe.



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The writing of this thesis provides with me an opportunity to register my appreciation to the exchange, interchange and support I have received in the writing of this thesis. I would want to express my utmost gratitude to my supervisor Prof Buthelezi who shall remain eternally teacher, mentor. His confidence in my abilities sometimes defied my own self-comprehension.

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TABLE OF CONTENTS

Declaration	i
Abstract	ii
Dedications	iii
Acknowledgements	iv
CHAPTER ONE	1
Introduction and Background of the Study	1
Statement of the Problem	6
Objective of the Study	8
Justification of the Study	8
Research Methodology	9
Delimitations	11
Conclusion	11
CHAPTER TWO	13
LITERATURE REVIEW	13
Introduction	13
Defining Aid	14
Historical Brief of the Origins of Aid	16
Aid and Economic Growth Theories	18
The Stages of Economic Growth by Rostow	20
The Two Gap Model	24
The Big Push Model	28
The Neo-Liberal Model	30
A Critique of the Modernisation and Neo-liberal Theories	31
AID AND THE DEPENDENCY THEORY	33
Defining dependency	33
Theoretical Underpinnings of the Dependence Model	35
Aid Dependency and Statehood in Africa	52



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Impact of Aid Dependence on Development: A Brief Look at Kenya.	58
Toward an Interdependence Model	61
Conclusion	62
CHAPTER THREE	64
The Nature and Content of Aid and Economic Sanctions	64
Introduction	64
Untied Aid	64
Tied Aid	65
Motivations for Tying Aid	66
Problems with Tied Aid	68
Aid Conditionality	71
Economic Sanctions	76
Targeted Sanctions (Smart Sanctions)	83
The Suspension of Foreign Aid.	89
Conclusion	92
CHAPTER FOUR	94
THE IMPACT OF AID WITHDRAWAL ON ZIMBABWE	94
Introduction	94
The Nature of Sanctions Imposed on Zimbabwe	95
The Zimbabwe Democracy Bill (2001)	95
European Union Sanctions on Zimbabwe	98
The Role of the IMF	102
The World Bank's Role in Zimbabwe	105
Effects of Aid Withdrawal on Zimbabwe.	106
Impact of Sanctions on the Financial Sector.	106
Impact of Sanctions on the Social Sector	111
The Agricultural Sector	112
The Health Sector	114
The Education Sector	116
Sanctions and Development	116



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Dependence and Development	119
Conclusion	124
CHAPTER FIVE	126
Summary and Conclusion	126
Conclusion	128
Recommendations	132
REFERENCES	134
APPENDIX 1	148
APPENDIX 2	153



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List of Abbreviations

ADB	African Development Bank
BOP	Balance of Payment
CIDA	Canadian Development Agency
DANIDA	Danish International Development Agency
DRC	Democratic Republic of Congo
ESAF	Enhanced Structural Adjustment Facility
ESAP	Economic Structural Adjustment Programme
EU	European Union
IBRD	International Bank for Reconstruction and Development
IFC	International Finance Corporation
IMF	International Monetary Fund
MDC	Movement for Democratic Change
MNC	Multinational Companies
NORAD	Norwegian Agency for Development Co-operation
NGO	Non-Governmental Organisation
ODA	Overseas Development Assistance
ODF	Overseas Development Finance
OPEC	Organisation of Petroleum Export Countries
RBZ	Reserve Bank of Zimbabwe
SADC	Southern African Development Community
SAP	Structural Adjustment Programme
UK	United Kingdom
UNDP	United Nations Development Programme
USA	United States of America
WFP	World Food Programme
ZIDERA	Zimbabwe Democracy and Economic Recovery Act

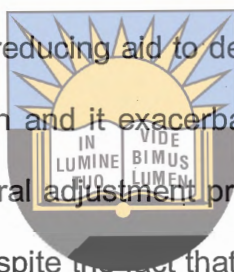
CHAPTER ONE

Introduction and Background of the Study

Economic dependence of the developing countries is a fundamental component of the present world economic order. This is not because the resource transfers to the poor nations are too small in quantity. Rather, it is because these transfers take place within the context of a world economic structure that leads all the time to increasing inequality. Aid inflows to developing countries have grown over several decades. In Sub-Saharan Africa, aid inflows have doubled since the 1970s to the 1990s, and countries like Tanzania, Mali, and Burkina Faso have been major recipients of aid since attaining their political independence. However, the returns from aid are still over the horizon. Developing countries have had an export-oriented development pattern encouraged by large western donors and this has led to an extremely high dependence level on western markets, financing, investment, and expertise while serving western interest.

This study notes that, the availability of or non-availability of aid creates a double tragedy. Foreign aid in developing countries creates dependence; it generates a special umbilical cord that ties developing economies to the metropolitan economies, thereby distorting developing countries' economies and integrating their economies externally (Babu, 1981:45). Conversely, this study also notes that aid

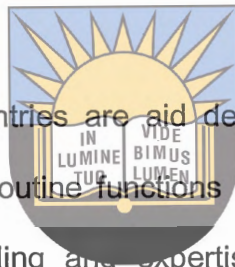
represents an important source of finance; it supplements low savings, narrow export earnings, and thin tax bases (Njeru, 2003:6). In addition, though a number of policy attachments covering, both economic and political areas, have accompanied aid to developing countries, it has largely played a key role in human and capital development in these countries (*ibid*). The underlying principle for external aid is that most developing countries have socio-economic infrastructures that are in their infancy. Hence, reducing aid to developing countries would spark-off a political backlash and it exacerbates state incapacity, and social hardships that structural adjustment programmes brought in the 1990s (Tsikata,2004:12). Despite the fact that aid has had some successes in developing countries, it has created a problem of dependency. The loans and grants made by the developed countries, as well as multilateral institutions are not based on developing countries' real needs, nor on any performance criteria, but primarily on the interests of the donors (Franz, 1983:178).



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Most developing countries need foreign aid because they experience persistent trade deficits, which are a result of the unfair terms of trade on the international market; trade deficits lead to low foreign exchange reserves, hence the reliance on international aid to finance their budgets. Smith (1986:27) clearly stated that developing countries

become “hooked”; they cannot exist without their dependence. Dependence by developing countries on developed countries include, *inter-alia*; technological dependence, cultural dependence, capital dependence, ideological dependence and industrial dependence. In other words, this study argues that, directly or indirectly, these elements of dependence obstruct or limit the possibility for change and autonomous development in the developing countries.



Most developing countries are aid dependent in the sense that few states can carry on routine functions or deliver basic public services without external funding and expertise. Therefore, without external funding, no economy in the developing world can survive and Zimbabwe is no exception. Zimbabwe is an aid dependent country with a dominant export-oriented economy. Key sectors of the economy namely; health, transport, education, financial, agriculture, and rural development are dependent on foreign aid for their sustenance (Gono, 2007a:3). This is because Zimbabwe, after independence, failed to transform the economy from being a monoculture to a more diversified economy. Tobacco has been the main foreign currency earner for the country, but since the chaotic fast-track land reform in 2000, which demolished the commercial farming sector, there was a rapid decline of foreign currency earnings from tobacco and this had a negative effect

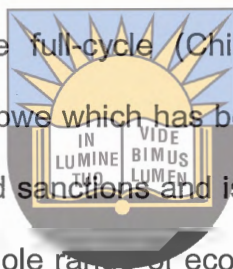
on foreign currency reserves of the country and since then Zimbabwe never recovered.

Zimbabwe has seen a combination of current account deficits and reduced capital inflows, which have resulted in acute pressure on foreign exchange reserves. The foreign exchange shortages have severely constrained the country's capacity to meet its payment obligations and finance imports such as drugs, grain, fuel, and electricity (RBZ, 2006). This unfavourable development in the external sector has worsened the country's creditworthiness as the country's risk profile has heightened; this subsequently has led to the drying up of traditional sources of external finance from the donor community (RBZ, 2007b). This withdrawal of the multilateral financial institutions from providing balance of payments support (BOP) to Zimbabwe had a demonstration effect as some other bilateral creditors and donors followed suit by either scaling down or suspending disbursement on existing loans for both government and parastatals (RBZ,2006). This sustained decline in long-term capital inflows has had ripple effects on the country's economy and its ability to provide basic goods and services to its people, ultimately leading to a decline in the standard of living.



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Zimbabwe has also seen a widespread reversal and termination of donor funding in the areas of social development such as health, education, infrastructure development and rural development. With Zimbabwe banned from obtaining credit from the International Monetary Fund (IMF), the World Bank and any other of the worlds' major financial institutions by the United States of America (USA), and with the European Union (EU) terminating its support, the vicious stamp on Zimbabwe has come full-cycle (Chisango, 2007:4). Moreover, the government of Zimbabwe which has been debilitated by aid withdrawal in the form of targeted sanctions and is under the obligation to respect, protect and fulfil a whole range of economic, social and cultural rights. These include, among others, the right to adequate food, the right to health, the right to housing, an adequate standard of living, and civil and political rights. One wonders how it will achieve this.



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Aid to developing countries is accompanied by compliance to stringent conditionalities. The failure to adhere to those conditions leads to aid withdrawal as in the case of Zimbabwe. In 2002, both the US and the EU imposed targeted and financial sanctions against Zimbabwe and the US passed the Zimbabwe Democracy and Economic Recovery Act (ZIDERA). The Act prevents representatives of the US on the boards of the International Financial Institutions (IFIs) from voting in favour of renewing allocations to Zimbabwe or canceling debt under the

prevailing conditions in the country. Moreover, it sets out that certain actions have to be taken around the restoration of the rule of law, free and fair electoral conditions and the protection of private property, before any changes to these restrictions. The formal case for the prohibition of loans from the IMF and World Bank, therefore, relates to the poor economic policies that have been carried out by the Zimbabwe government in recent years. The US ensured that the IMF kept pressure on Zimbabwe to pay its outstanding debts, in spite of the fact that the country has foreign currency and food crisis and clearly incapable, without rescheduling, to maintain its current debt obligation.



Statement of the Problem

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Zimbabwe is an aid dependent country, and therefore, vulnerable to external influences and manipulations. The country has depended in one way or the other on external support in both the pre- independence and post independence era. From 2000 to date, Zimbabwe has not received any balance of payments support from the IMF and the World Bank and has been depending on the domestic resources, which have failed to sustain the country as reflected by the current economic free fall (Gono, 2007:101). Generally, in a case where a country's internal savings falls short of supporting ideal investments levels, the attendant internal gap is typically closed through capital inflows, foreign direct investments and international balance of payments support (*ibid*). However, with Zimbabwe, this is not the case since the external

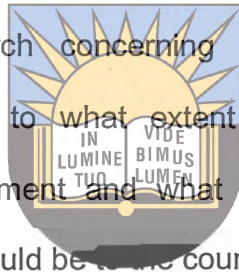
component has largely been campaigned away, leaving a very tight and limited space for monetary and fiscal policies (RBZ, 2006:5).

After independence, when economic sanctions were lifted on Zimbabwe, this created opportunities for economic cooperation in the international village. The country was re-admitted into the international arena gaining access to international financial markets, multilateral finance institutions, and donor commodity aid programmes, foreign loans and grants. In exchange for economic and assistance from the World Bank and IMF, Zimbabwe agreed to the structural adjustment package designed to move the country from a state-controlled economy to a free market economy. In addition, support also came from bilateral creditors, Non-Governmental Organisations (NGOs) and other international donor organisations (Gono, 2007:105). During this period, the external sector position improved significantly due to the increase in external resource inflows. This is evidenced by the huge investments in socio-economic sectors like education, health as well as infrastructure and rural development (*ibid*). However, since 2000, Zimbabwe started to experience capital flight due to aid withdrawals. This is reflected by the suspension of aid to Zimbabwe by the multilateral finance institutions and the donor community at large. The reasons for aid withdrawal were that Zimbabwe had failed to meet the benchmarks set for a country to be eligible to receive aid.



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As has been demonstrated above, that Zimbabwe is an aid dependent country, foreign assistance was withdrawn from Zimbabwe in the form of targeted sanctions, which were imposed and have been maintained against Zimbabwe. Aid in this instance was used as an instrument to influence the government towards political reform. This study therefore, proceeds from the hypothesis that a country that is aid dependent is vulnerable to external influences. In principle, the study seeks to evoke an empirical research concerning the hypothesis by addressing questions such as: to what extent do external forces determine Zimbabwe's development and what is the cost of not giving in to external demands would be to the country.



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Objective of the Study *Together in Excellence*

The main objective of this study is to examine how an aid dependent economy is vulnerable to external manipulations. This will be done by looking at the following specific objective:

- assessing the impact of aid withdrawal in the form of targeted sanctions on social development in Zimbabwe.

Justification of the Study

Much literature on aid to developing countries has focused on the failure of aid to promote social development and how to make aid more effective and efficient; however, less has been said on the impact of aid withdrawal which depicts the power relations between the core and the

peripheral countries and how this relationship results in dependency. Secondly, this study seeks to look at how this dependency relationship has led to the underdevelopment of developing countries. This study, therefore, joins forces that are looking at how an aid dependent country is vulnerable to the termination of aid in the form of sanctions like in the case of Zimbabwe. This study views aid as an instrument not a gift and this instrument has been used to subjugate developing countries. By so doing, this study will be a contribution to the body of knowledge concerning the relationship between aid, economic sanctions, and social development, and how these variables revolve around the notion of dependency.

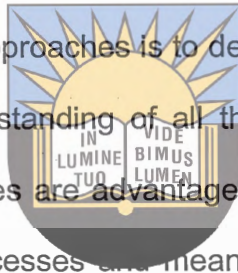


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Research Methodology *together in Excellence*

This study takes both the historical and argumentative approaches. The historical approach is a systematic and objective location, evaluation, and synthesis of evidence in order to establish facts and draw conclusions (Cohen & Manion, 1989:48). The central intent of exploring the past is to acquire a better understanding of the events and motivations, which preceded the current state of affairs. By exploring the past, the researcher will be able to identify a pattern of continuum that helped in projecting or predicting the future. This study is not concerned with the compilation of new information, but with the explanation or the interpretations of information already known.

The study shall adopt an argumentative approach. The role of an argumentative process is to advance and explore alternative interpretations and perceptions to the contemporary debates on aid dependence. Thus, the objective of an argument is a full statement of reasons that can be offered for or against accepting a particular proposition. The aim is to develop consensus on a conclusion among informed critics (Meehan, 1981:28). The goal of using both the historical and argumentative approaches is to develop an idea as a phenomenon and obtain an understanding of all the aspects of the phenomenon. These two approaches are advantageous for the study, since there is an emphasis on processes and meanings, rather than on results and products (Hagan, 2000:2).



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The information to be used in this study will be obtained from both primary and secondary sources. Primary sources are items that are original to the problem under study. The primary sources to be used in this study include official documents from the government of Zimbabwe, the EU, US, IMF, World Bank, and the Reserve Bank of Zimbabwe. Secondary sources do not bear a direct physical relation to the event being studied; they are related to the event through some intermediate processes. These sources include journal articles, internet sources and academic literature on aid or related field. The information to be obtained from both the primary and secondary sources will help to

explain how the donor dependent economy of Zimbabwe is affected by aid withdrawal or international assistance in the form of sanctions.

Delimitations

This research is confined to the debates surrounding the impact of aid withdrawal in from of targeted sanctions on Zimbabwe and how targeted sanctions have affected social development in Zimbabwe. The focus is also on aid dependence, and how this aid dependence is perpetuated by the current economic global setup. Reservations will be given to secondary sources since they were most likely to have been produced for other purposes than the one in this study. Another challenge concerning the literature is that it was written in the western world and hence from western perspectives and values. This creates a problem more on the definitions of concepts. There is also resource-related constraints related to funding that challenged this research. Study material for the literature review has also been a challenge hence so much reliance on journal articles.

Conclusion

This chapter discussed the major challenge faced by developing countries of aid dependence and how this dependence limits state autonomy to follow its own course of development. The chapter also looked at the value of the study and spelt out the objectives of the

research. The following chapter is going to review the theoretical models that are used to understand foreign aid to developing countries.



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CHAPTER TWO

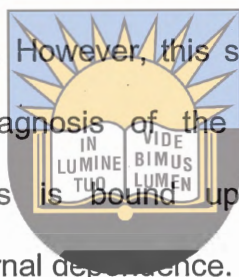
LITERATURE REVIEW

Introduction

Aid has traditionally been a field of conflicting and often ideologically charged positions in the North–South relations. In light of this view, this chapter is not going to dissect the rationale presented by the donor community in providing aid but the theoretical justification for providing it. There are two major theories to be examined in this study and these are the modernisation and dependency theories. The modernisation theory has many proponents who include Rostow, Rosenstein-Rodan, Chenery and Strout, Harod-Domar as well as Lewis, amongst others. While they differ in detail and in their degree of analytical rigour, they share a substantial common ground. They all agree that aid is a tool of direct intervention and can, on the basis of certain conditions, help to accelerate the development process by filling critical gaps thwarting further growth, by raising investment levels and increasing absorptive capacity such that after a certain time, aid will no longer be required.

This study is premised upon the dependency paradigm, which rejects the major assumptions of the modernisation and neo-liberal theories in relation to aid. The protagonists of this theory argue that the state of dependence has been perpetuated by the developed countries through various policies and initiatives. These policies are multifaceted,

involving economics, media control, politics, banking, finance, education, culture, sport, and all aspects of human resource development. Attempts by the dependent nations to resist these influences of dependence result in economic sanctions, threat of aid withdrawal and military invasions. This study notes that the dependency model have many variations ranging from the work of Dos Santos(1970), Sunkel (1967), Cardoso (1969), Wallenstein (1979) and Gunder Frank(1969). However, this study will focus on their common tenets: that the diagnosis of the underdevelopment problem in developing countries is bound up with the awareness of the phenomenon of external dependence.



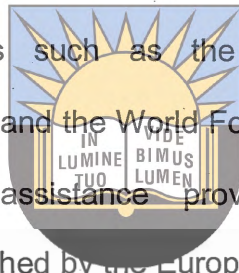
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Defining Aid *Together in Excellence*

There is a diverse array of concepts of aid such as Overseas Development Assistance (ODA) or Overseas Development Finance (ODF), (hereafter 'foreign aid') which are used by different donor agencies. However, for the purposes of this study, these conflicting definitions are not of so much significance. The two concepts, aid and foreign assistance are going to be used interchangeably. By aid, this study refers to all official concessional flows from bilateral and multilateral agencies, whether in the form of a loan, or grant that can be considered developmental in intent (Chakravarti, 2005:1). This study also uses the definition of aid as provided by Krueger (1986:66) to refer to capital inflow (which includes foreign direct investments and other

capital) for it represents all the capital inflow into the country. Food aid and humanitarian assistance that does not fall within the definition of ODA has been excluded from the purview of this research.

Aid can be multilateral or bilateral. Multilateral aid is when assistance is given by an organisation consisting of more than one state such as the World Bank, IMF, or assistance provided by development agencies of the United Nations such as the United Nations Development Programme (UNDP) and the World Food Programme (WFP), as well as the concessional assistance provided by limited membership multilaterally established by the European Community and by members of the Organisation of Petroleum Exporting Countries (OPEC) (Krueger & Ruttan, 1989:33).

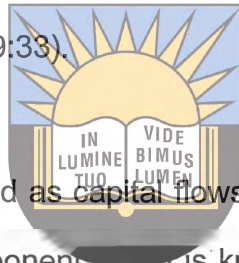


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Bilateral aid is given by individual donor countries (such as Britain and France) directly to another state. To qualify as aid in addition to being official and developmental, it must be highly concessional, that is to say, it must have a grant element of at least twenty-five percent. NGOs that include among other donors World Vision, Care Africa and Oxfam (UK), also give aid. Of late development practitioners have been advocating channelling aid through NGOs, rather than through governments as NGOs have earned the reputation of being able of getting aid through to the poorest (Madeley, 1991:109). However, the

interest of this study is to look at why a donor would threaten to or withdraw their aid to developing countries.

Aid is provided in a variety of ways, from convertible foreign exchange (US dollar, Japanese yen, and British pounds) which the recipient can use to cover a wider-angle of foreign exchange requirements, to much more restricted forms such as food aid, technical assistance or tied aid (Krueger *et. al.*, 1989:33).



However, defining aid as capital flows may result in serious omissions. One important component of aid is knowledge: education and training, the transfer of technical and institutional expertise (including interactions of donor and recipient that may improve policies and functioning of the domestic markets). Sometimes this knowledge component may be embodied in aid: it should not be overlooked just because it may not be quantified (Krueger, 1986:60).

Historical Brief of the Origins of Aid

Foreign aid is a post Second World War phenomenon. The USA has been the major provider of economic aid marked most dramatically by the success of the Marshal Plan in 1948. This success of aid-based development in Western Europe brought a new vision of the importance of aid resources for economic development in the rest of the world, especially as a means to support of developing countries (Colombo *et.*

al., 2004:2, Banea *et al.*, 2006: 120). However, it is important to note that the success of the Marshal Plan is misleading in the sense that the damaged economies of Western Europe were being revived and not being developed. Moreover, foreign aid has a colonial linkage between the western imperial powers and their overseas colonies. Aid was also used as an instrument to the containment of communism as the world was divided into bipolar systems (Mehmet, 1999:60). Thus, economically backward, undeveloped, underdeveloped and developing were targeted as objects of foreign aid flows from the north to become modern and be converted to western capitalism (*ibid*).



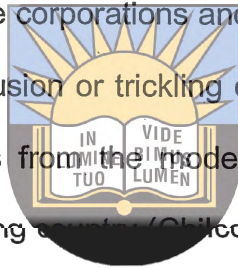
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After the Second World War, multilateral institutions were set up, these included; the World Bank formerly known as the International Bank for Reconstruction, and Development (IBRD) was formed in 1944, followed by the United Nations, which had specialised agencies, which provided aid to developing countries (Krueger, 1989 34). In addition, a number of other financial institutions sprouted in the late 1950s. These included the Inter-American Bank, which was the first regional bank. Three other regional development banks were established; the African, Caribbean, and Asian banks, which aimed at encouraging economic development in their own regions (*ibid*). However, other scholars argue that the rationale for launching these multilateral institutions was to preserve Western civilisation and thus, the penetration into developing countries'

economies was vital to the abolition of underdevelopment. All in all, aid was provided to promote economic growth and aid was used as a foreign policy instrument suggesting that its provision is designed to promote the foreign policy interests of the donor (Erixon, 2005:16.)

Aid and Economic Growth Theories

The proponents of the modernisation theory (diffusion theory) look at foreign aid and private corporations and presume that advancement will grow through the diffusion or trickling down of capital, technology, and organisation methods from the modern capitalist areas to backward areas of the developing countries (Chiticote, 1978:56). The modernisation



model perceives capitalist development as a possibility for all nations. The modernisation theory views underdevelopment as an original condition of backwardness and propose that for developing countries to draw level with the developed countries, there is need of great penetration of modern economic principles and institutions (De Beers *et. al.*, 2000:37). The postulation given by the modernisation theorists is that underdevelopment is primarily a result of the lack of capital and technological expertise, thus underdevelopment is looked upon as a kind of a deficiency disease which can be taken care of through injections of missing ingredients (Morgenthau, 1962:305). In other words, as modernisation and capitalism pushes a nation to modernity, the underdevelopment of the developing nations is attributed to their failure to innovate, resulting in technological deficiencies, and thus a

failure in economic growth, and the consequent incapability to modernise.

The modernisation theory is driven by a proposition that the development of developing countries follow from their greatest degree of contact with industrialised countries as economic growth will diffuse from rich countries to poor countries. However, on the contrary, the closer or dependent the relationship is; the more negative and detrimental effects it has on the economic growth of the developing state. Frank (1969) expressed the latter type of supposition quite clearly, when he declared that satellites experience their greatest economic development when their ties to their metropolis are weakest. Ray *et. al.* (1978:410) concurred with Frank as he stated that, the more there is capitalist penetration into a developing country; the worse will be the damage to that country's effort to achieve economic growth.

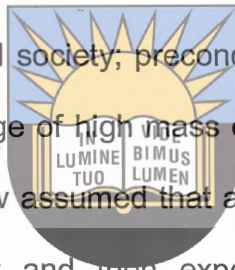


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The modernisation theory explains how aid contributes to development. Two key suppositions given by the model are that: aid represents supplementary capital and is essential for speeding up economic development. Given these suppositions, it is evident that modernisation theory places strong weight on the need for intervention in promoting economic development and on the thought that more capital leads to greater development.

The Stages of Economic Growth by Rostow

Rostow viewed development as a linear progression from a traditional society to modernity. Rostow considered developing countries' economic development as an extension of US foreign and military policy (Mehmet, 1999:70). Rostow (1960) stated that each society had to pass through a single, logical, and well-defined sequence of five successive stages those western nations underwent. These stages include, the traditional society; preconditions for takeoff; take-off; drive to maturity and the age of high mass consumption (Stewart,2001:45) . This model by Rostow assumed that all societies start from a baseline of underdevelopment and then experience a unilinear process of transformation along a development continuum consisting of multifarious economic and social changes. This continuum sees them through from tradition to modernity. It is, however, interesting to note that underdevelopment according to this theory is seen as non-development or undeveloped. Mehmet (1999:70) stated that Rostow saw capitalist development as historically inevitable in developing countries hence the need to inject foreign aid to make these developing countries to catch-up with the west. Valenzuela *et. al.* (1978:535.) contented that, the values, institutions, and patterns of action found in developing countries both an expression and cause of underdevelopment and constitute the main obstacles in the way of modernisation (*ibid*). Therefore, for a society to modernise, it has to

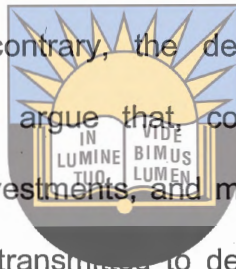


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overcome traditional norms and structures opening way for social and political transformation.

The central argument of Rostow's thesis is that developing countries should be guided by western models of development through the adoption of its technology, assimilating its values and patterns of action, importing its financial industrial and educational institutions (Mehmet, 1999:72). On the contrary, the dependency theorists reject this prescription as they argue that colonisation, foreign aid, foreign education, foreign investments, and mass media are means by which modernity has been transmitted to developing countries (Stockwell & Lailaw, 1981:14). Modernisation theorists further argued that developing countries have an advantage to modernise fast. Harrison (2001:9) affirmed the above argument that the principal difference between the already developed and developing countries is not the nature of the process but in the speed and intensity making it possible for late modernisers to "skip stages" or to "telescope time".

The second stage of Rostow perceives the attainment of the preconditions for take-off and the removal of growth-inhibiting features of a traditional society. During this stage, the society acquires the scientific insights necessary to expand its agricultural and manufacturing outputs (Stewart, 2001:25). This stage parallels the

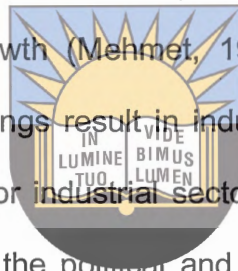


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experience of the Western Europe in the late 17th and 18th centuries. Agricultural productivity now increases rapidly, and more effective infrastructure is created. Society develops a new progress-oriented mentality, and new ideas spread rapidly.

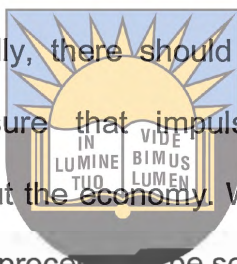
The third stage ('take off') is the most essential one, according to Rostow. It is the launch pad of accelerated capitalist growth and it leads to self-sustained growth (Mehmet, 1999:71). During this stage, net investments and savings result in industrialisation. In addition, one or more manufacturing or industrial sectors assume a leading role in the economy. Moreover, the political and social framework is modified to exploit the impulses issuing from the modern sector and give growth a continuing character (Stewart, 2001:45). The fourth and fifth stages are the drive to maturity and the stage of high consumption. These stages are yet to apply to developing countries. However, for the purposes of this study, stages one to three in Rostow's theory are the main important ones as they depict the picture that most developing countries find themselves in. The pumping in of foreign aid to developing countries has been used as technique to generate conditions for 'take off' in these countries.

Given the above deliberation on the stages of economic growth by Rostow, a number of fundamental questions surface. How can



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developing countries achieve the 'take-off' to self-sustaining growth and join the community of fully-fledged developed and industrialised countries? Rostow (1960) suggested that for take-off to transpire there was need for basic conditions, which should be available. The first condition is that there should be a significant increase in the rate of net investment in the economies of the poor countries. Secondly, one or more of the manufacturing sectors of the economy has to exhibit a high rate of growth. Thirdly, there should be an institutionally favourable environment to ensure that impulses derived from growth are transmitted throughout the economy. With the achievement of the third condition, the growth process will be self-sustaining (Riddel, 1989:88).



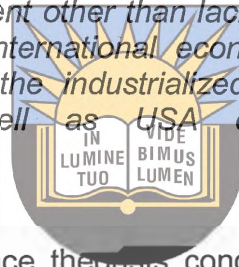
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Mehmet (1999:71) stated that, it is in increasing the investment rate to accelerate the process of economic growth and achieve the takeoff that Rostow gives a critical role of economic aid. According to the Harod-Domar model, the investment rate of the developing country is raised by injections of foreign capital thus augmenting the domestic savings rate without reducing the level of domestic consumption (Riddel, 1989:89). In this regard, aid is seen as speeding up the historical process of reaching the stage of self-sustaining growth particularly by providing the means to expand and deepen social overhead capital (Mehmet, 1999:70). However, Rostow categorically argued that aid should not be directed at achieving higher levels of economic growth

only. He asserted that aid should be used to address social constraints inhibiting structural transformation, as well as interest of industrialised and developing nations (1960). In Rostow's words, aid plays an important role of aid in development:

The purpose of aid would first be, to make available sufficient capital to permit the low income countries to launch an ultimately self sustaining process of economic development; second to stimulate and assist the underdeveloped countries to overcome obstacles to their own development other than lack of capital; thirdly to create a climate of international economic activity in which the economies of the industrialized countries of Europe and Japan as well as USA could continue to grow (Rostow, 1960).



While the dependence theorists condemn foreign investors that they take more dollars out of the developing countries than they invest.

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Rostow (1960) argued that it is not a function of what went into the country in the form of investment, rather what is repatriated are profits as a result of investments and the multiplier effect of investment plus the imports they replace, the benefits of advanced technology and sophisticated management techniques that come with investment. Therefore, the greater the foreign investment in the developing country, the more rapid the economic growth.

The Two Gap Model

The lack of savings critical to investment has been regarded as the deep-seated restraint to the economic growth of developing countries.

One attribute of developing countries is their limited capability to generate savings, due to their low per capita income. Chenery & Strout (1966:680) expanding on Rostow and Harod-Domar model, asserted that aid contributes to economic development by removing bottlenecks hindering domestic growth and development. In fulfilling this function, aid augments the efficiency of the domestic resource base. The two-gap model assumes that capital inflow (aid) provides an addition to the recipient country's total investable resources, that this increase leads to a rise in the level of investment and that higher investment to Growth Domestic Product (GDP) ratio raises the growth rate of the recipient economy (Riddel, 1989: 112).



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The two-gap model sees backward economies as suffering from a limited structural flexibility, which causes repeated bottlenecks (Chenery & Strout (1966:680). Therefore, the prospect of a country's autonomous development would depend, upon three things: production capability, domestic savings, and export income (Riddel, 1989:113). The lack of one of these elements would slow down growth, consequently causing and underutilisation of available productive factors (*ibid*). Foreign aid can then serve as a means of breaking the bottleneck, thereby permitting the fuller utilisation of all resources and a continuation of development (Bruton, 1969:440). Krueger (1986:62) concurred with the above assertion that, foreign aid permits higher

investments via the transfer of resources and by relaxing the foreign exchange constraint; it allows the utilisation of domestic savings. Therefore, the two-gap analysis is an attempt to determine the actual policy alternatives facing developing countries. The model focuses on the probable limits to accelerate economic growth and the extent to which they can be removed using external resources (Moreira, 2005:28).



The two-gap model viewed the function of foreign aid as enhancing investment by reducing the savings gap and foreign exchange gap (Riddel, 1989). The two-gap model contended that foreign aid makes possible fuller utilisation of domestic resources thereby speeding up economic growth. The two-gap model categorically suggested that developing countries should rely on foreign aid to fill the two gaps. Chenery (1969:446) further stated that, many forms of foreign resources like foreign direct investments, external loans, credit, and technical assistance are required. Chenery further argued that some of the bottlenecks-of skills, savings or foreign exchange-can be temporarily relaxed by adding external resources for which current payment is not required (*ibid*). More efficient use can be made than would be permitted by the rate of increase of the most restrictive domestic factor. Thus, the model predicted a strong growth effect for foreign aid through its role in boosting domestic investment above what

domestic saving would finance. Eventually, it is hoped that, the need for the concessional aid will disappear as local resources become able to make development self-sustaining.

The two-gap model, however, fails to understand that savings in a country depend not only on the distance from subsistence but also on the incentive to save, depending on the rate of return to saving and investment (Riddell, 1989). Moreover, private foreign investors and bank lenders will invest in the economy if returns are attractive enough (*ibid*). Domestic investors will also compare the returns to domestic and foreign investment, as shown by Africa's extensive capital flight in which an estimated thirty-nine percent of the stock of Africa's capital is held outside the continent (Easterly, 2005:10). Riddell (1986) also rejected the notion that aid is essential as a substitute for savings rather that a large fraction of foreign capital is used to increase consumption than investment. Accordingly, the larger the foreign capital inflow the, lower the level of domestic savings. However, Krueger (1989: 43) stated that despite the justification that can be made for the use of the two-gap model, the model remains the most ambitious attempt to integrate a theory of foreign economic assistance and economic development. However, the model has continued to be used by the World Bank to estimate long term needs for capital inflows to developing countries.



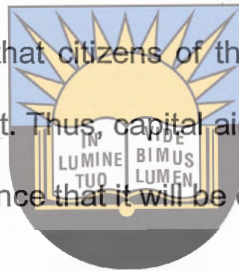
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The Big Push Model

Another analysis on the justification of aid to developing countries is given by Rosenstein-Rodan (1961:107) who argued that the rationale for giving out aid is to speed up their economic growth up to the point where a satisfactory rate of growth can be achieved on a self-sustaining basis. He further elaborated that, the role of external resources in a development program is not directly to raise standards of living in the recipient country but to allow them to make the conversion from economic stagnation to self-sustaining economic growth (*ibid*). This view by Rosenstein-Rodan is known as the big-push model and it states that developing countries are poor because they are stuck in a poverty trap. Therefore, for them to come out of that trap there is need of large volumes of aid and increased investments (Easterly, 2005:9). Rosenstein-Rodan (1961) perceived developing countries needing a big push generated from foreign aid. In this regard, the general aim of aid (loans, grants, and technical assistance) would be to provide in each underdeveloped country a positive incentive for maximum national effort to increase its growth. In other words, the increase in savings and investment (because of aid) will shorten the time it takes to achieve self-sustaining growth.

The central argument of Rosenstein-Rodan is that foreign aid jump-starts economic growth and initiates a virtuous cycle whereby

investment generates income, and thus, raises the economic return to further investment. Solimano (2005:49) confirmed the above argument that the big push would be a massive investment effort in human and physical capital oriented to upgrade the infrastructure and human resources base as a condition for economic take-off of developing countries. Rosenstein-Rodan (1961:107) further elaborated that the principal element in the transition to self-sustaining economic growth must be the efforts that citizens of the recipient countries themselves make to bring it about. Thus, capital aid should be given wherever there is reasonable assurance that it will be effectively used.



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On investment, Rosenstein-Rodan (1961) argued that the additional resources provided by foreign capital achieve an increase in production. He further elaborated that not all aid will necessarily be channelled into savings, thus contributing to raising the aggregate investment level. The big-push model noted that there were constraints inhibiting the successful injection of capital aid to accelerate the pace of economic development. Rosenstein-Rodan argued that aid should continue not until a certain income level is reached in underdeveloped countries but only until those countries can mobilise a level of capital formation sufficient for self-sustaining growth (1961:107). However, Rosenstein-Rodan failed to realise that foreign aid is a complex business that is not guided only by increasing the social welfare of the recipient country.

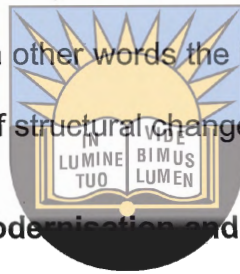
Geopolitical, bureaucratic, and economic interests of the donor community also influence the amount and modalities of foreign aid. Moreover, the different interests of various actors within the donor community may not coincide with the development interest of the recipient countries.

The Neo-Liberal Model

Theories of economic growth have undergone an evolutionary process and have led to the birth of the neo-liberal model, which is being used to inform the structural adjustment programmes (SAPs). The neo-liberal model advocates for a market-oriented export economy organised through markets, with minimal state regulation, along with privatisation, trade liberalisation and limited state budget deficits (Peet, 2003:14). The model assumes that its policies produce a rapidly growing, market-oriented, profit-driven economy that creates plenty jobs and taxes to remedy any social or environmental problem that might occur along the way(*ibid*).

The IMF and donor institutions use the tenets of the neo-liberal policies in disbursing aid to developing countries. These donor institutions suggest that developing countries should adopt SAPs. Proponents of the SAPs argue that they are a precondition for takeoff. This is in line with Rostowian thinking. Adjustment policies are argued to be an indispensable condition for economic development to becoming self-

sustaining (Ghatak, 2003:36). It is interesting to note that adjustment programmes in most cases lead to low investment levels, falls in savings ratios and on the overall decline in the level of national expenditure. In such a scenario, the justification of aid is to provide some slack to cushion the often severe negative effects resulting from the contraction that takes place during the adjustment process (Bienen and Gersovitz, 1985:731). The cushion is provided by giving balance of payment supports, in other words the injection of aid is to speed up the necessary process of structural change.



A Critique of the Modernisation and Neo-liberal Theories

The assumption of the above different modernisation theories reviewed was that the recipient countries would adjust their economic structures to make maximum use of aid and other resources towards the achievement of self-sustaining growth. Rosenstein-Rodan (1961:107) argued that aid would provide a positive incentive for maximum national effort to increase its rate of growth and knowledge that capital will be available over a decade or more up to the limits of the capacity to absorb it will act in many cases as an incentive to greater effort. Chenery and Strout (1966:681) based their model on the assumption that the injection of aid would enable more efficient use of other resources so that growth of the total output may be substantially higher than would be permitted by the rate of increase of the most restrictive domestic factor. Rostow (1960) stated that it is a fundamental

assumption of this programme that the development of capacity to use capital effectively to promote growth is a job mainly for the underdeveloped countries themselves and that the knowledge that aid would be available would be a powerful force pushing countries to take steps needed for their own growth.

It is in light of the above assumptions that aid is rejected on ideological grounds. Aid perpetuates dependency and perverts domestic development, and it permits governments to escape the burdens of their poorly conceived economic policies. Development assistance is viewed as a foreign policy tool that can be useful as either a carrot or a stick. Moreover, aid is not rejected, based on its objective of achieving growth *per se* rather the type of growth that is achieved.



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Bauer (1984:40) argued that foreign aid providers do not know which investment are appropriate for a developing economy , so aid money is poured into bad projects, which only not fail economic growth, but divert scarce human and other resources away from productive uses. He further argued that, external assistance has never been necessary for the development of any society. In other words, the limited human, institutional and human capabilities of a country are wasted on unproductive rather than productive activities. Shleifer (2007:4) affirmed the above argument that foreign aid destroys economic incentives,

leads to misallocation of scarce resources, and so not only fails to jump-start but actually undermines growth.

Aid and the Dependency Theory

Defining dependency

To understand the causes of underdevelopment in developing countries, there is need to conceptualise the term dependency. Caporaso (1978:18) made a distinction between dependence and dependency; he argued that dependence referred to the external reliance on other actors while dependency referred to the process of incorporation of less developed countries in to the global system and the structural distortions resulting therefrom. However, this study shall use these terms interchangeably to refer to the asymmetrical relations that exist between the developed and developing countries.

McKinlay *et. al.* (1977:63) viewed dependency as a relationship that exists when one party relies on another without the reliance being reciprocal. Baldwin (1980:481) defined dependence in terms of reliance on others, lack of self-sustenance and self-sufficiency. He also defined it in terms of the benefits that would be costly for one to forego. Thus, most developing countries found themselves in this tragedy. McKinlay *et. al.* (1977:63) further elaborated that in such a relationship, one party may choose to terminate the relationship with little or no costs while the

other can do so only at considerable costs. In the light of the above supposition, the reliant state, therefore, operates in a subordinate or dependent position. Moon (1983:318) asserted that the dominant party establishes a dependent relationship because it generates a degree of control or influence, thus, the main use of dependence is the potential to control. Caporaso (1978:28) alluded to the fact that this control can be used for a variety of reasons dictated by the dominant state.



Given the above definition of dependence, one can argue that the provision of aid creates a relationship of unreciprocated reliance. McKinlay *et. al.* (1977:63) elaborated that the donor can terminate the provision of aid with little or no costs. The recipient on the other hand incurs considerable costs when aid is terminated. Aid provides the donor with a potential of control over the recipient (Moon, 1983:318). This potential to control is derived from three factors: Firstly, the excess demand for aid places the donor in an advantageous bargaining position. The donors can, therefore, dictate to some extent a number of conditionalities under which aid has to be supplied (*ibid*). Secondly, the nature of aid provide the donor with the means for intervention in the recipient country for instance with programme aid, it entails some intervention in the recipient's fiscal, monetary and development policies while project aid entails future reliance of the recipient on the donor for the servicing and maintenance of the particular project (McKinlay *et. al.*,

1977:63). Thirdly, repayment can create another situation where the donor is in an advantageous bargaining position (*ibid*). Given these three factors mentioned above one discovers that many developing countries are in the difficulty in repaying their debts, and the problem is becoming more acute. This study, therefore, argues that economic growth as advocated by the modernisation theorists entail more that capital injection, as aid reduces the capacity of developing countries to service their debts.

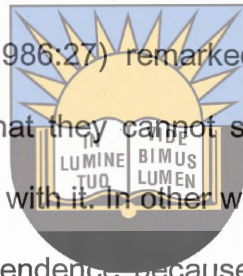


Nye *et. al.* (1971:339) stated that dependence by developing countries is seen in their development policies, thus integration into the world monetary system makes it impossible for the state to follow autonomous monetary policies without drastic changes in their economies. Therefore, dependence on foreign companies for technology, capital, and managerial skills deter developing countries from following highly nationalistic economic policies (Moon, 1983:318). Nye *et. al.* (1971:339) summed this by saying that transnational companies alter the patterns of domestic interests so that certain governmental policies become prohibitively costly politically even if they might be feasible economically.

Theoretical Underpinnings of the Dependence Model

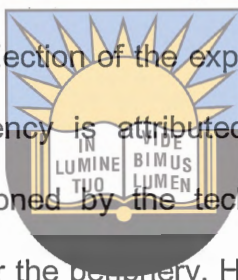
By its very definition, aid is a manifestation of inequality. The contemporary world structure is indisputably characterised by gross

disparities in the industrial capacity, state power and in which a western core direct key sections of economic, political, and cultural life of the developing countries (Robb, 2004:21). This asymmetric relation between the core and the peripheral economies is the cause of underdevelopment in the latter. These unbalanced linkages create a situation in which events and decisions in the dependent society are significantly constrained by external forces (Friedmann *et. al.*, 1977:399). Smith (1986:27) remarked that developing countries are “hooked” meaning that they cannot survive without their dependence but also cannot exist with it. In other words developing countries cannot do without their dependence because their form of incorporation into the international system has subdued their industrialisation, relegated their economies to the less dynamic forms of growth associated with agriculture or extractive industries (Stockwell and Lailaw,1981:14). Moreover, Smith (1986:27) argued that these dependent countries are unable to move beyond the industrialisation associated with limited import substitution. Moran (1978:86) reviewed the import substitution policy as not even dependable as a tool to build an independent economy. Rather such a policy stimulates foreign firms to link up with indigenous economic groups as foreigners move from exporting to production for the local market and then take over those groups as they incorporate local production into their large multinational organisation.



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Dos Santos (1970:231) viewed dependency as the conditioning situation in which economies of developing countries are conditioned by the development and expansion of developed countries. He further argued that a relationship of interdependence between two or more countries or between such countries, and the world trading system becomes a dependent relationship when some countries can expand through self-impulsion while others, being in a dependent position, can only expand as a reflection of the expansion of the dominant countries (*ibid*). This dependency is attributed to foreign capital and aid in particular, is conditioned by the technological monopoly, which the centre exercises over the periphery. Hunt (1989:200) echoed the same sentiments that there is a single world capitalist system, which derives the momentum of its development from the centre. Thus, the centre of world capitalism is in principle capable of autarky development, fully independent of the periphery while the reverse is not the case. Hunt (1989:201) further defined dependency as the lack of capacity to manipulate the operative elements of an internal economic system by developing countries. Such a situation is characterised by an absence of interdependence between the economic functions of a system. This lack of interdependence implies that the system has no real internal dynamic, which would enable it to function as an independent autonomous entity (Caporaso, 1978:23).



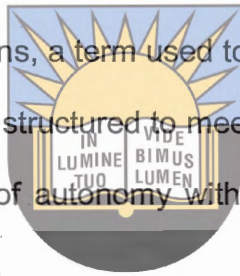
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The dependency theorist refutes the modernisation theory's assumption that resource diffusion from developed countries to developing countries can lead to economic growth, which would result in the "trickle- down" effect. It is the more advantaged sections of society that have easier access to this growth, yet these are not the people experiencing poverty (Coertzee, *et. al.*, 2001:83). Maximum benefits continue accruing to the rich whilst the less advantaged are likely to suffer continued neglect (*ibid*). Berberouglu (1992:10) argued that it is improbable to gain an understanding of the present obstacles and potential for development without examining where the underdevelopment of the traditional societies came from. Berberouglu shared the same view with Frank (1969) who argued that underdevelopment in the developing countries is a result of the historical contemporary structure of world capitalism. The capitalist system was characterised by a global international system within which the underdeveloped countries constituted the periphery (*ibid*). In other words, developing countries fulfil certain functions in the world economy, such as providing labour and resources while the wealthy countries at the core continued to expand and exploit those at the periphery (Berberouglu, 1992:10). This then results in underdevelopment of the developing countries.



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Dependency relations are seen to extend beyond the economic sphere- they are cultural and political as well (Chase-Dunn, 1975:721). Dependency can mean the absence of autonomy thus reflecting non-autonomous developmental possibilities, as the lack of true independence from foreign or transnational influences or as the presence of series of related domestic and external characteristics (*ibid*). These domestic and external features are sometimes referred to as structural distortions, a term used to refer to the numerous ways that the local economy is structured to meet the needs of the foreign sector, hence the absence of autonomy with respect to developmental goals (Caporaso.1978: 18).



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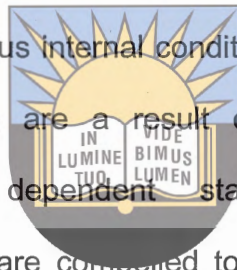
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Hunt (1989:169) argued that the penetration of core-capitalism creates obstacles to development. Caporaso (1978:23) contended that the dependency of whatever character cause ruinous effects on the dependent country. The two major effects of dependence are the economic exploitation and political subservience of the dependent state. Moon (1983:18) asserted that, because developing countries have an inferior bargaining position in the international system they are subjected to disadvantageous terms of trade and imperialist powers manipulate their dependence to distort and retard their economic development. Caporaso (1978:23) confirmed the above argument that, the dependent states are politically subverted; no wonder why most

developing countries conform to policy positions of the dominant powers. This state of affairs have put developing countries into a trap since failure to adhere to the dictates of the dominant power results in aid withdrawal, economic sanctions even war at worst.

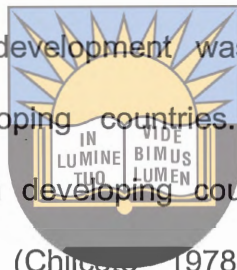
Dos Santos (1970:232) contended that dependency causes distortions and retardation on the domestic social and economic development and many of the deleterious internal conditions of underdevelopment in the developing countries are a result of imperial domination. In the economic realm, dependent states are discouraged from industrialisation and are compelled to follow a path of vertical trade, exchanging in raw materials for manufactured goods (Chase-Dunn, 1975:723). Foreign investment, in addition creates export enclaves, segmenting economic activity within the dependent economy, as production is primarily tied to external not internal demand (Hunt, 1989:206). While industrialisation may provide many positive spin-offs in terms of promoting the education and skills of a population, these benefits are denied to the developing countries on the receiving end of a pattern of vertical trade.

The dependency theory refutes the idea propagated by the modernisation theory that the main hindrance to development is found in the intrinsic socio-cultural qualities of the traditional and backward



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sectors of the underdeveloped countries, which supposedly lack characteristics of the modern western capitalist economies (Angotti, 1981:126). The modernisation theory as discussed in the previous subsections assumes a gradual transition from one ideal type (traditional underdeveloped society) to another (modern-developed society). In contrast, the dependence model argues that, the contemporary developed countries were never underdeveloped, rather contemporary underdevelopment was created by the diffusion of capitalism to developing countries. Frank (1969) asserted that underdevelopment in developing countries was a result of foreign capital penetration. (Chircos 1978:56) categorically stated that underdeveloped countries can develop fully only if both their domestic structures and the relations with other nations undergo a profound transformation. Frank (1969:57) emphasised that commercial monopoly rather than feudalism and pre-capitalist forms as the economic means whereby national and regional metropolis exploit and appropriate economic surplus from the satellite.



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The dependence model to development argues that the situation of underdevelopment can only be understood when the decisive role of the external factor is considered (Hunter, 2007:2). The social structure of colonies, ex-colonies, or neo-colonial is not the result of autonomous historic development but they are determined by foreign hegemony and

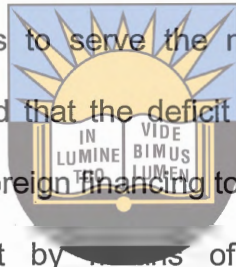
exploitation (*ibid*). This endogenous factor stands in an indivisible explanatory context of structures of dependence of developing countries. Onyemelukwe (1974:3) argued that developing countries are underdeveloped because of their dependence on Western industrialised nations in the areas of foreign trade and investment. Rather than benefiting developing nations, these relationships stunt their development. Dependency theory observes that economic development and underdevelopment are not simply different stages in the same linear march toward progress. Dependency theorists argued that colonial domination produced relationships between the developed and the developing world that were inherently unequal (Cheru *et. al.*, 1984:3). Without a major restructuring of the international economy, developing countries will find it virtually impossible to escape from their subordinate position and experience true growth and development (Ray, 1973:36).



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Frank (1969) asserted that European capitalism penetrated Africa from the time of the growth of the overseas slave trade; that external exchange relations distorted the indigenous economy by fostering sectors which catered solely for foreign demand, and that because of the creation of asymmetrical exchange relationships surplus value was transferred from the periphery to the centre. Hopkins (1975:15) asserted that the process of excavation continued even after the colonies achieved formal independence because large multinational

corporations acted in concert with tamed national bourgeoisie governments to perpetuate the old economic relationships. International trade is thus seen as a zero sum-game in which the gains of one party are the losses of the other. The notion that international trade can help to generate industrialisation in poor countries is therefore regarded as a fantasy based on false optimism. Coertze *et. al.* (2001:83) summed this by saying what makes this exploitation possible is the distortion of peripheral economies to serve the needs of the core. Dos Santos (1970:233) contended that the deficit resulting from trade imbalances creates the need of foreign financing to cover the existing deficits and to finance development by means of loans for the stimulation of investments. In other words, foreign capital and foreign aid is used to fill the gaps that they themselves created.



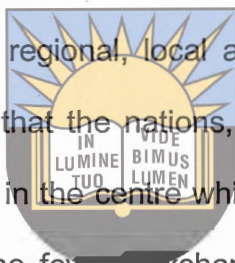
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Frank (1969) asserted that the world is divided up into the core and periphery. The argument held is that the core is made up of the affluent advanced countries and the periphery is made up of the underdeveloped poor countries. Centre/metropolis flourishes at the expense of the periphery and the impoverishment of the latter is a function of the prosperity of the former. Imperialism as the expansion of the monopoly capital abhors competition and seeks to create structures to guarantee that whatever development occurs in developing countries

is dependent upon and complementary to developed countries' needs (Coertzee *et al*, 2001:81).

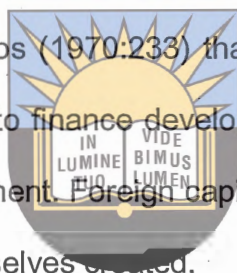
Frank (1969) further elaborated that this contradictory metropolitan satellite relationship, like the process of surplus expropriation-appropriation, runs through the entire world system in a chain like fashion from its uppermost metropolitan world centre, through each of the various national, regional, local and enterprise centres. Alschuler (1976:45) contented that the nations, which have the most exchange linkages, are located in the centre while the periphery is identifiable as those nations with the fewest exchange relations with other nations. Mostly importantly, centre countries are highly interactive among themselves and each with its own satellites. On the contrary, the peripheries, while tied to the centre are not in a position to interacting with each other (*ibid*). More so, the centre directs ownership or control of the production in the periphery. Thus, wealth in the form of profits, royalties, and dividends leaves the periphery because of direct foreign investment and multinational companies.

Multinational corporations unequally distribute the benefits of foreign investment. The host country pays too high a price for what it gets than what the company siphons out and that surplus could otherwise been used to finance internal development (Hunt, 1989:171). However, the



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question that arises then is: do investors drain off an economic surplus that could otherwise be devoted to internal development? Frank (1969) argued that the cost of foreign investment appears to be measured against hypothetical state industries of socialist government that could perform all the function of foreign investors at the same or lower cost in terms of local resources, and with less leakage abroad. The presence of multinational investments created the need for foreign financing as argued by Dos Santos (1970:233) that foreign aid is needed to cover existing deficits and to finance development by means of loans for the stimulation of investment. Foreign capital and foreign aid thus fill up the holes that they themselves created.

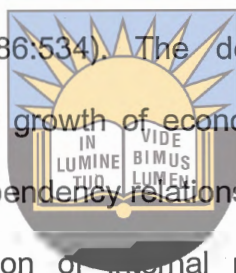


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Prebisch (1988:33) asserted that the investor has power over where equipment and inputs are bought, what products should be produced, how the process of production should be organised, where and to whom goods should be sold. Other dependency theorists argue that foreign investment locks nations into a pattern of world economic interaction characterised by primary products, export sector production (Jaffee *et. al.*, 1986:534). Therefore, by so doing, foreign investment is said to be reinforcing historically determined patterns of commodity specialisation. Frank (1969) argued that foreign investment creates an economic infrastructure oriented toward the extraction and the export of raw materials. Dos Santos (1970:234) considered the domination of

multinational companies to represent the new phase of big capital. Their presence is said to produce new international division of labour involving the industrialisation of raw materials and primary production and the export of these products to the advanced capitalist states. Others argue that it is the interests of the rich countries and their corporate appendage to maintain the world division of labour that places developing countries into the role of raw material exporters (Jaffee *et. al.*, 1986:534). The decline in political control was accompanied by the growth of economic mechanisms as the central characteristics of dependency relationships. Foreign investments create the internationalisation of internal markets, vital products for the dependent economies must be imported from industrialised nations, and these imports needs put increasing pressure on the relatively few export of items available to developing countries (Dos Santos, 1970:232). This clearly demonstrates that although decolonisation reduced political control and influences in many cases, structural dependence has probably been increased in most parts of the developing countries due to the increasing incorporation of many less developed countries into world markets.



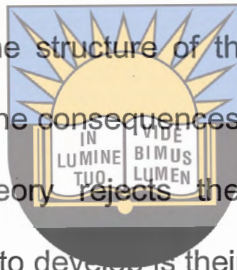
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Alschuler (1976:56) stated that aid performs four functions for the benefit of multinational companies (MNC) based in the centre. Aid provides points of entry for the private investors in developing countries;

aid socialises the indirect operating costs of the MNC (transferring those costs from the corporations to the public sector). Aid creates advantages for developed countries' firms over actual or potential local competitors and aid facilitates long range planning and minimises the risks of foreign investment for the corporations.

Trade is lauded as the engine of the development of developing countries, yet it is the structure of the trade relations more than the volume that shapes the consequences. It is against this hypothesis that the dependence theory rejects the assertion that the failure of developing countries to develop is their lack of exposure to international trade: the modernisation suggested that developing countries have to enter into the free market economy using their comparative advantage.

Wallerstein (1981) refuted the above modernisation assertion as he said that economies in the world occupy specific placed positions in a pre-structured system. Coertzee *et. al.* (2001:81) concurred with Wallerstein that given the power dimensions that held this system in place, it is impossible for countries to develop at will. Wallerstein (1981) further stated that the cause of under development in developing countries is a result of the disadvantages of periphery nations on the world market through unequal terms of trade. Trade within the present international trade structure consolidates underdevelopment. Emmanuel in Chase-Dunn (1975:722) contended that the exploitation is



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hidden in the prices at which commodities from the periphery are exchanged for commodities from the core. Frank (1969) summed this debate by saying as nations become integrated into the world capitalist exchange structure, some develop, and cause others to under develop.

Most developing countries export raw materials, import manufactured products, and this arrests economic growth, skews income distribution, and foster stagnation. These conditions are maintained through foreign aid, foreign investment, trade negotiations, and credit transactions and these are instruments of the developed countries to preserve their interests in developing countries (Dos Santos, 1970:722). Wallerstein (1981) stated that the advance of capital from the industrialised capitalist states draws all nations into the world economic orbit. Amin (1976) argued that the general condition of extraversion- finds its source not only in the evolution of colonial trade patterns but also in the investment of foreign capital into export activities. The net effect is to direct output toward and encouraging a further dependence on external markets. Dependence on external trade hampers economic growth due to dramatic fluctuations in world markets prices and the inability to make long-range economic plans given the vagaries of an uncontrollable external market. Jaffee *et. al.* (1986: 536) emphasised the enclave nature of trade dependent economies and the subsequent lack of balanced and sectorised articulated economic growth.



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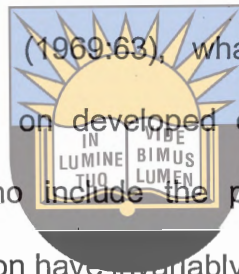
International trade, worldwide division of labour, production specialisation, and multinational enterprise operations, promotes the contemporary structure of economic dominance and dependence (McGowan *et al*, 1978:181). Imperialism and colonialism by the core on the periphery has been perpetuated by the neo colonial policies featuring varied forms of penetration.

The argument against an export dependent economy is that these economies heavily reliant on the economic health of external markets are prone to severe foreign exchange crisis when recessions grip their primary markets (Hunt, 1983:112). It is also the case that trade reliant economies, given their external orientation, have weakly established links between productive sectors, this can then result in extreme sectorised inequality, which translates in inequities in income distribution and social well-being (Dos Santos, 1970). Although economic growth can occur in spite of, or because of these structural features, they clearly represent impediments to long-term balanced forms of equitable economic expansion.

Wallerstein (1981) further rejected the concept of "Third World countries." He categorically argued that there is only "one world" connected by economical exchanges and social relationships. Bauer (1984:24) concurred with the above assertion that the concept Third

World is a progeny of the west hence the Third World refers to a collection of countries whose governments receive aid from the west. However it is interesting to note that, it was not pressure from the Third World countries, which originated foreign aid rather it was foreign aid that produced the Third World and it is the Third World now a major pressure group for more foreign aid (*ibid*).

According to Frank (1969:63), what perpetuates dependence of developing countries on developed countries is the existence of a comprador class who include the politicians who through colonial education or corruption have invariably structured their domestic rule on a coalition of internal interests favourable to the international connection. The elites of the dependent nations also tend to form alliances with the super ordinate state and corporations supporting the interest of these exploiting forces against those of their less fortunate fellow citizens (Cardoso, 1972). These indigenous elites then use their external support they receive to consolidate their own positions and to exploit the bulk of their own populations thus serving their own class interest and bringing greater inequality and the need for repressive political institutions to those societies (Amin, 1974; Dos Santos, 1970; Frank, 1969, Galtung, 1972). Thus, the argument of this study is that foreign aid provides leaders with additional tools to retain political



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power; foreign aid enables leaders to reward allies and co-opt or repress enemies.

Frank (1969) further argued that aid represented a side payment to elites in the recipients governments designed to buy their compliance in maintaining the economic and political dominance of the industrialised countries. Thus, it is not the sheer economic might of the outside that dictates the dependent status of the south, but the sociological consequence of this power (Smith, 1986:28). In other words, this symbiotic relationship has grown up over time in which the system has created its servants who guarantee its survival (*ibid*). The system has at its disposal economic sanctions for those who transgress its basic rules as well as aid withdrawal, which would abandon these dependent regimes to economic meltdown, which many countries are not quite prepared to face (Babu, 1981:42). The availability of aid has increased the likelihood that the governments of the developing countries tend to tolerate the continuation of massive outflows of private profits and interest on past debts and in most cases aid sustains a class which is dependent on the continued existence of aid and foreign investment and which therefore becomes imperialism (Hayter, 1972:9).

Aid contributes to the strengthening of the comprador class by training local elites in skills beneficial for the operations of the foreign



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enterprises. Thus, aid establishes centres for training managerial personnel and skilled labour for local branch plants of MNCs (Babu, 1981:42). Despite the benefits brought by the integration of developing countries into the world economy system, however, the process remains neo-colonial since multinational corporations control the leading sectors in developing countries. In addition, these multinational companies take more than they give and this makes it impossible for local self-sustaining industrialisation to occur. It is of particular importance to note that capitalism changes in form but not in fact. Mostly, the dependency syndrome has contributed to the perpetuation of the underdevelopment of developing countries.



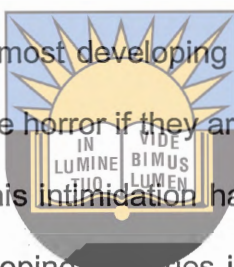
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Aid Dependency ~~Target State in Developing Africa~~

Bauer (1984:40) noted that, the general attribute of developing countries is not poverty, stagnation, or exploitation rather it is their receipt of foreign aid. Mkandawire *et. al.* (1999:8) remarked that, one of the notable conditions of developing countries is their high dependence of economic performance on the external environment. Thus, most developing countries have failed to restructure the postcolonial state; rather they have preserved the legacy of colonialism, which is the concentration of export earnings on one or few primary commodities that are vulnerable to exogenous terms of trade and demand conditions. Derouen and Heo (2004:453) noted that the more

dependent a state is on trade, aid, or protection, the more responsive it is likely to be to pressure. The reason according to the above authors is that, "*it is sufficient that the smaller state is aware that the 'Big Brother' is watching*".

African economies depend heavily on the primary, often enclave, sector for foreign exchange earnings and government revenue. Babu (1981:45) stated that most developing countries are aid dependent; in fact, they tremble in the horror if they are threatened with the withdrawal of aid. Interestingly, this intimidation has been used as a weapon with which to coerce developing countries into accommodating unpalatable policies (*ibid*). Amazingly, some developing leaders frankly assert that, "they cannot challenge imperialism because as realists and pragmatists, they must safeguard their national interest of which continued access to foreign aid is one". They also accept the premise that, no foreign aid no development. In this regard, aid is viewed as a right (Alschuler, 1976:50).



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Below is a table that shows countries in Africa that are aid dependent.

Table 1: Aid Dependent African Countries (Net Official Development Assistance Greater than Ten Percent of GNP)

1975-1979	1980-1989	1990-1997
Botswana	Burkina Faso	Angola
Burkina Faso	Burundi	Benin
Burundi	Cape Verde	Burkina Faso
Central African Republic	Central African Republic	Burundi
Chad	Chad	Cape Verde
Comoros	Comoros	Central African Republic
Gambia	Equatorial Guinea	African
Guinea Bissau	Gambia	Chad
Lesotho	Lesotho	Comoros
Malawi	Liberia	Cote d Ivoire
Mali	Malawi	Equatorial Guinea
Mauritania	Mali	Ethiopia
Niger	Mauritania	Gambia
Rwanda	Mozambique	Ghana
Sao tome and Principe	Niger	Guinea Bissau
Seychelles	Rwanda	Kenya
Somalia	Sao tome and Principe	Lesotho
	Senegal	Malawi
	Seychelles	Mali
	Somalia	Mauritania
	Tanzania	Mozambique
	Togo	Niger
	Zambia	Rwanda
		Sao tome and Principe
		Senegal
		Sierra Leone
		Tanzania
		Togo
		Uganda
		DRC
		Zambia

Source: World Bank 1999c

From Table 1 above, one can realise that the rate of aid dependent countries is increasing and this raises eyebrows as to whether

developed countries are helping at all. A closer look at a number of the countries in the table above would reveal that most of them are going through a massive economic, political, and social deterioration including massive abuse of human rights. Ishengoma (2002:4) contended to the above assertion by arguing that despite the massive infusion of billions in aid into Africa, there is little to suggest that aid has succeeded in either stimulating self-sustaining economic growth or improving the plight of the marginalised populations.



Furthermore, the role of the state in Africa becomes questionable in such milieu of dependence. Bradshaw and Tshandu (1990:232) argued that because of foreign aid, the African state is weak, repressive, feeble, fragile, dependent, and collapsing. Goldsmith (2001:128) commented that the presence of foreign aid is worsening this condition of dependence. Carter (1995:601) stated that the developing country is a mere instrument of the international capital. McGowan *et. al.* (1988:184) argued that no developing country leader has little decision latitude in their attempts to devise policies appropriate to overcoming underdevelopment. In other words, a developing country should always display compliant political behaviour towards the donor country. Bradshaw and Tshandu (1990:234) argued that economic dependence erodes the state capacity to intervene in local affairs, as foreign lenders manipulate the developing country's government.

Moreover, aid dependence undermines wealth creation as locals see aid as handouts from the donor and the easiest route to wealth acquisition (Erixon, 2005:16). In this regard, this study argues that aid should be seen as an instrument, not a gift and it plays a key role as a strategy to maintain and even expanding developed countries' influence on developing countries. Derouen and Heo (2004:454) noted that aid is needed by the developing countries to enable them to pay for economic and social development. By that alone this shows that the donor country controls something desired by the recipient country and can therefore, use aid as a reward or punishment tool to coerce the recipient countries.



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Goldsmith (2001) argued that given the high rate of African countries dependent on aid, they tend to be weak and their legitimacy is questionable. Most African countries got their independence through agreements with the colonial powers. Coertzee *et. al.* (2001:69) noted that despite independence, economies of most developing countries remained dominated by and linked to international finance capital, hence perpetuating their dependence hence their likelihood to external manipulations in the form of threat to or aid withdrawals.

Goldsmith (2001:411) viewed aid as being like a narcotic, fostering addictive behaviour among states that receive it. In other words, states

are thought to exhibit the symptoms of dependence that is short run benefit from aid, but increasing need for external support that does lasting damage to the country. By feeding this addiction, the aid donors have supposedly weakened the resolve of African states to act on behalf of their citizens (*ibid*).

Mkandawire *et. al.* (1999) blasted aid dependence as it has given foreign institutions so much power in African national affairs and the capacity to impose SAPS reflects this. In other words, the IMF and the World Bank have seized this opportunity to declare that financial and monetary stabilisation as a precondition for economic growth. The IMF and the World Bank policies emphasise the importance of rolling back the role of the state and minimising any restriction on the free play of the market forces (Pender, 2001:399). In other words, these policies of the IMF and the World Bank are highly politicised as they stand in direct opposition to those policies of many economies, which remained organised around a state-led model. Thus in practice, stabilisation programs are given priority while development programs are shelved (Alschuler, 1976: 56). Pender (2001:399) further elaborated that because developing countries are weak, they are forced to abandon protectionism to foster infant industries, and instead to establish primary commodity exports, particularly agricultural as the centrepiece of economic strategy. One can therefore argue that stable exchange



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rates, devaluation, reduced inflation, and trade liberalisation are all instrumental for the repayment of debts to the aid donors, for the repatriation of profits by foreign investors and the introduction of exports to the centre. Aid donors are in a position grant or withhold aid as a means of influencing economic policies of developing countries in specific directions (Hayter, 1972:17).

Aid dependence has reached a point where it is counterproductive and is doing nothing to generate processes that would obviate the need for it. The aid recipient relationship in Africa has developed in one that it neither generates mutual respect nor harnesses the capacities of all those involved. Instead, it has generated the dependency syndrome, cynicism, and aid fatigue. Cardoso (1972) sums it by saying dependency is a national derangement or functional incompleteness of a national economy.

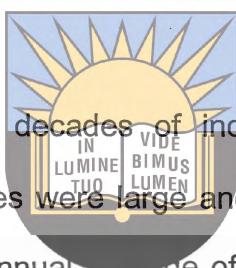


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Impact of Aid Dependence on Development: A Brief Look at Kenya.

Kenya is a developing country highly dependent on foreign aid. It is faced by a huge foreign debt and is clamouring for debt relief and at the same time for more aid. Between 1970 and 1999, the flow of donor funds to Kenya averaged about nine percent of the GDP, accounting for about twenty percent of the annual government budget and financing over eighty percent of the development expenditure (Njeru 2003: 1).

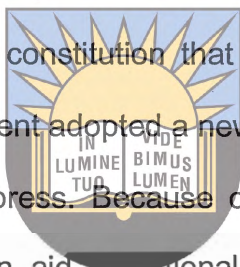
However, the flow of aid has not been smooth, Kenya experienced donor aid freezes between the years. In spite of Kenya receiving such huge volumes of aid, development has not been forthcoming. This then raises questions of the effectiveness of aid in developing countries. The aid-savings debate has focused on the two-gap model, which suggested that foreign aid was the engine of growth. However, this study is interested in why aid was suspended to Kenya.



During the first two decades of independence, both bilateral and multilateral aid sources were large and increasing. Gross ODA inflow, increased from the annual average of US\$205 million in the 1970s to over US\$1 billion in the 1990s. The proportion has increased over time and led to increased dependence on foreign aid and the upward trend experienced in the 1970s and 1980s increased the resources available to Kenya in terms of both foreign exchange and technical support (Njeru 2003: 1). Foreign aid stimulated the investment of domestic resources as evidenced by huge public sectors activities in health, transport, education, communication, and land resettlement schemes. However, these huge investments were not matched with increased government revenue sources. Eventually the government had to borrow externally from the multilateral donors under the Structural Adjustment Programme (SAP) loan facility. In fact, Kenya is the first Sub-Saharan country to receive structural adjustment funding from the World Bank

and latter the Enhanced Structural Adjustment Facility (ESAF) loan from IMF.

However, Kenya experienced major standoffs with the donor community, which led to aid freezing. The experience of Kenya reveals how donors try to employ the carrot and stick of aid to induce policy formulation in aid dependent countries. President Moi in 1982 amendment Kenya's constitution that established one party state. In addition, his government adopted a new set of electoral procedures and new control on the press. Because of these amendments, all donor agencies imposed an aid conditionality requiring the government to allow multiple parties, to establish an impartial elections board, to reinstate the secret ballot, to update voter registration and to relax censorship of the press.

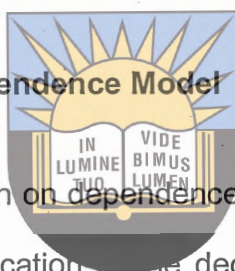


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It is because of some of the above reasons that aid was suspended to Kenya as it was argued that it had failed to follow the principles of liberal democracy. Eventually, the Moi government had to give in to the demands of the international donors and aid was resumed. The same major incidences occurred again in 1991/1992 and 1996/1997 as aid was suspended, which was only resumed after Kenya, had given in the demands of IMF and World Bank. This goes back to the hypothesis of this study that countries that are aid dependent are vulnerable to

manipulation from the dominant core. More so, the bargaining relationship involves asymmetries in power between the strong donor and the weak recipient. Thus, in this scenario of Kenya, one would realise the donor had more advantage in the relationship which it used to impose policy conditions on Kenya. One major question that arises out of this is: Is it possible to de-link and at what costs.

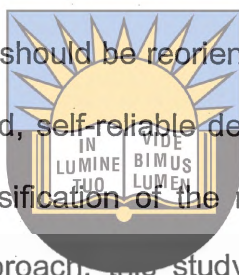
Toward an Interdependence Model



The above discussion on dependence has raised critical questions that encompassed the location of the decision making over the economic relations that is the political autonomy and independence of developing Countries. Whose interests are being served by decisions over the allocation of investments and credits? Does the current international structure locate decision making so that the interests of development countries on the periphery are best served. This study proposes the adoption of the interdependent relation between the core and the periphery. However, this model shall be adopted in the subsequent chapters coming.

Interdependence implies a situation of reciprocal effects or mutual dependence among countries. By adopting the interdependence approach, this study argues that international aid should move from a donor client relationship of givers and receivers to one that is more

balanced and embodies partnership. For this reason, development assistance aid should embrace goals of accountability, participation, transparency, empowerment, and non-discrimination. Oruka (1989:2) argues that aid should not be seen as charity but as fulfilment of global justice. This study calls for a model of development that lessens dependency on western markets, technology, expertise and financing to prevent and repeating or deepening of the status. Development of developing countries should be reoriented away from export led growth towards self-sustained, self-reliable development based on agricultural production and diversification of the national economy. By using the interdependence approach, this study seeks to scrutinize the power relations that exist between the donor community and those they work with or aim to help.



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Conclusion

This chapter has dealt with the two major theoretical frameworks that have been used to understand the foreign aid impact on development in developing countries. The modernisation phenomenon stated that aid is needed to kick-start economic growth and it is a precondition for the economic take-off to occur. The dependency literature has revealed mechanisms by which the unequal international power relations in general affect development. Thus, aid has been discussed as an instrument used by the developed countries to subjugate developing countries. The chapter concluded that most developing countries are

not autonomous in terms of decision-making and policy formulation.
The following chapter will deliberate on the relationship between aid
dependence and economic sanctions.



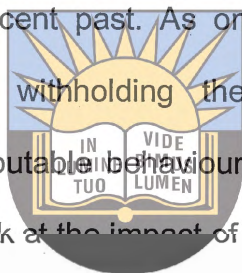
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CHAPTER THREE

The Nature and Content of Aid and Economic Sanctions

Introduction

This chapter looks at the nature and content of aid, as well as the relationship between aid dependence and economic sanctions. The use of economic sanctions has become a feature of the international community in the recent past. As one form of economic sanctions, donors have been withholding their development assistance in retaliation to the disputable behaviour of the recipient countries. This chapter shall also look at the impact of these sanctions on development in developing countries.



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Untied Aid

Untied aid refers to aid that has no geographical restrictions; this implies that the recipient country can procure goods and services from providers in other countries in addition to the donor country (Economic and Social Council, 2007:3). Untied aid is a brand of aid recommended to developing countries because it is at least more efficient than tied aid due to administrative burdens and possible technical incompatibilities tied aid creates between the donor and the recipient (Miquel-Florensa, 2007:2). Additionally, untied aid is apparently subject to less political pressure than tied aid (*ibid*). The OECD (2001:2) concurred with the above arguments about tied aid: that it is a more efficient way to deliver

foreign aid as it is argued that tied aid raises the cost of many goods and services by between 15 to 30 percent. Thus, untying aid, donors can unlock more resources for development. This study suggests that, the untying of aid provides the recipient countries with better autonomy to decide how to use their resources by focusing on the goods and services they need most and permit them to procure from the most cost effective sources. The Action AID Alliance (2003:3) stated that the untying of aid reduces dependency on companies and consultancies based in the developed countries by encouraging bids from the local industry, thus ensuring more sustainable development, as well as generating employment in the developing countries. In addition, the untying of aid is seen as helping to alleviate the poor and marginalised people out of poverty by increasing local ownership of development strategies (*ibid*). However, it is the contention of this study that in as much as untied aid has its own merits than tied aid, but the receipt of any form of any aid inevitably obligates the recipient economy to undertake certain internal structural adjustments.



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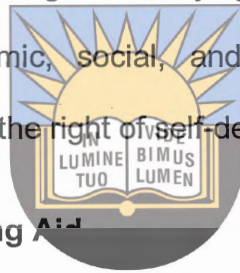
Tied Aid

Tied aid refers to foreign aid that must be spent in the country that is providing aid (donor country) or in a-group of selected countries (Grant, 2007:1). This is more frequent with bilateral loans or grants, where a developed country gives aid to developing countries but commands that the money be spent on goods or services produced in the selected

countries (DFID, 2001:1). Tied aid takes several forms and it may be linked to:

- a specific investment project;
- a specific commodity or service; and;
- a procurement of goods or services in specific countries (Randel and German, 1994:1).

This study, therefore, argues that tying aid is a form of external control over others' economic, social, and cultural development and is, therefore, counter to the right of self-determination.



Motivations for Tying Aid

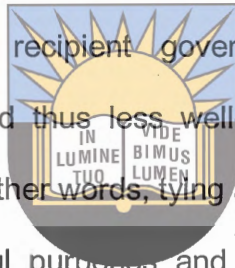
The justifications for providing tied aid are both of an economic and political nature. From an economic standpoint, aid is a financial outflow from the donor country. Grant (2007:3) has stated that governments concerned with their balance of payments might wish to offset these outflows by seeking to increase exports through aid tying. At an enterprise level, companies in donor countries perceive aid as a mode to help them win contracts for exports to developing countries, thus, such tying of aid implies a subsidy to enterprises in donor countries (OECD, 2001:2).

From a political viewpoint, some donor governments have argued that tying aid strengthens public and business support for their aid effort

(DFID, 2001:1). Clifford (2002:154) viewed foreign aid as an expression of donors' values and willingness to cooperate on a personal level with the citizens of developing countries. In this respect, donors want their aid efforts to be evidently visible, thus tying aid provides such visibility and prestige (OECD, 2001:2).

Clifford (2002:153) has further stated that aid is tied because donors believe that most recipient governments are incompetent and unrepresentative, and thus less well-qualified to decide on how aid should be spent. In other words, tying aid enables donors to ensure that it is spent for useful purposes and to have reasonable accounting control over its use (*ibid*). In this regard, tying aid is seen as preventing corruption or incompetence of the recipient government from interfering with the effectiveness of aid (Chatterjee and Turnovsky, 2003:2). However, this study dismisses the above assertion, on the basis that aid has been given to most corrupt governments in developing countries. This suggests that aid is a foreign policy instrument dependent on the political and economic interests of the donor.

Grant (2007:3) further stated that the tying of aid is a form of protectionism. The practice is increasingly justified as a defence or retaliation to other donors. Donor countries sometimes find themselves caught in a dilemma: those donors that initiate the process of untying



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damage their own interest if others do not follow (Jepma, 1991:14). Moreover, tied aid may be construed as a costly way of subsidising jobs in the donor country— a form of protectionism that runs counter to the overall goals of the neo-liberal theory of commitment to open markets (OECD, 2001:2).

Problems with Tied Aid

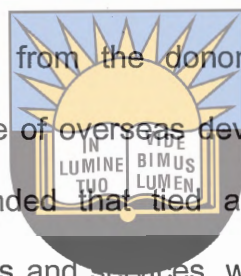
The practice of tying aid by which donors impose restrictions on where the recipient can spend aid funds or end-user restrictions through the specification of commodities and projects for which external assistance can be used has long raised concerns about the quality and effectiveness of aid. The major drawback of tied aid is that it places commercial significance at the forefront of the aid programme. Grant (2007) has stated that it is transnational corporations and companies based in the developed countries that are the real winners. DFID (2001) has contended that this discourages local commercial participation in development projects because of an over-reliance on high-income countries companies' knowledge, technology and equipment.

Osei (2005:350) stated that aid restrictions reduce the degree of competition in the supply of foreign aid goods and services. He further elaborated that the theory of price traditionally dictated that the smaller the number of competitors, the lower the probability of lower prices, and a more efficient allocation of resources (*ibid*). In other words, the

monopoly control of the market leads to higher prices. The DFID (2001:1) agreed with the above supposition that tied aid is grossly inefficient. It is estimated that tied aid cost on average between 20-25 percent more than, if the goods or services were procured through international or local sources (*ibid*).

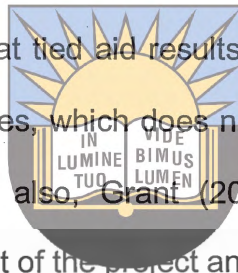
Clifford (2002:153) further observed that tying aid is about promoting goods and services from the donor country, this undermines the humanitarian purpose of overseas development assistance. The DFID (2001:1) has contended that tied aid leads to technical solutions requiring donor goods and services, which may be less appropriate or more expensive than alternative solutions using skills or goods available locally or from another developing country. Moreover, tied aid leads to developing countries being supplied with incompatible pieces of equipment provided by different development agencies, each with separate requirements for spares and back-up (Grant, 2007). Thus, this bias can lead to the provision of goods, technology, and advice that do not conform to the priorities and specifications of the recipient country (OECD, 2001:2).

The DFID (2001:1) further expressed that tied aid encourages a donor-driven approach to development. It indicates that the donors' main concern is not development but their national contracts. This practice is



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inconsistent with the new approach to development cooperation encapsulated in the Poverty Reduction Strategy Process. The OECD (2001:3) has stated that tying aid is incompatible with effective partnerships. Thus, in this regard untying aid is seen as a possible way towards increased involvement of developing countries in the selection, design, and implementation of aid programmes and projects.



This study argues that tied aid results in inappropriate aid being given to developing countries, which does not speak to the real needs of the world's poor. Then, also, Grant (2007) has argued that tying aid excludes the recipient of the project and thereby undermines the right to self-determination. In essence, Article 1 of the International Covenant on Economic, Social, and Cultural rights in the International Bill of Human Rights states that...

All people have the right to self-determination, by virtue of that right they freely determine their political status and freely pursue their economic, social, and cultural development (ibid).

Tied aid also has a problem of increasing the external debt of the recipient countries. Miquel-Florensa (2007:2) has stated that the external debts of the poorest low-income countries are owed to the northern governments or multilateral institutions like the IMF. However, this is not always, because developing countries borrowed the money in the first place. More often, private debt was transformed into public debt

through government guarantees and support for private business (*ibid*). The poorer the country, the more likely it is that debt repayments are being extracted directly from the people who neither contracted the loans nor received any of the money.

Aid Conditionality

Sub-Saharan Africa is the region most subject to policy conditionality. This is partly because Africa is the region most dependent on aid but it is also partly because of the weaknesses of African states. Peet (2003) noted the extent to which policies in Africa are under the direct influence of the international financial institutions and bilateral donors is without historical parallel.



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Conditionality is viewed as a central feature of the IMF and World Bank assistance programmes and essential to the success of these programs. A conditionality approach demands the implementation of certain specific policy modification as a prerequisite for the provision of future financial assistance (Emmanuel, 2002:1). These two major international lenders (IMF and World Bank) have made future aid contingent on the imposition of certain austerity measures (Easterly, 2003:37). The IMF and the World Bank are powerful donor institutions; hence, their programmes need to be considered in the sense that their activities influence the behaviour of the donor community (Chakravarti, 2005:74). These two institutions are influential as they are the source of

advice on all growth related issues for developing countries. As a result, their approach, strategy, and programmes have a significant impact on the development effectiveness of aid.

The IMF and the World Bank's support to developing countries have always been driven by the assumption that aid finances investment and growth. Thus, for this to happen there is need by the recipient countries to adopt prescribed financial policies as a prerequisite for economic growth (Chakravarti, 2005:74). Drazen (2002:38) stated that the IMF and World Bank see aid conditionality as central to their lending as it assures the borrowing country that if it takes certain well-specified actions, continued financing will be forthcoming. The reasoning behind this kind of thinking is that aid conditionality allows the recipient country to invest in longer-term policy adjustment by assuring them that if they do so, the IMF and World Bank financing will not be cut off (*ibid*). Thus, these two financial institutions emphasise compliance to agreed reforms as a precondition for receiving aid and loans. These austerity measures include a strong emphasis on fiscal discipline, including prioritising the control of inflation, restricting state spending and reducing balance of payments deficits. There is also strong support for liberalised exchange rates and trade policies, which, it is assumed, encourage competitiveness and competition internationally. Measures



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to attract foreign direct investment and to support privatisation are encouraged (Pender, 2001:399).

The major argument brought by the IMF and World Bank is that compliance to these reforms is associated with better economic performance. The IMF and World Bank argue that such policies would facilitate exports and help developing countries save capital, thereby enabling them to service their debts and experience greater economic development and a better quality of life via a trickle-down effect (Bradshaw and Tshandu, 1990:234). Regional banks and other donors also have adopted these conditionalities on aid. Moreover, aid from other bilateral donors and even private finance has become effectively conditional on the agreement by the recipient government to implement often far reaching economic policy reforms along the lines of the IMF and World Bank framework, and they released their aid depending on the seal of approval of the IMF and World Bank (Pender, 2001:399;Chakravarti,2005:76).

The question that obviously comes up is whether compliance effects are persistent over time. That is to say, whether compliance is beneficial for a country's economic performance not only in the short run but also on the medium to the long run. Secondly, why is conditionality needed if it is in the country's interest to undertake the

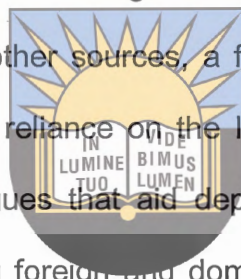
programme in question? This study argues that these austerity programmes increase economic dependence on the developed countries, decrease self-reliance and reduce the quality of life in the poor countries. In fact, the former Zambian president, Kenneth Kaunda had this to say:

The IMF programs had been with us for twelve years and we began to see nothing but a contraction of the economy, in the end were living to pay the IMF, nothing else and were not developing, the economy was not expanding, it was contracting (Meldrum, 1987:44).

This study argues that the IMF and World Bank programmes reduce growth and redistribute income away from the poor. Moreover, the role of the state in development is undermined. The IMF and World Bank policies are aimed at promoting economic growth but by imposing austerity measures on developing countries, this constrains the capacity of the developing countries to experiment with their own development models. Bradshaw and Tshandu (1990:232) commented that these austerity measures from IMF and World Bank reduce the government programmes designed to enhance health and other basic human needs. The question that comes to mind is what happens when the recipient fails to comply with the conditionalities imposed by the donor community. It is interesting to realise that most governments are reluctant to break with the IMF and World Bank for instability may increase when the agreement with IMF and World Bank expires or is

aborted. Countries that refuse to abide by these conditions, risk a reduction in future loans from international financial institutions.

In fact, Bradshaw and Tshandu (1990:231) argued that many private banks would never loan money to developing countries unless the IMF has approved their domestic economic policies. Thus, developing countries cannot abandon agreements with the IMF and hope to receive loans from other sources, a fact that explains the developing countries' increased reliance on the IMF (Chakravarti, 2005:76). This study, therefore, argues that aid dependence disarticulates the host economy, separating foreign and domestic sectors with poor linkages between them. In this case, state policies are uncoordinated and often held hostage to foreign interests. In addition, over a long term, dependence stemming from extensive foreign penetration yields lower growth rates than in less dependent economies (Kentor and Boswell, 2003:301).



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Bienen and Gersovitz (1985:749) criticised the IMF and World Bank as being instruments of domination of the world capitalist system. The IMF and World Bank are seen as working with exporters within a country and with technocrats linked to international agencies and to foreign capital (*ibid*). In addition, these two financial institutions play double standards, by favouring certain countries because of their geopolitical

situation, international weight, or political orientation (*ibid*). Countries that are opposed to the IMF and World Bank policies are very much vulnerable when they alter their original stance. In other words, the question of the IMF and World Bank's conditionality has become linked with factionalism and conflict both within governments and between governments and their opponents.

The major question this study raises is what happens to a country that refuses to adhere to the statute of the IMF and World Bank? Of course, donors have a number of options of available actions to take designed to disrupt the debtor's foreign trade, and the option of curtailing future lending. In most cases, donors do withdraw their financial aid to the recipient, as ways of indicating that they disagree with the recipient's actions.

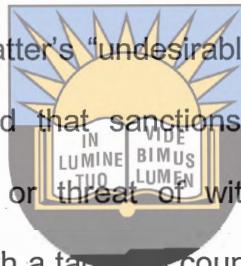
Economic Sanctions

The use of economic sanctions is not a recent occurrence. Sanctions have evolved from being continental blockades of the Napoleonic wars to, boycotts, embargoes, to quarantines and lately to smart sanctions. Since the latter part of the 1990s, smart sanctions have become an increasingly used tool in international disputes. Despite the pervasiveness of sanctions as a policy tool, the contentious literature on sanctions has failed to reach a consensus on whether sanctions succeed in achieving their policy objectives and why sanctions are

imposed (Hufbauer, Schott and Elliot, 1990). This sub-section is going to look into some of the major concepts and issues surrounding sanctions including the merits and challenges of applying this tool in international affairs.

Bengtsson (2002: 3) has defined sanctions as generally a coercive measure employed by a state against a target state to force a modification in the latter's "undesirable" policy or practice. Hansen *et. al.* (2006:623) stated that sanctions are a deliberate, government-directed withdrawal or threat of withdrawal of customary trade or financial relations with a targeted country. This study adopts a standard definition of sanctions as a government-inspired restriction on customary trade or aid relations, designed to promote political objectives (Hufbauer, Schott, and Elliot, 1990:2). In essence, sanctions arise when one government discontinues some aspect of economic exchange and pushes for overt policy concessions (Marinov, 2005:565). The official aim of sanctions is to reprimand the regime. Sanctions may be financial, military, cultural, political, or economic, depending on the tools available, and the aims and purposes of the sanction (Hansen *et. al.*, 2006:623). However, the forms of sanctions that attract the most attention and that are likely to have the greatest impact are composed of various restrictions on the:

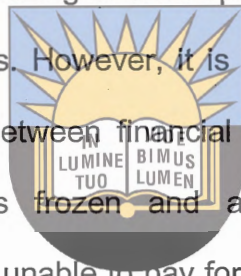
- flow of money;



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- flow of goods;
- flow of services; and;
- control of markets in order to reduce or eliminate the target's chances of gaining access to them (Kaempfer and Lowenburg, 2000).

In this regard, the freezing of development aid falls under this category of financial sanctions. However, it is important to note that there is a significant overlap between financial and trade sanctions, since with their foreign assets frozen and access to new funds blocked, governments will be unable to pay for imports and, therefore, trade will suffer (Bossuyt Report, 2000:4).

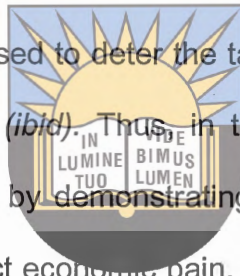


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Sanctions serve a number of reasons and one of them is to seek compliance. In other words, sanctions are used to compel the target to conform to the initiators' preferences. Lindsay (1986:155) proposed four assumptions on the utilisation of sanctions: that the resulting economic costs will surpass the benefits the target leadership gain from the disputed policy. Secondly, sanctions are used to signal internationally that the behaviour of the regime in question is unacceptable. Thirdly, sanctions are used to punish the regime for the unacceptable behaviour. Fourthly, sanctions are used to bring about change in what are regarded as unacceptable political or military actions of another

country. In other words, sanctions are used as a subversion measure to remove the target' leaders or the overthrow of the entire regime.

Lindsay (1986:158) further stated that, the use of sanctions to subvert the target country assumes that the economic denial and political disintegration are positively related, thus, the greater levels of economic damage produce greater levels of political unrests. Furthermore, sanctions are also used to deter the target from repeating the disputed action in the future (*ibid*). Thus, in this regard, sanctions work as a deterrence measure by demonstrating the initiators' willingness to act and its ability to inflict economic pain, which it may presumably reapply in the future (Brabant, 1998:15).




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Sanctions may also be used as international symbolism. In other words, the sender country will be trying to convey a point to other nations that it is merely articulating its condemnation of a regime (Lindsay, 1985:158). In this case, the costs of damage on the target are irrelevant. Thus, the act itself produces the symbolism. Linked to this, sanctions are used as domestic symbolism as well, with the aim of raising its domestic support or frustrate internal criticism of its foreign policies by acting resolutely (*ibid*). Given the above use of sanctions, it is, therefore, understandable to view the suspension of development aid and loans as one of the most common forms of financial sanctions used by donors against the

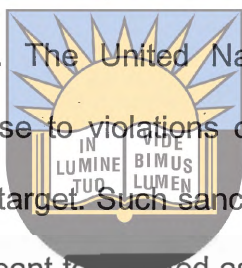
recipient. The assumption from this thinking is that the regime's legitimacy and strength are particularly vulnerable to reduced revenues.

Although sanctions are designed to enforce international norms, they have also contributed to the further deterioration of social development in target states (Cortright, 1999:1). In essence, they worsen the socio-economic environment with the underprivileged and the vulnerable: women, children, and those dependent on societal safety nets by international relief agencies being the hardest hit. This concern has brought about three different areas of contention regarding sanctions and their role in enhancing global justice:

- 
- The logo of the University of Fort Hare is a shield-shaped emblem. It features a central sun with rays, set against a blue background. Below the sun, the Latin motto 'IN LUMINE TUO' is written on the left and 'BIMUS LUMEN' on the right. The shield is flanked by two columns. Below the shield, the text 'University of Fort Hare' is written in a serif font, followed by the tagline 'Together in Excellence' in a smaller, italicized serif font.
- the authority of sanctions: their imposition as means of international enforcement, implemented by the Security Council under the authority of UN Charter, and other institutions;
 - the effectiveness of sanctions: their capacity and limitations as instruments for attaining intended objectives; and;
 - the morality of sanctions: their humanitarian impact on innocent, disempowered people within targeted states (*ibid*).

A theory of *just authority* asserts that sanctions must be multilateral and have the endorsement of the United Nations. Under this characterisation, the only sanctions regime that could be considered just would be those authorised by the Security Council under the

principles of international law (Cortright, 1999:2). This theory castigates unilateral sanctions such as the US embargo against Cuba, as illegitimate. Regional sanctions, however, are authorised under Article 52 to achieve pacific settlement of local disputes provided their activities are consistent with the purposes and principles of United Nations Charter (Bossuyt Report, 2000:8). The legality of UN imposed sanctions comes from their role as non-military means of enforcing international norms. The United Nations Security Council imposes sanctions in response to violations of general norms, not to gain an advantage over the target. Such sanctions are regarded to have a right rationale and are meant to be lifted as soon as the target complies with the mandated norms (Cortright, 1999:2).

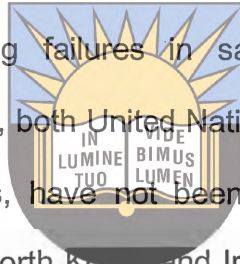


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However, the *just authority* argument fails to acknowledge the limitations of the actual function of the UN system. These limitations arise from the set-up of the UN Security Council, which gives lopsided influence to the permanent members. These permanent members may thwart important decisions or usurp the proceedings of the Council to serve narrow national purposes. Bengtsson (2002: 5) argued that sanctions almost involve powerful states imposing punitive measures on weaker states. The greater the differential in power, the more effective the sanctions, by their very nature sanctions are a function of and reinforce the disparity in power between large and small states.

There are also many debates on the effectiveness and efficacy of sanctions in achieving their intended purposes. A common view among academics is that sanctions are overused, ineffective and unfair (Kaempfer and Lowenberg, 2000:2). Sanctions are overused as demonstrated by the unwieldy number of sanctions episodes currently in force. They are unfair because of the heavy suffering that they can impose on innocents in target countries. They are ineffective given the number of seeming failures in sanction policy (Bossuyt Report, 2000:10). Sanctions, both United Nations mandated and outside United Nations frameworks, have not been effective. For instance, the US sanctions against North Korea and Iran do not seem to have changed the behaviour of these states or the leaders in the direction demanded. Empirical researches demonstrate that sanctions have had overall success rate of 34 percent, with regard to sanctions that made significant contribution towards achieving the purposes for which they were imposed in one third of the 116 cases examined (*ibid*). In this instance, Moyo (2007:3) has argued that, sanctions by themselves seldom achieve their major goals such as rolling back aggression or forcing a change in the leadership of a regime.

On the other hand, Damrosch (1993:15) argued that sanctions are useful in strengthening international norms, signalling disapproval of objectionable behaviour, and deterring future abuses. The probability of



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their success would depend on the goals they are intended to serve and the flexibility with which they are applied. Damrosch further argued that sanctions are most effective when combined with incentives, as part of a carrot-stick diplomacy designed to resolve the conflict and bring about a negotiated solution. Gordon (1999:7) concurred with the above arguments that the harm of economic sanctions on the general populations is justified, either because the population has consented to the state policies hence the need to make them responsible for the acts of their leadership or because the state shares responsibility for them in some fashion.



Targeted Sanctions (Smart Sanctions)

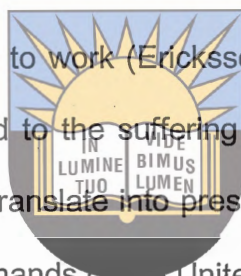
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Lately, there has been a shift from blunt economic sanctions to smart sanctions. According to Cortright and Lopez (1990:11), a smart sanctions policy is one that imposes coercive measures on specific individuals and entities that are responsible for the wrongdoing. It also includes restriction on products or activities while minimising unintended economic and social consequences of vulnerable populations and innocent by-standers (Weis, 1999:503). The goal of smart sanctions is to maximise pressure on the decision-making elite while minimising adverse effects on the general population (IBA, 2004:2). The core elements of the smart sanctions strategy include freezing foreign assets, withholding credits and loans, prohibiting

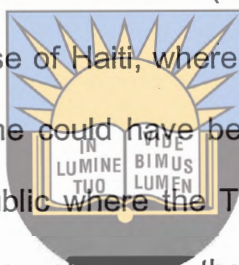
investments, and restricting travel, commerce, and communications (Weis, 1999:503).

This shift to smart sanctions came as a direct response to the high humanitarian costs following the comprehensive sanctions on Iraq under Saddam Hussein. Economic sanctions imposed on the then Iraq had dislocation effects on the economy, since this is how any sanctions regime is supposed to work (Ericksson, 2006:4). The assumption was that, this would lead to the suffering of the citizens. This plight of the people would then translate into pressure on the government to reform or give in to the demands of the United Nations (Charron, 2006:3). This theory is bankrupt both legally and practically, as the case of the then Iraq indicates that the hardships of the civilians were easily translated into political advantage by the ruling regime. The regime continued with its same political behaviour at the detriment of the general population. It can also be argued that, the less democratic a country, the more likely economic sanctions will fail to change policies. Furthermore, Galtung (1967:388) termed this the '*naive theory*' because it fails to account for the efforts of the targeted regime to adjust to or counteract the impact of sanctions. While sanctions may nonetheless succeed in forcing a regime to modify its policies, the price paid in social and humanitarian suffering may be so severe as to raise the questions regarding a disproportionate harm relative to the goals.



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Wallensteen (2000:12) stated that politically, smart sanctions presume that the political leaders can be detached from their population in a simple way. The assumption is that the object of disagreement is between the targeted government elite and the sending states, and the targeted state population should be exempted from not only the effects of the sanctions but also considerations surrounding conflict resolution through the imposition of sanctions (Charron, 2006:4). This could have been easy in the case of Haiti, where the military junta members were identifiable. The same could have been true of the sanctions against the Dominican Republic where the Trujillo family was also known. In this case, the rulers alienated themselves from the rest of the population (Wallensteen, 2000:12).

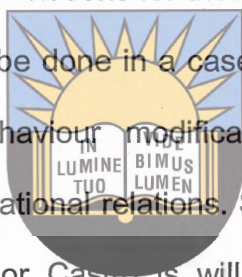


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In most cases, sanctions directed at the elites or political ruling class will have direct and indirect effect on the population under their control in virtually every aspect of their lives, this is because the targeted elites do not live in splendid isolation, they live in societies. Hansen *et. al.* (2006:624) stated that some regime leaders have even managed to increase their personal wealth and continued to enjoy opulent lifestyles while the masses have suffered under sanctions. The Bossuyt Report (2000:11) has stated that smart sanctions have unintended effects of entrenching or even strengthening the very targets they are intended to coerce. In the end, the innocent ordinary people bear the price. Hence,

the need of an on-going assessment of the impact of sanctions, which should be modified if deemed necessary or even, lifted if they prove to be ineffective to spare the people from further unnecessary hardships.

Wallensteen (2000:12) has further elaborated that the smart sanctions approach only functions if the leaders are dependent on their international political relations for their survival. The major question that arises is what is to be done in a case where the regime demonstrates no concern in behaviour modification and is not responsive to interruption in international relations. Seemingly, it appears that neither Mugabe, Chavez nor Castro is willing to visit western countries or depend for their political survival on the links with these countries (*ibid*).



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In other words, they sustain themselves in power partly on the fact that they are anti-western. Thus, in this regard, these smart sanctions ironically, serve their political purpose. Their hostility to the west is made more visible to the public. Galtung (1967:387) used the term "*rally around the flag effect*" to argue that leaders in the target country can exploit the economic suffering caused by economic sanctions to unite their populations around their cause, rather than generating the crumbling of the target state. Thus, sanctions can raise nationalist sentiments and political integration. Nooruddin (2001:62) consented to the above argument that sanctions may serve to amalgamate the domestic forces in the target state in support of their government

against the interventionist policy of the sender. This is especially probable since most recent sanctions episodes have involved developed western states (mostly the US) imposing sanctions against less developed nations (*ibid*). The battle cry of anti-imperialism often resonates in those states as the people suffer under the weight of these sanctions.

Another big challenge smart sanctions face is the emergence of a “*black knight*” as mentioned by Galtung (1967:400) that provides assistance to the target, thereby undermining the force of the sanctions. The target may have a powerful ally that can absorb some of the economic pressure caused by sanctions by providing an alternative market for boycotted goods and giving aid to ameliorate the economic hardships caused by sanctions (Hufbauer, Schott, and Elliot, 1990:34).

Wallensteen (2000:13) contended that another problem brought by smart sanctions is that individuals targeted have stakes of their own in the outcome of sanctions. Thus, it is about personal fear as to what will happen to their safety and that fear may actually result in their increased defiance. That fear may contribute to the targeted leader not willing to submit to the opponents. Such an effect would tend to entrench the target’s objectionable policy, not to move the target towards compromise.

Paul and Akhtar (1998:5) brought another dimension on the limitations of smart sanctions that in as much as targeted financial sanctions are more effectual by freezing the assets of leaders, and their surrogates held in foreign banks. The banks and businesses in the western countries strongly resist many types of financial sanctions. For instance, Britain, France, and Germany are traditionally reluctant to take any action that might damage their position as international financial centres. Thus, in this regard banks do not to expose information on their private accounts and are sceptical about the wider implication of political interference in their relations with their customers. Brabant (1998:18) expressed a lot of scepticism on the feasibility of smart sanctions. He argued that, of all people, like Mugabe, and the then Iraq president Hussein, just to name a few would certainly not hold property in their personal names. Secondly, different spellings of foreign names or distinguishing the exact person from among several others with related names in the lack of more precise detail make the entire approach not viable. In other words, the government elite will be left untouched, yet the poor, the sick, women, infants and young children, will continue to suffer long before there is even inconvenience to the targeted elite (Gordon: 1999:3).



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Smart sanctions have implications that are far beyond their stated goals; they have far-reaching implications for economic development,

the health conditions, social stability and security not only of the present but even of the future generations of the people's in the affected regions. The issue of development and sanctions must, therefore, be of concern to all international decision-makers, hence there is need to re-evaluate sanctions in the light of comprehensive analysis of their cost in terms of development, basic human rights, and world peace, all of which are intrinsically linked.

The Suspension of Foreign Aid.

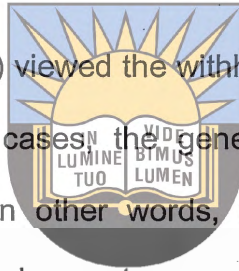
This study borrows the definition given by Blessing (1981:525) in defining aid suspension in relation to economic sanctions. Thus, aid suspension is defined as follows:

- the temporary stoppage of deliveries;
- the decision to withhold new aid commitments;
- reduction in the amounts of aid committed or delivered in comparison to previous amounts; and;
- a purposive delay by the donor community in making a decision, one-way or the other, about future aid to the country.

Suspension of donor aid is done on four grounds:

- formal breach of international law(as determined by the security council);

- failure to comply with formal contract (SAP agreement, debt contract);
- imputed breach of international law (UN Charter, human rights covenants), and;
- bilateral dispute or because of donor self interest (Archer, 2005:1).



Hansen *et. al.* (2006) viewed the withholding of foreign aid as a form of sanctions. In most cases, the general population suffers from the withdrawal of aid. In other words, the withholding of aid stops or reverses the development process, with long-term negative consequences. Another aspect concerning aid withholding is that it defeats the current ideas of development cooperation, which is focusing on ownership and partnership. In this case, ownership refers to the extent to which a country can pursue internal and external policies independently of incentives provided by multilateral lenders (Drazen, 2002). The logic behind this premise is to encourage equal partnership based on a clear division of roles and responsibilities (Abrahamsen, 2004:1453). Thus, partnership lays the foundation for a realistic dialogue regarding what donors can contribute and what the recipient country can take responsibility. Given the above assertion, sanctions are, therefore, seen as contradicting the concept of partnership in development. By imposing sanctions, a donor country is stating

explicitly that it knows the best policies for the recipient country to follow. The idea of imposing sanction also underlines the difference in power relations between the donor and the recipient and shows that the donor is willing to use this power.

The above conception of development partnership between the developing and developed countries remains a contentious issue.

Abrahamsen (2004:1456) refuted the above notion of partnership and argued that it perpetuates the dominance of the developed countries over the developing countries. The model of partnership would see



developing countries in charge of their own development, which is an ideal situation development practitioners would want to see. However, Abrahamsen posits that partnerships are a rhetorical innovation, a re-branding of old style practices and policies. In other words, partnerships are used for instrumental reasons to conceal the continued exercise of power by international agencies (*ibid*).

A review of the Poverty Reduction Strategy Papers (PRSP) and New Partnership for Africa's Development (NEPAD) demonstrates that the idea of partnership is a fallacy. The protagonists of these models argue that these two development strategies present the degree of partnership between the developing and the developed countries. Countries that are highly indebted are required to develop PRSP for

debt cancellation. However, the IMF and World Bank still have the power to veto a country's PRSP, placing the notion of ownership and partnership under serious questions (Abrahamsen, 2004:1456). Similar concerns arise on NEPAD, which is championed to be Africa's own development plan, a break away from SAPs, yet it has explicit commitments to neo-liberal norms and values. In overall, NEPAD perpetuates dependency on foreign assistance. It is a neo-colonial project through which developed countries want to not only to promote their strategic and national security interests, but also to ensure perpetuation of Africa's dependent development under globalisation.



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Moon (1983:317) noted that in most cases the powerful countries secure the cooperation of the weaker states using the reward and punishment behaviour. In other words, the behaviour of the recipient country is viewed as a partial payment in exchange for the maintenance of benefits they derive from their economic ties to the donor country. Therefore, to employ sanctions by withdrawing aid poses more dilemmas—both in terms of affecting development and marginalised groups and by contradicting the principle of partnership and ownership.

Conclusion

This chapter has looked at the nature and content of aid and how economic sanctions have been used as a rewarding or inducing

measure against targeted states. The discussion has also revealed the fact that although the primary aim of aid is to promote the development and welfare of the recipient country, most donors consider aid as a powerful diplomatic tool to shape political and often economic ties between them and the recipient country. The following chapter looks at how donors can manipulate a country that is aid dependent and how that manipulation can affect social development.



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CHAPTER FOUR

The Impact of Aid Withdrawal on Zimbabwe

Introduction

The objective of this study was to look at how an aid dependent economy was vulnerable to external manipulation. This was to be done by looking at the impact of aid withdrawal in the form of targeted sanctions on social development in Zimbabwe. In the light of this, this chapter is going to deliberate on the impact of aid suspension to Zimbabwe.

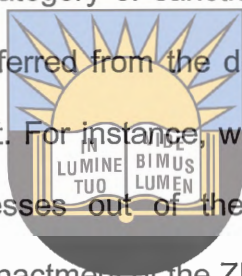


It is also vital to realise that, far from the claim that sanctions on Zimbabwe are ring-fenced and targeted against the government elite, but the reality on the ground reflects that the effects of capital flight are being felt throughout the entire economy. Furthermore, it is important to note that it is not individuals who get loans from the international financial institutions; rather loans are given to governments. This chapter shall, therefore, deliberate on the actions of the multilateral financial institutions such as the IMF and World Bank, the African Development Bank (ADB), the Paris Club of Lenders, the US, the EU and individual countries like Australia, Canada, and other bilateral donors. A very pertinent question to think about as one goes through this chapter is whether it is possible for developing countries to de-link themselves from the west and at what costs?

The Nature of Sanctions Imposed on Zimbabwe

The Zimbabwe Democracy Bill (2001)

In 2002, Zimbabwe was slapped with targeted sanctions, which were both, declared and undeclared. Declared sanctions refer to pronounced and legislated sanctions, for example, the Zimbabwe Democracy and Economic Recovery Act, 2001(ZIDERA). The second type of sanctions on Zimbabwe is a category of sanctions, which are not announced or legislated but are inferred from the declared sanctions and this is the most dangerous sort. For instance, where NGOs and companies have moved their businesses out of the country or scaled down their activities since the enactment of the ZIDERA.

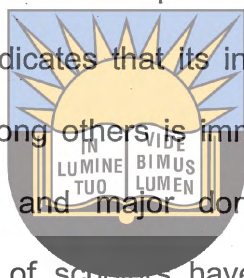


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The introduction of ZIDERA by the US in 2001 was meant to ensconce the financial starvation of Zimbabwe, which other multilateral financial institutions, like the IMF and World Bank, had been intermittently engaging in since 1997. The Act, among other things, empowered American officials in the IMF and other multilateral development banks, to oppose the vote against any extension by the respective institution for any loan, credit, or guarantee to the government of Zimbabwe and to vote against any reduction or cancellation of indebtedness owed by the government of Zimbabwe (ZIDERA sec 4(b) 2b, 2001) see Appendix 1. The multilateral development institutions to refuse to grant loans to Zimbabwe include the Reconstruction and Development Bank,

the International Finance Corporation, the Inter-American Development Bank, the Asian Development Bank, the Inter-American Investment Corporation, the African Development Bank, the African Development Fund, the European Bank for Reconstruction and Development and the Multilateral Investment Guaranty Agency (ZIDERA, 2001:1). In essence, these international financial institutions are virtually all the banks in the world that could potentially offer loans to Zimbabwe. A review of the US indicates that its influence over the IMF and World Bank and ADB, among others is immense because of the size of its shareholding, vote, and major donor status respectively (Ngaire, 2003:6). A number of scholars have criticised these institutions for



being conduits used by the US for its international foreign policy

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Prior to the enactment of the ZIDERA, Zimbabwe used to acquire loans from other international financial institutions, after the IMF and World Bank stopped their credit lines to the country. Moreover, the US ensured that the IMF and the World Bank kept the pressure on Zimbabwe to pay outstanding debts, notwithstanding that the country had foreign currency and food crisis and clearly unable, without rescheduling, to maintain its debt obligations (Hondora, 2007:3). In addition, Zimbabwe's ability to reschedule its loan payment and to apply for debt cancellation in times of severe financial crisis was severely affected. This study, therefore, suggests that, though Zimbabwe was

already in arrears with the IMF, the World Bank and the ADB, in the absence of ZIDERA, Zimbabwe could have been able to negotiate with these international finance institutions with a view to reschedule, cancel its debt, or apply for more finance.

Through ZIDERA, the US seized cash proceeds from US companies that sold agricultural machinery to Zimbabwean companies. This is so because the US imposed punitive premiums on any company, both US and non-US, that had business dealings with the US on trading with Zimbabwean companies (Executive Order 13288, 2003) see Appendix 2. Above all, the US ensured that until ZIDERA is repealed, Zimbabwe had a small chance of normalising relations with the multilateral lending agencies such as the Bretton Woods Institutions (ZIDERA, 2001).



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In addition, ZIDERA vetoes debt relief to Zimbabwe. Zimbabwe needs debt relief in order to invest in capital and social development rather than spending its depleted foreign reserves on servicing debt. This study therefore suggests that ZIDERA was a masterstroke. For foreign currency generation, Zimbabwe has to depend solely on barter trade, mining and agricultural concessions and on exports-generated foreign currency. This has asphyxiated the Zimbabwean economy.

European Union Sanctions on Zimbabwe

Since its attainment of independence in 1980, Zimbabwe has been a member and beneficiary of the Lome Conventions (now called the Cotonou Agreement). Zimbabwe used to derive two basic benefits that constituted the essence of the relationship characterising the ACP-EU agreement. These benefits included market access and development aid. Under development aid, Zimbabwe was a recipient of the European Development Financial (EDF) assistance for development projects and export stabilisation support.



However, the EU imposed targeted sanctions on Zimbabwe in 2002 based on the Cotonou Agreement (Article 96 of the African Caribbean Pacific (ACP)-European Union Council Partnership Agreement and the Restrictive Measures) in response to the political violence and repression. These violations included serious violations of human rights and of the freedoms of opinion, of association and peaceful assembly, the state use of highly repressive measures against the opposition and the expulsion of the European election observers in 2002 during the presidential elections (EU Commission, 2004/46). The EU sanctions against Zimbabwe consisted of freezing funds, financial assets, or economic resources of individual members of the government, as well as bans on the export on equipment used for repression and a ban on technical assistance of training related to military activities (*ibid*). The

EU also suspended development assistance for the financing of budgetary support that would have been offered through its EDF (RBZ, 2006). Furthermore, the EU suspended financial support for all projects in Zimbabwe except those in direct support of the population in particular in the social sectors, democratisation, respect for human rights, and the rule of law (EU Commission, 2004b). The suspension of development cooperation to Zimbabwe also meant that no new agreement with the Zimbabwean government would be signed under the EU-ACP Partnership Agreement unless the governments revised its economic and political policies (*ibid*). The current EU aid to Zimbabwe is humanitarian and temporary, not developmental.



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The argument put across by the EU on the suspension or reorientation of financial and development cooperation programmes to the government of Zimbabwe was that the Zimbabwean government had not complied with provisions of the pertinent bilateral agreements and the political and economic environment, was no longer conducive to further development cooperation (EU Commission, 2004a). It is interesting to note that the EU re-oriented its support to the population that has been or is being affected by its suspension of budgetary support and termination of financial support for all projects.

Other non-EU countries also imposed targeted sanctions on Zimbabwe; these countries included Canada, New Zealand Australia. Moreover, the Central and Eastern European countries associated with the European Union, the associated countries Cyprus and Malta, and Liechtenstein, member of the European Economic Area upheld and shared the objectives of the EU concerning restrictive measures against Zimbabwe (EU Commission, 2004a). In addition, Zimbabwe was suspended from the Commonwealth in 2002 and it eventually pulled out of the organisation. The Paris Club, which is the forum where public and state-guaranteed credits are renegotiated when the country has such serious payment support problems such that it is unable to repay its debts, refused to entertain Zimbabwe's predicament.



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Sanctions Imposed by Multilateral Financial Institutions

Table 2 Multilateral Financial Institutions Disbursements (in US\$)

Year	IMF	WORLD BANK	ADB
1980	0	0	0
1981	0	104,917,535.8	25,342,914.53
1982	0	45,478,573.51	57,22,913.63
1983	0	133,760,761.05	0
1984	2,058,441.00	36,467,113.09	0
1985	0	9,668,219.07	67,768,983.37
1986	0	10,000,000.00	0
1987	0	0	0
1988	0	130,121,817.97	28,612,977.32
1989	0	0	19,286,995.95
1990	0	57,241,010.98	145,027,034.56
1991	0	62,386,243.86	15,218,604.29
1992	216,150,000.00	299,592,641.86	180,428,222.49
1993	65,150,000.00	236,810,152.15	3,966,823.47
1994	76,642,125.00	0	11,090,644.20
1995	71,092,580.00	0	11,686,232.22
1996	0	0	0
1997	0	4,037,287.79	1,940,910.99
1998	53,802,392.00	5,796,926.56	39,074.27
1999	32,233,993.40	88,856,697.27	0
2000	0	0	0
2001	0	30,526,725.67	0
2002	0	0	0
2003	0	0	0
2004	0	0	0
2005	0	0	0
2006	0	0	0
2007	0	0	0
TOTAL	522,036,019.4	1,348,062,782.39	524,789,416.96

Source: RBZ (2007)

The above table shows the amount of US dollars that was remitted to Zimbabwe since 1980 from these international financial institutions. However, since 2000, there has been no money, loans, and grants going to Zimbabwe. The reasons for that lie in the Zimbabwe

Democracy Bill, which barred American officials in these institutions from supporting any loan to Zimbabwe.

The Role of the IMF

Since the early 1990s, Zimbabwe has been dependent on loans from the IMF for its economic and social development programmes. Table 2 in the previous page, confirmed that Zimbabwe received quite substantial loans from the IMF in the early 1990s. However, due to differences on policy issues from 1997 when Zimbabwe embarked on a war in the Democratic Republic of Congo without specifying how it was financing its presence in the DRC, hence the stoppage of the country from borrowing from the fund. Secondly, the payment of unbudgeted gratuities to the war veterans in 1998 was another that intensified tensions between the Zimbabwean government and the IMF. These tensions between the Zimbabwean government and IMF demonstrates that a country that is dependent on foreign resources has no autonomy to embark on internal or foreign policies that are not sanctioned by its financial backers.

Since 1999, Zimbabwe had been faulting to pay its financial obligations to the IMF. Consequently, in 2001, the IMF adopted a declaration on non-cooperation regarding Zimbabwe's overdue financial obligations to the Fund (IMF Press Release 02/28, 2002). The declaration of non-cooperation is regarded as one of the remedial measures taken to

encourage members that fail to settle overdue financial obligation to the IMF to undertake the economic policies that would enable them to be up-to-date on their financial obligations to the Fund (*ibid*). Thus, the IMF suspended balance of payments support and technical assistance to the country. In 2002, Zimbabwe was made ineligible to access the general resources of Fund and was disqualified from borrowing from the Fund Resources (IMF Press Release 03/80, 2003). In addition, Zimbabwe was removed from the list of countries eligible to borrow resources under the Poverty Reduction and Growth Facility-Exogenous Shocks Facility (PRGF-ESF) (IMF Press Release No 02/28:2002). Since then, the country has not been receiving any assistance from the IMF.



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The imposition of targeted sanctions against the government elite has compounded the situation since they have precipitated negative perceptions about the country. Gono (2007) stated that these negative perceptions have made it difficult for the private and public enterprises to secure funding, as donor funders are not willing to support projects in a country that has leaders who are blacklisted. Most donor agencies get their stamp of approval from the IMF and the World Bank. The RBZ (2006) affirmed the above argument that the suspension of aid to Zimbabwe by the IMF ignited widespread demonstration effects on other financiers and the donor community at large, who took the cue

and suspended their support. In addition, other donor agencies in the country scaled down their operations and some actually relocated from Zimbabwe to neighbouring countries. A good example is DANIDA and the Canadian Development Agency (CIDA), which pulled out of the country in 2001 and 2003 respectively, terminating all projects and retrenching their workers (Gono, 2007). This raises a pertinent question as to whether Zimbabwe as a country that has been dependent on the IMF and World Bank's support for almost two decades can survive without these international financial institutions and at what cost to the general population? Gono (2008) clearly stated that such action by the IMF had an impact on the economy on the basis that balance of payments support could have unlocked the country's export potential and created the capacity for repayment of the outstanding loans.

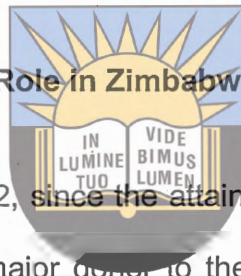


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Simply put, the stoppage of the IMF package to Zimbabwe had an immediate and adverse impact on Zimbabwe's credit and investment rating. The RBZ (2006) stated that with the drop in the investment rating went the dream of low cost capital on international markets. Thus, because of the foreign currency crisis, this resulted in the continued devaluation of the domestic currency, rapid inflation and all these manifest themselves in the current economic crisis (*ibid*). A review of the actions of the IMF on Zimbabwe would demonstrate that the IMF as a global lender has been used by its principal powerful shareholders, to

penalise Zimbabwe for its domestic national policies. Peet (2003:38) confirms the above argument by stating that the IMF remains accused of being an instrument of American foreign policy. Ngeire (2003:5) affirmed the above argument as he stated that the US in particular has substantial capabilities to shape the mandates, policies, and *modus operandi* of international financial institutions.

The World Bank's Role in Zimbabwe



As shown in Table 2, since the attainment of independence, the World Bank has been a major donor to the country by providing the largest amount of aid in the 1980s through to the mid-1990s. The presence of the World Bank in Zimbabwe was to work with the country to fight poverty and improve the living standards of the general population (Gono, 2008). The Bank played a dominant role not only due to the amount of aid it provided, but also because it acted as a green light for other donors signalling that the Zimbabwean Government was committed to policy reform. However, since 2000, the lending programme to Zimbabwe has been inactive due to a combination of accumulated arrears. In addition, the International Finance Corporation (IFC) also suspended the funding of infrastructure development and the private sector in Zimbabwe (RBZ, 2007b). In summary, the World Bank sanctions on Zimbabwe include the suspension of grants and

suspension of infrastructural development flows to both the government and the private sector.

Effects of Aid Withdrawal on Zimbabwe.

This sub-section will look at the impact of aid withdrawal on the economic arena and social development. This study argues that there is a correlation relationship between economic and social development.

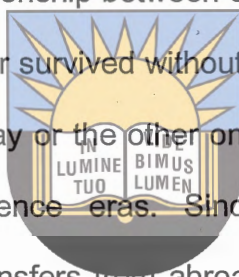
Zimbabwe has never survived without external support; the country has depended in one way or the other on external support both in the pre- and post-independence eras. Since 1980, Zimbabwe had been

receiving capital transfers from abroad in the form of food, medicines, and cash transfers from the international community. However, the

imposition of sanctions on Zimbabwe led to the drying up of project and balance of payments support. This negative development has had far-reaching effects on social development as discussed in the following subtitles below.

Impact of Sanctions on the Financial Sector.

The RBZ (2007) stated that sanctions on Zimbabwe have thwarted the flow of financial support like aid, short and long-term loans thus sinking foreign exchange flows to the country. In other words, these financial sanctions have interrupted commercial and trade finance, through the reduction of both the government and the private sector access to foreign loans. It is worth mentioning that when a country is not doing



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well economically, social sectors are affected negatively. This study, therefore, argues that the nature of sanctions imposed on the country have hampered the growth of the economy and at the same time adversely affected social development in the country.

The RBZ (2006) stated that the withdrawal of financial support to Zimbabwe exacerbated the country's balance of payments position.

The country's balance of payment depreciated drastically since 1997 from a deficit of US \$21 million to US \$740 million in 2006 (*ibid*). The reason given by the RBZ is that this was a consequence of combined

effects of poor export performance, high import demand, and reduced capital inflows on the back of adverse publicity. In addition, a combination of current account deficits and reduced capital inflows

resulted in extreme pressure on the foreign exchange reserves, which as a result declined from US\$830 million in 1996 to US\$272 million by the end of 1997 (RBZ, 2007). Thus, the impact of the foreign aid freeze

and declining exports caused dramatic foreign currency shortages that in turn reduced imports. A look at Zimbabwe, therefore, shows that it was a country that had an export-oriented economy, thus, the disruption in the export sector had a negative effect on the economy in general.

This is in line with the dependence model that argued that countries heavily reliant on an outward-oriented economy are susceptible to market disruptions or external political pressures. Moon (1998:9)

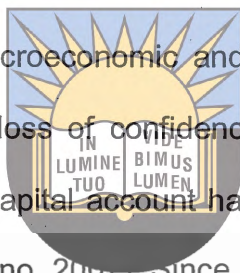


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agreed with the above assertion as he said that such dependence compromises national autonomy.

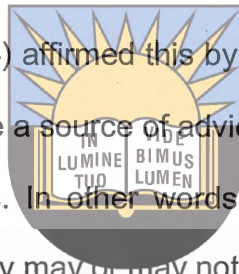
The RBZ (2006) further reported that the negative developments on the current account and the deterioration of the capital account since 2000 aggravated the foreign currency crisis in the country. Foreign investment, long and short-term capital inflows fell considerably because of poor macroeconomic and socio-political environment and the private sector's loss of confidence (*ibid*). Another reason for the deterioration of the capital account has been the continued withdrawal of donor funding (Gono, 2007). Since 2000, external debt servicing fell, reflecting the cutback in aid and lending by multilaterals. Foreign exchange shortages made debt payments increasingly difficult and by mid 1999, the government had defaulted on most of its external debts, hence its suspension from the IMF, World Bank and ADB (*ibid*).

Foreign payment arrears built up dramatically from US\$109 million in 1999 to US\$1, 5 billion at the end of 2002 and US\$2.5 by the end of 2003 (RBZ, 2007). In essence, these arrears to the international financial institutions by the Zimbabwean Government undermined the country's creditworthiness as the country's risk profile heightened (Hondora, 2007). This led to the drying up of traditional sources of external finance from bilateral creditors and the donor community. The



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withdrawal of financial support by the international financial institutions from providing balance of payments support to the country had a demonstrative effect as some other bilateral creditors and donors followed suit by either scaling down or suspending disbursements on existing loans for both government and parastatals (RBZ, 2007). This study argues that the IMF and the Bank are powerful donor institutions; they influence the behaviour of the donor community. In general Chakravarti (2005:74) affirmed this by saying; these two institutions are influential as they are a source of advice on all growth-related issues for developing countries. In other words, they serve as a green light to other donors that they may or may not give aid to a particular country.



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The imposition of targeted sanctions on Zimbabwe negatively affected the image of the country through negative perceptions by international financial markets. The RBZ (2007) stated that Zimbabwean companies are finding it hard to access lines of credit because of the perceived country risk, thus in this regard Zimbabwean companies are paying for every import in cash, which is even difficult to get, given the fact that the RBZ does not have foreign currency to give to these companies. This has led to many companies as well as government institutions to source foreign exchange from the "black market" where it is expensive to acquire (Hondora, 2007). In addition, because of the perceived risk premium, the country's private companies have been securing offshore

funds at prohibitive high interest rates (Moyo, 2007:2). This scenario has had ripple effects on the country's employment levels and capacity utilisation as reflected by shortages of basic goods and services. The RBZ (2006) also pointed out that the decline in export finance affected the standard of living of the general population. This decline in the economic performance of the country has led to the massive emigration by skilled labour, thus further straining the country's economic performance.



It is important to note that most developing countries, Zimbabwe included, are dependent on foreign direct investment for the growth of their economies. However, given the negative perception associated with sanctions on the country, this has had negative effect on foreign investment to the country. The RBZ (2007) alluded to the fact that in Zimbabwe the rate of foreign direct investment has been growing since 1980, from US\$8 million to an average of US\$95 million in the 1990s. However, due to the effect of sanctions on the image of the country and its leaders, there has been a sharp decline of foreign direct investment as many investors shunned the country, and some moved out of the country, or scaled down their operations (Moyo, 2007). A very good example would be the Anglo-American corporation, which has been strongly criticised and discouraged from investing in Zimbabwe by its home countries. In essence, these targeted sanctions have lowered the

investment levels of the country, hence exacerbating the foreign currency shortages. This in turn has led to fuel and imported raw materials shortages.

A review of the Zimbabwean scenario would indicate that, a country that is highly dependent on exports, imports, and owing huge amounts of money to international financial institutions is very susceptible to external manipulation. Since 2000, Zimbabwe has been on its own. External budget support has completely dried up following the suspension of loan disbursements for projects and balance of payments support.



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Impact of Sanctions on the Social Sector

Given the above recession of the Zimbabwe's economic sector, the social sector has also been on the decline. The social sector is currently reeling under the effects of the contraction of the economy. This study notes that Zimbabwe's social sectors have been dependent upon aid from international donors for their growth. This study notes that development in any country is a responsibility of the state not the market. However, the Zimbabwean state, which is in charge of development in the country, has been debilitated by the flight of capital from the country through the imposition of sanctions. Moreover, the suspension of aid has had adverse and downstream social and economic effects on the Zimbabwean key social sectors. Most of these

effects manifest themselves in the scarcity of foreign currency, resulting in the country accruing external debts and failing to import essential supplies (like fuel, electricity, medical drugs, food *etc*).

The Agricultural Sector

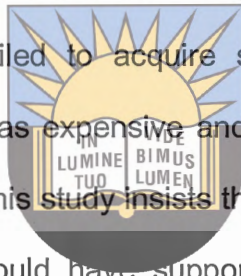
The Zimbabwe's agricultural sector has been traditionally a recipient of donor funding. The aim of the aid (technical and financial aid) was to enhance food security in the country. However, following the fast track land reform, there was massive withdrawal of support to the sector and this greatly affected it. DANIDA was a major donor in this sector as it funded programs such as



- enhancing forestry extension services;
- development of an agricultural policy;
- development of a marketing information system;
- support irrigation schemes to small land holders; and;
- provision of training to smallholder farmers; and provision of direct support to farming households to assist them with income generating activities (RBZ, 2006).

DANIDA stopped supporting these activities following the imposition of sanctions on the country by the EU. In addition, products from these new resettled farmers owned by people who are on the target list are not allowed in the EU and American markets, thus leading to another crisis that has crippled the agricultural sector (Moyo, 2007).

The cessation of the support to the agricultural sector following the fast-track land acquisition demonstrates that the initial support by DANIDA was meant to perpetuate the *status quo* of unequal land ownership between the minority white commercial farmers and the majority black population. Reflecting on the 1998 Zimbabwe and donor meetings, this study ascertains that, most donors were in favour of the willing- buyer-willing seller model, which this study argues that it had failed. The government had failed to acquire sufficient land using this model because the land was expensive and in most cases, the land offered was in arid areas. This study insists that if donors had no interest in the *status quo*, they would have supported the new farmers who were settling in these previously white-owned farms. What happened to Zimbabwe demonstrates that a country that is dependent on foreign assistance is vulnerable to manipulations. In addition, this also suggests that foreign assistance is a foreign policy tool that is used as an inducing, or, a punishment measure against developing countries.



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Another critical issue that made Zimbabwe's economy to decline so rapidly is its heavy reliance on the agricultural sector. The economic performance of the country revolved around agriculture. The Gross Domestic Product of the country was strongly influenced by the performance of the agricultural sector, which was strongly linked with the manufacturing sector. Zimbabwe at independence failed to

transform the economy from being a monocultural to a more diversified economy. Tobacco had been the main foreign currency earner for the country, but since the fast-track land reform in 2000, which demolished the commercial farming sector, there was a rapid decline of foreign currency earnings from tobacco, and this had a negative effect on foreign currency reserves of the country and since then Zimbabwe never recovered.

The Health Sector



DANIDA, Norwegian Agency for Development Co-operation (NORAD), the World Bank and the Government of Norway supported the health sector. The support used to come through budgetary support. However, since 2000, DANIDA suspended its aid to Zimbabwe especially in:

- supporting the provincial health service capacity building and policy issues to the Ministry of Health and Child Welfare;
- development of a gender strategy support to HIV/AIDS activities;
- integration of Zimbabwe Essential Drugs Action program to national laboratories;
- establishment of the Health Information Systems; and ;
- support of the health services fund transport management (RBZ,2006).

The Swedish Government was also heavily involved in supporting the health sector and in 1997; it set a project with the following aims:

- improving water and sanitation;
- health education and conditions of the disabled; and;
- the prevention of the spread of HIV/AIDS related diseases (RBZ,2007).

However, since 2000, when the fast-track land reform begun, these programme were suspended, and no new programme has been undertaken since then. At the same time, the imposition of sanctions directly or indirectly led to the relocation of the World Health Organisation regional offices to Congo Brazzaville (RBZ, 2007). This study notes that since the adoption of the SAPs, the government was no longer a major player in the health sector, it had opened up the sector to donors, who largely played a pivotal role in the sustenance of the sector. This made the sector to collapse drastically after the suspension of aid. Linked to this, the stoppage of financial and technical support to the health sector had a demonstrative effect as other donors who were also supporting the health sector stopped or scaled down their operations.

In the backdrop of an already overburdened health delivery system, many Zimbabweans are finding it difficult to access affordable health facilities and drugs, particularly anti-retroviral drugs for HIV/AIDS. The RBZ (2007) stated that Zimbabwe failed to acquire aid from the Global Fund, which provides funds for poor countries to fight Malaria, TB, and



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HIV/AIDS. The country has remained sidelined by major donors' initiative such as World Bank, MAP initiative and US President's HIV/AIDS initiatives (*ibid*).

The Education Sector

The EU prior to 2000 was a major donor in the education sector. In 1996, it had set a project called the Education Sector Support Programme, which aimed at facilitating the supply of textbooks, special educations needs, and construction of school buildings, capacity building, and promotion of gender equity in education in the rural areas (RBZ, 2006). However, after 2000 the EU has put this project on hold after the imposition of sanctions and no new programmes have since been funded. This study suggests that had such support from donors continued in the education sector, this would have gone a long way in benefiting the country's education system.

Sanctions and Development

The hypothesis of this study was to look at how a country that is dependent on foreign aid is vulnerable to external manipulations as has been revealed by the Zimbabwean situation. This sub-section is going to look at how the Zimbabwean government reacted to the flight of capital from the country in the form of sanctions and how that affected social development in the country.

Zimbabwe was largely dependent on foreign resources. However, since the imposition of sanctions, the net effect of sanctions on the country narrowed the policy space for the country. Thus, this limited policy space, became a binding constraint on policies for the way forward in the context of international isolation.

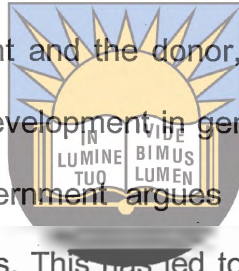
Farfer (1996:1) has contended that sanctions have a negative impact on national development in the targeted country since they force the target country to take countermeasures that almost involve centrally directed economic plans aimed at alleviating the problems caused by these sanctions. This tendency, produces command economies and policies that give weight to the ruling elite *vis-a vis* the general population (*ibid*). This is true of the Zimbabwean situation. Zimbabwe now has a command economy in which the government determines the prices of commodities and services. The government introduced a raft of extraordinary measures through its various arms such as the RBZ, the Grain Marketing Board and other institutions under it. Some of these extraordinary measures contradicted conventional economics. The Reserve Bank of Zimbabwe governor admitted to this by saying, '*book economics do not apply in the case of Zimbabwe*' (Gono, 2008). The government also embarked on the look East policy, trying to attract public and private capital from the Eastern Europe and the Asian countries, and this has not yielded much, given the fact Zimbabwe, had



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a Western-oriented economy, thus could not just in a day be adjusted to look East.

Furthermore, sometimes governments have a general propensity not to yield to external pressure. Farfer (1996) stated that although developing countries' governments are weak they at times value their sovereign statehood. During the course of the dispute between the developing country's government and the donor, it is the general population that suffers and social development in general is forestalled. In the case of Zimbabwe, the government argues that it is under siege hence its dictatorial tendencies. This has led to political instability in the country and this has had a toll on the economic growth of the country.



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Most importantly, this study argues that underdevelopment is a threat to international peace and security. Sanctions normally involve punitive and or coercive measures against the recipient, therefore, are bound to impede the rate of growth and development. Moreover, the widening gap between the more and less developed countries cause power inequalities, thereby perpetuating domination and hegemony of the developed over developing countries. Such a scenario affords the powerful nations to use force to resolve their conflicts with smaller and less powerful countries as reflected by the sanction regime on Zimbabwe from the powerful economic block of the US and EU.

Dependence and Development

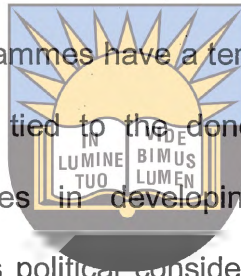
Since the advent of independence in 1980, the activities of donors have increased in depth and scope and as result; the sovereignty of the Zimbabwean state became severely compromised. The dependence of the state on aid gave donors extensive advantage over the development policies of the country. The state lost whatever control it had over the national development project. This study recognises the state as the vehicle for the directing and controlling the development project of a country. However, aid dependence has had an impact on the state's ability to achieve the freedom and autonomy sovereignty promises.



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Another big challenge confronting states that are dependent on aid is that they have less bargaining power. States that decline to accept the sway of the dominant powers are either banished to wander friendless and unrecognized, cut-off from aid, which many African states are afraid to do so. Babu (1981:45) stated that most developing countries are aid dependent; in fact, they tremble in horror if they are threatened with the withdrawal of aid. This intimidation has been used as a weapon with which to coerce developing countries into accommodating unpalatable policies for African development.

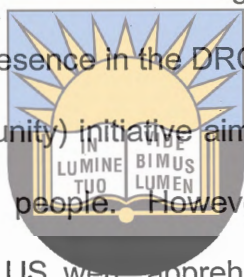
Zimbabwe provides a good example of how aid is used as an instrument for the exercise of manipulative power over developing countries by donors. Ishengoma (2002:3) contended to the above assertion as he observed that one way by which a donor can influence the policies of the aid recipient country is by promising to provide, or threatening to withhold financial or material assistance. This study argues that foreign aid has always been an element of neo-colonialism since most aid programmes have a tendency to be donor driven both in the sense of being tied to the donor governments' diplomatic and geopolitical objectives in developing countries. Furthermore, aid conditionality reflects political considerations of donor countries rather than the real needs of the recipient nations.



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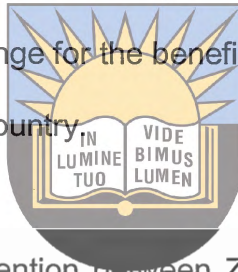
The hypothesis of this study is that a country that is aid dependent is vulnerable to external manipulations. This is true in the case of Zimbabwe, since it experienced capital flight from 1997 until now. Zimbabwe as a sovereign country should embark on domestic and foreign policies that are befitting to its national policy considerations. The question to ask is; does Zimbabwe have that room to embark on domestic political policies of its own without hurting the interests of its international financiers?

Facts on the ground demonstrate that Zimbabwe has never survived without international financial support. The IMF and World Bank and other various actors in development have funded major developmental projects. Given this background, since 1997, Zimbabwe has been experiencing capital flight due to domestic and foreign policy disagreements with its donors. The major areas of conflict have been the involvement of the Zimbabwean government's in the DRC war in 1998. Zimbabwe's presence in the DRC was a SADC (Southern African Development Community) initiative aimed at protecting the sovereignty of the Congolese people. However, the international financial institutions, and the US were apprehensive of how the Zimbabwean government was financing its presence in the DRC. As a result, the IMF and the World Bank pulled their money from the country. ZIDERA clearly stated that the Zimbabwean government should as a matter of urgency pullout of the DRC war yet this was a regional undertaking. Moreover, Zimbabwe was the Chair of the SADC Organ on Peace and Security. Interestingly, Zimbabwe was not the only country in the DRC: countries like Angola, South Africa, and Namibia were also involved as allies, and on the other side, Rwanda, and Uganda were supporting rebel groups. In addition, this was not the first time Zimbabwe had been involved in the regional peacekeeping missions, yet in those entire missions; Zimbabwe was not asked about who was funding them.



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The stoppage or the threat to stop financial aid suggests that Zimbabwe was being punished for its embarkment on a foreign policy that hurt the interests of the Western countries in the DRC. This goes back to the position taken by this research that a country that is aid dependent lacks autonomy of embarking on both its foreign and domestic policies not sanctioned by its donors. Moon (1983:317) contented that the foreign policy behaviour of a dependent state is viewed as a partial payment in the exchange for the benefits they derive from the economic ties to the dominant country.



Another area of contention between Zimbabwe and the West was on land reclamation. This study argues that this was the most contentious issue for the West's assault on Zimbabwe. The confrontation between the British and the Zimbabwean government arose when the British government in 1998 abrogated its pledge, which the previous governments had made before independence (at the Lancaster House Conference). As a consequence, the Zimbabwean government in 2000 decided to embark on its land reclamation exercise, which saw land being taken away from whites, and this led to the suspension of aid to the country.

A review of events leading to the fast-track land reform by the Zimbabwean government is necessary to demonstrate how a

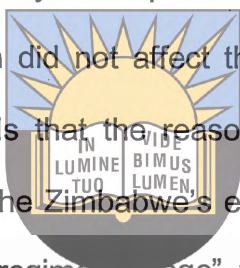
dependent economy on foreign resources is vulnerable to external manipulations. By 1997, the country was reeling under the effects of SAPs, which culminated in food riots. Within the same year, the government dumped SAPs and adopted the Zimbabwe Programme for Economic and Social Transformation (ZIMPREST), which was also designed along the same lines as SAPs. However, between 1997 and 2000, the government was under extreme political pressure from the local constituency (workers and war veterans). Hence, the government had to give in to the demands of its local constituency at the expense of upsetting its donors.



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The emergence of a new party, the Movement of Democratic Change (MDC), which was pro-Western, the rise of pressure groups, which led to the defeat of the government-sponsored new constitution through the referendum in 2000. In other words, the SAPs that the Zimbabwean government had adopted in the early 1990s had alienated it from its local constituencies. Thus, by 2000, the government was caught in between the horns of dilemma: either to support the interest of its donors or to please its local constituency. As donors got more involved in the internal policies, so the weakness of the state became more apparent, no wonder why the state had to redeem itself by allowing the land invasions in 2000. It was these land invasions, which led to the flight of capital from the country.

This study argues that the campaign against Zimbabwe has nothing to do with democracy, lack of rule of law or elections. A closer look would reveal that the closest allies of the US and Britain are the greatest offenders against democracy and human rights. Between 1982 and 1987, the Zimbabwe government was involved in *Gukurahundi* which saw over 20, 000 people dying in Matabeleland and no sanctions were imposed on the country. The probable reason was that it was an internal matter, which did not affect the interests of the donors. This study further contends that the reasons why there has been capital flight that has led to the Zimbabwe's economic woes is the systematic campaign to effect "regime change" through economic strangulation thereby debilitating the state capacity to harness resources from within and outside the country.



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Conclusion

The above discussion has noted that foreign aid is a tool that is used to influence the policies of developing countries by promising to provide or threatening to withhold financial or material assistance. This chapter has argued that aid dependence does not promote development rather it impedes it. Aid has been seen as a catalyst for capitalist forces, which exploits and retards rather than develops the developing countries. Another critical observation noted during the analysis is that, development in all spheres has never been attained anywhere independent of the central role of the state and in this regard, sanctions

have weakened the Zimbabwe government's capacity to provide social and economic services to its local constituent. Another issue that came out in this chapter is the extent of the Zimbabwe's dependence on external assistance which meant that the principal aid agencies had control over not only policy but also on the performance of the economy.



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CHAPTER FIVE

Summary and Conclusion

This chapter has two objectives. It intends to recapitulate some of the important points of this study and to suggest possible recommendations in order to alleviate the problems discussed.



The first chapter introduced the statement of the problem in that many developing countries are heavily dependent on foreign assistance. Most developing countries are dependent in the sense that few states can carry on routine functions or deliver basic public services without external funding and expertise. In addition, the majority of developing countries require foreign aid because they experience persistent trade deficits, which are a result of the unfair terms of trade on the international market; trade deficits lead to low foreign exchange reserves, hence the reliance on international aid to finance their budgets. Thus, Smith (1986:27) described developing countries as being "hooked"; they cannot survive without their dependence. Dependence by developing countries on developed countries includes, *inter-alia*, technological dependence, cultural dependence, capital dependence, ideological dependence and industrial dependence. In other words, this study has argued that, directly or indirectly, these

elements of dependence obstruct or limit the possibility for change and autonomous development in the developing countries.

The chapter has also indicated that Zimbabwe is heavily reliant on foreign aid for its survival given the fact that it has outward-oriented economy based on the agricultural sector. Given this, the chapter presented the hypothesis of the study that Zimbabwe was, therefore, vulnerable to external manipulations.



The second chapter looked at the conventional theories informing aid distribution to developing countries. The modernisation theory asserted that the insertion of external aid into the recipient economy helps to accelerate the development process by relieving specific bottlenecks caused by domestic and limited access to external resources. The chapter also discussed the rise of the neo-liberal model, which was created to address the key contradictions of the modernisation theory. However, this study has observed that most of the serious contradictions of the modernisation theory are reappearing in the neo-liberal development framework. The neo-liberal theory proposed SAPs to be adopted by developing countries and these SAPs have had devastating effects on the economic and social development of these countries. However, the modernisation theory was challenged by the dependency model, which argued that underdevelopment in developing

countries, is a creation of the developed countries. Thus, aid in the eyes of the dependence theorists is seen as a statecraft tool used to induce or punish developing countries.

The third chapter looked at the nature of aid to developing countries and the causes of aid withdrawal. What came out quite clearly in this chapter is the notion that all types of aid are the side of the same coin with the aim of subjugating the economic growth of developing countries. In addition, economic sanctions in the form of aid withdrawal or threat to withdraw aid have been discussed as an instrument used by developed countries to punish developing countries that fail to adhere to the terms and conditions of donors.



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The fourth chapter looked at how a dependent state is vulnerable to external manipulations. Zimbabwe provided a clear example of how aid dependence is detrimental to the development of a country. This chapter noted that aid dependence minimises the relative autonomy of the state to pursue a developmental agenda in its territory and that compromises the sovereignty of the country.

Conclusion

The stated purpose of this study was to look at how a foreign aid dependent economy is vulnerable to external manipulations. This study came up with the conclusion that foreign capital dependence is

detrimental to long-term social, economic, and sustainable development of the recipient country. This study has also concluded that sanctions are a tool, which is specifically tailored to harm nations with dependent or weak economies. The study noted how foreign aid is used as a foreign policy instrument by Western countries to influence the behaviour of the developing countries.



The study has also observed that there has been an immense pouring of foreign aid to developing countries, yet most developing countries are far from achieving growth and development. It now appears that most developing countries seem to be more dependent on aid than ever before. In fact, these developing countries have become addicted to foreign aid. The net effect of aid to developing countries is that it has produced a culture of dependence that has eroded self-confidence, creativity, and the pride of citizens and leaders. Moreover, aid dependence has eroded and undermined the moral authority of African leaders to govern (Ishengoma, 2002:9).

Foreign aid has done more damage to developing countries. It has led to a situation where developing countries have failed to set their own pace and direction of development, free of external interference, since development plans for developing countries are drawn thousands of miles away in the corridors of the IMF and the World Bank. This study

also further noted that the developed countries view aid as something to be bartered with. Thus, the West exchanges aid for political or ideological support or uses aid to influence strategic decisions and strengthening allies.

The study noted the injustice of the international political order rests on the injustice of the international economic order, represented by the IMF and the World Bank. In addition, this study also asserted that the critical power that donor institutions and donor countries wield by virtue of the power of the purse. The IMF and World Bank have been able to dictate everything from macro-economic policy to commercial law with little accountability to the communities most affected. This is what Prebisch (1988:33) asserted by stating that the direct investor has power over where equipment and inputs are bought, what products should be produced, how the process of production should be organised, where and to whom goods should be sold.

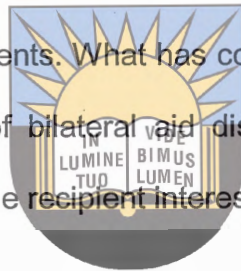
What also came out of this research is the role of the African state in promoting economic development. The study has realised that the African state has no autonomy to control and direct national capital and even increase its bargaining position with respect to foreign capital. In the light of this, postcolonial African development has been thwarted by external pressure acting against internal values and traditions. In other



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words, aid has led to the re-colonisation of Africa through the strings attached to it.

This study also noted that foreign aid is a tool of statecraft used by the government providing it to encourage or reward politically desirable behaviour on the part of the government providing it. It is an instrument of coercion and a tool for the exercise of power with little relevance to the lives of the recipients. What has come out throughout this research is that the pattern of bilateral aid distribution is explained by donor interest rather than the recipient interests.



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Zimbabwe has provided a good example of how an aid dependent economy is vulnerable to external manipulations. Zimbabwe's heavy reliance on foreign assistance made it vulnerable to donor demands. Zimbabwe received a considerable amount of official development assistance from multilateral and bilateral donor agencies. It also received significant amounts of direct foreign investment. Since 1997, foreign aid was withdrawn when Zimbabwe embarked domestic and foreign policies that contradicted the interests of the IMF and World Bank, and other various bilateral donors. As a result, donors withdrew their aid or reoriented their aid to humanitarian aid.

Most developing countries have ceded much of the responsibility for identifying, designing and implementing aid funded project to donors. This is true of Zimbabwe that it had let donors like DANIDA CIDA, the EU to be in charge of critical sectors of the country like health, education, and agriculture. The quick collapse of these sectors after the withdrawal of these donors demonstrates just how vulnerable dependent states are to aid withdrawal.

Recommendations



Realising the failure of aid to developing countries, this study recommends the following:

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- This study takes a very strong position that for developing countries to avert aid dependence there is need to repudiate all forms of foreign aid, excluding disaster relief assistance.
 - The postcolonial state was designed to serve foreign interests thus this study recommends that the state should be recaptured and restructured to serve African interests.
 - For the above two recommendations to take place, there is the need for an exit strategy from aid dependence that requires a drastic move both in the mindset and in the development strategy of countries dependent on aid. There is a need for a deeper and direct involvement of people in their own development. This requires a radical and fundamental

restructuring of the institutional aid architecture at the global level.



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The logo of the University of Fort Hare, featuring a shield with a sunburst at the top, a book in the center, and the Latin motto 'IN LUMINE TUO VIDE BIMUS LUMEN'. Below the shield, the text 'University of Fort Hare' and 'Together in Excellence' is displayed.

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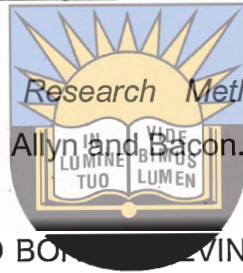
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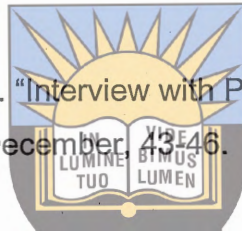
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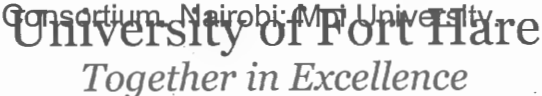
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ZIMBABWE DEMOCRACY AND ECONOMIC RECOVERY ACT OF 2001. 115 STAT.962 Public Law 107-99. Dec 21 2001.USA.

Appendix 1

ZIMBABWE DEMOCRACY AND ECONOMIC RECOVERY ACT OF 2001

107th CONGRESS
1st Session
S. 494

To provide for a transition to democracy and to promote economic recovery in Zimbabwe.

IN THE SENATE OF THE UNITED STATES

March 8, 2001

Mr. FRIST (for himself and Mr. FEINGOLD) introduced the following bill; which was read twice and referred to the Committee on Foreign Relations



A BILL **University of Fort Hare**

To provide for a transition to democracy and to promote economic recovery in Zimbabwe.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the 'Zimbabwe Democracy and Economic Recovery Act of 2001'.

SEC. 2. STATEMENT OF POLICY.

It is the policy of the United States to support the people of Zimbabwe in their struggle to effect peaceful, democratic change, achieve broad-based and equitable economic growth, and restore the rule of law.

SEC. 3. DEFINITIONS.

In this Act:

(1) INTERNATIONAL FINANCIAL INSTITUTIONS- The term 'international financial institutions' means the

multilateral development banks and the International Monetary Fund.

(2) MULTILATERAL DEVELOPMENT BANKS- The term 'multilateral development banks' means the International Bank for Reconstruction and Development, the International Development Association, the International Finance Corporation, the Inter-American Development Bank, the Asian Development Bank, the Inter-American Investment Corporation, the African Development Bank, the African Development Fund, the European Bank for Reconstruction and Development, and the Multilateral Investment Guaranty Agency.

SEC. 4. SUPPORT FOR DEMOCRATIC TRANSITION AND ECONOMIC RECOVERY.

(a) FINDINGS- Congress makes the following findings:

(1) Through economic mismanagement, undemocratic practices, and the costly deployment of troops to the Democratic Republic of the Congo, the Government of Zimbabwe has rendered itself ineligible to participate in International Bank for Reconstruction and Development and International Monetary Fund programs, which would otherwise be providing substantial resources to assist in the recovery and modernization of Zimbabwe's economy. The people of Zimbabwe have thus been denied the economic and democratic benefits envisioned by the donors to such programs, including the United States.

(2) In September 1999 the IMF suspended its support under a 'Stand By Arrangement', approved the previous month, for economic adjustment and reform in Zimbabwe.

(3) In October 1999, the International Development Association (in this section referred to as the 'IDA') suspended all structural adjustment loans, credits, and guarantees to the Government of Zimbabwe.

(4) In May 2000, the IDA suspended all other new lending to the Government of Zimbabwe.

(5) In September 2000, the IDA suspended disbursement of funds for ongoing projects under previously-approved loans, credits, and guarantees to the Government of Zimbabwe.

(b) SUPPORT FOR DEMOCRATIC TRANSITION AND ECONOMIC RECOVERY- Upon receipt by the appropriate congressional committees of a certification described in subsection (d), the following shall apply:

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(1) RESTORATION OF THE RULE OF LAW- The rule of law has been restored in Zimbabwe, including respect for ownership and title to property, freedom of speech and association, and an end to the lawlessness, violence, and intimidation sponsored, condoned, or tolerated by the Government of Zimbabwe, the ruling party, and their supporters or entities.

(2) ELECTION OR PRE-ELECTION CONDITIONS- Either of the following two conditions is satisfied:

(A) PRESIDENTIAL ELECTION- Zimbabwe has held a presidential election that is widely accepted as free and fair by independent international monitors, and the president-elect is free to assume the duties of the office.

(B) PRE-ELECTION CONDITIONS- In the event the certification is made before the presidential election takes place, the Government of Zimbabwe has sufficiently improved the pre-election environment to a degree consistent with accepted international standards for security and freedom of movement and association.

(3) COMMITMENT TO EQUITABLE, LEGAL, AND TRANSPARENT LAND REFORM- The Government of Zimbabwe has demonstrated a commitment to an equitable, legal, and transparent land reform program consistent with agreements reached at the International Donors' Conference on Land Reform and Resettlement in Zimbabwe held in Harare, Zimbabwe, in September 1998.

(4) FULFILLMENT OF AGREEMENT ENDING WAR IN DEMOCRATIC REPUBLIC OF CONGO- The Government of Zimbabwe is making a good faith effort to fulfill the terms of the Lusaka, Zambia, agreement on ending the war in the Democratic Republic of Congo.

(5) MILITARY AND NATIONAL POLICE SUBORDINATE TO CIVILIAN GOVERNMENT- The Zimbabwean Armed Forces, the National Police of Zimbabwe, and other state security forces are responsible to and serve the elected civilian government.

(e) WAIVER- The President may waive the provisions of subsection (b) or subsection (c), if the President determines that it is in the national interest of the United States to do so.

SEC. 5. SUPPORT FOR DEMOCRATIC INSTITUTIONS, THE FREE PRESS AND INDEPENDENT MEDIA, AND THE RULE OF LAW.

(a) IN GENERAL- The President is authorized to provide assistance under part I and chapter 4 of part II of the Foreign Assistance Act of 1961 to--

- (1) support an independent and free press and electronic media in Zimbabwe;
- (2) support equitable, legal, and transparent mechanisms of land reform in Zimbabwe, including the payment of costs related to the acquisition of land and the resettlement of individuals, consistent with the International Donors' Conference on Land Reform and Resettlement in Zimbabwe held in Harare, Zimbabwe, in September 1998, or any subsequent agreement relating thereto; and
- (3) for democracy and governance programs in Zimbabwe.

(b) FUNDING- Of the funds made available to carry out part I and chapter 4 of part II of the Foreign Assistance Act of 1961 for fiscal year 2002--

- (1) not less than \$20,000,000 is authorized to be available to provide the assistance described in subsection (a)(2); and

(2) not less than \$6,000,000 is authorized to be available to provide the assistance described in subsection (a)(3).

(c) ~~SUPERSEDES OTHER LAWS.~~ The authority in this section supersedes any other provision of law.


SEC. 6. SENSE OF CONGRESS ON THE ACTIONS TO BE TAKEN AGAINST INDIVIDUALS RESPONSIBLE FOR VIOLENCE AND THE BREAKDOWN OF THE RULE OF LAW IN ZIMBABWE.

It is the sense of Congress that the President should begin immediate consultation with the governments of European Union member states, Canada, and other appropriate foreign countries on ways in which to--

- (1) identify and share information regarding individuals responsible for the deliberate breakdown of the rule of law, politically motivated violence, and intimidation in Zimbabwe;
- (2) identify assets of those individuals held outside Zimbabwe;
- (3) implement travel and economic sanctions against those individuals and their associates and families; and
- (4) provide for the eventual removal or amendment of those sanctions.

Appendix 2

ZIMBABWE



What You Need To Know About U.S. Sanctions

Executive Order 13288 - Blocking Property of Persons Undermining Democratic Processes or Institutions in Zimbabwe

■ **INTRODUCTION** - On March 7, 2003, as a result of actions and policies by members of the government of Zimbabwe and their supporters to undermine democratic institutions and processes, President Bush issued Executive Order 13288 imposing sanctions against specifically identified individuals and entities. Pursuant to statutory authority for these sanctions was the International Emergency Economic Powers Act ("IEEPA"), the National Emergencies Act and other sections 301 of title 3 of the United States Code.

This fact sheet provides general information on the sanctions program imposed by Executive Order 13288, as administered by the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC").

■ **PROHIBITED TRANSACTIONS** - Executive Order 13288 prohibits U.S. persons, wherever located, and U.S. persons wherever located from engaging in any transactions with any person, entity or organization found to be undermining democratic institutions and processes in Zimbabwe listed in Annex A of the Executive Order. Persons, entities and organizations referenced in Annex A of the Executive Order have all been incorporated into OFAC's Specially Designated Nationals (SDN) list. Prohibited transactions with the sanctions targets include most financial transactions, as well as trade-related and other commercial activities. These prohibitions also extend to any person, organization or entity found to be owned, controlled or acting on behalf of any Zimbabwe entity included on the SDN list.


Under Executive Order 13288, U.S. persons are also required to block any property of any Zimbabwe Specially Designated National that is in the United States, that comes into the United States, or that comes under the control of a U.S. person wherever located. The term property includes, but is not limited to, money, checks, drafts, bank accounts, securities and other financial instruments, letters of credit, bills of sales, bills of lading and other evidences of title, wire transfers, merchandise and goods. Blockable property also includes any property in which there is any interest of a Zimbabwe SDN, including direct, indirect, future or contingent, and tangible or intangible interests.

Foreign branches and representative offices of U.S. companies, as well as U.S. branches and representative offices of foreign companies are considered U.S. persons for purposes of these prohibitions.

Transactions that do not involve any of the Zimbabwe SDNs, or persons or entities believed to be owned, controlled or acting on behalf of a Zimbabwe SDN are not prohibited by Executive Order 13288.

■ **PENALTIES** - Criminal fines for violating the Executive Order or regulations to be issued pursuant to the Executive Order may range up to the greater of \$500,000 or twice the pecuniary gain per violation for an organization, or up to the greater of \$250,000 or twice the pecuniary gain per violation for an individual. Individuals may also be imprisoned for up to 10 years for a criminal violation. Knowingly making false statements or falsifying or concealing material facts when dealing with OFAC in connection with matters under its jurisdiction is a criminal offense. In addition, civil penalties of up to \$11,000 per violation may be imposed administratively.

If you have information regarding possible violations of these sanctions, please call the Treasury Department's Office of Foreign Assets Control at 202/622-2430. Your call will be handled confidentially.



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Executive Order issued effective 12:01 eastern standard time on March 7, 2003:

"By the authority vested in me as President by the Constitution and the laws of the United States of America, including the International Emergency Economic Powers Act (50 U.S.C. 1701 et seq.) (IEEPA), the National Emergencies Act (50 U.S.C. 1601 et seq.), and section 201 of title 3, United States Code,

I, GEORGE W. BUSH, President of the United States of America, have determined that the actions and policies of certain members of the Government of Zimbabwe and other persons to undermine Zimbabwe's democratic processes or institutions, contributing to the deliberate breakdown in the rule of law in Zimbabwe, to politically motivated violence and intimidation in that country, and to political and economic instability in the southern African region, constitute an unusual and extraordinary threat to the foreign policy of the United States, and I hereby declare a national emergency to deal with that threat.

I hereby order:

Section 1. Except to the extent provided in section 203(b) of IEEPA (50 U.S.C. 1702(b)), and in regulations, orders, directives, or licenses that may be issued pursuant to this order, and notwithstanding any contract entered into or any license or permit granted prior to the effective date of this order, all property and interests in property of the following persons that are in the United States, that hereafter come within the United States, or that are or hereafter come within the possession or control of United States persons, including their overseas branches, are blocked and may not be transferred, paid, exported, withdrawn, or otherwise dealt in:

(a) the persons listed in the Annex to this order; and

(b) any person determined by the Secretary of the Treasury, in consultation with the Secretary of State, to be owned or controlled by, or acting or purporting to act directly or indirectly for or on behalf of, any of the persons listed in the Annex to this order.

Sec. 2. (a) Any transaction or dealing by a United States person or within the United States in property or interests in property blocked pursuant to this order is prohibited, including but not limited to the making or receiving of any contribution of funds, goods, or services to or for the benefit of any person listed in the Annex to this order or who is the subject of a determination under section 1(b) of this order.

(b) Any transaction by a United States person or within the United States that evades or avoids, has the purpose of evading or avoiding, or attempts to violate any of the prohibitions set forth in this order is prohibited.

(c) Any conspiracy formed to violate the prohibitions set forth in this order is prohibited.

Sec. 3. For the purposes of this order:

(a) The term "person" means an individual or entity.

(b) The term "entity" means a partnership, association, trust, joint venture, corporation, group, association, or other organization, and

(c) The term "United States person" means a United States citizen, a United States resident, an entity organized under the laws of the United States or any jurisdiction within the United States (including foreign branches), or any person in the United States.

Sec. 4. The Secretary of the Treasury, in consultation with the Secretary of State, is hereby authorized to take such actions, including the promulgation of rules and regulations, and to employ all powers granted to me by IEEPA, as may be necessary to carry out the purposes of this order. The Secretary of the Treasury may redelegate any of these functions to other officers and agencies of the United States Government. All agencies of the United States Government are hereby directed to take all appropriate measures within their authority to carry out the provisions of this order.

Sec. 5. This order is not intended to create, nor does it create, any right, benefit, or privilege, substantive or procedural, enforceable at law by a party against the United States, its agencies, officers, employees, or any other person.

Sec. 6. (a) This order is effective at 12:01 eastern standard time on March 7, 2003; and

(b) This order shall be transmitted to the Congress and published in the Federal Register."

This document is explanatory only and does not have the force of law. The Executive Order and implementing regulations to be issued pertaining to Zimbabwe contain the legally binding provisions governing the sanctions. This document does not supplement or modify the Executive Order or regulations from a legal perspective.

The Office of Foreign Assets Control also administers sanctions programs involving the Balkans, Burma (Myanmar), Cuba, Diamond Trading, Iran, Liberia, North Korea, Sudan and Syria, as well as highly enriched uranium, designated Terrorists and international Narcotics Traffickers, Foreign Terrorist Organizations, and designated foreign persons who have engaged in activities related to the proliferation of weapons of mass destruction. For additional information about these programs or about sanctions involving the Zimbabwe, please contact the:

OFFICE OF FOREIGN ASSETS CONTROL
U.S. Department of the Treasury
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800/540-6322

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