

NAMIBIA: U.S. Poverty Grant - Blessing or Curse?

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WINDHOEK - More than \$300 million foreign aid will flood Namibia in the next five years through the Millennium Challenge Account (MCA), a development fund governed by the United States government-owned Millennium Challenge Corporation (MCC). But the jury is still out on whether the grant is a blessing or a curse.

Although additional investment in food security, education and environmental sustainability is a much needed boost for the Southern African country, financial experts fear the continued influx of donor funds could stunt Namibia's development and create financial dependency.

Zambian economist Dambisa Moyo conquered headlines in February by stating bluntly that developed nations should pull the plug on aid. In her book *Dead Aid*, she argues that, emergency relief aside, aid is a "malignant" factor in a country's development. Her main argument is that aid is likely to decrease social capital, replace investment, cause inflation, affect export prices, divert talent and, in many cases, fuel corruption and even civil war.

Namibia's government, however, is dead keen on the funds and washed Moyo's criticism aside. Concerned about a decline in Overseas Development Assistance (ODA), government sought to maximise on the MCA grant, initially asking the MCC for a staggering \$515 million. The MCC eventually granted the current \$304.5 million budget.

Three projects - food security, education and environmental sustainability - survived the MCC's scrutiny, while several others were deemed economically unfeasible or too risky. They are said to help Namibia achieve Millennium Development Goal (MDG) 1, reduction of poverty and hunger, MDG 2, improved access to primary education, and MDG 7, creating environmental sustainability by 2015. Namibia's performance on the MCC's 17 key criteria to qualify for funding worsened between the tabling of the proposal in 2006 and the signing last year. Specifically in the category 'Investing in People', which looks at health, education and environment, it showed a downward trend.

Financial skepticism

Still, Namibian financial experts - although they see potential benefits of the MCA - believe the country is not in need of more donor aid and should instead use its own financial resources more efficiently, while focusing on long-term economic development.

Matthias Schmidt, economist at the Windhoek-based Institute of Public Policy Research (IPPR), says a key problem with donor aid creates "an attitude of 'let the donors take care of it'", which could lead to financial dependency. He believes less is more. "If aid is scaled down, it would actually promote growth," Schmidt reckoned.

According to the MCA structure, education will receive the biggest chunk (\$145 million) of the aid budget, which will be used to upgrade 47 schools, provide textbooks and train teachers to benefit 41,700 students. Investments in vocational training will help 2,000 people, while an additional 11,000 tertiary students receive bursaries. New libraries are targeted to benefit almost 50,000 people over the

next 20 years.

The tourism sector will get a boost of \$66.5 million. The bulk of the money, \$40.5 million, will go to Etosha National Park in the north of the country. The rest will be used to support Community Based Natural Resource Management (CBNRM) projects (\$18.2 million) and the marketing of Namibia as a tourist destination (\$8.3 million). Government hopes this will lead to 4,000 more tourists visiting Namibia annually and directly benefit some 7,000 community members through increased revenue in the community conservancies.

In addition, the agricultural sector will see investments to help formalising land rights, livestock marketing and animal health. This could create better opportunities for 135,000 livestock holders in communal farming areas and aid 24,000 households that are reckoned to benefit from better veterinarian services.

The remainder of the funds, \$45.5 million, is set aside for monitoring and evaluation (\$6.5 million) as well as programme administration.

Best practices

MCC deputy country director Oliver Pierson says the criticism of Namibia's economists has not fallen on deaf ears. "The MCA was partly developed in response to these criticisms," he explained. "The priorities are set by the host country and implemented in accordance with best practices. We want the largest part of the donor dollar to hit the ground".

"This is not a long-term donor drip," Pierson further noted. "Within five years we try to put in structures that promote economic growth and stimulate private sector investment. It's smart aid." Political analyst Graham Hopwood partly agrees: "Putting government in the driving seat arguably helps to ensure sensible policies." But he remains skeptical about putting those strategies into practice. "Namibia has no shortage of sound policies on paper, but a very poor track record when it comes to implementation," Hopwood explained.

Another financial expert, First National Bank senior economist Daniel Motinga, sees some positive sides to the MCC funding, saying it will be to Namibia's benefit that most of the donor money is earmarked to boost infrastructure: "That's something that Namibia needs at this juncture. In that sense the MCA lays a foundation for future growth."

Motinga warns that there is a risk that funds might get diverted, but doesn't believe the MCA will necessarily create financial dependency. "Compared to other countries in the region, aid in Namibia constitutes a limited amount of the national budget." The MCA will average an estimated two percent of government's total budget for the next five years.

The MCC board, headed by US Secretary of State Hillary Clinton, decreed that lower middle income countries, where possible, need to contribute to the agreement out of their own pockets. Namibia has suggested it is able to contribute \$165 million.

If such measures are efficient enough to silence the criticism around the MCA remains to be seen.

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