

NOT BY BREAD ALONE: OFFICIAL DEVELOPMENT ASSISTANCE IN SOUTH AFRICA

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1 Introduction¹

1.1 Tribute to the University of Pretoria

Ladies and Gentlemen:

Three years ago, I was the proud recipient of a letter from this University appointing me Honorary Professor in the Department of Economics. Being, in my earlier life, Professor at the University of Ibadan in my own country (and those who know Nigeria call Ibadan the Harvard of Nigeria), this honour meant so much to me. And this association with a centre of excellence remains one of the great moments for me in this country. I have chosen to give my valedictory lecture here not only because of this honour, but because, as one of this country's great universities, its light shines and its radiance attaches to all those who walk through its corridors.

Universities everywhere, but particularly in Africa, have a critical role to play in creating the appropriate knowledge and providing useful policy advice to governments, communities and people grappling with the challenges of poverty and underdevelopment. Given this country's particular history, its universities must be in the vanguard of reconstruction and equitable

development. While the pursuit of excellence cannot be compromised, South Africa's universities have an obligation to provide the much needed knowledge and capabilities for developmental planning and management.

The University of Pretoria strives for an excellence in higher education that is recognised internationally. But perhaps more importantly, it sees itself (given its own history) as a symbol of national aspirations, hope, reconciliation and pride. It is committed to discharging its social responsibilities to this rainbow nation and to Africa as a whole. It strives to be locally relevant through its promotion of equity, access, redress and diversity, and to be responsive to the social, economic, scientific and industrial needs of the country. Clearly, this is a University that understands and appreciates the significance of sustainable development.

As a United Nations staff member, I associate myself closely with such aspirations. It is my pleasure, therefore, to pay tribute to the University of Pretoria for what it aspires to, and has committed itself to do, in the transformation and development of the new democratic South Africa.

1.2 Purpose of the lecture

The topic of my lecture is: **Not by Bread Alone: Official Development Assistance (ODA) in South Africa**. It is a reflection on the role and relevance of ODA to the collective efforts of the government and the people of South Africa in the reconstruction and development of a post-apartheid society. It is not an analysis of ODA trends in South Africa. Rather, it is an expedition along the contradictory dynamics of ODA in a country such as this. I begin with two questions, which mirror the fundamental structural dichotomy of South Africa. As a good two-handed economist, I first ask why South Africa may not need ODA. And then I ask why South Africa may need ODA.

South Africa is often characterised as a country of two societies and two economies². One society has an economy ranked 18th in the world and the other, an economy ranked 118th in the world. The social and economic dualism intrinsic in South Africa's political economy indicates a non-conventional approach to viewing both multilateral and bilateral ODA. The South Africa that is ranked 18th should not need ODA. But the South Africa ranked 118th, which places it alongside the poorest countries of sub-Saharan Africa, may need ODA. However, it is not possible to treat the two economies as separate realities. The Marxist political economist would view this reality as a classic manifestation of the dialectic. From a development management perspective, it presents an almost impossibly complex tapestry.

It is my hope, on the eve of my departure from this beautiful country, that there may be some value in an exercise of reflection which draws on the experience of UNDP and, indeed, of the United Nations in South Africa over the last ten years. I would suggest that while financially the importance of ODA is slight in South Africa, its significance as a capacity development vehicle for poverty reduction is considerable. Hence: **Not by Bread Alone**.

From the perspective of beneficiary countries (if not always the perspective of contributing countries), ODA is predominantly about financial resources. Undoubtedly, South Africa has the capacity to mobilise considerable

domestic resources and therefore, unlike most countries on the continent, has no need to rely on ODA.

But development is not only about resources. Finance is absolutely necessary, but is by no means sufficient for the transformation that development involves. The sufficiency condition involves a wide range of capacities to build, change and/or strengthen a complex matrix of systems, processes and social accountabilities. What does the experience of South Africa in the first ten years of democracy tell us?

1.3 Structure of the lecture

Following this introduction, the second section discusses the trends in South African ODA since the collapse of apartheid. Section 3 asks why South Africa may appear not to need ODA. In some ways the complexity of the economy puts the country in the same league as the smaller upper income countries of Europe. But this is merely the epiphenomenon. Thus, the fourth section considers the reality of South Africa's socio-economic dualism and asks why it may need ODA. It highlights, particularly, the problem of capacity development as a significant ODA priority. The fifth section examines the particular challenges of multilateral development assistance in South Africa. Some UN and UNDP experience in the country is described in an attempt to shed some light on challenges of focus, feasibility and coordination. The final section reflects on the major lessons learned and provides some concluding remarks.

2

Role and trends in official development assistance

Prior to 1994, the flow of ODA to South Africa was essentially meant to provide support to civil society organisations and other organisations and communities that were involved in the anti-apartheid struggles. In this regard, donor communities funded such organisations and communities directly without going through the state. In short, there was no framework for donor assistance and no regulatory framework.

Given the relationship of mutual suspicion between the apartheid state and these organisations and communities, records were often kept in a non-transparent manner to avoid detection³.

In 1994, with the collapse of apartheid, the international development community had to think of more structured ways of dealing with the new democratic South Africa. New forms of co-operation with the Government of South Africa had to be established. Development partners began to focus on the critical requirements for sustaining and moving forward with the transition towards a post-apartheid society.

In 1999, ODA commitments to South Africa constituted slightly over 1 per cent of the consolidated national and provincial government's budget and less than 0.3 per cent of the country's GDP. In the last ten years the high point of ODA in the country seems to have been 1997, when the respective proportions were 2 per cent and 0.5 per cent. It should be noted, however, that these ratios tend to underestimate the role of ODA. Considering, for instance, that about 20 per cent of the national budget goes to direct transfers to households and that perhaps another 60 per cent is spent on wages and salaries, the role of ODA is clearly more significant as a proportion of development expenditure. To be clear, however, its overall importance remains small.

In the six years from 1994 to 1999, the five largest providers of assistance were, in descending order, USAID, the European Union, the European Investment Bank, Sweden and Germany. Collectively, these five donors accounted for R 11.56 million or 72.4 per cent of the total ODA committed over the six-year period.

Viewed another way, the bulk of South Africa's external assistance came from the bilateral sector, which accounted for 60 per cent. The multilateral cluster accounted for 40 per cent, including the UN's 2 per cent.

Unlike in much of the continent, the World Bank's engagement in South Africa has been limited. In the fifteen years to 1966 when it ceased lending operations, the Bank had made loans to South Africa of \$241.8 million. Since Bank activities resumed in 1990, the focus has

been more on non-lending support such as policy advice across a spectrum of issues. Lending activities have been limited. In 1997, a \$46m loan was granted for an industrial competitiveness project, of which \$21.5m were subsequently cancelled, and a Global Environment Facility grant of \$12.3m was made in 1998. Appraisal missions have been undertaken in relation to a municipal finance project and a hospital rehabilitation project. However, these are still under review and discussion. The International Finance Cooperation (IFC) has, in the four years it has been in operation, disbursed and/or committed about \$84 million⁴.

3

The political economy of South Africa: The Epiphenomenon

South Africa is by far the largest economy on the continent. With a 2003 GDP of \$160.8b (in current prices), it is twice the size of Egypt, the second largest economy. It is over three times the size of Nigeria, the fourth largest, and eleven times the size of Kenya, the tenth largest⁵. Its per capita income of about \$2600 in 2002 places it seventh on the continent.

The natural resources of South Africa include gold, chromium, antimony, coal, iron ore, manganese, nickel, phosphates, uranium, gem diamonds, platinum, copper, vanadium, salt and natural gas. It is the world's largest producer of platinum, gold, and chromium. The country has a well-developed financial system supported by a stock exchange that ranks among the 10 largest in the world⁶.

Industrial production includes automobile assembly, metalworking and machinery, textile, iron ore and steel, chemicals, fertilizers and food processing. The efficient movement of people and commodities is facilitated by a physical infrastructure with, inter alia, almost 400,000 km of highways. It also has an air transportation grid that includes 728 airports, of which 145 have paved runways.

With electricity production of 195.6 billion kWh (2001), South Africa is, quite literally, Africa's powerhouse. In 2002 it had almost 5

million (4.844) telephone lines in use and about 14 million (13.814) mobile phones. It also had nearly 200,000 (198,853) Internet hosts and 3.1 million Internet users⁷.

Although the World Bank classifies South Africa as a lower middle-income country, with these numbers it can sit quite comfortably in the class of upper middle-income countries. Indeed, in several areas, it can hold its own among the smaller high-income countries.

Is there any reason then for this “first-economy”⁸ South Africa to be a recipient of development assistance? The obvious answer would seem to be “NO”. But let us look first at the other side of the coin.

4

The realities of social and economic dualism

The World Bank suggests that South Africa is really two societies in one. At one extreme there is a largely white society, with about 13 per cent of the population (roughly 5 million people) that constitutes the “First World” in every sense. At the other extreme, there is another society, overwhelmingly African, comprising about 53 per cent of the population (or about 22 million people) living in conditions of abject poverty. Other research findings initiated by South Africans at the national level indicate that 19 million or just under 50 per cent of the population live below the national poverty line.

The “First World” South Africans dominate the top echelons of business and financial institutions and own a large proportion of all privately held corporate stock in the country. Such wealth obviously gives this upper class enormous corporate power and a direct influence over the economic lives of the majority of South Africans.

It is common knowledge that income distribution in South Africa, as measured by the Gini coefficient, is among the most highly skewed globally. The richest 10 per cent of South Africans account for over 45 per cent of the national income, while approximately 5 per cent of the national income is shared amongst

40 per cent of the population. The real GDP per capita for the poorest 20 per cent of the population is about US\$516, whereas for the wealthiest 20 per cent it is estimated at US \$9,897. This implies that the less fortunate bottom fifth of the population survives on one-twentieth of the income of the top quintile. The poorest segment of the population, predominately black and female, is concentrated in the deepest rural areas, mainly areas previously under the jurisdiction of the homeland administration, while much of the wealth and economic activity is concentrated in the urban areas.

The South Africa Human Development Report 2003 observed that South Africa’s income poverty and inequality have increased in recent years, with empirical studies showing that there is a large segment of initially poor households that has either held steady or fallen behind. Last week, Minister Trevor Manuel drew particular attention to the disturbing phenomenon of rising inequality within the African community in South Africa⁹. A highly unequal income and wealth distribution can be economically costly and growth-reducing as large numbers of a country’s citizens have difficulty finding work or entrepreneurial engagement¹⁰.

The World Bank also holds the view that the structural features of the South African economy exacerbate the growth and employment challenge. It argues that the apartheid-era legacy generates distortions every bit as pervasive and as costly as those inherited by many of the economies emerging from the former Soviet Union.

Clearly, there is a major imperative to redress the structural legacy of the apartheid state in addition to dealing aggressively with a number of emerging challenges. From a meta-economic perspective, the defining, if pathological, feature of the apartheid economy is that it was constructed to exclude the vast majority of the country’s citizens from the national output. With the end of apartheid, South Africa is confronted with transition challenges that, in my view, dwarf those of the so-called countries in transition. There is not much by way of historical precedent on dealing with poverty and

unemployment on such a scale as we have it here. The devastation of Europe after the Second World War comes close. However, the vastly different pre-war conditions of Europe make that experience of limited relevance.

Bridging the first and second economy is a challenge of such complexity that, I would suggest, South Africa stands to gain by drawing on the vast stock of knowledge available internationally. Quite clearly, given the material conditions described above, South Africa's requirements are less for financial assistance than technical and advisory support. Specifically, in South Africa's efforts to cover its serious historical capacity deficit, there is a definite advantage in working with development agencies that are repositories of a broad array of historical experiences and good practices.

Capacity development is key to the reconstruction of the social infrastructure that post-apartheid South Africa requires. The legacy of apartheid left a large majority of South Africans with limited education and inferior skills, making it difficult for the economy to operate with a robust complement of necessary skills¹¹ For instance, Minister Manuel recently highlighted the fact that there is such a shortage of qualified chartered accountants that the public sector can hardly afford them. He also highlighted the serious productivity-compromising phenomenon of highly paid executives with credentials but no experience.

The capacity challenge is even more difficult in the provinces and at the municipal levels, where there has often been severe informational, organisational, and co-ordinatory breakdown. A recent study indicates that capacity building efforts have tended to be piecemeal, uncoordinated, short-term and based on a limited, intuitive approach to the task at hand. Ironically, precisely because of inadequate development planning and management capacity, the ability to utilise external assistance funds effectively is compromised¹².

In the Eastern Cape, for instance, the Provincial Government was faced in 1994 with the challenge of creating a single provincial administration by merging six apartheid-era administrations, all of which displayed varying levels of administrative and institutional

capacity¹³. This was a mammoth undertaking in itself in a fledgling democratic environment. The new provincial administration had a wealth of ideas on how the development challenge should be addressed in the province.

It turned out, however, that key institutions within the province and within the Provincial Government itself continued to hold divergent views on how development should be prioritised and undertaken. These parochial interests generated such intense contentions among key institutions on leadership of the policy and planning process that the real question of implementing the Provincial Growth and Development Strategy was lost. Fortunately, some of the most severe problems have now been resolved, and the Province recently launched a Provincial Growth and Development Plan, which should become a model for other provinces.

Obviously, therefore, there is significant room here for ODA in supporting the Government to meet urgent needs for a limited period. More importantly, ODA could be creatively utilised to support the design and implementation of capacity-building programmes.

5 The challenge of ODA in South Africa

Quite clearly, given the small size of ODA relative to domestic resources in South Africa, it must be deployed strategically for optimal effect. Unfortunately, however, the efforts to ensure effectiveness tend to be uncorrelated with the size of resources to be deployed. The relevant processes are equally complex whether the number is \$50 million or \$20 billion. In all countries, the government's capacity to coordinate a plethora of partners is critical¹⁴. This is particularly so because even with the best will in the world many of these partners are not entirely free agents.

Their primary concern is sometimes that of projecting the country they represent. Even when this requirement is not so stringent, their worldview or operating paradigm could be significantly different from that of the host

country. Resolving such divergences is quite time-consuming. But because time is a costly resource, it is balanced (implicitly or explicitly) against the expected pay-off in additional resources. Not surprisingly, therefore, there is sometimes a perception among the international partners that they are not regarded with sufficient seriousness by the Government¹⁵.

At the same time, we notice the occasional tendency from our hosts to be impatient with what they consider unreasonable demands from external partners, given the limited resources involved. Additionally, given South Africa's long hard struggle for its freedom, there is an understandable tendency to be sensitive to any action or statements, particularly from non-citizens who appear to "dictate", "impose" or otherwise challenge local ownership of issues¹⁶.

5.1 The UN experience

The United Nations agencies in South Africa recognise the need to be strategic in providing multilateral development assistance. This takes the form of working explicitly towards mounting an integrated response to the development priorities and challenges announced by the Government of South Africa. These joint efforts are co-ordinated through the office of the Resident Co-ordinator, using the co-ordinating mechanism called the United Nations Development Assistance Framework (UNDAF).

Working closely with relevant government focal persons and units, the United Nations Country Team undertakes a Common Country Assessment (CCA), which provides the basis for the UNDAF. Collaboratively examining and assessing the major challenges and opportunities facing the country, the UNDAF is agreed upon as the framework within which the UN country team will mobilise and deploy its financial and technical assistance support to South Africa¹⁷.

The development priorities and challenges identified in the current UNDAF include: working towards an integrated response to HIV and AIDS, support for Integrated Sustainable Rural Development and support for South Africa's efforts to promote African integration.

5.2 The UNDP experience

For its part, the UNDP modalities for co-operation as well as its programme areas and projects were defined and designed in collaboration with strategic national partners, namely, the National Treasury and the Department of Foreign Affairs, as well as civil society organisations and bilateral development agencies and institutions. It assisted in the development of new approaches that recognise the centrality of people in development. It also worked to ensure that the people-centred approach is incorporated into policy frameworks and initiatives aimed at reducing poverty and inequality.

The formulation of the programme areas in the first Country Cooperation Framework (CCF)¹⁸ in 1997 was informed and, indeed, benefited from the experience that the Country Office had acquired during the period 1994 to 1997. This cumulative experience allowed the UNDP to shift from ad hoc activities to a more structured form of cooperation. The priority was still on reduction of poverty and inequality within a broader framework of democratic governance, peace, security and stability in South Africa.

A second CCF, covering the period 2002-2006, was subsequently developed. Both the first and the second CCFs were conceived as planning and co-ordination mechanisms between Government and the UNDP, through processes of consultations with major government partners, bilateral development agencies and other stakeholders.

This first CCF, subscribing fully to the principles of sustainable development, focused on supporting national and provincial policies and programmes for poverty eradication through job creation, women's empowerment, sound governance and the sustainable management of natural resources.

The second CCF also focused on supporting national efforts to reduce poverty and inequality. It incorporated the views of key government departments, civil society organisations, and the United Nations family and bilateral development agencies¹⁹. It also took into account the recommendations of the

1999 joint mid-term review of the UNDP, the United Nations Population Fund (UNFPA) and the United Nations Children's Fund (UNICEF) country programmes in South Africa. Furthermore, it was informed by the cumulative experience and lessons learned from the first CCF (1997-2001) as well as a comprehensive independent review of the first CCF undertaken in June 2001.

The second CCF was formulated around four key programme areas. The first is Transformation for Human Development, which supports innovative and quick-disbursing initiatives. The second is support for the Integrated Sustainable Rural Development (ISRD)²⁰ process, under which we work upstream with the Department of Provincial and Local Government and downstream at the community level. Third is our work on a holistic response to HIV and AIDS, particularly as it affects the poorest communities in the poorer provinces. Here, we take our guidance from the Health Department, but work closely with other central departments and provincial leaderships. Our last area of work is on the interface between Environment and Development. We are quite proud of our close working relationship with several departments and provinces.

6 Concluding remarks

We have learnt a few lessons over the last ten years, about the intricacies of multilateral development assistance in South Africa. First, South Africa is NOT your usual recipient of aid. Financial resources are not the key factor in development assistance here. Moreover, while it is true to some extent that South Africa, based on its Human Development Index, is a middle-income country, the reality is that the approaches used to read the development landscape and development policy and allocate development assistance in the typical middle-income country would not work for South Africa, without ingenious modification²¹.

In my view, what is needed is a combination of programme and project approaches with primary focus on the effective and efficient procurement of competence (technical assistance). Because money is not the real problem, South Africa can afford the best in the market. It has the luxury of being able to look gift horses in the mouth. But it could take advantage of international support and goodwill and experience in arriving at its own decisions on what is needed.

The complex policy design, planning and implementation requirements of South Africa needs unusual creativity. It could be usefully grounded in an integrated holistic approach to development, addressing the priority concerns of the country. But the knowledge to do all this and do it well, does not reside in one country or one institution. And the linkage with global networks across a broad spectrum of competencies is one of the comparative advantages of the United Nations System.

Second, in many ways, South Africa does not need ODA. But in areas of some of its most urgent development challenges, it needs it. A large proportion of the experience of the UNDP was directly relevant to the provinces, especially those provinces that were among the poorest and most deprived. The UNDP was more needed in these provinces than in the areas where the affluent 13 per cent of the population live. Our main challenge was not in the mobilisation of requisite resources but rather in helping to develop capacities at provincial, district and municipal levels for development planning and management.

Ladies and Gentlemen, let me summarise my main submission: South Africa needs ODA; it needs ODA of a different kind; the effective co-ordination and collaborative deployment of the little ODA that comes into the country can play a catalytic role in South Africa's transformation and socio-economic development processes.

Endnotes

- 1 The assistance of John Tesha in the preparation of this paper is gratefully acknowledged.
- 2 This view has been expressed by both the World Bank, South Africa: Relations with the World as of 31st May (2003) Annex II, World Bank, *South Africa Country Assistance Strategy: Building a Knowledge Partnership* (1999) and UNDP: *South Africa Human Development Report 2003* (Oxford University Press).
- 3 For a comprehensive analysis of ODA trends for South Africa see Graeme Bloch, Merle Favis and Jeets Hargovan, *Development Cooperation Report: Evaluation of ODA to Capacity Building*, Department of Treasury IDC Report II 2000.
- 4 World Bank, South Africa: *Relations with the World Bank as of 31 May 2003* Annex II.
- 5 The figures were obtained from the African Development Bank (ADB) *Africa Development Report 2004*.
- 6 World Bank Country Assistance Strategy 1999.
- 7 The statistics used were obtained from Earth Trends 2003 *Economic indicators for South Africa*.
- 8 The notion of first and second economies in South Africa is a matter that is generally accepted by both policy-makers and the Academia. For example, the notion was used in President Thabo Mbeki's address to Parliament in May 2004. In his speech, the President provided the government's view on how to address the issues related to both first and second economies. The World Bank and UNDP have also accepted the notion of two economies and have characterised this as social and economic dualism.
- 9 See Trevor Manuel, South Africa's Finance Minister's, address to the ABASA Annual Convention on the Theme: "Our Contribution to Sustainable Economic Growth for the Next Decade", September 2004.
- 10 See World Bank, *Country Assistance Strategy 2003* and UNDP *NHDR for South Africa*.
- 11 This view was also expressed by Trevor Manuel, South Africa's Finance Minister, in his address to the ABASA Annual Convention on the Theme: "Our Contribution to Sustainable Economic Growth for the Next Decade", September 2004. The issue of social and economic dichotomy in South Africa's political economy has not been contested.
- 12 For example, see Department of Treasury, International Development Co-operation Report II, *Evaluation of Official Development Assistance (ODA) to Capacity Building*, June 2000.
- 13 The Eastern Cape is among the poorest provinces in South Africa. The Provincial Growth and Development Plan was supposed to accelerate the rate of development in the province.
- 14 Department of the Treasury, International Development Cooperation Report No II, *Evaluation of ODA to Capacity Building (1994-1999)*, November 2000.
- 15 The IDC Report on the Evaluation of ODA shares the same view and emphasises the need for a co-ordinated approach to ODA in South Africa
- 16 The Government reaction to the South African Human Development Report is indeed a case in point. While in general it was somehow useful in terms of data collection and analysis it nevertheless left a black spot on the need for constructive dialogue and debate regarding transformation for human development in South Africa.
- 17 UNDAF has remained a useful tool for a UN co-ordinated approach to development at the country level. UNDP Country Cooperation Frameworks are based on both the UNDAF and UNDP priority concerns at the national level.

- 18 The UNDP Country Cooperation Framework is based both on the priority concerns of UNDAF and the national development priorities as articulated in various government blueprints for the period covered under the CCF.
- 19 See *United Nations Development Assistance Framework 2002-2000-6*.
- 20 See UNDP South Africa, *The Integrated Sustainable Rural Development Programme, Programme Design Document* June 2004.
- 21 This view is shared by many Development Agencies in South Africa including the World Bank, UNDP, and other UN agencies in South Africa.

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- 30 WORLD BANK (1999) *Country Assistance Strategy: Building a Knowledge Partnership*, May: South Africa.
- 31 WORLD BANK (2003) *Relations with the World Bank as of May 31*, Appendix II: South Africa.