



Debate Transcript

Foreign Aid Debate

TORONTO, CANADA

Royal Ontario Museum

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Resolution: Be it resolved foreign aid does more harm than good

For the resolution: Dambisa Moyo and Hernando de Soto

Against the resolution: Paul Collier and Stephen Lewis

Moderator: Rudyard Griffiths

Rudyard Griffiths: I'm going to ask Stephen Lewis to start us off

Stephen Lewis: Thank you, Rudyard, and fellow colleagues on this debating panel. I'm going to speak with almost supernatural rapidity in order to encompass the ideas I have within the time available. I've even written opening remarks because of my sprawling lack of intellectual discipline.

This morning, Dambisa Moyo and I did a dry run for this debate on The Current, on CBC-radio. It was pointed in places, but effortlessly congenial. Dambisa thought that perhaps we should give you your money back at the end of this evening. The simple truth is that Dambisa Moyo has written a book that frames this debate. It raises a number of interesting issues. I disagree with much of it. I find many of

the statistics suspect and at times misleading. But I have none of the jugular instincts that some of her more frenzied detractors have displayed. For that, I apologize to my friends and family, who looked forward to a classic maniacal spasm of the left.

Aid to Africa has been wantonly abused over the decades. It has sustained countless despots of the most hideous variety. It has been an engine for corruption although no more an engine than private capital. It has also been used by the international financial institutions -- under the guise of structural adjustment programs -- to do great damage to Africa's social sectors. But there's an important distinction to be made. All of this says nothing about the intrinsic nature of aid itself. It says everything about donor governments, multinational corporations, and the World Bank and International Monetary Fund, who were perfectly content to use aid in the most manipulative and destructive ways imaginable. It takes two to orchestrate dictators, corruption and Reaganomics. In those particulars, there is some agreement.

What Dambisa Moyo's book fails to acknowledge, I say respectfully, is the huge impact aid has had on the humanitarian imperative. Millions of people living with HIV AIDS alive today, who without aid for anti-retroviral drugs would be dead; millions of children

immunized against fatal diseases; over 30 million additional African children in schools since the year 2000; modest reduction in extreme poverty, from 58 percent to 51 percent between 1999 and 2007; 12 million orphans with the prospect of food; malaria death rates cut in half in countries like Rwanda and Ethiopia over the course of just two years because of insecticide-treated bed-nets. I could go on ad infinitum. This is aid, aid that gets to the grassroots, aid that transforms open communities. It is no small matter, it is no band-aid. And of course aid does much more.

Dambisa Moyo makes the point that Botswana is the best example of an African government, democratic in character, using a modern mix of investment and free markets to build a strong economy. But what she doesn't say is that Botswana has diamonds. And what is also not said, is that just a few years ago, Botswana had the highest prevalence rate of HIV AIDS in the world -- almost 40% of the population between the ages of 15 and 49 infected -- and former President Festus Mogae actually used the word "extinction" when talking of the future. What saved Botswana? Aid. What made it possible for Botswana to transition to a vibrant mixed economy? Aid. What has happened, of course, is that in the last decade, aid to Africa

and elsewhere has become much more focused, monitored and intelligently applied.

Oddly enough, Dambisa Moyo's book feels curiously out of date. But she remains unhappy and unrepentantly suspicious of aid playing any useful role, urgently looking forward to the day when it is removed from the agenda. So her book contains a number of alternative prescriptions that we'll doubtless discuss during the course of the evening. Let me try to give you a preview of the highlights. Dambisa Moyo suggests that African governments should raise money by issuing bonds on the capital market. I ask: what markets would those be? A year ago, perhaps. Now -- hardly a chance. Capitalism has proved itself a touch quixotic, not to say, mean, brutish and ugly. Dambisa Moyo suggests Africa secure foreign direct investment. But it's just not available. Try as Africa might, it has never been available. Africa's share of world FDI is now 1%. And it's not for lack of trying. The countries are too small, the regional groupings ineffectual, the sense of risk overwhelming.

Dambisa Moyo says trade is the answer. Who can disagree? But the Doha Trade Round is in collapse and there is not the slightest sign that the United States or Europe is prepared to relinquish agricultural subsidies in order to give African agriculture a chance to export. These

are grand designs, but they don't work in practice. I'm a socialist. I'm an expert in grand designs that don't work in practice. Dambisa Moyo says China is Africa's salvation. We'll come to that. I don't share the enthusiasm for China as Africa's new neo-colonial master. To do Dambisa Moyo justice, there is more, ranging from micro-credit to remittances to savings. But I have to say, that given the state of the world's economy, we're going to need aid for a very long time. The effort should be to make aid more effective, not to expunge it from the balance sheet.

Let me end on a personal note. I share the sense of anxiety, frustration and rage about the future of Africa, especially the next generation of whom Dambisa Moyo speaks. I worry greatly about the quality of political leadership in Africa. I worry even more about the world losing interest in Africa and I sure don't think that celebrities are the answer. Believe it or not, I've been going back and forth from the African continent for almost exactly 50 years and I have nothing but admiration for the intelligence, sophistication and resilience of the grassroots, especially amongst the women of Africa. There has to be a way of getting aid into the hands of the grassroots, into the hands of civil society. It would open the doors to other economic designs and

transform the continent. That's what we have to concentrate on.

That's where aid continues to do far more good than harm.

RG: Thank you Stephen, a great start. The additional 30 seconds Stephen was over, Hernando I'll credit to you. So please, begin with your rebuttal.

Hernando De Soto: That was terrific! Who can disagree? We all believe in aid. It's even a religious precept. It's in the Koran, it's in the Bible. We all agree with that. How could we disagree? What we are really talking about is whether aid as it is structured today, causes more harm than it does good. Obviously, it does good. We heard a case for it. But what is the objective of aid?

The objective of aid is essentially to act as a seed, a first seed, a stimulus to begin development so that we, from the third world, can look like you, from the first world. How does that work? Well, it's about capital. You need capital, obviously. There's nothing in this city that indicates that you don't need capital. You need credit. You need business organizations to pull all of this together like you needed organizations to pull this debate together. At the same time, you need a government that makes sure things don't get guided one way or tied

up in monopolies. I will walk you through three problems that are faced every day in regard to these matters: first of all, how do you raise capital if you're a developing country? Second, how do you help your poor -- the sub-prime market? And third, how do you untie aid and how do you get rid of monopolies? Let's begin right at the beginning.

How do you raise capital? You're a Canadian company or a U.S. company. Not to make it personal, but I'll take a U.S. company. You're a U.S. company and you find petroleum in Peru. You go in and get a concession. You ask the government to give you a property right on it. You get your property right, but you don't trust the Peruvian government, so what you do is have your government -- and that's where it begins because it's government-supported -- sign a bilateral investment treaty between the United States and Peru, where the rules of the game are set. In that bilateral investment treaty, you tie the hands of the developing country in terms of facts, aid and in terms of the property rights involved. Labour and legislation can no longer change the basis of that treaty. You then take this over to the overseas private investment corporation and you tell them to confirm the property right and let you know that the U.S. government is behind you if the Peruvians ever do something questionable. Then you

go to the multilateral investment guarantee of the World Bank and put Peru on notice that they've got to honour their agreements. Then, with that property right you couldn't have gotten in Canada or the United States, basic taxes and labour tied up, and no exceptions under any circumstances, you go the capital markets and say, have I got a title for you. And that's where the money comes from.

There is no such thing as money or capital without a property right. You get money because you give something in exchange, such as a guarantee. Then the company starts operating in Peru, with the backing of the United States or a European country. And at that time, out comes the second head of Janus. The second head of Janus is no longer your export credit guarantee department and no longer your diplomats. It is the aid system of the United States or of Western Europe which then says, we've also given money, by the way, to a lot of people who have indigenous rights. What are you doing here sitting on indigenous people's space? Then all of a sudden developing countries see two heads. It's Janus, the god with two heads. And that second head starts saying, these are indigenous people. They have the right to roam. You're trespassing. And all of a sudden in countries like mine, all hell breaks loose. And all hell breaks loose because you're supporting, actually, both sides.

Now, why doesn't this happen in countries like the U.S. or in Europe? Because the left and the right are part of one government, and as a result, you are actually able to work things out. But when you go abroad, the way that you do things is -- and it's part of your national conciliation -- you go out and you give Treasury to the right and you give aid and the ambassadorships to the left. So you've got Paul Rubin at Treasury, Bob Reich at labour. You've got Tim Geithner at Treasury, you've got Susan Rice at the United Nations. You've got Christine LaGarde, of France, in Economic Affairs and you've got Bernard Kouchner in Foreign Affairs.

Now, this is all great, because you've got your act together. But what have you done to us? You've produced what Marx called a social contradiction. And therefore, our class, the guys who speak English, the guys who understand all the jokes on Saturday Night Live, like me, are really happy. We've got the investments. We're working well. But all of our poor people are working against the property system and therefore you get the kind of discourse which is essentially a left versus right discourse, one which is applicable to developed countries, not to developing countries. Just like there are Hutus and Tutsis warring in developing countries, in your countries there are left and right. And what your aid system does is confront us with each other,

because a lot of those conflicts, as we shall see later on, are created by yourself, by the way your system is structured, because it speaks with two faces.

Sub-prime? It's the same thing. You all know about the recession, I don't have to tell you about it. The only thing that's interesting about sub-prime is that while you have given all us developing countries something in the area of about 300 billion dollars, as was pointed out by Stephen, we have given you two trillion dollars, because our money went to the United States, and it went to Europe. That's what basically financed the sub-prime. Why did it go there? We developing countries have a higher return on capital and we have higher interest rates. It went there because you've got property rights. It is much easier to finance in the United States or in the Western world because you've got something to hold onto.

The question then becomes, why don't we have property rights? It is because you've got huge world machinery that is against indigenous people having property rights. Because of your internal guilt trip in Canada and in the United States, and among Europeans and colonizers, you aren't willing to do for developing countries what you do for white people and you have exported your social contract to us. And that's a problem because you see, it's not an Indian minority

in our countries, it is the overwhelming majority. That is what is caused by the way aid is managed today, and the way world is splitting.

And last but not least, the matter of untying aid. You are, obviously, all people dedicated to aid, trying to untie your aid, and I thank you deeply from my heart, but you haven't seen what you've done. Aid is untied at your aid level. Say CIDA. Say anything. But on the other side, you've got export credit organizations that tie them up through specifications. You get all the grants in the world saying, we're going to design the hydro-electric plant for you, but we must make sure the specifications are correct so French engineers will look at them. And they'll write specifications which will tie things up. So on the one hand you've got a small amount of aid, untied, and on the other hand a large amount of export credit, tied. It's a contradiction.

RG: A great start to the debate. Paul, you're next, and I'll be lenient in the time allowed, to take into account Hernando's mild excesses.

Thank you.

Paul Collier: If I sit down after one minute, will that be deducted from Dambisa's time?

RG: We can talk.

PC: I wrote *The Bottom Billion* because the term, "bottom billion," was meant to describe 60 low-income countries that have missed out on global prosperity. They've stagnated when everybody else prospered and as a result they've diverged. They've diverged for forty years and it seems to me a vital matter both for the people living in these societies and for the rest of mankind, that instead of diverging they start to catch up. That's the challenge. However it's done, it seems to me fundamental that the bottom billion converge with the rest of mankind. If the next forty years are like the last forty years, we're heading for tragedy.

So what can we do, we in the rich world? I think there are four policy areas that are important in achieving convergence. One is security, which we are actually doing, like in Afghanistan. One is trade policy, which Dambisa emphasizes. One is governance and the fourth is aid. Aid is part of that spectrum of effective policies. Why aid? Because the fundamental reality of the bottom billion is that these countries are desperately short of capital. That's their defining feature. It's not their only feature, but it's their defining feature. They've got to

accumulate capital and if they have to do that just from internal resources they'll have to cut consumption deeply, and they're already living at the margin of subsistence. So they need international capital, not just aid but public and private capital. Potentially, they're complements. Public capital provides things like the roads and private capital pays for things like the trucks.

Now, in Africa, to date, there has been a lot of criticism of public capital, of aid, but the reality is that private international capital has also failed. Let's take a couple of examples. To my mind the stellar example of private lending to African governments is Nigeria. In the late 1970s and early 1980s, Nigeria was able to borrow quite heavily on international capital markets. International banks that provided that money didn't care to ask who was borrowing it or how it was going to be used. It went down the drain. It left Nigeria with a load of international private indebtedness. The big example of foreign direct investment to Africa over the last decade has been to Angola. Is the government of Angola aligned with its citizens? No. In fact, even in the boom years, the last crazy five years when private capital would go almost anywhere, it went almost anywhere except to the bottom billion. They were just starting at the margins when the whole thing collapsed. Looking forward, don't hold your breath.

So, why did private capital fail to develop Africa? Was it the fault of aid? Of course not. Aid's not that important. Aid's one of the range of policies. It's a marginal benefit. But the idea that it was responsible for the failure of private capital, I think, is untenable. There were much deeper problems. For example, there was the resource curse across much of Africa. There was the political paradox that the societies were too large to be a nation -- because the politicians hadn't forged the common sense of identity -- and yet were too small to be viable states. They couldn't reap the benefits inherent in public capital, in public goods. And often opportunities were quite limited. Some of the countries were landlocked. Once China had got into global industrial markets it was very hard to compete against China.

I also wrote the bottom billion to try and create a centre ground between what I regard as theatrically polarized opposing positions. Without a centre ground we cannot get intelligent public policies. Aid can't fix all these problems. The core struggles are internal. In all these societies there are brave people struggling for change. But we can make aid more effective than it has been. Aid's been through a learning process. Until the fall of the Soviet Union, aid was given for a completely non-developmental agenda. So we've been about sixteen years into learning and there have been some big mistakes. But

they're mistakes that can be rectified. We can condition aid not on the policies that governments adopt -- we shouldn't be telling governments what policies to adopt -- but on the governance of those governments. That is, we should be conditioning aid to require governments to be accountable to their own citizens.

And finally, we can use aid much more strategically, linked up with those other policies -- security, trade and governance. Let me close with an example which is Canada, now. It concerns Canada's second biggest aid recipient, which is Haiti. Haiti is the classic country in the bottom billion. And the difficult thing in Haiti, which is the provision of security, has been done not by Canada, but by Brazilians, the 12,000 peacekeeping troops there. The next difficult thing was trade. The US has taken care of that by creating a special trade deal, a privileged market access to Haiti. Those are the hard things. And now what's needed is for aid to be targeted on providing the infrastructure that would enable Haiti to benefit from those opportunities. The ball is in Canada's court. That's an example of aid which could be harnessed to generating the jobs that Haiti so badly needs. Then, finally, the private investors would come in. Private capital can be the solution, but it is going to be built on public capital having got it right first.

Thank you.

RG: I want to thank Paul. He's a professor and he said before this debate, "I speak in fifty minute increments." So this is a challenge for him. And now Dambisa, you will give our final opening statement.

Dambisa Moyo: Thank you very much. I think I'm now owed about an hour. I think everybody has overrun. I'd like to, first of all, say thank you to the Munk organizers for allowing me, as an African, to say a few words about the state of my continent, even though I'm not a celebrity. I just wanted to start off by saying, ladies and gentlemen, that we are all on the same side. And what do I mean by that?

There are three fundamental points that we all agree on, I believe. First of all, we all agree that Africa cannot rely on aid forever. We can sit here and quibble about whether it will be another five years or ten years or 100 years but I think we fundamentally agree that Africa cannot rely on aid forever. It is not the optimum solution. By the way, if anybody thinks Africa should rely on aid forever, please stop me. I think we agree on that. The second thing we agree on is African governments must lead the charge to increasing growth and reducing poverty on the continent. It is not the responsibility of

Westerners. It is not the responsibility of celebrities. Yes, we do need the international community to be front and centre alongside African governments, but ultimately, the responsibility of leading the charge for Africa's future is the responsibility of African governments. The third thing that I believe that we agree on is that aid has, and continues to contribute to the dysfunctionality of African states. The point that Stephen mentioned earlier about corruption is not a figment of my imagination, nor is it something of the past, I'm afraid to say.

Just a couple of months ago, the president of Malawi was indicted for stealing aid money. As I speak, the former president of my country, Zambia, is embroiled in a corruption scandal. Aid is contributing to the corruption and even in the best case scenario it is allowing African governments to abdicate their responsibilities of providing public goods. Governments around the world, like the Canadian government, the American government, the British government and others are charged and elected to provide public goods. In Africa, however, public goods such as education, healthcare, infrastructure and yes, even security, are provided by donors. That is completely unacceptable. I will point to a comment by a friend of mine from Africa who said, "Actually, why do we even bother going to stand in the hot sun to vote for these leaders? We should actually be voting

between CIDA and USAID because ultimately they are the ones who are providing us with the public goods.”

I want to remind everyone in this room of the origins of aid. If you go back to the 1960s -- thank you very much Paul Collier for teaching me this -- you will know that there was a very simple economics identity that savings would lead to investment, which would lead to growth. In the absence of savings, however, there was the idea of aid. And remember, if we talk about the 1950s and 1960s, there were newly-founded countries coming out of the colonial period, and there were not a lot of savings in these economies. So the idea was actually a laudable one, coming out of the Marshall plan's success. I'll come to the Marshall plan later. So the simple idea was that aid would replace savings, and aid would therefore drive investment and ultimately lead to growth and reduce poverty. Those, therefore, are the two metrics upon which we should be judging the aid model.

The question then becomes, over the past 60 years -- during which over one trillion dollars of aid money has gone from the Western world towards Africa -- have we seen an increase in growth? The answer is no. Have we seen a decline in poverty? The answer is no. Paul Collier himself has talked about the African continent shearing off from the rest of the world. On those two metrics alone, the aid model

has failed. How does aid contribute to less growth and higher poverty? Let me count the ways. I actually had my top ten reasons why aid doesn't work, but because of the time constraints I'm just going to go through a whole handful of them very quickly.

It fuels corruption -- which is obvious. And, by the way, these are not my words, this is actually literature from the World Bank, from the International Monetary Fund, from development institutions and from academics about how and what aid does in these poor and developing countries. It fuels corruption. It encourages inflation. It leaves African countries and other developing countries with significant debt burdens that they cannot repay. It kills off the export sector. It induces social unrest, because remember, the aid money is pooling at the top to governments. It kills entrepreneurship and ultimately it disenfranchises African citizens. Our governments spend their time courting and catering to donors. They do not care about what we have to say. In other words, it's the reverse Boston Tea Party. No representation without taxation.

Ultimately, we are trying to be like you. And you know that you do not rely on aid. You know that the government responds to you and provides you with public goods simply because they have to rely on the tax base which you provide. Proponents of aid will argue that

there are two million Africans on HIV AIDS drugs and 34 million Africans are going to school. And so on and so forth. And that's great. I myself sit on charity boards that look specifically at HIV drugs and at providing education. But they neglect three fundamental questions.

First of all, what is going to happen in ten to twenty years when these aid programs are no longer able to be financed? The fact that places like the United States are facing ten percent unemployment rates and have other pressing concerns, and Germany's contracting by up to six percent, leads us as Africans to wonder what is going to happen. But never mind that. That's a minor problem. Second question: what are African governments doing with the money that they have? Paul Collier's right. We've just come out of one of the most amazing bull runs in commodity prices. Does anybody care to ask what has happened to that money? No, let's just give them more aid. And finally, what exactly is the plan for African governments to deliver on their provision of public goods? Again, nobody wants to know that. The good news, ladies and gentlemen, is that we actually know what delivers growth and what reduces poverty.

In our lifetime, China has moved three hundred million people out of poverty. Did they do this with aid? No. They did it with trade. They did it with foreign direct investments. They relied on the capital

markets. By the way I should point out that a Chinese diplomat said to me, two months ago, "Anybody who says to you, Dambisa, that the capital markets are closed and that your argument that African governments should go to the capital markets is ludicrous, is clearly a Westerner. If you want to raise capital, come to China, come to the Middle East, we have the money." We are looking to create jobs. Enough with the handouts. We are trying to be equal partners on the global stage. We do not want sympathy. We do not want pity. We want opportunities. And the only way we are going to get that is if you stop feeling sorry for Africans and start treating us as equals and adults and not as children.

I'm going to conclude with a comment that a friend of mine from Nigeria made. He said, "Why have you bothered to write this book? It's a complete waste of time, nobody cares." And he added, "You do know why they give aid, don't you? Ultimately, it's because Africa is to development what Mars is to NASA. We spend billions of dollars every year, analyzing, researching, quibbling about data, but ultimately, nobody really believes that we're going to live on Mars and nobody believes that Africa is actually going to develop."

RG: I think it's safe to say we officially have a debate in the works.

We're going to move into our proverbial free-for-all session and I want to start with Stephen, because you spoke first. I want to offer the two sides the opportunity to rebut some of the things that they've heard in the opening statements. So Stephen, what's the one thing that you've heard from Dambisa and Hernando that you disagree with the most? And tell us why.

SL: I think, fundamentally, it's hard to disagree with what Dambisa says, in particular. There are several African countries that have moved forward, quite remarkably, in the last ten years, in terms of economic growth and internal democracy and democratic elections, and are looking to overcome the reliance on Western aid. I don't take any exception or difference with that. The problem is the transition. The problem is that at this particular moment in time, the evidence does not yet suggest that the trade rules will change, that the foreign direct investment will be available or that the bond markets will respond. I point out that Ghana just had to withdraw its bond renewal because the markets are not available. This is likely to go on for some time. We're fighting for survival en route. These are not marginal questions. We've got millions of people fighting for survival as they

move towards a more mixed economy. None of us would deny the legitimacy of that. So you have to continue using aid intelligently and effectively. I don't see any way around that. I guess that's the fundamental concern that I have. The dismissal of aid may consign a lot of people to extraordinary risk, without recognizing that it's a necessary part of a transition to a broader and more mixed economy.

RG: Let me ask Dambisa to respond, because in your book you've made a somewhat controversial recommendation to turn the aid tap off, and to do that relatively quickly. So how do you respond to Stephen's comment here, that this is a long transition and it seems you want it done relatively quickly? Isn't there a risk of shock therapy? How do you make that transition?

DM: First of all, I've been misquoted. I have never said we should switch off the taps immediately. What I have said is we should be discussing an exit strategy and we should be aspiring to a time when African governments can start to be weaned off of aid. I think the fundamental problem with the aid system is that it's all couched in negatives. And if you actually listen to what Stephen Lewis has just said, it's littered with negatives. It is the poor Africans with HIV. It's

the poor woman who is getting raped. It's the tragedy. I'm here to tell you that there is good news and we're trying to focus on that good news to significantly transform our continent. Let me share with you a few things.

First of all, there are now 16 countries in Africa that have credit ratings. Significantly B minus and above B minus, which people here who know anything about the markets will know is not a bad rating. It's the rating of, for example, Turkey. I do not believe that many African governments would have chosen to take those ratings if they thought that they were going to be worse. We know that Turkey, like many other single B countries around the world, has come to the capital markets. The question is, why are many African countries not even exploring that as an option? They should be. The second thing is, over 60 percent of the African population is under the age of 24. This is a young, vibrant, energetic population that desperately wants to be part of the Twitter and Facebook era. I get messages all the time from people in Africa who I know are struggling and using their last dime to send me an email, because they are so interested in being part of a global community. But they are constantly getting shut out because we prefer to hear from the celebrities. The IMF currently is forecasting that Africa is going to grow by three percent this year. Sub-Saharan

African growth is at three percent. At a time when, as I said earlier, Germany is talking about contracting six percent, we're seeing 10 percent unemployment perhaps in the US and we're seeing global growth perhaps at 0.5 percent. So it's not such a bad story. Some people in this audience might not even know that there are over 15 stock markets in Africa right now. Over 85% of the stocks that trade on African stock markets are non-commodities. I'll say that again. Over 85% of the stocks that trade in Africa are non-commodity stocks. So this whole notion that Africa is one big commodity play I think is again misleading. There are telecommunications stocks, consumer goods stocks, real estate stocks. The story is there. It is just about changing our mindset. It is not the end of the world. We need to encourage people to speak in positive terms about the continent. Otherwise, how do you expect us to raise young people on a continent where they're constantly being told that they can't do it, they're too poor and they need aid?

RG: Let me stop you there, because I want to bring Hernando into the conversation. Hernando, I want to ask you a similar question that I asked Stephen, allowing you to reply to anything that you've heard from the other side this evening. I'd like you to focus on a single

proposition or idea that Stephen or Paul has put forward, that you take exception to, and explain to us why.

HDS: To start off with, listening to Paul, he talks as if capital were something you have and we didn't have. As if it were money. In terms of money, there are only 13 trillion dollars worth of currencies in the world. Dollars, Swiss francs, Euros, whatever you have, there are 13 trillion. Where do credit and capital come from? They are in the form of a lot of paper that has equity -- you call it equity, bonds, derivatives, financial instruments. That isn't currency, it isn't money. It is paper that, as you have learned through the recession, is backed by assets. What does that mean, backed by assets? Or what does it mean when you hear that the problem with derivatives in the United States is the underlying assets? It means that what really supports that paper is not the currency. What supports that paper is the asset. Homes, land, airplanes. It's all recorded, it's all registered.

What happens in developing countries such as mine or Dambisa's, is that the assets aren't titled. They're not on paper. They cannot be converted into capital as a result of which, what you have done, which is what I've tried to illustrate, is that you have created capital by paperizing first your rights in your concessions in developing

countries, by getting a guarantee through bilateral investment treaties. And then you've monetized it. Your central bank has issued currency to then symbolize that capital. So it isn't that we don't have capital. We have capital but it is dead because it isn't paperized. Having said that, which is important to understand, you don't have to travel to Zambia to know what I'm talking about. You don't have to travel to Peru. Go see your own Indian reservations. That's dead capital. You've got people there who own a whole bunch of things, but not with the same instruments. They're frozen into an Indian Act of 1870 where they can't transfer these resources around. So they've got dead capital but it can't become live because of your guilt. Sure, you did terrible things to them. But because you think you did it through property mechanisms, you've deprived them of those mechanisms.

You didn't deprive them through property mechanisms. You deprived them through taking away their sovereignty. It's the second thing, sovereignty. Sovereignty is the Palestinians versus the Israelis. That's about borders. What you do there is you settle it. You say once and for all, this is Watusi territory, this is Aztec territory, this is Blackfoot territory. When you touch sovereignty people don't like it. So you go in and, which I know you've tried to do, you say, look, we want to assimilate you. They've resisted. They have said, we don't want to

be assimilated. We have our own pride and our own identity. What you should have told them is, you have your pride, and your identity and your sovereignty. What we're going to give you is property, so that inside your sovereignty you can convert your assets into capital.

And what I'm trying to say is that I appreciate aid enormously -- I mean what can you say about people who are so generous to developing countries? Of course it's good stuff. But what I'm also trying to tell you is that in that package, because you haven't been able to single out sovereignty from property, because you can't even understand it in your home territory, your systems of aid don't have priority given to creating property conditions in countries like mine. They have even campaigned against it. You give an enormous amount of money to maintaining tribes, clans. We all come from this. It's Asterix and Obelix. We all come from tribes. But on top of the tribe you've given yourselves commercial organizations. You've done nothing to help it. You even try and stop it and you finance political versus commercial organizations. And that's what I'm objecting to. Not aid. But the fact that you haven't sorted out the difference between property and sovereignty, and second that you keep on thinking that capital comes from your money when it really comes from our property.

And the day you, in North America, figure out that you got developed by giving yourselves property rights -- without any foreign assistance -- because you were able to put your assets into paper, we'll all be in agreement.

RG: Let me turn to you, Paul. Are property rights the panacea?

PC: First of all, let me agree with Dambisa that Africa is a region of economic opportunity for private investment. Recently, I've tried to triangulate three different data sources on rates of return on investment around the world, return on equity and return on American foreign direct investment abroad and the result from surveys of 18,000 manufacturing firms around the world. All three of them show that Africa has the highest return on private capital of anywhere in the world. So there is opportunity in Africa. But now let's juxtapose that with these high rates of return that have been sitting there at least for the past five years, through the greatest credit bonanza the earth has seen. The credit didn't flow. Now, maybe it's the problem of property rights. But it's actually a bit deeper than that, because property rights will only function as collateral internationally, if you've got a lot of supporting institutions.

I remember talking with someone at a bank in Uganda who said, oh we finally managed to get foreclosure on a piece of land. They were initially very pleased that the judge for the first time had ordered this asset because of the default. And then they discovered that what we thought was the land on which a factory was built was actually the swamp next to the factory, and that's why they were able to get the claim ordered. Now the problem is that these institutional difficulties are slow to fix. There aren't quick fixes for them. We've been here before in the 1990s, when the World Bank took the view that they didn't need to finance infrastructure, and then disastrously the World Bank shifted from financing infrastructure to financing a social agenda.

HDS: Can I butt in?

PC: Yes.

RG: Briefly, just a quick interjection.

HDS: Ten seconds. No quick fixes, right Paul? Okay, so how did Japan, a feudal country in 1945, become one of the most developed countries in the world in 1952? It happened because it revamped its feudal

institutions and converted them to property, becoming one of the most powerful countries in the world. Second, how do you explain China, which has gone from Communist party to private property, and now everybody can foreclose and that's why they're investing there?

PC: I seem to remember that in Japan in the late 1940s there were quite a lot of American troops about at the same time.

HDS: Well, how about China, Paul?

PC: Just let me finish my story on the World Bank in the 1990s, because Jim Wolfensohn, who indeed came out of the banking community, believed that infrastructure in Africa was all going to be financed by the private banking sector. He believed there wasn't any role for the World Bank, so the bank closed down its lending on infrastructure. And what did Africa get? Did it get a lot of banks coming in and financing infrastructure? No. Eventually it got China, and China is a two-edged sword in this context. The Chinese deals are for infrastructure in return for the rights to plunder -- and sometimes that's okay and sometimes it isn't, right? But it is not the replication of

the Western banking model. We just don't have the institutional base to provide big private capital.

RG: I think Stephen wants to jump in here.

SL: It's okay.

RG: Hernando, he's ceding the floor to you.

HDS: It's just that every country, Paul, is a special case. You've had troops in Japan, but that is absolutely irrelevant. You've got troops in Afghanistan and nothing has happened. You've got troops in Iraq with a major Western power there and nothing has happened. The reason it happened in Japan, is because on top of troops you had a plan. And what I am saying is that one of the things I get from reading all the aid programs is that they go into the charitable stuff, and how can one not applaud that? But they always conspire against transformation. They're always for transference and not transformation.

PC: There I agree. There I agree.

SL: How can you agree?

RG: Stephen, I sense you disagree.

SL: Agreement is betrayal. I'm getting faintly agitated about this discussion. I was determined to show my face as a moderately liberal bleeding heart, but I think I may jettison that at the moment and simply alienate everybody by having the ideological spasm I promised not to have. I am not prepared to sacrifice the African continent for some free market, neo-liberal ideology, which in large measure has not been tested, is unwarranted and probably won't work. And the truth of the matter is that with all of the stock markets in the world, Africa has not been able to produce the foreign direct investment which many people -- surprisingly enough, myself included -- have tried desperately over the years to get from the multilateral and multinational world. And trade is closed to Africa, for heaven's sake. The world is doing everything it can to shut Africa down. And China is definitely a pact with the devil. If I may make the point, China's oil involvement in Sudan is what sustains the genocide in Darfur -- make no mistake about it. Dambisa has said, I want to have food on the table for a rural woman and she doesn't want to wait forever and she

can't embrace human rights in the process. And I understand that. That's a powerful, visceral feeling. But the truth of the matter is that with China you never know where you stand and the abrogation of human rights is so fundamental and so extensive that it may compromise entire nation-states down the road.

All we're saying about aid, for heaven's sake, is that it can help you with infrastructure. It can help you with agriculture. It can put girls into secondary school and then into universities, so that they can then do the work that Dambisa wants countries to do. And I do not consider it negative to say that people are fighting for survival. It is an objective truth, and it seems to me that it is legitimate in concert and in partnership with Africa to assist that survival through the aid process. It is not about being neo-colonial in the process. It is simply about being decent human beings who respond to a dilemma or a predicament in another part of the world, recognizing that in the course of time -- and let it be sooner rather than later -- those countries have to take over everything that concerns them without interference from abroad.

HDS: Can I butt in?

RG: Well, Hernando, someone's shooting laser eyes from this end of the stage so I think we'd better let her reply.

DM: Sixty years, one trillion dollars. You've had your chance, you've not delivered. You do not live on aid in this country. You are pushing a strategy that has no evidence of working anywhere on earth. There's not a single country on earth today that has meaningfully reduced poverty and achieved long-term economic growth by relying on aid to the extent to which African governments rely on aid. Not one. And the times in which aid has worked -- the Marshall plan, for example -- the interventions have been short, sharp and finite. Not the open-ended commitments with no end in sight that you are supporting here. With respect to political institutions, democracy, governance all of those lovely buzzwords that we like to throw around, the fact of the matter is we will never get them in Africa until we have a middle-class on the ground that can hold our governments accountable. It is not good enough for us to try and have to shoe-horn these types of institutions into a continent where ultimately the governments are once again not incentivized to cater to the domestic populations.

Let me give you some examples. Ethiopia. One of the aid darlings. Everybody wants to give money to Ethiopia. This is the

second largest population in Sub-Saharan Africa, a country of 100 million people. Ethiopia has a two percent mobile phone penetration rate, and there's no reason why you should know that this means anything, but let me give you some colour. In Africa today, the mobile phone penetration rate across the continent is about 30 percent. There are at least thirty countries on earth today where mobile phone penetration rates are more than 100 percent. In other words, there are countries where people have more than one mobile phone. If you go to places like Europe, it is very common. Now, we know how mobile phones can help Africans. For example, in Ghana it's been seen as a tool people can use to actually increase their income. Somebody can use their mobile phone to text into town A and find out how much a cow is -- say, twenty dollars -- and then text to town B and to find out how much a cow is -- say, 40 dollars. So they would then know to take their cow to town B. It has actually been seen to be useful in that way. But it has also been seen to be useful in places like Kenya, where people are using their mobile phones to get information about when the doctor is coming to their village. However, here we have Ethiopia, an aid darling that actually skulks around at the G20 meetings, looking for additional aid money and that has deliberately chosen not to open its market. And, by the way, if they had done that, it would actually

have given Ethiopia a one-off revenue and would have allowed them to earn income through a tariff and also potentially increase the incomes of its population. But oh no, that would be too difficult. Let's just call up and get more aid. Let me give you another example.

RG: Dambisa...

DM: Can I just say this...

RG: Hernando wants to get in on this briefly.

DM: Fine.

SL: There's disarray in both ranks!

DM: Let me just say this, with respect to the question of foreign direct investment. I'll tell you why there hasn't been more foreign direct investment in Africa. Because doing business across Africa is a nightmare. African governments, by and large, are not incentivized to create the environments that support private investment. In some countries, it takes up to two years to get a business license. I myself

travelled to Rwanda, Kenya and Tanzania, in February, three countries that are right near each other. I needed three visas and to change my currency three times. Does this sound to you like a formula of countries that are actually interested in encouraging private sector development? No. These countries live and die by donor money. They are not incentivized to do the right thing.

Ladies and gentlemen, we know what the right thing is. We know what creates jobs. We know that more trade is better than less trade. We know that countries that have relied on foreign direct investment have meaningfully reduced poverty and created growth, and we know that countries that have consistently sat back and relied on aid have underperformed. We know this. Let's not pretend, Let us not make up stories. Let's save the bleeding heart for somebody else. It's time to change.

RG: Hernando, I want you to pick up on something that Stephen Lewis said, because I think it's a question for a lot of people in this room. How do the kind of free-wheeling, free market ideas that you've espoused in your writing not represent a doubling down on a capitalist model which has been a little tarnished here in the West in the last 18 months?

HDS: The first thing is that I do not identify myself as a free-wheeling, neo-liberal. I classify myself as an admirer of the West in both your socialist form and your free market form. What I'm saying, is that when you do it inside of your countries, both of your heads come together and you work it out. It's not -- like this discussion -- left or right. There are certain areas that are gray and you've been able to work things out. One of the things that Stephen mentioned is Darfur. And yes, we've got to help. But how did Darfur come about? As a matter of fact, if you go back to 1991 until today, there have been 15 African civil wars and insurrections. And what are they all about, if they are not about territory and property rights? Think about it. It is essentially about tribes fighting over defined pieces of territory.

Do you remember that film -- an excellent film -- Lawrence of Arabia? Peter O'Toole is sitting there in the desert and he sees Omar Sharif coming in from the distance and he's all shimmery, and then it becomes clear it's a man on a camel. Then Omar Sharif shoots the guy that's next to him and Peter O'Toole says, you shot him! And Sharif says, yes, he was drinking my water. But don't worry -- you're my guest. That's where it all begins. You, in the West, have emphasized everything else except that which makes you great, which is your rule

of law. Don't forget how you were assassinating each other all through out the 18th and 19th centuries. How did you get over it? Is there something Anglo-Saxon about you that made you get over it? Or is it the fact that after the Gold Rush and after the conquest of the west, you actually managed to get a social contract with clear definitions of how property was established and you exchanged it? And, by the way, that was done by both your left and your right. I don't want to get dragged into this argument about neo-liberal and other labels. I admire what you did on both your left and your right, how you've managed to make them function in tandem, which you've been able to do so well inside your countries. And, yet, when you go into other countries you fight, because it gives you a guilt sense regarding your own indigenous peoples where you haven't been able to sort out the conflicts between sovereignty and property. When you do, you'll also be able to sort out Africa. Fighting and wars in Africa are about territory.

There is a problem with the term, "property rights." You say "property rights" and everybody thinks, my God, it's Ronald Reagan! "Property rights" is simply the structure of law about who owns what, so we can live in peace and have a property, so we can make capital so that we won't need you anymore.

RG: Paul, you asked to respond, but also if you can include in your answer -- because I know you wrote about it in your book, *The Bottom Billion* -- why you think that the China/India model isn't necessarily open to a lot of African countries. I think that's also a question on our audience members' minds.

PC: Yes, China and India share two characteristics which the bottom billion doesn't have. One is that they are both huge, and big societies tend to be better governed. We'd like to think small is cozy, but actually small is personalized power and a lot of corruption. Big India, big China -- power has to be institutionalized, and that helps. The other thing is that neither China nor India are rich in natural resources, and natural resources tend to produce a lot of bad governance. These are the features that are at the heart of the problem of the bottom billion, rather than aid. And there have been examples of aid cut-offs. Zimbabwe, for example, has not had a whole lot of aid in the last decade it's not exactly a model of improved governance.

DM: They've had 300 million dollars from the UK and US governments, in 2006. That's 300 million U.S. dollars.

PC: They've had very little aid in recent years, and similarly Eritrea has tried to cut itself off from aid, but Eritrea is a tragedy of personalized abuse of power. Dambisa started to describe the process of no representation without taxation, but actually the process which forged effective states -- which was the process in Europe -- was a much more brutal process than just taxation. Let me just describe it to you, because the punch-line of this is, we don't want this process in Africa. The process that forged effective states in Europe was military rivalry between political elites in different countries. In order to win the international military struggle, they had to have high taxation to pay for their militaries. And then there was a Darwinian process in which the countries that managed to build the most effective tax system won the international struggle. Now, the price that Europe paid for that was horrendous. And we can't possibly wish that process of international struggle on Africa. In other words, we can understand how the West managed to build effective states and Africa hasn't, without saying that the solution is just for Africa to repeat that

process. We have to find a different and better way to effective statehood.

HDS: Can I butt in?

RG: A brief interjection and then I'm going to Stephen.

HDS: India, China. What about Singapore? What about Taiwan?

DM: Chile.

HDS: What about South Korea? What about Hong Kong? Why do you have to be big? What about Switzerland? What about Liechtenstein? What about Benelux? Why do you have to be big? Why define something different when here in Canada you've got something that works? Why not imitate something that works?

PC: If you start small, poor and resource-rich, you've got really big challenges in producing an effective state. Some do it. Botswana's managed it. That shows to my mind just how tremendously good the early leadership of Botswana was. Social science doesn't work by hard

and fast laws. It works by tendencies. The tendency is if you're small, you're poor and you're resource rich, you're in a trap. You're in a cul-de-sac. And that's where Africa has got to. It's not because of aid. Aid is a weak instrument...

HDS: We're all for aid, we're all for aid!

PC: ...a weak instrument that you use to try and get you out of that cul-de-sac.

HDS: We're not against humanitarian aid. We're against the negative externalities that some aid brings with it. We've already said that. Who could be against charity? We're against the negative externalities of aid and we're trying to improve the system, we all agree.

RG: Can I just ask a follow-up question? Dambisa, you know Paul Collier writes quite eloquently in his book, *The Bottom Billion*, about some of these large structural factors, including the size of the country, good or poor neighbours, the degree to which natural resources are prevalent or not and the degree to which they have sea access or not. You offer a kind of interesting rebuttal in your book. So

maybe you could just share that with the audience. Why is it that the structural factors won't necessarily overwhelm the types of reform that you're proposing?

DM: I'm not sure which specific rebuttal you mean. It's such an excellent book that there are certainly many rebuttals. But the obvious thing is incentives. We live in a society, if you live in the West, in a society of incentives. The governments are incentivized to do the right thing. Your institutions are incentivized to do the right thing. You, as individuals, are incentivized to do certain things. And to the extent that those things fall out of line from the common good, the legal system steps in to manage your behaviour. In Africa, and certainly in the aid system, we have a situation where the donors are incentivized to give money, even though they know that the money is not going to the right places. And African governments are incentivized to take the money because it is easier to take the money. Who wants to be walking around the world and pitching bonds to a thousand pension funds when actually all they'll do is rip you apart and ask you what your agenda is, when you don't really need to have an agenda and you can pick up the phone and call the World Bank for the next

cheque? So you're in this low equilibrium where the incentive structure does not work.

The question is, how do we get African governments to be incentivized to do the right thing? As I said earlier, we need African governments to be on board. We need them to get involved in terms of regional integration. I come from a landlocked country of ten million people. Who cares? But in the southern African context we're talking about 200 million people. How do I get my government to be incentivized to be part of the southern African community in a credible and meaningful way that would work to improve the livelihoods of our society? The fact of the matter is, as long as they have a credible system of aid coming through year in, year out, whether there's a credit crisis or not, African governments are never going to be fully incentivized to do the right thing. With respect to aid, we've tried many different interventions.

In the 1960s, we had aid for infrastructure. In the 1970s, we had aid for poverty and growth. In the 1980s, we had aid structured for adjustment and stabilization programs. In the 1990s, we had aid for democracy and governance. And now, in the 2000s, we have glamour aid, where everybody feels like they can go and adopt a child and start running around the continent with a new scheme. It's all

been tried, and yet we're not addressing the fundamental point. We will never, ever, ever, by giving money to anybody for free -- without there being any credible attached incentives -- we will never get a situation where we get the institutions and the growth and the reduction of poverty that we're seeking. We know this. We know what China has done. We know what India has done and Brazil and Russia. Even on the African continent itself, there are countries such as South Africa and Botswana, countries that do not rely on aid to the extent that most African states do. Let's not try and invent a wheel. We know what works. Change your attitude with respect to Africa.

I'm not letting you off the hook I'm not saying go to your homes and don't do anything with respect to Africa. I'm saying we know how to intervene. Provide capital in terms of micro-financing. Support entrepreneurship. Encourage our governments to open their markets - - to the extent that they will. Encourage them to hold African policy makers to account. Treat Africans as equals as opposed to as children. If we get past that, I'm telling you, my continent will rise and be an equal partner on the global stage.

SL: You'll see that I've mellowed and calmed down since the last outburst. Let's look at a couple of countries which are important. Look

at Botswana. For several years in this century, Botswana was receiving four times as much aid per capita as the average across the African continent. Why? It was because the aid made it possible for Botswana to survive the force of the pandemic, and be able to develop and move to economic growth. The two worked in tandem. Rwanda, a country of which Dambisa is particularly fond -- for good reason, because the president of Rwanda summoned his entire cabinet when her book was launched in Rwanda and they all bought copies, did you sign them?

DM: Absolutely.

SL: Okay.

DM: And they gave me some aid money in payment for it.

SL: I'm going to avoid the obvious. Paul Kagame has been public in his support for Dambisa's thesis. In fact he wrote an op-ed in the Financial Times in which he complimented Dambisa on the book. And he said that he wanted to reach the day where Rwanda was free of aid -- a perfectly legitimate objective. Let me point out that over fifty

percent of Rwanda's present budget comes from aid. Is Kagame happy about that? No. Does he want to release himself from it? Yes. Does he recognize that you can't do that in a peremptory and abrupt fashion, that if you're going to build a society with economic and fiscal integrity you have to use aid as the transition point even when you've got a country which is pretty autocratic, which everybody agrees has, alas, happened within Rwanda? Yes. And there's no avoiding that.

You can't talk in abstractions about where we will turn for the money. We use the aid to move those states to self-reliance, to becoming strong economic entities and all of them who talk about it recognize that they have to have the aid as the transition. Has it been misused and abused? Sure. I regret that deeply. Has it been used by corrupt oligarchs? Absolutely. I regret that completely. Is the West bereft? Citibank, AIG, a number of others, let alone Madoff, that I could draw to mind. I was in the British parliament ten days ago, when the speaker resigned and I almost had traumatic apoplexy. I went into total withdrawal because the members of parliament had siphoned off so much public money. It bothers me when Africa is singled out as the culprit around corruption. Alas, corruption is an infection internationally which must be dealt with. You would think, in modern nation-states it wouldn't happen. But it does. And I genuinely

believe, Dambisa, we're not so far apart on this. I want to see the economic growth as much as you do, but I don't know how they get there without some transitional income to sustain them. And that's what's missing.

HDS: I need a minute.

DM: I need one, too. I have to say something.

RG: I'm going to allow Stephen Lewis to bookend this section, because there are a lot of questions from the audience and I want to be conscious of our time. So we're going to move on now.

DM: But Rudyard, can I just say something with respect to Rwanda? Because I think it is only fair if he's mentioned Rwanda...

RG: Thirty seconds.

DM: Thirty seconds. So you're right to bring up Rwanda, and I really, really wish that instead of me sitting here as merely a citizen of a continent of a billion people that nobody seems to really care about, it

were a president from Africa sitting here explaining their plan. Rwanda is an interesting case. Actually, over 70 percent of their budget is aid money and frankly, given what happened and the manner in which the world turned away when they were in the middle of the genocide fifteen years ago, it would suggest to me that they have every reason to guilt trip the whole world. Bill Clinton was here last week, as it was pointed out, talking about how he still feels bad about that. They could guilt trip us and keep asking us for ever more money. So the question is what is it that President Kagame sees, that puts him in the forefront of the people talking about the ills of aid? And I'll share with you what he told me -- I'm going to paraphrase his comments to me about this whole system. His arguments are mainly philosophical, where I've approached this from a much more economic perspective. But I think it's very important to give you his key point, which is that any country in Africa or around the world that would sit back and rely on aid has not experienced genocide. They have not experienced a situation where the Western world, the donor community, turns around and walks away. And the fact of the matter is, that by voting for the motion that aid is a good thing and should be continued you're actually asking us as Africans to continue to sit back and rely on your tax money to sustain ourselves. We cannot do that. We will remain

vulnerable. We cannot do that especially when you have your own budgetary pressures in the West. Look at the U.S. borrowing from China. They don't have money either.

RG: Dambisa, I'm going to have to ask you...

SL: I want to...

RG: Hold on, guys. I'm starting to lose control here. I had a bit of creditability at the start of this exercise, but now I'm...

SL: I've never had any credibility so I don't have to worry about losing it now. I want to make it clear that I chat with Kagame, too. We're pals. And we've had very serious conversations about the genocide, and I understand his reluctance to be reliant on aid in the aftermath. But let me make another analogy. You've got Ellen Johnson Sirleaf, the first woman president in Africa. She's the president of Liberia and she has written a stirring op-ed for the Washington Post, saying it would be a terrible mistake to cut back on aid for countries like Liberia, when they're attempting to transition into modern nation-states. She's the leader of another country in Africa that is coming out

of conflict, and she understands the need for aid. But a lot of countries in Africa are coming out of conflict. And, it is terribly important to recognize that they all understand that aid is the transition, just as it was for Botswana -- which didn't experience the conflict -- just as it is for Ghana, Senegal, Mali, Tanzania, Kenya, Uganda, Lesotho. All of these countries rely on aid to get them where they want to go. Please don't disparage it as a vehicle of emancipation.

HDS: What do I have to do to get a word in edgewise? Do I have to say I know Kagame?

DM: So when is the exit? When is the exit? Sixty years. It has been 60 years.

SL: You have to speak to the right and the left.

RG: We're going to have to move on. As part of the Munk Debates, we've had an internet competition where the question that got the most votes would be asked first tonight. And it is good timing, Paul, because it is related to some of your experience. Again, this was a question from the Munk Debates website. Are sites like kiva.org --

kiva is a micro financing/person-to-person investment site -- really the silver bullets, this web-user asks. Some argue their benefits are exaggerated and they have their own negative dynamics. Are these concerns substantiated?

PC: First of all, there is no silver bullet. The transformation as these countries enter middle-income is going to be a hard struggle. The kiva website, yes, of course it's a good thing. I think the benefits of microfinance are real, but they're exaggerated. The truth is that these countries will develop predominantly through larger organizations, rather than through the micro. There's a lot of romance around the micro, both in the rural areas -- the sort of love affair with peasants -- and in the urban areas -- the love affair with the informal. In many ways, peasants and these sorts of tiny businesses of the informal sector are a consequence of the larger failure to get the formal urban economy growing. That is what happened in East Asia. The urban formal economy took off. To get that take-off we need platforms of good infrastructure which the private sector is not willing to pay for. So we need public capital to lead that process in.

RG: I sense I could ask Hernando a question, but he's got something on his mind here.

HDS: No, no. Ask the question.

RG: So, I guess the other question off the website was for you, specifically. And it was a user who said, is the trade-off between free markets and foreign aid really a false choice, a false dichotomy? Can't we have both in equal amounts?

HDS: Oh, absolutely.

RG: So large scale foreign aid, transfers of hundreds of millions of dollars...

HDS: Oh, absolutely. And let me tie it in with what I was about to say. And you'll see that it ties in very well. I repeat -- I haven't talked about cutting off aid, anywhere. What we've said and I think that's the emphasis of both Dambisa and myself, is that it has got certain objectionable externalities. Let's get the numbers. The West gives ten billion dollars in concessional aid a year to developing countries,

concessional. In terms of overseas development assistance, which comes with all sorts of guarantees, it's about 105 billion dollars. And private sector, assisted by export guarantees and others, is about 472 billion dollars. That's what we're talking about. Now, here is what happens and the kind of thing I would like to see understood. It is that the market, at least to me, not a guy from the north but from the south, offers the capacity and the possibility of comparing. I admire this as I see it working in Canada and I see it working in Europe. And although I am so grateful that you have decided to untie your aid, so that you can use Canadian funds to fund something that happens elsewhere, we are still talking about the ten billion dollars. What interests me is the other 500 billion.

And let me tell you how that's tied up, which isn't through finance. The way it's tied up is that aside from the people giving charity and doing good and wonderful work all over the world, there are other sectors which are called export credit guarantee departments. You've got the *Compagnie Française de Commerce Exterieur*, the Export Credit Guarantee Department, these other organizations, and what they do is they give concessional aid to each developing country and they say, what we're going to do is fund your studies on how you're going to do a hydro-electric plant or on how

you're going to do your infrastructure or on how you're going to do a meat-packing factory, whatever it is. But since, of course, we don't really trust you -- you're from a developing country -- we'd like to supervise this technically. So we will have a local company -- it's not tied -- supervising the studies. Of course, what does a Belgian engineer do when he draws up the specifications? He calls up the local factories and he gets the specifications from Belgians. A Frenchman calls up *ses compagnons* and the British call up their friends because that's where they get their information. Engineers don't build up specifications. They're made in different factories. Then they write up the specifications and they tender them. Fair and square, says the World Bank. And overall, the average surcharge is 60%. Let me tell you, using figures given by the Pakistani National Development Commission, prices for projects coming from Germany could go up 392% for using so-called assistance aid, over those in the market. In the case of Italy, it is 240%. In the case of Japan, it would be 123%. It isn't that the German government wanted to do this, or that the Japanese government wanted to, it is just simply that the private sector will always go for profit. So much for being a neo-liberal. They will.

What's the only way to protect yourself? Getting a well-intentioned politician to tell you they're untying aid? No. Allowing us to compare. What do you call comparisons? Comparisons are called markets, so yes there is a way of making both sides live together. Make aid compete with the private sector. Let's get the price out in the open instead of tying it, because it's concessional.

RG: The next question here -- and maybe we can just go around the horn -- is from someone writing about Haiti and saying that Haiti is a country in which Canada has invested a lot. It has various national and other connections to us. What are the one or two specific policy prescriptions you prescribe for Haiti? Let me start with Dambisa, and then I'll go to Paul.

DM: I think Haiti is another example of the failure of an aid system. People want jobs. It's as simple as that. They don't want charity. They don't want handouts or sympathy or guilt or pity or whatever you want to call it. They want jobs. The question then becomes, how do we get a situation where we can create jobs in a place like Haiti? There have been a number of interventions over the years. A lot of them have been aid-based interventions in places like Haiti. Of course,

the political system there is unstable, but again I would argue that is essentially an artifact of the aid model. And when we start thinking away from the aid model, the obvious alternative is the free market system which has, whether we like it or not, delivered wealth. I refer you to Obama's inauguration speech where he did say, if I may paraphrase, that the free market system is still the best system in creating wealth and creating freedom. So we might all be tempted to throw out the baby with the bathwater, but let us not forget that the free market system has still delivered over the long-term. And I would argue that, unfortunately, this is not the system that is applied to places like Haiti. We continue to push aid. It's the easy thing to do. We just send them a little money and keep them out of our hair and, unfortunately, that's part of the problem.

RG: Paul, Haiti is one of the countries that you're advising right now, is that correct?

PC: Yes. I was just in Haiti a few weeks ago. I addressed 250 businessmen and women there. I got a standing ovation and someone said to me, you realize this is 80 percent of the entire private wealth of Haiti, in this room. It's a small economy. But it is a classic case of a

country that from its own resources has not been able to develop. It needs really effective international support across the full range of policies, otherwise it's in a cul-de-sac. Now, until recently, it hasn't had that full range of intelligent international policies. It has had gestures. And that's the trap that aid has got into. It's had the politics of gestures rather than effective intervention.

But at last in Haiti, the international community is getting it right. The hardest thing has been the Brazilians going in and securing the peace. They've been there five years and have made the difference between large scale violence and order. Without order, you can't do anything. But that's been done. The next thing was to create some economic opportunities. And Dambisa is entirely right. The key thing in Haiti is jobs. Jobs for young people. It has got one of the fastest growing populations in the world and it needs jobs. There aren't any. We know how to create jobs in the private sector through areas like manufacturing. But Haiti is not competitive against China. And that's where trade policy comes in. America has given ten years guaranteed privileged access to its markets for Haitian products. And now having got that privilege of access -- and it has had it for 18 months -- nothing has happened. Why has nothing happened? Because the private firms that could have moved in were saying that

the infrastructure was terrible. Would the private sector fund the infrastructure? No, it is actually waiting for public sector guarantees to fund the infrastructure, and so the private sector is now waiting on the public sector. Now, the public sector, which basically means Canada, has a choice as to whether to continue with the old aid agenda, or switch the agenda to financing the infrastructure which would then unlock the private investment. That is the strategic use of aid and that's Canada's decision now. But if Canada just says, we're giving up on Haiti, if the international community says, we're giving up on Haiti, if the Brazilians go home, if the U.S. says, forget it, we're giving the same trade deal to everyone, Haiti won't suddenly get its act together and turn round. I think it will just plunge into further despair. So we have an opportunity, as an effective international community, to make Haiti's future very different from Haiti's past. I hope we take it.

RG: Hernando, I want to go to you because I believe the government of Haiti is looking at what you're doing at your institute. And they're applying some of those ideas to the challenges that they're facing on the ground.

HDS: Absolutely. First of all, Paul I would request that you thank the Brazilians and the Peruvians, because the other troops in Haiti are Peruvian. Secondly, what I think is important, before getting into the economics of it, is the politics of it. What Haiti needs to be able to do is to represent its own people. You have a tendency in the West to be really out-foxed by us in the third world. If we elect a parliament, if we've got an executive branch, if we've got a judiciary, you send in Jimmy Carter to say we did it right. It's a lot deeper than that. What you have also got, is that all of your parliamentarians respond to specific districts. They've got to go back home. And they've got to address a specific constituency that wants questions answered. In Haiti, like in all of Latin America, there are no real district elections for the politicians. They come from party lists, and what happens therefore is that the parties do not know or respond to the grassroots. They respond to the politicians.

So, I would say a fundamental reform in Haiti would be to get real democracy. We can't invent it. You've already invented it, for Pete's sake. So let's just imitate what you've got, which is local representation and decentralization, which is making sure that politicians govern according to feedback, which is where we in the third world are really going wrong. Third, something I think is

important to understand is that Haiti isn't alone. It's one of two countries on an island called Espanola, where you may remember, Christopher Columbus landed. And one of the interesting things is that if you look at the border between Haiti and the Dominican Republic, you'll notice that the Dominican Republic is all green. And when you look at the Haitian border, you can see a straight line and it's all brown on the Haitian side. What's the difference? It's that Leonel Fernandez and the Dominican government listened to our stuff and created property rights. People go in and are actually able to plant seeds because they know that it is an investment that will pay off, because they own the land. They don't have that in Haiti, so the first thing they need is a system of property rights. I remember when I first met President Aristide and President Préval, the first thing they said was that because of their socialist origins -- which is fine, those are my dad's origins, that is where I come from -- they were going to do agrarian reform. It's enough, they said, of Papa Doc and Baby Doc and all the Duvaliers and all their high-flung friends. We're going to establish some distribution here. And they went themselves with technicians from the best schools in France. But they had to come back empty-handed two months later because they didn't know who owned what. How can you distribute and redistribute if you don't, first

of all, have a property records system? For Pete's sake. There's only one way to do it. Record them. Then you can decide whether someone has too much or too little. First of all, give them property. When you do that, what will actually happen? According to our evaluation, the value of extra-legal assets in Haiti, both in the urban and in the rural sector, is no less at replacement value -- you have that hut, what would it take to rebuild it? We're not even going to put in market value, just replacement value, which is about 15 to 20 billion dollars. What's 15 to 20 billion dollars? It's 40 times more than what all you North Atlantic people have offered Haiti, that's what it is. So it goes by internal reform.

There's nothing wrong with Brazilian troops, there's nothing wrong with Peruvian troops, there's nothing wrong with Canadian aid. Just stop trying to invent the wheel when you've already got the wheel at home and you don't even apply it to your own indigenous people. If you don't want to do that, don't do that. But please treat us, in the third world, as white people.

SL: Let me put in a plug for Hernando's book, *The Mystery of Capital*, because at the back of the book there are some absolutely fascinating pictures and graphs of the worth of various respective properties in

various countries, extrapolated to total worth, showing that this property transaction is really quite fascinating. I will admit to you, since I have no economics background whatsoever -- I've always believed in Prudhomme's dictum that property is theft -- that I'm gradually being converted this evening, Hernando. But how does all of that, assuming that it is valid -- and I don't dispute it for a moment -- how does all of that meet Dambisa's clarion call for jobs, jobs, jobs, and Paul's recognition that Haiti is on the knife's edge and that what must be done is infrastructure now in order to bring the private sector into the job creation? I mean, we can forever discuss the undoubtedly fascinating and important dimensions which may come down the road. But how do you get the infrastructure now, if the only way you can get it is through public aid, and then you open up your job markets through private capital? I think that's the essence of the argument.

RG: I'm going to be conscious of our time, but I'm going to allow Dambisa to end this question and answer session with a response to Stephen's remarks.

DM: Well, if it were so obvious that all we need to do is send some money to get some infrastructure, why the hell haven't we done it all this time?

SL: Because it's Canada.

DM: Frankly speaking, I don't know if you're aware of this, but actually there have been some amazing innovations in Africa. The PAIDF, the Pan-African Infrastructure Development Fund, and the Development Bank of Southern Africa are two initiatives where they are trying to raise private capital to finance infrastructure. Aside from the Chinese - - and I entitle one of my chapters, The Chinese are our Friends -- they are building infrastructure that the West has failed to do in 60 years. There are roads now in Africa, bridges, ports, railways, where there have not been for years. If it is really just about infrastructure, why the hell don't you just go in and build the roads? What exactly is the problem? As far as I'm concerned, this is just sitting around and having a nice chat. We know what we can do. We know what has been done to generate growth and reduce poverty. There's no need to sit around here and start thinking about what it might be. Is it a matter of tribes? Is it a question of being landlocked? No. It is about jobs and

the fact of the matter is you don't bring about those types of job-creating environments by relying on aid. We know what works. Let's implement it. Let's stop talking. The fact of the matter is we get an A for theory and an F for implementation. We know what works. Let's not forget that.

RG: I'm going to leave the stage and we're going to have our final four minute remarks from our speakers. We're going to do this in the opposite order that the introductory remarks were presented. So Dambisa, we're going to give you the microphone first, followed by Paul, then Hernando, and then Stephen you'll bring us home.

DM: I think I've actually said most of what I wanted to say, but I do want to add a couple of things. It has been 60 years and a trillion dollars of aid. Let's not forget this, ladies and gentlemen. Peter Bauer, to whom my book is dedicated, some of you may know was a Hungarian-born economist who, in the 1950s and 1960s, was very critical of the aid system. He was ostracized and pilloried and honestly, if I had lived at that time as a policy-maker, I may have been one of the people throwing tomatoes at him. He came up with a brilliant quote, which I'll paraphrase here, that aid money is money taken from

the poor in rich countries and sent to the rich in poor countries. I'm sad to say today, that amongst a whole list of problems that Peter Bauer had anticipated, he was right. He died in 2002, and there was some semblance of him coming back into the fold, but he was essentially ignored.

Ladies and gentlemen, this evening you have two choices. You can, on the one hand, vote for the team over there, which in a sense is basically voting for continuation of the state models of aid, a continuation of taking money from your societies and passing it along to our societies. It is, by the way, no surprise that Hernando and I come from the emerging countries -- the very places that you're trying to help -- and we're sitting here and telling you we don't want your money. On the other hand, you can vote for innovation, for a new approach -- though it isn't really a new approach in the sense of it being something that's untried and untested. It's an approach that we know works. We know how to create jobs, we know how to put a man on the moon, we know how to get Africa out of the quagmire that it is currently in. If, however, after the arguments that Hernando and I have laid before you, you decide that you're going to go ahead and vote with Stephen and Paul, I'll be waiting outside as an African woman to take some aid money from you. Thank you very much.

PC: What would actually happen if the international community was not involved in Africa? I'll tell you who'd be on the stage tonight. It would be China. I don't want to be too negative about China. It is doing some good things. But the idea that China would discipline African governments to provide good property rights and good governance is hard to digest. Do you remember three or four years ago, the vice president of China toured Africa and his calling card message was, we don't ask any questions. What did he mean by that? In other words, an unrestrained China, without any international competition, would be a pretty dangerous thing. It would leave Africa in the cul-de-sac. It would be back to the model of resource extraction without benefit. Now, how do we get out of the cul-de-sac? And let's recognize that a cul-de-sac is what a lot of these countries are in. Dambisa says that we've had 60 years of aid and that it has been a failure, but actually, over those 60 years, aid has had periods of amazing success.

If we go back before 60 years, which is when aid was invented, we see that it was invented by North America in order to restore my own region, Europe. Europe in the late 1940s was a fragile mess, both politically and economically. It was a ruin. And North America knew

that it had to get serious, which is the difference between then and now. North America got serious by combining the aid with intelligent trade policies, with security policies, and with efforts at governance. That worked. And we then got into a period where aid, instead of being used to reconstruct societies, was used to buy them onto our side instead of the Soviet Union's side. Right through until the early 1990s aid was diverted into a different agenda. Of course, it didn't develop Africa. It wasn't meant to. It was meant to buy the support of a bunch of dictators. It doesn't have to be like that.

In a democracy, and the Organization for Economic Cooperation and Development countries that provide aid are all democracies, the quality of the policies that you get depends on citizens. You get the aid policies that you deserve. In the past, most people in the OECD have not been sufficiently engaged or sufficiently up to speed, so the aid policies you've got have been given to you by politicians and have been gesture politics. Like a photo opportunity of a politician kissing a baby. It doesn't have to be like that. You must get up to speed. That's the virtue of debates like this. Once you're informed, once there's a critical mass of informed citizens in Canada, in America and in Europe, aid and the other array of development policies can become serious.

We can repeat the success of 60 years ago, when North America recovered Europe. Thank you.

HDS: First of all, I'd like to thank the organizers and the Munks for inviting me. I'm delighted to be on a panel with people who care. We all care about development, each in our different way, and it's good to be here because there are a lot of people who don't care. I'm also glad that we've actually focused on Africa, having such a brilliant author next to me as my debating mate. Obviously, this merits us specially focusing on Africa. It is the continent that probably needs us the most. And it is good that we focused on it. That is why, again I'll point out that the idea of the rule of law starts with property. You can't establish rule of law if you don't know who is where. It's as simple as that. Whatever you decide to do, however you decide to think things out, look at the newspapers in the coming days, or in the coming months or years.

Because of the recession, we've lost focus on the fact that there is a food shortage in the world. And the food shortage is because there are 1.7 billion hectares in the world that are being cultivated and that feed the whole globe. And it is obviously not enough. We've done the

green revolution. We've done that and we need more land. And there's 2.7 billion hectares left in the world, most of which are in Africa.

Now, you watch. What is happening now in Africa and what is going to happen, unless you start giving indigenous Africans titles to their property, is that it will be taken over not only by the Chinese but by large corporations. And then all hell will break loose. Then you'll understand why it is so important to give property rights. They may not have capital but if you're given ownership -- whether it is Hershey whether it is Unilever -- whoever is coming in to invest will say, well, you've got the land, but you can't do much with it unless I build a road. You can't do much unless I move the stones away. You can't do much unless I arrange the irrigation systems. I'll tell you what. I'll give you 50%. And that would be 50% more than they've got today. That's how capital begins. If you don't do that, Africa is up for grabs.

The next thing that I think is important to remember in all of this, is that the reason you're a great country is because your two heads of Janus facing opposite directions inside the country have come to terms with each other. You've got Canadians who believe in property rights and individual rights and growth, in conquering the world, in creating treasure, in creating enterprise. And, you've got on the other side, Canadians who like community, who want social

harmony, who want to take care of the poor, who want to take care of women's rights, who want to take care of minorities. And the advantage that you've got in Canada is that your political system brings the two heads of Janus together, and you've to work it out so that you look at your left side and you look at your right side. You've got markets and you've got social caring. What I've been trying to say from the beginning is that when you go out into the world, you then divide it, and I repeat, you put Paul Ruben in Treasury and you put someone else at the United Nations, and you talk to us through two different heads. And the development on the aid head is on the left and you've got to bring some of the market principles inside, because otherwise you can't get that happy conclusion that you actually have in Canada. You've got to find a way of structuring and talking to us in a coherent manner, instead of asking us to be victims of your right -- through capitalist exploitation -- or victims of your left -- through fantasy projects.

And the important thing that you've got to understand, even when looking at your indigenous people, is that we will one day look left and right, both in Latin America, Africa and Asia. That's the 21st century way to look at politics. But we're not there yet, your indigenous people are not there. They're frozen into the 1870 Indian

Act. The issue when you're living in the 19th century isn't left or right. It's up or down. Once you look at it that way, you can start talking.

SL: I've enjoyed immensely this exchange with Dambisa and Hernando and Paul. I thought Paul's summation was so extraordinarily lucid and persuasive that I'm going to vote for him. I have three points I want to make, if I may. Let's provide a moment's perspective. I don't know where the trillion dollars comes from. I've never seen any precise sourcing ...

DM: From the World Bank.

SL: But this year, 35 billion dollars is going by way of foreign aid to Africa. That's thirty-five billion dollars. You saw what we're paying for the General Motors bailout. It will be over 60 billion dollars. You saw what the Pentagon spends in a year. It's over 600 billion dollars. We now have 11.5 trillion dollars internationally devoted to bailouts and subsidies. What we're doing with Africa by way of aid, in response to requests, is so picayune and marginal that it shouldn't be overly inflated. It is an effort being made as genuinely as possible to provide the transition to fully vibrant and mixed economies. Number two, it's

important and good to invite private capital in, but private capital tends to move to the one place where there is a predictable return, and that's in the natural resource sector. So you get China developing oil in Sudan, you get a number of private companies in the Democratic Republic of Congo, which is having a war of the most insensate atrocity, which is rooted in the resource base. And it's important to recognize that private capital doesn't always go where you want it to go, nor does it have the consequences that you want them to have.

Yes, I'm preoccupied with sexual violence. It drives me crazy that a quarter of a million women have been raped in the Congo over the last several years, and it's running at a level of over a thousand a month in the Kivu alone, and it is all because of resources and the resources are being developed by the private sector. It is terribly important to recognize that when one has these investments they don't always work quite as you would wish them to work. Witness Angola, as my colleague gave evidence for.

And the final point I want to make, which hasn't been introduced into this debate at all, is triggered by your reference, Hernando, to food. The Intergovernmental Panel on Climate Change, 2000 of the world's most eminent scientists, has come to the conclusion that the consequences of global warming -- by the year 2030 -- will be felt

most forcefully by Southern Africa. In other words, by all of the countries which are now consumed with the struggle against poverty and disease. Sometimes, I think it's like some kind of conspiratorial network. But the fact of the matter is, if the panel is right -- and so far we have underestimated the impact of climate change in the world -- there will be more drought. There will be more famine. There will be more hunger. There will be an absence of household food and security. It is terribly important that the world need not be so self-centered. That what happens is what Paul referred to in his book, where he has a young son and he wants to explain to his son how a billion people were abandoned by the world.

And aid is just a vehicle, to make possible more humane and economically vibrant societies. It is not a mystery. It just works. It has been abused, but that's because of the way it was given. It need not be, and that's what we're arguing for. Thanks for having us.

RG: Let me reiterate something that Peter said at the beginning of this evening. It's one thing to get up in front of a large audience like this and speak about your views with coherence and authority in the form of a set speech. It's something quite different, a whole other order of

magnitude, to do what these four individuals have done tonight. Let's all show our appreciation for their efforts.