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UNASHAMEDLY DANCING TO A NEW TUNE: WHAT DOES UK AID SPENDING IN AFRICA MEAN FOR TRADE POLICY?

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Articles

Theresa May's recent trip to South Africa, Nigeria and Kenya saw the announcement of additional funding for Africa, and a shift in the UK's approach to international development funding. In this article we examine this change of dynamic and consider what this may mean for UK trade.

UNASHAMEDLY DANCING TO A NEW TUNE? A SHIFT IN UK AID SPENDING IN AFRICA

In the first visit by a UK Prime Minister to Africa since her predecessor David Cameron's trip to Nigeria and South Africa in 2011 (although he did attend Nelson Mandela's funeral in 2013), Theresa May announced an additional £4 billion in development spending from the UK government. Approximately £3.5 billion of spending from the Department for International Development will be funded through CDC, the UK Government's development finance arm (which invests in the private sector in Africa and South Asia), with a further £300 million from the Private Infrastructure Development Group, which focuses on providing essential infrastructure. The UK government will also seek to mobilise a further £4 billion in private sector investment from the UK by 2021. The UK government has yet to provide details of the appetite from the UK private sector for this, or of the market sectors likely to be involved.

WHAT DOES THIS CHANGE?

The British government wishes the UK to be the G7's biggest investor in Africa by 2022, from its current positon of second to the United States (with respective direct investment figures of £44.3 billion and £42.7 billion in 2016).

The Prime Minister's visit marks two major shifts in the pattern of UK aid spending; (i) from a focus on poverty alleviation to one of investment into Africa's private sector to target security challenges and business and job-creation, in an effort to promote sustainable, long-term economic growth and; (ii) a change from untied to tied aid.

The shift towards a model closer to tied aid may appear surprising; it was only in January 2018 that Penny Mordaunt, the International Development Secretary, was quoted in an appearance before Parliament's International Development Committee as saying that "tied aid does not work".

WHAT IS TIED AID?

Tied, or bilateral aid, is money with strings attached; the donor country can set conditions on where the cash committed is to be spent. For instance, a recipient may be required to purchase a certain proportion of goods and expertise from firms in the donor country. The Blair government sought a move away from tied aid in 2000, although the extent to which the UK has really followed this policy since has been debated.

Tied aid is used by a number of other donor countries, such as the United States; in order to access funding from the Overseas Private Investment Corporation, recipients must demonstrate a real US nexus, such as the use of US contractors or equipment (for example, the Amandi power project in Ghana, which was part-funded by OPIC to the tune of US$ 250 million, used turbines supplied and constructed by GE, an American industrial conglomerate).

Tied aid has been criticised by some in the development community as being potentially harmful to the recipient nations, because it focuses spending on the industries of donor countries, rather than helping to build capacity and expertise at a local level.

THE REACTION

Given the UK's impeding departure from the EU on 29th March 2019, with the terms of the future trading relationship yet to be agreed, the UK government has been quick to emphasise the trade benefits of the Prime Minister's visit to Africa, with the Department for International Trade highlighting the rolling over of the EU's deal with the Southern African Customs Union member states to the UK upon Brexit. The shift to a model in which aid spending should directly benefit British businesses should also help address criticism within the UK that aid money should be targeted at domestic problems.

The PM's announcement was broadly welcomed by sections of the UK press, with the Daily Telegraph commenting that "Theresa May's focus on UK-Africa ties is long overdue" and the Sun hailing this as

"exactly the type of buccaneering move that will make that [Brexit] vision a reality". The view from Africa itself was somewhat more muted, with South Africa's News 24 describing the Prime Minister's Africa agenda as "smacking of desperation" and self-serving, and Nigeria's Daily Post criticising President Buhari for failing to extract sufficient gains from the Prime Minister's visit.

TRADE IN SERVICES

Although mention of trade tends to conjure up images of shipping containers and lorries, the service sector makes up around 80% of the UK's economy, and will be crucial to the UK's future as a trading nation post-Brexit. It was noteworthy that among the 28-strong trade delegation accompanying the Prime Minister on her three day visit to the continent, the head of the London Stock Exchange and Standard Chartered Bank were present, as well as representatives of a start-up platform providing farming advice, along with more traditional providers of goods such as JCB, farming concerns and the Scotch Whisky Association.

The UK's trade arrangements will likely change significantly over the next few years, with new markets becoming potentially more important following departure from the European Union. While only time will tell whether the Prime Minister's visit to Africa was the first instalment of a new chapter in British trading history, it presents an exciting opportunity for UK businesses.

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