Melting the golden curtain:
The funding of the Millenium Development Goals

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"After the lifting of the *Iron curtain* between East and West, it is the great challenge of our time, now, to lift the *Golden curtain* which separates us in the North from the people in the South … " Bedford-Strohm (2006)

ABSTRACT

This paper considers the pressing international challenge of poverty eradication from the perspective of the funding of the Millenium Development Goals (MDGs), set for achievement by 2015. The global challenge is to ensure that the golden curtain between the rich north and the poor south melts away in the shortest possible time.

The roles of rich and poor countries differ in their quest to alleviate poverty. From the perspective of the rich countries comprising the Development Assistance Committee (DAC), the funding of the MDGs within the timeframe to 2015 no longer seem affordable. The DAC countries continue to suffer financial difficulties in the aftermath of the global economic crisis and Great Recession of 2008. This paper assesses the ODA flow from DAC countries over the period 2000 to 2012 and reasches the conclusion that the MDGs will be underfunded in 2015. These goals will therefore not be achieved in all poor countries by 2015. Based on recent ODA flows, this paper shows that the MDGs set for 2015 will only be fully funded by 2027.

From the perspective of the poor countries the MDGs are problematic in as much as they hardly place any commitments on these countries. The MDGs set no clear requirements or commitments for the eradication of impediments to growth such as

[1] The views and opinions expressed in this paper do not necessarily reflect the views and opinions of the University.

political oppression, a lack of democratic processes, maintanence of property rights, and/or disregard for the rule of law. Africa has shown clearly that liberation movements are not necesarily democratisation movements.

It is shown for the first time in this paper that South Africa serves as an example for other countries in meeting ODA targets when customs union and seignoirage sharing transfer payments to neighbouring countries in access of economically justifyable levels are taken into consideration.

Key concepts: customs union payments; CMA; democracy; economic development; economic growth; liberation movements; Millenium Development Goals (MDGs); political oppression; poverty; property rights; rule of law; SACU; seignoirage sharing; South Africa

JEL codes: O10, O11, O16

1 Introduction

The Millennium Development Goals (MDGs) were accepted by the member countries of the United Nations (UN) in September 2000 (see for instance Todaro and Smith, 2011; or United Nations, 2000). The aim of the eight MDGs is to make progress with the eradication of poverty and to enhance human development by 2015. At the time when these goals had been set (i.e. 2000), 2015 was a long time off, while it is now only some two years away. This paper assesses whether the funding of the MDGs can still be regarded as realistic, and considers the approach to be followed after 2015.

In this assessment it should be noted that certain parts of the world made considerable progress in the alleviation of poverty, while similar progress was not made in Sub-Saharan Africa. In the analysis of poverty alleviation and progress (or otherwise) with the achievement of the MDGs, it is necessary to distingush between economic growth and economic development. The former can be described as increases in production and income per capita, while the latter can be described as improvements in income distribution and economic structures (Nafziger, 1990:8 and 9). As far back as 1965 Kindleberger (1965) described economic growth as increased output owing to improved efficiency and economic development as changes in the structure of production, but stated that “(g)rowth and development go together ... " (Kindleberger, 1965:3). In view of Kindleberger's assessment, economic growth and economic development are used interchangably in this paper in as far as poverty alleviation is concerned.

The rest of this paper is structured as follows: Section two assesses the MDGs and literature on the MDGs. Section three assesses the degree to which donor countries adhere to the Official Development Assistance (ODA) targets. Section four analyses for the first time South Africa's unique contribution to ODA. Section five considers the possible contribution of poor countries to poverty alleviation. The conclusions follow in the sixth section.

2 The MDGs

The MDGs comprise a set of eight goals and each one of these goals is quantified in terms of one or more targets. The eight MDGs and their respective targets for 2015 are (see for instance United Nations, 2000; or United Nations, [S.a.]):

Goal 1:		Eradicate extreme poverty and hunger
	Target:	Reduce by ½ the portion of the population living on less than US$1 per day; and who suffer from hunger
Goal 2:		Achieve universal primary education
	Target:	Ensure that all children complete a full course of primary school education
Goal 3:		Promote gender equality and empower women
	Target:	Eliminate gender disparity in primary and secondary education[2]
Goal 4:		Reduce child mortality
	Target:	Reduce by ⅔ the mortality rate among children under 5
Goal 5:		Improve maternal health
	Target:	Reduce by ¾ the maternal mortality ratio
Goal 6:		Combat HIV/AIDS, malaria and other diseases
	Targets:	Halt the spread of HIV/AIDS
		Halt and begin to reverse the incidence of malaria and other diseases
Goal 7:		Ensure environmental sustainability

[2] The initial target was set for 2005, but as this was not achieved, the revised date is 2015.

Targets: Integrate sustainable development into development policies and programmes

Reverse the loss of environmental resources

Reduce by ½ the people without access to safe drinking water

Improve significantly the lives of at least 100 million people living in slums[3]

Goal 8: Develop a global partnership for development

Targets: Progress with the development of open, rule-based, predictable and non-discriminatory trading and financial systems

Commit nationally and internationally to good governance, development and poverty reduction[4]

Address the special needs of least developed countries by means of tariff- and quota-free market access for their exports

Enhance debt relief for heavily-indebted poor countries (HIPCs)

Enhance the cancellation of official bilateral debt for highly-indebted poor countries

Offer more generous ODA for countries committed to poverty reduction

Address the special needs of landlocked countries and small island states

Deal comprehensively at a national and international level with the debt problems of developing countries to make debt sustainable in the long run

Develop and implement strategies for decent and productive work for youths in co-operation with developing countries[5]

Provide access to affordable essential drugs in developing countries in co-operation with pharmaceutical companies

Make the benefits of new technologies, particularly information and communication technology, available to poor countries in co-operation with the private sector

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3 This target has been set for 2020, rather than 2015.

4 This target places an obligation on poor countries to commit to good governance, development and poverty reduction, but without measurable objectives, e.g. agreement that presidents will not serve for life, but rather for fixed terms.

5 This is a somewhat interesting target, as it could be read to imply that other goals or targets should be achieved without the co-operation of developing countries, which cannot have been the intention of the MDGs and the targets.

Poverty alleviation and development challenges facing poor countries receive wide attention in literature covering economic, political, social and other research, although recent research does not always focus on the MDGs (see for instance Anyanwu, 2006; Bedford-Strohm, 2006; Beinhocker 2007; Epstein, 2002; or Michie, 2006). Earlier literature on poverty and development challenges is as abundant and includes, for instance, Grossman (1974), Heilbroner (1975), Kindleberger (1965), and Stiglitz (1997), to name but a few.

Different theories of economic growth and development have developed over time. The most important two are the structural and orthodox theories (Agénor and Montiel, 1996:13; Contreras, 1999).[6] These theories provide a framework within which progress with the achievement of the MDGs could be considered.

The structural theory is based on the premise that structural deficiencies in economic systems result in the failure of conventional fiscal, monetary and industrial policies in poor countries (Contreras, 1999; Odekon, 2006:x). This theory focuses, *inter alia,* on the inflationary consequences of currency devaluation in poor countries, owing to the adoption of orthodox neo-classical economic policies. The policy preference is gradualism and government intervention to restructure economies (Agénor and Montiel, 1996:14; Corden, 1987:185) in their quest for economic growth and development.

The orthodox theory stresses similarities between the economic growth and development requirements of rich and poor countries. In view of economic successes in rich countries, the policy prescription is that poor countries should (see for instance Agénor and Montiel, 1996:13; Contreras, 1999; or Shahzad, [S.a.]):

- liberalise their exchange rates;
- liberalise domestic markets;
- liberalise international trade;
- adopt tight monetary and fiscal policy; and
- limit government intervention to ensure efficient and cost effective allocation of productive resources.

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6 The linear-stages and the neo-Marxist growth and development theories have received less attention in recent times (see for instance Contreras, 1999; or Moloto, 2005:35).

Although the debate between stucturalists and supporters of the orthodox theory will probably hardly ever be settled to any degree of finality, supporters of both theories agree that poor countries lack well-functioning financial markets to promote savings and investment in support of long-run economic growth (Aryeetey, 2003:ii116; Prasad et al., 2003:58). However, there is disagreement on appropriate ways of alleviating these shortcomings. In poor countries financial markets, *inter alia*, lack the necessary institutional structure for risk coverage and suffer imperfect information (Aryeetey and Nissanke, 2003; Dercon, 2005; Mlambo and Oshikoya, 2001). Although this result in fragmented and illegal parallel financial markets in foreign exchange, savings and lending (Agénor and Montiel, 1996:64; Aryeetey and Nissanke, 2003:313), these imperfections are often tolerated in the interest of some form of financial intermediation (Agénor and Montiel, 1996:65).

The application of structural, orthodox or combinations of these two theories, or of the now outdated linear-growth and neo-Marxist theories, have not guaranteed successful poverty alleviation and sustained economic growth in poor countries. If any of these theories guaranteed success under all circumstances, the debate on which approach to follow would have been finally settled, and the achievement of the MDGs would have been framed within such a theory.

Regions with a large portion of poor populations had mixed success in poverty alleviation. The World Bank used 2005 purchasing power parity (PPP) exchange rates and a threshold of US$1,25/day[7] to measure the number and percentage of people living in poverty in various regions of the world (World Bank, [S.a.]). Based on this threshold, all regions managed to reduce the percentage of people living in poverty over the period 1981 to 2005. The largest improvement was in the East Asian and Pacific region, where the percentage declined from 77,2 per cent of the population in 1981 to 14,3 per cent in 2005 (World Bank, [S.a.]).

Sub-Saharan Africa showed the smallest decline over this period, as the percentage declined from 51,5 per cent to 47,5 per cent, albeit with an increase in head count for poor people from 205 million to 386 million (World Bank, [S.a.]) over the period 1981 to 2005. Even since 2000, when the MDGs were adopted, the number of people in Sub-Saharan Africa living on less than US$1,25/day increased from 376 million to

[7] Previously US$1,00 was used for this purpose. See for instance Dikhanov (2005) or Ahmad (2003) in this regard.

386 million (World Bank, [S.a.]). The MDGs have therefore not achieved their targets in respect of Sub-Saharan Africa.

3 Official Development Assistance

Given the objective that the golden curtain (Bedford-Strohm, 2006:14) between the rich and poor countries should melt away (Rossouw, 2007), both groups of countries face challenges in ensuring the achievement of poverty alleviation. The MDGs place considerable financial obligations on rich countries, but it is doubtful whether these commitments can be met, following the sub-prime crisis[8] (see also the remarks of Moyo reported by Wallis, 2009:3 in this regard).

The MDGs are based on an implicit assumption that the 23 member countries[9] of the world comprising the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD) will each commit annually an amount equal to 0,7 per cent of their gross domestic product (GDP) to ODA (United Nations, [S.a.]).

The commitment of 0,7 per cent of GDP originates from a UN General Assembly Resolution of 1970 (Millenium Project, [S.a.]). This commitment was reaffimed in the Monterrey Consensus of 2002. ODA equaling 0,7 per cent of the GDPs of the DAC countries would have been sufficient to ensure the achievement of all the MDGs in all poor countries over the period 2000 to 2015 (Millenium Project, [S.a.]).

The target of 0,7 per cent has a long history. Initially discussions about development aid focused on both official and private sector development aid flows to poor countries. A target of 1 per cent of the GDPs of developed countries for develepment aid (comprising both official and private aid) was first suggested by the World Council of Churches in the late 1950s (Organisation for Economic Co-operation and Development, [S.a.]). Although DAC countries agreed to this target, its major flaw was that governments cannot control private development assistance and aid flows (Organisation for Economic Co-operation and Development, [S.a.]).

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8 Rossouw and Padayachee (2009) describe these events as *sub-crime prices*, with criminal intent aiming at immediate financial pay-offs in the structuring of financial transactions.

9 Australia, Austria. Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, The Netherlands, New Zealand, Norway, Portugal, South Korea (who joined the DAC on 25 November 2009), Spain, Sweden, Switzerland, United Kingdom and United States.

The target was subsequently revised to an ODA target of 0,75 per cent of the GDPs of developed countries, based on research of Jan Tinbergen, a well-known economist (Organisation for Economic Co-operation and Development, [S.a.]). Tinbergen calculated this target on the financial requirements of poor countries for the achievement of acceptable rates of economic growth at the time, rather than the affordability of ODA at such a level for developed countries (Organisation for Economic Co-operation and Development, [S.a.]). This was followed in 1970 by a proposal by the Pearson Commission that ODA should comprise 0,7 per cent of the GDPs of developed countries by not later than 1980, but preferably by 1975 (Pearson Commission on International Development Aid, 1970) This proposal was accepted by the United Nations on 24 October 1970 (Organisation for Economic Co-operation and Development, [S.a.]).

In practice most DAC countries fall short of the 0,7 per cent ODA commitment. In 2011 only five DAC countries (Denmark, Luxembourg, Netherlands, Norway and Sweden) met this commitment. These countries also met this commitment in 2009 and 2010. In 2011 ODA declined to 0,31 per cent from 0,32 per cent of the GDPs of the DAC countries in 2010 (MDG Gap Task Force Report, 2012). Compared to the benchmark of 0,7 per cent, this shows that DAC countries find it difficult to meet their commitments in the aftermath of the sub-prime crisis and the subsequent Great Recession.

With DAC countries already recording substantial budget deficits, an increase in ODA simply implies an increased fiscal deficit before borrowing and increased government debt for DAC countries. It seems that the funding of the MDGs has become unafforable for the DAC countries. It is therefore necessary to consider the approach in respect of the MDGs after 2015, as the MDGs will not be achieved in all poor countries. It seems at the moment that the only feasible approach will be to reformulate the MDGs in a time frame and with goals attainable with ODA equalling 0,32 per cent of the GDPs of the DAC countries, as this is the level attained by DAC countries in the recent past.

Based on the commitment of DAC countries in respect of the ODA envisaged for the MDGs, a total nominal financial value of the commitment over the 16 year period from 2000 to 2015 can be calculated, based on the following assumptions;

- the cash flow was calculated as if every DAC country would transfer 0,7 per cent of its GDP as ODA in each year from 2000 to 2015;
- At the time when agreement was reached on the MDGs, the GDPs of the DAC countries could reasonably have been expected to grow at 3 per cent per annum, and the goals were therefore set on an assumption that ODA will grow at 3 per cent per annum from 2000 to 2015 in real terms;
- The rate of inflation in DAC countries could reasonably have been expected to average 2,5 per cent per annum over the period 2000 to 2015 and ODA will therefore grow by 5,5 per cent in nominal terms (2,5 per cent inflation and 3 per cent real growth over this period); and
- ODA achieves no nominal return on investment.

For the purpose of calculating an expected total nominal value to be transferred as ODA from 2000 to 2015 based on the assumptions above, the following formula can be used:

$$FV(A) = A \cdot \frac{(1+i)^n - (1+g)^n}{i-g} \qquad \text{..(1)}$$

where

FV(*A*) is the total nominal value after the period of payment at time = *n*
A is the value of initial payment paid at time 1
i is the interest rate that would be compounded for each period of time
g is the growing rate that would be compounded for each period of time
n is the number of payment periods

In total the GDPs of the DAC countries amounted to US$ 24 105,5 billion in 2000 (Organisation for Economic Co-operation and Development, 2005). On this basis annual ODA would have amounted to US$ 168,7 billion (0,7 per cent of US$ 24 105,5 billion) in 2000 if all countries achieved the goal in the first year. Actual ODA in 2000 amounted to US$ 53,1 billion, or 0,22 of the GDPs of DAC countries. This implies that ODA fell short from the inception of the MDGs.

If ODA amounted to 0,7 per cent annually of the GDPs of the DAC countries and based on the growth and inflation assumptions above, total ODA over the period of 16 years from 2000 to 2015 would in nominal terms have amounted to:

FV = US$168,7 billion x $\dfrac{(1+0)^{16} - (1+0{,}055)^{16}}{0{,}0 - 0{,}055}$ ………………………………...(2)

=> US$168,7 billion x $\dfrac{1 - 2{,}355}{- 0{,}055}$

=> US$168,7 billion x 24,636

=> US$4 156,15 billion[10].

It is therefore assumed that a nominal transfer of US$ 4 156,15 billion by DAC countries over the period 2000 to 2015 would have been sufficient to achieve all the MDGs in all poor countries. On the same basis ODA payments for the period 2000 to 2011 should have amounted to US$2 757,7 billion in nominal terms. Actual ODA payments by the DAC countries for the period 2000 to 2011 amount to US$1 132,9 billion, or some 41,1 per cent of the calculated target for this period. Over the period 2000 to 2011 ODA as percentage of the GDPs of DAC countries increased from 0,22 to 0,32, but this was not a steady annual increase that allows for the calculation of an annual growth rate in ODA. In recent years, for instance, ODA has levelled out just above 0,3 per cent of the GDPs of DAC countries. Moreover, South Korea has joined the DAC countries in 2009, which makes for very difficult comparison of ODA as percentage of GDP of DAC countries over time, as the basis of comparison has changed.

The GDPs of the DAC countries (excluding South Korea) increased on average by some 4,6 per cent per annum in nominal terms over the period 2000 to 2011, which is lower than the assumption of 5,5 per cent per annum used above. Given the experience over the period 2000 to 2011, it can safely be assumed that ODA will remain at 0,32 per cent of the GDPs of DAC countries, and that nominal GDP of DAC countries will continue to increase at 4,6 per cent per annum. On the basis of these assumptions, total ODA flow for the period 2012 to 2015 can be calculated (based on ODA of US$133,5 billion in 2011), as:

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10 On assumptions of annual average GDP growth of 4 per cent per annum and the same inflation assumption (2,5 per cent per annum), the total value of ODA over the period 2000 to 2015 would have amounted to R5 333, 99 billion; an amount some 28 per cent higher than the amount calculated above. This confirms that assumptions and actual economic performance can have a considerable impact on the calculations in this paper. However, as the GDPs of the DAC countries increased on average by 4,6 per cent per annum in nominal terms between 2000 and 2011, the assumptions above might err to the side of optimism.

FV = 133,5 x $\dfrac{(1+0)^4 - (1+0{,}046)^4}{0{,}0 - 0{,}046}$ …………………………………………...(3)

=> 133,5 x $\dfrac{1 - 1{,}1971}{-0{,}046}$

=> 133,5 x 4,2848

=> US$572,02 billion.

For the period 2000 to 2015, total ODA is therefore estimated at US$1 704,27 billion (US$1 132,9 billion + US$572,02 billion), or some 41 per cent of the calculated target for this period if ODA amounted to 0,7 per cent of the GDPs of DAC countries. It is therefore clear that the MDGs will not be achieved by 2015, as there will be a shortfall of US$2 466,9 billion. Based on the assumptions above, the number of years following of 2015 that it will take to fund this shortfall (US$2 451,9 billion) can be calculated as follows:

$$FV(A) = A \cdot \frac{(1+i)^n - (1+g)^n}{i-g}$$ ....(1)

where n has to be solved, based on assumptions that ODA in 2015 will amount to US$159,8 billion and the nominal GDPs of DAC countries will continue to grow at 4,6 per cent per annum.

FV = 159,8 x $\dfrac{(1+0)^n - (1+0{,}046)^n}{0{,}0 - 0{,}046}$ …………………………………………...(4)

=> n = 12 years

This implies that it will take until 2027 (2015 + 12) for sufficient funding of the MDGs set for 2015, not taking into account any growth in population.

4 South Africa's contribution to ODA

As an upper middle-income country (see for instance Todaro and Smith, 2011:40), South Africa's position in terms of the ODA target of 0,7 per cent of GDP is quite interesting. South Africa's ODA is, however, not as visible as in the case of other countries. This is due to the fact that South Africa is a member of both the Common

Monetary Area (CMA) and the Southern African Customs Union (SACU) and channels ODA through these organisations, thus obscuring its ODA contributions.[11]

The CMA agreement provides for the South African rand to circulate freely in Lesotho, Namibia and Swaziland (the LNS countries). South Africa compensates the LNS countries for the loss of seigniorage on the rand circulating within their borders in terms of a seigniorage-sharing agreement. The basis for this compensation is twofold, namely (i) the SA Reserve Bank earns seigniorage on rand circulating in the LNS countries; and (ii) in the absence of rand circulating in the LNS countries, the local currency would have circulated and the local central bank would have earned seigniorage.

In simple terms seigniorage is the interest earned by central banks on currency in circulation, i.e. currency that is a liability on the central bank's balance sheet, but on which no interest is paid. Seigniorage can be calculated in a number of ways. The most basic calculation is the use of the central bank's refinancing rate (repo rate in the case of South Africa) for calculating the interest earned on currency in circulation, although the use of the weighted rate of interest earned on government stock held by the central bank would be a more accurate approach. The seignoirage received by the LNS countries is called *rand compensation* in their official documents (see for instance Bank of Namibia, 2011; or International Monetary Fund, 2010).[12]

The average value of South African rand in circulation in 2011 amounted to some R83,7 billion (SA Reserve Bank, 2012), although this figure can be calculated in

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11 The SACU transfers are not defined as ODA according to the OECD definition of ODA despite the fact that about 85 per cent of the revenue-share paid to Botswana, Lesotho, Namibia and Swaziland (the BLNS countries) is redistributed, as it is based on a “customs union agreement” and not a “grant agreement”. Moreover the payments to the BLNS countries are not specifically appropriated by the South African Parliament as ODA but rather as customs union transfers, and are therefore not recognised as ODA.

12 The actual compensation formula used by South Africa in respect of the LNS countries is " … equal to the product of (i) two-thirds of the annual yield on the most recently issued long-term South African government stock, and (ii) the volume of rand estimated to be in circulation in the member country concerned. The ratio of two-thirds was established on the assumption that it approximated the yield of a portfolio of reserve assets comprising both long-term and short-term maturities, assuming that the average yield would be less than the full long-term yield" (Wang *et al*, 2007). The key words in the actual technical definition are " … volume of rand estimated to be in circulation in the member country concerned … ", as the estimated volume is higher than the volume based on the actual size of the GDPs of the LNS countries. This estimate is skewed in favour of the LNS countries and is used as the basis for the calculation of seigniorage ODA paid by South Africa to the LNS countries.

different ways, owing to the monthly and annual cyclicality of currency in circulation. At the prevailing repo rate for 2011 (5,5 per cent per annum), seigniorage earned on this amount came to some R4,6 billion. No actual amount of seigniorage earned is reported by the SA Reserve Bank, as this income is simply grouped with all other interest receipts, as is the case in most other central banks who are not receipiants of seigniorage (see the discussion on the Bank of Namibia below). Table 1 shows actual seigniorage payments by South Africa to the LNS countries, and amounts budgeted for this purpose for the next three years.

Table 1 Seigniorage transfers by South Arica to the LNS countries, 2008/09 to 2014/05, R million

Period	Amount
Actual amounts	
2008/09	R362,5
2009/10	R409,9
2010/11	R397,8
2011/12	R403,8
Budget provision: Medium-term expenditure estimates	
2012/13	R602,1
2013/14	R653,9
2014/15	R693,2

Source: Republic of South Africa, 2012

The clearest reporting of rand compensasion in the CMA is in the case of Namibia. It is reported as income for the Bank of Namibia, the country's central bank (Bank of Namibia, 2011). The Bank of Namibia, in turn, transfers any surplus income annually to the Namibian government. The Bank of Namibia received N$183,9 million[13] as rand compensation for the 2011 calendar year (Bank of Namibia, 2011). Receipts of seigniorage is not reported in the same transparant way by Lesotho and Swaziland.

[13] The Namibian dollar is pegged at par to the South African rand in terms of the CMA agreement, as is the case with the exchange rates of Lesotho (maloti) and Swaziland (emelangeni). The Namibian dollar amount received is therefore equal to the South African rand amount paid, as is the case in Lesotho and Swaziland.

Total rand compensation (seigniorage) to the LNS countries amounted to R403,8 million in the 2011/12 fiscal year (1 April 2011 to 31 March 2012). However, it is somewhat surprising to see the estimated increase to R602,1 million budgeted for the 2012/13 financial year.

For purposes of this comparison it is necessary to base calculations on annual figures, as reliable quarterly gross domestic product (GDP) figures of the LNS countries are not readily available. The 2011/12 figure is accordingly used for this purpose as if it is an annual figure, also because it differs only marginally from the figure of R397,8 paid as seigniorage in the 2010/11 fiscal year.

South Africa accounts for some 95,8 per cent of the GDP[14] of LNS countries. If it is assumed that rand circulates in South Africa and the LNS countries in accordance with the the respective GDPs of the four CMA partner countries, the share of the LNS countries of R4,6 billion estimated as seigniorage earnings by South Africa would have amounted to R193 million (4,2 per cent of R4,6 billion), if no allowance is made for local currencies in circulation in each the CMA countries. This implies therefore hidden ODA amounting to R210,8 million (the difference between R403,8 million and R193 million), or some 0,007 per cent of South Africa's GDP, which amounted to R2 946,3 billion on 31 December 2011.

A different picture emerges when allowance is made for the local currency in circulation in each of the CMA countries. Lesotho had the equivalent of some R700 million in circulation (Bank of Lesotho, 2012), Namibia the equivalent of some R2,4 billion in circulation (Bank of Namibia, 2012) and Swaziland the equivalent of some R500 million (Bank of Swaziland, 2012) in own currency in circulation at the time reflected by these calculations. The total amount is a rand equivalent of some R3 900 billion, which amounts to 4,7 per cent of the South African rand in circulation at the time, and equals the size of the GDPs of the CMA partner countries relative to South Africa. On this basis South Africa should not share any seigniorage with its CMA partner countries, implying that the full amount of R403,8 million should be regarded as ODA. This amounts to 0,14 per cent of South Africa's GDP, which amounted to R2 946,3 billion on 31 December 2011, and is a more accurate incidation of “hidden” ODA paid by means of seigniorage.

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[14] GDP rather than GNI figures are used, as GNI figures are not readily available for Lesotho, Namibia and Swaziland.

SACU is the oldest customs union in existence. It dates back to 1889, when it started as a customs union between the (then) Colony of Cape of Good Hope and the Orange Frree State Republic. Today SACU comprises South Africa and Botswana, Lesotho, Namibia and Swaziland (the BLNS countries). The SACU agreement of 2002 provides, *inter alia,* for an equitable sharing of customs revenue among SACU member states, with South Africa raising the revenue and sharing it with the BLNS countries (SACU, 2012). SACU transfer payments are reported in considerable detail by the South African authorities (Republic of South Africa, 2012).

It is safe to assume that the relative shares of South Africa and the BLNS countries in SACU collections should be related to their respective GDPs. Currently South Africa accounts for some 91,4 per cent of the SACU GDP. Total customs collected by South Africa in the fiscal year to 31 March 2012 amounted to R32,2 billion (Republic of South Africa). Based on relative GDP sizes, the amount transferred should have amounted to some R2,8 billion (8,6 per cent of R32,2 billion). Actual transfer amounted to R21,8 billion (Republic of South Africa, 2012). This implies customs transfer ODA amounting to R19,0 billion, or 0,61 per cent of South Africa's GDP as at 31 March 2012.

If the ODA originating from seigniorage sharing and from the SACU tranfers is taken jointly, South Africa contributed some 0,62 per cent (0,61 per cent plus 0,14 per cent) of its GDP as ODA in 2012. This places South Africa in the sixth position in the rankings of ODA of DAC countries, after Denmark, Luxembourg, Netherlands, Norway and Sweden. For this contribution to poverty alleviation South Africa receives very little international recognition, although it is acknowledged that these transfers are not regarded as ODA in the technical sense of the word.

4 Contribution of poor countries to the MDGs

While the MDGs put the contribution of rich countries to poverty alleviation in a clear context, similar consensus has not been reached on the contribution of poor countries to the same objective. A number of factors perpetuate poverty in poor countries.

First, Mbaku and Kimenyi state that “ ... there is a positive relationship between political freedom and economic growth. Societies that choose politically more open governmental systems offer their economies a much more enabling environment for growth. The failure by policymakers to understand that political freedom and economic growth are compatible could cause them to continue to pursue repressive policies in the hope of achieving rapid economic growth" (1997:129; see also Grier and Tallock, 1989; Scully, 1988; Sen, 1999; or Thompson and Thompson, 2000 in this regard). Kindleberger (1965) stated as far back as 1965 that the question whether economic development brings about or follows political change in poor countries, should be answered. Khoza (2007:5) adds that poor countries have perfected the art of blaming others for their lack of economic success, without accepting any personal responsibility (see also Sachs and Warner, 1997:335).

Secondly, poor countries require political stability and improvements in governance (see for instance Mlambo and Oshikoya, 2001:40 to 42; Page, 2006:538; Prasad et al., 2003:58; or Servén, 1998:24), as they are often not democracies. Poor countries should repect the rule of law, with a clear division of powers between the three pillars of democratic structures, namely the legislative, executive and judicial (Strauss et al., 2009:195 and 196). In the context of poor countries, it seems necessary to acknowledge the existence of a fourth (albeit temporary) governance structure next to the legislative, executive and judicial functions of a government. This is the ruling political party entrusted with the authority to appoint the government. It should be clearly understood that the ruling party is not *per se* the government (Strauss et al, 9002:195 and 196; see also Katz and Tarr, 1996; Sachs, 2005:60), but merely appoints the executive.

A related concern is that liberation movements, particularly in Africa, are not necessaritly democratisation movements (see for instance Salih, 2007 on this matter). Salih (2007) states that some liberation movement governments failed to introduce the democratic values advocated during their liberation struggles after assuming power and retained control at any cost for the benefit of those in power, resulting in kleptocracies governing many developing countries (see also Harford, 2006:200 in this regard). Du Plessis (2012:18), a well-known South African political commentator, states that the ruling African National Crogress (ANC) in South Africa runs the danger of reconfirming the previous experience of many African countries, namely that an effective liberation movement (in this instance the ANC) easily degenerates into a bad governing party, as it takes a completely different set of skills to govern a country, compared to the skills required for a successful liberation struggle.

Thirdly, property rights are a prerequisite for sustained economic growth and development in poor countries. Property rights include the upholding of the rule of law, which provides the institutional structure within which property rights are enforced (Rodrick, 2003:10; Sachs, 2005:60; Strauss et al., 2009:195 and 196). Without property rights, people have only “poverty” rights.

Countries can alleviate poverty in the absense of democracy, but the absence of the rule of law and property rights hardly leave any opportunity for sustainable economic development and growth. Ideally countries should be both democracies within the principles of the rule of law and guarantee property rights, but even without democratic rights, enforcable property rights can be beneficial in supporting economic growth and development.

4 Conclusions

The first conclusion is that no one single growth and development theory guarantees successful povery alleviation. Rich and poor countries have important roles to play in poverty alleviation, and success is therefore a partnership between these two groups of countries. This partnership contributes to the melting of the golden curtain dividing these countries. However, it is necessary to consider the funding of the MDGs, as the targeted funding will not be achieved by 2015. ODA amounting to 0,7 per cent of the GDPs of the DAC countries is clearly not an achievable planning assumption or objective.

The only feasible approach after 2015 seems to be one in terms of which the MDGs and the funding targets to be achieved are reformulated in a time frame attainable with develoment aid equalling 0,32 per cent the GDPs of the DAC countries. On this basis the MDGs set for 2015 will be achieved by 2027.

It is important to point out that DAC countries are under no obligation, other than a moral obligation, to provide any ODA to other countries. ODA is a voluntary transfer of resources from DAC countries to poor countries.

South Africa occupies an important, but largely unnoticed, position in ODA and poverty alleviation. As an upper middle-income country, South Africa gets little international credit for the fact that its ODA, albeit disguised as seigniorage and customs union payments, equals 0,62 per cent of its GDP. This puts South Africa close to the international target of 0,7 per cent, and serves as an example for many DAC countries.

Poor countries should strive to adopt democratic governments in their quest to eradicate poverty. At the same time they should adopt property rights guaranteed by an independent judicial system. Care should be taken to ensure that the ruling party does not usurp the powers of the legislative, executive and judicial structures. The ruling party could at best be viewed as a fourth temporary governance structure. It is also important to note that liberation movements are not democratisation movements. It nevertheless remains to be seen whether the next generation of leaders, particularly in Sub-Saharan Africa, will improve on the questionable track records of the current generation of leaders.

The rapid melting of the golden curtain between rich countries in the Northern Hemisphere and poor countries in the Southern Hemisphere can help to solve some of the world's poverty problems. The achievement of the MDGs and related targets can play a significant role in melting the curtain, albeit at a slower pace than envisaged in 2000 at the time of their adoption. However, this will require commitments from both rich and poor countries. Rich countries have to commit to a sustainable level of ODA as percentage of GDP. Poor countries have to improve governance and should consider how they can start in assisting even more marginalised countries than themselves, thus drawing on South Africa's example of ODA to more marginalised neighbouring countries.

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