

The case against doubling aid to Africa

Common ground

Although I want to argue against large increases in aid to Africa, I share some common ground with advocates:

- West has been mean, could/should do more
- Aid can be a powerful instrument for improvement when complementary conditions are favourable. I'm not anti-aid.
- There is scope for spending more in particular areas, e.g. AIDS retrovirals, other expensive medical interventions.
- Also agree that Africa is the problem region, in terms of the pace of development, poverty and social conditions. However.....

We should not exaggerate, nor over-generalise. There's a wide variety of experiences. Overall Africa is currently growing at 4-5% and expected to speed up in 2005. Some lagging badly but in 2001-02 (latest) there were 25 countries which raised Y/P, against 9 with zero or negative growth. The overall average (unweighted) was a little under 2% per capita. Not bad. Some doing well on social indicators too.

So while problems are grave, there are no grounds for excessive pessimism, or despair at past efforts.

Where does the "doubling" come from?

The focus on MDGs and estimates that reaching these will require an extra \$50bn p.a. - circa a doubling. Africa is main problem region so maybe more than a doubling needed there. Growing pressures for large rise (flowing from the MDGs): Sachs; Bono; Brown (& IFF); Blair's view of Africa's situation as "a scar on the conscience of the world" coupled with UK chairmanship of G7 and EU in 2005; creation of Africa Commission.

The case against

Essential case: Emphasis on speedy large-scale increases in aid volumes undermines the considerable progress that has been made in recent years towards making aid more effective. Quantity versus quality. For background, see table below on present aid levels. The general question posed by these figures is, if aid is already at these levels can a lot more of it really address the key constraints?

Some facts about Africa's aid dependency, 2002

Factors by which net aid to sub-Saharan Africa exceeds that of other developing regions:

	<u>South Asia</u>	<u>Latin America & Caribbean</u>
Aid/national income	6½	21
Aid per capita	5½	3
Aid/capital formation	6½	20
Aid/imports	3	14

Dependency ratios for top half African recipients:

Net aid as percent of:

Gross national income	
mean	23
median	17
Gross domestic capital formation	
mean	137
median	108
Imports	
mean	56
median	49

Source: World Bank, *World Development Indicators, 2004*, Table 6.10

Strands in my argument:

Diminishing returns. Almost all who have studied this have found a tendency towards DRs at high aid levels. The turning point (in aid/GDP ratios) varies enormously, from 10-50% GDP but a doubling would bring levels within most estimates. It would be very interesting to do it relative to investment and to govt. revenue - stronger tendencies in those cases?

Absorptive capacity (closely related). Obviously a problem in much of Africa, although situation varies a lot from case to case. Essentially a problem of weak institutions plus brain drain. A rapid human resource depletion is under way, e.g. in health. Things can be done about these problems but they're deep-seated and long-term. Strong leadership is needed and outsiders have limited influence. Donors are turning to budget support (programme aid) in hope of circumventing but that merely shifts the locus of the capacity constraint. Few countries have budget systems strong enough to provide reasonable assurance that aid and budget allocations reach intended beneficiaries (i.e. intended by donors) - the problem of 'fiduciary risk'? Problems of fungibility, poor accountability, mis-use, corruption. Already, there are only weak connections between spending on health and education and outcome indicators.

Macroeconomic problems:

- (a) '*Dutch disease*' - tendency for large windfall accretions of foreign exchange to result in an uncompetitive exchange rate, hence weakening export sector and perpetuating aid dependency.
- (b) *Destabilisation.* Aid flows are much more unstable/unpredictable than domestic revenues (budget support especially so). The larger these are relative to other macro magnitudes, the greater the destabilisation potential.

Aid dependency, its negative effects - on ownership, morale, capacity-creation and the willingness to address deep-seated problems (the moral hazard problem). Danger that aid will substitute for taxation and associated growth of pressures for greater accountability. My position: most of the continuing problems of growth, development and poverty reduction in Africa are *domestic* in nature - not "a scar on the conscience of the world". Rather, they are largely a consequence of patronage-based and weakly accountable political systems, and the social structures and values which underpin these. The DfID 'drivers of change' project as implying agreement with that.

I'm especially concerned about the potentially large ill effects of increased dependency on the development of institutions, ownership and accountability (accountability to whom?). Moreover, major increases in dependency would cut against the principles of aid effectiveness, just when we were beginning to make progress. These detriments would be compounded by...

Pressures to spend without adequate reforms within aid agencies to comply with commitments entered into in Monterrey and Rome. Selectivity eroded; a discredited conditionality reinforced as an illusory safeguard. Yet more proliferation of projects, or alternatively insertion of budget support into weak expenditure management systems. Pressures to spend as the enemy of almost all that is being attempted to reform donor practices and prevent them from undermining local capacity creation. It would be quantity instead of quality. Donors could achieve the effect of large aid increases by improving the *quality* of their giving, fostering local ownership and institutions, implementing commitments already entered into.

Two final points:

- (a) Danger that the emphasis on quantity of aid will divert attention away from need for action by West on more uncomfortable measures, e.g. in areas of trade, environment, international governance, etc., as well as in the policies and practices of their own aid agencies.
- (b) The donor-driven nature of the push (once again!); the historical anachronism of an Africa Commission initiated and chaired by a British PM (just imagine the reverse!), the resulting danger that these moves will reduce willingness of African leaders to address their own problems, and the ability of their peoples to hold them to account. The danger of pretence that initiatives are African-driven when the reality is otherwise (as with PRSPs), and of over-reliance, therefore, on NEPAD as an agency for domestic reforms and aid effectiveness.

Conclusion. I hope that instead of a 'doubling', the report of the Commission and other current efforts will be used as an opportunity for:

- Putting Africans in the driving seat, taking ownership and partnership seriously.
- Letting the volume of aid be set by their progress towards accountability, finding non-intrusive ways of supporting this.
- Being generous where this will not undermine national ownership, accountability and effectiveness.
- Hitting hard on aid quality issues, and also on trade and other non-aid measures that could help lift Africans out of poverty.

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 2 November 2004
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