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Can more aid be spent in Africa?

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'Double aid to halve poverty' looks likely to be the catchphrase of 2005. We will hear it from Tony Blair's Africa Commission, from the UN Millennium Project in New York, and from Gordon Brown and other advocates of an International Financing Facility. But can more aid be spent? More precisely, can more aid be spent successfully? Many think not.

The sceptics make five main points.

First, partly as a consequence of other points below, aid has diminishing returns. All countries are therefore bound to reach an 'aid saturation point' beyond which additional aid has less impact. The evidence is that this point could be reached around 25-30% of GDP, depending on estimates. At the moment, aid already represents 22% of national income in Ethiopia, and 47% in Sierra Leone.

Second, aid flows can cause macroeconomic imbalances. 'Dutch disease' is the main risk, where increased foreign exchange flows cause an appreciation of the exchange rate and harm the export sector. Aid can cause interest and inflation rates to rise, which could have negative effects on private investment. Nigeria suffered from exactly these problems when its long oil boom began, with severe long-term consequences for the agricultural sector.

Third, poor institutions and policies in recipient countries may limit their capacity to use aid effectively. A government's capacity to make good use of development assistance is greatly influenced by the level of transparency and efficiency of budget systems, by the degree of decentralisation of resources and responsibilities, and by the quality of existing accountability mechanisms. The key point here is that more aid can weaken institutions rather than strengthen them. In a country like Mozambique where more than 50% of the budget is provided by donors and only about 40% by taxpayers, politicians naturally look to the donors for patronage and support rather than to their voters. If aid were to double, such distortions could only worsen.

Fourth, lack of adequate infrastructure and sufficient administrative capacity represents a major obstacle for more effective service delivery. Both the hardware and the software of government machinery in poor countries are severely lacking in quantity and quality. More and better qualified managers, doctors and teachers are needed. HIV/AIDS makes the situation worse. In Malawi, for example, more teachers are dying each year of HIV/AIDS than can be trained.

Finally, the very nature of the aid system can be part of the problem. Uncoordinated and burdensome donor practices can prevent the effective use of aid. In most African countries, there is a plethora of donor agencies, often pursuing incoherent strategies and overlapping

Aid dependence in Africa: country examples

	Population Mil.	GNI per capita US$	Aid/GNI %	Aid per capita US$
Congo DRC	51.9	100	15	16
Ethiopia	67.2	100	22	19
Malawi	10.7	160	20	35
Mali	11.4	240	15	42
Rwanda	8.2	230	21	44
Sierra Leone	5.2	140	47	67
Tanzania	35.2	290	13	35
Sub-Saharan Africa	**688.9**	**450**	**6**	**28**

Source: World Development Indicators (2002 data)

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activities. On average, a country receiving aid has to deal with no fewer than 26 donor agencies and with hundreds of projects, each with their own specific procedures and reporting requirements.

Can these problems be solved? In the long term, they can: by supporting better and more democratic governance, by training more teachers and health workers, and by providing the infrastructure needed to improve investment returns. But the long term is too long. Africa's crisis of poverty, ill-health and poor education needs immediate action: that is what the 2005 agenda is all about.

Here, then, is an action programme for the short-term:

First, recognise that the critical constraints have to do with institutions and policies. Donors need to understand the political systems of the countries they are working with and support accountable domestic institutions, from the national level all the way down to local structures for participation in the management of schools and clinics. This is the only way to tackle problems related to corruption, elite capture and unrepresentative government. They also need to back regional frameworks such as the NEPAD peer review mechanism and the African Union.

Second, act on the assumption that donors are often part of the problem, not of the solution. The current buzz-word in the donor community is harmonisation, simplifying procedures and finding ways to reduce the high transactions costs of aid. That's a good start but it is not enough. Poor countries in Africa don't need fifteen donors supporting health or agriculture, each sending missions, preparing plans and imposing administrative procedures - they need two or three. Donors should withdraw altogether from some countries, work through others in some, channel funds through budget support wherever feasible, and more generally provide a bigger share of aid through the multilateral agencies. The slogan for 2005 should be 'don't just harmonise, multilateralise'. Defining the mechanisms through which the IFF will function will be important in this respect. Broader reforms of the global aid architecture should also be considered.

Third, work sector by sector and country by country to overcome the key constraints to absorptive capacity, assisting governments in developing sound strategies for scaling up. Experience shows that enormous strides can be made in this area in a relatively short timeframe. Innovative approaches which harness the capacities of the private and voluntary sectors can contribute to such efforts. There aren't enough teachers to staff the new primary schools needed to achieve universal primary education? Well, how about using radio or television to increase the reach of the teachers we do have? Or training 'barefoot teachers' to work as classroom assistants? Or even, as a last resort, importing teachers from another country. All this, of course, at the same time as major investments in teacher training colleges.

Fourth, manage the macro-economics sensibly. If aid in the form of money to fund budget support is forcing the exchange rate up and making exports uncompetitive, then the usual policy advice is to invest on the supply side to force costs down: in Uganda, for example, poor roads add to transport costs and amount to a 40% tax on farmers, so building more roads could offset the impact of currency appreciation on coffee or cotton producers. In other places, it might be appropriate to import commodities in kind: bringing in drugs to treat malaria or HIV/AIDS helps sick people without harming the exchange rate.

The key strategy is to combine the urgent response needed in the short-term with capacity-building for the longer term. Financial and institutional sustainability need to be the yardsticks for intervention. Bypassing governments to make sure that money gets spent is a viable option only for the short-sighted.

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