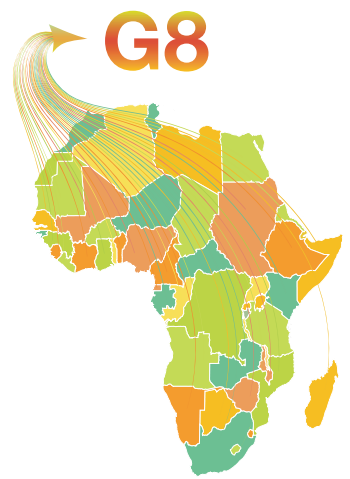


Africa after the Africa Commission:

What priorities for the German G8?



Opinion

May 2007

Aid effectiveness and absorptive capacity: Which way aid reform and accountability?

Paolo de Renzio, Research Associate
Overseas Development Institute

‘Two factors have shaped the reluctance to scale up aid: worries over aid effectiveness and absorptive capacity, and a perceived lack of progress on the governance agenda.’

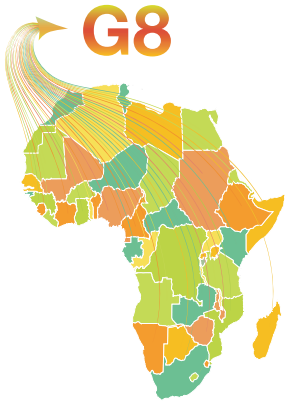
These Opinions have been written for a high level policy forum bringing together senior DFID and NGO staff, MPs, private sector representatives, Africanists, development academics, and key journalists for discussion on the future of Africa in the run-up to the G8 meeting in Germany (6-8 June). The Forum was held on May 2nd, 2007 in London.

The aid system is at a crossroads. In 2005, rich countries pledged to drastically increase development assistance to help low income countries fight poverty. The Commission for Africa recommended a doubling of aid to the African continent in order to accelerate income growth and spur progress towards the Millennium Development Goals, and their recommendation was taken up by G8 leaders at Gleneagles. Recent figures, however, show little sign of aid being ‘scaled up’. In 2006, excluding debt relief for Nigeria, aid to Sub-Saharan Africa increased by only 2%. The Africa Progress Panel, set up by Tony Blair to monitor G8 commitments, recently called for a renewed effort to deliver on agreed aid targets, and for a more responsible and long-term view of support to African countries.

Many rightly blame donor countries for not living up to their promises, but there are some underlying tensions in this debate that deserve to be highlighted. Apart from the domestic political difficulties faced by donor governments in justifying massive increases in foreign aid, two factors have shaped the reluctance of donors to stump up large additional amounts of aid: worries over aid effectiveness and absorptive capacity, and a perceived lack of progress on the governance agenda which was meant to represent Africa’s side of the Gleneagles deal.

The effectiveness of aid in reducing poverty has recently come under increasing scrutiny, with numerous critics claiming that aid can do more harm than good, and that the aid system needs to be drastically reformed. Absorptive capacity relates to the macro and micro constraints that recipient countries face in using aid resources effectively. Large additional flows of external resources can strain government capacity for macroeconomic management, planning and budgeting and service delivery to a point where additional aid may not be effective in achieving its intended results. Increasing levels of aid dependence may also undermine commitment to necessary reforms and local accountability mechanisms.

Governance trends in Africa have also failed to reassure donors that additional aid will not fuel patronage, corruption and conflict. In late 2005 Ethiopia and Uganda, two countries held up as good examples by the donor community, suffered severe governance crises which led to reductions in aid levels. The NEPAD-led Africa Peer Review Mechanism is making very slow progress. The cases of Zimbabwe and Sudan have shown the limited capacity of regional bodies to intervene and address difficult governance situations. Yet, few people would disagree that, at least in the short term, additional aid is one of the few options available to assist



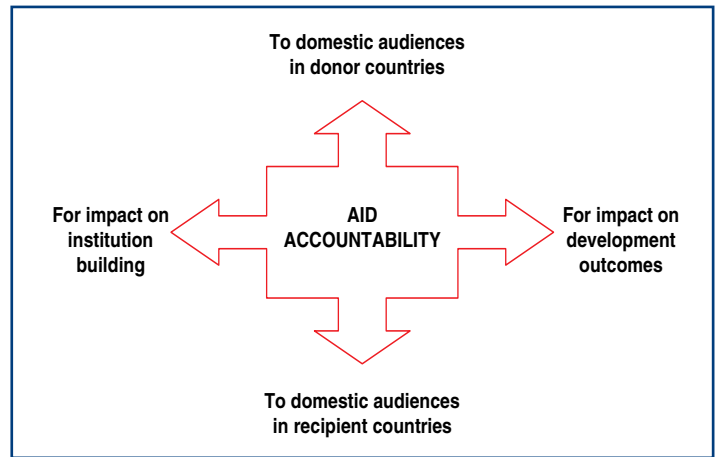
African countries improve the living conditions of their population.

The key question then is what can be done to ensure that aid (whether it increases or not) is channelled in ways that address absorptive capacity constraints, maximise its effectiveness and promote better governance. These three issues are heavily intertwined, as stronger country institutions will be better able to use aid effectively, but aid itself can undermine institutional strengthening, for example by relying excessively on external expertise or bypassing government systems. Two accountability tensions are at the heart of this contradiction (see Figure 1), relating to two key questions: 'accountability to whom?' and 'accountability for what?'

Accountability to whom? There is an inherent tension between the inevitable accountability of donor agencies to their parliaments and taxpayers in rich countries and their necessary accountability to domestic institutions and beneficiaries in recipient countries, who are directly affected by aid policies and interventions. This second dimension has often been overlooked. Under pressure from domestic constituencies, donor agencies may define priorities and promote policies which are not suited to local circumstances. In some countries, for example, funding for HIV/AIDS programmes overshadows the financing available for the health sector as a whole. And given the need to report at home, donors have often relied on fragmented projects with parallel management systems. In order to address this problem, a new aid approach has been promoted, underpinned by the Paris Declaration on Aid Effectiveness. It is based on donor efforts to provide more predictable support, better coordinate their activities, align behind policies defined by the recipient governments, and rely on government systems wherever possible. Yet, as the results of a recent survey clearly show, the benefits of this approach are being very slow to materialise, given the clear difficulties that donors face in 'shifting aid accountability downwards' and placing greater trust in recipient governments policies and processes.

Accountability for what? Ultimately, aid effectiveness needs to be judged against the evidence of positive impact. In recent years, the focus has rightly shifted towards results, and global campaigns on the MDGs have added a sense of urgency. While such focus on performance has to be supported, the tension that the aid system faces relates to the potential trade-off between focusing on short-term development impact (e.g. putting children into school, ensur-

Figure 1: The tensions of aid accountability



ing the availability of drugs in health posts) and building sustainable institutional capacity for long-term development efforts. This tension can be witnessed in the recent surge in special purpose aid delivery channels (e.g. vertical funds for interventions in specific areas such as immunisation) which focus on clear impact indicators, but at the same time often by-pass the domestic systems, processes and institutions that are meant to sustain such impact in the long-term.

Resolving the tensions and contradictions highlighted above will require the concerted efforts of many players, many of which will be sitting around the G8 table in Germany. Some of the key messages they might want to consider are listed below.

- The focus on short-term development impact, dictated by the MDGs, cannot come at the expense of the **long-term institution building** needed to ensure that development impact is sustainable.
- The **predictability and pace of additional aid flows** is as important as their availability in order to avoid absorptive capacity bottlenecks.
- The aid architecture should be reconsidered in order to reduce accountability tensions. An obvious solution would be to **strengthen multilateral institutions**.
- Aid delivery mechanisms should take absorptive capacity constraints into account, putting an **emphasis on strengthening (or at least not undermining) country systems and institutions**.
- **Harmonisation and alignment efforts** should continue to be emphasised, but with a more explicit recognition of the challenges of promoting genuine country ownership and better governance.
- The **public in donor countries should be better informed** about the need for and the nature of a responsible and long-term engagement with African countries.

Resources

For further information on the event, including podcast, video and further downloadable materials, visit the conference websites at:
www.ids.ac.uk/ids/aboutids/events/dsa_policy_forum.html
www.odi.org.uk/events/G8_07/

To comment on this Opinion, contact the author, Paolo de Renzio:
p.derenzio@odi.org.uk