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BRIEFING: PAVED WITH GOOD INTENTIONS? THE ROLE OF AID IN REACHING THE MILLENNIUM DEVELOPMENT GOALS

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This article is the final instalment in a series of briefings addressing issues raised in The Commission for Africa Report and the G-8 summit in Gleneagles in 2005.

IN THE RUN UP TO THE G8 MEETING IN GLENEAGLES IN JULY 2005, millions of people around the world marched and manifested their commitment to 'Making Poverty History', asking their governments to double the levels of aid devoted to addressing the root causes of poverty and destitution, particularly on the African continent. The report published by the Commission for Africa a few months earlier[1] backed those requests with analysis that showed that an additional $25 billion per year until 2010 (and twice that amount between 2010 and 2015) was needed to provide some of the resources necessary to overcome the development barriers that kept Africa poor and reach the Millennium Development Goals agreed by the United Nations in 2000. For such aid to be effective, the Commission argued, governance in African countries needed to improve, along with the quality of the aid given by donor countries. The leadership shown by the UK government, backed by unprecedented media attention, brought G8 leaders to promise to live up to the challenge, increasing aid by $50 billion by 2010, with half of this going to Africa and pledging additional support for basic education and the fight against HIV/AIDS.

So, what has happened since Gleneagles?

To many observers, the follow-up to the 2005 G8 Summit has been quite disappointing. In reports published right before the 2006 Summit held in Russia, Oxfam and ActionAid both denounced the fact that official figures which showed a substantial increase in Official Development Assistance (ODA) for 2005 actually mostly consisted of debt cancellation

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1. Commission for Africa, *Our Common Interest* (Penguin Press, London, 2005).

for Iraq and Nigeria and emergency assistance for tsunami-affected areas, with very few additional resources generally devoted to Sub-Saharan Africa.[2] In particular, some G8 countries are struggling to reconcile the promises made in 2005 with the realities of domestic budget constraints and other pressing political priorities. At the summit in St. Petersburg, as a matter of fact, aid to Africa did not feature prominently in discussions, which focused a lot more on energy issues and crisis in the Middle East.

In other areas, however, some progress was made. Contributions to the Global Fund against AIDS, tuberculosis, and malaria increased substantially, and a new scheme for financing immunization activities was launched. The US Millennium Challenge Account signed new agreements for large programmes to assist Ghana, Benin, and Cape Verde, and the first monitoring round for targets agreed in the Paris Declaration on Aid Effectiveness has been launched. These targets are based on a series of indicators related to the quality of aid, measuring to what extent donors promote the five objectives of ownership, alignment, harmonization, managing for results, and mutual accountability, and to what degree recipient governments are creating the conditions for aid to be more effective. The overall purpose of the Paris Declaration is to ensure that the burden of fragmented donor interventions pushing different agendas and using parallel systems gives way to a more co-ordinated, government-led process that strengthens rather than undermines domestic systems and accountability. While the push for greater harmonization has gained pace, progress is very slow, not only because it requires a radical shift in the internal organization, incentives, and mindset of aid organizations,[3] but also because it assumes a high level of trust between donors and recipients which is not always present.

As summarized in a recent report jointly published by the World Bank and the International Monetary Fund (IMF),

> Even if aid commitments are met, donors may not fulfill pledges to lift the quality of aid. Recent history suggests this will be an uphill struggle — aid remains poorly coordinated, unpredictable, largely locked into 'special purpose grants', and often targeted to countries and purposes that are not priorities for the MDGs.[4]

Overall, therefore, developments since Gleneagles cannot be considered particularly encouraging. They cast some doubt on the actual capacity and willingness of rich countries to devote increasing resources to development assistance and on the seriousness of their commitment to tackle African poverty. They also highlight one of the basic paradoxes of aid, whereby

2. Oxfam, 'The view from the summit: Gleneagles G8 one year on', *Oxfam Briefing Note* (Oxfam International, Oxford, 2006), and ActionAid, *The G8 Summit in 2006* (ActionAid, London, July 2006).
3. P. de Renzio, Incentives for Harmonisation and Alignment in Aid Agencies, ODI Working Paper 248 (Overseas Development Institute, London, 2005).
4. World Bank, Global Monitoring Report 2006 (World Bank, Washington DC, 2006), p. xviii.

those countries that most need more aid are the ones least likely to use it effectively, given the fact that they are plagued by conflict, mismanagement, or outright corruption. Since Gleneagles, donors have been cautiously monitoring progress in advancing the governance agenda that was the African side of the bargain. Recent events in Uganda, with the re-election of President Museveni for a third term and the judicial harassment of the main opposition candidate, and in Ethiopia, where an electoral challenge led the government to violently crush protests and charge opposition leaders with treason, are a stark reminder that even so-called "donor darlings" can backslide on prolonged successful records of governance reform and poverty reduction.

Is doubling aid a good idea anyway?

Whether or not the pledged doubling of aid is going to materialize, a number of observers have been raising questions about the potential effects of such a rapid increase in aid flowing to recipient countries, especially in Sub-Saharan Africa. Part of the reason is that many of the countries in the region are already highly dependent on external assistance to finance government expenditure and public services (see Table 1). Another reason is that scaling up might only make sense in countries with a good past performance record, and many of those are already characterized by a large donor presence and higher than average levels of aid dependency.

Table 1. Aid data for selected African countries, 2004

	Aid [% of gross national income (GNI)]	*GDP per capita (constant 2000 US$)*
Kenya	4.0	427
Burkina Faso	12.7	248
Senegal	13.9	461
Ghana	15.4	278
Tanzania	16.2	313
Uganda	17.3	267
Niger	17.5	156
Zambia	21.2	336
Mozambique	21.4	275
Ethiopia	23.0	113
Rwanda	25.8	250
Congo, Dem. Rep.	28.6	88
Sub-Saharan Africa	5.3	537

Source: *World Development Indicators*.

Absorptive capacity constraints[5] need to be taken seriously into account when assessing the capacity of different countries to effectively spend large increases in aid inflows and channel them towards poverty reduction objectives. Two issues have emerged in recent academic and policy debates around different aspects of absorptive capacity. The first one relates to the macroeconomic impact of large aid increases, whereas the second one is concerned with the potential political and institutional effects of increasing levels of aid dependency.

Heller, in a recent IMF paper aptly titled 'Pity the Finance Minister',[6] describes the very complex issues in macroeconomic management that recipient governments would have to face should aid double in size. Firstly, large inflows of foreign currency could trigger 'Dutch disease' effects and reduce the competitiveness of the country's exports.

> Thus, while foreign assistance may enable a resource transfer to an aid-recipient country — providing vital commodities and financing the provision of critical social services as well as investments — the downside effect might be a weakening of a country's capacity to grow itself out of poverty and aid dependency.[7]

Secondly, financing a higher portion of government expenditure through a source such as aid, which is highly volatile and unpredictable, can be quite risky for monetary and fiscal policy. Donor conditionalities and bureaucratic procedures often mean that aid resources are not fully disbursed or made available with considerable delays. This pre-empts the recipient government's capacity to adequately plan and implement a number of activities, especially those that require the hiring of personnel and the delivery of services to the population.

In a recent review of past cases where countries experienced a surge in aid flows, Foster and Killick[8] note not only how past aid surges were short-lived and characterized by a lack of predictability but also how governments were very cautious in managing foreign currency inflows as a consequence, in many cases not absorbing nor spending their full amount, but simply increasing their foreign exchange reserves. Such a solution, perfectly rational from the point of view of a policy-maker, goes against the objectives of donors, who would like to see all additional aid spent on increased activities and services. Moreover, a crucial determinant of the feasibility and effectiveness of scaling up is the quality of public expenditure and of

5. P. de Renzio, 'Increased aid vs absorptive capacity: Challenges and opportunities towards 2015', *IDS Bulletin* **36**, 3 (September 2005), pp. 20–7.
6. P.S. Heller, "*Pity the Finance Minister": Issues in managing a substantial scaling up of aid flows*, IMF Working Paper WP/05/180 (International Monetary Fund, Washington DC, 2005).
7. *Ibid*, p. 5.
8. M. Foster and T. Killick, '*What Would Doubling Aid do for Macroeconomic Management in Africa?*', ODI Working Paper 264 (Overseas Development Institute, London, 2006).

government planning and budgeting systems. This is an area where detailed research and a good empirical evidence base are still lacking.

Turning to the political and institutional implications of scaling up, Moss *et al.* talk about the existence of an 'aid-institutions paradox':[9] whereas one of the primary purposes of aid is to 'build effective indigenous public institutions',[10] one of its unintended consequences may be to undermine that same objective. Just as with oil, they argue, there can be an 'aid curse' that might create 'perverse incentives and lead to anti-developmental outcomes'.[11]

Other authors, such as Lockwood and van de Walle, second this view. Aid, they argue, can play a positive role, but only if donors come to grips with the politics and incentives that currently prevail in these countries. Until today that has not been the case. By channelling aid mostly through governments, they have prevented healthy domestic accountability mechanisms from developing, potentially propping up anti-developmental regimes. By focusing on 'governance' issues such as corruption and rent-seeking, they have deliberately failed to recognize that 'governance problems are symptoms of the politics that underlie African states'.[12] By pursuing contradictory objectives and policies around selectivity and ownership, they have promoted what van de Walle calls '*ventriloquism*, in which the donors make clear what their policy expectations are, and governments understand what they need to say and do in order to get the foreign assistance'.[13] By addressing capacity building through the provision of expensive foreign technical assistance, they have also misunderstood the elusive nature of efforts to build institutional capacity.

These considerations call into question some of the basic assumptions shared by supporters of the scaling up agenda. The 2005 reports from the Commission for Africa and the UN Millennium Project,[14] which underpinned scaling up proposals, tend to overlook many of these issues and focus instead on the need to provide aid using modalities that work, wherever feasible, through government systems and institutions and in support of government policies, for example by providing untied direct budgetary support. This approach, shifting away from the current structure of the aid system based on numerous, fragmented and piecemeal donor projects,

9. T. Moss, G. Pettersson and N. van de Walle, *An Aid-Institutions Paradox? A Review Essay on Aid Dependency and State Building in Sub-Saharan Africa*, Working Paper 74 (Centre for Global Development, Washington DC, 2006).
10. *Ibid*, p. 4.
11. *Ibid*, p. 5.
12. M. Lockwood, *The State They're in: An agenda for international action on poverty in Africa* (ITDG Publishing, Bourton-on-Dunsmore, 2005), p. 68.
13. N. van de Walle, *Overcoming Stagnation in Aid-Dependent Countries* (Center for Global Development, Washington DC, 2005), p.67.
14. UN Millennium Project, *Investing in Development: A practical plan to achieve the Millennium Development Goals* (Millennium Project, New York, 2005).

would ensure the strengthening of domestic institutions and of local accountability.

Indeed, a recent evaluation of budget support programmes in a number of countries[15] showed that General Budget Support (GBS) has supported increases in pro-poor expenditure and in their allocative and operational efficiency and contributed to strengthening budget processes. However, until today GBS only represents about 5% of total aid flows, given the fiduciary risks associated with it and donors' reluctance to let go of the direct control that they have over other forms of aid delivery. Even in countries where it is most advanced, GBS constitutes only about 20% of total aid, limiting its potential effectiveness. Moreover, evidence of its contribution to strengthening domestic accountability and to promoting adequate reforms in the management of public resources is quite limited and often controversial.[16]

One of the key underlying contradictions stemming from this discussion on the institutional impact of doubling aid is well summarized by Easterly in his recent provocative book on aid failures, where he says that 'the aid system continues to pursue the contradictory combination of reforming government, promoting "government ownership" of reforms, and keeping aid money flowing'.[17] The result of this contradiction is almost a textbook example of the Samaritan's Dilemma,[18] which shows how, given the various motivations donors have for giving aid, the best strategy for recipient governments is to spend the minimum possible effort in keeping to their side of the bargain, simply to ensure continued aid flows. Although many in the donor community have a clear understanding of this pathological equilibrium, at the moment there are few signs that it is being duly addressed.

Can aid be a force for good?

Despite substantive evidence on the potential risks of increasing aid flows to Africa without first addressing some of the underlying causes of its current low effectiveness, the international community has emphasized the moral imperative of taking action to reduce poverty in Africa. Assuming that the political commitment to deliver on the promises made at Gleneagles will be maintained, the question then turns to what can be done to ensure

15. International Development Department and Associates, 'Evaluation of general budget support: Synthesis report' (IDD, University of Birmingham, 2006).
16. P. de Renzio, 'Aid, budgets and accountability: A survey article', *Development Policy Review* **24**, 6 (2006), pp. 627–46.
17. W. Easterly, *The White Man's Burden: Why the West's efforts to aid the rest have done so much ill and so little good* (Penguin Press, New York, 2006), p. 156.
18. C.C. Gibson, K. Andersson, E. Ostrom and S. Shivakumar, *The Samaritan's Dilemma: The political economy of development aid* (Oxford University Press, Oxford, 2005).

that additional aid resources are better utilized and to ways in which their delivery can be reformed to facilitate this. Currently, a lot of effort within the donor community is focused on ensuring compliance with the Paris Declaration on Aid Effectiveness, through monitoring its indicators and targets.

However, such a limited approach is not likely to tackle some of the deeper structural issues. In particular, it is necessary to recognize that until today there exists limited understanding of the role of donors in promoting development and governance, and of the means that they can use to foster and support developmental regimes in poor countries. Despite this, some of the critics mentioned above have offered their own set of suggestions for improving the functioning of the aid system and its effectiveness.

The proposals of Lockwood and van de Walle differ slightly, although their final common objective is that of reforming the aid system so that it can contribute to the creation of developmentally oriented states or, in the words of Lockwood, 'support political transformations that change a clientelist political system with a logic of consumption, to a developmental political system and state with a logic of productive investment'.[19] Both frame the issue in terms of incentives. How can donors provide the right incentives to recipient governments, assuming that they can in fact have any influence at all? Van de Walle argues strongly for the use of political conditionalities, which would mean withdrawing aid from countries with military governments or with no provision for presidential term limits. More generally, he suggests the adoption of a 'foundation model' whereby donors 'wait relatively passively until governments or other local actors come to them with proposals'[20] and calls for increased donor co-ordination and reliance on local expertise, cutting down the role of foreign consultants. Lockwood, on the contrary, argues for a two-tier system, which includes: (a) a 'floor' of assistance to all countries relative to their poverty levels, 'based on humanitarian and basic aid efficiency reasons'[21] and (b) significant additional resources to be allocated 'on the basis of a very few final outcome indicators of developmental performance',[22] linked to efforts at enhancing domestic accountability mechanisms.

With a slightly different take on donor–recipient relationships, Chakravarti[23] notes the failure of previous attempts at inducing or 'buying' reform but believes that 'a contractual or conditionality-based approach to engage developing countries is an appropriate one'.[24] He calls for Development

19. Lockwood, *The State They're in*, p. 122.
20. Van de Walle, *Overcoming Stagnation*, p. 91.
21. Lockwood, *The State They're in*, p. 125.
22. *Ibid*, p. 126.
23. A. Chakravarti, *Aid, Institutions and Development: New approaches to growth, governance and poverty* (Edward Elgar, Cheltenham, 2005).
24. *Ibid*, p. 162.

Compacts, which are negotiated in advance and have known parameters, penalties, and benefits which are strictly enforced. Donors have to accept the political dimension of their engagement with recipient governments and enter into a more genuine dialogue over development priorities and interventions, with a view to assist countries to establish 'the economic and institutional preconditions for growth'.[25]

Easterly,[26] on the contrary, advocates for a radical overhaul of the aid system, moving from a focus on big plans and global blueprints to one which tests local development initiatives and replicates those that work, enhancing accountability through direct feedback from poor people and constant evaluation to ensure value for money. Channelling funds through the state, in such a case, would only happen where good accountability systems exist. In all other cases, donors should not be afraid of by-passing governments to make sure that aid money reaches the poor. He depicts a world in which poor people are given vouchers with which they could choose which aid agency or NGO to buy services such as vaccinations, textbooks, or fertilizers from. In his opinion, this would improve the quality and relevance of service delivery through competition and minimize waste.

As can be seen, there is no lack of proposals on the table for reforming the aid system in ways which are meant to enhance its effectiveness and address some of the underlying contradictions of donor–recipient relations which form the basis of scepticism over the appropriateness of doubling aid to Africa. At the moment few of these seem to have an attentive audience within the donor community. The risk is that donors conceive of scaling up as providing 'more of the same' in terms of aid modalities, without questioning some of the structural limitations of the current aid system. On the road to a world free of poverty, however, good intentions might not be enough.

25. *Ibid*, p. 165.
26. Easterly, *The White Man's Burden*.