Chapter 8

# Reducing Aid Dependence and Debt and Strengthening Partnerships

*It is unlikely that aid or debt relief can be effective without the other*

In Africa more than in any other region, engagement with the international community has come in the context of aid and debt. Africa enters the 21st century in the midst of intense debate on aid dependence and debt relief, two closely related issues. Past borrowing, accumulated into a huge stock of debt, discourages private investment and circumscribes the effectiveness of current and future aid. Relief from debt service payments, by releasing budget resources for other uses, is equivalent to an inflow of resources. It is unlikely that aid or debt relief can be effective without the other.

While debate continues on the best ways to deliver assistance and effect debt relief, there is little doubt that most African countries will continue to need significant aid to achieve the International Development Goals by 2015. As explained in chapter 1, simply preventing the number of poor people from increasing requires annual growth of 5 percent, while cutting the number of poor in half by 2015 will take growth of 7 percent or more. Especially given the decapitalization of Africa's economies, savings levels of 13 percent of GDP in the 1990s are far too low to support such growth rates. Reversing capital flight can bring additional resources and, especially when recovering from conflicts, some African economies have grown rapidly without high investment rates.

But in the long run, even with East Asian efficiency levels, investment of about 30 percent of GDP will be needed. From worldwide experience, private capital inflows of more than 5 percent of GDP are unlikely to be feasible or sustainable. Thus Africa faces a substantial savings gap. Aid cannot be phased out rapidly without high costs in terms of prolonged poverty. Falling aid, by requiring domestic savings to rise sharply, would prevent a rapid increase in consumption and slow the reduction in poverty (chapter 3). Africa also faces new challenges: macroeconomic and structural policies have

improved, but combating HIV/AIDS in a poor country will cost 1–2 percent of GDP (chapter 4).

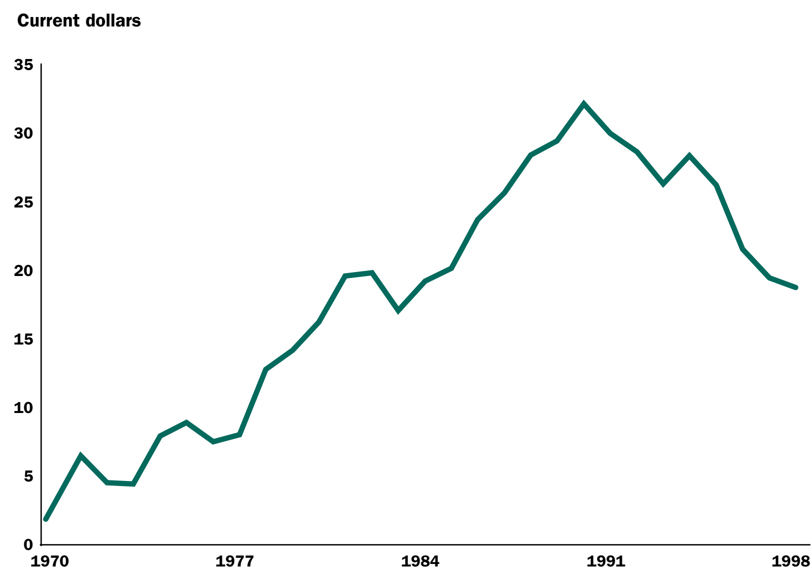
***Aid is no longer business as usual***

Aid is no longer business as usual. Political support for aid is waning. Since 1990 foreign assistance from the United States has fallen 20 percent (in real terms) despite a $100 billion cut (in real terms) in the U.S. defense budget (Summers 2000). Relative to donor GDP, net disbursements of official development assistance have dropped almost 30 percent in real terms (O'Connell and Soludo forthcoming). The composition of aid flows is shifting from project assistance and structural adjustment loans toward humanitarian assistance and peacebuilding. And competition for aid has intensified, partly because transition economies in Eastern Europe are now also competing for aid.

Africa has been a loser in these trends. In the late 1980s it was envisaged that aid to Africa would grow in real terms. But net transfers per capita have fallen sharply, from $32 in 1990 to $19 in 1998 (figure 8.1). Why?

One factor may be Africa's lower strategic importance since the end of the Cold War—as evidenced by the very different global responses to conflicts in Kosovo and Sierra Leone. Another is donor fatigue, partly

**Figure 8.1 Per Capita Transfers of Official Development Assistance to Africa, 1970–98**




*Note:* Excludes South Africa.
*Source:* World Bank data.

explained by the belief that aid to Africa has done little to raise growth or reduce poverty. Indeed, despite large aid inflows (largely offset, however, by terms of trade losses; see chapter 1), Africa has grown slowly. Furthermore, aid—and the programs supported by aid—has not focused on the poor. A typical poor country receives net transfers of 9 percent of GDP through aid, but the poorest quintile of the population consumes only about 4 percent of GDP (chapter 2).

***Aid to Africa is shrinking just as the features that have reduced its effectiveness are beginning to change***

Many of the factors undermining aid effectiveness are amenable to reform. They include the support provided for "trusted allies" even when they pursue poor development policies, donor preferences on aid objectives and delivery mechanisms, and the effects of the debt overhang. And donors and Africans alike are well aware of how a multiplicity of aid processes and instruments have weakened accountability and ownership of development processes in Africa. The aid system is changing to address these problems. Paradoxically, however, aid to Africa is shrinking just as the features that have reduced its effectiveness are beginning to change.

Africa and its development partners need to work together for a more effective developmental aid regime—one that deconcentrates delivery systems, empowers local communities, and puts Africans in charge of their development programming, with development partners recognizing and supporting Africa's leadership and responsibility. Intrusive micromanagement by a host of uncoordinated donors serves no one's interests. Rather, it weakens African bureaucratic capacity and accountability and undermines aid effectiveness. Aid must not be seen as a substitute for the productive energies of Africans.

While aid is moving in a new direction, its underlying principles—a comprehensive approach, strong ownership, selectivity, participation, partnership, decentralization—need further refinement. They need to become integrated with the sociopolitical processes of recipient countries. Work is needed to include aid flows in recipients' national budgets and financial management processes, to coordinate donor and country procedures, to support decentralization, and to enhance debt relief. In some cases donors will have to adjust their procedures.

Aid also needs to support Africa's changing needs. Mechanisms need to be developed for regional aid delivery. Programs should not be confined to national borders—they should support economic integration, encouraging policy coordination and funding public goods such as vaccines, regional transportation and communications infrastructure,

financial infrastructure for trade, and centers for developing critical skills, including in agricultural research (chapter 6). Aid should also focus on combating public bads such as multicountry conflict, infectious disease transmission, and drug trafficking.

Finally, even though aid cannot be phased out rapidly, an exit strategy is needed. This is not a matter of simply setting a timetable for phasing out aid. Rather, it requires a serious strategic partnership that enables Africa to outgrow aid dependence. Africans need to implement a "business plan" to reshape domestic regulations and institutions that deter domestic and foreign investment. For its part, the international community should open markets unconditionally to African exports, including those based on agriculture and processed primary products. This would be the clearest demonstration of a genuine commitment to Africa's long-term development—not dependency.

***The Cold War left a legacy of ineffective aid, partly in the form of loans that have accumulated into large debt stocks***

## The Context and Profile of Aid

AID HAS GONE TO AFRICA FOR MANY PURPOSES—ONLY ONE OF which is development. Donors use aid to advance their values, their commercial interests, their cultural aspirations, and their diplomatic and political objectives. Aid flows reflect political pressures from groups in donor countries and bureaucratic imperatives from within their aid agencies, including pressures to spend all available aid funds within set budget cycles. The end of the Cold War diminished but did not eliminate the importance of diplomatic objectives for some governments. But the Cold War also left a legacy of ineffective aid, partly in the form of loans that have accumulated into large debt stocks.

Aid has also served development goals. Development aid has always sought to raise living standards and reduce poverty in poor countries. But concepts of how aid can help achieve those goals have shifted almost decade by decade (box 8.1).

African countries have been among the world's largest recipients of aid. Many receive net official development assistance equal to 10 percent of their GNP (at market exchange rates). In the early 1980s the top five African aid recipients were Sudan, Tanzania, Kenya, Somalia, and Zaire (now the Democratic Republic of Congo). All but one of these countries (Tanzania) played key roles in the Cold War politics of the United States

## Box 8.1 Changing Thinking on Aid

SINCE THE END OF WORLD WAR II AID HAS SOUGHT to raise living standards and reduce poverty in poor countries. But concepts of how aid can achieve those goals have shifted considerably. During the 1950s and 1960s access to capital was considered crucial for investment and growth in poor countries. But private international capital was limited and disinclined to locate in poor countries. Thus public international capital was needed, preferably on highly concessional terms—that is, foreign aid. Aid needs were estimated on the basis of a target growth rate, the incremental capital-output ratio, and the funds available from domestic savings and international investment. Foreign exchange was seen as another constraint, so aid needs were also calculated using balance of payments gaps.

Ideas about aid shifted markedly in the 1970s. It came to be thought that growth did little to improve the lot of the poor—and may even worsen relative and absolute poverty. Thus aid was used more directly to help meet the basic needs of the poor, usually defined as basic health and education, rural roads, water, shelter, sanitation, and tools for increasing employment and income. Much of this aid was provided through complex development projects and focused on rural areas, on the assumption that most of the poor lived there.

In the 1970s surging oil prices and the rise and subsequent collapse of prices for other primary products—combined with extensive commercial borrowing—produced a severe debt and balance of payments crisis in many African countries. As governments sought debt relief and additional assistance to supplement their dwindling foreign exchange earnings, donor governments and international institutions began to condition their aid and debt relief on stabilization and economic adjustment programs. So, in the 1980s the focus of aid began to shift back to policies perceived to enhance growth—but unlike in the 1960s, the state was often seen as an obstacle to growth. In Africa aid became an incentive and source of finance for adjusting exchange rates, reducing fiscal deficits, reforming monetary policy, liberalizing trade, reducing price controls and subsidies, and shrinking the state's role in the economy.

In the 1990s development thinking shifted yet again. Development specialists began asking why investment and growth remained low even after economic reforms. The answer they came up with was the quality of governance. Where public institutions are weak, incompetent, or corrupt and where governments lack transparency or predictability, even the best reforms will not produce growth. A number of developed country governments came to identify democracy with good governance—and so pushed for political reforms as part of development. This phase coincided with the collapse of the socialist bloc and the spread of democracy through much of the developing world. In the mid-1990s some development experts and aid officials also began to argue that aid to civil society organizations—especially nongovernmental organizations working on human and civil rights—was important for development.

Several other shifts in development thinking occurred in the 1990s. There was a renewed emphasis on poverty reduction as a key purpose of aid. And there was increasing emphasis on addressing transnational problems. The discourse on aid and development has begun to incorporate these concerns by emphasizing environmental issues (such as global warming) and the spread of infectious disease. What is often not recognized is that a concern with global problems implies a shift from promoting growth and poverty reduction in the world's poor countries toward addressing problems wherever they occur.

A final shift evident at the end of the 1990s involved a growing emphasis on social justice and humanitarian assistance. The emphasis on gender equality, the importance of integrating ethnic minorities into society, and efforts to help the disabled and street children and to empower local communities arise as much from the strongly held values of groups supporting these programs as from the contribution such activities can make to development.

*Source:* Lancaster 1999.

and other major Western powers. By 1997 only one of these countries (Tanzania again) remained among the top five aid recipients; the others were Mozambique, Uganda, Madagascar, and Ethiopia. These latter countries had undertaken extensive political and economic reforms, and Ethiopia, Mozambique, and Uganda were recovering from long civil wars. Changes in the composition of the top recipients reflect the shifting considerations of donors—geopolitical strategic alliance is no longer the dominant factor.

***Nongovernmental organizations have become increasing sources of aid to Africa***

Since independence France has been the largest source of aid to Africa, primarily for its former colonies in West and Central Africa. Two multilateral institutions, the World Bank (through its soft loan window, the International Development Association) and the European Union, have periodically traded places as the second and third largest donors to Africa.

Aid flows to Africa have become less concentrated. In 1981–82 the five largest bilateral and multilateral aid sources (France, the World Bank, the European Union, Germany, the United States) provided three-quarters of net aid flows. By 1997 the five largest sources (the World Bank, France, the European Union, Germany, Japan) provided just over half of net aid flows. Nongovernmental organizations (NGOs) headquartered in developed countries have become increasing sources of aid to Africa, using resources from the citizens of their countries as well as their official aid agencies.

The purposes of aid are not broken down by region, but data published by the OECD's Development Assistance Committee show the worldwide breakdown. In 1997 technical assistance accounted for one-quarter of bilateral assistance, and the amount from multilateral sources is believed to be substantial. At some $4 billion a year, technical assistance has been one of the largest components of official development assistance to Africa. Quick-disbursing aid in support of economic reforms has averaged $3.1 billion a year excluding debt relief (World Bank 1998). The remaining aid has funded investment projects and other activities.

Aid to Africa is not only to governments. NGOs (indigenous and foreign) have proliferated in number and activities, and many donors channel their aid through them. In 1997 donors channeled 2 percent of their worldwide aid—nearly $1 billion—through NGOs. (These data do not include private funds raised and spent by NGOs). It would be surprising if this percentage were not higher in Africa given the growing reliance by the United States and other major aid donors on NGOs to implement

their programs, especially for relief and reconstruction. The United States estimates that more than one-third of its development assistance worldwide is channeled through NGOs.

## Influences on and Outcomes of Aid

***Despite criticisms, aid has had many successes in Africa***

Despite criticisms, aid has had many successes in Africa—controlling river blindness in West Africa, expanding family planning in Kenya and elsewhere, developing and disseminating better varieties of maize in Kenya and Zimbabwe and of rice in West Africa, developing and spreading oral rehydration treatment. These and other achievements have improved the lives of many Africans. Even in difficult environments, aid has funded many productive investment projects—roads, ports, public utilities and communication facilities, vaccination programs, the expansion of schools and health clinics.

Without increased balance of payments support in the 1980s, it is hard to imagine how Africa would have coped with huge terms of trade losses. In postwar countries such as Mozambique, generous aid has underpinned political reconciliation (chapter 2). Aid has also helped sustain essential reforms, including trade liberalization, that have adverse short-run effects on fiscal revenues. And donors, including international financial institutions, have been crucial for building capacity in certain institutions, notably central banks and ministries of finance.

Yet the perception of a disappointing record on growth and poverty reduction has prompted questions. Where did all the aid money go, and what has it bought? Why, despite high aid flows, was the income of the average African lower in 1997 than in 1970? Was this due only to exogenous factors, such as civil wars or terms of trade losses? A number of donors—the World Bank, U.S. Agency for International Development, U.K. Department for International Development, France, Sweden—assess the effectiveness of their aid by sector and region. These assessments often show less success in Africa in areas such as agricultural and rural development, development finance organizations, industrial projects, and especially projects (such as civil service reform) intended to strengthen African institutions. If aid had fully augmented national savings and high productivity was maintained, it would have raised per capita income in Zambia to levels comparable to those in OECD countries (Easterly 1997).

Aid has clearly not been the only factor at work. But why are outcomes so far from the possibilities?

### Poor Selectivity

***To be most efficient in reducing poverty, aid should be higher for countries with better policies and lower incomes***

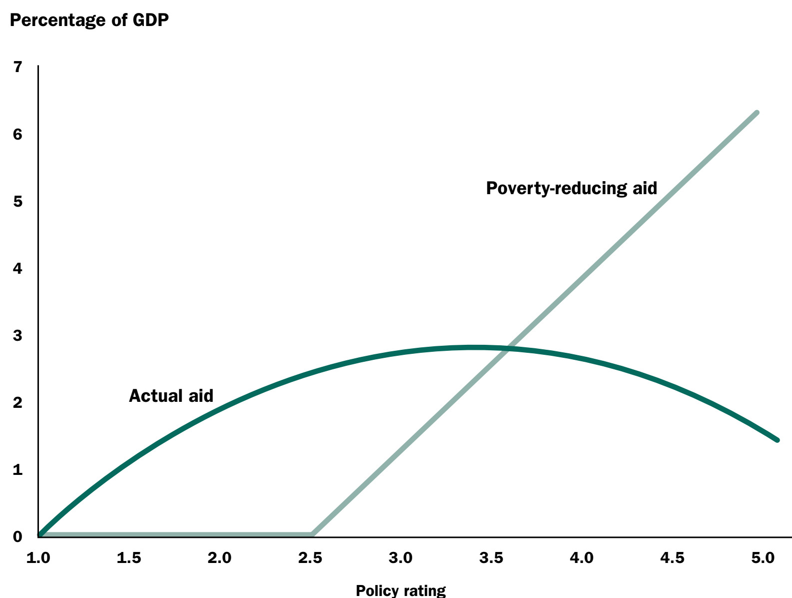
The domestic environment is a critical determinant of aid effectiveness. Some aspects of Africa's geography that have been held to impede development—its tropical location, variable (and in some cases low) rainfall, small share of population near the coast (Bloom and Sachs 1998)—also reduce the returns to aid. Poorly managed, extensive natural resources can also inhibit development, making governments less accountable to their people and spurring civil conflicts as groups vie to control resources (chapter 2). But geography and resources are not destiny. The remarkable economic progress made by Botswana—located in the tropics, landlocked with a small population, and endowed with abundant mineral resources, but with a demonstrated record of using aid well—shows that these factors are not insurmountable obstacles to development or to effective aid.

Policies can be even more important than physical factors. Collier and Dollar (1999) show that aid is more effective when it goes to countries with sound economic management—yet this criterion has had little influence on allocations. To be most efficient in reducing poverty, aid should be higher for countries with better policies and lower incomes. Instead, aid flows surge to countries with poor policies (figure 8.2), then are phased out prematurely as policies improve, even in poor countries. This approach greatly lowers the efficiency of assistance and its potential for increasing growth and reducing poverty.

Can aid encourage good policies? Much of the recent debate on aid effectiveness has been couched in polar terms: whether aid should be given before or after proven reforms. One World Bank study argues that there is little relationship between aid and policy reform (Burnside and Dollar 1997). Where there is a significant domestic constituency for economic reform or where donors can anticipate turning points in government policies, aid can encourage reform. But turning points are not always easy to recognize.

Further, donors have undermined potential incentives by providing aid even where conditions for its effectiveness are unfavorable. When aid is given to serve the political, military, and commercial interests of donors (or for humanitarian purposes), there is less chance that it will spur sound development policies.

**Figure 8.2 Actual Aid, Poverty-Reducing Aid, and Policy Ratings**




*Note:* Policy ratings are based on the World Bank's Country Policy and Institutional Assessments, which rank country policies from 1 (bad) to 6 (good).
*Source:* Collier and Dollar 1999.

***Donor programs are fragmented and rarely negotiated with broad constituencies***

## Aid Delivery Mechanisms and Their Institutional Impacts

Donors loom large in Africa's small, aid-dependent countries, shaping development policies and identifying, designing, implementing, and evaluating projects. Donor dominance has several implications for the environment in which aid is implemented.

**Weakened ownership of development policies and programs.** A lot of aid comes with a lot of conditions attached. Even if donors' desired policies are appropriate—and the record confirms that good policies are needed for growth and poverty reduction—they are rarely negotiated with broad local consultation and so are widely seen by Africans as imposed. This creates what has been dubbed "choiceless democracy."

Compounding the problem, aid programs are highly fragmented. In the health sector alone the typical aid-receiving African country might have 30–40 donor and NGO initiatives, all with different priorities and procedures. To circumvent the weaknesses of African governments, donors often create project implementation units to ensure adequate accountability and rapid implementation. But in many cases these arrangements make mat-

ters worse, preventing integrated management of public spending and siphoning off talented civil servants (through high salaries) to work as project managers or consultants for donors.

The accounting standards and salary scales of the aid "economy" fragment budgets and programs and divert senior government officials from development challenges. Senior officials often spend more than half their time dealing with donors: seeking funds, negotiating, writing multiple reports, and managing successive rounds of debt relief.

***Senior officials often spend more than half their time dealing with donors***

**Less accountability to Africans.** Since at least the early 1990s, bilateral donors have offered support for democracy in Africa, while multilateral organizations have stressed broad participation in development programs. Aid is not the cause of weak institutions in Africa; institutions are no stronger in countries, such as Nigeria, where aid flows have been smaller. But when institutions are already weak, aid can make recipient governments less accountable to their people. With donors providing much development funding, there is less incentive to strengthen domestic accountability and economic governance for the use of resources (chapters 1 and 2). And with donors micromanaging aid, in many countries development activities are reduced to satisfying their demands.

**Capacity building—and destruction.** Despite massive technical assistance, aid programs have probably weakened capacity in Africa. Technical assistance has displaced local expertise and drawn away civil servants to administer aid-funded programs—precisely the opposite of the capacity-building intentions of donors and recipients. In some countries technical assistance accounts for 40 percent of aid, and much of the remaining aid is tied. But with large numbers of technical experts from donor countries in Africa—estimated by some at 100,000—a lot of technical assistance is also effectively tied, flowing back to donor countries with less long-run impact on the development of recipients' economies.

**Reduced sustainability and transparency.** Aid and its accompanying reforms have not been well marketed. As a result recipient countries have a limited understanding of what aid and its reforms intend to achieve and how they intend to achieve it. Aid agencies used to seek allies within African governments who were supportive of reforms (often ministers of finance and governors of central banks). But these allies were often limited in number and not always in office for the time needed to implement and consolidate reforms. Understanding the ends and means of aid-funded programs has therefore been a problem in Africa, especially where com-

plicated reforms or technical assistance programs have been urged on governments by bilateral and multilateral aid agencies.

Stories of African officials not even having access to studies and data developed by multilateral institutions are common, so it is hardly surprising that such officials have invested little in the success of such programs. Neither have parliaments been adequately involved in discussions on aid and its applications—even though these usually have sizable budget impacts. But over the past 10 years considerable efforts have been made to strengthen consultative processes and to share data. (For example, the World Bank is making its databases available in electronic form.) And there appears to be better understanding and support for reforms than 10 or 20 years ago.

***Recipient countries have a limited understanding of what aid and its reforms intend to achieve and how they intend to achieve it***

Funding difficulties and complexities have also weakened sustainability. Rather than fund balanced programs fully integrated with national budgets, donors have supported capital investments without adequate attention to the need for both counterpart funding and additional domestic resources to operate and maintain facilities. Without sufficient budget support, investments are likely to be ineffectively used and maintained—especially with debt service draining public budgets. Finally, the number and complexity of aid projects have sometimes overwhelmed African government agencies, leading to their collapse once aid ends. The integrated rural development projects of the 1970s and early 1980s required that multiple activities be managed and coordinated by a variety of government ministries—a challenge that would have taxed even the most efficient governments in developed countries.

**Excessive country focus.** Africa is the world's most fragmented region. It is demarcated by 165 borders into 48 countries—22 with less than 5 million people, 11 with less than 1 million. Small size imposes real constraints on development, and without economic cooperation and integration Africa will fall further behind the global frontier (Jaycox 1992, p. 66).

Yet with few exceptions, aid programs are confined to national economic spaces. African countries confront similar economic problems—and so need to support regional and international public goods (box 8.2). Regional public goods include regional infrastructure (roads, railways, ports, electric distribution and power-pooling systems), infectious disease control, centers of excellence for training, the underpinnings of regional markets and trade, and agricultural research and early warning systems for drought. A regional approach could lead to lower costs and faster

growth than individual country efforts, while also encouraging policy coordination.

**Excessive debt.** High debt crowds out the effects of new aid in two ways (Elbadawi, Ndulu, and Ngung'u 1996). First, in stagnant economies rising debt service drains the fiscal resources needed for development. Even if total aid inflows exceed debt service outflows, most aid goes to projects: quick-disbursing nonproject assistance is less than debt service payments. As a result funds for recurrent spending shrink even as programs proliferate.

***High debt crowds out new aid***

Second, a large stock of debt may signal taxes on future success and raises questions about the credibility and sustainability of announced reforms. High and fixed debt service obligations increase countries' leverage and raise uncertainty, especially if donor funding is decided on a short-term basis. In such circumstances investors wait until returns are high enough to cover their risk. Some have argued that debt relief encourages moral hazard. But sustaining large volumes of unserviceable debt does the same thing. It can pressure donors to continue funding countries despite weak development

## Box 8.2 Public Goods and Development Assistance

Two properties distinguish public goods from other goods. There is no easy way to extract payment from those who use them—so they are nonexcludable. And one user's consumption does not diminish the benefits available to others—so their benefits are non-rivalrous. International public goods (or bads) generate benefits (or harms) that spill over national borders, either within a region or globally. "Public" does not necessarily imply that government must supply the good. Some (such as national defense) are indeed provided by the government. But others may be offered by the private sector or by both the private and public sectors.

International public goods differ from one another along at least three dimensions—the geographic range of benefit spillovers, the individual actions needed to supply the good, and the extent to which potential beneficiaries can be excluded. Each of these features has implications for schemes to address undersupply—and hence, for development assistance. In particular, the different geographic extent of spillovers gives rise to the principle of subsidiarity, in which cross-border issues are dealt with at the relevant level of decentralization through available institutions.

Some global public goods—limiting global warming, curbing organized crime—are not especially relevant to Africa. But others—such as finding an effective vaccine against HIV/AIDS—are of special importance. The low income of many of those affected (or potentially infected) by HIV/AIDS has led to calls for donors to support private research by committing to purchase an effective vaccine, once developed, for distribution in Africa. Eliminating malaria is an example of a regional good, as are transit corridors, immunization programs, and peacekeeping forces. Policy coordination that widens the scope of markets and investments and increases efficiency can also be considered a regional public good.

*Source:* Kanbur, Sandler, and Morrisson 1999.

policies and reduce recipients' sense of accountability for outcomes. In such circumstances the impact of new aid—even if devoted to development—may not offset the negative effects of the debt stock.

## Forging a New Strategic Partnership

***Consensus is emerging that aid must change and that it must focus on reducing poverty***

How can aid be made to foster development? Serious rethinking is under way, and consensus is emerging that aid must change. The new approach must:

- Clarify the purpose of aid in the post–Cold War era.
- Deconcentrate aid flows to bring delivery closer to recipients.
- Broaden aid beyond national boundaries to fund and encourage cross-border public goods.
- Take decisive action on the lingering debt burden.

There also seems to be broad consensus that the new approach to aid should be underpinned by four key principles:

- Being more selective in choosing aid recipients.
- Designing aid activities with the participation of potential beneficiaries and implementing them in partnership with other development organizations.
- Strengthening the capacity of recipients—whether central or local governments, private enterprises, or NGOs—charged with implementing programs.
- Restructuring aid delivery mechanisms to make recipients responsible for development—while recognizing the interest of donors that resources be used effectively.

### What Purpose Should Aid Serve?

With the international community's endorsement of the International Development Goals for 2015, consensus seems to be emerging that aid should be targeted to poverty reduction. The World Bank and the International Monetary Fund (IMF) have found common ground, anchored on poverty reduction. In its Comprehensive Development

Framework, the Bank restates poverty reduction as its central mission (box 8.3). Similarly, the IMF has changed the name of its Enhanced Structural Adjustment Facility to the Poverty Reduction and Growth Facility.

Poverty reduction is not a new objective. But there are different emphases on how to achieve it. For some, the main avenue is through the resumption of growth—and this invokes a wide agenda. Others see poverty reduction through the lens of programs targeted to the poor, including community development projects. As described in previous chapters, however, Africa does not offer an either-or situation. Both channels are crucial for success.

***Delivery must bring assistance closer to beneficiaries***

#### Deconcentrating Delivery

To make aid more responsive to the needs of the poor, its delivery must be deconcentrated to local governments and communities (chapters 3 and

### Box 8.3 The Comprehensive Development Framework and Poverty Reduction Strategies

Introduced in early 1999 by World Bank President James Wolfensohn, the Comprehensive Development Framework (CDF) has gained wide acceptance within the development community as a guide for thinking on long-term development and poverty alleviation. The CDF calls for country ownership of a comprehensive, results-oriented development agenda integrating macroeconomic, structural, and social policies, developed with the broad participation of civil society. This approach is to be supported by donors on the basis of long-term, strategic, and coordinated partnerships.

In September 1999 the World Bank's Development Committee and the International Monetary Fund's Interim Committee linked debt relief and assistance programs more generally to the preparation of poverty reduction strategies by low-income countries. These strategies will be summarized in Poverty Reduction Strategy Papers (PRSPs) that will be presented to the Boards of the Bank and the IMF along with a staff assessment of the PRSP. The PRSP replaces the Policy Framework Paper and will form the basis for the IMF's Poverty Reduction and Growth Facility, which replaces the Enhanced Structural Adjustment Facility. In low-income countries the PRSP will also provide the context for the World Bank's Country Assistance Strategy. The PRSP process is to be consistent with the principles of the CDF.

While the principles underlying the CDF and PRSP are widely accepted, countries vary in their readiness to implement them. Experience in some of the countries where the CDF has been piloted illustrates some of the tensions. Broadly based consultation can be take time to develop. When faced by the tight deadlines that often accompany donor processes, consultation and ownership may suffer. Another tension arises from the comprehensiveness of the approach. Despite the clear focus on poverty outcomes, it will be challenging to prioritize interventions. Finally, it is easier to improve country-driven donor coordination than to enhance selectivity among donors across activities in line with their comparative advantage.

4). At the same time, these entities need to be strengthened to improve their capacity to manage development programs. Transparent aid delivery systems and monitoring are essential to enable local communities to take charge and to prevent local elites from capturing limited resources. This approach does not, however, reduce the need for a capable central government—because managing decentralization and targeting will be a major challenge.

***Assistance should be delivered more widely to encourage cross-border activities and coordination***

## Moving beyond Boundaries

As noted, aid delivery mechanisms tend to focus on individual countries. Although this approach has been convenient for individual recipients and donors, the 21st century will see increasing cross-border activities in Africa and a growing need for policy coordination. Assistance should be delivered more widely to encourage this trend and to deliver regional public goods (see box 8.2), contain regional public "bads," and strengthen regional approaches for acquiring knowledge.

New technology holds huge potential for Africa, opening the way to a regionwide communications network (chapter 5). Regional capacity-building networks—such as the African Economic Research Consortium or the Council for the Development of Social Science Research in Africa—could offer models for extension to the sciences, engineering, and other critical areas. Just as current initiatives emphasize stakeholder participation in devising national programs, mechanisms need to be implemented to develop regional criteria on policies, programs, and aid delivery.

Cross-border trade facilitation is an important regional public good. Cross-border transactions are still hampered by Africa's weak institutions and inadequate support services. For example, it is difficult for an African construction company to compete with firms from OECD countries for competitively bid contracts in neighboring countries because of the high costs of obtaining a performance bond—if such bonds are even available to the African firm. The overhead costs of initiatives to facilitate cross-border trade are prohibitive for small African countries. Donors are assessing proposals for regional approaches, such as an Africa Guarantee Facility modeled after examples in Eastern Europe. But current mechanisms for regional assistance are weak.

### Enhancing Debt Relief

*Aid will not be effective unless debt is reduced to sustainable levels*

As noted, aid will not be effective unless debt is reduced to sustainable levels. The approach has proceeded in incremental steps, first with the Heavily Indebted Poor Countries (HIPC) initiative in 1996, then with the enhanced HIPC initiative in 1999 (box 8.4). The enhanced initiative is expected to provide deeper and faster relief and to help fight poverty. But the effectiveness of the enhanced initiative rests on adequate funding. And critics still question the adequacy and speed of relief, particularly when debt service is seen from a fiscal perspective (rather than relative to export revenues) and against the scale of social needs (Center for International Development 1999).

## Box 8.4 The Enhanced Heavily Indebted Poor Countries Initiative

AFTER EXTENSIVE CONSULTATIONS WITH CREDITOR and debtor governments, NGOs, religious organizations, academics, and the general public, in September 1999 the World Bank and International Monetary Fund (IMF) announced a major expansion of the Heavily Indebted Poor Countries (HIPC) initiative. The 1996 initiative will be modified in two main ways. First, it will provide deeper, broader, and faster debt relief by:

- Qualifying countries for relief when the ratio of their net present value of debt to exports reaches 150 percent. Previously this ratio was 200–250 percent at the initiative's completion point.
- Commencing debt relief from the decision point, with irrevocable relief to be delivered at the completion point. Previously, relief from multilateral debt service began only at the completion point.
- Basing the length of the interim period on achieving key development actions rather than on a prespecified period.

Second, the enhanced initiative will link debt relief to poverty reduction programs by:

- Grounding debt relief—and indeed, all assistance from the Bank and IMF—on poverty strategies to be developed by each country through a consultative process and agreed in a new instrument, the Poverty Reduction Strategy Paper (see box 8.3).
- Clearly monitoring the use of the resources freed through debt relief—particularly how they are reflected in spending on key elements of the poverty reduction program, as well as the results of the program.

These changes are expected to double the amount of relief provided under the HIPC initiative. For countries covered by the Special Program of Assistance to Africa, this will total about $20 billion in net present value terms. This relief will be in addition to that provided by the Paris Club of official creditors. Moreover, the G–7 countries plan to cancel the debt owed on official development assistance loans by countries qualifying for HIPC relief.

The enhanced HIPC initiative is expected to lower debt service to the World Bank and IMF by about $1 billion in 2000–02. Depending on donor contributions to the HIPC Trust Fund, other multilateral institutions may also be able to increase debt relief.

One of the basic principles of the enhanced initiative is that the resources released should be in addition to the resources—including aid—now being provided. Because the enhanced initiative aims to expedite poverty reduction, recipient countries are expected to adjust macroeconomic policies to accommodate the resources freed by debt relief.

*Source:* World Bank 1999.

### What Basis for Selectivity?

With the Cold War over, there are no longer compelling political or diplomatic reasons to channel large amounts of aid to corrupt governments (like that of Mobutu Sese Seko of the former Zaire). As a result donors have become more selective. Today almost 80 percent of quick-disbursing donor assistance to cofinance World Bank and IMF programs in Africa goes to good performers (OED 1998). And since 1996 World Bank adjustment lending has become more selective. But weaknesses remain in monitoring outcomes—and must be addressed if aid is to move away from detailed conditionality (World Bank 1998).

***Greater transparency is needed in implementing selectivity***

Aid donors and recipients may agree that selectivity is important for effective aid. But there is a long way to go before consensus is reached on how to implement such a strategy in Africa. The World Bank's Country Policy and Institutional Assessments rate a wide range of areas, including poverty reduction efforts, budget management, social and environmental policies, and structural and financial policies and institutions (chapter 1). But these assessments are confidential, so it is not clear how much consensus they reflect. If partnerships and transparency are to be institutionalized in the aid relationship, the Bank's assessments will need to become more open to public scrutiny, which requires that they be discussed with the recipient countries as well. This could encourage discussion between donors and recipients with the objective of reaching consensus on development priorities.

At a more general level, some actions are supported by a strong consensus, and donors can justify including these among their selectivity criteria. Examples might include enhancing the rule of law, promoting sound public auditing, and improving the delivery of human development services when cost-effective solutions are known. But in some areas there is legitimate controversy, such as policy toward the capital account. In these areas there is an argument for moving cautiously and learning by doing, so donors might agree to support different policies in different countries.

### How to Implement Partnerships and Participation?

Each recipient and donor will likely have different views on the best ways to reduce poverty. Thus partnerships and dialogue are needed to build consensus and support coherent programs. Donors, governments,

and NGOs must agree on the main goals of development, the barriers to their achievement, the priority actions for aid, and the strategies for applying aid (Lancaster 1999, p. 24). If goals and strategies were to derive from recipients' political and economic processes—rather than from donor demands—it would mark a sea change in the aid relationship, opening the way to more effective use and higher capacity for absorption. How can these principles be implemented?

***Partnerships and dialogue are needed to build consensus and support coherent programs***

There is a strong base on which to build. Aid agencies, including the World Bank, have worked with a variety of entities in developing countries, as well as with each other, to achieve development goals. In recent years civil society organizations and local governments have become involved in designing and implementing collaborative aid projects in Africa. The Bank's Comprehensive Development Framework, now being implemented in a number of countries, places external aid agencies and internal organizations in a broader context based on national consensus on development strategies (see box 8.3).

Donors will still need to decide how the concept of partnership translates into decisions on aid allocations—including to countries with views on development that differ from theirs. Donors might also consider adopting a code of conduct for their dealings with new democracies to ensure that civil society (including the press) and its representative institutions (particularly parliaments) are kept well informed and properly involved in aid programs and processes (chapter 2).

## Confronting Capacity Constraints

Government capacity is key for development. Where governments are unable—or unwilling—to identify broad goals, adopt appropriate policies, implement processes and programs, and evaluate their operations in a transparent, predictable, and accountable manner, they are unlikely to be able to manage their economies or their aid effectively. For technical and political reasons, many African governments lack capacity.

Technical factors include inadequate expertise, poor professional development, weak evaluation and other systems, and disorderly and ineffective planning, budgeting, and programming. A number of initiatives have been launched to address these shortcomings, including the African Capacity Building Foundation, the Partnership for Capacity Building, training and technical assistance programs, and civil service

reform programs. But a lot more of the large pool of technical assistance funding must be reallocated for Africa to develop, repatriate, and retain its own capacity.

Political factors—which reduce the demand for and supply of capacity—are harder to address. And it is not clear how well the new approach to aid can work where governance is weak. But many of the principles, including decentralizing service delivery to clients, can support a civic counterweight to government and help create a constituency for more effective and transparent management (chapter 2).

***Foreign technical assistance must be cut and reallocated for Africa to develop, repatriate, and retain its own capacity***

### Common Pooling: An Ideal Approach?

At one end of the proposals for reforming aid is a common pool (box 8.5). Recipients would have complete ownership in the sense of having exclusive and final say on the development strategies that they followed. Donors would put unrestricted financing into a common pool to complement country resources, and the government would implement its strategies. Donors would not earmark funds for projects or programs, but would fund the common pool based on their assessment of the country's strategies and implementation.

Donor preferences might still shape development priorities, because countries would know what donors were willing to fund. But in an ideal form, a common pool would put an end to intrusive conditionality. Whether such an arrangement would satisfy donors is another matter. Donors need to respond to diverse constituencies and institutional requirements to show how—and how effectively—their funds are used.

### Steps toward Better Aid

A number of African countries—Benin, Ghana, Tanzania, Uganda—have started to develop new aid relationships with donors, encouraging ownership and improving consultation and coordination. In addition, new instruments for delivering aid have been developed through the Special Program of Assistance (SPA), created in 1987 to increase quick-disbursing assistance in support of African reforms and coordinated by international financial institutions. One of the SPA's early successes was to foster the untying of quick-disbursing assistance. Over time its agenda has broadened to include the development and monitoring of sector programs, the implementation of guidance on public finance management,

and the specification of a fiscal framework for assessing aid flows and requirements. These efforts seek to bring aid flows—many of which do not flow through budget channels—into a unified system of public financial management that integrates donor support with national budgets and increases coherence between donor and national procedures for managing resources.

Sector programs incorporate fragmented donor support into a comprehensive sector strategy defined by the government, agreed by donors,

## Box 8.5 The Common Pool Approach to Donor Coordination and Ownership

TODAY'S COUNTRY-FOCUSED SYSTEMS FOR DELIVERING aid must manage divergent views on development and poverty reduction while improving coordination, increasing ownership, and reducing aid dependence. The development community's response to this challenge has been partnerships. But partnerships are not a new idea for development—they have been suggested since the late 1960s.

What is needed is a more radical approach in which donors cede control to recipient governments, advancing their ideas on development through dialogues with the country and with each other rather than through specific programs and projects. A "common pool" approach to development assistance would build on current trends and experiences—but would push them much further. A recipient country would create its development strategies, programs, and projects, primarily in consultation with its people but also in dialogue with donors. It would then present its plans to donors, who would put unrestricted financing into a common pool. The common pool of development assistance, together with the government's resources, would then finance the overall development strategy.

Donors' financing would depend on their assessment of the country's strategies and programs and on the country's ability to implement them and monitor progress and spending. Donor views would be conveyed to the country and to other donors in the dialogue leading to financing decisions, but earmarking of this or that donor's funds to this or that item would not be permitted.

This is an idealized setting, and many pragmatic and operational issues need to be settled. But the common pool approach builds on initiatives already under way, and it provides a direction for new initiatives. While increasing recipient ownership, it presents an institutional setting in which different views on development—and therefore different donors—can coexist and better coordinate. Donors could keep or develop a specialized focus. But this would not be in terms of financing projects and programs in specific sectors. Rather, it would be in the realm of providing specialized evaluations of country performance and programs, or providing specialized technical assistance—but only if requested by the country within the framework of the common pool.

Aid recipients following the common pool approach might experience a short-term drop in development assistance. But this drop could be planned for, the lower volumes would be used more effectively, and increased effectiveness would strengthen the argument for more assistance over the medium term. For donors, the common pool approach would greatly reduce the need for staff to develop, monitor, and evaluate projects. Although staff would still be needed to assess a country's program and to communicate with the government, the number of donor staff would likely decline.

*Source:* Kanbur, Sandler, and Morrison 1999.

and based on a sectorwide analysis and a consistent medium-term budget framework. Sector programs link sector spending with the overall macroeconomic framework and so improve public spending management, while the medium-term framework allows for longer-run planning for the capital and recurrent costs of new programs. Commitments under sector programs have risen rapidly to almost half of quick-disbursing assistance.

***Commitments under sector programs have risen to almost half of quick-disbursing assistance***

Nevertheless, limited capacity for program implementation has slowed disbursements under sector programs. Moreover, aid flows are rarely pooled under these programs and subjected to common financial management (preferably aligned with national budget procedures). This is partly because some donors face legal impediments to contributing to pooled funds. These impediments should be eased in cases where the financial management of pooled funds meets generally accepted standards, even if these differ from donor requirements.

Weak budget processes and financial management also impede aid pooling and other new approaches to aid. SPA guidance on public finance management is geared toward transforming the system for public expenditure reviews from one in which donors—notably the World Bank—provide assessments that are largely disconnected from the budget process, to a country-led approach in which the Bank and other donors advise and support the budget process and assess outcomes. This aim is to correct a number of problems: lack of ownership of public expenditure reviews by client countries, lack of integration with the budget cycle, recommendations that cannot be implemented or translated into a plan of action, and a focus on budget allocations rather than on spending management and outcomes. A number of countries have started to implement the guidance, with some success. Another effort to develop new aid relationships is a pilot project in Burkina Faso (box 8.6)

## Away from Aid Dependence

DEVELOPMENT AID IS NOT A WELFARE ENTITLEMENT AND IS NO substitute for people's productive energies. Aid cannot be phased out rapidly, but plans should be made to free countries from high aid dependence. Such plans will not be credible, however, unless they are backed by comprehensive, realistic programs endorsed by

### Box 8.6 Conditionality Revisited: A New Approach in Burkina Faso

At the initiative of the European Union, the Special Program of Assistance to Africa (SPA) is piloting a new approach in Burkina Faso that aims to enhance donor coordination, foster country ownership, and make aid flows less volatile. Burkina Faso had been receiving adjustment support since 1991, yet as late as 1997 only a small group in the Ministry of Finance was familiar with the reforms supported—even though these often affected other ministries. Disbursements were not conditioned on outcomes, so there was little monitoring of actual results. Yet a large number of donors multiplied demands on government for a variety of data and sometimes imposed conflicting conditions.

The government was asked to propose a matrix of outcome indicators for social sectors and performance indicators for budget management. Data were collected and analyzed between donor missions. The pilot generated some important lessons. Outcome indicators shift attention to results—surveys found that only a small part of budget allocations reached users, and the private sector complained of grave problems with the judicial system and governance. A results-based approach can also enhance ownership, although broadly based stakeholder involvement is not easy to achieve. Donor coordination confronted logistical difficulties but was appreciated by the government.

The pilot involves no actual assistance. Models for linking hypothetical disbursements to results will be simulated in 2000 and discussed with donors and the government.

*Source:* Emblad and Hervio 2000.

recipients and donors and anchored on an explicit ideology of making Africa economically competitive and reducing poverty.

Even within the current framework there is room for strategic partnerships that go beyond aid relationships. A one-size-fits-all approach will not work because African countries have very different starting points. Some have more poverty. Some have more human resources on which to build. Some—particularly those affected by conflict—have weaker institutions and capacity for development.

But whatever the country conditions, aid dependence cannot be reduced unless Africa begins to recover its lost share in world trade. Since the early 1970s Africa has lost trade equal to about 20 percent of GDP (chapter 1)—far more than it has received in aid. Part of this loss reflects declining terms of trade for many primary products. A larger part reflects the loss of traditional export shares and a failure to diversify exports into new, more dynamic sectors demanded by global markets. Trade policies are not the sole cause of Africa's slow export growth and diversification: many other factors affect growth, investment, and productivity more broadly (chapters 1, 7). But reforms have stabilized and even slightly increased Africa's world trade shares. In addition, exports have begun to diversify in a number of countries—particularly toward processed com-

modities, including agricultural products. To help shift African countries away from aid dependence, development partners must do all they can to accelerate these developments.

Protectionist policies in industrial countries have not been the main cause of Africa's declining trade share. But many impediments to open market access affect sectors where Africa can probably realize comparative advantage (chapters 6, 7). These include barriers to processed and temperate agricultural products and textiles and clothing, as well as large subsidies for agricultural products that compete with exports from Africa. Even moderately higher tariffs for, say, wood and leather products or textiles and clothing confer high protection on processing industries in industrial countries. And the threat of antidumping restrictions and other measures imposed to slow "disruptive" import growth—such as the restraint on clothing exports from Kenya to the United States—increases risk to potential investors. Africa must also cope with new requirements, including sanitary and phytosanitary standards, that were less restrictive when other exporters were establishing their footholds.

***There are many areas outside aid for forging a development pact with Africa***

Thus there are many areas outside aid for forging a development pact with Africa. Emerging exporters should be granted full, tariff-free access to OECD markets for a wide range of exports, with exemptions from antidumping measures, countervailing duties, and other safeguards that create uncertainty about access. Such arrangements can be made compatible with World Trade Organization requirements by embedding them in a framework of reciprocity, where African countries and their industrial trading partners gradually move toward free trade arrangements, with a longer transition in Africa. This principle is included in the successor to the Lomé Convention negotiated in Fiji in January 2000 and underlies the Africa Trade and Opportunity Act being discussed in the United States (chapter 7).

Implementation of such proposals should not be piecemeal. Special efforts should be made to eliminate tariff peaks and high effective protection to processing industries, extending tariff cuts to all stages of production. Rules of origin will need to be generous so that they do not impede economic integration in Africa. Industrial countries should ensure that information is easily available on technical regulations, product standards, and sanitary and phytosanitary standards. A fund could be created to help new exporters test products and meet standards, including through changes in processing and marketing. And standards should

be implemented in a way that minimizes costs, avoiding duplicative testing and excessive charges.

Because Africa's exports are so small, such measures would have minor costs for industrial countries. To be fully effective, they need to be implemented with other measures to sustain aid levels and improve aid processes—including to make better use of technical assistance to support capacity building in recipient countries. For the moment the goal must be "trade with aid" rather than "trade not aid." But fully opening markets to Africa sends an important signal that donors are genuinely committed to Africa's long-term development.