Implications of a Major Increase in Aid to Africa: The Case of Zambia

Oliver S. Saasa

1 Introduction
If all the international debt Africa owes were cancelled today and if aid trebled instantly, would there be an immediate positive impact on the continent’s developmental aspirations in general, and would poverty be reduced significantly in particular? To what extent are aid levels important in finding a solution to Africa’s economic and social malaise? How much evidence exists that shows the correlation between significant aid flows and improvements in economic and social welfare in recipient countries? Do institutions matter and to what extent does the policy environment influence the degree to which aid can improve conditions in the recipient countries? Does the mode in which aid is transferred to sub-Saharan Africa matter and what issues need to be attended to in the current aid architecture to address the seemingly growing, cruel realisation in the average African country that, in spite of aid, the prospects of attaining the Millennium Development Goals (MDGs) by 2015 are gradually diminishing?

The above questions are particularly pertinent in the light of increasing calls from a host of sources, including The Global Plan to Achieve the Millennium Development Goals, for increasing aid flows to developing countries. I focus here on experiences from Zambia, one of the poorest countries in Africa where, despite significant aid volumes, poverty levels are worsening, with life expectancy having declined to a record low of around 37 years. On the basis of the Zambian experience, some broad conclusions are made regarding what needs to be done both in Africa and among the continent’s donors.

2 Aid volume to Zambia
Zambia, which until three decades ago was one of the most prosperous countries in sub-Saharan Africa, ranks today as one of the Least Developed Countries. At independence in 1964, the country’s rich mineral resources were well developed and during the first ten years, world market conditions were generally
favourable. The country’s fortunes were, however, adversely affected by external shocks that came in quick succession: first in 1973 when the price of oil quadrupled, and next in 1974 when copper prices declined considerably. By the early 1980s, it became evident that the economy was in serious distress. The country entered the 1990s with severe socioeconomic difficulties and since 2000 we have not seen much improvement. The economy has remained undiversified and continues to exhibit heavy dependence on mineral resources and exports, in particular copper. As revealed in Figure 1, Zambia’s growth record, from the long-term perspective, has been depressing. The GDP growth rate fell from an average of 1.5 per cent in the 1970s to 1.4 per cent in the 1980s and 0.3 per cent in the 1990s.

Other economic indicators also point to this declining trend. Inflation, for example, has registered a steady increase over the years, rising, on average, from around 10 per cent in the 1970s to about 70 per cent in the 1990s. The increase in inflation, coupled with population growth which was above the GDP growth rate during the 1990s, resulted in a significant decline in real per capita income. Zambia’s GDP per capita has actually been significantly lower than the sub-Saharan African levels (Figure 2).

National savings that are generally strategic to overall growth have generally been insufficient to spur the needed level of desirable investment. The real gross fixed capital formation during the 1990s averaged 12 per cent of real GDP, well below the 20 per cent associated with sustainable growth.

Against the depressing background above, Zambia turned to aid to help it address both the structural and socioeconomic difficulties that it faces. As part of the conditionality for external assistance, the government attempted in various ways over the years to stabilise the economy. Despite a series of liberalisation-focused structural adjustment and economic stabilisation packages, which were prescribed and supported by the World Bank and the International Monetary Fund (IMF) and to which Zambia’s major donors linked their support, very little progress was registered even in the years when economic growth occurred. The period of the Structural Adjustment Programme (SAP) recorded a significant decline in national savings. Since the intensification of the reform programme, formal sector employment, particularly in the manufacturing sector, has declined. The decline in income levels for the average Zambian sparked escalating poverty levels in a country classified as one of the poorest in the world. The real face of poverty in Zambia is revealed from the worsening shift in poverty indicators as revealed in Table 1.

Generally, aid flows to Zambia have been significant. Since the 1960s, aid to the country had shown a steady increase, particularly during the early 1990s when the country ranked as number six among African country recipients in total Official Development Assistance (ODA). Table 2 presents comparable statistics for Zambia and countries in Eastern and Southern Africa, as well as for other comparable sub-Saharan African countries. The
<table>
<thead>
<tr>
<th>Poverty indicators/measures</th>
<th>1996</th>
<th>1998</th>
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<tr>
<td><strong>Income poverty</strong></td>
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<td>Overall poverty (%) (national poverty line)</td>
<td>69.2</td>
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<td>Extreme poverty (%) (national poverty line)</td>
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<td>Under-5 mortality rate (per 1,000 live births)</td>
<td>202</td>
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<td>Maternal mortality rate (per 100,000 live births)</td>
<td>649*</td>
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<tr>
<td>Stunted children (%)</td>
<td>46</td>
<td>53</td>
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<td><strong>Knowledge poverty</strong></td>
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<td>Population 5 years and above with no education (%)</td>
<td>18</td>
<td>27</td>
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<td>Primary age (7–13 years) attendance rates (%)</td>
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<td>68</td>
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<tr>
<td>Primary grade (1–7) net attendance rates (%)</td>
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**Security poverty/vulnerability**

Percentage of households who engaged in the following coping strategies:

- Received relief food: 6% in 1996, 7% in 1998
- Ate wild foods only: 10% in 1996, 18% in 1998
- Substituted ordinary meals with less nutritious meals: 40% in 1996, 51% in 1998
- Reduced food intake: 46% in 1996, 64% in 1998
- Reduced other household items: 46% in 1996, 62% in 1998
- Borrowed informally: 23% in 1996, 29% in 1998
- Borrowed formally: 6% in 1996, 5% in 1998
- Lived on church charity: 4% in 1996, 5% in 1998
- Lived on NGO charity: 2% in 1996, 9% in 1998
- Pulled children out of school: 4% in 1996, 9% in 1998
- Sold assets: 11% in 1996, 15% in 1998
- Begged from friends, neighbours and relatives: 29% in 1996, 58% in 1998
- Begged from streets: 1% in 1996, 1% in 1998
- Human poverty: 36.9% in 1996, 37.9% in 1998

**Source:** GRZ, PRSP, Lusaka, March 2002.

*The general conjecture is that maternal mortality rate has increased since 1996. n.a. – not applicable.*

The table reveals Zambia’s comparably high proportion of ODA in relation to the country’s Gross National Income (GNI).

Notwithstanding the fluctuations in aid flows to Zambia, the 1980s and 1990s showed a remarkable increase from US$56m in 1973 to an average of US$312m over the period 1977–89 during which time the country embarked on the IMF/World Bank-supported SAP. Between 1990 and 1994, aid jumped to an average of US$951m. It reached a record high of US$2,093m in 1995, resulting in a growth rate of 172 per cent over the previous year. This was largely because of the donor countries’ satisfaction with the country’s transition to multi-party democracy in 1991 and a more intensive implementation of SAP thereafter. However, the volume of aid declined by 70 per cent to US$636m in 1996. Figure 3 presents the net ODA disbursements to Zambia for selected years. The period from 2000 to now has shown significant fluctuations with respect to commitments, with 2003 registering the highest level (Figure 4). Grants, compared with loans, have constituted a larger share of ODA flows to Zambia, with the exception
ODA receipts are total net ODA flows from DAC countries, multilateral organisations and non-DAC countries.

\* Source: OECD Database. GNI/CAP = Gross National Income per capita.

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Table 2: Official Development Assistance (ODA) Receipts and Selected Indicators for Zambia and Other African Countries.
of the 1978–82 period and during 1995. It is worth noting that bilateral aid has been more significant than multilateral assistance.

As earlier noted, the volume and composition of external assistance to Zambia has been conditioned principally by the country’s willingness to reform its economy. With a few exceptions, the pattern of aid flow correlates closely with the country’s policy changes. During the first four years after independence up to 1968, aid to Zambia maintained a steady and upward movement. When the government decided to expropriate foreign assets through its policy of nationalisation, a significant drop in external assistance was registered. The UK, in particular, lowered its assistance significantly. When the Zambian economy began in mid-1974 to experience serious external shocks caused mainly by the drop in the price of copper and the increase in the price of oil, the donors responded positively by increasing their aid to the country. Over the 1974–80 period, for example, external assistance to Zambia increased threefold. When the IMF embarked on SAP worldwide in 1980, Zambia’s failure to design and implement an acceptable structural reform package led to a noticeable reduction in external support particularly from the bilateral donors. When the country adopted SAP over the 1983 to 1987 period, this was rewarded with an appreciable increase in external assistance and, expectedly, when the government unilaterally decided to abandon the IMF/World Bank-supported SAP in May 1987, many donors significantly reduced their aid to the country. Major donors like the USA, the UK and Germany actually suspended their disbursements completely. What this picture suggests is that during the period when there was an absence of real agreements with the major international financial institutions with respect to economic reforms, major bilateral donors also reduced or abandoned their aid commitments to the country. A more recent phenomenon that is particularly noteworthy is the emergence of non-economic conditionalities, principally those linked to questions of good governance, human rights, and social considerations (e.g. poverty reduction and alleviation).

3 Has aid made a difference?
3.1 The general picture
The Zambian case demonstrates that increased aid flows, in themselves, neither secure improvement in economic growth nor guarantee poverty reduction – thus suggesting that a significant increase in the volume of aid to the country would not necessarily result in significant economic and social welfare improvements. A look at the period in Zambia when substantial external resource flows were registered as a result of the country’s adherence to SAP reveals that there was a clear absence of a correlation between actual volumes received and positive economic growth trends. Figure 5 shows movements in the growth of GDP (which is a proxy for economic progress) and gross ODA. It is clear that while the aid registered a positive increase in almost 20 years of the 24-year time span, GDP growth either grew marginally at best, or significantly declined. What is particularly noteworthy in the graph is that the GDP growth pattern is often in the opposite direction from that of the aid flow. And yet the many donor
conditionality that Zambia, over the years, had to accept and fulfill— principally concerned prescribed benchmarks for ensuring economic stabilisation and growth.

The lesson one can derive from the above is that, to be effective and efficient, aid has to be received and managed within an enabling policy environment and that if such an environment fails to take into account all the factors at play, little progress is registered. For Zambia, policy choices and the policy environment mattered and, to a considerable extent, it is erroneous to heap all the blame on the recipient country especially when external support comes, as it did in this case, with conditionality that may have been insensitive to the following aspects:

- the nature of the economy being assisted and the right mix of policies, the speed of their introduction, and the sequencing of interventions;
- institutional capacity of the recipient;
- the level of commitment of the one extending aid with respect to fulfilling the promises made; and
- the nature of the aid being offered and the modality of its disbursement and management.

In principle, there is nothing intrinsically faulty in the policy of liberalisation (to which aid flows were linked in the case of Zambia) and, therefore, to tie external assistance to it in a country that has a malfunctioning, state-dominated economic sector would seem to be the most rational thing to do. Having said that, however, the process that is used to correct the debilitating condition matters. It is like a case of a seriously sick patient whose disease has rather belatedly been correctly diagnosed and the right remedy identified, but who is left in the hands of an under-qualified doctor to manage under an ill-equipped hospital conditions. When the patient dies, the attribution of death becomes rather tricky. Should you blame the patient for seeking treatment too late; should the doctor be blamed for being under-qualified; is the poor hospital environment to blame; was the medicine itself inappropriate? When one listens to different analysts of Zambia, one often gets the impression that when one blames the IMF; the World Bank and donors for having “messed-up” Zambia, the country (or, rather, the government) is exonerated from the blame. Similarly, when one listens to the amount of blame extended to the country for having failed to provide a hospitable environment for a flourishing private sector under a liberalised regime, the impression often conveyed is that the external supporters did everything right but the problem was internal to the recipient. Consequently, because of attempts to find someone to blame for the mess, realism is often lost with respect to how best to address the problem. And yet, in most cases, both parties to the aid relationship deserve a share of the blame. Unless the problem of aid ineffectiveness is addressed outside the “isms” that tend to colour much commentary, there is very little likelihood that an informed debate will emerge that will inform the decisions needed to improve effectiveness. The challenges must be addressed on both the donor and recipient sides. The article now turns to this theme.
3.2 The donor side
While Zambia has recorded above-average aid receipts, a significant amount of which was fuelled by adherence to SAP, it is clear that, overall, policy design and implementation were faulty. There were evident problems in synchronising the SAP measures that were taken, resulting in delays of several years in price stabilisation. Many analysts agree that:

strong fiscal measures were upstaged in Zambia, to some extent, by the decision to prematurely liberalize the capital accounts. Combined with exchange rate devaluation, this decision led to a prolongation of Zambia's inflation. This, in turn, eroded the real growth of tax revenues, undercutting fiscal austerity. In turn, delays in stabilizing the economy extended the period of stagnant growth, distracting policymakers from undertaking much-needed structural reforms. (AfDB/OECD 2003)

Structurally, Zambia's economy changed little in spite of the reforms and in spite of significant aid flows. Economic growth has remained elusive.

Some of the main agents of the reforms in Zambia, including the World Bank, now agree that too many adjustments were attempted at once without proper care being taken to complement them with tight fiscal and monetary policies aimed at (for example) controlling inflation. Besides this, the promised foreign exchange support from donors that was required to sustain one of the important instruments of financial sector liberalisation (the auction system) was erratic. As Edward Jaycox, the World Bank Vice-President who was in charge of the African region, later conceded:

Zambia's was a terribly under-funded Programme. We overestimated copper revenue, overestimated aid flows, and did everything we could to paint a picture of an internally consistent financing plan based on the resources that we and others could bring to bear. If the case had been looked at more closely or more sceptically, the plan's lack of realism would have become apparent. A great number of shocks took place as the adjustment process went along: copper prices went down or stayed at the same level when they were expected to go up; aid that was expected did not arrive; deals with the Paris Club that were normative were made less liberal when the aid was increased ... In sum, the Zambian Programme was administered in a very chaotic way, and the chaos resulted in part from the inadequacy of financing and unrealistic financing projections. (Jaycox 1991)

In fact, SAP implementation in Zambia was often piecemeal and the programme failed to alter fundamentally the country's economic structure. In particular, the design of SAP did little to address the poverty challenges that increasingly became evident as the structural changes took hold. To a considerable degree, donors targeted their aid towards helping Zambia stay current with its external debt obligations, in addition to meeting a significant part of the country's most pressing balance-of-payment needs. Indeed, as a result of external support, Zambia managed to restructure its external obligations – thus, for example, increasing the ratio of concessional to commercial debt from 9-to-1 in 1990 to over 100-to-1 in 1999.

The case of privatisation most poignantly reveals the cost of speed when reforming an economy where there was hardly any private sector to talk about prior to reforms. The productivity and employment record of the privatised sector has raised serious concerns regarding what the “missing link” could be. The results of a World Bank post-privatisation evaluation of non-mining enterprises in Zambia (Serlemitos and Fusco 2001) revealed a rather depressing record in the areas of productivity and employment generation, particularly for those small- and medium-scale enterprises that were acquired by Zambians.

3.3 The recipient side
It is increasingly being recognised that one of the most important prerequisites to effective aid management is a functional and well-thought-out national institutional framework within which external resources are mobilised and finally utilised in a way that safeguards the country's priorities. The typical donor-aided project in Zambia has received limited guidance from the government at almost all the levels of its circle. For reasons not readily apparent, the Zambian government has generally tended to place considerable faith in the donors in the definition of what is required and how best it could be attained. The era of structural adjustment was particularly noteworthy in this regard. Although
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external pressure-cum-conditionalities clearly played a significant role in policy choices and speed of implementation, Zambia generally stood out among other developing countries for following external prescriptions almost religiously. Zambia was actually "credited" by the World Bank for being the fastest privatising country in Africa at a time when the requisite capacity to manage the privatisation process meaningfully was generally weak and the chaos that followed testified to this.

Evidence suggests that because of the absence of sufficient political will and technical/management skill to guide donor activities; weak institutional structures; low analytical capacity; and lack of policy clarity in some cases (there is presently no aid policy in Zambia), the government has often found it difficult to "voice" its concerns or offer an alternative developmental agenda to that of external actors – even in cases where it believes the interests of the country are not best served by the prescribed remedies. Inadequate and unreliable policy-cum-planning databases and poor financial management and accounting systems have also tended to threaten accountability and, thus to encourage donors either to include capacity-threatening “gate-keeping” functions in their aid support and/or to go around the government system altogether by creating parallel project management and implementation systems and structures, including the general donor insistence to open separate accounts for their supported projects/programmes.

The analytical capacity of the aid coordination institutions in the country is generally limited to the collection of basic data on aid flows – with very little effort towards policy-relevant analyses that would guide government to interact more effectively with donors with respect to its developmental priorities, in general, and poverty reduction, in particular. Behind these shortcomings lie the lack of adequate, well-trained, remunerated, motivated and experienced personnel that can perform the basic functions of aid coordination and management. The existence of a multiplicity of donor procedures, demands and conditionality has worsened the capacity difficulties of the government as it has tended to generate an overload on the already ill-equipped and overstretched state bureaucracy whose aid absorptive capacity is clearly weak. The evident lack of cooperation among different and functionally disjointed wings of government that include the Ministry of Finance and National Planning (MFNP), the Bank of Zambia, other sectoral ministries and statutory bodies has further worsened the situation. These arms of government have continued to receive aid with only a rudimentary system of reporting to the supposedly central coordinating body (the Ministry of Finance and National Planning). How increased aid volumes can make a noticeable difference under such conditions is clearly debatable.

The weaknesses identified above in the processes of aid management under the current conditions in Zambia have resulted in the marginalisation of external resources in national planning and budgeting. Although the periodic Consultative Group (CG) meetings between Zambia and its main external resource providers do allow for a certain degree of dialogue on the setting of priority areas for aid intervention, such consultations and the timing of the disbursement of pledged resources are still not adequately synchronised. Consequently, not only is it difficult to integrate external aid and national development planning and budgeting but, equally important, counterpart funds required to be sourced from the government’s internally generated revenue for the purpose of complementing external flows are often non-existent or have to be obtained from extra-budgetary sources. This has continued to threaten the effectiveness of donor-supported interventions.

More recently, improvement in public expenditure management has become a priority in Zambia and a series of efforts are currently on course at this level. The Medium Term Expenditure Framework (MTEF) is perceived as a key element of fiscal discipline that integrates policy making with economic planning and budgeting in the context of a three-year budget cycle. Through MTEF, the government aims to ensure that expenditure programmes are driven by strategic priorities, choices and hard budget constraints. The importance of the MTEF has to be understood in the context of the long-standing challenges of financial management in Zambia that have been characterised by the lack of effective links between policies, programmes, projects and budgeting; non-coherent expenditure patterns; the need for government expenditure that is predictable with set targets and goals; the need for accountability and transparency in running public affairs (and the associated challenges brought about by corruption); and the importance of having an expenditure framework that guides choices and
4 Emerging opportunities for Africa?

The Zambian case raises a number of challenges with respect to the improvement of the aid architecture so as to ensure that increased aid volumes to Africa make a difference to the continent’s developmental aspirations. In an effort to address the challenges of aid effectiveness at the global level, there is the growing recognition of the importance of harmonisation among and within the main players in the donor-recipient interface, so that their collective actions are coordinated in a way that avoids undesirable duplication of effort that tends to inflate the transaction costs on both sides of the aid relationship. The list of suspects for this state of affairs include the proliferation of uncoordinated projects, the high administrative costs, the lack of country ownership (as suggested in the Zambian case above), cost and time overruns, and a disappointing record of sustainability – all of which have been both the causes and effects of poor aid management in many African countries. There is also a growing recognition that the management of different donor procedures has resulted in unbearable transaction costs, particularly for the most aid-dependent developing countries of Africa. The adherence to a multiplicity of donor requirements is perceived to be capacity draining, let alone its threat to the local ownership over recipient countries’ own development agendas – problems that have evidently compromised effective public management.

Drawing lessons from the Zambian case, it is apparent that opportunities for improving aid effectiveness exist when a number of realities are appreciated by both the recipients and donors. It is important to recognise at the outset that donor aid is an exceptional resource which creates exceptional demands on recipient institutions beyond the national agendas of managing domestic resources. To reduce the additional burden of imposing a donor agenda on African systems, some key guiding principles are worth taking into account.

First, compatibility with the development aspirations of Africa is of essence. This entails ensuring that donor policies and procedures are within the national policy framework that is developed through a consultative process and that no additional specific policy conditionalities are unduly added outside the agreed frame of cooperation. This also means that aid should be delivered and monitored through the existing public sector management system in the same manner as domestic resources are handled. Sector programme approaches (as opposed to projects) seem to hold promise for compatibility enhancement because they provide an overall policy and programme framework with agreed outputs and performance indicators for monitoring.

Second, simplicity is called for. This means that aid delivery should not introduce complex procedures and/or management structures for implementation, monitoring, reporting and evaluation. It also means agreeing on few, simple and realistic performance targets and focusing on these. Too wide an agenda and a multiplicity of complex structures would increase prospects of failure especially in the least developed countries where existing government systems are still quite frail.

Third, what is embarked upon should be achievable. This means that policy conditions and programme targets should be decided upon ex-ante, with due consideration for capacity to achieve them. Achievable outputs/targets should be guided less by wishful thinking and more by what can realistically be realised within a given timeframe. Many grand externally prescribed economic restructuring programmes in the Zambian case fell short of expected outcomes simply because achievability received little consideration due to, inter alia, the government’s lack of capacity to implement otherwise good plans and the attempt by those that handed down the prescriptions to use complex implementation procedures and reporting and monitoring systems. In many cases, planned outputs far exceed the recipients’ capacity to deliver, often with serious consequences to the targeted economies. Complex structures such as donor-funded and technical assistance-staffed programme management units are often put in place as parallel structures charged with management, monitoring and reporting tasks, and applying systems that are incompatible with the recipient governments’ way of doing things – this, simply, will not do.

Lastly, to improve the quality of aid management
structures, donors should also invest in the
development of their own human capital, capacities
and institutions to improve their ability to
understand their location in the aid architecture.
Up to now, the question of capacity building has
been seen as necessary mainly in the recipient camp
and rarely are issues raised regarding the
effectiveness and appropriateness of the donors’
own aid structures and the competencies of their
personnel. Consequently, the review of donors’
modus operandi has often been done as a mere in-
house process by donors in their respective agency
headquarters. Rarely are the results made known
to the recipients, let alone brought out during the
donor-recipient dialogues on how to improve aid
effectiveness. This “them/us” syndrome in the
donor/recipient interface is rarely recognised as one
of the real challenges that ought to be addressed in
the debate to improve aid effectiveness. The simple
reality is that, to realise more focused and pro-poor
strategies, multilateral and bilateral donor staff that
are at headquarters and those posted to recipient
countries ought to possess sufficient and relevant
experience and training to formulate and apply
strategies that are relevant, practical, and feasible.
Capacity building within the donor camp is
therefore essential, as is interaction with their
recipient “partners” during this process – both for
mutually beneficial openness and for confidence
building in the donor/recipient interface.

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