
Don't Throw Money at Africa

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It is so exhilarating, is it not, such a great change. Here we have the two politically most important people in Britain arguing the case for a massive new aid effort – a doubling – to overcome poverty in Africa; backing this with major increases in the government's own aid budget; committing to the 0.7 per cent target; pushing the G8 leaders (and soon the European Union) to follow their lead. And that is without mentioning Sachs, Bono, Geldof, the Africa Commission, Mandela, Annan ...

Not only that, but the problems that they are addressing are manifestly real; the poverty and suffering so widespread and acute. If we take a broad geographical sweep, Africa¹ is the last big development challenge, the region left behind. It is a problem none of us would want to ignore; according to Prime Minister Blair it is 'a scar on the conscience of the world'.

But are we not in danger of getting carried away by the excitement of the moment; of forgetting a lot of the lessons that we thought until recently we had learned about the nature of Africa's problems and the difficulties of using aid to solve them? That, at least, is the premise of this article. It does not question the gravity of Africa's problems, although it is concerned by the tendency to exaggerate and over-generalise. There is, in fact, a wide variety of experiences on the continent. Overall, economic growth is at 4–5 per cent and is expected to speed up in 2005. A good many countries are lagging badly behind but in 2001–02 (the latest available year), 25 African countries raised *per capita* incomes, against only nine, with zero or negative growth.

Some have been doing well on social indicators too. So while the problems are very real, there are no grounds for excessive pessimism, or despair at past efforts. The big question is, how much of a contribution to the remaining problems would be made by large-scale additions to aid flows?

I want to suggest that the results are likely to be disappointing at best, and at worst counter-productive, for two related reasons: (1) large further increases in Africa's dependence on aid are apt to have seriously negative effects within the continent, and (2) an overriding emphasis on raising the quantity of aid will inevitably conflict with the efforts over the past two decades to raise the quality, or effectiveness, of this assistance.

1 The dangers of excessive dependence

The starting point here is to note Africa's already heavy reliance on aid. Over the years, with a dip in the 1990s, Africa's share of total development assistance has risen markedly, doubling between the early 1970s and today. It has again begun rising sharply and seems destined to continue to do so. As of 2002 (the latest available year), aid to Africa, relative to population and various economic magnitudes, exceeded that to the other two main developing regions by multiples of between 3 and 21, depending on the comparison in question. The figures in Table 1 show the factors by which various measures of aid to Africa exceed that to other regions (e.g. aid to Africa as a share of national income was 6.5 times greater than in the case of South Asia).

Table 1: African Aid Comparisons

	South Asia (%)	Latin America and the Caribbean (%)
Aid/national income	6.5	21
Aid <i>per capita</i>	5.5	3
Aid/capital formation	6.5	20
Aid/imports	3	14

This relative concentration has resulted in already high levels of aid dependency, by the conventional indicators used to illustrate this. The following statistics show average dependency for the top 50 per cent of African recipient countries, as of 2002. The purpose of concentrating on the top half of recipients is to screen out countries that have “graduated” (e.g. South Africa, Botswana), or have put themselves beyond the pale (e.g. Zimbabwe, and to a considerable extent Nigeria), or are so much in the throes of turmoil as to preclude substantial aid inflows (e.g. Somalia, Democratic Republic of the Congo). Although this is a floating population at the edges, it is to the top 50 per cent that a large part of the doubling of aid to Africa which is being called for, by for example the Africa Commission, would be directed.

Something to bear in mind about the figures in Table 2 is that they are underestimates of the present-day situation, because aid to Africa has been rising fast in the most recent years – much faster than the economic variables used in the denominators. So aid dependence is already high, by any reasonable standards. From this viewpoint, the donor countries could not be accused of meanness. The question which arises is whether a near-doubling of these ratios would be desirable. Some reasons for this question are dealt with below.

2 Diminishing returns

One of the more robust findings of the empirical literature on the aid-growth connection is that, beyond a certain point, usually measured relative to GDP, diminishing returns set in: the contribution to growth of further increments of aid begins to tail off and eventually becomes negative. Where the turning point lies varies widely from one estimate to the next, mostly in the range of 15–45 per cent of GDP. Looking at the existing ratios, it seems inevitable that a doubling of aid would place a high proportion of African recipients at risk of seriously diminishing returns. Moreover, there are reasons for fearing that the empirical literature cited here understates the problem.

1. The estimates cited are drawn from cross-country regressions based on samples of developing countries from all regions. I am not aware of estimates confined only to African recipients. My hypothesis would be that diminishing returns set in at an earlier stage in the generality of African

Table 2: Aid Dependency Ratios for the Top-half of African Recipients, 2002

Net aid as a percentage of:	(%)
Gross national income	
Mean	23
Median	17
Gross domestic capital formation	
Mean	137
Median	108
Imports	
Mean	56
Median	49

Source: Calculated from World Bank, World Development Indicators, 2004.

economies because of weaker institutions and larger scarcities of human capital.

2. The concept of diminishing returns is an incremental one. It asks about the productivity of marginal additions of aid (or other inputs). Estimates do not, therefore, provide a reliable guide to the likely consequences of non-incremental changes, like the “doubling” presently being urged. Here again, my hypothesis would be that the problems of diminishing returns would be bigger in the event of large, quite rapid, discontinuous increases, as now being contemplated.
3. I suspect that these empirical estimates are not good at picking up the longer-term effects of aid dependence on institutional development, to be described shortly.
4. The current donor environment, with all of its stress on the reduction of poverty and achievement of the MDGs, is having the effect of channelling large proportions of aid into social spending. While the reasoning behind this is understandable and while by no means all of these expenditures should be thought of as “consumption”, nonetheless the contemporary bias away from the use of aid for the economic sectors and to promote increased production must tend to reduce the extent to which aid is productive in the conventional sense.

Diminishing returns, therefore, are apt to be a serious consequence of large increases in aid to

Africa, with the implication that the assistance may do much less good than is currently being argued by its proponents.

3 Absorptive capacity

By common consent, absorptive capacity – the ability to put aid to effective use – is severely constrained in most African countries. This is why diminishing returns occur. Absorptive capacity is essentially a function of two things: the availability of human skills and the institutional settings in which people work. The problem is compounded in Africa by the large-scale brain drain, as scarce skilled workers go abroad in search of better earnings and living standards. It is compounded too by the high morbidity and mortality rates in Africa, of which the HIV/AIDS pandemic merits a special mention.

The fact is that we are contemplating large increases in financial assistance to Africa in the context of severe and worsening shortages of the human skills needed to put the money to good use – in health, in education and in other fields. It is more difficult to generalise about the institutional aspect of the absorptive capacity nexus but the situation can perhaps be illustrated by reference to some donors' attempts to place increasing proportions of their assistance through recipient governments' own budgetary systems – direct budgetary support (DBS). It is well known that donors like the Department for International Development (DFID) are very concerned about the problem of “fiduciary risk” associated with DBS – the risk that, as a result of fungibility and weak budgetary systems, aid monies will not reach their intended beneficiaries. The present writer recently undertook a study of this problem in Ghana – an African country generally regarded as offering a good environment for effective aid – and found a horrendously weak budgetary system that was entirely incapable of providing reasonable safeguards against fiduciary risk. Or consider a more favourable case, Tanzania – rightly regarded as one of the most satisfactory countries for donors to deal with. A recent study of DBS to that country, while arriving at favourable conclusions overall, nevertheless doubted its effects on poverty reduction, found that budget systems and accountability remained weak and cautioned about the limited contribution that external assistance could make, with domestic political commitment

the key ingredient. Such results, and the many leakages out of the system, help explain the rather common finding of only weak correlations, or none, between spending on health and education and outcome indicators.

I shall suggest later that heavy aid dependence can itself contribute to weak institutional development, and hence to poor absorptive capacity. Of course, we must beware of over-generalisation. There are many well-functioning institutions that are able to harness the abilities of their workers. But equally, many are not in that situation. Continuing widespread problems with the enforcement of property rights and with the rule of law, attest to this and contribute to it.

Even if absorptive capacities are low, this does not mean that donors should wait passively until they improve. A twin-track approach is needed, simultaneously to build capacities and to support these with finance. But one of the lessons of the past, which we are in danger of glossing over, is that donors have not been very good at capacity development. As a result, much of the huge amounts of money that have gone into “technical assistance” to Africa are widely accepted, even by donors, as having been ineffectual at best. The fact is that capacity development is the result of complex processes, in which outsiders have few comparative advantages. Thus, the interim results of an ongoing study of this by the European Centre for Development Policy Management emphasises the dominant influences of domestic political and governance structures, and of the quality of local leadership involved in efforts to raise institutional capabilities. While they did not rule out the possibility of useful contributions from outside, the most crucial ingredients were home grown – and were complex. This is not territory in which we can assume that official donors can move effectively and quickly to raise capabilities and absorptive capacities. In the context of the aid-doubling campaign, we must be beware of resounding assertions that donors will work with African governments to break capacity bottlenecks. The concern raised here can be restated as drawing attention to the difficulties of sustaining short-term, donor-driven initiatives into the longer term, because of institutional weaknesses and shortages of needed skills.

4 Macroeconomic problems

Heavy aid dependency brings macroeconomic problems, of which two can be mentioned here. First, there is the “Dutch disease” phenomenon, referring to the possibility that large windfall receipts of foreign exchange (in the form of aid, in this case) result in uncompetitive exchange rates, which undermine export performance and thus tend to perpetuate aid dependence. This is admittedly a complicated subject. The mere occurrence of large new aid inflows is not in itself sufficient to indicate the existence of a “Dutch disease” problem; it all depends on how the money is used and how this affects the balances of domestic demand and supply for tradeable and non-tradeable goods. However, I suggest the general proposition that the risk of running into such problems rises quite sharply if large, discontinuous increases in external assistance occur.

The second macro problem refers to the notorious unpredictability of aid inflows and the acute problems that this can create for macroeconomic management. The large uncertainties are well demonstrated in a research paper by International Monetary Fund (IMF) staff members (Bulir and Hamann 2001), which investigates the volatility and predictability of aid in general and of programme versus project aid. Among their remarkable results are the following:

- Aid is more volatile than domestic fiscal revenues and tends to be pro-cyclical.
- Fiscal planners are highly uncertain of aid receipts and ‘the information content of commitments made by donors is either very small or statistically insignificant’.
- There are much larger prediction errors in programme aid than with project assistance and a stronger tendency towards overestimation. This is partly because of the application of conditionality, but there are other reasons too.

The point to make here, of course, is that the larger the aid inflows, and the more of it which flows through the budget, the larger will be the macro dangers. Under the Rome Declaration, donors have pledged that they will work to raise predictability, as well as to channel more of their assistance through recipient budgets. But we should not underestimate the difficulties of achieving

greater predictability, given the far greater association of direct budgetary support with political as well as economic policy conditionality and the special vulnerability of this form to political “interference” from Ministers of Development Co-operation. For example, in Rwanda, despite good performance by the government, budgetary support in 2004 was seriously disrupted by the *ad hoc* application by two major donors of previously unstated political conditionalities, in ways clearly contrary to written understandings.

5 Political accountability and moral hazard

At the heart of the argument of this article, is a belief that the fundamental causes of the economic and social malaise in many African countries are domestic in nature and, in particular, are intimately linked to the anti-developmental and weakly accountable nature of many African political systems. This implies a rejection of Prime Minister Blair’s description of Africa’s situation as ‘a scar on the conscience of the world’. To the extent that the problems are viewed as essentially African, it follows that providing more aid does not address the root causes of persistent poverty and is thus likely to end in tears. In this connection, the work undertaken under DFID’s “drivers of change” initiative is of particular interest, for this was a response to the situation where a donor finds it cannot achieve its aspirations because it cannot get to grips with what actually makes things tick in recipient countries. So far as African countries are concerned, “drivers of change” studies have overwhelmingly pointed to the fundamental difficulties generated by patronage-based, or neo-patrimonial, political systems.

If this were not bad enough, there is the real danger that a lot more aid will worsen the weaknesses attributable to political systems. To a large extent, this danger can be summed up under the heading of “moral hazard” – the risk that Africa’s politicians will be made less ready to tackle their countries’ problems when they can see they can coast along on the basis of aid. This refers to decisions about the adoption of potentially unpopular policy reforms and also to the temptation to use aid as a substitute for domestic taxation. As Mick Moore (1998) has been warning, growing reliance on aid inflows makes governments highly sensitive to the views of the donors, as against their

own taxpayers. And governments' ability to tap aid sources reduces their need to tax their electorates, not only weakening their need to listen to the population, but sapping the incentive for taxpayers to organise to make their voices heard. If a very high proportion of a government's total resources are coming from aid rather than taxation, this will inevitably skew accountability away from being answerable to the local electorate in favour of trying to appear to meet the strident claims of "development partners" and their multiple conditionalities. This is not a pattern which contributes much to the development of more responsive, less patronage-based political systems.

Substantial future aid inflows would most likely aggravate these negative effects. Of course, donors will assure us that they would erect safeguards against such dangers, but reasons will be given later for doubting such assurances.

6 Undermining aid effectiveness

It was suggested earlier that the allure of a lot more aid for Africa puts us in danger of forgetting some of the lessons that we thought we had learned about the limitations of what aid can achieve. The focus of the aid literature and of attempts to reform aid practices over the last 15–20 years has been on raising its effectiveness, in recognition that much past assistance had been ineffectual. One of the more disconcerting things about the current state of the aid discussion, at least within the UK, is that claims that we can double aid to Africa and at the same time continue to improve on aid quality seem to go unchallenged. That they are complementary in this way seems a dubious proposition.

First, there is an awkward question of numbers. The (Sachs) Millennium Project, for example, wants to single out at least a dozen countries for "fast track" treatment – countries with proven records of good governance and absorptive capacity. However, one must ask, is there a dozen countries, among those viewed as requiring aid, which meet these criteria? Everyone mentions Mozambique, Tanzania and Uganda. I would add Rwanda and no doubt there are others, but one fairly quickly begins to run out of obvious candidates. It is a spectrum, of course, but the "good" end of the spectrum is not very crowded. Moreover, none of the favourites is particularly big, so that their ability to absorb really large amounts of new money is inevitably limited. The big ones – Nigeria, the Democratic Republic

of the Congo, Angola – which potentially could use big money, are at various points towards the "bad" end of the spectrum. So where is all this extra money to be used? The dangers must be that the "good guys" get swamped – with all the downsides rehearsed above – but that a lot of the "not-very-good guys" get a lot more too, with all that would mean for the effectiveness of the assistance provided, especially in terms of its ability to improve the well-being of poor people.

What is hinted at in the last paragraph, as would surely be the case, is that if the donor community responds to the UK's attempts to raise the quantum of aid, an intensification of inter-donor competition would ensue and the staffs of donor agencies would come under the most intense pressures to spend their budgets. *There is nothing more detrimental to aid effectiveness than pressures to spend.* Many of the ingredients of the aid effectiveness agenda would be put at risk: improved coordination, as a result of inter-donor competition; the sacrifice of quality for quantity, as the necessity to keep the money moving pushes professional advice and cool evaluation into the background and leads to an increased politicisation of aid allocation decisions; an erosion of country selectivity and an attempt to substitute for this by an illusory plethora of policy conditions which will not be kept or sustained.

One of the ways this is likely to manifest itself is the pushing of major amounts of direct budgetary support into fiscal systems that fail to provide even rudimentary assurance that the extra money will be used in ways that donors – and we as taxpayers – would wish. Another is the devotion of more aid resources to debt relief, because it is an easy way of spending money quickly. Debt relief has its strong points as an aid modality, but it has some strong negatives too. Here are just two:

1. There is a well-established negative association at the country level between experiencing debt servicing difficulties and the past quality of their policies: debt-distressed countries have generally pursued poor policies (Easterly 2001). So, using debt distress as a criterion for distributing aid resources turns out to be a way of distributing it to countries unlikely to put it to good use – a particularly adverse form of moral hazard, with those who have managed their economies so as to avoid running into debt difficulties being penalised.

2. Indebtedness is a poor guide to need, if by need we mean the extent of poverty within countries. It has been shown that only a modest proportion of the world's poor live in debt-distressed countries (Ranis and Stewart 2001).

7 Aid as an easy option

Finally, there is the danger, notwithstanding good intentions to the contrary, that an increase in aid volumes for Africa will be taken by European and other rich-country governments as an easy option – to their budgets, aid is small change, after all – by comparison with much tougher decisions about reducing Organisation for Economic Co-operation and Development (OECD) agricultural protection, revamping tariff structures so as not to discriminate against in-country processing of Africa's primary products, and doing something more effective about man-made environmental threats, which only add to the difficulties faced by African countries. I realise that the UK government is trying to avoid a bias against these tougher decisions, but there must be a real danger that it will not succeed.

8 Conclusion: tapping the momentum

The momentum that has been generated by recent campaigning is a positive factor that should be tapped – but for a more sensible agenda. Here is this author's agenda:

Note

1. I will throughout be using "Africa" to refer to sub-Saharan Africa.

References

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- Be generous, provide more aid, when this will not undermine national ownership, accountability and effectiveness. The Millennium Project has suggested a number of "quick win" steps. Not all of these are equally promising, but the mass distribution of anti-malarial bed-nets is particularly attractive, in not requiring an elaborate institutional infrastructure. There is surely also much scope for much increased provision of antiretroviral HIV/AIDS treatments. We should look for such opportunities. It is no part of my intention to take an anti-aid stance.
- Be less exclusively preoccupied with the distorting pursuit of the MDGs and poverty reduction. Redress the extreme swing that has occurred away from promoting the development of directly productive sectors.
- Put Africans in the driving seat, let the pace of aid increases be set by their own progress towards accountability, equity and sound management, and find non-intrusive ways of supporting those who demonstrate that they wish to move in these directions.
- Hit hard on aid quality issues, and on trade and related aspects of the global environment, which hold Africa back.
- Do not forget that huge numbers of poor people are not African. Avoid an unbalanced, politically driven concentration on Africa to the detriment of other developing countries.

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