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How much Aid is Good for Africa – A Big Push as a Way Out of the "Poverty Trap"?

For sub-Saharan Africa (SSA) the year 2005 offers a number of important opportunities for political action (G8 summit; debate on the report on the Commission for Africa – CFA; review of the progress made on achieving the Millennium Development Goals – MDGs). On the one hand, this is a chance that should not be missed; on the other, it would be important to ensure that this process is not narrowed down, resulting in a focus on overly simplistic declarations and options for action. Against the background defined by successes in development that have, on the whole, either failed to materialize or proven insufficient, and that are reflected in the indicators on the (non-)achievement of the MDGs, there is an intensive debate underway on the African continent, one that casts light on some of the different dimensions of the debate.

The first question involved here concerns approaches to explaining existing development deficits. What we increasingly find here is a polarization between approaches that see the central causes and the relevant fields of action in existing governance problems on the one side and in "poverty traps" and classic structural deficits (high transportation costs, etc.) on the other. And there is no reason to believe that income growth leads automatically to better governance performance.

In the second place, the massive increase in the official development assistance (ODA) provided in recent years – which has included just under US $ 24 billion (2003) for sub-Saharan Africa – has come to play a prominent role in the conclusions reached by some important analyses. Arguments in favor of increasing ODA are countered with arguments that point to possible inappropriate incentives (a declining need to mobilize national resources, etc.), negative collateral impacts, and lack of the technical-administrative absorption capacities required.

In the third place, the debate is concerned with some fundamental questions involved in a reform of ODA designed to improve the quality and effectiveness of development assistance. Both the international consensus reached in the Paris Declaration on Aid Effectiveness (February 2005) and other, more extensive proposals (e.g. regarding program-based approaches, the need to make more intensive use of partner structures) play an important role in this connection.

On the whole, it is important to prevent these controversial debates from deteriorating into an unfruitful "doctrinal dispute." What is needed instead is efforts to specify, primarily at country level, the central causes for given problems (Is it certain country policies that may develop key impacts? Or is the core problem rooted in funding bottlenecks?). In sum, there is, on the one hand, no getting away from the need for African partners to devote more efforts to coming to terms with central governance deficits (cleptocratic systems, violent conflict, deficient rule of law, etc.); but on the other hand the donors must be expected to implement their commitments to increase their ODA, step up their efforts to raise the effectiveness of ODA, and to create incentives designed to promote good governance and avoid bad governance.

Sub-Saharan Africa in the poverty trap?

For SSA the year 2005 is fraught with both risks and opportunities. The problems facing Africa have assumed unusual prominence on the agendas of international events: The most important cornerstones of the ongoing debate include the review of the progress made on achieving the MDGs (September 2005), the Investing in Development report published by Jeffrey Sachs (January 2005), the report of the Commission for Africa set up by British Prime Minister Tony Blair (March 2005), and the G8 summit set to be held in July 2005 in Gleneagles. ODA plays a major role in these discussions. It is in particular the volume of the ODA provided for SSA that many observers – including not least Jeffrey Sachs and the CFA – view as wholly inadequate. The ongoing debate affords an opportunity to boost international awareness and to expand the international support provided to the continent. Risks must be seen in the fact that the potential influence of external actors (including ODA) may be overestimated, with too little heed being paid to the possible speed with which successes may be achieved. One risk must thus be seen in the danger of long-term "frustration."

On the whole, SSA lags clearly behind the social and economic development of all other developing regions. As far as the MDGs are concerned, the continent is off track; i.e. at present it is unable to reach the goals set. Average life expectancy in SSA is no higher than 46 years (2003). Roughly half of the population is living in absolute poverty, and there are good reasons to assume that the most recent figure of 313 million people living in poverty (2001) will rise to 340 million (in 2015).

Yet the way we view sub-Saharan Africa is also inevitably superficial, since individual countries and subregions show developments that deviate sharply from the average, or indeed must be termed contradictory. Certain countries in the region are marked by distinctive economic features; these would include above the region's economic powerhouse South Africa, some relatively successful smaller countries (mainly Mauritius and the Seychelles), and the region's oil- (Angola, Equatorial Guinea, Nigeria, Chad, etc.) and mining-based economies (Botswana, etc.).

Generally speaking, SSA is presently in a phase of economic recovery. Following a roughly two-decade period in which the region was faced with the poorest growth situation of all the world's developing regions, per capita growth has begun to rise in recent years. For 2004 the International Monetary Fund is proceeding on the assumption of real growth amounting to 5.1%, which would translate out into per capita growth of some 2.8%. The Fund furthermore sees the region's economic prospects as relatively favorable. It should, however, be noted that the region's current and anticipated economic recovery is due in quite large measure to its oil economies, that in most cases, and viewed in absolute terms, this growth is starting out at a low level of economic performance, and that, despite positive developments, there is little reason to assume that the region's growth will prove sufficient to achieve the MDGs.

Two distinct "camps" are emerging in the course of the debate over how best to explain SSA's development deficits and what conclusions this implies:

1. The "poverty trap" identified by Jeffrey Sachs – and diagnosed in substantive terms by the CFA – is assumed to be due to a low savings ratio combined with high population growth, a situation which leads to stagnation in capital accumulation and prevents economic growth from triggering a self-sustaining dynamic. Sachs sees five principle structural reasons that explain why SSA is the world's most vulnerable region: (1) very high transportation costs and small markets; (2) low-productivity agriculture (for lack e.g. of a "Green Revolution"); (3) a very high disease and pandemic burden (HIV/AIDS, malaria, etc.); (4) "a history of adverse geopolitics" (the massive slave trade engaged in by European and Arab powers); (5) very slow diffusion of technology from abroad (disease prevention, increasing agricultural productivity, etc.).

   The poverty-trap approach sees a need for a broad-based counterstrategy – a big push: put figuratively, a bucket of water is not enough to bring a major conflagration under control. Another important aspect noted in this connection is that the continent will, in the end, be unable to launch this big push with its own resources. It will therefore be necessarily to massively increase ODA flows to SSA.

2. Critics of an approach of this kind point to the long tradition of the big-push idea and strategies based on external funding. Neither, it is claimed, has proven reasonable or appropriate (e.g. SAIIA 2005). Counterarguments have been advanced in particular from a governance perspective. Such critics see the problem mainly in governance weaknesses in the countries in question that are assumed to obstruct block progress. It is, in other words, not a lack of financial resources but faulty policies that are preventing development successes. This, it is claimed, applies, among others, for countries affected by violent conflict or fundamental governance problems (e.g. Côte d'Ivoire). Furthermore, it is claimed, a number of SSA countries have substantial incomes (e.g. from oil revenues); the problem is, however, that these incomes are not put to productive reasonable uses.

In putting forward their arguments, the representatives of both the big-push and the governance camps take into account the arguments advanced by other camps involved in the debate. To cite an example, the CFA report deals relatively intensively with governance issues, while on the other hand most representatives of the governance camp see in adequate economic growth a necessary (though not sufficient) condition for development successes. But the substantive differences involved are in part matters of principle: On the one hand, the debates often tend to reduce the concept of governance to aspects of administrative governance (efficient and transparent administrative systems, etc.), often neglecting the important role played by political governance (respect for democratic principles, observance of political human rights, etc.) (see Kielwein 2005). On the other hand, the impact chains assumed in the debates differ in fundamental terms. Jeffrey Sachs e.g. argues that many parts of SSA are "better governed" than would appear to be indicated by their income situations. This argument has, however, been explicitly rejected by different quarters. Thus empirical assessments show that it is in fact not possible to assume a positive effect of higher income on the quality of governance (and that, instead, the effect operates in quite the opposite direction), noting that, as far as income levels are concerned, the quality of governance in the region is on average not at all "relatively good" (Kraay 2005).

How much ODA does sub-Saharan Africa need?

According to OECD figures, the international donor community made available a total of US $ 70.1 billion in ODA in 2003; US $ 23.8 billion of this went to SSA. This amounts to a share of 34 %, and this figure shows a rising tendency. At present (2002/2003) the largest donors in SSA are 1. the US, 2. the International Development Association (IDA) / the World Bank, 3. France, 4. the Commission of the European Union, 5. Germany, and 6. the UK. Some donors make the lion's share of their ODA available to SSA, a fact which is due in part to their relations with former colonies (e.g. France), though in part this must also be seen as a concrete poverty-based approach. The by far largest share of bilateral ODA and around 40 % of multilateral ODA is provided in the form of grants.

On the whole, SSA is highly dependent on ODA:

- ODA is SSA's most important source of outside funding. Financial inflows to SSA are made up as follows: 55 % ODA, 25 % foreign direct investment (which is concentrated on a very limited number of countries and sectors), and roughly 15 % transfers to the region from migrants (and 5 % other private inflows).
- In SSA the ratio of ODA to gross national income (GNI), 6.24 %, is high (as compared with 1.16 % for all developing countries). This ratio is even considerably higher for a number of countries in SSA (Mozambique 60.3 %; Sierra Leone 47.0 %, Guinea-Bissau 30.5 %, etc.). ODA accounts for an even higher share of public budgets in SSA (in some cases even more than 50 %).
- Arithmetically, SSA receives ODA amounting to US $ 34.5 per capita (as compared with an average figure of US $ 14.2 for all developing countries).

The ongoing international discussion mainly proceeds on the assumption that the level of ODA provided to SSA is wholly inadequate. As far as reaching the MDGs is concerned, most observers see a need for a massive increase. The CFA report anticipates an additional annual need of US $ 25 billion up to the year 2010 and an additional annual US $ 25 billion up to the year 2015. The Sachs Report proceeds on the assumption of an annual need for ODA (for all regions) amounting to US $ 135 billion up to the year 2006 and a figure of US $ 195 up to the year 2015.

In principle, the arguments of those in favor of increasing the volume of ODA are plausible, and it is possible to identify a number of reasonable points of departure for increased ODA transfers. It is, however, also necessary to bear in mind, and to discuss, the possible risks entailed by a strategy of this kind. The problems bound up with a high level of dependence on ODA or a massive increase in ODA may be quite diverse in nature (see SAIIA 2005; Kraay 2005; Bräutigam / Knack 2004; Kielwein 2005):

- Financial resources need not be the core problem facing a country or a sector. Viewed in terms of numerous aspects, successful policies and the functional effectiveness of institutions do not hinge on the availability of material resources.
- Increased flows of outside resources may weaken national efforts to mobilize resources (improved tax systems, etc.). In given cases it may in fact prove easier to acquire ODA than to build national financial systems.
- The findings of quantitative analyses indicate that the positive influence of ODA on economic growth tends to decline as its share in GNI rises; some observers see a saturation point at roughly 25–30% of GNI.
- In countries with poor governance, massively increased ODA inflows may have dysfunctional effects (by supporting neopatrimonial structures, etc.), much like the possible negative consequences associated with high oil or diamond revenues.
- Studies shows that ODA is more volatile and less reliable than other types of inflows. ODA may for this reason tend to undercut the budget-management capacities and planning efforts of partner countries.
- Finally, massive inflows of funds may undermine the competitiveness of exports by contributing to an appreciation of national currencies (Dutch disease).

On the whole, higher ODA inflows entail both challenges and risks. These should not generally be seen as a reason for not increasing ODA transfers, although they do mean that sufficient heed should be paid to a country's political, institutional, and technical absorption capacity.

Governance in sub-Saharan Africa

Studies show that good governance in SSA has a positive influence on economic performance (growth) and is closely interrelated with vulnerability to armed conflict. Efforts aimed at improving the transparency of governance performance have increased in recent years. In addition to tools like the World Bank's Country Policy and Institutional Assessment (CPIA), the UN Economic Commission for Africa (UNECA) has presented a first empirical Governance Report (2004). The report – like other analyses – comes to the conclusion that, on average, there has been recognizable progress in SSA (e.g. on democratic transition, political inclusion, and public budget management), although unsatisfactory areas remain (e.g. lack of democratic governance structures, insufficiently independent judiciaries). The so-called African Peer Review Mechanism set up in connection with NEPAD (New Partnership for Africa's Development) could have a special role to play in this connection. Thus far 23 African countries have committed themselves to the mechanism, and some first country results are anticipated for mid-2005.

More effective development policy

All relevant documents that recommend increasing ODA transfers to SSA at the same time emphasize the need to improve the quality and effectiveness of ODA. The Paris Declaration must be seen as an expression of an important international consensus on this issue. Some of the various recommendation advanced in the course of the debate – e.g. by Jeffrey Sachs and the CFA – go beyond this consensus. Generally, a dual strategy is proving more and more to be called for: It is important to distinguish between countries with difficult framework conditions – due in particular to violent conflict or especially poor governance (auto- and cleptocratic regimes and the like) – and countries that are engaged in credible efforts – above all – to achieve the MDGs. It should, however, be noted that the cases encountered in most relevant countries are neither solely and clearly "negative" or "positive". The picture there tends instead to be characterized by a multiplicity of nuanced situations, indeed in many cases even by contradictory developments within one and the same country (good poverty policy and at the same time deficits in political legitimacy, etc.).

In systems with difficult framework conditions development policy may focus on approaches that aim at direct provision of basic social services or promotion of development-related measures together with national civil society actors and at the same time set incentives designed to improve the quality of governance. Under favorable conditions, on the other hand, it is becoming increasingly important to directly support partner efforts, in this way building a new base relationship between the donor and the partner side. That is to say that program-based approaches may have an important role to play in these cases. In particular, ODA should be employed using partner structures for planning (e.g. budget-planning processes), implementation (e.g. tendering procedures), and monitoring (evaluations, etc.). Viewed against this background, parallel structures and project-related approaches are in many cases inappropriate because they entail high transaction costs and generally tend to weaken partner capacities to reasonably coordinate the multiplicity of actors and approaches involved. In this regard recommendation (e.g. those of the CFA and Jeffrey Sachs) point, among other things, to a need to pool the funds provided by different donors, to reduce the number of staff deployed from donor countries, and to use technical cooperation funds to set direct incentives for local wage structures.

2005 as an opportunity?

In SSA in particular ODA can play an important role in overcoming development deficits as well as in moving toward achievement of the MDGs. Seen in this light, the debate on stepping up flows of resources to the countries of the region is important and fundamentally correct. In most countries of the region ODA serves as a central means of leverage. It can provide an important contribution to supporting capable development states in SSA. The key question is how ODA can best be used to create incentives for good governance as well as to avoid setting incentives for bad governance. The simple fact of an inflow of resources is no guarantee that better solutions to a country's development deficits will be found. Indeed, this may even entail the risk of setting false incentives. The ongoing debate (e.g. Sachs et al.), on the other hand, proceeds on the assumption that greater inflows of resources serve to improve governance. This chain of argumentation is misleading because it seeks to narrow down the crucially important influence of governance. This is not generally to cast doubt on the need for greater transfers; the emphasis here is on the "right", and in given cases graduated, use of more ODA. One entirely reasonable target would be to increase the share of overall ODA provided to SSA – in 2002 the G8 recommended a share of at east 50 %.

Viewed against this background, the debate on more effective ODA is wholly justified. The important issue is how best to promote good national policies in countries already in possession of responsible governance structures. In these cases the concern is to make use of and to foster existing structures, and not to overburden them, with a multiplicity of different donors making use of their own approaches and apparatuses. At the same time, in the future it will become increasingly important to identify other reasonable approaches to ODA for countries with poor governance and fragile structures. The reason for this is, for one thing, that such countries account for a relevant proportion of SSA (roughly 1/3 of the region's countries) and for another that the consequences of disengagement would be momentous for both the countries themselves and the region.

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