Report on Expert Group Meeting
Effectiveness Of External Assistance: Focus on Africa[1]

New York, 24 – 25 January 2002

United Nations Department of Economic and Social Affairs

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1. This report summarizes a U.N. Expert Group Meeting held January 24-25, 2002 on the subject of "Effectiveness of External Assistance: Focus on Africa." The meeting was opened at 9:30am on February 24. Dr. Saidi was appointed Chair and Dr. O'Connell Rapporteur. Participants adopted the attached agenda after agreeing that Drs. Johnson, Aryeetey and O'Connell, and Berg would briefly present their background papers in the first session.

2. The report starts with a brief review of trends in foreign assistance to Sub-Saharan African (SSA) countries, emphasizing themes relevant to the meeting. Section 2 focuses on aid effectiveness and conditionality, and section 3 summarizes the discussion on aid to the education and health sectors. Section 5 presents the main conclusions of the meeting.

Section 1. Trends in foreign assistance to Sub-Saharan Africa

3. *Aid to SSA has fallen substantially since the early 1990s.* Net ODA disbursements have fallen steadily as a share of DAC GDP, and in 2000 stood at 0.22 percent, their lowest point since data began to be collected systematically in the mid 1960s. Figure 1 shows the situation for the 48 countries of SSA through 1999. During the 1990s, aid to SSA fell by 45 percent, whether measured in real terms or relative to regional GNP. Aid fell by more than half on a per-capita basis, and the median ratio of aid to GNP fell by over two-thirds.[2] Prospects for aid levels in the next decade are highly uncertain. Projections by UNCTAD, the World Bank, and others suggest that reaching the UN's International Development Targets (IDTs) for 2015 will require at least a doubling of aid to Africa—or equivalently the restoration, on a sustained basis, of levels reached briefly in the early 1990s. The IMF's debt sustainability calculations, embodied in HIPC documents, assume that major increases in net transfers will be forthcoming. But making these projections a reality will require a major about-face in current trends.

4. *Private flows rose in the 1990s.* Net private sector disbursements appear in panel A of Figure 1 as the difference between net disbursements from all sources and net

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[1] Rapporteur: Stephen A. O'Connell, Professor of Economics, Swarthmore College, Swarthmore PA, 19081. Email: steve_oconnell@swarthmore.edu. I am indebted to members of the Expert Group (listed in Annex 1) for their comments on a draft of this report.

[2] Figure 1 shows net disbursements of Official Development Assistance (ODA) and Official flows (DAC data) to individual countries in SSA. These measures omit (i) nonconcessional IMF flows, (ii) net interest payments and profit remittances, and (iii) unallocated or unspecified donor disbursements to SSA. Their sharply declining trend in the 1990s is not substantially changed, however, by adjusting for these omissions. The declining trend also holds if we replace ODA with "Effective Development Assistance" (EDA), a concept that measures the grant-equivalent of ODA from the donor's perspective.

official flows. Until the early 1980s, private flows to SSA were of the same order of magnitude as aid and were nearly as important as overall official flows in aggregate, though very unevenly distributed across countries. Private flows collapsed after the 1982 debt crisis, however, and remained low as flows to emerging market economies expanded rapidly in the early 1990s. Private flows to SSA began to revive only in the second half of the 1990s, partially buffering the decline in aggregate official flows to SSA (see also panel D of Figure 2). In comparison with the pre-1982 period, the composition of private flows has shifted towards foreign direct investment (FDI) and away from bank lending (Figure 1). FDI inflows boomed in the late 1990s, partly in response to opportunities created by policy reforms and privatization of state-owned enterprises. While the bulk of FDI continues to go to a few large recipients, the set of African countries receiving significant net transfers relative to GNP expanded considerably in the recent period.[3] The experience of Uganda and to some degree Tanzania suggests that debt relief under the HIPC Initiative may unleash substantial private inflows, though in the case of these countries it is difficult to disentangle the effects of debt relief *per se* from that of sustained policy reform. FDI into Africa fell substantially in 2000, and the current worldwide slump in direct investment makes short-to-medium-term prospects uncertain.

5. *The composition of aid has shifted towards grants and social sector spending.* Figure 2 tracks the continued importance of technical assistance grants as a share of overall aid to SSA and the increasingly dominant use of grants in financing the remainder of the aid budget. Multilateral lenders accounted for a sharply increasing share of SSA's Net ODA in the first half of the 1990s, but their share has receded since then, and bilaterals now account for roughly the same 2/3 of Net ODA as in the early 1970s (Panel C of Figure 1). Figure 3 shows the evolution of bilateral commitments by purpose, showing a decided shift from spending on economic infrastructure and production to spending on social infrastructure, particularly in the 1990s. The decline in support to infrastructure and production sectors may in part reflect an increased role of private finance (including FDI) in these areas. Program lending, which includes high-conditionality structural adjustment assistance, has taken a declining share of bilateral commitments since the mid-1980s. Breakdowns of multilateral lending by purpose show a broadly similar shift towards social sector support, reflecting the increasing focus of donors on the International Development Targets adopted by the UN in the Copenhagen Declaration of 1995. The social sectors accounted for 27 percent of the World Bank's lending to Africa in FY 2001, for example, up from an average of 13.2 percent in FYs 1988-92.[4]

6. *The international aid regime has evolved dramatically in the past decade.* The period between 1988 and 1994 witnessed the end of the Cold War, the initiation of an unprecedented wave of democratization in SSA, the establishment of the WTO and a resurgence of private international capital flows, and the transition to majority rule in

[3] Of the 39 African countries with available data, for example, only 10 received net transfers on FDI (net inflows minus profit remittances) exceeding 2 percent of GNP between 1976 and 1980; 26 surpassed this threshold in 1995-1999.
[4] Social sectors are defined here to include Education, Health, nutrition, and population, and Social protection. Source: World Bank Annual Reports, 1997 and 2001.

South Africa. It saw continued economic stagnation for much of the continent, an expansion of armed conflict, and the emergence into world consciousness of the HIV/AIDS pandemic. In the realm of economic policy, African governments and external donors began to turn from a preoccupation with macroeconomic adjustment to the deeper challenges of poverty eradication and long-run development. Given long-standing legacies of ideological divergence within Africa, within the donor community, and between the region and its external partners, the convergence of stake-holders in the 1990s around a broadly shared vision of the region's development priorities—and the role of foreign assistance—is striking. Following the Copenhagen Declaration, institutional expressions of this convergence accelerated rapidly in the late 1990s. Among African governments, these include the revitalization of existing regional agreements, the merger of complementary long-run continental development agendas into New Partnership for Africa's Development (NEPAD, 2001), and the establishment of the African Union (AU), to replace the OAU in July 2002. Among donors, key institutional developments include the HIPC Initiative (1996, expanded in 1999), the World Bank's Comprehensive Development Framework (CDF, 1999), the Bank/Fund Poverty Reduction Strategy Paper framework (PRSP, 1999), and the development of new assistance frameworks for least-developed countries by major bilateral donors.

Section 2: Aid trends, aid effectiveness, and conditionality

7. Session 1 of the meeting was devoted to the background papers by Dr. Shaw on aid trends, Drs. Johnson and Berg on aid effectiveness, and Drs. Aryeetey/O'Connell paper on conditionality and aid in Ghana.

8. Dr. Shaw emphasized four main points in her presentation. First, private capital is not replacing public assistance. Figure 1 establishes this at the aggregate level; but it also holds at the country level, where there is a low or even positive cross-country correlation between private and public flows. Second, aid does not flow to the poorest countries to the extent it should: the share of least-developed countries in bilateral gross ODA fell from 24 percent to 19 percent during the 1990s, and in the late 1990s the bilateral donors as a whole fell nearly 50 percent short of the DAC targets for this group. Third, the aid literature contains little discussion of exit strategies for donors or timetables for recipient graduation. Finally, the division of labor between multilateral and bilateral donors is not fully clear.

9. While acknowledging the still limited role of private capital inflows in Africa, participants noted the undermeasurement of private capital inflows in some cases (e.g., in Uganda and Tanzania, large private net transfers on the current account are thought to be driven largely by the return of capital flight). They cited Latin America's experience with the Brady Plan as suggesting that debt stock relief might crowd in private capital; Dr. Johnson cited recent research suggesting that a similar effect may be operating for countries reaching the HIPC completion point. Noting the large stock of private domestic capital abroad, she emphasized that privatization efforts currently underway could be configured so as to be particularly attractive to domestic residents with wealth abroad.

10. Dr. Guillaumont argued that for countries vulnerable to external shocks, aid may enhance welfare by providing insurance, particularly against negative shocks. For these

countries, therefore, the effectiveness of aid may depend as much on its time pattern as on its average level. He noted that the supply of aid has a cyclical component that is tied to the industrial-country business cycle. Private trade and financial flows transmit this business cycle to poor countries and therefore tend to make aid procyclical with poor-country incomes. This is the opposite of insurance. He cautioned that policy- or performance-based selectivity is likely to exacerbate this procyclicality, by linking aid allocations to the recipient's economic growth. For structurally vulnerable countries, the implied volatility might actually reduce average growth, undermining any positive effect of selectivity on aid effectiveness. It is therefore critical to adjust performance assessments to exogenous shocks. Dr. Bigsten cited Swedish aid patterns as suggesting that dependence on the donor business cycle is greater for program support than project support. Dr. Ndulu acknowledged the problem of aid volatility but cited World Bank research finding aid flows to be more stable than tax revenues in poor countries.

11. Dr. Johnson began her presentation by defining aid effectiveness in terms of the welfare of recipient populations. She laid out a set of principles, based on private sector models of management, for making aid more effective in the "toughest cases"—those countries likely to suffer benign neglect as private capital remains unavailable and aid is shifted to countries with strong policy environments. First and foremost, aid programs should be developed in the context of country-driven, long-term strategies for economic development. A country's long-term strategy should have clear medium-term objectives and verifiable performance criteria. Within this framework, aid programs should be viewed as expanding the menu of financing options available to a country, with the price and design of these options as important as the overall size of flows. Financing choices should be constrained not only by donor generosity but also by the balance sheets and managerial capacities of individual recipients. She argued that the HIPC/PRSP mechanism embodies these basic principles and therefore provides a promising framework for net flows looking ahead.

12. Citing recent research on defensive lending, particularly by multilaterals, Dr. Johnson observed that debt stock relief under the HIPC Initiative may allow donors to achieve greater selectivity in the allocation of future aid flows. She added, however, that there are limits to what can be achieved through policy-based selectivity. The poorest recipients often have the weakest institutional capacities, and donors must find ways of strengthening these recipients' capacities to absorb aid productively. Moreover, the effectiveness of aid depends as much on the institutional performance of donors as on the policy environment of recipients. She cited reforms within the African Development Bank, including a prohibition of non-concessional lending to the poorest countries, as having substantially improved its operational effectiveness in the past 5 years. She argued further that selectivity across funded activities *within* a country's aid program was as important for aid effectiveness as selectivity across countries. AfDB will be focusing its support on agriculture, human resources, and the private sector.

13. Turning to the design of aid instruments, Dr. Johnson noted two reservations among donors with respect to recent proposals to convert a large share of concessional loans to grants. One is that increasing the grant equivalent of a loan reduces the reflow of

resources for future disbursements. The second is that a wholesale conversion to grants may contribute to "mission creep" away from the productive activities traditionally supported by concessional bilateral loans and into social sector spending, disaster relief, and other activities traditionally supported by grants and by specialized multilateral institutions. Regarding technical assistance, she acknowledged the widespread perception of its ineffectiveness but noted the possible scope for highly focused and regionally-based training mechanisms, building on the "central bank model" which features collaborative problem-solving using state-of-the-art analytical tools. With respect to project- and program-based assistance, she noted the appeal of "programmatic lending"—multi-year budget support delivered in a single tranche—but also the concern of some donors that such lending will fail unless good budgetary institutions are already in place. For this reason, she expects sector-based lending to expand before donors make a wholesale move to programmatic lending. She views project-based approaches as best for the African Development Fund (the concessional arm of AfDB).

14. For countries in which poverty and institutional weaknesses are intertwined, as in much of SSA. Dr. Johnson characterized the PRSP approach as placing the emphasis correctly on local participation and ownership. She argued for an increase in the gender sensitivity of the process[5] and for particular attention to issues of conflict over land and water resources. She emphasized the importance of regionally-based progress, and urged donor support for NEPAD and similar initiatives. She identified the containment of armed conflict as a critical regional public good.

15. Discussion of Dr. Johnson's paper focused mainly on problems of donor governance. Dr. Saidi noted that in the face of economic shocks, sectoral developments, and political turnover in the recipient country, the bureaucratic delays typical of both bilateral and multilateral aid often produce a mismatch between assistance patterns and the recipient's actual needs and priorities. He observed from experience that it was virtually impossible to get donors to adapt ongoing aid agreements to new developments in the recipient economy. This left little scope for benefits from learning. Multi-year programs could enhance aid effectiveness both by providing institutional continuity – for example, via the creation of local donor organizations that would disburse according to agreed parameters – and by shortening administrative lags. Drs. Saidi and Ndulu both observed, in addition, that donor practices tend to leave disbursements systematically short of commitments, thereby undermining the credibility of these commitments.

16. Dr. Ndulu argued that peer pressure, both among donors and among recipients, was an underexploited resource for improving aid effectiveness. On the donor side, he described Tanzania's current experiment with an independent monitoring system for aid effectiveness. The system generates an annual assessment of donor progress towards good aid practice, based on indicators of (i) ownership and its inputs (including policy dialogue and internal reporting mechanisms); (ii) transactions costs; (iii) accountability;

[5] The New Partnership for African Development, adopted by African Heads of State and the OAU in October 2001, places the promotion of "the role of women in all activities" at parity with reducing poverty and achieving sustainable development, as one of two long-term objectives of its Program of Action (NEPAD 2001, p. 15).

(iv) capacity-building; and (v) flexibility. The system (which also assesses the recipient's progress in improving the policy and institutional environment) has the full commitment of the Tanzanian government and is supported, in part, by peer pressure among bilateral donors. On the recipient side, he cited NEPAD as a political mechanism for exerting peer pressure among African countries. Participating governments will self-select into initiatives appropriate to their institutional capabilities and reform priorities (e.g., the capital markets initiative requires commitment to the economic and political governance initiative), with performance relative to these commitments monitored via annual meetings of Heads of State.

17. Dr. Berg presented a highly critical view of the aid effectiveness paradigm developed in recent research by the World Bank Research Department. He characterized that paradigm as recommending (1) greater *selectivity* (adjusted for poverty incidence); (2) the provision of technical assistance and dialogue, rather than finance, to countries with weak policy environments; and (3) a shift from project-based support to general budget or sector support. The underlying analysis, he argued, places too much blame on recipients and not enough on donors; and it fails to address the crisis of institutional capacity in poor countries.

18. Dr. Berg identified two problems with selectivity. First, development assistance is only one component of official flows, and the total is strongly influenced by the non-developmental motivations of donors. This leaves relatively little practical scope for policy-based selectivity. Second, the empirical basis for selectivity is weak. The Dollar-Burnside (1998) results purport to show that aid contributes to growth only where the policy environment is strong, but this result has been strongly contested in the literature. Even more importantly, the instability of the World Bank's own policy rankings suggests that donors are far from being able to make convincing distinctions among the majority of aid recipients.

19. The problem with "ideas before financing" are twofold. First, financing is required to buy donors a place at the table. Second and more fundamentally, technical cooperation has been demonstrated for decades to be the least effective form of assistance. Institutional capability is indeed the chief constraint on development in poor countries, but the donor community has not yet developed modes of technical cooperation that support rather than supplant it.

20. Dr. Berg identified multiple problems with "programs over projects" and advocated a return to projects as the central mode of assistance. First, the presumption of fungibility that is central to the criticism of project-based finance does not hold among the poorest countries, where project assistance may finance virtually the entire public investment budget. Second, the project context is the one in which the greatest learning by recipients takes place. Third, program-based lending, far from conserving on the administrative capacity of recipients, is more intrusive and damaging to administrative capacity than project-based lending. Finally, project-based financing is more appealing to donor constituencies (including aid agencies themselves) than contributing to a common resource pool.

21. The deepest limitations of the contemporary paradigm, Dr. Berg argued, are its tendency to ignore donor weaknesses and their interaction with low institutional capability in poor countries. The systematic failures of technical cooperation, simultaneously the best-targeted and least effective form of development assistance, illustrate the need for a radical overhaul in the aid relationship. Key features of this overhaul might include: (1) limiting aid to what can be absorbed given existing capacities, which means being willing to countenance further dramatic reductions in assistance, at least in the near term; (2) thinking systematically about exit strategies and how donors can get out of the aid business without creating major disruptions; (3) shifting attention to public goods donors can provide outside the receiving countries (e.g., donor-produced research on agriculture and public health in Africa), and to collaboration with functionally-based regional organizations (e.g., those involved in infrastructure or services); and (4) investigating alternative institutional arrangements for development finance, including in-country development foundations that would be financed by donors but would support local projects on an independent and competitive basis.

22. The discussion of Dr. Berg's paper focused mainly on projects vs. programs. Dr. Bigsten argued, based on his evaluations of Swedish aid, that program lending is significantly less intrusive than project assistance. Dr. Aryeetey recalled the failure of integrated rural development in West Africa and cautioned against a wholesale return to projects. Dr. Ndulu argued that the shift away from project lending was based in part on an improved division of labor between the private and public sectors in African countries, with the government retreating from projects in the agricultural and industrial sectors that were now appropriately being undertaken by the private sector. The same was occurring in areas of infrastructure where technological developments allowed greater competition, as in telecoms. In effect, governments and donors were jostling within a redefined space encompassing the social sector and the provision of public goods. In this emerging collaboration, he pointed out, a lot of agreement exists on what constitutes good economic policy for recipient governments; but there has been much less discussion of what constitutes good aid. Dr. Aryeetey observed that there may be considerable scope for specialization by donors based on institutional comparative advantage. Multilateral donors, for example, have natural institutional advantages in supporting regionally-based initiatives, while individual bilateral donors have demonstrated particular expertise in agriculture, infrastructure, social sectors, or humanitarian aid.

23. Drs. Aryeetey and O'Connell analyzed the contribution of conditionality to aid effectiveness, using Ghana's experience with economic reforms as a case study. A substantial body of evidence suggests that policy reform must be recipient-driven to be successful, and that conditionality as commonly practiced has been incompatible with this ownership requirement. Dr. O'Connell listed key components of the ownership critique that have already begun to influence aid programs. First, conditionality programs that are either incoherent or too demanding of the administrative resources of recipients cannot be owned in the relevant sense and may be positively destructive of the recipient's administrative capacity. Conditionality programs should therefore be streamlined and rationalized, via better coordination among donors and between donors and recipient

governments. Second, ownership requires that recipients play a central role in formulating policy priorities and selecting performance targets. Conditionality should therefore be jointly developed by donors and recipients and should be consistent with overall development objectives as articulated by recipient governments. Third, aid programs should seek to enhance the ownership capacity of recipients. Careful attention should therefore be paid to institutional impacts and to the incorporation of the aid cycle into national budgetary and economic planning functions.

24. These principles of "good aid" can be applied without altering the fundamental character of conditionality as an *ex ante* contract over policy choices. The contemporary debate about conditionality, however, has generated two proposed alterations in this design. The first is that conditionality should be defined over outcomes rather than policies. This approach would leave policy autonomy to the recipient, consistent with greater ownership of the resulting policies. It would also promote effectiveness by allowing policies to be guided by local knowledge about capabilities and opportunities. A drawback of this approach is that it would penalize recipients for poor outcomes that were beyond their own control. Advocates of this approach therefore suggest that targets should be adjusted for exogenous shocks.

25. The second, more radical proposal is that donors abandon conditionality in favor of selectivity. Dr. O'Connell agreed with Dr. Berg that the selectivity concept has serious practical and analytical limitations. He added that critiques of conditionality were based mainly on the period before the early 1990s. This was a period of high aid levels and relatively acute strategic and ideological competition among donors, and it predated the HIPC Initiative and other institutional innovations that have begun to address manifest weaknesses in the design of aid. We do not yet know whether conditions that are limited in scope, coordinated across donors, defensible in terms of the recipient's stated development objectives, and consistent with learning on the part of both donor and recipient, will prove more successful than their predecessors. But pursuing these potential gains has higher payoff than moving towards more detailed selectivity.

26. In providing an overview of Ghana's aid experience, Dr. Aryeetey noted that aid to Ghana fell dramatically with the onset of political instability in the late 1960s and remained low as the Ghanaian economy descended into crisis in the late 1970s. The depth of the crisis made the need for macroeconomic reforms clear to a small circle of economic policymakers, and by 1983 the Rawlings government embraced market-based reforms as part of its own anti-corruption and economic recovery agenda. Aid flows rose rapidly starting in 1984, reaching a peak in 1991 and then gradually falling in real terms during the 1990s. Conditionality agreements have been an important feature of the Ghanaian reform process since 1984.

27. Dr. Aryeetey argued that while aid flows neither led nor "bought" the first-generation reforms of the 1980s, these reforms would not have been sustained without the substantial aid flows that accompanied them. Conditionality shifted political pressure away from Ghanaian technocrats, while financial flows supported a revival in public investment that helped to maintain the political impetus for reforms. Like the Ugandan

experience starting in the late 1980s, the Ghanaian experience suggests that macroeconomic crisis creates fertile ground for conditional aid. In both cases, strong new leaders had initially experimented with a continuation of the populist and interventionist measures that had contributed to a long-standing impasse with donors. Conditionality agreements were forthcoming only when the arguments of internal technocrats had been sufficiently buttressed by actual experience to receive the clear embrace of political leaders. Conditionality helped to prioritize the reform process, sheltered the government from political opposition, and supported the revival of gap-filling aid flows that were critical to economic recovery.

28. The Ghanaian experience also illustrates the limitations of conditionality when the policy agenda shifts from recovery to development. By the late 1980s, the weakness of private investment was exerting a serious limitation on Ghana's growth. The leading interpretation is that private capital remained uncertain of President Rawlings's commitment to market-based reform and therefore, implicitly, of the credibility of donors in enforcing macroeconomic and trade policy conditions. But Dr. Aryeetey argued that the failure to move from recovery-based growth to sustained growth was not primarily a failure of ownership of first-generation reforms, or a failure of donor credibility. What was missing, instead, was a framework within which the Ghana government and its donors could commit to a broadly owned vision of Ghana's development path, one that would guide a process of much more difficult institutional reforms. The Ghana government had developed such a vision in the early 1990s (Vision 2020), but donors were not ready to accommodate a long-term vision in their largely annual cycle of disbursements and assessments. The CDF and PRSP frameworks, with their emphasis on country ownership of long-run development priorities, offer a more promising basis for transition from adjustment to development.

29. Dr. Aryeetey argued that in cases like Ghana, Uganda, and Tanzania, where aid is generally regarded as having achieved important successes, a key unresolved question is how to restructure donor and recipient institutions to deal with "moving targets." In Ghana, the CDF/PRSP framework arrived a decade after it was needed; and it arrived as a Bank/Fund initiative, although the Government of Ghana had been there already. Two development targets that are currently central to popular and political discourse within Ghana, but are not yet accommodated in the aid relationship, are (i) a focus on graduation from aid and (ii) the strengthening of high-level national institutions, including particularly the university system.

30. Discussion of the Aryeetey/O'Connell paper focused first on the role of conditionality looking ahead. Dr. Saidi noted the critical view of conditionality that has emerged in some recent empirical work on IMF programs. Dr. O'Connell observed that the main insight from the conditionality literature was not that conditionality cannot work, but that it works best where the conflict of interest between the contracting parties is smallest. Donors often lack the credibility to enforce their priorities over those of the recipient; and their attempts to do so can obscure the recipient's ability to signal its own intentions to critical third parties (including private capital). But there are two possible approaches when conflicts of interest prove to be substantial. One is to forego

conditionality and reduce aid; this is the selectivity approach. The other is to achieve a convergence between the priorities of donors and those of recipients. Any such convergence enhances the gains from aid and the scope for effective conditionality. The PRSP process, with its focus on shared poverty goals, policy dialogue, and broad participation by civil society, can be viewed as an attempt to narrow the conflicts of interest that undermine the gains from aid. Success in this endeavor would allow conditionality to shift from a largely misconceived legislative role to a more natural executive role. In the latter role, its task is not to enforce the priorities of the donor but to support the attainment of shared priorities.

31. Discussion turned next to the role of participation in the PRSP process. Participants noted that the Ghanaian reforms of the 1980s were conceived and implemented in a top-down fashion, consistent with arguments favoring the delegation of policy authority to an insulated technocracy. Is the emphasis on broad participation in the PRSP consistent with the appropriate degree of delegation? Or could it become a formula for populist or special-interest policy, including policy responding to outside constituencies? There was general agreement that in comparison with macroeconomic reforms, the design and implementation of institutional reforms required the active engagement of a much broader set of individuals over longer periods. This reduced the appeal of the "insulated technocracy" approach with respect to second-generation reforms. More fundamentally, since participation is an important autonomous objective, some room for policy delay or slippage must be expected and tolerated. Nonetheless participants noted unresolved issues with respect to the impact of the PRSP process on formal structures of decision-making and political representation within recipient governments. This includes the possible conflict between the traditional (though historically weak) role of Parliaments in aggregating domestic political interests and the PRSP-style fora, which tend to bypass these structures.

Section 3. Education and health

32. Dr. Saidi launched the discussion of assistance to education and health by identifying a set of key issues, including the appropriate division between private sector projects and programs and public spending; the reallocation of social sector resources towards women; the balance between prevention, palliation and cure in addressing HIV/AIDS; and the prioritization of services within health and education.

33. Dr. Berg argued that the focus of donors on universal primary education had gone too far. He pointed out that the secondary and tertiary education sectors have been collapsing in Ghana as primary enrollments have increased; more generally, he doubted that the evidence on returns to education justified a reallocation of public spending from secondary and tertiary to primary education. Dr. Bigsten indicated that the empirical evidence generally does not suggest a large enough return to primary education to justify dramatic shifts in the education budget, even if one allocates an opportunity cost of zero to children's time. Dr. O'Connell noted the wide variation in estimated returns to education across countries, and cited Ugandan evidence to suggest that the pattern of returns can vary dramatically over time within a country. Estimates of the return to

education in Uganda are much higher in the 1990s than in the 1980s, consistent with the erosion of specialization in the period of conflict and state collapse in the 1980s.

34. Dr. Ndulu argued that spending priorities were increasingly (and appropriately) being driven by assessments of where the market failures were. He argued that they were generally greatest in primary education. The private sector was beginning to show increased involvement in the provision of education in Africa, particularly at the tertiary level. Dr. Johnson suggested that donors might leverage their own continued contribution to secondary and tertiary education in Africa by supporting the provision of collective goods like standards and accountability systems.

35. Dr. Guillaumont observed that although donors focus exclusively on spending levels when assessing performance in the social sectors, other policy inputs may be just as important to producing desired health and education outcomes. This is one reason for attempting to assess effectiveness in terms of outcomes rather than inputs. In the health sector, relatively non-controversial outcome measures exist, like child mortality and life expectancy, so this principle could readily be applied. But in education, the principle is much harder to apply because there is less agreement on how to measure educational outcomes. Dr. Ndulu observed that in moving from expenditure-based assessments to outcome-based assessments, the first step is to track expenditures down to the service-delivery level. This principle is starting to be internalized by donors and recipients. He cited experience in Uganda, where remarkable increases in local service delivery occurred after the government adopted a policy of publicizing local spending allocations. This information allowed communities to monitor delivery of the intended services by local providers.

36. Participants discussed whether the PRSP process represented an adequate framework not only for progression within the HIPC Initiative but also for the management of ongoing government and donor efforts in the service delivery area. Dr. Ndulu argued that many African governments view the PRS framework—dropping the final "P" to remove the narrow implication of an IMF policy paper—as embodying many of the emerging principles of effective aid. It has well-defined inputs, intermediate outputs, and targets, and it incorporates monitoring systems. In service delivery, it focuses on ensuring that resources reach service-delivery units (accountability), on cost effectiveness in the delivery of services, and on various measures of impact, including enrollments as intermediate targets. Dr. Ndulu argued that the PRS framework provides important restraints for both donors and recipients. On the donor side, the process builds in a medium-term planning and commitment horizon and protects the recipient's role in formulating priorities and choosing policy instruments. On the recipient's side, failure to meet agreed targets will raise questions regarding further donor support; his view was that this prospect would have a positive incentive effect. He observed that although there is often mention of public/private partnership in the PRS process, this is often not worked out very clearly.

37. Participants discussed whether the PRS framework allowed sufficient scope for ownership and capacity-building, or represented, instead, an instrument for imposing the

latest donor preferences. Dr. Bigsten viewed the PRS as highly promising provided it left considerable leeway to recipients; in the case of Tanzania, he noted encouragingly that the government has built in a proviso to maintain spending allocations for non-priority sectors in real terms. Dr. Ndulu argued that the framework is broad enough to encompass strategic focus on export promotion and growth, via linkages from these targets to income poverty. There was general support for the PRS framework in the group, and even for the suggestion that the principles of PRS be de-linked from the HIPC Initiative and applied broadly to the management of future aid flows. Dr. Saidi observed that with its focus on poverty alleviation, institutional capacity-building, and performance norms across countries, the PRS process provided a promising framework for improving recipient-country governance even independently of aid.

38. Reservations regarding the PRS process were expressed by Dr. Berg, on the grounds that it is difficult to reconcile the objectives of participation, ownership and capacity building with the PRS process as it works in practice. Donors dominate the dialogue, given the numbers and experience of their staff and their readier access to information. More importantly, recipients know that it is risky to challenge donor priorities. Dr. Saidi noted that key features of the PRS, including its emphasis on multi-year commitments and broad participation, run counter to legal and political systems of many recipients. Most recipients do not have mechanisms for allowing spending units to budget on a multi-year basis. Genuine involvement by legislative bodies is also not easily obtained in Westminster-style systems in which Parliamentary action is restricted to approval or rejection of the entire budget.

Section 4. Conclusions

39. The focus of this expert group meeting was aid effectiveness: how should it be defined and assessed, and what are the most promising avenues for increasing it? Participants began by noting that aid flows to Africa have fallen precipitously since the early 1990s. While debt stock relief is underway and private capital flows have increased, much of the continent remains heavily dependent on official finance. Standard calculations suggest that achieving the IDTs will require very substantial increases in official flows. The moral urgency of these targets, together with region-wide concerns including HIV/AIDS and armed conflict, may help to build a new constituency for African development assistance. But four decades of experience have shown that the effectiveness of aid is only partly determined by its level. The effectiveness of each dollar of aid can and must be enhanced, through the joint efforts of donors and recipients. This objective is critical regardless of how the level of aid evolves, and it is likely to be critical to achieving any sustained increase in net flows.

40. Participants agreed that the effectiveness of development assistance should be assessed both in terms of the welfare of recipient populations and in terms of the capacity of private and public institutions in the recipient country to sustain welfare increases in the long run. These joint objectives create a tension that is particularly acute in least-developed countries, where welfare gaps are large but the capacity to absorb resource transfers productively is limited. They are more acute in the normal course of development than in the presence of macroeconomic or post-conflict crisis, because the

latter tends to prioritize government actions and suggest productive and temporary divisions of labor between donors and government.

41. The evidence suggests that aid effectiveness is jointly determined by the quality of the recipient's policy environment and what might be called the quality of the donor aid environment. Both of these have evolved substantially since the early 1990s. Macroeconomic, sectoral, and trade policies have improved in many African countries, and a number of countries have made significant progress in privatization and public sector reform. Multilateral donors have introduced institutional reforms to facilitate debt relief, coordinate donor activities, and promote a greater focus on results and local ownership. Key bilateral donors have reassessed their country portfolios and developed new frameworks for both aid and trade. Africa and its partners are operating in a promising, though very new and unsettled, aid environment. Continued progress requires a joint focus on good policy and good aid.

42. The selectivity paradigm gives inadequate attention to increasing the quality of aid to least-developed countries. These countries need assistance for infrastructure development, economic stability, and capacity-building. If such assistance is tied to transitory or second-order distinctions among policy regimes, the resulting arbitrariness and volatility will undermine its effectiveness.

43. The evidence suggests that conditionality fails when it attempts to substitute donor credibility for deeper cooperation in bridging major conflicts of interest between the donor and the recipient. But well-defined performance targets are fundamental to good public policy. Conditions that are limited, jointly negotiated with policymakers, and consistent with learning by all parties, can support donor aid constituencies while enhancing the quality of policy formation and implementation by the recipient government. They therefore have an important role to play in aid agreements.

44. Within the framework of country-driven long-term development strategies, there is value in shifting to outcome-oriented performance targets, where this can be done without confronting the recipient with excessive risk.

45. While the logic of ownership suggests that aid effectiveness would be enhanced if donors made multi-year commitments, neither donor nor recipient institutions are well-suited to multi-year budgeting. Substantial attention should be paid to how both parties can shift to supporting the recipient's medium-term development efforts while accommodating yearly budgeting cycles.

46. The central tenets of the CDF/PRSP approach address many of the critiques of aid effectiveness. The group expressed broad support for the proposal that the PRS process continue to be de-linked from HIPC and used as a mechanism for coordinating donor support to the development efforts of recipient governments. A set of cautions were also expressed. The PRS process should be used to impose appropriate and verifiable constraints on both recipients and donors. It should be flexible enough to support a variety of national development programs, including programs targeting long-run growth

as the primary vehicle for poverty reduction. It should encourage modes of participation that strengthen domestic structures of political representation and support the recipient's own efforts to increase transparency and accountability in government.

47. As African governments redefine their activities relative to the private sector, donors should do the same relative to both recipient governments and private capital. An effective partnership with recipient governments requires not only a willingness to coordinate program assistance and eliminate overlapping or competing conditionality, but also a recognition of the scope for functional specialization by donors, based on expertise and institutional structure. With respect to the public/private division of activity, the case for public intervention is strongest where the market failure is greatest—including failure with respect to distributional objectives. Donors should seek to create conditions under which private capital, both foreign and domestic, can make a maximal contribution to African development.

48. Regional public goods in the areas of transport infrastructure, power generation and distribution, telecommunications, applied agricultural and health research, and security are critical to African development but require a regionally-based approach to overcome market failures associated with country-by-country provision. Both the need and the scope for effective regionally-based aid is greater now than at any time since the 1960s. Where possible, this aid should be channeled through existing regional organizations, with capacity-building in these organizations regarded as a separate and important objective.

49. Donors have a comparative advantage in undertaking basic research relevant to agricultural and public health challenges in Africa.

50. An "African Aid Portal" could be established by the UN family (e.g., the UNDP in concert with the World Bank) to provide a gateway to all aid projects in Africa, including those of NGOs. This would allow for better coordination, increased transparency, and mutual learning on the part of donors and recipients regarding innovations in project design and the determinants of success. By increasing worldwide awareness of the activities supported by African aid and the progress of individual projects, an internet portal could also help to bring peer pressure to bear on countries and political leaders (both donors and recipients) for greater continuity and effectiveness in foreign assistance.

Annex 1

Members of the Expert Group

Dr. Ernest Aryeetey
Dr. Elliot Berg
Dr. Arne Bigsten
Dr. Patrick Guillaumont
Dr. Willene Johnson
Dr. Benno Ndulu
Dr. Stephen O'Connell (Rapporteur)
Dr. Nasser Hassan Saidi (Chair)
Dr. Anatoly Smyshlaev
Dr. Christine Shaw

Annex 2

Agenda for the Expert Group Meeting on "Effectiveness of External Assistance: Focus on Africa"
New York, 24 – 25 January 2002

I. Thursday, 24 January, 09:30 a.m. – 01:00 p.m.

a. Opening of the Session, election of the Chair and Rapporteur, and adoption of the agenda.
b. Aid effectiveness
Moderator: Dr. Willene Johnson (Paper: "Aid Effectiveness in Africa: The Keys to Success")

II. Thursday, 24 January, 02:30 p.m. – 05:30 p.m.

a. Aid effectiveness (Continued)
b. Conditions of assistance
Moderator: Prof. Ernest Aryeetey (Paper with Prof. O'Connell: "Conditions of Assistance and the Effectiveness of Aid: A Case Study of Ghana")

III. Friday, 25 January, 09:30 a.m. – 01:00 p.m.

Aid to the education and health sectors
Moderator: Dr. Nasser Hassan Saidi

IV. Friday, 25 January, 02:30 p.m. – 05:00 p.m.

Concluding discussion
Moderator: Dr. Elliot Berg (Paper: "Increasing the Effectiveness of Aid: A Critique of Some Current Views")

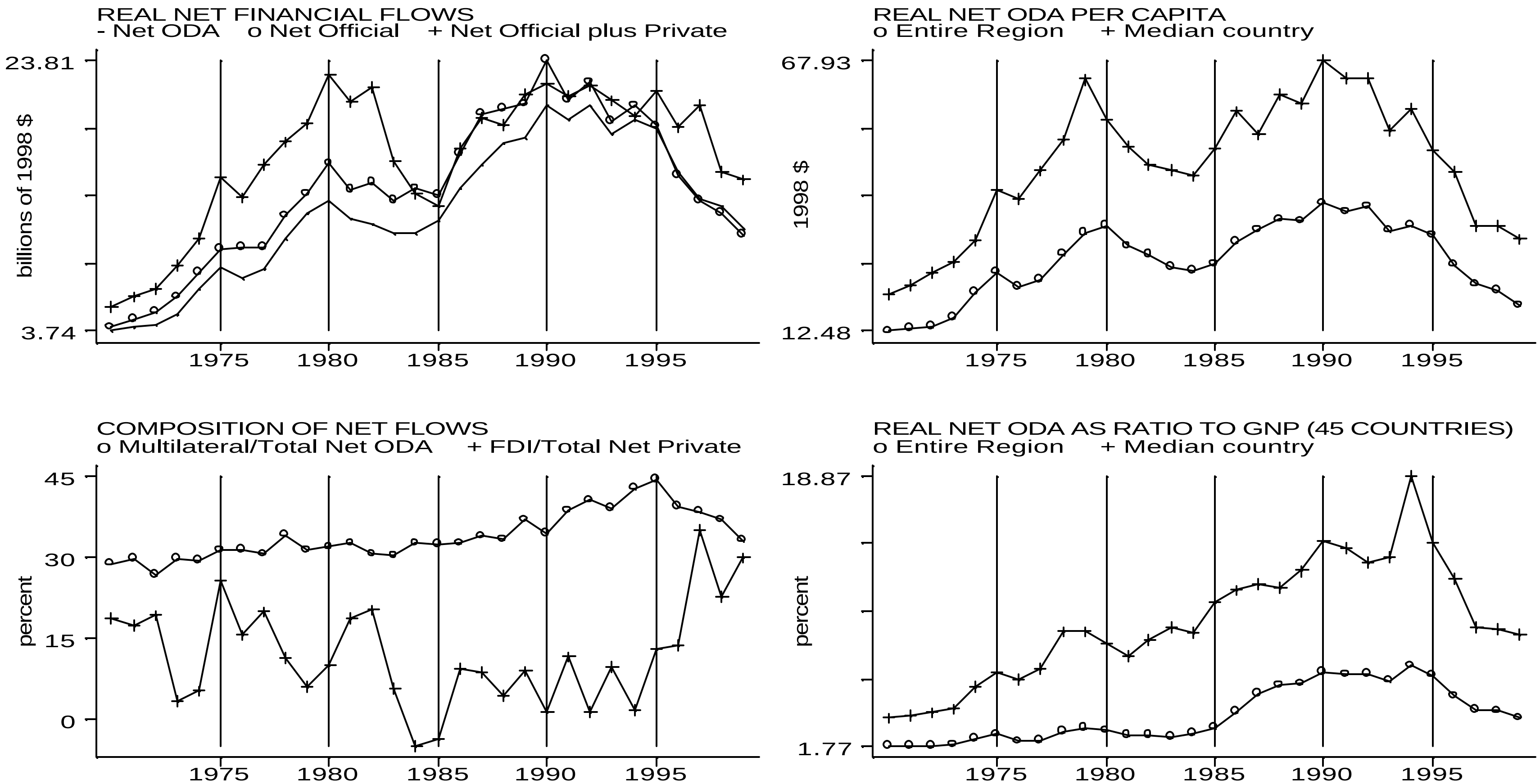

Figure 1: SSA, 48 countries

Net Official Financing (excl IMF), 1970-1999

Source: DAC 2001. Liberia, Somalia, and Eritrea lack GNP data and are omitted in the panel showing ratios to GDP.

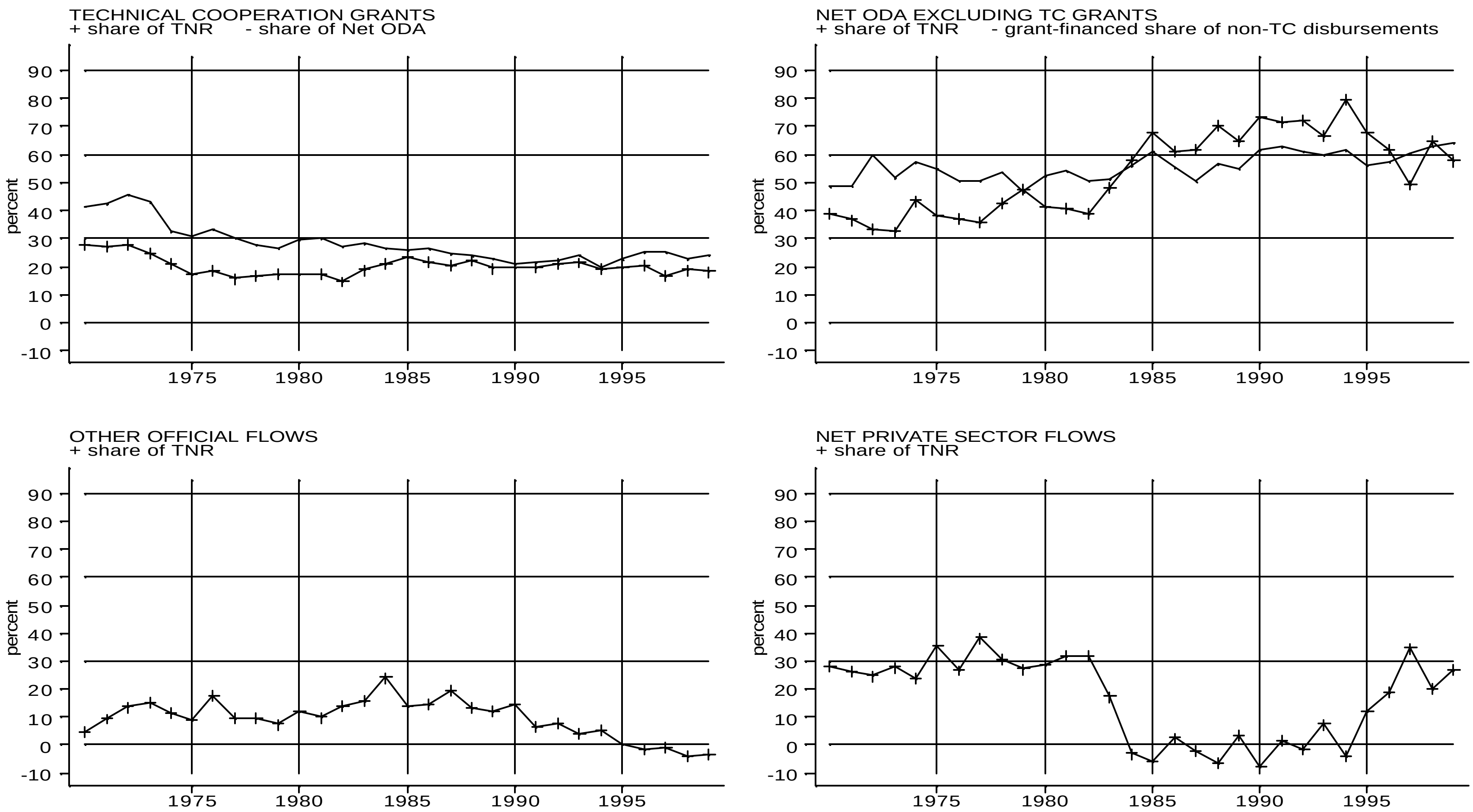

Figure 2: SSA, 48 countries

Breakdown of Total Net Receipts, 1970-1999

Source: DAC 2001 data.

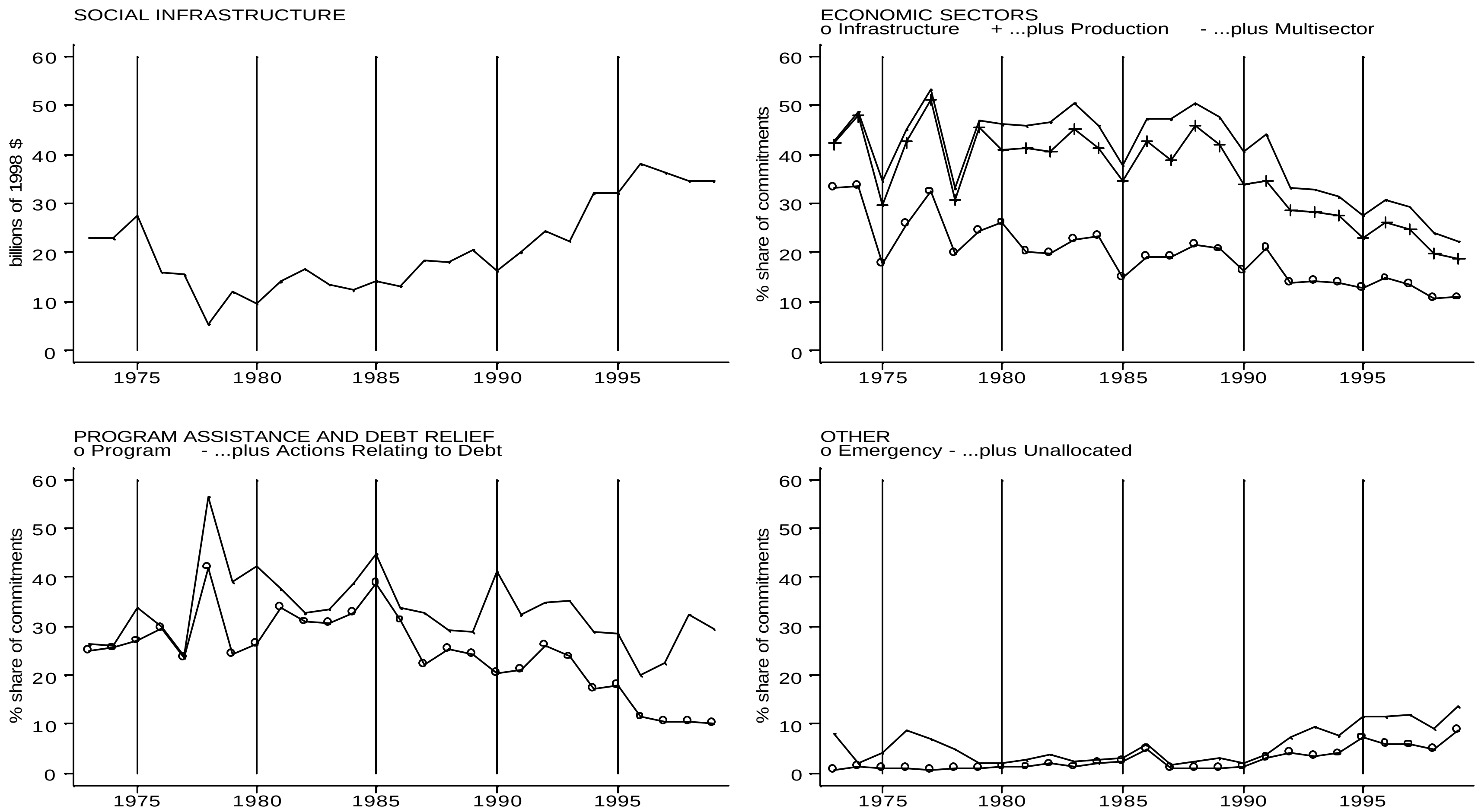

Figure 3: SSA, 48 countries

Breakdown of Bilateral ODA Commitments, 1970-1999

Source: DAC 2001 data.