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ECONOMIC DEVELOPMENT IN AFRICA, 2006

B. AID TO AFRICA

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B. Aid to Africa

1. Aid in historical perspective

While the case for giving aid to low-income countries can be made on purely economic grounds, in practice it has been heavily influenced by the commercial and political calculations of donors. Moreover, in the minds of many politicians and much of the public in donor countries, aid is seen less as a matter of accelerating economic development and more as a humanitarian gesture to less fortunate people. All these motives, in various permutations and with shifting emphasis over time, are reflected in the history of official development assistance over the last 60 years (table 1).

The origins of modern aid can be traced to the colonial period. Specifically, the British Colonial Development Act of 1929 provided for grants and loans to colonial governments to meet their infrastructural needs as well as enabling them to pay for imports.[1] However, such aid was firmly subordinate to the economic and political interests of the "metropole". The emphasis only began to change with the shift in international political and financial leadership from the old colonial powers, both at the global level (with the ascendancy of the United States during World War II) and at the local level (with the growing number of successful movements for independence), allowing aid to acquire a more purposeful development rationale (on the analytical problems regarding the measurement of aid, see box 1). This rationale was initially advanced by the Bretton Woods Conference, which institutionalized the logic of multilateral economic rules and financial support, the success of the Marshall Plan and the creation of the United Nations (with universal membership). The objective of both the Marshall Plan and the newly formed World Bank, however, was the reconstruction of war-torn Europe and not the development of the poor, non-industrialized, developing countries (see table 1 and section E for a discussion of the Marshall Plan). The needs of developing countries were more openly acknowledged in the inaugural address of President Truman in 1949, when he declared the objective of "making the benefits of our scientific advance and industrial progress available for the improvement and growth of underdeveloped areas" (Kanbur, 2003). This was followed by the 1950 Act of International Development which established "the policy of the United States to aid the efforts of the peoples of economically underdeveloped areas to develop their resources and improve their living conditions" (Ohlin, 1966: 25).

Table 1

Schematic overview of main developments in the history of foreign aid

	Dominant or rising institutions	Donor ideology	Donor focus	Types of aid
1940s	Marshall Plan and UN system (including World Bank.	Planning.	Reconstruction.	Marshall Plan was largely programme aid.
1950s	United States, with Soviet Union gaining importance from 1956.	Anti-communist but with role for the state.	Community Development Movement.	Food aid and projects.
1960s	Establishment of bilateral programmes.	As for the 1950s, with support for state in productive sectors.	Productive sectors (e.g. support to the green revolution) and infrastructure	Bilaterals gave technical assistance (TA) and budget support; multilaterals supported projects.
1970s	Expansion of multilaterals especially World Bank, IMF and Arab-funded agencies.	Continued support for state activities in productive activities and meeting basic needs.	Poverty, taken as agriculture and basic needs (social sectors).	Fall in food aid and start of import support.
1980s	Rise of NGOs from mid-1980s.	Market-based adjustment (rolling back the state).	Macroeconomic reform.	Financial programme aid and debt relief.
1990s	Eastern Europe and former Soviet Union become recipients rather than donors; emergence of corresponding institutions.	Move back to the state towards end of the decade.	Poverty and then governance (environment and gender second order focus).	Move toward sectoral support at the end of the decade.
2000s*	OECD, Commission for Africa, EU, proposed IFF. IMF/World Bank.	Enhanced effectiveness through donor coordination and policy harmonization, PRSPs.	MDGs/poverty reduction (emphasis on health, education and water), local ownership.	Increased technical cooperation and social sector support; move towards SWAPs and budget support.

Source: Hjertholm and White (2000: 81, table 3.1).
Note: Entries refer to main features or changes; there are, of course, exceptions.
*UNCTAD's addition.

The growing willingness to extend aid to developing countries coincided with a flurry of new ideas about why economic activity should not be left entirely to market forces and with a search for better ways for policy makers to manage competing economic goals and trade-offs, particularly in a more open economic environment. While much of this thinking was aimed at the policy challenges facing the more advanced industrial economies, it had a profound impact on the evolving discussions of aid and development, with the United Nations in the forefront of efforts to establish a more balanced framework embracing both donors and recipients (Toye and Toye, 2004). Albeit with subsequent modifications and embellishments, the economic case for extending aid to poorer countries still largely rests on the growth and gap models of the 1950s and 1960s.[2] These suggest that aid, by providing an initial boost to domestic capital formation and incomes, can raise domestic savings in both the corporate and household sectors thereby invigorating an investment-export nexus that will eventually close the gap between domestic resources and the supply of foreign exchange. Over time, growth and development should become self-sustaining and the need for aid disappear. Behind this thinking was the conviction that aid would be most effective if donors were guided by enlightened self-interest (whereby support for industrial development in poor countries would bring positive spillovers in terms of trade and investment opportunities) and if recipient governments were similarly guided by a development compact (whereby short-term pressures to raise consumption, both public and private, were resisted in favour of long-term commitments to boost productive investment). The logic of this thinking was a multilateralization of aid.

However, when aid did begin to increase to developing countries in the 1950s, it was principally for strategic and political reasons. The process was led by the US, with about half of its bilateral assistance in the 1950s and 1960s going to the Republic of Korea, Taiwan Province of China and South Viet Nam, the last being the largest recipient (CBO, 1997; Radelet, 2003). In Africa, aid was closely linked to the process of decolonization, the erstwhile colonial powers mixing a moral obligation to support their former colonies with a desire to retain both political influence and access to natural resources and markets. These relationships have been remarkably resilient: the two major, former colonial powers, France and the UK, still accounted for about one-fifth of total aid to Africa during 1980–2000 (a steep fall compared to one-half of total aid in the late 1960s) and remain eager to provide technical assistance which is frequently linked to the supply of skills and services from the donor country.[3]

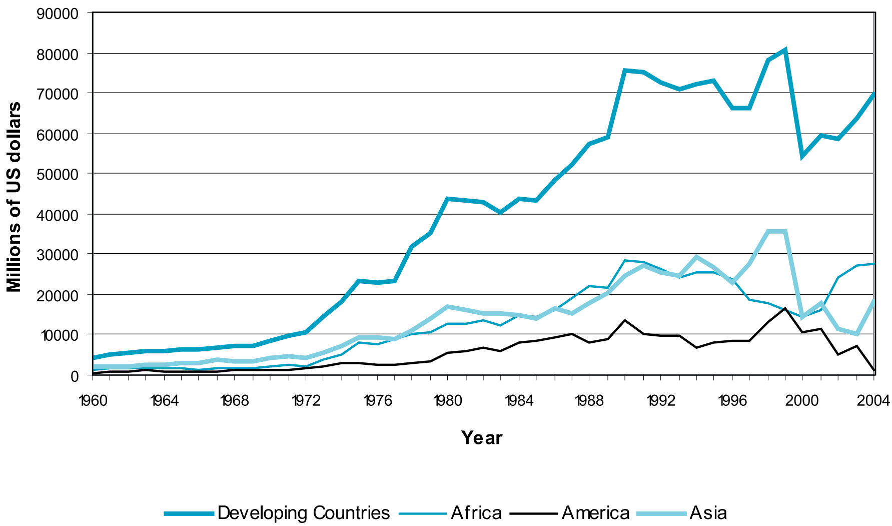
Foreign aid has thus been principally a tool of “statecraft”, employed to encourage or reward politically desirable behaviour on the part of recipients (Lancaster, 1999: 1). While this is not necessarily incompatible with broader development goals, the politicization of aid has often been associated with a “softening” of state structures that have perpetuated or worsened highly inegalitarian economic and social structures in the recipient countries (Myrdal, 1970).[4]

The subordinate role of development goals in shaping the direction and composition of aid was maintained at least into the early 1980s (Kanbur, 2003: 4). That changed following the international debt crisis, when aid was used more overtly to encourage specific economic reforms in the context of SAPs. At the beginning of the 1990s, the collapse of the Soviet Union raised hopes that increased aid would be part of the dividend from the end of the Cold War and that geo-political calculations would at last begin to be subordinate to economic assessments of the most effective use of aid.

What actually occurred, however, was that the removal of the underlying strategic rationale for providing aid, combined with an ideological shift in many donor countries to diminish the role of the state in managing economic activity, led to a significant decline in its volume[5] (figure 1). After almost a decade of aid apathy (if not antipathy), a series of international conferences in the early years of the twenty-first century revived the rationale for development assistance. In September 2000, all member states at the UN Millennium Summit pledged to reduce world poverty by signing up to the MDGs. Subsequently there were a series of related meetings including the UN Financing for Development (FFD) Conference in Monterrey, Mexico in March 2002 (UN, 2002) and the High Level Forum on Harmonization in Rome in February 2003, followed in rapid succession by the High Level Forum on Aid Effectiveness in Paris (February/ March, 2005), the Group of Eight (G8) Heads of States Meeting in Gleneagles, Scotland in July 2005 and, in September of the same year, the UN World Summit in New York.

Figure 1

GEOGRAPHICAL DISTRIBUTION OF AID TO DEVELOPING COUNTRIES, 1960–2004



Source and notes: as for Table 2.

These efforts have raised hopes that broader development goals, undistorted by narrow political calculations, might return to the top of the aid agenda. Other considerations, however, have since had an increasing influence on the proposed agenda. These range from heightened concerns about terrorism and threats to security (Natsios, 2006), [6] to a growing emphasis by some donor countries on "global public goods". For others, the agenda has been closely tied to the debt relief campaign initiated by NGOs and other civil society organizations resulting in the Heavily Indebted Poor Country Initiative (HIPC), the associated poverty reduction strategy papers (PRSPs) and to the idea of countries "trading their way out of poverty".[7] These issues are not unimportant or irrelevant, but the danger is that the case for doubling aid to Africa will once again be enmeshed in a tangle of proliferating objectives and fragmented interests and, as in the past, this is likely to dilute considerably, or even undermine, its impact on economic development (section D).

2. Some summary statistics

Since 1960, Africa has received $580 billion in aid. On the face of it, this appears to be a very large sum, but it is important to place it in a broader economic and political perspective (on some of the analytical problems regarding the measurement of aid, see box 1).

Box 1

Measuring real aid volumes: analytical problems

The problems with the data on aid have been dealt with extensively in the aid literature and a detailed analysis of their quality is unnecessary in this report. Nonetheless, it is essential to point out to the reader some of the major reservations regarding the data.

According to the Development Assistance Committee (DAC) of the OECD, official aid or ODA refers to "… grants and loans to developing countries and territories which are: (i) undertaken by the official sector of the donor country; (ii) with the promotion of economic development and welfare in the recipient country as the main objective; and (iii) at concessional financial terms (i.e. if a loan has a grant element[a] of at least 25 per cent)". This generally accepted definition excludes concessional flows of private voluntary organizations and official flows with little or no concessionality. Grants, soft loans and credits for military purposes are also excluded. However, there are difficulties with this definition, and some analysts include non-concessional loans from the World Bank in ODA, while others include IMF loans whether concessional or not. Most analysts, however, often ignore the fine distinctions between the various forms of financial flow to developing countries.

There is only one major comprehensive source of aid data and that is the OECD. While the World Bank and other international organizations rely on OECD data for their own publications, there can be considerable differences between the data in their reports and those published by OECD. The latter's data are collected from member countries and cannot be verified by recipient countries due to the fact that some expenditure, such as technical assistance and research and payments to contractors in the donors' own country, do not enter the recipient governments' records. Thus, independent verification of the data is difficult, if not impossible.

DAC figures are based on data from donor countries and agencies and on agreed definitions of what should be included. As pointed out by Riddell (1987), however, it cannot be assumed that the value of aid specified by donors is equal to that which arrives in, or is utilized by, the recipient countries. In addition to the statistical discrepancies noted above, this is because inefficiencies in the aid system imply that the actual resource flows available for development are effectively much lower than their nominal value. Aid for development is also "lost", as more and more aid is

Box 1 (contd.)

diverted to activities not directly focused on poverty reduction or development, such as debt relief and over-priced and ineffective technical assistance, among others. That is, "real aid" is much smaller than is suggested by the statistics of its nominal value.

In a recent study, ActionAid estimates that in 2003, about 60 percent of all bilateral donor assistance was "phantom aid" – that is, aid that "never materializes for poor countries, but is instead diverted for other purposes within the aid system".[b] Thus, real aid in 2003 accounted for just $27 billion (or 0.1 per cent of the combined income of donors) (ActionAid, 2005: 17). Estimates vary of the direct costs of tied aid, in terms of the implied reductions in the actual value of total bilateral aid, but they could have been as much as $5–$7 billion in 2002 according to the OECD (UN, 2005a: 121; Menocal and Rogerson, 2006: 19); about 45 per cent of all bilateral aid remained tied in the same year (Menocal and Rogerson, 2006: 19). Overall, the cost of tied aid alone is estimated at some $2.6 billion per annum for low-income countries, equivalent to a tax of about 8 per cent, costing Africa about $1.6 billion a year (UNDP, 2005: 76). Furthermore, there are technical questions regarding the definition and measurement of aid itself. Net ODA refers only to grants and net disbursements and therefore excludes interest payments, an omission which produces an overstatement of net transfers to the recipients. Finally, aid combines aggregate grants with concessional loans even though their net discounted values to the recipient are very different (O'Connell and Soludo, 1998).

a This reflects the financial terms of a commitment, namely, interest rate, maturity and grace period. The concessionality of a loan is the difference between the present value of the actual interest charged on the loan and what it would have been had it borne the market rate of interest.

b As defined by ActionAid, phantom aid includes all aid that is: not targeted for poverty reduction, double counted as debt relief, overpriced and ineffective (e.g. technical assistance), tied to goods and services from the donor country, poorly coordinated with high transaction costs, too unpredictable to be useful to the recipient, spent on immigration-related costs in the donor country and spent on excess administration (ActionAid, 2005: 17).

Aid to Africa has not been exceptionally large…

Aid to Africa, whether measured in nominal or real terms, was essentially stagnant until the early 1970s when renewed Cold War tensions led to an increase, particularly to countries in North Africa. Flows, linked to IMF/World Bank adjustment programmes, continued to rise throughout the 1980s but with a marked shift in their direction to sub-Saharan Africa (SSA). The share of SSA in global aid increased steadily from 16 per cent in 1974 to 28 per cent in 1992 (reaching almost $21 billion). There was then a sharp downturn lasting until 2000 (with aid falling below $12 billion) followed by a recovery in 2002 that surpassed the earlier peak. Few countries in SSA escaped the downturn in the 1990s, only three receiving more aid in 1999 than in the late 1980s.

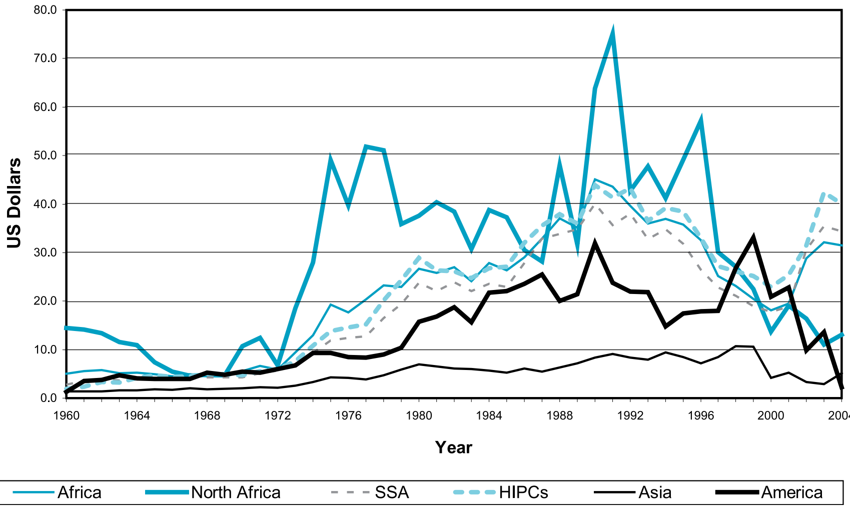
Aid to the region has been predominantly bilateral. Multilateral aid to SSA increased from just under one-fifth of the total in the 1970s to close to 40 per cent in the early 1990s (when multilateral assistance held up better than bilateral flows) before declining again.[8] The recent recovery of aid to the region has had a larger multilateral component, its share rising to around 30 per cent of the total, largely because of the increased weight of debt relief (and despite the principle that debt relief would be additional to aid) (World Bank, 2003, table 3.1; UN, 2002).

Although popular sentiment in the donor countries tends to associate aid as largely a response to African needs, aid to Africa (in current prices) has generally been much lower than that to Asia. Between 1960 and 2004, Asia received some $40 billion more in aid than Africa. Almost half of global aid went to Asia compared with about a quarter to Africa during the 1960s; Asia's share of aid from all donors and from DAC countries alone (40 and 36 per cent respectively) was more than that of Africa (about one-third in both cases) during the 1990s. Africa's share (37 per cent) of DAC aid only surpassed Asia's (30 per cent) in the 1980s and even then their shares of global aid were the same (34 per cent). It was not until the early 2000s that Africa's share of global aid (36 per cent) was significantly higher than Asia's (about a quarter) (figure 1).

Aid is more significant for Africa when measured on a per capita basis or as a ratio of gross domestic income. Between 1960 and 2004, Africa received $24 of aid per capita, more than double the developing country average of $11, the difference being greatest in the late 1980s (table 2). Despite the sharp increase in nominal flows after 1974, however, the real value of aid to SSA was declining from the early 1980s (UNCTAD, 2000a, chart 2). The average figure also hides large inter-country variations in ODA per capita, sometimes differing by a factor of more than 20 for countries with the same per capita income (UNCTAD, 2000a, chart 4). Moreover, very few African countries have been treated as generously as the major aid recipients in Asia and Europe. Thus, although average per capita aid to Asia was the lowest in the developing world (figure 2 and table 2), the Republic of Korea, Taiwan Province of China and South Viet Nam received almost double the amount for Asia as a whole between 1960 and 1979[9] (table 2 and box 2).

Figure 2

NET ODA PER CAPITA, DEVELOPING COUNTRIES AND HIPCS, 1960–2004



Source and notes: as for Table 2.

Table 2

AID PER CAPITA, DEVELOPING COUNTRIES, 1960–2004
(Period average, current US dollars)

	1965-2004	1965-1969	1970-1979	1980-1989	1990-1999	2000-2004	1985-1994	1995-2004
Developing Countries	1.3	1.6	1.9	1.9	1.5	0.9	1.9	1.1
Africa	3.8	2.6	3.7	4.3	5.0	3.6	5.5	3.8
North Africa	2.8	4.0	6.2	3.2	3.6	0.9	3.8	1.7
SSA	4.2	2.2	2.8	4.7	5.5	4.8	6.1	4.7
America	0.6	0.7	0.7	1.0	0.7	0.4	0.9	0.5
Asia	0.8	1.5	1.5	1.2	1.0	0.3	1.2	0.6
Memo Item:								
HIPCs	8.3	2.7	5.2	8.8	11.6	10.5	11.4	10.3

Source and notes: as for Table 2.

As a share of GDP, aid to Africa averaged 3.8 per cent between 1965 and 2004, almost three times the developing country average. The share was rising throughout the period, reaching 5 per cent in the 1990s, largely reflecting the worsening economic situation of the region. In North Africa, aid to GDP ratios had been even higher during the 1960s and 1970s (4.0 and 6.2 per cent respectively), thanks to large amounts of US bilateral assistance to Egypt, Morocco and Tunisia, but the figure fell sharply thereafter. Aid to SSA peaked in the 1990s at 5.5 per cent of GDP but, despite the subsequent rise in nominal flows, the share has since fallen thanks to the recovery in economic growth. Increased debt relief to the HIPCs has more than doubled their aid to GDP ratio to about 11 per cent (1990–2004) (table 3).

Table 3

AID TO GDP RATIO, DEVELOPING COUNTRIES, 1965–2004
(Period average, percentages)

	1960-2004	1960-1969	1970-1979	1980-1989	1990-1999	2000-2004	1985-1994	1995-2004
Developing Countries	11.4	2.7	6.8	13.2	16.8	12.6	15.8	14.3
Africa	24.3	5.0	14.9	29.5	33.3	26.2	36.4	26.7
North Africa	30.5	8.9	31.4	36.1	45.0	14.6	45.0	25.3
SSA	22.2	4.0	10.8	27.1	29.8	27.6	33.6	26.0
America	15.3	4.0	7.9	20.2	22.7	13.7	22.6	18.1
Asia	5.4	1.7	3.6	6.1	8.9	4.2	7.4	6.6
Memo Items:								
HIPCs	25.7	3.9	12.8	30.4	35.0	32.7	37.5	31.3
K T V	5.3	4.2	6.8	2.1	11.2	-1.4	-3.5	11.0

Source: UNCTAD secretariat computations based on OECD and World Bank online databases.

Note:
SSA: Sub-Saharan Africa
HIPCs: Heavily Indebted Poor Countries (African)
K T V: Korea, Rep + Taiwan, Province of China + Viet Nam.
Aid includes net official development assistance (ODA) and other official flows (OOF).
ODA net consists of bilateral grants and bilateral loans.

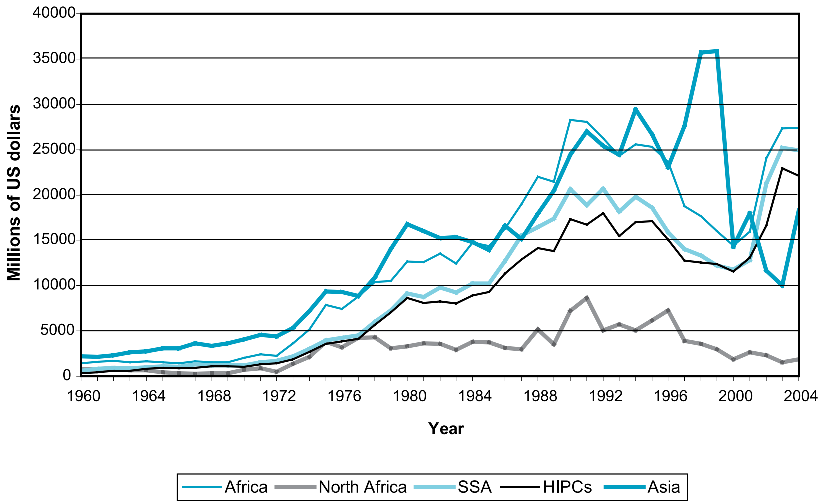
…but it has been highly erratic since the early 1990s,

Aid to Africa needs to be predictable for policy makers, but in reality it has generally been highly volatile, and more so than for other developing countries (table 4). Indeed, since aid flows are large relative to other macroeconomic variables, such instability can lead to wider instability with negative consequences for domestic resource mobilization and growth prospects (section D.1(a)). A previous UNCTAD study compared the coefficient of variation of annual changes in aid flows with government revenues and export revenues for a number of poor countries, 17 of which were in Africa, between 1970 and 1998 (UNCTAD, 2000a, table 40). In all the African cases, with the exception of Uganda, aid was more volatile than government revenue, in many cases three to four times so. The picture is more varied with export revenues, with aid less volatile in 10 of 17 countries. Flows were least variable during the 1990s but this was also a period when aid fell sharply to levels previously seen in the mid-1980s (figure 3). The recovery since then has again coincided with greater volatility. A number of factors appear to be responsible for this.

The erosion of traditional strategic and ideological reasons for aid may be one. Reductions in aid budgets due to fiscal stringency in donor countries and a deep recession in Japan, a major donor, may be another. There was also increased competition for the available resources from non-traditional recipients. For example, in 1999, Eastern Europe and Central Asia received more aid per capita than Africa – $23 as opposed to $20 (Degnbol-Martinussen and Engberg-Pedersen, 2003: 236). The recent recovery in the flow of aid is largely the result of increased debt relief, and as this is likely to be more sporadic in nature, it may also increase measured volatility in the short-run (Gupta, Patillo and Wagh, 2006: 20). Volatility is not unique to aid: other sources of foreign exchange, such as export revenues and private capital, including FDI, are also very volatile but what is perhaps surprising is that there is little evidence of aid offsetting the instability of these other variables (section D.1(a)).

Figure 3

GEOGRAPHICAL DISTRIBUTION OF AID TO AFRICA BY MAJOR REGION AND HIPCS, 1960–2004



Source and notes: as for Table 2.

…and is concentrated on just a few countries.

Aid is also highly concentrated, although less so than private capital flows such as FDI. While the share of the 10 largest aid recipients in Africa increased from 35 per cent (1985–1994) to almost 40 per cent (1995–2004) (table 5), the

Table 4

Volatility index of aid* to developing countries, 1960–2006
(Coefficient of variation)

	1960-2004	1960-1969	1970-1979	1980-1989	1990-1999	2000-2004	1985-1994	1995-2004
Developing Countries	0.66	0.14	0.44	0.13	0.06	0.09	0.18	0.12
Africa	0.72	0.05	0.53	0.22	0.18	0.26	0.20	0.23
North Africa	0.71	0.37	0.58	0.17	0.31	0.18	0.35	0.53
Sub-Saharan Africa	0.79	0.20	0.53	0.26	0.17	0.30	0.19	0.29
America	0.75	0.30	0.28	0.20	0.27	0.53	0.18	0.44
Asia	0.68	0.18	0.40	0.11	0.15	0.23	0.24	0.40
Memo Item:								
HIPCs	0.78	0.32	0.58	0.23	0.13	0.27	0.18	0.25

Source: UNCTAD secretariat computations based on OECD online statistical database

Note:
*Aid includes net official development assistance (ODA) and other official flows (OOF).
Volatility is measured by the coefficient of variation of net ODA & OOF.

top 10 destinations of FDI in Africa received more than three-quarters of all FDI in Africa between 1999 and 2003 (UNCTAD, 2005a, table 2). The situation in Asia is similar to that in Africa: the top 10 recipients took 35 per cent of all aid to the region between 1960 and 1999, and attracted more than 90 per cent of all FDI in the region during 1999–2003.[10]

Table 5

Share of ten largest and ten smallest recipients in total aid to Africa
(Million US dollars)

	Period average: 1985-1994		Period average: 1995-2004	
	Value	Ranked by average of period	Value	Ranked by average of period
Ten Largest recipients	7865	Tanzania, Ethiopia, Mozambique, Nigeria, Sudan, Côte d'Ivoire, Kenya, Dem. Rep. of the Congo, Senegal, Zambia	8185	Mozambique, Tanzania, Dem. Rep. of the Congo, Ethiopia, Uganda, Zambia, Ghana, Senegal, Madagascar, Côte d'Ivoire
Ten smallest	555	Liberia, Gambia, Namibia, Mauritius, Comoros, Equatorial Guinea, Sao Tome & Principe, Swaziland, Seychelles, Eriteria	402	Lesotho, Gabon, Botswana, Gambia, Swaziland, Sao Tome & Principe, Comoros, Equatorial Guinea, Mauritius, Seychelles
Africa	22552	.	21061	.
Ten largest as per cent of total	34.9	.	38.9	.
Ten smallest as per cent of total	2.5	.	1.9	.

Source: As for Table 4.

Aid is increasingly going to social sectors…

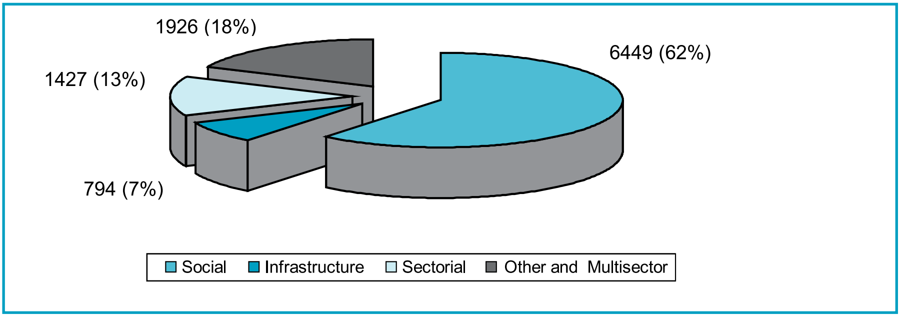
With the increased focus on achieving the MDGs, aid has shifted towards social concerns, such as health, education and water supply, and away from broader economic development and growth objectives, which received relatively more support during the 1960s and 1970s (figure 4). Of the 13 countries with available data, 65 per cent of all resources released by the enhanced HIPC debt relief were to be devoted to social services, with only 7 per cent on infrastructure (4 and 1 per cent on governance and structural reforms respectively). World Bank/IMF HIPC progress reports also indicate that over half of government revenues will be earmarked for social spending in future years (Killick, 2004: 9).[11] Inevitably, this change in the focus of aid raises the question of whether the underlying causes of poverty and low rates of economic growth are being addressed adequately by donors and recipients and, in particular, whether investment in productive capacities is being neglected. The risks of such neglect are likely to be increased when aid consists of spending on technical cooperation.

Figure 4

DEVELOPING COUNTRIES: DISTRIBUTION OF TECHNICAL COOPERATION BY SECTOR, 1992–2004

ANNUAL AVERAGES

(Millions of US dollars)

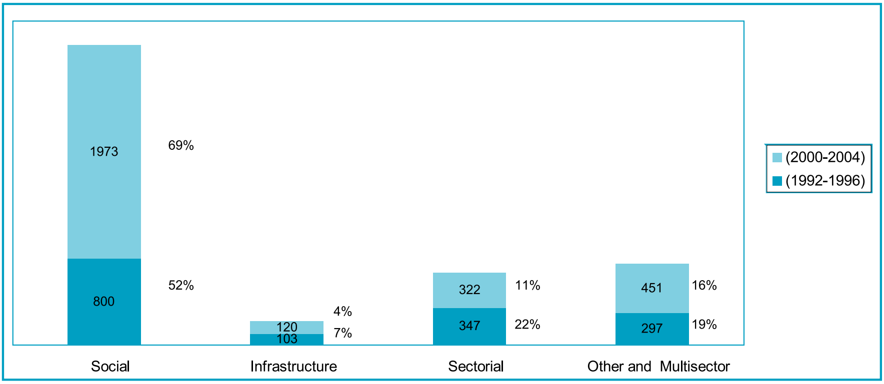


Source: UNCTAD secretariat computations based on OECD online statistical database.

Such spending in the social sectors of all developing countries has more than doubled from an average of $4.0 billion in 1992–1996 to $9.0 billion in 2000–2004. This represents an increase from 53 to 66 per cent of all technical assistance to developing countries, with corresponding falls in the shares going to economic infrastructure (8 to 6 per cent) and the productive sectors (20 to 17 per cent). In SSA, social spending as a proportion of technical cooperation rose from about 50 per cent in the first period to 70 per cent in the second, while the share of infrastructure fell from 7 to 4 per cent (Gupta et al., 2004: 14) (figure 5). This development is all the more worrying given that the share of technical cooperation in total ODA has increased considerably since the 1960s.

Figure 5

SECTORAL DISTRIBUTION OF TECHNICAL COOPERATION IN SSA
(Period averages – million US dollars)



Source and notes: As for figure 4.

…. and is still largely focused on projects

Most aid to Africa goes to specific projects. At present, less than 20 per cent of bilateral aid to Africa is allocated to budget support, although it can be as high as 40 per cent for individual countries (Lawson et al., 2005). Only 26 per cent of total aid to 14 African countries went to budget support in 2004, increasing slightly to 28 per cent in 2005 (World Bank, 2006: 81). The "mutual review" jointly conducted by OECD/DAC and the Economic Commission for Africa (ECA) concluded, *inter alia*, that while programmes for broad sectors are increasing in number, aid remains predominantly focused on projects, and that in general they are poorly coordinated both in relation to each other and to broader, national development goals (Liebenthal and Wangwe, 2006).

…. leading some observers to complain of "phantom aid"[12]

The heterogeneity of aid has always made it difficult to assess its overall impact. Nevertheless, the diversion of aid to non-development or non-poverty-reducing objectives in recent years, estimated by one NGO at about 60 per cent of the total in 2003, has been blamed for the apparent ineffectiveness of aid in much of the developing world (ActionAid, 2005). Technical cooperation, which is both expensive[13] and supply-driven,[14] accounted for about one-fifth of all aid to Africa up to the end of the 1990s, showing only a marginal decline during the early 2000s. Emergency and distress relief, and debt forgiveness, increased to 7 and 13 per cent respectively of total aid to Africa during 2000–2004[15] (table 6).

Table 6

Africa: net official flows from all donors by type of flow, 1960–2004
(Million US dollars)

	Average				Average: Share by components (%)				Volatility index			
	1960-2004	1980-1989	1990-1999	2000-2004	1960-2004	1980-1989	1990-1999	2000-2004	1960-2004	1980-1989	1990-1999	2000-2004
Official Development Assistance	14268	16268	26158	28776	100.0	100.0	100.0	100.0	0.77	0.20	0.15	0.21
Bilateral grants and grant-like flows, of which:	8878	8917	16938	19505	62.2	54.8	64.8	67.8	0.82	0.27	0.13	0.28
Technical co-operation	2932	3646	5393	5160	20.5	22.4	20.6	17.9	0.72	0.22	0.10	0.10
Developmental food aid[(a)]	790	1146	736	491	5.5	7.0	2.8	1.7	0.47	0.16	0.53	0.09
Emergency & distress relief[(a)]	1046	..	493	1930	7.3 ..	1.9	6.7	0.96	..	0.79	0.55	
Debt forgiveness (grants)	2143	136	1682	3868	15.0	0.8	6.4	13.4	0.82	0.85	0.45	0.53
Bilateral Loans	2631	4082	4415	2455	18.4	25.1	16.9	8.5	0.71	0.18	0.30	0.23
Imputed Multilateral Loans	3879	3270	4805	6816	27.2	20.1	18.4	23.7	0.52	0.31	0.20	0.15

Source: As for Table 4.
(a) Emergency food aid is included with developmental food aid up to and including 1995.
Note: Technical co-operation comprises both free-standing and investment-related:
Developmental food aid: 1975-2004
Emergency & distress relief: 1992-2004
Debt forgiveness (grants): 1988-2004
Imputed multilateral flows: 1973-2004, i.e. making allowance for contributions through multilateral organisations, calculated using the geographical distribution of multilateral disbursements for the year of reference.

There are also concerns that geo-political considerations, despite the ending of the Cold War, are as influential as ever (AFD, 2005; Eurodad, 2006). According to one study, of the $6 billion increase in official assistance between 2001 and 2002, $3 billion was accounted for by debt relief, $1 billion went to Iraq and Afghanistan, and about one-third ($2 billion) went to other developing countries. Moreover, while official flows increased by $10.5 billion between 2002 and 2005, about four-fifths ($8 billion) of the increase were absorbed by the depreciation of the dollar, and $2 billion went to Iraq. Thus, in all, only $500 million of the increase in aid between 2002 and 2005 catered to the needs of other developing countries (AFD, 2005: 23, footnote 37). The UNCTAD secretariat's own calculations suggest that the share of the top 10 recipients of aid in Asia doubled since 2000 because of large increases to countries such as Afghanistan, Iraq, Pakistan and Turkey, where geo-political concerns played a major role.

3. Africa's aid requirements

The need to increase concessional resource flows to Africa derives in principle from a consensus that the continent lacks sufficient domestic resources to attain an annual growth rate of 8 per cent, which most analysts consider to be the minimum required to achieve the MDGs. There is less unanimity, however, on the amount of aid required to bridge the resource gap in order to attain this rate of growth, the disagreements partly reflecting the difficulties of estimating the costs of meeting the MDGs in general.[16] The Zedillo report (Zedillo et al., 2001) estimates that roughly $50 billion a year in additional ODA will be required to achieve the MDGs in all developing countries, although it emphasizes that a more accurate and comprehensive estimate would need to be based on individual country estimates. Devarajan et al. (2002) take two different approaches,[17] both of which yield estimates of the additional aid required at between $40 and $60 billion per year. These estimates, however, exclude certain costs, notably those of the complementary infrastructure required to support such rates of growth and investment.

Estimates of Africa's additional resource needs are similarly affected by the same difficulties and uncertainties, with different institutions producing a wide variety of estimates.

The NEPAD framework document, for example, suggests that Africa will need to fill an annual resource gap of $64 billion (equivalent to 12 per cent of GDP) and acknowledges that, despite a significant increase in domestic resources, most of the increase will have to come from abroad (Funke and Nsouli, 2003:16). The projections of the CFA for low-income countries in Africa, which allow for the constraints on absorptive capacity, are for an additional $37.5 billion per annum in public expenditures until 2010. One-third of this would come from domestic resources and $25 billion from aid (CFA, 2005). The G8, in their Gleneagles Declaration, call for aid to Africa to be raised to $25 billion a year by 2010. In their conservative estimate of the additional ODA that Africa could use effectively for the improvement of infrastructure and human development, the World Bank and IMF argue for $14–$18 billion per year during 2006–2008, rising to $24–$28 billion by 2015 (Gupta, Powell and Yang, 2006: 1).

It is difficult to say with any degree of certainty how much additional assistance Africa will need by 2015, as this depends *inter alia* on the specific assumptions made regarding infrastructure needs, the efforts to increase domestic resource mobilization, and the current state of absorptive capacity. Nevertheless, on the basis of existing estimates, it would appear that, at minimum, Africa's additional aid requirements are likely to be around $20 billion per annum by 2008–2010, and increasing to about $25 billion per annum by 2015.

C. The "big push" revisited

In 1961, when the United Nations embarked on its first Development Decade, it was understood, by rich and poor countries alike, that there would have to be an intensified effort to mobilize internal and external resources if the designated growth targets were to be met. The underlying analytical framework, as noted in the last section, was centered on potential macroeconomic constraints to raising the level of fixed investment which was seen as crucial for faster economic growth. Given the prevailing estimates of the relation between increased investment and higher output, even a modest target of 5 per cent growth implied a sharp rise in the rate of capital accumulation in many countries if development was to become self-sustaining.[18] The most pressing constraint was generally seen to be the low level of domestic savings, but the large import requirements of an investment surge also raised the likelihood of a foreign exchange constraint emerging as growth accelerated. Exports, by providing a "vent" for surplus production, were seen as one way of breaking these constraints on growth, bringing additional resources, including much-needed foreign exchange. Successful exporting, however, particularly of more dynamic products, was dependent on strong investment, and post-war trends in international trade, as outlined at the first UNCTAD conference in 1964, were anyway not encouraging for many poorer countries. The response was a double-pronged reform agenda consisting of proposals to rebalance the trading system in favour of developing countries and