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E. RETHINKING THE AID ARCHITECTURE FOR
AFRICA



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for example, continue to spread their aid more widely and still have 5,000–6,000 employees and 5,000–6,000 consultants in what has been referred to as the “forgotten states” (ODI, 2004:4). At the same time, the United States Agency for International Development (USAID) seems to be becoming increasingly concerned with fragile and failing states as a degree of geo-political interest begins to influence its aid allocation.⁷²

The Monterrey Consensus accepted that aid should be results oriented, while being adamant that ownership and flexibility be fully reflected in the principles of aid management. There are no simple formulas for achieving this balance. However, for some analysts, combining these features requires a bolder approach to aid delivery in which donors really do cede control to independent multilateral bodies. In the case of Africa, reference to a Marshall Plan has echoed this line of thinking, but there are also lessons to be learnt from more contemporary efforts such as the EU’s use of common funds in support of its own regional development (Abegaz, 2005). Some of the implications of these discussions will be picked up in the next section of this report.

E. Rethinking the aid architecture for Africa

The kind of “big push” discussed in section C presents a considerable challenge to both the international community and to African policy makers. Nevertheless, specific historical experiences as well as the broader body of empirical evidence on the impact of aid on development offer grounds for optimism. While the recent commitment to doubling aid to the region over the coming years implicitly acknowledges the economic logic behind a big push, the debate on whether or not an effective system for managing such an increase is in place is ongoing and contentious.

The previous section identified a number of key issues which are central to the discussion of an effective aid architecture for Africa. In particular, it suggested that aid remains too politicized, too unpredictable, too conditional and too diffused to act as an effective catalyst for the kind of investment-led growth and structural change that is needed in the region and that could make a significant and lasting reduction in poverty.

1. Market versus planning approaches

Talk of the aid “system” or “architecture” is commonplace but in reality the aid business has grown in fairly chaotic and unplanned ways with the entry of numerous and various types of new agencies since the establishment of the Bretton Woods system. Under that system, a relatively small number of donor countries and multilateral institutions initially dominated the structure, albeit with most aid delivered under bilateral arrangements. As a consequence, while early multilateral aid efforts emerged as a legacy of the Marshall Plan and were influenced by the big-push economics of the early pioneers of development policy, the aid architecture was shaped much more fundamentally by the desire of former colonial powers to maintain continuity in their relations with the newly independent countries and by the geo-politics of the Cold War. Already in the late 1960s, questions of systemic effectiveness were being raised and in the mid-1970s, Gunnar Myrdal (1975) in his Nobel acceptance speech argued that the system had not only failed to deliver a sufficient quantity of aid, but also, and in his view more importantly, aid of the required quality. This he attributed to the undue politicization of aid budgets. Thirty years later, the CFA (2005: 311–312) acknowledged that donor influence had continued to distort the system for allocating aid to African countries, albeit putting more stress on it being “haphazard, uncoordinated and unfocused, to a degree that should be unacceptable”. If aid is to double to Africa, then it has to be asked whether the present organization of aid can deal with increases of the proposed magnitude in a way that can trigger the strong and cumulative growth described earlier, whether some minor repairs are all that is needed or whether more deep-seated reforms are required if the desired outcomes are to be achieved.

There are at present two schools of thought regarding this issue. On the one hand there are those who feel that the aid business should be allowed to develop in a fairly unregulated manner, much like a competitive market, and that at present its efficiency is hampered by cartel-like structures and by overly ambitious governments. On the other hand there are those who argue that the doubling of aid needs to be accompanied by a much more carefully planned and restructured system for allocation and delivery.

The former argument is based on the belief that donor proliferation will spur competitiveness and experimentation, with weak and poorly performing aid agencies dropping out of the picture. In this vein, Easterly (2005), for example,

argues that “Anecdotal evidence suggests that piecemeal approaches to aid are more successful”. There are certainly plenty of signs, as discussed earlier, that the aid industry has already become much more competitive with new agencies entering and none exiting. According to the proponents of the market approach, the way to ensure delivery in this environment is to promote individual agency accountability for specific tasks where the real challenge is to find interventions that work and to keep them going with the right incentives, whether through the independent evaluation of projects, more feedback from intended beneficiaries, or the prompt withdrawal of funding for delivery failure.⁷³ A related view of the aid industry, which harnesses the competitive effects of the market, is a service credit scheme (Easterly 2002) whereby credits provided by donor agencies are used by recipients to buy technical assistance and other services from accredited agencies and commercial service providers in the open market. Here, the role of the donor becomes reduced to providing funds and accrediting the service providers, of which only the most efficient will survive in the new market. The aim is to increase the amount of aid and reduce the transaction costs of delivery.

There are grounds for scepticism, however, regarding this vision of an increasingly competitive aid industry based upon the market model. Aid agencies are needed, in part, precisely because private financial markets do not operate perfectly, and this fact alone should give pause for thought. Such a vision implicitly assumes well-functioning, competitive markets where recipient countries have access to perfect information about all possible opportunities, agencies and service deliverers. This is hardly a plausible description of conditions in most aid-receiving countries in Africa and there is a vast theoretical and empirical literature showing why some centralized coordinating authority, to establish surveillance and oversight and to provide corrective ingredients, including for information gaps, is needed if markets are to work properly (Adelman, 2000). In fact, and as noted previously, there is strong evidence, particularly for Africa, that the more fragmented is aid delivery, the more damaging is its impact on bureaucratic quality and, by implication, on aid disbursement (Knack and Rahman, 2004). Moreover, the evidence on the impact of aid, as discussed earlier, is much more nuanced than most advocates of the market model are willing to acknowledge, while much of the criticism of traditional aid channels is greatly exaggerated. It should also be emphasized that well-functioning, efficient markets usually emerge as a result of development not as a precondition for it (Lazonick, 2001). In addition, the “aid as a market” approach is vulnerable to the charge of being amoral. When it talks of failure as a route to competitive efficiency it says nothing of those recipient countries and those people who will suffer in the process. For all these reasons, donors, as they made clear in the Rome and Paris Declarations,

are in favour of aid harmonization and appear to accept that the chaos of the market does not provide the right model for a reformed aid architecture.

The arguments against the market model, and in favour of relying more heavily on a well-planned architecture, even if it does involve a degree of cartel-like operation, rests in part upon the existence of market failure. Overcoming barriers to information gathering, preventing excessive duplication, closing delivery gaps, etc. will all involve some kind of coordinated planning. At the same time, to the extent that aid possesses some of the qualities of a public good, it can only be really effectively handled through collective action. Such action can face free-rider problems in the face of multiple agents, i.e. there is an incentive for any one donor to hold back on activities that maximize overall development in favour of those that contribute to the donor’s specific goals. But this is not inevitable, and a recognized element of altruism can have a major bearing on aid flows, although it may well be stronger in some countries than in others. Coordination and cooperation among donors through multilateral organizations is a necessary response to the free-rider problem. The UN Millennium Project (UN, 2005b:31) in recent years has been in the vanguard arguing for just such an approach:

The core challenge of the Goals lies in financing and implementing the interventions – for two reasons. One is the sheer range of interventions that should be implemented simultaneously to reach the Goals. The second is the need to reach large proportions of the population. National scale-up is the process of bringing essential MDG-based investments and services to most or all of the population, on an equitable basis, by 2015. Scale-up needs to be carefully planned and overseen to ensure successful and sustainable implementation. The level of planning is much more complex than for any single project.

This is not to say that there is no room for well-harmonized aid agencies cooperating with the private sector. There is plenty of scope for hybrid development banks that provide loans and assistance to the private sector and there have been interesting experiments of output-based aid where private operators have built water and sanitation services and then been paid from donor funds whilst also receiving a subsidy to connect poor households (Klein and Harford, 2005, chapter 12). Easterly (2006) also provides many examples of successful local public-private schemes, including some with multilateral funding. The emphasis, nevertheless, is on a better coordinated, multilateral approach to the aid effort than is currently in place or implied by the market model.

2. Lessons from the Marshall Plan

Faced with complex and interdependent problems or with the consequences of major disasters, politicians, particularly those in Western Europe, have increasingly called for a “Marshall Plan” as part of the response.⁷⁴ In many cases these initiatives have failed to move beyond the initial call, partly because finance ministers in the developed countries in the 1990s were grappling with fiscal deficits and were reluctant to listen to proposals that suggested large increases in aid budgets. But perhaps more importantly, such calls went against the tide flowing in favour of free markets and foreign private investment as the remedy for development problems.

A growing awareness of the close links between economic and political security, post 9/11, as well as growing doubts about the ability of free markets to trigger development, has led to rather more urgent calls for action on the scale of the Marshall Plan to deal with such fundamental problems. British Prime Minister Blair picked up the theme, citing the North-South divide between rich and poor as a fundamental factor in the growth of terrorism, and in December 2001 Chancellor Gordon Brown proposed a “New Marshal Plan” which would double the aid provided by the rich countries to the poor ones. Three years later, on 17 December 2004, the Chancellor, speaking in New York, continued to stress the tensions between the rich and the poor and argued that if the west failed to open its markets to developing countries, forgive debt and provide more generous aid, there was a real risk of “permanent guerrilla war”: “We need to make an offer as bold as the offer that was made in the Marshall Plan of the 1940s”. The Prime Minister and the Chancellor again called for a “Marshall Plan approach” to African development in the run-up to the G8 Summit in Scotland in 2005.

It is important that such calls are not seen simply as goodwill financial gestures to countries in need. Indeed, there are many critics who do see them in these terms and dismiss such ideas on the ground that large sums cannot be absorbed efficiently by the receiving countries and that they are likely to fall into the hands of corrupt politicians and government officials. Given the commitment of the donor countries to double aid to Africa, as well as the issues and criticism discussed in section D, it is worth recalling the motives behind the introduction of the Marshall Plan and especially the ways in which it organized large monetary

transfers to European economies plagued by bottlenecks of various kinds and a wartime legacy of widespread destruction of productive capacities.

The Marshall Plan of 1947 was certainly generous, providing Western Europe with some \$12.4 billion over a four-year period, most of it in the form of grants rather than loans. The programme amounted to just over 1 per cent of the US’s GDP and over 2 per cent of the recipients’. The Marshall Plan did much more, however, than supply Europe with much needed dollars; it also introduced a framework of organizing principles intended to ensure that the aid would be used effectively and encourage policy makers to forge a new kind of “social contract” that would be radically different from the deflationary and divisive actions of the inter-war period (Mazower, 1998: 299). These aspects of the Marshall Plan are often obscured in current suggestions for a “new” version, but it is precisely here that useful lessons can be drawn for development policy, including for Africa.

When critics object to proposals for “new” Marshall Plans for certain countries on the grounds that they are not democracies or do not possess market economies, they forget that Marshall Aid was not so demanding: Italy and West Germany adopted democratic institutions only in 1948 and 1949, and in Italy many of their provisions were ignored as part of the strategy to keep the Communist Party out of power. Although most of the institutions of a market economy did not have to be built from scratch, the various European economies had been highly regulated and subject to direct controls for the best part of a decade and with large sections of the population still suffering considerable privations, quick fixes and shock therapy for a return to “normal” market conditions were considered neither economically feasible nor politically acceptable

Looking more carefully at this experience, there are at least seven major virtues of the Marshall Plan which provide useful lessons for thinking about the organization of increased aid to Africa today. *First*, it set a time frame for the post-war adjustment process that was more realistic than that envisaged by the US Treasury. Instead of thinking in terms of 18 months, the time scale was changed to four to five years. The Marshall Plan was actually a belated recognition of the fact that policy makers in the United States, especially in the US Treasury, had been far too optimistic about the time it would take to return to “normality” after the cessation of hostilities. By this was meant the removal of direct controls on national economies and a return to a system of multilateral free trade and payments, in accordance with the rules of the new BWIs which were to provide the basic architecture of the post-war economic system. The attempt

to put these new arrangements into place rapidly, an early example of “shock therapy”, founded in a series of European dollar crises and a sharp economic downturn.

Second, Marshall made it clear that there was to be an end to the piecemeal assistance which had suffered from a lack of coordination and had less impact than expected in stimulating economic recovery. A key requirement, therefore, was that each state receiving aid had to produce a four-year outline plan for recovery, setting out targets for the main economic variable and providing an account of how the government intended to achieve its objectives.

Third, Marshall insisted that these plans, together with estimates of the need for assistance had to be drawn up by the west Europeans themselves. “It would be neither fitting nor efficacious for [the United States] to undertake to draw up unilaterally a program designed to place Europe on its feet economically. This is the business of the Europeans. The initiative, I think, must come from Europe. The role of this country should consist of friendly aid in the drafting of a European program and of later support of such a program”. Marshall thus acknowledged national sensibilities, admitted that the recipient countries were better informed about the facts of their situation than outsiders, and generally showed a deference towards European traditions and preferences that has often been conspicuously absent in the subsequent attitudes of the rich countries and international institutions towards the rest of the world.

A *fourth* feature of the Marshall Plan was that aid was to be released in tranches that depended on the countries’ intermediate targets being met. The removal of the recovery programme from the Bretton Woods framework did not therefore imply an escape from conditionality, but the Marshall Plan conditions were different, more flexible and were to be met over a longer period than allowed by IMF rules.⁷⁵

Fifth, the Marshall Plan acknowledged that the damage to European productive capacities and the great disparity in economic strength compared with the United States meant that Europe would gradually dismantle a wide range of direct and indirect controls on its trade according to an agreed timetable within the framework of the European Payments Union between 1950 and 1958. This gradual liberalization of trade provided some protection against American competition and gave time and encouragement for the reconstruction of enterprises potentially capable of producing competitive substitutes for dollar

imports. At the same time, the US agreed to a more rapid improvement in access to its own market for European exports, a policy of asymmetric liberalization that stands in marked contrast to some recent trends which insist on a rapid opening of developing countries’ markets and on restricting the range of policy options available for their development.⁷⁶

Six, effective leadership requires both generosity and a long-term commitment. Marshall Aid consisted largely of grants and the small proportion of loans contained a large element of grant: they were usually for 35 years at 2.5 per cent interest with repayments starting in 1953. It is worth emphasizing this structure of financial help at a time when “aid” and “assistance” are used loosely to cover everything from gifts to loans at market (or above-market) rates of interest. The wisdom of adding to the debts of already heavily indebted economies is highly questionable, the more so when they are grappling with economic restructuring and institution building, which is typically the case for countries trying to accelerate their development or to recover from the chaos that normally follows the end of violent conflict.

Finally, the *seventh* virtue of the Marshall Plan that is relevant to current problems in Africa was its insistence that there should be a degree of united and cooperative effort among the Europeans themselves, and that the plans of the 16 recipient countries and the allocation of aid should be coordinated in a regional body.⁷⁷ This requirement partly reflected US foreign policy objectives for a more integrated Europe, but it provided a structure for cooperation in areas where there are significant externalities, economies of scale and other trans-boundary issues. The peer review of national programmes provided national policy makers with a regional perspective for their own policies and encouraged a culture of regular contact and cooperation among national bureaucracies which today is taken for granted in Europe.

On all these counts, there are already some signs that the donor community in its approach to ODA to Africa is going back to Marshall: the switch from structural adjustment to the MDGs suggests a lengthening of the time frame for dealing with aid effectiveness; local ownership has figured prominently in recent debates on how to manage such flows to Africa, including through regional peer review in the context of NEPAD;⁷⁸ and doubts about excessive conditionalities have led some countries to consider a more minimalist approach. However, in all these respects the process has so far been ad hoc and the kind of coordination

that Marshall recognized as essential is still missing. For example, NEPAD has not been spared its share of criticisms.⁷⁹

This is not to suggest a simple replication in Africa of the initiatives of 1947, but rather that the *processes* of the Marshall Plan can help to provide a coherent framework for coordinating national economic development plans with international assistance. Without a reasonably articulate account of a government's macroeconomic objectives and their relation to detailed programmes for infrastructure investment, education, health, housing, etc., it is difficult to see how limited supplies of foreign assistance, financial and technical, can be really effective. Official assistance is essentially a form of intervention to ease shortages, bottlenecks and other constraints on growth and structural change, but it is difficult to target aid to where it will be most effective without some idea of priorities and the potential marginal effect of removing one bottleneck, say, before another. Similarly, the impact of assistance will be reduced if complementarities are overlooked: funds for treating the victims of HIV/AIDS and other major diseases, for example, will be diminished if the planning and funding of health support services is neglected or underestimated.

National development programmes along the lines of the Marshall Plan would make it easier to provide general, non-project assistance to government budgets or the balance of payments, as was done for a number of European countries under Marshall Aid. Development (even more than reconstruction) programmes are essentially dealing with deep-rooted structural problems and both fiscal and current account deficits are usually unavoidable if constructive, long-run adjustment is to be achieved. The need to provide financial assistance to deal with long-term imbalances is often, if not usually, seen by the international financial institutions as evidence of a weak commitment to reform and as encouraging a slackening of discipline by postponing necessary adjustment. This was not the view of the Marshall Planners who regarded such assistance as an investment in structural change and as providing governments with the required breathing space to bring difficult and often painful policies to success.

A generous supply of grants, monitored within, and guided by, a coherent economic programme on the lines of the Marshall Plan can be more effective than loans in lifting countries out of a "stagnation trap" where heavy debt-servicing obligations hold back the domestic and foreign investment that could improve the longer run performance of the economy, including its capacity to service debt. Another advantage of grants is that they are not usually subject to

the long and complex negotiations, legal and financial, associated with loans. This is important because one of the lessons of the Marshall Plan is that prompt assistance at the start of a promised programme can help to sustain positive expectations, which most likely will have been raised by politicians, and instigate a momentum for change that will stand a chance of becoming self-reinforcing. Providing grants within a Marshall Plan framework should also go a long way to meeting most of the criticism against them discussed earlier: for example, the problem of fungibility largely arises from the lack of a coherent development programme together with a similarly coherent account of the sources of finance required to support it.

As discussed previously, aid is usually provided with a close eye on the interests of the donor. That is to be expected, but a lot depends on whether donors see their interests narrowly or broadly, short-term or long-term, and whether larger public interests prevail over narrower corporate and national ones. There are public goods aspects to aid if it succeeds in raising the prospects for growth and development and thereby reducing threats to regional and global security, easing the pressures for migration, and so on. Grants may therefore generate a higher rate of return in terms of the donors’ larger interests than loans.

Another major attraction of a Marshall Plan framework is that it can serve an important political function. A multi-year programme of economic and social objectives, setting out their interrelationships, the means to achieve them and their contingency on outside assistance, effectively sets out the government’s vision of the structure of society at which it is aiming. That is highly political, and so the proposed programme provides – or should provide – a basis for the democratic discussion and the negotiation between competing views that is necessary in order to build the social and political consensus for what is essentially a plan for societal transformation. This may not always result in what is conventionally regarded as “best” policies, but the advantage of democratic processes is that they generate pressures to correct mistakes: they may reach the “best” policy more slowly than if driven by outsiders, but politically the slow route may be superior. A “new Marshall Plan” could thus be a way to provide a concrete operational basis for such ideas as “ownership” and “partnership”, which otherwise risk degenerating into empty slogans. Moreover, a coherent national programme with popular support, indicating where outside assistance could be most effective, *ipso facto* becomes a powerful argument for persuading potential donors to respond to national priorities rather than following their own preferences from a basket of seemingly unrelated projects. The emphasis on

national programmes is deliberate because the danger in some recent suggestions for a new Marshall Plan for Africa is that they seem to imply that the continent is homogeneous, which is very far from being the case. The approach in Europe in the late 1940s was to treat each country as a specific case but to bring them together in a regional framework of cooperation that would support both national objectives and regional coherence.

3. Elements of a new architecture

Accepting that some degree of architectural reform is needed if the doubling of aid to Africa is to be used effectively, the key question is what the specific changes should be. One immediate issue to resolve is the relative roles of bilateral and multilateral aid. Already in the late 1960s, the Pearson Commission (Pearson, 1969) was calling for the multilateral component, which then stood at around 20 per cent to be raised. That call has been echoed some four decades later by the Secretary General of the OECD and the United Nations in 2002, with the clearly stated aim of increasing the current multilateral share to well above its current level of 30 per cent. If, for example, the whole of the additional aid promised to Africa was channelled through multilateral institutions, that figure would rise to around 55 per cent.

With an eye to the strong possibility that geo-politics, linked, for example, to the growing demands on Africa's natural resources, could begin reassert a strong influence on the allocation of aid,⁸⁰ there are good grounds for channelling the promised increase in ODA through multilateral arrangements that are less prone to political interference from major shareholders.

The EU has already made a commitment to untie its aid and to tailor it more closely to local needs. At the same time, there is a growing recognition among European parliamentarians and policy makers that the kinds of conditionalities that were attached to loans and grants in the past by the international financial institutions have not been in line with their own sensibilities. On some accounts, the EU's own experience with regional funds offers an alternative option (Abegaz, 2005: 442–444).⁸¹ These funds have a clear focus on strengthening investment (in both the private and public sectors), are packaged in the form of multi-year programmes, have strong local ownership and seek to deal with fungibility

problems through matching funds and additionality principles; they also contain clearly stated aims to strengthen state capacity at the local and central levels.

Perhaps with these concerns in mind, the EU has established a trust fund to disburse some of its own increase in aid to Africa, using for this purpose the European Investment Bank (EIB), the EU’s soft-loan lending arm and “the world’s largest public development bank” (Rogerson et al., 2004: 26). The stated aim of this fund is to provide subsidized, low-interest loans for infrastructure projects, particularly those with a cross-border dimension – a focus that reflects one of the virtues of the Marshall Plan, discussed above. The initial proposal of 60 million euros in grants would be matched by up to 260 million euros in loans from the EIB. This is very much a pilot scheme, but it does appear to express an intention to channel European aid to Africa in a way that avoids the kinds of policy conditionality attached to concessional lending by the World Bank. Questions have been raised by civil society groups about the appropriateness of EIB’s role given its lack of experience with African development. However, this does not seem to be an unsurmountable obstacle and could be effectively addressed through close collaboration with the relevant African institutions and the secondment of appropriately trained staff. Perhaps more seriously, others have pointed out that it is not a multilateral development bank but is rather caught up in the intricacies of institutional overlap between the European Commission and the development programmes of its member states (Rogerson et al., 2004: 27–28).

An alternative means of delivering increased aid to Africa would be a well-designed, grant-based regional development fund under UN auspices. In the light of earlier arguments, such a Fund would be explicitly focused on economic development, with a major responsibility for strengthening the investment-growth nexus across the region. In part, this would build on MDG 8, but there would be a wider mandate to include investment in physical infrastructure, support for sectoral strategies, technological upgrading and urban development. A soft-loan mechanism in the UN, albeit not limited to Africa, was floated in the mid-1950s as the Special United Nations Fund for Development (SUNFED), and despite opposition from some governments, the United Nations Economic and Social Council recommended its establishment. However, a compromise was eventually agreed by the General Assembly which essentially transferred the soft-loan function to the World Bank through the creation of the IDA, while the Special Fund gravitated towards technical assistance and was eventually merged with the UNDP.

Reviving such an arrangement today would have some clear advantages over existing channels. In the first place, it would be designed explicitly to handle additional flows to Africa and could be established with term limits firmly in mind. Moreover, with the CFA's case for frontloading aid well established, such a Fund could provide a focus for further fund raising, including from the various new sources of finance proposed to support development, such as a levy on international air travel, a global lottery and donor borrowing through an International Finance Facility. Marrying such mechanisms to the resources already committed from expanded aid budgets could lead to a very large increase in available funds. In this respect, it is worth noting that IDA currently makes annual net disbursements of around \$5 billion, of which 40 per cent go to Africa. With a total replenishment of some \$5.4 billion for its present ADF-X cycle, 2005–2007, the AfDB will be providing about \$1.8 billion annually through this soft window. However, only about 18–21 per cent of both the IDA and ADF funding were to be in the form of grants during the last IDA and ADF-IX cycles, and their rates of disbursement tended to be slow. Indeed, grants made up only 19.5 per cent of the ADF-IX disbursements, although the share of grants in the overall replenishment of ADF-X is expected to increase significantly to 34.3 per cent with as many as 21 ADF-only countries receiving assistance entirely in grants (AfDB, 2004:35; 2005).

As a first step, it might be advisable to transfer IDA's funds dedicated to Africa to the new Fund in order to ensure maximum impact. It should also be possible to merge this new Fund with the ADF, with disbursements being governed by more efficient and rapid administrative procedures that would evolve within the context of the new Fund. The final status of the new Fund (whether it should be absorbed into the AfDB or continue its independent existence) should be discussed within a flexible and innovative framework that incorporates all stakeholders.

One argument in favour of a greater role for multilateral economic institutions is that they are superior to private agents in generating and disseminating sound policy advice and related technical assistance. Such institutions possess considerable research and practical experience, as well as having access to information in the developing countries themselves. They are also positioned to get policies implemented through a combination of pressure and persuasion, including through conditionalities, and to monitor the outcomes. As has already been noted, the argument that aid works in conjunction with the right policies has underpinned the case for channelling aid through existing multilateral institutions

such as the World Bank. However, there are unresolved questions about the governance structure of the IFIs regarding such matters as representation and ownership, accountability and transparency, all of which have a direct bearing on the effectiveness of aid, and which have been the subject of frank debate since the late 1990s.⁸²

The principal advantage of attaching such a Fund to the United Nations would be to escape from ideological biases and political pressures in determining what are the “right” set of policies to get aid working. There is evidence that SAPs have not had the desired outcome in terms of growth performance and poverty reduction. More recently attention has turned to assessing whether the PRSP process offers more hope. In an earlier report on Economic Development in Africa (UNCTAD, 2002), the UNCTAD secretariat concluded:

- there was tension between ownership and conditionality;
- the PRSPs had not replaced the development strategies implemented under SAPs and were continuing to endorse the very stabilization policies and structural reforms that have failed to stimulate growth and to reduce poverty across the region;
- despite recognition of the possible negative impact of these policies on the poor, there had been no attempt to provide the kind of social impact analysis that would be needed to determine the kind of measures required to mitigate such adverse effects;
- there was a lop-sided emphasis on the social as opposed to the productive infrastructure and a greater emphasis on market opening than on structural change;
- despite an emphasis on ownership and local participation, and while recipient governments had freedom of action in devising social safety nets, the determination of the nature and content of macroeconomic stabilization and adjustment programmes, and of development strategies more generally, continued to be severely constrained.

In a series of recent reports, the World Bank has acknowledged some of these weaknesses (World Bank, 2005c and 2005d). Doing so goes a long way to recognizing that the Washington institutions do not have a monopoly on technical competence and that a wealth of expertise exists elsewhere including in the UN system and among local policy makers. The fact of the matter is that the understanding of the causes of economic growth and of the ways in which

it interacts with social and political variables is still very limited and there is no monopoly of the truth.

There is general agreement that capital accumulation plays a crucial role in the development process and that, linked to structural and technological change, cumulative dynamic processes can be unleashed that can help to sustain a steady increase in productivity (and incomes) to levels that break through the various poverty traps. The general uncertainty about the precise sources of progress, and the various ways in which they combine in different countries and conditions, points to the necessity for careful experimentation with institutions and policies in order to discover what will be effective in any particular national context where history, culture and existing conditions all have a considerable influence on the possibilities for growth and development. Given the premium on flexibility and “adaptive efficiency”, and given also the absence of universal laws of economic growth, restricting the policy space available to African countries is more than likely to be counterproductive. It is certainly unacceptable, *a priori*, to rule out certain policy instruments, or to make aid contingent on a singular vision of how the economy is believed to work. Given these considerations, a new Development Fund for Africa would need to be supported by an independent, professional secretariat which would be protected from political interference by donors and which should be guided in its work by generally accepted principles for an international secretariat.⁸³

For most countries, many of their pressing everyday economic problems invariably involve their neighbours. This was certainly recognized in the original Marshall Plan and is particularly true of Africa today. Regional cooperation to lower trade barriers and other obstacles to doing business within the region can provide larger markets for small, low-income countries, making it easier for them, if it suits their development strategies, to attract FDI, and to provide harmonized rules for dealing with international firms (UNCTAD, 2005a). For small, fragmented economies, infant-industry policies may also be more effective in a regional than a small national market and infrastructure provision may also best be handled in a regional context. The very fact of increased efforts at such cooperation is itself a sign of increasing stability and security in a region and that can be an important influence on economic activity in general and fixed investment in particular.⁸⁴ The practical consequence, however, is the gradual evolution of a form of regional or international governance as countries seek ways to reconcile their pursuit of national objectives with international constraints, an activity based on local knowledge that can also contribute to developing the

autonomous learning capabilities that Joseph Stiglitz, among others, identifies as crucial for promoting both development and democracy (Chang, 2001). This suggests that the necessity and benefits of collective action, on the one hand, and the evident desire of peoples to preserve as far as possible their autonomy to decide national policy, on the other, can be balanced in many areas without the need for over-arching global bodies. The European experience points to the valuable role that can be played by effective regional institutions staffed by competent and independent secretariats and headed by imaginative and energetic leaders.

4. Some unresolved architectural details

The basic argument for reforming the existing international arrangements for handling aid is to avoid duplication and fragmentation and achieve a much better coordination both among the various donors and in relation to development programmes in the receiving countries. Arguably the onus is on the larger donor countries to take a lead. But, by implication, smaller donors should also channel more of their aid through multilateral institutions with good and well-developed delivery systems. The problems with such a proposal are that many small donors have a strong developmental record and, especially, that relatively new bilateral agencies continue to see aid as a way of asserting their own national influence on the international public arena and hence are unwilling to channel their assistance via multilateral bodies. Overcoming such resistance is obviously important if aid is to be more effective. Much will also depend on the quality and integrity of the secretariats of the multilateral bodies, the transparency and governance of their operations, and their ability to establish effective lines of communication with African policy makers.

Any proposal to establish a new aid facility for Africa also needs to address relations with existing arrangements. In the case of Africa, there is, of course, a well-established multilateral framework with the AfDB, UNDP, ECA and the African Union (AU) providing the backbone of the system. The proposal made here leaves that in place. The need to strengthen short-term financing to deal with trade and financial shocks is generally accepted and the BWIs have the structures and the expertise to respond to these concerns. Moreover, there are strong arguments for a strengthened AfDB to enhance its responsibility for medium to longer-term development financing once the current round of aid

commitments begins to level off, to continue to strengthen its field presence and to find ways of making it less vulnerable to replenishment discussions from non-regional members. In principle, a stronger role can also be envisaged for the AU in providing a collaborative structure within which a strong regional focus could be developed. Moreover, given the explicit time frame envisaged for the aid initiative, secondment of staff from these organizations is likely to be the most sensible way of developing the technical competence and sensitivities which will be required by an independent secretariat if it is to manage the promised resources most effectively.

There are several relatively new aid organizations such as the Investment Climate Facility for Africa (ICF), the Global Fund and the Millennium Challenge Account that need to be accommodated in any discussion of a future architecture. Only the first of these has the kind of regional profile that is proposed in this report, but none are operating on a scale consistent with the demands of a big push model of development. The ICF is a public-private partnership with an initial capital of \$10 million that it hopes to augment with contributions of some \$120 million from the private sector in its first three years. In most cases, bilateral donors do not seem to have worked out how they will react and adjust to these initiatives. For example, thematic organizations such as the Global Fund focus on global public goods and do not necessarily deliver aid in accordance with the development priorities of the recipient countries.

Since the 2005 World Trade Organization Ministerial Meeting in Hong Kong, "Aid for Trade" has gained prominence in the international aid discourse. While the idea is still in its infancy, there are grounds for hoping that, if pursued on an appropriate scale, if additional to the already promised increases of aid, and if geared to diversifying the economic base of the countries concerned through accompanying trade and industrial policy, the initiative could have the desired developmental impact. This might mean substantially delinking the initiative from the context of the Doha negotiations, and instead connecting it to the ideas of a "big push" and Marshall planning, as outlined in this report.

With the increasing incidence of HIV, avian flu, terrorism, narcotics and migration perceived as growing threats, it is possible that the future architecture of aid will be influenced by a proliferation of organizations focused on such public externalities and by the mobilization of resources in the North in ways that could fundamentally change the aid landscape.⁸⁵ In principle, these activities should be

kept separate from the more specific economic developmental challenges that have been discussed in this report.

Another issue concerns the role that NGOs and civil society will play in any future architecture. As noted earlier, these have proliferated rapidly in recent years. At one level, they are part of a vital information-gathering and monitoring network that might be better placed to tailor aid to micro conditions, particularly with respect to social goals. At another level, however, they could have a negative impact on efforts to establish state capacities: as *The Economist* (2005) graphically put it, there is a real danger that these institutions might “cannibalize the state institutions on which any country must ultimately depend”. Clearly a balance has to be struck, but that should be the responsibility of policy makers in the recipient countries. Certainly, increased aid for budget support, as advocated by many donors, and also in this report, combined with the increased size of government required to handle a doubling of aid, implies a need for greater clarity about their role in aid delivery and in their interaction at the country level.

At present there appears to be no permanent multilateral forum in which the issues raised in this report, whether concerning bilateral versus multilateral aid, grants versus loans, global public goods versus development assistance, ownership versus conditionality, the role of civil society, etc. are being rigorously addressed from the perspective of the potential recipients. The OECD’s DAC, of course, is an important venue, but one that is very much focused on donor concerns and challenges. This institutional hiatus must be a matter of concern if aid is to double in the near future and if the chaos of an unregulated aid market is to be avoided. One suggestion is that there should be an aid ombudsman, perhaps located in the UN, who would monitor commitments and hold donors to account on internationally agreed, time-specific targets (ActionAid, 2005). Something similar has been suggested in the context of the CFA. However, this is still too narrowly focused. An alternative could be for UNCTAD, an institution which was in the vanguard of the early aid debates that established the 0.7 per cent aid target and more recently revived the case for doubling aid to Africa, to provide such a forum by creating a Commission on Aid and Development. This could combine in-house experience with outside expertise, work on the consensus-building principle, and provide a forum open to civil society groups for frank, well-informed and constructive debate on the issues raised in this report.⁸⁶