Introduction

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A major increase in the amount of aid to less developed countries is widely anticipated, by or soon after late 2005, to bolster efforts to achieve the Millennium Development Goals (MDGs).[1] The sums involved may not be as substantial as many expect, and they come mainly from Europe, but we are still likely to see a significant enhancement of funds for development.[2] With them will come both opportunities and dangers – which the articles in this collection analyse. We give more attention to the dangers, because we seek to minimise them.

The contributors to this *IDS Bulletin* come from a diversity of countries and disciplines. They work in different types of institutions – research centres, (recipient and donor) government agencies and non-governmental organisations.[3] They also offer diverse views.

This is vividly apparent from the first two articles by White and by Killick, who take starkly contrasting positions on the advisability of increased aid. White presents evidence to support the view that there is indeed a serious shortfall in aid disbursements. He then takes issue with those who claim that additional aid will produce negative effects, that recipient governments' absorptive capacity imposes severe constraints and that allocating aid on the basis of need perversely encourages countries to remain needy. By contrast, Killick argues that while much of Africa (his main concern) has been doing reasonably well in recent times, additional aid will cause donors and recipients alike to be preoccupied with issues of quantity, and impede solutions to remaining problems by diverting attention from the more crucial issues of the quality or effectiveness of aid. The daunting difficulties that attend efforts to solve those remaining problems may thus be compounded. White and Killick tend to talk past one another rather than disagreeing on specific points – although they are plainly at odds over the reliability of quantitative analyses on aid effectiveness, they are not entirely at loggerheads. Both are, for example, anxious about the possibility that additional assistance will worsen the dependence on aid of many recipient governments, and White quotes Killick's work approvingly at one point. But for the most part, they disagree.

The other articles in this collection locate themselves somewhere between those two viewpoints, so that there is strong resonance among them – among articles by contributors from North and South, and from people of different professional backgrounds. See, for example, the ways in which arguments echo one another in the articles by de Renzio (an Italian working in a British policy studies centre), Therkildsen (a Danish academic), Kitabire (a Ugandan government official), Saasa (a Zambian academic) and Stockmayer (an official of the German aid agency).

Our main concern is to anticipate the problems that will inevitably attend a surge in aid so that they can be tackled. This is crucial because if a major increase in aid yields disappointing results, the future of development assistance could be called into question – it could make aid, not poverty, history. A short-term increase could trigger a long-term decline. That danger has been magnified by the exaggerated expectations which some advocates of increased aid have inspired, by (as Therkildsen puts it) 'pretending that miracles will occur'. There is a fine line between sensible attempts to make a strong case for greater aid and unrealistic claims which will lead to disillusionment that could eventually make aid programmes unsustainable. That line has sometimes been crossed. See, for example, the United Nations Millennium Project's arguments:

- that increased funds can end aid dependency in less developed countries,
- that export-led growth on East Asian lines can produce breakthroughs for African economies, and
- that governance problems and human resource constraints in recipient countries need not

> impede significant progress towards the Millennium Development Goals.[4]

(These and other themes are discussed in more detail below). The Project's eagerness to persuade developed countries to be more generous is understandable and in some ways admirable, but their "can do" assertions may generate excessive expectations.

The contributors to this collection identify and analyse a broad array of issues that also must be addressed if we are to maximise the constructive impact of additional aid. Some of these have had little attention. But we begin with a concern that has preoccupied much recent discussion, in the media and in conference rooms – the problem of recipient countries' absorptive capacity.

1 Absorptive capacity

Absorptive capacity – the ability to put aid to effective use – is in doubt as a result of poor governance, sclerotic administrative agencies and, above all, shortages of human resources. These shortages are often said to exist in the private and voluntary sectors, but anxieties mainly arise about the public sector – both at senior administrative levels and at lower levels in specific (and crucial) sectors like health and education.

Some advocates of increased aid say little about this problem. A key document from the Millennium Project identifies recipients' capacity constraints as a major barrier, but then offers almost no comment – one page out of 307 – on how to tackle it.[5] Its authors characterise such constraints as investment opportunities rather than as problems. That argument would have been more persuasive if they explained how additional aid might ease such constraints, but they do not do so. Thus (as Therkildsen says), they focus on what should be done but not how it can be done.[6]

Others deal with the issue in detail. The Commission for Africa examines different dimensions of the problem – at inter-governmental level, at the national level and at sub-national and local levels in connection with the provision of infrastructure and services. And at each of these three levels, the problem is shown to be multi-dimensional.[7] White's article here also takes the capacity issue head on. He argues that there are plenty of well-trained and highly motivated personnel even in outlying districts of impoverished African countries, waiting for the arrival of additional funds that will enable them to do their jobs.

Other contributors to this collection are more anxious about absorptive capacity. De Renzio examines it at length, providing a typology of constraints on various types of capacity – both short term and long term. The former includes constraints arising out of inadequate infrastructure and equipment, perverse incentives for public officials and weak public expenditure management systems. Long-term constraints include major deficiencies in institutions and policy processes and shortages of technical and managerial skills. These problems are so numerous and varied that they cry out for attention, but they have received little – perhaps because a discussion of how to tackle them might suggest how great the difficulties are, thus undermining the (in many ways admirable) case for increased aid. Many of de Renzio's concerns are echoed in the articles by Kitabire, Stockmayer and Therkildsen (who argues that the key constraint is not money but people).

Bossert's article assesses human resource constraints in great detail. His analysis is grounded in research on the health sector, but the approach is clearly relevant to other spheres as well. He argues that it is crucial to identify the types, densities and distribution of workers needed to make headway towards the MDGs. He then provides a methodology that can be used first to estimate human resource constraints, and then to tackle them. He emphasises the need for separate investigations of how systems' financial, educational and management capacities contribute to the effectiveness of human resources. He then stresses the importance of several problems that cut across sectors – workers' motivation, absenteeism, variations in the attractions of different professions, the brain drain and the premature deaths of key workers from HIV/AIDS. He also pays attention to the question of the political feasibility of potential remedies – stressing the need to understand regime type, established processes and procedures, levels of corruption, and the enforcement capacity of the state. It is also important to determine the position and influence of key stakeholders, so that political strategies will increase support and reduce opposition to change.

His article makes it plain that we face daunting capacity problems, but it also offers some useful guidance on how they might be minimised – by providing tools for diagnosing them, by suggesting certain short-term measures that can ease the problem and by stressing the need for longer-term strategies, since quick fixes here will fall short.

Finally, another quite distinctive perspective on all of this is worth noting. Sobhan, an experienced analyst of the aid and development process in Bangladesh, argues here that the most serious problem is often neither a lack of absorptive capacity nor inadequate aid funds. It is a lack of commitment on the part of recipient governments to reprioritise expenditures and to undertake the changes in governance that are essential to the productive use of aid. He is also concerned by evidence that donors undercut recipient governments' ownership of (and thus commitment to) reforms by adopting a one-size-fits-all approach in diverse settings. Eyben's contribution, and Saasa's article based on Zambia's experience, reinforce the point when they stress the importance of the compatibility of donor programmes with recipient aspirations. Sobhan's emphasis on the importance of governance raises an issue which deserves a separate discussion.

2 The pace and delicacy of governance reforms

The various advocates of increased aid offer different views on the importance of governance reform as an element of the process that will unfold once donors commit themselves to provide more funds – and on the possibility that it might be a condition for the receipt of additional aid. Some advocates say little about this, but the Commission for Africa argues that improvements in governance are essential, and that they must be addressed as a matter of urgency.[8]

But can governance reforms occur swiftly? This will be necessary if – as is likely – a sudden surge in aid occurs. The evidence from multiple sources strongly suggests that haste in the pursuit of such reforms may scuttle hopes of improvement, and may even undo hard-won achievements that have recently occurred.

The article here by Stockmayer, who oversees the governance programme at the German development agency GTZ, stresses precisely this point (as does Kitabire). He draws on donors' experience in this sphere to argue that governance reforms take time to occur, and – more importantly – to gain the wide acceptance among both policy makers (who need to be convinced that changes are non-threatening) and citizens (whose support is critical to make them sustainable). Two recent sets of Institute of Development Studies (IDS) case studies of successful governance reforms reached a similar conclusion – indeed, it is one of their principal findings. They found that such reforms have the greatest promise when they are pursued at an incremental pace – allowing for sufficient time for demonstration effects from experiments to make an impact on both policy makers and ordinary people.[9]

Stockmayer stresses that in practice, any governance reform actually entails 'a host of different reform processes … which depend on different coalitions of actors and involve different resources'. They are not just complex, but also *lengthy* and *delicate*. His arguments on each of these issues merit a little more attention.

He explains that it takes a long time to develop adequate support for instruments that ensure that the policy process is gender sensitive, that anti-corruption efforts begin to bite and that service delivery is based in part on rights-based approaches to development. Such instruments need to be backed by 'almost every part of society', and that backing cannot be obtained overnight. If the pace of change is now to accelerate in response to additional flows of aid, governance reforms may founder – and that may jeopardise abundant aid flows over the longer term.

When such reforms begin to take root, they always rest on new, fragile understandings and tenuous balances in power relations between different sets of actors. These are easily disrupted, and Stockmayer argues that a surge in aid will inevitably alter both power balances and the direction that reforms will take. (Schneider's quantitative data reinforces the point – by showing that when aid is fragmented, as it is likely to be, it tends to undermine governance in recipient countries.) This could destroy established systems of commonly accepted rules, which are essential to successful development.

3 Fragmented disbursement of additional aid

It appears likely that the additional aid which emerges will be delivered in a somewhat fragmented and poorly coordinated manner, for reasons that are explained below. This would fly in the face of donors' commitment, signed in Rome in 2003, to make greater harmonisation among their efforts a priority – see the articles here by White, de Renzio and Saasa. This takes some explaining.

Many bilateral donor agencies (and the governments of which they are a part) are at present reluctant to commit substantial sums to multilateral institutions or to new vehicles that will be strongly influenced by them. Many donors doubt the effectiveness of United Nations agencies, and are worried by some of the views set out by the UN Millennium Project – for example, the claim that governance is a serious problem only in certain countries (points stressed in the article by Stockmayer). But many also hesitate to release funds to the World Bank, partly because they are uncertain about the direction it may take under Paul Wolfowitz. In private comments, officials at three European development agencies indicate that the irritation at his appointment is far more intense than polite public statements suggest. Some are also concerned about an influential World Bank report, written before he was named, criticising the Bank's recent emphasis on the MDGs and on social programmes to achieve them.[10] And they worry that conflict between the World Bank and the United Nations over the management of multi-lateral funds – conflict which is made more likely by the apparent antipathy between leaders of the UN Millennium Project and Wolfowitz – may undermine the effectiveness of the entire enterprise. Some donor governments and bilateral agencies are also strongly committed to specific types of development programmes or certain development sectors which they fear may not be adequately served by multi-lateral arrangements.[11] For all of these reasons, they are likely to retain control over much of the additional aid that is disbursed.[12]

The potential fragmentation of donor efforts has triggered anxieties on at least four fronts.

- Recipient governments will be compelled to commit far too many scarce human resources to the negotiation and management of fragmented donor initiatives. They fear that this will weaken still further the absorptive capacity of many countries. This is stressed in the contributions by de Renzio, Therkildsen, Saxena, Schneider and Saasa who speaks of 'unbearable transaction costs, particularly for the most aid dependent developing countries of Africa'.
- Fragmentation will undermine the clarity and simplicity of the aid process, which some contributors to this collection (e.g. Saasa again) see as crucial to the achievability of recipients' aspirations. This partly explains why Schneider's quantitative analysis here indicates that fragmented aid tends to undermine governance in recipient countries.
- The emphasis by some donors on certain sectors (e.g. health, education) may cause overall development efforts to become so unbalanced that harm will be done in some other sectors, as scarce human resources are drawn into well-funded sectors and away from others that remain crucial. Kitabire fears a 'proliferation of costly, misaligned projects' which will often require counterpart spending that diverts funds from sectors which governments prioritise. He explains that Uganda now insists that aid conforms to its strategic priorities, so that it turns down some aid proposals – a theme echoed by Saxena from India. This would happen more often in those countries if increased aid were earmarked for sectors favoured by bilaterals. Other recipient governments would accept such aid, but in the process, their priorities and thus their ownership of development strategies (which many contributors regard as essential) would be undermined.
- An erosion of the recipients' sense of ownership (a serious concern to White and Eyben) may weaken their commitment to reprioritise public expenditure and to improve governance – which Sobhan argues is often more important than the amounts of funds that are available.

4 Donors' incapacities and unhelpful habits

Much of the debate on the implications of increased aid pays little heed to the possibility that donors might undermine its predictability, quality and accountability. The key document from the Millennium Project, mentioned above, is virtually silent on the subject. There is only one mention of aid quality in the entire report. By contrast, several contributors to this collection (like the Commission for Africa) regard this as an issue of deep concern – and there is much more to it than the anxiety that aid may be disbursed in a fragmented manner.

Eyben's article here argues that a surge in aid could magnify the tendency of current donor practices to disempower recipient governments and their civil societies. She is especially concerned about the potentially damaging impact of 'results-based management' which donors endorsed at Monterrey in 2002 as the optimal approach. It tends strongly to disempower because it enables donors first to decide what knowledge is admissible in defining problems and second to identify solutions, so that recipient governments have too little voice in co-determining the types of results that are to be sought and the strategies that will be adopted to pursue them.

The imperative for upward reporting to donors who have used their power to define the problem and the solution may reduce recipient governments' accountability to their own citizens whose views on urgent problems and preferred solutions may differ from those of donors. In principle, if results-based management were based on a more equitable balance of influence between donors and recipient governments, it might lead to less undesirable outcomes. But in practice, this is very difficult to achieve.

Eyben argues that this reinforces donors' learning incapacities. And 'it can … create unintended consequences of resistance' by recipients – of the kind which Kitabire describes in his article in Uganda.

As an alternative, Eyben proposes:

> investing in relationships that would privilege different perspectives and new answers to managing the turbulent environment of which donors are part and contribute to creating. Aid might be more effective with less strategy and more improvisation.

She stresses the need for 'a different approach to planning and implementing solutions that recognises rather than ignores the disagreement and uncertainty'.

The contribution by Conyers and Mellors on Africa reinforces many of these points, and then raises one further concern. They argue that donors' excessive use of short-term consultants, together with the rapid turnover of donor staff, damages the institutional memory of donor agencies and undermines their capacity to develop an in-depth understanding of conditions in recipient countries.

Their pessimism about the prospects for greater donor openness and flexibility is set out in unvarnished language:

> Are we prepared to defy these constraints and make the necessary changes in order to meet Africa's very real humanitarian needs? If we are not, the prospects are bleak. Pushing more money through a defective system is wasteful and could do more harm than good.

Some readers may feel that they overstate the problem. But given the recent donor consensus on results-based management, it appears unlikely that we will see much change in donor strategies and habits of mind anytime soon.

5 Can additional funds end aid dependency?

Some advocates of increased aid argue that it will enable seriously underdeveloped countries to break out of their dependence on aid (which is plainly a serious problem, as Table 1 in de Renzio's article illustrates – but see also, White's counter-arguments). In these advocates' view, additional aid – by reducing poverty and disease – will unleash the talents of ordinary people, making economies more productive. Major new investments in infrastructure will have a similar effect. And some argue that additional aid will also open the way to the successful pursuit of export-led growth of the kind that lifted much of East and Southeast Asia out of destitution and dependence on aid. All of the contributors to this collection share the hope that such outcomes will occur, but some are sceptical about how realistic that hope is. Their views are worth noting, since they suggest that we should adjust both our expectations and current plans for the delivery of additional aid. There are four issues to consider.

First, even if export-led growth has the potential to liberate less developed countries from aid dependency (and some doubt that it does), a major influx of additional funds may undermine governments' efforts to promote it. It may – as the earlier reference to Kitabire's article indicates – cause careful, painful efforts to promote fiscal prudence (which are intended to promote national sovereignty and export-led growth) to unravel. (Saasa's article indicates that in Zambia, Gross Domestic Product (GDP) growth has often declined during years in which aid flows have been most abundant. That trend could be explained by certain other things, but it is nonetheless worrying.) And it may drive up the value of recipient governments' currencies which would make exports more expensive and defeat efforts to base growth on rising exports. There may be, in other words, potential contradictions in the grand strategy set out by some advocates of increased aid.

Second, (to reiterate a point made earlier) a further and possibly damaging contradiction has been identified by the articles by Saasa and by Conyers and Mellors. On present evidence, many of the donor agencies that will provide additional aid will insist on controlling the disbursement process for most of the funds that they release. This means that each individual donor will also insist that recipient governments conform to the distinctive procedures that it follows. To make matters worse, the current enthusiasm for new forms of public management will ensure that these procedures will undergo frequent changes. All of this will place a heavy burden on recipient governments which will have to invest time and scarce human resources in efforts to master these diverse procedures. Instead of making disbursement processes more predictable and simpler – which Saasa regards as an urgent need – they will become even more unstable and complex. This makes it less likely that recipient governments will escape aid dependency, which both White and Killick – despite their other disagreements – have identified as a serious concern.

Third, it appears likely that much of the additional aid will come in the form of loans rather than grants, which will impede recipients' efforts to break out of indebtedness and their dependence on aid. There is certainly a case for grants rather than loans, but some donor governments are reluctant to give great emphasis to grants because it might make it difficult to replenish the funds of institutions like the World Bank. If a major shift to grants occurred, and then in a few years certain key donors reduced their disbursements to such institutions, they might find themselves far less able to make a constructive impact.

Finally, if recent form is any guide, many donors will insist that recipient governments create special agencies to administer the additional funds that they provide. These structures run parallel to mainstream administrative instruments and undermine the latter in two important ways. They draw talented personnel out of already incapacitated line ministries. And by offering higher salaries and commanding greater resources than mainstream government ministries, they undermine both morale within them and popular regard for them – which threatens the legitimacy of recipient governments more generally (Stockmayer stresses this point). The World Bank's global programme to create "social funds" has – in many (though not all) countries – led to the creation of such parallel agencies. *Very* substantial funds have often been channelled through these agencies. Some bilaterals also favour parallel agencies for programmes in individual sectors like health and education. These agencies often serve crucial purposes in the short term, in addressing emergencies or extreme distress. But if sustained over the longer term (as tends to happen), they erode the legitimacy of governments and their mainstream agencies – and enhancing that legitimacy is an exceedingly important objective. Additional aid, managed in this way, tends to weaken governments – and to make it still harder to break out of dependency on aid.[13]

This need not happen. Conyers and Mellors refer to positive experiences in several African countries – in which aid was channelled through mainstream government agencies and integrated into efforts to build the capacity elected local councils. One of the key findings from the two sets of recent IDS studies mentioned above – of successful development programmes – echoed this theme.[14] When major initiatives are routed through mainstream ministries, and when they are integrated with elected councils at or near the local level, they tend strongly to succeed, to be sustainable, and to enhance the effectiveness and thus the legitimacy of governments.

Some contributors to this collection oppose a major increase in aid. Killick is the most forthright, and Kitabire's detailed, closely argued case includes this comment: 'substantially increasing donor aid is not the way to achieve these goals (poverty reduction and an end to aid dependency) in a sustainable manner'. Most of the articles here offer less negative views, but they make it clear that a number of very real problems will attend an increase in aid. Recipient governments' efforts to promote fiscal discipline and export-led growth already face serious impediments, and a major influx of additional aid may unhinge them altogether. The likely fragmentation of donor efforts may undermine recipient governments' absorptive capacity. Governance reforms, which some see as crucial to the effective use of additional aid, may be damaged or wrecked if – as seems inevitable – they are accelerated in response to increased aid. These and other problems analysed here need to be taken seriously, since steps can be taken to deal with them.

Many articles in this collection make that clear by offering suggestions that could ease these difficulties. See, for example, White and Sobhan on the need to pay attention to recipient governments' ownership development programmes, de Renzio on a broad array of issues, Sobhan on donor-recipient relations, Bossert on devices that can identify and tackle human resource constraints and Eyben on remedies for donors' learning disabilities. These merit attention, because if these problems are not addressed, they could – within a few years – provide ammunition for those who claim *incorrectly* that aid cannot work, and discredit the case for generous aid flows. We want aid to be made history – but for the right reasons.

Notes

1. Substantial additional funds have already been provided to tackle HIV/AIDS, and further increases are likely as a result of the efforts of the Commission for Africa (working closely with the British government), the work of the United Nations Millennium Project and pledges by G8 members to increase their aid commitments. Many member governments in the European Union have pledged major increases in aid – although the Italian, Austrian and Portuguese governments have (at the time of writing) been more hesitant than their neighbours. The Japanese government has committed itself to a substantial increase in aid to Africa. The US government has also provided extra funds – fewer in practice than the initial announcement stated, and very much on its own terms – through the Millennium Challenge Account. As also seen in this Introduction, other donors may also channel much of their aid through discrete vehicles, and fragment the overall effort in the process.
2. In addition to increased aid disbursements, further funds will probably be liberated as a result of the writing off of some countries' debts to the World Bank, the IMF and the African Development Bank. Less developed countries may also benefit from the partial lifting of trade barriers by countries in the North, although that is less likely.
3. They participated in a workshop in London on these issues in March 2005, organised by the Institute of Development Studies and funded by the Department for International Development.
4. *The Global Plan to Achieve the Millennium Development Goals*, 23 September 2004.
5. UN Millennium Project (2004).
6. See Table 1 in Therkildsen's article in this *IDS Bulletin*. He argues that those associated with the Millennium Project tend to focus almost entirely on cell A in that table – which he regards as a serious problem.
7. See *The Report of the Commission for Africa*, Part 2: 4 and Annex 6.
8. In his article in this *IDS Bulletin*, Stockmayer welcomes this when he says that: 'Closing our eyes to the recent history of the civil service, especially in countries with weak institutions, cannot be a recipe for effective capacity creation for reaching the MDGs'.
9. They also found that, in diversity of contexts, development programmes tended to succeed (a) when they allowed the preferences of people at the grassroots to influence the policy process, since greater constructive capacity exists at that level than an higher levels in political systems, and (b) when they avoided the creation of parallel agencies for the implementation of initiatives that bypass mainstream government ministries and thus undermine their effectiveness and legitimacy. These studies were carried out for the World Bank by teams organised by the Institute of Development Studies in late 2004. One set focused on nine case studies in 'Low Income Countries under Stress', and the other focused on reforms in Brazil, Uganda and India.
10. This was the Operations Evaluation Department's *2005 Annual Review of Development Effectiveness*, which the *Financial Times* (20 May 2005) described as 'hard-hitting'.
11. This became apparent at a meeting of European Finance Ministers in February 2005. The anxiety that this inspired in the British government which had pressed for more generous commitments (and from which this information comes) was not entirely eased in May/June 2005, when such commitments were eventually made. Worries remain that while increased aid may be forthcoming, it may mainly be disbursed through bilateral channels – leading to fragmentation.
12. These comments are based on discussions with practitioners at three bilateral European development agencies.
13. It became apparent, at a conference on successful governance reforms in less developed countries at the World Bank in April 2005, that the dangers posed by parallel agencies are recognised by many practitioners there. But such initiatives have developed sufficient momentum that we can expect them to persist in many cases for some time yet.
14. See for example, J. Manor, forthcoming 2005.

References

Manor, J., (ed.), 2005, *Successful Governance Reforms in Low Income Countries under Stress*, Washington, DC: The World Bank, forthcoming

UN Millennium Project, 2004, *A Practical Plan to Achieve the Millennium Development Goals*, New York: United Nations