FOREIGN AID IS BEING SQUEEZED AS DONOR COUNTRIES AND THEIR RESPECTIVE DEVELOPMENT AGENCIES ARE CUTTING BUDGETS IN THE AFTERMATH OF THE GLOBAL RECESSION. ACCORDINGLY, MANY AFRICAN COUNTRIES THAT DEPEND SUBSTANTIALLY ON THIS ASSISTANCE ARE ALREADY REVISIONING THE AMOUNTS OF FOREIGN AID TO INCLUDE IN THEIR RESPECTIVE STATE BUDGETS. DONOR SUPPORT FOR DEVELOPMENT PROJECTS, WHICH MAKES UP A LARGE PERCENTAGE OF FOREIGN AID, IS ALSO EXPECTED TO BE CUT OVER THE NEXT FEW YEARS. THIS MEANS THAT AFRICAN COUNTRIES WILL FACE EVEN LARGER FINANCING GAPS, WHICH IS LIKELY TO DAMPEN THEIR ECONOMIC RECOVERIES IN 2011 AND BEYOND.

COMPOUNDING THE PROBLEM OF CUTS IN AID FUNDING IS THE FACT THAT EXISTING AID TO MANY AFRICAN COUNTRIES HAS NOT BEEN AS EFFECTIVE AS IT SHOULD BE IN PROMOTING DEVELOPMENT IN THE REGION. FOR AFRICAN COUNTRIES TO IMPROVE THEIR DEVELOPMENT PROSPECTS AND TO ACHIEVE AND SUSTAIN LONG-TERM GROWTH, IT IS CRUCIAL THAT BOTH DONORS AND RECIPIENT GOVERNMENTS ENSURE THAT EVERY DOLLAR OF DEVELOPMENT AID IS USED EFFECTIVELY.

THE ROLE OF DONORS

Donors can help Africa’s growth and development by adopting procedures for improving aid effectiveness. First and foremost, donors must reduce the uncertainties and volatilities surrounding resource flows to aid recipient countries in Africa and elsewhere. Shortfalls in aid disbursements relative to pledges create major difficulties for recipient country governments in planning development projects and the delivery of vital services. As a consequence, recipient country governments end up running to domestic banks for financing or being forced to make spending cuts that are often imprudent and disastrous. The shocks that follow may actually defeat the original purpose and goal of the aid money from the donor country or organization.

Second, donors would be better served if they adopt at least the first two principles of the Paris Declaration on Aid Effectiveness. The first principle of the Paris Declaration emphasizes the need to allow re-
recipient countries to define their own development priorities and programs while donors assist in helping recipient countries achieve those priorities. This is a clear departure from the traditional top-down aid approach of the last decade. With many African countries now possessing well-educated and well-trained civil servants, donors can be reassured that these civil servants are knowledgeable in the economic and political affairs of their countries and are capable in implementing development aid projects and programs.

Donors also need to align their aid principles with recipients so to ensure that aid does not result in market distortions. For example, donors interested in supporting the health care system of a country need to direct their aid money to the health care system of that country rather than create a separate and independent system. Creating a separate system from the recipient country’s health care system could end up poaching critical resources away from the country’s own system.

The second principle of the Paris Declaration stresses the need to support efforts to strengthen statistical and measurement systems of recipient countries. The lack of well-functioning statistical systems and consequently the absence of reliable data remain one of the most serious problems facing development efforts in African countries. Many domestic policies and programs that sound good in theory turn out to be poor in practice because they are not conceived based on a clear understanding and assessment of the situation on the ground. As a consequence, large amounts of aid end up being wasted on poorly conceived programs.

Another issue of aid effectiveness that donors must address is the various conditionality and strings attached to development aid. This type of aid represents a large proportion of overall donor aid to Africa. While donors often impose strings tied to aid in order to ensure that the money is not diverted, these funds in many cases end up sitting in bank accounts and are not utilized for a large part of the duration of the assistance. Rather than keeping these funds idle, donors should be more flexible in setting conditions tied to aid. In order to deal with the typical principal-agent fear of aid recipients not following through with the implementation of donor wishes, donors can innovatively involve civil society to improve transparency and accountability in the aid disbursement and utilization process. For example, donors could furnish project support funds to strong civil society groups that can act as accountability mechanisms by monitoring the implementation progress of aid recipient governments.

THE ROLE OF AFRICAN GOVERNMENTS

African governments also have a role to play in improving aid effectiveness by passing and implementing important anti-corruption reforms. Fears about corruption and other forms of government abuse remain critical sources of concern for donor countries and their respective agencies. Many African governments have made substantial progress in good governance and in the war on corruption, but more progress needs to be made.

Donor worries over government corruption in African countries have led to the proliferation of non-governmental organizations. These NGOs are seen
as an alternative to aid recipient governments and sometimes even compete with governments for aid money. As African country governments demonstrate their seriousness in tackling internal corruption and collusion issues, they must also ensure that aid money is not being wasted on avoidable overheads by NGOs. For example, an NGO dealing with rural health issues has no business maintaining a presence or office in a major city. African governments must also make efforts to eradicate ghost NGOs from their foreign assistance sectors.

Foreign aid flows can have substantial impacts on the economic growth and human development of Africa in 2011 and beyond. But the impact will only be felt when aid is utilized efficiently, and recipient countries are able to increase their level of internal project financing as a result of the assistance. African countries have learned an important lesson during the recent global recession that aid inflows are not going to be permanent. Therefore, it is imperative that African governments turn these lessons into plans of action that minimize their reliance on foreign aid in the foreseeable future. It is imperative for African governments to begin strengthening their internal revenue generation capabilities and pursue policies that can help increase their levels of national savings. This will enable them to gradually increase the amounts of down-payment on projects that are presently supported by external aid and to gradually close the financing gap.