

# Foreign Aid, Accountability and Service Delivery in Africa

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## LIST OF ABBREVIATIONS

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AIDS	-	Acquired Immune Deficiency Syndrome
APF	-	African Partnership Forum
APRM	-	African Peer Review Mechanism
AU	-	African Union
BOP	-	Balance of Payment
CSO	-	Civil Society Organizations
DAC	-	Development Assistance Committee
EPSA	-	Enhanced Private Sector Assistance
EU	-	European Union
GBS	-	General Budget Support
GNP	-	Gross National Product
GDP	-	Gross Domestic product
DFID	-	Department for International Development
HIPC	-	Highly Indebted Poor Country
HIV	-	Human Immuno-deficiency Virus and Acquired Immune Deficiency Syndrome
IDA	-	International Development Association
IFF	-	International Finance Facility
IMF	-	International Monetary Fund
IFFIm	-	International Finance Facility for Immunization
MCA	-	Millennium Challenge Account
MDR	-	Multilateral Debt Relief Initiative
MDGs	-	Millennium Development Goals
NEPAD	-	New Partnership for Africa's Development
ODA	-	Official Development Assistance
OECD	-	Organisation for Economic Co-operation and Development
PAFs	-	Performance Appraisal Framework
SAP	-	Structural Adjustment Program
SSA	-	Sub Saharan Africa
UK	-	United Kingdom
UN	-	United Nations
UNDP	-	United Nations Development Programme
UNECA	-	United Nations Economic Commission for Africa
US	-	United States

US\$ - United States Dollar  
WTO - World Trade Organisation

# Foreign Aid, Accountability and Service Delivery in Africa<sup>1</sup>

## 1.0 INTRODUCTION

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The paper on Foreign aid, accountability and service delivery in Africa is a contribution to the research project on Institutions and Service Delivery in Africa which has been initiated by the AERC in recognition of the need for efficient and affordable access to services as key to human development and economic growth.

Service delivery has an impact on human development directly if it is delivered to people in the form of basic services such as education, health and water and sanitation which contribute to promoting human development. Service delivery also provides inputs into the growth process. Growth is a necessary condition for human development to be attained. In these two senses, access to the adequate quantity and quality of services contributes to accelerating progress in economic growth and human development. However, service delivery requires resources for it to occur. The quantity and quality of these resources is a major determinant of the influence of these resources on growth and human development. These resources may be from internal or external sources. Effective service delivery will require scaling up of the quantity and quality of all resources, internal and external. This paper addresses the case of scaling up the quantity and quality (in terms of effectiveness of use) of external resources without excluding effective use of all resources.

The link between foreign aid, accountability and service delivery is hinges on the impact that foreign aid as a resource can be used to improve service delivery through appropriate incentives to the service providers. Appropriate incentives often call for necessary institutional changes and reforms that strengthen the system of accountability for the relevant actors (in service provision) to improve their roles in service delivery. The main actors in service delivery include; the government (Public sector), private sector and the Civil society. The providers of services are diverse and their

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<sup>1</sup> I am glad to acknowledge the input of Mr. Apronius Mbilinyi into the literature review for this paper.

contribution and level of performance can be complementary and reinforce each other provided they have access to requisite resources and an appropriate system of accountability system is in place to ensure effective use of those resources.

In the context of development in Africa, foreign aid is an important component of the resource set that is available for service delivery. Aid intensity in Sub-Saharan Africa (SSA) has long been the highest of any major developing region in every category of indicators and remains so today. When aid is measured relative to GNP or its spending sub-aggregates, African countries tend to cluster in the upper quartile of the aid intensity rankings. Africa's median aid was already high by historical standards in the 1970s but it still doubled over the subsequent decades. In the post 2002 period the volume of aid has shown a rising trend partly in response to the Monterrey consensus.

Aid has been falling from the peak of 0.5% of developed country GNP. ODA fell to 0.21% at the time when the MDGs were being approved and has recovered to 0.33% in 2005. In spite of this positive trend, projections for the period 2006-2010 still fall below what is required to meet the MDGs by 2015 (See table 1 below). When corrected for price and exchange rate changes, the recent reversal of the decline in aid flows hardly comes to its real levels 1990 (Ocampo, Kregel and Griffith-Jones, 2007). The developed countries have been urged to raise ODA to reach 0.7% of their GNP by 2015 with an intermediate target of 0.5% by 2009. Currently only Denmark, Luxemburg, the Netherlands, Norway and Sweden meet or exceed the 0.7% target. In this context, the UN Millennium Project Report (2005) proposed that high-income countries should increase ODA from 0.25% of GNP in 2003, to 0.44% in 2006 and 0.54% in 2015 to support MDGs with improved aid quality (harmonized, predictable and grant-based budget support). Each donor should reach 0.7% of GNP before 2015 and debt relief should be more extensive and generous. In 2005 the 15 pre-enlargement members of the EU targeted to reach 0.7% of their GNI by 2015 and 0.51% by 2010. The countries that joined the EU after 2002 agreed on a target of 0.17% of their GNI by 2010 and 0.33% by 2015. The status of ODA flows from 2003 to 2006 is depicted in table 1 below.

There have been concerns about scaling up foreign aid since the Monterrey Consensus but there have also been increasing voices on the need to improve the effectiveness of that aid in the context of improving the quality of aid. In this regard, commitments were made in 2005 by the United Nations, G8, European Union, and others to deliver more and better aid, more substantial debt relief and more coherent "joined up" policies in support of development that is consistent with achieving MDGs.

The G8 summit in Gleneagles, addressed the recommendations of the Commission for Africa Report (2005) and came out with financing commitments by leaders of the rich world to increase aid to developing countries and to adopt aid delivery and management approaches and practices that would enhance the quality of aid with a view to making aid more effective in meeting the development goals. The G8 summit in Gleneagles made commitments to increase the level of ODA to developing countries by around \$50 billion a year by 2010 as compared to 2004 levels of which about \$25 billion would be allocated to Africa. The outcome would be the doubling of aid to Africa to about \$50 billion per year. The table below show that since 2003 to 2006, the DPs have been facing difficulties to fulfil the pledged commitments of 0.7 of their GNI. Table 2 shows the top ten recipient countries for ODA in 2006

**Table 1: Official Development Assistance (ODA) from 2003 to 2006 at Current prices (2006, USD Millions)**

Country	ODA in US Dollars (Millions)				ODA as a % of GNI			
	2003	2004	2005	2006	2003	2004	2005	2006
Australia	1,219.0	1,640.0	1,680.0	2,128.0	0.25	0.25	0.25	0.3
Austria	505.0	678.0	1,573.0	1,513.0	0.2	0.23	0.52	0.48
Belgium	1,853.0	1,463.0	1,963.0	1,968.0	0.6	0.41	0.53	0.5
Canada	2,031.0	2,599.0	3,756.0	3,713.0	0.24	0.27	0.34	0.3
Denmark	1,748.0	2,037.0	2,109.0	2,234.0	0.84	0.85	0.81	0.8
Finland	558.0	680.0	902.0	826.0	0.35	0.37	0.46	0.39
France	7,253.0	8,473.0	10,026.0	10,448.0	0.4	0.41	0.47	0.47
Germany	6,784.0	7,534.0	10,082.0	10,351.0	0.28	0.28	0.36	0.36
Greece	362.0	321.0	384.0	384.0	0.21	0.16	0.17	0.16
Ireland	504.0	607.0	719.0	997.0	0.39	0.39	0.42	0.53
Italy	2,433.0	2,462.0	5,091.0	3,672.0	0.17	0.15	0.29	0.2
Japan	8,880.0	8,922.0	13,147.0	11,608.0	0.2	0.19	0.28	0.25
Luxembourg	194.0	236.0	256.0	291.0	0.81	0.83	0.86	0.89
Netherlands	3,972.0	4,204.0	5,115.0	5,452.0	0.8	0.73	0.82	0.81
New Zealand	165.0	212.0	274.0	257.0	0.23	0.23	0.27	0.27

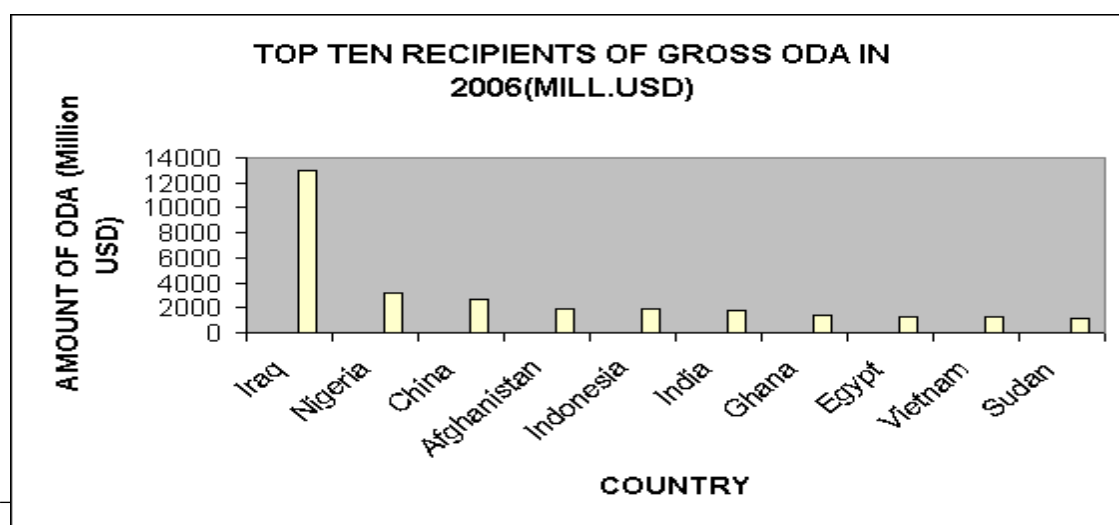
Norway	2,042.0	2,199.0	2,786.0	2,946.0	0.92	0.87	0.94	0.89
Portugal	320.0	1,031.0	377.0	391.0	0.22	0.63	0.21	0.21
Spain	1,961.0	2,437.0	3,018.0	3,801.0	0.23	0.24	0.27	0.32
Sweden	2,400.0	2,722.0	3,362.0	3,967.0	0.79	0.78	0.94	1.03
Switzerland	1,299.0	1,545.0	1,767.0	1,647.0	0.39	0.41	0.44	0.39
UK	6,282.0	7,883.0	10,767.0	12,607.0	0.34	0.36	0.47	0.52
USA	16,320.0	19,705.0	27,622.0	22,739.0	0.15	0.17	0.22	0.17
<b>Total ODA</b>	<b>69,085.0</b>	<b>79,590.0</b>	<b>106,776.0</b>	<b>103,940.0</b>				
<b>AVERAGE ODA</b>					<b>0.4095</b>	<b>0.4186</b>	<b>0.4700</b>	<b>0.4655</b>

Source OECD Development Statistics, April 2007

**Note:** The UN agreed target is 0.7 percent of GNI. Most nations do not meet the Target

<b>Table 2: TOP TEN RECIPIENTS OF GROSS ODA (USD MILLIONS)</b>	
<b>COUNTRY</b>	<b>AMOUNT(Mill.USD)</b>
Iraq	12,924.00
Nigeria	3,160.00
China	2,682.00
Afghanistan	1,946.00
Indonesia	1,867.00
India	1,785.00
Ghana	1,394.00
Egypt	1,319.00
Vietnam	1,312.00
Sudan	1,163.00

Source: OECD, DAC 2006,  
www.oecd.org/dac



Despite the large sum of funds being transferred to Africa and other developing Countries, The UN Secretary General Kofi Annan in October 2003, at a United Nations conference, noted that *“developing countries made the sixth consecutive and largest ever transfer of funds to “other countries” in 2002, a sum totalling almost \$200 billion, funds should be moving from developed countries to developing countries, but these numbers tell us the opposite is happening.... Funds that should be promoting investment and growth in developing countries, or building schools and hospitals, or supporting other steps towards the Millennium Development Goals, are, instead, being transferred abroad.”. We don't have data at present, probably the trend has tripled. Some scholars are of the opinion that there is **more aid flowing to the rich nations than to the poor (A paradox?)***

African governments have made commitments to implement national development strategies that incorporate MDGs and aim to reduce poverty. Second generation poverty reduction strategies have generally strengthened the growth component. The acceleration of growth and attainment of MDGs will require mobilisation of resources from domestic sources and support from the international development community as well as more effective use of the mobilized resources. It should be noted that at the aggregate macro-economic level, the bulk of investments and government revenue come from domestic sources. Therefore any discussion on financing development in general and service delivery in particular must recognize domestic sources as the primary source and address foreign aid basically as a complement to domestic resource mobilization efforts.

The quantity and quality of foreign aid are related in one two important respects. First, scaling up foreign aid is expected to contribute to closing the resource gap in order to development goals ( e.g. accelerated growth and MDGs). Second, more effective use of aid is likely to convey the message that additional resources will be more productive making the argument for scaling up aid to be more persuasive.

Improved public service delivery in Africa is vital for meeting the Millennium Development Goals. In practice aid has made more money available for public spending in crucial areas such as health, education and infrastructure. But it is debatable whether aid is the only solution to Africa's problems. Of the eight MDGs, two are related to education, three to health and one to infrastructure. Yet in Africa, although primary school enrolment has increased rapidly, it has not

translated into higher completion rates. Likewise, reductions in child mortality and improved access to water and sanitation have been slow.

It's estimated that sub-Saharan Africa needs to triple its health and education workforce, adding more than a million workers to reach the health and education -related MDGs. To achieve universal primary education the current stock of teachers has to increase by almost 20 percent each year. In addition, the higher numbers will have to be accompanied by incentive systems that utilize effectively the available human resources in the public service. So it's not just a question of boosting spending to enhance public service delivery. Improving its efficiency is key (Economic Commission for Africa, 2005).

An important effect of foreign aid to the delivery services in the country in question must be expected to be higher levels of spending. However, recipients cannot in general be expected to raise their spending one for one. That is, there is likely to be some crowding out as recipients reallocate funds that they would have spent for the purposes now financed by the donors. The existing empirical literature indicates that the degree to which aid is fungible varies across countries and periods. Indeed, the degree to which foreign aid is fungible should be expected to depend on the characteristics of the donors, the recipient, and the activity in question. Actual diversion of funds requires the ability to do so as well as the desire, so the extent to which priorities differ between recipient and donors and the recipient's administrative capabilities will affect the degree of fungibility (see Hagen 2000 and Pedersen 1997). Critics for foreign aid have been arguing that in most cases aid is not given for poverty alleviation purposes, but rather for other strategic reasons (Priorities), hence no wonder poverty is rampant in Africa despite all the funds flowing to the Continent<sup>2</sup>. Despite these criticisms, with foreign resources in African governments have increased their service delivery to their citizens, spending they could not afford in its absence.

The pledged increase in aid to Africa at last year's G8 summit presents a huge challenge for service delivery. Economic experts warn that the quality of aid in terms of predictability, consistency with recipient's priorities and donor coordination is essential. Likewise issues such as freedom of the press to raise awareness, corruption and decentralization must also be tackled if improved public service delivery is to take root.

This paper argues that service delivery is important for attaining accelerated growth and human development, resources need to be mobilised and be used effectively in order to improve service delivery and improvement of service delivery can be achieved if the structure of incentives and the

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<sup>2</sup> Action aid was critical on aid delivery for 2006 and challenged it as " we estimate that this year \$37 billion roughly half of global aid is '**phantom aid**' that is aid not genuinely available to fight poverty"

associated institutional reforms and systems of accountability are appropriate for actors in service provision to effectively perform their service delivery roles and functions.

The paper sets out to examine the state of the art review of the theoretical and empirical literature in chapter 2. Review of topical issues of concern and the associated research issues that are deemed to be pertinent to Africa are identified and examined in chapter 3 followed by suggestions on the methodological approaches that may be adopted in carrying out the research on foreign aid, accountability and service delivery.

## **2.0 REVIEW OF THEORETICAL AND EMPIRICAL LITERATURE**

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### **2.1 Impact of Aid**

The impact of aid can be understood in the context of justification for aid in the first place. The evolution of the conceptualization and justification of aid has reflected changes in development theory, existing data systems and change in the world economic environment. This road map has been invoked to enhance the understanding of interrelationships among development goals, development theories, policies and strategies and the position of aid has been shown to be evolving accordingly. Aid has been approached from a variety of perspectives. The end of Second World War (WWII) marked the beginning of a major change in the evolution of the world economy and foreign aid came to the scene in the context of the emergence of a large number of new nation states as the process of decolonization was sweeping.

In the course of the last 50 years many lessons have been learned about development policy and the role of aid in addressing these problems has also evolved considerably. Economic development has evolved from the preoccupation on growth of GNP to progressively include concerns of balance of payments, budgets, employment, basic needs, income distribution (growth with equity), poverty, stabilization and structural adjustment, sustainability, world financial management and governance. As the perspective of development has been changing and its interpretation broadening so has the role and position of aid (Thorbecke, 2000)<sup>3</sup>. It has been shown that there has been close interdependence throughout the past five decades among development objectives, the conceptual framework and models, data systems and information, strategies and

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<sup>3</sup> Thorbecke, E. The Evolution of the Development Doctrine and the Role of Foreign Aid, 1950-2000. In Tarp (2000).

the role and the associated impact of foreign aid. The perception of the role and impact of foreign aid has shifted considerably from the one-dimensional concern about closing the investments-savings gap or the foreign exchange gap into a more multi-dimensional role.

The aid relationships and impacts have varied over time in response to or under the influence of the dominant political systems and the dominant philosophies or ideologies about development. For instance, the dominance of Reganomics or Thatcherism has been associated with the stance the international community has taken regarding the type of development that was deemed acceptable during that particular period (late 1970s and 1980s). The influence of dominant development philosophies on aid conditionalities in the 1980s was in part exacerbated by the emerging regimes in USA, Britain and to some extent Germany.

Different development paradigms and ideologies on development have been associated with different ways of conceptualising the impact of aid on development. In this context, the development paradigm of the 1950s was dominated by one-sector models of growth coached under the Harrod-Domar model, a paradigm in which foreign aid was seen as a source of capital to trigger higher growth through higher levels of investment. In the 1960s, with the rise of balance of payments concerns, the two-gap models became dominant and the role of foreign aid became that of filling the two gaps (investment-savings gap and the foreign exchange gap).

As the development paradigm of the 1970s was increasingly driven by concerns about employment, basic needs and income distribution, the concern of the impact of aid was being redefined in terms of raising the standard of living of the poor largely through increased employment. Around that period concerns over the fiscal balances led to development of three gap models in which the fiscal gap was considered along with the other two gaps (the foreign exchange gap and investment-savings gap). In the 1980s, stabilization and structural adjustment policies were adopted and foreign aid was used to mitigate the adverse effects of debt and to induce countries to adopt the proposed SAPs by presumably absorbing the shock and other negative effects of SAPs.

In the 1990s, the trend towards integrating poverty concerns in development and towards comprehensive models of development emerged. In this development paradigm a multi-dimensional perspective to development has put on the agenda with concerns about ownership and good governance becoming important influences on the analyses of the impact of aid. This development paradigm in this period has involved commitments on the part of aid donors to

multiple attributes including selectivity, participation, ownership, and new modalities of aid delivery and management. These attributes are being shaped within the broad conceptual context of the Comprehensive Development Framework (CDF) proposed by the World Bank in 1999 building on international poverty reduction goals agreed in the DAC in 1995 (OECD, 1996). A number of African countries, with the support of the World Bank, have produced Poverty Reduction Strategies which have become more comprehensive over time especially in terms of articulating growth as a means of reducing poverty and meeting MDGs.

The concerns about the impact of aid have taken advantage of availability of a wider range of sophisticated analytical tools and more comprehensive data (Tarp, 2000)<sup>4</sup>.

### **2.1.1 Macroeconomic Impacts of Aid**

The impact of aid on most macroeconomic variables has not been simple and straightforward. It does exhibit more of a mixed picture of relationships rather than clear and significant causal relationships among them in most cases. This outcome may be a reflection of a weakness of statistics to enable rigorous and robust statistical analysis to be done. The causal relationships may also be blurred by the varying policy environments under which aid has been managed in the recipient countries.

The studies on the impact of aid on growth have used various models. For instance, the Harrod-Domar model, by linking growth to aggregate investment, has provided the core of the underlying economic paradigm for analysing the impact of aid and aid effectiveness at the macroeconomic level. The extensions into the new growth models have provided the analytical basis for a few recent empirical cross-country studies. In the new growth theory approach, the investment variable and productivity are assumed to depend on policy and institutional variables (Robinson and Tarp, 2000)<sup>5</sup>.

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<sup>4</sup> Tarp, F. (Ed.) Foreign Aid and Development: lessons learned and directions for the future. Routledge London and New York, 2000.

<sup>5</sup> Robinson, S. and F. Tarp. Foreign Aid and Development: Summary and Synthesis. In Tarp (2000).

The results of studies of the impact of aid on aggregate growth have been mixed. In general, however, a survey of three generations of empirical work (early Harrod-Domar models, reduced form aid-growth model and new growth theory reduced form models) has found a consistent pattern of results. It was found that aid increases aggregate savings, aid increases investment and there is a positive relationship between aid and growth in reduced form models. The positive aid-growth link is found to be robust in all three generations of empirical work (Hansen and Tarp, 2000)<sup>6</sup>. Their survey covers 131 first and second-generation regressions, available in the literature, and compares them with third generation work, in a common analytical framework. They found that in each generation of studies those arguing that the aid-growth relationship is negative are in the minority. When all the studies are considered as a group, the evidence on the positive aid-growth relationship is found to be convincing. They have shown that the basic Burnside-Dollar result is sensitive to data and model specification. Burnside and Dollar (1997) do not report any regressions with squared aid terms in their empirical estimations. Yet the aid squared term is statistically significant and robust.

Philipp Harms and Mattias Luts study in 2004 gave a positive impact of aid on investment and growth. Their empirical evidence, gave particular attention to the role of institutions and policies in determining aid effectiveness. As a general conclusion, they suggested an adoption of a more disaggregate perspective with respect both to different types of aid and to various aspects of governance in country question.

The review carried out by Azam and Fouda (1998)<sup>7</sup> found that most of the literature they reviewed found a negative impact on the rate of savings. The results of the analyses of impact of aid on investment and that on growth are found to be very mixed. In the case of Tanzania, it has been observed that from independence to around 1977/78 aid played an important role in bridging the two-gaps (savings-investment gap and the foreign exchange gap). Achievements were impressive in terms of economic growth averaging about 5% during 1961-78 and in terms of rapid development of the social sectors. However, it also means that by filling the two-gaps (investment-savings gap and the foreign exchange gap) aid contributed to reducing the need or the pressure to make timely policy adjustments to avoid nurturing an economy living beyond its means.

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<sup>6</sup> Hansen, H. and F. Tarp. Aid Effectiveness Disputed. In Tarp (2000).

<sup>7</sup> Jean-Paul Azam and Seraphin Fouda. The Economic Impact of Aid on Recipients. Framework. Paper for this Project.

The case of Ethiopia has shown that the share of investment in GDP has increased with aid. It was found that aid had a positive impact on public expenditure and a negative impact on revenue. It was also found that there was a Dutch disease effect in Ethiopia unlike the case of Botswana where that problem was obviated through efficient aid management. In Tanzania an opposite situation was also observed, a study by Thimoth Nyoni (2002) indicated that foreign inflows do not lead to a Dutch disease.

The conventional macroeconomic rationale for foreign aid is to supplement domestic savings, foreign exchange and government revenue thereby contributing to higher growth. In reality this otherwise simple relationship is complicated by at least three factors:

(i) Fiscal status

The effects of aid on government fiscal behaviour of government reveal two strands. First, the literature is explicitly concerned with the fungibility of aid as regards government spending patterns. The second strand adopts the fiscal response models in an attempt to analyse the effect of aid on various components of government revenue and expenditure.

Wagner's Law (that public spending rises more than proportionally with income), suggested that richer countries will spend a greater share of their income on public education and health than poorer countries. While empirically, the support for Wagner's Law is somewhat mixed, many economists see it reasonable to expect the demand for health and education and other services to rise with the income level, like the demand for most other goods and services. This probably explains the reasons why, with their growing economies, African governments cannot cope with the ever growing needs for services delivery, hence, depending heavily on foreign resources leading to debt burden (Rune Jansen Hagen and Magnus Hatlebakk (2005)

(ii) **The Debt Problem**

The problem of foreign debt has taken two strands. First, debt payments have been acknowledged as a further drain on foreign exchange and government revenue. Second, debt adversely affects public expenditure (reducing opportunities for crowding in private investments) and debt overhang has been associated with disincentives such as tax disincentives and macroeconomic instability. The study by Fosu (1999) on debt burden and economic growth in 35 SSA countries found that net outstanding debt was deleterious to economic growth for given levels of production inputs. It was estimated that SSA's growth

during the 1980's would have been 50% higher without the external debt burden, measured as net debt (total outstanding debt less total reserves). Using 1970-86 data Fosu (1996) found that annual economic growth (in a sample of 29 countries in SSA) is lowered by an average of 1.1 percentage points if a country is classified as high-debt. This translates to about 1/3 of the sample mean GDP growth rate of SSA. The reduction of growth works via reduced productivity of investments. The finding that nearly half the aid was used in effect to service external debts suggests that much of the aid was essentially a pass through -- from the donor, through the African recipient and on to the external creditor<sup>8</sup> (which was often also the donor).

- (iii) **Absorptive Capacity Limits:** Absorptive capacity refers to the ability to use additional aid with reasonable efficiency in public spending and without adverse effects such as the Dutch Disease effects whereby aid affects the exchange rate and the general competitiveness of the export sector or crowding out of domestic savings. Barder (2006) has argued that if aid is sustained and predictable over a long enough period Dutch Disease is unlikely to be a major problem for three reasons. First, it is unlikely that adverse effects exports will be significant. Second, appropriate investments on supply side constraints may offset any loss in competitiveness. Third, the welfare of a nation also depends on consumption and investment and not only output. Bourguignon and Sundberg (2007)<sup>9</sup> have addressed the issue of building absorptive capacity to meet MDGs. Showing that constraints to the absorptive capacity can be macroeconomic, institutional, infrastructural, human or socio-cultural constraints. Absorptive capacity defined as the marginal return to aid, is a dynamic concept that depends on the timing and sequencing of public spending. Returns to aid are limited by constraints to expanding service delivery and accelerating growth. These constraints can be categorized as:
- Quantitative such as inputs to the production of MDGs (skilled labour, capital, infrastructure).
  - Macroeconomic constraints such as distortion on domestic prices, income distribution, crowding out domestic resources.
  - Institutional constraints such as governance both in terms of resource management (budget management, accounting, procurement) and accountability (checks and balances institutions affecting the overall investment climate and the quality of service delivery for the frontline users).

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<sup>8</sup> This is probably consistent with the feeling by many aid critics, that with foreign aid Money only visit the recipient country and goes back to where they came from

<sup>9</sup> Bourguignon, F. and M. Sundberg. Absorptive Capacity and Achieving the MDGs. In Mavrotas and Shorrocks Eds (2007).

Bourguignon and Sundberg (2007) presented a framework for undertaking country-specific analysis relating to the macroeconomic environment, and economic growth on the one hand and sector-specific micro-constraints affecting implementation of the social MDGs on the other. They conclude that country specific plans are required to identify key constraints, identify bottlenecks to growth, clarify potential externalities and formulate strategic capacity building plans.

Over the longer run foreign aid should go beyond the rather passive role of filling the gaps in the static sense towards more actively engaging aid the dynamic process of closing these gaps. This can be done by using aid to stimulate exports, investing in expanding infrastructure and in improving systems of domestic resource mobilization and public expenditure management (Hjertholm, Laursen and White, 2000)<sup>10</sup>.

### **2.1.2 Impact on Poverty and Human Development**

The impact on poverty is problematic and is less clear. The wider literature has indicated that effective anti-poverty action is difficult to achieve largely because the poverty problem is multidimensional, complex and location specific deeply rooted into the social fabric and distribution of economic and political power (Healey and Killick, 2000)<sup>11</sup>. One implication of these findings is that donors as well as analysts of the impact of aid on poverty need to be more realistic about the severity of the difficulties that are likely to be encountered and the scale of effort needed to overcome poverty. Most evaluations have shown that achievements in this area are modest at best. In general, it was found that there is a wide gap between the stated commitments to poverty reduction and the actual practices of reducing poverty in the field. Most donors have paid little attention to conceptualization and analysis of poverty and have been particularly weak in translating the poverty reduction objective into operational guidance and in their country assistance strategies (Healey and Killick, 2000). Similar pitfall applies to most analyses of the impact of aid on poverty. The main instruments of donor intervention has been a series of ad hoc projects and in these improvements have been observed over time in respect of participation by beneficiaries and gender sensitivity but few donors have been concerned about sustainability (Healey and Killick, 2000).

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<sup>10</sup> Hjertholm, P., J.Laursen and H. White. Foreign Aid and the Macroeconomy. In Tarp (2000).

<sup>11</sup> Healey, J. and T. Killick. Using Aid to Reduce Poverty. In Tarp (2000).

Fielding, McGillivray and Torres (2007)<sup>12</sup> have discussed the findings of research on the impact of aid on human development. They have looked at how aid affects a range of human development indicators, including health, education and fertility and allow for the fact that these different dimensions of human development are likely to interact with each other.

Some analysts have been very pessimistic bordering to be cynical. For instance, Easterly has argued that the tragedy of the poor inspires dreams of change such as the World Bank's "Our Dream is a World Free of Poverty" (World Bank, 2000)<sup>13</sup>, the UN's MDGs as a promise "to eradicate poverty, promote human dignity and achieve peace, democracy and environmental sustainability" (UNDP, 2003)<sup>14</sup>, Tony Blair's call for "a big, big push forward in Africa to reach the MDGs" (Cowell, 2005)<sup>15</sup>, Jeffrey Sachs's big plan "The End of Poverty" in which he sees the world's poor caught in a "poverty Trap", in which poor health, poor education and poor infrastructure reinforce each one another (Sachs argues that success in ending the poverty trap will be much easier than it appears) and the G8' Summit's agenda to end poverty in Africa in which a decision was made to double aid to Africa from \$25 billion to \$50 billion and to step up debt relief (July 2005). Yet the West already has a bad track record of previous beautiful goals (Easterly, 2006). Attempts to address world poverty have gone through the cycle of idealism, high expectations, disappointing results and cynical backlash. The tragedy is that of the mistaken dimensions and that what is important is the political act of refocusing aid on poverty. This issue needs to be taken up and analysed in the context of accountability systems.

Overall, however, to the extent poverty is reduced through growth<sup>16</sup>, the positive influence of aid on growth is likely to have a poverty reducing and human development enhancing effect if the quality of that growth is appropriate.

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<sup>12</sup> Fielding, D., M. McGillivray and S. Torres The Wider Approach to Aid Effectiveness: Correlated impacts of health, wealth, fertility and Education. In Mavrotas and Shorrocks Eds (2007).

<sup>13</sup> World Bank. Our Dream: A World Free of Poverty. Washington DC, Oxford University Press and World Bank, 2000.

<sup>14</sup> UNDP. Human Development Report on MDGs, An Overview.

<sup>15</sup> Alan Cowell. In Davos Spotlight Turns to Africa, International Herald Tribune, January 28, 2005.

<sup>16</sup> Experience in some developing countries including Tanzania has shown that poverty reduction speed is less than the country's growth rate, this is explained by the type of growth in these countries, whereby growth is centered in few economic sectors that have less impact to the poor

### **2.1.3 Impacts on Institutions and Public Sector Management**

Aid dependence can have effect on institutions and governance. During the period of economic reforms, many countries made improvements in the soundness of their macroeconomic policies but at the same time undercut ownership and leadership in formulating their development policy agenda. Many adjusting countries under the policy reform programs paid so much attention to meeting targets agreed between them and the multilateral financial institutions that the policy making process became a collaborative effort only in principle. In practice the recipient countries became more dependent on the International Financial Institutions. Thus, the recipient countries increasingly lost their grip on their own policy making process.

In response to these problems, new modalities aid delivery and its management have emerged. Specifically, there is an increasing emphasis on programme aid as a mechanism to coordinate donors within sectors. Foreign aid can have impact on the strength of institutions (including the organizations and the norms, principles, and patterns of behaviour) in the countries receiving it. Aid can strengthen organizations by expanding the technical and administrative capacity of their staff and by increasing their activities, which in turn can promote organization learning and broader economic development, eventually obviating the need for foreign aid. But it can also weaken recipient country institutions by undercutting the planning, budgeting, administrative capacities and general operations of recipient organizations and their political accountability and legitimacy (Lancaster and Wangwe, 2000). Aid has been coming in the form of projects or programmes for which parallel administrative machineries have been established. Such parallel machineries have formed island projects with their own administrations. These administrations, however, have exerted pressure on the existing administrative machinery (within the government), at least in two ways; by employing some public servants in these projects, or by demanding too much time from the officials in the respective ministries. This has tended to erode rather than build the limited capacity within the government. The impact of aid in public sector management has been evaluated and found that the record of the past 15 years shows little donor creativity, adaptability and flexibility in coping with the circumstances of low income countries which have weak administrative institutions (Berg, 2000)<sup>17</sup>.

The difference between these two institutional outcomes of aid dependence boils down to how aid is managed by donors and recipients. Where the recipient government has been led by individuals

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<sup>17</sup> Berg, E.J. Aid and Failed Reforms: the case of public sector management. In Tarp (2000).

committed to development and disciplined in their pursuit of it, and where recipient governments have had the capacity to manage the aid as well as coordinate the aid donors aid can serve to both strengthen institutions and spur development. In the countries where this has not been the case, aid has further weakened the organizations and processes necessary to manage an economy effectively (Lancaster and Wangwe, 2000).

George Economides, Sarantis Kalyvitis and Apostolis Philippopoulos (2004), investigated the relationship between, foreign transfers, domestic incentives and growth, hence wanted to see whether foreign transfer can distort individual incentives, and hence hurt growth, by encouraging rent-seeking as opposed to productive activities. They specified a model of a small growing open economy that distinguishes two effects from foreign transfers: (i) a direct positive effect, as higher transfers allow the financing of infrastructure; (ii) an indirect negative effect, as higher transfers induce rent-seeking competition on the part of self-interested individuals. In this framework, the growth impact of aid is examined jointly with the determination of rent-seeking behavior. They tested the main predictions of the model for a cross-section of 75 aid-recipient countries between 1975 and 1995. They found evidence that aid has a direct positive effect on growth, which is however significantly mitigated by the adverse indirect effects of associated rent-seeking activities. This is especially the case in recipient countries with relatively large public sectors. Hence, they argued that, greater weight should be placed in the role of independent institutions and NGOs in delivering aid, thus leaving less room for distorted intervention in the allocation of foreign transferred resources. All this is consistent with the ongoing discussions about the effectiveness of aid under a “good” policy environment.

#### **2.1.4 Impact of Aid and Uncertainties**

One strand of the literature has raised the question of the role of external shocks, aid instability and the associated uncertainty. The possibility that aid can respond positively to shocks and therefore reduce vulnerability is considered.

Lensink and Morrissey (1999)<sup>18</sup> found that when uncertainty of aid is taken into account, its effect on growth is positive and significant. The transmission channel is supposed to be the volume of

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<sup>18</sup> Robert Lensink and Oliver Morrissey. *Aid Instability as a Measure of Uncertainty and the Positive Impact of Aid on Growth*. CREDIT. University of Nottingham, 1999.

investment. The finding that uncertainty reduces the effectiveness of aid is robust, suggesting that stability in donor-recipient relationships could enhance aid effectiveness, by making it easier for recipients to predict future aid flows that may in turn permit more investment and better fiscal planning.

Prati and Tressel (2007)<sup>19</sup> indicate that aid is very volatile and in this regard they examine how monetary policy can enhance the effectiveness of volatile aid flows and find that monetary policy is effective in reducing trade balance volatility when counter-cyclical monetary policy is applied to aid. They argue that monetary policy should slow down consumption growth and build up international reserves during an aid boom and deplete the reserves by financing imports to support consumption when aid is scarce. Choosing the appropriate monetary policy stance requires factoring in several elements such as benefits of higher current consumption, factor accumulation, and productivity growth, quality of institutions, corruption and capacity constraints.

The effect of the external and climatic environment is demonstrated by results from cross-sectional econometric tests related to GDP growth. Such tests conducted on two twelve-year pooled periods have been found to favour the assumption that aid effectiveness depends on the external and climatic environment more than the assumption that aid is effective only if domestic policies are good (Guillaumont and Chauvet, 1999)<sup>20</sup>. It is suggested that the two views can be reconciled by adopting the principle of performance based aid allocation. This would mean that performance outcomes would be adjusted for the impact of environmental factors. According to such a principle more aid would be allocated the worse the external environment (for a given policy) and the better the policy (for a given external environment). They rightly caution about the possibility of designing selectivity on the basis of a fragile assessment of the influence of aid effectiveness. It is shown that the influence of aid is more positive in countries which are more vulnerable to exogenous factors. In such cases aid is found to have significantly dampened the negative effects of hostile external factors. (Guillaumont and Chauvet, 1999). The policy implication is that the impact of external factors such as external shocks and the related instability and uncertainty should be taken into account when considering policy performance.

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<sup>19</sup> Prati, A. and Tressel, T. What is the Most Effective Monetary Policy for Aid-Receiving Countries?. In Ocampo, J.A., Jomo, K.S. and S. Khan (Eds.) Policy Matters: Economic and Social Policies to Sustain Equitable Development. Published by Orient Longman, Zed Books, Third World Network in Association with United Nations, 2007.

<sup>20</sup> Patrick Guillaumont and Lisa Chauvet. Aid and Performance: A Reassessment, CERDI, 1999.

## **2.2 Does Aid Work?**

This section presents the literature on the main features of the country performance assessment framework and its policy implications. The framework is supposed to identify conditions under which aid works with a view to proposing policy prescriptions for greater aid effectiveness.

The theory and practice of foreign aid suggest that even if it may be useful for the economic development of underdeveloped or developing countries in the initial stages; experience shows that, development comes through indigenous efforts and not through foreign aid<sup>21</sup>. Moreover, there are serious political and economic (Moral) hazards of a foreign aid led growth model and long-term dependence on foreign aid. Therefore, foreign aid may be desirable but not essential for the development of these countries. But more importantly, while negotiating aid, the recipient countries should be cautious of donor motives behind the aid they give versus the effects on their own national sovereignty and foreign policy interests (Ashok K Pankaj 2005).

### **2.2.1 Country Performance Assessment Framework**

The proposed framework starting with the work by Burnside and Dollar (1997)<sup>22</sup> and elaborated in World Bank (1998)<sup>23</sup> essentially uses growth regressions relying on macro data to relate aid to policy. The regressions included an aid variable and an aid-policy quality interaction term. Aid alone was found not significant in influencing growth but the interaction term was positive and significant. Exclusion of middle income countries (which generally receive little aid) reinforces the regression results as the coefficients are higher and more significant. The marginal impact of aid on growth varies with quality of policy.

### **2.2.2 Policy Environment**

In poor policy environments with policy index at zero, an increase of aid by 1% of GDP leads to reduction of growth by 0.3%. In good policy environments (policy index at 2.7) an increase of aid by 1% of GDP results in a 0.5% increase in growth. On the basis of this econometric work it has been suggested that aid only works (in terms of its effectiveness) when government policies and quality

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<sup>21</sup> Advocates for foreign aid argue that African need a push out of their depressed economies and circles of poverty, hence, aid is needed for that matter, but they need to have a domestic push as well.

<sup>22</sup> Burnside, C. and D. Dollar. Aid, Policies and Growth, Policy Research Working Paper No. 1777. World Bank. Washington, D.C. 1997.

<sup>23</sup> World Bank. Assessing Aid: What Works, What Doesn't and Why. Oxford University Press, 1998.

of economic management are good. The proposed framework concludes that aid works in good policy environments. The bone of contention has been in the definition of “good policy environments”.

Dalgaard and Hansen (2004) analysed the relationship between aid and government expenditures in a modified neo-classical growth models. The main result of their analysis was that, while good policies spur growths, they may at the same time reduce the effectiveness of foreign aid. Secondly they showed that the econometric results in Burnside and Dollar emphasising the crucial role of interaction between aid and good policies in the growth process are fragile, as they are extremely data dependent. Finally, it was further demonstrate that the Burnside and Dollar data lend support to the idea that the association between aid and growth can be approximated by decreasing returns to aid. Their finding conforms well to regression results in other recent studies.

In the earlier version of the country performance assessment framework the policy index was defined in terms of three policy variables: inflation rate, budget surplus and trade openness. Critiques pointed out that these policy variables were too few to represent a measure of good policy. Two types of responses have been put forward. First, it has been argued that the three macroeconomic indicators were proxying a wider class of policies (Collier, 2001)<sup>24</sup>. Second, the narrow policy index was broadened into a more inclusive measure by including many more policy and institutional variables. The broader index, the Country Policy and Institutional Assessment (CPIA) is an ordinal index composed of some 20 different measures of policy and institutions. It consists of macro, sectoral, budgetary and social inclusion variables. This index was used by Collier and Dollar (1999) and reinforced the conclusion that aid only works in a good policy environment.

According to a recent World Bank publication edited by Devarajan et al (2004)<sup>25</sup>, donors have three instruments that they can use to encourage the adoption of good policies in developing countries: money, conditionality and technical assistance/policy dialogue. The ten case studies have shown that donors have used all the three instruments in their efforts to improve policy environments but they have done so fairly indiscriminately irrespective of the possibility that different instruments may have different payoffs in different stages of the policy reform process. The book proceeds to indicate that different instruments are likely to be more effective than others under certain conditions.

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<sup>24</sup> Collier, P. Principles of Aid Effectiveness. In African Development Aid in the New Millennium. Conference Issues and papers published by AERC in collaboration with World Bank and NORAD, Dar es Salaam 2001.

<sup>25</sup> Devarajan, S., Dolar, D., and Holmgren, T. (Eds.). Aid and Reform in Africa. World Bank, Washington, D.C., 2001.

It has been argued that making strong policy prescriptions like “direct aid only to countries with sound economic management” ignores the reality that countries that are less fortunate in having good policies in place may need assistance of one type or another to help them get back on track. The world economic environment has changed considerably and the development paradigms and policies which may have worked in the 1970s and 1980s may not necessarily be the most appropriate in the current decade. Using past performance as an indicator of future performance could be dubious in a new world economic environment given the incomplete understanding of the interplay between aid, macroeconomic policy and political economy variables (Hansen and Tarp, 2000). Therefore the unresolved issue is how and whether the different kinds of aid instruments at hand can be made to work better in varying country circumstances.

The World Bank report on assessing Aid (2001), assumed that aid is more effective when it is given to countries where policies are sound. It also assumed that an inflow of aid, above a certain level, starts to have negative effects (Diminishing return in aid effectiveness). When both assumptions were tested, no evidence was found for the fact that aid becomes more effective when it is given to countries with good policies. On the other hand, some evidence for negative returns to aid at high levels of aid inflows was seen. However, the results were sensitive to the countries specifications. Moreover, the turning point above which aid starts to have a negative effect on growth seemed to be much higher than assumed in the background calculations for Assessing Aid (Lensink, White and Howard 2001)

Ramesh Durbarry, Norman Gemmell and David Greenaway (2006) studied the impact of foreign aid on growth for a large sample of developing countries (Including African countries). Using an augmented Fischer-Easterly type model and estimated using both cross-section and panel data techniques. Their results strongly supported the view that foreign aid does have some positive impact on growth, conditional on a stable Macroeconomic policy environment. They also found that the results varied according to income level, levels of aid allocation and geographical location.

### **2.2.3 Selectivity**

Work done in the framework of country assessment performance found that the pattern of actual aid allocations, especially bilateral aid, is highly inefficient and even worse than allocating aid at random. Aid is less targeted at poor countries and even less so at good policy environments. It was found that aid is targeted imperfectly towards poor countries such that the relationship between per capita income and per capita aid receipts is weak and more so for bilateral aid. Aid allocations

were found to be driven by political and strategic interests of donors particularly the bilateral donors. These findings have led to discussions of selectivity in aid allocations in terms of countries as well as aid modalities.

If aid works only in good policy environments then the policy implication is that selectivity could be an instrument for enhancing the effectiveness of aid generating high growth and reducing poverty. The policy implication is that a more selective aid allocation to countries which are poor and pursue good policies would lead to greater reductions in poverty. More specifically it is recommended that in order to enhance aid effectiveness.

- (i) **Selecting Poor Countries:** financial assistance should be targeted to poor countries with good policies. Individual country results of the assessment framework studies are significantly affected by the choice of poverty elasticity. This suggests that different approaches to poverty reduction can have different impacts on poverty for any given level of growth. However, partly because the debate has raged around issues of good policy, the importance of poverty has not received the attention it deserves. Yet according to the Collier-Dollar model, the impact of reallocating aid on the basis of poverty is bigger than that of reallocating aid according to policy criteria. The importance of targeting the poor in aid allocations is demonstrated by reporting that if \$10 billion in aid was to be allocated according to the status quo 7million people would be lifted from poverty while if the same amount was to be allocated according to the quality of policy and poverty 25 million people would be lifted out of poverty. This finding and the broader significance of poverty deserves to be pursued further in research.
- (ii) **Selecting Credible Reformers:** Aid should be provided to credible reformers to assist them nurture policy reform. On this basis it has been suggested that international donors should identify at least a dozen MDG “fast track” countries for a rapid scale-up of ODA in 2005, recognizing that many countries are already in a position for massive scale-up on the basis of their good governance and absorptive capacity (UN Millennium Project, 2005).
- (iii) **Selecting Aid Modalities:** Studies of impact of aid have often taken aid in its aggregate and have therefore not addressed the composition of aid and modalities of aid. The composition of aid matters as various studies have shown that some forms of aid have been more effective than others. For instance, the shift from project to programme aid was one response to the capacity underutilization problem that has been observed in some countries. Project aid, administered in parallel administrative machineries, has often been associated with weakening of the already weak human and institutional capacities. The consequent displacement of local human resources and institutional

distortions could not have been conducive to growth. Technical assistance has sometimes been associated with failure to build up local capacities due to displacement or continued underutilization of local human resources.

- (iv) A recent World Bank study has found that the composition of aid is important and the relative importance of various forms of aid varies with the phase of reforms (Devarajan, et al, 2001). In this context, the case studies have shown that in the pre-reform period technical assistance and policy dialogue are most supportive of policy reform while during periods of rapid reform, policy dialogue is as important as finance. the mix of forms of aid should be tailored to specific country and sector conditions.
- (v) Selecting projects for a purpose: Projects may be chosen and designed to create and transmit knowledge and institutional capacity.
- (vi) Forms of assistance: Alternative approaches should be found to assist countries with poor policies as they need assistance in the form of ideas rather than money.

### ***2.3 Accountability Systems and Management of Aid***

Experience has shown that using conditionality in aid delivery to force African governments to implement reforms and other development programmes is not likely to have a high success rate. (Devarajan and Holmgren, 2001). A new regime is emerging and it involves a system of accountability on sides, donors and receiving governments.

The new aid regime is emerging in a new context in several ways as indicated by recent developments on the donor (development partner) side and on the Africa side. There is greater attention to poverty reduction and attainment of MDGs, the end of the Cold War has been replaced by the war on terrorism in determining alliances and partnerships, international peer pressure is being applied to improve aid effectiveness and initiatives are being taken to forge new partnerships between donors and recipients and within recipient countries partnerships with various actors are being redefined. The trend towards political liberalization and democratization in Africa and endorsement of efforts to achieve good governance at the Pan-Africa level, as in the Africa Union and New Partnership for African Development (NEPAD), are indications that Africa is changing its approach to development management. The new approach to development is slated to be more inclusive and participatory and more amenable to accountability to the domestic stakeholders.

The analysis of the nature of domestic politics and international politics is changing in a complex manner. The interactions are being complicated by the reality that neither the international players nor the domestic players are homogeneous and the relative roles and power relations have been changing over time (Wangwe, 2004). How domestic and international players and the alliances among them play it out is a complex interactive process with the national state caught between the objectives of maximizing foreign resource mobilization and safeguarding a degree of its credibility and legitimacy that is acceptable in the eyes of its domestic constituencies.

The pledges to support sound development strategies are being made in this new context in which greater attention is being paid to aid effectiveness and accountability of the partners in development. The principles the Paris Declaration on Aid Effectiveness have reaffirmed the commitments made at Monterrey (2002) to scale up aid and those made in Rome (2003) on improving the quality of aid. The effectiveness of aid is to be ensured by putting into practice in accordance with five principles: ownership and leadership, alignment, harmonization, managing for results and mutual accountability. These essentially constitute a system of accountability on the part of both donors and governments receiving aid.

The recent trend in public service delivery in Africa and other Developing Countries is decentralization. While decentralization may lead to greater accountability and better services, there is a strong possibility that the local elite could "hijack" the resources. So, according to experts from the Economic Commission for Africa, decentralization alone is not a solution. It cannot be regarded as a fast track to "circumvent unresponsive central governments". "Strengthening institutional capability at the local level is essential if decentralization is to be effective," (Economic Commission for Africa 2005).

Stressing the need to resolve the "silent, invisible work of fixing implementation problems at the bottom", Easterly says the West must focus on meeting people's needs rather than simply giving away large sums. A recent World Institute for Development Economics Research (WIDER 2006) conference on overseas aid held in Finland, noted that although aid targeted to specific sectors might have positive effects, a general increase in assistance might actually trigger government corruption and lack of accountability. "Overall aid cannot be the only solution for improved service delivery to meet the MDGs, due to its mixed impact," experts at the conference concluded.

Renowned economics professor William Easterly concurs. "The history of foreign aid shows that big plans at the top do not work without incentives for people at the bottom to deliver the goods and services that help poor people," he said in a recent paper. "With little accountability to the intended beneficiaries of aid, rich-country officials and poor-country civil servants have weak incentives to get results. "

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### **2.3.1 Ownership and leadership**

There is increasing concern about the need to redefine aid relationships with a view to attaining a more appropriate balance consistent with greater ownership by recipients of aid. According to an evaluation by the World Bank (2002)<sup>26</sup> aid is most effective when recipients are the primary drivers of their own reforms and institutional development and that advice and capacity building provide an important complement.

Aid relationships and appropriate forms of partnerships are being redefined as has been stressed by, NEPAD (2001), OECD (1996, 2001, 2003), World Bank (2003) and Paris Convention (2005), the Millennium Development goals Report (2005) and the Commission for Africa Report (2005).

Partner countries agreed to work towards ownership of their development agenda and to exercise effective leadership over their development strategies and co-ordinate development actions. Partner countries committed to exercise leadership in developing and implementing their national development strategies through broad consultative processes and to translate the national development strategies into prioritised results-oriented operational programmes as expressed in medium-term expenditure frameworks and annual budgets. Governments and donors are paying greater attention to consultations especially within the executive branch and among selected CSO representatives but the consultations have remained narrow among the wider public through their elected representatives such as Parliament, mainstream CSOs and the private sector (World Bank, 2003).

Ownership is key to the success of aid. This point has been emphasized by Easterly (2006) though in a different context and possibly for different motives. Easterly (2006)<sup>27</sup> criticized the approaches used by aid agencies to estimate resource requirements especially the MDG initiative for the lack of individual accountability and excessively central planning driven with numerous bureaucratic goals and misses the only effective means of fighting poverty i.e. action on the ground. It is on this

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<sup>26</sup> World Bank. Building a Consensus for Development Assistance: a case for aid. Washington, D.C. 2002.

<sup>27</sup> Easterly, W. How to Assess the Need for Aid? The Answer: Don't Ask. In AFD (2006).

basis that Easterly rejected the three models developed to determine the volume of aid i.e. the financing gap model, the poverty trap model and the social expenditure model. Easterly proceeds to emphasise the success of countries that have engineered their own development (India and China) and the need to stimulate this kind of endogenous experience seeking practical solutions. In discussing the Easterly presentation, Giovanni Andrea Cornia cautioned against the risk of allowing the complexity of aid mechanisms and the political economy dimension on both the donor (e.g tied aid) and recipient side to lead to demonizing of aid agencies. He argues that it would be more important to recognize the limits of private sector action and to rehabilitate collective responsibility, particularly with respect to public goods such as health and education. The discussion pointed out that the countries which have succeeded are the ones which used aid efficiently and had strong public policy and a clear strategic vision. John Burton, in discussing the paper by Easterly, pointed out that the multiplicity of goals in MDGs is a reflection of the multiplicity of the poverty.

It has been argued that today's concerns about development partnerships fall short of addressing the problems of coordination, ownership and dependence (Kanbur et al, 1999). What is needed is a more radical approach in which the recipient country would first develop its own development strategy, programmes and projects, primarily in consultation with its own population but also in dialogue with donors. It would then present its plans to the donors who would put unrestricted funding into a common pool (Kanbur et al, 1999). The common pool of development assistance together with the recipient's own resources would then finance the overall development strategy.

### **2.3.2 Alignment**

Aid management outside the regular government development plans, systems and procedures can undermine existing capacities and systems instead of building them. Such aid management tends to weaken recipient country institutions by undercutting the planning, budgeting, administrative capacities and general operations of recipient organizations and their political accountability and legitimacy (Lancaster and Wangwe, 2000). In this context, the Report of the DAC Task Force has indicated that good practices two broad functional areas where donors can enhance their procedures (OECD, 2003): practices between donors and partner governments based on greater reliance on partner government systems of administering aid or timing missions in agreement with the agenda of the government and practices whereby individual donor systems change to permit the strengthening of recipient country ownership and reduce the cost of managing aid. Appropriately aligned, aid can strengthen organizations by expanding the technical and

administrative capacity of their staff and by increasing their activities, which in turn can promote organization learning and broader economic development (OECD, 2003; Paris, Declaration, 2005). Donors are to base their overall support on partner country development strategies, institutions and procedures and conditionality is to be based on commitments made in the respective partner country national development strategies.

Strengthened budget management and public financial management systems in the partner countries deserves special attention as an instrument of accountability. Four aspects of monitoring and accountability can be identified in this context. First, improving the availability of appropriate information on public finances with emphasis on timely recording and reporting of public expenditures in a form which is conducive to monitoring by the various stakeholders. Second, expenditure studies in various countries have revealed that only a portion of allocated funds actually reaches the envisaged destination. Attention to expenditure-tracking activities and their institutionalization deserves great attention. Third, consistent with result orientation, the concept of auditing of public expenditures deserves to be broadened to cover both technical auditing and auditing for effectiveness (value for money). Fourth, it important to recognize that the concept of monitoring and accountability is not only a technical matter but is also deeply rooted in the political economy and governance obtaining in a country. The broader conceptualisation of governance is an important complement to accountability and monitoring of the public finances.

### **2.3.3 Harmonization and Coordination**

The presence of the multiplicity of donors and aid agencies -- numbering as many as 40 in many countries -- which tend to operate in diverse and poorly coordinated and harmonised ways result in high transactions costs to already over-stretched governments and further diminishes the effectiveness of aid. A survey that was designed and conducted by DAC Task Force on Donor Practices found that the leading burdens on recipient countries included donor driven priorities and systems, difficulties with donor procedures, uncoordinated donor practices and reporting formats (OECD, 2003). These results have been reinforced by a more recent OECD 2006 Survey (2007) which has shown that the cost of uncoordinated aid is very high and that there are too many actors with competing objectives, especially in the poorest and most aid-dependent countries, leading to high transaction costs.

This puts a challenge on developing strategies of aid harmonisation and coordination and the need to adopt practices between donor agencies which aim at preventing unnecessary duplication of

work both for partner governments and donors.. Commitment has been made to implement the donor action plans that would have been developed as part of the follow-up to the Rome High-Level Forum and to implement common arrangements at country level for planning, funding (e.g. joint financial arrangements), disbursement, monitoring, evaluating and reporting to government on donor activities and aid flows. It has been acknowledged that increased use of programme-based aid modalities can contribute to this effort. This would involve change of behaviour, policies and practices and adopting a pragmatic approach to the division of labour and burden sharing of responsibilities.

Bigsten (2006)<sup>28</sup> identified four aspects of coordination: (i) development of joint aid planning, management and disbursement mechanisms; (ii) gradual simplification of procedures to reduce the burden to the partner governments; (iii) information sharing to promote transparency and improve coordination; and (iv) coordination of objectives and policy. Jean Nemo added that donor harmonization could be undertaken at various levels: project implementation level, programme implementation level, national policy level and international strategies level. This would suggest that harmonisation of broad policies has improved with the focus on poverty and the MDGs.

The use of the principal-agent model suggests that moral hazard problems arise when the preferences of the principal and agent are not similar. This raises the problem of how to control the behaviour of the recipient and incentives. The one donor-one recipient does not show disadvantages of donor coordination. The multi-donor model demonstrates the value of coordination by showing how collective action can lower transaction costs and reap returns to scale arising from harmonization. However, empirical evidence on the benefits of harmonization is still scanty calling for further research.

### **2.3.4 Managing for Results**

Commitment has been made to managing resources and implementing aid in a way that focuses on desired results and making better use information to improve decision making. This is particularly important for organizing monitoring. A recent OECD Survey for 2006 (2007) has found that translating evidence on results into processes of policy improvement remain a challenge in the majority of surveyed countries suggesting that .a lot remains to be done to realise the principle of

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<sup>28</sup> Bigsten, A. Donor Coordination and the Uses of Aid. In AFD (2006).

managing for results in practice. The challenge is that of shifting from input and process indicators to more output and outcome indicators.

### **2.3.5 Mutual Accountability**

Ocampo, Kregel and Griffith-Jones (2007)<sup>29</sup> have pointed out that the Monterrey Consensus (2002) provides the internationally agreed framework for international cooperation for development, a unifying framework for achieving the MDGs. The Monterrey Consensus reaffirmed the view that international cooperation for development is a partnership between developed and developing countries both in terms of commitments and mutual accountability. In such partnership each developing country accepted primary responsibility for its own development- strengthening governance, combating corruption, adopting growth and employment promoting policies and maximizing domestic resource mobilization to fund national development strategies while developed countries undertook to give full support to developing countries which adopted transparent, credible and properly crafted development strategies. This support would be in the form of increased development assistance; a more development oriented trade system, wider and deeper debt relief and increased private financing. The major institutional stakeholders committed to improve the coherence, coordination and cooperation in the formulation of their activities and in the implementation of international development policies and in particular of the international financial system.

Commitment has been made by donors and partners to be accountable for development results based on continued high-level political support, peer pressure and coordinated actions at the global, regional and country levels. It has been agreed to adopt the practice of making joint assessment of mutual progress in implementing agreed commitments. At present accountability requirements are often harder on developing countries than donors, yet aid is more effective when partner countries exercise strong and effective leadership over their development policies and strategies. A recent OECD 2006 Survey (2007) has found that mutual accountability, a key concept in the Paris Agenda, calls for performance assessment frameworks(PAF) and improved incentive systems in both partner and donor countries.

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<sup>29</sup> Ocampo, J.A., J. Kregel and S. Griffith-Jones (Eds.). International Finance and Development Published by Orient Longman, Zed Books and Third World Network in Association with the United Nations . 2007.

Aid can have an impact on the system of accountability. Where organizations derive a significant proportion of their revenues from aid donors or other sources, their accountability could shift to those foreign sources, lessening their accountability to their domestic constituencies. It has been argued that the high level of aid to African governments over several decades has contributed to eroding the power and influence of domestic constituencies relative to that of donors (Lancaster and Wangwe, 2000).

In pursuit of mutual accountability, the NEPAD agreement to launch a biennial *Mutual Review of Development Effectiveness*, and the endorsement of this process by the OECD, are important decisions, on both sides, to embed the new relationship in a concrete process of technical and political level interaction. The *Mutual Review* has been established as a consultation mechanism between Africa and OECD countries, designed to assess and monitor progress in delivering on commitments and achieving goals. It involves a series of discussions at expert and political levels in various international fora based on the "Executive Package", which covers a review of commitments that have been undertaken, the main messages emanating from the analysis and assessment of recent developments, identifies the action frontiers where greater efforts are required, and addresses performance benchmarks, which will be monitored in the next *Mutual Review* process (Wangwe, 2006). Cases where progress has been made such the decision by UK to reform its approach to conditionality whereby aid is no longer conditional on specific policy decisions by partner governments should provide useful lessons to the process.

At the Country level, the key issue is to develop instruments and institutions for evaluation and monitoring, these should be absorbed in a nationally owned process. That's why there is so much interest, among both African and donor countries, in the African Peer Review Mechanism (APRM). The APRM is a process in which African countries assess each other's performance against measures of good governance. The important aspect is to improve African policy-making through policy assessment and sharing of experiences.

The mechanisms that have been set up in the context of the African Partnership Forum for monitoring and advancing implementation of commitments and using the Joint Action Plan of Commitments by Africa and the development partners is an encouraging step in the right direction. The Africa Action Plan (AAP) is the basis on which G8 commitments to Africa and to the New Partnership for Africa's Development (NEPAD) have been monitored since 2002, when the AAP was agreed at the G8 Summit in Kananaskis, Canada. The 2003 G8 Summit in Evian developed

the G8/Africa political relationship further by establishing the APF. The APF meets twice yearly, and consists of representatives from the G8, from African countries, international institutions and Organisation for Economic Co-operation and Development (OECD) donors who give over \$100m to Africa in Official Development Assistance (ODA) each year.

In October 2005 the EU launched a new partnership with Africa in which working groups will step up their work with implementing the Paris declaration. The work that is in progress under SPA7 has the potential to improve the partnership relationships that are so essential to increasing aid effectiveness. The structure agreed so far is that of having three Working Groups (budget support, sector support and capacity development).

## **2.4 Aid, Accountability, and Service delivery: Analytical Framework**

Service delivery is carried out by diverse actors. The main actors are: government (central and local), the private sector, NGOs, CBOs, Community participation and direct transfer to households. Relationships of accountability between the various actors are important for understanding how service provision could be improved. Aid delivery can influence service delivery in three ways: influencing the volume of resources available for service delivery; influencing the nature and strength of relationships between various diverse actors and influencing the development of capacities of various actors and of institutions and systems in which the various actors are operating. The influence may vary by sector and by country depending on the specific circumstances.

Aid is an important resource in service delivery in many African countries but it has been shown that donors often underestimate how difficult it is to influence reform without undercutting domestic accountability (World Development Report, 2004). Isolated projects designed to bypass what seem like failures in the government administrative systems to manage the projects has resulted in weakening the aid recipients' internal systems and accountability relationships. It has been argued that bypassing country systems brings better results which outweigh costs of undermining the systems. However, a study of some 100 World bank projects has shown the project implementation units have no significant positive impact on project outcomes while the likely sustainability of results clearly suffered (Boyce and Haddad, 2001 cited in World Development

Report, 2004). This experience suggests that donors need to pay greater attention to challenges of service reform, how to strengthen key relationships among the main actors (policy makers, providers and clients, how to function in such a way that domestic systems are strengthened, how to integrate aid into the development strategy, budget system and service delivery systems in the recipient countries. This suggests that for service reform to succeed, high priority must be accorded to aid effectiveness and development outcomes (World Development Report, 2004). The Paris Declaration (2005) principles are a good starting point for designing accountability systems for service delivery in that would make both donors and governments accountable to their respective constituencies.

Aid influences the position of service providers and their relationships with policy makers and beneficiaries in at least two ways. First, there is the problem of fragmentation whereby projects are too many for any of them to work. Using the database of the Development gateway Database (with a record of some 340,000 aid projects) to quantify the extent of donor fragmentation across recipients, the estimate found a mean index value of 0.87 which indicates a high number of donors operating with great parity among them (Knack and Rahman, 2003 cited in World Development Report, 2004. Second, aid influences choice of inputs and activities often proving too generous on resources allocated to training and technical assistance and data on aid projects is more inadequate than data on recipients' budgetary systems (World development report, 2004).

Aid projects influence the position and power of clients as beneficiaries of services delivered by targeting beneficiaries directly hence severing the link between them and their service providers. Such practices have resulted in undermining the capacity of existing service providers (e.g government and others), weakening prospects of sustainability and enhancing the chances of capture of benefits by elites (World Development Report, 2004).

Easterly contrasts the planners (the advocates of the traditional approach) and the searchers (the advocates for change in the alternative approach) and argues that the two key elements that make searches work are feedback and accountability (Easterly, 2006). The contrasts between planners and searchers elevate the role of ownership, accountability and innovativeness in development management much as Easterly directs attention to the effectiveness of aid. Aid agencies can be held accountable for specific tasks they perform in various countries, accountability of their actions and decisions they make them more accountable specialists, hence giving good examples to recipient countries to be accountable to their citizens. The role of incentives and institutions in development deserves special attention.

In considering options for reforming the role of aid in service provision with a view to making it more effective, several factors which are at play in the existing incentive systems will need to be addressed as multiple objectives that donors are facing. These include: aid agencies preference for projects as “flags” to be shown to their tax payers, agencies pressure to disburse resources rapidly<sup>30</sup>, pressure from interest groups in donor countries including providers of various goods and services from the donor countries and fiduciary. These multiple objectives are associated with incentives that influence the way donors want to deliver and manage aid even if in many cases such practices cause problems for the recipient countries and undermine the effectiveness of such aid.

Svensson (2006)<sup>31</sup> has analysed the incentive problems that distort the behaviour of both donors and aid beneficiaries and how these affect the overall efficiency of the development aid mechanisms. He argues that in the case of aid the mechanism that normally transmits information and accountability between those who pay for public policies (tax payers in the donor countries) and those who benefit from them (the people in the recipient countries) is broken. Those who finance aid are not direct beneficiaries and the aid agencies and the recipient country beneficiaries are not the ones who finance aid. The vacuum that has ensued is being filled by consultants and experts in defining aid objectives and the media as the source of information and feedback. Other organizational problems compound the risks of aid efficiency. Svensson identified three problems. First, is the problem of the coexistence of multiple objectives and the high rate of aid staff turnover making the staff focus on tasks that are more likely to be rewarded. Second, institutional pressure to commit and disburse aid funding. Third, the problem of the presence of multiple principals (e.g. donors) with the effect of increasing transaction costs and engendering collective action problems. Svensson has suggested that these problems can be addressed through greater involvement of beneficiaries of aid in its evaluation and greater coordination of donor actions.

Commenting on Svensson's presentation, Chris Adam (AFD, 2006) pointed out that encouraging progress was already in progress in the form of independent evaluations (e.g. IMF), transparency and accountability (e.g. DFID), coordination (e.g. Paris declaration, designation of lead donors) and performance incentive e.g. the incentive conditionalities of the European Commission. Adam

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<sup>30</sup> Most aid agencies are criticized on the operations on the ground that they are busy issuing fund with less time to see what the fund is actually doing (i.e. they lack monitoring and evaluation of their projects)

<sup>31</sup> Svensson, Jakob. Absorption Capacity and Disbursement Constraints. In AFD (2006).

expressed the risk of GBS to the extent donors cannot commit to provide stables and long term flows of aid. The damaging effects of sudden decrease in aid volumes can be mitigated by maintaining strict budget discipline and building up special hard currency reserves throughout the period of aid inflows. The discussions also observed that donors were often more worried about the absorption capacity but did little to address ways in which aid could be used to expand the absorption capacity.

### **3.0 TOPICAL ISSUES OF CONCERN AND SUGGESTIONS ON RESEARCH ISSUES AND METHODOLOGICAL APPROACHES**

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#### ***3.1 Topical Issues of Concern and Research Issues***

Several topical and researchable issues have emerged from the foregoing analysis which researchers may selectively wish to address in greater depth. The following and some of the issues from which researchers may select what they find of interest to them with a view to examining them in more detail.

- In the donor supported reforms how well are the interventions arising from and consistent with the national development strategy. How is the system of priorities worked out in aid supported activities in relation to other activities. This analysis would include an assessment of donor interventions with respect to national priorities and the manner in which resources are channelled into the activities supported and how the resource flows are reflected in the government budget and in the national resource allocation system.
- Examine the relationship between the share of aid in total resources and their implications on accountability relationships. Examine the transmission mechanisms of such influences: through spending patterns and budgetary processes. Examine the relationship between recurrent and development expenditures, between aid resources and conditions of counterpart funds and the implications on budgeting processes.
- Aid support that has been directed to support service reform has been varied. A major concern is the lessons that can be drawn from the diverse experience in different countries, different sectors or service types and in respect of the role of different actors in the service provision ranging from policy makers and regulators, to providers (of various types and functioning at different levels and to recipients of various types and different levels of operation.

- Examine ways through which critical accountability relationships may have been influenced by aid interventions.
  - Policy makers and service providers: division of responsibilities taking into account the characteristics of the market and its dynamics over time. Examine the compact between government and service providers and the agreed division of responsibilities and the influence of aid on those relationships. Examine the status of capacity and options for capacity development.
  - Policy makers and clients/beneficiaries: voice of the people in the policy making process
  - Service providers and beneficiaries: client power in influencing access to services and quality of service delivery.
  
- Examine the accountability systems in aid support to service delivery reform paying special attention to the interplay between the respective constituencies on the donor side and those on the recipient side.. Examine the manner in which aid resources are channelled and the implications on the role of various actors. To what extent are constituencies or actors bypassed and what kinds of relationships are developed with the respective actors. Where global funds are important in financing service reform, their implications on various accountability relationships and budgetary processes and priority setting should be examined. Examine the implication of donor support on systems of domestic accountability. In that regard, explore ways and options arising from experience whereby donor support may enhance service provision and lead to its improvement without undercutting domestic accountability systems and if possible achieve such improvement with enhanced domestic accountability.
  
- Examine the relationship between the relative power and voice of clients or consumers of services in improving aid management and the effectiveness of aid in access and quality of services in particular. Examine the role of voice of clients' representative institutions such as parliament, Local Councils and Community level representatives in putting pressure on service providers to deliver more effectively.
  
- Donors interact with service providers in various ways: with the central government (Central ministry such as Ministry of Finance or with Sector ministry like Ministry of Agriculture and livestock), local government, service providing communities, final providers such as schools and clinics or private service providers. Investigate the influence of the respective interactions on the process of selecting priorities, power of control over resource allocation by the respective actors, relationships among the various actors and coverage of services delivered. Analyse the underlying interests and power relationships governing the delivery of services, how these are influencing the development of service delivery institutions and how aid management is influencing these relationships.
  
- Compare aid social funds and regular service delivery mechanisms in terms of access and what types of clients have access, sustainability, capacity and power of service providers and collective action in communities.
  
- How well is improvement in service delivery measured and monitored. Examine the feedback mechanisms in the monitoring system and propose improvements to ensure

successful learning and feedback from experience. In examining the monitoring system, it is expected that an assessment would be made of the clarity with which service reform is articulated with objectives, targets and indicators and investigate the contribution of aid in the realization of that reform process with special attention to the outcomes.

- Analyse the underlying incentive structures that govern donor interventions and their implications for service delivery performance. Examine options for reforming such incentive systems with a view to enhancing improvements in service delivery.
- Examine the extent and the manner in which aid delivery is aligned with service delivery in the recipient country considering their impact on service delivery institutions, aid fragmentation, capacity building of country institutions, harmonization of donor policies, procedures and practices and the extent of resource pooling and its implications on service delivery.
- Assess the experience of project implementation units and draw lessons in terms of outcomes of service delivery, long run sustainability and relationships in the accountability system.
- Examine the relationship between aid for service delivery and fragmentation of aid in many projects, choice of activities and choice of inputs. Compare the returns from aid financed activities with those of the domestic budget financed activities. Compare the input mix in aid financed service activities with those financed from domestic budget and make an evaluation of the relative performance.
- Examine the relationship between aid, accountability and service delivery in Africa and their influence on access and quality of service delivery (studies in some places have shown mixed results). Identify who is accountable to who, how the system of accountability is functioning and how it could be improved on both donors and recipient countries with a view to making it more effective.
- Examine options for managing the transition from aid dependence in respect of aid delivery. What lessons can be drawn from other regions such as the graduated countries like the Asian tigers. Explore the place of various options of improving service delivery such as increasing capacity in production, trade, and reforming in tax policy which could mobilise domestic resources for provision of their services. Explore options for more effective management of resources to improve their service delivery and options for improving capacities to generate alternative source of revenue other than the use of foreign resources which are not sustainable.

### **3.2 Suggested Methodological Approaches**

- The methodological approaches that could be used in studies on this subject could be based on case studies of selected countries, sectors, aid programmes of aid projects.

Evaluation of service delivery programmes at the selected level should use not only input and process indicators but also output and outcome indicators.

- Identification of beneficiaries and to what extent the targets set have been met should be done carefully ensuring that a representative sample of beneficiaries is taken. The analysis should make use of data on before and after the service delivery programme was put in place. Where adequate baseline data exists it should be used as a basis for analysing change or impact of the programme under evaluation. Where there is no baseline data then possibilities of constructing an appropriate control group for the post-intervention data should be explored.
- Undertake an impact analysis of different aid delivery systems on institutions for service delivery (service providers, regulators and beneficiaries) and transaction costs, extent of using country systems, division of responsibilities, accountability systems and incentive systems.
- Compare donor funded service delivery programmes and government funded service programmes in terms of various dimensions such as division of responsibilities and accountability systems and incentive systems.
- Identify an appropriate framework of actors: individuals/households, organisations (NGOs, private), governments (central, local) identify their roles in service delivery such as service provision (production and delivery), financing, regulation and consuming the services. Identification of actors should be complemented with identification of interactions between them. For instance, the interaction between actors and accountability build on the following types of relationships:
  - citizens and clients play dual role of consumers and voters or participants in influencing public action of public policy. They interact with service providers, policy makers and politicians.
  - Politicians play the roles of legislating, regulating, taxing to raise finances and make major decisions on public action.
  - Policy makers set rules of the game for service providers to operate (regulating entry, enforcing standards, and conditions of financing e.g subsidy).
  - Organisational or institutional providers (public, private, civil society, community). Accountability to policy makers is often in the form of compact (may be of many types). Frontline providers are those who come into direct contact with the clients (teachers, doctors, engineers). These have a relationship of accountability with the organisations or institutions for which they work.
- Identify relationships of accountability of the various actors in terms of delegation, finance, performance, information about performance and enforceability. Starting with the client receiving a service or to whom a service is being delivered the researcher may address the question of what does it take to make service delivery successful? Is the frontline provider capable (in terms of access to adequate resources and inputs) and motivated to perform (incentives, performance targets and accountability system)? In order to understand the types of service markets that are operating it may be useful to analysis of the characteristics of services in terms of divisibility, sellability (characteristics of the market), homogeneity or heterogeneity may be useful in identifying what type of actor is best placed to play what role in the particular service market context in the country under study.

- In order to capture the relationships between foreign aid and institutional reforms for service delivery it may be advisable to appreciate the existence of various types of institutional reforms. In this regard, it may be useful to delineate types of institutions reforms:
  - public service reform,
  - privatisation,
  - decentralisation,
  - contracting out,
  - provision through NGOs ,
  - empowerment,
  - participatory methods,
  - social funds,
  - community driven development,
  - user associations.
  
- Each of the above institutional reforms can be associated with a variety of techniques and instruments: demand-side transfers, case studies at selected levels, participatory rural appraisals, facility surveys, service score cards and participatory budgets.

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