The Developmental Effectiveness of Aid to Africa

Tony Killick

Aid to Sub-Saharan Africa has been less effective in promoting economic development than has aid to other regions. Policies in the recipient countries of Africa — though certainly not the only factor — play the most important role in determining aid's effectiveness. At the heart of the problem is politics, and the solution rests in the hands of the people of Africa.
Killick uses an informal analytical framework to assess the developmental effectiveness of aid to Sub-Saharan Africa. The framework provides a production function-type equation for determining income growth and conveys that:

- There are many influences besides aid on country economic performance.
- Domestic policies have a pervasive influence on the whole system.
- Aid also has an important influence, in raising import and investment capacity and in other ways.

Agency evaluations of the overall effectiveness of aid record fairly high levels of project success. But it is unclear how much weight should be placed on these results, particularly with respect to projects' ability to reach the very poor. A review of the literature on the effectiveness of adjustment lending programs shows that they help raise economic performance to some degree but less than dramatically. It is even less clear that they are socially cost-effective. The evidence on aid effectiveness favors a moderately positive but still rather tentative verdict.

The author presents evidence on aid in Africa that suggests that the high past levels of aid have been unable to prevent serious economic deterioration and that its effectiveness is considerably less than in other regions. Nor have donors been able to offer much assistance in African governments' design of development strategies. Case studies of Côte d'Ivoire and Ghana support the conclusion that there is much room for increasing the effectiveness of aid to Sub-Saharan Africa.

Determinants of the effectiveness of aid can be broken down into factors located primarily in recipient countries (the policy environment and institutional or absorptive capacity) and those relating primarily to conditions and policies in donor countries (the world economic environment and the policies and practices of aid agencies).

Recipient-country policies are the decisive influence on the effectiveness of program, sectoral, and project aid. Policy mistakes in particular have contributed to declines in export market shares and in saving and investment.

Absorptive capacity — the economic system's ability to put additional aid to productive use — is weakened by skill shortages, weak policies, institutional weaknesses, and budget constraints and recurrent costs. But of more fundamental importance are basic structural weaknesses of Sub-Saharan African economies and the adverse characteristics of some political systems and processes. A crisis of governance in some Sub-Saharan African countries is a fundamental obstacle to increasing the developmental effectiveness of the aid they receive.

The effects of the hostile global economic environment are often aggravated by donor-country policies, particularly the trends and policies that worsen Africa's terms of trade, debt-servicing burdens, and access to world savings. Some donor-country policies and practices, such as using aid to promote foreign policy or commercial objectives, reduce the quality of aid and thus its potential developmental value. Donor-agency weaknesses further diminish the value of aid.

Killick suggests that the problem of aid effectiveness is not technocratic nor due to a shortage of advice. Politics lie at the heart of the problem. It is for the people of Africa to resolve their governance problems — and there are potentially important stirrings of political change. And although donors have to work with existing governments, they should be more selective in those they aid.

Political changes are needed to break the logjam on these issues of effectiveness, and the present state of world affairs may facilitate the necessary reordering of policy priorities by donors and recipients. Engineering a fresh start in assisting the development of Sub-Saharan Africa countries should become the priority for the newly created Global Coalition for Africa.
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THE DEVELOPMENTAL EFFECTIVENESS OF AID TO AFRICA

Summary

The principal remit of this paper is to examine the developmental effectiveness of aid to sub-Saharan Africa (SSA), although the paucity of information confined to that region means we shall sometimes look further afield. We concentrate on capital aid in its various forms, although Appendix B provides a brief review of issues in the effectiveness of food aid.

The paper commences by setting out an informal analytical framework within which aid effectiveness may be assessed. This provides a production function-type equation for the determination of income growth and conveys (a) that there are many influences besides aid on country economic performance; (b) that domestic policies have a pervasive influence on the whole system; but (c) that aid also has an important influence, in raising import and investment capacity, and in other ways. Discussion of this framework foreshadows some of the issues which arise later, including the analytical difficulties created by various forms of fungibility, the complications which are created when multiple donor and recipient policy goals are introduced, and the absence of any simple connection between aid and economic growth or development.

We turn next to review the evidence on the effectiveness of aid, looking first at the overall picture and then at the evidence as it relates to SSA. As regards the former, agency evaluations record fairly high levels of project success but it is unclear how much weight should be placed on these results, with particularly large doubts about projects' ability to reach the very poor. It is suggested that the results of cross-country regressions are inconclusive and that the alternative methodology of in-depth country studies produces more reassuring results. The literature on the effectiveness of adjustment lending is reviewed, concluding that the programmes being supported do help to raise economic performance in some degree but that the results are less than dramatic and that it is even less clear that they are socially cost-effective. The overall conclusion on aid effectiveness generally is that the evidence favours a moderately positive but still rather tentative verdict.

Turning to the African aspect, although we should be cautious about overgeneralising a substantial amount of evidence is presented which suggests that the exceptionally high past levels of aid have been unable to prevent serious economic deterioration and that the effectiveness record is considerably worse than that of other regions. Doubts are also expressed whether in the past donors have been able to offer much assistance in SSA governments' design of development strategies. Case studies of Côte d'Ivoire and Ghana support the overall conclusion that there is much room for increasing the effectiveness of aid to SSA.

The paper then examines the determinants of aid effectiveness, organising the discussion around a distinction between factors which are primarily located within recipient countries, breaking these down into (a) the policy environment and (b) institutional, or absorptive capacity, questions; and those relating primarily to conditions and policies in donor countries, classifying these into
Concluding recipient-country policies, the evidence shows this to be the decisive influence on the developmental effectiveness of programme, sectoral and project aid alike. Particular emphasis is given to policy mistakes which have contributed to the loss of export market shares and the declines in saving and investment, including the status or state of the public finances in many SSA countries. The influence of policy on aid effectiveness provides a rationale for donor policy conditionality but there are large intrinsic difficulties in the way of using aid as an effective lever for improving the policy environment.

As concerns absorptive capacity, defined as the ability of the economic system to put additional aid to productive use, we note various proximate sources of difficulty: skill shortages; institutional weaknesses; budget constraints and 'the recurrent costs problem'; and weak policies. These, however, do not go to the heart of the matter. Of more fundamental importance are basic structural weaknesses of SSA economies and the adverse characteristics of some political systems and processes. The first is non-controversial, the second more so. While we should not over-generalise about a diverse situation nor be too gloomy, there remains a crisis of governance in some SSA countries which is a fundamental obstacle to increasing the developmental effectiveness of the aid they receive.

Turning to donor-country influences, indicators of the hostile global economic environment are presented, often aggravated by donor-country policies. We particularly stress the adverse effect on Africa of trends and policies which worsen its terms of trade, debt servicing burdens and access to world savings. We note, however, that the donor community has responded to SSA's special problems by devoting much increased proportions of total aid to it, and by special (although still inadequate) debt-relief initiatives.

There is also a variety of donor-country policies and practices which reduce the quality of aid offered and thus its potential developmental value. Many of the difficulties stem from the use of aid to promote foreign-policy or commercial objectives. This leads to confusion and to practices, such as procurement-linking, which substantially reduce the real value of the aid offered. Donor agency weaknesses further diminish the value of aid: inadequate staffing; pressures to spend; short time horizons; over-extension; biases towards large, capital-intensive projects; and practices which undermine budgetary discipline in recipient governments. There are also various proliferation problems: of donors; of projects; of policy conditions. Donor co-ordination is also a weak-spot, partly because both donors and recipients are ambivalent about it. The donors who so frequently urge policy reforms in developing countries need also to reform their own policies.

The paper concludes by pointing out the tension between the macroeconomic case for yet more aid for SSA and the apparent ineffectiveness of much past assistance. A fresh start is needed before additional aid could be justified.

The paper summarises the many policy recommendations relating to all aspects of aid effectiveness made by other writers but suggests that the problem is not technocratic nor is there any shortage of advice. The politics of it lie at the heart of the problem. Within SSA, it is for the peoples of Africa to resolve
their governance problems and there are potentially important stirrings of political change. Donors have to work with existing governments but they should be more selective in those they aid. There are, however, difficulties with a policy of greater selectivity, not the least of which being the mixed motives of donor governments. A switch to a higher proportion of aid channelled through selected multilateral agencies would be useful but that too has run afoul of non-developmental donor motives in the past.

Political-level changes would be necessary for the log-jam to be broken on these issues of effectiveness and the present juncture of world affairs may facilitate the necessary reordering of policy priorities by donors and recipients. It is suggested that the engineering of a fresh start in assisting the development of SSA countries should become the priority agenda item for the newly-created Global Coalition for Africa.
A. EVALUATING AID EFFECTIVENESS

An analytical framework

As a starting-point we can write the following equation for the determinants of the growth of an economy:

\[ \Delta Y = f(a\Delta K, b\Delta L, c\Delta R, dF, \Delta U) \]

where \( K \) \( = \) the stock of capital, \( L \) \( = \) the labour force, \( R \) \( = \) the natural resource base, \( F \) \( = \) foreign exchange available for imports,\(^2\) and \( U \) \( = \) the utilisation rate of existing resources, with an increase in \( U \) being thought of a movement of actual production nearer to the production possibilities frontier; and where the coefficient values, \( a \ldots d \), reflect structural, technological, institutional and policy influences.

In this context 'policy' can be understood as referring to the policy instruments implemented by domestic governments. Policy influences all four of the coefficients. For example, policies towards the taxation of capital will influence technology choices and hence the productivity of capital; policies on education and training will influence the skill composition, and hence the productivity, of \( L \); state provision of infrastructure will influence the productivity of land and mineral resources; policies towards the rationing of scarce import capacity will influence the productivity of imported inputs.

Policy will also affect the magnitudes of the factors of production themselves. Thus, the fiscal stance of the government will affect the amount of saving or dissaving through the budget and hence the rate of addition to \( K \); its policies towards fertility control will influence the rate of increase of \( L \); it can even influence \( R \), \textit{e.g.} through conservation measures; it can influence \( \Delta F \), \textit{e.g.} through its use of the exchange rate and its debt management policies; and it

\(^2\) In including \( F \) as a separate 'factor of production' we are implicitly acknowledging the validity of two-gap models. Such models have, of course, been extremely important in the theory of aid, with the 1966 Chenery and Strout article having a seminal influence. The justification for incorporating a two-gap view here is that this approach is most relevant to structurally rigid economies which find it difficult to shift resources and demand between tradeables and non-tradeables and that many SSA economies fall within such a description.
can influence \( \Delta U \) through the effectiveness of its macro-management policies. It would be easy to multiply such examples.

The outside world also enters in at numerous points. Terms of trade shocks obviously impact on \( \Delta F \). They might also be thought of as affecting \( R \), by influencing the extent to which it is economic to exploit known resources (we particularly have in mind the influence of world mineral prices on 'payable' deposits). \( \Delta F \) is also influenced by capital market shocks through their effects on the capital account of the balance of payments; those shocks will also affect \( \Delta K \) by altering the amount by which it will be possible to augment domestic saving by access to world savings. Finally, the influence of external trends on the terms of trade and the availability of foreign exchange to pay for imports will also strongly affect \( \Delta U \) in the open economies of Africa.

Aid enters into the picture most directly through its influence on \( \Delta K \) and \( \Delta F \). Aid in the form of technical co-operation also affects \( \Delta L \) through its provision of training and imported skills. However, aid also has a more pervasive impact on \( \Delta Y \) to the extent that it influences policy variables via conditionality and 'policy dialogue'. Moving outside the framework of the equation, aid can also play an important role in relieving a fiscal constraint, augmenting local tax and other revenues and increasing governments' abilities to maintain expenditures on economic services and capital formation without generating inflationary and/or balance of payments pressures.\(^3\) Such expenditures, in turn, promote growth, particularly if they are in forms and in a context in which they stimulate greater private sector activity.

Domestic shocks also come in, of course, chiefly in the forms of rainfall variations and civil or military disturbances leading to political instability and population movements. Such shocks are likely to have particularly adverse effects on \( \Delta U \), often on \( \Delta F \) and more generally on the values of coefficients

\(^3\) The concept of the fiscal gap as a development constraint, and of external resources as relieving this, is being developed formally in 'three-gap' models. See Bacha, 1990, for a published example, although this is mainly employed to analyse the impact of debt relief measures in heavily-indebted Latin American economies.
a...d. We should also note that there are interactions between variables, most notably between $\Delta K$ and $\Delta F$, as explored in the two-gap literature. $\Delta F$ is also likely to have a potent influence on $\Delta U$, because of the way it affects capacity utilisation, particularly in the industrial sector. The $\delta L$ term also affects other coefficient values through via the quantity and quality of skills. Similarly $\Delta K$ affects the other coefficients through the embodiment of technological progress.

Clearly, then, we are dealing with a complex system with many interactions and feedbacks - a complexity compounded when time-lags are also incorporated, e.g. in the ways in which different parts of the economy respond to some policy or external stimulus, or in the speed with which different sectors react to changes elsewhere in the economy.

This framework can also be used to identify some controversies about aid effectiveness. We have stated that (capital) aid is expected to raise $Y$ partly by augmenting the investible resources made available by domestic savings. It is possible, however, that aid inflows are associated with reduced saving ratios (most plausibly through reduced tax effort or increased government utilisation of tax revenues to finance the recurrent budget rather than capital formation). This type of 'displacement theory', in fact, has a venerable history in the aid literature and we will be returning to it. It is also not uncommon for aid to be overtly used to raise consumption rather than investment, most obviously in the case of food aid and disaster relief but also when it is used to finance the government's recurrent budget.

The fungibility of aid to which displacement theory is addressed can also occur in connection with $F$-import capacity. The chief type of displacement that might occur here is that aid inflows might be utilised (indeed, might be intended to be utilised) to permit a higher level of external debt servicing than would otherwise occur. This has been an active concern since the debt crisis's broke in 1982 and the Brady initiative for indebted countries comes close to institutionalising some such displacement, with public resources being used to reduce debt or debt service rather than directly augmenting import capacity. Even when aid is not, in effect, utilised for servicing debt, it may well only
compensate for reduced access to other forms of world savings - a reduction experienced by many developing countries after 1982. A further way in which aid might not bring the intended effect on F is if it has a 'Dutch Disease' effect: allowing the exchange rate to have a higher value vis-à-vis foreign currencies than would otherwise obtain and hence discouraging the growth of exports and import-substitutes.  

Another type of fungibility with a modern ring to it is between aid and policy reforms. During the last decade the trend has been strongly towards aid which is conditional upon policy change. There is, however, much continuing controversy about the suitability of aid as a vehicle for inducing policy change, as well as about the content of donor conditionality, and this is another topic to which we will be returning. In the meantime the possibility should be noted of using aid as a substitute for adjustment policies, deferring the necessity for action in the way that much of the debt accumulation of the 1970s was used.

A further factor influencing aid effectiveness - but one which is rather obscured by the above framework - is the quality of the aid itself. By this we mean the extent to which the policies and practices of aid donors influence the true economic value of their assistance, through tying, through the technologies embodied in aided projects, by the administrative demands they make on recipient administrations, and through the extent of co-ordination within and among themselves.

Some additional complications may be noted. One is that we no longer use ΔY as an adequate proxy for the rate of economic development. Poverty-alleviation is now seen as a crucial dimension and distribucional objectives are prominent among stated donor g.als. Environmental protection and the sustainability of development are more recent entries into the objective function. Additional issues concerning aid effectiveness, therefore, are whether it is a suitable vehicle for helping the poor, or at least the poorest; and whether it is likely to be an effective way of furthering environmental objectives.

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4 This is discussed in some detail by Cassen and Nissanke, 1990; see also van Wijnbergen, 1986.
We have already referred to another shift in goals, towards the promotion of structural adjustment. This further obscures the connection between aid and ΔY, for adjustment is commonly seen as something to be undertaken before resumed growth is possible. With SSA economies widely perceived as marked by rather acute structural rigidities, if the maximisation of ΔY were the objective this would argue in favour of shifting aid allocations towards countries with greater capacities to adjust. If the promotion of adjustment were the goal, however, this would argue in favour of shifting aid towards the economies perceived as most needing support for their adjustment efforts, which is what has happened.

The framework presented earlier also serves to remind us of a further difficulty in evaluating aid effectiveness: the temptation to overly emphasise those effects which can be quantified to the neglect of those which cannot. This is a danger both in rate-of-return analysis for projects and in macro attempts to capture the impact of aid on economic performance. Often, however, the externalities and other non-quantifiables are of great importance, for good or ill - what Hirschman long ago (1967) called 'the centrality of side effects'.

Finally, we should introduce non-developmental objectives, among both donor and recipient governments. Concerning donors there have been few illusions for a long time. It is well understood that foreign and defence policy objectives are among donor objectives and that most in varying degrees also seek to use some of their aid as thinly disguised export subsidies. Perhaps of slightly more recent origin is scepticism about recipient-government motives (which gives added support to displacement theories). This is not only a matter of recognising that they have perfectly legitimate non-developmental concerns, like maintaining the integrity of the state, but also a more widely held belief that governments often act on behalf of particular groups or for self-aggrandizement, rather than in pursuit of the common good.

What might we infer from the above as it relates to the task in hand?

First and without wishing to engage in mystification, that the connection - if any - between aid and growth, let alone development, cannot be a simple one. Given the complex interactions between the determinants of economic performance,
isolating the effects of aid is at best a difficult and at worst impossible.
One of the most intractable difficulties is the problem of the counter-factual: what would have happened in the absence of aid? Many factors can have a bearing upon the economy’s response to aid inflows. The multiplicity of donor- and recipient-government objectives further complicates the task, reducing the relevance of simply enquiring into developmental effects. And given the difficulties of assessing even the developmental effectiveness of aid, isolating the obstacles to greater effectiveness will be scarcely less difficult. We are, in other words, unlikely to be in a position to offer definitive diagnosis or prescription. One unwelcome implication of this is that it is difficult to use past experiences in order to improve future effectiveness. Another is that country case studies have great difficulties in isolating the effect of aid and this discourages research of this type. Only a few country studies have been found in preparing this paper and, by and large, they do not solve the methodological problems very well. This helps to explain why what follows is rather short on country illustrations.

Second, that the various elements determining economic performance can cancel each other out. More particularly, the potentially beneficial effects of aid can be neutralised by more negative trends and policies in donor countries, e.g. with regard to access to product and capital markets.

Third, that we might draw upon our framework to clarify the notion of 'absorptive capacity' which we will be employing later. At its most general, we might define absorptive capacity as the ability of the economic system to put additional aid to productive use, which brings in all the domestic influences on our coefficients $a$, and especially on $\Delta K$. These would include the institutional framework, the available stock of skills, etc. Of particular relevance, however, is the ability of the recipient government to so influence the workings of the remainder of the economic system as to maximise the productivity of the aid. This includes some familiar aspects: the economic rate of return from aid-funded investments; and the efficiency with which any additional import capacity which aid creates is utilised in the economy. It also includes the ability of the government to attract and utilise aid. More pervasively, however, it refers to the ability of the government to so order its
economic policies as to maximise the economic benefits that can be derived from aid (and other resource) availabilities. And underlying this ability will be the political-institutional conditions in a country which influence the effectiveness of the state.

**How effective has past aid been?**

Whether aid is developmentally effective has long been a matter of great controversy, with criticisms derived from both the Left and Right. Although this paper is about the African case, we will commence this section with a brief summary of the literature which attempts overall evaluations, to provide a basis for assessing the results for Africa. In doing so, we might bear in mind Riddell's (1987, p.192) statement of the objective of evaluation methodologies: to 'derive a universal system of evaluation that reduces subjective judgement to a minimum while analysing all relevant aspects of the aid/development relationship in order that reliable and uncontroversial conclusions can be drawn.'

**Aid in general**

One type of evidence can be derived from the results obtained from evaluations undertaken, or commissioned, by aid agencies themselves, of which the results of the Operations Evaluation Department (OED) of the World Bank are the best known. In a recent report (World Bank, 1989A) it does the valuable service of surveying the results obtained in ex post evaluations of nearly 2,000 projects during the 15 years of its work. In summary, it rates four-fifths (81%) of all evaluated projects as performing satisfactorily, with an average re-estimated economic rate of return of 16% p.a. Projects in population, health and nutrition (60%) and in agriculture and rural development (70%) did significantly less well and infrastructural projects - the Bank's traditional area of comparative advantage - had especially high ratings. IDA projects did less well (70%) but they were skewed towards the more difficult sectors and regions. There was some tendency for the proportion of projects rated as unsatisfactory to go up over time but even in the later years examined the proportion of 'satisfactory' projects rarely fell much below four-fifths. According to Cassen
(1986, p.307), these results are fairly typical of those obtained by other aid agencies, who find their projects to produce satisfactory results in two-thirds to three-quarters of all cases.

Not only the committed critics of aid are sceptical of such results, however. Riddell (whose own conclusions are supportive of aid but who is meticulous in his efforts to maintain objectivity) is sceptical about them (pp.195-200). There are very large data problems; the element of subjective judgement is unhealthily large; ex post evaluations are often rather crude in technique and blinkered in the questions they ask. There is also the risk that in-house evaluations will be self-serving (although the Bank has gone to some pains to avoid this) and that outside consultants will wish to avoid being too critical, although Muscat (1986, p.70) suggests that evaluation reports may have a negative bias, with ailing projects more likely to be selected for reappraisal, with evaluators feeling they have to come up with criticisms and with the focus being on problems. Whichever way the bias runs, however, we may agree with Riddell in doubting the reliability of such results.

One aspect on which the OED report is silent concerns the impact of projects on poverty-alleviation, no doubt because to trace this is singularly difficult. There are particularly strong doubts about aid effectiveness in this area. Mosley (1987, p.181) concludes his examination by suggesting that while donors continue to say that they wish to help the poor 'that desire does not penetrate very far into administrative procedures, so that such help as the poor and destitute get from aid is largely adventitious . . .' While not going as far as this, Riddell (1987, p.226) also stresses the difficulties that donors have encountered in reaching the poor. Perhaps alone among the independent observers, Cassen (1986, pp.298-302) is more positive, arguing that poverty-related projects have had high rates of return and challenging the idea that there is a severe trade-off between rates of return and aiding the poor. In common with the other writers just cited, however, he concludes rather defensively that aid projects can help the poor - when both donors and recipient governments have the determination that it should do so. One of the points of difficulty is that most of the poor live in rural areas. While the World Bank (1990A, p.130) has drawn attention to a range of rural projects which have aided
the poor (including farm-to-market roads in several SSA countries), virtually all evaluations are agreed that agricultural and other rural development projects have among the lowest success rates.\(^5\)

Most of the results referred to above have been derived from project-level evaluations. What about the impact of aid economy-wide? We referred earlier to the controversy in the aid literature about whether there is a positive correlation between aid and growth or whether, as predicted by displacement theory, aid substitutes for domestic saving, leaving growth little affected.\(^6\)

Using cross-country econometric tests, different researchers produce opposite answers. In one of the most recent and sophisticated of such studies Mosley (1987, chapt. 5) concludes that 'there appears to be no statistically significant correlation in any post-war period, either positive or negative, between inflows of development aid and the growth rate of GNP in developing countries when other causal influences on growth are taken into account' (p.139). He is, however, careful to point out that there may be some good reasons for this and that care has to be taken in deriving any judgements from it about aid effectiveness.

The 'analytical framework' set out in the first part of this paper should already have warned us against expecting there to be any simple connection between aid and \(\Delta Y\). The multitude of other factors bearing upon growth and the complex interactions between them make it acutely difficult to isolate the impact of any one input into the system, to say nothing of the reliability of the data. A very interesting study by Gupta and Islam (1983) brings home some of the difficulties by measuring separately the direct effect of aid on growth and its total, or general-equilibrium, effects. Not merely do the coefficient values for the direct and total effects differ substantially, in either direction, but for one country grouping the sign changes. For their total sample the sign is positive in both cases - indicating positive correlation between aid and growth -

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\(^5\) Four-fifths of all World Bank projects surveyed in the OED's 15-year overview which yielded negative ex post economic rates of return were agricultural.

\(^6\) See Riddell, 1987, chapter 10, for an excellent brief survey and evaluation of this literature.
but its value falls from 0.30 for the direct effect to 0.18 when indirect effects are also taken into account.

Evaluators - like Cassen and Riddell - who stand outside this controversy tend to conclude that its outcome is inconclusive, producing results which are well within the margins of error of the data employed, highly sensitive to choices of model and assumption, and from which it is difficult to derive firm normative conclusions, with the familiar dangers of moving from correlation to causality.

An even more fundamental difficulty is that countries experiencing severe economic problems, resulting in sub-standard performance, are regarded by donors as therefore requiring more assistance - precisely what has happened in the case of SSA. Donors, in other words, are not in the business of picking winners, nor do they design aid allocations in order to maximise growth. We should nonetheless be uneasy that the evidence on an aid-growth correlation is so inconclusive, at least when applied within a region confronting many common difficulties and where aid is quantitatively important - as in the case of SSA. At the very least, it reinforces doubts about the apparently high rates of return found in the project evaluations summarised above.

Cassen concludes his review of the cross-country econometric literature by observing that one is better off looking at detailed country case-studies. His own project included seven such studies and on the basis of these and supplementary evidence he reached the 'basic finding' (1966, p.294) that 'the majority of aid is successful in terms of its own objectives,' even though there is a significant proportion which is less successful. After surveying the country-level literature Riddell (1987, chapt.17) comes to a similarly positive assessment: 'aid can be and frequently is a positive force in development . . .' (p.252).

There is one other important part of the evaluative literature not so far mentioned, namely programme aid, which is now dominated by support for structural adjustment programmes (SAPs). What can be said about the effectiveness of aid for SAPs? Unfortunately, here too there are large methodological pitfalls in
the way of any conclusive evaluation.\footnote{For discussion of these problems, in the context of IMF programmes, see particularly Goldstein and Montiel, 1986; and Khan, 1988. The latter reference also provides a useful bibliography and presents an evaluation of the effects of Fund programmes using a refined control group approach.} How should we do it? Comparing results during the programme period with performance in preceding years is unsatisfactory because of the influence of changing world economic conditions and of the additional financial inflows that are triggered by the programme, because of numerous and varying time-lags between policy changes and their effects, and because we do not know what policies would have been in place in the absence of the programme. Comparing results with the targets set by the designers of the programme can similarly do no more than give us some pointers for the additional reasons that the targets may have been unrealistic, or arbitrary, or designed themselves to influence the results by improving expectations. Another method that has sometimes been applied is to compare the results obtained for a group of countries pursuing adjustment programmes with a control group of non-programme countries. The central difficulty with this approach, of course, is to select a control group that is truly comparable.

The essential problem is that of the counterfactual: how can we judge what would have happened in the absence of the programme? There are other difficulties too: how to disentangle the effects of the programme from the effects of the increased availability of foreign exchange and capital provided by the credits which support IFI programmes and how to handle different degrees of programme implementation across countries? There is also the quandary of deciding over what period the programmes should be assessed: do we look simply at results during the programme period, or at some longer period? One way of trying to overcome some of these difficulties is to undertake in-depth country studies but, quite apart from the time and expense involved, it is dangerous to generalise from them. It thus turns out that one of the limitations of adjustment packages is the difficulty of arriving at reasonably confident conclusions about their effectiveness - and, therefore, of learning from experience.

Of course, we are not completely in the dark, for each of the approaches mentioned above does at least provide some pointers. Leaving aside the
substantial literature on the effects of IMF programmes, as lying outside our remit, the World Bank has published three substantial recent evaluations of experiences with structural adjustment lending. The first of these (World Bank, 1989C) used the control group method without, unfortunately, employing much refinement to ensure comparability. It was thus properly tentative in its conclusions. It found that, on average, programme countries had 'moderately' better economic performance than non-programme countries, in terms of economic growth and internal balance. The differential in performance was greater for countries which had implemented a succession of programmes. However, the Bank also found that adjustment was not being sustained in a number of countries, especially as regards the internal macroeconomic balance. It also reported difficulties with programme implementation: three-quarters of all adjustment loans had tranche releases delayed because of non-compliance with policy conditions, and about 40% of all conditions remained unimplemented at the end of the programme period. A subsequent and more sophisticated evaluation (1990B) also arrived at fairly weak conclusions. On a before-after test, there was a tendency for growth in an 'early intensive-adjustment-lending' group of countries to be more rapid, for saving and export ratios to rise but for investment ratios to fall, although significance levels were generally not high and there were large inter-country variations. It did, however, report an improvement in programme implementation. Substantially stronger results are claimed in a further Bank evaluation (World Bank/UNDP, 1989) which, however, was confined to SSA. We will come to that shortly.

Preliminary results obtained in independent research by Harrigan and Mosley (1989) underlined the inconclusive nature of the Bank's (1989C) results. Using a smaller sample of countries but a wider range of methodologies, they found that Bank programmes had no measurable effect on real GDP, positive effects on export

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8 Just how moderately better can be judged from the following results, which show the percentage of performance indicators which improved during the period of the programme. Indeed, it is not at all clear that these results would meet standard tests of statistical significance.

| Programme countries | 54 |
| Countries with 3+ adjustment loans | 63 |
| Control group (non-programme countries) | 46 |
growth and the balance of payments, and negative effects on investment levels. They also found a rather larger rate of non-implementation of programme policies than the Bank's 40%. Work by Faini and his associates similarly found no statistically significant programme impact on economic growth and lower investment ratios.9

To sum up, we cannot provide a firm answer to the question of whether conventional adjustment programmes achieve what they set out to achieve, taking Third World countries generally. The indications are that, when implemented, they help in some degree but that the results are less than dramatic. Indeed, there is a distinct shortage of countries of which it can be convincingly claimed that adjustment programmes have made a decisive difference. Moreover, the sustainability of the reforms, their ability to produce consistently better results over a period of years, is particularly uncertain, and there is an even smaller number of countries of which it can be said that their situation has been permanently improved. We are still less in a position to form a judgement about the social cost-effectiveness of orthodox programmes. Writers from UNICEF (Cornia et al., 1987) and elsewhere have claimed that the social costs are often large and have urged a redesign to 'adjustment with a human face'. Actually tracing through the distributional and other social effects of programmes, however, remains an extremely difficult research area, in terms both of methodology and data, so there remains scope for a wide range of opinions on the social cost-effectiveness of the programmes.

Overall, then, the jury is still out on aid effectiveness, with the main burden of the evidence favouring a moderately positive but still rather tentative verdict. What now of aid to Africa?

☐ Aid to Africa

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9 See Faini et al., 1989 and forthcoming. However, the validity of their results in the latter study is questioned by Peter Montiel in the same volume, who suggests that they may simply be the consequence of sampling errors.
Consider first the naive evidence summarised in Table 1. We see there that SSA received far more aid than other developing countries in the 1980s: *per capita*, as a proportion of income, and relative to investment and imports. Despite this, the lower part of the table shows that SSA has had a much worse economic performance than the rest of the developing world taken together. Does this not indicate that aid has failed in SSA?

We should be wary of doing so. For one thing, comparisons of economic performance for the 1970s would be substantially less unfavourable to SSA than they are shown to be for the 1980s. In any case, our analytical framework makes it clear that to infer aid failure from weak growth performance would at best be a large over-simplification. And yet... and yet, with aid flows of such large macroeconomic importance, equivalent in the 1980s to a third of total investment and a quarter of imports, one might surely have looked for better economic results. Indeed, comparing the 1970s and 1980s, the quantum
Table 1
Comparative statistics on aid and economic performance, 1980-88

<table>
<thead>
<tr>
<th></th>
<th>Sub-Saharan Africa</th>
<th>Other Developing Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Aid Indicators</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Aid per capita ($)</td>
<td>21.8</td>
<td>5.5</td>
</tr>
<tr>
<td>2. Aid as % of per capita income</td>
<td>4.9</td>
<td>0.8</td>
</tr>
<tr>
<td>3. Aid as % of gross domestic investment</td>
<td>33.5</td>
<td>3.3</td>
</tr>
<tr>
<td>4. Aid as % of imports</td>
<td>25.7</td>
<td>5.2</td>
</tr>
<tr>
<td><strong>Performance Indicators</strong> (annual rates of change)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Per capita income</td>
<td>-6.4</td>
<td>+0.8</td>
</tr>
<tr>
<td>6. Per capita private consumption</td>
<td>-1.1</td>
<td>+0.8</td>
</tr>
<tr>
<td>7. Daily calorie supply per capita</td>
<td>-0.6</td>
<td>+0.8</td>
</tr>
<tr>
<td>8. Gross investment</td>
<td>-4.1</td>
<td>+1.8</td>
</tr>
<tr>
<td>9. Export volumes</td>
<td>-5.1</td>
<td>+7.3</td>
</tr>
</tbody>
</table>


Note: * figures relate to net disbursements of overseas development assistance from all sources.

and share of aid to Africa has been increasing as the region's relative performance has been worsening. At the very least, one must conclude that the past decade's aid has not been strikingly effective in economic terms - or, to put it another way, that negative external and domestic features have been more than enough to offset any positive returns from aid.

Now consider some additional comparisons of SSA with other aid recipients:
(a) The World Bank's (1989A) survey of 15 years of ex post project evaluations obtained results for Africa which were substantially the weakest of all regions identified, with a 70% 'satisfactory' score against an overall 81% average, and with a deteriorating trend.

(b) Mosley's econometric cross-country study mentioned earlier found particularly weak relationships between aid and GNP growth in Africa (as indicated by size of Student's t-statistics), by comparison with Asia and Latin America. This was notwithstanding the much greater amount of aid relative to economic activity in the African case.

(c) Gupta and Islam (1983) found similarly, with a far weaker 'total effect' coefficient between aid and growth for Africa than for Asia and Latin America.

(d) On the basis of his country case studies Cassen (1987, p.295) arrived at the conclusion that aid works less well in Africa than in Asia and argued the need for 'a new approach to aid' for the poorest countries.

(e) The World Bank's (1989C) evaluation of experiences with adjustment lending found the evidence of adjustment programmes being associated with improved economic performance was weaker for SSA (and for heavily-indebted countries) than for their otal sample. It also found that all except one of six indicators bearing upon the sustainability of the adjustment process had deteriorated in the SSA case: investment ratios; GDP growth; budget deficits; balance of payments deficits; and debt servicing ratios. The sixth - per capita private consumption growth - remained unchanged.

There are no examples to cite which are to the advantage of Africa relative to other regions and the picture which emerges is a disquieting one. A second Bank assessment of its adjustment experiences, confined to SSA countries (World Bank/UNDP, 1989), is perhaps alone in painting a brighter picture. Like the 1989A report this too uses a control group method, but simply compares countries with 'strong' and 'weak' or no reform programmes, with no other attempt to ensure comparability. The findings suggest some tendency for faster GDP and
agricultural growth in the strongly reforming countries; superior export and investment records; and a better record on the growth of private consumption. Savings performance, however, was better in the non-reforming group.

The findings of this study (which are difficult to reconcile with the Bank's 1989C evaluation) met with considerable scepticism and particularly provoked the UN Economic Commission for Africa (ECA, 1989A). It raised in particularly acute form several of the methodological difficulties mentioned earlier, particularly as regards the choice of control group; the difficulty of differentiating between the effects of programme finance and programme policies; and the absence of testings for statistical significance in the results obtained. There was also a considerable degree of subjectivism in it, and generally it did not pass Riddell's test of evaluation methodologies mentioned on page 7.

In setting out our analytical framework we pointed out the pervasive influence of the policy environment on the growth of an economy and that, with the growth of conditionality, this environment is at least partly a product of donor advice and pressures (although primary responsibility must remain with the governments of Africa). Another approach to aid effectiveness, therefore, is to ask whether the donors have succeeded in working with SSA governments towards the adoption of sound strategies and policies, or have been good at selecting for preferential treatment those governments which chose well-founded strategies of their own volition. This is the approach adopted by Lele and Jain (1989) in their assessment of the results of aid to African agriculture. In this they enquire into the extent to which donors had helped recipient governments to develop sound strategies for agricultural development, subject to countries' institutional and political constraints; and donors' impact upon recipients' abilities to choose and implement strategic investments. Their answer is that, although they made important contributions to agricultural and rural development, 'neither the donors' project-by-project approach of the 1970s, nor their concern for policy reform in the 1980s to date has helped African governments face the inescapable hard work on constructing long-term, country-specific development strategies . . .'; that it 'is difficult . . . to find much connection between where donor assistance has gone and where growth has occurred . . .' (p.236); and that its contribution has generally been 'far from satisfactory' (p.247). At an economy-
wide level, the wide-ranging condemnation in the Bank's latest (1989B) report on SSA of the top-down modernisation development strategies of the past, as well as the economic crisis it describes, can also be read as an implicit criticism of the past policy stances (or ineffectiveness) of the donor community. To add an important African voice, the ECA (1989B) is equally dissatisfied with the wastefulness and inefficiency of past policies, and with the aid dependency which it has created.

Of course, the picture is not uniform. A number of African country studies have reported favourably on aid's impact and there have doubtless been many excellent projects. Notwithstanding our doubts about the Bank/UNDP (1989) report on adjustment lending to SSA, it surely is the case that Bank and other support has helped in a number of countries to improve policies and economic performance. Nonetheless, the overall picture that emerges from the foregoing can scarcely be described as satisfactory.

Côte d'Ivoire and Ghana

Much the same conclusion emerges when we look at the position at the individual country level. Various writers have been unable to resist the temptation to compare Côte d'Ivoire and Ghana because they are neighbouring states which have had startlingly different post-Independence economic histories. Starting with a considerable advantage over its neighbour, in terms of skilled manpower, infrastructure and general level of development, Ghana suffered a calamitous economic deterioration during the first two-and-a-half decades of Independence, which only began to be reversed during the 1980s. By contrast, by the early 1980s the Côte d'Ivoire had achieved one of the best infrastructures in Africa, per capita incomes had grown at nearly 3% p.a., there had been much progress on the social front and the country was commonly cited as a model for the rest of Africa. Sadly, things have since deteriorated markedly, so that by the beginning of the 1990s the Ivoirian economy was in crisis, with declining incomes, large debt servicing difficulties and a deteriorating infrastructure - a position that

The following, and all subsequent, references to aid effectiveness in these countries are based on Stryker and Tuluy, 1989.
would have been even worse were it not for large infusions of aid from France and elsewhere.

Appendix C sets out statistics of development assistance to this pair of countries in 1971-88 and three-year moving averages of these are depicted in Figure 1 below. Although they deviate from time to time, it is striking how closely the two series move together despite the enormously differing economic records of these two countries during this period. One is almost compelled to the conclusion that aid cannot have made any very decisive impact in these two economies. To put it another way, the distribution of aid to this pair of countries seems to have paid scarce regard to ability to use it well. With the partial exception of the final years, the similarity of the trends is so striking as to suggest that aid trends were determined by common extraneous forces quite unrelated to country economic performance. Thus, it is startling how the level of aid to Ghana was sustained during the 1970s, even though the economy was manifestly falling apart and was being grossly mismanaged during much of that period. Similarly with Côte d’Ivoire, the big increase occurred in the later 1980s, precisely when the economy - and the standard of economic management - was clearly deteriorating. More positively, however, we must note the sharp rise in aid to Ghana after 1983 in response to the improved economic policies then introduced.

Of course, this type of naive evidence cannot get us very far in testing aid effectiveness, for reasons already given, but it does reinforce the earlier impression that all is far from well. On this and earlier evidence, there is much scope for strengthening aid effectiveness in SSA. In order to do this, however, we must identify the chief obstacles to raising the development value of aid. It is to this task that we now turn.
The analytical framework presented at the beginning of this paper illustrated not merely the large number of factors bearing upon aid effectiveness but also the large influence of policies and other recipient-country influences. It is a curious feature of the aid-effectiveness literature, however, that it pays limited attention to these, concentrating rather on donor influences on effectiveness. In what follows we will organise discussion of the determinants of effectiveness around a distinction between factors which are primarily located within recipient countries, breaking these down into (a) the policy environment and (b) institutional, or absorptive capacity, questions; and those relating primarily to conditions and policies in donor countries, similarly classifying these into (a) questions concerning the world economic environment and (b) the policies and practices of aid agencies. Successive World Bank reports on SSA
have particularly emphasised the ill-effects on economic performance of policy weaknesses; the ECA places greater stress on structural weaknesses in SSA economies and the malign consequences of a hostile world environment; but each agrees that all are important and we do not need here to try to adjudicate between their respective emphases.
B. RECIPIENT-COUNTRY INFLUENCES ON EFFECTIVENESS

The policy environment

The conclusion of a recent study of aid and development (Krueger et al., 1989 p.306) provides our starting point:

*The most important lesson learned about economic development, and therefore about the role of assistance, is the significance of the overall macroeconomic environment for economic growth. Over the past thirty years appreciation of the importance of appropriate trade and exchange rate policies, of fiscal and monetary policies, and of the overall incentive structure provided by government policies has increased continuously... Experience indicates that the macroeconomic setting is an important determinant of the success of sectoral and project assistance. In countries where the macroeconomic framework is appropriate, real rates of return to investment projects tend to be high...*

Contrasting performances between otherwise similar economies seem largely explicable in terms of differing policy environments. Reynolds' (1985) survey of long-run development experiences concludes that 'political organisation and the administrative competence of governments' is the single most important explanation of variations in developing countries' growth records; and Riddell's authoritative 1987 re-examination of the case for aid (p.198) supports the consensus that the policy environment is a major determinant of aid effectiveness as 'certainly correct'.

In line with the shift within mainstream macroeconomics 1980s towards greater attention to supply-side issues and to the microfoundations of macro actions,

11 Thus, Krueger's 1987 comparison of the post-war economic histories of South Korea and Turkey attributes the greater economic progress of the former, starting from a poorer base, to the superior quality of economic policies in Korea. Within Africa, similar explanations have been given for the contrasting economic fortunes in the 1960s and 1970s of the Côte d'Ivoire and Ghana (although more recently it is a comparison that goes against Côte d'Ivoire), and between Kenya and Tanzania in the same period. At a different level, we may get an idea of the importance of policy from the regular exercises undertaken by the World Bank and some other agencies for forecasting alternative future scenarios for the world economy, finding large differences in expected outcomes depending on the assumptions made about the policies adopted.
there is now wide recognition of the intimate connections between the macroeconomic environment and the performance of agriculture, industry and other key sectors of the economy. The modern approach to exchange rate management, with its emphasis on the real exchange rate, has drawn added attention to the quality of overall macro management (particularly the avoidance of inflation) as conditioning what can be done with the exchange rate instrument. Much the same is true of discussions of financial policy, with the literature on financial repression drawing attention to the influence of the macro environment on the development of the financial system, and with the avoidance of rapid inflation seen as necessary if positive real interest rates are to play their role in stimulating the financialisation of saving and raising the productivity of investment. The policy environment is also seen as potentially influential on the supply of entrepreneurship, through tax and other policies affecting profits, the extent and nature of regulation of business, the influence of the public finances and other policies on the availability of business finance, and the provision of infrastructure and training. More generally, macroeconomic stability is seen as raising supply responsiveness by increasing the reliability of price signals and encouraging long-term investment.

The macro environment also strongly affects the developmental returns that can be obtained from aided projects. This emerges strongly from the Bank's OED (1989A) evaluation cited earlier. 'Some of the most frequently cited determinants of [project] performance,' it states (p.21), '... were in principle within the control of governments.' Or again (p.30), 'The experience evaluated for this review emphasises the great extent to which the fate of projects depends on sectoral and macroeconomic policies ...' Indeed, it was partly because it saw ill-chosen policies as causing increasing numbers of its past projects to fail that the World Bank moved into 'policy-related lending' from the end of the 1970s. We should also recall a conclusion reported earlier about the impact of aid on the poorest: that this is most likely to succeed when both donors and governments are determined to find ways of reaching the poor. One of the difficulties of poverty-oriented aid, in Africa as elsewhere, is that a good many of the recipient governments do not in reality give priority to poverty-alleviation, partly because political realities push them in another direction.
Relating the above to SSA, there is now rather general acceptance in principle that past policy environments have been far from conducive to good economic performance and, therefore, to aid effectiveness, even though there has been major progress in some countries in recent years. Instead of starting with familiar donor views on this, we can quote an important African voice, in a document endorsed by a meeting of African Ministers of Finance and Planning and Development: 'Government interventions in Africa have so far become discredited, not because there is an effective alternative in the form of an efficient market mechanism but because of inefficient management, poor results and misallocation of resources' (ECA, 1989B, p.47). Or Ndulu (1986, p.102):

The current economic deterioration in sub-Saharan Africa has partly been caused by internal economic mismanagement. Wide state intervention in the productive spheres and in markets for resources and products has led to an inefficient use of scarce resources not only in the 'Pareto efficiency' sense, but also in relation to the development goals adopted by those countries. Serious biases against the development of the export and agricultural sectors have produced stagnant economic growth, arrested social development, increased dependence on food imports, and debt burdens requiring frequent reschedulings.

In its most recent report on SSA (1989B, pp.25-30), the World Bank has compared the rate of return on investment in SSA with that in South Asia, with the results reproduced as Figure 2. Among the chief reasons it identified for the low and deteriorating productivity of investment in Africa were poor public sector management; price distortions, often created by policy interventions; and high cost structures, also much influenced by government policies. It also stressed the very heavy costs imposed by Africa's loss of export market shares, which it suggests are considerably larger than losses caused by deteriorating terms of trade and which can also be linked to past policy mistakes, most notably on exchange rates12 (although we should remember the earlier suggestion that large aid inflows may have contributed to over-valuation in some countries by having a kind of Dutch Disease effect). In this connection, the current weaknesses of the Franc zone arrangements, causing several Francophone African

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countries to have seriously over-valued real exchange rates which it is impossible to adequately correct without a fundamental change in those arrangements, can be seen as a continuing obstacle to effective aid to the affected countries.\textsuperscript{13}

\textbf{Figure 2}

\textit{Comparative rates of return on investment}

The parlous state of the public finance in many SSA countries is a further illustration. There is a chronic tendency for budgets to be heavily in deficit, so much so that governments have to borrow to finance part of their \textit{current} expenditures, as well as the capital budget. One consequence is that the public sector has become a large dissaver and the chief reason for the serious decline in overall saving rates that have occurred, absorbing resources that could otherwise be devoted to productive investment. This is illustrated by the (inevitably very approximate) estimates in Table 2.

\textsuperscript{13} For a brief English-language analysis of this situation see ODI, 1990.
Table 2
Gross domestic saving in SSA
(as percentage of GDP)

<table>
<thead>
<tr>
<th></th>
<th>1972</th>
<th>1981</th>
<th>1987</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross domestic saving</td>
<td>17.8</td>
<td>15.3</td>
<td>12.6</td>
</tr>
<tr>
<td>Fiscal current a/c deficit</td>
<td>-3.3</td>
<td>-5.9</td>
<td>-7.2</td>
</tr>
<tr>
<td>Private and other saving (residual)</td>
<td>21.1</td>
<td>21.2</td>
<td>19.8</td>
</tr>
</tbody>
</table>


There is also evidence that the large claims of the public sector on bank credit to finance budget deficits further competes with the private sector, by crowding out the latter's needs for credit; and that the expansionary effects of deficit financing are an important source of inflationary and balance of payments pressures.

Quite apart from their macro effects, the budgetary difficulties also bring us back to the displacement theory of aid reviewed earlier, i.e. that the fungibility of aid resources may have allowed some African governments to avoid taking hard but desirable decisions to raise tax levels and/or that it has 'really' financed marginal additions to spending with a far lower developmental content than the programmes or projects to which the aid finance is formally linked. The possible displacement of tax effort by aid is intrinsically difficult to demonstrate, not the least because of the difficulties of measuring tax effort, but two straws in the wind are worth reporting, both from World Bank evaluations: (a) that tax reforms in structural adjustment programmes have had among the lowest implementation rates (1989C, p.60); and (b) that: ... cost recovery, whether directly from customers or beneficiaries, or indirectly out
of allocations from government budgets, has often been much lower than called for in project designs' (1989A, p.39). Somewhat more direct evidence is available from an unpublished study of aid to Kenya by Duncan and Mosley (1985), who suggest that aid may have served as a substitute for local taxes and who argue that there is scope for an improved tax effort (p.132 and Appendix 2).
The presence of fungibility on the expenditure side is equally elusive and the danger is no doubt reduced by the large scale of aid receipts relative to many African governments' development budgets. There nonetheless remains considerable doubt about the developmental content of some governments' expenditure priorities at the margin. Thus, the ECA (1989B, p.44) refers to a 'need for expenditure-switching in the form of curtailment of government expenditures on defence and non-productive activities, [and] removal of subsidies to parastatals . . .'. And while it estimates average SSA military spending at the comparatively moderate level of about 10% of total government spending, the World Bank (1989B, p.168) draws attention to a number of governments whose expenditures on the armed forces are much higher. Most probably, however, the chief type of waste in government spending is the maintenance of inflated payrolls in civil services and public enterprises - an inefficient and inequitable form of employment creation - with the probability that high aid levels have partly been used to sustain larger numbers in public employment than would otherwise have been possible. In fairness, we should anticipate later discussion to point out here that aid donors have sometimes added to fiscal weaknesses by undertaking projects without giving much thought to their subsequent budgetary implications and have eroded expenditure discipline by conducting transactions outside regular budgetary processes.

That the quality of the policy environment is the key determinant of the developmental effectiveness of aid is the central thesis of Stryker and Tuluy's 1989 comparison of the Côte d'Ivoire and Ghana, who point out that all forms of aid are affected, not just programme aid. Thus, they show how aid projects in Ghana's agricultural sector were undermined by rapid inflation, gross exchange rate overvaluation and other price distortions (pp.287-9). They also point out that donor attempts to insulate 'their' projects from the overall state of the economy (a) were largely unsuccessful and (b) gave rise to unintended adverse effects. They conclude (p.301):

The major conclusion of this comparative analysis . . . is that foreign aid is unlikely to be effective in achieving either host country or donor goals in the absence of an economic policy environment that is conducive to long-term development. This is true regardless of whether aid is seen as a transfer of resources or as a means of implementing project packages involving a
combination of capital, technology, and managerial know-how. When the policy environment is seriously distorted, as it was in Ghana, it is difficult to find any type of foreign assistance that can be successfully implemented, except possibly some training and investment in human capital that may prove valuable in the future. They go on to add, however, that the donor agencies could themselves be criticised for being slow to use their aid as a vehicle for strengthening policies, and we noted in connection with Figure 1 how aid flows to Ghana and Côte d'Ivoire seemed largely unrelated to policy performance. That position has been changing, however. The importance of the domestic policy environment for aid effectiveness came during the 1980s to be recognised as providing a rationale for donor policy conditionality, on the grounds that they must concern themselves with the suitability of recipients' policies if they are to ensure that they are making good use of their taxpayers' (or shareholders') money. The 'conditionality explosion' that occurred in the 1980s in response to the policy failings described above has increasingly given the donor community, especially the World Bank and IMF (the IFI's), an important influence over economy-wide policies and has given particular importance to the design of IFI policy packages.

The appropriateness of IFI structural adjustment policies is far too big an issue to take up here. We have already noted the absence of strong evidence that these policies were effective in SSA in the 1980s and there are important intrinsic difficulties in the way of using aid as an effective lever for inducing improvements in the policy environment.¹⁴ These include conflicts between the objectives of the IFIs and recipient governments; the unsatisfactory theoretical basis of adjustment programmes; mis-matches between the complexities of programme design and the amount of knowledge that IFIs can reasonably expect to have of domestic conditions; problems in reconciling the demand management and supply-side approaches of the Fund and Bank; the fact that conditionality itself may erode governments' identification with the programmes they agree to and undermine the legitimacy of both; and the forces

¹⁴ See Killick, 1990, for a statement of the argument summarised here.
acting upon, and within, the IFIs which sometimes undermine their ability to ensure that apparently tough policy conditions are actually adhered to.

Policies which reduce economic efficiency and long-term development, and the difficulties of reversing these, do not occur in a vacuum. They are better understood as products of social, political and institutional forces which themselves are formidable obstacles to aid-effectiveness. We will therefore turn to consider such factors, and others bearing upon countries' absorptive capacity for aid.

**Absorptive capacity**

We earlier defined absorptive capacity as the ability of the economic system to put additional aid to productive use, which brings in all the domestic influences on the coefficients \( a \ldots d \) in our analytical framework, and especially on \( a\Delta K \). When absorptive capacity is a major constraint on effectiveness this will show up in a number of ways. The government may not be able to mobilise the volume of aid commitments which is potentially available because of an inability to persuade donors that it will be money well spent. Another common symptom, however, is where there is a large backlog of unspent commitments, because ministries are unable to execute the projects and/or programs that have been agreed upon, or do so only slowly. In such situations donors may be tempted to take over a disproportionate part of design and executive responsibilities, so another symptom is where the composition of aid-driven programs and other activities is largely donor-driven. Yet further indications would be where there are systematically large discrepancies between \( \text{ex ante} \) and \( \text{ex post} \) project rates of return (which the Bank (1989A) had found to be particularly a characteristic of its projects in SSA); and where the developmental benefits derived from projects were not sustained over time (we earlier cited Bank evidence that sustainability was particularly a problem in Africa).15

15 The Bank has become increasingly concerned with the problem of sustainability, at both program and project levels, which occupies about half of the OED 1989 report (World Bank, 1989A).
A large proportion of African countries display all or some of these symptoms of limited absorptive capacity and in examining the sources of the problem we can differentiate between proximate and fundamental causes.

Proximate sources of difficulty

First, it remains the case that many SSA countries remain acutely short of well-trained and experienced professional personnel in departments and public enterprises concerned with project identification, evaluation and implementation. There are similarly drastic shortages of officials able to prepare programs of policy reform of the type looked for by donors wishing to assist structural adjustment. This is not only a matter of numbers, however. Too often their work setting does not sufficiently value and reward the employment of professional skills, and morale is often low. In some countries senior officials' salaries are well below what they could earn in the private sector (to say nothing of employment in international agencies), contributing to low morale, weak motivation, moonlighting and high turnover.\textsuperscript{16}

There is a strong connection between such personnel problems and our second proximate cause of inadequate absorptive capacity: various institutional weaknesses. There is near-unanimity in the literature (a) on the seriousness of such weaknesses and (b) of the difficulties of doing much about them, although institutional factors are unfortunately often treated as a black box, with little concrete content. In addition to the factors just mentioned, such weaknesses manifest themselves in ineffectual leaderships pursuing conflicting or poorly defined objectives; and unclear and diffused responsibilities. Hewitt and Kydd (1984) and Duncan and Mosley (1985) mention such difficulties in analysing the reasons for the failure of integrated rural development projects in Malawi and Kenya respectively. Painting on a larger canvas, Lele (1989, p.32) identifies fragmentation of policy-planning as a major problem reducing the effectiveness of aid to African agriculture in several countries,

\textsuperscript{16} See Klitgaard, 1989, on this.
with decision-making responsibility scattered among government departments, parastatal bodies and autonomous project units.

Third, and also closely connected with the previous two, budget constraints further restrict absorptive capacity. Sometimes the government may have difficulties in finding the local counterpart to meet the local-currency costs of externally aided projects. More frequently in recent years the budgetary constraint has been expressed in terms of a 'recurrent costs problem'. This refers to an inadequacy of government funds to meet the intended standards of operation and maintenance of externally-aided (and other) government services. With the salary bill a first call on available resources, and with often excessively large numbers on the payroll, non-payroll recurrent items bear the brunt of financial stringency, leading to an under-utilised stock of human and physical capital: extension workers without petrol for their vehicles, schools without books, hospitals without drugs, and a decaying infrastructure. Whether the recurrent costs situation is best identified as a separate problem or merely a symptom of a wider malaise is a moot point. To a substantial extent it is a product of more general weaknesses: a narrow tax base; inadequate tax and cost-recovery efforts; and an overall economic stagnation which depresses tax revenues. The frequently large size of external debt servicing obligations, sometimes exacerbated in local-currency terms by major currency devaluations, has also emerged as a major contributory factor, constituting a prior claim on revenues which otherwise could be devoted to relieving shortages of recurrent financing.

However, the recurrent costs situation does have some more specific causes, many of which exemplify the personnel and institutional weaknesses already mentioned: inefficient revenue allocation systems; weak financial and project management systems; a bifurcation of 'recurrent' and 'development' budgets (often the responsibility of separate departments) which gets in the way of integrating investment and recurrent-cost planning. Lele and Jain (1989, p.247) argue that

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17 On this with a special focus on agriculture see the valuable collection of papers in Howell (1985), particularly Howell's own introduction and the essay by Heller and Aghevli. See also Club du Sahel, 1982.
this latter consideration leads to a capital formation bias in public expenditures (and donor programmes) which has accelerated the growth of the aid-financed capital stock well beyond the country's revenue-earning capacity, citing Kenya and Tanzania as examples. (As already hinted, the donor community has also contributed to the recurrent costs situation and we will return to that later.)

As a final proximate cause of limited absorptive capacity - and recalling that we have defined this as the ability to put additional aid to productive use - we should place on record the unwillingness or inability of some governments to create a policy environment which is conducive to such productivity. This, however, was discussed in the preceding section so we will not elaborate on it again here.
Labelling the sources of difficulty just discussed as 'proximate' causes implies that we do not think they go to the heart of the matter. Of more fundamental importance are (a) basic structural weaknesses which afflict many SSA economies and which unavoidably limit their absorptive capacity; and (b) major weaknesses in political systems and processes.

The first is not controversial. It is common ground, for example, between the recent reports of the Economic Commission for Africa and the World Bank that the prospects for improved economic performance are undermined by major structural weaknesses. This has similarly been recognised by creditor countries in making special (albeit inadequate) provision for debt relief in low-income SSA countries. The chief structural flaws include heavy dependence on primary production for the generation of incomes and export earnings; very small domestic markets; technological backwardness; a weak infrastructure; very rapid population growth; continuing acute shortages of skills and other human resources; dualistic and inefficient markets; weak political and other institutions. These characteristics, and the low income levels that result, considerably reduce the adaptability of African economies and their ability to create a more enabling environment. Their disadvantages include:

- That they have little of the industrial base which gives more advanced economies greater responsiveness to changing conditions and more versatile skills.

- The responsiveness of the productive system to changing price relativities is weaker and slower because of poor information flows, highly imperfect markets and a probably stronger influence of non-market traditional values.

- Because of poverty and the small size of the modern economy, savings capacity and the tax base are severely constricted. The economy also tends to be unattractive to foreign
investors. These influences inhibit the investment necessary for adapting the productive structure.

- The small size of the economy makes it trade-dependent and hence very vulnerable to external shocks. Smallness also tends to result in an undiversified output and difficulty in switching demand and output between tradeables and non-tradeables, and between domestic and foreign markets.

- The policy instruments available to governments are fewer and weaker. They may, indeed, be quite disproportionate to the large size of the problems to which they are addressed. Governments and public administrations may also be less willing or able to enforce policy decisions.

The practical import of these considerations is that they are deep-rooted and can only be expected to give way gradually. While limited absorptive capacity can be interpreted as a reason for withholding aid, it can more sensibly be viewed as an additional reason why aid is needed, but targeted at addressing these structural weaknesses, providing necessarily long-term support for adjustment efforts and ameliorating the social costs that result.

Identification of political weaknesses within SSA as a second fundamental source of limited absorptive capacity is, of course, more controversial but even here the ECA and World Bank are in general agreement. First the ECA's Khartoum Declaration: 18

... the political context for promoting healthy human development [in Africa] has been marred, for more than two decades, by instability, war, intolerance, restrictions on the freedom and human rights of individuals and groups as well as over-concentration of power with attendant restrictions on popular participation in decision-making.

Next the Bank (1989B, p. 60-61):

Underlying the litany of Africa's development problems is a crisis of governance. . . . Because the countervailing power has been lacking, state officials in many countries have served their own interests without fear of being called to account. In self-defence individuals have built up personal networks of influence rather than hold the all-powerful state accountable for its systemic failures.

In this way politics becomes personalised, and patronage becomes essential to maintain power. The leadership assumes broad discretionary power and loses its legitimacy. Information is controlled, and voluntary associations are co-opted or disbanded.

As both these quotations imply, a connection is seen between the prospects for development (and hence aid effectiveness) and the nature of political systems, with the ECA calling for greater political accountability and a more grass-roots approach. More prosaic support for this stance comes from the OED evaluation (1989A, p.33) which in its examination of agricultural projects found that 'beneficiaries' participation in decision-making and in implementation increases the efficient use of [resources].' The Bank's SSA report (1989B, p.61) similarly draws a connection between political systems which foster corruption and aid effectiveness. It is when a bleak view is taken of the nature and consequences of many African political systems that displacement theories - that aid is 'really' devoted to non-developmental purposes - have credibility.

Political scientists have similarly noted the connection, with 'patrimonial' states in many African countries seen as inimical to economic efficiency and development.19 By patrimonial is meant a system of personal rule based on communal or ethnic ties. On this view the state becomes penetrated by personal relations operating to satisfy individual and communal aspirations and not as the guardian of the national interest. Profits accrue to those who can manipulate the instruments of state, rather than through production, but this creates a self-reinforcing spiral of political and economic decay. Development, and the economic adaptation on which it depends, are frustrated. Or take the following account of policy-making in an unnamed African country:20

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19 See especially Sandbrook, 1986; also 1985, and Jackson and Rosberg, 1984. See Beckman, 1988, for a brief summary and critique.

20 Quoted by Lamb, 1987, p.18.
A consistent and timely response to the deepening crisis was impeded by the fragmentation of information and decision-making. All major decisions . . . are visibly concentrated in the person of the Head of State, but many other decisions are taken in a dispersed, haphazard way throughout the administration . . . What planning has taken place has largely been in a formal bureaucratic sense and rarely linked to what has actually to be done to make what is planned materialise . . . economic priority is granted to short-term political considerations, often in a disconcertingly erratic manner.

More than one country situation fits such a description. Going back to our earlier comparison of aid effectiveness in Côte d'Ivoire and Ghana, it would be rather easy to relate the economic deterioration in Ghana during the 1960s and 1970s to political conditions. The superior performance of the Côte d'Ivoire could similarly be linked to the stability and wisdom of its political leadership during the same period, just as the recent deterioration in that country could be related to the deteriorating political situation there.

There is therefore a connection between deficiencies in political systems and the often counter-productive policy environment described earlier. At the same time, we should not plunge too deeply into gloom. To quote Ndulu again (1986, p.103):

> The current political-economic situation is not sustainable, but political constraints to change do exist. Nevertheless, the professed distribution of resources and power among various groups has been eroded and a more malleable situation has emerged as unofficial adjustments are being made by different groups in reaction to changing conditions.

There is much political diversity on the continent and economic hardship does often set corrective forces in motion. In some countries it is difficult to see a way forward without a revolution. In most the position is less desperate. In many it has been possible to make progress, so that even in the lean years of 1980-87 13 out of 41 SSA countries for which data are available experienced positive per capita income growth and the spread of recorded rates of increase was from plus 8.0% p.a. to minus 8.2%. Furthermore, the evidence does not support the view that the benefits of this are invariably concentrated
on a small ruling group to the exclusion of the masses. \textsuperscript{21} Ultimately, bad governments that run down the economy are apt to be removed; the worst policies and practices tend eventually to generate counteracting forces. But this can take a long time, and in the meantime it would be difficult to justify on developmental grounds continuing flows of aid to some of the governments of SSA, and the ECA, the Bank and others are surely right to call for political reforms.

Although the discussion of Part B has been under the heading of 'recipient-country influences' on aid effectiveness, it has already been suggested at a number of points that donor-country actions have contributed to the sources of weakness identified. It is time now to consider the influence of donors more systematically. We will first look at the consistency of the broader global environment, on which the donor countries have such an impact, with aid effectiveness in Africa, and will then turn to look more specifically at the policies and practices of donor agencies per se.

\textsuperscript{21} See Bigsten, 1983, chapter 5, for a survey of the evidence.
C. DONOR-COUNTRY INFLUENCES ON EFFECTIVENESS

The global economic environment

When setting out our analytical framework, we saw that the global environment entered in at a number of points. It particularly affects F, the foreign exchange constraint, of course, but we suggested it also affects the value and profitability of natural resources, the level of capital formation and the rate of capacity utilisation. But even though it is central to Africa's ability to convert aid into developmental progress, we can dispense with the influence of the global economy very briefly, on grounds (a) of the familiarity of the facts and (b) that aspects of this will be dealt with by other papers at this conference.

The economic fall out from Iraq's 1990 annexation of Kuwait has reminded us again of the vulnerability to external shocks of many African countries. Above all, it is through its impact on the terms of trade that the world economy affects Africa's economic performance. Since the late-1960s low-income, oil-importing SSA countries have experienced grave declines in these, as can be seen from Figure 3. This continued through the 1980s notwithstanding the major declines that have occurred in real oil prices. Underlying this trend, especially in the 1980s, has been a slow-down in the growth trend of OECD economies, and developments in the structure of final demand and in technologies which further reduce the buoyancy of demand for many of Africa's primary product exports.

Although much less affected as a region than Latin America, SSA has also not been immune to higher world real interest rates and the decline in developing-country access to world saving which occurred after 1982, and African countries - like Nigeria, Congo and Gabon - which previously enjoyed creditworthiness on world capital markets have been much affected. The emergence of negative return flows of finance from SSA to the IMF in recent years is another aspect of this. More generally, there has been much instability in international economic variables, raising the risks and costs associated with integration into
the world economy.\textsuperscript{22}

\begin{table}
\centering
\begin{tabular}{l c}
\hline
\textbf{mean annual deviation} & \\
\hline
GNP growth in industrial countries & 48.4 \\
Growth in world trade volume & 77.5 \\
Total capital flows to small low-income countries & 12.7 \\
World real interest rates, deflated by \OECD inflation rate & 26.0 \\
\quad 1dc export price changes & 117.0 \\
Terms of trade changes, small low-income ldcs & 276.7 \\
Import volume changes, small low-income ldcs & 378.6 \\
\hline
\end{tabular}
\end{table}

\textsuperscript{22} Using data for 1980 to 1986 or 1987, I obtained the following mean annual deviations around the mean for the period as a whole (Killick, 1989B, Table 3):
These developments, and the balance of payments strains which they created, contributed to the rapid accumulation of external debt and the scarcely less rapid rise in debt servicing obligations. They contributed also to a grave 'import strangulation', with per capita imports declining at nearly 9% p.a. for SSA as a whole in 1980-87. In addition to a generally depressing effect on capacity utilisation and economic activity, there is evidence that the import cut-backs had an adverse effect on export performance.

While the deteriorating external environment was to some extent an autonomous development, donor-country policies also contributed. There was during the

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23 The World Bank, 1989B, shows that total import volumes declined at 5.8%, while population grew at 3.1%. Excluding Nigeria, the figures are -1.5% and 3.1% respectively.

24 Khan and Knight, 1988, tested a model along these lines for a sample of 34 developing countries and found a large and highly significant correlation between import availabilities and export performance.
1980s a retreat from international co-operation in matters of economic policy. There was a shift away from policy co-ordination among the leading OECD countries and they effectively refused to give any reality to the IMF's responsibility to exercise surveillance over their policies. (Earlier policy<p-mo-ities in fa that in reality they seek?}
D. CONCLUSION: TOWARDS A FRESH START

The evidence presented in this paper points clearly to the conclusion that, taking the region as a whole, much of the proportionately very large amounts of aid received by SSA has been ineffective in developmental terms, even after due allowance is made for all the difficulties of assessing this and for the fact that poor performance is often seen as a reason for aid. This conclusion appears to hold both for programme (or policy-related) aid and for conventional project assistance. At the same time, the shift within the global distribution of aid in favour of SSA has been continuing and there are frequent calls for yet further assistance. There are sound macroeconomic reasons for these, relating to the need to adequately fund adjustment programmes and to help countries cope with debt difficulties - but at the same time the rather negative conclusions of this paper do not encourage us to believe that more of the same would produce results superior to those of the past. There is a tension between the historical record and the macroeconomic case for greater assistance.

This tension could be reduced, however, if the sources of difficulty undermining aid effectiveness could be resolved. Our survey of these placed explanations for ineffectiveness under four heads: the recipient-country policy environment; limited recipient-country absorptive capacity; an unfavourable world economic environment, partly due to donor-country policies; and weaknesses in aid donor agencies. There is a multitude of possible policy suggestions that could be made in the face of such a wide-ranging analysis and many are already on the agenda.

We could, for example, set out ways in which domestic policies could be strengthened in SSA so as to stabilise economies and raise the marginal productivity of resources. But the governments of Africa are not exactly lacking in advice on such matters. The Fund, Bank and some bilateral donors have been proffering it for years, even decades; more recently the Economic Commission for Africa has joined the fray. The latest World Bank report on SSA (1989B) offers an enormously wide range of suggestions, with the merit of being addressed more to long-term and basic issues. Whatever the constraint upon the improvement of the policy environment might be, it is not a shortage of advice
and indeed there have been important policy improvements in a number of African countries during the past decade. Similarly with recipients' absorptive capacity: large numbers of published and consultants reports have recommended ways of strengthening fiscal and development planning, and of improving the public service. Here too the Bank's (1989B) report has many suggestions to make under the headings of capacity building and investing in people.

If we turn to donor-country policies which worsen the global economic environment, here too there are plenty of suggestions on the agenda. In the area of debt relief, for example, there is a constant flow of analyses and suggestions. Many have pointed to the desirability of reducing protectionism; others have campaigned for larger aid programmes; and so on. And here too progress has been made, particularly with the Toronto agreement, even though the relief on offer still falls far short of needs.

When we turn to the aid agencies, many observers have urged that government goals should be simplified, that primacy should be given to developmental and humanitarian objectives, and that tying should be abolished or reduced. The desirability of contributing more to local-currency recurrent costs has been urged and mechanisms for this have been proposed.25 Various proposals have been made to strengthen the several agencies. Greater use of NGOs has been suggested to overcome the difficulties which official agencies have in reaching the poorest, and there have been moves in this direction. More and better ex post evaluation has been advocated, as well as an improved learning process from the results. Everyone says they are in favour of better co-ordination and here too there are some signs of improvement.

Nonetheless, the situation described in this paper calls for a fresh start, a renewed effort to tackle the obstacles to effective aid. The many suggestions

summarised above make up a rich and constructive agenda — achieving an urgently-needed improvement in the situation, although space constraints prevent us from reproducing them in full. The big question is, how might the fresh start be engineered? How can we break through the well-known but deep-seated obstacles to improvement?

What emerges from our analysis is the primacy of politics. The fundamental problems are not technocratic but rest with structures of power, decision-making and execution. No fresh start will be possible unless the political constraints are addressed.

Consider first the politics of SSA discussed earlier. While wanting to avoid over-generalisation about SSA countries as a whole, we agree with the earlier quotation from the Bank that underlying the litany of Africa's development problems is a crisis of governance and with the ECA (1989B, p.50) in calling for 'democratisation of the decision-making process at national, local and grassroots levels . . .'. These, however, are matters for the peoples of Africa to resolve and there are now potentially important stirrings of political change in a substantial number of African countries. Aid agencies must deal with the governments of the day, however. How, then, might they respond to the primacy of governance in often ill-governed countries?

Hitherto, conditionality has been their chief weapon, using finance in order to induce governments to make reforms in economic policies they otherwise would not have introduced. Without denying that conditionality can have good effects when the circumstances are favourable, we have earlier mentioned the limitations of conditionality. In fact, there is general agreement that conditionality is unlikely to have much lasting effect on economic policies where it is forced upon a reluctant and unconvinced government. Sparked by events in Eastern Europe, some donor governments, notably that of the USA, have begun to talk of political conditionality, or of confining aid to governments operating within, or moving towards, pluralistic, multi-party democracies. It must, however, be doubtful whether aid conditionality could be effective in bringing about constitutional change in other than exceptional circumstances. For if conditionality relating to economic policy reform is not very effective when a government is unconvinced
of the desirability of the change, what prospects are there of using aid to induce governments to adopt constitutional changes that will likely result in their being voted out of office?

The logic of the talk of political conditionality is for donors to be more selective and flexible in their country aid allocations, to confine most of it to those countries which have a framework of governance and policies, and an absorptive capacity, which permits aid to be used effectively. This presumably is what lies behind the recent Bank (1989B, p.183) suggestion that, as an alternative to conditionality, policy and aid should be placed on 'parallel tracks', with greater emphasis on ensuring that policy reforms are governments' own and greater selectivity in supporting only those which have created, or are expected to create, an 'enabling environment' for effective aid.

This is a desirable direction to take but we should be aware of some difficulties. First, backing governments that can use aid effectively may well result in a return movement of aid proportions in favour of Asia at the expense of Africa - a shift that may well be desirable in any case, on developmental and anti-poverty grounds. Relatedly, while we wish to back the effective, it is also the case that some of those least able to ensure that aid will have a high productivity need it most: think of Angola, Burkina Faso, Mozambique or Sudan. Third, it may be very difficult to identify potential winners in advance: who in 1982 would have predicted that a populist military administration in Ghana dedicated to the ideology of Kwame Nkrumah would have turned out to be the Fund and Bank's favourite African government?

Crucially, however, a recommendation for donor governments to be more selective in their country allocations in the pursuit of better governance and greater aid effectiveness begs the question of how much importance they attach to the development objective in relation to the other motives for aid. In particular, it would tend to create tensions with their desire to use aid as a foreign policy instrument. This, then, brings us to donor politics.

Many of the weaknesses in donor agencies stem from this multiplicity of objectives or for other reasons would require a breakthrough at the political
level for their remedy: tying and the resulting project biases; under-resourcing; dysfunctional personnel incentive systems; ambivalence about co-ordination. There is, in other words, no less of a need for policy improvements on the part of the donors than for the policy reforms they so insistently urge upon developing country governments, so if there is to be a fresh start the log-jam will have to be broken at the political level.

In principle, one attractive route for avoiding donor constraints on aid effectiveness is to switch rising proportions of aid into multilateral agencies. These agencies are less beset by multiple, conflicting objectives, better able to concentrate on maximising developmental effects. They are relatively immune from tying and some of the other practices which reduce aid quality. They probably have greater degrees of freedom in country allocation decisions. They are better placed to engage in constructive policy dialogues with recipient governments. With larger resources, and the donor-government support that would imply, they would be in a stronger position to exert the authority which we have suggested is necessary for effective co-ordination.

But . . . (1) Some multilateral agencies are more professional, efficient and non-political than others; this is not a blanket recommendation for more resources to any agency that happens to be international. (2) There would be obvious dangers of spawning yet larger international bureaucracies, with even greater concentrations of power vis-à-vis SSA governments. (3) There is little sign of a shift to multilaterals actually happening, with their share in total aid remaining constant at around a quarter throughout the 1980s, and it would be resisted by many donor governments (although the statistics on the share of multilaterals in total aid fail to capture the increasing extent of bilateral co-financing of programmes negotiated by the World Bank and other multilaterals, and there may well be scope for further progress in this direction). Here again we come up against donors' multiple objectives, for it is precisely the resulting loss of freedom to use aid for foreign policy and commercial advantages that have been among donor-government reasons for resisting larger proportionate allocations to multinational agencies in the past. However, with the ending of the Cold War and consequential reductions in the importance of security-cum-foreign-policy considerations, more progress might now be possible.
The politics of the situation is thus the key, among both donors and recipients. If there is to be a fresh start, it is at the political level that it will have to be initiated. The beginning of the 1990s is a good time to attempt a fresh start. We have already referred to policy improvements and political stirrings within Africa; and to the radical re-evaluations of security and foreign policies now under way among donor countries. Both developments will create new policy priorities which may permit some of the old obstacles to aid effectiveness to be overcome. At the same time, the latest World Bank report on SSA has led to the creation, at the initiative of the Netherlands government, of a 'Global Coalition' for Africa intended to provide a new type of forum at which mutual difficulties can be frankly discussed. To engineer the new beginning in effective aid called for here should be the priority agenda item for this Coalition.
The principal country aid group meetings for SSA nations are Consultative Group (CG) meetings, organised and chaired by the World Bank, and Roundtable meetings organised and chaired by the UNDP. CG meetings aim to attract specific ‘indications’ of additional aid, by discussing a recipient government’s economic problems and policies. They have increasingly been linked to the adoption of an IMF programme by the recipient, with specific commitments to policy reforms. However, donor indications of aid provisions are not binding. Roundtable meetings consisted until 1984-85 of sector-by-sector presentations of development plans and projects by the recipient government, for which aid was sought. After 1985, however, they adopted a format similar to that of CGs, and became more associated with adjustment programmes.

Before 1985 meetings had limited success in mobilising aid but there has since been considerable improvement. In 1981-84, 16 out of 23 countries with CG or Roundtable meetings received increased aid in the following year but by 1985-87 the score was up to 20 out of 23. In 1983-85 aid grew four times as fast for countries regarded as having weak or no adjustment programmes, but in 1985-87 it grew by 19% for ‘strong performers’ compared with a fall of 5% for others.

One reason for this trend was a dramatic rise in the number of meetings, and for more countries, during 1980-88. There were none in 1980 and 1981, 2 in 1982, 5 in 1983, 6 in 1984, 8 each in 1985, 1986 and 1987. According to Barry (1988, p.31), by the late-1980s 32 SSA nations had an aid group currently active or planned. In turn, this reflected more widespread adoption of IMF programmes, for almost all meetings were dependent on an imminent or actual agreement.

Individual meetings also became more successful in convincing donors to meet the aid targets set by the Bank or UNDP: donors met the overall ‘indication’ targets at only 25% of meetings in 1980-84 but 80% in 1985-88. Even fast-disbursing aid targets were matched by indications at 45% of meetings in 1985-88. Before 1985 most donors suggested that they had legislative authority to make only non-binding indications of aid for 12 months in advance. However, in later years donors became more willing to make indications - and some even to make binding commitments - for two or three years ahead, to chosen recipient countries. This helped recipients plan medium-term adjustment programmes.

The principal reason for these improvements was greater realisation by bilateral donors of the importance of co-ordination. This was due to several factors:

(a) Preparations for meetings were better designed to have influence on donor aid allocations decisions. The Bank and recipient governments wrote documents arguing the case for aid and setting targets for overall and fast-disbursing aid for 1-3 years. These were sent out 2 months before meetings and were followed by informal bilateral (and a few formal

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The sources used in preparing this included Barry, 1988; Martin, 1990, chapter 6; and various OECD and World Bank reports.
multilateral) preparatory meetings with major donors. This helped donors to fit decisions into their established timetables and mechanisms.

(b) Procedure at Roundtable meetings was simplified, by reducing the number of donor participants (which had often exceeded 50 donor delegations) and by discussing macroeconomic policy rather than long lists of projects.

(c) Donors followed a gradual learning curve. The longer a recipient sustained adjustment the faster donors increased their support. They came to believe there was less risk of 'moral hazard' and that more funds were needed to sustain adjustment programmes. This resulted from constant lobbying by the Bank, Fund, UNDP and sympathetic bilateral donors, and from the use of aid group meetings as a forum for discussing the recipient country's economic problems, policies and prospects. Bank and recipient officials prepared documents for CG meetings - typically a Country Economic Memorandum and/or reports on the public investment programme and sectoral policies of the recipient - which raised the quality of the policy dialogue.

Several agencies became more flexible in shifting aid among countries, in using it for different purposes, in order to speed up disbursement or in their tying requirements. Some established contingency funds to give themselves more flexibility. There was a notable move among multilateral donors, including the World Bank, African Development Bank, the European Community and UN agencies, to increase aid and to streamline disbursement procedures for all types of aid.

Delays between the making of indications and actual disbursements remained a more persistent problem, however. These began if total commitments fell short of targets at CG or Roundtable meetings but they were also encouraged by over-optimistic projections of disbursement speeds in order to fill financing gaps; budgetary or political problems for donors in converting indications into firm commitments; problems with project or technical assistance implementation; falls in food import needs and therefore in food aid; tying, procurement restrictions or complex documentation; recipient inability to process aid; tight monetary policies under IMF programmes, which cut private sector demand for programme aid imports; and especially donor uncertainty about recipient commitment to adjustment or debt servicing, which led many donors to suspend disbursements.

This led to the growth of large aid pipelines waiting to be disbursed, and to the loss of some commitments when they were not disbursed during the same financial year of the donor agency. Disbursement delays were often inadequately monitored by all sides, due to disputes among donors, recipients and IFIs over the level (and type) of indications, commitments and disbursements, and a 6-12 month delay in producing data.

The Bank and UNDP were worried by their inability to translate indications into disbursements. This led in 1985-87 to more concentration on specific follow-up mechanisms. These included monthly review meetings of donor officials in the recipient country; meetings to mobilise aid for specific sectors; and meetings to co-ordinate with recipient officials and improve their processing
of aid. In the case of Roundtable meetings, follow-up has also usually involved formal overall and sectoral review meetings held in the recipient country.

Since 1988 several components of the Special Program of Assistance (SPA) for Africa have further improved co-ordination procedures. This provides for semi-annual meetings where the Bank reports on recipient progress with adjustment and on donor disbursement. These are another mechanism for increasing mobilisation of donor funds, in return for growing involvement of donors in recipient policy formation. This has reduced data delays to three months or less. It has also increased the amount of co-financing between Bank and bilateral donors, cutting through many petty procedural requirements of bilateral donors.

However, several SPA programmes remain under-funded (due also to inadequate debt relief and non-aid flows). In part this reflects the limited jurisdiction of aid group meetings. They are not empowered to take decisions on amounts of debt relief or export credits, and many do not include Arab, Comecon or other donors. When they have taken a view on required levels of debt relief this has subsequently been disregarded at Paris Club meetings, e.g. for Somalia and Zambia.

In addition, the targets set by the Bank or UNDP are sometimes only consistent with falling per capita imports and growth, or envisage unrealistic export increases, because they are designed to fit estimates of what indications it is 'realistic' to expect from donors, usually based on past trends rather than on specific preparatory consultations. Finally, the Bank, UNDP and recipients still lack leverage to speed up bilateral disbursements if balance of payments variables change dramatically between aid group meetings, other than warning that programmes have become under-funded.
There has been a long-standing debate over whether food aid decreases incentives for agricultural production by driving down local food producer prices, and thereby increases dependence on food imports. The consensus in the literature is that this is only a minor factor in import dependence compared with national and international market and policy failures, and that such negative effects can be avoided or made negligible by the correct design of food aid projects or programmes. Food aid can be an effective tool for reducing hunger or malnutrition and for encouraging agricultural production.

Food aid now accounts for 50% of all Sub-Saharan food imports, and has grown rapidly during the 1980s. This reflects Sub-Saharan famine and less donor resistance to increasing it than for financial aid, because it is a good way to dispose of food surpluses. Commitments will be able to grow in future much more easily than financial aid. Recent estimates suggest that SSA needs another 7-8 million tons of food imports per annum if it is to fulfil minimum child nutrition standards. This is a small amount - less than 3-4% of world food exports, and under 0.5% of world production - which can be attained if donors are convinced that food aid can be made more effective. Projections indicate that even if agricultural policy reforms are implemented, other factors (notably population growth) will mean that the continent's basic food deficit continues to increase until the end of the century and that food aid will therefore continue to be needed as part of the international community's response to SSA economic problems.

Over two-thirds of food aid to SSA is provided in project or programme form rather than as emergency assistance. Traditionally programme aid was regarded as most likely to create disincentives, because it was given as unconditional balance of payments support to governments, which then sold the foodstuffs at low prices on local markets. However, most donors are now considering more closely the ways in which they provide food aid, in order to maximise effectiveness and minimise disincentives, instead of using it chiefly to dispose of food surpluses. Project food aid is being targeted to public works or poverty alleviation projects; programme aid is increasingly tied to conditions, either for government agricultural policy reforms or in programmes designed to compensate vulnerable groups for welfare losses under structural adjustment programmes.

Those who wish to increase the quantity and quality of food aid to SSA have to overcome objections at three levels: philosophical, political and institutional, and operational. The first priority is to convince those who are conceptually and philosophically opposed to food aid that in the right circumstances it can increase incentives for agricultural production and in the long-term reduce food import dependence. This can be done in two principal ways. The first is to link food aid to policy changes which encourage food production incentives.

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27 The principal sources used in preparing this were a special issue of Food Policy, (14[3], August 1989); Srinivasan, 1989; and Singer et al., 1987.
The second priority is to target the food, and/or the proceeds obtained by selling it, to rural public works and other projects. In principle, this should raise production incentives by improving rural infrastructure and other investment, and by increasing the incomes of the rural poor, and therefore their demand for locally-produced food. This second priority also applies to urban projects generating income for the poor, which will be increasingly important as urban poverty grows.

SSA governments and affected populations also need to be convinced. Their dislike of food aid reflects in part the colonial experience of quasi-forced labour which was rewarded with food (which puts them off food-for-work projects); and in part their wish to avoid charity and retain self-esteem. Many governments also publicly espouse policies of food self-sufficiency, and are reluctant to launch public food aid programmes. Food aid is still seen as an emergency necessity rather than a development tool. Convincing them will require genuine dialogue on food policy between recipients and donors.

Secondly, both SSA governments and donors need to have a much clearer idea of the market conditions and policy framework in which food aid can have positive effects in individual countries or regions. There is an urgent need for coordinated and detailed analysis of food and agricultural markets and policies, which in turn must be based on more reliable data. Particularly urgent issues are the factors which cause variations of household income and nutrition levels, including seasonal variations; the cash-food crop balance; and how to design projects with the participation of those affected. This may imply redesigning national and international institutions: perhaps a central food policy coordination unit within the recipient government, liaising frequently with food aid donors; close coordination with those responsible for non-food aid policy - both within the recipient government (the planning or finance ministry) and with donors through aid group meetings and local official meetings; and integration of food policy elements into structural adjustment programmes.

Thirdly, more study and careful implementation of operational mechanisms for disbursing food aid are needed, to ensure that projects and programmes live up to expectations. This applies particularly to finding cost-effective methods for targeting food aid to vulnerable groups, especially rural women and children, with minimal "leakage" to the wider population. For example, donors could explore the relative merits of using rural mother-child clinics, or school meals to distribute food aid, because they are instruments which attain other social sector objectives such as increasing access to health and education. They should also ensure maximum income-generation and employment creation by the projects, and authorise the release of local currency proceeds of food aid sales for maintenance and recurrent costs, instead of confining it to new investment.

There has been little study so far of how to link food aid to adjustment programmes effectively, and this is an urgent priority for research.

Donors which do not have large food surpluses to dispose of can employ "triangular" transactions, whereby they buy food from nearby SSA nations, to minimise transport costs, maximise the delivery of local staples rather than imported luxuries, as well as assisting the producer countries. They can also provide the financial aid which is a key support to food aid, and help maximise the savings of foreign exchange due to food aid replacing commercial imports,
as both programmes and projects will require foreign exchange to make them succeed.

Attention is also needed to increasing the absorptive capacity of SSA nations, by improving the supply of vehicle fleets, spare parts, all-weather roads and appropriate storage facilities. Present high delivery and storage costs prevent cost-effective food aid projects and programmes because they draw too heavily on limited government budgets. Absorptive capacity is also limited by the lack of a central coordinating unit, and by the location of decisions in agricultural or education ministries, which receive lower priority than finance or planning ministries.
## APPENDIX C. AID TO CÔTE D'IVOIRE AND GHANA. 1971-88

Net disbursements of aid from DAC countries and multilateral agencies to Côte d'Ivoire and Ghana, 1971-88 (millions of current dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Côte d'Ivoire actual</th>
<th>Côte d'Ivoire 3-year average</th>
<th>Ghana actual</th>
<th>Ghana 3-year average</th>
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<td>51</td>
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<td>1988</td>
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Sources: OECD, Geographical Distribution of Financial Flows and Development Co-operation (various issues).
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