Distr.: LIMITED

E/ECA/ESPD/EXP7/2
July 1998

UNITED NATIONS
ECONOMIC AND SOCIAL COUNCIL

Original : English

ECONOMIC COMMISSION FOR AFRICA

Seventh Session of the Conference of
African Ministers of Finance

Addis Ababa, Ethiopia
23 to 25 July 1998

Official Development Assistance to Africa: Lessons from Country Case Studies

An issues Paper for the Meeting of the Intergovernmental Group of Experts of the Seventh Session of the Conference of African Ministers of Finance

23 to 25 July 1998

Addis Ababa, Ethiopia

Table of Contents

I. Introduction

1. Like many developing regions the experience of African countries with Official Development Assistance (ODA) flows is a post-independence one. This is almost definitional. ODA is defined by the Development Assistance Committee of the OECD as "grants or loans to developing countries which are undertaken by the official sector, with promotion of economic development and welfare as the main objective, at concessional financial terms"[1]

2. Such experience was informed by the ruling development economics paradigm of the 1950s and 1960s which, among other things, based on various articulations of the structure of low income countries as dual economies with a large traditional, low productivity sector an embryonic high productivity modern sector. The key to the development of such economies was seen as rapid capital accumulation through the reinvestment of profits of the modern sector. Arthur Lewis, in a famous passage, stated the major development economics proposition of the time: "the countries which are now relatively developed have at some time in the past gone through a rapid acceleration in the course of which their rate of net investment has moved from 5 per cent (of national income) or less to 12 per cent or more. .The central problem in the theory of economic growth is to understand the process by which a community is converted from being a 5 per cent to a 12 per cent saver"[2]

3. A developing country with the Lewis' observed saving ratio of 5 per cent of GDP and an incremental capital output ratio of 5 can only achieve a GDP growth rate only 1 per cent[3] Thus for such countries to achieve a rate of GDP growth in excess of the growth rate of population (say, at 4 per cent per annum) they will require an investment rate of 20 per cent of GDP. The difference between the domestic savings rate and the required investment ratio is the financing gap to be filled by aid. The higher the domestic savings ratio the lower would be the dependence of aid to achieve the desired rate of growth. Developing countries differ as to their domestic savings rates and therefore also differ as to their dependence on aid. Africa is no exception.

4. The latest available information on ODA flows to Africa demonstrates these differences between African countries. For 1996, for example, net ODA flows as a ratio of GNP varied from 67.5% for Guinea Bissau, 59.8% for Mozambique and 51.2% for Rwanda to 0.5% for Mauritius, 0.7% for Tunisia and 1.8% for Morocco. Differences as between the five regions of the continent are such that North Africa has the lowest ratio of 1.6% followed by East Africa (9.6%). The three remaining regions all had relatively high ratios: Southern Africa (17.6%), Central Africa (17.9%) and West Africa (18.7%)[4]

5. It these relatively high aid ratios, coupled with the observed lack-luster economic growth performance of Africa over the period since the middle of the 19970s, which lead to the renewed debate on aid: its effectiveness, impact and future. The debate has largely been conducted in donor circles, with or without case studies, but certainly without effective participation of the recipient countries. To fill this lacuna five case studies, one from each of the ECA regions were commissioned for this conference. The five countries involved are Egypt (North Africa), Cameroon (Central Africa), Republic of Guinea (West Africa), Uganda (East Africa) and Malawi (Southern Africa).

---

[1] See, for example, DAC, (1995), Development Co-Operation 1995 Report; OECD, Paris; p. 123.
[2] W. A. Lewis, (1955), The Theory of Economic Growth; Allen & Unwin, London; pp. 208, 226.
[3] The Incremental Capital Output Ratio (ICOR) is defined as the ratio of required investment to desired growth.
[4] World Bank, (1998), World Development Indicators 1998; Washington D.C.

6 According to the available aggregate information the five countries present interesting and varied aid experience over the recent past of the 1990s. Except for Uganda, which experienced an increase in the nominal volume of ODA flows, all countries experienced a decline. Aid dependency ratios calculated by the World Bank include "aid per capita", "aid/GNP ratio", "aid/gross domestic investment ratio" and aid/imports ratio". For all countries the ratios have declined over the 1990s. The level of dependence, however, differs. The case studies, it is hoped, will give the details of the aid experience over a longer period since independence.

7 The rest of the paper is organized as follows. Section (2) embodies summaries of the case studies while section (3) provides a synthesis.

II. African Experience: Country Case Studies

8 An analysis and evaluation of African experiences with official development assistance sheds important light on a number of key issues including those of: the nature of aid flows to African; the nature of aid dependency; the issues of aid effectiveness; the issue of aid co-ordination among donors and within the country; prioritisation of activities supported by aid flows; mechanisms for aid delivery; targeting of aid; and ownership of aid activities. These country case studies also revealed the need for redesigning the aid relationship. More importantly, the need for: a strategy to raise the effectiveness of aid; reasserting the developmental goal of aid-support activities; and increasing selectivity of projects funded through aid flows. Furthermore, the studies pointed out to the need to address weaknesses in the aid delivery mechanism by donors; the importance of co-ordination among donors and implementing institutions in the recipient countries; and improving ownership on aid-supported projects and programmes.

9 **The Case Study of Cameroon**[5]: The study analyses official development assistance flows to the Republic of Cameroon since the country's independence in 1960. However, due to lack of reliable statistical information for the period prior to 1986, most analysis is based on the ten-year period from 1986 to 1996.

10 The volume of bilateral and multilateral assistance to Cameroon from 1960 to 1985 is estimated at CFA 732 billion or about 3 billion dollars. The bulk of this assistance (85 percent) was in the form of loans. Bilateral assistance came mainly from France, Germany, USA, Canada and Benelux whereas the main multilateral donors were the European Development Fund (EDF), the World Bank, African Development Bank (ADB) and United Nations Development Programme (UNDP). French aid was channeled to different sectors of the economy. German aid was mainly financing infrastructure development while Canadian aid went to human and institutional development, infrastructure, environment and private sector development. From 1974, new bilateral donors came in the scene with some Middle Eastern countries like Saudi Arabia providing important amounts. Multilateral donors were mainly involved in infrastructure, agriculture and human resource development. In 1974, the country started borrowing huge amounts from the international financial market to finance its industrial development and its balance of payments deficits. This trend led later to Cameroon's external debt overhang problem.

11. During the period from 1986 to 1996, the patterns of foreign assistance to Cameroon had changed relative to the first period. Two salient features characterized this period. Firstly, although the most important donors remained mostly the same, multilateral aid became more important than bilateral. Multilateral aid in 1996 totaled 200 million dollars against 93 million from bilateral donors. Secondly, France lost its importance to the World Bank as the main donor. In 1996, these two donors provided 61 and 102 million dollars, respectively. However, it should be noted that in 1993, France had reimbursed Cameroon's outstanding debt to the World Bank and it had provided the country with budgetary assistance amounting to 296 million dollars. Over the last few years, the sectoral distribution of aid to Cameroon has been characterized by prominence of 5 sectors which, in 1996, absorbed 84 percent of total assistance. These are economic management; transport; agriculture, forestry and fisheries; regional development; and natural resources.

[5] See Victor Ndoping (1998): Study on External Development Assistance to Cameroon since Independence (1960-1996). Economic Commission for Africa (ECA), paper prepared for the Seventh Session of the Conference of African Ministers of Finance, Addis Ababa, Ethiopia 23 to 30 July 1998.

12. Most of the infrastructure projects in Cameroon during the last 15 years have been financed through external resources. In 1993/94, foreign assistance contribution in public investment peaked at 80 percent of total public investment. Cameroon has also relied on foreign assistance to finance its budget deficits over the years. The question of the impact of external aid on exchange rate may not be relevant for the case of Cameroon because the country has a fixed peg to the French franc. However, it could be argued that at least part of the aid package that France has provided to the country, especially that targeting budget deficit financing, was indirectly a result of this fixed peg.

13. The position of Cameroon regarding other aspects of the aid is that, it is the responsibility of both donors and the country concerned to see to it that activities related to aid are sustainable. This involves capacity building in order to ensure a successful transfer of responsibilities from the donors to nationals In addition, it should be ascertained that externally financed projects are in conformity with the broad priorities set out by government for the country's socio-economic development. Furthermore, there is also need to take due consideration of the following aspects:

- Integrating aid activities into national budgets and plans, the country's view is that these are indeed integrated in the national budget and the economic plan. For 1997/98 budget, paragraph 37 of the Memorandum on Economic and Financial Policy of the country clarifies this point;
- Aid coordination. Cameroon does not have any operational formal framework of aid coordination. However, the Government established, in 1995, the Development Aid Coordination Committee (CCAD) which is a consultative organ of discussion between the country and bilateral as well as multilateral donors. The broad objective of the Committee, which is chaired by the Prime Minister, is to ensure an optimal use of external development aid to the country. Currently, all members of the Committee have been nominated but the Committee has not yet been operational;
- Aid and institutional capacity: a number of projects financed by external assistance have focused on institutional capacity This has been the case, among others, with the public service reform, sponsored by institutions such as UNDP, World Bank and French Development Fund. Other multilateral and bilateral donors have been involved in projects including institutional decentralization; reform of the justice system; governance; grassroots democracy; and strengthening the capacities in economic management. Realizing that despite progress achieved, more still needs to be done, UNDP has agreed to finance a nine-month multi-sectoral project on governance with political, economic, and socio-cultural interfaces.

14 Cameroon's views on the direction that a reform of the "aid relationship" should take evolve around the need to re-establish the country's economic stability by strengthening its current economic reforms that should lead to economic growth and poverty reduction. Most specifically, reforms in development assistance should: (a) aim, at the domestic level, at reinforcing Government's analytical capacity in terms of managing public investment; increasing the involvement of local communities in the implementation and eventually the management of the projects, and operationalising the Development Aid Coordination Committee, (b) aim, at the international level, at institutionalizing the periodical reviews of projects and programmes and at organizing co9nsultaion meetings for resource mobilization on a regular basis; and (c) aim at decentralizing cooperation between the country and donor community to include non-public structures (e.g. NGOs) and local communities.

15. **The Case of Egypt**[6]: The last twenty-five years witnessed some dramatic changes in the economic and ODA environment affecting Egypt. The seventies saw a large increase in international ODA flows to developing countries. The open door policy declared by President Sadat in 1974 raised expectations tremendously. Egypt became an increasingly attractive destination for foreign investment. Moreover, ODA began to flow from various sources. The Western countries were now willing again to support the development efforts of Egypt. The Arab countries that benefited from substantial (almost fourfold) increase in oil prices began to pump aid and investments into Egypt. Also the large jump in oil prices benefited Egypt directly as she grew to be a significant oil producer and exporter. In addition, remittances from Egyptians working abroad became an increasing source of income. Also, the World Bank began again to offer assistance to Egypt.[7]

16. Foreign aid and private flows contributed to a very rapid economic growth. Between 1974 and 1984 the average growth of real GDP approached 9% p.a. Average domestic saving was close to 21% and national investment 27% of GDP, rates not much unlike what has later become associated with the (so called) Asian miracle. However, ambitious investment and a relaxed policy of public expenditures and welfare tendencies including extended consumer subsidies led to accelerated public debt. Total external debt increased form US$ 3.0 billion in 1974 to $ 19.1 billion in 1980. Of this amount, about 75% was public or publicly guaranteed debt accumulation. Total debt amounted to about 90% of GNP. The situation deteriorated rapidly as oil prices began to plummet in 981. By 1986 the nominal price per barrel of oil was almost one-fourth of its 1981 levels. Declining oil revenues were coupled with widening trade deficit and increased borrowing. Also the terms of borrowing worsened, especially due to very high interest rates on the Dollar. Arrears accumulated. A stand-by agreement was reached with the IMF in mid 1987 and a subsequent Paris Club rescheduling was concluded. These two agreements could not be fully implemented, however, due to continued macro difficulties. The debt over-hang was just too big.

17. By 1988, total foreign debt reached $46.4 billion or about 150.7 of GNP. This high debt burden placed Egypt amongst the 5 most heavily indebted nations. Its absolute debt amount stood slightly behind Poland and equal to that of Turkey, both of much larger GNP. Total debt service exceeded 22.2% of export receipts of goods and services. Egypt could not sustain this high debt burden and arrears kept mounting. Egypt defaulted on its debt in 1987 and had to undertake drastic policy changes. This crisis signalled the need for substantial policy reform. The new government installed towards the end of 1987 began an ambitious program of economic and legislative reform*[8]

18. The public enterprise sector was recognised as a main source of the budget deficit. The notion of privatisation began to be accepted after a period of vehement opposition. Also, starting 1988 major tax initiatives were taken. Meantime declining new official development assistance was reflected in yet smaller net long-term financial flows. In 1989 Egypt received almost half the level of net official flows it received in 1986 ($0.9 billion vs. $1.7 billion). In 1989, total public foreign debt stood at about 2.5 times its level in 1980. Also, mounting debt service charges meant that net flows on debt were almost one-third their preceding levels, a mere $ 746 million, compared with $ 2297 million in 1980. In 1989 the net transfers on debt (i.e. disbursements minus debt principal repayments and interest charges) began to become negative.

[6] See Dr.Ali Soliman: Official Development Assistance to Africa: Case Study of Egypt, Economic Commission for Africa (ECA), paper prepared for the Seventh Session of the Conference of African Ministers of Finance, Addis Ababa, Ethiopia 23 to 30 July 1998.

Ibid. pp. 343-52

[8] The Economic Reform and Stabilization Programme (ERSAP)

19. The real break in the debt situation coincided with the invasion of Kuwait crisis of August 1990. The regional role that Egypt can play in ensuring peace and stability in was underscored. The effort that Egypt exerted in the liberation of Kuwait and its losses due to the loss of jobs for its workers in gulf were recognised. The US agreed in Dec. 1990 to cancel Egypt's outstanding military debt that stood at \$7.1 billion. In May 1991 Egypt concluded with the members of the Paris Club an agreement to reschedule and reduce total debt of about \$19.6 billion. Debt reduction was related to a number of policy measures that Egypt promised to undertake according to a certain time-schedule. A fresh shot of official aid was forthcoming at level not seen since the inception of the open-door policy in 1974.

20. As Egypt moves into the new Century, and is hoping for less reliance on ODA, there are some structural difficulties that threaten the realisation of this hope. These challenges include the following:

- Egypt is facing an increasingly tight ODA environment, as many developed countries are reducing their assistance budgets due to domestic budgetary pressures. Also, the disintegration of the Soviet Union meant the loss of an important market and technical assistance partner. Moreover, many of the former Soviet republics are vying for international aid funds from bilateral and multilateral sources.

- The U.S. is responsible for about one third of all DAC assistance extended to Egypt. On the other hand, Egypt and Israel are the two most prominent recipients of U.S. aid funds. This reliance causes concern to policy makers in Egypt as the U.S. aid budget is subject to active review and is susceptible to internal US pressure groups. Also, there are growing claims by some American ethnic groups for diversion of U.S. aid funds to other countries.

- Over the last 25 years Egypt has failed to realise substantial increases in its commodity trade revenues. Its share in international trade declined as it lost some traditional markets, especially in Eastern Europe, and has not developed others. Nontradable sectors seem to be a favoured investment, with concomitant loss of efficiency in other trade sectors. Thus, the international competitiveness of Egyptian industry and agriculture is coming into question.

- In addition to stagnant trade receipts two other major sources of foreign currency for Egypt, namely tourism and workers remittances are subject to wide oscillations due to external factors. The third source, Suez Canal dues has been stagnant, if not declining, over the last decade. On the other hand, FDI has increased perceptibly over the last decade but not in enough magnitude to make-up for the potential loss of foreign currency receipts.

- Egypt's ability to increasingly forgo ODA depends on its ability to increase its domestic savings. This desirable goal was not realised in the past few years. On the contrary, the deflationary impact of the ERSAP program was reflected in lower domestic saving ratios.

- The bulging size of domestic debt is another problem facing the policy maker, as more funds are needed to finance the development program. As domestic debt charges are eating more of the current budget, more foreign assistance, and not less, would be required for some deserving activities such as health and education.

21. **The Case Study of Guinea**[7]: Inspite of its huge economic potential (enabling natural environment, rich lands and soils), the Republic of Guinea is among the least developed countries, with a per capita GDP of about US$ 600. To develop its economic potential, Guinea has largely resorted to external aid. The Guinean aid policy remained closely linked to the evolution of the economic management, and to the political orientation of the country. Thus, two main periods could be distinguished in the evolution of the country's aid policy: from 1958 (date of accession to independence) to 1984, and from 1984 to present date. Roughly speaking, the first period corresponds to the socialist regime, while the second period coincides with the free market orientation.

22. During the period 1958-1984, assistance received amounted to US$ 1,278 millions, mainly in the form of bilateral aid from socialist countries, namely the Soviet Union, China and Eastern European countries (more than 50%). Multilateral and bilateral aid from Western countries was relatively limited, though it has tended to increase during the last years of the socialist regime (1978-1984), due to beginning of a new political era. During this period, aid was mainly directed to the industrial and mining sectors (57%), physical infrastructures (13%), rural development (8%) and social sectors, education and health (2%). There was an obvious gap between official statements and the reality of aid allotment.

23. The economic performance of the country during the first period was far below expectations. The investment rate was one of the lowest recorded in Sub-Saharan Africa countries (less than 15%). Literacy rate was about 30% (against 76% in the sub-region). Economic growth rate was very low, about 2% on average per year during the whole period, less than the population growth rate of 2.9%. Because of the slow economic growth and the over-evaluation of the local currency, the country was unable to service its external debt, which amounted to 92% of its GDP and overdue external payments stood at about US$ 300 millions.

24. Economic and political liberalization marked the second period, 1985 to the present. Public enterprises were dismantled and the State withdrew from productive sectors to the benefit of the private sector. Economic liberalization was undertaken within the framework of a structural adjustment program, which received the support of the whole international financial Community. From 1984 to date, aid received by the Republic of Guinea amounted to US$3.3 billions, mainly from multilateral financial institutions (54%) in particular the World Bank, followed by the African Development Bank (ADB). Moreover, western countries belonging to the Paris Club substantially increased their aid, thus becoming the second main donors (26%) after international financial institutions. These countries also helped Guinea to significantly reschedule its external debt at the Paris Club. Contrary to this trend, aid provided by socialist countries decreased considerably, mainly, because of the collapse of the Soviet Union and the on-going economic reforms in China and Eastern Europe.

25. On the basis of the change in the composition of donors, and in view of the reform programmes that were implemented during the period, the sectoral allocation of aid also changed compared to the earlier period. Thus physical infrastructure became the major sector to receive aid with a share of 30% of the external assistance followed by rural development (21%), and the social sectors (20%), the remaining 29% went to energy, water and the mining sector.

---

[7] See Professor K. Yansane (1998): Official Development Assistance to Africa: Prospects, Challenges: A Case Study of the Republic of Guinea. Economic Commission for Africa (ECA), paper prepared for the Seventh Session of the Conference of African Ministers of Finance, Addis Ababa, Ethiopia 23 to 30 July 1998.

26 A number of observations can be made regarding the impact of aid on the economic performance of the country: economic growth rate averaged about 4% per annum and investment rate increased gradually to reach 20% in 1995. Consumption and capital goods shortages recorded during the first period now belong to the past. Above all, the literacy rate has improved substantially to reach 42% in 10 years.

27. The Guinean aid policy is still facing many problems:

- the public investment program is made up of a set of projects with very limited coherence among themselves, and often sponsored by donors;
- aid coordination is still embryonic and needs to be strengthened;
- local capacities to conceive and monitor aid are very limited inspite of efforts made since a decade;
- The low level of counterpart financial resources also affects ownership of activities; this limits the absorption capacity of the country

28. The policy implications of the above assessment of the Guinean experience on aid could be summarized as follows. First priority is to raise national fiscal revenues to a level comparable to the average of African countries, (i.e. 20%, against the current 12%), to prevent aid dependency and to be in a position to embark on an effective dialogue with donors. Moreover, aid to be sought should be as concessional as possible. Aid management structures should be better coordinated. Finally, external aid should be incorporated in the long-term economic policy of the country.

29. **The Case Study of Malawi[10]:**

30. **The Case Study of Uganda[11]:** ODA to Uganda has been dictated by three broad factors. During the early years following independence in the 1960s, aid was in the form of post-colonial assistance, with the dominance of one donor: the United Kingdom. The difficult situation during the 1970s necessitated substantial foreign assistance to finance the country's imports. This was due the low negative growth of the economy coupled with important capital flight, high coffee smuggling and deterioration in terms of trade. As a result, the ratio of ODA to GDP averaged 10.8 percent between 1973 and 1979. Since the early 1980s, ODA was dominated by multilateral institutions, namely the IMF and World Bank. This was the result of the adoption of a stabilization and rehabilitation programme that was announced in 1981. However, as political instability prevailed during the first half of the 1980s, it was not until 1986 that donor flows became very strong. Between 1986 and 1996, ODA flows averaged 13.4 percent of GDP as compared to a ratio of 9 percent between 1982 to 1985. Over the last five years to 1997, pledges at Consultative Group Meetings have been characterized by a wide variety of donors that are dominated by multilateral institutions (63 percent of total pledges, with the World Bank representing 23 percent of the total). This is a shift that translates the country's policy to favour highly concessional financing. The pledges from bilateral donors are dominated by European countries which accounted for 70 percent of total bilateral pledges, most of them being grants

[10] See Professor M. Chikaonda: Official Development Assistance to Africa: Case Study of Malawi, Economic Commission for Africa (ECA), paper prepared for the Seventh Session of the Conference of African Ministers of Finance, Addis Ababa, Ethiopia 23 to 30 July 1998.

[11] See Dr. L.A. Kasendeke and Mr. Ating Ego: Official Development Assistance and Africa: Country Case Study of Uganda, Economic Commission for Africa (ECA), paper prepared for the Seventh Session of the Conference of African Ministers of Finance, Addis Ababa, Ethiopia 23 to 30 July 1998.

31 With respect to the sectoral distribution of aid, it is noted that the bulk of external assistance has been absorbed by multi-sectoral projects, including the Economic Reconstruction Assistance and the Northern Uganda Rehabilitation Project. For the period 1962 to 1978 and 1979 to 1997, they accounted for 75 and 46 percent of total external assistance, respectively. However, there is now a shift of donors from multi-sectoral to sector programmes. The sectors that have been targeted are mainly agriculture and industry. Other sectors such as health, mining and energy, and transport and communications have also benefited, albeit to a lesser extent. One interesting finding of the analysis in this connection is that, apart from health, social sectors have not been given priority, especially during the period starting from 1973 onwards.

32. Evolution of Uganda's external debt and policy shows that the country's outstanding debt has been relatively high. The outstanding debt stock amounted to 1.3 billion in 1986 and doubled within 5 years to reach 2.6 billion dollars in 1991. In the same year, the debt service ratio represented 95 percent of exports while the ratio of debt to GDP was 106.8 percent. In 1997, despite an increase in the stock of debt to 3.7 billion due, in a way, to Uganda's success in attracting foreign financing over the last ten years, the ratio to GDP had improved to stand at 63.2 percent. This was certainly the result of the country's new strategy to source highly concessional financing.

33. With respect to the issue of aid policy, it was not possible to establish any policy for the period 1962-1980. Between 1981-1984, it seems that the policy was to rehabilitate infrastructure of the country ravaged by years of war and neglect. Aid for the period 1987-1997 was mainly geared towards financing specific programmes. The current strategy, in regard of the high level of debt stock, has been to negotiate debt rescheduling, buy back and restructuring of the uninsured commercial debt. Some success has been achieved in this regard. It should also be noted that Uganda has benefited from the Highly Indebted Poor Countries (HIPC) initiative which, at the completion point in April 1998, resulted in a relief amounting to 650 million dollars. As a result of these efforts, the country's debt service ratio has declined from the highly unsustainable rate of 127.7 percent in 1991/92 to a sustainable rate of 24 percent in 1997

34. It has been established that ODA flows to Uganda have had a significant impact on key macroeconomic variables, a summary of the results is as follows: (a) In the 1980s, the impact of ODA on growth was through increased capacity utilization resulting from economic rehabilitation efforts. In the 1990s, within an improved macroeconomic environment, external resources have been generally utilized to finance the expansion of the capacity of the economy, especially by putting in place basic infrastructure. Donor resources have also been directed to sectors that are essential in sustaining economic growth, such as financial and education sectors. In addition, Uganda has, until now, relied on foreign savings to kick-start investments. These have been mainly concentrated in the structures rather than equipment and machinery. Foreign assistance is still very much necessary to finance the huge investment needs of the country. (b) With respect to the impact of ODA on consumption, intuition dictates that there has been indeed an important causality from ODA to consumption, although a bivariate causality test does not support this relationship. ODA has had a direct impact by increasing government consumption and an indirect one by reviving private sector income generating activities. (c) Regarding ODA's impact on the country's exchange rate, the main worry has been that large inflows of foreign resources have been a source of appreciation pressures on the Ugandan shilling, thus reducing competitiveness of the export sector. A bivariate causality test has shown that there is indeed a long-run unidirectional causation relationship from ODA to exchange rate appreciation. However, data does not support this causation in the short-run. (d) The impact of ODA on the budget is thought to have been positive. Indeed, statistics show that aid support to the government budget during the adjustment process has strengthened economic performance and social welfare.

35. With regard to the issue of ownership of aid activities, it should be noted that aid activities in Uganda during the last ten years responded generally to the country's own economic programme that resulted from its consultative meeting in 1986. As such, multilateral and bilateral donors have been called upon to help implement the programme that was endogenously defined. It is indeed acknowledged that both the ownership of the programme and the political will to implement it have been the two key elements explaining the success of Uganda's economic reform.

36 Uganda has also encouraged the involvement of NGOs in aid related projects, especially those targeting the poor such as projects implemented within the Poverty Eradication Action Plan (PEAP). This has had an impact on institutional building at the grassroots level. In addition, decentralization efforts have been made to increase the participation of the population in contributing to economic growth. The direct involvement of donor NGOs in development and poverty reduction activities at the local community level appears to have been a successful experience in Uganda.

37. In light of the foregoing, some lessons drawn from the experience of Uganda could be elements of a strategy on the reform of the "aid relationship". These are that: (a) ownership of aid-related programmes is critical to their success, (b) there is a need for each country to adopt a clear aid strategy to prevent an eventual problem of debt overhang that may result from increased ODA inflows; (c) macroeconomic and political stability are essential to trigger increased donor interest and hence more resource inflows; and (d) there is a need for reduced conditionality on aid to increase absorption. In this context, it would help recipient countries if donors could agree on the same set of conditions

III. A Synthesis of Country Case Studies

38. Given the uncertainty as to future trends of aid flows, it is imperative that African countries evaluate the implications for their economies and countries of declining trends in official development assistance. Some hard choices will need to be made as well as policy orientation to increase the domestic resource mobilization required to support the development process.

39. Accordingly, African countries would need to adopt strategies, which effectively respond to these developments:

- A key element of a strategy for reducing aid dependence would be for official creditors to give deep debt relief and reduce gross flows to maintain net flows constant in the first instant. This can then form the basis for the country itself to plan a reduction in net flows over time;

- The transition from aid dependency would give rise to aid flows to become a separate source or risk to the economy. Aid flows might be curtailed sharply: the higher the current level, the greater the probability of cut back and the greater the depth of the cut back; and

- The answer to the general volatility on government resources is to develop contingency funds, which are built in good times to be disbursed in bad. A more conservative fiscal stance is required in good times and political will is required in any event to reduce aid dependence

40 Taking into account these strategic considerations, one proposal for an ideal aid system starts with recognizing that the current aid system is a spiral of weak recipient capacity (for monitoring and evaluation) leading to donors taking an ever increasing and intrusive role in decisions regarding public expenditure (motivated by an incentive to disburse funds) resulting in further weakened recipient capacity. The key to breaking this spiral is "to return spending authority, control and accountability to the country in question". The components of an ideal system, which could bring about the desired results, would include the following:

- An overall development strategy in the context of which the government will present its rolling expenditure and revenue plans;

- A mechanism to discuss these plans with domestic and donor constituencies;

- An understanding between development partners that the plans would be scrutinized for broad coherence and feasibility and policy consistency, not for the details of projects included;

- Once plans are agreed, donors would contribute to a pool of aid, which along with government's own resources would finance the entire expenditure package.

41. Practical suggestions to the transition from the current aid system to the ideal system may include:

- Institutionalizing a national conference on development strategy: to be attended by all the local stake-holders and in which rolling plans are presented;

- Preparation of public expenditure review documents and other relevant documents embodying economic and social policy reform programs by governments, instead of by donors;

- Advance donor coordination aiming at pooling of aid at the sector level,

- Increased investment in recipient countries capacity for accounting and auditing of public expenditures,

- Reform of the current donor consultation fora (Consultative Groups and Round Tables) by moving them to countries, co-chairing with countries, servicing them with government documents only, and enlarging participation;

- Formal agreements between two or more donor agencies on a division of labour in a particular country.

42. From the country case studies prepared for this purpose, it appears that African countries subscribe to the major building blocks for such an ideal system. Without getting involved in recent historical details, it should be noted that up to the mid-1970s most of the African countries did have organizational structures which routinely articulated and published strategic plan documents, embodying aims and objectives and broad allocations required to attain the described goals. Like many other aspects of African capacities, these institutional structures have been undermined, and the majority dismantled, over the period under consideration.

43. The reasons for doing this were varied, but the actions precipitating were donor driven and may have been ideologically motivated (though on semantics rather substantive). The question that remains for African countries is that: does the articulation of an "overall development strategy in the context of which expenditure and revenue plans are presented" require a supporting institutional framework? And, if so, what type of framework? Implied in the proposed ideal aid system is some form of planning framework. What new features, if any, does this planning framework have?

44 The country case studied shed important light on a number of issues regarding the shift that would be required to move to an ideal aid system, including the following:

- **Ownership:** The need for improved ownership of aid-funded programmes and projects is expressed in most of the country case studies. Uganda, however, has already achieved a measure of ownership of such programmes and projects by ensuring that aid activities respond generally to the country's own economic programmes. Important facets of Ugandan aid ownership include, mobilizing political will to ensure implementation and success of the programmes, bilateral and multilateral donors being called upon to support programmes that are endogenously defined, and encouraging the involvement of non-governmental organizations and grassroots organizations;

- **The need for strengthening institutional aid delivery mechanisms:** A number of the case studies pointed to the need to strengthen aid delivery mechanisms and institutions. The case study of Guinea points to the lack of coherence of programmes and projects that constitute the "public investment plan", to the fact that aid coordination is still embryonic and needs to be strengthened, to the limited local capacities to conceive and monitor aid activities, and to the low level of local counterpart funds which affects ownership and absorption capacity;

- **The importance of a strategic vision of aid-funded activities:** Overall aid flows to a country are a result of interaction of "exogenous" and "endogenous" factors. The endogenous factors include macroeconomic policies adopted by the country and political stability. Macroeconomic and political stability are essential to attract aid flows and foreign direct investment The exogenous factors include economic and political climate in the donor countries, developments in the world economy and movements in commodity prices of export interest to African countries. It is imperative that a country has a realistic assessment and evaluation of developments in both endogenous and exogenous factors that affect its aid flows. The case of Egypt as provided below provides some illuminating pointers.

- **Reform of the current consultative fora:** A number of the case studies pointed to the need to improve consultative mechanisms of aid activities. The study on Cameroon points to the need for institutionalizing periodical reviews of projects and programmes and at organizing consultation meetings for resource mobilization on a regular basis.

- **Involvement of non-governmental and grassroots organizations:** A number of the studies pointed to the importance of encouraging the involvement of these institutions in conceiving and implementing aid-funded programmes and projects. The study on Cameroon points to the need for increasing the involvement of local communities in the implementation and eventual management of the projects. On the other hand, the study on Uganda indicates that the country has been encouraging these institutions to become involved and their direct involvement in development and poverty reduction at the local community level appears to have been extremely successful.

45. The case study of Egypt presents some important lessons on how to respond to the realities of aid dependency and modalities for improving aid effectiveness. Egypt has for sometime been a major recipient of external aid. Taking due cognizance of its past relatively heavy dependency on aid flows, Egypt has not only embarked on comprehensive programs for attracting "foreign direct investment", but the country has developed a "strategic vision" for future external aid flows. In this process, the country has identified the major constraints that Egypt will face in the near future in attracting aid, the responses needed to ameliorate the adverse impact of declining aid flows, and efforts needed for the country to become self-reliant in a given planning horizon

Annex: Table (A..1): ODA Flows and Aid Dependency Ratios for African Countries: 1991 and 1996*

Country	ODA (US $ million)		ODA Per Capita (US$)		ODA/GDP Ratio (%)		ODA/GDI Ratio (%)		ODA/Imports Ratio (%)	
	1991	1196	1991	1996	1991	1996	1991	1996	1991	1996
Angola	279.7	544.2	29	49	9.6	15.8	51.5	7.2	6.6	12
Burundi	259.1	203.8	46	32	22.4	18.1	154	203.2	72.4	96.9
Cameroon	518.5	413.3	44	30	4.5	4.9	25	28.4	18.7	16.8
Central Af. Rep.	174.7	166.9	58	50	12.8	16.1	99.8	280.7	52.3	62.3
Chad	265.8	305.2	46	46	20.2	26.9	274	134.9	56.7	50.7
Congo Dem.Rep.	476.2	167.4	12	4	5.7	2.8	94	38.5	-	-
Congo Rep	133.7	429.7	57	159	5.9	22.9	24.9	29.6	7.9	10.6
Gabon	143.4	126.5	145	112	3	2.6	10	11	6.0	5.5
Rwanda	363.6	674.3	51	100	19.9	51.2	166.8	371.9	101.9	176.5
Central Africa										
MEAN	290.5	336.8	54.2	64.7	11.6	17.9	100.0	130.0	40.3	54.7
Standard Dev	130.5	180.1	34.9	46.1	7.1	14.4	81.2	121.5	33.7	54.6
Ethiopia	1097.3	849.4	21	15	20.6	14.3	287.8	67.6	84.2	49.1
Kenya	921.2	606.1	38	22	12.1	6.8	53.9	32.4	33.3	16.5
Madagascar	455.9	364.5	38	27	17.9	9.1	161.3	87.8	54	31.1
Mauritius	67.5	19.5	63	17	2.4	0.5	8.3	1.8	3.4	0.7
Tanzania	1080.7	893.7	41	29	24.9	15.6	86.7	84.8	61.4	38.4
Uganda	666.8	683.6		35	20.4	11.3	132.3	68.3	91.1	41
East Africa										
MEAN	714.9	569.5	40.0	24.4	16.4	9.6	121.7	57.1	54.6	29.5
Standard Dev	367.7	300.5	39	6.9	7.3	5.0	89.4	30.6	29.8	16.5
Egypt	5024.7	2211.8	94	37	14.3	3.3	64.2	19.7	26.4	10.9
Morocco	1232.4	650.8	50	24	4.6	1.8	19.5	8.6	12.8	5.2
Sudan	880.9	230.3	36	8	12.3	-	94.9	-	70.7	15.8
Tunisia	357.2	126.4	43	14	2.8	0.7	10.5	2.7	5.6	1.3
North Africa										
MEAN	1873.8	804.8	55.8	20.8	8.5	1.6	47.3	8.4	28.9	9.3
Stabdard /Dev.	1845.6	835.7	22.6	11.0	4.9	1.1	34.2	7.0	25.3	5.5
Botswana	136	80.8	103	55	3.4	1.7	10.9	6.8	5.7	3.6
Lesotho	126.2	107.2	69	53	12.1	8.7	27.6	11.6	13.9	12.8
Malawi	524.6	500.8	60	50	24.6	23.2	119.6	132.4	60.6	48.9
Mozambique	1070.3	922.9	74	51	83.8	59.8	163.4	111.5	88.4	87.8
Namebia	184.4	188.6	133	119	6.9	5.7	38.8	29.4	10.5	9.1
Zambia	883.3	613.9	110	67	27.7	18.6	237.4	120.2	48.8	-
Zimbabwe	393.3	374.2	30	33	6.3	5.2	23.9	27.6	15.4	19.8
Southern Africa										
MEAN	474.0	398.3	84.0	61.1	23.5	17.6	88.8	62.8	34.8	30.3
Standard Dev.	348.7	283.4	30.2	25.4	26.1	18.7	80.3	51.5	29.2	29.5
Benin	268.4	292.8	55	52	14.5	13.5	98.5	77.5	41.2	49.7
Burkina Faso	423.7	418.2	46	39	15.2	16.5	73.7	64.8	55.8	83.7
Côte d'Ivoire	632.7	967.6	51	67	6.9	9.9	82	66.1	14.6	19.5
Gambia	102.7	38.5	107	34	31.6	13.4	157.2	62.6	38.3	12.7
Ghana	882.1	653.6	58	37	13.6	10.5	84.2	55.2	49.5	25.6
Guinea	382	295.5	64	44	13.6	7.8	77.5	57.6	31.2	28.1
Guinea Bissau	115.5	179.9	118	164	49.4	67.5	144.9	304.3	100.6	122
Mali	457.7	505.1	53	51	19.2	19.4	83	71.7	53.3	56.2
Mauritania	219.9	273.6	107	117	20.6	26.4	108.4	113.8	37.6	41.3
Niger	377	258.7	48	28	16.5	13.2	176.4	134.8	57.6	53
Senegal	639	581.5	85	68	12	11.6	94.8	68.3	33.4	32.9
Sierra Leone	104.9	195.5	26	42	14.8	21.2	123.2	223.3	47.8	78.3
Togo	202.2	166	56	39	12.9	12	73.7	85.4	22.2	25.5
West Africa										
MEAN	369.8	371.3	67.2	60.2	18.5	18.7	106.0	106.6	44.9	48.3
Standard Dev.	229.0	240.0	28.9	37.2	10.5	14.9	32.9	72.3	20.3	29.7
All Africa										
MEAN	538.5	422.2	50.6	47.6	15.3	14.4	91.1	82.3	39	37.4
Standard Dev	763.4	373.6	33.6	37.8	14.3	14.8	71	84.7	29.2	36.8

Source: World Bank, World Development Indicators, 1998; Washington, D.C.

*Countries for which most of the information is reported in the source

** GDI: Gross Domestic Investment

Annex: Table (A.2) Official Development Assistance Indicators for Selected African Countries, 1991 and 1996.

Country	ODA (US $ million)		ODA Per Capita (US$)		ODA/GDP Ratio (%)		ODA/GDI Ratio (%)		ODA/Imports Ratio (%)	
	1991	1996	1991	1996	1991	1996	1991	1996	1991	1996
Cameroon	518.5	413.3	44	30	4.5	4.9	25.0	28.4	**18.7**	16.8
Egypt	5024.7	2211.8	94	37	14.3	3.3	64.2	19.7	**26.4**	10.9
Guinea	382.0	295.5	64	44	13.6	7.8	77.5	57.6	**31.2**	28.1
Malawi	524.6	500.8	60	50	24.6	23.2	119.6	132.4	**60.6**	48.9
Uganda	666.8	683.6	39	35	20.4	11.3	132.3	68.3	**91.1**	41.0

Source: World Bank, World Development Indicators, 1998