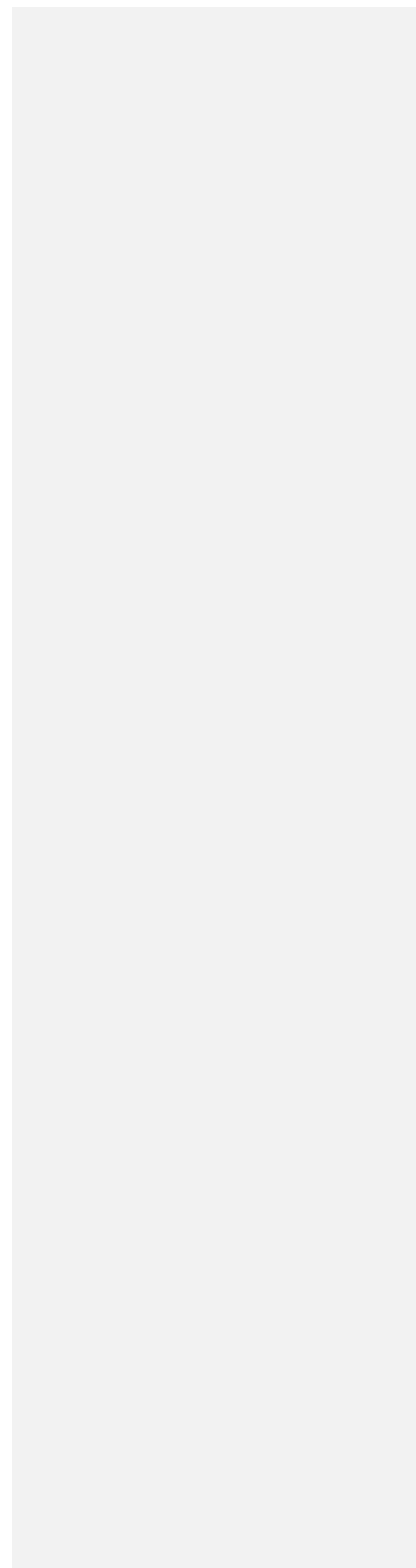


National Strategies for Poverty Reduction and
Implementation of the Millennium Development Goals:
An Issues Paper

ECONOMIC COMMISSION FOR AFRICA

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Acronyms

APRM	African Peer Review Mechanism
BOP	Balance of Payments
CfA	Commission for Africa
CFA	Central Africa Franc
CPIA	Country Policy and Institutional Assessment
DAC	Development Assistance Committee
EC	European Commission
ECA	Economic Commission for Africa
GPRS I	Ghana Poverty Reduction Strategy
GPRS II	Growth and Poverty Reduction Strategy (Ghana)
HIPC	Highly Indebted Poor countries
IDA	International Development Association
IEO	Independent Evaluation Office (IMF)
IFI	International Financial Institution
IMF	International Monetary Fund
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
MTEF	Medium-Term Expenditure Framework
NEPAD	New Economic Partnership for Africa's Development
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OED	Operations Evaluations Department (World Bank)
ODI	Overseas Development Institute
PASDEP	Plan for Accelerated and Sustainable Development to End Poverty (Ethiopia)
PEAP	Poverty Eradication Plan (Uganda)
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PRS	Poverty Reduction Strategy
SGPR	Second Generation Poverty Reduction Strategy
SPA	Special Partnership with Africa
SSA	Sub-Saharan Africa
SWAP	Sector-wide Approach
PRSP	Poverty Reduction Strategy Paper
UNMP	United Nations Millennium Project

Executive Summary

Africa's fragile progress towards reaching the Millennium Development Goals (MDGs) coincides with the end of the "first generation" of Poverty Reduction Strategies (PRSs) that were mandated as part of the enhanced Highly Indebted Poor Countries (HIPC) Initiative in 2000. This is therefore an opportune time to take stock of the PRS initiative, and to set out what has been learnt for the "second generation" of PRSs in view of the imperative to reach the MDGs in Africa.

The PRS initiative was innovative, in that it sought to emphasize some new principles: country ownership, results orientation, comprehensiveness, partnership and a long-term relationship. The importance of a national process for deciding on policies and programmes was thereby recognized to be as important as the content of those programmes.

The various assessments of the PRS initiative concur that there were indeed several positive results:

- They improved the focus on poverty, especially through higher allocations for pro-poor spending. "Pro-poor" sectors received on average higher allocations of 2% of Gross Domestic Product (GDP) in 20 countries in 1999-2003;
- They involved stakeholders more actively, especially in preparation;
- They helped increase the attention given to governance issues, especially public finance and expenditure management;
- They provided a better framework for managing aid; and
- They were consistent with, and were reinforced by the New Partnership for Africa's Development (NEPAD).

On the other hand, with regard to the content of Poverty Reduction Strategy Papers (PRSPs):

- There was insufficient attention to growth and employment, as opposed to social sectors;
- Prioritization and sequencing were weak;
- The analytical underpinnings, especially the sources of growth and their distributional impact, were insufficient;
- The response by external partners was generally inadequate, especially in terms of their alignment with the national PRSP; and
- Gender issues received very little attention.

In terms of the PRSP processes:

- There was little attention to broader national processes and political organizations, especially Parliaments;
- Stakeholders were typically left out of monitoring, and out of consultations on macroeconomic and structural policies;
- Capacity issues were under-emphasized; and

- Processes were driven in large part by the need for International Monetary Fund (IMF) and World Bank endorsement.

It follows that the “second generation” of poverty reduction strategies (SGPRSs) needs to address four sets of issues: the content of poverty reduction strategies, especially the relationship between economic growth and poverty reduction; the ownership, leadership and accountability for poverty reduction strategies; the capacity to implement those strategies; and external assistance.

Poverty and growth

For the poorest countries, stimulating faster economic growth is essential (though not sufficient) for poverty reduction. This requires consistent macroeconomic policies that ensure reasonable price stability, stronger international efforts aimed at coping with external shocks and ensuring good public expenditure policies. Improving the investment climate through the removal of administrative barriers, better infrastructure, a more efficient and development-oriented financial sector, improving the capacity to trade, and better human capital and technology will be the keys to ensuring faster growth. Special attention needs to be paid to small enterprises and microfinance to ensure that there is faster growth in employment and informal sector incomes, especially in agriculture.

Ownership, leadership and accountability

Political commitment and leadership are essential to growth and poverty reduction, and better governance improves the chances of both pro-growth and pro-poor policies being effectively implemented. The PRS process to date has been viewed in largely technocratic terms, whilst parallel processes have contributed to the impression that the PRS was really “for donors” and not for the nation. Effective SGPRSs will therefore consolidate and integrate the PRS with national processes, involving Parliaments and other organized social and political groups.

Capacity

Lack of capacity remains a major constraint for reaching the MDGs and poverty reduction. Past efforts to address this have lacked an appreciation of the institutional context at the national level, the availability of skills within countries and in the Diaspora, and the reforms (including finance) needed to mobilize them. Such efforts have tended to emphasize supply-side measures, which have often been expensive and lacking systemic impact. Capacity issues need to come to the fore, and consideration needs to be given to establishing institutions with a clear mandate for addressing capacity issues.

Aid

Not only has aid been insufficient to ensure poverty reduction, it has generally been poorly aligned with poverty strategies, inadequately harmonized and unpredictable. This has placed a heavy burden on the limited capacities of African governments, who in turn need to develop explicit aid management policies and long-term exit strategies to press for budget support and other modalities that are more predictable and less burdensome. At the same time, they need to strengthen their capacity to demonstrate results. Mutual accountability systems have to be developed along with a stronger capacity at the continental level, through the African Union (AU), NEPAD or the Economic Commission for Africa (ECA), to support national efforts to achieve better aid management.

1. Introduction

Most African countries made limited progress in reducing poverty over the past twenty years and have so far been moving at a slow pace towards the MDGs, compared to other regions of the developing world. There are numerous factors for explaining this poor performance and the differences in country experiences. However, as African Ministers of Finance, Planning and Economic Development affirmed at the 2005 ECA Conference in Abuja, Nigeria, “It is clear that Africa’s progress towards significantly reducing poverty and achieving the MDGs has been hampered by insufficient economic growth, and because the benefits of the growth achieved have not, for the most part, been shared broadly across society”.

Both income poverty and most social indicators deteriorated in almost all low-income African countries until the late 1990s. Against this background, the PRSPs were introduced in 1999, initially as part of the expanded HIPC process, to improve the planning, implementation and monitoring of public actions aimed at reducing poverty. In parallel with debt reduction by the International Financial Institutions (IFIs) and bilateral creditors, eligible developing country governments would prepare PRSPs, in accordance with five fundamental principles. They had to be:

- Country-driven including broad-based involvement of civil society;
- Results-oriented, giving priority to pro-poor outcomes;
- Comprehensive by addressing the holistic nature of poverty;
- In partnership with all stakeholders; and
- Based on a long-term perspective.

This approach contrasted with the previous requirement of the IFIs (in turn the key to most bilateral support) for a Policy Framework Paper, which was perceived to be donor-driven, focusing on policy conditionalities relating mainly to macroeconomic and structural reforms, and placing little if any weight on needed reforms by donors, besides being excessively short term. It represented a shift from policy conditionality on the part of the external partners towards “process conditionality”. In particular, there was a strong expectation that the process of deciding PRSPs would involve wider participation (i.e. beyond government) at the national level.

The introduction of the PRSPs did not denote the first time poverty was made a priority by African governments; nor were the group of countries – mainly low-income, heavily-indebted countries from which PRSPs were now expected - the only ones to take poverty issues more seriously. In particular, the middle-income countries of North Africa as well as The Republic of South Africa had been planning quite successfully for poverty reduction for some years. However, the PRSP initiative did represent the first attempt to develop a concerted approach to poverty reduction, bringing together national policies, aid and debt relief processes.

Since the introduction of the PRSP initiative, many African countries have also adopted the MDGs as a tool for coordinating development policy, within broader development priorities, in order to sharpen the focus of their efforts in the fight against extreme poverty. The MDGs were endorsed by the 191 Member States of the United Nations as measurable targets attached to set timeframes and governments in developing and

developed countries have jointly committed themselves to provide the resources and implement the policies to achieve them.

In that regard, it is important to address the issue of alignment of the PRS process with the MDGs. Against the background of reviewing their progress towards achieving the MDGs, many African countries have therefore been taking stock of the achievements and outstanding challenges associated with the PRS process prior to embarking on the so-called second generation PRSs.

Lessons from experience

In 2001, ECA established the PRSP Learning Group (PRSP-LG) on the PRS as a regional forum for peer learning and information sharing on the design and implementation of national PRSs. Over the past five years, the PRSP-LG has held three annual meetings during which countries have discussed and shared their experiences. The consensus from the PRSP-LG discussions is that a second generation of poverty reduction strategies (SGPRSs) must offer stronger potential for sustained growth, help address the economic transformation needs of low and middle-income African countries, and deepen partnerships around country-led approaches.

At its last stocktaking meeting in December 2003, the PRSP-LG concluded that while the PRSP had positive effects on the content and process of development planning, African governments needed to do more to articulate pro-poor policies and programmes, address HIV/AIDS, improve the links with the budget system, address capacity issues and institutionalize consultation mechanisms. In turn, external partners needed to accelerate aid harmonization.

Since then, several major studies have been carried out on PRSPs, by the Overseas Development Institute (ODI) for the Special Partnership with Africa (SPA) budget support working group, by the World Bank's Operations Evaluations Department (OED) and the IMF's Independent Evaluation Office (IEO) among others. Their conclusions were broadly similar.

Indeed, the SGPRSs in Africa face huge challenges. In addition to those outlined above, the growth performance, though improving, is not sufficient to meet the MDGs and reduce poverty. Employment issues, especially for youths, plus the rapidly growing number of orphans and vulnerable children mean that, without faster growth and better employment prospects, social breakdown is becoming a real threat.

Maintaining the momentum gathered for Africa

In light of the PRSP-LG consensus and the urgent need to upscale efforts in the quest to achieve the MDGs, the time is now right to convene a high-level regional dialogue to discuss the LG findings and recommendations and agree on the way forward. The year 2005 has often been referred to as 'The year for Africa' as the international community, despite other major international development crises (such as the Tsunami in Asia) kept a sharp focus on addressing Africa's persistent poverty and the need for special efforts ("a big push") in order to achieve the MDGs in the region as a whole.

The UN Millennium Project reported in January 2005 and called for a doubling of aid to low-income countries. The Commission for Africa reported in March 2005, with a similar message and many concrete recommendations on how to accelerate development in Africa. The G8 Summit at Gleneagles in July considered the Commission's report, and made key decisions on aid, trade and debt in Africa, committing among other things to a doubling of aid to Africa by the year 2010. The culmination was the UN General Assembly World Summit in September 2005, which reviewed progress towards the MDGs and made concrete commitments on a group of "quick impact" initiatives that developing and developed countries should jointly launch as soon as possible in order to improve millions of lives and boost economic growth.

Considering the outcomes and commitments of the 2005 reports and conferences, it is no exaggeration to say that the PRSs under preparation in Africa in 2005-2006 represent the last chance to set countries on track to meet the 2015 targets. It is essential that African governments now take stock of the PRS initiative and other recent experiences in poverty reduction policy implementation in order to develop a clear perspective on the way forward.

In that context, the objective of this paper is to provide a framework for the discussions at the 2006 African Plenary on the PRSs by synthesizing recent country experiences on implementing national PRSs as well as policies necessary to achieve the MDGs. On that basis, the paper also makes recommendations for African countries as they seek to implement existing strategies and/or develop new ones.

In doing so, the paper draws on the deliberations of ECA's PRSP-LG and on the wealth of existing analytical work on the substantive themes of the African Plenary on PRSs. In that regard, it provides a summary and presents the main highlights of the background papers submitted for each of the four substantive themes of the African Plenary on the PRSs, namely:

- Growth and poverty reduction and the implementation of the MDGs;
- Ownership, leadership and accountability for poverty reduction;
- Capacity needs for the implementation of the PRSs; and
- The emerging aid architecture.

It is hoped that at the end of the discussions, the participants of the African Plenary on the PRSs will agree on an 'Outcome Document' that takes stock of what has been achieved, highlights the key outstanding challenges and points the way forward through an Action Plan for enhancing Africa's national PRSs and successfully aligning policies to spur sustainable growth and achieve the MDGs.

2. Reaching The Millennium Development Goals: Policies for Growth and Poverty Reduction

For the majority of African countries, achieving the MDGs will require faster growth fuelled by aid and underpinned by good economic and political governance. Most importantly, growth must be broad-based, equitable and sustainable if it is to have a significant impact on societal wellbeing and facilitate achievement of the MDGs.

The current status

With the notable exception of North Africa, Africa is generally off-track in meeting the MDGs. By 2000, only eight sub-Saharan African (SSA) countries were on track to eradicate extreme poverty and hunger (MDG1), while 10 were on track to promote gender equality and empower women (MDG 3). Progress on several of the remaining MDGs was even more discouraging. In particular, SSA is unlikely to meet by 2015 the goal of reducing child mortality (MDG4), improving maternal health (MGD5) or combating HIV and other diseases (MDG6).

In contrast, North Africa has made remarkable progress in reducing maternal and child mortality and has already achieved gender equality in secondary education. The SSA performance, however, masks some country-level successes. Botswana, Cape Verde and Mauritius are on track to improve maternal health by three-quarters by 2015 while Gambia, Swaziland and Cape Verde are on track to ensure environmental sustainability.

It is worth noting that the limited progress of SSA in achieving the MDGs occurred against the backdrop of modest growth and substantial shifts in resources to the social sectors at the expense of the economic sector. According to the World Bank, the share of resources devoted to education and health increased by about two per cent of GDP during 2000-2003. This view is echoed by the ECA's knowledge sharing network, the PRSP-LG.

Furthermore, despite some improvements in Africa's growth record over recent years, *only* five African countries sustained growth at the estimated 7% rate required to halve poverty by 2015. Even in countries where growth has been rapid and sustained, it has not been broad-based but largely concentrated in capital-intensive extractive sectors.

Thus, the emerging consensus is that notwithstanding substantial increases in social spending, the pace and quality of growth associated with the first generation of PRSPs has been inadequate to achieve the MDGs. This observation is particularly true for SSA.

The issues

The limited success of SSA in achieving the MDGs calls for reflection and review of the first generation of PRSPs to ensure that the SGPRSPs are sufficiently growth oriented to achieve the MDGs.

Already there are indications that the SGPRSPs are giving greater prominence to growth. For instance, Tanzania's "Mkutuka", Uganda's most recent Poverty Eradication Plan

(PEAP), Ethiopia's Plan for Accelerated and Sustainable Development to End Poverty (PASDEP) and Ghana's Growth and Poverty Reduction Strategy (GPRSII) have all revisited their growth strategies. Ethiopia's PASDEP targets an average yearly growth rate of about 8% to halve poverty by 2015. This compares to a 5% growth rate during its first generation PRSP, called the Sustainable Development and Poverty Reduction Programme. PASDEP also highlights the need to minimize growth volatility .

Ghana's GPRS likewise targets a higher growth rate (6-8% versus 5% for GPRSI) and a 10 % increase in the relative share of resources devoted to the "Growth Pillar" of its strategy. The challenge for SGPRSs will be to maintain progress while also reinforcing efforts to address inequalities and the pro-poor focus of the growth agenda.

The need for a country-specific approach

Middle-income countries

Beyond broad-based growth, SGPRSs must take country specificities into account, since the national experiences and progress towards achieving MDGs vary considerably throughout Africa. At one extreme, the middle-income countries of North Africa, the Republic of South Africa, Botswana and Mauritius, generally have relatively lower poverty rates than the rest of the continent. Consequently, their prospects of meeting the MDGs are significantly brighter, the main exception being the high HIV/AIDS prevalence rates in the Southern African countries. For these countries, the main issues concern large spatial inequalities within their countries, and a skewed income distribution.

Achieving the MDGs for these countries will require that they take necessary measures to address inequalities in their societies by:

- Maintaining existing growth rates;
- Emphasizing targeted programmes for key disadvantaged groups; and
- Developing effective policies to address spatial inequalities.
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Fragile States and States emerging from conflict

At the other extreme are the fragile States and States emerging from conflict. These countries have regressed away from the MDGs instead of making progress towards them, with thousands of people killed or made refugees by conflict and experiencing a virtual collapse of their social and economic systems and institutions. For these countries, the restoration of peace and security is the first priority, in parallel with a concerted effort to restore essential infrastructure and services. The experience of countries that have emerged from conflict, such as Mozambique, Rwanda and Uganda and, more recently, Liberia and Sierra Leone, is that such a strategy can lead to a quick economic rebound. For the longer term, sustaining growth and ensuring a good spread of its benefits requires a special focus on developing institutions and capacities.

Low-income countries of sub-Saharan Africa

Nestled between these extremes are the low-income SSA countries, most of them heavily indebted. Their progress towards the MDGs is in serious jeopardy in almost all cases. Though some countries may achieve one or two MDGs, none will achieve all of them, on present trends. This group of countries is far from homogeneous, ranging from land-locked States, minerals producers with good export prospects, agriculture-

dependent economies, to others that have achieved a certain degree of diversification. Some countries have received generous amounts of aid in previous periods while others were excluded for political or performance reasons. A number have made significant progress in instituting democracy and the rule of law, some have had large State or parastatal sectors, while in others the private sector has dominated.

Notwithstanding their heterogeneity, a crosscutting concern, especially for the low-income countries, is how to accelerate the kind of growth that promotes employment and empowers the poor and vulnerable to benefit from the growth process. Low-income countries must sustain the emphasis of “first generation” PRSs on social inclusion, especially education and health, with consideration also given to water and sanitation, social protection for the vulnerable and community-driven development.

Costing PRSs and aligning resources to priorities

Even where PRSs were designed to take the peculiarities of a country into account appropriately, their effective implementation requires that programmes and projects are costed and fully reflected in the budget or existing national expenditure frameworks such as the Medium-term Expenditure Framework (MTEF). The tendency, particularly among donors, to implement PRS programmes “off budget” has led to duplication of effort and sub-optimal expenditure outcomes.

In reality, the programmes and projects of first generation PRSs have often not been appropriately costed or integrated in the national budget or MTEF. Frequently, efforts towards alignment have merely consisted of a superficial repackaging of existing sector activities in the context of PRS priorities to ensure their continued funding. Even where adequate alignment was achieved and anchored in political will, the lack of capacity to cost PRS programmes and projects often weakened the outcome of the PRSs. It is therefore vital that African countries ensure that there are substantive links between national strategies for growth and poverty reduction and the annual budget planning and execution.

Managing resources from the “Big Push”

Financing the implementation of PRSs will require resources beyond what can be delivered at the national level. In recognition of this fact, the UN Millennium Project (UNMP), the Commission for Africa (CfA), the G8 and the UN General Assembly all concur that a “Big Push”¹ is needed to spur growth and achieve the MDGs. There are major concerns about the effectiveness of aid, which need to be addressed if such large resource inflows are to be justified. Notably, there are macroeconomic concerns about possible “Dutch Disease” effects, and the two main components of “absorptive capacity” (i.e. overall governance, especially public finance and expenditure management, and availability and motivation of skilled and trained human resources to deliver services and manage the key institutions).

Thus, the “Big Push” comprises not only additional foreign resources but is also a concerted effort to put appropriate national policies and programmes in place that ensure widespread ownership and address implementation and capacity issues.

¹ The “Big Push” will require at least a doubling of aid plus an acceleration in domestic investment

Sustaining macro-economic stability

There is wide consensus that a stable macroeconomic environment is needed both to stimulate faster growth and to protect the poor. While African countries have made notable progress in reducing inflation and stabilizing their macro-economies in recent years, there remain several threats to sustaining the situation.

First, as predominantly primary producers, oil-importing African countries remain highly vulnerable to external shocks emanating from commodity price fluctuations, oil price increases, drought and other natural disasters. Such shocks undermine macro-stability and contribute to volatile growth. Yet, experience shows that poverty reduction occurs where there is consistent growth over a period. A strategic plan to cushion Africa from external shocks is therefore imperative.

Second, several African countries face large domestic debt overhangs. Financing the domestic debt could threaten macro-economic stability and crowd out private sector investment, if it is associated with rising cost of credit or inflation. Thus, even if external debt issues are addressed, the accumulation of domestic arrears will require additional measures to reduce the overhang.

Identifying drivers of pro-poor growth

It is generally agreed that accelerated growth that is broad-based is critical for the achievement of the MDGs, but what are the drivers of broad-based growth? There is an emerging consensus that the key to faster growth and poverty reduction lies in the private sector – broadly understood to include, in addition to the formal sector, the informal sector and smallholder agriculture. African countries need to create an environment that stimulates private sector investment in both human and physical capital. To ensure that growth also reduces poverty through broad-based employment, policies should also seek to promote investments in labour-absorbing technologies, especially in agriculture, the rural and urban informal sectors and small- and micro-enterprises. The overall objective is to increase employment and investment opportunities, particularly for the poor.

Unleashing the full potential of the private sector to create jobs will require that the following issues be addressed:

Investment climate

First is the quality of the investment climate. Much can be achieved by removing the many obstacles to conducting business in Africa. The World Bank's "Cost of Doing Business" studies, for example, show that African countries rank very low in various indicators of business environment for private sector activity. Starting a business requires \$5,531 in Angola (more than eight times the per capita income) and about \$28 in New Zealand (less than 1 per cent of the per capita income).

These regulations are often even worse for small-scale and informal enterprises than they are for large investors. They are often also associated with corruption, and difficult to remove because of resistance from powerful vested interests. Although reforms to improve market-supporting institutions such as courts, business associations, lobbies,

quality-control systems, protection of property rights and enforcement of contracts have begun, the process has been slow.

Quality of infrastructure

Second, investment climate surveys and studies indicate that the quality of infrastructure matters a lot for growth performance, not least for poor remote areas. Poor transport infrastructure constrains firms producing for the domestic market, and also poses a severe constraint for exporters. The problem is aggravated by delays in customs, unreliable telephone and Internet connections, and frequent power outages. Poor infrastructure and high utility costs hold back competitive production and drive up costs, thus undermining the potential for the output expansion.

Efficient financial sector

Third, an efficient financial sector is crucial. African financial markets are the least developed in the world due to imperfect information, poor contract enforcement, and lack of competition among lenders. A symptom of inefficiency is the wide spread between deposit and lending rates, which is neither conducive to savings mobilization nor to investment stimulation. Financial sector reform is needed in many countries to clean up bad debt portfolios, often the result of political interference, to institute stronger competition and to orient the sector towards the needs of businesses rather than towards government lending and import finance.

Improving the capacity of the private sector

Fourth, improving the capacity of the private sector to engage competitively in regional and global trade is vital. This requires improved access to external markets by removing rich country agricultural subsidies, preventing tariff escalation, paying attention to trade-related aspects of intellectual property rights (TRIPS), and improving the workings of regional economic communities (RECS). Additionally, supply-side constraints must also be addressed.

Human capital development and technology

Fifth, human capital development and technology is as important at all levels for private investment and growth as it is for equity. The first round of PRSs focused attention on basic education and health, but private investment also needs “high-end” professional and technical skills, in science and technology, engineering and management. In this regard, the CfA has proposed a major investment in regional higher education institutions. Likewise, access to health care services must be improved to ensure a healthy workforce.

Conclusion

The “Big Push” offers Africa an invaluable opportunity to achieve the MDGs by promoting a pattern of growth that benefits all sectors of society. The key to poverty reduction therefore lies in formulating and implementing PRSs that not only induce and sustain growth but also contain the dampening effects of income inequality on poverty reduction. PRSs that generate ample investment and employment opportunities and empower the poor to exploit such opportunities stand a good chance of achieving the MDGs.

Issues for discussion

- **Designing PRSs that achieve the MDGs.** The "big push, characterized by more and better aid, debt relief and domestic reform, offers a real opportunity to meet the MDGs through appropriately designed PRSs. What mix of policies and expenditure patterns is consistent with sustained growth for poverty reduction and the MDGs? What challenges do countries face in achieving this ideal mix of policies and expenditure patterns?
- **Identifying drivers of growth.** Faster economic growth is the essential precondition for low-income countries to achieve sustained poverty reduction, but what are the growth drivers? Are they consistent with fighting poverty?
- **Ensuring effective resource management and utilization.** What processes and institutions are needed to ensure that the envisaged additionality in Official Development Assistance (ODA) is optimally allocated, effectively utilized, and monitored for development outcomes? How do African countries maximize their absorptive capacity, minimize potentially destabilizing macro-effects of "big push" inflows, and counter the increased aid dependency that the "big push" might entail?
- **Aligning resources to priorities.** How do African countries forge closer and deeper links between national strategies for growth and poverty reduction and the annual budget planning and execution?

3. Ownership, Leadership and Accountability for Poverty Reduction

Introduction

PRSs and the MDGs must be formulated to address issues of ownership, leadership and accountability squarely. Leadership and commitment at the highest level are critical to effective, country-led growth and the kind of development strategies that will reduce poverty and achieve the MDGs in Africa. Most important is an effort to merge parallel processes and build the SGPRS process into national processes, especially for the national plans and MTEFs, as some countries are already undertaking. This requires building capacity in Parliaments and in the broader political system as well as among civil society groups.

What have we learnt?

Experience shows varying degrees of willingness and commitment to the PRS. This in turn has been shown to be partly a result of the country's political economy. Given the short time involved, the preparation of PRSPs rarely went beyond the core Ministries of Finance and Development Planning. This has weakened ownership, led to confusion, and diluted the overall impact of the strategy. Parallel processes contributed to the impression, if not the reality, that the PRS was really "for donors" and not for the nation. An effective country-led approach in the SGPRSs requires consolidation and integration of the PRS with national processes, especially those involving Parliament and other stakeholders.

Organized social and political groups have had limited input into the PRS process. Civil society organizations (CSOs) have been beneficiaries of the so-called PRS "fast track" democracy. Their involvement has been critical in lending legitimacy to the PRS process. They have also deepened national ownership. Yet, their involvement has been limited by time frames, unclear structures of participation, limited resources including expertise and organizational back-up, and experience. The second generation PRS is already addressing many of these issues.

Political parties, the mass media and Parliament have not yet been adequately involved in the PRS process. This is because the process sidestepped these institutions of representative democracy, relying instead on a "fast track" approach anchored by CSOs. Private sector representatives and trades unions have participated but the organized private sector, both national and foreign, is often drowned out by CSOs with welfarist rather than growth objectives.

While sub-national (local) governments have emerged as critical players in PRS implementation, their involvement in the preparation of the document seems rather limited. Mechanisms need to be developed to tap their full potential in articulating the interests and priorities of people at the grassroots. Finally, the AU and NEPAD have had a positive impact on PRSs through their emphasis on the importance of good governance, democracy and the rule of law. While limited effort has been made so far to institutionalize NEPAD at regional and country level, its basic objectives resonate with those of the PRS and the MDGs.

Accountability and ownership

“Accountability” refers to the system by which leaders maintain the primacy of the public interest and it is useful to distinguish between different types of accountability (political, administrative, legal-constitutional, financial, professional and external) and their corresponding enforcement agents. It is not clear how the PRSs have addressed, or fitted into, an accountability framework, though it comes closest to political accountability in a “narrow” sense” as it addresses the appropriateness of policies and programmes, as opposed to political accountability in a “broad” sense that is more concerned with the appropriateness of the behaviour and performance of public officials and institutions. It is therefore fair to ask to what extent the corresponding enforcement agents, such as citizens, civil associations, the media, opposition parties, and Parliaments have been involved in the policy-making process.

“Ownership” is hard to define and even harder to operationalize. Indeed, at one level, it may even appear patronizing, the implication being that others know better than the national government what its true intentions are. Yet, it is founded in an important effort to break away from the conditionality trap associated with earlier adjustment programmes, characterized by one government official with the words: “We pretend to commit ourselves [to reforms], they [the donors] pretend to believe us”.

There are four different issues that are relevant when assessing the level of national ownership of policies and programmes, namely:

- The intellectual conviction among key policy-makers about the merits of the policies and programmes (“technocratic dimension”);
- Support of the top political leadership, demonstrated by up-front actions;
- Broad support across and beyond government; and
- Institutionalization of the measures within the national system (“stabilizing expectations around a new set of incentives and convincing economic agents that they cannot easily be reversed”).

Experience of PRS ownership in Africa, so defined, has varied widely, not only among countries but also over time, especially in response to changes in government. A comprehensive study conducted by the ODI concludes that generally “technocratic” ownership of the PRSPs is quite strong, but that the commitment fades through the administrative hierarchy and at the political level.

There are several reasons for this range of responses:

- **Prior commitment.** In countries where the leadership had made the critical decision to abandon the policies of the past and embrace economic reforms, commitment to PRS has been high. Countries that have committed themselves to macroeconomic and structural reforms including economic liberalization and encouragement of foreign investment and trade have generally been welcoming to the PRS. Those that are hesitant and still hold onto the State as a critical player in the market place have tended to be less welcoming.

- **Politics.** In countries where the leadership has been willing to expend its political capital, to stand up and stare-down its opponents regarding PRS, willingness and commitment have been very high. In such countries, the PRS has been intertwined with national aspirations and has been successfully presented as a home-grown solution to endemic poverty, hunger and disease.
- **Donor pressure.** While the PRS explicitly solicits for country ownership, there are those who resent the lingering control that the World Bank and IMF retain through their right to approve the PRS². In the words of one official, “We may be in the driver’s seat, but we have to contend with a lot of back-seat driving”. Although the PRS abandoned policy conditionality in principle, process conditionality became just as unacceptable. Thus, requirements for broader participation and involvement of civil society have been perceived as interference in internal governance processes, and even as unconstitutional.
- **Capacity.** Finally, unwillingness and lack of commitment have often been the result of inability to act. Some countries have had the will, but have lacked the means to commit and lead the PRS process. A weak political base, fragile political realities, weak institutions and unstable political and social conditions have all been contributory factors.

Participation

Traditionally, planning and budgeting are the preserve of Ministries of Finance and Planning. However, PRS principles required both the active participation of non-government domestic constituencies and other government Ministries, even if the Finance and Planning Ministries needed to carry the final responsibility. In some countries, line Ministries and sectoral programmes were identified as priority areas/actors under the PRSP. For example, education and health are the core services to be provided and upscaled to the poor within the context of the MDGs and are the sectors most closely involved in PRS. Sectoral programmes were ranked on the basis of their poverty impact.

However even in such cases, while sectoral strategies were brought under one umbrella, individual sectoral strategies have not changed substantially. Still the process could be a first step towards cross-sectoral planning. On the other hand, non-priority sector Ministries were often excluded on the assumption that they had low poverty impact. This has sometimes given rise to yet more parallel processes. For example, Zambia developed a Transitional National Development Plan specifically to provide guidance for sectors not covered by the PRSP.

Decentralization. The role of local government typically consisted in implementing the strategy decided from above. In Uganda, for instance, the PEAP seems to be well known at the district level as a result of the Poverty Action Fund (PAF), which is the most important source of funds for the districts. Indeed, three-quarters of PAF funds are spent in the districts. Countries that have started SGPRSs have involved local government structures more systematically.

² Changes introduced in 2004 have replaced the IMF/World Bank Joint Staff Assessment of the PRS by a Joint Staff Advisory Note, but the explicit linkage of the PRS with IMF and Bank operations is retained.

In Tanzania for instance, local councils at various levels, including the village assembly, were involved in providing their inputs to the second PRS. This is in sharp contrast with the first PRS, where individuals were picked from selected zones and districts rather than from local councils as institutions.

However, there are challenges and tradeoffs. Central Government's pro-poor resource allocations to local councils can result in a multiplicity of funding schemes leading to complexity and inefficiency. At the same time, many local councils lack capacity to manage the pro-poor resources allocated to them efficiently. In addition, mechanisms for accountability are still very weak.

Donors. In almost all cases, donor involvement, at least initially, was outside established national processes, both in terms of scope (linkage of PRSs with donor programmes) and timing (congruence with the budget cycle). The PRS process, quite reasonably, called for governments to prepare Annual Progress Reports (APRs). These served to review performance and make recommendations. Unfortunately, the APRs have in practice been handled quite independently of national processes, with predictably little effect on MTEFs and budgets. (See section 5 below on Aid). In that regard, donors are essentially not accountable within partner countries. As discussed in section 5, this is a key challenge to the country-led approach.

Prior to the PRSPs, some countries had started reforming and improving the institutional processes for planning and resource allocation. In particular, Public Expenditure Reviews (PERs) have been developed and mainstreamed into a reformed Medium-term Expenditure Framework (MTEF) and the Budget Framework. PRSs were developed alongside these existing frameworks without strong linkages to any one of them. Thus, PRSP expenditure priorities were often not translated into budget priorities.

Further, weaknesses in expenditure controls often resulted in a situation where actual spending did not reflect budget priorities, even where budget priorities did reflect the PRS objectives. This has also undermined the operational relevance of the PRSs. On the other hand, some countries have used the MTEF/budget process, especially the PER, to strengthen the planning of pro-poor expenditures, and to streamline and integrate stakeholder inputs, including those of donors.

Reforms like these are central to the "country-led approach". A single national process for planning, policy-making and budgeting is needed, or at least a single system of linked processes. Otherwise, all policies and programmes, especially those targeted at the poor, which tend to involve many actors at central and decentralized levels, will lack coherence and engender cynicism from those who doubt government and donor sincerity.

Widening political space

Organized social and political groups. The amount and quality of involvement of civil society, political parties, the private sector, trades unions, professional groups and others who enforce accountability in the first round of PRSs, varied widely. Participatory structures were often formed on an *ad hoc* basis without clearly established collaboration mechanisms between the stakeholders, government and donors. Some CSOs were able to organize themselves and even formed umbrella organizations but in a hurried and *ad hoc* manner. A general complaint was that even where CSOs were

involved in preparing the PRSPs, their involvement in monitoring was much more limited. Overall, monitoring and evaluation has been the least effective component in the first generation PRSPs.

The experience of CSO engagement in the PRS process raises several concerns. First, given their limited capacity in several countries, CSOs have not been able to provide alternative policy choices in the PRS design, implementation and monitoring. Secondly and related to the above, although CSO involvement is equated with the people's involvement, many of the CSOs are largely urban-based, elite-led, working mostly for the poor rather than with the poor. Thirdly, CSOs engagement in the PRS process may be at the expense of their grass-roots activism and capacity to help enhance community participation.

Parliaments and PRS

In most countries, the PRSP was neither discussed nor endorsed by Parliament. A notable exception was Ghana where a special Parliamentary Committee on Poverty Reduction was formed to examine the context, focus and adequacy of the PRS and to monitor PRS implementation.

Currently, the involvement of Parliament is steadily increasing through the progress reviews of the PRS. Also, in the consultations for the second round of PRSPs, Parliament is now being regarded as a key partner in the PRS process. Through organized seminars and workshops, Members of Parliament (MPs) in Burkina Faso, Cameroon and Tanzania among others, are building up their capacity to oversee, monitor and scrutinize PRS implementation.

In Tanzania for instance, chairs of Parliamentary Standing Committees have been involved in various consultation meetings. Mozambique and Benin are cited as good examples in reporting on PRS implementation to Parliament. Similarly, Ethiopia is embarking on legislative reform in order to enhance Parliamentary PRS oversight. Other countries are now establishing a system of incorporating PRS priorities in the guidelines for the preparation of Medium-term and Annual Plans and budgets.

Conclusion

It may be asked what substantive effect broader participation has had on the substance of PRSPs. There has been surprisingly little research on this topic. Where organized social and political groups were engaged in PRS, there appears to have been a substantive debate about priorities and policies. In general, however, debates and contests around policies and resources have been bland, suggesting that technocratic considerations and donor pressures have most often been the drivers of PRSPs.

Despite this, there now appears to be a strong consensus at the highest levels over the importance of ensuring broader participation in the formulation and implementation of PRSPs within the context of the overarching quest to achieve the MDGs. For example, the Ministerial Statement released following the 2005 ECA Conference of African Ministers of Finance, Planning and Economic Development, in Abuja, places the following emphasis on the issue: *"African governments must frame and operationalize poverty reduction and growth policies that integrate the MDGs as key objectives. Poverty reduction strategies must have broader and longer-term perspectives and a deepening*

of ownership through meaningful stakeholder consultation, addressing gender equality, population growth, capacity and regional issues, including migration and other regional public goods policies”.

Issues for discussion

- What best practices exist from within Africa and elsewhere vis-à-vis political leadership and successful agenda setting for growth, MDGs and broad-based wealth creation? What can be done to strengthen political commitment to growth and poverty reduction strategies? Would greater involvement of Cabinet, Parliament, political parties and other stakeholders in the formulation and monitoring of SGPRSs help strengthen political buy-in?
- What can be done to better integrate the SGPRSs into other national processes, notably the budget, MTEF, sector reviews and PERs? Is such integration needed to increase the transparency of policy making generally, and the influence of donors in particular?
- What best practice country examples exist with regard to improvements in accountability structures for managing development results? Are budget systems a good tool for such accountability? What is the role of civil society, including media, NGOs and CSOs in this regard?
- What role can the AU, NEPAD and the African Peer Review Mechanism (APRM) play in strengthening political commitment? How best can these organizations and structures enhance the impact of the PRSs through political leadership, and coordinate and monitor progress towards the MDGs at the regional level?

4. Capacity for Poverty Reduction

Introduction

Lack of capacity remains a major bottleneck in making progress towards achieving the MDGs and reducing poverty in Africa. The call for a “Big Push” to achieve the MDGs and accelerate growth in Africa raises the profile of capacity issues still further as there remain doubts about the possibility of effectively absorbing substantial additional financial resources.

The concept of capacity development has significantly evolved over recent years, from a relatively narrow focus on technical skills and training towards a broader concept comprising the institutions, human resources and systems that are deployed to achieve development and poverty reduction. Apart from ‘building’ new capacity, it is now also recognized that it is equally important to harness, utilize and sustain existing, often latent capacity.

The broader concept thus reflects a growing appreciation that capacity building reflects internal organizational factors, such as incentives, formal and informal rules, and business processes, and also ‘environmental’ factors, including the prevailing economic, social and political system. This is so especially in terms of the existence or otherwise of peace and security, the rule of law and due process, social capital in the form of relationships among groups in society, transparency and accountability and an open political environment.

As will be seen below, first generation PRSs and earlier approaches, which tended to emphasize the “supply side”, (skills, reforms and right-sizing of public sector organizations) of capacity development, have in fact had limited success and will therefore need to be revised in the SGPRSs.

The ECA African Governance Report (2005) provides ample evidence to support the importance of the link between “capable, democratic States”, with functioning accountability systems, legal systems and bureaucracies, better service delivery and enhanced investor confidence. At the same time, setting the aim of meeting the MDGs also highlights the importance of prioritizing areas where capacity deficits constitute major obstacles to sustained growth and poverty reduction efforts.

At the same time, capacity development requires a long-term perspective as it implies deeper cultural and behavioural change, which is not easily induced through “quick fixes”. This tension – between the need for rapid change and the slow pace of change witnessed so far – will drive much of the debate around the SGPRSs at the country level.

The approach to capacity development in the first generation PRSs

So far, very few PRSs have paid systematic attention to capacity issues. Typically, three main areas were addressed: public sector reform, specifically public financial management; decentralization; and service delivery in the social sectors. The mode of addressing capacity development in those areas was generally uncoordinated and *ad hoc*, lacking a strategic context, focused on supply-side actions and responding more to

donor interests than to national constraints. As will be discussed further in the next section on the emerging aid architecture, the fragmentation of donor programmes has been especially damaging and inefficient in the capacity area.

Several countries have been undergoing public sector reform programmes, most of them with mixed success. Many of these programmes originated from an effort to address fiscal crises in the early 1990s and therefore tended to emphasize “right-sizing” and better fiscal management. The PRS raised the priority of better public financial management, as a means for mobilizing more donor support and justifying debt relief. By most measures, public financial management has improved in many African countries since the advent of the PRS. There are better financial management information systems; several countries have a functioning MTEF; public accounts backlogs have been reduced; audit functions; Parliamentary oversight is conducted more strictly and in a more timely manner; and procurement systems are being reformed.

Many first generation PRSs also emphasized decentralised service delivery and community-driven development. However, the capacity implications for sub-national governments and for outreach systems to communities and for communities themselves were generally not considered and planned for. And where capacity implications were considered implementation and monitoring were often weak.

Most PRSs tried to grapple with the capacity side of social sector service delivery. Lesotho, Malawi, Tanzania and Uganda, and, more recently, Kenya and Zambia, removed fees for primary education (though other costs to households remained) and consequently faced a surge in enrolments. Unfortunately, this often occurred at the same time as the decline in the number of teachers, many of who fell victim to the HIV/AIDS pandemic.

The implications for funding and capacity were addressed in their plans, though there were often limited synergies between sector programmes and the PRS, and implementation proved demanding. As a result, class sizes have increased and maintaining the quality of education remains a challenge. In the health sector, staff shortages have also become critical in many countries, because of the exodus of trained staff to other countries and the impact of HIV/AIDS on both the supply and the demand for qualified staff.

The capacity development needs of governance institutions – first and foremost Parliaments, judiciaries, CSOs and the media – did not receive sufficient attention in the first generation PRSs. Nor did the capacity-deficit needs of the private sector receive adequate attention from the regulatory bodies.

Another gap was knowledge generation and transfer: the brain drain and the potential role of the Diaspora were not considered. While some countries, including Ghana, Tanzania, and Uganda, have developed national capacity in think-tanks for general and sectoral policy analysis, there are many countries where such think-tanks have yet to be established.

Capacity in second generation poverty reduction strategies

From the above discussion, it is clear that capacity development considerations must be at the forefront of the SGPRs. While capacity strategies vary across countries, they will all need to be comprehensive, addressing the broad institutional context - the need for constitutional reform, and enhanced roles for Parliament, the media etc. - and the effective demand for capacity. New or reformed incentive systems – both financial and non-financial – will need to be devised.

Capacity development for Parliaments should receive priority attention. Addressing poverty reduction effectively will require not only a continued focus on service delivery in key sectors, but efforts to ensure that the system as a whole functions effectively and in the interests of the poor. In some instances, this may depend as much on better functioning security and legal/judicial services as on an adequate and sustainable delivery of education, health and water.

More consideration should also be given to establishing institutions that are exclusively responsible for capacity development, and that are centrally placed at a high level in the government. Ethiopia, for example, has established a Ministry of Capacity Building, with responsibility for integrating capacity building across sectors. Rwanda has formulated a multi-sector capacity-building programme, which identifies and addresses capacity gaps. (See box 1).

Box 1: Rwanda's Multi-Sectoral Capacity Building Programme (MSCBP)

To better coordinate its capacity-building interventions, the Government of Rwanda supported by the World Bank and the Africa Capacity Building Foundation has developed the Multi-Sector Capacity Building Programme (MSCBP) and created the Human Resource and Institutional Capacity Development Agency (HIDA). The strategic context was provided by identifying key issues in capacity building including: coordination, a broadened concept of employment, comprehensiveness, shifting from supply- to demand-driven approaches, promoting ownership and shifting towards decentralized management.

The MSCBP is formulated with a view to achieving the following strategic objectives:

- Closing gaps in long-term human resources development;
- Improving the overall institutional environment for development management;
- Enhancing government ability to recruit, motivate and retain a critical mass of technical and professional skills;
- Attaining sustainable improvements in capacity and performance of individual government organizations;
- Meeting challenges and harnessing opportunities from new technologies and globalization; and
- Building capacity for effective coordination of capacity-building programmes.

The programme has been designed around innovative principles. These are:

- A total systems perspective;
- Capacity building embedded in development processes;
- Demand-driven approach;
- Maintaining a long-term perspective;
- Programmatic approach;
- Cognizance of resources constraints;
- Integrated technical cooperation;
- Public sector pay reform;

- Public-private partnerships; and
- Taking full advantage of modern information and communication technologies (ICTs)

Botswana started giving capacity issues central attention at an early stage after independence in 1965, with stringent control of technical assistance, firm adherence to professional standards and ethics, with results that are evident today. Having an institution managing the capacity development efforts will not suit every country. However, the important point is that there should be a central focal point coordinating capacity issues across all the key government institutions.

Capacity development should be driven by the growth and poverty reduction policies and priorities of the SGPRSs. . Given that donor financing drives much capacity development and technical knowledge transfer, this is an important area, crucially needing strong donor alignment with the PRS, and where governments need to be aware of vested interests that may try to supply-drive the capacity agenda.

Capacity development has to be prioritized and sequenced, whilst innovative solutions to critical skill constraints and shortages requiring global attention should be encouraged and advocated. For example, decentralization may have to be phased, if there are capacity constraints at the sub-national level. If the strategy for a sector calls for more delivery by non-State actors (e.g. NGOs for health care, community schools), then public sector priority may be given to oversight and regulatory functions.

Due consideration should also be given to the development of national and regional policy analytical capacity, at both macro and sectoral levels. Closely related to this is the improvement in data and statistics capacity for results-based management. An important sub-set of this is poverty data and analysis. There has been considerable improvement in the number, frequency and quality of household budget surveys over recent years, but it is not clear how well policy-makers use these data and how well the data are adapted for policy needs. PRSPs have given considerable attention to performance indicators and their embedment in systems that can measure the success of programmes. This emphasis needs to continue and to be extended.

Closely related to analytical capacity is the area of communications. There is a need to emphasize the development of a broader understanding among the public in general and the public policy community in particular of broad political, economic and social issues. This requires good evidence-based analysis, tailored to the country's needs. Given the poor state of the communications infrastructure in most countries, this poses particular challenges and invites innovative solutions.

The emphasis of first generation PRSs on public finance management and reform needs to be continued and further enhanced. As will be discussed in the next section, aid reform is a key part of this. In particular, the modalities and funding for technical assistance need to become more flexible and country-driven with African governments coordinating and managing pooled donor assistance intended to support capacity development, as recently suggested by the Report of the World Bank Taskforce on Capacity Development in Africa.

Finally, knowledge capacity development in Africa needs to be brought back to centre stage, through a renewed emphasis on higher education, regional centres of academic and professional excellence as suggested by the Commission for Africa among others,

innovative methods for tapping the expertise in the Diaspora, strengthening the links between science and technology faculties and industry, and enhancing ICT capacities, especially relevant use of the Internet.

Issues for discussion

- *How can various stakeholder groups work together to build capacity across the institutional framework – including building appropriate incentive structures across public institutions and enhancing the overall environment for professionalism?* Largely neglected in the first generation of poverty strategies, capacity is a critical determinant of poverty reduction and achievement of the MDGs. Appropriately sequenced and driven by national priorities, rather than by donor preferences, it must be at the fore of the second-generation strategies.
- *What is the experience in establishing government institutions including ministries dedicated to enhance capacity? Can they catalyze changes in the whole public sector?*
- *What role can the AU, regional and international bodies play in supporting priority capacity development areas?* Special areas requiring immediate attention include: developing national and regional analytic capacity; communications; public finance; knowledge capacity development; and critical bottleneck areas such as shortages of health workers or teachers. Possible priorities for capacity development include increased data and statistical capacity as well as capacities for communication and developing African knowledge, including the media, ICTs and maturing science and technology capacity.
- *What is the role of partnerships in building capacity to achieve the MDGs? How can an appropriate climate be created in which synergies from working with international partners, NGOs and CSOs, the private sector and Africans in the Diaspora can be maximized? What potential opportunities and challenges are associated with such partnerships? In private sector partnerships, what is the role of government in regulating and directing private sector bodies who deliver services, especially in key social goods such as access to clean water?*

5. The Emerging Aid Architecture, PRSs and the MDGs

Introduction

While domestic savings, remittances and foreign investment are important sources of finance, both the volume and quality of aid will be critically important achieving the MDGs and accelerating growth in Africa.

The Millennium Summit in September 1999 endorsed the MDGs and started a process of global aid reform, which is still unfolding. The landmark event in this process was the Financing for Development Summit (Monterrey, 2002) at which donor nations pledged to increase aid to 0.7 per cent of their GNP. The Kananaskis Summit of the G8 in June 2002 endorsed NEPAD and agreed on a G8 Action Plan to support it. Three high-level meetings, (Rome 2003, Marrakech 2004, Paris 2005), comprehensively addressed the issues surrounding aid effectiveness and results for development. Taken together with the biggest increase of the International Development Association (IDA)-14 replenishments in over two decades and the G8 commitment of doubling aid for Africa by 2010, these developments suggest there is a serious commitment about aid reform, with a particular focus on the needs of Africa.

Aid volume and availability

Driven by a rise in debt relief and emergency aid, total ODA to Africa rose by 49 per cent from 1999 to 2003, reversing the previous trend of declining ODA in the 1990s. If debt relief grants are excluded, however, and measured in Euros rather than US dollars, ODA to the SSA region actually declined in 2003.

These ambiguous trends should be compared and contrasted to the improvements in African countries' performance, as measured by the World Bank's Country Policy and Institutional Assessment (CPIA) ratings. Out of 45 countries, the benchmarking average CPIA has improved from 2.5 (on a scale of 1-5, 5 being high) in 1997 to 3.2 in 2003. Between 1997 and 2003 the number of African countries in the upper tier had grown from 5 to 15 countries, while in the lower tier the number of countries fell from 25 to 16.

While ODA is rewarding performance more than it did in the days of the Cold War, the recent pattern has been for previously poorly performing countries to be rewarded with more aid, and for the consistently good performers to retain their shares whilst the middle group of countries are, consequently, being squeezed.

Aware of this progress achieved, and following the recommendations of the UNMP and the CfA Report, the G8 Summit in Gleneagles promised a quantum leap in levels of aid to Africa from about \$12 billion in 2004 to \$25 billion per year by 2010. The G8 summit also agreed to cancel all outstanding debts of eligible HIPC countries to the IMF, IDA and African Development Fund.

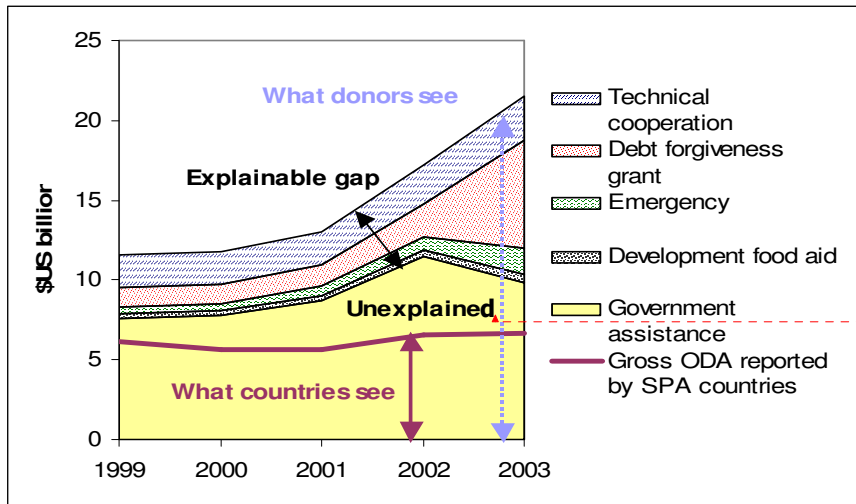
However, despite the pledges made, it is important for African countries to take a realistic view of likely flows as the track record of the donor community in living up to pledges has been mixed. Donor-controlled aid flows are often difficult to fit into a planning framework, whether at macro or sectoral level. Then there is the issue of the length of time for which donor commitments can realistically be made, and therefore the

extent to which countries should lock themselves into expenditures, which are hard to reverse, such as salary increases.

Finally, African governments must remember that only a portion of the ODA ends up under their direct control in the form of direct budget support. In 2003, for instance, the Organization for Economic Cooperation and Development (OECD) reported net ODA flows of \$22 billion to Africa, excluding Nigeria.

African Balance of Payments (BOP) data reported a total inflow of only \$6.7 billion, rising to \$13.4 billion if debt forgiveness grants are added. Most of the difference is explained by technical cooperation grants, emergency assistance and development food aid, which are not under the control of African governments, whilst a large residual for 2003 of \$3.2 billion remains unexplained (see Figure 1).

Figure 1: The ODA Gap as seen by Donors and African Aid Recipients, 1999-2003



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Aid effectiveness

Aid effectiveness is a function of both donor and recipient country policy and practices. On the government side, the main determinants of aid effectiveness include the quality of strategies for growth and poverty reduction, the degree of political commitment, and the rate at which capacity and implementation issues are addressed.

On the donor side, the following are the major issues or concerns relating to the quality of aid.

- **Aid is misallocated.** In the past, aid allocation generally followed geopolitical allegiances, rather than performance. While this bias has not disappeared, many donors now use allocation criteria, which reflect country performance, governance criteria and poverty reduction.
- **Aid terms are too hard.** As countries complete the HIPC process, a growing concern is the contracting of new debt, especially on non-concessional terms. This concern has been heightened by evidence that some of the assumptions behind the analysis on which post-HIPC debt sustainability was based were over-optimistic. In this context, the grant content of aid has become more important. The issue is likely to be most serious for infrastructure projects where grants may be scarce.
- **Aid is often not aligned with national priorities and programmes.** Even though PRSPs were introduced to provide a basis for aid, donors have sometimes ignored national development plans. In fact, the link between budgets and PRSPs has been weak, even when expenditures are financed by aid. Governments may feel they have little choice but to accept aid, even if it is outside the framework. Project finance, which remains the dominant mode of aid delivery, is particularly susceptible to this problem.
- **As a result, countries do not lead the aid process.** Even where there is alignment and harmonization with national plans, donor coordination is often led by donors themselves. This is partly the result of limited national capacities and weak commitment to national plans and processes.
- **Donor practices and procedures are not coordinated and harmonized.** Donor policies and procedures vary widely. The SPA Budget Support Working Group reports that administrative problems on the donor side accounted for 29 per cent of disbursement delays. Likewise, more needs to be done to streamline uncoordinated donor activities, including missions, analytic work and dialogue.
- **Aid delivery is not harmonized with national systems and processes.** Aid delivery is rarely done through the government machinery and institutional framework as weak government systems lead to poor service delivery which in turn lead donors to develop parallel systems in the form of Project

Implementation Units. From the point of view of an individual project this may make sense, but the overall result is a plethora of different systems, further undermining national capacities and threatening sustainability.

- **Much bilateral aid is still tied**, undermining its efficiency, increasing costs and channelling much of the benefits back to the donor countries. Technical assistance remains particularly problematic, since recruitment tends to be tied to funding sources, and is often driven by project needs rather than by a capacity building program at national or sectoral level.
- **Aid is unpredictable**. Most donors use a multi-year planning framework, but annual budgets often diverge from plans, even if they are the subjects of agreements. In the case of budget support, the SPA reports that 81% of 2003 commitments in Africa were disbursed in 2003, an improvement over previous years, but still insufficient to provide a solid basis for fiscal planning.
- **Different donor conditionalities can conflict, be excessively numerous and arise from donor prescriptions rather than national consensus**. Some *ex ante* conditionality is inevitable, and conditionality can actually be helpful. In the 2004 budget support survey by SPA, African governments surveyed positively rated donor conditionalities, presumably because they helped reinforce discipline. However, there is concern that conditionalities have been donor driven rather than derived from national programmes and anchored in domestic accountability.

Despite these concerns, some progress has been made in recent years. Across the continent, a “mutual review” conducted in 2004 jointly by OECD/DAC and ECA concluded that six African countries now have formal donor harmonization action plans, and discussions are underway in ten more. Sector programmes are gaining popularity and are maturing while there is close coordination of budget support in about 10 African countries. However, the review also concluded that projects were still the dominant aid delivery modality; capacity development was piecemeal and supply-driven by donors; and coordination was generally donor-driven. Coordination of missions, delegated cooperation, shared analysis and information were still insufficient and changes were needed in local donor motivation. The Paris High Level Forum on Harmonization in February 2005 proposed some specific benchmarks to monitor progress in all these areas.

Debt relief

As of December 2005, 32 African countries have qualified for interim debt relief under the enhanced HIPC initiative, and 14 have reached the completion point. The HIPC initiative has also been supplemented by the Multilateral Debt Relief Initiative (MDRI), which allows for 100 per cent debt relief by the IMF, IDA and African Development Fund for countries completing the HIPC process. However, the enhanced HIPC initiative has been criticized for setting the standard for debt sustainability too high in some countries; for making over-optimistic projections of debt sustainability; and for providing insufficient fiscal space to meet the MDGs.

From African governments’ standpoint, debt relief is preferable to aid since its fiscal and BOP impact is predictable and flexible. Furthermore, reduction of the debt overhang

helps countries that are coping with external shocks. Experience with the enhanced HIPC suggests that there is no downside to debt relief in terms of the willingness of creditors to extend future loans, as creditworthiness has often improved. However, experience suggests that caution needs to be exercised in contracting new debt, even on concessional terms. If the increases in aid promised at the G8 Summit do not materialize, this will pose a serious problem for countries, especially when sourcing funds for infrastructure, where grant finance is typically less freely available.

Aid policy and management – a country-led approach

Many of these issues require action and reform by donors. However, government leadership can also accomplish a great deal. The most important areas for government action include a sound growth and poverty strategy, ensuring strong national ownership and addressing capacity issues. Insistence on these by national governments is key to ensuring results and to convincing donors that their resources are being spent well.

In addition, countries can improve aid effectiveness by formulating explicit aid strategies addressing dependence and including an exit strategy, ensuring coherence among policy objectives and a preference for particular aid instruments. Higher levels of aid dependence likely to result from the projected increases make the formulation of those aid policies even more indispensable.

Another issue in aid management concerns the role of legislation, as some countries require external loans to have legislative approval. In view of the questions surrounding debt sustainability, the lack of transparency involved in tied aid, and the need for alignment with national plans, Parliamentary approval should always be sought.

Effective country-led partnerships include country-led coordination mechanisms, alignment of donor support to country priorities, more effective modes of aid delivery and harmonisation of donor practices. Several good practices are developing in this regard across the continent including joint assistance strategies (several donors agree to share the responsibility for supporting the PRS); delegated cooperation, (one donor delegates resources in a sector to another); and lead donors, (one donor is entrusted by others to lead discussion with the government on sector strategy and assistance modalities).

Other crucial features in realizing country-led partnerships include ownership of the development plan design, strong government leadership and capacity and clear institutional systems for aid coordination. Country-led partnership is more likely to occur where partnerships are institutionalized to strengthen civil society, the private sector, institutions and governance structures. Weaknesses in the country-led approach lead to problems of coordination and harmonization of donor practices and procedures, operation of parallel systems to the existing government systems and failure to align aid with national priorities.

Towards an African framework for aid management

An African framework for aid management needs to be addressed at both the national and the continental levels. First, there are regional and sub-regional programmes and investments, especially in trade, infrastructure, higher education and health that require a concerted approach by donors. Second, aid allocation systems need to become more transparent and their relationship with nascent African systems such as the APRM

should become more explicit. Third, the monitoring of donors themselves calls for a continental approach, as was recognized in NEPAD's request to ECA and OECD/DAC to conduct their mutual review. Finally, the need to review aid mechanisms to better address the problem of shocks and instability calls for an African response. Consideration should be given to having regular consultations among African Finance Ministers on issues of continental aid policy.

Issues for discussion

- *How can a country-led approach based on PRSs or national plans be operationalized to ensure that national processes are supported by predictable aid flows?* Donors recognize that aid should be aligned with the national PRS. But PRSs and national plans, as broad strategy documents, rarely include action plans or detailed programmes that implementation Ministries or donors need. Therefore, it is important that PRSs as well as annual plans, budgets and MTEFs go through an effective consultation process that includes the donors and where issues of aid dependency, long-term commitments and preferred aid modalities are openly discussed.
- *How can more policy coherence be achieved given the increasingly close linkages between aid, trade, investment and other developed country policies that affect African countries?* Discussions on these issues took place in unrelated, disparate forums. In view of the ongoing Doha round of trade talks. However, more coherence is needed among trade, debt relief, aid and investment policies.
- *How can a progression in the use of aid instruments from project support, through sector support to budget support be accelerated?* From the standpoint of Africa's poverty reduction and growth plans, budget support has distinct advantages allowing for an easier allocation of resources in accordance with the national PRS, and in line with expenditure requirements arising from the MDGs. It focuses donor attention on budgetary management and policy issues rather than on projects. It promotes national ownership by encouraging the use and strengthening of national planning, budgeting and accountability processes, rather than fragmented donor-driven processes.

At the same time the conditions for successful budget support are often exacting. The main issue for donors will generally be the quality of the whole public finance and expenditure management system; the quality of national poverty reduction and growth programmes; and the effectiveness of public expenditure in meeting the goals of development. This involves not only the quality of the development strategy, but its operationalization through action plans and budgets, and the arrangements for monitoring and evaluating results.

- ***How can national mechanisms for mutual accountability be developed?*** The Paris Declaration endorses mutual accountability and transparency in the use of development resources as a priority. Both the development partners and partner countries agree to make commitments for a higher performance based on results and greater degree of mutual accountability. For the development partners, performance implies following up on commitments they have made in various policy areas, while accountability implies readiness to assess

performance and to consider the implications of their policies on partner country development. Development partners commit to providing timely and comprehensive information on aid flows; and both commit to jointly assessing mutual progress in implementing agreed commitments on aid effectiveness.

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