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Aid to Africa

The $25 billion question

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Still Pictures

Years of mistakes have taught donors a bit about how to spend aid money better

THE itch is unremitting. Scratching brings little respite, but leaves lasting scars. A sufferer's skin will lose pigment, and his vision will begin to fail. Onchocerciasis—riverblindness—which once infected tens of millions of Africans living near the rivers that gave it its name, is caused by parasitical worms, carried from person to person by blackfly. The worms work their way through the skin and behind the eyes, blinding the most unfortunate of their victims.

No longer a scourge, riverblindness is now an icon: a symbol of what aid to Africa can accomplish. The campaign to fight the disease, launched in 1974, now spans 30 countries, counts on 26 donors, and benefits from worm-killing drugs donated by Merck, a pharmaceutical giant. By 2010 it will have cost $735m, according to a recent report by a team from the World Bank and the African Programme for Onchocerciasis Control.

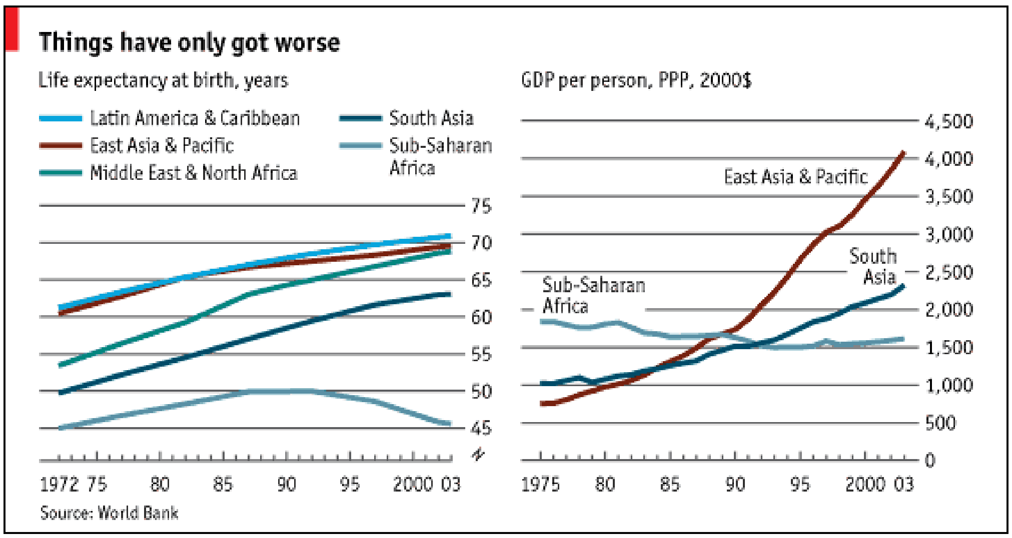
The campaign has saved the sight of 600,000 people in west Africa and opened up 25m hectares of fertile, riparian land—a new frontier to plot, settle and sow. It achieved this despite one of Africa's other afflictions, bad politics. A military coup in 1978 threatened the campaign's air bases in Ghana, from which it carried out its aerial spraying of blackfly breeding grounds. In 1985, Burkina Faso and Mali fell out, closing their border. On both occasions, the campaign survived. But even aid's triumphs flirt with disaster.

The Big Push

Sagas like these explain why the aid business suffers from a kind of manic depression, as Phyllis Pomerantz, a World Bank official, puts it in her recent book on the industry. In the 1990s, it endured listless donors and woeful budgets. But now the mood and the money are both on an upswing. Last year, the aid budgets of the big OECD donors increased to more than $78 billion, the highest dollar total ever.

Tony Blair, Britain's prime minister and chairman of the G8 summit, which meets in Gleneagles in Scotland from July 6th-8th, has put Africa at the top of its agenda. In March the Commission for Africa, which he set up, called for another $25 billion of aid to the continent each year for the next three to five years. In January, the United Nations unveiled the results of its Millennium Project, which called for a doubling of aid worldwide. Based on a study of particular countries, this is its best guess at the cost of meeting the Millennium Development Goals around the world. These goals—set in a burst of enthusiasm almost five years ago, with a deadline ten years hence—include halving poverty and hunger, arresting disease and environmental degradation, helping new-born babies survive infancy and educating them in childhood. In September, the UN will meet again to check on progress.

At the present rate, Africa south of the Sahara will meet none of these goals. In many countries in the region, income per head has yet to regain levels reached in the 1960s. Life expectancy is in decline (see chart). According to Jeffrey Sachs, who led the Millennium Project, tropical Africa is caught in a poverty trap. Simply put, it is too poor to grow. The region is uniquely burdened by disease (its people account for 85% of malaria's annual death toll of 1.2m and 75% of the 3.1m deaths from AIDS last year). It is also disfavoured by geography (less than a quarter of sub-Saharan Africans live within 100km of the coast). As a result, it can attract and amass too little capital to support a growing population. Short of capital, it is too poor to save: its gross national savings were just 16% of GDP in 2003, whereas in East Asia they were 42%. And without sufficient saving, the region cannot overcome its shortage of capital.



To escape, Mr Sachs says, Africa needs a “big push”, which is to say big sums of foreign money. Only large amounts will do. This is development economics as rocket science: mix the fuels in the right quantities, and Africa's earth-bound economies will reach escape velocity.

On what might these sums be spent? Mr Sachs has plenty of ideas. In his recent book, “The End of Poverty”, he describes a visit to the villages of Sauri, Kenya, which his university, Columbia, has taken under its wing. He envisages a complete economic makeover for the villages. Leguminous trees planted alongside crops would fix nitrogen in the soil and raise cereal yields. The village clinic, padlocked and unused, would be re-opened. In the local school, the children would enjoy a full free meal to ease hunger and sharpen concentration; the adults would learn how to bore wells and harvest water. A village truck would carry goods to market and the sick to hospital. What should be done in these eight villages, Mr Sachs says, should be done on a continental scale.

The big push is an old idea. In the 1950s and 1960s, the World Bank lent money for large capital projects, such as dams and mines, to help poor countries fill the gap between their need to invest and their ability to save. Aid fuelled investment, which fuelled growth. Or that was the idea. If it had borne fruit, Zambian incomes would long ago have surpassed $20,000 per head, reckons William Easterly, a former Bank economist now at New York University. In fact, despite decades of aid, they are still less than $500. According to Mr Easterly, the West has spent $450 billion on foreign aid to Africa over the past 40 years. If that has not filled the gap, what will?

The Bank's thinking has now moved on. It worries less about filling a financial gap and more about improving a country's “investment climate”—the policies, regulations and institutions that can be kind or inhospitable to the spirit of capitalism. A new UN report reckons that Africans hold 40% of their financial portfolios overseas. Were Africa able to attract this money back, its private capital stock would increase by about two-thirds.

Size can matter in development. Some schemes to save mankind work on a grand scale, or not at all. The fight against riverblindness had to wipe out blackfly larvae across great swathes of west Africa, lest treated watercourses suffer a reinvasion of flies from elsewhere. To be effective, the drugs it distributes must be taken by two-thirds of a village for up to 20 years.

Pricing hope

Foreign aid required to meet the millennium development goals, $ per person per year

2005-15

	Ghana	Tanzania	Uganda
Hunger	3.3	6.2	2.4
Education	11.8	7.8	6.7
Gender equality	1.5	1.6	1.4
Health	17.8	24.3	20.0
Water supply and sanitation	2.4	1.5	0.7
Energy	5.7	5.2	4.1
Roads	6.6	13.6	11.4
Total	49.1	60.2	46.7

Source: UN Millennium Project

But what is true of a particular aid effort need not be true for the entire continent. Unless Africa is trapped as Mr Sachs supposes, one need not feel bound by the precise sums he recommends. There need not be a specific quantity of aid below which it will do little and above which it will make all the difference. Sadly, one cannot name a magic number—$25 billion, $50 billion, or otherwise—that will push Africa over the threshold to prosperity.

Which is not to say such sums are wildly generous. The Commission for Africa's plea for $25 billion represents just 0.08% of the 22 richest donors' national income; the Millennium Project's ambitions require donors to raise their worldwide spending from just 0.25% of GDP to about 0.5% by 2015. America's post-war Marshall Plan for Europe, which Gordon Brown, Britain's chancellor of the exchequer, cites as inspiration, called, on average, on more than 1% of America's national income (albeit for only four years).

Big money's dangers

But though a fraction of G8 income, these sums are huge relative to the size of the African economies they would help. About a dozen African countries already depend on aid for a fifth or more of their national income. In the mid-1990s, Mozambique relied on it for more than half.

Raghuram Rajan and Arvind Subramanian of the International Monetary Fund worry that pushing too much aid into these countries too fast might bid up their real exchange rates, undermining the competitiveness of their export industries. They find some evidence that large aid flows retard the growth of manufacturing sectors, such as textiles and apparel—the vanguard of the industrial revolution in many countries, from Britain to Vietnam. But most of all, aid sceptics worry that aid is too easily converted into spoils at all levels of African society.

Not surprisingly, donors are often tempted to bypass governments altogether, importing their own teams. Many also enlist the help of “grassroots” non-governmental organisations (NGOs), which often sprout up, like plants in the sunlight, solely to bathe in this foreign money. This approach can yield results in the short run. It is also often the only option in countries riddled with corruption. But it can also cannibalise the state institutions on which any country must ultimately depend. A state without responsibilities will never be a responsible state.

Even if Africa's governments had the best will in the world, could they use such big sums of money? Aid wonks use sponge metaphors: a country can "absorb" only so much aid, even if the money flows as freely as water. Donor money helped Malawi's primary schools scrap their fees in the early 1990s. But the schools soon succumbed to "access shock": 1.2m extra pupils sitting at the feet of teachers working double or triple shifts.

If donors think ahead only two or three years, such "capacity constraints" argue for spending less: why pay for every child to go to school, if there is no one to teach them? But over a longer time-span, these constraints argue for spending more: why not train the teachers, as well as paying the fees? By 2001, for example, Malawi had more than 27,000 extra teachers. The World Bank estimates that a country such as Niger needs to train about 8,000 teachers a year from now until 2015 to meet its needs. It currently trains just a tenth of that number.

For the impatient, the Millennium Project offers a host of "quick wins", relatively simple fixes that demand little of state machinery. Many of the gravest threats to public health, for example, can be fought without hospitals, highly trained clinicians or expensive medical equipment. "Barefoot doctors" will do. Besides, well-shod, well-trained doctors tend to disappear overseas. A third of Ethiopia's doctors left the country between 1988 and 2001, according to the World Bank.

The moral of bednets

Top of the list of quick wins are mosquito bednets, impregnated with insecticide. They cost less than $4 and cut the risk of infants dying by 14-63%. The appeal is obvious and immediate. At the World Economic Forum in Davos this year, a speech on malaria by Benjamin Mkapa, Tanzania's president, prompted Sharon Stone, a Hollywood actress, to stand up, pledge $10,000 for bednets on the spot, and challenge her fellow audience members to do the same.

Sadly, this impulsive generosity will not be instantly gratified. Nets cost more to distribute than to make. Misguided policies can make matters worse. Nigeria, for example, has on various occasions imposed tariffs of up to 40% on imported nets to protect its own netmakers. Demand for the insecticide, with which many Africans are unfamiliar, cannot be taken for granted (less than a fifth of nets are retreated regularly) nor can demand for the nets themselves. The *Monitor*, a Ugandan newspaper, reports that a government official last month warned villagers not to turn their nets into wedding gowns.

So where are Ms Stone's nets now? In fact, the Tanzanian government has a sensible policy of not giving bednets away. To do so might crowd out the commercial sellers of bednets, who distribute them more efficiently than the public sector—and can be relied on to keep selling them, provided they can make a profit, long after celebrity donors have lost interest. Instead, the government hands out vouchers to pregnant women at antenatal clinics, covering much of the cost of the nets in the market.

The dilemmas of distributing bednets illustrate some general problems of aid. Donors muster resources, but they fail to align the incentives of the people providing them or benefiting from them. The grand macro-solutions often neglect the nagging micro-foundations.

The staff of rural schools and clinics, for example, have scant reason to do their job well. A study in Uganda led by Barbara McPake, of the London School of Hygiene & Tropical Medicine, found that in the typical public clinic, 76% of drugs "leaked" on to the private market, more than a quarter of them prescribed to "ghost" patients who did not exist. Donors, Ms McPake points out, would rather subsidise drugs than pay salaries. Hence health workers make their own money by selling the drugs for themselves. If they did not, the clinics might not have survived at all.

Clinics also levied "informal" charges on their patients, sometimes five to ten times the formal rate. Expectant mothers had to pay for the polythene sheet on which they gave birth; afterwards, they had to wash and return it. Patients who could not pay were routinely abused and occasionally assaulted. The authors heard of a newly delivered baby being "confiscated" until payment was made. Not surprisingly, the poor avoid public clinics if they can—which is just as well, because doctors staff them, on average, for fewer than 13 hours a week.

Such problems mostly surprise and appal donors. But they are predictable and systematic. A cadre of economists, such as Michael Kremer at Harvard, Abhijit Banerjee at the Massachusetts Institute of Technology (MIT) and the Bank economists who wrote last year's World Development Report, are busy working out how to solve them. Some have tried to fix these problems by giving nurses, doctors and teachers incentives to do better. Others hope to solve them by giving patients and parents the power to demand more.

Slow wins

An ingenious example of the first approach is provided by Seva Mandir, an old-established charity in Rajasthan, in India. It runs one-man schools in tribal villages, but discovered that teachers failed to show up one-third of the time. In response it did not withdraw funding, but instead gave teachers a camera to photograph themselves and their pupils at the start and end of the school day. The pictures carried date and time stamps that could not be faked. The more such photographs teachers could produce each month, the more they were paid. Esther Duflo and Rema Hanna of MIT show that teacher absenteeism dropped to 18%, increasing the number of child-days of schooling by a third.

Monitoring, when not done by cameras, is a classic collective-action problem. Everyone benefits from a monitor's efforts, but only the busybody himself bears the cost. Overcoming this problem explains part of the success of Ceará, a state in Brazil's poor north-east, in cutting infant deaths. As Judith Tendler of MIT, tells it, the state government hired health field workers on merit and invited rejected candidates to monitor the new recruits, with a view to taking their place if they fell short of the high standards expected of them.

Could poor people themselves demand more of the institutions, schemes and campaigns cooked up to help them? In a few, blessed parts of the world, the poor already know their entitlements and how to press for them. In the Indian state of Kerala, where infant mortality is half that of countries nine times richer, doctors who neglect their duty reportedly risk a beating, and clinics left unmanned attract crowds of angry protesters.

Outsiders can help to strengthen the hand of the poor, at modest expense. The World Bank is particularly proud of its efforts to track spending on Ugandan primary schools. Between 1991 and 1995, it discovered, only 13% of funds allocated for schools ever reached them. “Ghost workers” gobbled up about a fifth of the money meant for teachers' salaries. These striking findings were widely published by schools and local newspapers: parents could find out how much money had been earmarked for a school, and how much had actually reached it. As a result, in 1999 and 2000, about 80-90% of funds reached the schools. The Bank's survey, which cost $60,000, helped plug a leak in school spending worth over $18m.

Tales of corruption, grand and petty, sap the will of donor governments and their taxpayers, who feel their generosity betrayed. But the poor, like everyone else, further their interests as best they can. They do not sit idly by, waiting for a big push. They struggle and cope; some hustle and scheme. It is often only such tenacity that gets them by.

The politicians who meet in Gleneagles on July 6th need not shrink from asking their taxpayers to be generous. But generosity is not the only virtue donors must show. They must also be free of illusion, lest they succumb too quickly to disillusion. The aid industry needs fewer manias and less depression.

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