



**THE  
MACROECONOMICS OF  
DOUBLING AID TO  
AFRICA**

Tony Killick and Mick Foster

# 1. What's the problem?

The Gleneagles promise. Will it be kept? Aid to Africa down in 2005

Anyway, more money's an opportunity. Why's it also a problem?

Two reasons:

1. More aid = extra liquidity. Needs to be managed (sterilised)
2. High pre-existing aid dependency

## 2. Aid dependency ratios, 2004

	<i>Aid/GNI</i>	<i>Aid/GCF</i>	<i>Aid/imports</i>
<b>Top 50% SSA recipients (medians)</b>	<b>22</b>	<b>106</b>	<b>(53)</b>
<b>Mauritania</b>	<b>11</b>	<b>55</b>	<b>(33)</b>
<b>Mozambique</b>	<b>21</b>	<b>101</b>	<b>24</b>
<b>Sierra Leone</b>	<b>34</b>	<b>211</b>	<b>87</b>
<b>Tanzania</b>	<b>16</b>	<b>84</b>	<b>53</b>
<b>Ethiopia</b>	<b>23</b>	<b>108</b>	<b>48</b>
<b>Ghana</b>	<b>15</b>	<b>55</b>	<b>(19)</b>
<b>Uganda</b>	<b>17</b>	<b>75</b>	<b>49</b>

# 3. The macro management issue

The distinction between ‘absorption’ and ‘spending’

‘Absorb and spend’ the textbook solution. But need to sterilise:

- Danger to exchange rate from absorption
- Or compensating squeeze on credit

Inflation danger without sterilisation, if spending > absorption

Either way, private producers of tradeables at risk

Why this matters – role of exports

# 4. Actual experiences

	<i>Not Spent</i>	<i>Partly spent</i>	<i>Mostly spent</i>	<i>Fully spent</i>
<i>Not Absorbed</i>	Ghana			Tanzania
<i>Partly Absorbed</i>	Ethiopia		Uganda	Mauritania
<i>Mostly Absorbed</i>		Sierra Leone		Mozambique
<i>Fully Absorbed</i>				

# 5. Neutralising from the supply-side

Danger can be offset from supply-side

Doubling aid = major new resources

- Potential for ‘crowding-in’ (infrastructure)
- Raising long-run productivities via education & health services
- Reducing perceived risks of investment (although many constraints are non-financial)

But...

## 6. Limitations of aid for supply-side

- Absence of strong evidence on aid & growth
- Mixed past record on aid for infrastructure
- Doubling aid likely to result in diminishing returns
- Aggravated by changes in end-uses of aid
- Institutional effects
  - Aid can help but...
  - Past failings of TA
  - Aid can undermine institutional development
- Dangers to quality of spending (commodity boom example)

# 7. Policy implications - recipients

- Be careful, depending on initial situation (the Uganda decision)
- Much hangs on nature of political system
- Need for conscious, joined-up management policy, including for tradeables
- Need for a long-term planning horizon

## 8. Policy implications - donors

- Predictable gradual increases easier to manage than large discontinuous jumps
- Work with recipients on management & spending plans. Don't rely on conditionality
- Re-examine balance between social and directly productive applications
- Improve predictability of aid flows