

# Should donors cap aid to Africa?

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# Overview of the talk

- Starting points and assumptions
- Aid dependency and governance
  - How strong is the evidence?
- A tax-related upper aid limit?
  - Taxation helps governance
- Basic problems of such a limit
- Possible better ways forward



# Starting points and assumptions

- Aid can be hugely beneficial to development
  - If well delivered and well used by recipients
- Best delivery: Paris/Accra country-led-model
- Governance key determinant of development
  - Wide variation of outcomes across countries
  - Many specific causes - but highly correlated
  - Good government = motivated + competent
- Crucial that aid promotes better governance
  - Paris/Accra model is informed by this insight



# Aid dependency and governance

- Definition = sustained  $> 10\%$  share of GNI
- Over-valuation, corruption, and absorption
- More serious is undermining of governance
  - Large oil revenues create similar problems
- Competence: less good tax administrations
- Much bigger risk to government motivation
  - Accountability more to donors than citizens
  - Paris/Accra model *exacerbates* this problem



# How strong is the evidence?

- Aid dependency reduces domestic taxation
  - Unsurprising, rational: insufficient evidence
  - History: no representation without taxation
- Brautigam & Knack: reduces ICRG scores
- Aid dependent countries have stayed poor
- Negative aid<sup>2</sup> coefficients in gr regressions
  - But size varies, and regressions are contested
- My own observation of political interaction



# A tax-related upper aid limit?

- No more than 50% of domestic tax revenue
- Governments accountable mainly to citizens
- Incentivises (limited) countries to raise taxes
- The small print: qualifications and details
  - Consensual and non-coercive tax collection
  - Taxes on mineral resources to be excluded
  - Humanitarian/emergency aid also excluded
  - Time-smoothing: cyclical, capital spending
  - Data: collection, lags and monitoring issues



# More basic problems of a limit

- Phasing in limits (and later phasing out aid)
- Benefit of above-50% aid may exceed cost
- One size does not fit all: optimal limit varies
  - with marginal benefits from extra aid spending
  - with variation among countries in tax capacity
- Donors could/would not apply aid-tax limits
  - Donors motivated not only by development
  - Multiple donors, notoriously uncoordinated
  - Recipient governments would not cooperate



# Possible better ways forward

- Burden-sharing as an addition to Paris/Accra
  - Analogies and lessons from fiscal federalism
  - Levels, trajectories, regularly reviewed rules
  - Could and should be applied to *all* recipients
- Assumes aid will continue for several decades
  - Different from the Sachs ‘one big push’ view
  - Aid temporarily above limit  $\neq$  aid dependency
- DAC donor enforcement by ‘compensation’
- Strategic donor thinking in this area is vital