Reforming Foreign Aid to African Development: The Politically Autonomous Development Fund Model

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INTRODUCTION[1]

The purpose of this paper is to introduce a novel proposal for how foreign aid can be made more productive in the current context of sub-Saharan Africa. The basic assumption is that foreign aid must be adapted to the specific challenges in these countries: high levels of external dependency; weak public institutions; pressures to democratize; and, low levels of trust. The politically autonomous development fund, that is being proposed here, serves as an intermediary between the donors, on the one hand, and the operative recipients on the other, thereby promoting greater local responsibility and accountability and motivating Africans to take important steps towards improved governance. By helping to aggregate incoming donor finances into sectorial funding mechanisms, these funds reduce the administrative burdens on both donor and recipient sides.

This paper is written as a background paper for discussion. It introduces the challenges and the rationale for these funds and continues to outline their basic features. It ends by raising a number of questions that need to be further addressed before the proposal can be put into operation.

THE CHALLENGE

The next ten years may become a period of make or break for much of sub-Saharan Africa. Slow economic growth, deteriorating terms of trade, the burden of debt servicing, and stagnating flows of external financing make social and economic development in that region particularly difficult. Projections for sub-Saharan Africa, according to the 1992 World Development Report are sobering: given present trends in productivity and population growth, per capita income by year 2030 would reach only $ 400, lower than the $ 440 recorded for 1957! Africa's decline stands in contrast to the projections for other regions of the world. While capital flows to developing countries, especially from private sources, have grown rapidly in recent years, they have been directed primarily to Asia and Latin America. "Africa has been bypassed", concluded the UN Secretary-General in his 1993 assessment of the progress of the UN New Agenda for the Development of Africa in the 1990s (adopted in December 1991).

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This grim predicament requires work on many fronts. There is no one approach that will work; no one solution to the many problems. There is reason, however, to pay special attention to the role of foreign aid. Official development assistance (ODA) has played, and still continues to play, the dominant role in development financing in sub-Saharan Africa. In 1992, it constituted 80 per cent of all external finances to the region. Aid flows to Africa, however, are under threat. For sub-Saharan Africa, ODA in 1992 fell by 22 per cent from 1991. To a large extent, this decline reflects the fall-off in bilateral aid from the largest donor countries, especially the member-states of the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD). Instead of approaching the organization's aid target of 0.7 per cent of Gross National Product, member states are falling further behind. The average for these countries in 1992 was 0.34 per cent, less than half of the approved target. Only the three Scandinavian countries and the Netherlands were above the 0.7 mark. This decline in bilateral aid is accompanied by a reduction also in multilateral aid. Support from the International Monetary Fund (IMF) and the World Bank increased during the late 1980s, but has since tapered off and it may continue to slow down in the second half of the 1990s.

This downward trend is not likely to change as long as the African state remains incapable of putting external finances to good use. What was in the first years after independence -- in spite of inadequate staffing -- a reasonably reliable implementation machinery has in the 1990s turned into a corrupt, inept and inefficient "good-for-nothing" kind of institution in many countries on the continent. Donors are unlikely to continue pouring money into what many of them perceive as a bottomless pit. Without serious reform and improvement, African governments are going to find less and less money go their way. The writing on the wall is quite clear.

The donors, however, find themselves in a difficult situation. They already finance more than 50 per cent of the national budgets (both development and recurrent expenses) in many countries of the region. Many donors want to reduce their funding but their involvement in the affairs of these countries is so extensive that a sudden withdrawal, apart from its diplomatic repercussions, would cause severe economic and social havoc in these places. Many donors perceive themselves as hostages of their own past generosity. Their money flow into these countries but produce little or nothing, at least in terms of sustainable progress.

Is there a constructive way out of this difficult situation that would be beneficial for donor and recipient alike? In particular, how can the money that is being transferred to Africa be converted into more lasting development activities? That is the challenge facing Africa and the global community in the second half of the 1990s. It is a big one that calls for an approach other than "business-as-usual". It calls for new thinking on the part of both African governments and international donors. At a juncture as critical as this, such rethinking is hopefully possible.

The African Association for Public Administration and Management (AAPAM) has devoted much of its activities over the years to issues of how the public service in Africa can be improved. It recognizes that many of the issues relating to public service reform go beyond the conventional issues of public administration and management. In that perspective, it devoted its 1993 annual roundtable to governance and democratization issues. The Association's involvement in this project is another acknowledgement that the issues of development management in Africa today have to be tackled holistically by African governments and donors alike.

Five years ago, the Dag Hammarskjold Foundation organized a conference on "The State and the Crisis in Africa" in which a cross-section of African politicians and intellectuals analyzed the problems facing the continent on the eve of its present move to democracy. This time, attention is also being turned to the donors, not because the assumption is that the Africans committed to reform have failed but because the donors are so deeply entangled in the current situation that their self-evaluation is as important as that of the Africans. Both parties have reason to share responsibility for reversing the current predicament.

RATIONALE FOR A NEW APPROACH

If there is anything that we should have learnt from past experience with foreign aid, it is that it works best when prospective beneficiaries have a stake in the venture; when it is adapted to the particular circumstances of the situation in which it is being dispensed; and, when it makes people feel enthusiastic and ready to cooperate to achieve a common objective of theirs.

In recent years donors have typically found it more difficult to tailor their assistance along these lines. For a variety of reasons -- suspected or documented cases of corruption, perceived lack of commitment among recipient government officials, increased pressures from home authorities to show results, and so on -- aid agencies have usually taken a more direct control over the use of their funds or have channeled increasing sums via trustworthy international non-governmental organizations with a presence in the recipient countries. The inevitable effect has been to reduce the opportunities for local accountability and involvement; to limit the chances that their assistance will be of lasting value.

The approach proposed here is being presented with a view to showing a different way forward. It starts from four assumptions.

The first is that a critical variable in determining the effectiveness of foreign aid is how it is being dispensed. The idea that the mechanisms for channeling aid are important is of course not new, but not enough attention has been paid to how the institutional conditions in Africa today affect this issue. More specifically, what can be done in situations where public institutions have lost much of their legitimacy and ability to influence the course of events?

The answer to date has been along two lines. One has been to cut the size of the public service on the assumption that with better financial incentives for those remaining, productivity will go up. The second has been to encourage private and voluntary initiatives to play a more important role in development. While these may be necessary conditions for improving Africa's development prospects in the years ahead, neither is sufficient. Many people still perceive the public realm as a place for making private gains. The real challenge of how to restore confidence in public authority remains. Only when people can expect to be treated with fairness and professionalism are public institutions likely to earn the respect they need to promote national development and political order. Further attention to the public realm is crucial to any effort to get Africa out of its current predicament. This means that a bolder and more imaginative approach needs to be adopted: one which accepts that "public" is not a priori synonymous with "lackluster performance". It is the conditions under which an organization is public that determine its effectiveness.

The second assumption of this model is that a trustful relationship between donor and recipient is a prerequisite for a good use of foreign aid. Today there are plenty of examples from African countries to the opposite. Some donors keep pushing money into treasury coffers or specific projects but often experience a moral dilemma when being forced to apply extensive measures of control that very clearly illustrate their lack of trust in the recipients. Others avoid this moral dilemma by simply channeling money only to institutions outside the public sector. None of these scenarios is a prescription for national development. It often amounts to nothing but throwing good money after bad or to giving priority to private initative over public authority when both are sorely needed. Africa can move forward no better on a one-leg approach based on private initiative than it could on one based on state direction. Africa needs both legs and the donors must find a way of developing greater trust in their African counterparts. The latter, on their part, must be given a chance to prove that they can be trusted. Only then will the physical capital (money) that the donors provide begin to be converted into social capital, i.e. institutions that will sustain development efforts based on local commitments.

The third assumption is that donors need to be less selfish or nationalist in their approach to foreign aid. Many of them continue to act unilaterally. By having their own consultants design projects they reduce the opportunities not only for local recipients to be involved but also other donors to partake. There is a tendency for these agencies to feel that the more control they have over the actual preparation of a given project, the more likely it is that the project will yield positive results. The truth of the matter, of course, is that the result is usually the opposite. As long as donors insist on being so directly involved in design and forcing the recipient institutions to adhere to their own peculiar idiosyncracies -- not the least when it comes to administering specific projects -- chances that development projects will succeed are very slim. Aid does not work that way. In recent years, donor coordination has been fostered by consensus over the need for macroeconomic reforms. Such coordination is still rare at project level and, when it is achieved, it is typically with donor considerations prevailing. Apart from a few ministry officials, representatives of the recipient side have little input into these activities. What is needed is a reversal of this process so that donor coordination is taking place in response to the demands of recipient institutions.

The fourth assumption is that development funding must be available not only at the central level of government but also at lower levels. There has been much talk of decentralization in Africa over the past twenty years but very little has materialized that are true measures of power-sharing. The growing emphasis on local government revenue collection is important but not enough to assist the process of decentralization. First of all, most local government areas are too poor to sustain themselves, leave alone engage in development projects. Second, as long as the only other source of revenue are central government loans or grants, they are in no situation of effectively bargaining for more influence. The whole set-up needs to be changed in such a way that local governments can compete on equal terms with central government institutions for finances available for public use. The central control of decision-making, information flow and resource allocation can be broken if local institutions, including local governments, are able to enhance their financial autonomy vis-a-vis central government. How this can be done in the contemporary context of African governance is an important challenge to all.

THE AUTONOMOUS DEVELOPMENT FUND MODEL

The approach proposed here is derived from recent experience with similar institutions in developing countries but is being adapted to the particular challenges of the present situation in sub-Saharan Africa. It is possible to identify at least four types of development funds. The first are the rural development funds that donors began funding in the 1970s. Their institutional location was typically in the Office of the President and their principal aim was to enable the government to finance smallscale projects outside the framework of its own bureaucracy. These funds had no board of trustees, and they were easily turned into political patronage funds. In most cases, as evaluations show, there was little feedback on what happened and poor financial accountability. This type has been largely abandoned by the donors today.

The second type consists of the increasing number of private foundations that have been set up locally, sometimes with assistance from American charitable foundations, with a view to financing smallscale development projects at the community level. They do have a formal legal independence and are set up with their own boards of trustees, but many of them have been "politicized" and used to favor particular political agendas. Their overall performance record is mixed. They continue to play an important role in many developing countries, however more so in Asia and Latin America than in sub-Saharan Africa.

The third type might be best described as the public sector version of the above private initiatives. Some donors, e.g. UNDP and UNICEF, have decided to help establish funds to cater for community or village development. The assumption is that through these funds their money can more easily reach the poor and groups at risk. These funds are typically funded by one donor only and are politically accountable to the head of state or a designated minister. For donors who in the past have experienced great difficulty in reaching the poor, the performance of these funds to date is encouraging.

The fourth type are the social action or social development funds established with the help of the World Bank to cater for adverse social effects of the macroeconomic reform programs. The most well-known of these is the Emergency Social Fund in Bolivia, which has been hailed by many as a success story, although it had difficulty reaching out into the rural areas. These funds are typically operational in that they also carry out specific projects. The exact status of these funds varies from country to country, but they are accountable to a political head, either the head of state or a designated minister.

Each of these types has, or has had, an important role to play, but none meets the real governance challenges of Africa today. The autonomous development fund model proposed here differs from all or some of the above types in the following ways:

* it is a public but politically independent institution
* it caters for both government and civil society
* it is a funding, not an operational, entity
* it aggregates finances from many sources

* it brings donors and recipients together in new ways
* it is national in scope of operation

These funds would serve as intermediaries between donor agencies and recipient institutions. They would be incorporated in the recipient country and ultimate responsibility would lie with a board of trustees whose members are legally prevented from serving on the board if they have political or economic interests that collide with their role as trustees. This way, the funds are accessible to any group regardless of their political orientation. By being guided by professional and not political criteria, these funds have the potential of encouraging a constructive competition between government departments, on the one hand, and private and voluntary organizations, on the other, to demonstrate how development work can be improved and be made more sustainable. By refraining from an operational involvement it can more easily retain its independence. By inviting donors to "invest" in these funds, they can avoid finding themselves in the pockets of a single sponsor. Donors, in turn, can consider abandoning their support as a way of putting pressure on the funds to perform better. It encourages donor sensitivity to good performance without forcing them to apply conditionalities that typically get in the way of doing development work well.

It should be pointed out that these funds are not expected to absorb all external aid flows to a given country. They will, through specific sectorial foci, e.g. on food security, public health, education, or women in development, absorb finances that are currently targeted directly on government departments or NGOs involved in social and economic development. Largescale infra-structural projects and humanitarian assistance would fall outside the purview of these funds.

The fund objectives can be summarized in the following way:

* to accelerate social and economic development by facilitating the conversion of physical capital into social capital;
* to foster more responsible forms of governance based on the principles of local responsibility and accountability;
* to encourage a more demand-driven development process by making public money available in response to proven ability to handle it in a feasible and responsible manner;
* to enable donors to withdraw from direct operational or administrative involvement in externally funded project activities;
* to provide greater space for African governments, including local governments, to demonstrate their commitment to improved governance in their countries;
* to help African countries generate more support for theirdevelopment efforts by demonstrating that external funds can yield positive results.

THE CONCEPT OF AUTONOMY

Autonomy is crucial to the development fund model. It is defined here as the ability of an organization to formulate goals and policies that do not necessarily reflect the articulated interests of the environment such as resource providers. Autonomy is a condition which describes both the organization's relations with individual resource providers and its access to resources. Autonomy is never total, but the extent to which an organization enjoys it influences performance. Organizational performance is often measured only in terms of effectiveness (or efficiency), but it should include also such dimensions as innovation and morale. The latter two are as critical to success as effectiveness measured in terms of goal achievement. Where organizations are resource dependent, as the case typically are in Africa, definitions of effectiveness tend to be provided by the resource providers, i.e. the donors. This usually has the effect of lowering the levels of innovation and morale. The organization loses its readiness to criticize policy, much less innovate on it. It just implements. Under more autonomous conditions, organizational performance is motivated by internally generated definitions of effectiveness. The organization evaluates and criticizes external notions of effectiveness, as well as reject them in favor of its own. Performance shifts from the art of the possible to the art of defining what possible is. If African governments and donors are concerned with better performance, autonomy, as the literature on organizations suggests, is an important condition. Effectiveness is likely to be best promoted by precisely those qualities -- innovativenss and morale -- that are associated with autonomy. Both donor and African governments have reason to rethink their relations to respective clients: donors vis-a-vis recipient governments; the latter vis-a-vis other organizations in society. The autonomus development fund model addresses both these nexuses.

Organizational resources can be divided into three categories: (1) authority (right and responsibility to carry out programs and general legitimation); (2) financial assets (for maintenance as well as program development and implementation); and (3) technical expertise (mode of operation and staffing issues). Each of these categories will be covered in some detail below.

ISSUES OF AUTHORITY

The autonomous development fund is supposed to be a public institution, but it should be independent of government control. It should not be construed as "a state within the state". The appropriate analogy is rather the role played by an independent central bank, which in the interest of the national economy is allowed to make monetary policies of its own. Partisan interests, represented by the government or any other set of actors, must not infringe on the fund's decisions.

One way of bolstering its autonomy is to emphasize its status as a national institution, open to all. Regional funds or other similar institutions catering for a specific clientele easily lose their autonomy. It gets coopted by client interests. A fund established at the national level has greater clout to withstand such pressures. With a diverse clientele and with more than one resource provider, it should be able to uphold its image as an institution that serves the government as much as it does civil society. At the same time, it might be in the interest of all that there is no single fund for all types of social and economic development but a number of sectorially specific funds competing among themselves. This is a potentially performance-enhancing measure.

Much of the general legitimation of these funds will depend on how their boards of trustees are constituted. There are essentially three models for constituting a board:

* representative
* restricted
* self-perpetuating

The first of these implies a charter which specifies that members represent different interests or organizations. The second specifies particular qualifications that have to be met. In the third, the charter permits members of the board to select their own replacements. The first of these is problematic in this case if representation is seen to be on behalf of potential clients. It may be applicable, however, if representation is seen to be on behalf of sponsors. The other two options are also applicable. It is likely that certain qualifications and restrictions should be included in the charter. For example, persons who are actively engaged in politics or serve in organizations that are potential clients should be excluded from consideration. Similarly, an element of self-replacement may be desirable to enhance autonomy.

A major problem with this kind of institutions in the past has been the tendency for the ultimate appointing authority, i.e. the head of state or minister, to fill the board with friends and allies. If the charter does not put a break on that tendency, little will have been gained. The board of trustees of these funds must be persons who are secure in their positions and sufficiently insulated from undue pressures to make decisions about allocation of resources that follow standards of fairness and professionalism. It may become necessary to insert a contractual obligation on the trustees to follow such standards so that they can be held accountable in case of violation.

One possible scenario in order to avoid past shortcomings would be to have the funds answerable to the national legislature. It would appoint, for example, three members to the board, the financial sponsors another three, and the board itself selecting the remaining three. To ensure continuity and an institutional memory in the board, the election of new trustees may be staggered so that three new members, e.g. one from each of the three categories listed above, are selected each year for a three-year mandate. It may also be specified that no member of the board would be allowed to serve more than two, or possibly three, three-year periods. This way the boards would be accountable to the lawmakers of the country without being totally in their hands. Each fund would be responsible to submit an annual report to the legislature and, if necessary, the latter could recommend certain measures, including instituting a public probe, aimed at enhancing their performance without compromising the principle of autonomy. By making the funds accountable to the legislature instead of a particular minister or the head of state, they can more easily be saved from becoming sources of political patronage. As a collective entity, the legislature will find it difficult to turn the funds into instruments of particular politicians. By making the annual reports available to the legislature, the funds are likely to be more effectively the subject of public scrutiny by both law-makers and media representatives alike. By making the legislature ultimately responsible for monitoring these funds, its own status is being enhanced and democratic governance promoted. In these respects, the funds serve the objectives of democracy and better governance.

FINANCIAL ASSETS

The issue of financial assets is central to autonomy. The more an organization can rely on its own self-generated assets, the greater its autonomy. The development funds proposed here are not likely to achieve such a level of autonomy in the near future. The idea that the funds as public institutions could be permitted to issue bonds in order to raise money is a possibility, but capital markets in African countries are still weak. Such an option is probable only in the longer run.

The idea of relying on money transferred to the funds from the regular government budget should be discarded as that would compromise their autonomy vis-a-vis the executive branch, a potential client of these funds. Governments would still retain their existing social and economic development programs and would apply to the funds to supplement their own budgetary allocations. The funds should not be seen as diverting finances from the government. Their role is to complement the state budget and help raise more money for development programs and projects. For example, donor governments that are used to providing assistance through negotiations on an annual basis with their counterparts in recipient countries would make sure that in their agreements that cover all types of aid, a special clause is included that the particular amount set aside for the autonomous development funds would be subject to annual review and possible replacement so as to enable the donors to move their capital from one fund to another (within the same country or possibly to a fund in another country) in accordance with their sense of how these funds perform.

The principal role of these funds, at least in the short to medium term, is to mobilize external support for development by demonstrating to donors that they are capable of doing a professional job and thus are worth investing in. While the funds are not perceived as preempting the opportunities for other institutions, governmental or non-governmental, to directly request external assistance from donor agencies, the successful funds would become attractive targets for these agencies to channel sizable amounts of money instead of having to worry about a large number of small grants to many individual organizations. As intermediaries in the recipient country, the funds would relieve the donors of this quite labor-intensive responsibility.

Donors would typically make annual payments into these funds. As "investors" they would make contributions in accordance both with their own policy priorities and the perceived performance of each fund. Certain contractual obligations may be agreed upon to avoid too drastic changes in the resource endowment of these funds, but those who place their money in the funds should have the right to withdraw it, and certainly exercise the threat of withdrawing it, if performance falls far short of target or managerial irregularities are disclosed. By holding out such threats, and sometimes executing them, the donors are likely to invoke compliance with principles that enhance the autonomy of the funds.

If channeling financial support direct to these funds, the possibility of routing the money through the Central Bank is an alternative. To be sure, many Central Banks have in the past proved less than efficient in facilitating such transfers, but recent improvements in their management should make this option more realistic today. If pursued, it has of course the added value of making hard currency available to the country for uses other than in the context of the development funds alone.

The important thing here is to go beyond the currently dominating one-donor fund, which has little or no effect on building improved governance capacity. Greater responsibility and accountability will only come if donors have enough trust in their counterparts and provide them with an opportunity to demonstrate such qualities. There is no real growth opportunity for local institutions if they are not able to enjoy operational autonomy. Donors, therefore, must transcend their current "project orientation" and help create intermediary funds in which they can place, and if necessary withdraw, their money. By providing the recipient countries with more of a carrot without giving up the whip altogether, the donors can more effectively than in the past help their resources work for development.

Thinking about development has for far too long been viewed as a matter of "catching up" with the North. Donors have encouraged investments in new projects and programmes without giving adequate attention to the institutional set-up in which these activities take place. In recent years, the importance of institutions has entered development discourse through the notion of an "enabling environment". This has been largely interpreted as breaking up public monopolies and giving greater opportunity to private entrepreneurial activity. While this in many cases may have been fully justified, it is not sufficient to foster development at an aggregate national level.

The latter requires a rethinking of development away from the notion that it is primarily about physical capital. Development does not only require money and human expertise. It also needs the social capital that turns physical capital and human skills into something productive on a sustainable basis. Defined most simply as voluntary forms of social regulation, social capital inheres in the relations among people. The concept derives from the norm that one should forego one's own self-interest and instead act in the interest of the community, collectivity or corporate entity of which one is a member. This norm, reinforced by social support, status, honor and other rewards, generates the social capital that sustains development.

The challenge of the international donor community in the current African context is to ensure that their financial resources get converted into social capital. The assumption of this proposal is that the autonomous development funds stand a better chance of achieving such an objective than any other institutional mechanism. By holding out the prospect of financial resources on a competitive basis, prospective recipients must first demonstrate that they possess enough social capital to make a grant or a loan available to them worthwhile. How such capital would be employed to foster institutional development would be a central criterion for assessing the feasibility of given project proposals.

An attractive feature of the development fund model is the possibility of recycling old debts. Most of these liabilities that keep hanging over individual African countries are the result of past excessive faith in physical capital and human expertise. Because most of them were designed by consultants funded by the donors, the latter share responsibility for what went wrong. It is not only poor implementation that explains past development failures. Equal blame must be laid on overambitious and poor design.

The international community could take a decisive step towards accelerating development in sub-Saharan Africa by going beyond the ad hoc way in which debt swaps are currently being managed. Most debt swaps are now being handled by the Debt-For-Development Coalition, based in Washington DC. It has facilitated the conversion of old debts into local currencies. The beneficiaries of these swaps have typically been international NGOs, many of them engaged in environmental conservation. Donors have preferred working with such NGOs because of their proven management capacity but in so doing have also preempted the opportunity for local institutions to emerge and develop. The funds proposed here would encourage donors to think about debt swaps in the context of national development. The presence of such funds would greatly enhance the absorptive capacity for recycling old debts. They would provide the money once lost with a second chance to demonstrate its productive potential.

A more consistent move in this direction by the donor community would involve a number of tricky issues, none of which, however, should be beyond resolution. For example, one would be to ensure that swaps do not fuel inflation. Such arrangements, therefore, would have to be carefully coordinated among the donors and with the Central Bank of the recipient country. Another issue is who should negotiate these deals. The Debt-for-Development Coalition has done an excellent job on behalf of the NGO community, but should it also take responsibility for negotiating swaps for the development funds? Will the international NGOs perceive this as preempting their chances of obtaining funds for development? These and other related issues, many legal and technical, have to be worked out in greater detail before swaps-for-development could benefit the funds proposed here. All the same, these difficulties seem small compared to the enormous gains that could be made for Africa and the world if the current debt burden is considerably reduced within the context of a plan for productive investment.

TECHNICAL EXPERTISE

The question of how technical expertise bears on the operations of these funds is not only a matter of personnel but also one of conditions of work. Who pays for the costs of running these funds? Different answers are possible. One is that government foots the bill, but that is likely to compromise the principle of autonomy. Another possibility is that parliament sets up special votes for the recurrent costs of each of these funds and allocates financial support directly on an annual basis. A third option is to endow these funds so that their operational costs are met from their own assets. This is the ideal solution from the point of view of autonomy and sustainability of operations. Endowing the funds would probably have to be done with assistance from the donors. Some may face legal obstacles to placing their money in endowments. Such was the case, for example, in the United States until a few years ago when the Foreign Assistance Act was changed so as to enable USAID to create local currency endowments with grant money.

The qualities of the persons hired to serve as trustees are very important. They include public respect, professionalism, good judgment and independent stature, i.e. no active involvement in ongoing political activities. As suggested above, these should be written into the law and the charter guiding the funds. They should apply equally to all categories of trustees, those chosen by the parliament, the sponsors and those picked by the board itself. Such persons are available in the countries concerned. They may be found among retired public servants, the religious communities or professional bodies, to mention only the more obvious places. The sponsors may wish to choose their representatives from among persons who are not indigenous to the country they support. Such a presence may be helpful in enhancing the credibility of the funds. If confined to one third of the total membership, this representation would be small enough not to compromise the principle of local accountability, yet large enough to be able to effectively "blow the whistle", should it become necessary. This international presence on the boards should not be ex-officio, nor should the persons chosen be employees of particular donor agencies. The agencies supporting a particular fund should instead get together to nominate their representatives from among respected international figures, who would be interested and competent to serve on the boards. The board as a whole would be responsible for reporting back to the financial sponsors, although informal contacts would no doubt be kept especially with those three chosen by themselves. The category chosen by the board itself should be from within the country where the funds are located as should those selected by the legislature.

Staff hired to work for these funds must be carefully chosen. They have to demonstrate utmost professionalism and must be ready to interact with potential clients in ways that enhance the stature and image of the funds. Priority should be given to hiring local staff. There are plenty of both seasoned and young professionals in African countries who simply have not been given a fair chance to prove themselves because of the institutional malaise that exists around them. There would be need for both generalist managers, financial accountants as well as specialized program officers. The first category would be responsible for the overall management of the funds. This would include ensuring that allocations of loans and grants are made to credible organizations with viable projects. Their job would also entail contacting financial sponsors, both actual and potential, to attract their investments. The financial accountants would be responsible for keeping track of the flows of money, both in and out of the funds, and ensure that record-keeping is up to date and available for inspection on short notice. The program officers, most likely a mixture of economists and other social scientists, would be responsible for preparing project portfolios for consideration by the board. The assumption here is that they would recommend for support those projects that demonstrate the greatest potential for success, while communicating with other applicants so as to encourage them to improve their project proposals before taking them to the board. There might be some cases where outright rejection is warranted, but in most cases the approach taken by the program officers should be that of advising the applicants how they can improve their chances of receiving support.

Special guidelines might be prepared both for public and "in-house" use so as to facilitate the process of application and assessing proposals. For instance, eligibility criteria would have to be worked out in order to prevent the use of the funds for partisan political and religious ends. It may also be stated from the outset that applicants must convincingly demonstrate what resources of their own they bring to the project, what competence they possess, and exactly how they intend to carry out the proposed activity. If these funds are conceived in the context of a poverty-alleviating strategy, it might be necessary to specify exactly what other criteria that must be met before proposals can be considered for funding. The main purpose must be to weed out those applicants who are only superficially interested in doing something serious with the support obtained. Achieving this is likely to be labor-intensive. Program officers will have to spend a fair amount of time on the road, following up applications and assessing their merits.

Pay is another issue of importance. Employees of these funds need to be paid an adequate and competitive salary, but levels should not be prescribed in advance for all institutions at once but left to the market to determine. If funds are capable of doing well, staff should be given higher salaries or bonus payments depending on what is appropriate. Regardless of what particular mode is chosen, the principle should as much as possible be that salaries, above a certain minimum level, are performance-based.

Need may arise for hiring staff from outside the country, but this should be kept to a minimum so as to give the local professionals a chance to really prove themselves. In most, if not all countries in sub-Saharan Africa, there are sufficient numbers of very competent professional persons available. This pool must be given highest priority, especially since many such persons today find themselves in employment situations that are far from motivating. This does not rule out the possibility of hiring outsiders as consultants, e.g. to help develop or evaluate specific program components.

As a national public institution with a specific sectoral mandate, each fund should be equipped with a variety of policy instruments that enables it to serve all types of potential clients. The latter may include government departments, public, cooperative or private enterprises, non-governmental organizations, and community-based organizations. To give it maximum versatility, it may be advantageous to have each fund operate through three separate "windows". One such window may cater for project requests that are not expected to yield any financial return on investment. Such activities include education and training, as well as the hiring of additional technical expertise on a consultant basis. The relevant mechanism for handling requests through this window would be grants with no obligation to pay back. A second window may cater for organizations working with individuals and groups that are not able to attract credit on commercial terms. Here the soft loan mechanism would be most appropriate. Special care has to be paid in this category to striking a balance between risk and opportunity. To ensure that support of such individuals and groups is viable, it becomes important to ascertain that the activity is well-grounded in a community and that there are matching contributions. The third window would provide credit on regular market terms and thus cater for organizations that typically work with clients in the formal sector. In this regard, it would be similar to a regular credit institution, the difference being that its loans would be exclusively targeted on a specific sector or set of issues.

Each fund would, within its operational mandate, advertise its services publicly and invite organizations that are legally incorporated to apply. To make sure that project proposals are as well prepared as possible, it may also announce what these submissions should contain and what conditionalities, if any, apply. For example, experience with the Emergency Social Fund in Bolivia indicates that it did not do enough to reach the poorer segments of the population in the countryside. If this concern is primary, the fund should explicitly state that applicants for financial support must demonstrate how they will involve the poor in their activities and how the latter are likely to benefit from such involvement.

Notes

1. This conference was held in May 1990 at Mweya Lodge in Uganda and was opened by his excellency, Yoweri Museveni, President of Uganda. The conference resulted in a separate publication entitled The State and the Crisis in Africa (Uppsala, Dag Hammarskjold Foundation, 1992), which has subsequently been translated into French. Both versions have been widely distributed in Africa and in the international development community.
2. For an interesting illustration of the validity of this point, see a recent study of the Fonds d'Action Sociale in France by Robin S. Silver, "Conditions of Autonomous Action and Performance", Administration and Society, Vol. 24, No. 4 (February 1993), pp 487-511.
3. United Nations Development Program (UNDP) commissioned a study in 1993 to define and put into practice the concept of Sustainable Human Development (SHD), in which social capital is viewed as the key to such development. See Tariq Banuri et al. Sustainable Human Development: From Concept to Operation, New York, UNDP, 1994.

Note

1. This contribution by Goran Hyden served as a background paper to the discussions on Autonomous Development Funds at the Expert Consultation in Uganda in April 1995. It presents the rationale for these funds and outlines in some detail their main features. The background paper is based on four assumptions. The first is that a critical variable in determining the effectiveness of foreign aid is how it is dispensed. This becomes particularly critical in situations where public institutions have lost much of their legitimacy and ability to influence the course of events. The second assumption is that a trusting relationship between donor and recipient is a prerequisite for the good use of foreign aid. Only then will the physical capital (money) that the donors provide begin to be converted into social capital, i.e. institutions that will sustain development efforts based on local commitments. The third assumption is that donors need to be less selfish or nationalistic in their approach to foreign aid and not think that the control they have over the preparation of a given project the more likely it will be that the project will yield positive results. What is needed is a modification of this process so that donor coordination takes place in response to the expressed needs of recipient institutions. Finally, the fourth assumption is that development funding must be available not only at the central, governmental level but also at lower levels. The central control of decision-making, information flow and resource allocation can be broken if local institutions, including local governments, are able to enhance their financial autonomy vis-a-vis central government.

The autonomous development fund model, then, is characterised in the following way: it is a public but politically independent institution; it caters for both government and civil society; it is a funding not an operational entity; it aggregates finances from many sources; it brings donors and recipients together in new ways; and it is national in its scope of operation.

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