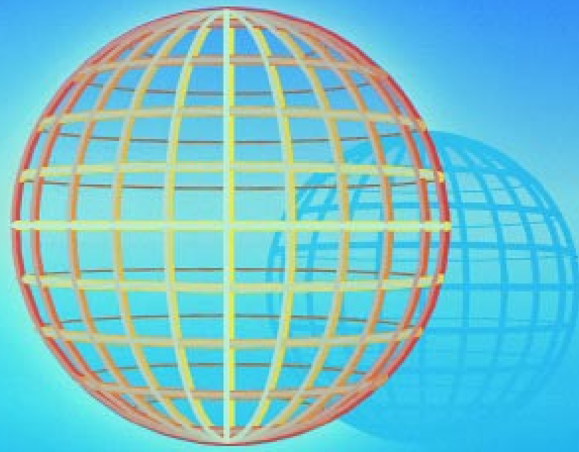

Deborah Bräutigam

Aid Dependence and Governance

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Deborah Bräutigam

List of acronyms

CIECD	Council on International Economic Group
DAC	Development Assistance Committee
GDP	Gross domestic product
GNP	Gross national product
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
HIPC	Heavily indebted poor countries
IADP	Integrated area development project
ICRG	International Country Risk Guide
IDA	International Development Association
IMF	International Monetary Fund
NEAP	National Environmental Action Plan
NGO	Non-governmental organisation
OECD	Organisation for Economic Co-operation and Development
SIDA	Swedish International Development Authority (now Sida)
SIPs	Sector investment programs
SPA	Special Program for Africa
SWAPs	Sector wide approaches
UN	United Nations
UNDP	United Nations Development Programme
USAID	United States Agency for International Development

Executive summary

In the face of the pessimism that has grown up around aid, new research shows that with a good institutional environment large amounts of aid can have very positive results in developing countries. Aid can help governments to more quickly and effectively meet their development objectives, and can improve the standard of living of the poor. Aid can be part of the solution.

Unfortunately, most developing countries do not currently have a good institutional environment, and in these countries, high levels of aid have a much less certain impact. There are many reasons why governance and the institutional environment may be poor in developing countries. Leaders with short time horizons or other priorities may see little point in the long-term task of building a capable bureaucracy. Two decades of economic crisis have undermined bureaucratic capacity, weakened anti-corruption norms, and made it difficult for governments to pay enough to retain talented people. Many low-income countries have only recently emerged from civil wars. Yet there is another factor that may play a role: the large amounts of aid received by many low-income countries. Continued over long periods of time, dependence on aid may make it more difficult for good governance and better institutions to develop.

This study analyzes the political economy of aid dependence. Large amounts of aid delivered over long periods, create incentives for governments and donors that have the potential to undermine good governance and the quality of state institutions. These incentives are not always acted on, but when they are, large amounts of aid may reduce local ownership, accountability and democratic decision-making, while fragmenting budgets and lowering tax effort. Large amounts of aid, delivered to countries with weak institutions *create* some of the institutional problems that lead to ineffectiveness. In aid dependent countries, donor agencies and foreign experts often take over many of the critical functions of governance: substituting their own goals for an absent leadership vision, using foreign experts and project management units in place of weak or decaying public institutions, and providing finance for investments whose operation and maintenance is neither planned for nor affordable. In these countries, aid has been part of the problem. And long-term dependence on aid creates disincentives for both donors and governments to change the rules of their engagement.

In aid dependent countries, we can model government actions as a stylized game involving three sets of players: those within government (bureaucrats and politicians), those in society (interest groups and the electorate more generally), and aid donors. The choices of these actors are a function of their separate interests and ideas, the incentives they face, and the formal and informal rules (institutions) that shape their possibilities for action. All claim to want better governance: increased transparency and predictability, greater domestic ownership of policies and programs, fiscal sustainability, accountability and so forth. Yet the formal and informal rules of the present system and the incentives it creates can make it difficult for governance reforms to occur, and for governments and donors each to escape from the trap of aid "interdependence".

Aid intensity and aid dependence

Aid dependence can be defined as a situation in which a country cannot perform many of the core functions of government, such as operations and maintenance, or the delivery of basic public services, without foreign aid funding and expertise. As a proxy for this, we use a measure of "intensity" of aid: countries receiving aid at levels of 10 percent of GNP or above. On average, low-income countries received just under one percent of GNP in aid in 1997. But aid equaled 10 percent or more of GNP in more than 30 countries with populations over 1 million. Trends in aid as a percentage of GNP indicate that aid intensity has been on the rise since 1975, although it appears to have leveled off slightly since 1992.

Good governance and aid intensity: statistical analysis

Statistical analysis across a number of countries indicates that there is a statistically significant, negative relationship between aid intensity and quality of governance, even when controlling for economic decline. In a set of regressions, using data from the OECD on levels of aid and from the ICRG (1982–95) index of governance quality, we find that aid intensity has a separate, negative, and highly significant effect. Further tests show that there is no tendency of a reversed causality, i.e. that donors direct aid to countries with deteriorating institutions. The results indicate that high levels of aid delivered over long periods of time may affect growth and development through their impact on governance and institutional quality. This preliminary analysis suggests that it is important to examine more closely the problematic impact high levels of aid may have on governance and institutions in developing countries.

How did aid dependence get to be a problem?

Aid has become institutionalized in the system of international relations as one of the major ways in which countries with higher and lower incomes interact. The number of countries that receive high amounts of aid has been increasing. Some of this is due to the post-1989 inclusion of many former Soviet dependencies in the charts of recipients of aid funds, and the lingering effect of wars that were exacerbated by superpower conflicts. The economic and debt crises are also a significant factor in explaining the continued high levels of demand for aid, and in explaining its supply. In a vicious circle, the growing amount of official debt in poor countries creates the need for continued aid. Finally, this study suggests that part of the problem lies in the incentives created by the current system of aid, and the way they affect the collective action problems that are inherent in any reform attempt.

Aid dependence, incentives and governance

Reforms – whether of the aid system, or of governance in developing countries – are collective goods, and achieving them involves solving a set of difficult collective action problems. High levels of aid affect the incentive structure for those actors who must cooperate to solve these problems. When aid intensity continues over long periods of time, it can create aid dependence, with its associated attitudinal, behavioral, and political challenges. In these situations, aid becomes a permanent soft budget constraint. It can create a moral hazard problem, whereby governments receiving large amounts of aid may engage in riskier fiscal behavior, knowing they are likely to be bailed out. Aid dependence also affects the institutions – the sets of norms, codes of conduct, laws, and patterns of behavior – that structure the incentives for cooperation and provide the setting within which improvements in governance must occur.

In an aid dependent context, cooperation needs to take place among three main parties: governments, and the politicians and bureaucrats who people them; societies, which include interest groups and, more generally (in democracies), the electorate; and aid agencies. All three parties have an interest in "national development". But alongside this more general interest in development, each set of actors has particular interests that may conflict with the general interest.

For political leaders, political survival is an overwhelming interest, and in general, they will promote actions that increase their chances for survival even if they are detrimental to development. Bureaucrats are also driven by political survival – especially if they are not protected by career civil service rules. Career advancement is another interest, as well as the material benefits to be gained by the provision of private goods (such as jobs, contracts, etc.) from the public treasury. Interest groups and others in society have an interest in shifting the rules of distribution in their favor, in obtaining private goods and semi-public goods from bureaucrats and politicians, and in minimizing their payments for public goods. Employees of aid agencies have an interest in career advancement and (increasingly, given budget cuts) retaining their jobs, and they must also often answer to the interests of their domestic private sectors and their ministries of foreign affairs. Given these various interests, we can begin to see how aid dependence structures the incentives for action and affects the institutional context within which decisions are made.

Aid dependence and political leadership

Political leaders must continually balance their pursuit of policy objectives (including development) and their primary goal of remaining in power. In order to do both, they must strike bargains with other power-holders in government, society, and in aid agencies. Aid dependence gives aid agencies extraordinary power in these negotiations, but this can backfire. Aid dependence can make reforms less likely to occur. It can contribute to a "strong president, weak parliament" syndrome, distort political accountability, weaken government ownership of reforms (and thus reduce their likelihood of enactment, or of being sustained), contribute to the short time horizons and uncertainty that plague efforts at cooperation in poor countries, and may reinforce patronage practices. By-passing central governments and shifting large amounts of aid to NGOs or local governments may not alleviate any of these problems, but simply cause them to appear in another form.

State capacity, bureaucratic competence and corruption

The goal of governance reforms is primarily to increase the quality of public institutions and to reduce corruption. Yet large amounts of aid and technical assistance enable bureaucracies to continue functioning without at the same time creating any incentive for them to cooperate with efforts to increase meritocratic appointments, reduce corruption in procurement and provision of services, or cut back on unsustainable numbers of public employees. In addition, aid dependence means that countries are deeply exposed to some of the most criticized practices in the aid system: by-passing instead of building capacity, poaching talented staff from government offices, providing unnecessary and unwelcome technical assistance. This directly affects the institutional context within which bureaucracies operate, and has created some significant barriers to the development of more effective states. Finally, high levels of aid tend to lessen pressures that might push the development of bureaucratic accountability. In aid dependent countries, accountability for the funding is valued most highly by those who provide the bulk of the funds: the donors. Many aid dependent countries have not developed the capacity to carry out extensive audits. Instead, donors substitute their own accountants and reporting, creating an enclave of accountability that rarely grows beyond its borders.

Taxing and spending: budgeting and fiscal management

Budgets in many aid dependent countries have collapsed under the weight of many hundreds of projects and policy conditions. Yet aid dependence itself inhibits the budget restructuring required by economic crisis. Aid dependence tends to exacerbate problems of budget fragmentation, repetitive budgeting, and cash flow management. Budgets that are essentially aggregates of donor projects are divorced from planning and policy objectives. Continued provision of large amounts of aid over long periods of time removes the hard budget constraint from government calculations of what is affordable and sustainable in policy choices, and genuinely hard budget constraints are essential for keeping government commitments at sustainable levels. Finally, countries that are heavily dependent on aid tend to have lower levels of tax effort, suggesting that large amounts of aid may serve to reinforce inadequate revenue collection efforts.

From aid dependence to self-reliance: cases

Taiwan and Botswana are today regarded as success stories, countries that have reduced their once high dependence on aid dramatically, while raising the standard of living of their populations. Although there are many differences between these two, their experiences have several things in common. Both countries began receiving aid during a period when their governing institutions were weak, and they – and their donors – used aid to build centralized government institutions that then became critical for managing the aid relationship. Both also enjoyed good leadership. Good leaders are those that have good ideas and prove able to muster the political support they need to implement those ideas. Among those ideas were economic policies: both decided to rely on their private sectors as the engine of growth rather than nationalizing local and foreign firms, and both emphasized earning foreign exchange by investing in exports. These policies built the foundation for later self-reliance.

Changing incentives and reforming institutions

Aid can have a good developmental impact in countries with good leadership and good institutions. Yet the current system of aid provides few incentives for leaders and bureaucrats in aid dependent countries to undertake the difficult public sector reforms that would improve their institutions and thus allow aid to make a positive contribution to their development. Changing incentives involves selectivity, hard budget constraints, and credible commitments to eventually terminate aid after an agreed period of generous support.

Principled selectivity should be based on three pillars of performance: (1) pursuit of macroeconomic stability and fully accountable budget and expenditure management (including plans for increasing foreign exchange and domestic revenue generation over time); (2) progress toward establishing the rule of law, a meritocratic civil service and reducing corruption; and (3) progress toward improving the social welfare of the poor. Both donors and recipients in selected countries need to plan for a termination of official aid in fifteen to twenty years. And donors need to cooperate in ways that ensure that aid becomes part of the solution, and not part of the problem.

1. Introduction

The quality of a country's governance clearly affects its success in achieving growth and improving the quality of life for people. Studies have long suggested that political organization and administrative capacity explain much of the variance in developing countries' growth (Reynolds, 1985). Recent econometric research suggests that the influence of high quality public institutions may exceed the impact of good economic policies in explaining development performance (Knack and Keefer, 1995; World Bank, 1998a). In many developing countries, large amounts of foreign aid have been associated with improvements in institutions and economic management, the provision of crucial public services, and ultimately, increased self-reliance. Aid has been part of the solution. Yet in many countries aid has not had this effect. In these countries, donor agencies and foreign experts have taken over many of the critical functions of governance: substituting their own goals for an absent leadership vision, using foreign experts and project management units in place of weak or decaying public institutions, and providing finance for investments whose operation and maintenance is neither planned for, nor affordable. In these countries, aid has been part of the problem. And long-term dependence on aid can create disincentives for both donors and governments to change the rules of their engagement.

There are many reasons why governance may be poor in low-income countries. Leaders with short time horizons may see little point in the long-term task of building a capable bureaucracy. Decades of economic crisis have undermined bureaucratic capacity, weakened anti-corruption norms, and made it difficult for governments to pay enough to retain talented people. Many countries have only recently emerged from civil wars. Many face unsustainable levels of debt. Countries with problems like these typically receive large amounts of aid. Yet continued over long periods of time, these large amounts of aid and the way they are delivered may make it more difficult for good governance to develop.

Traditional approaches to improving the quality of governance treat it as a technical matter, something to be addressed by skill transfer, reorganization, and new resources. However, a long history of aid-funded programs to improve the functioning of bureaucracies in low-income countries shows a typical pattern of temporary success that too often deteriorates to the original level of mediocre performance. Economic crisis has certainly played a role here. Yet this pattern of institutional failure suggests that something in the current system is hindering this goal.

The long-term impact of aid dependence may be part of the explanation. Government actions in aid dependent countries can be modeled as a stylized game involving three sets of players: those within government (bureaucrats and politicians), those in society (interest groups and societal stakeholders), and aid donors. The choices of these actors are a function of their separate interests and ideas, and the formal and informal rules (institutions) that shape their possibilities and incentives for action. All claim to want better governance: increased transparency and predictability, greater domestic ownership of policies and programs, fiscal sustainability, accountability and so forth. Yet over time, the informal rules of the present system have created incentives for both governments and aid agencies that now make it difficult for each to escape the prolonged dance of aid interdependence.

Better governance involves improvements in political accountability, bureaucratic competence, and fiscal management. Reforms in these areas have the characteristics of public goods: they benefit everyone, but since no one can be excluded from enjoying their benefits, there is little incentive to sacrifice to provide them. And they do involve sacrifice, in particular from those who stand to lose the private goods provided by the current system. Providing these public goods involves solving significant collective action problems: reducing corruption and patronage-based procurement, terminating ineffective public sector employees, instituting meritocratic recruitment, shifting scarce social sector funding from more vocal to more needy recipients, implementing an effective and fair tax system, etc.

This study argues that over time, the aid system itself provides incentives and informal rules that reinforce the political constraints faced by reformers in aid dependent countries and in donor agencies. This makes it more difficult to overcome the collective action problems involved in building a more capable and responsive state and a more effective system of foreign aid. In addition, the current rules of the aid system have created significant moral hazard problems. Leaders receiving large amounts of aid have less incentive to take the politically difficult steps necessary to substantially improve their situation, if this is likely to result in lower aid flows. The expectation (and the reality, in most instances) that donor funds will continue to be forthcoming creates a significant soft budget constraint. Likewise, those working in donor agencies face a moral hazard in that they have no internal sanctions when aid loans and grants fail to improve development performance. This may make them more likely to continue programming aid in situations where the risk of failure is high. Finally, some of the direct economic dimensions of aid dependence, such as the exchange rate appreciation caused by large aid inflows, also have policy and governance implications. For example, countering the effects of appreciation may force the government to raise interest rates and squeeze credit to the private sector, as happened during the 1980s in Ghana (Younger, 1992). Although these economic dimensions are outside the scope of this study, they need to be kept in mind.

The dimensions of aid dependence and aid intensity and the statistical relationship between aid intensity and institutional quality (or governance), are discussed in the next two sections of the study. The fourth section presents the theoretical framework that guides the analysis: the incentives created by the current system of aid make it difficult for governments and donors to change. The main sections of the study explore the way high levels of aid delivered over long periods of time can create aid dependence, and the impact aid dependence can have on the system of incentives, institutions and governance in developing countries. The approach is illustrative and hypothetical. Given the limits of data, it is not possible to "prove" that aid dependence affects incentives in these ways. The study rather presents a framework for thinking about the problem of aid dependence, and some examples from the field that support the analysis. The study concludes with a look at Taiwan[1] and Botswana, two countries that once received high levels of aid, but which have become self-reliant, and offers some recommendations for reducing the possible deleterious impact of aid dependence.

[1] I refer to Taiwan as a *de facto* country for simplicity's sake, while recognizing that its own government and the government in Beijing both consider it to be legally a province of China.

2. Dimensions of aid dependence

When foreign aid first entered the system of international relations, it was intended to be fairly short term, targeted toward reconstruction, as in the case of Europe, or as a medium-term, gap-filling mechanism in developing countries, supplementing domestic savings and foreign exchange earnings (Chenery and Strout, 1966). The United Nations called for a "decade of development" in the expectation that change could be achieved fairly quickly as countries embarked on a trajectory that would lead toward increased self-reliance. But instead, aid became an expanding enterprise. Aid levels appear to have peaked just after the end of the Cold War. Since 1992 the volume of aid has been cut by almost 30 percent (in real terms). On average, low-income countries received just below one percent of GNP in aid in 1997. Yet in 30 countries with populations over 1 million, aid equaled 10 percent of GNP or more (Table 1).[2] In at least 20 of these countries, these high levels of aid have continued for a decade or more.

What is aid dependence? Lensink and White's analytically rich study on aid dependence (1999) proposes one possible definition: "A country is aid dependent if it will not achieve objective X in the absence of aid for the foreseeable future." Lensink and White point out that high levels of aid are not necessarily "bad" and that countries that are getting aid but are not making progress toward some development objective are clearly not "dependent" on the aid (for their development). Yet by restricting the term "aid dependence" so tightly, Lensink and White end up with a very small number of "aid dependent" countries, and a puzzle. In "the vast majority" of developing countries, aid is not helping countries achieve development objectives. They suggest that either the governments in these countries lack "capacity or commitment", or "that aid is for some other reason simply ineffective."

Others who use the term "aid dependence" regard it as something to be avoided. Roger Riddell has called aid dependence "that process by which the continued provision of aid appears to be making no significant contribution to the achievement of self-sustaining development" (1996: 24). Rehman Sobhan, a Bangladeshi critic, calls aid dependence "a state of mind, where aid recipients lose their capacity to think for themselves and thereby relinquish control" (1996: 122). My own definition of aid dependence is a situation in which a country cannot perform many of the core functions of government, such as operations and maintenance, or the delivery of basic public services, without foreign aid funding and expertise.

Since these states and processes of aid dependence involve either a counterfactual, or a psychological state, or are otherwise difficult to measure, we need a proxy measure. Possible proxies include various measures of aid *inten-*

[2] Unless otherwise indicated, all of the data in this paper comes from the World Bank (1999).

Table 1. Aid Intensity 1997

Country	Aid as percent of GNP	Aid as percent of Central Gov't Expenditure	Aid as percent of Gross Dom. Investment	Aid as percent of of Imports
Benin	11	..	57	31
Burkina Faso	16	..	61	50
Burundi	13	52	183	76
Cambodia	12	..	76	29
Chad	14	..	72	37
Congo, Rep.	15	..	45	13
Eritrea	15	..	46	21
Ethiopia	10	..	52	36
Gambia, The	10	..	57	14
Guinea	10	..	45	40
Guinea-Bissau	50	..	198	104
Haiti	12	..	116	40
Kyrgyz Rep.	14	..	63	27
Lao PDR	20	..	68	46
Madagascar	24	..	201	71
Malawi	14	..	113	28
Mauritania	24	..	130	57
Mongolia	26	..	131	45
Mozambique	37	..	119	82
Nicaragua	23	..	..	23
Niger	19	..	170	73
Rwanda	32	..	294	116
Sierra Leone	16	89	–311	87
Tanzania	13	..	68	45
Uganda	13	..	84	49
Zambia	17	..	107	35

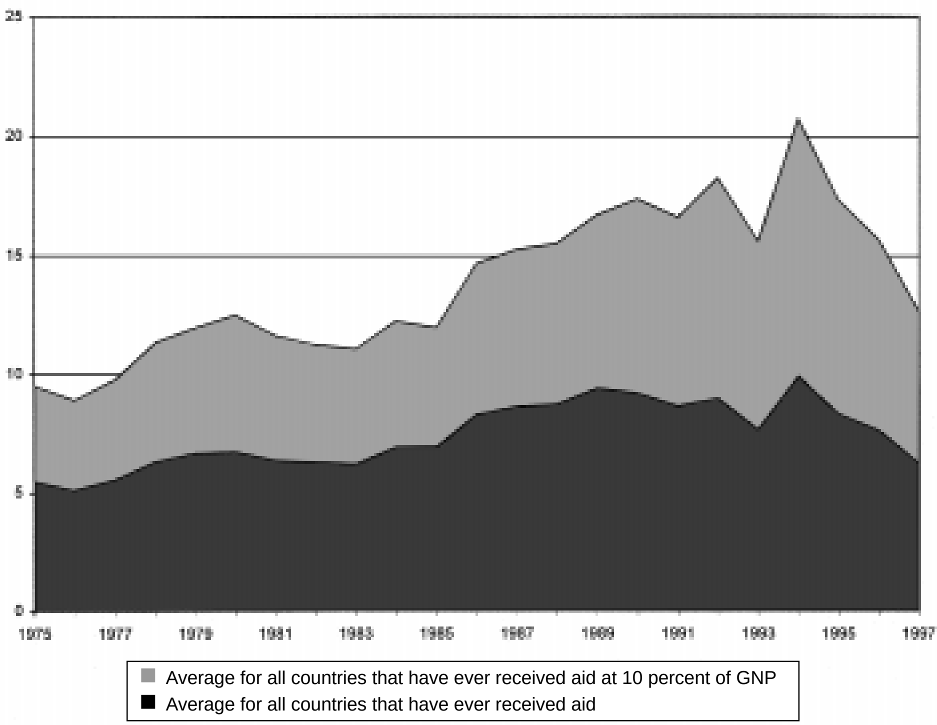
Note: ".." signifies "data not available."
Only countries that received aid at levels of 10% of GNP or above in 1995 are included.
Source: Compiled from data in World Bank, 1999 (cd-rom).

sity: aid as a percentage of GNP, central government expenditure, current revenue, gross domestic investment, or imports. Of these, aid as a percentage of government expenditure would probably be the most useful measure for a study of aid dependence and governance, since I am concerned with the impact of aid dependence on governments, not on economies. Yet figures on government expenditure in low-income countries are quite sparse, as Table 1 indicates. Of the 30 countries in this table for which aid made up 10 percent or more of GNP in 1997, data on central government expenditure for 1997 was available for only two. For this reason, I discuss the data on aid dependence primarily in terms of aid as a percentage of GNP. This is an imperfect proxy, and Lensink and White (1999) are clearly correct in arguing that high levels of aid are not necessarily problematic. And yet high levels of aid, delivered over long periods of time, in the context of the present system of aid, can create incentives that work against the improvement of government capacity and commitment.

For the purpose of illustration, I use aid intensity at levels of 10 percent of GNP and above, as a marker of possible aid dependence. Even in Korea and Taiwan, frequently thought of as "aid successes", economic aid rarely rose above this level. I also consider only countries with populations over 1 million, to control for the small country effect. Table 2 gives a list of all the countries with 1997 populations above 1 million that have at any point since 1975 received aid at levels of 10 percent of GNP and above. This is my basic data set of potentially "aid dependent countries" and figures 1 and 2 reflect the data for these countries only.

Figure 1, based on the data in Table 2 and data on net aid for all countries, charts an annual average for net aid as a percentage of GNP for countries that have at any point received aid at levels of 10 percent of GNP or more (high aid intensity countries), and compares that with the average levels of aid for all countries (including the high aid intensity countries). It suggests that countries that receive high levels of aid are affected by the same factors that affect aid in general. Figure 2 shows the number of countries, per year, for which aid equaled more than 10 percent of GNP for the same period. Figures 1 and 2 demonstrate that aid intensity may be going down, but that this is from the

Figure 1. Aid as percent of GNP, averages 1975–1997



Source: World Bank (1999)

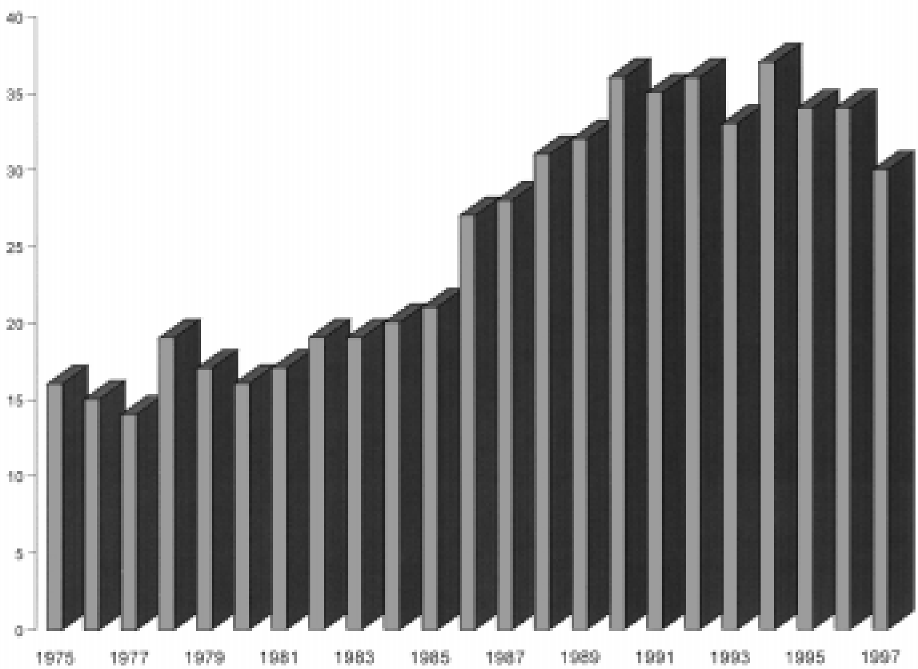
Table 2. Aid intensity (all countries that have received aid at 10 percent of GDP or more, 1975–1997)

Country Name	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97
	Year																						
Albania	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	1	30	64	25	8	7	8	7
Angola	..	..	..	..	..	..	..	..	..	..	2	2	2	3	2	3	3	10	9	23	18	13	10
Armenia	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	0	2	5	8	8	18	10
Benin	8	7	7	7	7	6	6	6	8	8	9	11	9	10	19	15	15	17	14	18	14	13	11
Bolivia	..	..	..	..	..	..	..	..	..	7	7	9	8	10	11	12	10	13	10	10	11	12	9
Botswana	16	13	11	14	14	11	8	10	9	8	9	9	10	7	6	5	3	3	3	2	2	2	3
Burkina Faso	10	9	11	12	13	12	14	14	13	15	14	15	13	12	11	12	15	22	23	24	21	17	16
Burundi	12	10	9	13	12	13	13	13	13	14	12	16	19	19	19	24	23	29	23	34	29	23	13
Cambodia	..	..	..	..	..	..	..	..	..	..	..	..	23	16	17	13	6	10	14	14	19	14	12
Cameroon	5	5	7	4	5	5	3	3	2	2	2	2	2	2	4	4	4	7	5	10	6	5	6
Chad	8	7	9	11	9	3	7	8	11	14	18	16	19	19	19	20	15	14	17	19	17	19	14
Central African Rep.	15	9	9	8	12	14	15	12	14	21	13	12	15	16	15	17	13	13	14	20	15	16	9
Congo, Dem. Rep.	2	2	2	2	3	3	3	3	3	4	5	6	10	7	9	10	6	3	2	4	4	3	3
Congo, Rep.	8	10	7	10	8	6	4	5	6	4	3	5	6	5	5	10	6	4	7	24	7	23	15
Cote d'Ivoire	3	2	2	2	2	2	2	2	3	2	2	2	3	5	5	7	7	8	8	23	13	10	5
Egypt, Arab Rep.	20	15	17	17	8	6	6	6	6	6	5	5	4	5	4	12	16	9	5	5	3	3	3
El Salvador	2	1	2	2	2	3	5	7	9	7	9	10	11	10	10	7	6	7	6	4	3	3	3
Eritrea	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	14	24	22	21	15
Ethiopia	..	..	..	..	..	..	5	4	6	9	13	11	10	14	10	16	21	21	18	22	16	14	10
Gambia, The	7	10	15	21	18	23	32	23	21	30	23	66	46	31	38	35	34	33	24	20	13	10	10
Ghana	5	2	3	3	4	4	3	4	3	5	4	6	8	11	14	10	14	10	11	10	10	10	7
Guinea	..	..	..	..	..	..	..	..	..	..	..	10	11	12	15	11	14	14	13	11	12	8	10
Guinea-Bissau	17	24	35	43	45	57	43	40	39	44	37	57	69	66	58	56	49	51	44	80	51	73	50
Haiti	8	8	9	9	8	7	7	9	8	7	8	8	10	6	8	6	6	5	7	31	28	13	12
Honduras	5	3	4	5	5	4	4	6	6	9	8	8	6	8	8	16	11	12	10	9	10	9	7
Jordan	30	28	17	17	39	31	23	16	15	13	11	9	9	7	7	24	24	9	6	6	8	8	7
Kenya	4	5	4	5	6	6	7	8	7	7	7	6	7	10	13	15	12	12	17	10	8	7	5
Kyrgyz Rep.	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	1	3	6	9	13	14
Lao PDR	..	..	..	..	..	..	..	..	..	7	6	8	16	31	25	21	16	15	16	14	18	18	20

Country Name	Year 75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97
Lesotho	11	11	11	12	13	15	16	14	15	16	20	16	15	14	16	14	13	13	13	10	9	8	7
Liberia	3	4	4	5	8	9	10	10	12	13	9	10	7	..	..	..	..	..	..	..	..	..	..
Madagascar	4	3	3	3	4	6	7	7	5	6	7	10	15	14	16	14	18	13	11	10	10	10	24
Malawi	10	10	10	11	14	13	12	11	10	16	10	17	25	29	30	29	26	33	25	42	31	22	14
Mali	19	10	11	14	13	16	17	17	18	28	32	22	19	23	24	20	19	16	14	25	23	19	18
Mauritania	15	40	34	47	28	26	30	27	24	26	33	36	28	23	28	26	21	18	37	28	23	26	24
Mongolia	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	24	28	23	21	26
Mozambique	..	..	..	..	..	6	5	7	8	11	11	14	44	63	52	57	59	105	78	75	63	43	37
Nepal	3	3	6	5	7	8	8	8	8	8	9	11	12	12	14	12	12	13	10	11	10	9	8
Nicaragua	3	2	2	2	8	11	6	5	5	7	9	12	7	12	56	39	64	49	23	47	43	57	23
Niger	14	12	7	9	8	7	9	13	10	11	23	17	18	17	14	17	17	16	22	25	15	13	19
Papua New Guinea	24	16	16	15	13	13	14	14	14	13	11	10	11	11	10	13	11	11	7	6	8	8	9
Rwanda	16	12	12	14	14	13	12	11	10	10	11	11	11	10	10	12	19	17	18	96	53	49	32
Senegal	8	6	6	10	12	9	17	12	14	17	12	16	15	13	16	15	12	17	13	18	15	12	10
Sierra Leone	3	2	4	5	5	8	5	6	5	4	6	11	8	9	9	9	14	22	29	34	26	22	16
Somalia	21	13	39	35	37	72	54	61	47	47	43	58	62	45	42	59	..	..	..	..	..	..	..
Sri Lanka	4	4	5	12	10	10	9	9	9	8	8	9	7	9	9	9	10	7	6	5	4	4	2
Syria	10	7	11	8	18	13	10	6	5	5	4	7	8	3	0	6	3	1	2	5	2	1	1
Tanzania	..	..	..	..	..	..	..	..	..	..	..	..	..	21	20	30	26	29	22	24	17	14	13
Togo	7	7	8	13	13	8	7	10	15	16	16	17	10	15	15	16	13	13	8	14	15	12	9
Uganda	..	..	..	..	..	9	14	8	8	5	5	5	5	6	9	16	21	27	19	19	15	11	13
Vietnam	..	..	..	..	..	..	..	..	..	..	..	..	..	..	25	..	4	6	2	6	4	4	4
Zambia	4	3	5	7	9	9	6	9	7	10	16	34	22	15	11	16	30	36	29	23	63	20	17
Zimbabwe	0	0	0	0	0	2	3	3	3	5	4	4	5	4	3	4	5	12	8	9	7	5	4

Source: Compiled from data in World Bank, 1999 (cd-rom)

Figure 2. Number of countries receiving more than 10 percent of GNP in aid, 1975–1997



Source: World Bank (1999)

historically high levels of the early 1990s. Some individual countries have reduced their aid intensity over time: Botswana and Sri Lanka for example (Table 2). In 1980, Botswana received the equivalent of 11 percent of GNP in aid, and Sri Lanka received 10 percent. By 1997, aid to Botswana had dropped to 3 percent of GNP, and in Sri Lanka to 2 percent. Yet such reductions are uncommon. More than half of the countries that were receiving aid at levels above 10 percent of GNP in 1980 was still receiving aid at that level or above seventeen years later, in 1997.

Table 2 also indicates just how many individual countries have been dependent on high levels of aid for a very long time. More than a third of the countries in Table 2 have received aid at levels of 10 percent of GNP or more for ten years or longer. Although we know that norms, informal rules, and other institutions do not change quickly, ten years of aid dependence is likely to deeply affect the operations of a government, and the incentive structure. And unfortunately, once in place, these new institutions will also take some time to change.

We need to look at the possible relationship between aid intensity and the institutions of governance: the norms, codes of conduct, and patterns of behavior of the organizations that debate policy directions, construct budgets, manage economic policy, make decisions about program priorities, carry out development initiatives and hold each other accountable. I consider these issues in two ways in the following sections. The next section uses several large, cross-national data sets to explore the statistical relationship between aid intensity and governance. Following, in the bulk of the study, I explore the ways in which aid intensity may be transformed into aid dependence, affecting institutions and incentives that in turn may be critical for the development of state capacity and good governance.

3. Good governance and aid intensity: statistical analysis[3]

Economists have recently grown interested in the impact different measures of institutional quality may have on growth, and some studies have found intriguing and positive relationships (Mauro, 1995; Knack and Keefer, 1995). Other studies have investigated the relationship between aid flows and growth. These studies have found that aid has a positive impact on growth in the presence of good economic policies, or more broadly, good incentive regimes (including the institutional environment in general; Burnside and Dollar, 1997; 1998). While explaining growth is outside the scope of this study, the large databases used in this pioneering research can be used to draw a statistical picture of the correlation between aid intensity and institutions. The message we find is that aid intensity is associated with an erosion in the quality of governance. The relationship between higher levels of aid and institutional quality is negative, and highly significant, and this relationship holds even when economic decline is held constant.

Table 3 presents this evidence in detail. The regressions in this table capture an association between long-term aid dependence and institutional quality. Countries with higher aid levels exhibit declining scores on these indices over time, relative to other countries. Quality of governance is measured by a subjective index from the International Country Risk Guide (ICRG), a commercial service providing information on political risks to overseas investors and lenders. The quality of governance index from ICRG used here is an 18-point scale, created by summing the following three 6-point scales: corruption in government, bureaucratic quality, and the rule of law. The ICRG index is available for the years 1982 through the last year for which aid data were available, 1995. If aid dependence erodes the quality of governance, then countries with higher aid levels should exhibit declining scores on the ICRG index over time, relative to other countries. Accordingly, the dependent variable analyzed in Table 3 is the end of period (1995) ICRG value minus the initial (1982 for most countries, and 1984 for most others) value.

Two alternative measures of aid intensity or dependence are used here: official development assistance as a percentage of GNP, and as a percentage of government expenditures, averaged over the years 1982 to 1995. Aid data are from the 1998 World Development Indicators, based on data provided by the OECD's Development Assistance Committee. Control variables include the initial ICRG value, population change, and change in per capita income.

[3] The regressions and much of the analysis in this section were done by Professor Steven Knack, IRIS Center, University of Maryland, College Park, Maryland. Note that although the research done by Knack and Keefer uses the term "governance" as short hand for their composite measure of "institutional quality, corruption, and rule of law", my own definition of governance is quite a bit broader. See Bräutigam (1992).

Table 3. Aid dependence and the ICRG quality-of-governance index

Equation	1	2	3	4
Method	OLS		2SLS	
Aid variable	Aid/GNP	Aid/govt.	Aid/GNP	Aid/govt.
Constant	8.475 (0.984)	8.535 (1.051)	9.178 (1.116)	9.044 (1.133)
Initial ICRG index value	–0.770** (0.083)	–0.740** (0.087)	–0.766** (0.092)	–0.749** (0.093)
Population change/ initial population	–0.640 (1.837)	0.027 (1.933)	–0.484 (2.040)	1.056 (2.089)
GDP p.c. change/ Initial GDP p.c.	2.027** (0.748)	1.231 (0.801)	1.757* (0.835)	0.635 (0.879)
Aid	–0.067** (0.021)	–0.027** (0.010)	–0.154** (0.037)	–0.054** (0.014)
N	80	68	80	68
Mean, dep. variable	+2.45	+2.75	+2.45	+2.75
Adj. R^2	.55	.54	.52	.53
Std. error of est.	2.29	2.2	2.54	2.33

Dependent variable is the ICRG quality-of-governance index. Standard errors are in parentheses. A * (**) indicates significance at the .05 (.01) level for 2-tailed tests. Other instruments in 2SLS include infant mortality in 1980, initial population, initial GDP per capita, a Franc Zone dummy and a Central America dummy. P values for tests of overidentifying restrictions in equations 3 and 4 respectively are .52 and .81. Note R^2 does not have its usual interpretation in 2SLS.
Source: Knack (1999).

Inclusion of the initial ICRG value controls for the limited opportunity of highly-rated countries to increase their scores (recall that the ICRG index has an upper bound of 18).[4] Changes in population are used as a control because if there are economies of scale in establishing effective institutions, population increases could be associated with improvements in the ICRG index. Finally, changes in per capita income might also affect institutional quality, independent of aid intensity. Declining income levels would be expected to lead to deterioration in institutional quality, through decreases in tax revenues, lower salaries for government officials, and so forth. Increases should have the opposite effect.

Results using OLS are presented in equations 1 and 2 of Table 3. Initial levels of ICRG values are related to subsequent changes, as expected. Other things equal, countries that start off with higher ICRG values have bigger

[4] This also captures regression-to-the-mean effects, the tendency for high values to decline and low values to increase over time.

declines (on average) over time than countries starting with lower values. A country with an initial ICRG value one unit greater than a second country will experience a decline of about three-quarters of a point in the ICRG index. However, changes in population have no significant effect, showing that there is no evidence of economy of scale effects, at least regarding population size. Improvements in GDP per capita are associated with improvements in the ICRG index, and vice-versa; this effect is statistically significant only in the larger sample (equation 1, with aid/GNP). An increase (decrease) of 50 percent in per capita income is associated with a rise (fall) in the ICRG index of one point on average.

Declining institutional quality is clearly related to declines in income. But when we control for this, aid intensity has a separate, negative, and highly significant effect. A one standard deviation change in aid (using either aid measure) is associated with a .25 standard deviation change in the opposite direction in the ICRG index, which exceeds the effect of a standard deviation change in per capita income. The aid coefficient in equation 1 indicates that a 15 percentage point rise in aid's share of GNP reduces the ICRG index by 1 point. The aid coefficient in equation 2 indicates that a similar impact is felt when aid as a share of government spending rises by 35 percentage points. Such increases in aid, while large, are well within the observed range of aid values in the sample. Aid intensity explains more of the cross-country variation in changes in the quality of governance than do changes in per capita income. Omitting aid intensity from equation 1 of Table 3, R^2 declines from .55 to .45; omitting the change in per capita income instead reduces R^2 by only half as much, to .50.

The relationship between aid intensity and institutional quality might go in two directions. Aid could affect institutional quality, but institutional quality may also affect the amount of aid a country gets. It is quite plausible that donors simply give more aid to countries that are experiencing deterioration in the quality of governance. This might explain why we find a strong relationship between aid intensity and declines in institutional quality. Recall, however, that the regressions in Table 3 control for changes in per capita income. Therefore, the possibility that donors might be directing aid to countries that "need" it the most – as reflected in poor growth performance – cannot be responsible for the observed link between aid intensity and declines in the quality of governance. For reverse causality to be responsible for this observed link, donors must target aid to countries with deterioration in governance independently of country need (as measured by changing per capita income). It is perhaps more plausible that, controlling for need, donors direct more aid rather than less to nations with improving institutional quality, as these arguably are the nations which will use the aid most productively. If so, aid coefficients in equations 1 and 2 of Table 3 underestimate rather than overestimate the true adverse impact of aid intensity on the quality of governance.

We can explore these hypotheses of reverse causality by examining the relationship between changes in institutional quality and the exogenous component of aid. Equations 3 and 4 report results from two-stage least squares tests that demonstrate that the link between aid intensity and deterioration in the quality of governance strengthens when we correct for simultaneity bias.

The exogenous instruments we use for aid are nearly identical to those used by Burnside and Dollar (1997). Infant mortality in 1980, and initial GDP per capita, are good indicators of recipient need. Initial population, a Franc zone dummy, and a Central America dummy are measures of donors' interest (smaller countries tend to receive proportionately more aid, as donors want to "show the flag" widely). Of these, infant mortality is easily the most important predictor of aid. These instruments not only predict aid very well, but are also valid: p values for tests of overidentifying restrictions in equations 3 and 4 are .52 and .81 respectively.[5]

These tests show that the results in equations 1 and 2 are not produced by any tendency on the part of donors to direct more aid to countries with deteriorating institutions. Coefficients for each aid measure remain negative and statistically significant using 2SLS, as shown in equations 3 and 4. The estimated negative impact of aid on institutional quality roughly doubles. Thus, the exogenous component of aid is more strongly linked to worsening institutional quality than is aid taken as a whole. These results are consistent with the view that (controlling for changes in recipient need as measured by per capita income changes) donors direct aid towards countries with improving rather than deteriorating institutional quality.[6]

As usual with regression analysis, these relationships must be interpreted with caution. There may yet be other intervening variables in the political and economic environment that have not yet been captured, and which may complicate any assessment of the direct relationship between aid dependence and the quality of governance and institutions in particular developing countries. Yet the correlation between aid dependence and poor governance – which holds even when per capita income and growth are controlled – is suggestive. Recall that Mauro (1995), and Knack and Keefer (1995) have shown that poor institutional quality has a clearly negative impact on growth and other measures of development. These new results indicate that high levels of aid delivered over long periods of time may affect growth and development, through their impact on the quality of institutions and governance. When aid intensity continues over long peri-

[5] Burnside and Dollar also use arms imports as a share of total imports. Adding this instrument does not materially change any results, but reduces the sample size somewhat.

[6] If donors behave this way, it tends to create an association between aid intensity and improvements in institutional quality. This positive relationship reduces the (absolute value of the) OLS coefficients for aid intensity, but does not affect the 2SLS coefficients.

ods of time, it may create aid dependence, with its associated attitudinal, behavioral, and political challenges. This study cannot prove this hypothesis; such a task would involve a much larger and more complex empirical investigation. But it can, and does, prepare the ground for such an exploration through its analysis of the possible impact of long term aid dependence on institutional quality, and governance.

4. From aid intensity to aid dependence

High intensity of aid and the syndrome of aid dependence have their source both in supply (the donor side) and demand (Bräutigam and Botchwey, 1998). Some countries may receive aid for short periods of time at quite high levels to enable them to recover from the ravages of civil war, or the impact of natural disasters. Others, like Korea, Taiwan, Bangladesh, and Botswana, used high levels of aid to put in place the basic infrastructure that enabled them to eventually rely primarily on their own resources and non-concessional funds to finance their development. High levels of aid can clearly be a temporary, and useful, phase of development. Yet for many other countries, dependence on aid has become, by default if not by intention, a long-term strategy.

4.1 Poverty and economic crisis

The presently high levels of aid intensity are clearly related to the economic crisis and increases in poverty and debt that began in the late 1970s and intensified in the 1980s. With lower commodity export revenues and higher import costs, and with the abrupt closure of international lending markets, low-income countries resorted increasingly to loans from the IMF and the World Bank, as well as grants from bilateral donors. In a vicious circle, the growing amount of official debt in poor countries creates the need for continued aid. This is clearly shown in Figure 1, which charts the average level of aid as a percentage of GNP over time, in our group of "high aid intensity" countries (those that have at any point received aid at 10 percent of GNP or more).[7]

The crisis, and the reduction it forced in state expenditures, also contributed to a downward spiral of capacity erosion and increased dependence on aid to accomplish some of the basic functions of government. Low salaries and the paucity of funds for operations and maintenance decimated government capacity, so donors stepped in to fill the gap (Hirschmann, 1993). Economic crisis weakened state capacity by making it nearly impossible for talented officials to remain in government. In 1983, for example, permanent secretaries heading ministries in Ghana were earning salaries that in real terms were only 11 percent of the 1975 level (Lindauer, Meesook and Suebsaeng

[7] Attempts to achieve macroeconomic balance led to frequent devaluations, which can also distort figures on aid as a percentage of GDP. Devaluation reduces official GDP figures when expressed in dollars, and depending on the magnitude, this can cause measures of aid intensity to suddenly jump. Take the data on Tanzania, for example. Some reports show aid to Tanzania ballooning from 3 percent of GDP in 1970 to 56 percent of GDP in 1990 (Bagachwa, *et. al.*, *A Study on Aid Effectiveness in Tanzania: The Case of Danish Aid*. Dar es Salaam, 1997 (for 1970–1990), cited in Catterson and Lindahl, (1998:19)), although the latter figure is clearly a temporary artifact of devaluation.

1988). Low salaries may have also spurred an increase in corruption, which then fueled donor demands for additional paring down of the state.

In many countries, falling commodity prices, corruption, and liberalization (reductions in tariffs, elimination of marketing boards, etc.) weakened the state's capacity to generate revenues, adding to aid dependence. In Zambia, for example, current revenues as a percentage of GDP dropped from 22 percent in 1984, to 10 percent in 1994, while Sierra Leone, which had raised an average of 15 percent of GDP in revenues between 1974 and 1982, was only able to raise an average of 5 percent of GDP between 1983 and 1991.

4.2 Political instability and war

A second factor promoting aid intensity and, perhaps, dependence is the high degree of political instability in low-income countries. A glance at Table 1 shows that high levels of aid are common in countries troubled by political upheaval and war: Cambodia, Mozambique, and Nicaragua, for example. This also helps explain why aid dependence is so prevalent in Sub-Saharan Africa, where currently a quarter of the countries are troubled to some degree by armed conflict, and many others have suffered civil wars or been caught up in superpower conflicts at an earlier point in their post-independence history.[8]

High intensities of aid are clearly associated with poverty, economic crisis, and a history of political instability. But despite all this, many countries that are poor and many that have suffered from civil war and economic instability have never become heavily dependent on aid, suggesting that aid dependence is not inevitable in any of these situations. Aid dependence, and the governance problems that are associated with it, may also be a product of the incentives created by the current system of aid and the institutions – rules and patterns of behavior – that have evolved to structure interactions between governments and donors, as well as the length of time a country has been receiving high levels of aid. The incentives that produce aid dependence become more difficult to change, the longer high levels of aid intensity persist.

[8] *BBC World Service* (1999).

5. Aid dependence, incentives and governance[9]

If economic development and broad-based improvements in the standard of living in developing countries depend as much on the quality of public institutions as on particular policy packages, then reforms to improve the rule of law, increase bureaucratic competence, and reduce corruption are critical for development. Yet as outlined above, reforms like these are collective goods, and achieving them involves solving a set of difficult collective action problems. Aid dependence affects the incentive structure for those actors who must cooperate to solve these problems. It also affects the institutions – the sets of norms, codes of conduct, laws, and patterns of behavior – that structure the incentives for cooperation and provide the setting within which improvements in governance must occur.

In an aid dependent context, cooperation needs to take place among three main parties: governments, and the politicians and bureaucrats who people them; societies, which include interest groups and, more generally (in democracies), the electorate; and aid agencies. All three parties have an interest in "national development". People in developing countries, in and outside of government, want development because it will improve their own well-being and that of their families. They may also want it for reasons of national pride. People in aid agencies want development for a mix of reasons, some altruistic, some because they identify with the goals of their agencies. But alongside this more general interest in development, each set of actors has particular interests that may conflict with the general interest, and make it more difficult for significant reforms to occur.

For political leaders, political survival is an overwhelming interest, and in general, they will promote actions that increase their chances for survival even if they are detrimental to development. Bureaucrats are also driven by political survival – especially if they are not protected by career civil service rules. Career advancement is another interest, as well as the material benefits to be gained by the provision of private goods (such as jobs, contracts, etc.) from the public treasury. Interest groups and others in society have an interest in shifting the rules of distribution in their favor, in increasing their share of the "national cake", in obtaining private goods and semi-public goods from bureaucrats and politicians, and in minimizing their payments for public goods.[10] Employees of aid agencies have an interest in career advancement

[9] The initial idea and impetus for this section came from discussions with Stephan Haggard. Geddes (1994) was also influential in my thinking about these issues.

[10] I use "semi-public goods" here to refer to public goods available only to certain regions, such as a new road, a bridge or a new school. While they partake of the quality of public goods, they are not enjoyed by "the public" in general, but only by a subset of that public, those who live in that region. Pork barrel projects fall into this category.

and (increasingly, given budget cuts) retaining their jobs. Given these various interests, we can begin to see how high levels of aid delivered over long periods of time structure the incentives for action and affect the institutional context within which decisions are made.

5.1 Incentives for governments

In aid dependent countries, aid is very often the single largest source of revenue for governments, and the provision of aid has been shown to have no correlation with the quality of economic policies (World Bank 1998a). The indiscriminate availability of aid creates a moral hazard, where aid availability, by "insuring" incompetent governments from the results of their actions, allows governments to postpone reform efforts and weakens their incentive to find alternative revenue sources. This is one clear reason why aid dependent governments continue to have little incentive to diversify exports to earn foreign exchange or to improve their domestic revenue base by creating a better environment for domestic business, which, although a source of taxes, is also frequently a potential rival for political power.

Political elites also have little incentive to change a situation in which large amounts of aid provide exceptional resources for patronage, and many fringe benefits (vehicles, study tours, etc.) that would not otherwise be available to officials in low-income countries. A senior planning officer in Mauritius, a country that has never been aid dependent by our measure, once described his "thankless" task as "asking the nasty questions," about proposed projects, questions that ensured that he and his colleagues "will not win any popularity contest…with [our] political overlords" (Bheenick, 1986: 53). With aid given outside of budget constraints, planning officers and political overlords alike are spared the need to justify their aid requests.

Political and economic conditionality should provide an incentive for governments to improve their institutions, but in the current system of aid, with aid given ex ante, conditions are far from being "hard". Conditionality reduces local ownership. Furthermore, institutional characteristics of the aid system such as differences between the timing of different donor funding cycles and host government budget requirements, and the failure of donors to report changes in project funding commitments and disbursements, can work at cross purposes with the incentive that conditionality provides for governments to gain control of their expenditures. As aid dependence increases, donors increasingly ignore rules that exist for aid to be channeled through the government, and instead provide their aid off-budget and with little input from the bureaucracy in its programming. This reduces the incentive for the government to maintain its planning capacity, or to link budgets to planning and resource generation. It also contributes to a "tragedy of the commons", as Ed Campos and Sanjay Pradhan have argued: Bureaucrats, politicians, and donors create future claims on the recurrent budget through uncontrolled investment spending. They view the future budget "as a common resource pool which they can dip into with little or no cost" (1996: 19).

Donor provision of massive amounts of technical assistance and all the benefits of vehicles and support that accompany it, can also reduce a government's incentives to build and maintain a cadre of its own skilled people, or to look to affordable sources (such as South or Southeast Asia) for skilled people to hire. The contrast between skill levels and conditions of service for donor-funded technical assistance and those for local staff may also reduce work incentives for local staff, promoting apathy and resentment.

Aid as a source of revenue parallels other "non-earned" revenue sources, particularly the rents from mineral extraction. "Rentier" states face fewer internal pressures to improve state capacity and accountability. When the flow of revenue is little affected by government efficiency, there is little incentive to improve state capacity. When the flow of revenue does not depend on the taxes raised from citizens and businesses, there is less incentive to be accountable to them.

High levels of aid dependence can greatly increase transaction costs for government officials (van de Walle and Johnson, 1996; Bräutigam and Botchwey, 1998). In Ghana, senior officials were estimated to each spend as much as 44 weeks a year facilitating or participating in donor supervision missions, time they were unable to devote to their "own" work (Sawyerr 1997: 7). This situation appears to have worsened over time. In 1984, Elliot Morss eloquently described the "institutional destruction" experienced by Malawi under the burden of trying to manage 188 projects funded by 50 different agencies. Yet Kenya had 2000 donor-funded projects in 1996 and Tanzania in 1997 had 1800, while war-torn Mozambique was trying to keep track of 405 health projects funded by different donors.

The incentives on both sides to continue at these levels of overload are unfortunately quite strong and contribute to the rigidities in the system. Countries in economic crisis need to concentrate their resources on a small number of critical activities. Yet incentives operate to push ministries to maximize their own funding by agreeing to all offers of assistance. In 1989, a World Bank Public Expenditure Review in one country suffering both from economic crisis and from the impact of over 800 donor projects recommended reducing the number of projects to a "more manageable" 300 or 400. Instead, by 1992 the number of projects had climbed to 2000, and a number of these were new World Bank projects (Lister and Stevens, 1992: 13, 35). Regardless of other incentives that may obstruct the government's developmental objectives, these coordination tasks are clearly a strain on administrative capacity.

Finally, aid is a very uncertain and unstable source of revenue and thus countries dependent on aid may experience even greater revenue uncertainty than other low-income countries. Yet as Barbara Geddes points out, "uncertainty reduces the expected payoff for cooperation relative to the payoffs associated with other choices and thus reduces the incentive to cooperate" (1994: 30). This may make getting to better governance more difficult.

5.2 Incentives for societies

Aid dependence also affects the incentive structure for groups in society and for society at large. It can lead to a loss of "ownership" of development, and an increase in free-riding. It may buffer societies from some of the costs of bad governance and reduce their incentive to press for change and greater accountability.

Aid dependence may change the incentives for self-help and voluntarism. In a number of aid dependent countries, observers have remarked how even rural associations now look to donors to provide the resources that formerly they mobilized to obtain for themselves. The tremendous increase in indigenous non-governmental organizations in countries like Mali, where the number of active NGOs rose from 50 in 1990 to over 325 in 1997, is clearly related to the increase in aid available to support NGO programs (OECD and UNDP, 1998: 9). When aid provides the bulk of an NGO's funding, the incentives to develop a sustainable membership base are clearly reduced. This may be reflected in a weakening of traditional, voluntary associations, and a rise in the number of professional NGOs who contract to implement donor projects for a profit. Even in civil society, incentives may develop to maintain the present system of weak states and large amounts of development aid.

While citizens in general often express concern about corruption and the "political" allocation of resources, they are faced with a prisoner's dilemma. While an improvement in the level of corruption would benefit everyone, there is a lag time before these benefits are felt. In the meantime, those who stop requesting and paying under the table for contracts, special favors and services, and demand an end to corruption are likely to find that in the interim they receive no services or contracts, while those who continue to pay, continue to receive services. We thus see the dilemma between a generalized desire for reform, and a particularized desire for access to goods and services. Large amounts of aid may indirectly help lubricate the system of corruption and buffer it from the inevitable consequences of slower growth and development, and reduce societal pressure for change.

5.3 Incentives for donors

Aid dependence is also affected by the institutional structures, incentives and interests of those who work in and manage aid agencies. Many aspects of this system contribute to the perpetuation of aid dependence, rather than its reduction. At present, the aid system contains more than 20 multilateral agencies, more than 30 bilateral donors, and countless numbers of international NGOs, some of which rival bilateral donors in their funding transfers and programs. Some aid dependent countries may find themselves host to representatives of almost all of these.

Aid agencies must satisfy commercial, political, and societal pressures from their home countries. They do this by tying aid, allocating aid more generously toward countries that meet political criteria, and publicizing the results of their aid, preferably in projects that are clearly identified with a particular donor (John F. Kennedy Memorial Hospital built by the United States Agency for International Development in Monrovia, for example). In countries where many donors operate, donors "compete" for scarce projects and for the allocation of government counterparts. These pressures push against the widespread recognition that better donor coordination would greatly improve the effectiveness with which aid is administered, and presumably over time, lead to lower aid dependence.

The incentives within aid agencies are also related to the problem of aid dependence. Employees of aid agencies are rewarded not for the long-term sustainable development that occurs under their watch, but for getting projects approved by their boards, for the disbursement of funds, and for meeting the output targets in the project design. The example of Kenya is unfortunately not atypical. Kenya promised agricultural sector reform at the start of each of five consecutive "conditional" sectoral adjustment loans and received full disbursement each time without ever implementing the reforms (World Bank 1998a: 51). It is likely that the officials from the lending agency who were able to get the Kenyan agricultural sector adjustment loans approved all received professional rewards. There were no sanctions for their poor judgement when the reform conditions were never implemented, or later reversed.

Even though it has long been accepted that the autonomous "project management units" that insulate projects from the pressures of poor governance have a poor record of sustaining project benefits after funding ends, donors still use them, because staff responsible for implementation have an incentive to control the process as much as possible to produce something close to the outputs predicated in the project design. The local people who staff these projects are generally induced to leave government service (often temporarily) by the very large salary differentials. This clearly is harmful to state capacity, but despite many efforts to gain cooperation among donors in ending this practice, it persists, becoming yet another example of the "tragedy of the commons" class of collective action problems.

Aid dependence can thus affect both the incentives, and the institutional framework within which governments, donors, and societies must interact. When aid dependence persists for long periods of time, all three sets of actors become accustomed to operating within the aid system. The rewards and sanctions offered by the system of aid become an important part of the politics of development in aid dependent countries, and they are also institutionalized in the domestic politics of donor countries and the incentive structure of aid agencies. In the next three sections we discuss in more detail how aid dependence creates its own barriers to reform, through its impact on incentives, institutions, and policies. First, we examine more closely the impact of aid dependence at the level of the political elite in developing countries. How is aid dependence likely to affect their incentives, the institutions within which development decisions are made, and development policies themselves? Second, we examine the impact aid dependence can have on bureaucratic competence and capacity. Finally, we explore the possible impact of aid dependence on budget management and fiscal sustainability.

6. Aid dependence and political leadership

Political leaders must continually balance their pursuit of policy objectives (including development) and their primary goal of remaining in power. In order to do both, leaders in aid dependent countries must strike bargains with other power-holders in government, society, and in aid agencies. Aid dependence gives aid agencies extraordinary power in these negotiations, but this can backfire. Getting to better governance involves difficult reforms that require cooperation among those who must sacrifice current benefits for a future that is uncertain. Aid dependence can make these reforms less likely to occur. It can contribute to a "strong president, weak parliament" syndrome, distort political accountability, weaken government ownership of reforms (and thus reduce their likelihood of enactment, or of being sustained), contribute to the short time horizons and uncertainty that plague efforts at cooperation in poor countries, and may reinforce patronage practices. By-passing central governments and shifting large amounts of aid to NGOs or local governments may not alleviate any of these problems, but simply cause them to appear in another form.

6.1 Strong presidents, weak parliaments, and political accountability

There is much evidence that governance can be more effective when it is more responsive and accountable, particularly when this involves consultation with relevant stakeholders (Putnam 1993; Isham, Kaufmann, and Pritchett 1997). Political instruments that support responsive and accountable governance include elections, and institutions that structure a balance of power between the legislative and the executive branches of government and require each to negotiate and reach consensus on major policy directions and budget decisions. Aid dependence can intervene in this balance of power and tip it toward the executive branch. Aid dependence also structures accountability as something between the executive branch of government, and aid donors, rather than between state and society, and this may have long-term effects for the consolidation of democracy (Bräutigam, 1992; Moore, 1998).

"Presidentialism" denotes a political system in which the president and the cabinet dominate political decision-making, with few checks or balances supplied by a weak legislature (Bratton and van de Walle, 1997). Large amounts of aid may reinforce tendencies toward presidentialism in new democracies, or even thwart the consolidation of new democracies. Cromwell (1995: 195) argues that large amounts of aid probably postponed the demise of authoritarian presidentialism in Zambia, while Rakner (1998) reports that large amounts of aid are enabling Zambia's now democratically-elected president to continue the tradition of authoritarianism.

Democracies usually require budgets and public investment programs to be approved by parliaments. Changes in parameters like wage rates are often supposed to be set by a democratic bargaining process, through a tripartite structure. Yet despite their interest in supporting new democracies, donors have frequently continued to fund projects outside of the budget, and thus outside of any possible review by parliament. This can have the effect of reinforcing an already strong presidentialism, and making it more difficult for the legislature to exercise its role. With consultative groups and donor roundtables – not parliament – holding the purse strings, finance ministers may regard their important budget presentations as those made to the donors, not to their own parliament (Sobhan 1996: 197).

Over time, as the system of aid has reinforced a privileged relationship between presidents and donors, establishing practices that seem normal to both. When a country makes a transition to democracy, these established practices may be difficult to change. Some donors have countered this by establishing programs to build the technical capacity of parliament to provide oversight and review. Yet others have continued in the familiar pattern of executive branch decisions and extra-budgetary funding. In Ghana, for example, the democratically negotiated 1992 Constitution stipulated that "[t]he Government of Ghana cannot contract a foreign loan without the approval of parliament." Later the ruling party amended this to make an exception for "small foreign loans" which then allowed a number of agreements to be signed outside of parliamentary scrutiny (Ayittey, 1998: 367).

The mix of incentives created by weak parliaments, strong presidents, and aid dependence can also erode efforts to build democratic accountability. Bargaining over revenues and taxation are critical for the consolidation of democracy and accountability. In Europe over the past century or so, taxation and disputes over the use of revenues stimulated the development of greater citizen rights and privileges, with democratic institutions enforcing accountability and greater transparency in expenditures. To perform this function, parliaments and societies need to know the *complete* proposed budget, the spending priorities of the government, and their long-term costs, especially including loan obligations. Citizens and parliamentarians in a well-functioning democracy will challenge proposed projects. For example, this happens frequently in Mauritius. The local newspaper there recently published a letter to the Minister of Education criticizing a proposed education project and pointed out that: "If the government borrows millions of rupees from the World Bank for your project, it is done in the name of *all* the Mauritian people . . . If it is necessary to repay this debt of millions of rupees for a project, it is each one of us . . . who are going to pay by our taxes."[11]

In Mauritius, all donor funding is channeled through the budget, and must be defended in Parliament, and, as we can see, in the press. In countries where aid dependence appears significant, donors are more likely to

[11] *Le Mauricien* (1999: 11), my translation.

make significant use of off-budget funding for expenditures that were never approved by parliaments or even by central ministries. In Tanzania, 70 percent of donor financing was not included in the 1996/97 budget, and yet donors were financing more than 30 percent of the government's expenditures (World Bank 1998b). This problem is by no means confined to poor countries in Africa. In 1992, extrabudgetary aid funds in the Ukraine amounted to 12 percent of GDP (Pradhan, 1996: 3). This reduces fiscal transparency and makes it harder for societies to monitor government spending and reinforce accountability.

In Uganda, as in British parliamentary systems more generally, the parliament's role is primarily to react to a budget that is developed and presented to parliament by the executive branch. In contrast with parliamentary systems in more developed countries, however, the executive branch in Uganda consults extensively with the donor community during budgetary preparations. Building the budget becomes a capacity-building exercise for the executive branch, but the parliament has little incentive to take an interest in this process, even though they are the "only mechanism available, at least between elections, to discipline decision making" (World Bank 1998c). This lack of parliamentary interest was evident when the Ugandan government held a workshop with the donor community in May 1998 to present its budget framework paper, and negotiate spending priorities. The Permanent Secretary of the Ministry of Finance, Planning and Economic Development noted that although they had invited "a few selected Parliamentarians" to this donor workshop, none of them attended (Tumusiime-Mutebile, 1998: 4).

6.2 Ownership

Political leaders earn legitimacy in part through their ability to gain the cooperation necessary for making and implementing decisions widely recognized as difficult but necessary, as well as for their success in providing the public goods of peace, security, justice, and an enabling environment for economic growth. When significant control and "ownership" are clearly vested in aid agencies, the legitimacy of political leadership is compromised. This has been demonstrated to affect the sustainability of reforms (Johnson and Wasty, 1993), while the lack of political credibility associated with reforms imposed from outside has been shown to affect growth (Brunetti and Weder, 1994).

The very fact that "ownership" has become a prominent issue in development discourse today demonstrates how low the level of ownership in some aid dependent countries has become. It is largely in countries that are heavily dependent on aid that these issues arise: only here are external agents able to impose their own priorities, policies and programs on the political leadership. For example, an official who has worked for many years in Zambia reported recently that "most projects are donor driven" and "there is little local initiative" in the design and development of aid projects. Zambia currently has nearly 500 million USD worth of donor projects that have been committed but not yet implemented.[12]

Low levels of ownership are only partly related to the rise of adjustment lending in the 1980s, which legitimized an unprecedented degree of external ownership of policy decisions normally made by the political leadership of a country (Bräutigam and Botchwey, 1998). The widespread use over the past three decades of enclave project implementation or management units, and off-shore, off-budget "Special Accounts" for projects, also exacerbated this problem. Although these practices have been condemned by many studies conducted by researchers and donor organizations, they persist. For example, a recent OECD and UNDP study of the aid system in Mali showed that between 1985 and 1995, the majority of donors used project implementation units rather than working through the regular bureaucracy; some donors, including USAID, the World Bank, and Germany (GTZ) used them for *all* of their projects in Mali (1998: 37–50).

What does "ownership" actually mean?[13] In theory, it should apply to the ability of governments to implement their own development visions, whether or not these coincide with those currently popular in the development industry. In practice, the term is currently used to denote the extent to which there is a coincidence of interest and ideas between aid agencies and the political leadership regarding the design and implementation of certain programs and policies favored by the aid agencies. For difficult economic reforms that involve risks to the political survival of the leadership, or for low priority projects without much political payoff, the interests of these two key sets of actors will rarely coincide, and so "ownership" (by political leaders) is likely to remain limited.

The way in which the international aid system operates tends to reinforce the lack of ownership by aid dependent countries. When local institutions are weak, donors tend to take over. For example, in Mali, the study on aid coordination referred to above noted that "public agencies with a relevant role or responsibility do not provide overall co-ordination," and that "donors do their best to play this role in lieu of the state."[14] Likewise, when the World Bank

[12] Personal communication, Malcolm McPherson, Harvard University, Cambridge, MA, May 7, 1999.

[13] Johnson and Wasty (1993) use a definition of "ownership" that is based on four dimensions: (1) locus of initiative, (2) level of intellectual conviction among key policymakers, (3) actions and speeches in support of the reforms by top leadership, and (4) visible efforts toward consensus-building among various constituencies (4–5). Each dimension of ownership was rated according to four-level scale intended to capture the intensity of ownership. For example, at the highest ownership level for 'locus of initiative', 'the initiative for formulating and implementing the adjustment program was clearly the borrower's.' At the lowest level, 'the program was prepared by the Bank and funding extended, despite governmental disagreement and reluctance to implement some aspects of the program' (4).

[14] Primature, "Etude sur la coordination de l'aide extérieure," Mali-Germany Project, July 1996, p. 9, cited in OECD (1998: 10).

began to encourage member countries to produce National Environmental Action Plans (NEAPs) in 1987, many low-income countries were slow to take advantage of the assistance offered by the Bank. Frustrated with the slowness, and eager to show progress in environmental matters to forestall its critics, the Bank then "compelled IDA governments to complete their NEAPs by June 1993", a decision that effectively led to the hurried preparation of NEAPs by NGOs and outside consultants, with little government ownership (Dorm-Adzobu 1995: 29).

A recommendation in a 1994 report on capacity building emphasized that the World Bank should "move toward *empowering* our clients *to take the leadership* and *share* ownership of operations" (World Bank 1994; emphasis added). Yet the very language of this statement side-steps the fact that power and ownership shifted to the World Bank and other donors in the first place in part because there was not a coincidence of interests between the donors and governments, particularly with regard to conditionality-based lending. With almost two decades during which conditionality has been a dominant practice in aid dependent countries, the practice whereby donors make demands and countries react has become institutionalized. The language of "sharing ownership", and "empowering clients" highlights just where the ownership and power currently lie: with the donors.

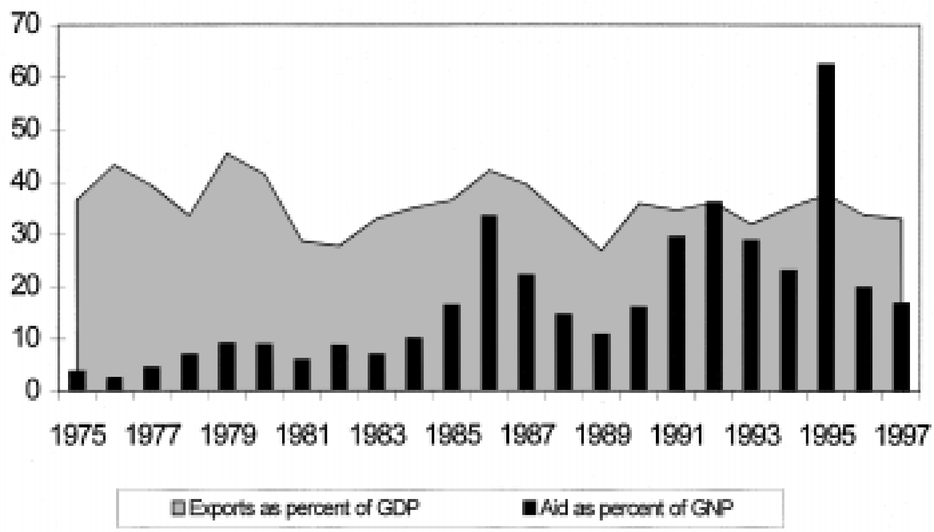
While clearly reflecting a high degree of concern, this language and approach bypass several basic problems that will confront those committed to change. Donors and governments frequently do have different interests and this is in part why donors took the initiatives that gave them ownership in the first place. In addition, the incentives that have been established and which, over time, have become entrenched in the aid system mean that there is a conflict between the donors' interest in moving money through "operations" whether or not they are "owned" by governments, and the recommendation that clients be "empowered", in which case they will likely say "no" to many things the donors want them to do, as officials in Mauritius have done.

Given the current aid system, and the many years in which planning officials in aid dependent countries have grown used not only to not saying "no" to proposed projects, but often to not even being asked, it will be difficult to change this situation, given the incentives that presently structure aid relationships. Indeed, a 1996 review of capacity building efforts at the World Bank pointed out that despite official recognition of the problems inherent in lack of ownership, recently revised guidelines for project development contained no directives "for making sure that borrower nationals are involved and committed at every stage of the project process" (Mule, 1996: 17).

6.3 Uncertainty and cooperation

Countries dependent on high levels of aid may be vulnerable to high degrees

Figure 3. Aid volatility (Zambia 1975–1997)



Source: World Bank (1999).

of volatility in these inflows. Figure 3 charts the average receipts from foreign aid, as a percentage of GNP, and the average receipts from exports, as a percentage of GDP for Zambia between 1975 and 1997. As Figure 3 indicates, aid receipts can be more volatile than the receipts from commodity exports, themselves notorious for volatility. In 1994, for example, Ghana experienced an unexpected shortfall in aid disbursements that came to 3.6 percent of GDP, causing a "fiscal shock that reverberated for several years" (Botchwey, 1997: 24).

Geddes (1994) points out that the cooperation critical for overcoming the collective action problems that block governance reforms is less likely to arise when the future is highly unpredictable. The uncertainty itself acts to make it more difficult for leaders to get commitment from those who need to agree to sacrifice today for uncertain future benefits. Research on the impact of this aspect of aid dependence is almost non-existent. However, Stephen Knack's preliminary regressions for this study suggest that aid dependence has *less* of a negative effect on institutional quality variables when aid is more variable. Although more research needs to be done to explore just why variability has this result, and what other factors may be at work, one hypothesis is that a high degree of uncertainty with regard to *present* revenues may create enough incentive for governments to overcome the collective action problems that make improvements in governance (bureaucratic competence, fiscal management, corruption) difficult. A related hypothesis would be that high variability may affect institutional quality, as presently measured, in a positive manner, but that democracy and participation might suffer.[15] The uncertainty may lead reform-minded governments to adopt more authoritarian reform tactics, rather than cooperation, to lower corruption and improve performance in the civil service.

6.4 Patronage

One critical aspect of the bargaining that takes place in political systems is the ability to allocate patronage resources. The large amounts of aid that aid-dependent countries receive easily play a role in patronage systems. Political leaders always have need of patronage resources to meet the demands of their constituents for particularistic services and favors, and their coalition partners for patronage opportunities. When aid is tied to particular projects, these become political resources, as sources of employment and benefits for particular constituencies (Bates, 1981).

Although all political systems have some degree of what in the United States is called "pork barrel politics", in countries where patronage norms are strong, high levels of aid can reinforce these trends. When aid, rather than taxation, makes up a very large percentage of government expenditure, and when much of this aid is extra-budgetary, and thus not very transparent, political leaders face fewer obstacles to directing aid resources in ways that reward politically important regions and groups of political supporters. In parallel fashion, the continued provision of aid to cover basic government programs may allow governments to use their own funds to maintain economically costly but politically important subsidies, such as those to state-owned enterprises. In heavily aid dependent Tanzania, for example, government subsidies to the country's state-owned enterprises and parastatals were the equivalent of 150 percent of government spending on health, or 72 percent of the education budget (World Bank 1995: 1).

6.5 Weak states, decentralization, and NGOs

The corollary of the "strong presidency" in developing countries is frequently, paradoxically, a weak state. States are weak for many reasons. Many states in the developing world are relatively new, and skill levels are low. Economic crisis has challenged their claim to legitimacy. Governments in weak states remain weak because they are unable to resist the pressures from powerful vested interests to distribute funding and resources in ways that dilute capacity and lower effectiveness (Geddes, 1994). Alternatively, as Joel Migdal (1988) has pointed out, some leaders deliberately choose to keep other parts of the

[15] Recall that democracy and participation are not included in the "good governance" indices currently being used. They include measures of bureaucratic competence, rule of law (which businessmen and women responding to the ICRG surveys may limit to contract enforcement and protection of property rights), and levels of corruption.

government from gaining strength and thus posing a political challenge. Chinua Achebe's evocative use of W. B. Yeat's lament: "things fall apart, the centre cannot hold" could easily describe the pressures facing many low-income countries.

The weakness of the center is reflected in the serious problem of collapsed states, something that we have seen in Cambodia, but which seems to occur most often in Sub-Saharan Africa. It shows up as well in the more mundane problem of government officials ignoring their own requirements for centralization. In Senegal, for example, the Ministry of Planning is formally required to evaluate and approve all investment projects, but in 1995, only half of the aid-funded projects went through this process. The others were negotiated between line ministries and donors directly (Carlsson, Somolekae and Van de Walle, 1997: 216). Likewise, the National Planning Directorate (DNP) in Mali is supposed to appraise projects and ensure that they follow national priorities. Yet, as a recent review found, "in practice the DNP is short-circuited by donors and line ministries which prepare and negotiate projects directly among themselves, thus exacerbating inter-ministerial competition for foreign aid" (OECD and UNDP, 1998: 11).

Donor frustration with the weakness of the center (a weakness their practices may be exacerbating) has led both to calls for decentralization and the shift of funding to NGOs. By the early 1990s in The Gambia, for example, more than 100 international and local NGOs were managing projects, and more than 10 percent of external aid funding was channeled through NGOs (Bräutigam 1994b). During the same period, decentralization became a major platform of some aid agencies, with new emphasis on direct funding of local governments.

In the short term, the use of NGOs and decentralization to local government allowed some communities to receive services, but NGOs and local governments are unlikely to be able to substitute over the long-term for an effective and capable central government. NGOs have many strengths, but they also frequently replicate some of the same weaknesses of donor projects: reliance on expatriates for the design and management of enclave investments that are unsustainable with local levels of funding and management. NGOs may not escape patronage systems, either. For example, in Sierra Leone, the American NGO, CARE, which had a USAID-financed contract to construct rural feeder roads in the mid-1980s, acquiesced in a presidential request to construct a road to one of his country estates.

In addition, donor funding of indigenous NGOs, particularly membership-based associations, risks breaking the links of accountability between members and officials. A Zambian official in the Zambia Chambers of Commerce and Industry (ZACCI) interviewed by Lise Rakner (1998: 215) sketched this problem quite graphically:

> Donor funding of ZACCI is wrong. It kills the organization when we are forced to lick the boots of someone who is financing you. We should diversify and ZACCI must live within its means, organise seminars, get in subscriptions, hold conferences, simply we must make money. We are compromising ourselves by receiving donor funding . . . This is the dependency syndrome and it must be stopped as we are shooting ourselves in the arm.

Rakner charges that the level of donor dependency among NGOs in Zambia has created a "precarious weakness" in civil society and exacerbated a "patronage culture", creating "limited attachment and commitment to the local membership" (253–54). Carrie Meyer (1992) has pointed to the same problem in Central America, where, as she puts it, donors are taking "a step back" as they "shift institution building from the public sector to the 'private' [NGO] sector."

Decentralization to local governments is supposed to bring government closer to the people, which, in theory, should enhance transparency, accountability, and effectiveness. In many cases this may work as intended. Yet local politicians have incentives to distribute patronage just as do politicians at the state level. And the challenges of good management can be even more acute at local levels. Administration in a weak state is unlikely to be more efficient at local levels than at the center. Likewise, NGOs can provide useful services: in Cameroon and Uganda, NGOs manage almost half of the existing health facilities (Pradhan, 1996: 7). Yet it is worthwhile recalling that three of the countries recognized as clear cases of successful graduation from aid dependence – Taiwan, South Korea, and Botswana – all had highly centralized governments, and almost no reliance on NGOs for development.

7. State capacity, bureaucratic competence, and corruption

The goal of governance reforms is primarily to increase the quality of public institutions and to reduce corruption. Yet, as argued above, increasing state capacity and bureaucratic competence and reducing corruption are reforms that have the quality of public goods: they provide general benefits to everyone, but they require sacrifices from those who benefit from the current situation. In the previous section, I discussed the impact of aid dependence on the political leadership, its incentives to (or not to) improve governance, and its need to reconcile the sometimes opposing goals of creating a better environment for development, and political survival. Similar incentives operate at the level of the bureaucracy. Aid dependence can reduce the incentives for bureaucrats to cooperate with efforts to reform weak and corrupt governments. In addition, with large numbers of aid funded projects to administer, countries that are dependent on aid are deeply exposed to some of the greatest weaknesses of the present aid system. This directly affects the institutional context within which bureaucracies operate, and may have created some significant barriers to the development of more effective states. At its worst, as the World Bank has commented, "donors may fragment central capacity for policy formation, entering with ministries into bilateral deals on multiple projects without determining whether their cumulative effects are collectively sustainable or mutually consistent" (1997a: 84).

As I pointed out at the start of this study, aid dependence is not the only factor contributing to the problem of inadequate state capacity in low-income countries. Two or more decades of economic crisis and retrenchment have taken a significant toll (van de Walle and Johnson, 1996; Bräutigam, 1996). Sierra Leone, where I did research in the mid-1980s and early 1990s, was typical. Crumbling government buildings with no water and infrequent electricity, broken typewriters and chairs, and rusting vehicles without spare parts made it nearly impossible for capable staff to carry out their duties. The response by donors to these appalling conditions created new problems that may have contributed to the continued weaknesses of central governments. These problems have been much written about, but it is important to touch on them once again here, and highlight the way they contribute to the incentive structure. Three practices stand out: the use of by-pass project management units by aid agencies who often "poach" their most qualified staff away from their government positions; the free provision of technical assistance; and the framing of accountability as something limited primarily to donor projects.

7.1 By-passing and "poaching"

When the rules that govern bureaucracies produce apathetic, unmotivated, and poorly trained bureaucrats, donors who want to increase the chances that a project's or program's goals will be met often choose to "by-pass" the government. By working outside of civil service rules, donors are able to pay higher salaries and attract more motivated personnel. This has been the case since the first days of foreign aid, and sometimes it has been very successful. The U.S. aid program in Taiwan funded the development of a "by-pass" organization in the 1950s, the interministerial Council on International Economic Cooperation and Development (CIECD), which was not subject to civil service regulations (Jacoby 1967: 58–63). The CIECD became a highly effective, centralized agency, and played a key role in coordinating Taiwan's economic development.

Why did "by-passing" work in aid-dependent Taiwan? It worked because the CIECD's work was valued by the government, which appreciated the necessity of "insulating" some of its economic institutions from the pressures and shortcomings of the ordinary civil service. Once aid funding ended, the government continued to fund the CIECD. The government clearly "owned" this strategy, which has often not been the case with similar by-passing in aid dependent countries. Other factors were also important, and some of these are discussed below.

The by-pass strategy was not as effective in other aid-dependent countries. Throughout the 1970s and 1980s, donors funded a series of integrated area development projects (IADPs) that generally (but not always) used a project management unit to "by-pass" government ministries of agriculture and rural development. World Bank lending for integrated area projects escalated from 14.4 million USD annually in the late 1960s to 556.4 million USD per year in the late 1970s, an annual increase of 50 percent (Kapur, Lewis and Webb, 1997: 415). Although the integrated area projects were highly popular, they were beset with problems, particularly in Africa where donors often "carved up" the territory of African countries, dividing it into a number of area projects, each managed by a different donor, with different objectives, equipment, extension agents and programs. In Sierra Leone, for example, the World Bank managed the Eastern Integrated Agricultural Development Project, while the Germans had the Bo Rural Development Project, and the EC funded the Northern Integrated Agricultural Development Project, etc. In most of these cases, the underfunded Ministry of Agriculture watched from the sidelines.

Today the integrated area projects are largely regarded as failures, their innovations having faded along with the paint on the air-conditioned, ranch-style houses they built for expatriate personnel. But the by-pass practices they employed frequently continue in the form of enclave projects with project management units. Even though it is widely understood in the donor community that implementing projects in this fashion works against the goal of building capacity over the long-term, incentives for aid agencies are structured such that project managers' career, and, frequently, personal rewards depend more on being able to control some of the project outcomes, and ensure results at least in the short term, than on building local capacity for the medium and long-term.

Aid dependence also tends to lead to donors "poaching" skilled staff from the government. Although this is particularly the case in by-pass projects, it also happens when aid agencies and international NGOs need to staff their resident offices. For example, Meyer's research in Central America (1999) demonstrated that the leadership and staff of development NGOs there were often formerly high level staff in related ministries. Salaries in the aid-sponsored projects are often considerably above those available in governments. In a not atypical example, a donor-funded agricultural project in Kenya hired seven local economists (who had probably been trained in another donor-funded capacity strengthening project) away from the civil service, offering monthly salaries of 3,000–6,000 USD, compared with government salaries of approximately 250 USD (World Bank 1998a: 88–89). On the other hand, the Kenyan government never enforced the bond system it had instituted to avoid this problem, suggesting that it had no real incentive to keep skilled staff in the government (Cohen, 1992).

Attempts by the OECD's Development Assistance Committee (DAC) and other donor coordination groups to develop guidelines that would halt these practices of "poaching" have often been disregarded in the field, where donor staff have developed ways to get around pledges made by their home offices. For example, a senior donor official in Washington, working on African development challenges reported to me that rather than "topping up" salaries for government staff in project management units, which they had agreed not to do under Special Program for Africa (SPA) guidelines, donors in many African countries are now asking government officials to take a temporary leave of absence, which brings them "outside" of government, thus allowing them to be offered competitive salaries. Finally, aid institutions may also serve as magnets drawing highly qualified staff out of some of the weakest and most aid dependent governments. The Africa Club at the World Bank has 1200 members, which gives some indication of the number of highly skilled African expatriates currently working in the Washington headquarters of the World Bank.

7.2 Technical assistance and self-reliance

In the early 1990s, a World Bank Vice President charged that technical assistance "is a systematic destructive force which is undermining the development of capacity… And most of this technical assistance is imposed, it is not welcome and there is no demand for it really, except on the donor side" (Jaycox, 1993). A recent history of the World Bank echoed this sentiment in its charge that in countries with weak institutions, "the Bank's interventions may have delayed the development of effective, self-reliant cadres and institutions" (Kapur, Lewis, and Webb, 1997: 421). If technical assistance is so problematic, why does it continue at such high levels in aid dependent countries, and what impact does this have? Again, we need to look at the incentive structure for both aid agencies and governments.

Technical assistance frequently serves more to ensure donor control over some aspects of project implementation than to genuinely transfer skills. A familiar complaint was voiced by a Tanzanian official, who had worked with the Swedish aid agency SIDA on a water project:

> There were always too many foreign consultants. They sent advisers who not always knew their field [sic], and in fact were less qualified than people available in Tanzania. We were in the hands of the implementation consultants, had no choice in this matter. We couldn't understand why there should be so many foreigners in this project (Catterson and Lindhal, 1998: 65).

Higher levels of technical assistance tend to go along with higher levels of aid. Technical assistance made up nearly half of the value of Tanzania's aid in 1993 (Sobhan 1996: 119).

The ready supply of technical assistance, which is often provided without charge, clearly reduces the incentives that aid dependent governments have to enforce bond systems, or undertake the reforms that would enable them to improve working conditions and salaries. This last step would require reducing the numbers of political and patronage appointees in order to pay the remaining staff at a more adequate level. But this conflicts with the weakness of political leadership in many aid dependent countries, and their inability to dispense with the political support generated through patronage practices. Technical assistance and donor projects allow governments to provide some level of public services while maintaining private services to clients and constituents.

7.3 Bureaucratic accountability and corruption

Levels of corruption, not surprisingly, are inversely related to levels of economic growth and development (Mauro, 1995). Countries that are aid dependent tend, in general, to have worse rankings on corruption and institutional quality indices than developing countries that are not (Knack, 1999). Bureaucratic accountability and corruption are affected by the culture and institutions of the civil service and the example and incentives established by political leaders, but here as well aid dependence may play a role.

One way in which this happens is simply through the temptation provided by large sums of money channeled through governments that have not given much sign of accountable behavior and are unable to contribute much toward the domestic share of project costs. Rather than scaling programs down to the level of local absorptive capacity, donors in these situations sometimes supply commodities (through grants or low-interest loans) that are then sold domestically by the government to generate counterpart funds for donor projects. Not surprisingly, commodity import schemes like this have a long history of mismanagement, particularly in countries with weak institutions. In Sierra Leone, for example, officials in the government trading corporation sold large quantities of Chinese consumer goods imported to pay for local expenses on China's aid projects, and never delivered the proceeds (Bräutigam, 1998). This happened a number of times before the Chinese cancelled the commodity import program and made other arrangements for the payment of local expenses. The U.S. PL-480 commodity import program was similarly affected. Tins of oil and bags of bulgar wheat stamped "Gift of the United States of America. Not for Sale" could be found in markets across Sierra Leone in the mid-1980s.

In aid dependent countries, accountability for the funding is valued most highly by those who provide the bulk of the funds: the donors. Perhaps this in part accounts for the fact that many aid dependent countries have not developed the capacity to carry out extensive audits. When, for political reasons, political leaders do not themselves demand accountability from their bureaucracies, substituting foreign capacity or financing the development of local capacity in accounting is likely to have little impact. And the level of capacity is frequently quite low. For example, in 1990, there was only one qualified accountant in the entire public sector in Burundi, and Mali had only six (Makanda, 1995: 27).

Strong audit arms are necessary for institutionalizing accountability, and donors have tried in some instances to build this area of government capacity. For example, Tanzania has had an Audit Corporation (TAC) since 1968, supported by Swedish SIDA between 1978 and 1993. Yet despite 40–50 person years of technical assistance and a significant increase in Tanzania's auditing capacity, the SIDA project was unable to improve public sector accountability in Tanzania, primarily because the Auditor General's office (considered "extremely weak") has never used TAC, or indeed any outside firm, to audit Tanzania's government accounts (Catterson and Lindhal, 1998: 76).

Most aid dependent countries have an Auditor General, or similar office, and most have well-defined procedures for auditing an independent inquiry on the books. Some Auditor Generals carry out regular audits, even if the political leadership may not act on the findings. Donors rarely reinforce or support the findings of these local offices. Donor program strategy papers rarely if ever mention the findings of the Auditor General, or the risks fraud and corruption present for their country programs (Stevens, 1999). Instead, they substitute their own accountants and reporting as if an enclave of accountability can be created that can then somehow grow beyond its borders. In aid dependent countries, this has rarely been the case.

8. Taxing and spending: fiscal management

Budgets in many aid dependent countries have collapsed under the combined weight of debt service and hundreds of donor-financed projects. Yet high levels of aid may inhibit the budget restructuring required by economic crisis (Lister and Stevens, 1992: 13). Aid dependence tends to exacerbate problems of budget fragmentation, repetitive budgeting, and cash flow management. Budgets that are essentially aggregates of donor projects are divorced from planning and policy objectives. Even worse, in many countries, large amounts of aid are delivered and used completely outside of the budget, making the development of a government budget and annual accounts an exercise with limited usefulness. Continued provision of large amounts of aid over long periods of time removes the hard budget constraint from government calculations of what is affordable and sustainable in policy choices, and genuinely hard budget constraints are essential for keeping government commitments at sustainable levels. Finally, countries that are heavily dependent on aid tend to show lower levels of tax effort, suggesting that large amounts of aid may serve to reinforce inadequate revenue collection efforts.

8.1 Public expenditure control

Aid dependence frequently leads to a breakdown of the relationship between budgeting, expenditure, and accountability. In a well-working budgetary process like that prevailing in Mauritius, the annual budget is prepared on the basis of a three year, rolling public investment program. Each year, the finance ministry prepares estimates of revenues, based on taxes, local revenues, and any expected aid commitments, all within the envelope of the medium-term program. Line ministries each create a set of projected capital expenditures and the recurrent expenditures needed to maintain previous capital investments and cover current operations. Between mid-March and mid-April, the minister of finance meets with representatives of civil society to hear and discuss memos they have submitted to his office outlining the budgetary and strategic priorities they would like the government to take. All of this is reported daily in the press. The draft budget is then "read" to parliament by the minister of finance in the first week in June. A heated discussion and debate takes place, both in parliament and in the lively and independent media. With the power to amend, or reject the budget, parliament can force revisions to the draft before it is passed. The final budget is published promptly by the government printing office and simultaneously posted on the ministry of finance's web-site. Ministries record all expenses through the year and present them in regular statements, summaries of which are published quarterly. Throughout the year, any supplementary expenditures or amendments to the budget are brought before parliament for approval. At the end of the budget year, the government's accounts are published and accessible to the public and to the Auditor General, who reviews discrepancies. The entire process is predictable, manageable, and fully transparent.

Under aid dependent conditions, the budget will usually still be prepared (most likely later than scheduled), but it will frequently bear little relationship with actual expenditures. There is unlikely to be a medium-term expenditure framework, although this has been changing recently. With encouragement from the IMF and the World Bank, aid dependent countries like Uganda, Tanzania, and Malawi have been reforming their budget processes to rely more on forward estimates and medium-term frameworks of expenses. Yet the aid system presents obstacles to this attempt to instill predictability and transparency. In Tanzania, 70 percent of donor financing was not included in the 1996/97 budget (Moon, 1998). And even when much aid is included in the budget, shortfalls in actual disbursements may create further problems, as in the Ghana example noted above. Thus, the budget that is debated and passed by Parliament may be "merely a deceptive mirage" (Pradhan, 1996: 110).

Even when local laws require centralization of decisions on government projects, ministries of planning and economic development in aid dependent countries with up to 2000 projects cannot possibly review even a fraction of proposals. Donors thus negotiate directly with line ministries or even with regional or local governments, and disburse funds directly at those levels. Central governments may be unaware of the existence of many donor projects, as some researchers have noted (Nordås 1998: 24; Healey 1995: 253). Even when governments know about projects, high levels of aid dependence can create a focus on new projects and new investment, not the maintenance of old investments. For example, in Laos, where aid levels in 1995 were 18 percent of GNP, donor projects absorbed 80 percent of the investment program and more than half of the government's total budget. Neither the government nor the donors had, until very recently, analyzed the future recurrent cost implications of this high level of investment (Swaroop, 1998: 14).

There is little predictability or transparency in the process. The budget will rarely be printed. The government will have little idea of the extent to which funds committed to projects have been disbursed; frequently project accounts are not shared with the government until some time after the entire project has been completed. Neither donors nor governments have strong incentives to allow the budget process to capture all expenditure implications of aid. The freedom that donors often have to develop and implement projects outside of central government control makes their work easier and enables more rapid decision-making. This is something that donors have been reluctant to give up, even when study after study points out that the benefits of government projects operating largely outside the government, and with little government contribution, are unsustainable. Furthermore, since the practices that have developed strongly suggest that many aid dependent countries are receiving aid at levels that exceed their absorptive capacity, channeling all aid through budget processes would likely place limits on the amount of aid that could be disbursed.

Limiting aid to manageable levels is generally not in the interests of governments (who get political capital out of new aid commitments) nor of local representatives of international aid agencies (who generally fight to maintain "their country's" share of aid). Yet the practice of leaving donor investments out of the budget "embeds incrementalism," as Michael Stevens (1999) has pointed out, and as the Zambian example above demonstrates. In this tragedy of the commons, embedded incrementalism means that each new donor project today can push future recurrent spending obligations far above sustainable levels (Campos and Pradhan, 1996). Again, a collective action problem results: it is in the interests of all actors today to continue the benefits they get from giving and receiving aid, even though this aid will create problems for future governments who will likely not have the foreign exchange to repay the debts incurred, nor the tax revenues to pay for the recurrent costs of the investments.

Governments that try to reallocate their limited budgets to meet their own priorities may find that aid dependence creates rigidities that can make reallocation impossible. Marc Wuyts (1996) has described how this happened in Mozambique. In 1993, Mozambique depended on donor funding for 61 percent of the recurrent budget. The requirements for local cost contributions to several World Bank projects were projected to absorb the agriculture ministry's entire local funds budget allocation. The ministry tried to scale back these loan projects in order to free funds for local contributions to several grant-funded projects. But the World Bank threatened to give control over the projects directly to the ministry of finance and planning, while still charging the local costs to the agriculture ministry's budget. The ministry backed down. Dependence in this case created rigidities that made it more difficult for a government institution to establish its own priorities and to have the flexibility to adjust its spending.

8.2 Hard budget constraints and institutions of restraint

High levels of aid delivered over long periods of time in the way I have just described produce few incentives to support better public expenditure control, and many that weaken it. Hard budget constraints are necessary for governments to have an incentive to "own" their budgets and to develop fiscal control. Yet there is some econometric evidence that expectations of aid themselves may induce weaker fiscal discipline in recipients (Svensson, 1995). In other situations, the moral hazard presented by aid dependence may lead officials in charge of the budget may provide fewer funds than necessary to meet recurrent expenses in some sectors of particular interest to donors, expecting that donors "will make good the shortfall" (Lister and Stevens, 1992: 41). Donors are aware of these problems, but their entrenched practices have made it difficult for "institutions of restraint" to operate effectively. This is reflected in the examples of cash budgeting and the growing practice of donors supplying recurrent as well as "development" finance.

Recently several highly aid dependent countries (Zambia, Tanzania) have been required by the IMF to adopt cash budgeting, while Uganda has adopted cash budgeting on its own accord. In cash budgeting, ministries spend only what is collected in revenues each month. Cash budgets are intended to provide a hard budget constraint. However this shift toward cash budgets may be thwarted if donors do not agree to channel all projects through the budget. In Mali, for example, the 1998 OECD and UNDP study mentioned above found that in 80 percent of a sample of 15 projects and programs examined in detail, donors required no local cost contribution at all, handicapping the future sustainability of these investments (OECD and UNDP, 1998: 16). The "hard constraint" of cash budgeting thus may provide an additional incentive for donors to cover the entire cost of their projects themselves, without demanding counterpart contributions.

Supplying funding for projects and programs in an environment where the local government cannot afford to (or is not willing to) provide any contribution at all, merely postpones the problem to some future date (and possibly, future government), when the new recurrent costs demanded by the project become the government's responsibility. The current solution to the current local financing gap thus creates a larger future financing gap. In addition, as Kwesi Botchwey and I have pointed out (1998), cash budgeting also means that governments still operate on credit; they simply force credit from their suppliers and from their employees, as there is often not enough cash to pay invoices and salaries at the end of the month. This creates morale and capacity problems in the civil service, as moonlighting increases.

Efforts to help governments meet their local finance gaps can better avoid this problem when they are given as general program aid or in direct budget transfers, neither of which have direct recurrent cost implications (Agbonyitor, 1998: 13). The Mali study noted that few donors even monitor the level of national counterpart contributions to donor programs and projects, and many were "phasing out" the practice of requiring counterpart contributions (OECD and UNDP, 1998: 13, 32). Greater transparency in this area might provide an incentive for reform.

Hard budget constraints are probably best built into constitutions, and donors need to allow these constraints to work as intended. Clearly, ownership of the budget is crucial for making budget constraints hard. Evolution toward these goals may have some very positive outcomes not only for ownership, but for economic stability. In Latin America, countries with more fiscal transparency and more spending controls averaged surpluses of 1.7 percent of GDP, while those with fewer spending controls and the lowest levels of transparency averaged public deficits of 1.8 percent of GDP (Alesina, 1997). Research in federal systems in more developed countries demonstrates that constitutions that provide hard budget constraints through tight expenditure rules provide benefits over and above fiscal responsibility. In particular, they may promote more rapid adjustment to fiscal shocks (Porterba 1994: 799). Hard budget constraints can include rules that limit the size of the deficit, or the ability of governments to carry the deficit into the next budget. They may limit deficit financing to short-term debt, or require a referendum before a government can issue bonds or undertake other long-term debt (Alesina, *et. al..*, 1996). In aid dependent countries, the "soft budget constraint" expectations that deficits will be met by foreign aid provide incentives that may stop these kinds of institutions from developing.

8.3 Tax effort

High levels of aid provide incentives that can affect the practice of governance not only with regard to expenditure, but in the area of taxation. Aid dependence has two likely effects on taxation: first, it lowers the potential tax base, and second, it may reduce tax effort.

High aid intensity directly lowers a country's tax base. When aid makes up more than 10 percent of GNP, it creates a large, tax-free enclave in the economy. Imports for aid projects are exempt from import duties. Foreigners working for NGOs, aid projects, and aid agencies – who generally become the most highly paid people in the country – do not have to pay local income taxes. In Tanzania, a UNDP study estimated that the total for government wages and salaries (which are taxed) was 100 million USD, while the salary bill for technical assistants supplied under aid programs (and not taxed) was 200 million USD (Berg, 1993).[16]

Does aid also lower tax effort? As with government expenditure, the publicly available data on revenues collected by aid dependent countries is so poor that it sheds little light on the issue. Recall that only two of the set of 35 "aid dependent" countries in Table 1 had data on revenues in 1997. Yet researchers with access to unpublished data suggest that there is a link between aid dependence and lower tax effort, at least in highly aid dependent Sub-Saharan Africa.

Stotsky and WoldeMariam used unpublished IMF data to measure tax effort in Sub-Saharan Africa (where many of our set of high aid intensity countries are concentrated) as a ratio of tax revenues to a measure of taxable capacity calculated indirectly through the use of various proxies for the existing tax base of a country and related factors (1997: 10). Countries with a tax effort ratio above 1.0 (nineteen countries) were thought to be making good use of their taxable capacity. Those with a tax effort ratio below 1.0 (twenty-four countries) were not making good use of their available resources.

[16] The actual cost of the technical assistants (including benefits, transport, etc.) was 300 million USD, or triple the government's wage costs.

When Stotsky and WoldeMariam's data is juxtaposed with data on aid intensity, it is clear that low tax effort and high aid intensity occur together. The index of tax effort in countries for which aid makes up a larger percentage of GDP is in fact likely to be below 1.0. Seventy-one percent of the countries receiving more than 15 percent of GDP in aid in 1995 had a tax effort index below 1.0. The data do not prove that aid dependence causes tax effort to decline, but they do highlight the potential problem of long-term reliance on aid for revenue generation.

Other research confirms this pattern. Howard White's 1994 study found that aid did reduce tax effort for the countries in his sample, to the extent of reducing (non-aid-funded) government spending. Devarajan and Swaroop (1998) found that aid in a sample of 18 African countries *increased* overall government spending and reduced tax effort, although not significantly. The impact of aid on tax effort may be different when the aid is from loans and when it is from grants, and this can have implications for donor practice. Research by Khan and Hoshino (1992) who examined these issues in the context of South and Southeast Asia found that loans, which need to be repaid, increased tax effort, while grants reduced it.

Nobel Laureate Sir Arthur Lewis remarked that "those who give aid are entitled to ask whether the recipients are using the opportunity of foreign aid to increase steadily the share of taxes and savings in national income" (1969:52). High levels of aid provide no incentive at all to boost domestic revenue generation, although the way in which aid is delivered can be helpful in providing that incentive. In Tanzania, some donors have adopted a "matching funds" system, which supplies aid only on the basis of matching funds from the government. Catterson and Lindhal report that this has "created a strong incentive for revenue collection" (1998: 20). Yet tax effort in Tanzania in 1995 was already above 1.0, according to Stotsky and WoldeMariam (1997).[17] The alternatives of substantial debt forgiveness, and cutting back on the number of donor-funded projects and the obligations they entail of local counterpart financing, might help government revenue collection and public expenditures reach a better balance in Tanzania and other low-income, aid-dependent countries.

[17] The last year for which the 1997 World Bank *World Development Reports* and *World Development Indicators* list data on government revenues or expenditures for Tanzania is 1985, but clearly IMF researchers have access to better data.

9. From aid dependence to self-reliance: Taiwan and Botswana

High levels of aid provide a host of incentives and institutional barriers that can affect the possibilities for the kind of cooperation that is necessary for overcoming the collective action problems that block governance reforms in low-income countries. Yet cases do exist of governments that have used high levels of aid as stepping stones to impressive growth and a better standard of living for their populations. The experiences of Taiwan and Botswana are instructive in this regard. As the following cases show, both countries adopted centralized aid management practices, and built strong institutions that folded aid into a comprehensive development strategy. They gave the responsibility for aid to government technocrats, who exercised strong controls and were able (particularly in the case of Botswana) to say "no" to projects that did not fit with that strategy. Both had primary donors that supplied untied budgetary support in the early years, primarily on a grant basis. And both used their aid funds to build their capacity for self-reliance, primarily through emphasizing the development of alternative revenue sources.

9.1 Graduating from high aid intensity in Taiwan[18]

Taiwan received very high levels of aid from the United States government. Economic and military aid as a percentage of GNP between 1953 and 1963 amounted to more than 18 percent of GNP.[19] Since the aid program in Taiwan was undertaken in the early years of aid, before most other bilateral aid agencies had even been established, aid dependence in Taiwan avoided some of the institutional and transaction cost problems that occur today in aid dependent countries with 50 or more donors. In addition, because Taiwan's aid was conceived during a different ideological period, aid financed infrastructure, institutions and programs that enabled Taiwan to increase production and exports (and thus reduced its need for aid) while it built institutional capacity, using insulated technocracies to help solve the collective action problems posed by reforms. And finally, aid intensity in Taiwan was high for only a relatively short period, and the incentives that develop in long-term aid dependence did not have as much chance to become institutionalized.

U.S. aid built government capacity and productive infrastructure: ports, electricity, roads, railways, while helping Taiwan establish the export processing zones that were the institutional locus of its early export success (Bräutigam

[18] The case study of Taiwan relies on Bräutigam (1994a), Haggard (1989) and Jacoby (1967).
[19] Economic aid alone amounted to 1.5 billion USD between 1950 and 1964, and between 1953 and 1963, came to 7 percent of GNP.

and Botchwey 1998). By contrast, the United States Congress has forbidden the U.S. aid program today from setting up export programs in developing countries that might compete with U.S. manufacturers. Government institutions established under aid programs in Taiwan became centers for centralized development planning, foreign investment coordination, and economic policy reform strategy. For example, the Economic Stabilization Board (ESB), established in 1951, was chaired by the minister of finance and was the only entity empowered to approve loans to the government (Haggard 1990: 86). U.S. aid also financed the interministerial Council on U.S. Aid, (later reorganized as the Council on International Economic Cooperation and Development, CIECD), which coordinated all aid projects.

The government in Taiwan was highly centralized and although economic policies promoted market-based growth strategies, they did so within a series of realistic, five year plans that kept policies, programs, and budgeting tightly linked together. Economic statistics, aid statistics, and loan records were collected regularly and published, and expenditure priorities were clear, realistic, and established by the political leadership in consultation with the major donor (the U.S.) and experts in the ministries.

Finally, the aid program in Taiwan did not make it easy for the incentive problems associated with long-term dependency to develop. The fact that Taiwan was constantly under a state of tension in its hot/cold war with China probably helped concentrate the leadership's mind on achieving self-reliance. But high levels of aid helped Taiwan to "graduate" from dependence by building capacity and strengthening exports. Even in this very strategic location, aid was never intended to be more than medium-term, and its terms were in keeping with the idea prevalent in the 1950s and 1960s that generous aid could shorten the period required for a country to reach a "take-off" point, and allow them to embark on self-sustaining growth. This seems to have worked in Taiwan. Research suggests that economic aid at an average level of 7 percent of GNP "quadrupled the annual growth of per capita GNP" and allowed the Chinese in Taiwan to achieve in 1964 a standard of living that would not otherwise have been reached until 1995 (Jacoby 1967: 152).

The U.S. aid program involved some conditionality, particularly in efforts to get Taiwan to adopt the strategically important 19-Point Program of Economic and Financial Reform, but the U.S. also continually reminded the government in Taiwan that the high levels of aid were temporary. In 1959, before the government in Taiwan had adopted the 19-Point Program, "the Director of the AID Mission proposed that the government should adopt a comprehensive set of public policies to foster private investment and expand exports, looking toward the phasing-out of U.S. aid" (1967: 35). Aid termination became a firm policy goal of the U.S. aid mission in 1960, when aid officials felt that the island, after adopting the 19 Point Reforms, would be able to continue on a path of self-sustaining growth. The U.S. formally announced in May 1964 that it would terminate aid in June 1965. The government responded by further easing foreign exchange controls, improving the environment for private investment and exports, and sending trade missions to Africa and Latin America (Jacoby, 1967: 230). Taiwan's access to funds from the World Bank, the IMF, and the United Nations ended in 1971 upon the UN's recognition of the People's Republic of China in Beijing as the official government of China. The knowledge that aid would be terminated helped push a leadership interested in legitimacy and survival to put more performance-oriented, export-directed policies in place.[20]

9.2 Graduating from aid in Botswana[21]

Botswana stands out even more than Taiwan as a country that was once very poor, but that has managed its aid and its natural resources well, enabling it to graduate from most aid programs. At independence, per capita GNP was 50 USD, and aid from Great Britain provided almost 60 percent of the development budget. Aid was still high between 1975 and 1979, averaging 15 percent of GNP. Yet in 1997, aid levels rested at only 3 percent of GNP. Part of this is due to receipts from mineral exports, but these are only a partial explanation of the Botswana success.

Botswana has been a democracy since independence, and it has enjoyed good leadership. The first post-independence president of Botswana and his government made several decisions that have reinforced Botswana's ability to manage its resources (including aid). Local capacity was quite weak at independence, and so the government decided to move slowly in creating an indigenous civil service. Expatriate personnel still occupy many mid-level advisory and analytical positions, but serve under national decision-makers. Technical assistance is assessed and used not on a project-by-project basis, but according to manpower development plans prepared sector-by-sector for the economy as a whole. If the technical assistance required for the plan is not available locally, or provided by donors or volunteer services (on request), the government advertises and hires international staff itself. Decisions on projects are based in part on whether or not the required staff will be available; if they are not, the project is not approved. Projects are undertaken only according to the absorptive capacity of the government.

In addition, the government established a very strong, centralized, and technocratic Ministry of Finance and Development Planning, which constructs the country's six year development plans, prepares projects as needed (together with the appropriate line ministry), and only then matches projects with appropriate donors. The first post-independence government steered

[20] For further discussion of aid termination in Taiwan, and a comparison with Korea, see Haggard (1998).

[21] This discussion of Botswana draws on Maipose, Somolekae and Johnston (1997), Nordås, Sekgoma, and Somolekae (1998), Rakner (1996), Stevens (1981), and Stevens (1998).

what was then an uncommon middle path that was neither socialist nor purely liberal. The state had a leading role, but not in production. And the government planned from very early on to reduce its high dependence on aid. In addition to using technical assistance to negotiate the very favorable contracts with mining companies that now give the country much of its foreign exchange, Botswana also placed its first bond issue in the Johannesburg market as early as the late 1960s in order to diversify its funding sources.

Despite very different cultures and histories, Botswana's institutional management of its aid relationships echoes the early experience of Taiwan. All government loans in Taiwan had to be approved by the Minister of Finance in his role as chair of the ESB. In Botswana, line ministries do not negotiate directly with donors. All projects, aid money and local revenues are integrated together into the budget, which must be approved by parliament, although to date this role has been fairly pro forma. Yet even this provides an additional incentive to centralize information and present a well-organized portfolio of projects. The government is quite willing to reject offers of aid that do not fit within the plan. Technical skills are valued within the government, and the civil service attracts talented people and pays them well. The current president was one of the first economics graduates of the local university. In 1990, Botswana scored higher than any other non-island African country on measures of institutional quality: levels of corruption, rule of law, and bureaucratic capacity.[22]

These two cases demonstrate that high levels of aid can work well to help a country graduate from aid dependence. Although the two cases are quite different, they do have several things in common. Both countries faced strong neighbors that presented a certain level of threat: South Africa, and China. Both countries began receiving aid during a period when their governing institutions were weak, and they – and their donors – used aid to build centralized, insulated government institutions that then became critical for managing the aid relationships. Both relied on centralized strategic planning, combined with market-based growth strategies. Both enjoyed good leadership. Good leaders are those that have good ideas and prove able to muster the political support they need to implement those ideas. Some of those ideas involved economic policies. Both governments made policy decisions early on that set them on paths that proved fortuitous. Both decided to rely on their private sectors as the engine of growth rather than nationalizing local and foreign firms. And both emphasized maximizing foreign exchange earnings, Botswana through well-negotiated deals with mining companies, Taiwan through intensive promotion of its manufactured exports. Today, each country stands out in its region for the strength of its foreign exchange reserves. These fortuitous choices meant that when economic crisis struck so

[22]Mauritius was not included in the ICRG data set giving these measures.

much of the developing world in the late 1970s and early 1980s, both Taiwan and Botswana were relatively little affected. They had already made good use of a period of high levels of aid to put themselves on a developmental path and could weather those storms.

10. Changing incentives

Good governance is clearly important for promoting development, and foreign aid in a context of good governance can have a substantial positive impact. Governments with higher quality public institutions, the rule of law, and lower levels of corruption do better at both growth and human development. Good governance depends on well-working institutions and a cadre of capable public officials. It also depends on good leadership. Yet the current aid system provides more rewards for poor leadership than for good leadership, and more rewards for aid officials who are successful in getting programs and projects approved in non-developmental environments than those who hold back out of concern for absorptive capacity, lack of leadership commitment, and poor governance in those countries. What will promote changes in the norms, values, and patterns of behavior – in local and international institutions – that have been so deeply affected by the incentives build into the current aid system?

Aid dependence is really a problem of interdependence: donors and recipients seem to be locked into a system that is unable to produce development with consistency or predictability. The problems of ineffective aid are well-known. High levels of aid tend to be accompanied by unwanted technical assistance and high transaction costs. They frequently lock governments into unsustainable future recurrent costs, while ignoring budgetary rules and "poaching" skilled government servants. The incentives that underpin these practices are also clear. On the donor side, professional commitments to foreign aid as a vehicle to combat poverty are mixed with incentives that reward those who successfully program funding regardless of absorptive capacity or its overall chances of having a sustainable impact on development. On the recipient side, large amounts of aid can provide a bridge to a more sustainable future, or they may provide incentives to postpone needed reforms, relax hard budget constraints, and avoid the hard work of reaching a societal consensus about priorities for government revenues and expenditures. In these ways, high levels of aid can lead to a deterioration of governance, directly or indirectly affecting accountability, capacity, ownership, and legitimacy.

Although aid flows may currently be in decline from their historic high, aid will be an important aspect of international relations for some time to come. For many reasons, private capital markets are unlikely ever to be able to supply funding to all of the countries that have the potential to make good use of funds. Aid can be a useful and necessary, although never sufficient, component of a development strategy. Yet aid needs to become much more selective. It needs to be delivered in generous amounts to selected countries in ways that will support ownership. Donors need to cooperate in ways that ensure aid becomes part of the solution, and not part of the problem. And both donors and recipients in selected countries need to plan for a termination of most aid in ten to fifteen years.

10.1 Supply aid far more selectively

It has long been the case that, as Neil Jacoby noted, "aid for development *must* be conditioned upon the pursuit of developmental policies by the aided country if it is to be effective" (1967: 131). Yet even when their presence is clearly not leading to "development" by any measure, it is rare that aid agencies leave a country. This has to change if the incentive structure is going to change. Aid has to become far more selective, and donors have to be able to make credible threats to discontinue aid in countries where the framework is not conducive to development (Collier 1997; World Bank 1998a).

Principled selectivity should be based at first on two pillars of performance: (1) pursuit of a short, limited set of uncontroversial and easy-to-monitor economic policies: an exchange rate that is not overvalued, and a commitment to a sustainable balance between revenues and expenditures; and (2) progress toward establishing the rule of law (including protection of human as well as property rights), instituting a meritocratic civil service, and reducing corruption. Leaders and governments can signal their commitment to these criteria through promoting constitutional reforms that provide credible constraints, such as an independent central bank, rules that limit the size of the budget deficit, or an independent judiciary. A medium-term budgetary framework worked out in a participatory, consultative fashion; a timely, annual budget that includes all projected expenses and revenues; and accounts audited by an independent Accountant General, or similar institution would be important signals of commitment to fiscal sustainability. Other good signals would be serious tax reform; successful efforts to reduce corruption, such as by contracting out customs management, prosecuting high level corrupt officials; or the implementation of meritocratic recruitment and promotion rules.

Although meeting these first two criteria should be enough at first to bring forth generous commitments of aid, given the encouraging development performance that is strongly associated with the combination of good macroeconomic policies and good governance (Burnside and Dollar, 1997; 1998), continued development assistance should be contingent thereafter on the first two criteria plus (3) demonstrated progress toward reducing poverty and implementing programs to provide universal primary education and primary health care.

Strong commitments of aid should follow, not lead, the indicators of effort being made to achieve better macroeconomic stability, and better governance. Aid programs should be gradually, but firmly, terminated in countries where leaders show little evidence of being able to muster the political support necessary to put these basic reforms in place and keep them on track. Many will resist this approach out of fear that the poor in those countries will suffer from drops in aid. Yet it is precisely because the poor are not benefiting from the current aid system in these countries that things need to change. It is quite likely that in some countries there will be an interim period where aid will not be available, except for basic humanitarian purposes, or for regional programs such as agricultural research, malaria control or to combat the spread of AIDS. In many cases, a suspension of most donor aid at least for a period may be the only way countries *and donors* can break the vicious circle of incentives and the adverse institutional impact of aid dependence.

10.2 Supply aid as debt relief and general budgetary support

Tying aid to donor projects and programs offers a false sense that donors have some control. In highly aid dependent countries, where ownership has been pre-empted by donors, there is strong evidence that neither policies nor projects will be sustained. Yet in countries whose leaders have good ideas about policies and programs, and the ability to put together coalitions in support of those ideas, aid can have a good developmental impact. There is very little that either political scientists or the donor community currently know about how to encourage good leaders to emerge; the best foreign aid can probably do is to reinforce a leadership that is already committed. When good leaders do emerge, they should be rewarded in ways that increase their ownership, legitimacy, and their accountability to their people for development performance.

Where leaders are able to meet the two basic conditions for selectivity outlined above, and aid is therefore likely to have a positive impact, aid should be given both as debt relief, and as general budgetary support for the government's own programs. Delivering aid as debt relief and general budgetary support on the basis of a sound budgetary framework contributes to a hard budgetary constraint. Governments maintain control and ownership. The institutional problems and high transactions costs that accompany multitudes of donors are avoided. Countries that receive aid as a general budget support may have a greater incentive to treat it as their own, and husband it wisely, for example, by searching for well-recommended and inexpensive technical assistance from India or Southeast Asia. The donor role might evolve toward serving as a clearing house for information, or as a more competitive, market-rewarded source of technical assistance (discussed further below). It is worth emphasizing that the idea of delivering aid as general budgetary support to countries that meet selectivity criteria is conceptually the same as delivering aid as debt relief. Each simply involves the transfer of resources without the high transaction costs of program and project negotiations, and without the costs of paying for expensive technical assistance.

For the foreseeable future, the majority of aid dependent countries will not meet the criteria for selectivity outlined above. It is also unlikely that the multitude of donor agencies involved in development assistance will be able to agree and adhere to a simple set of criteria, and on how to rank particular countries' performance. However, there are other possible reforms that can be made in the existing system of aid that have the potential to reduce some of the problematic incentives present in the current system.

10.3 Plan for the transformation of aid agencies

It is quite clear that the system of aid, and donors, must shoulder much of the blame for the problems that frequently accompany high levels of aid. Reforms in the system of aid are as difficult as reforms in developing country governance, and for the same reasons: collective action problems, and the "stickiness" of existing institutions and practices. Reform will benefit the aid system in general, but will require sacrifices from those who benefit from the current system. Practices that perpetuate the lack of coordination, including professional rewards for staff who obtain funding for questionable projects, and the desire of aid officials for the satisfaction of seeing "their" projects "work", even when support and interest are low on the part of the recipient government, further militate against change. In addition to their often deeply held commitment to development, staff of aid agencies, commercial firms and consultants have deep vested interests in business as usual.

How can incentives be changed in aid agencies? A shift toward general budgetary support for selected countries would enable more productive use of resources, but this kind of reform is still far in the future. In the meantime, reformers in and outside of aid agencies might press for four elements: (1) greater accountability in donor agencies regarding the money owed for "failed projects" and "bad loans"; (2) more "pooling" of aid resources; (3) a shift from supply to demand-oriented funding, along the model of foundations; and (4) more "market discipline" for aid agencies that give funding and technical assistance.

(1) *Accountability in aid agencies*. Much of the blame for a consistent trail of "failed projects" and "bad loans" ought to lie with the staff and management in donor organizations who pushed inappropriate projects and un-payable loans through the decision system in their agencies, and the boards that approved them. There is presently almost no accountability within donor agencies, or between donor agencies and their taxpayers. At most, accountability functions through the blunt instrument of cutbacks in overall funding for aid. Other possibilities exist. The cost of particular failed projects should be made public, along with the names of those who designed and supervised them. And in addition to the reductions in debt already granted, and those envisioned under the debt relief for the most highly indebted, poor countries (HIPC) initiative, donors who still hold debt could be pressed to write-off the balance owed on debt incurred for specific projects that were clear (and expensive) failures. This would focus attention on the real outcomes of projects in high risk environments, and might stimulate some kind of sanctions (even if informal) for those who gambled (and lost) on high risk projects.

(2) *Pooling of aid funds.* One step on the way toward giving funding as general budgetary support has already been taken on an experimental level in a number of countries. Called "sector investment programs (SIPs)", "common basket funds," or "sector wide approaches (SWAPs)," these initiatives are designed to solve some of the major problems highlighted by numerous studies of aid effectiveness and aid dependence: lack of recipient ownership, lack of donor coordination, and an absence of true partnerships (Harrold and Associates, 1995; Jones, 1997; Nordås, 1998). The approach generally involves a commitment by all donors working in an area to wind down their separate programs while the recipient country puts together a sector wide program, for example in agriculture, health, or local government reform. Once the program is presented to the donors and agreed upon, donors submit funding to a central pool or common basket, which is then drawn upon to finance the programs in the sector. Ideally, donors would not tie their funding to a project or any particular aspect of the program, but support it more generally. In practice, it has been difficult for donors to give up control, and to wind down programs that were protected enclaves within a sector. Likewise, sector funding may be resisted by some recipient countries as it can present a more unified front of donors against the government, making it more difficult to play some donors against others.[23] Still, the step has merit, and may make a difference in donor practices over time.

(3) *Shifting from supply to demand*. Moving from supply to demand-oriented funding along the foundation model would also reduce many of the problems that currently plague aid dependent countries (Hydén, 1995; Bräutigam and Botchwey, 1998). Demand-driven foundations would be modeled after private foundations, or the social investment funds operating in many countries, which respond to requests formulated by individuals and groups for locally identified needs. They would be able to respond to specific project proposals submitted by central and local government units, and non-governmental groups. In this way, even when the political leadership is not developmentally minded, developmental initiatives of those at lower levels can still be reinforced, and might prove to be role models and exemplars.[24] It would be important that these foundations be truly demand-driven, responding to proposals submitted by a variety of entities, on a competitive basis.[25] Having funds on a regional basis would help ensure that the 'disbursement imperatives' that currently characterize aid programmed on a country level did not arise in the foundation model.

[23] I am grateful to David Hirschmann for useful discussions on this and other aspects of the management of aid.

[24] For examples of how local government officials can make a difference even when the central government cannot, see Leonard (1991) and Tendler (1998).

[25] They would also need frameworks of rules that would allow funds that were unused to be rolled over to the following year (Hydén, 1995).

(4) *Increase competition in the aid system*. Finally, many of these suggestions would either directly or indirectly introduce more competition into the aid system, both for countries and for those who work as experts and staff of aid agencies and consulting firms. For example, pooling funding, and giving funding as general budgetary support, would introduce more market discipline into the aid system by removing the commercial benefits enjoyed by donor country firms through "tied aid", requiring them to compete on the basis of price and quality. De-linking technical assistance from direct donor funding would reward experts and consultants who have skills that are sought after in a more competitive "knowledge market", rather than rewarding those who get projects and loans approved or who win contracts from donors for design or implementation.

10.4 Develop a timetable and an action plan for a gradual winding down of aid

Countries that are using aid well will be using it to move toward greater self-reliance, as in Botswana and Taiwan. Donors can strengthen this incentive by working with governments to create a long-term plan for graduating from aid. The Taiwan example is relevant here. The U.S. terminated its economic aid to Taiwan in 1965 only after Taiwan had embarked on a development path that appeared likely to lead to self-reliance and sustainable growth. Yet by 1959 it had already been made quite clear to the leadership in Taiwan that the aid program was temporary. This was a strong incentive for the government in Taiwan to keep the country headed in an economic direction that would enable them to replace the foreign exchange and other resources imported through aid.[26]

Some elements of an assistance strategy linked to an eventual and mutually-agreed termination would include donor help in country efforts directed narrowly at filling the two classic financing "gaps" identified by Chenery and Strout (1966): savings (or finance), and foreign exchange.[27] In addition to aid, governments with a finance gap have a choice among commercial loans, higher tax revenues, or bond issues to meet their finance needs in a sustainable manner. None of these choices is a perfect solution, but donors could help with any of them, for example by extending credit guarantee programs for credit-worthy governments, by encouraging the deepening of local capital markets for local medium or long-term bond issues, and helping countries figure out how they can best make use of international bond markets for

[26] The same commitment to a temporary aid program was present in the U.S. aid program in Korea, with the added incentive that the government there was eager to reduce its heavy reliance on the U.S. in order to avoid what it regarded as unwarranted interference. See Haggard (1990).

[27] I would like to thank Bo Karlström for his suggestion that I discuss these issues in

issuing bonds, a practice Botswana used soon after independence, and something that has been common in middle-income countries.

For gaps in foreign exchange, there are two classic options: direct foreign investment and export earnings. Diversification of export earnings, and encouragement of manufactured exports helps protect against risks of secular downward trends in terms of trade for commodity exports. Over time, stakeholders active in manufactured exports can become a powerful lobby for stable policies and better governance. While highly concentrated direct foreign investment in minerals and large-scale commercial agriculture has historically been a concern for countries concerned with sovereignty, a strategy that encouraged diversified investments, particularly in manufactured exports, would, like export diversification itself, provide external resources that need to be "earned" and which require macroeconomic policy stability and better governance.

These programs should be put in place with the clear idea that they are intended to accompany a gradual reduction and eventual termination of most aid. For termination to act as an incentive, it does not appear to be necessary to immediately set a specific end date, but it *is* necessary for termination to be a credible promise. Aid ought to be quite concessional and generous for committed countries, helping to finance major infrastructure development, social investment, and imports, and helping establish the institutions that will support healthier government finances and balance of payments. More research will need to be done before we have a good idea of how much aid countries can usefully absorb. The World Bank's research suggested that the "saturation" level for aid may be reached at 20 percent of GNP (Burnside and Dollar, 1997). Other researchers put the level at a much larger 40 to 60 percent of GNP (Lensink and White, 1999). It is likely that countries will differ in the amount of aid they can absorb, depending on the strength of their institutions and the way aid is delivered. Delivered primarily as budgetary support, the same amount of aid is likely to go further than when it is spent primarily on tied inputs and technical assistance.

Over time, the terms of aid should harden and approach market terms, to continue to create an incentive for countries to rely on their own revenue generation. This entire process should last only ten to fifteen years, perhaps a bit more if unforeseen contingencies arise. When concessional funding is terminated completely, an endowed fund could remain behind as a kind of foundation discussed above, to support local proposals for small, innovative projects and capacity building both in and outside of the government. An example exists of this in Taiwan's recent history. When the U.S. aid program phased out in Taiwan in 1965, they left behind the Sino-American Fund for Economic and Social Development which took control of the local currencies generated by the remaining commodity imports, and payments on the debt service owed to the United States. The U.S. specified that 15 percent of funds should go to agriculture, annually, and that "all projects were to conform to developmental criteria, meet technical and economic feasibility tests, and emphasize research and innovation" (Jacoby, 1967: 232). Decisions on funding of projects were to be made solely by the government in Taiwan.

11. Concluding remarks

High levels of aid can be well-used in countries with strong institutions. Yet in countries with weak institutions, high levels of aid may backfire, making governance reforms more difficult. Far too many governments in low-income countries have developed a "cozy accommodation with dependency" (Mule, 1996: 7). High levels of aid in countries where the political leadership does not have reform on the agenda are likely to reduce the incentive to cooperate in the sacrifices necessary for reform to occur. Instead, aid becomes part of the system of patronage and political survival. In addition, in countries where the political leadership is not committed to regaining control of policy, planning, and budgeting, high levels of aid may also remove the incentive to retain skilled and qualified staff within the government, reduce government "ownership" of development initiatives, contribute to the collapse of budgeting and accountability, and reinforce presidents at the expense of legislatures.

These problems associated with aid dependence are not new, and neither is the need for reform in the aid system. Many previous studies have pointed to the increases in debt, the high transaction costs, the difficulties in donor coordination, and the lack of recipient ownership that all seem to accompany high levels of aid. Yet the problems continue. This is because the formal and informal rules of the aid system have, over time, created a set of incentives for aid's major stakeholders – governments, donors, and their societies – that are now deeply entrenched, and that make reform very difficult. Reforms of the aid system, like governance reforms in general, are collective goods, and all with interests in the current system need to cooperate in order to achieve reforms that will improve the system, but may hurt their immediate interests. At present, many aspects of the system resemble the "tragedy of the commons" where all stakeholders realize that their actions are harming the common pasture, but no one wants to be the first to take his cow away. Donors and recipients who are committed to reform will need to signal this commitment via institutional changes that will make their commitments credible.

In the past fifty years, aid has become a major new instrument of international relations. Aid is likely to be a feature of international relations for quite some time to come. Yet it is time to contemplate other ways in which aid can be delivered, ways that will reduce the incentives for *poor* governance inherent in the current system. The recommendations outlined above would help reposition aid as a useful complement to domestic efforts in countries that are making clear progress toward better governance and macroeconomic balance, creating an environment where their private sectors will grow, building a sustainable tax base that can support government programs, and directing those programs toward improving the social welfare of the poor.

To encourage the political leadership of more countries to pursue these goals, and to make the best use of scarce aid resources, greater selectivity is necessary. For countries that do not meet selectivity criteria, aid activities should be gradually but firmly terminated (with the exception of humanitarian aid). Countries that do meet selectivity criteria are much more likely to use aid funds wisely. In these countries, in order to minimize the adverse incentives created through long-term reliance on donors for project development, donors should shift away from project aid and toward general budgetary support. Reforms in the system of aid are long over due, and donors can do much to reduce the adverse impact of aid dependence by reforming the way in which aid is delivered. Finally, I emphasize that aid programs need to be seen as temporary. Aid can serve a very useful role as a supplement to a country's own efforts, for a time. But donors and governments in each country need to anticipate and plan together for the eventual termination of aid. Aid needs to provide better incentives for good institutions and good governance. With these reforms, governments pursuing developmental policies will be able to get the support they need, and large amounts of aid will once again be part of the solution, not part of the problem.

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