

## Aid dependence. Issues and indicators

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In recent years, aid dependence has increasingly become a concern in both developed and developing countries, partly because it is considered to be one of the factors behind what is termed "aid fatigue", the stagnation or even decline in the aid flows from many of the world's rich countries. In this study the authors suggest a different definition of aid dependence, than what is normally used. With their definition many of the negative effects that often are considered to be part of aid dependence, instead become the result of "bad" or wrongly introduced aid.

### A definition of aid dependence

Although the concept of aid dependence is widely used it is seldom defined. An examination of the literature shows five common uses of the term: (1) receiving aid at all or aid above a certain level; (2)

receiving more aid than can usefully be utilised; (3) ineffective aid (4) when aid itself generates either the "need" for aid or mitigates against achieving its intended objectives; and (5) when the design of aid programmes or policies more generally is dominated by the donor community.

In this study the authors argue that each of these five points is indeed a legitimate cause for concern, except that high aid in itself is not a problem, but becomes so if associated with one of the other four issues. However, they argue that none of the points constitute a satisfactory definition of aid dependence, in particular they reject the negative connotations of the concept.

Their own definition distinguishes aid dependence from simply bad or ineffective aid. Their definition is thus: *A country is aid dependent if it will not achieve a specific development objective in the absence of aid for the foreseeable future.*



This definition implies that aid is necessary to achieve the objective, but it is important to stress that aid on its own will never be sufficient.

The authors argue that aid dependence usually has had a negative connotation, but that this is not the case with their definition. Seeing aid dependence as bad is to confuse aid dependence with "bad aid". Bad aid may simply be ineffective aid, or more perniciously, aid with harmful effects so that the recipient would be better off with less aid.

### **Outline of the study**

The outline of the study is the following. First the authors elaborate on the definition and contrast it with other definitions of the term, leading to the development of the conceptual framework, used in the analysis. This framework requires a range of indicators, related to development performance and recipient country capacity and commitment. Then the range of measures used for this purpose is discussed.

Underlying this approach is the explicit intention that donors should adopt a log frame mentality to the planning of their whole aid programme. That is, the planning of the programme should be entirely in the context of the donor's stated activities and explicit attention paid to the meeting of those objectives. Aid will not work where there is neither domestic capacity nor commitment to the programme. The approach chosen demands that this fact should be taken seriously.

After the discussion of concepts and indicators, the authors apply their indicators within the defined framework, in the first instance to identify threshold values and then for the classification of the countries as aid dependent or not. This analysis is then compared with the conclusions from other studies on aid effectiveness, before the final chapter draws conclusions from the analysis in this study.

### **Indicators used**

The study develops a framework in which the starting point is to divide countries into four groups by the following two criteria: (1) is the country on the path toward achieving the specified objective, e.g. economic growth or poverty reduction; (2) does the country have access to international capital? Countries with access to international capital are deemed not to be aid dependent. A distinction is also made among those countries that receive substantial amounts of aid, between those which do and which are achieving the objective. Possibly countries may receive aid and not achieve the objective: some of these may be constrained by lack of capacity or commitment and in the others aid must be labelled as ineffective.

The indicators used are achievement of development objectives, aid inflows, access to international capital, domestic capacity and debt burdens. Indicators for each of these are used. When it comes to objectives the study restricts itself to growth and poverty reduction, using a number of indicators. Application of the framework shows that data are most readily available in relation to the growth objective, while they are poor for social indicators and sketchy for the measures of capacity and commitment.

### **Distortions due to "bad" aid rather than high aid**

One finding is that normalised measures of aid – such as aid per capita and aid as a percentage of GDP – has risen markedly in the last twenty years. By the early 1990s over thirty countries received very high aid (defined as over 100 USD per capita or 30 per cent of GDP). Sustaining inflows at this level over any period is of questionable value for the country's development effort.

Another main finding is how few countries are doing well in terms of growth, despite the fact that many of them receive high aid. The authors argue that hence they identify many countries in which aid is ineffective. In other countries they are able to identify constraints of capacity or commitment.

With the definition of aid dependence used in the study, few countries appear to be aid dependent. That is, there are few countries in which the achievement of developmental objectives is correlated to high aid inflows. There is, however, also a small group of countries, which may move toward achieving these objectives, were they to receive more aid than at present. But for the vast majority of countries the major problems seem to be lack of either capacity or commitment or both, or that aid is for some other reason simply ineffective.

The definition of aid dependence used in the study thus changes the perspective, compared to the more commonly used, and not always strict, definition with its negative connotations. If the aid dependence concept focuses on the necessity of aid resources to reach a specific objective, then the implementation may be successful or not. The distorting effects, normally seen as a result of aid dependence, then become a result primarily of “bad” aid, not of high aid volume.

### **Twelve propositions on aid dependence and policy**

The authors summarise their findings in twelve points, some in the form of recommendations to aid donors, some as conclusions from the empirical material.

1. There should be consistency between stated donor objectives and the design of the aid programme
2. An important part of this consistency is to allocate aid in a manner consistent with donor objectives. This position can imply ceasing aid to countries without either capacity or commitment to use aid effectively to meet the donor’s objectives.
3. Hence, the development objectives of aid should be defined sufficiently clearly so that progress toward meeting them may be monitored.
4. Explicit attention should be paid to possible trade-offs and conflicts

between objectives, so as to achieve policy statements, which are consistent, coherent and realistic.

5. Indicators of capacity and commitment also need to be developed, including independent assessments of governance. These indicators should be used in the allocation and design of aid.
6. The arguments advanced here rest on a notion of ex post conditionality and development contracts, rather than existing IFI-style macro-oriented ex ante conditionality. This position is the same as advocating “selectivity”.
7. Very few countries appear to be making progress toward sustained growth, and many have a poor record on social development. The application of the framework identifies a majority of countries as having either ineffective aid, or lacking the capacity or commitment to use that aid well.
8. One reason for ineffective aid is that donors continue to give aid where it clearly will not be well used (which may result from either naïve optimism or the pursuit of non-developmental objectives).
9. There are a substantial number of countries receiving very high aid. With the exception of a period of intensive debt relief to reduce debt to a sustainable level, it is questionable if any country should receive aid at such a level.
10. High aid, and of course very high aid, can have a number of deleterious effects. These include a distortion of prices and policy away from sustainable growth and undermining recipient capacity.
11. Bad aid may also result if the aid programme is contaminated by (1) an undue emphasis on donor commercial interests; (2) excesses of profligacy in the use of aid funds approved by the donor; (3) aid to corrupt or

uncommitted governments; and (4) aid which undermines government accountability.

12. The fact of bad aid does not undermine the fact that aid has a legitimate role to play in the achievement of development objectives.

The authors of the study argue that donors should review their aid programmes to all countries receiving very high aid. What are the reasons for such high aid and what measures are being taken to diversify the economy away from aid? High aid to move countries to a sustainable debt position are, however, to be supported.

In other high aid countries which objectives are not being met a review of the aid programme is also called for. Where the constraint is lack of capacity, probably quite limited aid may be used on easing that constraint. Where it is lack of commitment it is doubtful that an aid programme of any magnitude should be in place.

### **Distortions occur even with a “neutral” definition**

A definition of aid dependence, which is free from negative connotations, opens up for a better distinction between the effect of “much aid” and “bad aid”. And this is hopefully a very important effect of this study.

But in countries receiving “much bad aid” or with weak capacity and political commitment to use aid along the agreed lines the distorting effects are still strong. And as long as aid from many different sources is strongly linked to numerous different administrative and policy conditions that are not easily compatible with each other or with the system of the country at the receiving end, aid dependence will continue to have negative connotations. These perspectives are analysed in two related empirical studies, within the EGDI Aid

Dependence project. One has the title *The sustainability enigma. Aid dependency and the phasing out of projects. The case of Swedish aid to Tanzania*, written by Julie Catterson and Claes Lindahl (EGDI Study 1999:1). The other is called *Aid Dependence and Governance*, written by Deborah Bräutigam (forthcoming).

### **The Expert Group on Development Issues, EGDI**

was established by the Swedish Government in 1995 with the objective of contributing to an increased understanding of development issues in a global context and increasing the effectiveness of development cooperation policies.

The task of the EGDI is to initiate studies that will have the potential to make contributions to development thinking and policy-making. In order to ensure a close relationship with research and policy communities around the world, internationally renowned specialists with extensive networks in their respective field work as members of the Expert Group.

A secretariat assists the group and a number of reference groups have direct contact with the work in progress. An annual budget is determined by the Swedish Government.

The full study (EGDI Study 1999:2) can be ordered from **Almqvist & Wiksell International** P.O. Box 7634, SE-103 94 Stockholm, Sweden

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