Unpacking Aid

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INTRODUCTION

Aid is often described as flowing from donor countries to recipient countries. This is an oversimplification for two reasons. First, there is often a counterflow of resources in the reverse direction by virtue of both 'tied aid' and capital flight. Second, 'countries' do not send and receive aid. On the donor side, the quantity and quality of aid are shaped by the contending economic, political, and institutional objectives of government agencies and their domestic constituents. On the recipient side, aid flows not to countries as a whole but rather to specific individuals, groups, and classes within them. An analysis of how aid is deployed to serve diverse donor-country interests, and how its distribution affects balances of power among competing recipient-country interests, is particularly crucial in understanding the dynamics of conflict and the current globalization of violence.

In this note, I first unpack the terms 'recipient countries' and 'donor countries'. I then consider the relative merits of selectivity and conditionality in aid policy. Finally, turning to aid provided in the form of loans, I discuss the need for 'credit forgiveness'.

UNPACKING THE RECIPIENTS

'Development', Jan Pronk (2001: 627) writes, 'means turning around well-established power structures which are not conducive to development'. Aid can be particularly important, he observes, in 'failing states, crumbling nations, and societies in disarray', where it 'can help to establish or re-establish the conditions under which a turn-around can be achieved'.

Such explicit reference to power structures, and to aid's potential impact on them, is rare in development discourse. Donor agencies not only consider it indelicate to refer to these matters, but often deny that their aid has any such effects. At the World Bank, for example, many officials are quick to invoke their mandate to make loans 'with due attention to considerations of economy and efficiency and without regard to political or other

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non-economic influences or considerations'.[1] Yet it is seldom possible to draw a neat line between the two.

Aid is not like rain that falls on whoever happens to be present in a given time and place. Instead it is more like a set of weights placed on the scales of power at the local, regional, and national levels. Whether by design or by default, aid tilts power balances, strengthening some individuals, groups, and classes relative to others. Two examples will illustrate this point. In the mid-1970s, the World Bank and the Swedish International Development Authority installed 3000 deep tubewells for irrigation in northwestern Bangladesh. On paper, these tubewells were supposed to go to co-operatives of small farmers; in practice, they were systematically monopolized by the most powerful members of the rural elite. Much as radioactive dyes injected into a patient serve as a diagnostic tool to identify cancerous tumours, so the tubewell project served to illuminate the rural power structure. This distributional outcome reinforced existing inequalities of wealth and power, and at the same time sapped the project's productivity as the monopolization of the tubewells led to their chronic underutilization (Hartmann and Boyce, 1983: 256–67).

As a second example, consider Rwanda in the five years prior to the 1994 genocide. During this period, annual aid to the Hutu-dominated government rose by roughly 50 per cent, sending the message that 'the aid system did not care unduly about political and social trends in the country, not even if they involved government-sponsored racist attacks against Tutsi' (Uvin, 1998: 237). A British parliamentary inquiry singles out the World Bank and International Monetary Fund (IMF) for criticism, noting that 'neither organisation recognised the direct link between growing social tension, human rights abuses, and the subsequent destruction of the entire economic infrastructure' (House of Commons, 1999: para 59).

While donors may ignore the impact of aid on power structures in the recipient country, this does not mean that their aid is or can be neutral. On the contrary, the default setting is for aid to flow to those who wield power. If donors wish to alter this outcome, let alone 'turn around' established power structures, this requires careful attention to questions of who gets what, including the impact of their aid on 'vertical inequality' across income classes and 'horizontal inequality' across racial, ethnic, linguistic, and religious divides (Stewart, 2000).

UNPACKING THE DONORS

We need to unpack the donor side of the aid relationship, too. As Pronk (2001: 613–4) remarks, aid has multiple objectives — charitable, economic,

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1. International Bank for Reconstruction and Development, *Articles of Agreement*, Article III, Section 5(b).

and political. Different parties within the donor countries have different priorities. Notwithstanding efforts to cloak sectoral concerns in appeals to 'the national interest', there are clearly divergent interests within donor countries. For example, a prime concern of the private business sector is securing contracts for the supply of goods and services. The political muscle of commercial interests is reflected in the fact that about half of bilateral aid is tied to purchases of goods and services from the donor country (de Jonquières, 1996). Other priorities of the business sector include access to raw materials and the favourable treatment of foreign investment. Trade unions may place greater priority on supporting labour standards and workers' rights overseas, not only out of international solidarity but also out of fear of competition from foreign producers taking advantage of exploitative working conditions. Humanitarian organizations call for targeting aid to people in need, regardless of considerations of donor self-interest.

In practice, however, geopolitical concerns often play the most decisive role in donor priorities. As a World Bank (1998: 40) assessment acknowledges, aid allocations by multilateral and bilateral agencies were 'dominated by politics' during the Cold War. The collapse of the Soviet Union increased the space for donor attention to issues of 'good governance' and democracy in recipient countries. Nevertheless, strategic self-interest remained the single strongest influence on the allocation of US aid in the 1990s, with Israel and Egypt the top two recipients (Hook, 1998).

Donor decisions are not simply the weighted product of these competing interests. The aid agencies themselves also exercise a degree of independence, with their internal incentive structures and institutional agendas generating a momentum of their own. For example, in many agencies the 'approval and disbursement culture' (World Bank, 1998: 6), judging staff performance in terms of the quantity rather than the quality of aid flows, militates against careful attention to the impact of aid on the political economies of recipient countries.

CONDITIONALITY VERSUS SELECTIVITY

In recent years, conditionality — whereby donors condition their aid on the adoption of specific policies by recipients — has fallen from favour. As Pronk (2001: 623–4) observes, a new 'conventional wisdom' is emerging that aid should be allocated instead on the basis of 'selectivity', preferentially channelled to those governments that already have demonstrated their commitment to policies that the donors wish to support. Several rationales are offered for this shift: selectivity is said to be less intrusive on national sovereignty; policies are more likely to prove effective if they have domestic 'ownership'; reallocating aid to 'good performers' will maximize its short-run impact on growth, poverty, and other development indicators; and in

the long run, selectivity will inspire other governments to emulate these worthy role models.

A related reappraisal is happening with regard to the mandates and competence of aid agencies. In the past three decades, in response to criticisms and political pressures, aid agencies have broadened their avowed objectives to include not only macroeconomic stability and economic growth, but also such aims as employment generation, poverty reduction, gender equity, environmental protection, good governance, and democratization. The actions of donors in these areas often have failed to live up to their public pronouncements, but their embrace of these new aims was not purely a matter of empty rhetoric. Today, however, a backlash against 'mission creep' is gathering force across the political spectrum, and calls are increasingly heard for the agencies to return to their 'original mandates' and 'core competencies'.[2]

Neither selectivity nor the back-to-basics movement offers a promising recipe for making aid a more effective instrument for the improvement of human well-being. There are two inherent problems with selectivity. First, if donors decide simply to wait until 'bad performers' see the light and mend their errant ways, they may have to wait a very long time. This is particularly true in the case of countries in Pronk's category of 'failing states, crumbling nations, and societies in disarray'. The costs of an indefinite wait-and-see attitude — to innocent people within these societies, and to others if the violence spills beyond national borders — may be very high.

Second, once we unpack recipient countries, and recognize that they are comprised of diverse individuals, groups, and classes who often have divergent interests, it becomes impossible to speak unequivocally of policy 'ownership' by recipients. Instead, we find a variety of policy alternatives supported by contending political forces, both inside and outside the government. The ownership and implementation of any given policy mix requires a political process of domestic coalition building — a process in which aid can serve as a catalyst (Milder, 1996).

The challenge for donors, therefore, is not to select *countries* that should receive aid, but rather to select *who* within the recipient countries should receive aid, and *what* policy objectives the donors should support.

The problem with the back-to-basics approach is not only that it prescribes a simple, axiomatic answer to the relative importance of different policy objectives — embracing the old-time religion of macroeconomic stability

2. For example, the majority report of the Meltzer Commission, established by the US Congress to review the role of the international financial institutions, criticizes the IMF's recent decision to extend its mandate to poverty alleviation, and advocates 'placing credible bounds on authority to ensure that the IMF does not continue to experience mission creep' (International Financial Institution Advisory Commission, 2000: 39–40). In response to such criticisms, IMF Managing Director Horst Koehler has recently launched moves to 'streamline' conditionality (*IMF Survey,* 2001).

and economic growth — but also that it assumes that these objectives can be neatly divorced from other issues. Yet issues such as environmental quality, governance, and violent conflict are inextricably related to economic performance: economic failure can exacerbate these problems, but failures in these dimensions of development can undermine the economy, too. Donors cannot simply ignore these linkages by crawling back into a technocratic hole and pulling a lid over their heads.

To be sure, the competence of aid agencies to tackle these issues often leaves much to be desired. But the remedy for such deficiencies is to improve donor competencies, not to retreat from their responsibility to confront the manifold consequences of their actions and inaction. Of course, building competence takes time. In the meantime, however, some issues can be more readily addressed by drawing on existing competencies. For example, the international financial institutions are well-endowed with expertise in matters of fiscal policy. It would not require a gigantic intellectual leap to extend their focus beyond the size of budget deficits to devote more attention to the overall ratio of revenue and expenditure to national income (as opposed to the gap between the two), the composition of public spending (for example, the relative magnitude of military versus social expenditure), and the distributional incidence of taxation and expenditure — all of which are particularly critical issues in war-torn societies (Boyce, 2000).

CREDIT FORGIVENESS

Aid is provided not only in the form of grants, but also as loans. The latter leave behind a residue of debt. Although the terms on these loans are more favourable than those available in private credit markets — which is why they qualify as 'aid' — the obligation to repay them in subsequent years is no less serious.

This is a further reason to 'unpack' aid. As noted above, the benefits of aid typically are distributed unevenly within recipient countries, with some people benefiting more than others. Indeed, some may be adversely affected by aid, as when the prices farmers receive for their crops are depressed by imports of subsidized food aid, or when aid helps to maintain in power a predatory and repressive regime.

In the case of loans, a further cost must be added to the scales: the cost of debt repayment. Just as aid is often described loosely as going to 'recipient countries', without disaggregating their citizenry, so debt is often ascribed to countries. For example, the World Bank uses the phrase 'severely indebted low-income countries' to describe countries on the basis of their per capita income and various indicators of their public external debt burden.

This language ignores the existence of private external assets: financial and other wealth held abroad by private citizens of 'debtor countries'. Data on private external assets are less readily available than data on public

external debts, in part because many of the assets were acquired through dubious means and transferred abroad in violation of foreign-exchange controls. Annual capital outflows and their cumulative stock can be estimated, however, using the methodology developed by the World Bank (1985) and others (for example, Lessard and Williamson, 1987) to measure capital flight.

In many cases, the estimated volume of capital flight exceeds the country's total public external debt. In the 'severely indebted low-income countries' of sub-Saharan Africa, for example, cumulative capital flight amounted to US$ 193 billion (in 1996 dollars) in the period 1970–96, a sum 8 per cent greater than the same countries' combined public external debts of US$ 178 billion (Boyce and Ndikumana, 2001). Adding imputed interest earnings on this flight capital, the total stock of private external assets stood at US$ 285 billion, 60 per cent greater than their public external debts. In other words, if we add public liabilities and private assets together to obtain a picture of the net external position of *countries* as opposed to *governments*, we find that sub-Saharan Africa as a whole is a *net creditor vis-à-vis* the rest of the world.

Capital flight and the associated accumulation of private external assets were financed in no small measure by external borrowing. For example, Ndikumana and Boyce (1998) review documentary evidence indicating that creditors knew that a substantial fraction of their loans to the government of Congo (the former Zaire) under the Mobutu regime was being diverted into private hands. Mobutu was not alone in using 'aid' to finance private accumulation while repressing dissent at home. An analysis of sub-Saharan Africa in the 1970–96 period reveals that roughly 70 cents of every dollar that flowed into the region from foreign loans flowed back out as capital flight in the same year (Ndikumana and Boyce, 2002).

This phenomenon underscores the need to unpack aid — to disaggregate 'recipient countries' — so as to distinguish between those who benefited from foreign loans and those who did not. Such an unpacking can help to rectify the stark asymmetry between the current treatment of external debt as the liability of the country as a whole and the treatment of external assets as the private wealth of a narrow stratum of the population. It is often difficult to identify the individuals who diverted the proceeds of loans into their own pockets, let alone to trace exactly where the money went. But the same end can be accomplished indirectly by identifying that subset of the loaned funds that benefited the public, and assuming, in the absence of evidence to the contrary, that the remainder of the loaned funds did not. Invoking the doctrine of 'odious debt' under international law, successor governments could selectively reject liability for that portion of the debt from which their citizens derived no visible benefit (Ndikumana and Boyce, 1998).

This strategy differs from 'debt forgiveness,' in which creditors write off debts, forgive the 'indebted country' for having borrowed unwisely, and

urge them to take steps to restore their credit worthiness. Instead it can be termed a strategy for 'credit forgiveness': the citizens of the country 'write off' credits, forgive the creditor institutions for having lent unwisely, and urge them to take steps to restore their 'debt worthiness'.

CONCLUSION

To analyse aid's catalytic role — and to ensure that aid catalyses broad-based improvements in human well-being rather than deepening inequities and indebtedness — we must unpack both sides of the aid relationship. Instead of viewing aid as a flow of resources from 'donor countries' to 'recipient countries', we must reframe the discourse and practice of aid to ask the critical questions: aid from whom, aid to whom, and aid for what ends?

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