Aid and Influence: how donors help and hinder

Why the policies of the North must share the blame for the poverty of the South

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Warning!

What you are about to hear is not officially UN-approved...

Although it is inspired by the experience of a UN field-person
A donor view…

“Too much aid in the past was badly used, often because it was driven by the priorities and preferences of donors rather than of poor people and poor countries”

Policy Division, DfID, UK
“The more active the donors become, the more they get drawn into the murky rules of the game they wish to change. In the end, their activism may help neither the integrity of the democratic process nor the substance of the reform measures…”

Devendra Raj Panday, Former Finance Minister of Nepal
Aid is a means of influence

Bangladesh: Aid and Influence in 1971
Three examples that got me thinking

I. Aid to Somalia, 1980s

II. Aid to Ukraine, 1990s

III. Aid to Timor, 2000s
What’s wrong with us, the aid enterprise?

Two major things which we take for granted, but which undermine aid effectiveness:

I. Aid is pre-financed by the donor, not paid for by the recipient

II. Most of it goes through bureaucracies

Consequently.....
6 bad things happened

1. Bureaucratic aid: 80 public agencies and 250,000+ practitioners
2. Excessive supply and duplication
3. Recipients chosen by donor interest not development need
4. Content and terms are donor-driven (accountability is upwards not downwards)
5. Rules of engagement stacked in favour of donors, not recipients
6. System encourages waste and corruption
The great mis-match

Aid supply doesn’t correspond to need:

- Aid and human development
- Aid over time
- Aid and security
The great mis-match I

Aid isn’t correlated with human development

HDI and Aid per capita: 2000

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HDI

Aid per capita (US$)
The great mis-match II

Aid is subject to the supply-side concerns of the donors

OECD/DAC ODA & ODA as % of GNI from 1995 - 2004
The great mis-match III

Aid is concerned more with security than with development considerations

ODA and Military Expenditure
USA
1988 - 2003
Confusing signals: the paradigm hunt

Three phases:

I. Gap-filling (1950s - 1970s)

II. Quality of growth (1970s - 1980s)

III. Post-wall good governance (1990s)
The failure of conditionality… according to the sources

- “The IFIs have radically over-estimated their own power in attempting to induce reform in very poor policy environments”

  *Paul Collier, former head of research at World Bank*

- “Rather than learning how to reason and developing analytical capacities, the process of imposing conditionality undermines both the incentives to acquire those capacities and confidence in the ability to use them”

  *Jo Stiglitz, former Chief Economist at the World Bank*
What about the fragile states?

- 30 – 50 developing countries
- 1.0 – 1.5 billion people
- Conflict (Sudan), drugs (Afghanistan, Burma), nuclear proliferation (Pakistan, North Korea)
- Poor human development levels
- Three examples
  - Burma – comprehensive failure
  - Rwanda – structural violence
  - Zambia – economic failure
Political will vs. State capacity

The two dimensions of fragility

Capacity

Will

Uzbekistan
Bolivia

North Korea
Burma

Nepal

Liberia
Rwanda
Timor-Leste
DR Congo

Sierra Leone
Zambia

Failure

Stability
Aid and imperialism

- US today has unprecedented power and reach
- Has used aid as influence since Marshall
- Dominant concern to keep as much of the world as possible friendly for US business
- Bush II: from reclusive cold-war style to assertive hot-war on (Islamic) terror
Aid and imperialism

The six drivers of US aid:

1. Military security: Afghanistan and Iraq
2. Commercial interest e.g. PEPFAR
3. Oil security: West Africa
4. ‘Freedom & democracy’: MCA
5. Political influence: Israel & Egypt
6. Unilateralism

Only one of these is ‘developmental’
Donors from the South: any better?

- **Asian donors**: China, India, Korea, Thailand
- **Arab donors**: Kuwait, Saudi Arabia, UAE
- **East European donors**: Czechs, Slovaks, Poland, Hungary, Turkey
Donors from the South: China

- From revolutionary advocate to capitalist partner
- Global scope
- Energy and raw materials based
Donors from the South: India

- Small imperialist to major investor
- Regional scope
- Energy and security based
Donors from the South

- Important counterweight to Northern aid and influence
Because donor influence helps, but also hinders…
Conclusions: fragile states

8 principles of engagement

- Treat each case as unique
- Understand what state capacity means: politics; economic/social; security
- Build up not down
- Cancel debts: DO NOT LEND ANY MORE!
- Choose your partners well
- Coordinate aid
- Stay engaged
- Be consistent
Conclusions: Go to the market

Because aid is the last bastion of central planning, better markets needed in:

- Trade
- Finance
- Technical assistance
Why should it happen?

The only guarantee that ‘active consumers’ will get what they want, instead of ‘passive recipients’ getting what they don’t need.
Why will it happen?

- Because developing countries are demanding their independence: (India, Thailand, Malaysia etc.)
- Ability to pay and to borrow
- Getting what they want
How will it happen?

“The countries which can follow their own instincts and steadily divest themselves of ‘free’ aid, are those which will progress furthest and fastest”
History is the best witness!