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### ***The Politics of Aid Revisited: A Review of Evidence on State Capacity and Elite Commitment***

Arjan de Haan<sup>1</sup>, Ward Warmerdam<sup>2</sup>

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ISBN: 978-1-908749-04-8

email: [esid@manchester.ac.uk](mailto:esid@manchester.ac.uk)

**Effective States and Inclusive Development Research Centre (ESID)**

School of Environment and Development, The University of Manchester, Oxford Road, Manchester M13 9PL, UK

[www.effective-states.org](http://www.effective-states.org)

## **Abstract**

Based on a systematic review of the impacts of aid on both state capacity for, and elite commitment to, sustainable development, we conclude that a better understanding of the impact of aid has the potential to directly inform practices of international development. This requires better empirical insight into how donors interact with formal and informal institutions in the countries where they work, particularly in aid-dependent countries. Furthermore, it is critical to see aid as part of a spectrum of international exchange, rather than in isolation. This implies a significant research agenda, combining quantitative and in-depth qualitative analysis, as there are barriers for more informed political analysis to inform practice; and little analysis exists of how donors, even where they do start adopting a political perspective, do influence local institutions and the people they work with. The paper develops this conclusion through a review of existing large research programmes on politics of international development, the role and impact of donors political economy approaches, a scan of the literature on aid modalities, and a brief review of the practices of emerging donors, particularly China.

## **Keywords**

Aid, state capacity, elite commitment, sustainable development, politics, international development, emerging donors, aid effectiveness, China.

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## **Introduction**

This paper is the result of a systematic review of the impacts of aid, or international development cooperation, on state capacity for – and elite commitment to – sustainable development.<sup>1</sup> This highlights that a better understanding of – and indeed reconceptualization of – the ‘impact of aid’ has the potential to directly inform practices of international development (Unsworth, 2009). This requires, inter alia, better empirical insight into the way donors interact with formal and informal institutions in the countries where they work. This is particularly relevant in aid-dependent countries, but knowledge about interaction between national and international institutions from other countries – including China – may prove relevant too. Moreover, we will argue that it is critical to see aid as part of a spectrum of international exchange, rather than in isolation. However, the literature suggest the existence of barriers for more informed political analysis to inform practice; there is little analysis of how donors, even where they do start adopting a political perspective, do influence local institutions and the people they work with.

The paper is structured as follows. The first section provides a birds’ eye view of the existing literature and field of study, including of recent large research programmes. The literature on the impact of aid – in general – tends to be polarised, and fragmented, and hence the second section shows the different strands, and how the fragmentation of perspectives potentially impacts research and findings on the impact of aid. Section three refers to the de-politicisation of aid, and its analysis, and discusses the role of political (or political-economy) analysis on the practices of donors. Section four discusses the more technocratic literature on aid, including on conditionalities, which we argue can be conceptualised in the form of implicit contracts, and different aid modalities. Section five discusses donors’ efforts to support revenue generation and taxation, and how this potentially changes aid relations. Section six refers to the rapidly growing literature on emerging donors, and discusses how this may change the role of ‘old’ donors: the relevance in our view is not that China challenges the development ‘paradigm’, but that its practices are already influencing donor practices around governance, and that these dynamics need to be mapped. The conclusion pulls together the emerging findings, and argues the need to go beyond a conceptualisation of ‘the impact of aid’, and integrate the continued presence of donors in the analysis of local politics.

### **1. Scanning the field**

The existing literature tells us relatively little about how aid impacts state capacity for and elites’ commitment to sustainable development, despite oft-repeated assertions of the importance of these attributes. Given the investment in research on governance over the last decade or more, this is not unsurprising,<sup>2</sup> and it is important to discuss the emphasis in this research.

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1 This was commissioned by the Manchester research centre ESID, which aims to improve understanding of how to build the capacities of states, markets and citizens in support of sustainable development, in context where the state is reasonably effective, thus not covering so-called fragile states. The methodology of our review is described in the Annex.

2 For example, OECD (2010), DFID (2006), World Bank (2007b, 2008).

Following the growing attention to governance during the 1990s, DFID made significant investments in research to better understand ways in which improving governance can contribute to better development outcomes.<sup>3</sup> It funded three major research initiatives for a period of ten years, which produced a recorded 600 outputs: the Crisis States Research Centre (at LSE), the Centre for Future States, and the Citizenship, Accountability and Participation programme<sup>4</sup> (both at IDS Sussex). The Oxford-based Centre for Research on Inequality and Ethnicity was less squarely focused on governance, but its focus on structural inequalities is of relevance for this review (Brown and Stewart, 2006).<sup>5</sup> This set of programmes was followed by the Africa Power and Politics Program, which focuses on identifying diverse sets of governance that promote development,<sup>6</sup> which emphasises ‘working with the grain’ as a step beyond the good governance agenda.<sup>7</sup> The studies present casual observations regarding donors’ barriers to seriously engage with politics,<sup>8</sup> but the impact of aid on politics was not a major topic of research.

This research, in DFID’s Research and Evidence Division Staff’s summary, generally re-affirmed the primacy of politics, and political settlements for all development (including for economic growth), as ‘driver of change’. It emphasises the importance of informal institutions, and donors’ misplaced emphasis on formal institutions alone – a further shift towards understanding informal institutions is desirable, including for the understanding of the impact of aid. Citizens’ engagement with the state was shown to be instrumentally relevant for development (illustrated for example in improved health reforms in Brazil). It concluded that taxation is central in building effective states,<sup>9</sup> as this provides the legitimacy of states vis-à-vis its citizens and reduces aid dependency.

Research by Bergamaschi, de Renzio, Whitfield at the University of Oxford Global Economic Governance Programme at University College focuses on the politics of donor-recipient interaction, particularly the issue of ‘ownership’, how this is negotiated, and the effect the constant discussions with external players regarding development policy has on recipient state institutions, democracy and political (e.g. Whitfield 2008). They argue that ‘ownership’ is still weak in many aid dependent countries, and policy decision-making processes are still dominated by donors, not only due to supply-side politics of aid, but also demand-side politics, especially where recipients are dependent on aid inflows to supply public services and any reduction in aid inflows could reduce the political legitimacy of the government (de Renzio et al. 2008). This is particularly problematic when policies are adjusted to be more in line with domestic demands, but are not supported by donors, resulting in aid reductions. A number of studies of the GEG Programme elaborate on differing political dynamics have allowed donors to either embed themselves in government, such as in Ghana (Whitfield 2006), or not, as in Ethiopia (Furtado and Smith 2007), and how this and other factors, such as recipient ideology,

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3 Main findings that emerged from this are summarised in the DFID (2010) synthesis paper *The Politics of Poverty: Elites, Citizens and States*.

4 See Gaventa and Barrett (2010) for a meta-case study on the ten-year research programme, analysing effects of citizen participation.

5 This argues that the reduction of inequalities (between culturally defined groups), should inform aid policy.

6 Booth (2011a) – in IDS Bulletin rethinking African governance. The research programme to date has produced about twenty working papers (<http://www.institutions-africa.org/page/home>).

7 Booth (2009, 2011), Kelsall (2011); the APPP work by Olivier de Sardan is even more averse to generalisations, focusing on practical norms governing behaviour (quoted in Booth, 2009, p. 12).

8 For example, the summary notes that “as outsiders they have far less influence ... than is often assumed” (DFID, 2010, p. 92). Booth (2011c) investigates the barriers to uptake of the findings from the APP Programme.

9 See also the discussion by Mick Moore at <http://www.ids.ac.uk/news/what-s-so-exciting-about-tax-and-development-a-new-global-focus-on-tax-policy-aid-and-good-governance>

size, and history have an influence on the negotiating abilities and strategies of recipient governments.<sup>10</sup>

There is more knowledge about the role of aid on state capacity than on elite commitment. However this is insufficiently understood, partly because the literature stresses the negative impact of aid and failures of capacity building, paying too little attention to how decades of aid relationship have become ingrained in the day-to-day politics in some countries.<sup>11</sup> The issue is complicated, moreover, by the fact that there is no consensus about the links between governance and development, as these are of course context dependent, and recent development experiences appear to suggest that the link is more contingent than may have been assumed earlier.<sup>12</sup> The contested field of capacity building, discussed below, similarly highlights that many questions remain regarding the impact of aid, and that it may be necessary to rethink the way the question – particularly that of ‘aid effectiveness’ – is approached.<sup>13</sup>

A large number of quantitative cross-country studies have looked at the impact of aid on growth,<sup>14</sup> even though there are many doubts about data (Anderson et al, 2005), and some of these include a variable on governance. Bräutigam and Knack (2004) found a robust statistical relationship between high aid levels and *deteriorations* in governance, as well as a relationship between higher aid levels and a lower tax share of GDP, while increases in GDP per capita correlate with improvements in governance. The analysis does not allow us to discern the reasons for these correlations, but the authors suggest that institutional weakening and perverse incentives do play a role, and note the high transaction costs that accompany aid programs.<sup>15</sup> Rajan and Subramaniam (2007) are pessimistic about the impact aid can have on *growth* because it may constrain the growth of the manufacturing sector due the effect of aid on exchange rates. The study concludes that aid *may* weaken governance, “because aid inflows reduce the need for governments to tax the governed or enlist their cooperation.”

Particularly the second part of the question for this paper, how aid affects elite commitment, is not well researched. A word search of our 100 page annotated bibliography (Warmerdam and de Haan 2011a) does not give a single score on ‘elite commitment’. The word commitment appears 16 times, but only in 3 cases does this have analytical content (as opposed to reference to, say, morally-inspired calls): Nelson (1984) based on case studies in Ghana, Zambia, Kenya, Sri Lanka and Jamaica considered governments’ commitment to stabilisation measures; Killick (1997) has critically analysed the role of ‘pre-commitments’ in terms of aid conditionalities; while Savun and Tirone (2011) use quantitative analysis (with instrumental variables) to assess the role of ‘democracy aid’ (which they conclude can reduce the risk of conflict during transitions).

Thus, this part of the literature suggests that there is a significant gap in terms of empirical research on the impact of aid on capacity and, particularly, commitment. This absence may be unsurprising, given what we know about the depoliticisation of aid, and the fact that the politics

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10 See also de Renzio and Hanlon (2007) on Mozambique, Fraser (2007) on Zambia, Harrison and Mulley (2007) on Tanzania, Hayman (2007) on Rwanda, and Bergamaschi (2008) on Mali.

11 Arguably, the literature also tends to under-emphasise the cases where aid has contributed to enhanced capacity, such as in China (World Bank, 2007a; the common view that there has been no donor engagement in these areas appears mistaken), Taiwan and Botswana (Bräutigam, 2000).

12 Andrews (2008), Leftwich and Sen (2010).

13 Lancaster rightly noted that the effectiveness of aid is measured as if human motives were the only objectives, this ignoring in its assessment that there are various political and historical drivers of aid.

14 Recent studies and overviews include, Killick and Foster (2011), Arndt et al. (2009), Roodman (2007), McGillivray et al. (2006), Doucouliagos and Paldam (2005).

15 Collier (2002) builds on quantitative analysis (Collier and Dollar, 1999) to develop measures to make aid smarter.

of aid has only recently entered into the mainstream of studies, following a period where 'good governance' research surged, but remained by and large technocratic.<sup>16</sup> On the other hand, the absence is puzzling, as there are very strong views on whether aid works or not, as we discuss next.

## **2. Half a dozen views on aid**

It is important to highlight the hugely differing perspectives on aid.<sup>17</sup> Half a dozen positions can be discerned. To start, there are many who claim that not enough aid is given. Calls for increased aid have been common at least since the 2<sup>nd</sup> World War, and there have been various waves of attention since. The immediate post-War period witnessed large-scale funding through the Marshall Plan, and growing aid to developing countries, focusing on technical assistance and cooperation. In 1951 a UN commission recommended an increase of aid, to about \$5 billion a year, to help countries increase economic growth to 2 per cent (Riddell, 2007, p. 27). The report *Partners in Development* was one of the first and subsequently most-commonly quoted official report arguing for an increase in aid (Pearson, 1969), calling for rich countries to devote 0.7 percent of their Gross National Income (GNI) to international development, by 1975, and to increase the efficiency of aid.

The optimism around 1970 was followed by 'structural adjustment' and stabilization of economies, and 'aid fatigue'. Nevertheless, throughout the 1980s there were calls for increasing aid, for example in response to the droughts and famines in Sahel and Ethiopia, by the World Bank in reports on Africa, and fuelled by increasing involvement of NGOs. The 1990s, with the end of the Cold War, and economic and budgetary constraints in donor countries like the US and Japan, witnessed sharp reductions in ODA. The amounts of aid to allied countries declined, and donors may have reduced their attention to (potential) conflicts and violence in developing countries, which changed sharply with 9/11. More attention started to be paid to the use of aid for governance reforms in the former USSR, and for democratization in Africa.

From the late 1990s onwards, calls for increasing aid again became stronger, accompanied by a sharpened focus on poverty reduction as the over-arching goal for development.<sup>18</sup> Around the turn of the century, UN and World Bank produced a range of publications, highlighting the importance of, and their commitment to, poverty reduction. The Monterrey Conference became symbol of reversal in views on aid, including the surprise announcement by the US President.<sup>19</sup> The UN Millennium Development project calculated the amount of aid that would be required to achieve the MDGs, showing a great deal of trust in the impact of aid.<sup>20</sup> The UN stressed the lack of funding particularly in social sectors: according to the 2005 Human Development Report (p.79), for example, average health spending in Sub-Saharan Africa was \$3 - \$10 per capita, while the cost of providing basic health care was estimated at \$30 per capita. Commitment to reach agreed levels of aid were reconfirmed after the financial crisis, but the political change

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16 Leftwich, (1994); de Haan and Everest-Phillips (2007). Hughes and Hutchinson (2012) argues that aid interventions have failed to shift modalities, as they have an inadequate conception of politics.

17 As detailed in de Haan (2009, 2010); see also <http://www.foreignaffairs.com/features/readinglists/what-to-read-on-foreign-aid>.

18 An important OECD report in 1995 signaled a turnaround of the pessimism. The change of government in the UK in 1997 led to the formation of a new and separate ministry, and contributed to greater political interest.

19 Monterrey Consensus Report of the International Conference on Financing for Development Monterrey, Mexico, 18-22 March 2002: <http://www.un.org/esa/ffd/aconf198-11.pdf>.

20 UN Millennium Development Project 2005. Jeffrey Sachs calls to increase commitment to aid, to eradicate illnesses and promote agriculture particularly in Africa (Sachs, 2005). Fukuda-Parr and Hulme (2009) analyse the symbolic role of MDGs.

particularly in Europe and the continued economic crisis since suggest we have once again entered a phase of aid fatigue,<sup>21</sup> which is accompanied by – as we discuss in the last section of this paper – to the emergence of new donors and potentially a new aid paradigm.

Three issues emerging from this body of literature are important. First, views on aid remain informed by a moral commitment to help, and by the international politics that drives leaders to be (seen to be) responsible global actors. Second, these commitments have never been binding,<sup>22</sup> and arguably therefore the aid relationships remain couched in a charitable form, rather than strong (enforceable) international commitment. Thirdly, the way the commitments emerge – supply-driven, by and large (and combined with continued and increased donor fragmentation) continue to feed the problem of disbursement pressure.<sup>23</sup> These issues ought to be key starting points for questions around the impact of aid on politics.

A second set of views, at the opposite end of the spectrum, stresses that too much aid is given. Public opinion often holds that too much money goes to foreign aid, and that very little positive effects are achieved, often because of corruption of the rulers of poor countries. Moyo (2009), who has received a great deal of attention in the North as well as in the South, including from leaders like Rwandan President Paul Kagame, is particularly critical of the dependency that aid has created.<sup>24</sup> Easterly phrases the position in polemic style: Sachs “thinks aid can end poverty and I think it cannot ... The end of poverty comes about for home-grown reasons, as domestic reformers grope their way towards more democracy, cleaner and more accountable government, and free markets” (quoted in Harman, 2007), and the “tragedy in which the West spent \$2.3 trillion on foreign aid over the last five decades and still had not managed to get twelve-cent medicines to prevent half of all malaria deaths” (Easterly, 2006, p. 4). According to Easterly, the main problem of aid has been the emphasis on grand plans and domination of ‘planners’, and the limited ability to motivate people to carry out such plans; increased commitments would again be dominated by these planners, and fail to learn from past mistakes.

Among the fiercest critique of aid derives from the idea that aid fuels corruption.<sup>25</sup> While this was easily understandable during the Cold War, and arguably much of Moyo’s critique is particularly pertinent for that period, the question of corruption has been looked at very closely by donor agencies over the last decades – for some perhaps even too closely as there is recognition of the role this plays as an ‘informal institution’. Conventional wisdom notes that aid is more effective in less corrupt states, which can be considered a variant of the notion put forward by Alesina and Dollar (2000 and others that aid is more likely to be effective in better-governed states. Tavares (2003) showed through cross-country regression that foreign aid is associated with lower corruption (which he highlights does not imply a causal effect), and this may have been because of the rules and conditions associated with aid, and the ability to pay salaries

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21 Aid in the US is being cut too, for example threatening the large promised support to democratisation in the Middle East (New York Times, October 3, 2011).

22 The UK’s International Development (Reporting and Transparency) Act 2006 provides an exception. This commits the Secretary of State to report annually on expenditure on international aid, and progress towards the UN ODA target. But the commitment to increased aid is combined with commitments to enhance effectiveness and transparency, making the increase in allocation far from automatic.

23 Interviews at Sida found two-thirds of staff felt that disbursement rates were actively monitored in the day-to-day business (Ostrom *et al.*, 2002); this study documents the agency’s internal incentives and how this affects aid effectiveness and particularly sustainability. Also Ebrahim and Herz (2007, p. 6).

24 Fischer and Kappel (2005) for example describe how despite rent seeking – which was the main obstacle to reform rather than low capacity – in Tanzania, donors continued to provide aid. See <http://www.u4.no/themes/corruption-aid/selected-literature.cfm> for some specific sources on aid and corruption.

25 See Cooksey (2002) for review of corruption within donor agencies and among recipients, and a pessimistic but only partially substantiated review of reforms and attempts to address corruption.

may reduce the corruption of officials. But there is increasing research that modifies generalising statements (Dietrich 2010, who highlights different dynamics in different sectors).

A third set of views represents a middle position between these opposites, focusing on the ways in which aid is provided, and on the need for better assessment (Riddell, 2007; Manor, 2005). Advocacy for more aid often goes together with calls for improving the quality of the aid system.<sup>26</sup> Former Dutch development minister Jan Pronk (2001), reviewing the earlier aid literature and more recent analysis of aid-growth relationships, argues that aid should and can work as 'catalyst', rewarding for good development governance.

A number of arguments are put forward in this context. There is much debate on what to focus on for donors, and what institutions to work with: for example Eyben and Ladbury (2006) argue (reinforced in IDS 2010) that too much state building support has worked directly with the state, whereas in their view there is evidence that working with non-state actors has been effective. Another argument emphasizes that aid could be better targeted, that too much money is spent in countries that are not the poorest. There are powerful historical, political and strategic reasons determining that much aid is given to countries that are not poor. Many bilateral organizations have tried to focus their aid on the poorest countries, but the pull of other political considerations remains large (notably, since 9/11).<sup>27</sup> Burnside and Dollar (2000) showed that aid is effective, *if* its recipient governments have the right policies, particularly good fiscal, monetary, and trade policies.<sup>28</sup> Collier and Dollar (1999) combined an argument about the need to move aid to the countries with the largest numbers of poor people, with an emphasis on ability to use aid effectively. Such reallocation could increase the numbers of people lifted out of poverty from 30 million to 80 million per year. Paul Collier's *The Bottom Billion* (2007) again stressed the need to focus on countries where most poor people are (increasingly in 40-odd countries), and the need to address the development 'trap' of good governance.

Concerns about and analysis of aid dependency are relevant here. Particularly in Africa, donor funding can form half of the government budget, often for extended periods of time. Donor funding can undermine local accountability (Uvin 2004); donors' role vis-à-vis the accountability of national policies will be discussed later. New funding often leads to setting up of new agencies, and this can detract from solving, and even worsen problems of existing public policy institutions.<sup>29</sup> A similar argument against increasing aid refers to what is commonly called 'absorptive capacity'. It is argued that recipient governments lack the administrative or policy capacity to effectively use increased aid flows, particularly when these are disbursed in a short period of time. Economists warn for the implications of large financial inflows on the economy, and the possibility that this may cause 'Dutch disease', an appreciation of the exchange rate and resulting decline in competitiveness of national industries.<sup>30</sup>

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26 *Human Development Report 2005* (UNDP HDR 2005, p. 75) argued: "International aid is one of the most powerful weapons in the war against poverty. Today, that weapon is underused and badly targeted. There is too little aid and too much of what is provided is weakly linked to human development. Fixing the international aid system is one of the most urgent priorities facing governments at the start of the 10-year countdown to 2015."

27 A former USAid administrator criticized the European aid programs for the failure to align their aid to foreign policy concerns (Natsios, 2006). See also Woods (2007). Kurlantzick (2007, p. 202) describes the recent Chinese aid program as the core element of China's global 'charm offensive'.

28 See further Dollar and Levin (2006), and Knack et al (2010) who rank 30 donors on four indices including aid selectivity.

29 See Morss (1984) for a discussion on the impact of donor and project proliferation on recipient government institutions.

30 There is some agreement among economists that a foreign aid contribution of about 20 per cent to the national budget does not have negative effects, and the economic impact can remain positive.



A related argument stresses donors' habits, the patterns of behavior and incentives that limit aid effectiveness.<sup>31</sup> For example, current aid is commonly compared with the Marshall Plan, which disbursed large sums of money in a short period of time, compared to the much more long-term and relatively small sums of money of development aid. Studies show that donor procedures tend to be cumbersome and time-consuming,<sup>32</sup> aid flows are often unpredictable, they often follow financial cycles on the side of the donors rather than demand by recipients, and donors' priorities change frequently. Many studies highlight that there are too many donor agencies, working in uncoordinated ways.<sup>33</sup> Some argue that donors' attitudes may have the potential to undermine progress, and aid has the potential to contribute to rather than reduce conflict (Browne, 2007, p. 32). Tied aid, the use of foreign aid for commercial purposes, is generally thought to restrict its efficiency. While there has been widespread commitment to untie aid,<sup>34</sup> many donor countries continue to make collaboration with or purchase from their national companies a condition for the provision of aid.<sup>35</sup>

A fourth strand of literature focuses on the inner workings of aid agencies, often from a critical perspective. In an 'ethnography of aid and agencies', Mosse and Lewis (2006, p. 8) state that development policy is characterized by an incongruence between a seductive mix of 'development buzzwords' and a "striking lack of progress in relation to a wide range of development indicators ..."<sup>36</sup> Donald Curtis (2004), building on cultural theory, stresses the various ways of thinking within donor agencies. His experience with donor-funded programmes of civil service training (in Bangladesh, mainly) highlights the discrepancies between donor objectives and recipient needs or priorities. Rosalind Eyben has stressed the importance of personal relations within aid agencies, against the increasingly strong drives to focus on outputs (Eyben, 2008). Hilhorst and Jansen (2010) emphasize how 'humanitarian space' separates aid practices (in this case, humanitarian operations) from its political environment. Much of the literature in this genre of critical analysis emphasizes and critiques donor practices, but does not – and this is puzzling – extend to an analysis of the impact the projects did have on its trainees or institutions they supported.

Fifthly, another set of critical perspectives focus on the role that aid plays in maintaining global power relations (we discuss some of the critical political-economy analysis in Section 3). Much of the popular critique particularly against the World Bank, and in support of the agendas of subalterns and social groups in the South, obtains these forms of expression, but UN organizations like IFAD do not escape criticisms that aid institutions cause development problems. The PRSP processes have been interpreted as a means to maintain neo-liberalism.<sup>37</sup> Support to democracy and governance reforms is seen, by some authors, as consistent with this paradigm, for example with respect to the spread of a specific (neo-liberal) form of governance practices.

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31 Birdsall (2004) describes seven 'deadly sins'.

32 This is strikingly described for USAID by Andrew Natsios' "The clash of the counter-bureaucracy and development" (2010).

33 See Acharya *et al* (2006) and Morss (1984) who provided an early warning that was apparently not heeded. Booth (2011b) identifies piled up donor initiatives as one of the causes for poor outcomes of service provision.

34 For example, in May 2008 OECD expanded the list of countries by 8 to 39 Highly Indebted Countries that will receive aid in untied form; [http://www.oecd.org/document/24/0,3343,en\\_2649\\_201185\\_40660248\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/24/0,3343,en_2649_201185_40660248_1_1_1_1,00.html) (accessed June 2008).

35 The OECD DAC statistics provide information about status of tying aid (Table 23 and Table 24 of the Statistical Annex of the Development Cooperation Report; [www.oecd.org/dataoecd/52/11/1893159.xls](http://www.oecd.org/dataoecd/52/11/1893159.xls)). In the Netherlands after the last election there has been a move back to tying of aid.

36 Mosse and Lewis (2006, p. 8). The reference to buzzwords in development practices is from an article by Cornwall and Brock (2005), a theme taken up in a special issue of *Development in Practice* (Cornwall 2007).

37 Porter and Craig (2004) and Craig and Porter (2006),

Finally, there is a set of arguments that put aid in perspective, emphasizing aid really isn't all that important, and that other policies are much more significant.<sup>38</sup> First, as reflected strongly in writings originating in the US, aid is an instrument of foreign policy or diplomatic purposes.<sup>39</sup> Aid has been provided as a tool in Cold War competition, French aid has been instrumental in maintaining a sphere of influence, and Japanese aid was strongly motivated by commercial considerations (Hook 1995). The recent re-emergence of Chinese aid can similarly be interpreted as one of its diplomatic tools used to fulfill domestic commercial and economic development considerations, as well as global political and geo-strategic goals.

It is often argued that broader international economic policies are more important than aid programs alone, and this is becoming increasingly important, including in the 'new donors' explicit mixing of aid and commercial motives. Private capital flows have multiplied while official aid flows have remained more or less stagnant (private charities have become important, too). The financial contributions of migrants from the South outstrip development aid. Recent estimates put remittances at about US\$ 300 billion or more, about triple of official aid flows. While earlier writings emphasized the danger of 'brain drain', i.e. the loss of human capacity following moves by educated people to richer countries, more recent analyses have emphasized the positive contributions of migrants, and some authors stress that remittances do not suffer from the problems of aid flows, like difficulties of getting the money to the right people, and corruption. The conclusion that aid isn't really all that important is critically important. It implies we may need to revise and broaden the question of the 'impact' of aid, or at least see aid as part of a continuum within broader international exchange.

This variety of views, perspectives, theories,<sup>40</sup> and ways of measuring what aid has achieved or can achieve (de Haan, 2009, Chapter 8) is critical as background to this review. Moreover, the literature also includes much unsubstantiated or little-supported conclusions about the failure of aid. For example, Browne (2007) concludes that "donors have appeared at the wrong times and with the wrong attitudes, even sometimes undermining development progress". This conclusion is weakly substantiated with reference to three very different cases of 'fragile states': Burma (with boycott as main question, coupled with emergence of non-DAC donors), Rwanda (with the well-recognised failure to intervene before the genocide), and Zambia (where the question of Washington-consensus prescriptions is key). How donors undermined development progress is not clear (except of course in cases where aid was grossly misused for Cold War purposes), at least not in the two cases where failure to engage may be the most important consideration.

The overview of the last five years of the Centre for the Future State (IDS 2010) provides an illustration of a disconnect between research and practice.<sup>41</sup> Its main conclusions directly address development practitioners, arguing that they "need to close off their mental models

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38 The 'Commitment to Development Index' rates rich countries policies in seven areas - foreign aid, commerce, migration, the environment, and military affairs - on the extent to which they help poor countries' development. [http://www.cgdev.org/section/initiatives/\\_active/cdi/](http://www.cgdev.org/section/initiatives/_active/cdi/).

39 Alesina and Dollar (2000) based on quantitative analysis of bilateral aid confirm that foreign policy and strategic considerations (alongside economic needs and historical links) have a big influence on which countries receive aid. See further Berthélemy (2005), Dollar and Levin (2006), Hout (2007), Neumayer (2003), and Younas (2008).

40 Lancaster (2007) emphasizes that none of the theories adequately explain the complexities of aid: its principles always reflect a combination of motives, and aid practices tend to take their own dynamics as all policies tend to do through the institutions responsible for their implementation. The entrance of new donors like China is likely to bring yet other perspectives, in ways that cannot be predicted.

41 See also Booth (2011c) on donors' recent emphasis on research uptake, and the barriers that continue to exist, in the case of public service provision in Africa (with illustration about WDR2004).

about governance and development that are rooted in OECD experience” (Unsworth, 2010, Executive Summary). While some of the text may be perceived to be slightly condescending (‘most people can learn to draw’), more significantly, there seems to be no analysis of why donors do not adopt the necessary political perspective, i.e., a political analysis of donors’ actions seems to be lacking.<sup>42</sup>

Thus, the diversity of perspectives on aid, which are often left implicit, and particularly the polarisation, may not be helpful in creating a better understanding on the impact of donor agencies. Moreover, simplification about agency staff ability to apply political analysis may be creating additional barriers. In fact, officials within donor agencies often do recognise that they are political agents as part of broader international politics,<sup>43</sup> and they do position themselves in the local politics – even emphasising a technical role is taking a political position. Future research can make an important contribution in closing a gap in the knowledge of the impact of aid, which has the potential to inform both the academic literature and development practice. This could entail a conscious reflection on and articulation of the perspective through which ‘aid’ is conceptualised, based in local narratives of the role of aid/donors – in their diversity – in local politics. This in turn would require ‘internalising’ the role of donors as ‘permanent’ feature of these local politics.

### **3. Depoliticisation of aid: what does the literature tell us?**

Political analysis remains poorly represented in international development debates. For example, in the writings of Jan Pronk on aid as catalyst, where one would expect an analysis of policies (and political change), much of the analysis draws on cross-country aid-growth regressions, and his conclusion that “what is required is a special focus in aid policy on social harmony, political stability and peace...” (Pronk 2001, p.628) remained unsubstantiated.<sup>44</sup> At the same time, much of the political analysis has remained a safe distance from much of the international development debate, and certainly from international development practices; this perennially leads to calls to bring politics back into development.

Authors like Escobar, Ferguson and Ignacy Sachs “argue that the entire development discourse is Western created and imbued with the usual dichotomies of Western superiority... [and] ... justifies the existence of an interventionist and disempowering bureaucracy ... [T]his critique argues that the entire development edifice – the concepts, the language, the institutions built up around it – *causes* the problems it supposedly seeks to solve ....”<sup>45</sup> Probably the most-cited (and used in development studies courses?) work is James Ferguson’s (1990) ‘The Anti-Politics

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42 For example, most agency employees would be very familiar with one of the key findings of the research that “superior performance of one investment promotion agency is explained by informal personal and political relations and alignment of interests between local and higher level officials” (Unsworth, 2010, p. 29). A political analysis of donor actions would include, among other things, the discrepancy between staff understanding of and working with informal relations, and formal reporting requirements.

43 And if they don’t automatically, critiques will frequently remind them, as the recent upheaval around British aid (among the most untied of all aid) to India showed.

44 This was raised in a comment in the same journal *Development and Change* by Petras and Veltmeyer, for a realist political perspective, to which Pronk (2003) responded; in my reading again failing to provide evidence of aid impact on politics or the ability to influence policy making. James Boyce in response to Pronk argued for the need to unpack both sides of the aid relationship (in: Pronk 2003, p.387).

45 Uvin (2004, p. 32). Many of the authors in this strand of ‘deconstructive’ commentary are anthropologists. A related anthropological approach focuses on describing “the interaction of ideas and relationships in development arena” (Mosse and Lewis, 2006, p. 5). In ‘critical perspectives’ on development, Kothari and Minogue, quoting Ignacy Sachs, argue “there has been a failure of the post-war development project” (2002, p. 2).

Machine', which provides an ethnography of the aid industry in Lesotho (a highly aid-dependent country) that constructed the idea of Lesotho as a peasant society, in an attempt to justify the development agencies' own existence.<sup>46</sup> Ha-joon Chang's critique of aid, or international collaboration more broadly, is that promotion of good governance implies pushing poor countries into adopting institutions that were non-existent in their own countries at similar stages of development (Chang, 2002) – but none of this, we would argue, can be generalised in terms of what donors aim or achieve.

Over the last ten years, as we discussed above, the role of politics in development has received increasing attention. This can be interpreted, to some extent at least, in the sequence of perceived failure of technocratic approach to adjustment in the 1980s, the rise of an ambitious governance agenda,<sup>47</sup> good governance, and good enough governance, which opened up the space and need for better understanding of the role of institutions and politics within development.

Booth and Golooba-Mutebi (2009) usefully distinguish three types of political economy analyses, illustrating the diversity of perspectives that have emerged over time. First, Drivers of Change and similar analyses that emphasise the constraints that countries' histories and institutions impose on changes supported by donors.<sup>48</sup> Second, internal World Bank political economy analysis uses stakeholder analysis and a range of public choice and game theory approaches. And third they describe the conceptual approach that focuses on the room for manoeuvre, and 'change against the odds' as pioneered by Merilee Grindle in social sector reform in Latin America.<sup>49</sup> In their own view, a ('layered') political economy approach to an explicit problem may be more likely to influence action than more generic forms of analysis, and they highlight the potential for donors to support third party facilitation in reform processes. Additionally, as referred to earlier, their work emphasises different forms of neo-patrimonialism, and the need for 'working with the grain'.<sup>50</sup>

In a recent EC PEA seminar, Sue Unsworth, who led efforts at DFID to introduce and improve political analysis, concluded: "The Political Economy Analysis has received a good deal of attention in recent years. But for it to endure ... donors have to change the way they operate ....The impact has been quite fragmented within agencies, and what [the Political Economy Analysis] hasn't done is induce any kind of fundamental rethink about how development happens and what the role of external players might be ... [and] isn't affecting key decisions agencies make about how they recruit and deploy staff and train and use them"<sup>51</sup>

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46 Tania's Li's study of the establishment of a national park in Central Sulawesi criticizes donors for analyzing livelihood challenges as only technical problems failing to see the structural conditions. Chhotray (2011) also builds on Ferguson's ideas.

47 Additionally, the increasing emphasis of institution in the work of North (1990), and in cross-country regressions of Acemoglu et al. (2001). The work of Mustaq Khan received a fair amount of attention within DFID (e.g., Khan 2006).

48 For example, Duncan et al. (2002) with reference to Bangladesh.

49 Illustrated in the paper by Kaminski and Serra (2011), which highlight the endogenous and non-orthodox (and hence successful, for some time at least) nature of cotton policy in Burkina Faso. Further, see for example Duncan and Williams (2010) with illustrations of application of political economy analysis in Bangladesh and Nigeria, concluding that more needs to be done, among other things, to understand incentives of donor agencies. PEA in Nepal has been held up as an example of a well-informed approach.

50 Kaminski and Serra (2011); this stresses that the nature of reforms went against a Washington Consensus, but does not explore the interaction with donors (for example, in the context of HPIC debt relief to the country; <http://www.imf.org/external/np/sec/pr/2002/pr0221.htm>). Similarly, Booth and Golooba-Mutebi's (2011) analyse Rwanda's ruling party's relationship with Tri-Star investment, highlighting this has been controversial with donors.

51 <http://capacity4dev.ec.europa.eu/eu-working-group-land-issues/article/understanding-politics-development>; see further Unsworth (undated). Also <http://capacity4dev.ec.europa.eu/political-economy/document/using-political-economy-analysis-improve-eu-development-effectivenessdraft-0>.

Another politicised development practice is aid to promote democracy, which has been the subject of a fair number of studies, including as a variable in regression analysis. Kosack (2003) concluded that aid does not show a positive impact on quality of life, but it does show a positive sign if combined with a variable of democracy, and is ineffective in the case of autocracies – thus providing an argument for (though not ways in which) donors to enhance aid effectiveness while promoting democratisation. Further, quantitative analysis has been used to assess the role of ‘democracy aid’ (Savun and Tirone 2011).<sup>52</sup> Kalyvitis and Vlachiki (2010) use data for 59 aid recipients during 1972-2004, using three categories of political regimes, and show a positive impact on democratisation.

There is a recent growing interest in the role of elites in (economic) development.<sup>53</sup> Birdsall (2007, p. 2) argues that Africa is caught in an institutional trap, which is “signaled and reinforced by the small share of income of its independent middle-income population.” In line with the social policy literature that emphasises the need and political expediency of universal provisions, Birdsall argues “that a robust middle-income group contributes critically to the creation and sustenance of healthy institutions, particularly healthy institutions of the state (2007, p.2).”<sup>54</sup> Aid, therefore, needs to be more aware of the risks that (increasing) aid poses for this middle class (still poor, by international standards), through, for example, the labour market for skilled workers, interest rates, domestic investor confidence, and taxes. However, except in analysis of community-based development (Wong 2010, and see discussion below), the role of aid does not appear as a critical theme for example in Robinson’s (2010) analysis of transnational elites. It does feature though rather superficially in the analysis of Mozambique’s elite by Hanlon (2010), including how structural adjustment led to reduced incomes of public services workers, and how aid money was used in privatisation that benefited elites,<sup>55</sup> but for example not paying much attention to the different positions taken by different donors, and contradictions that presumably existed within donors’ prescriptions.

Naomi Hossain’s (2005) work on elite perceptions of poverty in Bangladesh has been one of the few that directly touches on the question posed here, but this too was generally not linked to aid (even though Bangladesh is moderately dependent on aid), and international links are strong through civil society organisations. She concluded that poverty was not a high priority for the Bangladeshi elite, not because they were ignorant or callous about poverty, nor because they failed to see a self-interest in tackling poverty, but simply because it did not have priority: poverty is not perceived as a threat, the elite thought much action was already undertaken, and their distrust of the state reduced appetite for further state-led action. The edited book by Elisa Reis and Mick Moore (2005) *Elite Perceptions of Poverty and Inequality*, similarly concludes that many countries – their case studies include South Africa, Philippines, Haiti – lack the kind of commitment that was behind the growth of welfare states in the 19<sup>th</sup> century.

Thus, the picture regarding a possible de- or re-politicisation of aid and its literature is mixed. There is an increasing body of political analysis in the field of development studies, and particularly in the area of commissioned research that is required to have direct policy

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52 Faye and Niehaus (2011) analyse aid flows used as a means to influence elections..

53 See for example [http://www.wider.unu.edu/research/projects-by-theme/development-and-finance/en\\_GB/Elites-and-Economic-Dev-Conf/](http://www.wider.unu.edu/research/projects-by-theme/development-and-finance/en_GB/Elites-and-Economic-Dev-Conf/).

54 See also the article on middle classes in the edited volume that describes declining inequality in parts of Latin America (López-Calva and Lustig, eds., 2010).

55 Hanlon (2010), building on earlier work (Hanlon 2004) show how donors promoted corruption through their choice of elites to work with. Hanlon (2010) ends his analysis of Mozambique with reference to the possibility that Mozambique is now becoming a developmental state, which includes resistance to donors’ prescriptions.

relevance. But calls for political analysis continue to increase,<sup>56</sup> ever since the disappointment with reforms during the 1980s. Our observations confirm that of Sue Unsworth that there continue to be barriers for more informed political analysis to inform practice – and arguably there needs to be a better understanding and acknowledgement of what these barriers are. There is little empirical analysis of how donors, even where they do start adopting a political perspective, do influence local institutions and the people they work with.

#### **4. Of aid modalities and conditionalities**

In this section we look at the more technical literature on aid, regarding conditionalities, and aid modalities. Aid is provided in many different ways, in different ‘aid modalities’, a term used in particular to highlight differences between the project-mode of development that had become increasingly unpopular and sector and national approaches like PRSPs.<sup>57</sup> The impact and how we measure impact would be substantially different for each of the modalities, and the choices between modalities also are critically important.<sup>58</sup> The literature in each of these areas is large; this section discusses the lessons of each for the way we can understand the impacts of donors.

Project mode of aid delivery, road building, livelihoods projects, etc. have generally been the most a-political, and heavily criticised, including because of the ‘islands of excellence’ that resulted, the lack of scaling up of good practices, the proliferation of projects and possible drain on local administrative (and research) capacity.<sup>59</sup> At least implicit in this critique has been a notion that projects tend to be a) at best immaterial to broader politics and commitments (with the use of LogFrames as an illustration of this), and b) could possibly do damage by (unintentionally) reinforcing power differences.

Technical cooperation, and capacity building, is an example of project mode of approaches (but also a common part of sector or more macro-level approaches), and has a large body of technical literature of itself, and a body of critique,<sup>60</sup> such as Kühl (2009) who argues that the concept capacity development functions to meet the legitimacy requirements of aid organisations. Land et al. (2009) on the basis of an ECDPM study argues capacity development is (still) premised on planned technocratic interventions, without due attention to the political (and social-cultural) dimensions of change needed for sustainable outcomes. Similarly, Bergström (2005) highlights two critical conditions for successful (institutional development) projects, ‘real’ determination to achieve change on the part of the partner, and understanding of local context: neither of these were facilitated by Sida procedures.<sup>61</sup>

Project and technical cooperation can happen in a non-political or unreflective manner, but it can also be placed at the heart of political interventions, such as training of police, financial

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56 For example, World Bank, Social Development Department (2006) highlights and defines the need for analysis of political context to inform development planning, but with very little evidence of what the impact of these are on the ground.

57 See Foster and Leavey (2001) for a discussion of choices between aid instruments. See further Irish Aid (2008) research report on good governance and aid modalities.

58 For example, general budget support in Ethiopia was suspended after the violence of the 2005 elections, to be replaced by sector-support for basic services combined with governance improvement (see for a description [http://www.dagethiopia.org/index.php?option=com\\_content&view=section&layout=blog&id=14&Itemid=16](http://www.dagethiopia.org/index.php?option=com_content&view=section&layout=blog&id=14&Itemid=16))

59 The majority of aid is still delivered as projects (Riddell, 2007, p. 180; see de Haan, 2009, Chapter 4).

60 See for example Aron (2003) for post-conflict situations.

61 James and Wrigley in a 2007 INTRAC paper describe the ‘mystery’ of capacity building, which needs methods that strengthen ownership; are people-centred, engage with peoples’ values and emotions, and adapt to context.

management, strengthening media, electoral reform, etc.<sup>62</sup> Project reviews and evaluations tend to look at ‘impacts’, without much reflection – as far as we have seen – on the impacts on people and attitudes of the long-term international exchange people have become part of (and that would include scholarships).

A currently popular form of projects, because it would provide benefits to poor people directly and immediately (and why it became a popular modality under Jim Wolfensohn), are community-driven projects.<sup>63</sup> There is a body of knowledge that has looked at the impact of community driven models of aid delivery. Gooloba-Mutebi and Hickey (2009) for example analyse the Northern Uganda Social Action Fund, highlighting problems of intra-group conflict, lack of capacity to manage resources, and bad practices of group facilitators. They argue that community-driven models fail to engage seriously with predominant power and political relations (and in this case the specific forms of exclusion in Northern Uganda), and issue that has been acknowledged by some World Bank analysts as well.<sup>64</sup> They also suggest that (parallel) funding mechanisms like this may actually “undermine the role and accountability of the state” (Gooloba-Mutebi and Hickey, 2009, p. 33),<sup>65</sup> a question that runs through much of the literature and review of social funds (De Silva and Sum, 2008) but practitioners have different views on.

The role of NGOs receives much attention in the popular press, and some of the academic literature. Advocacy-oriented NGOs of course directly try to impact politics, and questions are posed frequently about the role of international aid in engaging in national politics (there have been moves of larger NGOs to become entirely national). Service-oriented NGOs are often put forward as being better able to reach remote and deprived populations, but this has been disputed too. James (2010, p. 13) highlights a “dissonance between what international development agencies know about capacity development and what they implement,” as they tend to be driven – much like governmental aid agencies – by their own incentives and self-interest.<sup>66</sup> Collaboration between NGOs and officials can be problematic. Batley’s (2006) synthesis of 6 case studies shows that distrust and rivalry between NGOs and government are common.<sup>67</sup> The literature also has raised questions about the negative impact of donor-funded NGOs on local organisations, and self-organisation: e.g. Bano suggests aid leads to lower performance in mobilising members (in: Booth 2011b). Eyben and Ladbury emphasise that donors’ efforts to empower citizens are unlikely to be successful – but they can contribute to promoting the conditions under which citizens and activists can constructively engage with the state, and help “strengthen accountability by supporting those working across the state/society divide and brokering connections” (Eyben and Ladbury, 2006, p. 20).

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62 The multi-donor support to Ethiopia may be an interesting case study of explicit and strongly-worded attempts to improve governance and accountability (eg by UNDP\_ alongside provision of sector support to basic services.

63 Of course, this has a very long history, but the World Bank (post-adjustment) interest in social funds enhanced the interest in quantitative terms; over time social funds and CDD approaches appear to have converged within World Bank approaches. Mallaby (2005: 202-5) describes the role of Scott Guggenheim and the Kecamatan Development Project as one of the means by which Wolfensohn rebuilt the World Bank’s reputation. An account of KDP by Guggenheim is at <http://www.yale.edu/agrarianstudies/collogpapers/Crises.pdf>. Toby Carroll (2009) argues KDP illustrates the ‘Neoliberal Trojan Horse’ of social development.

64 Mansuri and Rao (2004); Gaspart and Platteau 2006 explicitly warned against the ‘perverse effect if cheap aid money’ in the context of community-driven development. Wong (2010) describes two different models and paradox of engaging elites in projects in Bangladesh and Ghana.

65 See also the special issue of *The Journal of Development Studies* on ‘The Government of Chronic Poverty’ (Vol. 6, No. 7, August 2010), edited by Sam Hickey, which highlights new potentials in moves to emphasise citizenship, but not much evidence on impacts of aid.

66 Igoe (2003) argues that donor-funding for NGOs dedicated to pastoral land rights movements have distracted the movement from original motivations and mode of operation.

67 Also de Haan (2008), Batley and Mcloughlin, (2010).

While, there are many similarities in characteristics and critiques, it is important to differentiate the project modalities described above from the donor engagement at a more macro level, which have become important in the donor and academic literature since the adjustment approaches emerged. Public sector reform became the dominant mantra of the aid community, particularly Washington-based, as a second step after the stabilisation programmes that followed financial and economic crisis. The literature on this is very large, often critical – though practices of reforms have continued (and the evolution may be under-studied<sup>68</sup>). Hirschmann (1990) for example argued that first generation of structural reforms led to ‘collateral damage’, emphasising the ‘the complex inter-relationship between weak capability, task enormity, conditionality, aid fatigue, absorptive capacity and sustainability ..... the very people who were threatened by these policy reforms were the ones who were expected to carry them out’ (quoted in Boesen, 2004, p. 4). The recent political economy approaches discussed above are very much situated in the space of this ‘collateral damage’. For example, a key finding – consistent with Hirschmann’s – that public sector reform that has focused on formal arrangements has failed to produce real changes in behaviour, even though reforms sometimes succeed against the odds (Booth and Golooba-Mutebi, 2009). Harrison (2004) discusses the emergence of ‘governance states’, and the role of the World Bank in shaping governance in Mozambique, Tanzania and Uganda.

The field of public sector reform is very broad, and it is unlikely that general conclusions will emerge.<sup>69</sup> Even individual and respected experts – deeply involved in donor ‘driven’ reforms in context over an extended period of time – may be very critical of donor approaches, their tendencies to prescribe templates, and increasingly unrealistic reporting requirements (Schiavo-Campo 2008), but would also be able to narrate stories of success, in difficult circumstances. Public financial management has received much donor (but less academic) attention, and is regarded as a key element of governance required for economic growth, and for absorbing donor funding (Hedger et al., 2007). Andrews (2010) reviews PFM assessments of 31 African countries, and finds that much change has taken place, but that (de jure) budget preparation has been stronger than (de facto) budget implementation. Civil society engagement was generally well developed. Success in reforms tended to be larger when there were fewer actors involved. There were predictably substantial differences across countries, with growing and stable countries having stronger processes, and ‘fiscal states’ have better systems than ‘rentier states’ – surprisingly the analysis does not include aid dependence into the analysis, while it does look at differences based on colonial legacy. The review thus concludes that country characteristics matter a great deal, emphasising the need for support to be based in local realities, and needs to create ‘reform space’; but does not include analysis of whether donor organisations have practised this. These findings appear shared, by and large, in a recent overview paper commissioned by the African Capacity Building Foundation.<sup>70</sup>

Another approach that arose explicitly out of the critique of projects as well as perceived need for public sector reform was that of sector-wide approaches, particularly in health and education, which were first promoted by agencies like Danida, and became important for larger organisations like DFID and the World Bank. Sector-wide approaches imply that: “all significant

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68 See for example <http://blog-pfm.imf.org/pfmblog/2008/09/hype-and-reality.html>

69 Dietrich (2010) argues that corrupt governments are likely to comply with donor objectives in sectors where compliance is cheap; my own experience in Orissa showed that there are sectors (forestry, water) where donor involvement (at the public policy rather than project level) is much less welcome, possibly because of the strength of vested interests. The power sector reform in Orissa however appears a distinct outlier in this respect.

70 Hove and Wynne (2010). This provides a ‘balance sheet’ of Medium Term Expenditure Framework (MTEF) and an Integrated Financial Management Information System (IFMIS), with a case study of relatively unsuccessful attempts in Rwanda, emphasising the need for incremental reforms.



funding for the sector supports a single sector policy and expenditure programme, under government leadership, adopting common approaches across the sector and progressing towards relying on Government procedures for all funds” (Foster, 2000, p. 9. This approach was a response to three issues that are relevant for this review: the fact that conditionalities did not work (see the discussion below), the need for institutional change, and the need to overcome fragmentation of budgeting. Closely linked to sector-wide approaches are donor approaches to general budget support, which were popular for some time as cutting edge to enhance aid effectiveness but more recently have given away (again) to project modes, partly because of donors’ needs to see results and partly because the conditions for governance were found lacking. Budget support involves financial transfers to recipient countries’ treasuries, combined with ‘policy dialogue’ and various forms of capacity building. Moleneers *et al.* (2010), for example, analyzes the type of policy and political dialogue in the context of budget support, in the case of two political crises, illustrating the ambitiousness of this agenda. An earlier evaluation of UK budget support to Uganda, in the mid-2000s, illustrated questions regarding assumed political commitment.

As it followed the broad interest and advocacy around debt relief, there is perhaps no area of donor intervention which generated more analysis than the Poverty Reduction Strategies Papers (PRSPs), which brought together international NGOs, the ‘like-minded’ donors, and the IFIs. There was a great deal of optimism – driven by very different constituencies – that PRSPs would imply a substantial change in aid relationships. While criticized from the start by various people, particularly regarding whether this implied at all a change from the Washington Consensus (Stewart and Wang, 2003, p. 19), from the middle of the 2000s critiques also started to appear from circles closer to the aid practitioners. First, the literature has become generally critical of the question whether PRSPs have really changed aid relationships (e.g. Booth and Piron 2004 with reference to Bolivia, Booth, 2010). Booth, Grigsby and Toranzo (2006) conclude PRSPs were unsuccessful in generating political buy-in for poverty reduction, similar to many of the findings on budget support. Second, the PRSP approach required a change in donor practices, towards a shared support to nationally formulated development and poverty reduction plans. Issues of harmonisation and alignment that have come to the centre of attention under the Paris Declaration/Consensus, which has given rise to a substantial amount of donor-focused literature. The conclusion of dissonance between donors’ insistence on ownership, and the ways this is interpreted by recipients,<sup>71</sup> is relevant to understanding the dynamics of donor impacts.

The question of conditionalities is central to many of the questions about and choices for different aid modalities. We refer to modalities not in terms of the policy prescriptions that have obtained a highly-charged reputation under the Washington Consensus (though ‘IMF riots’ would by themselves be an interesting theme for research on the politics of poverty reduction), but in terms of the technical prescriptions in terms of improvement of governance, including reducing corruption.<sup>72</sup> The question of conditionalities had become a much debated issue in the 1990s, after a decade of experience with structural reforms. A recent article by Montinola (2010) using data from 68 countries during the 1980s and 1990s, argues that conditional aid (impact of IMF and World Bank aid on fiscal reform) can be effective depending on recipients’ levels of

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71 Booth (2010) highlights that debates on country ownership remain technocratic, and provide no answers to what donors should do if governments do not take the necessary leadership. See further Browne (2007) Kanbur (2000) in Tarp, and Uvin (2004).

72 Admittedly, the two cannot be neatly separated, but there is a critical difference between prescribing governments how much to invest in primary education as condition for assistance, and to make support to education subject to efforts to reduce corruption or inefficiencies. The success of aid programmes in China was determined to a great extent exactly because they were used as an instrument by the government to improve efficiencies.

democracy. The reason for this is interesting, as the author suggests that aid can help democratic governments stay in power. Tony Killick has carefully analysed the role of conditionalities, or 'pre-commitments' in aid relationships.<sup>73</sup> His conclusion confirms the common wisdom that conditionalities do not work, but with an important emphasis: he argues that donors are "often unable to put in place a system of rewards and punishments sufficient to overcome the frequent perceived conflicts of interest between themselves and recipient governments" (Killick 1997: Abstract). Instead, he argues, "... donors should recognize that their main contribution to policy reform in developing countries has been through influence on the contemporary intellectual climate, and persuasion of governments through regular contacts (ibid.)."<sup>74</sup>

Again, general conclusions and cross-country quantitative studies are unlikely to tell the full story (for instance, non- or less-democratic governments can also use aid to enhance popular support – Ethiopia comes to mind as a recent example). We believe and experience indicates that agreed 'conditionalities' can work, but they arguably are no longer conditionalities in the definition of Tony Killick that emphasises that they are a commitment that would not be made in the absence of aid. For instance in China, the 'conditionalities' of aid on the one hand were resisted, but on the other hand the type of conditionalities that suited policy makers' reform agendas were, of course, actively embraced.

A political analysis of conditionalities (carefully defined) appears significant for various reasons. First, the debate on conditionalities is deeply politically charged, and in some cases just because of that may be forming a core part of the national poverty politics.<sup>75</sup> Second, the practice of conditionalities (which the literature suggests continues to exist) is now challenged from two angles: by the 'cash-on-delivery' ideas that have emerged particularly from the US, and by China's insistence that aid should not be subjected to conditionalities (apart from the One China issue, and tied aid, though the former is more a 'pre-condition' in the sense that it is the basis on which the PRC establishes diplomatic relations with other countries, and it only provides aid to countries with which it has diplomatic relations). But finally, studies cited above hint at a form of an implicit contract between recipients and donors (who are among the first to realise when their conditionalities are working or not). To conceptualise this contract, we can draw on texts on aid negotiations, including those using game theory, principal-agent models, new institutionalism, and a political economy.<sup>76</sup>

## **5. From aid dependency to tax reforms and revenue generation**

The impact of aid on capacity and commitment is heavily dependent on the levels of aid, as well as the duration of aid dependency. High levels of aid have been shown to have the potential to create 'Dutch disease' (particularly if there is a sudden surge in revenue), and to create a concomitant political-economy of an implicit contract between the country's elites and the aid workers.

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73 Killick (1997) may be the most systematic exploration of the issue, based on evidence from 21 countries that had undergone structural adjustment. See also the work of Geske Dijkstra (quoted in Pronk 2003, p.396-8) emphasising limited effectiveness. In the same article Pronk refers to Ajit Singh's assessment that conditionalities are illegitimate

74 Killick's (1999) assessment of the impact of adjustment on poverty is also relevant in this respect, as in his view the link between the two is less string as is commonly asserted. See also Buirra (2003) on IMF conditionality. Hayman (2011) criticises the use of conditionality in terms of freezing budget support, eg in Ethiopia and Uganda.

75 Opposition parties in Orissa in the early 2000s organised a "Quit Orissa" demonstration, against World Bank and DFID prescribing budget and staff cuts (which in the donors views' were in line with Finance Ministry prescriptions).

76 As presented by Fraser and Whitfield (2008)

While tax reforms have been part of many public sector reform programmes, donor support to revenue generation through improvements in tax collection have not generated the same amount of writings as other subjects in the aid literature. There is common reference to the lack of attention to revenue generation within donor programmes, and possible disincentives that aid programmes lead to, as a critical gap in building accountable states.<sup>77</sup>

One of the critical questions is whether taxation would contribute to stronger state-citizen relations, or perhaps more relevant, the channels through which this would occur. A Christian Aid paper by McDonald and Jumu (2008) supports the argument that taxation is better, in that respect, than both aid and natural resources – which makes them conclude both that aid should be made more like tax, and that tax systems should be strengthened. This position, however, poses as many questions as it provides answers, and this appears a key area to include in country-specific research, in at least two areas.

First, as the literature – including that on development successes – stresses, natural resources are not necessarily a curse, and national institutions are key in mediating the way resources are managed and redistributed. Studies of local governance also stress the importance of fiscal accountability when enhancing local government capacity.

Second, systems of taxation are diverse, and often follow colonial histories. As mentioned, most public sector reform programmes do involve attempts to improve revenue generation, and there are various options for reform, the most common probably being the shift from indirect to more direct taxes. Forms of revenue generation or taxation are also central to relations between central governments and their local authorities, and donors can play a role in this, as Fjeldstad (2001) demonstrates for Tanzania.

Apart from changing power balances, sources of revenue also can impact types of expenditure: Hoffman and Gibson's (2005) comparison of Tanzania and Zambia concludes that a government's *sources* of revenue strongly affect its public expenditures. Local governments started to produce more public services as their budget's share of local taxes increased, while the revenue that local governments receive from sources outside their boundaries was spent more on employee benefits and administrative costs.

Calls for more attention to revenue generation and taxation are more common – it seems – than empirical research in this field. It seems particular promising to chart how a) the relationship between donors and recipients start to change if aid dependency decreases (Bangladesh being one of the many cases),<sup>78</sup> and b) the different types of relationships that emerge when revenue generation is core part of the aid relationships.

## **6. Emerging donors, revolution in aid paradigms?**

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<sup>77</sup> Most important exceptions are Bräutigam et al (2008), Moore (2007), and Di John (2010a, 2010b, 2006), Moss et al 2006 (which concludes states which have more aid are less accountable, and describes several pathways of accountability), Moore in IDS 2005; the paper written by Paul Mosley for the RPC is much more detailed on the subject and can usefully be read in conjunction with this paper.

<sup>78</sup> Fraser and Whitfield 2008 look at impacts of levels of aid dependency in 7 African countries.

There are many ways to get a quick glimpse of the enormous attention that recently has been paid to new donors, particularly, but not only, China.<sup>79</sup> In August 2011, the Economist predicted a revolution in aid, following the announcement that India is setting up its own aid agency (in itself hardly surprising). The 2011 DSA conference probably had the largest-ever series of papers on aid, inspired by the rise of new donors (even though they still form only about 10 per cent of the aid industry; which makes one wonder about the relative absence of interest in old donors in major parts of development studies).

So far, the attention to new donors seems to have developed as a separate field, and not entered 'mainstream' research programmes. For example, the 'Africa, Power and Politics' did not include collaboration with Chinese researchers or explicitly look at the impact of China, despite the seemingly large importance of China on the questions posed. The impact of new donors appears particularly important in spheres of (near) state fragility, but also in the context of changing aid relationships where leaders like Paul Kagame combine increasingly forceful critiques of aid relations, with a presentation of 'China' as an alternative. The critical issue is that China's insistence on non-conditionality and fear of wanting to be seen to engage in internal politics is particularly and increasingly important for understanding the impact of aid on capacity and elites (of the old donors).<sup>80</sup>

Why then would the new donors be important for the questions asked here, and what does this rapidly growing body of literature tell us? We limit ourselves to China, and based on other writings,<sup>81</sup> suggest there are a number of areas in which China may be different, or seem to be different, but not likely to affect the aid dynamics much, whereas there are a few areas where the change is likely to be more marked. Importantly, these dynamics are also likely to be very context dependent, contingent upon the relative importance of China as a donor, and the extent to which China's growing importance is changing the space of donor-recipient negotiation.<sup>82</sup>

While steeped in a very different rhetoric, much of China's aid practices are not radically different from that of other donors. China gives aid to a very large number of countries, matching their political interests and rhetoric (note that concentration efforts of DAC countries have generally not been impressive), and drawing on their own experience as aid recipient. They provide aid to most sectors, very similar to the rest of the aid community. The insistence on South-South cooperation has a different ideology than the technical cooperation of OECD donors, but the differences in content are less radical. Their aid programme is administered, in effect, by a large number of Chinese government and other agencies; this makes it different from the UK or the Netherlands, but very similar to the way the US aid programme is administered. Much has been made of China's use of aid as soft power, but this is arguably as much a reflection of the relative lack of scholarly attention to the way aid has been embedded in OECD countries' global politics, as it is to the uniqueness of China's approach.

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79 The recent DSA/EADI conference gives a very good overview of the breadth of work on old and new donors (including, for instance, emerging aid programmes of new EU accession countries). For the attention China has received, see for example the list of speaking engagements of Deborah Bräutigam, in our view the best-informed observer of Chinese aid (<http://www.chinaafricarealstory.com/p/dragons-gift-book-talks-in-march-april.html>).

80 Another critical change, which we will not discuss here, is the move towards a focus on infrastructure and economic cooperation, against a strong social sector emphasis that arguably has dominated aid in the post-adjustment period; this is not discussed here, for reasons of space, but we would speculate that this shift also has a big impact on the questions posed here.

81 De Haan, 2010; de Haan and Warmerdam, 2011; Warmerdam and de Haan, 2011a, 2011b, and Warmerdam 2011a; 2011b, 2011c, with references provided there.

82 This is subject of the PhD thesis by Sarah Hardus, and by Marian Urbina-Ferretjans. See Urbina-Ferretjans and Surender (2011). Xu (2011) provides an interesting Chinese perspective on this debate.

Probably a larger difference and impact on the aid dynamics is China's focus on infrastructure, and, related, its insistence on not separating aid from commercial collaboration, often through the kind of turn-key projects that led to failures for the old donors in the 1960s/70s. While this goes against the ideas of untying aid that has led much of the advocacy for better aid since the 1970s, China's approach is likely to remain radically different, for both political and normative reasons (mutual interest being thought as essential for sustained cooperation and being hailed by some Chinese scholars (e.g. Li 2007) as being more effective on a number of levels than aid as charity (Li 2007, 2008), and directly or indirectly this is already influencing the practices of other donors. Studies are rapidly emerging that trace the changes that are taking place, and one of the areas for research might be the move away from a poverty approach to a broader developmental approach.<sup>83</sup>

The second, and for this paper more significant difference is China's insistence on non-conditionally (subject, of course, to recipient countries' recognition of One China) and non-interference. This needs to be teased out carefully, something that most of the existing literature fails to do. China does not engage in governance reforms, and does not insist on sector-wide discussions when supporting or building hospitals or schools. This can of course undermine donors' and partners' reform efforts, and thus change associated political alliances. But it is important to note that China's position vis-à-vis non-interference has not been fixed, as has been demonstrated in Sudan for example, and was in fact redefined during the critical evaluation of its aid programme from 1978-1982. Analyses are emerging that China does take up 'progressive' approaches, where it finds a political or economic necessity. The literature, partly hampered by polarisation that the sudden emergence of a new large player almost inevitably brings, is rapidly picking up on diversity that arises from China's new engagement, and the dynamic nature of that engagement, reflecting the dynamics of China's internal transformations and external responses.

Engaging with the debates on and practices of emerging donors is inevitable for the RPC programme. The new players are influencing the aid dynamics, and the impact aid has on capacity and commitment. There are many ways in which this can be approached, but it is critical to link this to an enhanced understanding of the dynamics of the internal transformations of these emerging economies and their concomitant foreign policy objectives, and for that to work with researchers from these countries. This is not a *sine qua none*, but will result in a different understanding of the new aid dynamics.

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83 It is unclear to us what the role of a Beijing Consensus is, which has generated a fair amount of attention. While many people in Beijing would deny the existence of a Consensus (apart from the consensus that there is no consensus, and certainly not one to be prescribed), some more nationalist Chinese scholars and officials would differ. Nevertheless, the debate continues to be important, both inside and outside of China, ever since the term was coined by Ramos, and is relevant as symbolic sign of the shift of power to the East, which has occurred at increased speed since the financial crisis.

## Conclusion

This paper is the result of a literature survey that was designed to provide insight into the relationship between aid and recipients' state capacity and elite commitment. While it is impossible to cover all the literature – as a 'systematic review' requires - including because of the emergence of 'new' donors and because aid practices are once again being rethought, we did establish that there is relatively little literature that directly addresses the question how aid impacts state capacity for and (particularly) elite commitment to sustainable development.

Answering the questions on the impact of aid is complicated by three 'intermediary' factors. First, aid is only one part of broader international including bilateral relations, and 'other' objectives can significantly influence implementation of aid commitment. This poses questions on assessing the success of aid, but also – and more significant for this paper – whether looking at the impact of aid alone limits or even distorts a perspective on local 'aid relationships'.

Second, views on aid are very diverse, fuelled by theoretical but also strong moral considerations, and often poorly substantiated critiques of aid – this makes interpretation of findings of impact of aid problematic – future research thus should build in a critical reflection of these differences, and integrates this into understanding aid relationships at local level.

Third, the governance-development link is a disputed, for example illustrated by moving academic emphasis of 'good governance' to 'good-enough governance' (Grindle, 2004), and from a more state-centric focus to an emphasis on the interaction between state and non-state actors, between formal and informal institutions (IDS, 2010; Hyden, 2008), from drivers of change to 'politics of development' (Leftwich, 2007), and finally a focus on the neo-patrimonial state (Kelsall et al., 2010). This paper has not directly covered the governance literature (on rule of law, anti-corruption, voice, accountability), which has seen considerable growth since the early 1990s, nor has it addressed the question of aid to deliver services more broadly. We assume the importance of governance – in its broadest and dynamic sense<sup>84</sup> – for sustainable development, and note the diversity of governance-development links, and looks primarily at the impact of aid on aspects of governance. Developing local narratives of aid relationships are essential to inform this on-going debate, including regarding how the differing views and approaches within and across donors lead to unexpected outcomes.

Further, there are questions about the interaction between research and development policy that are relevant here, contributing to complicating answering the questions for this review. The literature suggest the existence of barriers for more informed political analysis to inform practice; in any case, there is little analysis of how donors, even where they do start adopting a political perspective, do influence local institutions and the people they work with. Much of the literature provides a critique of aid practices, but it does: a) not seem to be based on in-depth understanding of what donors do, b) lack political analysis of why donors do – and present – what they do (for example, choices between aid modalities), and c) arguably, miss a main point about how interaction with donors have structured practices, politics, and attitudes in the countries that donors work in.

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<sup>84</sup> See Everest-Phillips (2007) for an emphasis on the need to move beyond technocratic approaches. Bräutigam, now the best-informed observer of Chinese aid, in a 2000 report highlighted the role of strong institutions in successes of Taiwan and Botswana, and obstacles within aid systems to promote governance reform.

The review thus confirmed our initial hypothesis, that there is (even before the emergence of new donors) insufficient systematic evidence regarding the role of aid, and regarding what specific impact on specific elements of governance (law, bureaucracy, elections, business regulation), and on the possible trade-offs (e.g. strengthening teachers while weakening PTAs). We thus conclude that in the specific contexts aid has played such a significant role, even if negative, that a better understanding of aid dynamics is necessary. Future research can make a conceptual contribution by moving beyond questions of the 'impact' of aid, to a consideration of the role of international exchange in the articulation of local political economy.

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## Annex: note on methodology

The basis of our review was the annotated bibliography *The Roles of Aid in Politics* (Warmerdam and de Haan 2011), which was part of a project to better understand the impact of China on the global aid scene, in which we concluded that such an understanding needed better insight into the politics of aid globally, how these differ across countries, and over time. For this, we systematically reviewed 150 studies, mostly peer-reviewed, from (mostly) development studies and international political analysis, in journal articles and books. While this was not set up to answer the questions for this review, it did form the basis for formulating our hypotheses about what we could and could not find on the impact of aid in the literature, and to provide some quantitative estimates regarding the attention elite commitment has received in the literature. The hypotheses and findings are backed up by 12 years of experience in practice in international development, informal discussions with experts during the preparation of this review, and extremely useful comments made by reviewers of an earlier draft of this paper.

The initial step for the current literature review was to gather data from the DFID commissioned research centres on governance and cognate areas to identify research outputs from these centres to be included in the sample. These included: Africa Power and Politics RPC; Centre for Future State; Citizenship Participation and Accountability DRC; Crisis States Research Centre; Centre for Research on Inequality, Human Security and Ethnicity; Chronic Poverty Research Centre; Research Program Consortium for Improving Institutions for Pro-Poor Growth; and the International Growth Centre. Research outputs from DFID, OECD and the World Bank related to the topic of the impact of aid on state capacity and elite commitment were also identified. Appropriate literature was selected on the basis of their abstracts. Literature produced prior to 2000 was not included unless it was considered a seminal study (a publication referred to often in other publications, as will be described below). This time restriction was employed as the intention of this literature review was to review the most recent lessons learned, most salient to current policy making, rather than to review, for example, the oft reviewed lessons from the structural adjustment (though many of the lessons learned from these may not have been translated into action).

Once this (partly) grey literature had been identified the authors proceeded to review the sample identifying further literature on the basis of references in their body texts and in their reference lists. Literature gathered in this way was selected for revision on the basis of their abstracts and reviewed again in the same fashion, i.e. the literature was read and further literature was identified on the basis of reference in the body texts and reference lists. This process was repeated until very little new literature was identified through this process. A next step was to review quality peer-reviewed journals such as *World Development*, *Development Policy Review*, *Journal of Development Studies*, *Development and Change*, *European Journal of Development Research*, *Third World Quarterly*, etc. to identify, on the basis of abstracts, further literature related to the impact of aid on state capacity and elite commitment. A significant amount of information on what donors do and their experiences exists within the grey literature of donor reports, monitoring and evaluation, and in the commentaries and reports of NGOs and aid watchers.

While literature sampling was limited to post-2000 publications, and the questions regarding the impact of aid on state capacity and elite commitment, literature outside of these limits was sometimes selected for a number of reasons. Firstly, as mentioned above, a publication that was often referred to in other publications and research outputs was included even if it had been published before 2000 as such a publication was clearly an important contribution to the literature and would need to be included in a comprehensive literature review. Secondly, literature and research outputs were included if they were often referred to as aspects that could be considered as alternatives or complements to aid, e.g. the literature on tax revenue and its impact on and limitations of state capacity, elite commitment and the social contract. Finally, literature and research outputs were included if they were often referred to as aspects that might have an influence on the impact of aid on state capacity and elite commitment, e.g. the literature on the role for emerging donors.

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