



**Reframing the Aid Debate:  
Why aid isn't working and how it should be  
changed**

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## **ABSTRACT**

Everyone knows that aid is not working as intended, and that something must change. The big question is how to change the status quo. The current international aid debate is characterized by dichotomies and over-simplified generalizations. In order to push the debate forward and identify solutions we must first reframe the aid debate. The most important factors undermining aid's effectiveness need to retake center stage in the debate. These include: what is economic development and the role of aid in achieving it; the politics of aid relationships in aid dependent countries and have they generate perverse incentives; and the everyday practices and bureaucratic routines of aid agencies and how they diminish the impact of aid. Based on a reassessment of why aid is working, and on assessment that reforms inspired by the Paris Declaration have largely failed, the paper concludes with a different approach to changing the way donor countries think about aid and the way bilateral and multilateral agencies give aid.

## INTRODUCTION

Everyone knows that aid is not working as anticipated. Recognition of this fact within the international aid system is illustrated by repeated calls for and attempts to make aid more effective. The Paris Declaration on Aid Effectiveness in 2005 was just the most recent event in a long, ongoing discussion on how to increase the impact of aid on development in less developed countries. Whether aid is helping African countries to achieve economic development and sustainable poverty reduction is definitely questionable. That aid has unintended consequences, some of which are negative, is widely accepted, but whether these are less, equal or greater than the positive effects of aid is hard to determine. The big question is how to change the status quo: change how aid is given, change how aid agencies work, change the international aid structures and processes, change the (ever growing) aid industry.

Dambisa Moyo's book *Dead Aid* is a contribution to this debate. It is the most recent contribution in a spate of popular books on aid and Africa, which include books by William Easterly, Paul Collier, and Robert Calderisi. Easterly has argued that polemics is useful in aid debates, because too often what happens in the foreign aid world goes against common sense and basic economics. However, the use of polemical arguments can backfire if they are equally unfounded or over-simplified caricatures of reality. Unfortunately, this is the situation in which the aid debate now finds itself. The debate is drowning in dichotomies. Aid is good, or aid is bad. Aid works, or doesn't work. Aid promotes growth, or undermines it. More aid, or stop aid. Rather than staying in this cul-de-sac way of debating the problems with foreign aid and the solutions which stem from these ways of

defining the problem, we need to reframe the debate.

This paper aims to do just that: reframe the debate in terms of the key issues and thus move beyond the polemics and cul-de-sacs in the current international debate. In doing so, the paper draws on recent collective research project on aid to several African countries published in Whitfield (2009) as well as on the author's extended research on aid in one particular aid dependent African country, Ghana. Lastly, it proposes changes to be made to the international aid system that begin to address the underlying problems with foreign aid and begins a discussion on the politics of implementing.

The paper is divided into three parts. The first part reviews three recent books critiquing foreign aid. It summarizes the strengths and weaknesses of their arguments. Part two outlines important factors constraining the ability of aid to have more of an impact on development in Africa which are neglected in the current aid debate. These constraints are put into three groups: economic development and aid, the politics of the aid relationship, and the practices of aid agencies. Part three indicates how to address these constraints by changing the way donor agencies think about and give foreign aid.

## I. WHAT THREE CRITICS OF FOREIGN AID HAVE TO SAY

This section presents a critical review of two well-known, and one less well-known, critics of foreign aid. Dambisa Moyo and William Easterly are now famous for raging against the 'aid machine'. Yash Tandon is relatively unknown in Western countries, but very well-known in the so-called Global South for his equally vehement critique of the international

aid system. The review points out where their critiques are sound, but also where their critiques have gone astray. In order to set out how the aid debate should be reframed, it is first necessary to discuss the inadequacies of current arguments on the critics side.

**William Easterly, *The White Man's Burden (2007) and Reinventing Foreign Aid (2008)***

Easterly is right that the aid system is stiflingly bureaucratic and over-planned, and thus rigid and inflexible in the way aid is allocated and used. He is right that the amount of planning required by donors of African governments in order to receive aid, whether for individual project proposals or for general budget support, is immense and many of the requirements are unnecessary.

Easterly is applauded for making this point so boldly. However, his boldness might have backfired. His method and tactics were so polemical and critical that he offended those who he was preaching to, and so they stopped listening. I witnessed this happen at a conference where he spoke at the World Institute for Development Economic Research in 2006. The metaphor of planners versus searchers is simplistic and thus easy to understand, but it also closed down the debate with the 'planners' rather than engaging them.

But that is not the only problem with Easterly's argument. His metaphor overly simplifies the world and paints caricatures that are inaccurate, if not outright wrong. Let us start with the planners side. Easterly is right to criticize big-P planning; in other words, ending world poverty through a global plan like the Millennium Development Goals. He is also right that so many individual plans and reports which African governments are required to produce are not read by anyone

and do not affect what gets implemented in a country like Ghana.

However, Easterly paints an image of economic development occurring spontaneously through the cumulative effects of 'searchers', by which he means the decentralized efforts of individual entrepreneurs and firms operating in a free market. But economic development has never come about by individual searchers coming together in an unplanned, spontaneous way, as he asserts. Some development challenges require structural solutions that individuals cannot address by themselves. They require governments to provide public goods and to provide incentives (and sometimes coercion) to achieve certain objectives. Easterly's distinction between big-P and little-p planning does not capture this point.

Either advertently or inadvertently, Easterly continues to promote the state versus market dichotomy (where state is bad, market is good) that has proved so unhelpful for African countries. Economic history shows that neither the state nor the market on its own is adequate and that economic development is about finding a synergy between the two that works, but also changing that synergistic solution, over time, as conditions change. Asian countries have done this more effectively than African countries, and that is one of the keys to their success. It is not about the state intervening or not intervening, but rather how the intervention is done and the kind of state support provided, as Ha-Joon Chang and others have shown.

Both planners and searchers exist, but neither is the solution. Aid dependent countries definitely need less planning and they definitely need more searchers in productive enterprises, but Easterly forgets about the context and structure in which searchers operate. He only sees individual agency. Using

examples of the invention of the iPod, baby powder and the band-aid by individuals in response to everyday problems is *not comparable* to how new productive industries emerge in developing countries.

An African government having a development strategy is not bad *per se*, and indeed they have been necessary, but they need to be focused, responsive to industry actors but also forward looking in terms of potentials and opportunities. The strategy has to lead as well as follow, incentivize investment in production as well as support individual searchers in the productive sectors. It is true that the challenges to economic development have to be tackled through trial and error, and thus require flexibility. Applying the concept of searching to governments, I would say that governments need to be searchers not planners – that is what successful countries have done.

### **Dambisa Moyo, *Dead Aid* (2009)**

Moyo states clearly, so there can be no misunderstanding, that it is time to stop pitying Africa. Pity has not helped the continent, and has actually hurt its external and self-image. Everywhere today, we see the image of an Africa that is poor and needy, unable to help itself. It is time for that to end. Likewise, she points out the excesses and hypocrisy of the aid system, which benefits most those who work in the aid industry. Lastly, she calls for Africans to start representing themselves on the world stage, rather than leaving it to Western rock stars.

Moyo makes these points with such fervor that she has injected new blood into the aid debate, stimulating it and putting the critical voice out front. Unfortunately, that is where her contribution ends. The fact that her arguments against aid are not backed by relevant

empirical evidence and that her generalizations are too broad sweeping may even be a liability for the critics.

The reader is also let down by her solutions. The solutions offered are not based on an empirical assessment of how aid works, nor on an assessment of the economic challenges facing late 'late industrializers' in the contemporary global economy. Moyo implies that economic development in Africa can come about through borrowing on international capital markets, plus Chinese investment, plus microfinance, plus remittances, minus 'systemic foreign aid'. These ingredients might be useful, but they will not turn into a cake by simply mixing them together in a bowl. This is not to say that foreign aid is the missing oven.

The economic challenges facing African countries as late, late industrializers are serious and complex, and need to be analyzed in both domestic and global contexts. Moyo's solutions just change the source of capital (through bonds, microfinance and remittances instead of foreign aid), but she does not talk about the structural constraints facing countries and how they may be overcome. This is not really her fault, since according to her argument aid is the cause of poverty and needs to be taken away, so her only challenge is to find other sources of capital.

### **Nash Tandon, *Ending Aid Dependence* (2008)**

Tandon gets us on the right track by arguing that the conceptual starting point is not aid but development. However, he also brings us back to a polarized debate that have been ongoing since the 1980s which trap us in a cul-de-sac mindset. The first is the definition of development. He argues that growth is not the same thing as development, although

growth is important. True, but then he focuses on attacking the neo-liberal formula where growth comes from open markets, foreign direct investment, plus good governance. He argues instead, that development should be defined in terms of human well-being, plus democracy, minus imperialism. He sees the international aid system as pursuing an imperial project which impedes the pursuit of national projects by reducing policy space.

These are all old arguments, and while they contain elements of truth, they do not describe adequately the real issues regarding both the economics and the politics of aid to Africa. On the economics side, there is the need for economic transformation and the need to address the structural constraints in achieving such transformation. What is important for African countries is to learn lessons from South and East Asia and to apply them within an understanding of the different global economic conditions that they face today. On the politics side, we need to understand how the foreign aid system interacts with domestic politics in African countries. It is no longer accurate, if it ever was, to see it as the national project versus the imperial project.

Tandon's most important contribution to the debate is his argument for distinguishing between different types of aid. His rainbow categorization of aid into a spectrum of Red, Orange, Yellow, Blue/Green and Purple has inspired this author to think about the usefulness of breaking down what we call 'aid' into categories which actually indicate what is being provided.

There are so many different transactions that fall under the label 'foreign aid'. For example, foreign aid includes all of the following transactions (and this is not a complete list):

- Political and military support
- Charity and NGOs providing money, goods and services
- Humanitarian and emergency aid (which is not a pristine form of 'giving' but can be extremely political, as the case of Sudan makes clear)
- Balance of payments support (traditional IMF territory)
- Concessional loans, particularly for infrastructure and provision of large public goods (traditional World Bank territory)
- Policy prescriptions (which became attached to balance of payments and sector loans)
- Individual projects and sector programs (often designed by aid agencies)
- Technical assistance

Do we even need to talk about 'aid' at all? Referring to aid as a single thing obscures what is actually going on, while imbuing the transactions with a notion of charity for the less fortunate. Instead of talking about 'aid', let's be specific. Of course, these various forms of aid can, and often are, bundled together in one package from aid agencies. Once we break it down like this, we can be clear on what we are talking about. Different forms of aid are also problematic in different ways, thus breaking aid down into its component parts lets us be more specific about changing the aid system and how aid is provided.

## II. THE KEY ISSUES SURROUNDING AID TO AFRICA

While Moyo, Easterly and Tandon all raise important issues, they also neglect to put on the table the most pressing and important issues. Part two lays out what this author sees as the keys issues which should be at the cen-



ter of the debate about aid and Africa. These are divided into three categories: economic development and aid, the politics of aid relationships, and the aid system.

### **Economic Development and Aid**

Economic development is described variously as moving from a predominantly agrarian economy to one dominated by manufacturing; as a process of moving from a set of assets based on primary products exploited by unskilled labor to a set of assets based on knowledge exploited by skilled labor; and as a process of exploiting gains from new technology and increased productivity. The process of economic development involves attracting human and physical capital out of rent seeking, commerce and subsistence agriculture and into more productive economic activities, especially characterized by increasing returns to production that lead to economic growth and rising wages.

No country has been able to sustain a rapid transition out of poverty without raising productivity in its agricultural sector, unless it did not have one to start with, such as Hong Kong and Singapore. And history has repeatedly shown that the single most important thing that distinguishes rich countries from poor ones is basically their higher capabilities in manufacturing (see the work of authors such as Alice Amsden, Ha Joon Chang, and Erik Reinert).

Africa is poor because African countries generally have had little or limited success in raising agricultural productivity and increasing manufacturing as a share of the economy. Thus, the key to long term poverty reduction and higher standards of living in Africa is to spur on the twin processes of agricultural transformation and increasing the share of manufacturing.

Why is it that we do not talk about this any more in international debates of ending world poverty? Instead, we only talk about providing potable water, health care and primary education. Sure these things are important for increasing people's standards of living. But if they had more income they could pay for these things and government could provide them itself, instead of relying on aid to subsidize the provision in a short-term, unsustainable way. We have to shift the discussion about poverty and Africa back to one about agriculture and industrialization. Once we do that, then the debate can focus on what is necessary to increase productivity and what part foreign aid can *reasonably* play in achieving productivity objectives. Then we can also see the provision of social services as linked to the objectives of economic transformation. For example, health and basic education are foundational requirements, as are vocational training and creating a population with the requisite skills.

The recent talk about pro-poor growth in academia and recognition by mainstream economists that it is the pattern of growth that matters, and not growth *per se*, is almost completely divorced from arguments about transforming the structure of the economy. This is partly understandable because economists like to make broad sweeping generalizations about developing countries and the poor, when in reality countries across (and within) Africa, Asia and Latin America have very different economic structures and thus the sources of poverty are different as are the economic challenges they face.

The idea that economic transformation was key to raising per capita income in 'developing countries' reigned in the 1960s and 1970s. The swing of the pendulum in development economics away from the structuralist development economists and their conceptions of

the role of the state in late industrialization unfortunately also resulted in ignoring the key truths in their work about industrialization and structural constraints to transforming agrarian economies and industrializing in a global economy dominated by those already industrialized. Everything about the early structuralists was discredited because their ideas about state planning were seen to have been the source of economic decline. This is an unfair assessment, and has also brought negative consequences for Africa.

The single most important policy mistake made by African countries in the 1960s and 1970s was the neglect of agriculture, which received inadequate investment, research and development, infrastructure and prices in most countries. Collectivization of agriculture or state farms along the socialist model were attempted in some countries and failed, but land reforms that redistributed land and control over it were not attempted. Structural adjustment increased prices paid to farmers, thus incentivizing production, but since then not much has been done. It is only recently that attention has turned back to agriculture in Africa.

The experience of Asia shows that public investment in rural roads, research and development, agricultural financial services, irrigation and access to land are all crucial to increasing productivity in agriculture. In each of these areas (roads, irrigation, finance, modern technology), African countries are currently in a position similar to that of some East Asian countries in the 1950s. In fact, some African countries are in a worse position, for example, with fewer rural roads and irrigated land now than East Asian countries had in the 1950s. One of Africa's biggest challenges to both agriculture and industrialization is infrastructure: roads, ports, railways, electricity and water.

Even if African countries can borrow on the international capital market or use Chinese money to invest in infrastructure (Ghana is doing both), there is no reason why they should not also use concessional loans from the World Bank or bilateral aid agencies. Another form of foreign aid--balance of payments support-- is also still crucial for African countries. A recent article by Andrew Fischer makes this point. In fact, Fischer argues that this was seen as the main purpose of aid by structural development economists. The argument is that countries going through late industrialization and rapid urban growth necessarily incur chronic trade deficits, shortages of foreign exchange and persistent balance of payments disequilibria. The positive potential of aid was understood to be in its ability to mediate these imbalances in the context of national industrialization strategies. The issue, as Fischer states, is not about export orientation versus import substitution, but about exports keeping up with the financial and capital requirements of industrialization.

Aid was a means to avoid choking the capital and infrastructure needs of poor countries in their attempts to industrialize. The problem with structural adjustment lending in the 1980s and 1990s and contemporary balance of payments lending (what ever we call it now) is that it was used to plug trade and current account deficits, but that these deficits were not largely due to productive investment and accumulation but rather due to terms of trade or other external shocks. Fischer notes that 'there is no sense discussing whether aid is good or bad for development, or whether more or less aid is required for development, outside of a much broader understanding of what is required for development to happen, namely industrialization and large sunk investments in infrastructure'. The role of

aid and aid agencies should be assessed in this light.

### **The Politics of Aid Relationships**

One of the real issues neglected in much (if not all) of the debate on aid and Africa is the way in which aid relationships have developed over decades of dependence and their unintended political consequences. Another issue is how the international aid system has expanded and entrenched itself in many African countries. Let's quickly recap how the aid relationship evolved, before going into the unintended consequences and the entrenched nature of the aid system.

Changes in the global economy in the 1970s and early 1980s led to debt and balance of payments crises in many African countries. These countries desperately needed foreign exchange and could only get it from one source: the Bretton Woods institutions. This general economic crisis in Africa occurred during a paradigmatic shift in economic thinking, and it presented an opportunity for the World Bank and IMF to influence recipients' policies in line with this new paradigm. New policy prescriptions were attached to balance of payments support and sector loans from the Bank and Fund. In the 1990s, donors moved beyond macroeconomic policy, placing conditions on a wide range of policy areas and seeking to transform the administrative and political systems in these countries. By the early 2000s, debt relief through the Heavily Indebted Poor Country initiative and the Poverty Reduction Strategy Papers that came with it extended donor conditions to the process of policymaking itself.

Continuous engagement with the World Bank and IMF since the 1980s, as well as an expanding list of other official and private aid agencies, has also created three

common characteristics in aid dependent countries today: (1) a state of permanent negotiation with donors; (2) the gradual entanglement of donor and government institutions alongside the limited (re)building of the recipient's public administration; and (3) the political dimensions of aid dependence. These characteristics have become key factors shaping the incentives facing many African governments.

### ***Permanent negotiation***

The proliferation of donors and donor agendas has led to the diffusion of government control over its development programme. A continuous, permanent negotiation has developed over policies, programmes, and projects between donors and governments. Donors may ultimately give in on a condition or choose not to punish non-implementation of conditions, but donors nonetheless continue to assert their preferences either in the form of traditional conditionality or in the form of intimate participation in policy discussions and attempts at micromanaging project and programme implementation. Permanent negotiation places an immense burden on recipient administrative systems, making it hard for these governments to keep up.

Permanent negotiation also means that ministers and civil servants do not take it up with donors every time there is a disagreement. They pick only the important battles. These relationships have become such a routine that the governments know what different donors want to see in a development strategy or sector policy. Ministers and civil servants thus may pre-empt tough negotiations over policy choices by adopting donor preferences in advance in order to gain the maximum amount of aid or donor favor that

may be leveraged in other negotiations. Tough negotiations are reserved for instances where there is strong disagreement over policy areas seen as vital to the economy, to the ruling party remaining in power, or to the personal interests of government officials.

As a result of permanent negotiation, these governments spend most of their time responding to donor initiatives and negotiating on that basis, trying to work their own priorities into the donor agenda or waiting until implementation to steer the project or program towards their preferences. This is predominantly a defensive strategy, which leaves these governments with little time to devise policies independently of donors and little intellectual space to develop coherent frameworks.

### *Institutional entanglement*

Fragmented policymaking and budgeting processes that resulted from the influx of aid and donors and almost non-existent national planning systems meant that many African governments were in weak positions to coordinate aid according to a national development plan. As a result, donors started coordinating aid giving among themselves in the 1990s. Donors created arenas for 'policy dialogue' between the government and themselves. These arenas multiplied to cover all policy sectors as donor agendas proliferated. In Mozambique, there are twenty-nine sector and thematic working groups which meet regularly to accompany the formulation and implementation of government policies.

Thus, the fragmented aid system in the 1980s was transformed into a joint donor-government planning process by the 2000s. Notably, this transformation took place against the backdrop of a general failure of

recipient governments to reform their public service, and the failure of donors to reform aid practices which got things done in the short term but which undermined, and even exacerbated, the problems in recipients' public administration systems. What emerged in most countries is a joint policy process parallel to a country's official policy processes. The implication of this joint policy process around the budget and at sector levels is to create a rigid framework that gives the government little room to reach policy decisions independently through formal institutions before negotiating with donors and which makes it harder for the government to change its programs and react quickly.

The incentives are very strong for the recipient government to adopt a strategy of going along with the consensus produced through the joint policy process, but to try to stick in its priorities where possible and when it really matters. This strategy has three side effects. First, it usually produces 'compromise documents' which are not wholly supported by the government or donors. Second, governments do not want to be confrontational with donors, because government officials have to continue to work together in this joint process, and confrontation only makes that job harder. Third, the absence of effective authority over policy with neither governments nor donors exercising complete control leads to fragmented policymaking and policy implementation processes.

### *Politics of aid dependence*

Many African governments have relied on aid to retain their position in power since independence. But the contemporary phenomenon of political dependence is different, partly as a result of the continuous engagement with donors, and partly as a result

of new imperatives facing governments after the return to multiparty rule in the mid-1990s. Aid dependent African governments have become accustomed to the increased budgets that aid provides. Aid is a vital resource with which these governments seek to deliver goods and services or other promises they have made. Thus, they are unwilling to take stronger policy positions or to chart a development strategy outside of the purview of donors, as they are afraid of risking reductions in aid that could undermine their political support and/or cost them the next election.

Fragile domestic political support combined with dependence on aid to shore up their political legitimacy provides *strong incentives* for African governments to remain in a subordinate position to donors. The conditions of permanent negotiation and institutional entanglement, at the same time, provide *strong disincentives* for recipients to challenge their subordination. Many African governments have accepted their subordinate position and the inevitability of intimate donor involvement in policymaking, and then pursued strategies to maximize their policy control within that context.

In analyzing East Asian success, Mushtaq Khan argues that state capabilities are key to economic development, but that state capabilities are in turn determined by political configurations and the organization of power. In African countries, we not only need to understand how the distribution and disposition of organizational power has helped or hindered different economic transformation strategies in the past, we also need to understand how the onset of aid dependence and the intensity of donor engagement has further shaped these domestic political configurations and the organization of power.

## The Aid System

Beyond the macro-level aid relationships and effects of aid dependency in African countries, the problems with aid also have to do with micro-level relationship: the everyday practices of aid agencies and how aid is given. There has been little public attention given to, and assessment of, how aid is actually provided and how aid agencies actually work. There is quite a bit of academic research on this subject, but it is not the stuff of popular books.

The problems with the aid practices and the aid system are well documented (for example see works by Nancy Birdsall, Nicolas van de Walle, Moss et al. and Deborah Brautigam). The problems with the ‘quality of aid’ matter tremendously because research indicates that they reduce considerably the effective value of the aid that is transferred, and in the most aid-dependent countries may well mean that the way the “business of aid” is conducted actually undermines those countries’ long-term development prospects. Recognition of the problems with the quality of aid is the inspiration of the Paris Declaration, which sought to eradicate them, or at least reduce them.

However, the Paris Declaration has not yet had a significant impact in terms of rectifying bad aid practices, such as uncoordinated donor projects, setting up project implementation units, donors driving the designs of projects, spending lots of money on consultants, high transaction costs for recipient governments, micromanaging implementation, not evaluating projects or learning from evaluations, rotating donor staff in country offices frequently, poaching civil servants to work in aid agencies, among others. Below are a few examples drawn from the case of Ghana.

Donor-funded projects are still largely designed by donors, and often in donor head-

quarters as opposed to recipient country offices. Although there is variation across donors, this is largely the case. In particular, World Bank projects are definitely still designed in Washington. A good case of this in Ghana is a big agriculture sector loan document produced in 1999. The then Ghana government rejected it. A new government came to power in January 2001, which also did not like the loan because it did not invest directly in increasing production. The World Bank encouraged the government to sign it by saying that the content could be changed during implementation, otherwise it would take several years to redesign it. The government signed it, but it still took several years to redesign it. The new project design was approved in 2004, by which time there were only two years left. A few key things were done in those two years, but considering that the World Bank was the biggest donor in agriculture at that time, relatively little aid was going to agriculture.

The agricultural sector in Ghana has also witnessed several failed attempts at donor coordination through sector-wide approaches in the 1990s. Donors have proved unable to coordinate themselves, and the Ghana government has been unable to coordinate donors due to donors being uncooperative and due to their own weak public management. Thus, the agriculture sector was characterized by many uncoordinated donor projects with isolated, small and sometimes unsustainable impacts. But many small impacts do not necessarily add up to big impact.

Relying on donor projects to support the productive sectors has been problematic. First, donor projects have to be negotiated, so state elites driving support for particular sectors, such as horticulture export, cannot fully determine the content of projects or their implementation. How much they can

determine varies with the donor agency, but beyond that, most if not all donor projects are characterized by certain features which make them not a good tool for supporting production. It takes too long to produce a project document in donor cycles (3-5 years!), and it is very difficult to change a project significantly once it is approved. This might not be an issue for aid in social sectors, but it is in the productive sectors where conditions change rapidly. The problem or constraint that the project was meant to address might have changed, but aid practices are so rigid that they cannot respond.

### **III. CHANGING THE WAY WE THINK ABOUT AND GIVE FOREIGN AID**

Stopping foreign aid in the next five years may not realistically be possible to do and it may be counterproductive. The debate should not be between more or less aid, but about the objectives of aid and how it is given. It is probably more radical to suggest a complete overhaul of the aid system than to argue for an end to aid, partly because it would be easier to stop giving aid than to change the current international aid architecture and the organization and practices of bilateral and multilateral aid agencies. If one were able to refashion the world, here are some key changes that this author would make. They are followed by some pragmatic thoughts about how they could actually be brought about.

Foreign aid should be reorganized along the following three principles:

1. Make aid more humble. Foreign aid should stop trying to develop other countries' economies and societies, and start support-

ing countries to solve specific problems or constraints.

2. Make aid more honest. The different types of aid distinguished earlier should be made by stating the purpose of aid and giving it a name which reflects its purpose.
3. Make aid more pragmatic. Project, programs and policies supported by aid should be based on countries' real experiences and adapted lessons from other countries, rather than on theory from economic textbooks and the idea of universal 'best practices'.

How can these principles be put into practice? Although it may be counterproductive to stop development aid, it is definitely a good thing to simplify and reorient aid and aid practices. The following are some steps that would take the international aid system in that direction.

### **1. Reduce the Intensity of Engagement**

The current distorting and negative effects of aid dependence are due to an over-engagement of donors in African countries. The first step is to pull back, to loosen the ties and relax the relationships, rather than increase them further (as donors want to do). Donors tend to prize that proverbial 'seat at the table' more than anything else, but it is time to give it up. Without a general commitment to reduce the intensity of engagement, the following steps are unlikely to work.

### **2. Reduce the Number of Donors in a Country**

In the African countries popular among donors, like Ghana, there can be as many as twenty donor agencies currently trying to

offer aid and advice to the government. Although the size of donor agencies' portfolios differs, they all show up at meetings, and governments have to deal with them constantly. The fact that the finance ministries in African countries have created individual desks for each donor is an indication of how difficult it is for governments to deal with and keep track of a large number of donors. There is no reason why a country needs twenty donors. There is no historical precedent of such a large group of donors trying to 'develop' other countries. In recent history, Asian countries such as South Korea and Taiwan benefited from a close relationship with one bilateral donor agency (USAID) in addition to the Bretton Woods institutions.

There is also no reason why the European Union should have an aid agency, when all European countries still have individual aid agencies. Given that individual countries are unlikely to abolish their agencies any time soon, serious thought should be given to abolishing the EU aid agency.

The Millennium Challenge Corporation, a new aid agency in the US which exists in addition to the old USAID, is unnecessary. It was created to overcome problems identified with traditional aid practices. However, ongoing research by this author on the Millennium Challenge Compact in Ghana shows that it does not, but rather makes all the same mistakes. So why does the US need two aid agencies?

### **3. Reduce the Size of Donor Organizations and Reorient Their Staff and Expertise**

Stop expanding the aid system and individual aid bureaucracies. A first place to start is downsizing the World Bank. It has grown out of control, such that it is even difficult to re-

form. It is an organization that has taken on its own life and often acts in its own interest as an organization, rather than achieving what is good for an aid receiving country. The Bank should be streamlined to fulfill its core function of concessional lending, provision of technical assistance, and research (see point 4 below). The orientation of its research and technical expertise should return to the 1950s and 1960s when it focused on technical problems in production and its employees had technical expertise on agriculture and industrialization, rather than macro and micro-economic theory.

Second, remove country level offices of aid agencies. They are largely staffed by people from the recipient country, which results in poaching the best nationals who could be working in the civil service or in the private sector of that country. It does not make donor expatriate staff any more knowledgeable about the country by being in the country office. Expatriate staff are rotated after only three years, meaning that new staff have to learn country conditions and context anew and their negotiating partners on the government side have to start all over in teaching them, building trust, and negotiating things which were already informally negotiated with the previous person who has now left. Country offices also tend to be staffed by generalists who do not have the specific, technical expertise to offer or with which to evaluate the merit of project proposals and strategies put forward by government. Lastly, for most donor agencies, project proposals are designed in headquarters with missions coming to negotiate them, and major decisions are still taken in headquarters that cannot be changed at country level. So what is the point of country offices? They have huge overhead costs and give people jobs.

#### **4. Different Types of Donor Agencies Should Give Different Types of Aid**

Donors can and should specialize in providing different kinds of aid, roles determined by the organization's mission and its political constituency. The Bretton Woods institutions should provide balance of payments support and concessional lending. Bilateral agencies will always engage in political, military and commercial forms of aid, so it is unrealistic to expect them not to do so, but they should be honest about it. In terms of development aid, bilateral donors should stick to project aid and funding international NGOs, but commercial forms of aid can also be useful in transferring technology and expertise, providing access to export markets, and forming joint ventures--if done in the right way. UN organizations should focus on providing useful technical assistance.

The IMF should refocus on balance of payments support. It was originally intended to provide foreign exchange to countries with a short term liquidity crises. However, African countries ran into a situation, which emerged from the development process itself, where they had chronic balance of payments problems due to the structural nature of their economies. Thus, this is not a call for a complete return to the IMF's original mandate, but definitely a changing of the way it currently operates. There needs to be a dialogue among equals between IMF staff and recipient country finance ministries about how to deal with the macroeconomic disequilibria inherent in the process of economic transformation, generated by external shocks, and caused by domestic over-spending.

The World Bank should go back to its role of providing concessional loans to finance big public goods projects and providing technical assistance. Technical assistance should fill needs defined by recipient countries, and



not be what donors have on offer or used as a way for donors to monitor governments from the inside. The World Bank has a key role to play in the provision of technical assistance due to its size, if it will hire the right expertise in house.

The best technical assistance is that which can be provided long term. UN organizations should be able to pool the required expertise from other developing countries and people who would be willing to stay for many years. United Nations organizations such as UNDP and FAO already provide mostly only technical assistance, but they should stop pretending that they provide anything else and focus on being better providers of technical assistance. Technical assistants should be placed within government ministries for several years, where nationals can act as understudies and learn from them. This will facilitate the transfer of expertise and enhance state capabilities, rather than undermine them by creating parallel implementation units or outsourcing to consultancy companies. Bilateral aid agencies should stop providing technical assistance.

Sector wide approaches and budget support are not a panacea for solving the problems with aid practices. In fact, more often than not they have failed to achieve their goals: rather than reducing transaction costs and burden on recipient governments, they have by and large increased them; rather than pooling funds of all donors active in that sector behind a common sector strategy produced by the recipient government, only a few donors actually agree and commit to join and they are involved in producing the strategy to make sure that they can support it.

Project support is a better way to give aid, but changes need to be made in the way it is given. Bilateral aid agencies must tailor project aid to the realities of that country and its

government. A good way of making sure that project aid conforms to specific country needs is to follow the Botswana model (see Maipose 2009). In the Botswana model, the recipient government lays out its own needs and designs its projects, and then donors come in to support those projects. Donors negotiate individually with centralized agencies in the recipient government. Project design may change in dialogue with the donor, but only after much negotiation and approval by central planning and finance departments. This allows for coordination of separate projects to achieve an overall goal, and it allows governments flexibility to change the project as deemed necessary. Oversight in implementation should be minimal.

The Botswana model of project aid also overcomes the critique of project aid being uncoordinated and projects failing because they cannot address broader constraints. If the projects are situated within a national strategic plan, then these problems should be addressed. This approach is different from the Poverty Reduction Strategy Paper approach which came with donors involved from the beginning and a lot of other procedural trappings which distorted the objective of producing a national strategy. Here is where the 'walk away from the table' advice comes in.

As an addition to the Botswana model, donors should wait and judge if the recipient government used the aid money 'properly' i.e. to achieve the intended goal within its means. This requires goals to be realistic and assessment to take into consideration factors beyond the government's control. If there were misuse of aid, or more specifically a misuse for unproductive means, then the donor should not give aid to that country again. Notably, in South Korea, using US aid for unintended but productive purposes was very useful in primitive accumulation; how-

ever, the phasing out of that US aid was also important for forcing the government and businesses in South Korea to become more productive and turn towards exporting.

### **5. Reduce the Areas of Donor Intervention and Number of Projects in a Country**

Bilateral donor agencies have projects in every policy area possible. Individual donors tend to have wide-ranging portfolios, with projects in water, health, local government, agriculture, trade, private sector development, good governance, and environment. Individual bilateral aid agencies should focus on one problem in a recipient country and on helping the recipient government address that problem in a holistic way with long term support.

In reducing the number of areas and in focusing on specific problems for project aid, bilateral donors should give priority to productive sectors and addressing the constraints on production (high production costs, access to technology, etc). Currently in Ghana, both government and donors are more concerned with providing social services which meet immediate needs and raise standard of living, but then rural dwellers are left in subsistence farming with few prospects of job opportunities and increased incomes, without migrating to the city. This type of aid is unsustainable, because it does not increase people's incomes nor government's self-generated revenue. If a community has a booming rural enterprise, increased agricultural productivity and efficient marketing system, or access to export markets, then it can pay for its own health clinic, borehole, pit latrines, and primary school. This does not mean that donors should not focus on the provision of health and education services, but it should be large, sustained sup-

port that will really make an impact and address issues like teacher pay and quality of education, not building a school here and there.

There is a move in the international aid system towards more focus on productive sectors. But thus far the focus is on 'private sector development'. The donor community needs to throw the whole concept of private sector development in the trash bin and start over. The private sector is not one, holistic thing. There are different types of private enterprise, some productive and some not productive. As a way of understanding economic transformation, the concept of the 'private sector' doesn't get us far. It only makes sense as a way of distinguishing it from the state, or public sector. We need to rethink how to support increasing agricultural productivity and building manufacturing capabilities. Focusing on production also means focusing on the infrastructural requirements of production: roads, railways, ports, electricity and water for commercial purposes.

Lastly, project aid to the productive sector must be timely and flexible. Telling commercial farmers that a project will deliver credit, rural roads or electricity, and then failing to deliver on those promises in a timely manner is not helpful and can even be harmful (because the business could have planned to make the investments itself but did not because it was told the project would provide it). If horticulture export farmers say they need something now to meet market demands, providing it two years later is not helpful. There are too many layers of bureaucracy in the aid system and donor organizations. The bureaucracy is a result of taking precautions. Thus, donors will have to be more risk-taking and let go of some of these precautionary measures if aid is to be useful for the productive sectors.

### **How Can These Changes Be Implemented?**

Reform of aid agencies and aid practices has to be driven by forces within donor countries, not by internationally-driven bureaucratic processes and agreements such as the Paris Declaration. The ideals embodied in the Paris Declaration were good, but they could not be achieved in practice. Instead, we see old practices emerge in the context of new processes and aid modalities.

Furthermore, every donor country does not have to follow the same aid practices. The attempt of all aid agencies to conform to a common set of aid practices has not worked, but has produced negative unintended consequences for recipient countries. If reforms are driven by processes within donor countries they are also more likely to actually be implemented. Reforms should work with the grain of the politics and bureaucracy of individual aid agencies and push for realistic changes. Thus, societies and governments in individual donor countries must seek to change their own bilateral aid agencies. If a few attempt to do so, hopefully others will follow their example.

For multilateral agencies like the IMF and World Bank, there is of course a more multilateral effort needed. There is a lot of international support among both academics and politicians for moving the Bretton Woods institutions back to their original mandates. It will of course be difficult to downsize an institution like the World Bank and to reorient its hiring practices and aid practices, but it is not impossible with strong political leadership.

The changes to the aid system proposed here would amount to a significant reduction in aid for aid dependent countries in Africa. However, crisis situations are also windows of opportunity for change. What one never

knows is which direction the change will take. Since aid is buttressing unsustainable levels of government expenditure, by taking some of this away, governments will be forced to find new sources of revenue. It could force a government to do something about economic transformation: agrarian reform, increased exports, finding manufacturing opportunities. But aid agencies are not just walking away. They can advise governments, while supporting production and providing balance of payments support. But this approach requires that donors (and the academics that advise donors) offer useful advice for what we call 'late late industrializers' in today's global political economy.

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