The institutional impact of aid dependence on recipients in Africa

Deborah Bräutigam and Kwesi Botchwey

WP 1999: 1

The institutional impact of aid dependence on recipients in Africa

Deborah Bräutigam and Kwesi Botchwey

WP 1999: 1

Chr. Michelsen Institute *Development Studies and Human Rights*

CMI Working Papers

This series can be ordered from:
Chr. Michelsen Institute
P.O. Box 6033 Postterminalen,
N-5892 Bergen, Norway
Tel: + 47 55 57 40 00
Fax: + 47 55 57 41 66
E-mail: cmi@amadeus.cmi.no
Web/URL:http//www.cmi.no

Price: NOK 50 + postage

ISSN 0804-3639
ISBN 82-90584-32-6

Indexing terms

Development aid
Aid dependence
Institutional capacity
Africa

Contents

Public institutions in Africa have run on imported energy rather than on domestically available resources.

Goran Hyden, 1990, 44

Effective governance rests on a tripod base of good political leadership, capable public institutions, and societal expectations. The political leadership provides the vision and developmental goals. Capable public institutions translate vision and goals into plans, programs, and policies. Societal groups reinforce the vision and help ensure accountability. Aid dependency can affect all three of these. When a country is heavily dependent on aid, donor goals and vision can come to substitute for those of a country's leadership. Foreign experts and technical assistants substitute for public institutions, providing plans, programs and policies. The deep involvement of aid donors in the affairs of the government mean that accountability can become something between government and external actors, rather than between a government and its people. None of these outcomes is inevitable, but the experience of aid dependence suggests that these outcomes may be the rule, rather than the exception.

Aid was originally conceptualized as a gap-filling mechanism, enabling countries to access additional funding to supplement shortfalls in savings and foreign exchange (Chenery and Strout 1966). Over time, aid has expanded far beyond its original gap-filling role, becoming a large-scale and multi-faceted business, benefiting both developed and developing countries alike. In more than twenty African countries today, aid accounts for 10 percent or more of GDP. All of these countries are low income, and the effects of aid dependence are perhaps difficult to separate out from a constellation of problems -- including skill shortages, economic instability, and wrenching inequality -- facing many low income countries. At the same time, some countries with low incomes per capita are less dependent on aid than others, suggesting aid dependence is not simply a function of poverty. Outside of Sub-Saharan Africa, China, Vietnam, Pakistan and India are all examples of countries poor in income, but not generally considered aid 'dependent'.[1]

This paper addresses the possible impact of aid dependence on institutions in Africa. We focus primarily on the public sector, but also briefly address the impact of aid dependence on institutions in the private sector (firms and NGOs). The next section wrestles with the issue of defining aid dependence, and the methodological problems raised in trying to determine its institutional impact. We then briefly discuss sources of aid dependence in Africa. The fourth section considers the possible impact of aid dependence on the critical functions of the central government: raising revenues and budgeting; making and implementing policies, programs, and plans, as well as its impact on indigenous private sector and civil society

[1]These countries all receive less than 4 percent of GNP in aid, and the experiences of aid agencies working in those countries suggests that they use aid as a relatively minor input into established government programs. They all have large economies, however, and high levels of aid as a proportion of GNP may also reflect the fixed costs of aid programs against small GNPs.

organizations.[2] The fifth section offers a strategy for reducing the deleterious impact of aid dependence on economic and political institutions in Africa.

On the positive side, high levels of aid (one measure of aid dependence) are associated with more extensive political liberalization in Africa in the 1990s, although, surprisingly, this relationship does not hold when political conditionality is applied. In some countries, aid dependence allowed governments to fund for a time a vision that led to increases in education and living standards for the majority of their people. Tanzania in the first post-independence years is such a case. In others, high levels of aid were accompanied by donor leverage that resulted in better policies in the short term, although there is no evidence that aid itself enabled these policies to be sustained in the absence of political commitment. In yet other countries, such as Mauritius and Botswana, initially high levels of aid helped build the development of local capacity, enabling them to 'graduate' from most bilateral aid programs.

But for other countries, and for Tanzania after the mid-1970s, the costs of aid dependence may have been unacceptably high. We argue that in the absence of effective, committed leadership, long-term dependence on aid can serve to neutralize internal pressures for more effective governance and to thwart the critical process of learning how to manage the complexities of governing. It also creates a specific set of institutional problems for governments.

The costs of aid dependence can include (1) institutional overload and capacity weakening; (2) loss of sovereignty and weakened ownership of policies and plans, with consequent sustainability problems; (3) revenue instability, repetitive budgeting, budget fragmentation, wage distortions, and lower tax effort, with serious implications for the management of monetary and fiscal policy; and (4) the undermining of accountability and democratic decision-making. The private sector in an aid dependent country is primarily affected by the 'crowding out' effect. Large amounts of aid enable a government to enlarge itself beyond the boundaries set by domestic revenues and to subsidize monopolistic state-owned enterprises (through the fungibility of aid funds). Through their tendency to appreciate domestic currencies ('Dutch disease'), large amounts of aid may lead governments to tighten credit policies and consequently squeeze private sector investment. Large amounts of external aid reduce incentives for indigenous NGOs to develop a dues-paying membership or local fundraising base, and by amplifying the 'voice' of external donors over that of other possible constituents, aid dependence affects accountability for NGOs just as it does for governments. We have to emphasize, however, that these effects are not inevitable, and much depends on the pre-existing quality of governance and the degree of 'developmentalism' in the leadership of an aid dependent country.

Definitions and Methodology

This paper aims to examine the impact of aid dependence on economic and political institutions in Sub-Saharan Africa. We use the standard definition of aid used by the

[2]We do not consider the impact of aid dependence on the judiciary in this paper, although this is an area that would benefit from research.

OECD's Development Assistance Committee.[3] Our own working definition defines aid dependence as a state where the level of aid becomes a *decisive* factor in the overall performance of the national economy. Aid dependence can be a function of the size and duration of aid, the type of aid, and the way aid is managed. In 1995, African countries raised about 16 percent of GDP in taxes and other revenues, but spending was about 25 percent higher on average (Stotsky and WoldeMariam 1997: 7), suggesting that for most countries, a sharp drop in aid would have serious repercussions. But aid dependence can also be 'a state of mind', as a Bangladeshi critic charges, 'where aid recipients lose their capacity to think for themselves and thereby relinquish control' (Sobhan 1996: 122). Finally, *aid dependence* was defined for this AERC/ODC project as 'a situation in which a significant diminution or elimination of aid flows over a short period of time would produce serious negative economic, political and organizational consequences for the recipient of that aid' (Lancaster and Wangwe 1998).[4]

Institutions can refer to organizations, or they can refer to the 'rules of the game' (North 1990) in a social system: the norms, codes of conduct, laws, and patterns of behavior that enable human interactions to have some degree of predictability. In our view, institutions are based on organizations, but are broader, encompassing laws, patterns of behavior and cultural values. For example, organizations such as political parties can become 'institutionalized', as they become embedded in and supported by laws, values, and social norms.[5] We are interested in the impact of aid dependence on organizations that construct budgets, manage economic policy, make decisions about program priorities, and carry out development initiatives. But we are also interested in the impact of aid dependence on the 'rules of the game', the processes and norms, codes of conduct, and patterns of behavior.

How can the impact of aid dependence on African institutions be measured? To start with again, isolating aid 'dependence' from a more general assessment of the impact of aid itself presents considerable problems.[6] But in addition to this, we lack precise measures of institutional quality, and there is no easy way to measure changes in institutions, for better or for worse.[7] Finally, there are intervening variables in the political environment that complicate any assessment of the direct relationship between aid dependence and

---

[3] 'To qualify as ODA, a transaction must meet the following tests: it is administered with the promotion of the economic development and welfare of developing countries as its main objective, and it is concessional in character and conveys a grant element of at least 25 percent.' (World Bank 1997: 253).

[4] In another context, Wangwe has defined aid dependence as a condition where increases in aid reduce an economy's ability to generate self-sustaining growth (Wangwe and Lyakura 1998: 6).

[5]There is a long history of confusion and multiple use of these terms in the literature on Africa. See, for example, Arnold Rivkin's *Nations by Design: Institution Building in Africa,* Colloquium on Institution Building and the African Development Process, University of California at Los Angeles (New York: Anchor Books, 1968), which states ''institution' and 'structure' are used interchangeably. Both are taken to mean *organizations, arrangements, relationships and practices*, of an established nature, having political, economic or social purposes, and accepted as legitimate by the preponderant number of people affected or concerned' (x). For a useful discussion of this issue, see Johnston (1998): 44-47.

[6] For a very useful recent analysis of the effectivenss of aid in Africa, see the case studies in Carlsson, Somolekae, and van de Walle (1997). See also Gwin and Nelson (1997).

[7] Some researchers have attempted to measure institutional development directly. For two examples, see Johnston (1998) and Andersson and Winai (1998). Both of these efforts are quite preliminary, and indeed Johnston notes that 'There remains a lot to be done before we have easily applicable methods for measuring institutional development ready to hand' (59).

institutions.

The only quantitative data we have on institutions is the by now well-known database that rests on measures complied by political risk consulting firms. One version of this database was put together by The IRIS Center at the University of Maryland, and includes brief measures of institutional variables for 31 Sub-Saharan African countries, mainly for 1990.[8] The data are subjective and give businesspeople's ratings of the level of corruption, rule of law, and bureaucratic quality in each country, measures that might reasonably reflect a broad range of institutional variables. Only one African country had 'high' quality institutions (Botswana; Mauritius was not ranked). Twenty countries had 'medium' quality institutions, and the institutional quality of ten countries was ranked 'low'. The correlation between level of aid dependence (measured by aid as a percentage of GNP) and institutional quality is negative: -0.12. The correlation between aid dependence and per capita income is also negative: -0.45. But the correlation between institutional quality and per capita income is positive, at 0.408, suggesting that poverty and wealth may be more significant factors in determining the quality of institutions than aid dependence.

This relationship between institutional quality and income level presents one of the two major problems in any attempt to tease out the separate impact of aid dependence on institutions; the second is determining the intervening effect of political leadership. The impact of economic crisis and its accompanying institutional deterioration complicates analysis even further.[9] With the limited utility of the IRIS data, the scarcity of any other cross-country work on institutional quality, and the absence of survey data on attitudes (to measure psychological aspects of dependence) it is difficult for research on this topic to avoid relying heavily on anecdotes.

One way for the case studies to address this problem will be for researchers to ask standardized questions in all the case study countries. Interviews and archival work can be used to paint a picture of changes in these institutional relationships over the past several decades. Respondants can be asked to reflect on the impact *high levels of aid,* not simply aid itself, have had on institutional practices and the 'quality' of local institutions, and if possible to compare that impact with the situation in place before aid became such a large component of governmental activity. Questions that could be used in the case studies are included in an appendix to this paper.

Sources of Aid Dependence

Why do countries become dependent on aid? Aid dependence has its source both in supply and demand. Aid dependence may be temporary. Countries recovering from civil war or other disasters may have a high percentage of public expenditures covered by aid for a period of time. But for too many countries in Africa, aid dependence has become a long-term fact of life, with roots in Africa's initially low skill levels, poor political leadership and patterns

[8] The scale was composed from survey data collected by a political risk consulting firm: International Country Risk Guide. It is not clear if this was a random sample survey. Institutional quality involved three elements: corruption, rule of law, and bureaucratic quality which together provide a scale with a total of 18 points. High countries were ranked 13-18, and so forth.

[9] Thanks to Nicolas van de Walle who pointed this out, personal communication, June 30, 1998.

of neopatrimonial politics, the economic and debt crises since the 1970s, war and political instability, and the institutional inertia of international aid agencies.

The newly independent nations of Africa were not well-prepared for self-governance, and many faced ethnic tensions that had been exacerbated by colonial rule. Local skill bases were weak. Only six universities had been established in all of Sub-Saharan Africa, and in 1960, post-secondary enrollment levels were about one-sixtieth of those in Asia and Latin America. During their occupation of India, the British had established the Indian Civil Service, providing a dense network of several generations of well-trained civil servants with a growing tradition of meritocracy. Few countries in Africa had any comparable experience. In Nigeria, for example, only fifteen percent of the upper level civil service positions were filled by Nigerians as independence drew close (Mutahaba, Baguma and Halfani 1993: 82). In other countries, the percentage was even lower (Moore 1997). After independence, the move toward one-party states did little to strengthen local institutions. As Arthur Rivkin pointed out in 1968, 'the history of universities, courts, civil services, parliaments -- to say nothing of private or theretofore private voluntary groups -- in Africa has been one of subordination, take-over, and destruction by the one party. . .[this] has made it all but impossible for truly national institutions representative of and responsive to the total nation to develop and grow' (17).

With these multiple weaknesses, it was not surprising that many countries relied on aid funding for technical assistance and expertise. The extent to which this was the case is underscored by the experience of Côte d'Ivoire. In 1980, staff from the World Bank and the International Monetary Fund arrived in Abidjan to meet with the Ministry of Economy and Finance to negotiate the country's access to the IMF's Extended Fund Facility, and its first World Bank Structural Adjustment Program. At the Ministry in the meeting room where the all important negotiations were held, the IFI representatives found themselves on one side of the table; on the other side sat French advisers. There were no Ivorians at the table (Mule, 29).[10]

Perhaps understandably, many Africans and others labelled these aid relationships 'neo-colonialism.' But foreign aid also provided enormous political opportunities for some African leaders. Advisers and their projects and programs came with funding, vehicles and other expensive equipment, frequently constructed new housing for expatriates that would later be occupied by government officials, and fit usefully into patronage systems. Projects could be established in various regions of the country to reward followers (Bates 1981; Migdal 1988). Aid funding meant that governments did not need to make the politically difficult choice of raising tax revenues to pay for their growth, and because of the fungibility of aid, they had more flexibility to maintain economically costly but politically important subsidies, such as those to state-owned enterprises.[11]

The economic crisis that began in the late 1970s with a combination of oil price hikes,

[10]Mule points out that by 1985, this situation had changed dramatically, and the Bank and Fund were by then negotiating with well-trained Ivoirian counterparts.

[11] In Tanzania, for example, subsidies to the country's state-owned enterprises and parastatals were the equivalent of 150 percent of government spending on health, or 72 percent of the education budget (World Bank 1995: 1).

commodity price drops, the accumulated impact of poor policies, and a slowing of world growth and demand proved a major watershed in Africa's experience of aid. Squeezed between their lower revenues (particularly from commodity exports, whose prices plunged) and higher costs (including debt finance), African countries became ever more dependent on aid. Frequent devaluations also made it difficult to capture the true impact of aid levels as a percentage of GDP, as the value of GDP expressed in dollars was constantly shrinking. In one of the more extreme examples, as Table 1 indicates, aid to Tanzania ballooned from 3 to 56 percent of GDP (measured in $US) between 1970 and 1990. The stabilization and structural adjustment programs put in place to try and address the crisis contributed to a vicious circle of aid dependence and eroding capacity.

Table 1: Indicators of Aid Dependency for Tanzania

Year	ODA as a % of GDP	ODA as % of Exports	ODA as % of Govt. Expend.
1970	3	20	14
1975	8	79	37
1980	15	132	37
1985	8	170	26
1990	56	293	113
1995	23	80	N/A

Source: Bagachwa, et al, *A Study on Aid Effectiveness in Tanzania: The Case of Danish Aid*. Dar es Salaam, 1997 (for 1970-1990), cited in Catterson and Lindahl (1998: 19), and, for the 1995 figures, World Bank, *Global Development Finance* (Washington, DC: World Bank, 1998).
Note: These two sources may not use the same data.

As donors and lending agencies provided budget and balance of payments support, one of their first concerns was to stem the hemorrhage on the fiscal side. Dictating budget priorities and expenditure parameters externally cut away at one of the critical governance functions of African states. Budget and balance of payments support came with conditions that by their nature were choices governments would not otherwise have made, reducing their autonomy. Additionally, the severe restraints on the central budget and donor reluctance to support recurrent costs meant in practice that salaries for African officials plummeted in real terms even before any structural adjustment programs were put in place. In 1983, Nigerian salaries for permanent secretaries, the highest civil service post, were only 30 percent of their 1975 level, in real terms, while in Ghana, permanent secretaries saw their salaries fall to 11 percent of the 1975 level (Lindauer, Meesook and Suebsaeng 1988). Corruption increased, fueling donor demands for additional paring down of the state. In many countries, the combined impact of corruption and donor pressure to prune the state (trade liberalization, the elimination of marketing boards, etc.) weakened the state's critical capacity to generate revenues, adding to aid dependence.

A fourth factor promoting aid dependence is the high degree of political instability in Africa. More than half of the countries in Sub-Saharan Africa have had significant political instability since independence, including civil war and violent coups (Collier and Gunning 1994). Political instability disrupts domestic revenue generation both because investment, production, and trade generally drop during the period of instability, and because tax collection becomes much more difficult. This, in turn, increases the dependence of countries on aid receipts.

Finally, aid dependence is also related to institutional imperatives and inertia in the international agencies established to assist developing countries. The present foreign aid regime has its origin in the vacuum left by the decline of colonialism, which meant that new institutions were needed to govern the relations between the developed and less developed world. The establishment of the United Nations, the Bretton Woods institutions, and a host of bilateral aid agencies marked a major shift in the patterns of interaction between the high-income 'north' and the low-income 'south.' At present, there are more than six multilateral agencies, more than 17 UN agencies that address development, more than 25 bilateral donors, and countless numbers of international NGOs, some of which rival bilateral donors in their funding transfers and programs. The poorest countries might attract representatives of *all* of these institutions. In many aid agencies, careers are made on the basis of loans and grants committed and disbursed. Yet even when their presence is clearly not leading to 'development' by any measure, it is rare that aid agencies leave a country. In this regard, perhaps the issue is not so much aid dependence, but aid 'interdependence'. Both donors and recipients are locked into a system that seems unable to produce development with consistency or predictability.

Sources of Effective Governance

We will go out on a limb and claim that it is not really possible to have effective governance in the absence of any one of the three bases of good leadership, public institutions with technical and managerial abilities, and societies that provide the pressure for and expectation of a reasonably well-working state. How do countries reach this point? What are the sources of effective governance?

Good leadership can be serendipitous, where exceptional people are in the right place at the right time, but, particularly in the 'second generation' (or more) after independence, good leadership is also likely a function of having a broad base of well-educated, skilled people to draw from, a system of accountability that creates incentives to govern reasonably well, and the happy coincidence of a developmental vision that is technically workable. One can have a charismatic (and well-educated) leader like Tanzania's Julius Nyrere, whose vision of *Ujamaa* ultimately created such difficulties for his people. But one can also have a less charismatic figure like Mauritius's Anerood Jugnauth, who piloted his island nation through an economic crisis and into a prosperous period of broad-based economic growth, supported by a capable public administration and societal expectations for the continuation of growth in the context of a modified social democracy.

A capable public administration is also critical for the translation of good leadership into effective programs and policies. At the highest levels of economic management, it is critical to have a team of technocrats who understand the complicated interactions between policy choice and economy response. The line ministries need to be staffed by people who are skilled in their technical functions, and who are overseen by administrators skilled in public management. Regulations and standard operating procedures governing the public sector need to be clearly promulgated and to offer incentives for behavior that supports effective planning and implementation. Statistical services need to provide the information required for monitoring and policy adjustment. Tax collection agencies need to be efficient and fair in their collection of the revenues necessary to fuel governmental programs. Transparency, regularized auditing and more broadly, a rule of law, are important for enforcing expectations of probity.

Society provides the incubator both for effective leadership and for a capable public service. Political scientist Robert Putnam's 1993 research on the sources of effective and responsive governance in North-Central Italy found that civil society -- the relative density of associational life and the concurrent social capital and trust created by membership in voluntary and social organizations -- accounted for a great deal of the positive variance in the quality of governance on the state (as opposed to the central) level in Italy. It is not surprising that this might be so, for after all, the state can be seen as a societal institution, and all its members and personnel are at the same time members of a society and affected by the norms, values, and institutions present in society.

It is important to emphasize the synergy among these three bases of effective governance. Although leadership matters, even the finest leaders can do little without the proper tools and resources, information, managerial and technical expertise, appropriate policy instruments, and revenues. The capacity of the public institutions that carry out developmental policies and programs depends on a societal base: policy networks that draw on the expertise of interest groups and non-state institutes, a broad base of skills which underpin effective government service, and an intolerance for abuse of the public trust. Organized social forces provide the incubator for effective leadership and good governance. Good leaders are themselves drawn from society, and hold a mandate to rule, as the ancient Chinese believed, only insofar as they govern both wisely and well.

Do high levels of aid dependence always undermine the development of good leadership, effective public administration, and social capital? Not necessarily. A combination of good leadership and policies that boost self-reliance can ensure that high levels of aid are well-used to promote a national development strategy. The experience of East Asia is instructive in this regard.[12] Both South Korea and Taiwan received high levels of aid from the United States government during the 1950-1965 period when they were most under threat from their Communist other halves.[13] In Taiwan, economic aid as a percentage of GNP between 1953 and 1963 amounted to about 7 percent of GNP, 38 percent of gross investment, and 40 percent of government expenditures. In Korea, economic aid over the same period averaged 13 percent of GNP, 96 percent of gross investment and 76 percent of government expenditure. Military aid in both countries was additional to these figures and was even greater than economic aid.[14]

[12] Examples of African countries that have avoided aid dependence include Botswana, Mauritius, and possibly Eritrea, discussed below.

[13] Figures for aid cited in this paragraph are drawn from Jacoby (1967: 156).

[14] U.S. economic aid to Korea totalled about $6 billion, and military assistance was $7 billion (Bahl, Kim and Park 1986: vi); economic aid to Taiwan totalled about $1.5 billion, and military assistance about $2.5 billion (Jacoby 1967: 40, 118)

These high levels of aid differ from the high levels received by African countries in several respects. First, the U.S. was the only significant bilateral donor. This meant that neither country experienced the problems that occur when a country is highly dependent on aid, but that aid comes from numerous sources: difficulty in coordinating donors, conflicting messages and conditions, and the much higher transaction costs associated with multiple funding sources. Second, the 'aid ideology' and thus the content of U.S. aid in the 1950s and 1960s was different from that currently in vogue. And third, this aid did not create long term dependency.

In East Asia, the U.S. emphasized the building of institutions and productive infrastructure. In Korea, for example, U.S. aid financed the establishment of the joint U.S.-Korean Economic Cooperation Committee (ECC), and in Taiwan, the semi-autonomous Council on U.S. Aid, (later reorganized as the Council on International Economic Cooperation and Development, CIECD), and the Joint Commission on Rural Reconstruction. The ECC in Korea and the CIECD in Taiwan became centers for development planning, foreign investment coordination, and economic policy reform strategy and were maintained and strengthened after the termination of U.S. aid. The U.S. also used aid as leverage to implement extensive land reforms, particularly in Taiwan. Large amounts of aid in the 1950s were clearly helpful in Taiwan and Korea in repairing the infrastructure damaged during the war and the large commodity import program helped feed and cloth more than a million refugees. The early emphasis on infrastructure was modelled after the successful Marshall Plan used to help rebuilt war-torn Europe, and the electricity production, roads, and harbors financed by aid were critical for the competitiveness of exports, later.

In contrast, African aid programs in the first two decades after independence were influenced by new ideas emphasizing a more experimental (and ultimately unsuccessful) approach intended to meet the needs of the poor more directly, particularly through integrated rural development programs. By the late 1970s, one critic charged that 'projects intended to build the institutions or infrastructure of developing countries are now undertaken surreptitiously, if at all' (Cotter 1979: 107). Between 1960-69 and 1970-79, World Bank lending for infrastructure (transportation, telecommunication, electricity) in Africa shrank from 69 percent of loans to 39 percent (Kapur, Lewis and Webb, 1997: 696). Much of the difference was made up by a doubling of funding to rural development and agriculture, which might have been a good idea, except that the area development programs were highly experimental and in Africa, they were widely recognized to have largely failed (Hazlewood 1991: 137).[15] Donor-funded 'by-pass' organizations were established to more efficiently administer aid monies, but they were focused on particular projects, existed in multiple forms, and were generally divorced from regular government operations, rather than overseeing them.

[15] The 1997 Kapur, Lewis, and Webb history of the World Bank's first fifty years notes that world-wide, 'The pace of the area-projects expansion was explosive... [lending for these projects] (in constant 1984 dollars) rose from $14.4 million a year to $556.4 million annually, which translates to an annual growth rate of 50 percent!... the *relative* concentration in Africa was striking; area projects altogether dominated the Bank's ARD portfolio for that continent. Further, the problems in the area projects category were typical of the difficulties that, during the McNamara years, beset the Bank's ARD work throughout most of Africa (415)...In Africa... the Bank's interventions may have delayed the development of effective, self-reliant cadres and institutions' (421). The recent history of the World Bank's first fifty years notes that between 1976 and 1980, almost 60 percent of the Bank's agriculture operations in Africa were considered unsatisfactory (Kapur *et al*, 1997: 422).

Finally, U.S. aid did not create long-term dependency in East Asia. High levels of aid helped to finance an environment that enabled Korea and Taiwan to 'graduate' from dependence, while giving them the means to do so.[16] In Taiwan, economic aid from the U.S. terminated in 1965 after only 15 years, and Taiwan's membership in the World Bank, the IMF, and the United Nations ended in 1971 upon the UN's recognition of the People's Republic of China in Beijing as the official government of China. U.S. economic aid to Korea lasted a little longer, but that country also received a deadline and the same stimulus to diversify its sources of foreign exchange and investment capital. The knowledge that aid would be terminated helped push a leadership interested in legitimacy and survival to put more performance-oriented, export-directed policies in place, policies that assisted both Korea and Taiwan to fill their savings and foreign exchange gaps largely through domestically generated resources.[17]

The Institutional Impact of Aid Dependence

The impact of large amounts of foreign aid can be either positive or negative for institutions and organizations in Africa. Many of the programs financed through foreign aid achieve positive results, and can strengthen agencies in and outside of the state through training, reorganization, and the provision of new technologies for data collection and analysis. Some countries such as Botswana and Mauritius have, like Korea and Taiwan, managed large quantities of aid with noticeably positive impact. We suggest below that the reasons for these countries' greater success with aid have to do with the quality of their leadership, as expressed in better policy choices and better management of the aid system from the early stages of aid.

In other countries, in the short term, the influence of aid donors and the aid they provide may even have prevented the breakdown of the state itself. James Fearon cites the case of Sierra Leone where aid dependency by many measures has traditionally been high (in 1994 aid amounted to 36 percent of GNP), giving the World Bank and the IMF enormous short-term leverage. Fearon argues that the 'international norms and institutions' that accompanied the aid reinforced those in the government who were opposed to the efforts by some politicians to let the state collapse into a series of 'private agreement(s)' with gem and mineral traders (128). This is clearly one possible institutional impact of aid dependence, to maintain the state itself as the primary institution of governance, in the face of internal and external pressures pushing for its collapse.

Yet aid dependence has the potential to have considerably more insidious institutional impacts. Aid dependence can exacerbate the problems of an underdeveloped administration. Long term technical assistance without skill transfer, and the external design of policies, programs, and projects, undercut the learning processes that new nations inevitably undergo, and when extended over time, are bound to promote apathy, resentment, and low levels of

[16] One impact of the recent economic crisis in Korea is that the country has again become eligibile for World Bank funding, after 'graduating' in 1994.
[17] The actual impact of the 'deadline' for a termination of aid in Korea is discussed in Bahl, Kim and Park (1986), Haggard (1989); and Woo (1991).

confidence among African civil servants. These can affect the norms, values, and patterns of behavior -- the institutional framework -- within which governments must operate. Countries highly dependent on aid lack the leverage they require to manage their donors and reduce the 'tiedness' of their aid. Differences between the timing of different donor funding cycles and host government budget requirements, and failure of donors to report changes in project funding commitments and disbursements can lead to budget fragmentation, make a mockery of budget cycles, and undercut government efforts to gain control of expenditures. Perhaps most importantly, aid dependence can undermine the legitimacy of government leadership, the accountability that should exist between a government and its people, and the budding role of democratic decision-making. We discuss these potential institutional problems below as they arise in the context of specific institutions and practices: (1) project and program implementation, (2) finance, budgeting and planning, (3) tax effort, and (4) democratic governance and accountability.

(1) *Project and Program Implementation*

Countries that are heavily aid dependent may find that large numbers of donors and projects make it much more difficult to manage national development. Multiple donors can lead to duplication of efforts and high transaction costs. Donor goals and vision often substitute for the goals and vision of the political leadership, reducing local ownership. Rather than being 'built', the institutions of a weak and aid dependent state may simply be by-passed. Finally, heavy doses of technical assistance can be hazardous for local capacity.

High Transaction Costs. High levels of aid dependence are generally associated with multiple aid donors and greatly increased transaction costs for government officials. Nearly 15 years ago an article by Elliot Morss (1984) commented on the 'institutional destruction' experienced by Malawi as it attempted to manage 188 projects funded by 50 different agencies, its development efforts reduced to trying to follow up on the continuous and different demands of this myriad of donors. Yet compare this with Zimbabwe in 1996 (91 aid agencies), Kenya in 1996 (2000 donor-funded projects), Tanzania in 1997 (1800 donor-funded projects) or Mozambique, with 405 donor-funded projects in the health sector alone!

Each donor has its own procedures, monitoring and evaluation requirements, procurement systems, commercial interests, and oversight missions. Merely servicing these multiple stakeholders requires enormous amounts of government time, often at the highest levels. In Ghana, senior officials were estimated to each spend as much as 44 weeks a year facilitating or participating in donor supervision missions (Sawyerr 1997: 7). These high transaction costs of governing in an aid dependent context help explain why so many low income countries are unable to maintain control over aid.

During the 1980s, this problem worsened. Through a period that witnessed the partial collapse of the state in many countries, and the shifting by the World Bank of some of its funding to structural adjustment loans, donor projects continued.[18] World Bank adjustment

[18] Except for one year (1990), adjustment disbursements at the World Bank never exceeded 28 percent of total disbursements (Kapur, Lewis and Webb, 1997: 536). The rest was disbursed to projects. The same source notes that the 'IBRD drastically cut lending [in Africa, at the beginning of the 1980s] for creditworthiness reasons' (747). The number of projects also declined by the late 1970s and early 1980s.