Project 2015

Aid Dependency

CAUSES SYMPTOMS AND REMEDIES

Sida

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PREFACE

When it was decided to merge five Swedish aid agencies into the new Sida, we also decided that it was necessary to examine the task of this new agency in a rather long-term perspective. We decided to launch a project which we termed "Project 2015", a series of studies aiming to discuss the type of global environment that might have emerged twenty years from now, and the kind of requirements that would be placed on Sida by stakeholders in developing countries as well as in Sweden.

Project 2015 is now well under way and will produce a number of scenarios and discussion papers related to the different parts of the world where Sida is active. It will also generate a number of studies of a thematic nature, dealing with the way Sida manages its portfolio of countries, programmes and projects over time. And it will deal with some of the perennial strategic problems which will require a long term perspective to come to grips with.

One of these perennial problems is aid dependency. In a series of country studies by the Secretariat for Analysis of Swedish Development Assistance (SASDA) as well as in studies undertaken by the Swedish International Development Authority (SIDA), persistent and deepening aid dependency was identified as a growing problem in a number of cooperation countries, in particular in Africa. The all-pervasive nature of the problem as well as its obvious requirement for cooperation with other donors placed this topic very high on the agenda for our thematic studies.

Since we have understood that dependency is closely linked to a lack of effective use of aid resources, we have requested an expert on aid effectiveness , *Roger Riddell* of the Overseas Development Institute (ODI), to introduce the topic with a conceptual and general review of what aid dependency means, how it appears and who is dependent. His paper, "Aid Dependency", provides basic definitions, discusses possible implications and effects, and suggests how this phenomenon can be monitored and how it should be treated by a donor like Sida.

Dependency has been studied extensively in Bangladesh by *Rehman Sobhan*. We asked him to visit Tanzania for the first time in his life, to examine dependency the way it appears there and to try to compare it with his earlier findings in Bangladesh. He has produced a vivid account of all aspects of the problem, both political and economic, entitled "Aid Dependency and Donor Policy: The case of Tanzania with lessons from Bangladesh". He sees dependency as a result of donors having taken control over decisions which should remain within the sovereignty of Tanzania, and he makes some stern recommendations to both donors and recipient to re-establish the aid relationship.

The studies have been discussed in two Sida seminars, with participation from within and outside the agency. A number of useful suggestions have been made to Sida as a donor, and *Gus Edgren*, Director of Sida's Policy Department, has produced a response to this discussion in a paper entitled "A Challenge to the Aid Relationship". This paper introduces the present volume, which we hope will contribute to a growing international discussion about the coordination and effective use of aid, and about our joint responsibility to reduce aid dependency.

Stockholm in March 1996

Bo Göransson, Director-General of Sida

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A CHALLENGE TO THE AID RELATIONSHIP *

by

Gus Edgren

Sida
Department for policy and legal services
1996

The studies by Roger Riddell and Rehman Sobhan which are presented in this volume demonstrate from different angels that during the 70s and 80s, foreign aid has contributed to creating a state of dependency on external concessional resource flows in certain countries, not only for sustaining a given rate of investment, but even for maintaining public and private consumption. What emerges from the two studies is that this is not simply the result of excessive quantities of aid, but rather of the manner in which aid has been given and utilised. The problem of aid dependency is not a temporary or isolated phenomenon - it is a challenge to the aid relationship itself, and to the donor as well as the recipient. The present introduction tries to draw some conclusions for reforming the aid relationship so as to reduce the problem. It is perhaps natural for an agency like Sida that most of the suggested remedies concern the behaviour of the donor rather than the recipient.

The problem of dependency

Both Riddell and Sobhan contribute to explaining *when* dependency will pose a problem to the aid relationship, and *why*. It is quite clear, as Riddell points out, that receiving foreign aid - even large quantities of aid - does not necessarily cause any problems to the recipient. In a few cases such as Korea and India[1] it has actually helped the recipient to solve its problems. But it can also be concluded, for instance from the Tanzania study, that large aid transfers sustained over long periods of time may influence resource allocation mechanisms in a manner that reduces efficiency. What Riddell and more implicitly the SASDA studies define as the dependency problem is that increased quantities of aid do not bring the receiving economies any closer to self-sustained growth - in some cases they are now even farther from such a development path than they were when they began receiving foreign aid. Since Swedish foreign aid explicitly aims to *reduce* the external dependence of its recipients, and since an underlying but less explicit assumption is that aid should be temporary, not eternal, this has been taken as a sign of failure of aid to countries which display these symptoms.

Riddell's definition of dependency places the problem in a dynamic context - a process - rather than a static one and is much preferable to those which define it simply as the gap between domestic savings and actual

*This paper has circulated in an earlier version as: 'Can Aid Dependency be Cured?'

[1] Cassen R. "Does Aid Work". Oxford 1986. Appendices B3 and B7.

investments or in terms of an import-export gap[2]. It brings us closer to understanding the fact that dependency is a form of *behaviour* rather than a state of accounts. The more aid is received, the farther the country moves from self-sustained growth. This definition is operationally more complicated than the two-gap model, since it presupposes knowledge not only about the quantities of aid but also of the effectiveness of its use. If this effectiveness is measured simply in terms of total investment in relation to GDP growth, it will tell us little more than conventional gap analysis. A closer examination over time of fungibility and returns to different sources of development financing is required to capture the dynamic element.

The effectiveness of aid utilisation can be changed, and has indeed been improved by a number of countries, e.g. in Asia and Latin America which have reduced their dependence on aid. The term "*chronic*" should therefore not be interpreted as "incurable" but as persistent and recurrent. It is not entirely clear which countries would qualify as "chronically dependent". Certain countries in Africa and the South Pacific would seem to qualify without discussion, but we must caution that the borderline is not at all clear. Better indicators to identify this group and to monitor its developments are required.

Another dimension must be added, however, a dimension which is eloquently described by Sobhan. Dependency leads to a lack of intiative, to waiting for the other party to suggest or even prescribe the action to be taken. There is even evidence to suggest that it *increases* the tendency to passivity on the recipient side. This dimension of the dependency problem cannot be analysed in quantitative terms but is very well-known to development practitioners in those countries which we intuitively regard as dependent. Where the recipient side no longer bothers to propose new projects or even policies, because the donors will always insist on theirs, where representatives of the recipient party do not even come to a meeting with the donors without being paid for it, where the best brains of the country are employed by the donors to carry out the functions that should have been performed by the Government - that is where aid dependency is a problem. And it is a problem to both parties, a problem for the aid relationship as such.

These behavioural aspects of aid dependency have been documented in numerous reports on civil service reform, particularly in Africa. They have also been examined in studies of technical cooperation, both through multilateral and bilateral channels. Interestingly enough, however, they have not been studied from a systemic point of view in one country situation, placing the dependency syndrome of overreliance on foreign resources and erosion of domestic intiative at the centre of the analysis. Sobhan's earlier studies of Bangladesh come closest to this approach, but it also requires some more systematic attitude studies among decision-makers on both sides, among media people and with the general public. The dependency syndrome is not only a problem of development cooperation but a serious political problem which should also be studied in the context of political culture.

In the present paper, aid dependency will be dealt with from the point of view of the aid relationship, focussing in particular on the question as to whether this relationship can be reformed in a manner which will bring about reduced aid dependency. We shall examine the question first from the point of view of the incentive structure provided by foreign aid and what it does to the ownership of the programmes supported, including structural adjustment programmes, and second with regard to the complex interrelationship between several donors dealing with the same recipient. The question which Riddell examines in some depth, as to how to determine the aid requirements of a recipient, will be discussed as well as the option to reduce or terminate aid as a remedy for what he terms "chronic aid dependency". Finally, a set of measures will be suggested as a programme for building a relationship which avoids generating chronic dependency.

The incentive structure of giving and receiving aid

Giving foreign aid is a very peculiar type of transaction in the sense that it satisfies very different objectives of the donor and the recipient. Giving is of course generally more blissful than receiving, but in addition,

[2] For a discussion, see White and Luttik, "The Countrywide Effects of Aid", Policy Research Working Paper no 1337, World Bank 1994.

institutional mechanisms have been developed on both sides that strengthen the assymetry of the transaction.[3] One important aspect is the *volume* of aid commitments and disbursements. Both donor and recipient have incentive systems which reward reaching a high volume of resource transfer, measured in relation to a predefined ceiling. In the World Bank, the mark of efficiency is getting commitments approved by the Board before the end of the fiscal year. In many other administrations, both bilateral and multialteral, the emphasis is on disbursements of IPFs and country allocations. Non-disbursed amounts will be noted by executive boards or parliamentary committees and may result in reduced resource allocations for the next fiscal year.

On the recipient side, officials of Ministries of Finance and Planning are rewarded for the commitments they can attract from donors in bilateral negotiations or in donor meetings. Whether these commitments result in disbursements, on the other hand, is often of less consequence. Results are measured against volume figures, with no regard for the quality of management. Quality is supposed to be measured by regular evaluations, but this dimension of aid transfers is very complex and can always be disputed. Besides, when the time has come to evaluate the actual outcome, most of those responsible for the project on both sides will have been transferred.

These practices have a direct relationship to programme quality as well as to the feeling of programme ownership. In the present aid-dependent countries, new programmes have been pushed through for decades by donors as well as by planning ministries under a time pressure which appears completely unwarranted in retrospect, considering the slow rate of subsequent implementation. In these often very large-scale programmes, quality has taken second place behind quantity, and the question of ownership has never arisen: it is the owner who pushes.

Another case of counterproductive incentives concerns *project conditions* (policy conditionalities will be dealt with in a following section). Such conditions are laid down by the donor and recipient in an agreement which determines for what purpose, when and how the resources will be made available. Here, officials on the donor side are under pressure from their principals in boards and parliamentary committees to include as many conditions as possible, favouring women, remote areas, environment protection, procurement in the donor country etc. Such conditions have in many cases been added to the project proposal during its long journey through project committees and board rooms. In too many cases, these conditions have nothing much to do with the main purpose of the project but have been added for domestic reasons. The more conditions added, the less likely it is that the project will meet its main goals. And the less likely it is that the recipient will feel ownership of the project.

The recipient would of course have an interest in resisting conditions which make the project impossible to implement. But the officials on the recipient side are also under pressure from their principals to reach an agreement of sorts. And their experience from previous projects with the same donor may indicate that conditions will not be very strictly followed up. Or, as in countries with frequent rotation of senior staff, those who negotiate the agreement may be rather sure that they will not be responsible for implementing it. In some aid-dependent countries it is common practice to sign agreements with the World Bank laying down a totally unrealistic list of conditions, to draw the first tranche on the loan and then to scrap the project when the Bank raises objections over conditions not fulfilled. In these cases, the incentive to sign an unrealistic set of undertakings is high on both sides of the negotiating table. And there is no doubt as to who is the real owner of the project.

A similar symmetry of incentives exists when it comes to deciding the *time limits* to the aid-supported activities. Technical cooperation projects are particularly notorious for the lack of discipline on both sides of the negotiating table when it comes to determining when aid transfers should be phased out and how the activities are to be taken over by the recipient. Overreliance on foreign expertise is a strong factor in discouraging local ownership.[4] For different reasons, both sides have an interest in keeping the activity going indefinitely. A common interest may arise from the time and effort they have both invested in getting it

[3] Killick, T., "A Principal-Agent Analysis of Conditionality", Paper presented at DANIDA Seminar on conditionality, Copenhagen, November 1995.

[4] See for instance Berg, E. (Coord.), "Rethinking Technical Cooperation", UNDP, New York 1993, pp 249-50.

launched. Evaluators who are called in at regular intervals to assess the achievements of the project will invariably recommend continuation, usually with some minor improvement, but they all have their own good reasons for not recommending termination. A project which has gone on for a decade or more with heavy inputs of expertise and money from a donor has often acquired an identity and an incentive structure of its own, which makes it difficult to integrate into the local administration. The easy way out is always to ask for yet another phase of donor support.[5]

Finally, the *budget systems* of recipient governments tend to treat externally provided resources not only separately from domestic resources but in a way that reduces their opportunity costs to the operating ministries. In many aid-dependent countries, external resources never enter into the Government budget. As Sobhan points out, this means that a major part of Government expenditure is outside the ambit of parliamentary discussion, indeed in some cases even outside the public accounting system. To the extent that civil servants manage to get access to external funds, they have every reason to spend them rapidly and no reason to believe that the appropriations could be put to a more productive use if such an opportunity should later appear. In countries where external resources are included in the official budget, the budget process can be a year long and the donors risk seeing their favourite projects modified or even removed from the agenda. It is easy to understand why officials on both sides prefer the 'bypass' model where foreign aid goes straight to the implementing ministry or agency without passing through the budget.

Adjustment, ownership and sovereignty

Most donors have stated as an explicit objective for their aid transfers that they should contribute to self-sustaining economic growth, thus gradually reducing the need for further aid. This means that their resources should either directly contribute to increasing the productive capacity of recipients, or form part of development programmes which have such aims. Enhancement of productivity in agriculture and industry and the development of human resources have been specifically cited as activities which will promote self-sustaining growth. Greater public savings and increasing export earnings will result from these efforts and gradually reduce the need for foreign aid.

A number of critics have argued that Swedish aid has tended to have the opposite effect by primarily supporting countries which pursue overabsorption policies and helping them to avoid taking structural adjustment measures prescribed by the IMF and the World Bank.[6] An example of the latter was the Nordic support for Tanzania during the negotiations with IMF in the first half of the 1980s. In addition, by directing aid to non-tradables, in particular to social services, Swedish aid has even contributed to shifting recipient economies away from tradables, thereby increasing their long term dependence on foreign aid.[7] In spite of such side effects, however, SASDA's overall evaluation of the macro-economic effects of Swedish aid to four relatively dependent countries, Guinea-Bissau, Nicaragua, Tanzania and Zambia, suggested that the total effects of foreign aid on exchange rates, total savings and investments and debt repayment had been rather positive.[8]

The IMF and the World Bank on the other hand have been criticised for forcing austerity programmes on poor

[5] Valdelin, J. Et al, "From Stake Holder Power to Mutual Interest: on Time Limits and Graduation", Project 2015 Study, Sida, 1995

[6] Bigsten-Adam-Collier-Julin-O'Connell, "Evaluation of Swedish Development Cooperation with Tanzania", SASDA Report no 5, Ds 1994:113, Stockholm 1994; see also Arne Bigsten in Ekonomisk Debatt, vol. 16 no 6, 1988 "Finns det hopp för Tanzania?" and Peter Svedberg, "Bistand, en misslyckad utvecklingsstrategi?", Ekonomisk Debatt 4:95, Stockholm 1995 (in Swedish).

[7] Svedberg, p., Olofsgård, A., Ekman, B., "Evaluation of Swedish Development Cooperation with Guinea-Bissau", SASDA Ds 1994:7, Stockholm 1994. See also Stefan de Vylder, "Den holländska sjukan och bistånd", (in Swedish) Ekonomisk Debatt 1992:6.

[8] Howard White (Ed.), "The Macroeconimics of Aid: Case Studies of four Countries", SASDA Report no 7, Ds 1994:115, Stockholm 1994.

African economies without producing any positive results in terms of increased production and reduced dependence on foreign aid. From the point of view of dependency, the most serious criticism of the IFIs has been related to the debt trap, into which some chronically dependent countries fell in the late 1970s and from which they never managed to escape. Multilateral agencies are the owners of a particularly large share of the debt burden of the poorest countries. By encouraging the bilateral donors directly or indirectly to clear this multilateral debt, some IFIs are hoping to continue lending to the poorest countries, thereby prolonging or even aggravating their dependency.[9]

While these arguments - both for and against the structural adjustment programmes - must be taken seriously in all analytical work on aid-dependent economies, it is likely that they overstate the importance of external resources in bringing about a complete turnaround in economic policy, incentive structures and general attitudes towards the use of public funds. It is relatively easy to change the rate of interest and the exchange rate, even though some vested interests may exact a price for accepting it. Even the budget deficit can be reduced, based on ad hoc political coalitions. But changing the rate of return on investment in different sectors, and the wage structure and distribution of income, not to mention the property distribution, require much deeper and more durable agreements between important stake-holders in the economy. The stability of such agreements can only be assessed over long time periods, and their results are equally slow to emerge. It is unfortunate for the discussion about necessary structural changes in aid dependent economies that the debate about structural adjustment programmes - particularly those in Africa - has generally been short-term and has ignored the political and institutional foundations of reform. These aspects are also necessary for a discussion about aid dependency.

To what extent should foreign donors be associated with such a deeply political transformation as the current structural adjustment programmes? The discussion inevitably raises the question of national sovereignty which will be at risk if external powers are seen to lead the process. Is the Government responsible to international financial institutions and donors rather than to the national Parliament? These are rhetorical questions, since no government will survive for very long on foreign subsidies if its policies go against the interests of domestic power centres. As has been admirably well explained by a group of experts appointed by the Danish and Tanzanian Governments,[10] the only sustainable reforms are those which originate in the country and are supported by the political forces in the country and where all important decisions are taken by politicians and officials responsible to the electorate. The expert group gives the rather hazy expression "ownership" a definition which is reasonably clear and pragmatic and states as its conviction that even if the process will take more time than donor-driven processes - and hence also require less foreign aid - at the outset, it will deliver more effective and sustainable results.

What this recommendation entails is simply that the initiative in the aid relationship should be reversed, and that the donor should await the political consultations and discussions on the recipient side and should only enter into negotiations about an aid programme when the recipient offers a concept which is fully supported by political powers as well as by the implementing ministries and agencies. Resources should be made available on condition that this programme be implemented, but in a rather more flexible way than has been common in multi-donor cooperation (an aspect which will be further discussed below). It is important to note that this proposal is made in full awareness that the proposed hiatus will lead to a temporary drop in total aid disbursements.

The proposal has some similarity with the suggestion by a number of economists[11] for what they call *ex post conditionality,* meaning that flexible programme resources should be made available after the reform rather than on the promise of reform. In its strict application, it would lead to an even longer hiatus, so long that it

[9] See for instance de Vylder, S., "Varför växer skuldbördan? Om betalningsbalanseffekten av strukturanpassningslån i Afrika", Häften för kritiska studier, årgång 28, nummer 4.

[10] "Report of the Group of Independent Advisers on Development Cooperation Issues between Tanzania and its Donors", Royal Danish Ministry of Foreign Affairs, Copenhagen, June 1995.

[11] de Vylder, S., "Fel lösning på Afrikas kris. Replik till Svedberg", Ekonomisk Debatt 1995:8; see also Svedberg, Ekonomisk Debatt 95:6.

might even jeopardise the reform process. But with a broader interpretation of this concept, it is a fair description of the current attitude among donors that countries with a good track record of economic reform will stand a better chance than others in the competition for shrinking flows of balance-of-payments support from IDA as well as from bilaterals. In that sense, "ex post conditionality" is already being practised.

Critical to the solution of aid dependency is of course the *promotion of export growth,* which provides the main alternative to donor financing. Bangladesh, for instance, has for many years been a paragon of aid dependency but has in the 1990s undergone a dramatic structural change insofar as manufacturing exports have grown by 20 per cent per year, flowing from an increase in the quota allocated under the Multifiber Agreement. Should Bangladesh be able to sustain this trend throughoute the decade, her dependence on foreing aid would eventually be significantly reduced.

This export increase occurred without a significant increase in foreign direct investment (FDI), a factor which has normally been associated with export growth in Asia and which is often advocated as a remedy for aid dependency. Although it goes beyond the ambit of this paper to pursue this line of analysis, it must be emphasised that FDI can only play a significant role in economies where there is a certain degree of stability in the legal and institutional setting as well as in the economic policy framework. A number of chronically dependent economies are in fact characterised by the absence of such an institutional setting12. It is also important to note that in the long run, if and when the dependent economies succeed in substantially expanding their exports, this will occur in areas such as agricultural products and textile manufactures, products for which industrialised countries maintain import regulations. It will make good economic sense and reduce the need for foreign aid if these regulations could be lifted.

Reduction and termination of aid flows

As in other discussions of how to reduce dependency[13], a radical solution suggested is to terminate aid entirely, to bring about a shock which will supposedly shake the recipient out of the apathy that is part of the dependency syndrome, and force it to take drastic action to deal with a national crisis. In American narcotics therapy jargon, this unhappy state of shock is known as 'going cold turkey'.

When a Government suddenly loses a source of external financing, it poses a very different set of options from those of a family living on welfare, or a drug addict going 'cold turkey'. How to distribute the burden among different groups in society, how to maintain political support and how to sustain functions that are vital to Government are questions which are rather different from those faced by individuals or families. In the poorest countries, for instance, a sudden cut in food aid may lead to big profits among traders but to no increase in farm income. Disruption of investment may lead to capital losses which hamper domestic recovery rather than stimulate it. But a similarity may be in the dependency syndrome itself: the more dependent one has become, the more remote is any type of action which breaks the dependent pattern of behaviour. This is at least an interesting hypothesis which could be studied on basis of existing evidence.

This type of problem of adjusting to an unexpected loss of revenue is similar to those of monocultural exporters affected by a sudden drop in the price of their main export commodity. Although it falls outside the purview of this paper, it is rather clear from the evidence of price shocks in copper, cocoa and coffee affecting African economies that the shock has invariably been treated as a temporary phenomenon, even when prices have remained low for several years. As for instance shown by Tony Killick[14], adjustment of domestic policy to external shocks has usually been late if it has come at all, and foreign aid has often been invited to fill the gap.

[12] Ndolu, Benno J., "Aid Dependence in Africa: Some Thoughts on the Nature of the Problem. Challenges for Transition to Less Dependence on Aid", paper presented at DANIDA seminar on conditionality, November 1995. See also "A Continent in Transition. Subsaharan Africa in the Mid-1990s" pp 47-49, World Bank, 1995.

[13] As for instance in the US debate about "welfare mothers". See Murray, Charles, "Losing Ground: American Social Policy 1950-80," New York Basic books 1984.

[14] Killick, T., "Economic Inflexibility in Africa: Evidence and Causes", ODI Working Paper 73, London October 1993.

This would indicate that inertia and slow response to externally induced change is a general phenomenon, possibly caused by political and institutional factors, rather than simply a consequence of aid dependency.

The history of giving aid has very few examples of sudden exit on the part of major donors. An interesting example was the US reductions of aid to India in 1967 and 1971, which contributed to Indian policy changes that made the economy structurally less reliant on foreign aid. India at the time was only mildly dependent (3 per cent of GDP and 20 per cent of public investment funded by aid), but the most important lesson from this example would be that a very rapid policy reaction is essential[15]. In the case of South Korea, the transition from a relatively high degree of aid dependency and generally inefficient resource use to export promotion, FDI and a more efficient use of foreign aid took place gradually during the 1960s. An interesting feature of this process was that during this period aid was invited in an increasingly discriminating and selective way. [16]

The sudden death of Soviet aid in 1989-90 brought more dramatic consequences. Its effects on Cambodia in 1990-92 were particularly cataclysmic.[17] The economy ground to a halt, vital social services ceased to function, and only the army and political cadres seemed to go on as before. Revival did not occur until after the elections, and only when OECD members resumed giving bilateral aid. The current situation is one of very deep, possibly chronic, aid dependency. The ability or willingness to change policies to deal with the situation appears to have been absent, both before and after the resumption of aid flows.

In the case of Cuba, another chronically dependent economy, the disappearance of Soviet aid led to a drop in GDP of around one-third over a period of three years. Investment fell at the same time to one-third of its level in 1989. Very little remedial action was taken until mid-1993, when structural reforms were introduced on a gradually growing scale. Agricultural markets, foreign exchange and foreign investment were liberalised, and austerity measures introduced in the Government budget, even affecting military expenditure. A very slow recovery began to appear in 1994, hampered by US sanctions.

The most successful adjustment policies after the loss of Soviet aid were taken by Vietnam, in 1989 dependent on aid from the Eastern Bloc for almost half of its imports. Aid disbursements from that source fell from half a billion dollars to zero in the next three years. Liberalisation of the economy with particular emphasis on agricultural production, private foreign investment, scaling down of loss-making public sector enterprises and increased trade with neighbouring economies has made the Vietnamese economy less dependent on foreign aid, even taking into account that aid from OECD countries has increased in recent years.

These examples all seem to demonstrate the pre-eminence of political factors in enabling Governments to move towards reduced dependency on external aid. Of the initially three countries, Vietnam was the least dependent from the outset, and in addition was politically prepared to undertake structural reform even before the demise of the Soviet Union. The loss of foreign aid may even have triggered some of the reforms, or it did at least bring them forward.[18] Cuba was unprepared, and its leadership seemed almost shell-shocked for three or four years, but there was no alternative to deep-going policy reform. Cambodia, finally, suffered a political stalemate as a result of its post-war coalition. If it had not been 'saved' by a flood of foreign aid, continued hostilities between the coalition partners would have been more likely than resolute steps to deal with the financial crisis. Foreign aid thus seems to have postponed a solution of the structural problems.

[15] Cassen, "Does Aid Work?", op.cit. Annex B3.

[16] Appendix B7 by D. Steinberg in Cassen, op. cit.

[17] Bernander et al. "Facing a Complex Emergency. An Evaluation of Swedish Support to Emergency Aid to Cambodia", SIDA, Stockholm 1995.

[18] Adam Fforde and Stefan de Vylder. "From Plan to Market: The Economic Transition in Vietnam". Chapter 9, Westview, 1996; See also Ljunggren, B. "Market Economies under Communist Regimes: Reform in Vietnam, Laos and Cambodia", in Ljunggren, B. (Ed.), "The Challenge of Reform in Indochina", Harvard University Press, 1993.

A conclusion that may be drawn from this sketchy evidence is that a reduction of aid flows would not in itself be an incentive to more effective resource utilisation. It is only when the reduction is a direct consequence of a changing aid relationship, entailing a shift of the initiative from donor to recipient, that it may contribute to a process that reduces dependency. Such a drop in aid flows was also seen as a possible element in the transition recommended by the DANIDA-funded report on Tanzania.

Even though shock therapy seems to be a very unreliable remedy, it is clear from all dependency studies that it is not too much aid, but too much of the wrong kind of aid, or rather too inefficient use of aid, which constitutes the problem. The concept of "absorptive capacity" has figured in the foreign aid discussion from its very beginning, although it is difficult to give it an operational meaning. The limits to the quantity of money a country can absorb will of course depend on what kind of activities the transfers are meant for. With complete freedom to spend, there is virtually no limit to potential disbursements. When donors lay down conditions as regards procurement, activities to be supported, financial controls etc. the "absorptive capacity" shrinks. Since this enquiry is concerned with reducing aid dependency, disbursements will obviously have to be conditional on certain activities, policy reforms or results which serve this purpose. And since, over the last couple of decades, some aid transfers have contributed to worsening dependency, such transfers must in future be avoided.

This is not tantamount to suggesting that reduced aid flows in general will help coming to grips with the dependency syndrome. Foreign aid allocations can be allowed to grow and accumulate, or they may be temporarily diverted to countries which are less than "chronically" dependent. But disbursement pressure must stop, long enough for the initiative to shift to the recipient side of the table.

Coordinating the donors

Reshaping the aid relationship to reduce dependency will require the full participation and support of all major donors to the aid-dependent country. All the donor agencies and IFIs have their own interests in the country, and their frustrated efforts to satisfy these interests do in fact contribute significantly to worsening the aid dependency syndrome. When a country's performance begins to fall seriously short of the donors' expectations, each one of them will tighten their conditions at both project and policy levels; they will supervise each project more closely and ask for ever more information just to make sure that at least *their* projects produce good results. That this may be achieved at the expense of performance in other lines of action, and that it worsens the dependency syndrome, is a matter which does not always worry the individual donor official as much as what his or her executive board will say when it receives the report.

While the different donor agencies are in principle committed to the same goal of assisting a particular recipient country in implementing its development programme, they are also in a sense competitors. First of all, they compete for projects that are likely to show good results. Since some projects have lower risks of failure and a high potential for producing measurable results, donors will compete for them. Second, procurement is important to most bilateral donors. Projects in which a donor can include large quantities of its own products and technologies are generally favoured. Third, there are some development objectives which have a higher political value among the donor agency's principals than others, e.g. promoting democracy and human rights, the advancement of women or the protection of the environment. Donors favour projects which are at least remotely related to these objectives and want to be seen to be associated with their success.

The obsession among donor agencies with having their names pasted on project vehicles, their flags flying over buildings and their generosity alluded to in all public mentioning of projects they have supported, is to be understood in the context of their home constituencies. They all compete for resources with other public agencies and have to show that the money they spend in distant countries is put to good use, preferably better than that of other aid agencies. While this practice is understandable, it is also very counterproductive from the point of view of promoting recipient "ownership" of the programmes. How can I believe that the project is 'mine' if the donor, its experts, consultants and members of parliament constantly tout it as a successful Sida or UNDP or World Bank project? Only when a project fails will the opportunity arise to assume full ownership. This is another imporant element of the dependence syndrome.

The problem of competition and 'individualism' among donors has been dealt with by the donors' own organisation, OECD, which in its manual "DAC Principles for Effective Aid" state that they are determined to "co-operate closely with recipient countries, international institutions and other donors in international aid co-ordination arrangements working towards operationally relevant conclusions, based on genuine consensus."[19] Attempts have also been made by the UN system to bring about better coordination of donors under the leadership of recipient governments, and a virtual fusion of aid flows through the introduction of *a programme approach* to replace the conventional project approach. The programme approach presupposes that the recipient sets the objectives and priorities and decides how resources should be applied to reach the programme goals, and only when the recipient has done this will donors be invited to make their contributions. These should ideally go to the programme as a whole and not to individual elements. When they are untied to programme elements, there is a higher flexibility in resource deployment than in traditional project aid. The parties agree on steps for capacity building and on reports and auditing, which should follow the recipient Government's rules and routines. They will jointly monitor progress, and all donors sit down with the implementing agency at the end of each funding phase to review results and to discuss resource requirements for the next phase.[20] In this way, donors will cooperate rather than compete and their different reporting requirements, procurement or thematic interests will be taken care of under the general direction and rules of the Government programme.

If several donors are to cooperate in this way on a Government-implemented programme, it is necessary that all of them abide by these rules. Should only one of them decide to select the 'best pieces' of the programme for a project identified with one donor agency, such as the planning and strategy unit in an agricultural programme or a curriculum development unit in an education progemme, this will pose a public-choice type of problem in so far as all the other donors will feel that the one donor is making gains at their expense. The programme approach has to overcome this problem and has in fact done so in many cases[21].

The main problem, however, in applying the programme approach in aid-dependent economies according to the intentions of the UN General Assembly resolution is that the donors question the ability of these very countries to design and manage programmes in a credible way. The programme approach has been applied by multilaterals as well as bilateral donors in countries such as Bolivia, India and China, but they all show great reluctance to let go of their management controls in those countries which are known to be chronically dependent on foreign aid. In a way it is a chicken-and-egg situation, since implementation capacity is a precondition as well as an operational objective of the programme approach. Donors seem to want this capacity to be in place before they allow flexibility of resource use along the lines of the programme approach. And this will not happen unless resources for capacity building are made available *on a programme basis*. The donors' willingness to take risks is wearing thin in some of the most aid dependent countries.

This is an indication of a much deeper problem of *trust* between donors and recipients. The SASDA study of the long-term goals of Swedish development cooperation found that Swedish aid officials and policy-makers lacked confidence in their counterparts in the main recipient countries to a significant extent.[22] This change in the aid relationship has come into the open recently in a number of cases where Sida has refused to continue disbursements because of alleged irregularities on the recipient side. Even though problems of this nature occurred in earlier decades, they were never brought to a head in this way. There are signs from other donor agencies as well that such feelings are widespread and that they may make it difficult to mobilise joint efforts towards more flexible resource transfers. One reason may be that it is difficult to mobilise solidarity with the poor if poverty appears to be the result of mismanagement rather than of unlucky resource endowment.

[19] "DAC Principles for Effective Aid", para 76, OECD, Paris 1992.

[20] UN General Assembly Resolution 44/211 of 1989. See also UNDP's manual on "Guideliness for Programme Support document (PSD)", November 1993 and Sida's on "Sector Programme Support" (1995).

[21] Sobhan refers to the Integrated Roads Programme in Tanzania as a good example.

[22] Hveem, H. And McNeill, D., "Is Swedish Aid Rational? A Critical Study of Swedish Aid Policy in the Period 1968-1993", pp 51-52, SASDA, Ds 1994:75, Oslo 1994.

Steps towards a different aid relationship

All our studies indicate that severe problems of dependency have been created by a number of interrelated factors on both sides of the aid relationship. They have to do with the way donors plan, budget for and report on aid projects, and with the very concept of aid-giving as it is perceived by many donor organisations. These factors are intimately linked with a recipient response which characterises the whole chain of action from seeking foreign support to planning and budgeting it and to the actual implementation and follow-up. Donors and recipients are in these cases equally responsible for having left the driver's seat to the donor and for allowing chronic aid dependency to undermine the recipient's initiative.

It is possible to turn these trends around, but this will require concerted action by both donors and recipients simultaneously in a number of interrelated areas. Some of these actions are of a generic nature, related to foreign aid in general. Others need to be carefully tailored for the specific country situation to which they are applied. In these cases, it is necessary for all the major donors to take part in the reform efforts. Since the reform entails giving up what is considered to be political and commercial advantages, it may thwart the process if only one donor is seen to use the period of 'power vacuum' to gain an advantage over the others. It will be difficult for donors to abstain from explicitly attaching their favourite themes to their individual aid transfers, such as democracy, gender equality, environment protection. It will also be a tall order to explain to their own auditors and to the mass media that there will be no dollar-by-dollar accounting for the money they have transferred to countries they have persistently criticised for lack of effectiveness and transparency. They will have to believe that the risk is worth taking in the long-term interest of aid effectiveness.

There are political risks on the recipient side as well. Changes of the type advocated here cannot be introduced unless there is a strong political base for economic reform, even if it should entail some austerity measures. The risk of a drop in aid transfers during the shift of intiative (the "hiatus") certainly requires a strong political consensus among the forces supporting the Government.

The fact that donors have paid lip service to the DAC principles of aid coordination for so long without achieving more than a handful, often-quoted, cases of success makes it necessary to go further than stating the obvious. Like-minded donor agencies will have to get together and decide on a strategy for joint action. Given the complexity of donor interests in general and the crucial role of the recipient in driving the process, it would be wise to first launch the effort in one or two countries where the political and institutional conditions are favourable for applying a genuine programme approach. When donors and recipients have proven the worth of this approach, it will be easier to call for its replication in other countries, and to support this call through the appropriate incentives and disincentives.

A general action programme for combating aid dependency might include the following points:

- *Reward quality rather than quantity:* Donors and recipients should agree to make programme implementation quality a subject of systematic joint review. Good results as regards development impact should be rewarded, bad results should be examined and remedies sought. An effort should be made to explain to the principals on both sides that the quantity of disbursements or commitments are of secondary importance.

- *Introduce a genuine programme approach:* Donors and recipients should actively move towards aid modalities which leave the responsiblity for design and management to the recipient and give the donors a role of participants in policy dialogue on sectors or on macroeconomy. The external resources should be pooled within a published and approved Government budget. Donors should delegate their own decision-making authority as far as possible to their field offices which are closer to the realities of programme implementation. Since it is unlikely that this approach can be universally applied, it is suggested that it be first launched on a selective basis.

- *Build national rather than project management capacity:* Capacity building should comprise the policy environment, academia and civil society as well as implementing agencies. In this broad context, donors should regularly monitor national capacity building together with the recipient;

- *Make policy dialogue broad and transparent:* Participation in the dialogue about national development policy and achievements should be broadened to include academia and NGOs and become more transparent to the public in order to gain wider public support for solutions. Problems of aid dependency should be openly discussed within this framework.

- *Establish and respect time limits:* Project and programme agreements should have firm time limits for each phase with inputs linked through a logical framework to outputs. Agreements shoud be explicit on phasing out external assistance and phasing in national resources, even when this may be foreseen outside the time frame of the agreement. Such time limits should be seriously examined by the parties at the end of each agreement.

- *Make a deal on turnaround of initiative:* In a case where a very dependent recipient is prepared to take over the entire intiative and manage a programme of interest to donors, the donor side should agree to a long-term financing commitment to compensate for the hiatus in aid flows during the turnaround.

- *Support domestic resource mobilisation:* Recipients should take steps to mobilise domestic resources both for investment and for financing Government services. Donors should should support this action on a programme basis. This includes both establishing functioning capital markets and increasing the effectiveness of collecting taxes and levies.

- *Provide assistance to export promotion:* Donors should provide support to development policies, programmes and institution-building which has a potential for increasing exports.

- *Remove obstacles to exports:* Recipients should remove institutional and policy obstacles to exports, and donors should open their markets to the products which will become available for export.

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Aid Dependency

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EXECUTIVE SUMMARY
SECTION I INTRODUCTION

The first part of the section provides an introductory overview of the concept of, and attitudes to aid dependency. It points out that aid dependency is nothing particularly new: indeed, a major assumption of providing development aid has always been that it should be a temporary phenomenon. What is new is the importance and prominence which has been given to this particular criticism of aid in recent years and the fact that it is being discussed with more vigour (and concern) than ever within official donor circles.

The second half of the section briefly summarises the main purposes of the study, as detailed in the Terms of Reference (reproduced as **Appendix B**). This is to undertake "a study of the emergence and indications of dependency on foreign aid, and how it can be reduced or avoided by using different types of resource transfers and methods". As this is only a short desk study, new research findings are not uncovered; rather it steps back from the literature in order to provide, as far as possible, practical proposals for the Swedish International Development Cooperation Agency (Sida). The study builds upon the work and conclusions of two studies already commissioned by Sida: *Aid Dependence* and *Macroeconomic Effects of Aid: literature review and methodological framework*, and makes particular use of the aid impact studies commissioned by the Secretariat for Analysis of Swedish Development Assistance (SASDA).

SECTION II AID DEPENDENCY: ISSUES AND CONCEPTS

As noted in the TOR, though the term "aid dependency" is widely used, there is still no agreement on precisely what is meant by the term. This section of the study discusses the whole concept of aid dependency, both in static and more dynamic terms, in order to understand more precisely why there is much confusion in understanding and using the term.

It begins by trying to capture the "essence" of the term as used in the TOR for this study and in the SASDA studies. Though there is disagreement on what precisely constitutes aid dependency there would appear to be agreement on two things: that aid dependency is "bad" and that it should thus be reduced. The section argues that there are four major reasons why it has been so difficult to come to a generally accepted definition of aid dependency. The first is that the term aid dependency is used to encompass a number of different concepts, notably both quantitative financial relationships and less tangible wider contextual and structural relationships. The second is that aid dependency is used to refer both to static current relationships as well to changes over time. The third is that, as widely understood, the term aid dependency is used not merely to describe factual relationships (what "is"), but also prescriptively (what "ought to be"). Fourthly, because the term is understood as something negative (aid dependency is viewed as a "bad thing"), the policy prescription is pre-determined — dependency ought to be reduced. But this is simply prescription without content.

This section goes on to try to "unpackage" more precisely what is "bad" about aid dependency. It argues that for donors who provide aid, the problem with aid dependency cannot lie in the nature of aid, for if aid was bad it would never be provided. And it doesn't necessarily lie in the quantities of aid given, for the whole purpose of providing development aid is that recipients need it. It goes on to point out that further confusion is caused by those who move too quickly from an assessment that aid dependency exists to the policy conclusion that therefore aid dependency should be reduced. In contrast, this study argues that on its own the existence of aid dependency is insufficient to determine precisely what actions donors should take. This section ends with a discussion of aid needs and aid efficiency. It argues for the necessity of distinguishing clearly between the needs of an aid recipient and the amount of aid supplied by donors: there is very little evidence to show that individual donors (or recipients) try to equate the two beyond the confines of discrete projects. Yet both providing too much aid and insufficient amounts could be major factors influencing the impact of aid and thus influencing the degree of aid dependence.

SECTION III DEFINITIONS AND INDICATORS OF AID DEPENDENCY

The first part of the section discusses and presents a number of definitions of aid dependency. It notes that this is no easy task. It starts by suggesting that when policy makers focus their attention on aid dependency it will be most helpful if they understand it in terms of a **process** rather than **statically**. More particularly it is proposed that aid dependency should be understood as *that process by which the continued provision of aid appears to be making no significant contribution to the achievement of self-sustaining development.* It is further suggested that the definition be refined by sub-dividing patterns of aid dependency into three broad groups. Thus:

Mild aid dependency would be defined as *the process by which the continued provision of aid makes no significant impact on reducing the factors impeding the achievement of self-sustaining development.*

Chronic aid dependency would be defined as *the process by which the provision of aid creates new and/or reinforces existing impediments to the achievement of self-sustaining development, thereby reducing or, at the extreme, nullifying the positive outcomes anticipated.*

Diminishing aid dependency would be defined as *the process by which the provision of aid contributes to the reduction of factors impeding the achievement of self-sustaining development.*

These definitions are deliberately open ended: they place the term "aid dependency" firmly within the context of aid's purpose and objectives and give preference neither to quantitative nor qualitative forms of dependence. This is deliberate as the specific intention is to direct the attention of policymakers well beyond the process of aid dependency to understand better the nature of the development process and why aid's intended positive impact is not occurring. There is no presumption that reducing aid, changing its form or increasing conditionality, or even focusing narrowly on the aid relationship will solve the problems identified.

On its own, this open-ended definition of aid dependency is but a first step. The next step is to decide on and draw up a list of indicators required to monitor the aid relationship in order to be able to assess whether aid dependency exists, its extent, the reasons for its existence and the prospects for and means of furthering its elimination. This is the subject of the rest of this section which consists largely of discussion of a range of different indicators which, it is suggested, will help to throw light on the nature of aid dependency and potential policy conclusions.

Indicators are grouped into different clusters. First, a range of different quantitative indicators are considered and presented which focus on the relationship between the aid provided, predominantly at the macro-level, and the outcome expected. But these are considered with two further sets of quantitative indicators: those that shed light on wider development performance and those that focus on wider structural changes in the economy. Ideally, monitoring trends in more and more quantitative indicators will build up an increasingly comprehensive understanding of the nature of aid dependency (viewed through the eyes of these quantitative indicators), but in practice choices will need to be made. This study argues that the selection of "relevant" indicators cannot be determined *in abstracto*: is will be influenced and eventually determined by the unique development problems and characteristics of the country in question and the nature of, including history of, the aid relationship established. It also points to a more general dilemma, namely that quantitative indicators are likely to be less accessible and less accurate precisely in those economies in which they are most needed.

Next qualitative indicators are discussed and a range of proposed indicators is provided. These are clustered into two broad groups: indicators of domestic commitment, capability and capacity, and indicators arising from the relationship between donors and the recipient. Paralleling the discussion on quantitative indicators, it is argued that the selection of particular indicators within these groups cannot be pre-determined; relevant indicators will emerge from analysis of the particular circumstances and aid and development histories of specific aid recipient countries.

Domestic commitment, capability and capacity issues are themselves sub-divided into three groups. The first focuses on the different **pre-conditions** minimally necessary for aid's potential positive impact. The second focuses on the **commitment of the recipient to development**, including, importantly, evidence to indicate that all necessary measures are taken to ensure that the aid provided has the best chance of achieving its objectives. The third examines the capacity of the recipient and its competence to utilise the aid effectively; here what is particularly important is to identify and monitor indicators which help to form judgements indicating an **increasing** ability of the recipient to manage aid with growing competence.

An examination of the evolving relationship between donors and recipients is considered essential to understanding especially the ways in which the aid relationship itself could create or exacerbate problems of aid dependency. Particular attention is given to potential conflicts between donors and between efforts to enhance the impact of discrete projects and wider repercussions for achieving aid's broader purposes. A check-list of specific questions is provided for donors to answer in this context, with a heavy bias in favour of judging donor action (and inaction) in terms of increasing and enhancing the capacity of recipients to be better able themselves to achieve the aims of development.

Providing they are **not** used to draw policy conclusions *in abstracto*, the study concedes that donors might find it useful to focus on a small cluster of indicators to monitoring aid dependency over time. Though advising against it, if one quantitative indicator were to be used, the best would probably be trends in the **ratio of aid disbursed to levels of GDP**. Rather, the study argues that it would be far more preferable to monitor the progress of a larger (though still comparatively small) number of indicators. A cluster of six indicators is proposed:

> **total aid disbursements *per capita* at fixed prices; the ratio of aid disbursements to GDP; the ratio of debt to GDP; the ratio of emergency aid to GDP; the under five mortality rate for girls; and secondary school enrolments as a percentage of the total age cohort.**

SECTION IV AID DEPENDENCY: EVIDENCE AND ANALYSIS

This section attempts to look at the issue of aid dependency through the prism of the evidence: the first part summarises some macro-economic data and trends, the second tries to link the discussion of aid dependency directly to the Swedish aid programme. But immediately a problem arises: there have been very few studies which have attempted to analyse issues of aid dependency *per se* in any comprehensive manner. Most discussions of aid dependency tend to be part of a sub set of broader studies on aid and aid impact; this has both exacerbated the problems caused by aid dependency being understood in different ways, and made it exceedingly difficult to make firm generalisations from the disparate evidence which does exist. Nonetheless, this section of the study starts by making some (tentative) generalisations about the relative importance of aid dependency by grouping aid recipients into three: the "lightly aided", the "heavily aided", and those "in between". It suggests that the greatest headway is likely to be made towards reducing aid dependency with this "in between" group of aid recipients. It makes a plea for in depth case-studies to increase knowledge about the relative importance of different indicators in different contexts and possible policy options. This section of the study goes on to discuss the case of Bangladesh where, exceptionally, aid dependency has been the subject of certain special studies. Among the different points raised, two can be mentioned here. The first is that the core problem of aid dependency in Bangladesh is presented as one of governance and commitment. The second, related, point is that because trends in key ratios widely considered central to the aid dependency debate, when viewed through the prism of quantitative indicators, fail to provide information with which to monitor trends in this core problem, they are considered peripheral, if not irrelevant to the discussion.

Discussion then switches to aid dependency viewed through the prism of Swedish aid. Attention is drawn to a number of common features of the SASDA studies in terms of their (admittedly partial) study of aid dependency. Thus, first, the studies focus most on analysing trends in selected quantitative relationships, and thus it is on the basis largely of analysing trends in quantitative indicators that conclusions are drawn. Secondly, there is little attempt (and some reluctance) to be drawn into making across-the-board generalisations from the specific country evidence gathered. Thirdly, the studies focus most on portraying trends than on trying to identify the cause, or causes, of aid dependency. Fourthly, however, and perhaps of most interest to the policy debate, the SASDA studies by no means follow a regimented type of argument of the form "if aid dependency is increasing, then aid ought to be reduced". In a number of instances they caution against concluding either that without aid, or with less aid, the recipient would be better off, or that aid should be reduced simply because it fails to achieve the outcome intended.

The Swedish aid programme is then discussed more generally. First it examines the extent to which Swedish aid is allocated to countries which need it most and, though its conclusions are tentative, it points to seeming discrepancies which could well have a bearing on the aid dependency debate. Next it looks at Sweden's programme countries in particular and finds little evidence to show that the sorts of indicators presented in **Section IV** to analyse potential aid dependency problems arising from the donor-recipient are monitored by aid managers. Indeed trends in aid flows suggest that overall aid needs in country programmes have not been the basis on which aid allocations to particular countries have been determined.

This section of the study then discusses the contribution Sweden has been making to overall aid in the different programme countries. The evidence suggests that for most countries, Sweden is not a major donor, in only a few countries has it ever been, and its overall share of total aid in most programme countries has been falling. The small relative contribution of Swedish aid to total aid in most programme countries suggests that unilateral action to address problems of aid dependency is likely to have minimal effect. [The discussion in **Section V** suggests that this is likely to be as true for aid at the project level as it is for aid at the aggregate programme level.] This section of the study ends by discussing trends in core quantitative indicators for different programme countries that might be used to monitor aid dependency. It provides numerous instances to support the view that such a narrow framework provides a very partial and usually inadequate basis upon which to derive particular policy conclusions about how to reduce aid dependency.

SECTION V AID DEPENDENCY AND DIFFERENT FORMS OF AID

This section of the study examines a number of different forms of aid and tries to link these to the discussion of aid dependency. In particular it discusses the following: aid and debt issues; aid in the form of import support; aid in the form of overall budgetary support; technical assistance; and official aid channelled to NGOs. A major part of this section focuses on the issue of conditionality. Overall, it argues that a major way to reduce aid dependency on different discrete forms of aid is, ironically, to tackle the issue holistically at the aggregate level. This means that priority should be given to analysing different overall constraints impeding aid's greater impact, though importance is also given to the need to identify and prioritise the strength of different factors impeding development.

The study cautions donors strongly against adopting a mechanistic view to aid dependency which focuses on trying to enhance the impact of individual projects and to address problems of aid dependency by imposing more, and more complex, forms of conditionality on recipients, though it notes that such action will often "work" when viewed narrowly at the project level. A major problem of this approach is that it ignores aid's fungibility. One way of trying to reduce aid's fungibility, it is argued, is to work to ensure that all aid funds become integrated into budget (recurrent and capital) spending plans and profiles. Does this mean that a "better" form of aid would be to focus entirely on providing necessary additions to the overall budget, based on agreement with proposed spending plans, and move away from sectoral spending entirely? In general, and after some discussion, this study argues against such a move and in favour a prudent mix of overall budget and sectoral support.

A second way in which the fungibility of funds can be reduced is by donors requiring a set of over-arching conditions be agreed and met. The section discusses and reviews the evidence of conditionality at the macro-level, and is cautiously critical of its role in reducing aid dependency. It stresses the greater need for donors to focus on ways in which recipient commitment, capacity and capabilities can be built up and nurtured and proposes a number of ways in which this might be done.

This section ends with a brief discussion of aid dependency in relation to the role and impact of NGOs in development. It notes the lack of comprehensive or in-depth country specific evidence of the link between NGO development initiatives and aid dependency, but outlines the various ways in which NGO actions and activities might reinforce or ease aid dependency constraints. In relation to government funding, it notes that Swedish NGOs have not been asked to focus particularly on issues of capacity building in the south. It proposes a number of specific ways in which the government might encourage Swedish NGOs to focus more on aid dependency issues but cautions against assuming that without wider assessment such encouragement should necessarily be considered a priority.

SECTION VI SUMMARY CONCLUSIONS AND POLICY IMPLICATIONS

This section of the study starts by drawing together a number of general conclusions and then goes on to make some specific suggestions for Sida. It concludes that aid dependency is an important and potentially serious issue for the donor community in general and thus for Sida in particular. Consequently, it argues for the inclusion of aid dependency analysis in policy deliberations about aid and development cooperation issues. However it goes on to stress that trying to draw general policy guidelines from over-arching analysis is likely to provide few if any insights to guide policy decisions and that most energy needs to be devoted to analysis at the country level. It goes on to repeat a common theme of this study: that though the phenomenon of aid dependency is an important one for donors to focus upon, it should not be viewed in isolation and thus should not be the sole basis for donors to design or alter their aid and development cooperation policies.

The study suggests that all aid provided by Sida should in some manner be examined in terms of aid dependency, but that for non programme countries, use should be made of analyses made by others. In cases where Sweden is a major donor, it is suggested that Sida should either conduct its own aid dependency studies, unless it can satisfy itself that existing studies sufficiently answer the questions it has to inform the wider discussion of the nature and degree of aid dependency and its link to other development constraints. The study goes on to discusses how one should define what a major donor is, indicating that, from the perspective of the discussion of aid dependency, the number of countries thus defined should probably be fewer than the current 19 programme countries. It is argued that for aid dependency analysis to be useful to Sida, considerable effort needs to go in to making the analysis **operational**. Thus country-specific studies of aid dependency need to be viewed less as discrete, academic, exercises, and more as inputs to be fed into decisions aid managers continually need to make in the process of reviewing the size and shape of the aid programme in different countries. The study ends by discussing different ways in which such inputs might be integrated into Country Strategy papers.

I INTRODUCTION

Almost since its inception, aid has been subjected to a range of criticisms and attacks. Among these has been the charge that in practice aid has not helped to achieve its different purposes — to bridge gaps, meet needs and accelerate development. Rather it has been argued, (many) aid recipients remain today as dependent, or perhaps even more dependent, upon aid than they were when donors first started to provide them with aid. Additionally, some critics have gone on to argue that this continual (and sometimes increasing) dependence upon aid is caused by, or has been exacerbated by, the very nature of the aid relationship: in other words, the ultimate (beneficial) objectives cannot be achieved because of the dominance of other more influential perverse consequences or outcomes of the aid relationship. Together, these points provide the substance of the "aid dependency" criticism of aid.[1] What is new is not the "aid dependency" argument *per se*, but the importance and prominence which has been given to this particular criticism of aid in recent years and the fact that it is being discussed with more vigour (and concern) than ever within official donor circles. The first part of this introductory section of the study seeks to place this evident rising concern with aid dependency within a broader historical context.

1.1 Why Aid Dependency is an Issue of Growing Concern to Donors: An Historical Overview

Foreign aid was originally provided solely to address emergency needs. Yet as far back as the early 1950s a number of official donors, including Sweden, had begun to provide non-emergency aid, the aims and purposes of which were to contribute (in various and different ways) to an acceleration of the process of development. The provision of both emergency and development aid was based on the fact (or judgement) that the recipients had pressing needs (in the case of immediate human crises, very urgent needs) which had to be met, but which they themselves did not have the skills and/or resources to address. To the present day, a major part of the business of the "aid community" has been focused on debating and identifying three inter-related issues: what the needs of recipients are; the importance of different needs; and how best to help recipients meet those needs, not least by enhancing the impact of the aid provided.

Throughout this whole period, the provision of both "emergency" and "development" aid has been based on a shared core assumption — that aid would be a *temporary* phenomenon. In both cases, aid was to fill (identified) gaps, or needs, and when these gaps had been filled (and needs met), or when former recipients had the ability to meet these needs themselves, then aid would no longer be required, and would no longer be provided.

In the real world, the view that aid was to be a temporary phenomenon has been tainted, altered and in some senses contradicted by other influences and practices. Thus in the first place during the Cold War period, aid was provided to numerous recipients not merely to help address unmet needs but in order to secure or maintain strategic alliances. As long as the Cold War era lasted, this reason for providing aid on a continual basis persisted. Providing aid in order to encourage recipients to enter into commercial (non aid) contracts with donor country recipients has been an additional (second) factor discouraging donors to focus on how they might more rapidly end the aid relationship. Thirdly, though the **needs and attributes of the recipients** provided the underlying justification for giving aid,[2] it is striking that debates about aid across all official western bilateral donors, and within the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD), have in practice focused far more on the supply of aid (changes in the quantitative level of aid provided by the donors — focusing most particularly on aid provided as a share of gross national product (GNP) — than on assessing the extent to which the purpose of the aid provided was being achieved: needs were being met, gaps were being filled, and recipients were able to meet these needs and fill these gaps without external assistance.

[1] An early articulate exponent of these arguments was Peter Bauer (see Bauer, 1971). Early aid dependency attacks were also been made by Griffin, while since the early 1980s, Seers, Myrdal and Krauss have all used "aid dependency" arguments to criticise the aid relationship. See **References**.

[2] Precisely **why** donors and citizens in donor countries have felt they ought to respond to recipient needs has varied. In Sweden early motivations included: solidarity, social fervour, a sense of community humanity, egalitarianism, and the view that the growth and development of poor countries will provide future commercial opportunities for Sweden. See Ehrenpreis (1995:1).

Combining the strategic and commercial reasons for providing aid with the prominence given to the amounts of aid provided by different donor countries has meant that to the present day within their own countries, donors' aid performance has been assessed and judged predominantly in relation to whether they are giving more or less aid and in relation to whether discrete aid projects and programmes are ably meeting their near-term objectives, and only rarely in terms of whether the aid provided **in aggregate** is equated to the aggregate needs of the recipient and ably meeting those needs. Thus while, on the one hand, both emergency and development aid have been justified as a **temporary** phenomenon, not only has a continuation of aid met with approval but rising levels of aid have been and still are the object of wide praise, and declining levels of aid from donors are severely criticised. It is these factors which have tended to overshadow any criticisms of aid based on different adverse or perverse dependency outcomes. Either criticism has been largely ignored or, where data to support such aid dependency claims have been provided, this has been viewed as partial evidence.

The continued emphasis given to aid volume and the quantity of aid supplied is understandable, in part, because of the large gap between the (original) assessed value of the aid required by recipients and the aid provided by donors. Thus latest OECD figures show that the combined ODA/GNP ratio of all DAC donors as a group was 0.30% in 1994, compared with the original target level of 0.7%.[3] Perhaps more curious has been that the aid debate in donor countries which have achieved and surpassed the 0.7% of GNP target for official has continued to be profoundly influenced by concern over the quantity of the aid supplied. Relatedly, it is far easier to comprehend quickly quantitative trends in aid volume than it is to grasp quickly whether needs (usually a variety of different needs) are being met, a factor reinforced itself by the paucity of accessible data and information on either a financial estimate of the cumulative current aid needs of all recipients or those of different recipients. Outside emergency assistance (and even then it is by no means commonplace) it has been rare for either recipients or donors to fund studies which attempt to assess comprehensively their aid needs. For their part, the majority of the general public across most donor countries (the USA being a partial exception) have been ready to assume that most aid "works" and have based their continual support for aid on the fact that there are still so many poor people "out there" who have unmet needs.

In recent years, however, a number of events have occurred which together have had a profound influence on the thinking and practice of aid and of the major donors, including increasing the influence, and thus the importance, of the aid dependency arguments made against aid. Firstly, the Cold War has ended, removing that particular motive for maintaining a permanent aid relationship with a range of donors. However, the end of the Cold War has not meant that security and strategic reasons for providing aid have disappeared. Rather, the combination of the removal of a range of immediate, short-term security threats, and a downgrading of the strategic importance of a number of poorer countries which have been relatively large recipients of aid have meant that more soul-searching questions are being asked about the necessity of linking the long term provision of aid with maintaining or enhancing wider donor interests.

Secondly, and linked in part to the end of the Cold War, the primacy of market economics and rethinking ways of addressing needs and welfare problems within donor countries are influencing the way that the aid relationship has commonly been perceived. In particular, changing attitudes to the respective roles of the state and the private sector are leading to questioning the automatic link made between **addressing needs and helping recipients and providing aid**. Thus when economic development **at home** is viewed as occurring best, not so much when the state intervenes directly, but when it provides the framework and incentives for the

[3] See OECD (1996: 90). For a recent discussion of the contemporary relevance of, and serious problems with the 0.7% target see Riddell (1996: Chapter 2).

[4] In the early part of 1996, the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development commissioned a study on public opinion on aid in member countries. A 1995 survey of public opinion in the United States found that 75% of respondents thought that the government spent too much on foreign aid. However the survey also revealed that the majority thought that the actual level of spending on foreign aid was 15% of the US budget, adding that 5% would be about the right level. In fact, the 1994 ratio was less than 1%. See Bread for the World Institute (1995).

market to work more efficiently, it is asked why such increasingly-shared views should not apply with equal force abroad, especially when the forces of globalisation are fast removing the rigid distinctions formerly made between developed and developing economies. To the extent that the provision of additional resources is no longer seen as such a priority in terms of providing the means of enhancing development and providing for jobs **at home**, the downgrading of its priority as a form of helping others abroad is likely to gain an increasing number of adherents.

Taken together, these two factors help to explain a third recent phenomenon, namely the 1990s cuts in overall aid to developing countries (a fall of some 5.6% in total ODA receipts in real terms from 1991 to 1994, the first long-term fall in aggregate aid for two decades) and the expectation that aggregate aid contraction is likely to continue at least over the next few years: in 1993, aid levels fell in 16 out of 21 DAC donor countries, followed by a further contraction in 8 countries in 1994 (OECD: 1996: 90). A fourth phenomenon, following the collapse of the former community regimes has been the establishment and growth of aid to Eastern Europe (EE) and the Former Soviet Union (FSU): in 1994, official aid from DAC donors to former eastern bloc countries amounted to $7.5 bn, equivalent to 12.6% of total ODA funds from DAC donors. The provision of aid to EE and the FSU has influenced the wider aid relationship in two ways. First, the rise of new recipients in the context of shrinking aggregate aid funds has increased the need for donors to examine more closely how aid funds should be distributed between recipients and the criteria for country allocation. Secondly, the eagerness of donors to establish market-based economies in EE and FSU, and at least the early eagerness of their new governments to pursue market-based reforms has influenced the ways that aid funds have been used not only in these new recipient countries but in traditional aid recipient countries, most notably by placing greatest emphasis on expanding and deepening markets and building and strengthening institutions to encourage market penetration and deepening.

And finally, in their turn, the greater emphasis being given to the market raises anew questions about continuing to provide aid to recipients as a means of securing, initiating or maintaining commercial links, interests and contracts. Aid is still given in the hope that subsequent development will lead to the development of new and expanded commercial relations between former donor and former recipient, and aid tying continues to be practised — indeed among Asian donors in particular, this remains a major motivation for providing aid. But the links between aid and commercial interest are being driven increasingly by openness and support to free market practices than by expanding tying and related practices.

The combined impact of these different factors has been to give far greater prominence to the notion that aid **ought** to be viewed more as a temporary phenomenon, and to focus more sharply on eliminating or reducing those aspects of the aid relationship which appear to encourage or reinforce a permanence of aid. It is these developments and this new context which help to explain why increasing prominence has been given in recent years to the (old) issue of aid dependency.

I.2 The Purpose of this Study and the Structure of this Report

Based on the Terms of Reference provided, the broad purpose of this study has been to undertake "a study of the emergence and indications of dependency on foreign aid, and how it can be reduced or avoided by using different types of resource transfers and methods". More particularly, the study has aimed to discuss quantitative as well as behavioural and qualitative criteria for determining aid dependency; examine different forms of aid in the context of their contributing to or reducing aid dependency; and propose ways of improving sustainability of development cooperation programmes from a financial point and with regard to the development objectives laid down by the Swedish Parliament.

The study has been solely a desk-based exercise, thus there was little expectation that new theoretical insights would be uncovered. Rather, it step backs from the available literature and insights into aid and especially aid dependency in order to provide proposals for the Swedish International Development Cooperation Agency (Sida) on ways in which it might contribute to reducing aid dependency in the countries in which Swedish official aid is used.[5] It builds especially upon the work and conclusions of two studies already commissioned by Sida: *Aid Dependence* (L. Johansson) and *Macroeconomic Effects of Aid: literature review and methodological framework* (H. White). Additionally, it makes particular use of the various recent studies on aid and aid impact commissioned by the Secretariat for Analysis of Swedish Development Assistance (SASDA).

Sections II and III focus on aid dependency more at the theoretical level. **Section II, Aid Dependency: Issues and Concepts** discusses the whole concept of aid dependency, both in static and more dynamic terms, highlighting in some detail why there is so much confusion in using the term. **Section III, Definitions and Indicators of Aid Dependency** starts by proposing a set of working definitions of aid dependency considered of use to donors like Sida. Particular emphasis is laid on the notion of aid dependency as a dynamic rather than merely as a static concept. The second half of this section is devoted to a discussion of the wide variety of quantitative and non-quantitative indicators which might be used to assess the nature and degree of aid dependency in different country contexts. It proposes different sets of indicators which might be used (judiciously) to monitor trends in aid dependency over time.

Sections IV and V look at the issue of aid dependency more at the practical level. **Section IV, Aid Dependency: Evidence and Analysis** reviews the evidence of aid dependency, focusing mostly on evidence at the aggregate level. It ends by examining in some detail Sweden's main programme countries. However, overall, it is argued that there remains a lack of data and evidence to indicate the extent, degree and importance of aid dependence. **Section V, Aid Dependency and Different Types of Aid** examines a number of different forms of aid and tries to link these to the discussion of aid dependency. It argues that too exclusive a focus on different forms of aid runs the risk of assuming (often incorrectly) that the best way to seek to reduce aid dependency is to focus narrowly on these different forms of aid. This section of the study discusses the link between the increased conditionality of aid and efforts to reduce aid dependence. It ends with a brief discussion of aid dependency in relation to the role and impact of NGOs in development.

Finally, **Section VI, Summary Conclusions and Policy Implications**, draws together some over-arching policy conclusions and makes a number of specific policy conclusions for Sida to consider. It argues that though aid dependency issues are important and need to be considered more closely by aid managers, if viewed on their own and in isolation the risks are likely to be high that the policy proposals will be misplaced.

[5] In this paper, the abbreviation SIDA (Swedish International Development Authority) is usually used to refer to the organisation prior to the 1995 reorganisation and to publications produced by the former aid organisation SIDA. Otherwise the abbreviation Sida is used to refer to the current organisation (Swedish International Development Cooperation Agency).

II AID DEPENDENCY: ISSUES AND CONCEPTS

II.1 Aid Dependency as Understood in the Terms of Reference for this and various other Sida and SASDA studies

II.1.1 TOR for the present study

Consistent with much contemporary discussion of aid dependency, the Terms of Reference (TOR) for this study make the following observations/comments about aid dependency.[6]

* *there are no generally accepted definitions of the term aid dependency; yet*

* *it is becoming increasingly clear that many of Sweden's aid recipients have developed a new form of dependency, aid dependency, including most African countries, Bangladesh and Laos;*

* *it is commonly believed that aid dependency is increasing in many countries, among the effects of which are the following: a reduction in incentives for domestic resource mobilisation; a distortion in the allocation of available resources; an undermining of the feeling of responsibility among political decision-makers, leading to a weakening of national governance;*

* *a special form of aid dependency is that of increasing indebtedness from aid-financed credits, especially in conjunction with tied aid, as in the system of mixed credits provided on concessional terms which Sweden has been providing increasingly in recent years;*

* *for most donors, debt relief, aid coordination and programme aid with some form of aid conditionality are seen as the way out of the dilemma of explaining how their aid programmes are having an impact towards sustainable development;*

* *conservative analysts and aid critics who see aid as part of the problem propose reduced aid and increased reliance on free markets and incentives for private investment as the solution; and finally,*

* *the study should discuss different ways of reducing aid dependency, outlining particular strategies for different programme countries as well as more generalised ways of reducing aid dependency.*

The essence of these points can be summarised thus. As a result of ambiguities, uncertainties and inconsistencies in the way the term is used, the study is required to define aid dependency. Although, it is argued, there is no generally accepted definition of aid dependency, as understood here aid dependency is viewed negatively (it is a "bad thing"), and appears to be on the increase. Additionally, aid dependency is perceived to be a relatively new phenomenon which, in its different manifestations, has the cumulative effect of make a significant dent in the positive outcome which aid is meant to have. As a result, the study is required to propose a variety of ways in which it might be reduced, not least in order to strengthen the argument that aid makes a positive contribution to sustainable development. Finally, the TOR would appear themselves to reject the extreme conservative view that aid is a core part of the problem and that the solution to dependency lies in abandoning the whole aid enterprise.[7]

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[6] For the full TOR see **Appendix B**. The views/observations contained in the TOR are almost entirely consistent with those expressed in the longer paper by Johansson (1995).

[7] One influential proponent of this perspective (Senator McConnell of the US Senate) expressed this particular viewpoint thus (*New York Times*, 21 December 1994, page A4):

The only way to break the devastating cycle of dependency is to end foreign aid entitlements programs... if we're going to change welfare here we certainly ought not to be using American tax dollars to foster that kind of (continued...)

II.1.2 Other Sida and SASDA studies[8]

The issue of aid dependency has recently been discussed in other Swedish aid studies and, to some extent, the TOR of the present study build upon the conclusions of these studies and questions arising from their conclusions. For all these studies, aid dependency is predominantly seen in terms of the relationship between aid inflows and groups of economic variables, although, as discussed below, some studies also make some comments about non-economic variables. Like the TOR for this study, aid dependency is viewed negatively. Though some of the studies provide a definition of aid dependency, there would appear to be little attempt to provide a consistent and all-embracing definition.[9]

In these studies and at their simplest, aid inflows are considered in relation to a number of economic variables. These include (for instance in the study of Guinea-Bissau) the following: total ODA, ODA per capita, and the ratio of ODA to gross domestic product (GDP, gross investment, exports and imports). A country is considered to be "aid dependent" when these ratios are particularly high, especially when viewed alongside the same ratios for other countries. However all the studies go on to consider aid flows in relation to macro-economic performance. In part, the discussion of aid dependency is an extension or adaptation of traditional (two-gap) theories of aid, though other indicators are also studied. The studies all trace the performance of different macro-economic variables over time, examine gaps in domestic funding or sourcing of different elements of the economy and link these to trends in aid inflows. Three clusters of variables are considered: imports, exports and foreign exchange gaps; savings, investment and domestic savings gaps; and, government revenue and expenditure, and budget deficit gaps.[10] The link between the performance of these indicators and an understanding of the concept of aid dependency is fairly straight forward. Where gaps in domestic funding are large, where they have persisted or have increased, then the country in question is considered to be exhibiting characteristics of aid dependency. Thus, noting that donors will be funding over 80% of the Tanzanian development budget, the SASDA study comments that this reveals "an extraordinary degree of aid dependence" (Adam, Bigsten, Collier, Julin and O'Connell, 1994: 92).

The studies differ in the variables they consider important. Thus White views aid dependency most narrowly, in relation to savings and trade gaps, while the four country studies consider a wider range of variables. They also differ in terms of their time-frame. For instance Svedberg, Olofsgard and Ekman (1994: 81) define aid dependency as "a country's inability to finance investment and import requirements through normal commercial channels", which could be viewed merely in static terms, while, for his part, White focuses more explicitly on trends over time. Thus for White, a country is aid dependent when its savings and trade gaps "are not closing" (1994a: 60). Yet he fails to develop this point further. For instance, he does not discuss whether an economy would be considered aid dependent if only one of these variables is not closing, nor does he draw a distinction between large and small gaps, or between gaps which continue at the same level and gaps which increase over time. For White, aid dependence is defined as "a situation in which a country will require aid to meet its investment and foreign exchange financing requirements indefinitely" (1994b: 307). The other studies provide even fewer insights into what precisely is understood by the term "aid dependency": beyond general comments on the size of the ratio of aid to different economic variables, neither the Tanzania nor Zambia studies offer even a crude, or working, definition of aid dependency.

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[7] (...continued)
dependency abroad.

[8] This section is drawn from the following: Adam, C., A. Bigsten, P. Collier, E. Julin and S. O'Connell (1994); Adam, C., P-K Andersson, A. Bigsten, P. Collier and S. O'Connell (1994); Behar, J. and M. Lundahl (1994); Svedberg, P., A. Olofsgard and B. Ekman (1994); and White H. (1994a and 1994b).

[9] This comment is made as a factual statement, it is not meant to be a harsh criticism of the studies in question, which were not meant to be comprehensive studies of aid dependence *per se*. Thus, relatedly, the 1994 Dutch evaluation of aid to Tanzania devotes a whole section to aid dependence but offers no definition of the term (see Operations Review Unit [IOV], 1994: 64).

[10] As discussed below, the studies also devote considerable space to a discussion of debt and Dutch disease.

So much for the economic/financial aspects of aid dependency. Additionally, not only do three of the four country studies make comments on certain non economic aspects of aid dependency but they express strong, and consistent, value judgments about the wider effects of aid.[11] In essence the view presented is that aid acts as a **disincentive** to achieving self-sustaining development, or that aid itself is part of the problem of aid recipient's continual dependence upon aid. In other words, the authors of these studies would appear unanimously to concur with the view, expressed long ago by Griffin,[12] that aid is in essence contradictory: it is provided to fill various financing gaps (in the hope and expectation that these gaps will be narrowed over time), but the nature of the aid relationship is such that the very action of providing aid itself sets in motion a series of events which reduce the incentives for recipients to work to narrow those gaps. For instance, the Tanzania paper states that aid "is primarily motivated by the desire to alleviate poverty" but that "aid gives rise to the disutility of paternalism and dependency" (Adam, Bigsten, Collier, Julin and O'Connell, 1994: 98). For its part, the Zambian study states boldly that when aid is received, recipients "**will** change (their) behaviour, for example by making less tax effort" [Adam, P-K Andersson, A. Bigsten, Collier and O'Connell (1994: 116), emphasis added]. Spelling out the same point in more detail, the Guinea-Bissau case study makes the following adverse comments about the non-economic impact of aid, which appear to have had the support of Swedish aid officials (Svedberg, Olofsgard and Ekman, 1994: 80-81):

> *Aid dependency is also evident at a non-economic level. Large and continuous inflows of foreign aid have created a "way of living" for a large part of the Guinean administration. The financing of the public administration relies heavily on foreign aid and officials are preoccupied* ***most of their time*** *with activities related to different aid agencies. This seems to have drawn attention away from the development of domestic resources. It is probably easier for the Guinean Government to get more finance from some foreign aid agency than to create incentives for domestic resource mobilisation. A belief that massive inflows of foreign aid are not only necessary for development but also sufficient seems to have developed. The phenomenon is expressed in a memorandum from the Swedish Embassy: "The embassy must conclude that the foreign aid to Guinea-Bissau of all countries and organisations, including Sweden so far seems to have resulted in making the Guinean economy more passive rather than dynamic"* (emphasis added).

II.2 Reflections on Aid Dependency and Problems with Current Usage

II.2.1 Different ways in which the term "aid dependency" is used

This brief review of recent Swedish studies indicates that aid dependency can be understood, and in practice is understood, in different ways. A review of the wider literature reveals that as currently used the term aid dependency is used to refer to an even wider set of circumstances. An indication of this diversity, and the resulting confusion, can be obtained from grouping different forms of aid dependency into the following five clusters. Thus,

* A country which is very poor and unable itself to meet the immediate consumption needs of its own people and invest for future development with its own resources or unable to afford to purchase these resources from normal commercial channels and is given aid to embark on sound development policies is called "aid dependent".

* A poor country with a high oda/GDP ratio is called "aid dependent"; a poor country with a domestic savings gap filled with foreign aid is called "aid dependent"; a poor country where a high proportion of imports are financed with aid funds is called "aid dependent"; a poor country where a high proportion of a large budget deficit is financed by aid funds is called "aid dependent";

[11] The Nicaraguan study does not address this particular issue.

[12] See especially Griffin (1970) and (1971), and Griffin and Enos (1970) as well as the subsequent discussion by Eshag (1971).

* A middle income country which for non-developmental reasons is given large amounts of aid and thus has a high oda/GDP ratio is called "aid dependent"; a middle income country which for non developmental reasons is given large amounts of aid which are used to finance domestic investment is called "aid dependent"; a middle income country which for non-developmental reasons is given large amounts of aid which are used to finance an excessively large budget deficit is called "aid dependent"; and a middle income country which for non-developmental reasons is given large amounts of aid which are used to finance a large proportion of imports is called "aid dependent".

* A country committed to and pursuing sound economic policies whose aid needs *remain constant* over a given (say, ten year) period as a result of adverse external circumstances is called "aid dependent"; a country whose aid needs *remain constant* over a given (say, ten year) period as a result of a lack of commitment to development and pursuing the wrong policies is called "aid dependent"; a country committed to and pursuing sound economic policies whose aid needs *remain constant* over a given (say, ten year) period as a result of bad advice from, or rivalry between donors is call "aid dependent".

* A country committed to and pursuing sound economic policies whose aid needs *increase* over a given (say, ten year) period as a result of adverse external circumstances is called "aid dependent"; a country whose aid needs *increase* over a given (say, ten year) period as a result of a lack of commitment to development and pursuing the wrong policies is called "aid dependent"; and a country committed to and pursuing sound economic policies whose aid needs *increase* over a given (say, ten year) period as a result of bad advice from, and quarrelling between donors is call "aid dependent".

II.2.2 What is bad about aid dependency?

Especially because of the prominence given to "dependency" theories of development which were so influential in development studies from the early 1970s to, possibly, the early 1990s, the term "dependency" has come to be associated with extreme negative connotations: dependency is something "bad" and as a result, something which needs to be reduced if not eliminated.[13] In contrast, the term "independent" is commonly juxtaposed as the polar opposite of "dependent" and thus viewed extremely positively. Not surprisingly, therefore, when the term "aid dependency" is used in common parlance, it has also carried with it a negative connotation. Aid dependency is widely perceived as a "bad thing". But what precisely is bad about aid dependency?

Clearly if **aid itself** was bad, then it should never be provided, no matter how little the amount, and no donor should give it. This would clearly be a very odd position for an aid donor to take: indeed it would be contradictory to view aid as something bad and then provide it. As donors do give aid and are not about to close down their aid programmes entirely, we can safely assume that the negative connotations associated with aid dependency do not arise from the **nature of aid itself**, from the fact of giving it or of receiving it.[14] But could the bad part of "aid dependency" come from the notion that a little aid might be a good thing, but that a lot of aid is likely to be bad? If so, then it would follow that donors should only give a little and not give a lot? First consider this proposition **statically**, or at a particular point of time. A moment's thought suggests that when viewed statically this interpretation cannot readily be sustained either as a generalised proposition.

Thus, the **whole purpose** of providing aid in the first place is that the recipient **needs** the aid. It needs

[13] This is not altogether surprising because in English, the word "dependency" carries with it the notion of subservience. According to the Oxford Dictionary dependency means "something subordinate or dependent, especially a country or province controlled by another".

[14] One could argue that it is these characteristics which mark a basic difference between the term "aid dependency" and, say, "drug dependency". Thus, drug dependency is viewed as "a bad thing" not merely because dependency upon (illegal) drugs is viewed negatively, but because the drugs in questions are also viewed as harmful. Here the aim is not merely to reduce the dependence on drugs but to seek to eliminate access to these drugs in the first place. It is partly because of these sorts of differences between aid dependency and some other types of dependency, such as drug dependency, that such difficulties are so commonly experienced in coming to an agreed definition of aid dependency.

development aid for one or more of the following reasons: because it is unable itself to meet the immediate consumption needs of its own people and invest for future development with its own resources, because it is unable to afford to purchase these resources from normal commercial channels, or because the costs (in terms of necessary consumption foregone or debts incurred) of obtaining these from commercial sources are considered too great to bear. If this is the reason why aid is given, then it follows that the less able is a country to meet its own needs, the greater will be the justification for it to receive aid. Relatedly, this inadequacy in some measure is likely to be related to a lack of resources, in other words, to its poverty. Thus both before the aid is given and at the point of time when it is decided that a recipient needs aid, and the aid is provided, it cannot be argued that the provision of aid is a "bad thing" even though the recipient is "dependent" upon aid.[5] In this particular instance, a country is dependent upon aid solely because it needs it. Likewise, it cannot be argued at this point of time either that large amounts of aid are always "bad" or that small amounts of aid are always "good". The precise amount of aid required will depend upon the circumstances and characteristics of the country receiving it, including its own resources, the level and extent of its external debt obligations, and its ability to obtain additional external resources from commercial channels and the costs of so doing.[6]

Thus, we have argued that the "badness" of aid dependency doesn't lie in the nature of aid, and it doesn't necessarily lie in the quantities of aid given. This is because, unlike drug dependency, aid is viewed by donors as something "good", at least initially, and as at least potentially "good" as it continues to be provided. We need now to look beyond the static relationship to the more dynamic processes of the aid relationship. Are the negative characteristics of aid dependency explained more readily in the **continuation** of the aid relationship over time? Here we come closer to a major part of the answer.

II.2.3 Longer term aid dependency and policy implications for donors

The purpose of providing development aid is to accelerate the development process and help the recipient on the path to self-sustaining development, and an essential attribute of self-sustaining development is the ability to finance development without concessional finance or resources. Indeed, as discussed in **Section I**, a basic presupposition of donors providing aid was that it would only be provided **on a temporary basis**. Though the time period for the termination of aid was never defined (and rarely discussed), it would seem reasonable to assume not that a recipient would shift over night from needing large amount of aid to needing none at all, but that the need for aid would be expected to fall **gradually** over time. Consequently it follows that if the amount of aid given either remains constant over time, or worse, if it rises, this would seem to provide *prima facie* evidence of a contradiction between intention and practice: aid would appear not to be achieving the core objective for which it is being given. This would indeed be a "bad thing". However, **neither the fact of continuing or growing aid flows to a recipient, nor the acknowledgement that such a phenomenon is at variance with the aid's core purpose or objectives *on their own* are sufficient to determine precisely what actions donors should take.**

When aid levels are steady, or rising, there are various policy options that a donor could consider pursuing. Thus, the donor could

- do nothing — that is, maintain current aid levels with current forms of conditionality and current relationships with other donors;

[5] What is "bad" is that the country is poor and/or with poor prospects for self-sustaining development without the aid of external concessionary assistance. (Bad) poverty gives rise to aid which, if anything, is viewed as "good".

[6] It is **not** being argued that economies **need** aid in order to develop and thus that without aid there can never be any development. This has never been the argument for providing development aid, even if in emergency situations, aid is often needed to prevent death and the spread of disease. Clearly, the larger the absolute amount of aid provided to meet the need of the recipient, the more aid-dependent (in this sense) will be the recipient. The relationship between the aid provided and a succession of different economic variables, such as the level of imports, the domestic investment level and the shortfall in government revenue over government expenditure build up a picture of aid dependence. At this stage, however, and provided the amount of aid **given** equates with the amount of aid **needed,** these different financial and economic indicators merely describe sets of factual relationship between aid and the variables produced.

* maintain aid at the current and anticipated levels but unilaterally alter the form in which it is given and the conditions linked to its disbursement;

* maintain aid at the current and anticipated levels but in collaboration with other donors alter the form in which it is given and/or the conditions linked to its disbursement;

* increase aid levels but alter the forms in which it is provided, with (or without) changes in conditionality and with (or without) the collaboration of other donors;

* reduce aid levels and either maintain prevailing forms and conditionality and relations with other donors or alter one or all of these;

* begin the process of withdrawing completely as an aid donor, with or without the collaboration of other donors.

What course of action should the donor take? What these examples show is that **on their own,** evidence of trends of continuing or even increasing levels of aid dependence do not provide sufficient information on which donors can base future courses of action. What donors need to do is to try to find out not merely what has been happening to the aid provided but, even more importantly, to find out what has been happening to the accelerated self-sustaining development path which aid (in decreasing amounts) was meant to be furthering.[17] Only when this analysis has been undertaken will it be possible to conclude (and only then if the evidence confirms it) that it is aid and the aid relationship which are the main cause of the problems and that altering the aid relationship will remove the blockages identified.

At one level, if this is all the discussion of aid dependency is about then it contributes very little, if anything, new: aid has always been given in the expectation and anticipation that the need for it would progressively decrease. Thus to talk about decreasing dependency upon aid over time would be little more than a discussion about how best to achieve development and the role of aid in the development process. In this case, proposing different ways of reducing aid dependency would be nothing more and nothing less than analysing and proposing different (more effective and more efficient) ways of achieve self-sustaining development. This is familiar territory for donors. What is (for some) a relatively new notion is that aid itself might be contributing to, or exacerbating, those factors impeding the process of self-sustaining development: it is not merely that aid continually fails to make progress in achieving the objectives for which it is given, but aid is in some way perceived or assessed as part of the problem. Thus, either directly or indirectly, aid is said to be maintaining or worsening prevailing constraints to self-sustaining development or, of even greater concern, creating new constraints.

At its most extreme, this argument is based on the view that aid never does any good and is always harmful — in this instance, the assumed positive contribution of aid to development is always outweighed or eclipsed by the harm it does. As just observed, if donors held this particular view they would never have provided aid in the first place: the policy conclusion would be simply to stop providing all aid to all recipients. Less extreme variants of the "aid itself can do harm" viewpoint would be that the positive results which aid theory predicts ought to result from providing aid are reduced, or, at the extreme, nullified. There are various ways this might happen. First, the beneficial financial and economic outcome expected (a rise in the level of domestic savings, and increase in the capacity to earn foreign exchange) might be swamped by other, perverse, outcomes (a reduction in the national effort to mobilise domestic resources, prevailing non-competitive markets further distorted rather than leading to their expansion or deepening). Secondly, the very process of providing aid might set in motion a series of wider outcomes which impede self-sustaining development (personal gains from corrupt practices funded by aid reducing the commitment of politicians and civil servants to enact optimal policies to enhance self-sustaining development). Thirdly, competition and rivalry between donors, aid policies aimed more at obtaining gains for donors than meeting needs of recipients, and forcing recipients to pursue policies that turn out to have been detrimental to self sustaining growth and development may individually or cumulatively result in outcomes which maintain or exacerbate prevailing constraints to self-sustaining development or create new ones.

[17] This point is explicitly made, and developed, in the companion paper by Sobhan on aid dependency in Tanzania.

It is this particular form of aid dependency which clearly is a "bad thing". But, again, **neither the fact of continuing or growing aid dependency, nor the feeling or even the knowledge that the aid relationship may have contributed to the failure of aid to achieve its purpose and objectives *on their own* provide sufficient data and information to determine precisely what actions donors should take.**

II.2.4 Aid Needs, aid supply and aid efficiency

The economic arguments for providing development aid are based on the needs of recipients. If the recipient did not need aid, because it wasn't poor, or if it were able, at next to no major cost to its long term prospects, to achieve self-sustaining development without resort to concessional aid funds, then the economic arguments for providing it would become less convincing, if not disappear entirely. Originally, economists based their notions of how much aid was needed on the two-gap model; in some discussions of aid this has been altered and adapted to include a third (budget deficit) gap and to include the provision of aid to enhance consumption directly.

In spite of an extensive literature on the role and contribution of aid to development, based on gaps and needs, it would be comparatively rare today, if not unique, for an individual donor to base the amount of aid it gives on a carefully constructed aggregate assessment of total aid needs, reduced by the aid which other have agreed to provide.[18] What, then influences, a donor's decision about the quantity of aid it will provide to particular recipients? There are various, many of which are unrelated or only distantly related to the aid needs of recipients. Thus, strategic, political, historical and cultural factors have all played a role in determining decisions individual donors make about how much aid they will give a particular recipient, and these influences remain important today. More recently, decisions about aid levels have been determined increasingly by other non-economic factors, related to issues of human rights and democracy. Additionally, as discussed in **Section I**, aid allocations by different donors are also influenced by domestic pressures on donors to "give more aid", part of which will be distributed to individual recipients on a bilateral basis from the global amount which parliament allocates each year. But the basis of such pressures are usually unrelated to the particular needs of particular recipients. More recently, donors have withheld aid, and continue to withhold aid, not on an assessment of economic or development needs but on an assessment of whether a recipient is or is likely to comply with a series of conditions laid down by donors and/or the international financial institutions.[19] The result of all these developments and influences is that it is increasingly difficult to assume that the amounts of aid which recipients receive are necessarily closely related to the external concessional funds which they need to bridge shortfalls in domestic resources, even if poverty (in terms of GNP *per capita*) still remains an important determinant of at least the initial decision to provide aid.

The important question these issues raise is the extent to which it can be assumed that trends in the amounts of aid donors provide reflect the needs of the recipients. To the extent that they do not, then doubt is cast on the veracity of the statement that continuing or even increasing levels of aid **provided by donors** over time to particular recipients accurately reflects trends in the need for aid. Thus, if donors (for a variety of different reasons) provide more aid than recipients need then analysis of aid dependency based on actual aid flows will tend to **overestimate** the recipient's dependence upon aid. Indeed, if donors provide "too much" aid this may seriously and adversely affect its intended impact. On the other hand if (for a variety of different reasons) donors provide amounts of aid insufficient to enable the recipient to have the leeway necessary to embark seriously on the path towards self-sustaining development, then, again, it would not be legitimate to conclude that trends in actual aid levels accurately depict continuing aid dependency. The difficulty is that it is only possible to get to the root of the reasons for continuing or rising aid dependency if one is able to monitor trends in aid **needs**. If the amount of aid **needed** either remains constant over time, or worse, if it rises, this would

[18] Recent round table donor meetings have made some effort to quantify (perhaps crudely) particular foreign financing requirements, but usually without assessing how much might be sourced through normal commercial channels and the comparative costs of using these rather than concessional fund channels.

[19] See White (1994b) and Mosley, Harrigan and Toye (1991) for a discussion of the link between conditionality and aid levels.

seem to provide *prima facie* evidence of a contradiction between intention and practice: aid would appear not to be achieving the core objective for which it is being given. Yet in practice, the only data readily available and thus used in assessment of aid are data on aid **supplied**. Not only are aid needs and aid supplied different concepts but it would appear that the gap between the two could well be widening.

Differences between amounts of aid supplied and amounts required raise questions about the efficiency with which aid resources are used. Increasingly in recent years, as donors have stressed the need for recipients to execute "market friendly" policies, donors have focused even more sharply on the issue of efficiency of resource use. For the present discussion of aid need and aid dependency, two things would appear to follow. First, few donors, if any, would agree to providing aid to countries which are able to obtain from the "market", at next to no cost to themselves, the funds, skills or human resources which aid provides. Thus, secondly, to an increasing extent, aid is being viewed in terms of market inadequacies: providing resources in cases of the absence of markets, where markets are underdeveloped and where they are distorted, partly in the hope and expectation of extending, deepening and enhancing the functioning of markets in the future.

This suggests that aid will increasingly be needed most in precisely those contexts in which its impact is likely to be sub-optimal as judged in relation to market criteria, and thus where it will often be inappropriate to derive firm conclusions about alternative uses of aid based on quantitative trends of aid inputs and particular aggregate economic variables. Where aid is used to encourage structural changes across an economy, or encourage the expansion of new markets, again, monitoring trends in quantitative relationships will be likely to provide less than sufficient information upon which to decide how aid might be better employed. This is not to argue that inefficiencies in aid ought to continue to be tolerated. Nor does it mean that it will be self-evident what initiatives are needed to enhance the efficiency and effectiveness of aid. And finally, nor does it mean that donors should necessarily respond to the increasing or continuing phenomenon of aid dependency simply by focusing on ways to reduce aid dependency.

III DEFINITIONS AND INDICATORS OF AID DEPENDENCY

III.1 Towards Some Definitions of Aid Dependency

There are four major reasons why it has been so difficult to come to a generally definition of aid dependency. Firstly, the term aid dependency is used to encompass a number of different concepts, notably both quantitative financial relationships and less tangible wider contextual and structural relationships. Second, aid dependency is used to refer both to static current relationships as well to changes over time. Thirdly as widely understood, the term aid dependency is used not merely to describe factual relationships (what "is"), but also prescriptively (what "ought to be"). Finally, because the term is understood as something negative (aid dependency is viewed as a "bad thing"), the policy prescription is pre-determined — dependency ought to be reduced — and thus, on its own, adds nothing further to the discussion.[1]

One way of trying to try to address these difficulties is widen the discussion of aid and aid dependency beyond the confines merely of the role of aid in development, to the wider debate about development. What policy makers need are answers to the following sorts of questions: what precisely is aid dependency; in what way is aid dependency a problem, and how does it rank in terms of other problems of development; is it increasing; how should the problems be addressed, and how will efforts to resolve the problems of aid dependence affect wider problems of development and wider efforts to enhance aid impact?

The first step to locating aid dependency within this wider framework starts with attempting to draw up a definition of aid dependency which alerts one to this wider perspective. At the outset it needs to be said that this is no easy task — if it were, the problems would have been resolved already. A particular difficulty arises because aid dependency continues to be viewed in negative terms. As it would simply be too confusing to construct a definition of aid dependency which embraced both positive and negative aspects even if, as discussed in **Section II**, there are grounds for so doing, this study continue to use the term in this (negative) way.

In some measure, these dilemmas can be resolved by making clearer two distinctions which currently are often blurred and confused. The first involves distinguishing between aid dependency as a static phenomenon and aid dependency as a process, the second involves trying to draw a clearer distinction between the factual **descriptive** analysis of what "is" (aid dependency) and **prescriptive** comment of what "ought to be" done (policy outcomes).

On this basis, this study proposes aid dependency should be understood in terms of **a process**. Thus, it is suggested, when policy-makers focus their attention on aid dependency it will be most helpful if they understand this as

> *that process by which the continued provision of aid appears to be making no significant contribution to the achievement of self sustaining development.*[2]

To give this definition more substance, it is further suggested that this broad definition be refined by sub dividing patterns of aid dependency into three broad groups. This are termed **mild aid dependency, chronic aid dependency and diminishing aid dependency and defined thus:**

Mild aid dependency *is the process by which the continued provision of aid makes no significant impact on reducing the factors impeding the achievement of self-sustaining development.*

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[1] To describe something and, at the same time, to depict it as bad necessarily points to actions or remedies aimed at addressing, and eventually removing, the problem. One can convey this by means of a syllogism thus. When things are assessed as bad, action should be taken to reduce the harm done. Aid dependency is something bad. Therefore action needs to be taken to reduce aid dependency.

[2] If "self-sustaining development" is not the objective of the aid, then this term would be replaced. At its most general, aid dependency would be defined as that *process in which the continued provision of aid appears to be making no significant contribution to the achievement of the objectives for which it has been provided.*

Chronic aid dependency *is the process by which the provision of aid creates new and/or reinforces existing impediments to the achievement of self-sustaining development, thereby reducing or, at the extreme, nullifying the positive outcomes anticipated.*

Diminishing aid dependency *is the process by which the provision of aid contributes to the reduction of factors impeding the achievement of self-sustaining development.*

A number of points need to be made arising from these definitions. First, they do **not** distinguish between dependency arising from particular trends in **quantitative** indicators and dependency arising from trends in non-quantitative indicators — nor, indeed, from dependency arising from the cumulative effects of the interaction of a range of different types of indicators. Secondly, the definitions encompass different **forms** of aid dependency: both dependence which is caused, in some way, by the nature of the aid relationship, and by the failure of aid to achieve its objectives. They place the term "aid dependency" firmly within the context of aid's purpose and objectives. This is deliberate as the intention is to direct the attention of policymakers **well beyond** the process of aid dependency to the process of development. It is intended to caution against common "gut" reactions to aid dependency: provide aid in different forms, increase conditionality or, simply, reduce aid.

The strongest case for reducing aid is suggested from the definition of "diminishing aid dependency": aid has been effective and thus there is less need for it. In the case of "chronic aid dependency", there are evidently major problems, and some of these are clearly attributable to aid itself, or to the nature of the aid relationship. Thus in this case: the nature of the aid relationship certainly needs to be examined, but within a broader context. Yet there is **no automatic** presumption that reducing aid, changing its form or increasing conditionality will on their own resolve the problems identified. Finally in the case of "mild aid dependency", while the insertion of aid does not appear to be doing harm, there is little to suggest that it has been doing much good either. Again, the policy implication is not necessarily to cut aid, or to focus on the narrow aid relationship, but rather to understand better the nature of the development process and why aid's intended positive impact is not occurring.

Overall, therefore, and in line with the original motivations donors have for providing development aid, a major advantage of these definitions of aid dependency for donors is that they frame the term within a context which assumes that aid is **potentially virtuous** — it does have the potential to contribute to self-sustaining development. There is no *a priori* assumption that the phenomenon of aid dependency or its increase should lead donors automatically and necessarily to pursue any preordained policy.

A related feature of these definitions is that they are open-ended. The emphasis placed on the relationship between aid and **the development process** is deliberate: it is intended to encourage policymakers to examine either or both quantitative and non-quantifiable characteristics of the aid relationship in order to try to assess the importance and influence of each. Moreover, no attempt is made to categorise aid recipients as aid dependent on the basis of **static indicators** — if they receive, say, an amount of aid above a particular specified amount, or if the ratio of aid to particular indicators such as GDP, domestic saving or imports are above a particular bench-mark figure. This is because of the view (discussed above) that on their own, either absolute amounts of aid or static indicators of relationships between aid and particular variables provide insufficient information for policymakers on which to come to any firm decisions about how they should (or should not) alter the amount of aid they provide or the manner in which it is given.

Yet these comments should not be interpreted as suggesting that quantitative indicators are not relevant; their importance is discussed more fully in the next section. Equally, however, it is a strong assertion of this study that if the anticipated virtuous quantitative relationship between aid and key economic variables falls short of expectations, or perhaps turns out to be perverse, then a large part of the explanation for this is likely to lie in one or a number of important and usually significant set of contextual and structural factors influencing the narrow quantitative/technical relationship. One consequence is that when characteristics of aid dependency arise or are suspected in relation to particular forms of aid, especially at the micro-level, it is likely that success in reducing such dependence will require action to be taken well beyond the narrow parameters within which this particular part of the aid relationship is bounded. This point is discussed and developed explicitly in **Section V.**

Ironically, though the definitions given here appear very open-ended, in many ways they provide a harsh view of aid dependency: they point to the need to monitor and analyse the phenomenon, its causes and possible solutions on a continual basis. For instance, though it is common for aid dependency to be associated with a rise in the amount of aid provided to particular recipients, and for policy makers to focus on this phenomenon, according to the definitions given here, while aid dependency could occur when donors provide more aid, it could also occur (mild aid dependency) when aid levels are static and even when aid levels are falling! Donors need to analyses each of these different situations. Thus if the recipient economy is stagnating or contracting, or becoming less able itself to embark on the path of self-sustaining development, then maintaining aid at current levels would characterise the recipient as "aid dependent". And as aid dependency is viewed negatively, this implies the need to take action.[28]

For all the advantages attributed to this more dynamic set of definitions of aid dependency, it is necessary to list some of the weaknesses or problems, discussed in the previous section, which have not been resolved. Thus, although the policy context has been emphasised, we are still made little headway in indicating what particular policies donors should execute when aid dependency, as defined here, exists. Additionally, the need to distinguish between monitoring the aid actually supplied rather than the aid required has not been resolved either. Defining aid dependency is merely a first step. The next step is to decide on and draw up a list of indicators required to monitor the aid relationship in order to be able to assess whether aid dependency exists, its extent, the reasons for its existence and the prospects for and means of furthering its elimination. This is the subject of the next section.

III.2 Quantitative Indicators of Aid Dependency

Development aid is provided to help the recipient on the road to self-sustaining development. It is an assumption of this study (shared by the donor community) that self-sustaining development will be furthered by the achievement of high rates of economic growth and, either, an increasing utilisation of domestic resource to achieve this end, or else the ability to gain access to these from external commercial channels.[29] Consequently, it has been common for aid to be assessed in terms of its contribution to this process. Thus, macroeconomic analyses of aid (such as the SASDA studies) have attempted to analyse and monitor the relationship between aid and a range of different economic and financial variables deemed to be important either directly (in terms of aid's direct purpose in filling specific resource gaps) or indirectly (in terms of relationships between aggregate aid inflows and particular indicators of macroeconomic performance). It is thus a further assumption of this study (again widely shared by donors) that a critically important way to monitor the evolving aid relationship and to assess whether aid dependency is increasing or decreasing is to examine trends over time of a number of economic and financial indicators. Yet, as the definitions of aid dependency just discuss suggest, the performance of most discrete indicators will not necessarily provide <u>proof</u> of aid dependency. Rather the accumulated knowledge of the performance of a range of indicators helps to build up a more general picture of the both economic performance and the relationship of aid to development which increases knowledge about aid dependency.

III.2.1 Indicators linked directly to the aid relationship

But what financial and economic indicators and trend data are the best ones to use as quantitative indicators to monitor trends in aid dependency? Clearly, as just indicated, one set or cluster of indicators selected are likely

[28] Conversely, it might be possible to perceive a situation in which an economy receiving increasing quantities of aid was not deemed aid dependent. This could happen, for instance, if the rate of increase of aid provided paralleled, or even fell short of the rate of economic growth/development. However as it is also likely that continuing growth and expansion would increase the capacity of the recipient to utilise its own resources for future development, this particular situation would be likely to indicate more a growing gap between aid needs and the quantity of aid provied by donors.

[29] The core purpose of Swedish aid is to improve the well being of the poor. ["*The primary goal for Swedish development assistance continues to be <u>to improve</u> the standard of living of poor <u>peoples</u>* (emphasis added)". Swedish Ministry for Foreign Affairs *International Development Cooperation. Summary of the Budget Bill 1994/95*, Stockholm 1994, p. 3.] Thus all Swedish aid ought to be judged in relation to its success in improving the living standards of poor peoples. This issue is discussed more fully in **Section V.**

to include those which have evolved to form key elements in the macroeconomic theory of aid. These would thus include the following.

* Trends in aggregate aid and aid *per capita*, and in the relationship between aid inflow and overall growth rates (suitably lagged).
* Trends in development as against emergency aid.
* Trends in aid and the domestic savings.
* Trends in aid, exports and imports and, especially, the current account deficit.
* More recently, the contribution of aid to government finances has received prominence, both because aid has been used to fund budgetary deficits and because of continuing debates about the wisdom of donors funding recurrent costs. Hence trends in different indicators of budgetary performance (including deficits) are also likely to help build the overall picture.[24]

To the extent that aid is meant to "fill gaps", its success would be measured by the narrowing of these gaps. If aid continues at past levels (or increases) and those gaps have not been narrowed or if they have been narrowing more slowly than anticipated (for instance in comparison with other similar aid-receiving economies) and there is little indication that aggregate growth levels or the prospects for growth have improved, then these indicators would point to likely aid dependency.

III.2.2 Indicators to shed light on wider development performance

Relevant indicators for coming to a comprehensive picture of aid dependency need to include those that extend well beyond the narrow relationships monitoring aid impact more narrowly. They need to embrace those considered particularly important for achieving self-sustaining growth, such as those that provide proxies for the progressive movement towards the achievement of macroeconomic stability, even if some of these have not been of particular concern to more narrow macroeconomic aid theory. Though debates continue about what factors contribute to self-sustaining growth and their varying degrees of importance,[25] the sorts of indicators

[24] There is by no means agreement on precisely which indicators are the most suitable for measuring trends in budgetary performance and assess movements towards (or away from self sufficiency). On this point: a recent World Bank paper comments thus ("What Happens when the Aid Runs Out?" mimeo, January 1995):

> *Aid is not always a direct subvention to the budgets of developing countries; indeed, most donors have tried to phase out budgetary aid. In most cases, aid is now provided in forms which require the recipient country to apply the local counterpart of aid funds to approved projects which would otherwise feature in the budget. Loss of aid funds would not, therefore, automatically lead to an increase in budget deficits: in principle it should leave them unchanged, while the projects themselves would be cancelled. However, there would certainly be some leakage, as governments sought to protect aid-supported projects.*

[25] As argued in their SASDA study of Guinea-Bissau (Svedberg, Olofsgard and Ekman (1994: 25 and 26):

> *...though growth theory has advanced considerably since the mid-1980s, we still lack a complete model that incorporates all, or even most, important features of the individual model... The empirical studies that have emerged do not find strong and robust correlations between all (or even most of) the 'theoretical' growth determinants, and the actual growth performance of different countries. They do, however, find strong and robust correlations between a few of these 'growth determinants' and actual growth.*

> *...We do not know the sufficient conditions for growth... yet what has emerged is a rather widely accepted view of what constitutes the minimum necessary preconditions for significant growth... without the fulfilment of these conditions little or no growth can be expected.*

considered of importance here would include the following:

* Trends in ratios of domestic investment to GDP.
* Trends in the ratios of domestic saving to GDP.
* Trends in the "tax effort", such as domestic revenue to GDP.
* Trends in indicators of the efficient use of capital (such as changes in capacity utilisation rates, and trends in changes in output per unit of input).
* Trends in various key monetary indicators such as the rate of inflation and changes in the money supply.
* Trends in movements in the real exchange rate, including an examination of any possible relationship between aid inflow and changes in the exchange rate (addressing debates about Dutch disease).[26]
* Trends in the quantity and quality of human resources, monitored through analysis of enrolment figures and ratios of different age cohorts in primary, secondary and tertiary education, perhaps supplemented by trends in numbers of key skills of increasing relevance to growth in the globalised world economy, such as scientists and engineers; and finally,
* Trends in foreign investment inflow into the economy, disaggregated into direct and portfolio investment.

III.2.3 Quantitative indicators that monitor structural change

Additionally, performance indicators which monitor self sustaining growth and development will usually need to include indicators that help to throw light on structural changes occurring in the economy. At least two aspects of structural change need to be considered here. The first relates to indicators which attempt to capture a variety of different direct constraints, structural problems or "structural gaps" impeding self-sustained development. The second concerns those indicators which attempt to focus on the underlying factors impeding the filling of such gaps: what is preventing those changes from being made. The cluster of indicators which might be considered in this context would include the following:

* Trends in the development of the physical infrastructure (such as transport, roads, railways and harbours), including capital replacement.
* Trends in the structure of the economy, commonly monitored by changes in the composition of imports (away from consumer products) and in the share of manufacturing in GDP.
* Trends in the development of and access to power and telecommunications.
* Trends in the share of the population with access to basic services (water, education, health).[27]
* Trends in the external debt position of the aid recipient, including projected (actual and anticipated) repayment rates;
* Trends in poverty, employment (and unemployment) and inequality, monitored through a variety of social statistics, particularly trends in the share of the population with access to basic services (water, education, health). And
* Trends in the share of government expenditure going to the military and law and order budgetary allocations versus that allocated to economic and human resource allocations.

III.2.4 Priorities in Quantitative Indicators

Taken together, this threefold group of quantitative indicators looks rather like a long shopping list. Is it necessary to try to examine trends in all of them, are some more important than others? Part of the answer lies in the view of this study that the phenomenon of aid dependency is far more complex than is often thought, and thus that tracing the performance of a large number of indicators enables one to build a more comprehensive picture of the dynamics of the recipient economy and the constraints facing it. Importantly, too, on their own, trends in individual indicators tell us very little about the reasons for particular performance outcomes,

[26] Put simply, Dutch disease as applied to aid theory is that aid inflows put pressure on the exchange rate, strengthening its value and thereby reducing the competitiveness of the aid recipient's exports.

[27] In part, trends in these indicators serve as a proxy for monitoring the development of and access to markets.

clusters of performance indicators can help to answer the more important question of why aid performance has been sub optimal. For instance, trend data of the aid and savings relationship showing that domestic savings gaps have not narrowed merely tell us about (poor) aid impact. But if these are compared, say, with a falling ratio of tax revenues to GDP and with rising trends in military expenditure, then we now have far more information to be able to judge the underlying causes for differing performance. The larger the number of key indicators monitored, the greater the likelihood that the roots causes of aid dependency and their relative importance can be identified, thus providing more accurate information **useful for policymakers** needing to assess what action to take. On the other hand for poor countries especially, and thus for those of most interest to aid donors, it needs to be acknowledged that much of the data which might potentially be useful will either not be available, or be of very dubious accuracy.[28]

However, the general desire to obtain deeper and more extensive information does not mean either that one should attempt to proceed aimlessly through the shopping list. In trying to build up the picture of what is going on to deepen an understanding of possible causality, not only will indicators be of differing relevance and importance, but the (necessary) selection of indicators will be determined in part by the (unique) nature of the development problems and characteristics of the country in question and the (unique) nature of, including history of, the aid relationship established. In other words, it is simply not possible to say *a priori* which of these different indicators are likely to be more or les important for the analysis of quantitative indicators.

Though the thrust of the study is to argue strongly against specifying particular quantitative indicators of aid dependency, it concedes that, providing these are **not** used to draw policy conclusions *in abstracto*, donors might find it useful to focus on a small cluster of indicators to monitoring aid dependency over time. If one quantitative indicator were to be used, the best would probably be trends in the **ratio of aid disbursed to levels of GDP**.

However, if donors are to use quantitative indicators of aid dependency it is argued that it would be far more preferable to monitor the progress of a larger (though still comparatively small) number of indicators. A cluster of six indicators is proposed which attempt not merely to monitor the level and contribution of aid to the recipient, but which attempt to begin to capture at least some of the underlying (structural) reasons why aid continues to flow, trying to highlight what is happening to the economy and society more widely. These are listed in Box 3.1.

Box 3.1 Aid Dependency Core Indicators (Ten year Period)

1 Total Aid disbursements per capita at fixed prices

2 The ratio of aid disbursements to GDP

3 The ratio of emergency aid to GDP

4 The ratio of total debt to GDP

5 Under 5 mortality rates for girls

6 Secondary school enrolments as percentage of the total age cohort

[28] A recent assessment of aid to Tanzania (Helleiner, 1995: 5-6) suggested that figures as basic as the country's GDP could well be 100% inaccurate. Importantly, too, and to repeat the point made earlier, the aid data collected will always be data of the aid provid<u>ed</u> and not necessarily of the aid need<u>ed</u>. To the extent that there are wide differences between these two, actual aid performance is likely to be influenced quite profoundly by the size and nature of these gaps.

Analysing trend in the performance of these indicators will not provide firm answers about aid dependency in the recipient country in which they are monitored. However it is submitted that monitoring the performance of these six indicators together should provide an important first stage in judging whether aid dependency is mild, chronic or diminishing. A combined **upward** movement in the first five indicators and a **downward** movement in the sixth would suggest that aid dependency is increasing, a trend which is likely to be particularly worrying if the core ratio of aid to GDP (indicator 2) is particularly high.

The following provide some very brief comments about some individual indicators and links between them. Indicators 1 and 2 provide two key components needed to build up the aggregate information to assess trends in the overall scale, size and importance of the aid effort. From the point of view of "donor effort", trends in Indicator 1 are of greatest importance, while from the point of view of the overall importance of aid, Indicator 2 is of greatest importance. As discussed below (see Section II.3.2), an initial ratio of aid to GDP of over 10% should be considered worryingly high, though a ratio of 5% and higher suggests indicates that aid is influential in the economy and thus that its performance against key economic indicators needs to be very closely monitored.

The purpose of monitoring trends in Indicators 4, 5 and 6 is to help to throw further light into what is happening within the aid recipient country and thus to understand better the nature of the aid relationship. Though Indicator 4 remains on its own an inadequate indicator to capture all debt trends, it does begin to tell a story about potential constraints on aid impact.[29] Particular trends in Indicators 3, 4, 5 and 6, especially are likely to caution one against making too hasty assumption about reducing aid even when Indicators 1 and 2 exhibit long term upward trends. Thus a rise in Indicator 3 would often suggest that the recipient is experiencing problems well outside the confines of technical macro-economic and financial relationship; it would caution one against assuming that aid was a major cause of the problems of rising aid levels. Such an analysis would tend to be reinforced by a poor performance in relation to Indicator 5.[30] Indicator 6 is meant to be both an important social indicator as well as a proxy for structural changes in the economy.[31] A significant rise in the performance of Indicator 6, especially if accompanied by a significant fall in Indicator 5 would be positive and reinforcing.

Monitoring the performance over time of these six core indicators should provide donors with the initial overall view of aid dependency, together with some first signs of the underlying causes of the prevailing and changing aid relationship. But it needs to be stressed that this type of monitoring does not help to shed much insight into the link between types and levels of aid and the changing nature of the recipient economy. To examine these issues in depth it will be necessary to analyse the performance of the indicators discussed in Section III.2.2 above. Likewise, if more information is required to analyse structural change in the recipient country, to examine trends in a greater variety of social and gender-specific indicators then the initial six clusters of indicators will need to be complemented by analysis of additional indicators, as and when accurate data are available. Thus, overall, and when aid dependency is both chronic and increasing, the purpose of the initial analysis ought to be to urge donors to undertake further study both of additional array of quantitative and qualitative indicators listed and discussed in this section of the study.

III.3 Contextual and Structural (Non-Quantifiable) Indicators

However accurate they are and however numerous they are, quantitative indicators can never provide a complete answer to questions about aid and overall development performance, and thus to the causes of aid

[29] Table IV.3 provides a far better cluster of indicators to monitor debt constraints on development.

[30] In most aid recipient countries, one would expect Indicator 5 to be falling; even a static trend would indicate either minimal development and/or little progress in addressing gender issues.

[31] It may be better (though it would be more complex) to devise a weighted education index which captures progress in terms of primary, secondary and tertiary education. However if one indicator is to be chosen it is argued that secondary education enrolments would be a good one because in the process of globalisation, secondary education is likely to be of growing importance, even though universal primary education remains an essential goal.

dependency. It is thus of major importance to the current discussion to note that a growing characteristic of aid discussions in recent year has been the extent to which attention has been focused on non-quantifiable factors influencing aid and development performance. In this section we discuss these collectively in terms of the umbrella term "contextual and structural (non-quantifiable) indicators", subdividing them into two broad and distinct clusters: first, indicators which focus on domestic capacity, commitment and capability, and next, indicators which focus on donor-recipient relations.

III.3.1 Indicators of domestic commitment, capacity and capability

From the earliest days of the evolution of aid theory (but perhaps forgotten until recently), the virtuous effects of development aid have always been argued in terms of the context or setting in which the aid was to be inserted. Indeed it has always been the view of aid's proponents that unless the conditions are right and the context conducive, development aid would never be likely to achieve the objectives for which it is given: and it would certainly fall well short of expectations.[32] Thus the first set of indicators of domestic contextual and structural factors to be monitored which are likely to influence the impact of aid and the prospects for reducing aid dependency are those which focus on the different **pre-conditions** minimally necessary for aid's potential positive impact. They would include the following:

* indicators of overall stability, embracing absence of war and civil strife, extending to manifestation of the existence of law and order. Measurable proxies of these might include the following: military expenditure, trends in emergency aid, the geographical functioning of government departments, and crime figures;[33]

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[32] Thus, Chenery and Strout maintained that the contribution of external resources "may be large or small, depending upon the response of the recipient country" (1966: 723, 703). Similarly, Rosenstein-Rodan argued that the principal element in the transition to self-sustaining economic growth "must be the efforts the citizens of the recipient countries themselves make to bring it about", adding that "capital aid should be offered wherever there is a reasonable assurance that it will effectively be used" (1961: 107).

[33] Arguing that the presence of and trend in emergency aid (above a minimal threshold) would provide a useful indicator of whether development aid is likely to achieve its objectives could well lead on to the whole sub-set of questions and debate about dependency upon emergency aid: how to define it, what indicators to use in determining its presence, increase or demise, whether dependence on emergency aid should lead to less being provided, or to it being provided in different forms and for different time periods. There is neither time nor space to pursue these issues in any great depth here, though it should be noted that a large literature is evolving on this and related issues. From this, perhaps two sets of observations might be made.

First, some recent work, such as that by Hall-Matthews (1995) suggests the need to view emergency assistance not exclusively through the eyes of those providing it, but through the eyes of those receiving it. *Inter alia*, he argues that providers of emergency assistance have a tendency to wait until potential recipients are in a state of destitution until they provide the aid, by which time they are likely to become far more dependent upon such assistance than they would have been of the aid had been provided sooner, most notably before losing those assets necessary for them to provide economically for themselves after the emergency passes.

The second set of points raises doubts about continuing to maintain a rigid distinction between emergency and development aid. As argued in Riddell (1996), traditionally, emergency assistance and disaster relief have been perceived as temporary, provided with the hope and expectation that if countries have to be provided with such assistance they would quickly move back to more normal forms of development assistance. The weakness, and indeed, unsatisfactory nature of this distinction is currently seen in three ways.

* In the first place, a large (some would argue a growing) number of countries appear to be in a state of "permanent emergency", requiring such "transitional" assistance for long periods of time.

* Secondly, both in contexts of "permanent emergency" and where there is greater vulnerability to emergency, it is increasingly recognised that it is no longer sufficient to plan development initiatives ignoring the possibility that they may well be profoundly disrupted or even have to be abandoned. Thus the assumed chain of causality – from development to emergency and back to development again – is challenged.

(continued...)

* a legal framework, judicial system and institutional structures minimally capable of enabling government and the economy to function. Here the issue is not so much "degrees of efficiency" (to be considered below) but more whether very basic minimal framework is in place. The indicators might be measured in relation to: the existence (at least on paper) of a functioning legal system, including importantly, an independent judiciary; access of citizens to the system; minimal rights in relation to freedom of assembly and the formation of voluntary associations;

* the term minimal "institutional structure" means the existence of minimal skills and an administrative framework in order that the state is able to function and business is able to operate. This would include a state administration covering central authorities and coverage of the main population areas, with staff able and willing to carry out minimal functions.

Achieving these basic pre-conditions would normally be considered a **necessary** condition for development aid to have any chance of achieving its objectives. An important and immediate conclusion is that if a recipient state fails to fulfil, or deteriorates to the extent that it no longer fulfils, these minimal conditions and development aid is provided, then aid dependency would appear to be all but inevitable: continuing to provide development aid will not produce the development outcomes intended. But, importantly too, this does not **necessarily** mean that no development aid should be provided. It may well be highly desirable that aid at the micro-level be provided, for instance, to enhance the level of skills of government or potential government officers, or to help to create a new legal system. But it almost certainly means that aggregate positive effects of the aid provided will not be evident. It also suggests that if the international community wishes to help poor countries in such conditions to develop, what is likely to be most helpful are forms of assistance and interaction different in nature and form from development aid.

Once these core preconditions have been met, aid's impact can be adversely affected by two other forms of contextual and structural constraints internal to the recipient country. The first is the **commitment of the recipient to development**, including, importantly, evidence to indicate that all necessary measures are taken to ensure that the aid provided has the best chance of achieving its objectives. The second is the capacity of the recipient and its competence and capability to utilise the aid effectively.

It would clearly be naive to expect aid recipient governments to be "totally committed to development", or for all administrative staff to be totally dedicated to their work. Besides domestic economic growth, all governments have other legitimate commitments (national, regional and international, political, cultural, security-related) which they **need** to pursue. What is intended here is more to try to judge whether a minimum commitment to development is evident. This can be considered both positively and negatively. Thus the commitment of the recipient government to further the process of self sustaining development, including its commitment to try to utilise aid resources effectively, is likely to be revealed in relation to the following types of indicators:

* government statements outlining both its commitment to development and realistic measures to achieve these objectives;[31]

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[30] (...continued)

* Thirdly, within the new market-based view of aid and aid needs, it would be even more important for donors to assess whether they should be providing aid just because emergencies strike. Donors need to assess the capacity and capability of the potential recipient to obtain the necessary resources themselves, and if so, to re-assess their responses.

Taken together these points suggest that the traditional distinction made between different **forms of aid** – emergency assistance and development aid – are becoming less important in determining what to do, how to help, what time frame within which to assess external assistance needs and what role aid should play, than a distinction based on different clusters of recipients, which is more able to capture their relative potential for achieving development, the level and degree of constraints they face, and the time-frame for external assistance, and thus the particular role which aid might play.

[31] There is no doubt that government statements and ideological orientation have been influential factors in (continued...)

* consistency between what the government states is its development intentions and what it does in practice. Here one is not so much concerned with actual outcomes, not least because some perverse outcomes may have resulted from influences well beyond the influence of the government, but with two sorts of performance indicator: the first that initial policies embarked upon are in some minimal sense "pro-development"; the second that there is sufficient evidence of attempts to introduce countervailing policies when unexpected perverse outcomes result: what might be termed "staying power";[35]

* openness and transparency in relation not only to providing information and data on economic and financial trends and to civil society, but also in relation to helping donors (or not putting obstacles in the way of allowing donors) to monitor and assess the impact of the aid they provide. One indication of openness and transparency would be the attitude of the host government to corruption; both trends in the extent of corruption and trends in serious attempts to address the problem, perhaps by using Transparency International's corruption index, might prove useful in this context.[36]

* One indicator of the commitment of the host government to use aid effectively might be judged by the extent to which the government is willing to draw up a profile of its own needs and outline how it intends to co-ordinate the inputs, and programmes of different actual or potential donors.[37]

Commitment to achieving the goals of the aid provided and of self-sustaining development need to be married with at least a minimal ability to do so. Our concern here is not so much with the capacity of the economy to absorb different amounts of external assistance, and the effects on different variables such as the exchange rate, inflation rate, the money supply etc: these will have been monitored by examining trends in the appropriate quantitative indicators discussed above. Here the concern is more with the capacity and competence of prevailing, institutions, government departments and key individuals to do a number of things:

* helping to assess the need for aid at the aggregate and sectoral, national and local level;

* the ability to administer particular packages of aid;

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[34] (...continued)
determining aid allocations to particular recipients of Swedish development aid. The common contemporary view is that such statements are necessary but far from sufficient. However if actual development practice is broadly supportive of self-sustaining development and the efficient use of aid funds, one might begin to question whether such statements are even necessary.

[35] The term "flexible" economy is now sometimes used to attempt to capture the different characteristics which mark out economies for which development is a goal that is actively pursued. Building on the experience of the East Asian NICs, Seddon and Belton Jones focus on the links between politics, institutions and flexibility, arguing that (1995: 325-6)

> *Economic flexibility depends crucially on policy adaptability: the capacity to change the policy framework within which the economy operates, whether in detail or in overall direction, rapidly, efficiently and effectively, and without undue social or political friction. Policy adaptability is a function both of the character and ethos of the government and the bureaucracy... and of their degree of insulation from the immediate pressures of the political arena... Insulation (not the same as isolation) is possible only if the relationship between the policy-making process and the wider political economy permits the effective regulation of both 'the state' and 'civil society' within certain broadly acceptable parameters...*

[36] Werlin (1994) distinguishes between **primary corruption** – simply greed or excessive partisanship or selfishness that is subject to official punishment or popular condemnation, as suggested in typical definitions of corruption – and **secondary corruption**, referring to greed (or merely manifestations of ambition or survival) in the absence of viable governance which tend to be systemic or standard operating practice. He argues that the roots of corruption lie not so much in excessive greed as in the failure of the political system to protect the public which can only be confronted by addressing the low quality of governance through, for instance, promoting legitimacy, accountability, decentralisation, respect for human rights and the rule of law and participation.

[37] As discussed below, this is considered an issue of critical importance.

* the ability to monitor the performance of the aid provided and take appropriate action when the gap between objectives and what happens in practice is particularly wide; and

* the ability to use lessons learnt from past aid to help work out current and future aid needs and enhance future aid effectiveness.

Two immediate questions arise: how does one assess such competence, and how great a level of competence should one expect? These are both important but difficult questions to answer. This is because to the extent that skills shortages are a symptom of lack of development and inability to embark (unaided) on the path to self-sustaining development, it is quite likely that one of the criteria for judging the **need** for aid lies precisely in inadequacies in this area. Thus it would be too harsh a requirement for governments already to have the ability to manage an aid programme with great efficiency.[38] The question is how one should judge what should be the minimum required.

In many respects, the question can only be answered within particular country contexts. Once the relevant basic pre-conditions for the receipt of development aid have been met (and thus that there is a "basic" ability to "manage" the aid provided), what becomes most important is to find and monitor indicators which point to the increased ability of the recipient to manage the aid with growing competence. Clearly if there are not enough people to help manage and monitor the aid programme, or if there is little tangible evidence of a willingness to co-ordinate different aid programmes, then aid impact will suffer adversely. Clearly, too, if civil servants have little ability to carry out their jobs and are given little to no training to enhance their competence, then, too, one can be fairly sure that the problems of weak absorptive capacity are not being addressed. Additionally, if the salaries of key personnel are not at a level near or moving to a living wage then it is highly unlikely that they will have the incentive to **do** the job, even if they are capable and competent individuals.

But low absorptive capacity, and thus increasing likelihood of aid dependency could also occur as a result not merely from weaknesses of individuals, but from weaknesses within and across prevailing institutions or even from the absence of institutions necessary to manage the aid and to provide the broader "enabling" environment to enhance self sustaining development.[39] Again, it may well be necessary for aid agencies to consider far more deeply and systematically than they have in the past the extent to which they are matching the increasing quantities of aid they provide with the adequacy of the institutions through which these increasing funds are being managed and administered.[40]

These points provide the entry point for discussing the third cluster of contextual and structural constraints which can limit aid's impact and thus either directly or indirectly work to maintain aid dependency, namely the relationship between recipients and donors.

III.3.2 Relationships between donors and recipients

Aid giving has evolved to be something far more extensive and complex than merely the handing over of a single quantity of money to the aid recipient and its discrete and isolated use. Aid giving in most aid recipient

[38] As is apparently demanded in the SASDA study of Guinea-Bissau. See Svedberg, Olofsgard and Ekman (1994:34).

[39] Discussion of aid effectiveness has often tended to "stick" at the level of institutions and not discuss weaknesses ok key individuals – hence the deliberate mention here of individuals **before** institutions. This orientation is consistent with and supported by the following comment from Grindle and Thomas, 1991: 182):

> *public officials are almost always actively engaged in efforts to influence the scope and nature of change in their societies. Their perceptions, activities, motivations, and impact therefore deserve more systematic analytic attention than has generally been given them in discussion of the policy process in developing countries.*

[40] Is there, for instance, sufficient computer hardware, and linked, software to meet increasingly more rigorous administrative and management requirements as recipient economies expand?

countries now involves an institutional set of relationships between a range of donors linked to the recipient both at the centre (usually through the Ministry of Finance) and downwards to different ministries, institutions and individuals.

The evolution and, in most aid recipient countries, ever more complex inter-relationship between donors and recipients has occurred not merely as a result of the growth of aid and its existence in different discrete forms, but it has been influenced by the urgings, promptings and decisions of the donors, largely prompted by donor concerns to monitor aid more closely and to try to enhance its impact. On the face of it, these purpose and objective have been highly commendable. For too long, aid was provided on the assumption that it would achieve its objectives. But once donors took the decision to undertake comprehensive monitoring of project performance, to commission in-depth evaluations of impact and to respond to weaknesses exposed, it is inevitable that the institutional relationship between donors and recipients would become far more complex. Indeed, the larger the individual aid programmes of particular donors and the more extensive are the different relationships between donors and recipient the greater is the potential for the institutional infrastructure between donor and recipients to play a role of its own which, cumulatively could influence adversely both the impact of the aid provided and, more widely, the ability and potential of the economy to proceed as rapidly as possible on the path to self-sustaining development. Additionally, this is more likely to occur in countries which receive more rather than less aid, but it is these countries which are least likely to be able to absorb such "costs". It is in this sense that the aid relationship could itself play a role in exacerbating an aid recipient economy's dependence upon aid.

The purpose of this section is to raise a series of questions which are intended to shed light on the potential aid dependent nature of donor-recipient inter-action. The perspective through which donor-recipient relationships are viewed is in relation to the way they might accelerate and enhance, or inhibit and frustrate, the achievement of self-sustaining development. More specifically, we are concerned to highlight indicators, or to raise questions for donors to answer, which might pinpoint the extent to which the donors are both committed to the rapid achievement of the overall purpose of aid, and the extent to which their actions or their failure to act helps or hinders the furtherance of this objective.[41]

Consider first the overall aid relationship. If donor aid is provided in order to meet priority needs impeding the path to self-sustaining development, then one would expect the activities of individual donors to be consistent and supportive of this end. In this context, the following sorts of questions would need to be asked of individual donors.

* To what extent is your aid programme based on an overall assessment of aid needs in the country and the sharing of the allocation of responsibilities and inputs with other donors based on comparative donor strengths? How often is this needs based review carried out? If the recipient does not have the skills to draw up a profile of its aid needs (short term and long term), what resources are you allocating to help fill these gaps?

** Do you provide aid for purposes other than needs-based development? If so, how do you ensure that the gaps and potential conflicts between these and the recipients development goals are minimised?[42] What proportion of aid is tied and what are the costs in terms of raising costs? Do you always try to "buy local" rather than import goods, services and personnel from home in order to demonstrate your overall and broad commitment to development?[43] To what extent is the nature and composition of your aid programme coloured by your own agenda and non-developmental priorities which might distort the

[41] To a significant extent, the discussion in this section provides a mirror image of the commitment and capability of the recipient discussed above. Hence when combined together, they provide a more complete picture of the overall aid relationship.

[42] Providing (large and increasing amounts of) aid for military purposes could well act as a disincentive for recipients to use development aid efficiently and effectively.

[43] This issue is discussed in more detail in Riddell (1991).

recipient's development path?[44]

** Over what time period do you commit aid funds and how does this time-frame accord with attempts to enhance the path towards self-sustaining development?[45] On what basis do you decide to increase or decrease aid levels and how are these linked to the varying assessment of the needs of the recipient and the actions and decisions of other donors?

** If you assess that other donors actions or activities are working against the aims of the aid you provide, or against the objective of achieving self sustaining development with lower amounts of aid as quickly as possible, what actions do you take to address these problems? If you are unable to influence other major donors, what criteria would you use to assess when the adverse impact of other donors' aid reduces the overall impact of your own aid to such an extent that you should decide to withdraw?

* Do your relations with the recipient government involve specific steps to encourage the recipient to engage actively in initiatives aimed at reducing the need for and dependence upon aid, or do they encourage either passivity or continuing donor dependence? This issue might be answered in relation to the following questions:

** do you require/encourage/discourage recipients to draw up their own aid programme and aid priority check-list as a condition for providing aid? How do you help recipients to meet resource constraints in this area?

** do you require/encourage/discourage recipients to take the lead in coordinating aid and linking aid to the wider process of working for self-sustaining development? How do you help recipients to meet resource constraints in this area?

** do you require/encourage/discourage recipients to monitor and evaluate your aid projects and programmes? If not, what forum exists for recipients to provide feedback to you on evaluations and project completion reports? How do you help recipients to meet resource constraints in this area?

** what mechanisms and monitoring systems do you have in place to ensure that efforts to achieve the particular objectives of different elements of your own aid programme are not achieved at the cost of wider recipient objectives to achieve self-sufficiency? For instance,

*** if you employ local staff at higher than local costs, what measures do you take to counter-balance these "distortions"?

*** If you use expatriates in your aid programmes, what measures do you take to impart skills to citizens of the recipient country?

*** How is the skills transfer component of your programmes incorporated into assessments of project achievements?

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[44] An example here might be a donor which provides aid to the mining sector to encourage the extraction of minerals the donor requires, but which exposes the recipient to increased vulnerability to commodity price fluctuations.

[45] The issue of continuity and stability in aid flows is discussed in Ndulu (1995: 7). Relatedly, after 13 years as Ghana's Minister of Finance, Dr. K. Botchwey resigned in mid 1995. Commenting on donor relations over this period he made the following comments (Africa Financing Review, Vol. 2, No. 4, 1995, p.16):

> *... I have one big frustration with donors... The disruption in the macro economic position caused by the unpredictability of concessional flows has been very damaging.*

*** Do you draw up and share with other donors and the recipient your detailed plans progressively to increase the share of locally-contracted staff to replace ex-patriate staff in your projects?

** what mechanisms do you have in place to compensate for the necessary institutional demands you place on the recipient in terms of the smoothing running of your aid programme, for instance in terms of human resource time, skills and use of other recipient resources?

* What conditions and other demands have you placed on the recipient in turn for the aid provided? Does the recipient know how these conditions relate to your fundamental concern and objective to promote self-sustaining development? Have you indicated to the recipient what you will do if these conditions are not met, especially if the recipient fails to meet the conditions deliberately with minimal extenualing circumstances? Are you consistent as a donor in terms of what you say you will do if conditions are not met? When you operate in and thus providing aid within a "soft state" do you encourage the perpetuation of its weak attributes by being a "soft donor"? Are threats to reduce aid followed through?

Discussing these sorts of issues and raising these sorts of question places centre-stage a critical question too often not fully addressed or confronted, namely the very purpose of providing aid. Though most donors readily concur with the notion that aid should be provided with the aim of making a significant contribution to achieving self-sustaining development, the aid provided to any particular country is not in *en bloc*. Rather, it is subdivided – twice — into various sub-blocks: first different donors give different shares of the whole, and secondly, most donors (all bilateral donors) divide their "own" block into different components of their own distinct aid programme. At their best, each aid programme is drawn up to meet particular (dis-aggregated) needs of the recipient, often linked to the particular skills or attributes of the donor in question. Thus, aid is provided to meet education needs, health needs, infrastructural needs, or to contribute to filling particularly critical aggregate resource gaps through, for instance balance of payments or budgetary support.

In the case of Swedish aid, the core motivation for providing it is to "improve the standards of the poor" and thus aid is commonly channelled in a form where the links between the aid provided and the relief/future elimination of poverty is made explicit. The problem is that if too much attention is focused on seeking to enhance the impact of the smaller micro-programme, or on reaching and seeking to improve the lives of particular poor people directly, then it is likely that less attention will be focused on the more long term issues of increasing and enhancing the capacity of recipients to be better able themselves to achieve these ends of development, and on encouraging the recipient "ownership" of donor aid projects and programmes — that is, unless specific action is taken to address this potential weakness.[46] A crucial question which donors need **continually** to address is whether the purpose of aid is to contribute to the development process directly, or whether it is to strengthen the ability and capacity of the recipients to achieve these objectives themselves. Donors are likely to answer that they try to do both these things, though perhaps not with all the aid provided. But in practice not even this is clear.[47] There is another linked tension, or potential contradiction, which needs

[46] The recent DAC statement on shared orientations for development cooperation stated explicitly that [OECD. (1995) *Development Partnership in the New Global Context*]:

> *For development to succeed, the people of the countries concerned must be the "owners" of their development policies and programmes.*

[47] The importance of highlighting these distinctions is not that donors are unaware of them but that their practical approach to aid would often appear to be contradictory. Thus, on the one hand, donors are now increasingly arguing that their aid should be provided only if its intended effect has a chance of being sustainable in the medium to long term, maintaining, too, that much (perhaps most) of aid's lasting impact is likely to be influenced crucially by the extent to which the recipients are involved directly in decisions about aid priorities, working out its form and monitoring its use. Yet, on the other hand, donors appear to be placing **increased** emphasis on assessing the impact and quality of their aid in reference to the development outcome achieved. The result is that **in practice** donor activities appear to be weighted heavily against working out how the aid they provide might be packaged up better in forms which focus on (continued...)

to be highlighted. It is entirely appropriate, indeed it is commendable for donors to wish to enhance the impact of the discrete aid projects or more general aid interventions that they fund: if nothing else, they are accountable to parliament or their boards to ensure that taxpayers' money has been used as efficiently and effectively as possible. Yet the very process of focusing on ways to improve the development impact of discrete aid projects not only strengthens the incomplete notion that the purpose of aid is exclusively to produce tangible development improvements, it also reinforces the false view that it is aid which makes the crucial difference to and is the catalyst of development.

Most of the points and questions raised here focus on different institutional constraints that can arise out of the aid relationship. Many arise from tensions and conflicts between different objectives, including different types of objectives. Some arise from actions taken, some from the failure of donors to act. What they all share is a view of the aid relationship seen through the perspective of the twin core justifications for aid: that it should be focused on helping recipients achieve self-sustaining development and that it should, thus, be temporary in nature. Some of the key institutional implications of approaching aid through the sorts of questions have recently been summarised thus (Bossuyt and G. Laporte, 1994):

> *.. the aid system must be reviewed from a recipient perspective. Local conditions and capacities should become the starting point of development programmes rather than the contextual footnote. It implies: scaling down expectations to what can realistically be achieved; adopting an interactive process approach to designing and implementing development programmes; adapting the nature of donor involvement to local capacities; and adapting financial flows to recipient implementation capacities. This implies that the "first-best" technical prescriptions and complex schemes may not be appropriate, that extended time horizons are needed.*
>
> *Paradoxically, the first priority is not to build new institutions but to dismantle the wide array of ad hoc institutions created to speed up the implementation of (different component parts of) aid programmes.*

A recent evaluation report for Sida has drawn attention to the wealth of literature now available on institutional building, but to the paucity of advice on how donors might implement policies to strengthen local institutions.[18] Reviewing the literature on aid dependency suggests not only that there is little advice available to donors on how to avoid or minimise the perverse institutional effects which providing aid can potentially have on the recipient economy, but that there has also been little rigorous analysis of the sorts of issues raised here. In short, when donors focus on the issue of aid dependency, it is common for them to focus most on causes which focus on impact issues "out there" and less possible causes to which they themselves are or might be party. Yet taken together, it should be apparent that donors, individually or as a group could well be playing a large part in perpetuating or creating new areas of aid dependency. Unless these possibilities are reviewed and analysed, any study of aid dependency will remain incomplete, increasing the risk that policy proposals made will fail to achieve the outcome expected.

[17] (...continued)
strengthening and enchancing the capacity of recipients both to involve themselves more directly in the development process and to achieve their development objectives for themselves.

[18] Moore, M., Stewart, S. and Hudock, A. (1995) *Institution Building as a Development Assistance Method: A Review of Literature and Ideas*. SIDA Evaluation Report 1995/1. Stockholm: SIDA.,

IV AID DEPENDENCY: EVIDENCE AND ANALYSIS

It is one thing to discuss the issue of dependency at the theoretical level and to draw up a set of indicators which are intended to shed light on the potential extent of aid dependency. It is quite another to analyse the extent to which aid dependency exists, assess whether it is a growing phenomenon, and pinpoint the characteristics of aid dependency which appear to play a particularly important role in perpetuating or increasing a particular aid recipient's dependence upon aid. Within the overall constraints of this study, the discussion in this section of the study looks at the issues of aid dependency by focusing more closely on the evidence of aid in practice. It is divided into two parts. The first summarises some macro-economic trends and data, the second tries to link the discussion of aid dependency directly to the Swedish aid programme.

IV.1 Trends in Aid Dependency: some evidence

Reviewing the literature on aid, aid theory and aid impact, and more broadly the literature on macroeconomic growth and development, reveals (perhaps surprisingly) that there have been very few studies which have attempted to analyse issue of aid dependency *per se* in any comprehensive manner. Most discussions of aid dependency tend to be a sub-set of broader studies on aid and aid impact. From this incomplete and very variable literature, the following very general picture of aid and development performance provides an initial general overview of aid dependency issues in term of particular groups of countries.

* Clearly aid is not necessary for development. At its best, it is seen as a means of accelerating the development process. The attributes and strengths of the fastest growing developing economies (such as the newly industrialising countries) appear to lie in the package of policies they adopted, a special form of inter-relationship between the state and the market, a commitment to development, flexibility and adaptability, the priority given to education and skills training, and policies to encourage the rapid expansion of exports of increasingly complex products. What characterises the literature on the development of these economies is not merely that they are "lightly aided" but the absence of, or very minor interest in aid issues at all. If aid was an important early basis for future growth, and the largest reference to aid talks (in different ways) about it providing a "breathing space", its early importance appears to be quickly forgotten. In other words, when countries have embarked upon a stable and sustained process of growth, the aid relationship and any discussion of actual or potential aid dependency fast becomes irrelevant.

* In strong contrast, there would appear to be a core of 20-30 countries (of whom a large proportion are in Africa) which are characterised by: high levels of aid; and in most cases both expanding amounts of aid as well as severe and often growing problems of growth and development. These could be termed "heavily-aided" They have recently been referred to as "paralysed economies" ("Name Calling and its Perils", *The Economist*, 6th May, 1995). Currently, aid is given to some 160 countries and territories across the globe. Of these, there are four which have ratios of ODA to GDP in excess of 25%: Tanzania, Mozambique, Nicaragua and Uganda. A further 26 countries have ODA/GDP ratios of between 10% and 25%. Of these 30 countries, 29 (all but one) are classified by the World Bank as low-income countries, and 22 of the 30 are countries in Sub-Saharan Africa. However a further 10 low-income countries have ODA/GDP ratios of less than 10%.

For a high proportion of these 30 countries aid dependency, as measured quantitatively in terms of the aid/GDP ratio, appears to be increasing. What is less clear (largely because it has not been analysed sufficiently) is the extent to which continuing or rising (quantitative) aid dependency has been significantly influenced by the nature of the aid relationship. Nor is it clear to what extent changes in the aid relationship will have a significant impact in helping to ease the constraints to development. Nonetheless, there remains the suspicion, or concern that because aid is failing to achieve its purposes, the combined effect of the history of the aid relationship and current aid dependency must in some way be contributing to the ineffectiveness of the aid provided.

* Between those two groups of countries (those where aid tends to be marginal and those in which aid flows play a major role in their economies) are a large number (80 or more) of the total of 160 aid recipient countries where the recipients receive aid equivalent to around 3% to 10% of GDP. In these countries, the quantitative relationship between aid and different macro-economic indicators varies widely. Across these

aid-recipient countries, trends in some indicators suggest that aid dependency is increasing, some that it is decreasing, with different indicators showing differing relationships both across different countries and over different time periods within the same country. Not surprisingly in some of these countries, it is argued that aid is not very influential and that if aid is failing to achieve its objectives or it is exacerbating or creating new problems, these are relatively unimportant issues. On the other hand in other countries, it is argued that aid can and does have a major influence on development and thus that it has the potential to make a major (positive or negative) impact and influence. It is probably in this small group of, perhaps, 30-40 aid recipient economies, and not in the most poor and most aid dependent, or in the "lightly aided", where perhaps the greatest scope lies for more self-sustained growth and development. Whether this means a reduction of aid, a change in the way aid is given, change beyond the donor-recipient relationship, or a judicious mix of all or some of these elements is difficult to say because of the lack of evidence of the extent and importance of aid dependency vis-a-vis other constraints on development.

One exception to the partial nature of most of the available evidence are the various studies on aid dependency which have been carried out in Bangladesh, and now in Tanzania, most notably those by Sobhan (1982, 1991 and 1995). Briefly, Sobhan's analysis leads him to conclude that Bangladesh (and now Tanzania) are economies where important policy decisions are taken by external actors and agents, and that among this group aid donors have played a significant role and influence. He argues not only that instead of aid leading to increasing self-sustaining development it has become "the soft option in lieu of taking hard decisions on mobilising domestic resources and improving the yield of investments" (1991:3). The aid relationship, he asserts, has "become a vehicle for the enrichment of a class whose affluence derives from the aid programme" (1991:3). Why did this occur and what are the solutions? Sobhan argues that "...it was really the incapacity of successive governments to mobilise adequate domestic resources and to use aid and investment more efficiently which created the climate for growing dependence upon outside donors" (1991:12). The critical issue and the solution for Sobhan do not lie in advocating the end of aid, or even in donors providing aid in different forms. Rather, it lies in "whether we can really assert our own authority in our relations with donors, where we can risk saying no to projects and policy advise if they remain contrary to our national interests and priorities" (1991:12), a point repeated in his study of aid dependence in Tanzania (1995).

Linking these notions of aid dependency to the discussion in the last section of the study, it appears that the concept of aid dependency provided by Sobhan gives more weight to and places more emphasis on matters of governance, most notably the failure to use aid to assist in the process of self-sustaining development, than on a range of trends of particular quantitative variables and relationships. Indeed, Sobhan's observation that the ratio of ODA/GDP has tended to fall in the last 10-15 years does not lead him to falter in his conviction that aid dependency remains as important as it always was, even if he does place greater stress on the failure of domestic savings to rise as a share of GDP.[49] There are three qualitative types of "indicators" or characteristics of aid dependency which Sobhan uses, or refers to, to confirm his judgements about Bangladesh's aid dependency. The first is the absence of any plan or strategy for inter-acting with donors, manifest most clearly in the way that donors have been able continually to pursue their own agenda. The second is the evident gap and lack of consistency between the rhetoric of self reliance and what happens in practice. The third is the Government's ignorance about the outcome of the aid projects and programmes of individual donors. Ironically, however, the situation which gives the donors such power is not one which leads to donor satisfaction or complacency. As Sobhan argues "Their frustration at our poor development performance has given way to anger and contempt at our incapacity to improve our performance." (1991:21) Importantly, however, while Sobhan acknowledges weaknesses in the Government's administration which lowers the

[49] Recent macroeconomic trend data on Bangladesh suggest that in terms of key quantitative indicators discussed in **Section III**, Bangladesh is becoming even less "aid dependent" (see also Tables IV.2 and IV.3, below).

Ratio	**1980**	**1993**
ODA/GNP	10.2%	5.8%
National Saving/GNP	3.8%	11.1%
Debt Service Ratio	23.2%	13.5%
ODA/Imports	66.2%	34.0%

Source: World Bank (1995) World Tables and OECD aid statistics (various sources).

efficient use of aid, and other resources, and hence contributes to the perpetuation of one form of aid dependency, he argues that unless problems of governance are addressed, addressing these administrative problems will not strike at the core of the problems. In other words, he not only argues that structural/contextual issues are more important for understanding the nature of aid dependency than changes in quantitative relationships, but it is equally important to judge the relative importance of these non-quantitative influences. Additionally, and of relevance to the discussion about how closely aid needs and the supply of aid are linked, Sobhan argues not only that the level of aid provided is far higher than that required, but that a major reason for this is that out of self-interest officials in donor aid agencies and those from the donor country who benefit from aid contracts are influential in ensuring that aid levels remain "as high as possible" (1991:5).

Shifting the focus away from Bangladesh, it is of interest to note that a recent independent study of aid to Tanzania came, indirectly, to similar conclusions about aid levels. Thus it argued that an anticipated future fall in aid levels is not likely to make much (if any) difference to the impact of aid, because of the current inefficiencies in the way aid funds are utilised.[50] In other words, the theoretical discussion in **Section II** which drew attention to the gap between the aid supplied and aid needs appears to have important policy relevance in the real world. Likewise, Sobhan's argument that the heart of the problem of aid dependency lies in the lack of commitment and the inability of the government to promote self-sustaining development has strong links with the growing view in the literature on the importance of "ownership", participation and involvement in aid projects and programmes, which could both be viewed as elements of commitment.[51] The emerging policy-linked consensus on these issues is not only that of advocating recipient commitment to, identity with, and control of aid and development, but it is also providing evidence of the importance of these attributes in terms of impact. For instance, a recent World Bank study argued, on the basis of evidence collected, that the external determination of a programme will weaken what the Bank calls the government's sense of "ownership" of the programme which may well be the most important determinant of its success (World Bank, 1994a). The study assessed programme ownership by the extent to which the initiative for the programme's policies was local or external, the level of intellectual conviction in the appropriateness of its measures, the extent of support from the top political leadership, and efforts towards consensus building among the wider public, and tested for correlation between the variable and its assessment of the satisfactory outcome of the programmes. The results showed that the extent of government ownership predicted the satisfactory outcomes of adjustment programmes in three fourths (73%) of all cases, with most outliers explained by exogenous shocks.[52]

For its part, IMF analysis focuses more on the capacity and capability of governments to carry out policies than on their commitment which, it is argued, is the most critical determinant for the success of aid (in Africa) and the efficient absorption of higher levels of aid (See Hadjimichael *et al.* 1995). This is confirmed by Reynolds (1983) who maintains more widely from a comprehensive survey of world trends in economic growth, that what he terms "administrative competence" is the single most important variable in explaining differences in growth between countries. The policy implication from this evidence for the debate about aid dependency is both that administrative competence is a critical determinant of aid effectiveness, and hence one should be wary of deriving policy conclusions merely from trends in quantitative relationships, and thus that a major purpose of aid ought to involve addressing administrative weaknesses in aid recipient economies.

[50] "*It can argued... and it is argued by many in the GOT as well as in the aid community, that a reduction in the degree of Tanzania's dependence upon aid is entirely desirable. In the medium to longer term, we share this view. Reduced aid to Tanzania need not be at the expense of the country's continued progress, particularly if it is managed more efficiently both by donors and the GOT.* (Helleiner *et al* 1995: 8).

[51] For a discussion of evidence on the link between participation and project performance see Isham *et al* (1994).

[52] See Killick (1995b) for a discussion of the study and its implications for conditionality. See also a 1993 World Bank study on structural adjustment programmes which provides evidence on the importance of ownership for ensuring adjustment programme outcomes (Johnson and Wasty, 1993).

IV.2 The SASDA and Related Studies

With the notable exception of the study of Tanzania commissioned in mid-1995, neither Sida nor the Ministry of Foreign Affairs has either undertaken or commissioned a comprehensive study of aid dependency of any country to which it gives aid. Thus the evidence which the SASDA and other studies provide on aid dependency is indirect. Before this evidence is summarised, it is useful to draw attention to some common features of aid dependency contained in these studies.

First, the points raised tend to be almost entirely country specific: there is little attempt (and some reluctance) to be drawn into making across-the-board generalisations about, say, common features of aid dependency from the specific country evidence gathered. Second, the studies focus most on analysing trends in selected quantitative relationships to derive conclusions about the degree and varying intensity of aid dependency. In contrast to Sobhan, it is quantitative indicators which are almost entirely the basis of the conclusions drawn. Thirdly, and relatedly, the studies focus most on describing trends than on trying to identifying the cause, or causes, of aid dependency. Fourthly, however, and perhaps of most interest to the policy debate, the SASDA studies by no means follow a regimented type of argument of the form "if aid dependency is increasing, then aid ought to be reduced". In a number of instances where the expected (or hoped-for) positive relationships between aid and particular macro-economic variables has not occurred, the case studies often go out of their way to caution against concluding either that without aid, or with less aid, the recipient would be better off, or that aid should be reduced simply because it fails to achieve the outcome intended.[53]
In this context, the following points taken directly from the SASDA case studies provide some of the main conclusions on aid impact which inform the debate and discussion of aid dependency from the case studies of Guinea Bissau, Nicaragua, Tanzania and Zambia.

IV.2.1 Guinea-Bissau

* That aid should help the mobilisation of domestic resources may seem rather obvious, but this has not happened. Although the Government has committed itself to domestic resources mobilisation, actual performance speaks a different language. The Government's revealed preference suggests that much of the efforts have instead ben geared towards maximising current consumption, especially private, at the expense of domestic saving and investment in both physical and human capital.

* Empirical analysis of a direct link between aid and growth has been shown to be fruitless and beset with methodological deficiencies.

* The actual as opposed to the rhetoric, objective of the Government has not been "self reliance and people's participation" but rather the maximisation of the inflow of development aid. Since 1987 when this contention was stated in the SIDA country report the Government has not significantly managed to change that impressions.

* Transparency and the budget. In Guinea-Bissau, far from all aid has been recorded in the government central budget.

* Dutch disease. What has caused the appreciation of the peso? The answer is unambiguous: foreign aid. There is simply no alternative explanation: there is no other inflow (supply) of foreign exchange from abroad and domestic supply (from the export sector) is far too small to have a substantial effect.

* The neglect of analysing the absorption (absorptive) capacity, as well as the indirect effects of aid on macroeconomic variables such as the real exchange rate, inflation and savings, seem to have prevailed over the years. This is probably one explanation why no discussions concerning the amount of aid until the last two years have been held.

[53] As illustrated below, the Guinea Bissau study probably produces the strongest conclusions about the need to reduce aid.

* It appears that the system of country frames led to more or less automatically increased amounts of support every year, irrespective of the actual effects of the aid.

* The report recommends a substantial reduction in Swedish aid as well as a higher concentration of aid to certain key sectors. It advocates a drastic cut in balance of payments and import support.

IV.2.2 Nicaragua

* In this study foreign aid dependence is defined as "a country's inability to finance investment and import requirements through normal commercial channels". Nicaragua is a perfect example of this type of dependency.

* Nicaragua is completely aid-dependent not only for growth but also for carrying out its stabilisation and adjustment programs. There is simply no way of getting the country back on a growth path without working on further renegotiation of the country's foreign debt and this clearly includes debt forgiveness.

* In relation to the absorption capacity it may therefore be stated that the country receives too much aid at present.

IV.2.3 The Tanzania study

* Import support has been a major part of aid to Tanzania. It is an efficient way to put money into the economy and the government budget, but its effectiveness will depend on the effectiveness of the recipient.

* Donors cannot forever run large parts of the economy, and in the long run, recipient countries must generate their own resources and reduce aid dependency.

* The effects of aid on the overall policy environment have been at least as important for Tanzania's growth performance as has the resources transfer financed by aid.

* There is no obvious evidence of a discouraging effect of aid inflows on tax effort in Tanzania. The strong effect is a direct positive link between aid and revenue generated by the dependence of revenue on the import base.

* Donors should wish there to be a high savings rate out of aid but should not be disturbed if this is significantly less than 100%. A rate of 100% would only be justified if the donor attached no weight to the alleviation of current poverty.

* When evidence of Dutch disease are present, the cure is not necessarily a reduction in the amount of aid. The real issue is one of policy design and capability, not of macroeconomic dysfunction intrinsically associated with aid. While cutting aid is appropriate in a variety of circumstances, it is never, in the absence of policy implementation problems, a first-best response to Dutch disease problems. Aid and Dutch disease in Tanzania: the overall verdict is that aid played a secondary role. Aid filled the gaps created by poor export performance and in doing so it supported an appreciated exchange rate. BUT if aid has been lower, it is not clear at all that export performance would have been much better.

* Looking at the growth record of Tanzania, it is hard to argue that aid has had a very positive effect on economic growth. The growth rates recorded however, depend mainly on factors other than foreign aid. The country for a long time followed a development strategy that turned out to be unviable, and the economy has also been exposed to a series of external shocks. It is not possible to disentangle the overall growth effect of aid (or of Swedish aid) in this context.

* Sustainability of activities is the major worry with regard to current aid to Tanzania. To improve

sustainability, priority areas of aid should correspond to key sectors of government expenditure. Activities on which government has low priority run a high risk of decline once donors withdraw support.

* It is desirable that the government "owns" the aid programme to a higher degree than it does at present. To achieve this, donors should delegate more responsibility to the government, while at the same time creating incentive structure for good behaviour.

* In Tanzania, SIDA tries to pass the central government and to work on the district level with extensive SIDA controls of payments as well as the execution of the projects. What will be the long term implications of this? — Well functioning projects in a failing overall structures are not proof of a good aid programme.

IV.2.4 The Zambia Study

* Argues that the Swedish aid programme to Zambia has been influenced quite profoundly by external Swedish influences.

* Evidence, especially in the second half of the 1980s that Sweden's aid policies and Swedish aid levels were markedly out of step with those of other donors.

* Sweden's aid policy was influenced profoundly by belief in the government's plans and policy documents, and far less by analysing the "revealed preferences" of the government.

* The Swedish aid package has emphasised rural development, while the Government had an urban focus. Thus, there has been a conflict of interest between the Government and Sweden (as well as other donors). In theory, the Government accepted Sweden's aid priorities but in practice largely ignored them.

* In the period from 1970 to around 1983, aid flows basically underwrote domestic policy responses to external shocks. These were broadly aimed at maintaining public and private consumption in the face of the decline in the national income and supporting the bias in domestic relative prices towards import-intensive consumption and capital intensive production. Aid flows were low (relative to other private and official capital flows) and were governed by quite light conditionality. During this phase, aid substituted for domestic saving and investment - which would have been the optimal response if the terms of trade shock had indeed been temporary - while adherence to conditionality was endogenous to the external environment.

* In the absence of a well defined counterfactual, it cannot be inferred that the increase in per capita aid contributed to the decline in per capita incomes in Zambia.

* In the early years, as aid increased, so consumption has risen, investment slumped and domestic savings fallen. This same conclusion is hard to draw in the later period where inference is complicated by the cumulative effects of much greater macroeconomic disequilibrium prior to the start of the aid programme.

* An important reason for Zambia's poor performance is that donors have made errors.

* The biggest problem facing the current programme is that the "flow" responses to policy reform which are broadly positive risk being swamped by "stock adjustment" effects which are likely to have negative effects on output, incomes and growth in the short to medium term.

* It should be noted that if we choose to allocate money to activities which are listed as priorities by the Government of Zambia, we are in practice anyway supporting the whole budget because of the fungibility of funds.

IV.2.5 Summary study: The Macroeconomics of Aid

* In all countries, policy conditionality has witnessed a change in the composition of aid, with a far greater share of balance of payments (import support and debt relief) than previously. This type of aid is linked to structural adjustment for two reasons: (i) it is easier to "turn on and turn off" in response to policy changes; and (ii) as recipients reform their economies then aid which operates through the market is desirable and more efficient. The studies suggest that balance of payments support has achieved both these objectives.

* **Aid and the external balance.** None of the studies found a straightforward relationship between aid and imports. In Tanzania and Zambia, there was a negative correlation between aid and import volume; in Nicaragua a weak positive link, and in Guinea-Bissau no apparent relationship.

* **Debt.** All four countries are now dependent upon aid to be able to meet their debt obligations.

* **Aid and internal balance.** None of the country studies reported an economically significant negative relationship between aid and aggregate domestic savings. Recipient government reaction to aid inflow was found to support the theoretical results of the fiscal response model - that is with aid being used to support consumption expenditure, reduce taxes and so reduce public savings.[54]

* **Import support.** The studies of Nicaragua and Tanzania state that import support has had the desired effect of fuelling growth through the utilisation of existing (spare) capacity. Criticism that import support funds enable luxury consumption appear unfounded from the country study evidence.

* **Ownership.** Ownership is crucial to ensure recipient commitment to the programme.

* **Aid Dependency.** This is defined as the situation in which a country will require aid to meet its investment and foreign exchange requirements indefinitely. Guinea Bissau, Nicaragua, Tanzania and Zambia are all forced into a position of aid dependence by their high debt burdens. In addition, in Nicaragua and Guinea-Bissau, declining private savings rates, dismal export performance and rising (consumer based import demand have widened the ex-ante internal and external gaps, requiring continuously high aid inflows It is concluded that the elimination of aid dependence needs not only aid money to promote growth but also policies to adjust the economy.

* **Overall.** The results show that the macroeconomic impact of aid is more complex than supposed in the two gap model, or as shown by the empirical literature which regresses imports and investment on aid. There is no clear cut one-for-one link between these variables and it is not possible to find any significant relationship in some cases.

  But if we wish to answer "are these countries better off with aid than without it?" the answer must be yes, Aid in all four of the recipients is paying a debt burden which could not be met from the recipient's own resources. Without this aid there would be no domestic resources for development and reform would be difficult to sustain.

IV.3 The Swedish Aid Programme More Generally

The SASDA studies constitute four in-depth analyses of the aid relationship. They all share the view that at the macro-level it is particularly difficult to trace the impact and effectiveness of Swedish aid, even when Sweden has been a particularly large and influential donor. The purpose of this section is to widen the discussion more generally and raise additional points about aid dependency through the prism of the Swedish aid programme, based largely on quantitative data and a sample review of some recent cooperation

[54] In a more recent paper on fiscal behaviour and aid inflows into India (a Swedish programme country), White concluded that "aid is mostly used to increase investment, with little impact on consumption expenditures, or on taxes or on borrowing" (1995:8).

agreements between Sweden and some of its main aid recipients.[55]

IV.3.1 Swedish aid disbursements by country category

In 1993/94, Sweden provided aid to 111 countries, of which 19 constituted "programme" or priority countries. It is for these aid recipients that Sweden has been more able to allocate human resources and technical expertise in order to create particular and holistic aid programmes; in contrast much of the aid to non-programme countries is subject less to aggregate or overall scrutiny. Thus it would seem reasonable to assume that Sweden has been able to develop an aid programme based on need in its programme countries; for the others it would usually have to rely more on assessments made by others. It is thus of interest to note that in 1993, only 33% of all Swedish aid was disbursed in these 19 programme countries, and only 45% of all aid not specifically earmarked for multilateral purposes.[56]

To what extent is the allocation and disbursement of Swedish aid related to need? But how does one judge need? As the primary goal of Swedish development assistance continues to be based on the objective of improving the standard of living of poor peoples, it would seem reasonable (as a first stab) to examine aid flows in relation to the development status of the recipient. One indicator of poverty is the cluster of countries called the "least developed". Ten of Sweden's 19 programme countries are within the least developed grouping. With India, these (10 + 1) countries accounted for 67% of all Swedish aid to programme countries disbursed in 1993, and 22% of all Swedish aid.[57] However in terms of the World Bank's classification, all but two of Sweden's programme countries (Namibia and Botswana) are grouped as low-income countries. But perhaps the most widely used contemporary measure of wider poverty is the United Nations' Development Programme's Human Development classification. The UNDP groups together 46 countries under the term "Low Human Development" and in 1993/94 Sweden provided aid to all of them. As for Sweden's 19 programme countries, 12 of these are grouped in the UNDP's Low Human Development group of countries, seven are grouped in the Medium Human Development group, with 80% of all programme country aid disbursements going to the 12 Low Human Development Group.

How do these figures of aid disbursements, and differing attempts to equate aid provided with level of aid need relate to the discussion of aid dependency? First, it should be stated that in two ways the figures are not particularly helpful. Thus, the figures just quoted are figures for total Swedish aid and thus include emergency aid where immediate need is by no means always related to aggregate levels of poverty and underdevelopment. Thus where aid is channelled to emergencies in countries that are far from amongst the poorest, it does not mean that the aid is not being used to meet important human needs. Likewise, while more wealthy developing countries are more able to meet their development needs from their own resources or to obtain them externally through normal commercial channels, country classifications are based largely on static analysis. Thus they neither include partial needs which might be met more efficiently with aid nor do they incorporate the notion of the potential for development and future resource shortfalls. In other words, while the figures given here do provide pointers towards certain conclusions about the link between aid provided and relative need, one does have to be cautious in using these figures of Swedish aid disbursements by type of country and to draw hard and fast conclusions about the relationship between disbursements and the need for aid. It is also important to compare Swedish aid to that of other donors. In relation to both European Union (EU) and all other OECD donors, Sweden's performance indicates a far greater orientation to the needy. Thus in terms of countries ranked in terms of GNP per capita, 50% of Swedish aid goes to the

[55] This is not a "representative" sample. It is based on documents which Sida's Policy Division was able to obtain and send to the consultant.

[56] In 1993/94, six programme countries (almost a third of the total) received less Swedish aid than either Bolivia or Chile (non-programme countries).

[57] Most commentators agree that it was more for "technical reasons" than because of its failure to meet the economic indicators required to meet the criteria of "least developed" that India has not been grouped in this particular classification.

21 poorest countries, compared with only 39% of all EU aid and only 23% of all aid.[58]

Whenever aid is provided when it is not so urgently needed (perhaps because the recipients are not particularly poor, when compared with others more deserving, or because resources could be mobilised with non-aid funds at little to no long run cost to the aid recipient) then it is very difficult to judge when it will no longer be "needed". Indeed, as argued earlier, if aid is provided in circumstances when it is not really needed, such a context is likely to provide or encourage the circumstances for it not to be used efficiently and effectively, and thus certainly not a context in which high priority is given to reducing aid dependency. It is thus reassuring to read in latest country memorandum to the Development Assistance Committee (DAC) of the OECD that Swedish "development cooperation will concentrate increasingly on support for the poorest countries".[59]

IV.3.2 Swedish aid disbursements to programme countries

The four SASDA country studies described a number of characteristics of the aid relationship and focused only peripherally on the issue of aid dependency. Four issues they hardly addressed were the following:

* the way that Sweden assesses aid dependency in particular countries;

* how Sweden devises policies to ensure that the aid it provides in particular countries is used as effectively and efficiently as possible;

* how Sweden ensures that any potential perverse effects of the aid relationship which might exacerbate or worsen aid dependency are minimised; and

* how Sweden interacts with other donors in relation to assessing and addressing problems of aid dependency.

The purpose of this section is to discuss this and related issues.

On the basis of the documents reviewed — though it needs to be stressed that the country memoranda upon which these comments were drawn is exceedingly small — there is little to no evidence at the country level to suggest that:

* levels of aid provided to particular programme countries are based on any aggregate assessment of need and evaluation of how Sweden's contribution to filling aid needs fits in with the aid programmes of other donors;

* there are regular periodic reviews of aid impact or overall aid levels in relation to the overall impact of Swedish aid, changing needs of the recipient or changing policies and aid levels of other donors;

* there is an attempt to ensure that efforts to enhance the efficiency and impact of different sub-elements of the overall aid programme, such as sectoral aid, do not exacerbate or increase potential problems of aid dependency beyond these discrete programmes;

* strategies have been drawn up and devised to encourage recipients to take over the ownership of different aspects of the Swedish aid programme and to plan for the training of local staff in a phased withdrawal of foreign technical staff;

* Sweden has satisfied itself not only that the recipient needs development aid because of the attributes of underdevelopment, but that certain (specified) minimum conditions have been fulfilled to ensure that the aid provided has the potential to make an impact, not least in progress towards self-sustaining development;

[58] Figures from Sida's policy department based on international statistical comparisons.

[59] Development Assistance Committee Aid Review 1994/95 *Memorandum of Sweden*.

* in different programmes countries, time-tables, criteria and/or targets have been drawn up against which to judge the extent to which the aid provided contributes to self-sustaining development and thus a planing path for the reduction and eventual ending of the Swedish aid relationship.

This is not to argue that none of these issues are ever raised, analysed or discussed: many of them are.[60] Thus, for instance, a recent memorandum of Tanzania noted that "The Swedish and Tanzanian Delegations shared the view that the role of the Swedish development assistance was to provide supplementary support to Tanzania's own efforts",[61] and a recent Kenyan memorandum noted that "Both delegations agreed that a fundamental character of Swedish assistance was to provide support to Kenya's own development efforts".[62] The same memorandum spoke not of the planned reduction or phasing out of aid (or even a long-term framework where this was implied), but rather states that "It is our hope that in the future it will be possible to increase the Swedish allocation to Kenya". To its credit, it was emphasised that such an increase was to be dependent upon "such factors as measures to curb corruption, improve governance and further improve political, social and economic developments in Kenya. Measures to improve the utilisation of Swedish funds while retaining a high degree of accountability will also be of importance." But no details were provided of any specific ways in which these rather vague criteria were to be operationalised, or performance monitored, in any particular time-frame. Thus, in general, there is little to no evidence to suggest that the check-list of points listed above are raised or analysed comprehensively or systematically on a regular basis as part of the aid management process in different countries.[63] It might be argued that the series of macroeconomic studies now being undertaken by economists from various Swedish universities to monitor performance in Sweden's programme countries goes some way towards addressing these questions. While the data, information and analysis contained in these studies have usually been accurate, clear and a definite contribution to understanding contemporary economic problems in different economies receiving Swedish aid, they do not **themselves** provide policy answers for aid managers about levels of aid, aid priorities and the wider impact of the Swedish aid relationship.

Not only is was this study unable to unearth much evidence to indicate that these issues, of central importance to the aid dependency debate, are the focus of attention to Swedish aid managers at the country level, the evidence which is available of trends in the quantity of aid provided to particular programme countries tends to support the view that, in sharp contrast, over at least the last 10 to 15 years a major policy has been continually and steadily to increase the amount of aid provided to each programme country.

There are three types of evidence which support such a view. Firstly, in the period from 1980 (and earlier for some countries) to the early 1990s, the amount of aid allocated in **all** programme countries — with the

[60] To repeat, these comments are based on the collection of documents surveyed and not on all Sida documents. It may well be that other documents do focus on these sorts of issues more explicity. In that context it is important to draw attention to the growing production of **Country Strategy** papers which are to be produced for all major recipient countries. Regrettably for the present discussion, it would appear that these are being written in Swedish and not English.

[61] Memorandum of Understanding on the Development Cooperation between Sweden and Tanzania, 25-26 August 1994.

[62] Memorandum of Understanding on the Development Cooperation between Sweden and Kenya, 15/16 Feb. 1995.

[63] The focus of attention here is the Swedish part of the aid relationship. Recipients differ in the extent to which they focus on these sorts of issues, and for some a number of the issues raised here are important. For example, Botswana devotes considerable time and resources to attempting to provide consistency between different donor programmes and between donor and government programmes and to try to ensure that external aid resources are well utilised. For its part, too, the new South African Government was very cautious about accepting aid until it had worked out its own priorities and its own agenda for the potential use of aid funds. In general, however, the aid literature would suggest that these are rather rare exceptions.

exception of Namibia (where trend data are not relevant)[64] and Sri Lanka after 1998 — was characterised by a steady and continual expansion, with only slight marginal dips in the pattern of continual expansion in the case of three countries: Tanzania, Bangladesh and Vietnam. The peak year of aid allocations for 13 programme countries was in the years 1987 to 1993.[65] Secondly, the most marked fall in aid allocations to programme countries occurred in the post-1992 period, and was thus associated with the overall cuts in Swedish aid. Thus in 1994, **every** programme country was allocated less aid than allocated in 1992 and or 1993, even if in the case of one or two countries, such as Nicaragua, the cut was relatively small. A third factor supporting the view that aid allocations in different programme countries appeared to be influenced more by aggregate aid levels (ie. were supply-led) rather than the needs of particular aid recipients (demand-led) is that there is little evidence to show that Sweden committed itself to providing aid at a particular level for more than one, two or three years at a time. Thus for 16 programme countries for which data are available, only five instances have been recorded in an aggregated period of 256 years when Sweden allocated the same amount of aid for a particular country in excess of more than three years.[66] In 68% of cases, Sweden changed the amount of aid allocated from one year to the next.

The absence of country-level evidence to indicate that levels of Swedish aid or forms of aid provided have been determined in conjunction with discussion of inputs of other donors becomes of added significance when data showing the relative contribution of Swedish aid to overall aid levels are analysed. Clearly if Sweden is a leading donor and its aid constitutes a major share of total aid then the potential for Swedish-aid to contribute to the overall economic impact of all the aid received by a particular country, as well as to influence (positively or negatively) directly and indirectly the aid relationship more widely will be likely to be significant. On the other hand, if Swedish aid is a relatively minor part of total aid, if Sweden does not concern itself with assessing and trying to enhance the overall impact of aid, and if Sweden does not involve itself in trying to minimise any potentially adverse structural and contextual effects of aid dependency, then the relationship between the impact and influence of Swedish aid and the overall levels and degrees of overall aid dependency in the country in question will tend to be rather small or else occur more by luck than by design. Indeed in such a context, if Sweden embarked on an initiative to attempt to reduce different manifestations of dependence arising from its own narrow aid relationship, and other donors did not follow suit, it is likely that the Swedish initiatives would be swamped and thus make very little overall impact.

The significance of these comments becomes evident on examination of the contribution and size of the Swedish aid programme both in absolute terms and as a share of the total aid effort. Thus, as noted, in 1993/94 Sweden provided aid to some 111 countries and territories; but for 83 of these countries (74% of the total) it gave amounts of aid valued at SEK 70 mn or less. Cumulatively, the total quantity of aid given to these 83 countries amounted to 39% of all Swedish aid disbursed, and just over 50% (51.3%) of all bilateral aid. In the case of all but one of the 19 programme countries, Sweden provided in excess of SEK 70 mn of aid in 1993/94.[67] Yet OECD data (for 1992) reveal that for the 19 programme countries as a block, the share of Swedish aid came to just 5.5% of total aid provided.[68] This ranged from a high of 15% for Botswana (Sweden's least-poor programme country) to a low of 2.6% for India; in only four countries (Angola, Botswana, Nicaragua and Vietnam) did Swedish aid account for 10% of total aid disbursed; for nine countries (more than half Sweden's programme countries) the ratio was less than 5%.

[64] Swedish Aid to Namibia only started in 1990/91.

[65] Much of the data discussed in this and subsequent paragraphs is reproduced as in the **Appendix A.**

[66] The record was an eight year period from 1986 to 1993 when Lesotho was allocated annually SEK 117,000 a year, followed by six year period from 1985 to 1991 when Vietnam was allocated SEK 167,000 annually. However the data do not answer the question of whether the recipient was informed in advance that this would be the aid allocated, or whether the decision to continue allocating aid at the same level was due to a Swedish decision based on historical precedent.

[67] The exception in this year was Botswana, where aid disbursements totalled SEK 64.8 mn.

[68] Figures reproduced in *Sweden's Development Assistance in Figures and Graphs BSD 1993/94*, Table 12.

As the ratio of Swedish aid to total tends to vary (often quite markedly) from year to year, it is probably more useful to compare trends in this ratio over time. For 16 programme countries, the trend data are contained in the **Appendix A**. In general, they suggest the following.

* That the overall importance of Swedish aid as a share of total aid has declined markedly across all these programme countries.

* That in the cases where Sweden gives aid to the world's largest aid recipients, its contribution to total aid has always been small: always less than 10%, and most commonly only in the order to 2-3%.[69]
* That for a select group of small countries, Sweden has been a major donor (if this is defined as contributing about 25% or more of total aid). However, when Sweden was a "major donor" (as defined) this most commonly occurred in the 1970s or early 1980s, and in only one instance (Vietnam from 1982 to 1987) was Sweden ever a "major donor" (contributing over 25% of total aid) for a period of more than one year at a time.[70]

Table IV.1 shows the relative position of Sweden's different programme countries in relation to the absolute amounts of aid given in 1993/95 and their order in terms of the share of Swedish to total aid.

Table IV.1. ***Ranking of Sweden's Programme Countries, (based on average disbursements for years 1993, 1994 and 1995)***

Programme Country	*Rank in terms of total Swedish aid*	*Rank in terms of share of all aid*
Angola	9	12
Bangladesh	10	17
Botswana	19	2
Ethiopia	7	13
Guinea-Bissau	16	6
India	1	15
Cape Verde	17	7
Kenya	12	18
Laos	15	9
Lesotho	11	14
Mozambique	3	10
Namibia	13	12
Nicaragua	4	4
Sri Lanka	18	19
Tanzania	2	8
Uganda	14	16
Vietnam	6	1
Zambia	5	6
Zimbabwe	8	5

Source: Sida statistics and OECD data.
Note: This is based on trends over the last five years to iron out year-on-year volatility.

As noted above, substantive discussion of aid dependency in relation to Swedish aid at the level of different

[69] The trend statistics show that once aggregate aid levels for **any** country rises to around $900 mn a year, Sweden has **never** been able to contribute more than 10% of total aid.

[70] The peak years for Swedish aid as a share of total aid have been as follows: Angola, 24% in 1989; Guinea-Bissau, 36% in 1976; Tanzania, 32% in 1973; Laos, 26% in 1982, and Vietnam, 40% and above from 1982 to 1987, and 65% in 1983. For details see the Statistical Appendix.

programme countries is made difficult because of the absence of any studies which have addressed the issue head on. The rest of this section provides some input to the discussion by commenting very briefly, and exclusively from within the framework of **quantitative** trends, on aid dependency in Sweden's main programme countries (excluding those which formed parts of the SASDA studies). The comments are based, especially, on the data reproduced here in Tables IV.2 and IV.3, and in the country by country data found in **Appendix A.** Before the different points are made, however, it is important to stress that the data given here provide a wholly inadequate basis upon which to draw firm conclusions about trends in aid dependency, or, more importantly, on what specific conclusions for future aid policies. This is both because there is no discussion of the donor-recipient relationship and or of any of the structural and contextual factors likely to contribute to aid dependency.

Angola Economic trend data for Angola are difficult to obtain and of particularly dubious accuracy. However on the quantitative indicators available, it does not seem that the country could be grouped among those considered extremely aid dependent. The biggest concern relates to its debt position, particularly debt payment arrears. What are clearly needed are efforts to provide security and political stability in order that the country's substantial oil revenues can provide the motor for development. Sweden was an important donor to Angola for most of the last ten years, but its relative importance has sharply declined in recent years.

Bangladesh. On all the different indicators reproduced in Tables IV.2 and IV.3, Bangladesh appears to provide evidence of diminishing aid dependency with a serious, but far from crippling, external debt problem. Perhaps the most important lesson to draw from the Bangladesh example is that in spite of the quantitative trends suggesting **diminishing** aid dependency, trends far more favourable than those of <u>most</u> other Swedish programme countries, Sobhan draws the unequivocal conclusion that aid dependency in Bangladesh is **not** decreasing. Sweden's overall importance as an aid donor is minimal.

Botswana. Of all Sweden's programme countries, Botswana provides the clearest evidence of all in terms of diminishing aid dependency and a quite manageable external debt position. What is therefore most surprising from the perspective of aid dependency analysis is that during the whole period of this impressive economic performance Swedish aid to Botswana has continued to rise while the involvement of other donors (in aggregate) has fallen proportionately. Clearly this raises a pressing question which these quantitative data simply cannot provide, namely the extent to which Botswana **needs** the aid which Sweden provides and whether this amount of Swedish aid might be better served by being channelled elsewhere.

Cape Verde. This country provides key characteristics of growing (quantitative) aid dependency. Starting from being the largest recipient of aid *per capita*, it has outstripped all other recipients in terms of this (perverse) indicator. Growing amounts of aid have been associated with very low levels of growth and still very low contributions of domestic saving and imports purchased with non-aid funds. However some improvement in the aid/imports and gross domestic saving/GDP ratios have been record, albeit from a miserably low base and the debt problem, though growing worse, has not run totally out of control. Sweden has continued to allocate high levels of aid to Cape Verde, but in real terms there has not been a notable increase and the pattern of Swedish aid giving has been consistent with aggregate trends.

Ethiopia. Again, the data are exceptionally poor, but the evidence available reveals both growing aid dependency (in terms of the data monitored) together with a large and now effectively unmanageable debt problem. Sweden remains a small donor to Ethiopia, though providing a consistent share of total aid for many years.

India. Sweden provides more aid to India than to any other programme country, though its overall contribution is minuscule. In *per capita* terms India is very "lightly aided" and exhibits strong indicators of diminishing aid dependency. Its only aid-linked concern is with a high current debt service ratio which it is now addressing with its liberalisation policy. Given such a small aggregate dependence on aid, it would appear that in the case of India there would be more value in analysing the potential dangers of dependence at the disaggregated and not macro level.

Table IV.2 **Selective Quantitative Indicators of Aid Relationship and Macroeconomic Indicators Major Recipients of Swedish Aid**

	Aid per capita Current Prices $		Aid/GDP %		% Change in GDP 1983–1993 ($fixed 1987 prices)	Aid/Imports %		Gross Domestic Saving/GDP	
	1983	1993	1983	1993		1983	1993	1983	1993
Angola		29.2		5.7					
Bangladesh	1.9	11.8	9.[illegible]	5.7	49.4	70.6	34.0	1.2	7.5
Botswana	109.4	78.5	9.8	2.9	124.0	14.1	5.6	25.0	44.3[d]
Cape Verde	260.7	316.2	61.3	37.7	55.2	62.2	65.0[d]	-1.8	1.2
Ethiopia	11.8	24.1		19.5					
Guinea-Bissau	77.4	98.1	3.2[b]	41.9	50.7	138.7	167.9	1.1[b]	0.3
India	3.2	1.7	1.1	0.6	80.2	17.3	6.7	18.5	23.6
Kenya	25.6	35.4	8.0	16.1	41.8	84.3	52.2	20.4	[illegible]
Laos	8.8	43.2	1.7[a]	14.9	54.5	32.6	56.4	2.7[a]	0.4[a]
Lesotho	73.5	65.9	30.7	16.9	77.3	9.1	14.2	-99.2	-[illegible]
Mozambique	17.7	77.6	12.3	79.3	52.6	36.0	122.7	-13.2	-11.0
Namibia				6.7	35.9			2.8	3.7
Nicaragua	55.4	87.9	5.8	18.7	-20.3	21.3	46.3	13.5	15.8
Sri Lanka	34.0	30.8	10.0	5.3	50.6	29.7	13.0	11.5	-7.5
Tanzania	28.2	34.9	9.1	41.2	54.3	72.0	51.2	8.4	9.8
Uganda	16.0[a]	34.2	4.4[c]	19.0	38.7[c]			2.4	-2.5
Vietnam	1.3	4.5		2.5			9.1		
Zambia	36.5	89.9	7.1	21.8	13.6	33.4	119.0[e]	15.2	14.2
Zimbabwe	44.9	59.8	5.2	7.6	28.3	33.5	53.0	21.8	16.8

a 1984 d 1992
b 1985 e 1991
c 1987

Table IV.3 Selective Quantitative Indicators of Debt Trends and Status Major Recipients of Swedish Aid

	Total Debt as % of GNP		Total Debt Service Paid as % of Exports		Interest Arrears on Long-Term Debt as % of GNP	
	1980	1993	1980	1993	1980	1993
Angola	45.1[e]	84.1[b]	1.0[e]	5.3	0.6	8.5
Bangladesh	31.4	56.5	23.2	13.5	0.0	0.0
Botswana	16.3	18.8	2.1	3.6	0.0	0.1
Cape Verde	18.9	48.2	0.4	4.7	0.0	1.5
Ethiopia	20.0	156.2	7.3	8.9	0.0[c]	2.9
Guinea-Bissau	127.9	292.0	11.0[e]	10.0	1.1	18.5
India	11.9	37.3	9.2	28.4	0.0	0.0
Kenya	48.2	135.2	19.7	28.0	0.0	4.8
Laos	48.9[c]	149.1	13.1[a]	9.6	0.0	0.0
Lesotho	11.4	41.8	1.5	5.5	0.0	0.2
Mozambique	103.9[c]	419.2	42.3	20.6	0.0	31.0
Namibia	..	..	..	..	..	..
Nicaragua	108.5	762.0	22.5	39.2	0.6	97.4
Sri Lanka	46.1	65.5	12.0	9.9	0.0	0.0
Tanzania	58.0	285.2[d]	28.7	25.1	0.6	15.9
Uganda	55.7	77.0	17.3	121.3	1.0	2.0
Vietnam	229.3	188.7	9.1[b]	13.6	12.1	15.3
Zambia	90.7	251.9	25.3	32.8	0.3	21.0
Zimbabwe	14.9	78.5	3.8	32.5	0.0	0.0

Notes:
a 1986 d 1992
b 1990 e 1989
c 1991

Sources: World Bank Tables and World Debt Tables and OECD data base for aid figures.

Kenya. With the sole exception of aid/import trends (the ratio is still dangerously high in absolute terms), the Kenya data presented provide evidence of growing aid dependency, married with complementary adverse trends in terms of its external debt status. This seems to be a "good" example of growing aid funds leading less to the positive economic outcome expected and more to the need for further aid inflows. Though Sweden's aid contribution is far from insignificant, in 1993 disbursements were the lowest for 12 years. When all these factors are linked to the fact that Sweden's overall contribution to Kenya's aid effort is negligible (it is ranked 18 in Table IV.1), it would not appear that Kenya would lose much in the aggregate if the decline in Swedish aid were to continue.

Laos. Laos is one of those programme countries in which all the aid dependency trends monitored here not only show adverse trends but a rapidly deteriorating performance. Relatedly, the country's debt problems (especially in terms of debt/GNP) have grown rapidly. Sweden is a small but far from insignificant donor to Laos: Swedish aid disbursements have experienced great volatility but in spite of an increasingly poor performance, aid allocations have grown progressively and steadily. From this evidence it would not appear that at the macro-level the aid provided is very effective.

Lesotho. With modest growth and a high initial level of aid dependency (in terms of aid/GDP),[7] Lesotho is among that small group of programme countries which exhibits consistent signs of diminishing aid dependency. Sweden's aid to Lesotho has been characterised above all by its predictability, with the amount disbursed tailing off from its peak in 1987. The decline of "hard" aid has now been overshadowed by the injection of "soft" commercially-linked aid with Sweden's contribution to the country's large hydro-electric project, which raises other questions of dependency for the country.

Mozambique. Mozambique's aid and development link mirrors the adverse assessment of Cape Verde with the exception of its debt performance and status which is far worse. Since the early 1990s, Sweden has been an important donor (in the early 1980s it was one of the country's leading donors) and it still is in terms of the level of disbursements (which have doubled in real terms from the early 1980s). Though Mozambique is clearly an example of the failure of aid to act as a motor for more self-sustained development, there are few who would argue that the answers to its development problems will be enhanced merely by withdrawing the aid. Mozambique is thus a good example of a country for which a narrow quantitative analysis of aid dependency on its own provides little to no guidance of precisely what donors (and recipients) should do to address the country's dependence upon aid.

Namibia. Namibia is a new recipient of aid in general and Swedish aid in particular. In terms of both absolute amounts of Swedish aid and the contribution of Swedish aid to aggregate aid, the country is relatively unimportant, a factor which needs to be assessed against its status as a middle income developing country. However it suffers from large inherited inequalities and poverty while its future development prospects depend critically on engineering new forms of structural change. It is in addressing these issues that aid is "needed", indicating, in this case too, the limitations of macro-economic indicators to provide all the information needed to determine appropriate aid strategies.

Sri Lanka. On most of the indicators presented here, Sri Lanka appears to be grouped as one of those countries in which aid dependency is diminishing as well as one where (in aggregate) aid in real terms has fallen substantially in recent years. However the adverse trend in domestic saving to GDP suggests not merely that one needs to be cautious in making such a judgement but points to the need to examine the case with far greater rigour, minimally by analysing trends in a larger number of quantitative indicators. From the viewpoint of Sweden, long terms trends already indicate a high degree of disengagement, suggesting that the critical question for Sweden is not if it ceases to classify Sri Lanka among its programme countries, but when it decides to make this decision.

[7] For Lesotho, the GDP ratio is less informative than for many other countries because of the high (though falling) proportion of GNP derived from migrancy payments: in 1980 the ratio of GDP to GNP was 48%, rising to 62% by 1993.

Tanzania. This has been the subject of an in-depth study on aid dependency (Sobhan, 1995) so there is little more that this study is likely to add, except that it is clearly an important study to undertake when Tanzania's exceptionally poor performance in relation to the quantitative indicators of aid dependence examined here are linked to the importance of Tanzania to Sweden's overall aid programme.

Uganda. Uganda is an important country for discussions of aid dependency because its quantitative performance indicators, revealing a consistent and marked pattern of growing aid dependence, contrast markedly with the rather "up-beat" assessment of the economy and its prospects by the international finance institutions and leading donors. Uganda highlights an important caveat one needs to make in terms of **all** comparative statistics which attempt to trace relationships between aid flows, usually denominated in US$s, and various macroeconomic indicators, especially when (not by any means an exceptional occurrence) the country is experiencing a sizeable depreciation in the value of its currency. Thus, contrast these two sets of trend data: from 1988 to 1993, Uganda's GDP rose in real terms by an average of 5.6% a year, giving a *per capita* increase of over 3% a year; yet in US$ terms, its GNP *per capita* more than halved, falling from $400 in 1988, to $180 in 1993. The critical question for Uganda is whether its high rates of growth can be sustained with less aid. This depends to a large extent on the ability of the economy to diversify its export base, an issue which the aid provided thusfar has not sufficiently addressed. At present, Sweden's aid contribution to Uganda is small in both absolute and relative terms: its choice therefore lies between quietly withdrawing or embarking (with others) on a major effort to address some of the array of structural weaknesses which still characterise the economy.

Vietnam. Though trend data are either non-existent or of dubious accuracy, it is apparent that in contrast to many other countries, Vietnam is "lightly aided". Certain features of its debt profile are alarming though in terms of aggregate long term debt it is exhibiting very positive trends. The Swedish link with Vietnam has been very important especially in the early and mid-1980s when Sweden was regularly providing between 40% and 60% of all aid. Since then, both allocations and disbursements in real terms have been halved. Shifts have also occurred in terms of the form of the overall aid programme, notably an early dominance of sectoral aid giving way to import support in the early 1990s which was all but curtailed in 1993. Today Sweden continues to be a major and influential donor. The data presented here are clearly insufficient on their own to indicate what Sweden's future aid policy should be, or whether the aid provided has helped or hindered the process of reducing aid dependency.

Zimbabwe. For Sweden, Zimbabwe is an example of a country which is "betwixt and between": it forms an important part of the Swedish aid programme and Sweden makes a far from insignificant contribution to Zimbabwe's overall aid inflow. Trends in the indicators of aid dependency and the country's aid profile provide a mixed picture of Zimbabwe's dependence upon aid: aid plays a growing and very significant part in providing foreign exchange, though its importance in terms of contributing to investment and to the overall budget programme are decreasing. Key issues of general relevance to the aid dependency discussion are raised by the Zimbabwe case. Firstly, the figures of aid dependency are highly (and adversely) distorted in at least two major ways. Thus there was bunching of aid flows in the early 1980s which, together with the slow initial disbursement of aid committed in the period 1980 to 1992, suggests that an exaggerated bias of "over aid-dependency" in the early period will have been created. Likewise, focusing on GDP growth in the 1983 to 1993 period means that the record highs of the early 1980s are missed which distorts wider assessment of aggregate economic performance. Additionally, and of wider importance, in the period since the mid 1980s Zimbabwe has been implementing a series of adjustment policies, latterly in cooperation with the World Bank. Recent policies have had a marked deflationary effect on the economy at the same time as donors have provided aid in order to assist the adjustment process. The outcome is that in this period in particular, the policy process and the policy context are such as to fuel trends in the relationship between aid and macroeconomic indicators which would tend to be biased towards (over)-emphasising growing aid dependency. Again, what this indicates is that **on their own** trends in macroeconomic indicators can often provide insufficient information with which to draw policy conclusions for donors about how much aid they might provide, in what form, and for what time period.

V AID DEPENDENCY AND DIFFERENT FORMS OF AID

V.1 The Context for Judging Degrees of Dependency

Rarely, if ever, is aid provided either "en bloc" to a recipient or without any discussion of how it might be spent: it is usually sub-divided into different component parts linked to various types and forms of conditionality. Thus, like the aid of other donors, Swedish aid to particular recipient countries is subdivided into different elements, and it is in relation to these that the greatest amount of discussion takes place with the recipient, in terms of the form that the aid will take, its likely duration, and any conditions upon which the overall disbursement of the aid, or the drawing down of sub-parts of the aid, is based.

Like other donors, too, the different elements which make up Swedish aid have tended to shift in recent years. Thus, most donors today link the aid they provide to over-arching economic reform programmes (often linked to conditionality demanded by the international finance institutions), providing different packages of aid in the form of import support, balance of payments support, budgetary support, aid to promote and strengthen democracy, human rights and civil society, and aid in the form of debt relief. When first introduced, these new forms of aid tended to be minor supplements to more traditional forms of aid, such as sectoral and infrastructural aid or aid for the productive sectors and technical assistance. But, in some cases, some of these newer forms of aid have swamped many of the more traditional forms of aid. What is also relatively new, or at least more common, is for donors not merely to attach conditions to discrete forms of aid as and when it is provided, but to insist on some conditions (pre-conditions) even before particular parts (tranches) of aid are provided. It is also increasingly common for bilateral donors to provide their aid on condition that the recipient fulfils certain conditions laid down by other donors, most notably those of the IMF and/or the World Bank in relation to stabilisation and structural adjustment lending.

Given this whole array of different types of aid, it is understandable that a discussion of aid dependency should try to find answers to the question of whether particular types or forms of aid and/or different types of conditionality attached to different sorts of aid are more (or less) likely to increase (or decrease) different manifestations of aid dependency. But even before knowing whether it is possible to provide firm answers to these sorts of questions,[72] it is important to know precisely what the policy implications of having this information might be. How might or should donors use information on the aid dependency of different forms of aid? In broad terms, they could use the information in one of two general ways, either what might be termed, *mechanistically*, or, more *circumspectly*. Using a more mechanistic approach, donors could compare and assess the impact of different sorts of aid and different sorts of conditionality and rank them by the extent to which they are said to increase or lessen the potential for aid dependency. Using this information, they could then re-order the forms in which they provide aid, and the conditions they attach to it, in order to try more efficiently and effectively to reduce aid dependency. The thrust of this study has been to argue against this type of approach to resolving problems of aid dependency. It has stressed the need not merely to analyse whether aid dependency has been occurring and to strive to seek to understand better the cause of such dependence, but equally importantly, to understand how the phenomenon of aid dependency fits into the broader picture of the main factors impeding and/or enhancing the aid recipient's path to self-sustaining development. It is this far wider, assessment which, it is argued, should form the underlying basis for determining the nature of the future aid relationship. Relatedly, when one donor's aid contribution forms only a minor part of the overall aid effort, this study has also pointed to the dangers of one donor taking unilateral action to attempt to address a problem whose roots and origins are likely to lie well beyond the parameters of particular forms of aid provided by different donors. This applies as much to aid at the micro-level as it does to aid at the macro-level.

This means that there is no *a priori* assumption that information on the dependence of a particular form of aid ought to orient donors to take any automatic or specific changes to their aid programmes. This is not to argue that aid dependency is not important, and that different manifestations of aid dependency exhibited by different forms of aid should not be analysed: when aid is being provided, especially in increasing amounts,

[72] The thrust of the review paper by Johansson (1995) is to conclude that the literature provides few if any answers to this question.

and the process of self-sustaining development without aid appears to be no nearer to achievement, it is clearly important to examine all factors actually or potentially impeding the objectives of aid. Aid dependency is clearly one of those factors which needs to be examined. It is in this context that the discussion in the next sections on different forms of aid needs to be placed.

V.2 Aid Dependency and Different Forms of Aid

V.2.1 Determining the importance of different types of dependency

Aid is packaged up and provided in different forms to meet particular needs, most commonly to fill particular economic or development gaps. It is thus assumed that there is, or ought to be, a positive relationship between the different forms in which aid is provided and the expected outcome. In spite of the pessimistic conclusions of many studies, including most of the SASDA studies, that it is difficult if not impossible to draw causal relationships between aid inputs and economic performance monitored through key indicators, a major hope of studies of aid dependency is that they will provide evidence to indicate whether different forms of aid are more or less likely to achieve their objectives, or more or less likely to lead to different forms of aid dependency. If similar (favourable or disappointing) patterns of outcome are found to exist across different countries, it is anticipated that donors will be in a better position to judge how they should draw up their overall aid programmes in terms of their "optimal" component parts.

In practice, little headway has been made thusfar in working positively towards these objectives. A basic problem facing aid dependency discussions is that it is difficult (if not impossible) to monitor with any degree of accuracy or certainty the **causal** relationship between the different forms of aid provided and the outcomes achieved. As a result one is faced continually with the unanswered question of whether, and if so how much of, the outcome achieved was due to aid's benevolence (or malevolence) or to other factors and what was the relative importance of each has been. If it is impossible to make generalisations about aid impact and causality within the confines of one country, it is clearly idle to attempt to make generalisations across countries: no wonder the SASDA studies shy away from making such generalisations.[73]

Does this mean that nothing can be usefully said about different forms of aid and aid dependency? No, but it means that it will probably be more fruitful in terms of policy debates to approach the issue from a different (new) direction, namely **the top down** (that is from the overall context of aid) than from **the bottom up** (starting from the different forms of aid). This will be the approach discussed in the next few paragraphs.

The discussion in **Section III** on the different indicators that help one to analyse and build up a picture of aid dependency provide the overall framework in which, it is suggested, it is possible to begin to approach the question of how different discrete types of forms of aid contribute to or lead to a reduction of aid dependency. Thus, summarising and simplifying, most, if not all, the different forms of aid are likely to fall short of their intended objectives and thus, in some manner, to be vulnerable to furthering or maintaining aid dependency to the extent that:

1 the basic pre-conditions for development aid's virtuous relationship to development have not been met;

2 the recipient government and a range of key personnel are not committed to pursuing a pro-development agenda which needs to include the attempt to use aid money in a manner conducive to accelerating the path to self-sustaining development;

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[73] Johansson expresses this dilemma thus (1995: 4 and 5):

The fundamental question is whether there exists any causal relation between aid and the development objectives. When it comes to the relation between aid and growth, the econometric studies give unclear results... If there is no positive relation between aid and growth there is no aid dependency (as it is defined here) either. (However, the absence of statistical proof for a relation does not mean that such a relation is missing.)...

If the leverage of aid on the institutional framework is more important to development than the direct effect on investment, another model is needed to analyse aid dependence. Furthermore, the available data is often of poor quality restricting the possibility to draw any far reaching conclusions from the results.

3 the recipient does not have the capacity and capability to execute projects and is little interested in seeking to enhance and improve its capacity and capabilities;

4 donors do not seek to base the aid they give on the needs of the recipient and do not work cooperatively and in collaboration with each other, and with the host government, to address the most critical development constraints and factors contributing to aid dependency, including constraints that are attributable, directly and indirectly, to actions they have taken (often with the best of intentions) to seek to improve the impact of the discrete projects and programmes individual donors have funded.[74]

It is submitted that action on these different and, in part, inter-related fronts are likely to make a significant impact in reducing the shortfall between the objectives of different forms of aid and what happens in practice. Clearly, too, the manner in which they might be addressed will necessarily differ from country context to country context, pointing to the need to undertake detailed analysis of each aid recipient country as a basic pre-requisite for reducing the dependency of different forms of aid.

An additional task would be to attempt to prioritise the range of factors constraining aid's development impact - or to place them in a **hierarchy** of importance. Trying to produce a hierarchical ranking of constraints should help to shed further light on the **causal relationship** between providing aid in different forms and (in the case of certain types of aid dependency) its failure to achieve the objectives intended, thus helping to point in the direction of what should be done. For example, when countries have insufficient foreign exchange to meet their immediate needs and to embark on an investment programme to build or up-grade the infrastructure, and the marginal rate of return on investment is not attractive enough to attract capital market financing, then concessional aid is likely to be needed, and a likely useful form in which aid might be provided would be balance of payment or import support aid. But the impact of this form of aid will itself be dependent not only on these foreign exchange needs but on the urgency to meet them vis-a-vis other demands for foreign exchange. For many "aid dependent" economies, it is apparent that meeting immediate external debt obligations is often going to be hierarchically **more** important, simply because countries have commitments to pay off these debts, necessitating a drain on foreign exchange **prior** to providing aid to fill "more normal" foreign exchange gaps, or even to help fund the recurrent budget programme of essential expenditure. In short, the hierarchical ranking of different constraints, as well as the relative strength and importance of each, is likely to provide further insights into methods of reducing dependence of (many) different forms of aid.

Of course ranking needs and constraints doesn't necessarily mean that all aid should be used to address these different constraints, and in their ranked order, but — to stay with the debt example — it does suggest that unless and until the crippling effects of the debt overhang are addressed, the ability of other forms of economic and financial aid to meet their objectives will fall considerably short of expectations. Relatedly, it is important to emphasise that these "hierarchical ranking" initiatives need to be placed alongside the other four factors listed above. If they are not, then additional problems are more likely to arise from specific actions taken. In particular, easing **one** set of immediate constraints (like providing aid in the first place) can have the perverse effect of lowering the resolve and commitment of the government to pursue a course of action that addresses **other** constraints, because both removing constraints and providing additional concessionary resources provide the recipient with additional opportunities not to execute difficult policies or to delay the process of reform.[75]

V.2.2 The role and importance of aid conditionality

As noted at the start of this section of the study, the mixture of evidence of growing aid dependency and the reality of some recipients falling short in terms both of their commitment to development and in terms of

[74] These are discussed in detail in **Section III**, above.

[75] The dilemma is compounded when a recipient has less than total commitment to travelling as quickly as possible on the path of self-sustaining development as the aid provided gives the recipient added legitimacy, helping to maintain the presen government in power.

seeking to build their capacity and capability to use aid resources efficiently has led donors to focus increasingly on requiring various types and degrees of conditionality as a *quid pro quo* for giving aid. To what extent should conditionality be used as a means of trying to reduce dependence on aid?

At one level, and to the extent that it is complied with, attaching particular types of conditionality to different forms of aid would seem an initially attractive way of enhancing the impact of the aid provided and be likely to reduce aid dependency. Thus, donors could and do provide aid to enhance productive investment on condition that the government keeps recurrent expenditure in check and has targets to increase taxes; donors can and do provide support to education on condition that parents are made to pay increasing levels of school fees to support the education budget; and donors can and do provide technical assistance and resources to build, say, a telecommunications system on condition that a fee structure is put in place which at least covers current running and future maintenance costs.

Not only is this sort of conditionality widely used but it appears to "work", especially if some aid is held back and the draw down of future aid funds is dependent upon past conditions having been met. Indeed it is possible to be even more specific about the forms of aid most likely to benefit (have their impact enhanced by) this sort of conditionality. Thus, those discrete forms of aid most likely to benefit (in terms of reduced aid dependency) from specific conditionality will be those

* that involve achieving particular, tangible outcomes, especially "phased" outcomes;
* that are more susceptible to monitoring in terms of quantitative targets; and those
* that are least likely to be blown off course by external influences.

In contrast, those discrete forms of aid least likely to benefit (in terms of maintaining or encouraging aid dependency) from specific conditionality will be those

* where aid is provided to address more blunt targets (easing balance of payments constraints);
* where the aid provided has the potential to lead to both beneficial and perverse outcomes (Dutch disease consequences of injecting additional foreign resources);
* where the impact of the aid is more vulnerable to external influences (export promotion aimed at expanding exports sensitive to commodity price fluctuations).

Pressing this sort of argument further would suggest that if a high priority is seek ways to reduce aid dependency, then aid should be packaged up in ways in which it is possible to impose as large a range of specific conditions as possible in a controlled environment, for this would increase the chances that it is used as intended. If all forms of aid can be provided in terms of rigid conditionality that is likely to be adhered to, then together the whole aid programme will have made major advances in terms of reducing aid dependency. This all sounds most attractive to a donor whose focus is exclusively on reducing the dependence of its own aid programme. It is within this context, for instance, that tied import support programmes have often been favoured because of their potential for multiple conditionality. For instance, it is fairly easy to devise a aid form of import support programme which involves five layers of conditionality. Thus, a donor provides aid, but this has to be used only to purchase commodity imports (first condition), which can only be obtained from the donor country (second condition), and only using shipping, insurance and freight facilities of the donor country (third condition). The aid provided leads to the generation of local, or counter-part funds. The donor can next insist that the recipient uses the funds for particular sectoral programmes influenced by the donor's particular interests (fourth condition), additionally requiring that when and if the recipient "chooses" to use the funds in a sector in which the donor has a sectoral aid programme, the funds be used to help fund such a programme (fifth condition).[79]

[79] It is not being suggested here that Sweden is among those donors who insist on all these different layers of conditionality. The second of the five layers certainly would not apply to the Swedish case, while, in relation to the first, (continued...)

But is this route of more and increased conditionality the route to take, and to expand upon, in order to reduce aid dependency? Besides the more specific drawbacks listed above, a key problem with trying to enhance aid impact (and minimise one form of aid dependency) by imposing conditions on discrete forms of aid is that while it might be possible to devise ways of ensuring that the immediate objectives intended are better achieved (for particular forms of aid), the very process of providing additional amounts of aid for specific uses permits the recipient to "free up" its own (and in some cases other donors') resources elsewhere and use them as desired and without conditions. This is the problem of aid fungibility. A second problem is that, perversely, the more conditions that donors try to impose as a basis for providing aid, the less is the impact and influence which conditionality plays. Thus not only will increased conditionality imposed by one donor have the effect of reducing the power of the conditionality "weapon" for other donors who might be using it or wish to use it more, but eventually its "over-use" will be self-defeating for individual donors as well.

The fungibility of aid presents donors with a dilemma wider than the issue of conditionality. How can the problems of fungibility of aid be reduced? There are two main ways, both of which revolve around one of the four factors listed above, namely the willingness and ability of the recipient to promote a self-sustaining development path, suggesting, *inter alia*, that there are severe limits to the ability of conditionality on its own to achieve an across-the-board reduction in aid dependency.

The first way of reducing fungibility is to focus on the notion of aid as an addition to domestic resources. The scope for diverting funds to other uses will be minimised to the extent that the aid funds provided by donors are not considered additional, but rather, are considered a part of all "domestic" resources for which decisions on spending priorities have already been worked out. In other words, if one wants to reduce aid's fungibility then it is essential for all aid funds to be integrated into budget (recurrent and capital) spending plans and profiles. For this to happen two things need to occur. Firstly, the recipient will need to draw up a budget expenditure plan which includes all domestically generated and donor funds (including any counter-part funds), into which particular aid projects and programmes of donors are integrated.[77] But secondly, recipients are unlikely to do this until and unless donors are willing to provide assurances that the aid they have committed will indeed be provided.[78]

There are a number of implications of such fungibility-minimising approaches for the discussion of aid dependency in terms of the different forms in which aid is provided. At a minimum, donors should ensure that all forms of aid which involve "additions" to recipient government expenditures are incorporated into and accounted for within the normal budgetary framework, pointing to the need always to look beyond discrete sectoral programmes to their relationship to overall spending priorities. Does this mean that a "better" form of aid would be to focus entirely on providing necessary additions to the overall budget, based on agreement with proposed spending plans, and move away from sectoral spending entirely? There are two reasons why such a move is unlikely to be optimal as a general rule. First, more direct involvement at the sectoral level provides the opportunity for the donor to understand at first-hand some of the management and capacity problems facing the recipient as well as to monitor consistency between policy statements and budgetary practice. This in itself ought to provide valuable feedback for discussions of the budget at the aggregate level, including the appropriate level of donor input. Secondly, as the primary goal of Swedish aid is improve the standard of living of poor people, it is likely to be easier to monitor the achievement of this core objective if aid continues to be provided in forms which link the aid provided as closely as possible to the people for whom it is intended. In other words, the move to integrate aid plans more closely with budgetary spending plans and profiles would normally be viewed as additional to, not a substitute for, involvement at the sectoral level.

[76] (...continued)
is now increasingly common for Swedish aid to be pooled with that of other donors.

[77] If the donor community draws up the spending proposals there will clearly be less chance that the spending plans and priorities will be honoured.

[78] And, as discussed above, recipient goodwill in this area is far more likely to be more forthcoming if donors agree to aid levels for a minimum of three years, and ideally longer.

The second way that the fungibility of funds can be reduced is by donors requiring a set of over-arching conditions both well beyond the specifics of discrete aid projects and well beyond the whole aid relationship. This form of conditionality would appear to have great attractions for the donor community because it "leap-frogs" over the partiality of the aid dependency debate, which has been a concern of this study, to (have the potential to) focus directly and immediately on the major factors constraining the move to self-sustaining development. As is well known, both the IMF and the World Bank have made continued and sustained use of such broad-based conditionality for at least two decades, increasingly bringing in bilateral donors to link their own aid to such conditionality. The question to address here is the extent to which such overall, all-embracing, conditionality provides a realistic way of addressing problems of aid dependency.

One way of answering this question is to ask the extent to which the conditionality imposed has led to the outcome intended: if the evidence was strong and positive this would surely endear such policies to potential recipients. At the level of technical relationships, there is one beneficial outcome to report, namely that after some 10-15 years of conditional lending there is now a broad consensus that basic macroeconomic management is a necessary prerequisite for self-sustaining development: the need to avoid large macro-imbalances "is no longer much contested within economics" (Killick, 1995c: 159).

> *There is ample evidence of the decisive influence of the policy environment as a determinant of a country's economic performance. The importance of tackling the foreign exchange constraint, with all its implications for investment, capacity utilisation and human welfare, is self-evident. Similarly, there is accumulating evidence that rapid inflation, usually born of monetised budget deficits, impedes growth and worsens inequalities.*

What remains in considerable doubt, however, is whether packages of specific clusters of more over-arching conditions, and policies executed in conformity with these conditions, lead to the (virtuous) outcome intended, including the achievement of many of the targets set. In practice, the available evidence indicates quite forcefully that in very many cases the specific outcomes expected, intended or hoped for have not occurred, at least to the degree anticipated, and the overall results have been disappointing. There are two important reasons for this. The first is that the impact of exogenous and largely unexpected influences have often been profound: the "hot-house environment" upon which the outcomes expected when the conditions were applied have not been sustained. Secondly, in some cases, the (aid) funds thought necessary to further and enhance the programmes have not been forthcoming. There is little doubt, too, that the failure of many programmes to provide evidence of undisputed success has diluted the commitment of recipients to comply with the conditions laid down by donors especially when — as has commonly been the case in relation to both the IMF's stabilisation policies and the Bank's adjustment policies — the policies have produced (intentionally) at least short deflationary outcomes.[73] The implication is that while superficially "overarching" conditionality would seem to provide an important "answer" to reducing aid dependency by ensuring that funds are used as intended, its success as a method of reducing aid dependency, because it is dependent upon its ability to achieve the results intended, has been disappointing. Indeed, Killick's recent review of conditionalities (largely of the IMF) provides the even more perverse conclusion that "the proliferation of conditionality has intensified the non-compliance problem which probably grows exponentially with the increase in the number of conditions" (1995c: 167).

The strongest conclusions to draw from reviews of both the Bank's adjustment policies and the Fund's stabilisation (and enhanced adjustment) facilities is that the most important factor determining sound macroeconomic performance is the commitment and competence of the executing government to a programme of reform (see Johnson and Wasty, 1993). For instance, in his study of the Bank's adjustment programmes, Larsson (1994) concludes that the securing of support for these programmes is crucially important in determining efficiency and long-term sustainability. Indeed, the evidence does *not show* that those who followed the harshest policies achieved the best results (Killick, 1995c: 81). And in terms of IMF policies and conditionalities, statistical analysis indicates that a country's relative debt situation provides a better explanation for the breakdown or collapse of programmes than adherence to the programme's various

[73] Add to this the far from small number of instances in which there was never any firm commitment on behalf of the recipient to implement the conditions: in these cases agreeing to the conditions was a way of gaining access to funds otherwise to be denied.

components (Killick, 1995c: 64). Killick's recent study and assessment of the Fund's policies makes much the same point (1995c: 121):

> *While the evidence does suggest that the IMF is able to exert a considerable influence over price variables such as the exchange rate, interests rates and producer prices, this is not matched by commensurate influence over fiscal and monetary instruments, nor in the area of institutional reforms. Given the Fund's limited revealed leverage over these other variables, it is scarcely surprising if the macroeconomic results of its programmes fall well short not only of intentions but also of the degree of sustained improvement necessary to ensure credibility for government policies and to revive investor confidence.*
>
> *Conditionality - the policy leverage bought by the provision of financial support - emerges as something of a toothless tiger... We can conjecture that what matters a good deal more is the extent to which the government itself is convinced of the need for prudent and credible macroeconomic management.*

Does this mean that conditionality should be abandoned? Not at all. But it means two things. First, that the expectations of what conditionality can achieve in the real world needs to be toned down. The second implication is that donors need to devote far more energy, and more resources, to encourage unwilling or unskilled recipients to take the initiative. Thus while the immediate impact of particular types of aid might well be enhanced by linking discrete forms of aid to successive layers of conditionality, the overall problems of aid dependency are likely to remain largely untouched. As for over arching conditionality, this should be used with caution: it should certainly not raise hopes that beneficial outcomes are likely to emerge from harshly imposed conditions. Focusing on ways in which recipient commitment can be built up and nurtured should help in two ways: donors won't be lured into thinking that **they** have all the answers; but, equally, recipients should be further encouraged to believe that the beneficial results hoped for will depend as much (or perhaps more) on their own commitment and increasing competence to take control of and steer their **own** ship in what will continue to be very choppy waters. To quote Killick again (1995b: 149):

> *I don't want to argue that conditionality is never effective.... But in general I suggest that, to be effective, measures to promote adaptation must emanate from an understanding by responsible ministers of the actions necessary, with policies emerging organically, as it were, through local decision and implementation processes, and tailor-made to domestic conditions in a way that is only feasible when designed locally.*

V.2.3 Helping to build commitment and capacity

If recipient commitment, capability and capacity (the 3 "Cs") turn out to be as critical as so much of the literature on aid impact is now suggesting, it is important to focus more closely on ways in which donor programmes (and different forms of aid) can enhance or frustrate the nurturing of these attributes. Whatever the specific and more tangible objectives of particular types of development aid — providing imports, building road, expanding education to girls — all donors need to keep their eye on the ultimate purpose of **all** aid: to work for its most rapid demise.

Helping to nurture the "3 Cs" can be done either directly, by establishing specific programmes aimed solely to achieving this objectives, or indirectly, by incorporating a capacity and competence component into aid projects and programmes aimed at achieving more tangible and immediate development objectives. The problem donors have is that they face pressures to provide aid in forms which provide as good a link or fit as possible between specific concrete needs and different aid packages.[86] This has tended to mean two things. First, a proportionately small amount of aid money has been channelled towards initiatives aimed to building capabilities and capacity at a more general level. Second, in the often disproportionately large number of discrete and more tangible projects and programmes, donors have tended (with pressures from home) to place

[86] Relatedly, donors face pressures to show that aid "works": the mushrooming of interest in monitoring and evaluation is intended in part to do precisely this.

primary emphasis on trying to achieving immediate development results and less in "building capacity and competence" at the sectoral and local level.

Pressures to produce tangible and concrete results have further meant that donors have frequently seen it as more important to use expatriate skills in order to enhance the immediate impact of "their" aid projects, than to view projects as **processes** which to be successful and sustainable require both local commitment (ownership) and the training of local personnel. The irony is that recent evidence is now suggesting that project performance across a wide range of aid interventions is likely to be adversely effected if it does not explicitly involve beneficiary participation.[81]

These points have a direct bearing on the issue of technical assistance (TA), many of the weaknesses of which have been identified in the recent "Berg Report" (UNDP, 1993). From the perspective of aid dependency, the most critical weaknesses occur where donors do not place the highest priority on using TA in ways aimed at building up and enhancing local capacity. It is the failure to give priority to this objective which has created or perpetuated such problems as the excessive reliance on expatriates and the "supply-driven nature" of technical cooperation. The answer to this problem usually does not lie in rapidly running down or halting technical assistance as a form of aid giving.[82] In practice, it commonly means not just that a re-orientation of the purpose of technical assistance is required. But it also means that the choice of technical assistance personnel and the work they do be assessed not merely in terms of their ability to "do the practical job at hand" but in terms of their ability to impart their knowledge and hand on their skills.[83] And it also means that the expectations of more tangible "aid delivery" projects need to be altered in order to encompass this fundamental shift of emphasis.

However it needs to be acknowledged that a reorientation of aid to give priority to building capacity and commitment can produce problems (potential and real) as well as conflicts with other aid objectives. No donor today would quibble with the need continually to work to ensure that the projects which aid money supports are as sustainable as possible. But what happens when there is conflict between some immediate and general long term objectives of aid, in particular a conflict between providing aid directly to assist poor people now or providing aid to build capacity and competence beyond the level of individual poor people?[84] Should concern with capacity building mean that donors should ignore or radically down-play shorter term assistance? Should donors provide aid to fund recurrent expenditure programmes (either at the level of the overall budget or down at the level of poor communities) many of which would simply not exist without continual donor funds?

For Sweden, where aid is currently judged in relation to its success in improving the living standards of the poor, it appears that if withdrawal of aid were to result in the deterioration of the living standards of the poor and the failure to meet these "core human needs", then it would be difficult to argue the legitimacy of such a course of action. From the point of view of the aid dependency debate, the crucial issue is then not so much **whether** certain activities should continue to be funded even if there is little to no immediate chance of their becoming sustainable, but how one can ensure that the process of giving aid in this (dependent) form will not unduly maintain or reinforce continual dependence upon aid over the longer term. To some extent, the answers

[81] See, for instance, Isham, Narayan and Pritchett (1994) and World Bank (1994a).

[82] Even though there are far too many horror stories of particular individuals or even groups of people whose input has been detrimental to both development and to building cultural bridges between donor and recipient country, and to the employment of costly donor country nationals when other cheaper alternatives have been available.

[83] As recent SIDA/Sida documents have stressed, it is often important not merely to focus on technical assistance personnel but also on the institutional and organisational setting in which individuals interact. See SIDA, 1991 and 1992.

[84] It has been common to argue that providing immediate help to poor people is more an act of providing welfare assistance than development aid. However, especially in the 1980s following the fall-out from adjustment programmes, it has become increasingly difficult to sustain such a watertight distinction between all forms of "emergency assistance" and all forms of "development aid".

to this question have already been discussed. They lie in increasing transparency in budgeting, in enhancing the commitment and capacity of the recipient to strengthen the economy and the efficiency of the budgetary process (perhaps through targeting revenue-raising methods), and in incorporating aid funds into the overall spending of line ministries. However, the dilemmas and tensions in trying to meet different objectives are likely to remain of practical concern to aid managers trying to map out particular aid programmes in different programme countries.[85] In such a context, efforts to reduce aid dependence may well come into conflict with core (and perhaps seen by some as mutually exclusive) objectives of the aid programme. This points even more forcefully to the need to caution against proposing any particular course of action outside the context of in-depth country analyses.

V.2.4 Supporting NGOs

Sweden currently provides a large amount of aid to non-governmental organisations and until the recent cuts in overall aid levels, the share of official aid going to NGOs has steadily increased. The question to be addressed here is the extent to which official aid channelled to and through NGOs contributes to or alleviates the problems of aid dependency. In addressing this issue, neither the aid provided to NGOs for emergency purposes nor that provided as part of the official aid programme will be discussed. Rather the following paragraphs will concentrate on the aid provided to NGOs and used by them to help further their own objectives.[86]

The first general point to make is that there is very little systematic evidence available on the relationship or link between NGOs and aid dependency, either overall or in terms of Swedish aid and Swedish NGOs. As noted, this mirrors a similar absence of comprehensive studies of the extent and degree of aid dependency and official aid. The second point is that making generalisations about such links is particularly difficult because the term "NGO" embraces a whole variety of different organisations, whose purpose and functions extend well beyond the parameters around which official donor activities and objectives are drawn. Some NGOs are large, some are very very small; some have many years experience working in development, some very little; some keep in touch with debates and discussion about development, others do not; and some are interested in analysing the extent to which their own activities have reinforced or eased problems of aid dependency, some show no interest in the issue.

Given this array of differences, it would be fairly simple to produce specific examples of ways in which some NGOs' activities have contributed to aid dependency and others have had the opposite effects. But as such examples would be largely anecdotal they would not provide much sense of their relative importance to NGO aid relationships more widely. Perhaps, therefore, it would be more useful for the present discussion to highlight a number of features of NGO activities or attributes of NGOs which tend, on the one hand, to reduce or minimise aid dependency and, on the other, to increase or reinforce such dependence.

There are three major ways in which NGO development activities are likely to lead to a reduction of overall

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[85] In view of the particular place given to poverty reduction in Sweden's aid programme it is of relevance to note that the recent Norwegian Commission Report **Norwegian South Policy For a Changing World** called upon the Norwegian Government to downplay its direct commitment to poverty alleviation and to bias the approach to aid more in favour of capacity building.

> *In principle the Commission is sceptical about the idea that Norwegian or other international donor organisations should find, and provide aid directly to, the poorest parts of the population or special target groups in countries in the South. The role of aid must be to support countries' own development policies and institutions so that they can ulfil essential functions... The Commission suggests that the (Norwegian aid programme for low welfare countries be divided into two programme categories: a long term programme for resource, capacity and institutional development aimed at a limited number of countries; and one or more regional funds that can finance more shortterm measures and investment needs in the same welfare countries.... as a supplement to the long term programmes. The Commission envisages fixed budget allocations for selected low welfare countries covering only long-term programmes for institutional and human resource development.*

[86] For details of both budgetary trends and discussion of the different purposes and sizes of different funding windows see Riddell *et al* (1995).

aid dependency. Firstly, many of the larger NGOs especially are not only familiar with contemporary debate and discussion on development issues and on ways to enhance development impact, but NGOs and NGO personnel have been major contributors to such discussions. Thus, contemporary concern with aid dependency issues, including the potentially perverse effects of aid, have been placed on the agenda in part by NGOs. Secondly, awareness of aid dependency issues has been complemented by a range of specific and direct actions and activities taken by NGOs to address problems of aid dependency. Thus

* A major thrust of NGO approaches to development has involved the objective of "empowering" poor people and communities by strengthening their ability to take control of their lives and draw development resources to themselves.

* In particular, NGOs have placed great emphasis in the projects they run or fund on local ownership and participation and on strengthening the role of women. Indeed it would appear that, not uncommonly, many NGOs placed emphasis on these aspects of development well before many official aid donors.

* Equally, many northern NGOs have sought to build up and strengthen the capacity of local NGOs both to further their ability to execute development projects themselves, and, in the process, to strengthen the role and place of voluntary organisations across civil society, thereby enhancing their advocacy capabilities.

* Relatedly, many northern NGOs have used their particular and often grass-roots contacts within aid recipient countries to expose corrupt and anti-developmental policies and practices, as well as human rights violations of some developing country regimes, thereby making indirect but often critically important contributions to the reduction or removal of core constraints impeding development and overall aid impact.

Thirdly, these types of action, activities and experience have provided NGOs with the experience and evidence to broadcast more widely the thesis that (some) contemporary aid practices of key official donors and donor agencies can themselves contribute to the maintenance and perpetuation of aid dependency.[57] Increasingly, too, while there still remain tensions between particular NGOs and particular donors, there has been a marked contemporary trend in the relationship between NGOs and official donors which is far less confrontational than in the past. One consequence is that it is now more common for official donors to seek out the ideas of NGOs and for NGOs to provide an input into devising and design the aid programmes of some donors.[58]

However there are also a range of other characteristics or features of NGO and NGO relations which tend to maintain or contribute to further aid dependency. Firstly, many NGOs continue to view themselves and their development work more as separate and distinct from mainstream development activities, including links between recipients and official donors, than as integrated with these broader development activities and initiatives. A particular effect of NGOs' isolationist approaches (where they continue) is that a number of NGO projects (some would say most NGO projects) have been set up to replace poorly managed government projects or services or simply to provide them where no government facility ever existed. This was not such a problem when NGO activities where small-scale and few in number. But the recent rapid expansion of NGO involvement in development has meant that it is now far from uncommon for these expanded NGO development initiatives to lead to the creation and extension of structures parallel to the government, exacerbated when and if NGOs resist any form of rationalisation or skill-sharing with relevant government departments. When this occurs at the same time as NGOs poach staff from the government to run NGO projects, even a small outflow of personnel from government to NGO projects is likely to decrease even further the ability of government departments to run efficiently, encouraging NGOs to set up even more projects to provide for those inadequately served by the government, producing further perverse dependency effects.

[57] For many years, leading and influential NGOs and NGO bodies argued against aid from a structuralist and *dependencia* perspective.

[58] The implications of this for the aid dependency debate will be discussed further below.

Secondly, whereas many northern NGOs articulate their aims and objectives to include strengthening southern partners, in practice many northern seek to maintain an almost permanent relationship with southern partners. When discrete projects are completed, it is not uncommon for new projects to be born, funnelling new funds to the same local NGO or community in an ever-continuing process. When this occurs it perpetuates a continual inter-dependency of southern NGOs with northern NGOs, most frequently reinforced by the maintenance of a dependent funding relationship.

Thirdly, while the comparative evidence of official aid agency and NGO projects indicates that in general NGOs have a greater ability to "reach down" to poorer people and poorer communities than official donors, the impact evidence of NGO projects suggests that in practice NGO projects often tend to score poorly both in terms of achieving marked improvements in the standards of living of project beneficiaries, and in terms of project sustainability. This suggests that the rhetoric of NGOs which cautions against continual aid dependence is not always married to evidence of NGO successes in avoiding these dangers in their own projects. Thus, NGOs have been criticised for providing "empowerment without content" while some of the impact studies have shown that the objective of strengthening the power of oppressed women has often not been matched by evidence of tangible gains in practice.

Fourthly, some NGOs have been criticised in relation to the way some of their projects have made use of foreign personnel. Like the tensions apparent in official aid projects, some evidence suggests that foreign personnel working on NGO projects have also tended to concentrate more on project delivery and less on building local capacity, with the indigenisation of project managers being a not uncommon weakness highlighted in particular Swedish country studies (see, for example, Sinclair, 1995).

So much for the overview of different weaknesses and strengths of NGOs in terms of aid dependency. Clearly a far deeper understanding of the link between NGO activities and aid dependency would be obtained by undertaking in-depth country assessment studies, paralleling those required for assessing the relationship between official aid and aid dependency. Donors could play a role by helping to fund such analyses. Additionally, there is scope for official donors to make use of the expertise and experience of NGOs to inform the debate about how official aid could be used in a manner which addresses problems of official aid dependency more substantially and comprehensively. Yet there is no reason why donor activity should stop there. An important component of donor NGO relationships is that donors provide (some of the) funds which NGOs use for their development activities. Even if Sida were to continue its rather "hands off" relationships with Swedish NGOs, the Government could require Sida (and the relevant framework organisations) to incorporate the issue of aid dependency more directly than it has in the past in the process of sifting through potential projects for funding.

There are three specific ways this might be done. First, the Government could require NGOs receiving development funds to explain how the projects funded contribute to a reduction in aid dependency, or minimise any increase in aid dependency.[89] Secondly, a certain portion of the money the Government provides to NGOs for development could be earmarked to fund activities which are explicitly aimed to reducing aid dependency, or, alternatively, the share of total NGO project costs provided by the Government for poverty-focused and capacity building projects could be varied.[90] Thirdly, in cases where NGOs

[89] They already have to explain how they contribute to development in general.

[90] The Norwegian Commission placed major emphasis on this aspect of NGO activities to be funded by the State (1995:16):

> *The most important contribution for a majority of voluntary organisations will... be cooperation with similar organisations in the South on the basis of common values and interests, in order to strengthen their ability and capacity to promote their goals. This is a task that cannot be carried out by official bodies.*
>
> *The majority of NGOs should concentrate on organisational cooperation with partners in the South. Apart from*

(continued...)

repeatedly request funds to promote (different activities) of the same southern NGO, as a condition for the receipt of additional funds, the Government could require these NGOs to explain how such use of state funds to the same organisation can continue to be justified. Finally and more generally, in countries with a large NGO presence, Sida could seek the cooperation of the NGO community to help it devise an aid strategy which aims to understand the problems of aid dependency and seeks ways in which (together and separately but in close cooperation with the recipient government) official donors and NGOs might cooperate to reduce it.

Finally, however, in relation to NGOs, it is important to stress a recurrent theme of this study: neither the evidence of existing aid dependency of NGOs and NGO activities, nor evidence of increasing aid dependency of NGOs and NGO activities provide sufficient data and information to conclude that (any specific) action should be taken to reduce such dependence. Different policy options should only be considered when problems of NGO aid dependency are analysed more broadly, within the context of the aid recipient's different development problems, and including an analysis of how best these might be addressed with and without aid funds.

[90] (...continued)
this, aid activities should preferably be concentrated on fewer organisations.

VI SUMMARY CONCLUSIONS AND POLICY IMPLICATIONS

VI.1 General Conclusions and Policy Implications

Though donors have failed to provide, or agree among themselves, a comprehensive definition of aid dependency, the term has come to be (widely) used to describe the situation where large, continuing, and often rising, amounts of donor aid are provided to recipients with little to no development impact resulting. For some, the term aid dependency is also used to describe the situation where the failure of aid to achieve its intended results is traced back (in part) to the very nature of the aid relationship. As thus understood, aid dependency is a concept that has become an increasing focus of donor attention in recent years. In general, and in spite of the failure to come up with a precise definition, most donors believe that aid dependency exists and that it helps to explain why aid has not made a greater impact. Many donors would appear to have gone further and would argue that aid dependency is on the increase. Given such perceptions, it is not surprising that donors should begin to examine more closely how aid dependency can be reduced.

The present study has sought to understand the concept of aid dependency, to try to define what it is more precisely and to discuss a number of ways in which it might be reduced. Yet it has also emphasised the necessity of locating the debate about aid dependency within a broader context, arguing, more specifically, that though the phenomenon of aid dependency is an important one for donors to focus upon, it should not be viewed in isolation and thus should not be the sole basis for donors to design or alter their aid and development cooperation policies. Indeed it is argued that even if it is possible to show that aid dependency is increasing, **on its own** such evidence does not provide sufficient grounds for reducing aid overall, for altering the different forms in which it is given, for imposing harsher and/or different forms of conditionality on the recipient, or even that first priority should be given to reducing such dependence.

This is not, however, to argue that aid dependency should be viewed as "a good thing", nor to suggest that no action should be taken to attempt to reduce it. But where the wider context is ignored or down-played, there are risks that a narrow focus on aid dependency, and discussion about ways to reduce it, could prove harmful to the achievement of aid's core development objectives. There are strong analogies between addressing problems of aid dependency and seeking to enhance overall aid effectiveness. Thus, one can only hope to understand how best to utilise aid resources and to determine how much aid should be provided, and in what forms, by focusing on the factors constraining development and the extent to which aid is able (and is unable) to help meet these constraints. Likewise, one cannot hope to understand what policy implications should be derived from examining aid dependency unless one examines closely not merely the linkages between aid dependency and aid impact, but also the complex linkages between aid and development, including an analysis of the failures of development which have little or nothing to do with either aid or aid dependency.[91]

Locating the discussion of aid dependency within its wider context suggests that specific and practical policy implications arising from debate, discussion and study of aid dependency are more likely to emerge from studying particular aid recipient country contexts, and less from trying to draw general conclusions from cross-country trends. Thus, donors wishing to assess policy options arising from continuing or growing aid dependency need to undertake analyses for themselves, or study carefully analyses made by others of aid dependency as it exists and has evolved in **particular country contexts,** focusing especially on the relative importance of different constraints impeding the path to self-sustaining development and how they might be best reduced or overcome.

Additionally and relatedly, such country-specific studies of aid dependency need to focus not merely on the differing constraints to development and the role aid has played, and has failed to play, in reducing these constraints, but also on an assessment of a country's aid needs at the macro- and micro-levels. Clearly, too, the smaller the individual contribution of a particular donor to total aid received by a recipient, the less impact

[91] Shifting at once from an analysis of the existence of aid dependency to proposals to reduce it is a dis-service to the aid debate because it tends to raise false expectations of what aid can do, most notably fuelling the false notion that without aid there would be no development.

unilateral action by that donor will have either in enhancing overall aid impact, or in reducing the adverse effects of aid dependency both overall and in relation to particular forms of aid. Thus a study of aid dependency within the framework of a **single donor's aid programme** will necessarily be a very incomplete study. Indeed such a study would considerably increase two sorts of risk: the risk that the identified causes of aid dependency will be mis-specified, and the risk that any proposed actions to reduce such dependency will be diluted by wider influences.

These considerations provide the context for consideration of more concrete action Sida might take in relation to the phenomenon of aid dependency.

VI.2 Policy Implications for Sida

At present, aid dependency issues do not feature very prominently in decisions made about Swedish aid or in influencing the tasks that aid managers perform. Thus, the first decision Sida needs to take is **whether** to incorporate the notion of aid dependency more formally into policy deliberations about its aid and development cooperation relations. In part this study was commissioned to help Sida answer this question. The answer from the preceding discussion of this study is unequivocal:

> **there would appear to be sufficient substance in the claims that aid dependency, in a range of different manifestations, has the real potential adversely to frustrate the objectives of aid and the process of development, for aid dependency issues to inform and influence Sida's aid and development cooperation programmes.**

The next question is precisely **how** aid dependency issues should inform and be integrated into Sweden's aid and development cooperation policies. As just noted, this study has argued strongly that from the viewpoint of informing policy debate, aid dependency issues should be monitored discussed and analysed, and any action determined, at the aid recipient country level. The long list of different quantitative, non-quantitative, contextual and structural indicators presented and discussed in **Section III** provides an initial check-list of the different types of aid dependency issues which could be used as a basic back-drop for beginning the country-specific analyses of aid dependency. However, it is argued that this needs to be placed in its wider context including a far more rigorous assessment than is commonly made of, including quantification of, aid needs.

But should in-depth studies of aid dependency be carried out in all the approximately 111 countries to which Sweden provides aid? If aid dependency is to be raised in status to become an issue against which all aid programmes should be assessed, then the answer is that, yes, ideally all countries to which Sweden gives aid should be assessed in terms of the extent to which aid dependency exists, and its overall importance in terms of the wider aid relationship and efforts to further the development process. However it is one thing to say that all aid Sweden gives, or is considering giving, ought to be assessed against an aid dependency analysis, but quite another thing to say that **Sweden itself, or Sida, in particular**, should conduct or arrange for such studies to be undertaken.

At a general level, it is suggested that when Sweden provides only a small amount of aid, it should make use of other analyses of aid dependence against which to assess its current small (or potential) engagement, or if these are absent, seek to encourage the leading donor or donors to undertake such an analysis. In this regard, Sweden should seek to make particular use of its new status as a member of the European Union to influence both Community aid and the bilateral aid programmes of other EU member states to cooperate in this regard. But in cases where Sweden is itself a major donor, then, for these aid recipient countries, it is suggested that Sida should either conduct its own aid dependency study or satisfy itself that other existing studies sufficiently answer the questions it has to inform the wider discussion of the nature and degree of aid dependency and its link to other development constraints.[92]

[92] It is important to emphasise that it is not sufficient merely for recipient country studies of aid dependency "to be done". It is of equal importance that the issues raised are **integrated** into and informs the decision-making process of aid managers. Particular stress is laid on the word "integrate" because of a sense that for all the good work undertaken (continued...)

But where should the cut off point be to decide for which particular countries Sida should embark on in-depth studies of aid dependency? What is a "major donor"? A fairly simple dividing line could be drawn between Sweden's programme countries (where studies would be carried out) and the non-programme countries (where they would not). However, it is argued that such a decision needs to be additionally informed by some of the other issues raised within this study. Thus, the discussion in **Section IV** suggested that for some programme countries the share of Swedish aid to total aid is so small that any unilateral action taken by Sweden to address the problems of aid dependency are likely to make little overall difference to the problems identified. Clearly one implication of being such a small donor is for Sida to encourage other donors, particular larger donors, to raise the status and importance of aid dependency issues in their aid deliberations: indeed such a strategy would apply with equal force to almost all of Sweden's programme countries. However beyond furthering such inter-agency cooperation, is it possible to specify particular criteria for Sida to consider embarking on its own in-depth country case study of aid dependence?

The following points provide some pointers. If SEK 100 mn were the cut off point in terms of absolute levels of aid then in terms of the 1995/96 financial year, 10 countries would be selected for in depth studies: Angola, Bangladesh, Ethiopia, India, Mozambique, Nicaragua, Tanzania, Vietnam, Zambia and Zimbabwe. If a Swedish contribution amounting to 5% of total aid were to provide the cut-off point then in 1993/94 the following 11 countries would qualify for inclusion: Angola, Botswana, Cape Verde, Guinea-Bissau, Laos, Mozambique, Nicaragua, Tanzania, Vietnam, Zambia and Zimbabwe. Combining the two would reduce the number of countries to seven. However, it needs to be pointed out that these cut-off points are based on actual aid levels and thus on their own provide only part of the information required. They do not incorporate criteria either of relative poverty status, or of the extent to which the countries receiving aid require and need the aid which Sweden, and other donors, are currently providing.

Whatever the precise number of countries and the precise criteria to judge the cut-off point, it is important to emphasise the purpose and function of the country-based studies of aid dependence. At the most general level, the purpose is to inform the wider decisions to be made confirming the size of the Swedish aid programme, its form and the extent and range of conditions to be attached to the aid provided. In this context, an important initial purpose of a study of aid dependency ought to be to inform and provide an input to the different Country Strategy Papers being planned prepared and produced. In other words they should be seen predominantly as **an input to aid management decisions**.

However if such country-based studies are to be of use to aid managers it is important for them not merely to be undertaken once, but for them to be updated to provide a continual stream of relevant data and information. Thus equipped, aid managers will be informed about any changes that might be made in the composition of the aid programme as a result of changes in the manner and degree to which different types of aid dependency issues are influencing the aid relationship. The discussion in **Section V**, above, provides an initial check-list of issues and questions to help this sort of rolling assessment within the broader context.[23] But it additionally highlights how important it is for aid managers with responsibility for country programmes to have the ability continually to view the aid programme holistically: to ensure that its component parts continually pass the tests of meeting needs not merely individually but together.[24] Perhaps the biggest task

[22](...continued)
to analyse contemporary macro-economic trends in leading programme countries, there has often been a gap between the process of undertaking these studies and publishing the results, and using the information provided to inform and influences decisions about the shape of particular aid programmes.

[23] To summarise these briefly, **Section V** drew attention to the following check- list of clusters of more holistic factors likely to be important in reducing the level and extent of aid dependence. These are: the fulfilment of the basic preconditions for aid to begin to function as intended; the initial and continued commitment of the recipient to development; the competence and capacity of the recipient; donor cooperation in working together to help meet recipient needs; judging the hierarchy of constraints impeding development prospects and potential; ensuring that aid funds and resources are incorporated into overall "domestic resource" planning; and, applying any aid conditionality judiciously and in a manner which is consistent and in harmony with the achievement of the other objectives.

[24] Thus, the World Bank's Wapenhans Report commented that (1992b):

(continued...)

for aid managers, and one which strikes at the core of aid dependency problems, is to work to try to achieve greater harmony between the recipient and the often disparate group of organisations which make up the donor "community". It is within this normative framework that many major initiatives will need to be located.

Focusing on aid dependency problems points to the need for Country Strategy Papers to locate the Swedish aid relationship within a particular time-frame. For many programme countries, it is likely that this time-frame will be of considerably longer duration than current planning periods: the Norwegian Commission mentions a time frame for low-welfare countries of 15 to 25 years. The thrust of this study has been to suggest that the appropriate time-frame for planning an aid programme can really only emerge from specific country analyses. But the main point to be made here is that all Country Strategy Programmes should not only normally have a time-frame against which the aid relationship is monitored, but that this should contain particular targets for the achievement of particular development objectives, specified in terms, say, of saving, taxation, foreign exchange earning and institutional capacity-building targets. Then, as time passes, assessments of performance can be made against these criteria and the reasons for any shortfalls analysed.

There is one final thing to say in relation to aid dependency and the aid provided to non-programme countries. The point was made above that though Sida should not allocate scarce resources and funds to an analysis of aid dependence constraints and problems in all the small countries to which it gives development, it was suggested that aid dependency issues should by no means be ignored, and that, as far as possible, building usually on other analyses, the aid given should be provided in a manner which had the best chance of meeting needs and enhancing the route to self-sustaining development.

It is additionally suggested that as Swedish expertise and monitoring of aid in these countries is clearly going to be less in-depth and intensive, aid dependency problems are likely to be less pervasive if the Swedish aid provided to these countries be given to achieve more specific and tangible, and ideally time-bound, objectives (up-grading a statistical department, providing skills training to those lecturing in a nurses' training college, etc.) One implication for the overall aid programme of adopting a more narrow and time-bound perspective for these countries is that current and past allocations of aid to small aid recipients would not play such an influential part in determining future allocations of aid beyond the time-bound period of the particular project or projects funded.

[64](...continued)

The project-by-project approach to portfolio performance management needs to proceed within a country context to address generic problems of implementation and systemic opportunities for portfolio improvement, and to focus accountability within the Bank for portfolio results.

APPENDIX A STATISTICAL APPENDIX

Table A1 Trends in Swedish Aid to Angola 1980–1993

Year	Net disbursements \$m All Aid	Net disbursements \$m Swedish aid	Swedish aid as % of all aid	Swedish aid disbursements @ 1994 prices Index, 1994=100	Swedish aid allocation @ current prices 1994=100
1993	300	16.0	5.3	56.0	131
1992	351	39.8	11.3	108.7	125
1991	280	36.2	12.9	104.8	125
1990	270	38.8	14.3	121.3	106
1989	171	40.9	23.9	152.4	94
1988	159	27.1	17.0	102.4	87
1987	136	21.8	16.0	90.9	78
1986	131	21.0	16.0	101.8	72
1985	258	13.2	5.1	80.5	65
1984	201	10.6	5.3	67.2	65
1983	175	9.0	5.1	56.7	62
1982	353	22.3	6.3	125.7	59
1981		10.6		52.3	50
1980		10.5		48.9	43

Source (for all tables in Appendix A): Sida (1995) *Sweden's Development Assistance in Figures and Graphs*. Stockholm: Planning Secretariat, Sida, and OECD statistics.

Table A2 Trends in Swedish Aid to Bangladesh 1980–1993

Year	Net disbursements $m		Swedish aid as % of all aid	Swedish aid disbursements @ 1994 prices Index. 1994=100	Swedish aid allocation @ current prices 1994=100
	All Aid	Swedish aid			
1993	1359	32.9	2.4	132	117
1992	1834	39.6	2.1	125	121
1991	1889	25.2	1.3	84	121
1990	2100	35.7	1.7	128	112
1989	1807	23.9	1.4	111	112
1988	1615	33.5	2.1	146	112
1987	1806	29.0	1.6	139	121
1986	1459	25.2	1.7	141	121
1985	1144	11.8	1.0	82	121
1984	1203	14.3	1.9	104	121
1983	1121	19.8	1.8	143	121
1982	1351	21.1	1.6	137	116
1981	1120	27.9	2.5	159	108
1980	1306	30.4	2.3	163	117

Table A3 Trends in Swedish Aid to Botswana 1980–1993

Year	Net disbursements $m All Aid	Net disbursements $m Swedish aid	Swedish aid as % of all aid	Swedish aid disbursements @ 1994 prices Index, 1994=100	Swedish aid allocation @ current prices 1994=100
1993	110	16.2	14.7	199	133
1992	115	16.2	14.1	156	141
1991	136	18.9	13.9	192	141
1990	148	19.1	12.9	211	141
1989	160	17.2	10.7	225	141
1988	151	23.3	15.4	309	141
1987	156	14.6	9.3	214	133
1986	104	16.7	16.0	285	126
1985	99	6.9	7.0	148	118
1984	103	11.4	11.1	234	118
1983	104	12.7	12.2	233	104
1982	102	11.3	11.1	223	104
1981	97	13.1	13.5	228	96
1980	106	15.5	14.6	254	88

Table A4 Trends in Swedish Aid to Cape Verde 1980–1993

Year	Net disbursements $m All Aid	Net disbursements $m Swedish aid	Swedish aid as % of all aid	Swedish aid disbursements @ 1994 prices Index, 1994=100	Swedish aid allocation @ current prices 1994=100
1993	117	11.0	9.4	106	400
1992	124	11.6	9.3	89	375
1991	107	9.6	9.0	77	350
1990	79	7.3	9.2	63	325
1989	75	7.3	9.2	120	300
1988	89	10.3	11.6	109	300
1987	88	8.2	9.3	95	275
1986	112	8.1	7.2	109	250
1985	75	6.7	8.90	109	225
1984	69	6.2	9.0	110	225
1983	65	6.0	9.2	106	200
1982	59	7.4	12.5	116	175
1981	52	6.6	12.7	91	150
1980	65	5.3	8.1	69	115

Table A5 Trends in Swedish Aid to Ethiopia 1980–1993

Year	Net disbursements $m All Aid	Net disbursements $m Swedish aid	Swedish aid as % of all aid	Swedish aid disbursements @ 1994 prices Index, 1994=100	Swedish aid allocation @ current prices 1994=100
1993	1249	54.1	4.3	153	115
1992	1181	51.7	4.4	115	77
1991	1119	52.3	4.7	123	111
1990	1072	52.0	4.8	132	111
1989	803	49.0	6.1	149	111
1988	1109	56.3	5.1	173	111
1987	725	40.1	5.5	136	100
1986	790	31.6	4.0	124	88
1985	840	22.0	2.6	109	77
1984	517	16.4	3.2	84	77
1983	464	13.5	2.9	69	65
1982	348	14.4	4.1	66	61
1981	341	24.7	7.2	99	58
1980	270	22.8	8.4	87	54

Table A6 Trends in Swedish Aid to Guinea-Bissau 1976–1993

Year	Net disbursements $m All Aid	Net disbursements $m Swedish aid	Swedish aid as % of all aid	Swedish aid disbursements @ 1994 prices Index, 1994=100	Swedish aid allocation @ current prices 1994=100
1993	101	9.2	9.1	80	188
1992	118	13.8	11.7	93	211
1991	119	15.1	12.7	108	200
1990	133	17.2	12.9	132	178
1989	118	15.8	13.4	145	200
1988	104	19.4	18.7	180	178
1987	114	11.7	10.3	121	167
1986	74	10.0	13.5	119	167
1985	59	8.5	14.4	127	167
1984	61	6.1	10.0	95	155
1983	65	8.4	12.9	131	144
1982	65	10.5	16.1	147	133
1981	67	10.7	16.0	131	122
1980	76	12.0	15.9	138	122
1979	57	14.3	25.1	189	122
1978	53	10.7	20.2	158	111
1977	38	8.6	22.6	137	111
1976	22	8.0	36.3	138	89

Table A7 Trends in Swedish Aid to India 1980–1993

Year	Net disbursements $m		Swedish aid as % of all aid	Swedish aid disbursements @ 1994 prices Index. 1994=100	Swedish aid allocation @ current prices 1994=100
	All Aid	Swedish aid			
1993	1533	50.9	3.3	60	120
1992	2450	74.2	3.0	69	116
1991	2744	63.6	2.3	63	116
1990	1407	176.9	12.6	189	110
1989	1778	66.1	3.7	84	110
1988	1956	54.7	2.8	70	110
1987	1703	30.7	1.8	44	107
1986	1996	85.5	4.1	137	101
1985	2506	37.5	1.5	78	98
1984	2193	49.9	2.3	108	98
1983	2329	52.1	2.2	113	98
1982	2269	44.0	1.9	85	96
1981		50.5		85	89
1980		65.8		105	84

Table A8 Trends in Swedish Aid to Kenya 1980–1993

Year	Net disbursements $m All Aid	Net disbursements $m Swedish aid	Swedish aid as % of all aid	Swedish aid disbursements @ 1994 prices Index, 1994=100	Swedish aid allocation @ current prices 1994=100
1993	894	20.7	2.3	115	109
1992	892	24.5	2.7	130	128
1991	921	27.1	2.9	126	143
1990	1187	36.2	3.0	181	133
1989	1064	35.6	3.3	213	133
1988	836	31.3	3.7	190	133
1987	560	25.0	4.5	167	128
1986	445	19.8	4.5	153	124
1985	534	19.7	3.7	192	124
1984	543	12.7	2.3	129	124
1983	476	13.0	2.7	131	119
1982	575	13.9	2.3	126	105
1981		17.2		136	100
1980		23.2		179	90

Table A9 Trends in Swedish Aid to Laos 1980–1993

Year	Net disbursements $m All Aid	Net disbursements $m Swedish aid	Swedish aid as % of all aid	Swedish aid disbursements @ 1994 prices Index, 1994=100	Swedish aid allocation @ current prices 1994=100
1993	199	16.6	8.3	119	110
1992	157	17.0	8.9	95	110
1991	131	18.2	13.9	109	100
1990	152	13.1	8.6	84	85
1989	140	18.1	12.9	139	70
1988	77	12.4	16.0	96	70
1987	58	12.1	20.8	103	70
1986	48	5.5	11.4	55	65
1985	64	3.6	5.6	45	60
1984	35	7.3	20.8	95	60
1983	30	8.4	28.0	109	55
1982	38	9.9	26.0	114	55
1981				94	50
1980				135	45

Table A 10 Trends in Swedish Aid to Lesotho 1980–1993

Year	Net disbursements $m All Aid	Net disbursements $m Swedish aid	Swedish aid as % of all aid	Swedish aid disbursements @ 1994 prices Index, 1994=100	Swedish aid allocation @ current prices 1994=100
1993	128	4.6	3.6	20	117
1992	133	7.7	5.8	37	117
1991	120	8.5	7.1	31	117
1990	140	9.2	6.6	37	117
1989	132	9.3	7.1	44	117
1988	111	8.4	7.6	44	117
1987	107	8.2	7.7	53	117
1986	87	8.6	9.8	21	117
1985	94	2.7	2.9	19	83
1984	101	2.4	2.4	22	83
1983	108	2.8	2.6	15	67
1982	93	2.1	2.3	23	57
1981	104	3.7	3.6	21	50
1980	94	3.4	3.6	23	47

Table A11 Trends in Swedish Aid to Mozambique 1980–1993

Year	Net disbursements $m All Aid	Net disbursements $m Swedish aid	Swedish aid as % of all aid	Swedish aid disbursements @ 1994 prices Index, 1994=100	Swedish aid allocation @ current prices 1994=100
1993	1172	74.8	6.4	110	123
1992	1471	113.4	7.7	130	148
1991	1107	137.9	12.4	168	139
1990	1013	120.7	11.9	173	123
1989	888	106.7	12.0	168	111
1988	993	106.0	10.6	174	101
1987	768	52.1	6.8	91	94
1986	568	64.4	11.3	132	84
1985	368	33.2	9.0	85	80
1984	300	32.9	11.0	87	80
1983	229	33.7	14.7	90	72
1982	230	36.0	15.6	86	66
1981	158		21.4	70	56
1980	174		22.0	75	44

Table A 12 Trends in Swedish Aid to Nicaragua 1983–1993

Year	Net disbursements $m All Aid	Net disbursements $m Swedish aid	Swedish aid as % of all aid	Swedish aid disbursements @ 1994 prices Index. 1994=100	Swedish aid allocation @ current prices 1994=100
1993	337	37.6	11.2	96	104
1992	659	75.4	11.5	150	104
1991	841	46.0	5.5	97	100
1990	335	69.4	20.7	157	85
1989	244	43.6	17.9	118	70
1988	220	37.0	16.8	102	59
1987	141	29.8	21.1	91	46
1986	150	18.3	12.2	64	33
1985	116	14.3	12.3	63	28
1984	161	10.1	6.3	46	28
1983	172	8.7	4.9	40	18

Table A 13 Trends in Swedish Aid to Sri Lanka 1980–1993

Year	Net disbursements $m All Aid	Net disbursements $m Swedish aid	Swedish aid as % of all aid	Swedish aid disbursements @ 1994 prices Index, 1994=100	Swedish aid allocation @ current prices 1994=100
1993	551	11.0	2.0	121	100
1992	483	13.3	2.7	114	0
1991	815	16.6	2.1	150	200
1990	674	8.7	1.3	85	200
1989	547	9.2	1.7	107	143
1988	598	24.5	4.1	291	600
1987	502	27.9	5.6	368	600
1986	513	39.3	7.7	600	600
1985	584	31.7	5.4	606	600
1984	642	25.2	3.9	500	600
1983	530	19.0	3.6	378	443
1982	472	18.0	3.8	320	328
1981		20.5		318	286
1980		21.1		310	257

Table A 14 Trends in Swedish Aid to Tanzania 1973–1993

Year	Net disbursements $m All Aid	Net disbursements $m Swedish aid	Swedish aid as % of all aid	Swedish aid disbursements @ 1994 prices Index, 1994=100	Swedish aid allocation @ current prices 1994=100
1993	978	77.9	7.9	104	119
1992	1354	140.5	10.4	148	131
1991	1083	146.0	13.5	136	123
1990	1171	151.9	12.9	180	121
1989	917	90.0	9.8	153	117
1988	1012	101.7	10.0	144	114
1987	882	79.1	9.0	157	107
1986	675	107.9	16.0	164	103
1985	477	48.5	10.1	137	103
1984	549	53.2	9.7	149	103
1983	579	68.6	11.8	135	99
1982	673	72.7	10.8	169	93
1981	657	77.4	11.8	117	85
1980	650	73.2	11.2	147	77
1979	584	91.4	15.6	156	70
1978	423	63.1	14.8	130	61
1977	315	56.5	17.9	155	56
1976	267	50.9	19.0	143	56
1975	303	54.0	17.8	140	41
1974	162	35.0	21.6	102	41
1973	100	32.6	32.6	80	27

Table A 15 Trends in Swedish Aid to Vietnam 1980–1993

Year	Net disbursements $m All Aid	Net disbursements $m Swedish aid	Swedish aid as % of all aid	Swedish aid disbursements @ 1994 prices Index, 1994=100	Swedish aid allocation @ current prices 1994=100
1993	322	42.5	13.2	112	125
1992	580	51.9	8.9	107	180
1991	238	62.3	26.2	136	167
1990	190	48.1	25.3	113	167
1989	120	48.4	40.3	137	167
1988	147	44.4	30.2	135	167
1987	110	51.8	47.0	164	167
1986	146	58.4	40.0	214	167
1985	93	49.3	53.0	226	203
1984	104	57.1	54.9	273	203
1983	77	50.3	65.3	240	192
1982	138	61.9	44.8	264	203
1981		70.6		263	203
1980		77.4		273	222

Table A 16 Trends in Swedish Aid to Zambia 1980–1993

Year	Net disbursements $m All Aid	Net disbursements $m Swedish aid	Swedish aid as % of all aid	Swedish aid disbursements @ 1994 prices Index, 1994=100	Swedish aid allocation @ current prices 1994=100
1993	803	51.2	6.4	132	108
1992	1035	62.0	6.0	125	102
1991	883	93.4	10.9	199	94
1990	482	43.4	9.0	100	94
1989	396	33.3	8.4	92	94
1988	476	35.2	7.5	98	90
1987	426	26.0	6.1	80	80
1986	456	34.4	7.5	123	74
1985	341	18.2	5.3	81	68
1984	260	20.8	8.0	97	68
1983	235	25.2	10.7	117	65
1982	318	21.9	6.9	91	57
1981	242	35.3	14.6	128	51
1980	295	22.4	7.6	77	41
1979	277	24.2	8.7	95	37
1978	185	25.4	13.7	112	31
1977	108	13.9	12.8	66	24
1976	62	12.1	19.5	63	22
1975	86	7.9	9.2	44	18
1974	63	4.7	7.5	31	12
1973	45	1.9	4.2	13	6

Table A 17 Trends in Swedish Aid to Zimbabwe 1982–1993

Year	Net disbursements $m		Swedish aid as % of all aid	Swedish aid disbursements @ 1994 prices Index, 1994=100	Swedish aid allocation @ current prices 1994=100
	All Aid	Swedish aid			
1993	428	54.0	12.6	163	112
1992	795	53.2	6.7	126	112
1991	393	49.4	11.0	124	102
1990	340	37.4	10.8	101	92
1989	265	28.7	13.4	92	82
1988	273	36.5	7.9	119	77
1987	294	23.2	10.6	84	69
1986	225	19.2	6.1	100	64
1985	314	16.6	3.8	101	64
1984	432	11.8	3.3	94	64
1983	353	9.4	2.0	64	56
1982	467	61.9	44.8	46	51
1981		70.6		263	
1980		77.4		273	

APPENDIX B TERMS OF REFERENCE FOR THE AID DEPENDENCY STUDY

Study 3): Aid Dependency

One of the five major official objectives of Swedish development cooperation has been to contribute to economic and political independence. This goal was in the beginning inspired by the dependency school of development thinking, with its emphasis of economic dependence and recommendation of the import substitution industrialization strategies and various proposals under the heading of these ideas under the heading of a New International Economic Order. In the 1980's, when the successful application of these ideas in the oil markets had led to OPEC, two major global oil price crises and eventually a debt crisis for particularly the low-income countries, focus was shifted to the political aspect of dependency. The consolidation of decolonized new, formally independent states was one major reason for providing development assistance, not only from the former colonial powers, but also for other donors.

For Sweden, there was a strong emphasis on the political aspect of dependence, eg in supporting Vietnam, Laos and Cambodia during and after the war against USA and its allies as well as Cuba, Chile before the military coup and Nicaragua. In particular, the struggle against apartheid and minority rule in southern Africa was supported through the liberation movements and large aid programmes in the Frontline States.

It has become increasingly clear, however, that many of Sweden's recipient countries have developed a major new form of dependency, ie aid dependence, including most African countries, Bangladesh and Laos. This fact has created an embarrassing dilemma for aid donors, who are hard up to explain how their aid programmes is having an impact towards sustainable development. Debt relief, aid coordination and programme aid with some form of policy conditionality is seen by most donors as the way out of this dilemma. Conservative analysts and aid critics who see aid as part of the problem rather than the solution propose reduced aid and increased reliance on free markets and incentives for private investments as the solution.

It is commonly believed that aid dependence is increasing in many countries and that it leads to reduced incentives for domestic resource mobilization, distorts the allocation of available resources and undermines the feeling of responsibility among political decision-makers, and hence also weakens national governance.

This study will review and discuss various indicators of aid dependence, eg

- net aid transfers/GDP
- net aid transfers per capita
- aid/government expenditures alt. revenues
- aid/export earnings
- aid investments
- aid/imports
- etc

There is no generally accepted definition of the term aid dependency. Different definitions are used to illustrate different sets of problems, making it all the more important to clarify what is meant. It appears that definitions cannot be based on quantitative criteria alone, since dependence characterises a type of behaviour, not just a state of financial insolvency.

The fundamental question is whether there exists a clearly understood causal relationship between the amount of aid and the development objectives. The relation between aid and economic growth has not been conclusively clarified by econometric analyses or other methods. Both positive and negative correlations have been observed, and the causal direction of any correlation is impossible to prove. Aid is likely to be at least as much determined by need as by proven productivity in growth terms, depending on each donor's political preferences. If there is no clear relationship between aid and growth, there is no aid dependence for achieving growth objectives either.

Thus, defining aid dependence implies a theory of aid and development. One such theory, or set of theories is the gap theory, based on growth models such as the Harrod-Domar model. This can be used to define aid dependence in terms of closing the constraining gap, be it savings, foreign exchange revenues. Mutasa and White (1993) used the two-gap model to develop the following definition of aid dependence: " an economy is aid dependent if it is not moving towards a position of self-sustained growth, that is, either of the trade or savings gap is not closing."

The macro-economic mechanisms by which aid dependence can increase or decrease are related to savings, investments, exports, imports and prices. Relative prices will change and affect the allocation of resources and patterns of consumption and investment. One of the factors that will affect relative prices is aid. The theory of Dutch Disease explicitly deals with the effect of a booming sector on the relative prices of tradable and non-tradable and the resulting affects on the economy. Aid may cause effects similar to the classical Dutch Disease by causing real appreciation of the exchange rate, increasing relative prices of the non-tradable sector and crowding out tradable sectors of capital and labour markets.

On the other hand, aid is increasingly conditional upon economic policy reforms including large initial devaluation, which counteract the above tendencies. These effects have been analysed for some Swedish programme countries in the SASDA reports in 1994.

Other economic aspects of aid effectiveness and dependence are those concerning the incentive structure, eg budget softening with weak incentives for cost-effectiveness. Another aspect is dependence on technical assistance. A special form of aid dependence is that of increasing indebtedness from aid-financed credits, especially in conjunction with tied aid, as in the system of mixed credits at concessional terms which Sweden has been increasingly applying in recent years. In this connection, technological dependence created by aid-financed systems should be considered.

Sustainability is a key concept in defining aid dependence. Reducing dependence must mean moving towards sustainability. This should include not only macro-economic aspects, but also social and environmental and, not least, political and institutional constraints to sustainable development. The study should not only take account of the quantity of aid in relation to domestic resources, but also the way in which it affects the behaviour of political-decision makers, institutions and the markets for goods and services in the country dependence should thus not be defined by a figure but may well be described by a number of qualitative and quantitative characteristics.

The study should consider different methods of reducing aid dependence taking international experience into consideration. Strategies for different programme countries for Swedish development cooperation should be discussed and proposed, as well as more generalized approached to reducing aid dependence.
The study shall:

1) discuss quantitative as well as behavioural and qualitative criteria for determining aid dependence;

2) examine different types of aid, such as technical cooperation, tied and untied financial assistance, grants and loans requiring different repayment or counterpart contributions, from the point of view of whether or not they may increase or decrease aid dependence; a brief review of dependence problems with regard to assistance via NGOs should also be given;

3) discuss to what extent or under what conditions the ongoing shift from conventional forms of aid to debt relief and balance of payment support tied to policy conditions may contribute to a lessening of aid dependence;

4) suggest methods to improve sustainability in development cooperation programmes, from a financial point of view as well as with regard to other development objectives laid down by the Swedish Parliament.

The study shall produce a preliminary report by the end of September and a final report by mid-November 1995.

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Aid Dependence and Donor Policy

The case of Tanzania
with lessons from Bangladesh's experience

by

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Dhaka
February 1996

PREFACE AND ACKNOWLEDGEMENTS

Attempting to write about a country such as Tanzania, on the basis of two months exposure to its problems with three weeks spent in the country, remains a highly presumptuous task bordering on impertinence. My temerity in undertaking this study on Aid Dependence at the invitation of Gosta Edgren, Deputy Director General of SIDA, must thus be viewed as a part of my own self-education. My own long years of study and direct exposure to the pathology of aid dependence in Bangladesh over the last quarter of a century has provided me with some insights on the subject of aid dependence. To be able to draw upon my limited knowledge of Bangladesh to study another country such as Tanzania, far removed from Bangladesh, was thus a unique opportunity for me to broaden my knowledge of the subject by looking at the shared elements of this highly problematic relation between donor and recipient in particularly aid dependent countries.

Undertaking this task within two months was, for me, both an education and a challenge. Whilst my education has been of immense value to me I am less sure if I have been equal to the challenge of capturing the essence of the Tanzanian experience with their donors. Tanzania's community of development specialists is exceptionally strong and there is little one can say on their experience which has not been covered in an exceptionally fertile literature, on the country, already in place. I would thus seek the indulgence of those Tanzanians far more equipped to review their own reality than lies within the capacity of an itinerant Bangladeshi. I hope however that the Tanzanians may find some elements of interest in my comments on Bangladesh's encounter with aid dependence. It would be more useful if, together with Tanzanian development specialists, we could review our shared experience collectively. Such a cooperative endeavour may help us to evolve a more sensible and self-respecting patten of relations with our aid donors than has been the case so far. We should, to misquote *Shakespeare's Julius Caesar*, remember that, 'the fault dear Brutus lies not with the donor's but in ourselves'. Whilst there is much in the present paper which may question the role of the donors in both Tanzania and Bangladesh, at the end of the day we must hold ourselves responsible for neither generating a sufficiency of domestic resources to buy us autonomy over our development agendas nor independence of thought to set our own policy directions.

Acknowledgements

In preparing this study, I would like to acknowledge the invaluable contribution made towards my education about Tanzania, during my two visits there by all those listed in Annexure IV of this paper. For someone with such a limited exposure to Tanzania, had not all those people given so freely of their time to help deepen my understanding of the Tanzanian reality, I would have understood much less from my limited study of the literature presented in the bibliography.

Whilst it would be invidious to single out particular people from those listed in Annexure IV, I would be remiss if I did not acknowledge my special debt to Mwalimu Julius Nyerere, who, long before I had the privilege of meeting him, had made me and many others of my generation, in the Third World, aware of the Tanzanian experience. My association with him during his inspirational leadership of the South Commission and my recent meeting with him in Dar Es Salaam in August, 1995, were particularly educational. I would also like to specially acknowledge all the assistance I received from my old friend Prof. Samuel Wangwe who, together with Prof. V. Semboja, organised a joint seminar of the ESRF and ERB, during my August visit to Tanzania, for me to discuss the theme of aid dependence. I am also most appreciative of the opportunities provided by Prof. Wangwe for me to attend some of the seminars organised by the ESRF. Sam Wangwe has been known to me for many years and his insightful writing and views on Tanzania's development have been another source of my interest in Tanzania. A further source of my education on Tanzania has been provided by the late Amir Jamal, who I invited to Bangladesh, in my capacity as President of the Bangladesh Economic Association, as far back as 1985, to share with some other senior policymakers from other countries, his experience as a Minister of Planning in Tanzania. My regular meetings with Amir Jamal, during my visits to Geneva, contributed greatly to my education about Tanzania as much as about the struggles of the Third World in asserting itself during the Uruguay Round negotiations. His commitment both to his country and the Third World will always remain an inspiration to me. I would also like to acknowledge the opportunities opened up for me by Mr. M.M. Devani, to meet with the Tanzanian business community which provided its own valuable perspective on the Tanzanian economy.

A word of thanks would also be in order for another old friend, Rober Sykes, the Director of the British Council in Tanzania, who made its possible for me to meet socially, outside working hours, with a wide range of influential Tanzanians, as well as people from the donor community in Dar, who greatly added to my understanding of the Tanzanian scene.

I would be remiss if I did not acknowledge the help I received from the SIDA mission in Dar Es Salaam. Erik Korsgren in particular was particularly helpful in both advising me on aid relations and in arranging my meetings. But the special burden of organising my hectic schedule in Dar Es Salaam fell on Mrs. Marieta Urosa, who spent many hours attempting to arrange my appointments for which I remain most grateful. I would like to offer my special thanks to Gus Edgren, of SIDA for providing me with the opportunity for deepening my understanding of the nature of aid dependence as well as to Lars Johansson and Dag Ehrenpreis of SIDA for their support. I also appreciate the comments of Roger Riddell, of the ODA, on my paper as well as the comments provided by those present at the SIDA seminar in snowbound Skepparholmen at the end of November, 1995.

Finally I would like to acknowledge the support of my associates at the **Centre for Policy Dialogue**, Dhaka in the preparation of this study. Special mention must be made of the invaluable research assistance I received from both Aininul Haque, Research Associate, CPD and Anisur Rahman, Research Associate, CPD. I would also like to recognise the research assistance provided by CPD Research Associates, Shahnaz Karim and Dorothy D' Costa. I would also like to acknowledge the enormous labours in preparing this rather large paper contributed by our word processor operators, Hamidul Hoque Mondal, Abdul Quddus and Ibrahim Khalil, who worked regularly till after 10 p.m. to produce the manuscript for this study.

EXECUTIVE SUMMARY

1. Introduction

In the early phase of decolonisation and after the end of the Second World War, foreign aid in the form of external resource flows was seen as the panacea for the development and transformation of the developing countries (DC). Aid was then deemed necessary for bridging the savings - investment gap and the import - export gap. The post-colonial states presumed that the advanced industrial countries (AIC) would provide aid to bridge the twin gaps not only out of a sense of moral obligation also by tha motivation of the Keynesian orthodoxy of that time that export of capital as aid to the DCs would also stimulate and sustain the development of the AIC's economies themselves. This shared vision of a mutually beneficial partnership between the DCs and AICs has, over the years, dissipated itself. While the donors have developed in their minds a sense of deep disillusionment over the limited transformatory impact of three decades of aid flows to the DCs, the DCs on the other hand have a growing feeling in their minds that the aid relationship has forged new patterns of hegemony by the North over the South which has compromised the sovereignty of Third World states (TWS) and eroded the legitimacy of their regimes.

A new school of thought has emerged amongst social scientists from both North and South which argues that aid has become part of the problem and not the solution to the development needs of the DCs. There is an element of aid fatigue now rife within most donor countries and pressure has been mounting to bypass the state in delivering aid to identified target groups within the countries. This deterioration in the aid climate has encouraged aid bureaucracies to become more assertive over the terms on which aid should be offered which is further compromising both the capacity for governance within DCs and aggravating tensions in the donor-recipient relationship.

It is in Africa where this sense of unease with the aid relationship has become particularly aggravated and where growing aid dependence is juxtaposed against a deteriorating economic situation. A massive inflow of donor resources and growing exposure to donor advice has failed to reverse this deterioration in the economies of a great number of African countries. This paper addresses the sources of the deterioration in the aid relationship by examining the pathology of aid dependency and donor policy in the specific context of Tanzania, and by relationg this to the experience of Bangladesh.

2. The Concept of Aid Dependence

Aid dependency can be conceptualised as a structural phenomenon which derives from the incapacity of the economy to react to external shocks. In an increasingly interdependent world of more open economies, external shocks impact more severely on structurally undiversified economies which are particularly characteristic of the LICs. External dependence has thus emerged as a consequence of this state of structural atrophy. Aid dependence has, however, to be seen in the wider context of external dependency. Thus, aid dependence for a country today must be situated within the changing structural features of its economy and society, as well as its interface with the global trading system. This increased vulnerability of many DCs to external economic forces has, in turn, led to a loss of autonomy over their management of their economies which has compromised the political authority of many Third World regimes. This erosion of domestic authority has accentuated the crisis of governance which was part of the original problem of aid dependence and now remains a critical factor in its perpetuation.

Looking at aid dependence in both Bangladesh and Tanzania as a structural phenomenon, we may note that Bangladesh has managed to diversify its economic and export base somewhat in recent years. It has built up a sizeable market for its export of readymade garments (RMG) and migrant labour. This has served to moderately reduce its dependence on aid but has still left Bangladesh vulnerable to trends in the global economy. In contrast, Tanzania's economy remains largely undiversified even today which leaves it more vulnerable today to the fluctuations in aid flows than it did in the 1970s.

In many DCs, foreign aid provided by donors to finance development has indeed not been very effective, particularly in the LICs in contributing to the transformation of their economic structures. The move by donors to provide free foreign exchange under the aid budget, in the form of import support programmes, may have contributed to a deterioration in the efforts of the recipient countries at domestic resource mobilisation as well as to generate domestic exports. Aid flows, particularly in their current forms, thus carry the potential of aggravating both the budgetary as well as the external resource gap. Programme lending has, in practice, tended to erode the capacity for effective governance apparent in the weakened efforts at domestic resource mobilisation by aggravating the loss of ownership over domestic policy-making. Weak governance has thus become in-built in the aid relationship. In this environment of growing aid dependency, public officials find it more profitable to negotiate aid inflows rather than to mobilise domestic resources or to monitor project implementation and improve the management of completed projects.

This deterioration in governance capacity has prompted the ascendancy of the donors in influencing the macro-economic direction of the economy. This process has further accentuated the already pro-active role of the donors evident in the micro-management exercised by them at the project level. The erosion in domestic governance capacity has contributed to the weak impact of donor driven policy reforms in many LICs. In the 1980s era of programme based lending this phenomenon had, we have noted, not yielded particularly satisfactory economic results in many DCs. Paradoxically, this poor development performance has led to an even more visible presence of donors in the DCs rather than a process of withdrawal and rethinking. The growing hegemony of the donors over the policy design and direction of DC economies has made Third World governments feel increasingly disconnected from the reform process. The political leadership in many LICs has thus appeared to their citizens to be subordinated to the ideological agendas of the donors and local bureaucracies appear to be embedded in relations of intimacy both with donors and business. This has contributed to the corruption of the state through its gradual privatisation. This symbiotic deterioration in both governance and the economy has exposed the aid relationship to discredit and possible attrition within the donor countries. This process has generated demands in both donor and Third World countries for a fundamental rethinking of the aid relationship itself.

3. The Macroeconomics of Tanzania's Aid Dependence

Upto the mid 1980s, Tanzania had maintained a capacity to finance its development budget though this capacity declined progressively from the 1970s. Aid in the pre-1985 period also played a much less significant role in underwriting the recurrent account deficit. In the case of Bangladesh, aid continued to finance over 70% of the development budget throughout the 1970s and 1980s rising in some years to over 90%.

From 1986 onwards, aid finance, came to exceed total development expenditure (TDE) in Tanzania, rising from 120% of TDE in 1986, when the Government of Tanzania (GOT) accepted the first of the Economic Reform Programme (ERP-1) designed by the Bretton Woods Institutions (BWI), to 170% in 1993-94.

From the 1970s, aid to Tanzania in the form of Import Support was designed to service the fuller utilisation of installed productive capacity, and to generate counterpart funds for financing domestic government expenditure. However, these counterpart funds were not always forthcoming.

Notwithstanding the failure to fully realise counterpart payments, the Import Support, in fact, began to play a growing role in financing Tanzania's recurrent budget deficit as between the pre and post ERP period. Consequently the share of recurrent expenditure in total expenditure showed an increasing trend whilst development expenditure declined both in absolute and relative terms. This failure to expand the productive base left little scope for diversification of the economy. To some extent the access to aid funds also helped to finance current expenditure in Bangladesh.

Aid to Tanzania has also contributed to sustain a consumption boom through the free flow of imports, without any corresponding surge in the import of capital goods (net of transport equipment, in real terms). This is due to the fact that import support has been accompanied by a donor driven agenda for rapid import liberalization. This process has flooded the domestic market with imported consumer goods. This trend has undermined the viability of many local industries which had, in the last decade and a half, been nurtured under a protective trading regime. As a result many local industries have had to close their doors or to reduce their capacity use.

The increase in the share of recurrent expenditure in TPE and the share of consumption-related imports has exposed Tanzania to a gradual decline in its rate of gross domestic savings (GDS) in relation to GDP. The decline in the growth rate of GDP has been paralleled by a decline in the external resource gap/GDP ratio. The deterioration in Tanzania's GDS and the rise in the external resource gap parallels Bangladesh experience in the 1980's. However in recent years Bangladesh has managed to reduce its external gap through expanding its export earnings.

There is a positive but weak link between aid and GDP growth deriving from the low productivity of aided projects. Whilst aid may have had a rather modest impact on Tanzania's fluctuating economic fortunes up to 1985 there is little doubt that much of the revival in growth since 1986 can be attributed to the significant improvement in aid flows. In actual practice, during the period of reforms and generous aid flows after the ERP, Tanzania's economy, placed in historical perspective, performed less impressively than may have been expected.

4. Realizing Structural Change

(a) The Economic Structure

There was little in the way of structural change realised in the Tanzanian economy which could contribute to its diversification. As regards the structural change in the manufacturing sector, its share in GDP, export fell considerably from the late 1970s to the early 1990s. Also the value of the investment in manufacturing fell. The increase in aid through the CIS, targeted to improve capacity use amongst its other uses, thus did not make a great deal of difference to the manufacturing sector. The manufacturing sector is today faced with the problem of lack of effective demand, due both to the poverty of the population and to excessive competition from manufactured imports, which continue to come in freely under the OGL system.

Tanzania's inability to diversify its production capacity and its export structure imposed both a balance of payments constraint on its growth and as exposed such growth to a high degree of instability. The poverty of its rural economy and the import constraint arising out of its weak export base has, over the years, undermined the Basic Industrial Strategy (BIS) which underwrote Tanzania's industrialization drive in the 1970s.

Both Tanzania and Bangladesh initially attempted to diversify their economies through development of the manufacturing sector, including some investment in both intermediate and capital goods. Though their strategy did initiate some industrialisation, including diversification of its export base, the diversification of the manufacturing base was constrained by the smaller size of their domestic markets. Bangladesh has however been more successful in diversification of its manufacturing and export base than has Tanzania. Bangladesh has in the process managed to reduce its external dependence due to the development of an entirely new export industry, Readymade Garments (RMG), which, along with migrant remittances, has led to a significant growth in export earnings, in spite of a decline in the export earnings of its once dominant jute industry. In contrast, lack of diversification in its export base has left Tanzania, in 1995, as dependent on primary commodity exports as it was during the pre-independence era.

For over a decade Tanzania has been in chronic deficit even in its recurrent budget. This has kept its development process much more externally dependent than is the case in Bangladesh, which can today finance a larger share of its development budget than it did a decade ago. The decline in the proportion of Tanzania's development budget, which is underwritten from domestic sources, severely abridges the control retained by the host government over its development priorities, leaving it hostage to the priorities of its aid donors.

The prevailing orthodoxies which condition donor thinking on development policy do not include any initiative to diversify the Tanzanian economy. Since there has been little growth in the Tanzania economy in the last decade, it is hardly an attractive place for direct foreign investment (DFI), which in the last five years has been virtually negligible. Bangladesh has also been very unsuccessful in drawing upon DFI to diversity its economy.

(b) The social structure

Realising structural change is not just a question of changing the structure of the economy but depends on the social structures which drive the forces of economic change. Both in Bangladesh and Tanzania, in the post-colonial phase, the state came to play a paramount role for the direction of their respective economies. This ascendency of the state was due, in no small measure, to the fact that the embryonic or even non-existent indigenous bourgeoisie in these countries were largely incapable of filling the economic space vacated by the departing expatriate business community. In this environment, the pro-active or *demurgic* state emerged to fill the entrepreneurial vacuum. The weaknesses of its native bourgeoisie are now constraining Tanzania's efforts to downsize the state through a process of privatisation. The main beneficiaries of a BWI-driven policy of privatisation remain the Asian community which had traditionally been dominant in business in Tanzania and, in recent years, some foreign capital largely originating from 'white' South Africa.

Though the process of indigenisation of the Tanzanian economy through nationalisation had not been particularly successful due to the weak performance of the parastatal sector, a policy of privatisation could today become counter-productive if it resurrects local fears in respect of the restoration of Asian dominance over the economy. Moves to counteract the public perception of Asian domination by bringing Africans into business will need to explore more structural and institutional rather than policy-based solutions which may demand a more pro-active role by the state. If any further Asianisation of the Tanzanian economic space remains politically unacceptable in democratic Tanzania, then, in the absence of more innovative rethinking over the role of the state, structural atrophy remains a likely prospect for Tanzania. The Asians' investment behavior, opting more for trade rather than industry, still remains influenced by the nationalisation of their assets in the wake of the Arusha declaration. In an import-liberalised economy which has already led to the closure of many Asian owned industries and with the growing African fears over the revival of Asian dominance, Asian traders are hardly likely to be encouraged to transform themselves into Tanzanian industrialists.

Bangladesh too, at the time of its liberation in 1971, inherited a weak entrepreneurial class since the local economy was largely dominated by an expatriate business community. The sudden withdrawal of these expatriates from Bangladesh on the eve of independence left behind many untenanted business which were taken over by the state which led to an overriding presence of the state in the 'modern' sector of the economy. However, in contrast to Tanzania, Bangladesh was able to develop some local entrepreneurial capacity by the end of the 1970s, which spearheaded its own process of structural transformation through investment in the RMG sector. The smaller size of enterprises in the RMG industry make fewer demands on entrepreneurial skill and resources since external markets had been largely guaranteed due to the quotas available to Bangladesh under the Multi-Fibre Agreement (MFA). Such a guaranteed market may not survive when the MFA is phased out in the next decade as a consequence of agreements reached under the Uruguay Round of trade negotiations. Given the lack of backward integration of its RMG industry, Bangladesh is much less equipped to compete with the larger, more diversified, cheap labour economies of India and China in a quota-free trading environment.

Whilst the emergence of a private sector, around the RMG sector, presented few problems, the privatisation of state-owned industries in Bangladesh remains far more problematic. Over 50% of enterprises privatised in recent years reman closed and many more are in bad shape. Indiscriminate faith in privatisation as a panacea for stimulating the economy could thus be misplaced if local entrepreneurial capacity remain incapable of taking over such enterprises and running them more efficiently than the public sector. Thus, an industrial policy which is dictated by the available capacities of the private entrepreneurial class and donor-imposed inaction by the state could turn out to be a recipe for structural atrophy or at least retardation of the pace of structural change, in both Tanzania as well as Bangladesh and indeed in most LICs.

5. The Role of the Aid Relationship

Phases of the aid relationship

The unsatisfactory outcome from the provision of foreign aid has contributed to the deterioration in the aid relationship. It is therefore appropriate to now examine this relationship.

Tanzania's aid relations may be divided in three phases, each with some element of overlap:

i. The first phase may be characterised as the period of local ownership. This was a period when, after the Arusha declaration, even the WB, along with other donors, embraced the vision of Mwalimu Julius Nyerere of self reliance for Tanzania. In contrast to the treatment of Tanzania during the 1970s, Bangladesh's attempt to pursue an agenda of state-led growth, also in the early 1970s, was exposed to much harsher treatment by the donors.

ii. The second period, around 1980-86, may be seen as a period of confrontation between the GOT and the donors as to who was in charge of the aid relationship. Even though the Tanzanian economy performed poorly in the late 1970s the GOT declined to accept any ideologically-driven conditionalities attached to their aid.This stance of Tanzania was, to a small extent, similar to the case of Bangladesh, when the then Prime Minister of Bangladesh, Mujibur Rahman, refused aid offered on conditions deemed to be prejudicial to Bangladesh's strategic interests. This defiance led eventually to a contraction of aid flows and severe strains on the economy. Tanzania, however, faced up to the crisis with the donors between 1983-84 by carrying through its own economic recovery programme (ERP). This programme eventually became the basis for the renewal of its relations with the donors by 1986 when the World Bank underwrote what was known as the first Economic Recovery Programme (ERP-I). In contrast, Bangladesh, after a change of regime in 1975, embraced without demur the policy prescriptions of the aid donors.

iii. The final phase of Tanzania's aid relationship associated with the post-ERP era is one of donors, particularly the BWIs, in the ascendant and Tanzania in the role of taker of aid and policy direction.Over the last two decades, the donors have also left the direction of policy reforms in Bangladesh to the BWI.

Exposure to a decade of BWI-led reforms in Africa has, however, led to a new phase of concern over the protracted stagnation of the reforming economies, including that of Tanzania. In the mid 1990s we are witnessing yet another phase of donor fatigue. The aid relationship has patronised two successive development paradigms, the state-led and the market-driven reform process. The outcome of both these models failed to impress the aid donors who have become progressively more disillusioned with the aid relationship. However whilst the earlier strategies in Tanzania were largely home-grown, the inadequate results yielded by the BWI reform agenda put in place over the last decades derive from a far more donor-driven reform process than was hitherto the case. This loss of ownership has to some extent delegitimised the Tanzanian state, which has in turn compromised the reform process and contributed to the perpetuation of aid dependency. A similar, more durable loss of ownership over its policy agenda over the last decade characterises Bangladesh's relationship with its donors. This has persisted even in the 1990s when Bangladesh's aid dependence was less severe than in the 1980s.

The outcomes of the reform agenda

The main features of the outcome of the donor-driven reform process in both Tanzania and Bangladesh are summarised below :

i. The BWI, through their escalated volume of programme loans, actually contributed towards aggravating imbalances on both the budgetary and external account which has hardly contributed to maintaining fiscal discipline.

ii. The growth in money supply, over the last decade, has in fact been quite restrained in both countries. In Bangladesh the demand for money in the 1980s remained largely driven by the increasing demand for credit from a growing private sector at a time when the role of the public sector in the economy was being downsized.

iii. Financial sector reforms have run into serious difficulties in both countries as there has been little headway in recovering defaulted loans from both the public and the private sector. There is a need to address issues of governance which largely influences the degrees of discipline in the management of the financial system and promotes a default culture amongst borrowers.

iv. Exchange rate reforms have served well to reduce the distortions in the economy as well as minimising the enormous scope for public and private rent seeking. But the fact that such policies have had a favourable impact on promoting exports remains debatable. In Bangladesh, at least, export growth has tended to be influenced strongly by the fluctuating levels and composition of global demand as well as supply side diversification which influences its export capacity.

v. The liberalisation of imports may have become counter-productive in both countries through its negative impact on private industrial investment and by undermining the viability of a nascent industrial sector.

vi. The liberalisation of price controls made public institutions in Tanzania more sensitive to commercial considerations. But it may have done more harm than good to the poor and small farmers in both countries if price control is viewed as a distributive decision and not just an issue of economic efficiency.

vii. Civil service reforms have barely touched the fringe of the problem due to the reluctance in both countries of electoral aspirants operating in a plural political system to challenge the collective strength of civil service unions. Thus donor-driven administrative reforms remain an unopened *Pandora's box* where sensitive and democratically mandated solutions will have to be endogenously designed and politically marketed.

viii. As regards public enterprise reform, the BWI have committed themselves to its whole-sale replacement by the private sector. This commitment to downsize the state sector, whatever its level of performance, has led to a serious deterioration in the morale of public sector employees. As a result the quality of the public servants and the sustainability of public institutions has degenerated exponentially in both countries.

Aid conditionalities

The very notion of conditionality derives from the belief that the host country is unwilling and/or unable to undertake a proposed set of reforms. In fact, the attachment of such conditionalities of reform to an aid package, from its very conception, serves to erode the sustainability of the reform process. The reform process in both countries has thus become a largely donor-driven process with little local ownership over the process. Conditional aid agreements are thus increasingly coming to depend on the institutional imperatives of both side: from the bureaucrats of the aid agencies who negotiate the aid so as to convince their masters that they have persuaded recipients to embrace reforms; and from the recipient country bureaucrats who want to ensure that an aid agreement has been concluded which brings millions of dollars into the country. Thus commitment to a set of conditionalities has little to do with their appropriateness for the country and owe more to the private agendas of the bureaucrats. The end result of this collusive bureaucratic compact remains the continuing spectacle of default over conditionalities in both countries.

The ascendency of the BWI in setting the policy agenda

In the case of Tanzania most donors, including the Nordics, have let the WB and IMF take the lead in setting the conditionalities through their programme loans. In Bangladesh, the BWI and ADB have not only become the main agents for the design and enforcement of conditionalities but attempt to persuade bilateral donors to sign on to particular conditionalities, thereby enhancing the leverage on Bangladesh, attached to the BWI designed conditionalities.

The BWI have acquired a certain primacy in their influence over the development agenda of the GOT by playing a role as aid coordinator and through their monopoly over the documentation prepared for the aid consultative meetings. Their position has been strengthened by the ascendancy of the WB to the position of lead donor to Tanzania in the 1990s.The BWI plays a similar role inBangladesh. The problem is that both the design of the reform and the evaluation of progress are vested with the staff of the BWI, and thus tend to be heavily weighted by their world view and analytical framework.

Issues of owenership

5.7 In Bangladesh attempts have been made to develop an alternative perspective to the Bank's dominance over the development discourse in such organisations as the Bangladesh Institute of Development Studies (BIDS) and the Centre for Policy Dialogue (CPD). The CPD has been publishing an independent review of Bangladesh's development (IRBD) which was launched in 1995 with a review of the BWI-driven experience of economic reforms. The report is the first effort to provide an endogenous source of information on the economy.

5.8 The GOB, as well as the GOT has, for all practical purposes, lost control over its development priorities. In these circumstances the complete autonomy of each donor over its own projects has now intruded into imposing its own programme priorities over both countries. The inability of both the GOB and the GOT to set their own development priorities has made it difficult to coordinate aid at the micro level. This has resulted in wasteful use of aid, through duplication of effort and institutional proliferation. However minimal efforts at aid coordination both within the government, with and amongst even its donors, could lead to substantial savings of aid which could in fact enhance the volume of resources delivered directly to the poor.

The terms of aid

Both the GOB and GOT have accessed a large share of their aid on soft terms. The easy terms on which both countries access aid is however not without a price. Notwithstanding the softening in the terms of aid, the sheer volume of aid being delivered in both countries has raised the weight of their respective debt burdens. In 1994 Tanzania's debt/GDP ratio in 1993 stood at an incredible 313%. Another cost of 'soft' aid is the costs that accrue out of aid tying. The main cost of 'soft' aid however remains the leverage it provides to donors to dictate the policy agenda, design and management of their aid. There is thus a trade-off between 'soft' terms and 'hard' conditionalities.

6. The Role of Technical Assistance

In Tanzania the share of Technical Assistance (TA) to total aid has increased from 26% in 1988-85 to 42.6% in 1993. In Bangladesh the share of TA is close to a fifth of all aid inflows. This TA is, however, playing a counter-productive role in both Tanzania and Bangladesh because it undermines domestic capacities, distorts the skill market and erodes ownership over domestic policy.

Here Tanzania is slight better off than in Bangladesh in retaining its best people at home. However, for Tanzania as for Bangladesh, the price of keeping top professionals at home is to see them absorbed into the domestic consultancy market, sustained by donor-driven programmes of TA. Such TA-driven consultancy may in fact contribute to a misallocation of scarce resources in each country since the best skills in each country remain invested in writing consultancy reports which are largely unread by the GOB or GOT. All this time invested in donor-driven consultancy work has a high opportunity cost in time diverted from teaching responsibilities, contributing to the domestic policy debate etc.

In both Bangladesh and Tanzania the new approach of the donors appears to be to coopt influential, technically qualified bureaucrats. This co-option of senior bureaucrats into the service of the aid donors is not without its political problems since the same officials are then expected to negotiate the merits of the same policy recommendations made by the donor to which they have been party as consultants to the same donor.

It is interesting to note that Tanzania appears to be much better served than Bangladesh in influencing the domestic policy debate through such local organisations as the Economic Research Bureau (ERB) of the

University of Dar Es Salaam and the Economic and Social Research Foundation (ESRF). Attempts to influence public policy have also been made in Bangladesh. It remains to be seen if the recent efforts of the CPD will help to restore its development specialists to the public domain where they can exercise more influence on public policy. However in the absence of a direct commitment by the government, whether in Bangladesh or Tanzania, to draw upon its own professionals and involve them in the policy discourse, such initiatives from civil society will tend to be rather limited in their impact.

7. Aid and Governance

The emerging resource gaps on budgetary and external account, and capacity attrition in both Tanzania and Bangladesh, remain intimately linked to the quality of governance. In Tanzania administrative performance appears to have deteriorated. This is apparent in Bangladesh also, where at the central, sectoral and local level, administrative capabilities have eroded exponentially. Whilst the inability to protect real incomes may be at the root of this deterioration in administrative capacities, the problem goes much beyond that to a general breakdown of the chain of command, where accountability disappears and maintenance of discipline becomes impossible. Such a system of governance seems doomed to collapse by implosion to the point where the state degenerates into institutionalised predation. Here the culture of business, the quality of governance and the political will to change both, remains more central to the resolution of the problem than a donor-driven agenda of policy reform.

The impact of aid

Weak governance has inevitably influenced the impact of aid. The WB's evaluation of its aid experience in Tanzania found that returns from most of their projects were below their original expectation. Out of 8 causes identified for this poor performance, 5 of them were defined as governance-related. A similar list of explanations could be cited to explain poor project performance in Bangladesh. In fact in an aid dependent society which treats aid as a political resource for private consumption or for use to obtain partisan gain rather than as a long term investment for realising economic transformation of their country, little effort is invested in managing aid projects effectively. Thus, most of the administrative effort is invested in negotiating aid, much less in implementing aid projects; and the least time is deployed in effectively managing the project once it is completed. This distorted use of administrative time and political priority is a typical outcome of an aid-driven system of governance. It is thus not surprising that in both Tanzania and Bangladesh, given the high volume of aid received under programme loans and the weak outcomes of their reform process, the WB's agenda of programme loans cannot be counted as a great success in terms of acceleration in growth or alleviation of poverty.

8. The Aid Relationship

In thus ceding hegemony to the BWI over its policies, Tanzania and Bangladesh have followed a route now familiar to most LICs. For the last 15 years in Bangladesh and since 1986/87 in Tanzania, both the vision and its execution have emerged from the donor community. The bureaucracy has gradually, but willingly, surrendered its authority over policy formulation to the donors. This disuse of their professional skills, along with the diminution in the exercise of authority, has made the bureaucracy into receptacles and then transmission agents for donor advice to the GOB. This reluctance of the bureaucrats, both in Tanzania and Bangladesh, to take greater charge over the direction of public policy, has served to weaken the public authority of the political leadership which depends on the bureaucrats for policy advice.

Thus it appears that if, today, Tanzania or Bangladesh were to seek to forge an independent direction in its economic policy, it would find that its capacities for autonomous action have become atrophied by disuse. Once a nation reaches this state of intellectual paralysis, aid dependence evolves from an economic condition into a cultural phenomena which conditions the national psyche.

9. Aid and Democracy

The aid relationship originates in the nature of the state itself. The nature of the state in both Tanzania and

Bangladesh has thus influenced the aid relationship. The absence of political pluralism in Tanzania made the system much less sensitive to the weaknesses of policy or the GOT inclined to take corrective measures against failures of policy implementation. As a result, with the visible deterioration in the Tanzanian economy in the late 1970s, the donors emerged as the main challenge to the authority of the state to formulate policy. Again, when the BWI asserted its hegemony over Tanzania's development agenda, hardly any public debate emerged on the validity of this change in direction. In recent times, however, efforts have been made by the academics in Tanzania to register some concern over the negative implications of the BWI reforms. In practice, however, the agenda now put in place by the BWI and under implementation by the present GOT, remains without effective challenge in the absence of any politically backed attempt to design an endogenously-conceived reform agenda. At present, the private industrialists in Tanzania who are one of the principal victims of donor-driven import liberalisation, appear to be emerging as a potentially influential force which might back some alternative thinking on the reform process. But the urgency of this group to change the import policy remains weak as long as these same business houses can opt for trade in a more open economy to compensate for the closure of their industrial capacity.

In a donor-influenced polity, as prevailed in Bangladesh and Tanzania over so many years, there is no tradition of policy debate on development issues or the slightest attempt to build a democratic consensus behind policy reforms through the medium of such debate both in the legislature and within civil society. In post-democratic Bangladesh, parliament has unfortunately never emerged as an effective arena for policy debate. The scenario in Tanzania is not dissimilar. If a reform process is to be made saleable, a policy dialogue must be put in place with the initiative coming both from civil society and the government. In Bangladesh, attempts have been undertaken by the Centre for Policy Dialogue to initiate such policy dialogues. Initiatives such as this must be made in Tanzania by using such agencies as the ERB and ESRF.

Experience from the donor's reaction to polls in post-socialist Europe indicates that the donors prefer to put their faith in their own vision of economic reforms rather than the democratic concerns of aid recipients, registered at the polls. In spite of hostile signals from the polls, host governments are encouraged to persevere with the donor-driven reform process. This sends a confusing message to political leaders in both Bangladesh and Tanzania who are seeking to establish democratic systems in the wake of prolonged exposure to a non-plural political order.

10. Conclusion: The issue of self-reliance for Tanzania.

An agenda for self reliance for Tanzania calls for more serious efforts to find endogenous solutions which can make fuller use of its available productive capacities and professional skills. This implies:

A Rethinking of the Development Paradigm

Reindustrialisation: The present policy of capacity utilisation in Tanzania is perpetuating structural atrophy.This itself is the root cause of its growing aid dependency.Tanzania thus needs to reactivate its production base,through rethinking the pace of its import liberalisation strategy and compelling those parastatals with potential sustainability to operate within the discipline of the market place. Using domestic capacity should thus be accorded the foremost priority for industrial growth and export diversification. RMG industries with a capacity for backward linkages seem obvious areas for intervention. Investment in value addition, particularly in the mineral sector, holds great potential for promoting structural change through industrialisation rather than exporting these in a primary form.As regards giving Tanzania's majority African population a more positive stake in the economy, it needs to be addressed through a more pro-active role of the public sector in broadening equity in the ownership of the enterprises with the prospect of future divestment. This agenda could learn much from the Malaysian experience of extending the control of the *bhumiputras* or local population, over the economy through such state initiatives.

Governance and Aid dependency

a. *Governance and development*: The issue of governance needs to be designed to establish the efficiency of public expenditure and enhance domestic revenue mobilisation. Public enterprise reform needs to be considered as part of a wider agenda of good governance to ensure improved performance of parastatals,utilities,health services and the public education system.

b. *Using domestic skills in policy making* : The reform process must draw upon the wealth of professional skills within the country. In this respect the role of the ERB and ESRF can be institutionalised to promote dialogue and policy analysis. Local professionals should be used to their fullest capacity so that their work can be put to effective use in policy making and in the political discourse. External expertise should be sought only when it emerges as a felt need articulated by the local experts. Such imported technical expertise should increasingly be accessed from the intellectual resources of the South and particularly neighbours, whose problems are similar to those of Tanzania.

c. *Promoting Political Consensus behind Policy reforms*: Parliamentary committees,headed by members of the opposition and supported by a panel of independent local experts, should scrutinize all reform proposals. ERB/ESRF should develop a regular schedule of policy dialogues at the level of civil society to help design the reform process and to assess its outcomes. The output of these dialogues should be exposed to public debate at the grassroots level to make the ordinary people aware of public policy if democracy and the reform process is to be kept sustainable .

d. *The role of donors*: Donors should be exposed to these policy dialogues at the professional level and constantly exposed to the views of democratic opinion. Again,full public disclosure should be made of public documents prepared by the donors. Donors should allow aid coordination to be the responsibility of the GOT who should convene the annual consultative meetings in Tanzania where they should present their programme and policy agenda to the donors, backed by quantifiable targets against which the GOT's efforts can be evaluated. Some thought should also be given to applying the concept of the *development contract* which should spell out the policy obligations of the GOT in return for which donors should commit their aid programmes for the financial year, mobilise private foreign investment underwritten by commitments for access to the markets of the aid consortium members.

11. Conclusions : From aid dependence to self reliance

Aid dependence is not just a set of macro-economic figures, but a state of mind where the aid recipient countries lose their capacity to think for themselves and thereby relinquish control over the direction of state policy . Viewing aid dependency within this perspective calls for Tanzania to take charge of its own policy agendas where the GOT must work out for itself, through a process of democratic consultation, where it is going and how it is to get there. These goals need to be concretised into policy agendas for realising structural change. But above all, an alternative agenda needs to find expression in creating opportunities for local skills,resources and capacities to be fully and effectively utilised in the policy making process. This endogenous effort needs to be linked to an ongoing policy dialogue which makes politicians and civil society aware of policy issues which will determine the future of the country. If Tanzanians cannot draw up and effectively implement plans for their own future, no donor, even with lures of aid or draconian conditionalities attached to it, can serve the purpose.The only conditionality which should be attached to aid offered to Tanzania or Bangladesh is that no policy or aid proposals not developed within the country by local experts and lacking democratic support will be entertained by the donors

I. Introduction

Background to the study

Backgroundto the study Foreign aid, in the form of official development assistance (ODA), was once seen as the panacea for the development and transformation of the developing countries (DC). In the early phase of de-colonisation, after the end of the Second World War, newly independent countries sought to lead their people out of the poverty and backwardness bequeathed to them by the colonial era. The inheritors of the post-colonial state believed that a process of accelerated investment, technological upgradation, and structural transformation of mono-cultural economies would stimulate growth and eradicate poverty. The weak resource base bequeathed to these emergent states, due to the exploitative nature of the colonial relationship, indicated that at the initial stage of their development, external resource flows would be needed to bridge the savings - investment gap and the import export gap. This was indeed the era of the two gap development models which were fashionable amongst the newly emerging community of development economists.

It was presumed by the leaders of the post colonial states that the advanced industrial countries (AIC) who remained the sole repository of surplus capital at that stage, would, as a moral obligation, provide aid to bridge the twin gaps constraining the transformation of the DCs. This concept of moral obligation, implicit in the perceptions of DC leaders, was reinforced by the dominant Keynesian orthodoxy of the time, that export of capital as aid to the DCs would also stimulate and sustain the development of the AIC economies. This Keynesian vision formed the aid-centric philosophy of the report of the Pearson Commission at the end of 1960s and its successor, the report from the Brandt Commission, at the end of the 1970s.

This sense of vision which drove the post-colonial leaders of the DCs and this shared vision of a mutually beneficial partnership between the DCs and AICs has over the years dissipated itself. The contemporary tenor of the relationship between the donors from the AIC and the aid recipients from the DCs is now permeated with a sense of mutual recrimination. In the minds of the donors there is a sense of deep disillusion over the limited transformatory impact of three decades of aid flows to the DCs. In the minds of the DCs there is a growing feeling that the aid relationship has forged new patterns of hegemony by the North over the South which has compromised the sovereignity of Third World states (TWS) and eroded the legitimacy of their regimes.

A school of thought has emerged amongst social scientists from both the North and the South which argues that aid has become part of the problem and not the solution to the development needs of the DCs. It is argued that external resource transfers reduce the incentive for domestic resource mobilisation within the DCs, distort the allocation of available resources and undermine the feeling of responsibility amongst political decision makers. The end result of this resultant deterioration in the capacity for national governance, arising out of the aid relationship, has been low growth, persistent poverty, accentuations in social inequalities and, above all, the perpetuation of aid dependence.

This sense of disillusion with aid has been driven by the writings of social scientists, drawn from both the ideological left and the right, which have contributed towards the element of aid fatigue now rife within most if not all donor countries. The anti-aid coalition in the AICs represents a peculiar admixture of right-wing conservative politicians and Third World oriented NGOs, radical social scientists and left wing politicians. Aid constituencies within the DCs are being progressively ghettoised in the aid agencies, church and NGO communities with the latter increasingly arguing that the DC state should be bypassed and aid delivered directly to and through civil society as exemplified by the local NGO groups. Driven by this deterioration in the aid climate, aid bureaucracies, both at the bilateral and multilateral level, are in turn becoming increasingly more assertive over the terms on which aid should be offered to the DCs, which further compromises both the capacity for governance within the DCs and aggravates tensions in the donor-recipient relationship.

The pervasiveness of aid dependency

This sense of mounting unease in the aid relationship is indeed now endemic to the Third World but nowhere is it more manifest than in Africa where mounting aid dependence is juxtaposed against a deteriorating economic situation. In country after country, two decades after independence, the dependence on aid to finance not just development but current expenditure has accentuated. This dependence has moved from the area of resource flows to the growing influence of the donor community over the direction of the policy agendas of the recipient countries. However neither the mounting inflow of donor resources nor the growing exposure to donor advice has, for a great number of African countries, managed to reverse this deterioration in the state of their economies.

Table 1 presents comparative figures for the external resource gap for low income countries (LIC) for Africa and other LICs. Whilst the external resource gap is financed both by aid as well as commercial flows of capital for most LICs, their resource gap remains largely underwritten by aid so that the size of the gap in relation to GDP remains a measure of aid dependence. The figures in Table 1 show that for countries where comparable figures are available, the external resource gap for LICs in 27 out of 33 countries has deteriorated between 1970 and 1993. Amongst LICs in Africa the external balance of 19 out of 22 countries has deteriorated in this same period. However, by 1993, out of 23 African countries 21 had a negative resource balance; of these, 22 countries had a negative balance above 5% of GDP and as many as 15 countries had a negative balance which was above 10% of their GDP. Of the 33 LICs with a negative balance of 5% and above, 22 were from Africa.

Table 2 shows comparable figures for the macro-economy between 1965-80 and 1981 93 for low income African countries. In the case of GDP growth, 13 out of 22 countries showed a deterioration in growth performance and 16 out of 24 countries in 1993 demonstrated negative per capita income growth. In the case of investment growth, 14 out of 22 countries showed a deterioration, whilst in the 1980-1993 period, 9 LICs in Africa registered negative investment growth. In the case of export growth, 12 out of 26 countries showed a deterioration in growth rates. In the case of inflation, in 12 out of 23 countries there was an increase in the rate of inflation. As a measure of the de-industrialisation of the region, manufacturing growth rates in 7 out of 9 countries deteriorated between 1965-80 and 1981 93. This process of de-industrialisation was further affirmed by the fact that between 1965/70 and 1992/93 the share of manufactures in GDP deteriorated in 11 out of 20 African countries; of the 9 countries which showed an improvement, the share of the manufactures in the GDP in 4 countries remained below 10%.

Whilst there are many complex reasons to explain these figures and their specific features between different countries, the evidence presented here supports the point that throughout Africa, during a period from the 1980s where, as a result of liberal provisions of aid to support a donor driven reform agenda, aid dependence had universally increased, economic performance has largely deteriorated. However some exceptions do remain and in another context it may be useful to diagnose why some African LICs have improved their economic situation whilst at the same time to investigate why so few have managed to do so.

The nature and implications of aid dependence are thus unique to the circumstances of each country. This paper is however designed to address the specific issue of *Aid Dependency and Donor Policy in Tanzania*. In studying Tanzania it is worth noting that its situation is not unique itself and at least superficially it shares many macro-economic trends in common with other African countries.

A comparative perspective for Tanzania's aid dependency

It is argued in this paper that the specificities of Tanzania's problem of aid dependency derive from certain pathological features of the aid relationship which have reproduced themselves not just within the African situation but across the Third World. Since this paper is, in fact, not a treatise on aid dependency but a more specific study of aid dependency in Tanzania, it is proposed to examine the pathology of aid dependency by drawing upon the specific features of another aid dependent Third World country from outside Africa. The country, used for purposes of comparison and contrast with Tanzania, is Bangladesh, a country with a very different geographical location, historical experience, natural features as well as resources, with quite different demographic, social and cultural configurations. In other words the many shared features to be found within the African continent which could explain the commonality of Tanzania's experience with its neighbours cannot be replicated in a country so remote to its experience as Bangladesh. If therefore, there are many common features in the socio-economic dynamics of Tanzania and Bangladesh it remains useful to look for these in the shared nature of their encounter with the aid donors and the many similarities in the outcomes from this relationship. However exposure to a common disease still has to recognise that the host bodies remain dissimilar so that the pathological charts for the two countries must also reflect these dissimilarities.

Since however our study is one of aid dependency in Tanzania and not a comparative study of Tanzania and Bangladesh, it is again only intended to invoke comparisons with the Bangladesh experience, illustratively, in the course of the review of the Tanzanian experience, so as to provide a broader perspective to our more specific enquiry into the dynamics of aid dependency. Thus the references to Bangladesh are not backed by a corresponding depth of analysis and presentation of data which has been undertaken elsewhere by the writer in the course of his extensive work on the issue of aid dependency in Bangladesh (Sobhan, 1984, Sobhan, 1990b, Sobhan, 1993a).

Outline of the Paper

Our review of *Aid dependency and Donor Policy* in Tanzania is structured in *eight* parts, apart from this introduction. Section *two* attempts to conceptualise the aid relationship in order to identify the nature and properties of aid dependency, the dynamics of the aid relationship and the implications of this relationship to the governance of the development process, the social balance of power and the functioning of the polity. The *third* section looks at the many features of Tanzania's aid dependence in relation to its macro economic balances on the domestic and external account and the impact of aid on the development of the economy.

The *fourth* section develops the central argument of the paper that aid dependence in Tanzania is driven by certain structural features of the economy and society from which this dependency originates and is perpetuated. These same structural determinants of aid dependency are in turn influenced by the nature of the aid relationship.

Section *five* looks at the evolving nature of the aid relationship in Tanzania between the 1970s and 1980s during which time a change took place in the balance of the relationship. This section thus looks at the changing terms on which aid is offered both as to its conditionalities and costs. The issue of technical assistance is separately discussed in section *six* in relation to the way in which it is deployed and the impact as well as implications of this form of technical assistance on the development of endogenous capacities within Tanzania.

Having reviewed the features of aid dependence and its nature, in section *seven* we move on to look at the implications of aid on the governance of the development process, in terms of domestic resource mobilisation, the management of external finances, the efficacy of aid use and ownership of the country's development policies. In section *eight* of this paper, an attempt is made to situate the aid relationship within the changing socio-political context of Tanzania so as to relate the implications of a donor driven development agenda to the functioning of a democratic polity.

In the concluding section *nine*, we look at the implications and scope for reducing aid dependency in Tanzania in terms of structural change, domestic resource mobilisation, local ownership of the reforms and the political dimensions of this transformatory process.

2. THE CONCEPT OF AID DEPENDENCE

The argument of the paper

The central argument of this paper is built around the proposition that aid dependence is a structural phenomenon which derives from the incapacity of the economy to react to external shocks. In an increasingly interdependent world such external shocks are becoming progressively more frequent and severe in their impact on the more structurally undiversified economies of the developing countries. Aid dependence has become the consequence of this state of structural atrophy and now also a cause because of the nature of the dominant development paradigm being marketed by the aid donors through the mechanism of aid conditionalities as an universal panacea to the problems of the developing world. The nature of this donor-driven development model, which pays little attention to the needs and modalities of economic diversification, has served to perpetuate this structural atrophy in the DCs which is the source of their aid dependency. This model has been particularly problematic for the least developed countries (LDC) who are distinguished by the undiversified nature of their economies.

At the same time, the aid relationship, in its present configuration, has contributed to the weakening in the capacity of DC policymakers to devise their own endogenously derived policy responses to cope with these shocks, thereby eroding the resilience of their economies. This increased vulnerability of many DCs to economic forces and influences outside their control has led to a loss of autonomy and hence political legitimacy of DC regimes which are increasingly seen as more dependent on the goodwill of the aid donors for their political survival. This loss of purpose and authority on the part of the policymakers has aggravated the crisis of governance which was part of the original problem of aid dependence and now remains a critical factor in its perpetuation.

This increasingly pervasive and persistent process of aid dependence, with its attendant weakening of the state, is contributing to the devaluation of its democratic mandate. This disempowerment of the authority of the state is now not just threatening the viability of many DC economies but the stability of their social order and, in extreme cases, the sustainability of the nation state. Obviously this argument works itself out with varying degrees of relevance in different countries but the extent of its validity remains critically related to the structural diversity and policy autonomy of the DC concerned. We present below the main features of the above argument.

Aid dependence and structural diversity

We live in an increasingly inter-dependent world where the domestic economies of all countries are opening up to influences originating outside their own borders. Flows of information, resources, capital, technology and people are having a transformatory impact on the fortunes of particular countries. Aid dependency, in this day and age, thus needs to be situated within the wider context of external dependency. For many developing countries, the exposure to open trade, open skies and the easy movement of both private capital and people have become far more decisive than their dependency on aid to influence the pace and direction of their development.

In this changed global environment, the critical issue thus remains the variations in the capacities of different countries to handle the forces of change originating outside their borders. To the extent that aid flows constitute an important dimension of the external economic relations of a DC, its volume and nature come to play a decisive role in the fortunes of a particular country. But where other resource flows in the way of labour remittances, private capital inflows and a growing volume of exports assume importance in the economy, the significance of aid correspondingly erodes. This does not mean that growing external dependence, independent of aid flows, cannot expose DCs to severe and debilitating shocks. In the 1950s, for example, the Bangladesh economy, as much as the Tanzanian economy, was heavily dependent on the global demand and price of their principal commodity exports. As a result, both countries were faced with considerable instability in the performance of their respective economies. However by the 1970s aid had become much more dominant in the external economic relations of both countries, compared to their commodity exports, so that the aid relationship came to assume a far more critical dimension in their economic fortunes.

The dominance of aid in the access to external resources need not however be an immutable process even for DCs. By the 1990s, Bangladesh, in contrast to Tanzania, had built up a sizeable market for its export of readymade garments (RMG) and migrant labour. Thus the dynamics of the oil exporting countries and now also the South East Asian economies, as well as the global market regime for garments, are today no less important to Bangladesh than the flows of aid. Tanzania however remains even more vulnerable today to the fluctuations in aid flows than it did in the 1970s. Aid dependence for any country must thus be located within the changing structural features of its economy and society, as well as its interface with the global trading system, if we are to effectively analyse the implications of this dependence. In this context our paper argues that the reduction in aid dependence must therefore look towards a structural transformation in the economy rather than merely focus on correcting the macro-economy resource balances of the economy which reflect the symptoms rather than the source of aid dependence.

The nature of aid dependence

How do we determine the extent of a country's aid dependence ? The standard measure remains the external resource balance which captures the gap between external earnings and expenditure. It is however no less important to look at the gap between domestic investment and savings. In the days when aid was equated with development and development with investment, the import-export gap and the investment-savings gap tended to be more proximate. Thus donors provided aid to finance development in the belief that such donations would raise the rate of domestic investment above the rate possible from the low level of domestic savings. The resultant higher investment would generate higher incomes which in turn would raise savings to the point where the investment-savings gap would be closed at a higher level of income.

In practice, however, aid did not translate into investment, and in many developing countries it became an important source for financing current consumption both on the private and public account. Aid thus came to finance the trade gap which expanded, through the availability of aid, to finance a rising volume of current consumption. Similarly, aid came to finance public expenditures on current account because government departments reclassified their recurring expenditures as development expenditures. This became possible due to the changing structure of aid which was increasingly provided by donors as free foreign exchange to be used as the domestic market demanded.

This change in the donor's aid strategies originated from the problems faced by most DCs in the ready absorption of all the aid on offer to them. Donors, who once upon a time tended to tie aid to specific projects and commodities, were constantly exposed to the problem of slow utilisation of aid due to lack of matching domestic resources. This lack of domestic resources was seen as a special feature of underdevelopment and hence a purely temporary phenomenon. Since accelerated development would serve to improve the domestic resource base and hence generate necessary domestic revenues to accommodate aid, it was presumed that this provision of aid, in the form of untied foreign currency, would improve the celerity of aid use.

What donors did not reckon with was the possibility that the availability of free foreign exchange under the aid budget, to be converted into domestic currency to finance the local costs of development projects, would become a licence for recipient countries to slacken their own efforts at domestic resource mobilisation and could even serve as a disincentive to generate domestic exports. The *Dutch disease* phenomena, associated with the appreciation in the exchange rate due to a surfeit of aid-provided foreign exchange, along with a general relaxation of pressure to generate foreign exchange through domestic effort, was presumed to make aid availability inimical to export promotion. Aid thus carried the potential for substituting domestic savings, budgetary surpluses and export earnings, thereby aggravating the external resource gap.

Aid and governance

The equation between the weakening incentive for domestic resource mobilisation with an erosion in the capacity for effective governance was thus inbuilt in the aid relationship. Governments which were exposed to a ready access to aid tended to be no more enthusiastic about mobilising domestic resources than they were about curbing wasteful consumption. With the growing availability of aid to finance current expenditure, governments were less inclined to trim waste from their budget, in the way of excessive public employment and over-designed projects, which thereby tended to be both capital and import-intensive in their conception.

Donors, who believed that a rising share of development expenditure to total public expenditure was a measure of successful development, exposed themselves to the budgetary sleight of hand practised by DC budget-makers who could reclassify the salaries of school teachers, road maintenance costs or petrol for official vehicles as legitimate components of the development process, integral to the efficacy and sustainability of a donor-funded development project. In Bangladesh, for example, 37% of the annual development budget for 1993/94 was in fact classifiable as current expenditure; but such expenditures will remain a recurring charge on the public revenues even when the aid funded development project is completed (Sobhan, 1990b). Donors may make a fine point that they should give aid to repair roads rather than build new roads or pay the salaries of school teachers if public primary education is to be sustained. But will these same donors be willing to meet these recurring expenditures on a permanent basis under their aid budget to a particular DC ? This may well become necessary if DC governments become addicted to the availability of fungible aid to finance their current expenditures. This, no doubt, well-intentioned pattern of aid financing is, by its nature, likely to be unsustainable.

The availability of aid to finance current capacity use itself originated in the belief that new, more fungible, aid could ensure more effective use of aid projects already completed. Thus donors, faced with underutilised health networks or industrial capacity, with mounting system losses in the power sector, attrition in railway rolling stock and irrigation capacity, all funded under diverse aid programmes, sought to contain this capacity erosion by supporting more effective use of capacity through increased availibility of fungible aid.

This change in the composition of aid by the donors was however driven by the questionable assumption that low capacity use of aided projects derived from a supply driven resource constraint rather than the weak governance and misplaced allocative priorities of DC governments. Thus the new aid strategy, offering more fungible aid, inadvertently encouraged new forms of budgetary indiscipline and erosion in the capacity for mobilising domestic savings.

In this environment of growing aid dependency, public officials thus found it more profitable to invest their time in negotiating aid, rather than in mobilising resources, the latter task being both administratively more demanding and politically hazardous. It was easier to seek new locomotives from donors than to discipline railway workers to improve their turn-around time or to get workshops to keeping rolling stock on line rather than in the workshop. Public officials earned more credit in negotiating new projects rather than in successfully bringing such projects to fruition and then seeing that these same projects generated a high rate of return. To the extent that such aid projects were in many cases conceived by commission agents and equipment suppliers, designed by expatriate consultants and negotiated by officials with only a transient commitment to the viability of the project, many such projects were foredoomed to failure. However the longer term cost was to be counted in the corrosion in the sense of commitment of the officials to their public responsibilities, as well as their corruption, as much through facilities offered by the donor agencies to those officials receptive to donor guidance, as through intimacy with the commission agents for donor-funded projects.

The issue of ownership

The deterioration in governance capacity, prompted by the nature of the aid relationship, is due in no small measure to the role assumed by the donors themselves. Dealing with weak bureaucracies, donors took on themselves the task of defining the aid need, translating it into projects, designing and often implementing the project through expatriate experts and, on an increasing scale, spelling out the institutional framework and managerial practices for the project. The ascendancy of the donors in the macro-economic direction of the economy thus originated in the already pro-active role exercised by donors in their micro-economic interventions at the project level. The choice of inappropriate technologies, compounded by the failure of consultants to transfer technology, meant that projects which performed below par could not be modified to meet local problems. If the project design was serviceable, similar projects could not be replicated by drawing upon local skills, thereby perpetuating the need for expatriate expertise. Many projects tended to be highly import intensive, often at the direct cost of domestic capacity use and/or use of domestic professional capacities. This further compromised the sustainability and replicability of such aided projects.

The mounting evidence of failures in the governance of aid and its deteriorating returns led to an even more visible presence for donors in the DCs rather than a process of withdrawal and rethinking. Donors persuaded themselves that the failures of aid derived from the failures of state policy in the DCs thereby absolving themselves of any collusion in the design of these policies or responsibility for the outcome of their policies. The role of the global economy, interfacing with the given structural features of a DC economy, was underplayed. Little effort was made by AIC bilateral donors or the Bretton Woods Institutions (BWI), to examine the need and scope for structural adjustments in the global economy or even in the AICs as part of a shared agenda for adjustment with the DCs. Thus the DCs were expected to adjust to the changing realities of the global economy through a highly selective and ideologically determined pattern of adjustment. The focus of this donor-driven adjustment process was on cutting domestic expenditure, without reference to the nature of the local political economy in particular DCs which would influence the distribution of the expenditure cuts. The emphasis on raising domestic savings through improving domestic capacity and resource use was underplayed. Import liberalisation and the opening up of the economy to foreign capital was emphasised without addressing the impact of this process on underdeveloped manufacturing capacity and local entrepreneurial capabilities or the dangers of capital flight. Export promotion was emphasised but largely through the mechanism of exchange rate adjustment rather than structural interventions to both create as well as diversify export capacity with a view to seek more favourable points of entry into the international division of labour. This crucial lesson from the East Asian experience has rarely been diagnosed by the aid donors nor has its relevance to the development strategies of other DCs, even the LDCs, been seriously addressed in donor-DC dialogues (Amsden 1989).

This failure to address issues of entrepreneurial capacity, domestic production structures, the role of the state in governance, the distributive outcomes of reform and the political context in which it is to take place, left the reform model underspecified and thus insensitive to the circumstances of particular countries. It was no surprise that this weak and insensitively conceived reform model would lead to unanticipated and highly variable responses in many DCs to a largely donor-driven reform agenda. In most cases the developmental outcomes from the reforms tended to be far below expectation and even where the results were positive, the improvements in the performance of the economy were not always sustainable. The heavy investment of aid to serve both as an inducement to policymakers to buy the reforms and as a lubricant for the acceptability of the reforms by the public in many cases made it difficult to differentiate between the 'aid' effect and the 'reform' effect in gauging the outcomes of the reform process.

In the prevailing circumstances, the growing hegemony of the donors over not just the design but the direction of the DC economies, meant that governance capacities were weakened, even de-accumulated, and ownership eroded to the point where governments felt increasingly disconnected from the reform processes to which they had committed themselves. The failure of the 'reforming' governments to politically market these reforms, particularly in countries under exposure to democratisation, distanced the reforms from their intended beneficiaries. This failure to build a domestic political consensus behind the reforms further eroded ownership of the donor-driven reforms by the political leaders. These leaders were looking for opportunities to transfer the economic cost of the reforms to the donors in order to avoid paying the political cost of reforms at the polling booth.

The political leadership of many such aid-dependent DCs thus appeared to their citizens to be subordinated to the ideological agendas of the donors and local bureaucracies were seen to be embedded in relations of intimacy both with donors and business. It is hardly surprising that DC ruling elites faced an erosion in their domestic political credibility. However at this very point when the authority of the state is exposed to depreciation both in relation to the donors and in the eyes of their citizens, the enhancement of aid flows, to induce commitment to the donor-driven reforms, has significantly enhanced the political patronage available to the state. This contradiction between the state's enhanced powers of patronage and its crisis of domestic legitimacy has contributed to the corruption of the state through its gradual privatisation. In this milieu, bureaucracies are inclined to look out for opportunities to translate their aid-given powers into private gain, through collusive arrangements with the private sector to mediate both resources and opportunities to be offered to the private sector under the pressure of the donor-driven reforms. The autonomous state has thus in many DCs tended to evolve into the predatory state (Sobhan, 1995b).

In this environment of deteriorating state capacity, economic stagnation, structural atrophy and mounting aid dependence, the aid relationships have become increasingly exposed to discredit and possible attrition within the donor countries. The global community has today arrived at a watershed in the aid relationship which demands a fundamental rethinking of the relationship. It will be useful to identify the directions for such a rethinking of the aid relationship in the context of Tanzania's encounter with aid donors over the last three decades. In the remainder of this paper we will seek to view Tanzania's aid relationship, within the conceptual framework developed above, where we hope to draw upon the Bangladesh experience with aid, where appropriate, to examine the validity of the hypothesis for understanding not just the experience of these two countries but of a broader range of developing countries.

3. THE MACRO-ECONOMICS OF TANZANIA'S AID DEPENDENCE

The resource gap

How dependent is the Tanzanian economy on foreign aid? There are many levels at which this proposition may be addressed. For the purposes of our paper we will focus on the role of aid to finance the gap between public expenditure and domestic revenue collection and between external earnings and payments. From these two gaps we may derive some measure of the role of aid in bridging the investment savings gap.

The budget gap

Tanzania's budget gap

In Table 3 we present an estimate of the contribution of aid to finance public expenditure in Tanzania. Public expenditure is a composite of both recurring and development expenditure. In Tanzania, according to their system of budget classification, the contribution of aid may be disaggregated between recurring and development expenditure. In actual practice however this distinction is somewhat synthetic since aid derived from counterpart funds, provided under the various import support schemes on offer to Tanzania by donors, is a fungible resource which enters into the revenue pool of the Treasury and can be used to finance recurrent expenditures both in the development as well as in the recurrent budget. In contrast to such fungible resources, aid may be programmed directly to underwrite specific projects of the government and particular NGOs or can be provided in the form of personnel, funded under various technical assistance (TA) programmes.

The most serious problem faced by Tanzania lies in the fact that its recurrent expenditure has, since the mid 1980s, been in deficit in relation to resources generated from domestic sources. Table 3 shows that between 1961-85, even though aid inflows into Tanzania remained quite sizeable, Tanzania generated sufficient domestic resources to contribute to the financing of its development budget. In the first half of the 1960s aid thus covered only 33% of development expenditure. In the second half of the 1960s the coverage of aid fell to 28% of development expenditure. In the 1970s, when aid flows began to increase quite noticeably, aid covered 45% of development expenditure in the period 1971-75, rising to 48% in 1976-80. In the crisis-ridden period of the 1980s, between 1980-85, the contribution of aid as a proportion of development expenditure was 55%. This suggests that up to the mid-1980s, Tanzania had mantained a capacity to finance its development budget though this capacity declined progressively from the 1970s.

Aid in the pre 1985 period also played a much less significant role in underwriting the recurrent account deficit. Thus, between 1961-85, the share of aid to total expenditure only once rose above 20%, in 1977, when it accounted for 21.7% of total government expenditure. In that year, 61% of development expenditure was funded by aid so that 39% of development expenditure still originated from domestic sources (Mjema, Table 1). However this element of local financing for development expenditure was in part derived from the contributions made by domestic bank borrowing or deficit finance, to finance Tanzania's overall budget deficit. Thus the local contribution to finance development should not be fully equated with the capacity of the GOT to practise expenditure control or mobilise domestic revenues.

Aid in the Bangladesh budget

This not insignificant contribution by Tanzania to generate resources to finance its own development may be put in perspective by observing that in the case of Bangladesh, throughout the 1970s and 1980s, aid continued to finance over 70% of the development budget, rising in some years to over 90% (IRBD). It is only in the last two years, 1993-95 that the share of local financing in Bangladesh's aid budget has risen above 30% (Min. of Finance, Government of Bangladesh). In 1993/94, domestic resources contributed 36.1% of the development budget, rising to 40.4% in 1994/95 (Ibid). This increase in domestic resource use was due to an improvement in revenue collection where the revenue/GDP ratio rose from an average of 8.2% in the second half of the 1970s to 12.4% in 1993-95 (World Bank, 1995b).

This improvement in the 1990s in Bangladesh's capacity to collect revenues must be kept in perspective, since Bangladesh's revenue/GDP ratio remains, even in 1993/94, below Tanzania's ratio and, in fact, places Bangladesh at the lower end of the DC scale as to its capacity for revenue mobilisation. Bangladesh's low levels of revenue/GDP collection are however compensated by the fact that, in 1993, its public expenditure/GDP ratio was 17.6%, compared to 30.8% in Tanzania. This points to the much larger size of the economy of Bangladesh, both in absolute terms as well as in relation to the role of the state in the economy, as compared to Tanzania.

It must be also kept mind that, as is the case of Tanzania, Bangladesh's surplus on its revenue budget is synthetic, owing to our shared practice of injecting items of current expenditure into the development budget in order to access aid. This form of aid to Bangladesh is made available by donors, under what is known as *Reimbursable Project Aid (RPA)*, which provides fungible foreign currency to finance local currency costs of a project. This encourages the line ministries of the Government of Bangladesh (GOB) to transfer many items of current expenditure to the revenue budget in the expectation that the donors will pick up the tab and obviate the need for severe expenditure cuts within the ministry's current budget (Sobhan, 1990b). Thus, a re-classification of Bangladesh's development budget, to cover only capital expenditure, would show that throughout the last two decades, up to 1992/93, aid financed 100% of capital expenditures and also part of the recurrent expenditures of the GOB (IRBD). In 1993/94, for the first time, a net surplus on recurrent account was available to finance around 3% of the capital expenditure of the GOB.

The growth of aid dependence in Tanzania

Tanzania's capacity for generating local resources to finance its development programme ended in 1985. From 1985/86, Table 3 shows that aid flows persistently exceeded total development expenditure (TDE), rising from 120% of TDE in 1986 to 170% in 1993-94. This period, from 1986/87 onwards, coincided with the accommodation between the Government of Tanzania (GOT) and the donors to accept the first of the Economic Reform Programs (ERP-I) designed by the two Bretton Woods Institutions (BWI), the World Bank (WB) and the International Monetary Fund (IMF). This new trend in Tanzania's aid relationship implies that from 1986, to an increasing extent, aid donors financed not only the entire development budget of the GOT but a rising share of its recurrent budget.

The distribution of aid between the development and recurrent budget

The macro perspective on aid flows and total expenditure conceals the fact that from the 1970s some part of the total aid budget was being diverted to finance recurrent expenditures. Thus the actual share of aid in the financing of the development budget was rather lower than is suggested from the figures in Table 3. This is explained by the fact that a large part of the aid inflows, generated by aid funding under the import support programme, was channelled to the recurrent budget in the form of counterpart funds. The idea of counterpart funds was of course to finance the local costs of the development budget. But this objective was never realised in practice. The 1993/94 development budget, for which a more detailed breakdown is available, shows that 18.3% of its funding was in fact covered from local sources even though, in that year, there was a deficit of 28.7% between recurrent expenditures and current revenues (World Bank, 1993a). This suggests that the diversion of public revenues to support some development expenditure was being compensated by the diversion of aid resources to finance a growing share of the recurrent budget.

CIS and counterpart financing for the budget

From the 1970s the donors have been providing part of their aid to Tanzania in the form of commodity import support (CIS). It had, from an early period in the aid relationship, been recognised that project aid alone was inadequate to meet the specific needs of foreign exchange constrained DCs. Most DCs were exposed to a shortage of foreign exchange to finance intermediate imports needed to ensure fuller utilisation of productive capacity created both through the project aid budgets as well as from direct investment in and by a country.

This CIS was thus initially provided to Tanzania in the form of specific intermediate inputs designed to service the demand of installed productive capacity. But this form of CIS came to be combined with provisions of cash foreign exchange untied to the procurement of a particular commodity. This form of untied CIS provided a fungible resource to the GOT and eventually came to underwrite the system of free imports under the system of open general licence (OGL).

CIS in Bangladesh

In the 1970s several bilateral donors to the DCs tended to offer commodity import support (CIS) to finance the demand for specific intermediate commodities such as cotton, chemicals, rubber, needed by the economy for intermediate consumption. In Bangladesh, for example, in the 1970s, the USAID programme provided Bangladesh with cotton, crude edible oil and rock phosphate along with foodgrains, all tied to US sources of procurement. (Sobhan, 1984). Some bilateral donors and the multilateral institutions, such as the World Bank, programmed cash foreign exchange to procure a specific list of commodities though this was untied as to its source. The World Bank eventually began to provide Bangladesh with untied cash foreign exchange under its commodity aid programme, but this was still tied to the procurement of intermediate inputs.

Such programmes of CIS, whether provided in kind or cash, were expected to generate counterpart funds from the user agency, in the public or private sector, which accrued as a local currency resource to the DC government. However, local counterpart funds generated from the sale of food and other commodities, under the *US PL - 480 programme*, remained within the disposition of USAID, which programmed this at their discretion to finance local projects of their choice in a particular DC. For example, at the beginning of the 1960s in East Pakistan, now Bangladesh, USAID used its counterpart funds from the sale of food, provided under the *PL-480 programme*, to finance what was then one of the largest public works programmes in the world designed with a view to generate off-season rural employment.

Notwithstanding the value of this programme, many problems of corruption arose, and opportunities for political patronage were made possible by this disbursement aid in the form of cash resources to the then Government of Pakistan under the *PL-480 programme* (Sobhan, 1968). As a result, from the 1970s, USAID began to disburse its *PL-480* food aid in kind. Today an NGO, *CARE*, runs a large *Food for Work* programme using US *PL-480* wheat. However even direct disbursements of food aid generated opportunities for corruption, with an estimated leakage of around 30% of this aid going as transaction costs to various official and political sources mediating the delivery of food aid to the rural poor in Bangladesh (Hossain et al.).

Today the biggest of the Food for Work programmes in Bangladesh is run by the *World Food Programme* (WFP), which draws on food stocks donated by various countries. Both the WFP and the CARE programme provide food in exchange for work by the rural poor and to destitute rural women. Recently this food aid to Bangladesh is also being used as an inducement to girls to attend rural schools as part of a *food for education* programme.

Even today, a number of bilateral donors continue to provide aid to Bangladesh in the form of CIS. For example the main source of aid to Bangladesh from the Netherlands has, in recent years, been in the form of CIS used to procure raw cotton and phosphatic fertiliser for Bangladesh (Netherlands, 1995). However from the 1980s, the World Bank has been moving away from commodity aid to programme aid. This provides fungible foreign currency to Bangladesh, but ties this to a particular programme of reforms, as for example, in the energy sector, the financial sector, the industrial sector or in the agricultural sector (Sobhan, 1993a). All such programme loans are subsumed under the rubric of *Structural Adjustment Loans* (SAL). The implication of these SALs for the aid relationship will be discussed elsewhere in this paper. At this stage, the significance of programme loans lies in the fact that they provide balance of payments support in the form of free foreign exchange injected into the reserve pool of a country to underwrite a market driven programme of imports. In Tanzania, this form of aid underwrites a programme of imports under the *open general licence* (OGL) system which leaves customers, both on public and private account, free to import whatever they want, whether in the form of capital, intermediate or consumer goods, as permitted under the OGL system.

The evolution of the CIS system in Tanzania

In the Tanzanian context, the CIS system, which had served for nearly a decade as the principal source of intermediate imports, has, from the inception of the Economic Reform Programme (ERP), been overtaken by the OGL facility to finance imports. This move towards untying the import financing system and making it more market-driven is part of the system of import liberalisation promoted by the BWI in Tanzania. The move away from a highly regulated trading regime, built upon an overvalued exchange rate, operated through a system of multiple exchange rates to underwrite different categories of trade, was crucially linked to the move towards the OGL system.

The significance of the donor funded import support programme, in our analysis of external dependence, is to be found in its contribution towards financing the recurrent expenditures of the Government of Tanzania (GOT). We have observed from our earlier discussions that aid under the CIS and then OGL has, since the 1970s, been used to generate counterpart funds for financing government expenditure. It is worth noting that whilst all such aid was supposed to generate counterpart funds, this did not always take place in practice. Thus, under the CIS, commodities imported under the CIS were channelled directly to particular projects. Counterpart revenue was however not always generated, even though the project which was absorbing the resource was supposed to deposit a cash counterpart for the commodity with the Tanzanian treasury (Bhaduri, et al). The failure to deposit a counterpart payment constituted a direct, non-reimbursable subsidy to the project concerned, set up under some aid programme, usually managed by a Parastatal. This failure to generate a counterpart fund by the Parastatal concerned was in fact quite illegal and should be seen not so much as a deficiency of public policy but a failure of governance, both within the Parastatal as well as in the Treasury, for failure to enforce the deposit collection.

It is now observed that in spite of a tightening up of the system under the ERP and the move to the OGL system, the failure to make counterpart deposits has now been extended from the public to the private sector. The commercial banking system, which is supposed to collect the local currency deposits against the release of foreign exchange under the OGL, has not always done so, thereby providing an unsecured loan to the user of the foreign currency. This tendency will also be discussed elsewhere (Ibid.).

Within the context of the budget, whatever counterpart funds have been generated from the aid programme are distributed between the recurrent and development budget. Table 4 shows the share of counterpart funds to recurrent expenditure. Between the first half of the 1980s (1980-85) and the second half (1986-93), covering the ERP period, the contribution of counterpart funds in relation to the recurrent budget has increased from 6% to 24%. If we measure the contribution of the counterpart fund to the actual deficit on current account, we find that, on average, 37% of the deficit has been covered from this fund in the 1980/81-1985/86 period. But in the post ERP period, CIS, on average, covered more than the recurrent deficit and was also being used to finance some of the development budget. Thus, at the margin, the increment in the budget deficit has been increasingly matched by the availability of counterpart funds.

Underwriting of Tanzania's budget deficits through Aid

It is however worth noting that it is not only counterpart funds which go to finance the recurrent budget but also part of the loans and grants provided by the donors. To obtain a more accurate measure of the role of aid in supporting the recurrent budget, as contrasted to the development budget, some crude calculations have been attempted in Table 5, using data available for the four years 1990/91 - 1993/94. We have estimated the share of aid that has gone to the recurrent budget by deducting the amounts of external financing absorbed in the development budget from the total flow of external funds being disbursed. The residual is deemed to be the contribution of aid to the recurrent budget. Table 5 shows that throughout the 1990s around 50% or more of aid was being diverted to recurrent expenditure. On aggregate, over the 4 years of the 1990s, only 47% of aid went to development compared to 53% being diverted to finance recurrent expenditure. Table 5 further shows, that as between 1990-91 and 1993-94, in aggregate, 33% of recurrent expenditure was funded by aid whilst 64% of all development expenditure was funded by aid. Whilst the share of aid to TDE is naturally higher, given the much smaller share of TDE in TPE, in the 1990s the share of aid in recurrent expenditure was quite high and, as observed from Table 3, remains well above levels in the 1980s and more so than in the 1970s.

There is thus considerable evidence at hand for us to conclude that aid, and particularly the more fungible varieties of aid provided under the import support programme and/or inclusive of programme aid, is to an increasing extent being used to finance recurrent expenditure whilst the deficit on the current budget is being underwritten by aid. Within the aid programme, import support or balance of payments support, whether under the programme loans of the World Bank or the import support programme of the Nordics and the Dutch donors, has become the main agency for supporting the growth in public expenditure and for underwriting the budget deficits of the GOT.

It is obviously not possible to categorically conclude that there is a direct causal link between both the increase in aid as well as its manifestation in programme assistance and the growing deficit on current account. Nor is it possible to conclude that there is a causal link between the inadequacy of the revenue effort of the government and the contribution of aid. But the circumstantial evidence would appear to be rather powerful that aid, and particularly CIS aid, has provided a licence for the growth of recurrent expenditure.

Misuse of the CIS system

A more serious implication arising from the ready availability of aid is the possibility that problems of realising economies in public expenditure, as well as in putting in place effective policies to enhance revenue generation, are being compounded by failures of governance in the way of failure to collect revenues already due. This loss is, in part, attributed to the failure to collect counterpart funds due from the provision of CIS to user agencies. Table 6 provides data on default rates under the CIS provided by various donors. Between 1988-96, 44% of Norwegian, 51% of Swedish and 49% of 'other' donors' CIS aid remained uncompensated.

A recent paper suggests that up to Tsh 112 billion in cash cover payments under the CIS and OGL system were in arrears as of January 1995 (SPA Joint Evaluation Mission 1995). To this may be added the failure to collect revenues due to a system of discretionary tax exemptions on imports coming into the country. Some of these waivers are deemed as legitimate under the provisions of public policy to promote investment through the agency of the Investment Promotion Centre (IPC), which is authorised to give waivers on taxes to be collected from imports of equipment needed for industrial investment. However, a sizeable share of such waivers were deemed to have been made through collusive arrangements between public officials and private traders concerned, whereby goods clearly not eligible under the IPC mandate, imported under the CIS system, were accepted as eligible for exemption through discretionary waivers by the IPC and at higher levels of the GOT. In a highly publicised case of official opposition to granting such a waiver by the GOT to a private businessman, a Minister of the GOT, Edwin Mrema, eventually resigned from the cabinet and then the ruling party and became the leading Presidential candidate for the opposition in the country's first multiparty Presidential election (EIU). This distinction between policy-driven and malfeasant discretionary exemptions may thus be useful as a measure of the state of governance. However such a large measure of discretionary exemption, at a time when the government is accumulating a sizeable deficit on its recurrent budget, suggests that the ready availability of aid is, in no small measure, an inducement to a weakening revenue effort by the GOT.

The donors have today made a major issue out of the issue of exemptions, to the extent that a Minister of Finance was relieved of his portfolio and moved elsewhere in the cabinet (Gibbons, 1995). Norway and Sweden suspended disbursements under the CIS, but are moving towards a resumption on the basis of the progress made by the GOT to tighten up the collection process. However, it is worth asking how far this problem of possible malfeasance in revenue collections was itself not the outcome of a climate of laxity in both revenue generation and controlling current public expenditure, made possible by the escalation in flows of fungible aid. The juridically acceptable answer to this question need not unduly detain us here. We merely pose the question so as to understand both the nature and some of the implications of donor aid policy for the growth of aid dependence in Tanzania.

Table 3 shows that Tanzania generated a surplus of revenue over current expenditures until 1978/79. It had however run a deficit, in relation to its total public expenditure (TPE), for much longer, due to the need to also finance its development budget. The deficit on total expenditure was thus financed largely by aid. But Table 4 shows that domestic borrowing also emerged as a sizeable factor in financing the deficit, which in turn contributed to the build-up of inflationary pressures in the Tanzanian economy. The accumulation of domestic borrowing itself inflated the volume of recurrent expenditure due to the increase in debt service obligations.

Trends in real TPE

However it needs to be noted that the growth in total public expenditure (TPE) was something of an illusion. Table 7 shows, that in real terms, TPE fell sharply between 1978/79 and 1986/87 by which time it had almost halved itself. The revival in the growth of TPE was thus largely driven by the increase in the flow of aid after the implementation of the ERP, so that, in real terms, TPE shows a rising trend up to 1991/92 after which there was a slight decline. It is thus worth keeping in mind that, notwithstanding the increasing availability of aid in recent years to finance recurrent expenditure, in real terms the volume of recurrent expenditure, on average, in 1986/94, was below what it was in 1976/80. This suggests that the increase in aid may be doing little more than keeping pace with inflation so that the GOT's normal activities must also appear perenially short of funds rather than an indication of acts of fiscal extravagence.

A more serious feature of trends in public expenditure is the exponential decline, in real terms, in total development expenditure (TDE) which, as shown in Table 7, in 1986/94 was a third of what it was in 1976/80. Whilst there was some revival from 1990/91 to 1993/94 in TDE, this still remained at only a third of what it was in 1978/79. The implications of such a contraction in development expenditure on Tanzania's development capacity do not bear emphasis and are only too visible today in the erosion in its capital infrastructure.

The growing role of the CIS in financing Tanzania's budget deficit

The significant issue arising out of this decline in TDE is again to point to the growing role of aid in financing recurrent expenditure and thereby, the current deficit. Table 4 shows us how the budget deficit was largely driven by the rise in the share of recurrent expenditure, since the share of development expenditure to total expenditure declined from 35% in the 1970s, to 19% in the 1980s and then to 15% in the 1990s up to 1993-94. This deficit, during the 1970s, was financed by domestic borrowing as well as foreign aid. However, by 1980/81, aid had become the principal source for financing the deficit. Table 4 shows that between 1986/87 and 1993/94, aid financed 90% of the cumulative deficit, compared to 1976/77 to 1979/80, when the recurrent deficit was largely financed by domestic borrowing. This trade-off between aid and domestic borrowing has some advantage insofar as it helps to reduce domestic inflationary pressure. But such a trade-off is hardly sustainable and a poor substitute for cutting the budget deficit through expenditure economies and/or increased revenue mobilisation.

However what is more significant is the importance of CIS financing of the deficit. Up to 1985/86, Table 4 shows that foreign loans and grants had been the principal source of aid and hence the principal source for financing the deficit. However, since the inception of the ERP, the use of fungible aid, through the balance of payments support programmes, has become the principal source of aid, amounting to 129% of the recurrent deficit. Table 8 shows the rising share of CIS in Tanzania's aid budget as between the pre and post ERP period. By 1991/92, CIS accounted for 86% of all aid flows and thus financed 83% of the total budget deficit (Doriye, 1995). In 1992/93 and 1993/94, there seems to have been a change in donor policy, as the share of loans and grants increased once again and, in 1993/94, accounted for 84% of all aid, which financed 82.2% of the budget deficit (Ibid). This was due in some measure to the donors' decision to cut down on CIS until a satisfactory accounting was made by the GOT in collecting counterpart funds from the CIS system. The available evidence thus further corroborates the argument that donors have been underwriting Tanzania's recurrent budget deficit under the CIS system.

The decline of development expenditure and its implications

The declining share of development expenditure in total expenditure and the growing importance of CIS driven aid to finance the deficit in the recurrent budget remains a cause for concern. The donors have contributed in no small measure towards the rise in current public expenditures through the availability of CIS funding. Thus whilst it may be argued that the growth in Tanzania's budget deficit is due to its own weaknesses, both in the economy and in governance, it is not unlikely that this deficit would not have accumulated had not the donors so dramatically changed their aid policy towards use of CIS funding, leaving a ready source of fungible resources with the GOT to underwrite the revenue budget.

Donors have of course argued that this move towards CIS financing was designed to ensure more effective utilisation of idle production capacity. However it is a more debateable point if they also intended that the counterpart funds so generated should end up financing the recurrent deficit of the GOT and should indeed encourage the growth in the deficit in relation to TPE.

Here again donors may argue that too much aid had originally been invested in development projects in the decade of the 1970s which had yielded very low returns. Aid invested in the recurrent budget thus enabled public services to be provided more effectively (World Bank, 1990). It is however not clear whether, as a consequence of this willingness by the donors to support the improvement of public services, there was a noticeable improvement in such services or the government agencies remained even less inclined to cut down superfluous recurrent expenditures or to use their resources more effectively.

The growing importance of aid in financing Tanzania's recurrent deficit suggests that Tanzania's aid dependence is, in the prevailing policy milieu, unlikely to be reduced. It is assumed, from the hypothesis underlying our paper, that if aid dependence originates from the structural features of an economy and its governance capacity, then a declining share of investment in development aid is likely to leave little scope for the diversification of the Tanzanian economy. Table 22 shows us that even within the framework of a declining aid budget for development, the share of aid going to industry fell to 8% by 1993. Nor was there any rise in development aid to agriculture where aid flows and budget allocations declined drastically in the 1980s (World Bank, 1994a). Unless there is a dramatic upward movement in the contribution of foreign private investment to total external resource inflows into Tanzania and this investment, along with local investment, is directed towards the diversification of the productive capacity of the economy, the decline in aid flows for development is likely to further perpetuate aid dependence.

Donor aid practices in Bangladesh

By the standards applied in Bangladesh to measure the efficiency of both public expenditure and aid use, the changing direction of aid financing in Tanzania may be regarded as quite counterproductive (IRBD). In Bangladesh we have seen that at no stage has there not been some surplus in the current budget, at least as it is officially formulated. However there has been a sizeable deficit on account of total expenditure which was always covered by aid which was largely used to finance the development budget. Through the 1980s there was a progressive deterioration in the share of total development to total public expenditure. The TDE/TPE ratio fell from 60.3%, in the first half of the 1980s, to 42.0% in the second half of the 1980s and in the first three years of the 1990 came down to 39.3% (World Bank, 1995). It is only in 1993/95 that the TDE/TPE ratio has shown some improvement though it is still below the ratios attained in the late 1970s and early 1980s (Min. of Finance, GOB).

This deterioration in Bangladesh's TDE/TPE ratio was always deemed to be a measure of the decline in the quality of government expenditure and much rhetoric, if not always effort, was invested, both by Bangladesh's donors and the GOB, in improving the share of TDE in TPE. However, in contrast to Tanzania, donor funding in its current composition could not be held responsible for the rising share of recurrent expenditure in Bangladesh's TPE. Aid funds were largely concentrated in Project Aid. At a cumulative level, during the decade from 1984/85 to 1994/95, 59.1% of aid went to projects, 13.4% came as food aid and 27.5% as commodity aid, which would be the equivalent of Tanzania's CIS financing (ERD). The share of commodity aid to total aid to Bangladesh declined in this last decade, compared to 38% contributed by commodity aid to total aid in the decade for 1975/76 to 1984/85 (Ibid).

Aid and the external gap

The structure of imports into Tanzania

In the same way that aid has contributed to the growth in Tanzania's recurrent budget deficit it is arguable that it has also helped to sustain a consumption boom through providing resources to underwrite the inflow of consumption goods. Table 9 shows that the share of consumer goods to total imports averaged 18% in the first half of the 1980s. Since the step up of aid committed under the CIS after 1986/87, the share of consumer goods imports has averaged 23% in 1986-90, rising to 36% of imports in 1993/94 (Doriye, 1995). Table 9 shows that in dollar terms the volume of consumption goods imports has increased from an annual average of $ 181 million in the five years, 1981-86, to $ 466 million, between 1991-93. To the extent that the volume of imports has also risen in the last five years, this increase in the dollar value of imports is matched by a corresponding escalation in the real value of imports (Doriye,1995).

Whilst the share of consumer goods imports has risen, the share of capital goods to total imports has also remained high, averaging 46% in the 1990s compared to 42% in the first half of the 1980s. In volume terms annual imports of capital goods, in the first half of the 1980s, which averaged $499 million, rose to $ 683 million a year in the first three years of the 1990s.

This high share of capital goods imports however conceals the fact that in the 1990s a large part of this growth was driven by import of transport equipment. In contrast, the share of machinery imports, which is a more precise measure of investment goods, showed little increase and its share in total imports declined. Table 9 shows us that in the 1980-85 period, the share of machinery equipment accounted for 25% of annual average imports, compared to 17% in the 1991-93 period. In dollar value terms, machinery imports fell from an annual average of $ 256 million in 1980-85 to $ 218 million in 1986-90, rising somewhat to $ 255 million in 1991-93. It is possible to argue that some of the transport investment went into trucks and buses needed to improve the movement of goods and people which therefore has a potential for expanding the productive capacity of the economy. However a great deal of the investment in the transport sector has also gone into the import of cars which can hardly be treated as an investment good. Thus the use of machinery imports remains a useful proxy for investment trends so that the evidence in Table 9 hardly points to an investment boom since the inception of the ERP.

Without prejudice to the validity of import data on investment, it is clear that the available data on investment growth in Tanzania needs to be de-constructed and a clearer understanding is needed to see exactly what elements of investment have enhanced the productive capacity of the economy. Conversely it needs to be recognised that import of machinery, associated with enhancement in productive capacity, is no indicator that productive capacity has indeed been enhanced if the equipment lies unused or grossly underused, as happened in the wake of the boom in capital imports in the late 1970s.

It is worth noting that reliable evidence on investment capacity in Bangladesh is in no better shape than it is for Tanzania, nor is much more known about the effective utilisation of this capacity (IRBD). Indeed in both countries data on trends in investment in building productive capacity in the small scale and informal sector of the economy are hard to come by. Given the importance of this sector in contributing to employment and output, data on the volume and trajectory of investments in this area are essential for an understanding of investment behavior.

Aid and the consumption boom

The investment by donors in the CIS was in fact designed to address this very issue of poor capacity use due to import compression in the early 1980s. Table 9 shows that in the first part of the 1980s, 1980-85, the category of 'other intermediate imports' which excludes oil imports, averaged $ 181 million per year. The big jump in CIS aid financing in 1987/88, which raised its share in total aid, served to fund a short boom in 'other intermediate imports'; thus, in the 1986-90 period, such imports averaged $ 319 million a year. However from 1991-93, intermediate imports fell quite sharply to an average of $ 141 million a year just at the time that consumer goods imports were rapidly being stepped up. In the three-year period, 1991-93, consumer goods imports averaged $ 466 million a year or 31% of all imports, compared to 9.4% for 'other intermediate imports'.

The available evidence on the changing structural composition of imports presented in Table 9 clearly suggests that the underlying assumption of the donors, to use CIS aid to stimulate capacity utilisation in the economy, proved to be a short lived phenomenon. Instead, CIS aid financed a boom in the import of consumer goods. The evidence of this boom is to be found in the streets of Dar es Salaam, where imported cars, including the latest model of Mercedes, abound, whilst the shops are full of imported goods, including many luxury goods. In contrast it is difficult to find even the most elementary item of consumer goods which are manufactured in Tanzania for sale in the local stores. A journey along the road from Dar es Salaam airport to the city centre, through the main industrial area of the city, provides testimony to closed or underworked manufacturing establishments whose capacity use appears to have hardly benefitted from the CIS import programme. This evidence suggests that the CIS system, accompanied by the rapid move towards import liberalisation and the ready availability of foreign exchange under the OGL, has led to a period of de-industrialisation in Tanzania, where aid has underwritten trading, mostly in the form of consumption goods imports, at the expense of domestic production.

It may well be argued that this disincentive to manufacture is due to the corruption of the system where it is possible for imports to come into the country without paying any duties. This is attributed to the deterioration in governance rather than the duty structure now in place in Tanzania which should, donors believe, provide more than enough protection. This issue of trade liberalisation and its impact on local industry will be more fully discussed later in this paper when we discuss the role of donors in policymaking.

Aid and the Trade gap

Whatever our conclusions about the impact of trade liberalisation in the promotion of a consumption boom at the expense of local manufactures may be, the macro-economic data are quite categorical about the rapid growth in the export-import gap since the introduction of the ERP. Table 8 provides data going back to the 1960s. From this table it may be observed that during the 1960s, Tanzania ran a small export surplus in the range of 12.6% (annual average). It was only from 1969/70 that Tanzania began to accumulate deficits on its trade account. The 1970s saw the transformation in the fortunes of Tanzania, with the upsurge in the inflows of foreign aid which served to underwrite the trade deficit. In the first half of the 1970s, the trade deficit annually averaged 27.6% of imports. In the period 1976-80, the trade deficit rose to 34% of imports, with aid now financing 28% of imports. In the crisis years, in the first half of the 1980s, 1981-85, the trade deficit rose to 52% of imports, with the contribution of aid to imports rising to 69%.

The period from the ERP-1, covering 1986-90 and then 1991-94, witnessed a complete transformation in the levels of external dependence. Between 1986-90 the trade deficit rose to 65% of imports (annual average) whilst the aid/import ratio rose to 89%. In the 1990s, in the four years from 1991-94, the deficit rose further to 69% of imports, whilst aid covered 80% of imports. The available evidence, viewed in historical perspective, clearly indicates that the build up in the external trade gap of Tanzania coincided with a rise in the aid/import ratio. From this evidence it would be reasonable to assume that the increased availability of aid contributed to the accentuation of the trade gap.

The available evidence in Table 9 on the changing composition of imports has suggested that this growing deficit on the trade account has unfortunately done little to improve the productive capacity of the economy or contributed to the diversification of the productive structure but has underwritten a consumption boom. This may indeed be important to serve as an incentive to induce greater productive effort in the rural economy. But it is both poor logic, and indeed a measure of the dysfunctional state of an economy, that the main beneficiaries of improved farm productivity turn out to be the traders in imported goods.

By way of perspective for Tanzania, the surge in farm output and incomes in China in the wake of its economic reforms in the late 1970s turned out to be a boon for rural industry which as a result, from 1983, grew at an astonishing 40% a year in the 1980s (World Bank 1990b). Even in Bangladesh a high rate of agricultural growth generates demand for rural industrial products which face an income elasticity of demand which is well above unity. The test of the ERP in Tanzania, or indeed any development model, is to be found in the density of the linkages within the economy where growth in one sector stimulates demand for and growth in the production of another sector of the economy. It is for this very reason that economies need to diversify themselves so as to be able to generate these growth producing and sustaining interlinkages.

The decline in Gross Domestic Savings (GDS) in Tanzania

Trends in GDS

We have thus far observed that aid has in considerable measure sustained a boom in current public expenditure and consumer goods imports. In contrast the share of development expenditure has declined in absolute and relative terms in recent years. Similarly, in real terms there has been no surge in capital goods (net of transport equipment) imports. It would therefore be not far off the mark to conclude that Tanzania has been exposed to a gradual decline in its gross domestic rate of savings in relation to GDP, paralled by a decline in the external resource gap/GDP ratio. These two trends are captured in the decline in Gross Domestic Savings (GDS), for which evidence is provided in Table 10.

In our discussions below of the GDS we have used the estimations prepared by Ndulu for the period averages presented in Table 10 of our paper but also draw upon Mjema's annual estimations (Mjema, Table 9). Whilst Ndulu's and Mjema's period averages for savings are close they are not the same. We have however drawn on Mjema's work to capture year to year shifts and also to differentiate trends in public and private savings whilst using Ndulu's estimates for the period averages. It may be pointed out that in preparing this paper we came across several other estimates of savings, including those of the World Bank. Indeed another set of estimates has been presented by Likewele et al appearing in the same volume as Ndulu's paper, which provides slight variations from GDS estimates of both Ndulu and Mjema. So we have also reported the Likewele estimates in Table 10. In the absence of any definitive estimate of Tanzania's GDS we have decided to work with figures provided by Ndulu and Mjema. A more focussed study of Tanzania's GDS could usefully attempt to reconcile these various estimates which in fact do not seem that far apart, in contrast to the more recent World Bank estimate for 1986-90 which reports that the GDS has fallen to 1% of GDP. Such a sizeable difference in GDS estimates can only be explained by a difference in the methodology behind the estimations.

It is noticeable that between 1966-1970, the rate of GDS as a percentage of GDP was extraordinarily high for a DC, averaging 24%. During this period, whilst the bulk of the savings originated in the private sector, public savings were always positive, averaging 26% of all GDS in 1966-73; in fact public savings accounted for 42.5% of GDS in 1973 (Mjema, Table 9). In 1974 and 1975, GDS for the first time fell below 10%, averaging 9.3% to rise again, in the next two years 1976-77, to an average of 22.4% (Ibid). After 1977, the GDS began to progressively run down. In the period, 1980-85, Table 10 shows that GDS fell to 10.5%. From 1974-79 the GDS, averaged 15%, still in double digits. From 1983-85, GDS fell to an average of 7.3%. Public saving was negative for four years 1979-82 (Mjema).

What is however noticeable is the fact that in the 20-year period 1966-85, GDS was higher than foreign savings, measured as the share of external resource inflows, in all except seven years (Ibid). Up to 1973, foreign savings averaged a meagre 12%, rising to 13% in between 1974-79, when it still lagged behind GDS, which averaged 15% a year. In the first half of the 1980s, the share of external savings averaged 8.5% compared to 9.7% for GDS. This first part of the 1980s coincided with investment stagnation and mounting economic crisis, compared to the 1970s, where both domestic and foreign savings had sustained a rather robust investment rate. Thus, Table 10 shows that between 1971-80 gross fixed capital formation (GFCF)/GDP ratio averaged around 27% but this deteriorated to 18% in the period 1980-85.

GDS and Self-reliance

If we look at the macro-economic trends in Tanzania up to the end of the 1970s it would be fair to assume that high investment rates were sustained by high domestic savings rates, so that compared to other DC's, Tanzania was more self-reliant. Even during its period of crisis, in the first half of the 1980s, Tanzania's GDS matched its rate of foreign savings and covered 55% of its GFCF (Table 10).

Tanzania's GDS figures show that, compared to Bangladesh, it remained more self-reliant. As between 1970-85 Bangladesh's GDS averaged 7% in the 1970s which was well below that of Tanzania whose external resource gap was also lower (Sobhan, 1984). This meant that the investment/GDP ratio in Bangladesh, in the 1970s, also remained lower than that of Tanzania. In the first half of the 1980s, Bangladesh's GDS of 1.6% was far lower than Tanzania's, whilst its external resource gap was comparable to Tanzania (Sobhan, 1990b). There is of course no doubt that Tanzania's external fortunes and governance tended to deteriorate in the 1980s, so that between 1981 and 1985 there was a secular decline in the rate of GDS, which fell to 5.7%. However a rate of 5.7% in 1985 was still better than Bangladesh's rate of GDS of 2.6% in 1985/86. The rise in the contribution of foreign savings in Tanzania was also evident and by 1985 was double the GDS, till then the most adverse ratio in Tanzania's history.

The deterioration in GDS in the ERP period

Whilst the erosion of self-reliance and the growth of external dependence in the way of aid was driven in the first part of the 1980s by the adverse consequences of Tanzania's external economy and economic relations, a quite different story emerges in the second half of the 1980s, particularly after the ERP was put in place. Table 10 shows that between 1986-92 the GDS for Tanzania collapsed to 5% on average, whilst Tanzania's ODA/GDP ratio averaged 26.8%. In the four years of the 1990s, the ODA/GDP ratio had further increased to 44%, making Tanzania into one of the most aid dependent economies in the world. By some calculations, Tanzania GDS may even be negative in recent years.

Methodological problems in estimating the GDS

Estimates of savings are of course open to challenge because few DCs estimate their GDS directly, instead deriving it as a residual from the available data on trade and investment. Data on GDS for Tanzania are therefore sensitive to estimates of all three variables of imports, exports and gross fixed capital formation (GFCF). The World Bank has contested the validity of the official GDS estimates. In a recent paper evaluating the impact of structural adjustment on economic performance and aid dependency in Tanzania they attempted to re-estimate the GDS (Agarawal et al). They found that according to official figures, Tanzania's GDS had fallen from 10.4% in 1981-85 to 1% in 1986-90. This indicates a much lower figure than Ndulu's estimation used by us in Table 10. If we apply the World Bank's equations for estimating GDS, Tanzania may show a negative savings estimate in the 1990s. Such a result is hardly complimentary to the outcomes of the structural adjustment process in Tanzania promoted by the World Bank. Indeed, the fact that GDS may have become negative in the 1990s, when the reforms have had a longer time to work themselves out, would be cause for even greater concern in the BWI.

The World Bank argued in their paper that Tanzania's savings may be underestimated since their exports were underestimated. Thus, if in the macro-economic identities from which the GDS is derived the share of exports could be seen to have increased, the rate of savings would, to a corresponding degree, improve. Agrawal et al argued that Tanzania's exports are underestimated because a large volume of exports, in the way of minerals and other commodities, go unrecorded. That some exports from Tanzania and most other DCs do indeed go unrecorded in official trade statistics is hardly a novel discovery. The Bank however goes one step further and attempts to quantify these unrecorded exports by equating such exports with the volume of 'own fund' imports which are formally registered in Tanzania's Balance of Payments Accounts. The so called 'own funds imports' scheme was introduced by the GOT in 1984 as an inducement to Tanzanians to convert their illicit foreign currency hoards, held outside Tanzania, into goods which could be freely imported into the country without any questions. The World Bank strongly suggests, however, that these (*sic.* 'own funds') imports are financed by exports otherwise not recorded, and that they have therefore used the data on such 'own funds' imports as a proxy for unofficial exports. In recent years they estimate that almost half of Tanzania's exports have remained unrecorded.

Agarwal et al have thus added unofficial exports to the official figures and recomputed Tanzania's total exports to be about 27 percent of GDP, compared to official estimates of exports, recorded as 13.8% of GDP for the period 1986-90. Working on the assumption that their revised estimate of exports came to 27% of GDP, it was not difficult for the Bank to then blow up the GDS for 1986-90 from 1% (termed 'unadjusted') to 13.3% (termed 'adjusted'). The only source cited for this methodology by Agarwal et al was IMF and World Bank data and *author's estimates* (italics are mine).

The reasoning of the Bank paper that some exports from Tanzania remain unrecorded is valid. In all DCs a vigorous unrecorded or 'second' economy, including unrecorded trade, exists and has existed from time immemorial. Thus by the same reasoning an active volume of unrecorded imports is also commonplace. The dynamics of both unrecorded imports and exports has been quite effectively captured by Bagachawa and Maliyamkono in their path breaking work on the *Second Economy of Tanzania*. However, Bagachawa only provides quantitative estimates of unrecorded trade for 1985 and 1986, a period when such unrecorded trade was likely to have been quite high because of the overvaluation of the tshilling and the prevalence of an as yet highly restrictive trading regime. In that period Bagachawa estimated unrecorded exports to be only 0.31% of recorded exports and unrecorded imports to be 0.15% of recorded imports (Bagachawa, Table 3.19, p. 160). Indeed, in absolute terms, there is a suggestion that the volume of unrecorded imports may substantially exceed unrecorded exports, if data from the Customs authorities of seizure of illicit goods in 1985-6 is used as a reference.

It may be assumed that unrecorded exports and imports persist even in the 1990s. It is however legitimate to assume that the compulsion for and hence the volume of such unrecorded trade would be substantially weaker in recent years, when the external value of the tshilling is close to its equilibrium value and goods of all varieties are freely exportable and importable on private account. To assume therefore that the volume of 'own funded imports' is the outcome of illicit exports thus suggests that there is as strong a compulsion to make illicit exports today as there was in the 1980s. Were this assumption to be correct it would be a poor commentary on the efficacy of nearly a decade of market reforms!

Obviously after 1984, for quite some while, illegally repatriated capital, accumulated through the expedients of overinvoicing imports and underinvoicing exports, as well as through some smuggling, sustained the 'own funds' import programme. Today the facility of the 'own funds import' programme continues and such imports presumably must be financed in the same way as they were financed in the 1980s, through over and underinvoicing, which is a form of capital export, along with some smuggling across the borders. To assume that the entire component of 'own imports' can be adjusted against unrecorded exports thus remains a pure assertion of the World Bank, and a rash one at that. The Bank could have at least assumed some factor of the total import figure rather than to take the entire share of 'own imports' as a proxy for unrecorded exports.

Common sense would also suggest that a sizeable volume of unrecorded imports must also be in evidence. The reason for this is, if anything, stronger than that for maintaining unrecorded exports. Today, reasons for someone to make illegal exports out of Tanzania are much weaker than before 1986, since there is neither any duty to be paid on exports nor any overvaluation of the currency which may encourage exporters to obtain a better rate of exchange from their exports through unofficial rather than official channels. In contrast, in spite of a substantial measure of tariff reduction, importers are still expected to pay duties to the Customs. There is now quite conclusive evidence that there are large profits to be earned by traders through avoidance of import duties. The outright avoidance of duties through obtaining discretionary waivers, through the malfeasance of public officials, is already a fact of life which has led to sanctions being imposed by some aid donors on the GOT. Given this evidence of seeking evasion of duties on imports, it is surely likely that more traditional methods of evasion, through smuggling directly or via Zanzibar as well as through underinvoicing of imports, would persist and would correspondingly inflate the actual value of imports compared to their recorded value. Thus any attempt to adjust upwards the value of exports would have to be matched by an upward adjustment of unrecorded imports. As far as the estimates of GDS are concerned, the issue is not the size of the exports but the size of the trade balance. If unrecorded imports are as high as unrecorded imports, then the level of savings, derived from the usual equation, remains unchanged. Thus until the World Bank or anyone else can come up with more robust evidence to demonstrate that Tanzania's trade balance rather than its exports is more favourable than is shown by the official statistics, we must continue to assume that the GDS has maintained its downward trajectory and that aid dependence, measured by the external resource/GDP gap, has increased exponentially, compared to all past periods.

Aid dependence and the decline in the GDS

Given the earlier evidence of foreign aid underwriting of both the growth in the current deficit and the boom in consumption goods imports, it would be reasonable to assume that the collapse of the GDS must provide some strong circumstantial evidence to link the increased availability of aid, in consequence of the GOT's acceptance of the ERPs, with the deterioration in the GDS. Mjema had, in his very valuable dissertation on the role of foreign aid in Tanzania, established through various econometric tests that, 'during 1961-85, increases in foreign aid inflows were negatively related to the domestic savings effort in Tanzania'. Were Mjema to extend his work to incorporate developments in the area of aid flows to cover the 1986-95 period, he would be just as likely to obtain no less conclusive evidence to sustain his results covering the 1986-94 period than those he derived from his analysis of the earlier period 1961-85. The main point of enquiry which Mjema or any other Tanzanian scholar may find worthwhile to subject to more rigorous empirical investigation than has been possible in my paper, is to assess the contribution made by the change in the composition of foreign aid towards a greater share of import support or CIS, as distinct from project aid, in total aid, as a major factor in explaining the sharp deterioration in the GDS and the sharp increase in the aid/GDP ratio.

Aid and Development

The impact of aid on development

Having demonstrated the accentuation in Tanzania's aid dependence it may be useful to see how far such aid has contributed to improvements in the performance of the Tanzanian economy in the way of economic growth and structural change in both GDP and exports, variables which may have contributed to the degrees of aid dependence prevalent in Tanzania.

Analytically it is difficult to establish a direct causal link between aid and economic performance, since a variety of policy and institutional variables originating within the country, as well as developments exogenous to the economy, influence the economy. In the case of Tanzania, it may be argued, though not definitively proved, that the high degree of aid dependence which has in recent years become manifest, as well as the preponderant role played by aid donors in influencing both development strategy and economic policy, would indicate a strong linkage between aid and economic performance. We will of course be discussing the evolving nature of the relationship between Tanzania and its aid donors in the next section as well as the quality and implications of donor advice on the performance of the economy. In this section we will thus merely address the issue of economic performance and move on to see, in later sections, how far the role of aid and the donors may have contributed to these outcomes. In such a discussion our attention will be focussed on those elements of economic performance which remain germane to the issue of aid dependence.

Aid and growth

In Table 11 we present estimates of GDP growth and its composition over the last 25 years. This longer time perspective is introduced because, in much of the recent literature coming out of the BWI, there is a tendency to use the early 1980s as baseline data. Given the adverse conditions influencing the economy during the 1980s, it may be assumed that any improvement of the economy in later years would be for the better. The BWI use of the early 1980s as their baseline is thus rather artificial and possibly motivated by their need to establish the positive impact of their Structural Adjustment Reforms, put in place under the aegis of the BWI since 1986. A more useful measure of economic performance, which could in fact place the impact of economic reforms in proper perspective, would suggest the need to go back to the 1970s, when many of the policies associated with the adverse trends in the Tanzanian economy in the early 1980s were being introduced, but under a rather different external economic environment.

Econometric tests applied by Mjema have shown that the links between aid and GDP growth are weak but positive. The weakness in the relationship derives from the low returns on investment, or high ICOR, and, by inference, the low productivity of aided projects. We attempt no such tests to update Mjema's results which uses data on hand up to 1985. We provide a more updated but less rigorous depiction of the link between aid availability and economic performance. In Table 12 we present estimates of the aid/GDP ratio for the corresponding period, alongside the data on the macro-economic trends of the economy. Higher rates of GDP growth in the 1960s co-existed with a very low level of aid dependence. In the 1970s, Mjema's analysis is confirmed by the fact that the rise in the aid/GDP ratio did not precipitate a surge in economic growth, though growth in the 1970s remained quite robust by Third World standards. In the first half of the 1970s, from 1970-75, GDP growth in Tanzania averaged 3.6%. However from 1977 to 1986, Tanzania's GDP went into a long period of low growth, averaging less than 1%. The late 1970s, from 1977-80, was a particularly bad period for Tanzania, where growth averaged 2.6% per year, in spite of the fact that the aid/GDP ratio was well above levels prevailing in the first half of the 1970s.

Exogenous shocks and economic growth

The first half of the 1980s, from 1981-86, was perhaps the worst period in Tanzania's economy history when GDP growth averaged 0.7%. At such levels of growth, for six years Tanzania registered a consecutive decline in its GDP per capita. This period of low growth coincided with a decline both in the aid/GDP ratio as well as in the GDS and GFCF ratio. It would be tempting to conclude that the contraction in aid availability in the early 1980s did lead to a slow down in growth. However the link, as indicated in Mjema's tests, remains weak, so that several other variables also contributed to the deteriorating performance of the economy. The most obvious effect was the sharp deterioration in Tanzania's barter terms of trade from 106 in 1976-80 to an average of 90 in the next five years, 1981-85 (World Bank, 1994d). This deterioration in the terms of trade captured both the rise in the price of oil at the end of the 1970s and the decline in export prices for commodities as a consequence of global recession (see Table 16). As a consequence of both adverse movements in Tanzania's Terms of Trade (TOT) as well as in the decline in export volume, Tanzania's purchasing power from its own exports fell from 119 in 1981 to an average of 79 between 1982-86 (Ibid). If the adverse movements in the TOT and decline in export earnings were to be matched by the fact that aid flows in the 1980s actually increased, both absolutely, from an average of $ 603.4 million in 1981-85 and relatively, from 10% of GDP per annum, compared to $ 456.8 million and 6.7% in the 1976-80 period, then we may see that aid levels were hardly decisive in influencing the deteriorating fortunes of Tanzania in that period.

The Aid effect

There is however no doubt that Tanzania was exposed to some degree of aid compression between 1983-85. Aid levels fell consecutively from $ 695 million in 1982 to $ 487 million in 1985 (FCDC). Of this $ 208 million cut in aid, 53% was accounted for by bilateral donors and 40% by the multilaterals, of which the World Bank accounted for 34% (Ibid). This was the period of Tanzania's conflict over economic reforms with the BWI which thereby chose to pressurise Tanzania to accept reforms by cutting aid. In this move to pressurise Tanzania, the bilateral donors played an important role, though no one donor acted with such severity as the World Bank which reduced its lending to Tanzania from $ 98 million in 1982 to $ 28 million in 1985. However the roots of Tanzania's economic stagnation lay outside the hands of the donors and must also be shared with the deterioration in its terms of trade as well as the adverse consequence of some of its domestic policies.

Whilst aid may have had a rather modest impact on Tanzania's fluctuating economic fortunes up to 1985 there is little doubt that much of the revival in growth since 1986 can be attributed to the significant improvement in aid flows. Table 12 shows that GDP growth in the most recent period 1990-94, averaged 3.4%. If we look at certain key macro economic ratios, as between 1981-86 and 1990-1994, we see that in absolute terms the volume of aid, on average, rose from $ 603 million to $ 1142 million per year between these two periods. As a result, the share of external assistance rose from 10% of GDP to 44% of GDP over these two periods. The share of aid to imports rose from 69% to 80%, and the share of aid to total public expenditure rose from 13% to 37% during these two periods.

The quite dramatic upward trajectory in the share of aid to all the key macro-economic variables influencing economic growth recorded in table 12 leaves little doubt that the improvements in the rate of growth and of capital formation must be explained by the enhanced contribution of aid in the post ERP period compared to the previous period. Econometric tests would perhaps show that, as was the case in the earlier period up to 1985 analysed by Mjema, the prevailing levels of aid should in fact have yielded much more positive economic outcomes than they did. However whatever gains were registered in the Tanzanian economy in the last 8/9 years would appear to be largely attributable to the generosity of the donors.

Aid or reforms as a stimulus to economic performance?

This critical role of aid is not without significance to the search for positive results of the economic reforms being proclaimed by the BWI. But it becomes difficult to claim that the improvements in the economy can be attributed to reforms if all the key variables relevant to growth have been influenced by the availability of aid. Obviously, had similar levels of aid been available even in the first part of the 1980s, as were available from 1986-94, would Tanzania's economic performance have been as bad as it was? This counter-factual question demands as clear a response as the more favoured argument of the BWI that without economic reforms the situation in the late 1980s and 1990s would have been worse. This suggests that the model comparing the outcomes of reform needs to incorporate an aid variable if it is to come to any accurate conclusion about the impact of aid. For example, in Ghana, the BWI's most vaunted success story in Africa, how much of the improvement in the economy in recent years is due to the fact that Ghana's external resource gap/GDP ratio stands at 16% in 1993 compared to 1% in 1980 ? (WDR, 1994).

In actual practice, during the period of reforms and generous aid flows, Tanzania's economy, in historical perspective, performed far less impressively than may have been expected. Table 11 has shown that GDP growth rates in the post-reform phase were more impressive than in the previous decade but remained below levels attained in the decade from 1967-76. Agricultural growth rates again improved in the late 1980s compared to the early 1980s. However, in real terms, agricultural output remained far from robust, though it did register some growth in recent years. However if you look at per capita growth per rural inhabitant, agricultural GDP using the NCPI deflator was, at Tsh. 3969, lower in the period 1987-92 than in 1976-80 when it was Tsh. 4549 (World Bank, 1994d). Even if we use 1976 price levels, output per rural inhabitant improves by only 12% from Tsh. 623 in 1976-70 to Tsh. 706 in the 1987-92 period (Ibid).

In contrast to the agricultural sector, manufacturing trends, by every measure, seem to have been downward in absolute terms. Using 1976 prices, manufacturing GDP averaged 2.2 billion Tsh as between 1970-75, rising by 19% to 2.7 billion Tsh for the period 1976-80 (Ibid). From 1981, manufacturing GDP went into a precipitate decline, averaging 2.2 billion Tsh between 1981-86. In the post-reform period of 1987-92, this rose to an average of 2.4 billion Tsh which was below the figure of the 1970s. Indeed manufacturing GDP in 1992 was 2.7 billion Tsh compared to 2.8 billion Tsh in 1979. This could be seen again as a measure of the de-industrialisation which has set in over the last decade in the Tanzanian economy. If we look at more current trends, then the manufacturing index of production showed no growth in 1993 compared to 1992 and fell by 9 points from 110 in 1993 to 101 in 1994 (1985=100) (EIU). If we place this figure in historical perspective, manufacturing output in 1994 remains below what it was in 1979/80.

Aid and exports

Another area where some improvement may have been registered as a result of aid was exports. However Table 13 shows that merchandise exports, though showing definite improvement between 1982-85, averaged only $ 431 million a year between 1990-94 compared to $ 527 million in the 1976-80 period. Indeed exports in 1994, at $519 million, were lower by almost $ 100 million from the peak period figure of $ 613 million in 1981. Agricultural exports, which were presumed to have been the main victim of the policies of the GOT in the 1970s and 1980s, were valued at $ 419 million in 1981 compared to $ 384 million in 1991 and $ 284 million in 1992.

If we apply the 1985 MUV deflator to export values, then, between 1981 and 1991, total exports from Tanzania fell from $ 510 million to $ 264 million, whilst agricultural exports fell from $ 357 million to $ 169 million. Even if we use a longer period average, covering the crisis years 1981-85, total exports per year averaged $ 428 million compared to $ 366 million in the 1986-91 period. In this same period agricultural exports averaged $ 277 million, compared to $ 238 million in the latter period. Ironically, the only sector which improved was manufacturing exports, which increased from $ 40.4 million in 1981-85 to $ 88.7 million 1991. The evidence at hand indicates that in recent years, neither heightened aid inflows nor indeed significant policy reforms, have realised any significant change in the economy.

4. REALISING STRUCTURAL CHANGE

Structural atrophy in the Tanzanian economy

The nature of structural change

At the levels of growth realised by the economy it is clear that little in the way of structural change has been realised in the Tanzanian economy which could have contributed to its diversification. To estimate structural change we look at three indicators, the share of manufacturing in GDP, the share of manufacturing exports to total exports, and the share of machinery imports to total imports; this last indicator provides a measure of the change at the margin, in the economic structure, through the increase in manufacturing investment and the share of investment in manufacturing as a share of total investment.

Deterioration in the share of the manufacturing sector

Table 15 shows that the share of manufacturing in GDP has in fact deteriorated from 13% in 1976 to 5% in 1993. This trend is not surprising given the fact that manufacturing value added has declined absolutely since the beginning of the 1980s (Table 9). At the margin, growth in manufacturing investment in the 1980s has not been impressive. Public investments in the industrial sector, through the development budget, declined from 26.6% in 1976 to 7% in 1992. It may be recollected that in 1977-80, the peak period of priority to industry, annual budget allocations to this sector averaged 36% of development expenditure (Mbelle). If we take a more focused look at total manufacturing investment, including both the private and public sector, then machinery imports show a declining relative trend in total imports and their absolute value also remains more or less unchanged as between the first part of the 1980s and the 1990s. The share of manufacturing in GFCF also declined from an average of 25.3% in 1976-80 to 13% in 1986-92. Manufacturing exports have also shown little improvement. In 1981 they contributed 28% to total exports compared to 14% in 1993.

Attempts at economic diversification

Attempts to diversify the Tanzanian economy were made in the wake of the Arusha Declaration through large scale investments in the manufacturing sector during the 1970s. As we have noted, during the peak phase of this policy in 1977-80 an average of 36% of the development budget went to industry. These sizeable investments yielded no structural transformation in the sectoral contribution by manufacturing to the growth of the economy. This may be attributed to declining levels of capacity utilisation in the sector though this was not always the case. In 1970, estimates of capacity utilisation ranged from 70-90% (Skarstein). By 1975, following a significant expansion in manufacturing capacity, utilisation rates fell to 70-85%. Between 1977-80, fixed capital formation in the manufacturing sector increased by 10 billion Tsh, which was based on imported machinery, which amounted to 60% of export earnings in that period and 82% of foreign aid disbursed in that period (Ibid). This augmentation in manufacturing capacity in the 1970s, coincided with a sharp deterioration in capacity utilisation which fell to between 26-29% in 1982. This was due to demand constraints but also to the inability to provide a sufficiency of raw materials to industry, due to severe foreign exchange scarcity prevailing at that time.

The easing of the foreign exchange constraint of the manufacturing sector in the late 1980s, due to an increase in aid and particularly CIS targeted to improve capacity use amongst its other uses, did not make a great deal of difference to the manufacturing sector. Capacity use rose somewhat from 27% in 1986 to an average of 36.5% in the 1990-93 period, but still only attained a level of 36% of installed capacity in 1992 (Mbelle). Between 1977 and 1981, a period of increasingly severe constraints for the sector for access to foreign exchange to sustain its expanding capacity, the proportion of the requests for foreign exchange allocations from the manufacturing sector which could be accomodated for import of raw materials fell from 59% to 6% and for spare parts from 29% to 5% (Skarstein). It is not surprising that capacity utilisation was as low as 26-29% in 1982. In today's open market for foreign exchange, no such problem for the manufacturing sector, of unaccommodated demand for foreign exchange, should arise. Thus if capacity in this sector remains underused it must be due to a different set of variables than applied in the 1978-86 period.

Stagnation in manufacturing investment

The current state of the economy does not suggest that a significant investment in manufacturing industry is taking place. In 1993, an estimated 2.3 billion Tsh was invested in the manufacturing sector (Doriye, 1995). This is an improvement over the 1.4 billion Tsh invested in 1986, but is a long way from the halcyon days of the 1970s when 10 billion Tsh were invested between 1977-80. Given the degree of price inflation between these two periods, the real value of investments in manufacturing are considerably lower in the 1990s than in the late 1970s. Very little aid is now available for creating new capacity in the manufacturing sector, which explains the figures presented in Table 15 which shows that industry's share in the development budget fell to 7% in 1992. Private investment in the manufacturing sector also seems uncertain, given the depressed state of manufacturing as measured in its low rates of output growth. Unless there is a significant change of policy towards the manufacturing sector which can stimulate output, promote domestic investment and bring in foreign investment, the scope for noticeable structural change in the Tanzanian economy seems decidedly limited.

Donor perspective on investment in the manufacturing sector

The donors have attempted to deal with the weakness in the manufacturing sector by concentrating their aid in providing import support. This approach of the donors, derived from a belief that they had been too generous with their project aid to Tanzania's manufacturing sector in the 1970s, argued that their aid had gone into creating white elephants in the Parastatal sector, based on inappropriate investment choice and technology arising out of collusion between the Parastatals and the donors, which had led to inefficient manufacturing enterprises, which, in a highly protective trade regime, had become progressively more inefficient (World Bank, 1990a). Decline in capacity use was thus due to indiscriminate expansion of capacity without any reference to generating export capacity to finance the import of intermediate inputs (Ibid). Low capacity use, which reached its nadir in the early 1980s, was thus the outcome, according to the BWI, of wrong investment choice, inefficient management in the Parastal sector and lack of export earning capacity. This view was not exclusive to the BWI and was also shared by academics working in this area (Skarstein).

The BWI solution to the problem of low capacity use in parastatal industries was to downsize or close down loss-making parastatal industries or to divest them to the private sector. The bilateral donors who had indeed financed the investment in many such units, preferred to address the supply-side problem through the use of aid as CIS which they hoped would, through improved supply of intermediate inputs and spares, help to improve capacity utilisation. There is a substantial and valuable literature on the subject of the import support and how it served to provide a soft budget constraint for the Parastatal programme (Bhaduri, Doriye et. al. 1993, Eriksson). The nature and outcome of this programme need not detain us insofar as it impinges on the fortunes of the manufacturing sector. The outcome of these investments in aid to the manufacturing sector have, however, as we have already observed, not been impressive. In the 1990s capacity utilisation in manufacturing does not seem to have risen noticeably which suggests that lack of intermediate inputs is, today, the least of its problems.

It would appear that today even the bilateral donors have lost faith in keeping the manufacturing Parastatals alive and have preferred to divert their CIS to the OGL pool, leaving the parastatals to access their need for intermediate inputs in the open foreign exchange market. This market-driven demand for CIS imports has however shown little buoyancy since the manufacturing sector today is faced with the more serious problem of lack of demand due to excessive competition from manufactured imports which continue to come in freely under the same CIS system which was designed to stimulate capacity use in local manufacturing enterprises.

In this new environment, where manufacturing growth has stagnated and new investment in industry remains limited, the share of manufacturing in the Tanzanian economy has deteriorated during the last decade. As a result Tanzania must be one of the few DCs where the share of agriculture to GDP has actually risen from 44% in 1980 to 61% in 1992 (World Bank, 1994). However, using 1976 prices, the share of agriculture in GDP has risen rather less slowly from 40% in 1980 to 47% in 1992. This rather perverse rise in the share of agriculture owes less to the dynamism of the agricultural sector than to the stagnation in the manufacturing sector.

The Issue of Economic Diversification

The argument for diversifying the economy

The underlying argument of this paper presented at the outset is that a country with a largely undiversified economy is likely to remain particularly vulnerable to external shocks such as natural disasters and changes in its global trading environment. A diversified economy with a well developed manufacturing sector enables a country to reduce the impact of adverse movements in its terms of trade and to adjust its exports to changes in global demand. A diversified manufacturing base, in particular, enables such economies to respond to changes in global comparative advantage and to find points of entry into the global division of labour suitable to its own comparative advantage. Thus Tanzania's receding capacity to diversify both production capacity and its export structure has limited the export capacity of the economy and imposed both a balance of payments constraint on its growth as well as exposing such growth to a high degree of instability.

Tanzania's aid dependence has thus increased because of the economy's structurally constrained incapacity for enhancing its export earnings and due to the weak potential of its domestic economy for stimulating manufacturing growth because of the poverty of its domestic market. It has been argued that both the poverty of its rural economy and the import constraint arising out of its weak export base has, over the years, undermined the Basic Industrial Strategy (BIS) which underwrote Tanzania's industrialisation drive in the 1970s (Skarstein).

Industrialisation and Self-Reliance

Both Tanzania and Bangladesh, in the aftermath of their independence, attempted to diversify their economies but neither proved to be very successful in this objective though for rather dissimilar reasons. Bangladesh has for certain specific reasons proved more successful in this task of diversification than Tanzania and has, as a result, managed to reduce its degree of external dependence to a greater extent than Tanzania.

Tanzania did make a bold effort to diversify its economy in the wake of the Arusha Declaration. My own understanding of the development strategy associated with the Arusha Declaration is its commitment to the goal of *ujama* or self-reliance. In the Tanzanian context economic diversification was central to the strategy of self-reliance. Tanzania's largely agricultural economy, dependent on a few traditional commodities for providing both livelihood and exports, exposed it to all the problems, in those days, identified with such agricuturally-dependent economies which had been assigned a given place in the global division of labour as determined by their colonial masters. This inherited division of labour, which condemned DCs to exchange their primary commodities for manufactured imports from the AICs, was not only seen as a perpetuation of the colonial economic system but left no opportunity for Tanzania to significantly improve the conditions of life of its people.

The main strategy for breaking out of the colonial mould was, in those days, recognised by both economists and policymakers to be through a strategy of diversifying the production structure under a programme of industrialisation which would raise the share of manufacturing in the economy. Thus virtually every DC managed to raise its manufacturing/ GDP ratio in the 1960s and 1970s. The main difference between the dynamic Asian economies and the backward LICs was the dramatic increase in the manufacturing/GDP ratios of the former category, the East and S.E.Asian 'miracle' countries. In these countries, the share of manufacturing to GDP increased, between 1970 and 1993, from 21% to 29% in South Korea, 30% to 38% in China, from 16% to 28% in Thailand, from 10% to 22% in Indonesia, from 12% to 28% in Malaysia, from 20% to 28% in Singapore (WDR, 1994). The above trends, as well as the prevailing levels of their manufacturing/GDP ratio, may be compared to the evidence of de-industrialisation presented for the LICs of SSA in Table 2.

This strategy aimed, at the outset, to process a country's own raw materials, already being exported, adding value to its exports through drawing upon the availability of abundant, underemployed low-cost labour. Investment in a combination of raw material processing and labour-intensive manufacturing enterprises was seen as the first stage of the industrialisation process. But a number of countries looked beyond this primary industrial stage to a longer term goal of further broadening their industrial base by adding depth through promotion of backward linkages, based on investments in intermediate and capital goods industries. This strategy was critical to the transformation in the fortunes of the East Asian 'tigers', particularly Taiwan, South Korea and Singapore, but was also followed by other DCs such as China, India, Brazil and Mexico (Amsden). The main point of departure between the first and second group of countries lay in the emphasis by the East Asians on export competitiveness for their manufacturing sector and the more inward orientation of the latter group who believed their large domestic markets would sustain a large, diversified, industrial sector. However the latter group never rejected the possibility that the steel, engineering and chemical industry, initially designed to serve a domestic market, would not, at a later stage, evolve into internationally competitive industries. Whilst this turnaround took longer than anticipated because of the inward focus of these large continental economies, China in 1993 was registering exports of $ 92 billion, of which 81% consisted of manufacturing exports (WDR, 1995).

This strategy of backward linked industrial growth was however embraced by a much larger group of much weaker economies, such as Tanzania and Bangladesh, which argued that their industrialisation strategy should also move beyond value addition to their primary exports and concentration on more labour intensive industries, into intermediate and capital goods industries such as fertilisers, engineering, and steel. These smaller countries overlooked the smaller size of their own markets and believed that rapid domestic growth would generate markets for more capital intensive industries.

The donor's contribution to industrialisation

Tanzania and Bangladesh sought and received the assistance of donors who financed investments in textile mills, leather industries, cement, fertilisers, steel, cigarettes and other such sectors. As a result of this goal of promoting backward linkage, Tanzania's share of manufacturing value added from intermediate and capital (I&C) goods industries, rose from 28.6% in 1966 to 59.3% in 1986 when capital goals alone contributed 28.5% of value added (Mbelle). However by 1991 the I&C sector's value added fell to 46.5% and for capital goals to 12.8%, indicating the closure of a number of the industrial units in this sector. In Bangladesh, donors funded investments in the 1960s in jute, textiles, steel, shipbuilding, fertilisers, machine tools, electrical machinery, paper, engineering products. Given the willingness of aid donors to underwrite this broad spectrum of industries, not just in Tanzania and Bangladesh, but across the Third World, it would be a reasonable assumption that these same donors, including the World Bank, at the beginning of the 1970s, shared the belief of President Nyerere that the future of the Tanzanian economy lay in its diversification through investment in manufacturing. In the 1970s, around 20% of foreign aid to Tanzania from the World Bank was in fact directed to the manufacturing sector (World Bank, 1990a). The Basic Industries Strategy (BIS), which was inspired by the writings of the late Justin Reywamu, which provided the base for Tanzania's industrialisation drive, was accepted and indeed supported by the World Bank and most other donors.

Even with hindsight, it would be difficult to fault the post-Arusha strategy of pursuing economic diversification. No one really believed that Tanzania should continue to depend on the cultivation and export, in their natural form, of cotton, sisal, coffee, tobacco and cashew nuts or that Bangladesh could survive as an exporter of raw jute, or its hides and skins. Thus, by the 1960s, Bangladesh was in fact processing its raw jute into jute goods such as sacking, hessian and carpet backing and had, within a decade, made its jute industry into a globally competitive export industry which ended the monopoly of both Dundee and India in the global jute market. At the time of its independence in 1971, more than 50% of Bangladesh's exports were classified as manufactures because of the emergence of the jute industry as Bangladesh's leading export sector. In contrast, Tanzania's manufacturing sector grew very slowly, focused largely on the domestic market, and its export base remained undiversified even at the end of the 1970s, with its primary commodity exports accounting for 64% in 1976-80 (Table 13).

By 1976, Tanzania had raised the share of manufactures in its GDP to 13%, compared to 8% in 1964. However 1976 turned out to be the apogee of Tanzania's development of its manufacturing capacity. In real terms, a period of stagnation in its manufacturing sector set in, followed by absolute decline. By 1993, the share of manufacturing in Tanzania's GDP had actually fallen to 5% and the real value of manufacturing GDP in 1990-94 was, in absolute terms, lower than it was in the 1976-80 period.

The role of the manufacturing sector in Bangladesh

By way of comparison, Bangladesh too went through its own process of de-industrialisation where the manufacturing/GDP ratio stayed constant at around 10/12% between 1972 and 1994 which does not suggest a significant degree of structural change in the economy. In the case of Bangladesh, however, there has been a quite significant growth in the readymade garments industry (RMG) which exploited the export opportunities offered by the Multi Fibre Agreement (MFA). RMG exports in Bangladesh grew from nothing at the beginning of the 1980s to around $2 billion in 1994/95 (Min. Fin, GOB, 1995). Just a decade ago Bangladesh's RMG exports stood at $ 131 million, so that in a decade its exports have increased 16 fold (Financial Express). The RMG sector today accounts for 62% of Bangladesh's commodity export earnings of $ 3.5 billion. The RMG sector today, composed of 2174 enterprises, employs 1.2 million workers, 80% of whom are women (Ibid). Other rising export items from Bangladesh include leather and leather goods, as well as the traditional jute goods sector, so that 82% of Bangladesh's commodity exports are now classified as manufactured goods.

It may be noted that 75% of the RMG export value is based on intermediate imports of fabric and other inputs, so the net value addition of foreign exchange from this sector is around $500 million which is almost as high as Tanzania's total exports. However Bangladesh's main export is now people, through remittances from migrants, which came to $ 1.3 billion in 1994 95, which constitutes 27% of Bangladesh's exports earnings of $ 4.8 billion in 1994/95 (Min. Fin. GOB, 1995). If we take the RMG sector and immigrant remittances together, then two thirds of Bangladesh's net export earnings consist of embodied export of labour, made up of migrant remittances plus labour inputs in the RMG sector (IRBD).

In its present configuration, however, Bangladesh has become highly dependent on RMG exports, not just for export growth where they account, on a gross basis, for two thirds of exports, but also for its manufacturing growth. Thus about 60% of manufacturing output *growth* is now contributed by the RMG sector and 80% of the increment in commodity exports, between 1985-95, came from growth in RMG exports. It appears that the export sector, as well as its manufacturing base in Bangladesh, remains highly concentrated in one sector, and is thus as undiversified as it was 20 years ago when jute and jute goods accounted for 80% of its exports. Bangladesh's future as a fast growing RMG exporter remains highly sensitive to what happens to the RMG market in the post-MFA era which has a life of 10 years, from 1995. It is feared that unless Bangladesh develops substantial depth to its RMG sector by heavy investments in backward linkages to the RMG export sector, it will have a hard time in sustaining its RMG export growth in competition with bigger, more diversified economies with a high degree of backward integration, such as India and China.

As a consequence of the growth of an entirely new export industry, RMG, Bangladesh has protected itself from the consequence of a decline in its once dominant jute industry. This new industry, along with migrant remittances, has increased self-financing of Bangladesh's imports from 56% in 1984/85 to 84% in 1994/95, and has, in the process, contributed to the accumulation of foreign exchange reserves of over $ 3.2 billion as of end June 1995, which provides cover to around seven months of current imports (Ibid). Bangladesh's experience points to the advantage of export diversification based on industrialisation as a basis of entry into the international division of labour, as a mechanism for reducing aid dependency. However it also points to the fragility of the transformation process, due to the as yet undiversified state of Bangladesh's production structure and the lack of depth in its new manufacturing growth (IRBD).

Table 13 shows Tanzania's export economy is now where Bangladesh's was at the time of its independence from British rule in 1947 when over 90% of its exports were derived from raw jute which was then also the mainstay of the export economy of a united Pakistan in which Bangladesh accounted for 54% of the population. Tanzania's primary commodity exports still account for 68% of its exports in 1991-94, compared to 85% in 1976-80. As a consequence Tanzania export/GDP ratio has not changed much since the 1960s and in absolute terms its level of exports in 1991-94, at $429 million, is below what it was in the late 1970s when its exports averaged $ 508 million a year.

The stagnation of its export sector and the lack of diversification in its export base leaves Tanzania, in 1995, as dependent on primary commodity exports as it was at the time of its independence. However the global climate for commodity exports today is much more insecure than it was in the 1960s, due to technological change in the AICs which has reduced significantly the commodity intensity of their production and input base. In constant prices, Tanzania's principal exports, coffee, cotton, tea cashew nuts, tobacco and sisal are all well below the levels they were in the 1980s, as may be seen from Table 16, which also points to the adverse movements in its Terms of Trade (TOT) which has deteriorated from 100 in 1985 to 68.3 in 1986-92. Tanzania is now compelled to push up its traditional commodity exports at a time when their prices are moving downwards in the global market.

The influence of Tanzania's non-traditional primary exports holds some promise, but the volume of such exports is hardly worthy of note. Its dollar value in 1990 was $ 42 million, a big jump from the $ 9.4 million in 1984 but has to be set against the $ 34 million realised by these exports in 1980 (World Bank, 1994d). Indeed, in constant $ prices, non-traditional agricultural exports in 1990 were below levels attained in 1980. If we go further back and combine this with manufacturing and mineral exports, subsumed into the category of 'other exports', these exports have, in constant prices, fallen from $ 345 million in 1969-71 to $ 156 million in 1989-91 and are even below the $ 267 million realised in 1979-81.

The share of 'other exports' has risen from 50% in 1969-71 to just 54% in 1989/91. The belief that illicit exports from minerals is a sign of some new form of export growth which does not enter into the recorded export figures remains again a thin plank on which to plan future export growth. An export strategy based on depleting valuable non-renewable material resources at an undetermined rate, where there is no value addition to such valuable natural resources, seems of dubious value. Nor is it clear that all of the earnings from these resources return to Tanzania in the form of production-generating imports. There is however an enormous potential for export development in this sector but this needs also to add value to the natural resource.

Stuructural atrophy and aid dependency in Tanzania

At the root of Tanzania's structural atrophy remains the attrition in its manufacturing base, where around two-thirds of its extant manufacturing capacity lies idle. Very little new capacity is being created and no attempt is being made to locate a market niche for Tanzania in the evolving global division of labour. Little effort is being made to exploit its comparative advantage, derived from valuable raw materials such as cotton and tobacco, its mineral wealth, including its rich resources of gemstones, or its cheap labour which is, at current exchange rates, almost as cheap as Bangladesh's labour costs of around $ 0.10 per hour. For a country of around 27 million people, with such a wealth of resources at its disposal, to be exposed to a process of de-industralisation is a sure guarantee that aid dependence will persist. It will in fact be discussed in a later part of this paper how far this aid dependence has embedded Tanzania into a development strategy which binds it within a given production structure which will further perpetuate its aid dependence.

Aid Dependency and Loss of control over development priorities

Aid and the rolling plan

This incapacity to diversify its production and export base is likely to expose Tanzania to severe revenue constraints which will make it difficult to reduce its budget deficit. As it stands, Tanzania has, for over decade, been in chronic deficit even in its recurrent budget. This makes Tanzania's development process much more externally dependent than even Bangladesh's, which is at least generating some surplus of revenue over its recurrent expenditures which can finance a growing share of its development budget. The decline in the proportion of Tanzania's development budget which is generated from domestic sources, severely abridges the control retained by the host government over its development priorities.

In the case of Tanzania its prolonged exposure to deficits on current account has meant that its development budget is now entirely hostage to the preferences of its aid donors. As was the case with Bangladesh until every recently, the development budget of Tanzania is today little more than an aggregate of aid funded projects. The tendency today, for countries heavily dependent on aid to finance development, is to move away from agenda-setting five-year plans to three-year *rolling plans*. The premise of the *rolling plan*, which was introduced in Bangladesh around 1990, is that the aid recipient country does not command a predictable source of domestic revenue to realise its development objectives over the five-year plan period. This is a reasonably accurate assumption for Bangladesh. Over successive five-year plan periods in Bangladesh, since its *First Five-Year Plan* was launched in 1973, plan targets have not been met because of exaggerated assumptions about domestic revenue generation and poor implementation of investment targets set for both the private and public sector. The only predictable element in the five-year plans appears to have been the aid committed by the donors. Five-year plans in Bangladesh have thus become something of a wish list where the GOB exercised very limited control over its realisation because of its own weak revenue base. The concept of *rolling plans* is thus a frank recognition by both the donor community and the respective governments of Bangladesh and Tanzania that longer term planning, without accountability for improving domestic resource generation, can only be undertaken at the courtesy of the aid donors.

The *rolling plan*, as distinct from the fixed term plan, keeps the development agenda flexible to allow for variations in the pace with which donors release funds and the capacity of aid recipient governments to use this aid. This also leaves some room for the recipient government to make good on its revenue-generating forecasts.

In practice the *rolling plans* of the GOB and the GOT have been little more than an aggregation of aid funded projects. One of the added consequences of total dependence on donors to underwrite the development budget has been that they now insist that whatever domestic revenues are in fact generated for financing the development plan must be pre-empted in order to provide local counterpart funds for their aided projects. Thus even modest progress in domestic revenue generation, in its initial phase, does little more than ensure that aided projects will be more readily implemented, thereby leaving little scope for projects designed by the recipient government to be given some priority in the development plan.

Bangladesh's recent experience with planning

In the case of Bangladesh, the dominance of the aid-driven *rolling plan* has meant that for the first time since its independence the GOB has not been able to publish a five-year plan, in this case the *Fourth Five-Year Plan*, for the period 1990-95. This plan holiday was, in part, due to the change in government after 1990, when the government, newly elected to office in 1991, could not make up its mind over what to do with the *Fourth Plan* document bequeathed to them by its predecessor government. The new GOB made half-hearted efforts to revise the *Fourth Plan* and eventually let it remain in cold storage. This act of omission in the planning exercise was compounded by the present GOB's failure to then prepare its own *Fifth Five-Year Plan*, for the period 1996-2000 for reasons which remain unexplained. In its place, over the last year, 1994/95, the Bangladesh Planning Commission has engaged itself in preparing a 15-year *Perspective Plan*, based on some process of public consultation, usually with elites at the local level.

Apart from the attendant methodological issues of what is in fact local level planning or how to integrate wish lists of local elites offered from over 60 local areas into a national planning exercise, the resource base of such a long-term planning exercise remains highly speculative. Long term plans, drawn up by one-party 'socialist' governments or indeed the East Asian states, with governments which commanded both long residency in state power and expect to continue to remain in power, make some sense. But 15-year plans, as have just been designed in Bangladesh, drawn up by a regime in its last year of office, with no security that it will return to office beyond the next election, remains a rather academic excercise. Where such a perspective plan is conceived and designed without any consultation with the principal political opposition parties, it remains an exercise in wish fulfillment of the leaders of the Planning Commission, and does not even command the authority of the entire government. In the Bangladesh context, when such a 15-year plan was, in fact, recently presented to the National Economic Council, the supreme economic decision making-body of the GOB, it was put on hold.

Tanzania's Rolling Plan

In the case of Tanzania which has, as was the case with Bangladesh, had a long exposure to the five-year plan tradition, the *Three-Year Rolling Plan* now sets the agenda for future development. The complete incapacity of the GOT to contribute any resources for the development budget now or in the near future means a donor-funded *rolling plan* is likely to remain the only development plan on offer. To give some element of local ownership over the *rolling plan*, the GOT has been persuaded by the BWI to prepare a *Rolling Plan and Forward Budget* (RPFB) for Tanzania for the period 1994/95 - 1996/97. The goals set by the GOT for the RPFB have no pretence to creativity and seem to be taken, in toto, from the *Policy Framework Paper* (PFP) negotiated with the BWI as well as the World Bank's own notions of Tanzania's strategic priorities. The influence of the BWI over the RPFB is captured in Annexure III where the priorities of the RPFB and PFPs are compared to those of the World Bank. This comparative exercise in Annexure III indicates that there is no strategic vision underlying the RPFB nor is there any agenda for structural change for Tanzania. The very conception underlying the RPFB appears to be to carry through the essentially short term BWI structural adjustment agenda and not to break any new ground. The RPFP has thus, by its very nature, set no transformatory goals for the economy. Furthermore, the RPFB's resource forecasts, expenditure targets and national macro-economic targets remain, to say the least, optimistic and depend heavily on donor commitment. This may be seen from the deviation between the targets of the RPFB and the budget for 1995/96, presented by Tanzania's Finance Minister, which is captured in Table 17.

Even in its conception, the RPFB shows no sign that the GOT will generate its own recurrent account surplus, so that the development budget will not only be starved of local resources but will depend on the goodwill of the donors. Table 17 shows that the share of development to total expenditure, which was as low as 15% in 1993/94 is, under the RPFB, expected to rise to only 29.7% in 1996/97. This lack of resources which can be diverted for development has to keep in mind that in real terms, Table 7 has shown that development expenditure has, on average, in the 1990s, been 71% of what it was in the 1981-86 period and 32.5% of what it was in the late 1970s. Total Public Expenditure in the 1990s, in real terms, is indeed lower than it was in the late 1970s. But the diminution in the development components of the TPE has been much more severe than it has been for recurrent expenditure. Thus, at the outset of its RPFB, Tanzania faces a strangulation of its development programmes, with only limited prospects for improvement in the development effort over the next few years. The resultant depreciation in the capacity of the GOT to accelerate development means that Tanzania must remain without a vision for its future and that whatever effort is made to think ahead must depend on the goodwill of the donors. Thus even the future for Tanzania appears to have been appropriated by its donors.

The fact that even in 1996/97 Tanzania will not generate any surplus on its recurrent budget, which will be financed to the extent of 30% by aid and this aid will in fact exceed the recurrent deficit, suggests that the donors will also be in command of the recurrent budget. The price of donor dependence for financing the recurrent budget is to ensure that they will continue to play a dominant role in setting the agenda for short-term policymaking as well as longer term development priorities. Since donor priorities do not include any move to create the structural basis for building a more diversified economy, Tanzania is likely to be moving into the 21st century with no noticeable reduction in its aid dependency.

Prospects for Direct Foreign Investment

This weak structural base of the Tanzanian economy and the fact that the scope for development expenditure for improving the infrastructure of the economy is likely to remain constrained, suggests that Tanzania is not going to be a particularly attractive place for direct foreign investment (DFI) which, in the last five years, has been virtually negligible. Lack of interest by foreign investors has already compromised the donor-driven privatisation policy for the Parastatals. Prospective investors are reluctant to invest in an economy with such a weak revenue and production base.

Here again it is worth noting that Bangladesh has been relatively unsuccessful in attracting DFI. Up to the end of the 1980s, the more liberalised policy to attract foreign investors in fact contributed to a net outflow of resources on private account through remittances of capital and profits by existing foreign investors. In 1993/94, under an even more open regime, DFI still amounted to only 1.3% of total external resource inflows into Bangladesh (IRBD). The bulk of the modest inflows of foreign investment which enter Bangladesh today still come in on portfolio account to take advantage of the opening of Bangladesh's capital market.

It is argued that DFI tends to be attracted to the more diversified economies of East and S.E. Asia, China, India and to the more mature economies in Latin America. In the African context it is the more diversified economy of South Africa which may serve as a magnet for DFI. Tanzania, in its present configuration, will attract only the crumbs from the investors' table. Indeed much of this limited investment coming to Tanzania may not come in directly but via South Africa. In the same way, Bangladesh may attract DFI via its larger neighbour, India, rather than directly from the multinationals. Under a regime of import liberalisation, several resident multinational companies have pulled out of Bangladesh or are planning to do so. Some of these enterprises expect to service the Bangladesh economy from their much larger production facilities in India, from where they can avail of the ready access to the Bangladesh market provided by its donor-driven strategy of import liberalisation.

An interesting parallel to the Bangladesh experience with its larger neighbours seems to be emerging in Tanzania. The opening up of the Tanzanian market has already made it attractive to multinationals based in neighbouring countries. Thus the Cadbury's chocolate now found in local stores in Dar Es Salaam is made in the Cadbury's plant in Nairobi just as Cadbury's chocolate in Dhaka comes not from England but largely from its plant in India. Other multinationals may use their corporate bases in neighbouring countries such as South Africa to invest in Tanzania and other SSA countries. In the same way, some of the more substantial white-owned corporations of South Africa may look to Tanzania and its neighbours as an investment outlet to use their lower cost labour. However there seems little evidence today to bank on sizeable inflows of DFI into Tanzania which may not thus be expected to contribute to a noticeable diversification of its economy.

The Social Structure

Tanzania's entrepreneurial inheritance

Structural constraints to development do not apply only to the economy but derive from the society in which the economy is located. Promoting economic development is not just about expanding the physical components of productive capacity but must take account of the agents of production, drawn from the human resource base and entrepreneurial capacities of a society. In the case of Tanzania, it must be recognised that its colonial inheritance left little opportunity for the development of an indigenous entrepreneurial class or to build a substantial human resource base. The more modern component of the business sector, in the way of plantations and primary commodity exports, was dominated by British/European capital. In the social space available in a colonial economy, a small Asian bourgeoisie had acquired some prominence in not just Tanzania, but throughout East Africa, in Kenya and Uganda. At the time of Tanzania's independence, the Asians were thus dominant in the local business community and were the natural heirs of the business opportunities vacated by the departing European business community in the post-colonial era. In contrast the African local population remained as 'hewers of wood, drawers of water and tillers of soil', with a small class of educated Africans occupying the lower echelons of the colonial bureaucracy.

When the post-colonial African leaders thus planned for a strategy of self-reliance, they did not merely have in mind delinking their economies from the apron strings of the metropolitan country but also hoped to enable Africans to acquire greater control over the domestic economy both through expanding their ownership of the economy and through investment in its human resource base. However, any such move to indigenise the control over the local economy is not just a question of policy choice or changing the direction of official patronage but depends on the socio-cultural traditions of a society as well as its institutional arrangements to manage the economy. Where a class of people with an established tradition of trade and enterprise are at hand in a DC, this class inevitably comes to the fore in the post-colonial period. The presence of such communities in DCs is not ethnically determined but has its roots in the inherited divisions of labour bequeathed by a country's historical experience which conditions the social attitudes and behaviour of particular ethnic groups. The Chinese in South East Asia, the Marwaris, Gujratis and Parsis in India, the Memons, Ismailis and Chiniotis in Pakistan, the Ibos in Nigeria, are all examples of ethnic groups with an inherited tradition of entrepreneurship.

It is argued in this paper that a country's entrepreneurial stock at any given moment of time is thus not a variable, derived from policy changes, but an inherited constant. Over a longer period of time this entrepreneurial constant can be turned into a variable through policy and institutional interventions. Africa's colonial inheritance left it without any African entrepreneurial class which imposed its own structural constraints on its plans to industrialise their economies. This inheritance can be changed over time. But this cannot happen overnight without significant institutional changes, and even after such interventions the process of change may not always prove to be sustainable.

In the case of Tanzania its local entrepreneurial class was largely of Asian origin. Even though many of these Asians fought side by side with Mwalimu Julius Nyerere for the country's independence, in the mind of the majority of Africans the Asian community in Tanzania, as indeed in East Africa, was seen as a class apart. This issue of ethnic identity in Tanzania is a highly sensitive subject on which I am not qualified to comment. But without prejudice to the many Asians who have committed their loyalties and finances to the development of the country of their birth, it is apparent to even the casual visitor that Tanzanian Africans remain uncomfortable with the dominant position of the Asians in the business community, even today.

It would appear that the post-colonial regime in Tanzania headed by President Nyerere, was not willing to wait for an indigenous entrepreneurial class to emerge out of the impressive efforts made by the GOT to invest in human development or to train up a new African managerial, bureaucratic and entrepreneureal elite. The goal of capturing control of the economy in local hands had become a transcendental goal of the leadership and could only be realised through the institutional instrument of the state which was the one part of the ruling structure under the control of Africans.

Nationalisation and Indigenisation

The consequential extension of the control over the Tanzanian economy was realised by a programme of extensive nationalisation of the commanding heights of the economy. Given the dominance of the Asians in the post colonial economy of Tanzania, following the Arusha declaration the main brunt of the nationalisation policy fell on the Asian community. Plantations, some factories, trading establishments, shops, and even residential establishments owned by Asians were nationalised. In the Tanzanian context, nationalisation thus emerged as part of an agenda of Africanisation, with a black bureaucratic bourgeoisie capturing control of the economy from the Asian commercial bourgeoisie. This perspective was not unique to Tanzania and took place in a more extreme and brutal form in Uganda when Idi Amin physically expelled a large segment of the Asian community from the country of their birth.

To replace Asian entrepreneurs with African bureaucrats did not however guarantee an early transformation in the industrial culture of Tanzania and indeed may have generated negative costs in terms of the managerial efficiency of the taken-over enterprise. Unlike many other societies which embarked on an extension of state ownership, Tanzania, at that time, did not even have an established African bureaucratic or professional class to take over the nationalised enterprises and in many cases had to invite the former Asian owners of the taken-over enterprise to stay on and run the enterprise after its nationalisation. This move did not guarantee that a motivated cadre of public sector managers would be created from the former Asian owners of these enterprises. Indeed, the more durable consequence of such an ethnically-driven strategy of nationalisation was its disincentive effect on further investment activity by the dispossessed Asian community.

Bangladesh's move to nationalisation

In Tanzania the move to nationalise the economy thus became synonymous with the goal of putting Africans in command of the local economic space. Though, as we saw, even this did not always take place in many of its nationalised enterprises. In this move there is an interesting analogy between the Tanzanian inheritance and the Bangladeshi experience. In Bangladesh, which was part of Pakistan up to 1971, the local economy, in the areas of private industry, banking, insurance, foreign and interregional trade, wholesale trade and even many bigger retail establishments, was owned and usually managed by a non-indigenous bourgeoisie. As in Tanzania, the local Bengali population, from the period of British rule, had kept away from business and the educated middle class opted for employment in government service and the professions (Sobhan and Ahmad, 1980). As a result, the economic space in the post colonial period in East Pakistan, now Bangladesh, was rapidly occupied by a non-local business elite, drawn from a few ethnic groups such as the Memons, Ismailis and Chiniotis who had been active in business throughout undivided India during the period of British rule (Ibid).

Within this non Bengali dominated economy, Bengali entrepreneurial capacity, particularly amongst the dominant Muslim community, remained underdeveloped. However, in the 1960s, under heavy patronage of state run development financing institutions (DFI), a small Bengali business class began to emerge. Notwithstanding such efforts to build a local business class, by 1971 this indigenous class controlled only 18% of manufacturing assets, whereas 47% of assets were owned by non-Bengalis (Sobhan and Ahmed).

The provincial government of East Pakistan, in the 1960s, had put much faith in public enterprise as an institutional instrument for recapturing local control over the economy. Through the state owned East Pakistan Industrial Development Corporation (EPIDC), the state, backed by a liberal provision of aid funds, invested heavily in the capital and intermediate goods sector in Bangladesh, and in joint ventures with indigenous Bengali entrepreneurs in the jute industry which had hitherto been monopolised by non-Bengali private entrepreneurs. As a result of these investments by the EPIDC, 34% of the manufacturing assets in Bangladesh, at the time of its independence in 1971, were in the public sector.

In the wake of a bloody war of independence, which in considerable measure originated in the unsatisfied demand by the majority Bengali community in Pakistan to establish autonomy over their administrative and economic space, when Bangladesh was liberated from the occupation of the Pakistan army on 16 December, 1971, virtually the entire non-Bengali business community fled Bangladesh, physically abandoning their factories and business establishments. The post-liberation government in Bangladesh was thus forced to take over 47% of the assets in the modern manufacturing sector. If we include the 34% of manufacturing assets owned by the EPIDC, the state sector found itself in control of 81% of the modern manufacturing sector just after independence. In addition it also had to take over most of the banks, insurance companies, trading and retail establishments owned by the departed non-Bengalis. This extension of the role of the state in post-liberation Bangladesh was carried through in the name of 'socialism'. Thus some Bengali-owned establishments in the jute, textiles, banking and insurance sectors owned by the embryo local bourgeoise which had emerged in the 1960s were also taken over which further extended the span of the state in the Bangladesh economy. But the main dynamic behind the extension of state control over the Bangladesh economy in 1972 was driven by the entrepreneurial vacuum created by the abrupt departure of the non-Bengali business community. In this respect the growth of the state sector in Bangladesh bears closer resemblance to the experience of Portuguese ruled Angola and Mozambique or French- ruled Algeria, where the abrupt pull out of the metropolitan business community, in the wake of bloody wars of liberation, led to the expansion of state ownership. In contrast, a more deliberate nationalisation policy was pursued in Tanzania after 1967 with the objective of both assuming control of the commanding heights of the economy and indigenising its control.

The historical inheritance and contemporary policy reforms

In Bangladesh, as in Mozambique, Angola, Algeria and also in Tanzania, there was no way that the embryonic or even non-existent indigenous bourgeoisie could take over the enterprises vacated by the expatriate business community. Thus state-run economies emerged as an outcome of a given social inheritance rather than just from an ideologically-driven agenda. Those donors, and even local analysts, who today, with the advantage of hindsight, decry the extension of the state into the business sector, tend to forget the social psychology of the post-colonial era, driven by the strong urge of peoples long exposed to external domination, to recapture control over their economies. In this environment the pro-active or *demiurgic* state emerged to fill the entrepreneurial vacuum created by a departing expatriate bourgeoisie and a weak or non-existent indigenous business class.

It is this same inheritance which now constrains Tanzanian efforts to retreat, through a process of privatisation, from what is deemed to be an over-extended state. There is very little in the way of an African bourgeoisie at hand today in Tanzania to take over the large enterprises owned by the Parastatal sector. Some Africans have emerged, drawn from local communities with a tradition of petty trade. Others have emerged backed by heavy state patronage. But the main beneficiaries of an agenda of privatisation and promotion of private enterprise in Tanzania remain the Asian community, many of whom, unlike the situation in Uganda, stayed on in Tanzania even after many Asian properties were nationalised. Most of what remained of private industry in Tanzania after the nationalisations remained owned by the Asians. Some of these business houses made sizeable investments in manufacturing capacity even at the height of Tanzania's socialist era.

In the new policy environment to promote private sector development, it is thus the Asian business community which has emerged as the dominant player under the regime of trade liberalisation. The Asian community, on the basis of anecdotal evidence, appear to have been the principal importers, under the 'own funds import' scheme, in place since 1984, and amongst the private importers, under the CIS and OGL schemes. Ironically it is again Asian entrepreneurs who are also dominant in the private industrial sector, who are being victimised by the regime of easy and often untaxed imports flooding the local market. As a consequence many Asian business houses, already in industry, have diversified into trade if they had not already done so in the past, and appear inclined to keep their capital as liquid as possible, invested in trade rather than in new industry.

Some members of the Asian community, with whom I had some discussions, argue that a policy environment, based on free and untaxed imports, is not conducive to investment in industry and may lead to the closure of many industries which are still in operation. Furthermore, the sense of political security demanded of businessmen hitherto involved in trade, with considerable capital invested abroad, to relocate their capital in fixed assets in Tanzania yielding a pay-off in the long run, is not there in the minds of the Asian community, which still remain haunted by their experience over the 1970s. Whilst 'socialism' no longer appeared to be on the agenda of any of the major parties which contested the recent elections, rhetoric on the prospects of a renewed Asian dominance of the economy has entered the political vocabulary of a number of major political figures. None of these politicians spell out what they will do to arrest the re ascendancy of the Asian business community over the growing private sector beyond making vague promises to promote business opportunities for Africans. However, such electoral posturings, with an ethnic rather than a class dimension, do little to stimulate the confidence needed to transform Asian traders into Tanzanian industrialists.

This contradiction in the psyche of the Asian business community is likely to slow down the agenda for privatisation since Africans are not taking too kindly to state-owned enterprises owned, at least, by an African state, being taken over by either Asian traders or white South African corporations. Attempts to take on token African partners, usually with strong political connections, are now favoured as a protective measure by some Asian businessmen, in the same way that Chinese entrepreneurs, even in Indonesia, gave themselves a protective colouring by entering into partnership with politically powerful locals or *bhumiputras*.

Structural interventions for structural transformation

This attempt by Tanzanian Asians to 'Africanise' their enterprises is still too cosmetic in its appearance to carry conviction. Bringing Africans into business will need rather more structural solutions to be put in place than anything on offer by either the GOT or the donors to address the sub surface tensions which could undermine not just the privatisation programme in Tanzania, but also any move towards structural diversification through industrialisation. It may be pointed out that similar problems are facing the Mandela government in the *new* South Africa where it will have to find institutionally creative solutions to give a stake to the majority African community in what is yet a completely white-dominated economy (Sobhan, 1995c). As suggested by the writer in his paper on South Africa, Tanzania may also need to explore institutional rather than policy based solutions, on the lines pursued by Malaysia, in raising the stake of their *Bhumiputras* over their economy vis-a-vis the Chinese community which traditionally dominated local business (Jomo, Salleh).

In a situation where growth and diversification of the manufacturing sector is constrained by the prevalent social structures of Tanzanian society, any policy agenda which forecloses the role of public enterprise in expanding the frontiers of the industrial economy may need rethinking. If in fact in the near future the only agent who can promote industrialisation in Tanzania, whether as *demiurge* or *midwife*, to use the concepts of the 'embedded' autonomy school (Evans, 1985), is the state, then we need to rethink the role of the state (Sobhan, 1993b). This may need to explore ways of making the state a more effective economic agent than it is or has been, rather than to abolish it and to wait until the private sector comes forward to perform its historic task of transforming the economy.

Given Tanzania's unhappy experience with its Parastatals, any idea of an expanded role for the state remains anathema not just to the BWI but most other donors and indeed to many Tanzanian academics (Bagachwa, Mbelle, Van Arkadie). But if Tanzania cannot find a way to revive at least some capacity for state enterprise it may well have to settle for a prolonged period of stagnation in its manufacturing sector. Any significant growth in the manufacturing sector, if it is to reach levels where it can contribute to a diversification of Tanzania's export base, can, in the near future, only be realised within a private sector driven industrialisation strategy, through a political acceptance in Tanzania of further control of Asians and white South Africans over its economy. If this further Asianisation of the Tanzanian economic space remains politically unacceptable in a 'democratic Tanzania', then, in the absence of more innovative re-thinking over the role of the state, structural atrophy remains a likely prospect for Tanzania in the foreseeable future.

New private entrepreneurial capacity in contemporary Bangladesh

In contrast to Tanzania, Bangladesh has developed some local entrepreneurial capacity which has spearheaded its own structural transformation. Unlike Tanzania, Bangladesh's 'socialist' episode was short-lived, ending with the assassination of the founding father, Sheikh Mujibur Rahman, then President, and the overthrow of his ruling party by a military coup in 1975. Successive regimes, led by army generals who in turn shed their uniforms to become civilian leaders, committed themselves, under the instigation of the BWI, to promote private enterprise. In the early phase, 1976-81, this privatisation process largely consisted of using the DFIs to mediate to the private sector large doses of loanable funds provided by the donors. The World Bank believed that an enabling environment, lubricated with a liberal provision of such loanable funds, would lead to a surge of private entrepreneurship from local entrepreneurs long frustrated by Bangladesh's brief encounter with Socialism.

In fact this donor-promoted period of state-sponsored entrepreneurship ended in a minor financial crisis, with large scale defaults being incurred by the DFIs. An immature entrepreneurial class, operating in a lax financial regime, floated projects of dubious marketability, based on a highly leveraged capital base. This collusion between weak governance and weak entrepreneurship ended with over 90% of borrowers defaulting on their loans and overdues on these loans reaching 90% of the total recoverable amount (Sobhan, 1990a).

Not satisfied with this encounter with state-patronised entrepreneurship, the donors pushed through a programme of large scale privatisation which divested over 700 state enterprises and reduced the size of the public sector from 85% of manufacturing assets to 40% by the mid 1980s. Unfortunately, the privatisation process, premised on the same exaggerated assumptions about entrepreneurial capacity in Bangladesh that informed the DFI lending strategy, led to over 50% of the disinvested enterprises going out of business, and many of those that survived doing so by defaulting on their obligations to the banks. Bangladesh's experience with bank privatisation was no more promising, with considerable evidence of insider trading and loan classification ratios of private banks deteriorating to levels which were even higher than for the nationalised commercial banks (Choudhury). This experience with debt default led to a suspension of lending by aid donors to the DFIs and a marked deceleration in private investment in the 1980s.

The area where private investment in Bangladesh did flourish was in the garment sector. Operating within an environment of overseas markets, guaranteed under the MFA, small/medium sized local entrepreneurs emerged to set up modest-sized garment factories employing around 300/400 people. Some South Korean *chaebols*, such as the Daiwoo corporation, which had run up against MFA quota-ceilings in the US market, initially came to Bangladesh seeking to use its quota in the US market to find outlets for Korean fabrics. However once Bangladeshis demonstrated their skills at converting such fabrics into quality RMG, other overseas buyers arrived on the local scene. These overseas buyers located the RMG markets in the overseas markets, provided the designs, sourced the intermediate inputs and delivered these inputs to Bangladeshi RMG enterprises under a system of *back to-back letters of credit*, which both reduced the local entrepreneur's capital investment and cut out hassles with the Bangladesh Customs authorities. Today, in Bangladesh, there are 2174 private enterprises operating in the RMG business, of whom some have emerged as sizeable corporate entities owning several enterprises. Some of these bigger enterprises are now doing their own marketing, moving into products and markets outside the cover of the MFA. A few of these local entrepreneurs are now investing in backward linkages into state-of-the art spinning mills, and a very few into much larger integrated fabric manufacturing enterprises. At the moment, 10 new textile mills, with a capacity to produce 230 million yards of fabric, are coming into operation, some with investments involving more than $100 million (Financial Express). However this new capacity, when it comes on stream, will still supply only 13% of the estimated 1.8 billion yards of fabric currently consumed by Bangladesh's RMG industry, now mostly supplied from overseas sources.

A recent innovative entrepreneurial initiative in the RMG sector in Bangladesh has come from the globally famous *Grameen Bank* and from *BRAC*, the country's largest NGO and perhaps one of the world's largest. Both these organisations are using their grassroots organisational links with local handloom weavers to upgrade their technology and to link up the rural-based weavers with the export-oriented RMG sector to substitute local handloom fabrics for imported fabrics. If this initiative proves both fruitful as well as sustainable, it could have revolutionary implications for a structural transformation of Bangladesh's rural economy by intregrating thousands of poor handloom weavers with Bangladesh's fastest growing modern industry and thereby with the world market.

It is arguable that private enterprise of an appropriate scale, with minimal demands on capital, technology and managerial skills, located in a defined global market niche, can in fact develop and prosper in many DCs. However a strategy based exclusively on private enterprise investment has delayed the process of backward integration in DCs such as Bangladesh and Tanzania where local entrepreneurs were much less forthcoming to risk investments in the more capital, management and technology intensive yarn and fabric producing enterprises supplying the RMG industry. Nor did they seek out the supply potentials of the local handloom sector but had to leave this initiative to the NGO sector

This delayed process of backward integration, which needed to be put in place at least a decade ago, has cost Bangladesh heavily in foregone export earnings, since value addition from RMG is only about 25% of export value. Indeed it is argued that since Bangladesh's RMG industry needs 1.8 billion yds of fabric, India's textile industry, exporting its fabrics to Bangladesh's RMG units, probably derives as much foreign exchange earnings from Bangladesh's RMG exports as is retained by Bangladesh. It is further argued, that an enabling role played by the state to both invest in integrated textile mills directly or in collaboration with the private sector and/or foreign investors, or at least to play a more active role of *midwife* to private entrepreneurs, could in the last 10 years have retained a much larger share of RMG export earnings within Bangladesh than was in practice retained. But the GOB was not only embargoed by donor pressure not to invest in the public sector but let the textile mills under public ownership run down to the point where most public textile mills today remain loss-making units. Strangely enough the textile sector, in the years immediately following its nationalisation in 1972, remained quite profitable under public enterprise and set up a number of new, modern textile mills. In recent years losses of public sector textile mills have increased sharply and they have, so far, done little to modernise themselves to exploit a captive market within the RMG sector. The private sector textile mills, after their denationalisation, have similarly languished and have remained backward, loss making monuments to lost opportunities. The BWI's ideologically driven agenda to improve the efficiency of the textile and jute industries of Bangladesh, through a major programme of denationalisation, has largely proved incapable of delivering the goods (Sobhan, 1993a). Both the denationalised jute and textile industries continue to make losses which have had to be underwritten by the state (Ibid).

Thus a process of structural change demands both a strategic vision on the part of the state, the NGO sector and even local entrepreneurs, to meet all the needs of Bangladesh's RMG industry. A policy which is dictated by the available capacities of the private entrepreneurial class, and inaction by the state, could thus be a recipe for structural atrophy or at least a retardation of the pace of structural change in Bangladesh or other DCs.

5. THE AID RELATIONSHIP

Periodising the Relationship

Tanzania's aid relations may be divided into three phases, each with some element of overlap. The first may be characterised as the period of local ownership, where the GOT largely influenced the tenor of relations with the donor. The second period, around 1980-86, may be seen as the period of confrontation between the GOT and the donors to determine who was in charge of the relationship. The final phase, associated with the post-ERP era, is one of donors in the ascendant and Tanzania increasingly in the role of taker of aid and policy direction.

The Period of Local Ownership

The leader's vision

Given the excessively dependent nature of the Tanzanian economy many people forget that Tanzania, from the outset of its independence, for nearly a decade and a half, was largely in command of its own development agenda. The country was led by a charismatic President, imbued with a sense of vision for the future of his country, which not only inspired his party and citizens, but much of the Third World. Even aid donors listened to the voice of the Mwalimu with respect and were excited by his vision for promoting self-reliance, eradicating poverty and taking development to the grass roots. It is not intended to discuss the merits of Mwalimu's vision for Tanzania, which has been done extensively by many scholars of diverse persuasions (Legum, Hedlund and Lundahl). What is emphasised is the fact that Tanzania has been through a phase where its policymakers, from the President downwards, were moved by a sense of purpose which was initially shared by the aid donors. Even the World Bank, in the 1970s, accepted that the state would play the modernising role through the medium of planned development (World Bank, 1990a). The Bank accepted Nyerere's strategy of villagisation, shared his commitment towards industrialisation and invested heavily in public sector industrial enterprises. Robert Macnamara, the President of the World Bank during the 1970s, enjoyed a close relationship with President Nyerere and saw him as a vanguard figure amongst Third World leaders in accelerating rural development and reducing poverty in their countries. The World Bank proclaimed Tanzania as a country on which it would concentrate its assistance (Ibid).

Whatever enthusiasm may have been registered by Macnamara about the vision of Mwalimu, during the 1970s the Bank was never a big player in Tanzania and its share of aid amounted to only 7.4% of all aid flows to Tanzania (see Table 14). During the 1970s Mwalimu's vision of socialism was thus largely underwritten by the *social democratic* regimes in power in the Nordic countries and by the Netherlands, who together provided 45.4% of total aid flows to Tanzania (Table 14). Sweden alone contributed 18% of all aid flows to Tanzania in the 1970s. Indeed for a number of Nordic countries, Tanzania was their principal recipient of aid.

The 1970s was the era when Nordic researchers flooded Tanzania in a voyage of self- discovery where they opted to contribute to the building of the new egalitarian society being forged there under the vision of Mwalimu. Sitting as far away as Bangladesh, the writer, along with his academic colleagues who had just set up the first Planning Commission in independent Bangladesh in 1972, drew upon the Arusha declaration and the inspirational declarations of Mwalimu in seeking guidance for the agenda they were seeking to put in place for the new Bangladesh. *Mwalimu*, a term which is derived from the Arabic word, *Mwalim*, meaning teacher, was thus a teacher not just to his own people in Tanzania, but for much of the Third World, moved by their own dreams of self-reliant development.

Nordic/Dutch support indeed served to underwrite Mwalimu's vision during the 1970s and to do so with remarkably little political cost. The Nordics felt privileged to give aid to Tanzania, did not dream of attaching conditionalities and, as some have argued, felt too embarrassed to even comment on some of the visible malfunctions in Tanzania's developmental model.

Bangladesh's contrasting experience with the donors

The euphoric nature of Tanzania's relations with its donors was in marked contrast to the rather jaundiced view taken by the donors towards Bangladesh's pretensions towards moving towards 'socialism', following its nationalisation programme enacted in March 1972 and through the First Five-Year Plan prepared by the Bangladesh Planning Commission by mid-1973. The Nordics did indeed contribute some aid to Bangladesh's development but lagged well behind the multilateral donors and the United States in their support to Bangladesh. Nordic's remained supportive of Bangladesh in this early 'romantic' epoch of its development and did not readily gang up with the BWI-led donors to pressurise Bangladesh (Sobhan, 1984). The Nordic donors, in fact, tended to compare Bangladesh's gestures of 'socialism' rather unfavourably with their then expectations from Tanzania.

The high profile of the Nordic/Dutch entente in maintaining aid flows to Tanzania by implication accepted Tanzania's development strategy, including its programme of nationalisation and villagisation and its expenditure priorities which favoured investments in Parastatal industries. During the period of the oil crisis, when all Third World countries experienced a severe deterioration in their terms of trade, Tanzania was saved from bearing too much of the cost of the first oil shock by its Nordic patrons who stepped up aid to Tanzania. Thus in 1974/75, total aid flows to Tanzania increased by 26.3% compared to the previous two years.

In contrast to their treatment of Tanzania, Bangladesh was punished by its aid donors at a time when the costs of the oil shock eroded its GDP by 6.5% and the most severe floods in contemporary memory led to a fall in its rice crop (Sobhan, 1984). In 1973/74, in fact the size of aid flows to Bangladesh fell to $ 461.2 million from the $ 551.4 million disbursed in 1972/73, with the main cuts being imposed by the World Bank and the western aid donors. The United States chose this crisis period for Bangladesh, in 1974, of severe foreign exchange scarcity and natural disaster, to suspend food aid to Bangladesh on the grounds that it had contracted to export $ 10 million worth of jute goods to Cuba (Ibid). At that very moment, under the advice of the State Department, a waiver had been given to Egypt under the provisions of the relevant US Congressional Act, even though it had been a longer standing and more active trading partner of Cuba. The outcome of the US suspension of already committed food aid was a severe famine which may have cost some 100,000 lives because Bangladesh had, over the last decade, been heavily dependent on US food aid to sustain its public food distribution system (Ibid). During 1973/74 the World Bank wrote a highly damaging comment on Bangladesh's First-Five Year Plan, backed by a sharp deceleration in its aid disbursements (Ibid).

The end result of BWI pressure, at that time, was to compel Bangladesh, of its own initiative, to move towards a devaluation of its currency, impose severe monetary restraints, and to open up opportunities for the private sector. By comparison, such severe adjustments were not demanded of Tanzania out of its own needs or by its donors till the end of the 1970s, because compensatory aid flows were then quite adequate to Tanzania's needs.

In recompense for Bangladesh's accommodation with the donors, aid flows were once again stepped up by the end of 1974. Food aid was also resumed. But all these measures of restitution of aid came too late to benefit the incumbent regime which was usurped from power in August 1975. However the rewards from the resumption of aid were reaped by its successor regime, in 1975/76, who tasted the fruits of an economic revival put in place by its predecessor regime's political sacrifices and accommodation with the donors (Ibid).

The period of confrontation

The encounter with the IMF

In the case of Tanzania, a visible deceleration in economic performance had become visible from the mid-1970s, in spite of the rise in the volume and share of aid in relation to both the GOT's budget and GDP. This indicated a decline in the efficiency of aid use which was already visible in the deterioration in capacity utilisation in the Parastatal sector. It is again notable that at the very time that capacity use was deteriorating, donors were providing additional aid to set up new public sector manufacturing ventures in Tanzania (Skarstein).

By the end of the 1970s Tanzania's extended honeymoon with the aid donors was rapidly coming to an end. The Tanzanian economy had been exposed to severe shocks during this period in the wake of the collapse of coffee prices, the heavy cost imposed upon it by the break-up of the East African community and the added costs of their war with Uganda. The second oil crisis of 1979, conjoint with these shocks, exposed Tanzania to a sharp deterioration in its terms of trade. Tanzania's foreign exchange reserves had already been severely depleted by a heavy run of imports in 1977/78, following an episode of import liberalisation under pressure from the World Bank to use its earnings from the coffee boom to deregulate imports (World Bank, 1990a). Attempts by the GOT to obtain some compensatory financing from the IMF under its Extended Fund Facility (EFF) became much more problematic, since the IMF insisted on a severe measure of currency devaluation of the Tshilling and monetary austerity as the price for its support (Ewald).

In that period the Tanzanian leadership, notwithstanding its critical economic circumstances, was still politically self-assertive enough for President Nyerere to state in a public speech before the diplomatic community in Dar, on January 1, 1980, that he perceived IMF attempts to exploit Tanzania's balance of payments difficulties as 'strange and repugnant'. He said, 'Tanzania was ready to accept IMF conditions to ensure that such aid was not misused, but it expected these conditions to be *non-ideological (italics mine)* ... the government was not ready to devalue just because this is a traditional free market solution. It was not prepared to surrender the quantitative restrictions that ensure the importation of essential commodities, rather than luxuries, or to control inflation through monetary means only, regardless of the effect of such actions on the poor. If compliance with the IMF means surrender of socialist principles, the Government would dispense with IMF help', (quoted in World Bank, 1990a, p. 43). *Mwalimu* obviously felt that he was taking a principled stand, since the GOT, at that point, viewed the travails of the Tanzanian economy as derived from exogenous factors for which donor agencies should be willing to provide compensatory finance, rather than to use the occasion to impose their own pet solutions on a DC government.

Mwalimu's principled stand against the IMF is evocative of a similar episode in Bangladesh's relations with the aid donors during the first aid consortium meeting convened by the Bangladesh Planning Commission in Dhaka in March 1973. On that occasion the World Bank mobilised some of the principal western donors (not the Nordics) to put pressure on the GOB to accept some inherited debt liabilities shared with Pakistan which the GOB was unwilling to do until Pakistan recognised its sovereignty. When the Bank led some donors to threaten to withold aid unless Bangladesh complied with what the GOB saw was a politically partisan request, the then Prime Minister of Bangladesh, Bangabandhu Shaikh Mujibur Rahman, with the political mandate of a recent massive electoral victory behind him, could tell the donors that Bangladesh would refuse aid rather than compromise on its strategic interests (Sobhan, 1984). The donors eventually backed down but extracted a heavier price from Bangladesh during the more critical days of 1974 when both the resource position as well as the political authority of the regime had been substantially eroded (Ibid).

It was a measure of *Mwalimu's* authority in the international community (as it was of Mujibur Rahman in his own country in 1973) and the nature of Tanzania's relations with its donors, that *Mwalimu* could take such a categorical position, given the state of the Tanzanian economy at that time. However this confrontation with the IMF brought no relief to Tanzania. The GOT was exposed to pressure from the World Bank, which was just moving into its own phase of conditional lending, to come to an accommodation with the IMF, if the request for programme aid from the World Bank by the GOT was to be accommodated (World Bank 1990a). This move by the Bank to side with the IMF in putting pressure on Tanzania to reform its policies coincided with the retirement of Macnamara as President of the World Bank and his succession by Mr. Clausen, a former President of the Bank of America. This phase also coincided with the arrival in the White House of President Ronald Reagan with his evangelical commitment to marketise the world economy.

Compensatory financing

Notwithstanding its confrontation with the BWI, Tanzania continued to receive a sufficiency of aid from the donors in this crisis period. Aid disbursements during the period, 1979-82, rose from $ 424 million in 1978 to a record $ 695 million 1982, amounting to $ 2.6 billion over these 4 years, averaging $ 655 million a year. Tanzania's aid/import and aid/export ratios attained their highest level recorded since independence during this period (Table 15). Both bilateral and multilateral donors stepped up aid to Tanzania. In this period, strangely enough, World Bank disbursements more than doubled from $ 61 million in 1977-78 to $ 175 million in 1981-82. In 1982, in fact, the World Bank, through IDA, disbursed $ 98 million, making it Tanzania's largest single donor for the first and last time in Tanzania's history of relations with donors. Thus at this critical moment, Tanzania's bold response to IMF pressure did not impose any immediate costs in its transactions with its principal donors who all moved to step up aid.

It has since been argued that had the donors, particularly Tanzania's Nordic/Dutch friends, been tougher, Tanzania may have avoided the subsequent costly confrontation with the donors and been compelled to put its own house in order much earlier than it did. The availability of such an aid cushion encouraged the GOT to persist with policies which had become inappropriate to its circumstances (Ibid). Improved aid inflows did not however compensate Tanzania's TOT losses, or indeed resolve any of its more structurally derived problems of loss-making Parastatals, disadvantaged agricultural producers and falling commodity exports.

The Michanek Mission

It is however interesting to note that even at that time the World Bank was hesitant to directly pressurise Tanzania to accept policy reforms but preferred to let a group of outside advisers, which was headed by a former head of SIDA, E. Michanek and included two professors, Gerry Helleiner and Cranford Pratt from the University of Toronto, to come in to advise the GOT on a programme of reforms. The report of the Michanek mission, submitted to the GOT in April 1982, was not far removed from the policy reforms being recommended by the World Bank. However proposals coming from an 'independent' source were manifestly more acceptable to the GOT who felt a sense of greater ownership over the proposed reforms suggested by such a team of experts, rather than to accept a set of policies forced on them by their donors.

The positive response by the GOT to the Michanek mission should have been given more attention by Tanzania's donor community in subsequent years. If external advice is deemed appropriate for a DC, then it makes sense to at least invite the concerned country to select a team of its choice, which will help it to retain a sense of ownership over the team and lead to a more productive response to its recommendations. Regrettably for Tanzania, as for Bangladesh and most DCs, when experts are brought in they tend to be owned by the donors and in turn, are inclined to tender advice which is likely to ensure a retention of their ownership.

In the spirit of the above observation, it was an inspired decision on the part of DANIDA to bring back, at the beginning of 1995, Gerry Helleiner to Tanzania to chair a group of independent advisers made up of two other old friends of Tanzania, Tony Killick and Knud Erik Svendsen, and to team them with two of the country's most distinguished economists, Nguyuru Lipumba and Benno Ndulu, to review the vexed issue of development cooperation between Tanzania and its aid donors.

The evolving role of the World Bank

However during this early period of emerging conflict between the Bank and GOT, there were enough divisions of opinion within the World Bank to both sustain such an accommodative approach with the GOT and to maintain its programme of aid disbursements (World Bank, 1990a). During the 1982-84 period, the Bank had moved into high drive on promoting structural adjustment reforms around the Third World and found Tanzania's autonomous reform initiatives quite inadequate to what the Bank deemed to be Tanzania's main problems. By 1984, the World Bank had decided, in effect, to withhold any new commitment of aid so that in 1985, its disbursements to Tanzania fell to $ 28 million.

Aid flows to Tanzania, in aggregate, had by 1985 decelerated, falling to $ 487 million, the lowest level since 1978. Even Sweden's aid reached its lowest point since 1976. This sharp fall of nearly 30% in overall aid disbursements, between 1982 and 1985, had a catastrophic effect on Tanzania, which experienced a period of import strangulation between 1983-85 when its import volume averaged $ 885 million, compared to $ 1147 million in 1980-82, a fall of 30% which parallelled the fall in aid disbursement.

This loss of both budgetary support and cut in imports derived from the fall in aid disbursements must be seen as contributing to the aggravation of Tanzania's economic crisis, as much as its failing to carry through necessary reforms. The problem of using aid to induce reforms or to punish the failure to implement reforms, masks the actual impact of the reforms. In the case of Tanzania, faced with this crisis with the donors between 1983-84, Tanzania carried through its own *economic recovery programme* (ERP) which eventually became the basis for the renewal of its relations with the donors by 1986 when the Bank underwrote what was known as the first Economic Recovery Programme (ERP-1).

The Donors in Ascendance

The turn of the tide

By 1986, all the donors, including the Nordics, had been persuaded that the Tanzanian economy needed to commit itself to a process of severe stabilisation as well as deregulation and to move towards a more market oriented economy. Such a reform process involved an abridgement of the role of the state whilst stabilising the macro-economic balances. All the donors were willing to let the BWI take the lead in working out this new phase of relations with the GOT.

The fact that the Mwalimu had, in 1985, been succeeded as President by Mwinyi meant that the sense of mission which underwrote the resistance of the GOT to ceding complete hegemony to the BWI in redirecting Tanzania's development agenda was no longer there. The late 1980s thus witnessed much greater flexibility in the GOT's relations with the donors. However the presence of Mwalimu, now as the President of the ruling party, meant that the GOT had to go on paying lip service to the spirit of the Arusha Declaration whilst moving rapidly towards the world view of the BWI. By the turn of the decade, Arusha and the spirit of self assertion which characterised Tanzania's relations with its donors had became a distant memory and the donors, led by the BWI, had moved into a phase of total hegemony in its relations with the GOT. This new balance in Tanzania's aid relations has now come to pose a quite different set of problems for the direction and management of the Tanzanian economy.

This new phase in Tanzania's relations with the donors, from the time of the ERP of 1986/87, has been characterised by a discernible indication to the donors that Tanzania had actually discovered the true light. But the donors can never be sure how much of this discovery is derived from a genuine felt need on the part of the GOT and how much is due to the willingness of the donors to lubricate the reform process with lavish commitments of aid.

Many recipients of aid, such as Bangladesh and possibly Tanzania, by now have in place bureaucracies with quite extensive experience in dealing with donors. This experience extends to gauging the sensitivities of particular donors and to developing an appropriate vocabulary to convey to the donors that their priorities are, by coincidence, the same priorities of the policy makers of the aid recipient country. Given the enthusiasm of the bureaucrats from some donor countries to view the aid relationship as a genuine partnership and their general lack of sensitivity to what really motivates their counterparts, the only occasion when the donors then discover that this community of views is of an illusory nature is when things begin to go drastically wrong with the outcomes of a programme or project.

BWI ascendant

By the time the ERP 1 went into full implementation, the BWI bestrode the Third World like a colossus. They were the principal source of external finance to the Third World, following the collapse of commercial lending as a consequence of the debt crisis. The BWI also mediated debt rescheduling, under the rubric of the Paris Club. In fact under this facility Tanzania managed to reschedule $ 1.6 billion of its debt and obtain cancellation of another $ 152 million of debt between 1986-92. This was a not insignificant achievement, coming to around a quarter of its $ 7.5 billion of outstanding debt in 1992 (Gibbon and Raikes, 1995, T.8). Tanzania and other debt holders were thus made fully aware of the reality that the Paris club required the BWI's 'good housekeeping seal of merit', to qualify for such debt rescheduling.

The BWI's seal of approval was also the principal determinant of renewed ODA, since all the donors, including the Nordic/Dutch entente, had accepted the authority and wisdom of the BWI in setting the direction of Tanzania's reform programme. Indeed it is now a legislated provision in Germany that unless a recipient country has reached a formal agreement with the IMF over reforms, no new German aid can be committed. As a result, today, in the absence of such an agreement between the IMF and the GOT, German assistance to Tanzania also remains suspended. The authority of the BWI over Tanzania thus runs well beyond its own aid commitments. The BWIs influence is made evident from the SASDA (Bigstern et al,) evaluation of Swedish Development Cooperation with Tanzania and the evaluation of the Netherlands Development Programme with Tanzania (both summarised in Annexure I), which both show that, by the 1990s, a general agreement prevailed amongst Tanzania's principal donors over the broad thrust of the BWI agenda.

The Nordics and Dutch have continued to demonstrate their traditional concerns over safety nets for the poor which, they argue, need to be built into the BWI reform process with greater emphasis on the social sector. Since both the UNDP, through its *Human Development* initiative and the World Bank, in its discovery of the importance of the social sector, were by the 1990s emphasising these same concerns as the Nordics; there seemed to be no breach in the world view of Tanzania's donor community over the future direction of the Tanzanian economy. However if we look at Table 22 we can see that, notwithstanding this shared commitment amongst the donors to support human development, there was no substantive change in their aid disbursements to this sector during the 1980s.

Aid leverage and the changing balance of influence amongst donors

This closing of ranks by the donor community behind the BWI on the issue of policy reforms for Tanzania was hardly dictated by the dominance of the BWI over Tanzania's aid programme. In the 1990s, the World Bank's share of aid disbursements to Tanzania came to only 16.2% of total aid disbursed, compared to 34.7% disbursed by the Nordic/Dutch group (Table 14). The Bank had, in the 1970s, been concerned over its low share of Tanzania's aid budget and had chosen to step up its lending programme at a time when 'Socialism' was in the ascendant in Tanzania in the 1970s (World Bank, 1990a). At that time the Bank chose to submerge its misgivings over the policy orientation and development priorities of the GOT in order to purchase greater leverage over the direction of policy.

The Bank recognised that as long as the Nordic/Dutch group remained a ready source of aid, the Bank's own influence would depend less on its financial leverage and more on its willingness to contribute to the policy discourse. As long as Tanzania remained firmly in charge of its own destiny, the Bank's ability to exercise policy leverage, with a low investment stake, was obviously going to be limited. It therefore demanded a change in the global environment for the BWI to assume its ascendancy over Tanzania's development agenda, through its leadership of the donor community, notwithstanding its low share of the aid budget contributed by the Bank compared to all other donors of aid to Tanzania. In countries such as Bangladesh, the World Bank was a major donor, accounting for a third of aid flows in the 1980s, and ranked as the largest single donor. In contrast, in Tanzania, during the 1980s, the World Bank's share of aid was only 10.2% and it ranked second to Sweden amongst Tanzania's principal donors.

During the later 1980s, the 'golden age' of the structural adjustment era ,the World Bank led Tanzania's aid consortium by dint of its intellectual authority as the apostle of market-driven reforms. This was a role which donors were willing to cede to the Bank. In Tanzania, the Nordic/Dutch romance with Tanzania's socialism had given way to disillusion with the continued weak performance of the economy where neither the promise of self-reliance nor of poverty alleviation showed any signs of materialising. After going along for a while with Tanzania's assumption that its weak economic performance was due to it being a victim of forces outside its control, the Nordic/Dutch group finally came to terms with the BWI interpretation of Tanzania's problems. Notwithstanding the rich body of research generated by Nordic or other expatriate scholars through Nordic-sponsored studies of the Tanzania experience, there was no real attempt made by the Nordic donors to promote a search for an alternative, more autonomous development strategy in Tanzania or anywhere else in Africa or the Third World. Thus the BWI agenda remained the only reform alternative on offer so that other donors to Tanzania, by default, seemed willing to cede leadership to the BWI in setting Tanzania's reform agenda.

Rethinking the reform agenda

A decade of exposure to BWI-led reforms in Africa has however led to a new phase of concern over the protracted stagnation of the reforming economies, including that of Tanzania. Attempts by the World Bank to project Tanzania as one of the success stories of reform in Africa (Agarwal et al.) arouse little conviction amongst analysts (Gibbons and Raikes) or other donors and even some hilarity amongst Tanzanians. In the mid-1990s we are thus witnessing yet another phase of donor fatigue with the aid relationship. This fatigue in part derives from the donors having lived through two successive development paradigms, the state-led and the market driven reform agendas. Both these models, played out over a period of a quarter of a century or longer, have provided scant cause for satisfaction to aid donors. The difference between these two epochs lies in the fact that the pace setter for the current development strategy over the last decade in Tanzania, and even longer in other DCs, has been the donors.

If, in fact, exposure to a heavy dose of reform has left African LICs in a state of arrested development and structural atrophy, as reported in Table 1 of this paper, then where do we go from here? The BWI, notwithstanding the agnostic tenor of its historic report on Sub-Saharan Africa, prepared in 1989, still remains committed to the validity of its reform model. In Tanzania it is pursuing this model with undiminished zeal and attributes failures to improve economic performance to failures of implementation on the part of the GOT. It is this rather self-serving attempt by the BWI to interpret the experience of the DCs with the SAR process which has once against created space within the donors communities in Tanzania to think about why the Tanzanian economy remains in poorer shape than it was in the 1970s, whilst moving to a level of aid dependence which was unimaginable in that earlier period.

The Donor Agenda

The need for reform

It is again integral to the argument of this paper that the inadequate results yielded by the BWI reform agenda derive from the donor-driven nature of the reform process. The price of donor hegemony in the development arena in Tanzania has, in fact, been the delegitimising of the Tanzanian state which has compromised the reform process and contributed to the perpetuation of aid dependency.

Making the donor-driven nature of the reform process central to the argument of this paper is done without prejudice, both to the need for reforms in Tanzania, Bangladesh and most DCs, as well as the proven merits of many of the reforms put in place under the BWI programmes. Nobody should fool themselves into believing that the Tanzanian or Bangladeshi economy was in great shape, its original policies unimpeachable or that a great deal of change was not in order in these countries if a sustainable development process was to the realised. It is thus important to review the main features of the BWI agenda to diagnose its merits and weaknesses.

The BWI reform agenda in Tanzania

In Tanzania, since the ERP-1, the BWI has put in place a reform agenda committed to realising the following policy objectives :

i. Stabilising the fiscal balances through curbing public expenditures
ii. Curbing monetary expansion.
iii. Financial sector reforms based on tightening up lending discipline, cleaning up the balance sheets of the financial institutions, introduction of more market driven interest rates and finally privatisation of the banking system.
iv. Exchange rate management with a view to unifying the multiple exchange rates and leaving it to the market to determine the external value of the tshilling, by eliminating all forms of exchange controls.
v. Liberalisation of foreign trade, mostly through elimination of quantitative restrictions (QRs) on imports and reducing both nominal and effective rates of protection.
vi. Liberalising and eventually eliminating price controls as well as de-subsidisation of public goods

whilst deregulating and privatising internal trade.

vii. Civil service reform, through retrenching surplus staff, raising real wages of the residual bureaucracy, eliminating the provision for guaranteed government employment for all university graduates.

viii. Public Enterprise reforms based on exposing parastatals to a more competitive operating environment and a hard budget constraint designed to cut down losses and/or close down loss-making enterprises. The key element of this part of the reform agenda is the downsizing of the role of the state in the economy through a programme of disinvestment and entry of the private sector into areas hitherto monopolised by the state.

ix. Raising investments and the share of public expenditure in the social sector in the process, making better use of NGOs as delivery agents.

The significant feature of the above agenda is that it could be replicated word for word in Bangladesh today. The BWI has in fact put a virtually identical policy agenda in place in Bangladesh over the last 12 years, mostly under the same terms and conditions which have underwritten their programmes in Tanzania (Sobhan, 1993a). It is thus not surprising that much the same set of problems, which constrained the realisation of the expected results from the above reform agenda in place in Bangladesh, have also compromised the outcomes of the reforms in Tanzania.

Analysing the reform outcomes

The least a regime of donor-driven reforms can do for a country is to design a package of reforms which, in practice, can transform the economic fortunes of a reforming country. Some people and countries may, for a while, be thus willing to trade ownership over their reforms for visible improvements in the performance of the economy and conditions of life of the people. Given the common features of the BWI programme in both Bangladesh and Tanzania, it may thus be useful to review the logic underlying the BWI reforms in both countries along with their resultant outcomes, within a common perspective.

We thus briefly discuss below some of the outcomes of the BWI reform agenda in both Bangladesh and Tanzania:

(i) *Fiscal discipline* in Bangladesh has improved somewhat but cannot escape from the fact that the paramount presence of the donors in underwriting the aid budget and the fungible resources provided by *reimbursable project aid* in Bangladesh, as with the CIS/OGL in Tanzania, have emerged as a disincentive to curbing current expenditure. Bangladesh has made a modicum of progress in curbing current expenditure and raising fiscal revenues. But its revenue/GDP ratio still remains one of the lowest amongst the DCs and the share of development to GDP still remains low. In Tanzania, on the other hand, the role of aid in financing both development and the current deficit has now reached critical levels which are driven by the volume and nature of aid. Thus, whilst the absolute and relative value of development expenditure declines, the donor-funded recurrent deficit expands every year. Where aid disbursements in Tanzania decelerated, as they did in 1994/95, the recurrent budget deficit has been funded by an escalation in public borrowing. The BWI's attempt to realise budgetary stabilisation in Tanzania can thus hardly be termed a success. Indeed the BWI, as has been argued earler in this paper,through their escalated volume of programme loans, may even have actually contributed towards aggravating imbalances on both the budgetary and external account.

Current expenditure in Tanzania is held captive by the size of the public wage and salary bill and the domestic debt service obligation so that any move to economise on public expenditure, as is demanded under the BWI reform programme, must impact on the economic and social sector. In Bangladesh a similar constraint applies, with the additional commitment to maintain the sanctity of defence expenditure. Thus the size of the recurrent budget in both countries remains impervious to donor pressure and depends on the balance of power within the domestic polity, derived from the democratic authority of the state and the political power of its employees and the military establishment. Answers to such issues must be sought in the realm of governance and politics rather than donor-funded conditionalities.

(ii) *Monetary restraints* remain a valid objective of reform. It must, however, be kept in mind that the creation of money through public deficit financing, which builds up domestic public debt, is the end result of a weak revenue effort. Weakness in generating domestic revenues is due to the more relaxed systems of governance created through prolonged addiction to aid. The rise in domestic borrowing in Tanzania in 1994/95 was clearly driven by the deceleration in the disbursement of aid. For a country with a receding capacity for mobilising domestic revenues, borrowing from the banking system remains the most convenient option.

In actual practice, in both countries, the relative stagnation of the economy has been a principal source of monetary restraint. In an economy where the fiscal deficit derives from the availability of aid, the emphasis on monetary restraint remains important but hardly crucial. If donors will pick up the bills, governments can afford to cut down on public borrowing. In Bangladesh this is what happened. The growth in money supply, over the last decade, has in fact been quite restrained and remains driven by the increasing demand for credit from a growing private sector at a time when the role of the public sector in the economy is being reduced.

(iii) *Financial sector* reforms in Bangladesh, put in place in Bangladesh by the World Bank in 1990 under a Financial Sector Programme loan, have run into serious difficulties because the Nationalised Commercial Banks (NCBs) and DFIs have managed to make little headway in recovering defaulted loans from both the public and, increasingly, from the private sector. This weakness derives from the political strength of private sector defaulters in Bangladesh, many of whom are represented in Parliament, who can pressure the government to reschedule or write off their debts. Today, notwithstanding the enormous overhang of uncollected commercial loans by the NCBs and DFIs in Bangladesh, the NCBs, under governmental pressure, have embarked on a new round of term lending to private industry with depositors' funds, to make up for the unwillingness of the private banks to enter this risky sector. Given the melancholy experience in Bangladesh, during the 1980s, with heavy loan defaults with term loans from the DFIs, this new Strategy in the 1990s of using the NCBs, who have little experience with term lending, to change their lending practices overnight, suggests the weak impact of BWI-sponsored financial reforms in Bangladesh.

In Tanzania, a coalition of parastatal and now also private influence has permitted enterprise losses and write-offs of CIS-provided inputs to many public and private enterprises which had to be absorbed by the state banking system. This indicates that imposing financial discipline in both countries demands more than just agreeing to a package of externally designed reforms.

In Bangladesh, privatisation of two out of six nationalised banks and the emergence of a number of private banks over the last decade has not led to a noticeable improvement in the efficiency of the banking system. The private banks have offered loans on no more competitive terms than have public banks. The private banks have kept out of risky loans to the rural sector and, in most cases, also to industry. This preference for the easy end of the banking business has not however ensured more prudential lending by private banks which have used their depositor's funds to lend freely to 'insiders' and have made little effort to collect on these loans (Chowdhuri et al). In Bangladesh, on average, the 'spreads' of the private banks have tended to be higher than in the NCBs.

The limited impact of financial sectors reforms in Bangladesh is again evidence of weak banking control by the Central Bank, a manifestation of weak governance and the specific characteristics of an, as yet, immature entrepreneurial class operating in an environment of lax governance. Since Tanzania's entrepreneurial culture is no more developed than that of Bangladesh and its recent demonstrations of governance no more encouraging, the BWI agenda for financial sector reforms may have no better results in Tanzania than they did in Bangladesh. Thus, in both countries attempts to discipline the public sector by exposing it to a *hard budget* constraint can be undone by letting the private sector operate with a *soft credit* cushion which relaxes the discipline on them for repaying their loans.

(iv) *Exchange rate policies* in Bangladesh and Tanzania have followed parallel tracks and have indeed largely eliminated the multiplicity in the exchange rate regime and brought it closer to its equilibrium value in their respective countries. This move was a positive achievement of the reform process and has served to reduce a great deal of the rent-seeking activity associated with overvalued exchange rates. With hindsight, the ferocity with which Tanzania protected its manifestly overvalued exchange rate in the early 1980s remains difficult to understand. If, in practice, Tanzania could not govern its borders well enough to prevent rampant two way smuggling and flight of capital, could it ever run a managed currency system?

However, having conceded the need for exchange rate adjustment we also need to recognise that its impact on promoting exports is more debatable. Massive depreciation in the nominal value of the Tshilling has actually coincided with export stagnation in Tanzania. In Bangladesh, econometric exercises show that the exchange rate is much less important than other variables, such as global demand and local supply side capacities, in influencing export growth (IRBD). Ready access to foreign exchange, available through the liberal provisions of fungible foreign aid, may, if anything, have overvalued the exchange rate in the open market through a mild case of 'Dutch disease', at least in Bangladesh if not Tanzania. This suggests the need for a Korean-type managed exchange rate, designed to keep the exchange rate undervalued in order to keep exports competitive. A managed currency is not the same thing as a market-driven exchange rate and it appears that the BWI have not quite made up their mind on what policy they want DCs to pursue. On balance, however, exchange rate reforms have served Tanzania and Bangladesh well by reducing the distortions in the economy as well as minimising the enormous scope for public and private rent-seeking attendant on a rigid system of exchange controls.

(v) *Liberalisation of imports* has perhaps become the most problematic part of the reform programmes in both Tanzania and Bangladesh. Deregulation of imports with a view to ending the restrictive regime, which had become a haven for rent-seeking in both countries, remains a positive achievement for both countries. Reducing the protection levels for a nascent industrial sector for countries such as Tanzania and Bangladesh, with a first generation class of industrial entrepreneurs, as rapidly as has been done in both countries under pressure from the BWI, remains more problematic.

Resistance to import liberalisation in both countries does not only come from *New Trade Theory* economists but from the new private sector industrialists who argue for a 'level playing field' if they are to freely compete with more mature competitors not just from the AICs but the Asian 'tigers' or Tanzania's more advanced neighbours. All sides of the argument welcome liberalisation on the export side. In contrast, the exposure of such fledgling industrialists, operating in a small domestic market, to competition at home from the rest of the world, is seen to be contributing towards a growing sickness in the manufacturing sector which is establishing the conditions for de-industrialisation in many LICs. The key issue with trade reforms, it is arguable, is thus not policy but governance. A regime with strong governance, as was the case in most of East Asia, could operate a system to protect its home market, whilst at the same time, aggressively promoting exports. To do this, the 'tiger' could devise policies and institutional instruments to prevent the degeneration of the system into a haven for inefficient industries or its subversion through large scale illicit imports. Similar efforts at protecting the home market in South Asia led to extensive rent-seeking and the deterioration in the efficiency of many protected industries. This suggests qualitative differences in the capacities at hand in the South, as compared to East Asia, to govern a programme of import restrictions. In the same way Tanzania's governance is far removed from that of Taiwan so that the focus has to be on ways to improve Tanzania's governance as much as to reform its policies. The BWI solution to just open up the economy has certainly not provided a definitive answer to Tanzania's economic future and may well be responsible, through its negative impact on industrial investment, for Tanzania's export stagnation and hence perpetuation of aid dependence.

(vi) *The liberalisation of price controls* is again advantageous to Tanzania to the extent that it makes public institutions more sensitive to commercial considerations. Africa, in particular, has long experience with the disincentive effects of price and marketing controls, particularly on the farm economy. However price controls were not just devised by rent-seeking bureaucrats but grew out of the difficulties faced by small producers and poor consumers operating in highly imperfect market regimes. Price regulation was a device, however imperfect or distorted, to reach some goods to the poor at prices they could afford. Thus, pricing of public goods is at the end of the day a distributive decision and not just an issue of economic efficiency.

In Bangladesh, subsidisation of fertiliser prices was deemed beneficial to small farmers who were the principal users of fertiliser under the influence of the scale-neutral *green revolution* technology. Eliminating subsidies thus became a dead weight cost to subsistence farmers who could not recoup the higher input costs arising from de-subsidisation through higher prices received for their marketed surplus. In the Bangladesh context.

subsidising foodgrain prices, at least for the poor, has a beneficial distributive effect. Such distributional dimensions of pricing policy should thus not be overlooked in an indiscriminate advance towards price deregulation and market-driven solutions as has been practised in Tanzania or Bangladesh.

Once again, part of the problem lies in the state of governance and the institutional arrangements which determine whether some key public or basic needs goods can be delivered with minimal transaction costs, extracted by both private and political rent-seekers, or maldistributed away from their intended beneficiaries. Experience in the successful East Asian NIEs, including China, suggests that the core of the solution is not to be found in just letting the market find its own level. Full shops with goods accessible only to those with jobs and cash in their pocket has a certain appeal, as has been argued by some researchers on Tanzania (Booth). However here again, in societies with a large core of underemployed poor, operating in highly imperfect capital and labour markets which remain politically disempowered, alternative instruments for pricing and distribution for at least some basic goods need not be irrevocably abandoned as a policy option for these countries. The answer is to look for mechanisms to improve the efficiency and integrity of the system.

(vii) *Civil service* reform remains an issue of crucial importance to both countries. The BWI has, in most cases, posed the right questions but operationally has ended up with rather simplistic answers. Downsizing the civil service is easy enough if a highly aid-intensive programme of 'golden handshakes' is put in place by the donors. In both Bangladesh and Tanzania this agenda has worked selectively but has been expensive and has thus barely touched the fringe of the problem. After all 'over-employment' in the state sector has been a time-honoured substitute in many DCs for using state revenues to provide incomes to the rising army of the workless in the absence of either a well developed system of unemployment insurance or the emergence of a dynamic employment-generating private sector. To assume that a government with electoral aspirations will substantially run down its employment creating welfare programme, in the absence of the above conditions, is fanciful to say the least. It should thus occasion no surprise that the fiscal burden, in both countries, on their respective recurrent budgets of keeping such an army of public employees from joining the never contracting market of the jobless, has barely been reduced and probably never can be, except under a draconian dictatorship with no electoral compulsions or concern for the civil rights of its citizens.

Commitments to improve real incomes of public servants as a solvent to get them to swallow retrenchments has generated few savings. The key issue of providing a competitive wage to senior officials to either rescue them from drifting into the private sector, or privatising their services whilst still in public employ, remains untouched because it would disturb the relativities in the wage scales between the few senior officials and the many petty officials. Neither the GOB nor the GOT can risk the political wrath of its much more numerous lower level employees by widening relative incomes between the top and the bottom tiers to the point where top officials can earn a market-competitive wage. At the best of times civil service reforms thus remain hard to get off the ground because of the collective strength of civil service unions. With multi-party elections to be contended with in both countries, no government will want to take on this army of voters, polling agents and even political activitists drawn from the lower, more numerous ranks of their respective bureaucracies. Thus, civil service reforms in both countries remain an unopened *Pandora's box* where sensitive and democratically mandated solutions will have to be endogenously designed and politically marketed.

(viii) *Public Enterprise reform* has, in practice, been abandoned by the World Bank, whatever lip service it may pay to it in its dialogues with the GOB and GOT. The BWI now believe that the only good public enterprise is a dead public enterprise and have committed themselves to its wholesale replacement by the private sector. Regrettably the BWI have so far provided very little empirical evidence, least of all from Bangladesh or anywhere in Africa, which can confirm that privatisation is a panacea for improved enterprise performance. The privatisation part of the BWI agenda is, on all counts, driven by pure theology, sustained by limited empirical research of dubious academic merit (World Bank, 1995g) designed to yield pre-determined conclusions (Sobhan, 1993a). As with import liberalisation, the privatisation agenda in both Bangladesh and Tanzania has moved slowly, has led to few efficiency gains and, in practice, has led to an accelerated degeneration in the performance of the extant public sector whose growing losses and inefficiencies have moved in tandem with the BWI reforms.

Public enterprise as well as Civil Service reforms are at the centre of the issue of governance and cannot be seen as a technical problem of public administration or public sector reform. The failure to locate these major issues which touch both on the future course of the economy as well as the sustainability of democratic institutions within this wider context of governance, and to take refuge in simplistic, ideologically driven solutions, has become counter-productive in most reforming DCs. As a result, both in Tanzania and Bangladesh we bear witness to a situation where the quality of public servants and institutions has degenerated exponentially, where their morale has collapsed, and most public servants, whilst awaiting retrenchment or disinvestment, occupy their time in largely predatory activities, where the state has itself become an agglomeration of private entrepreneurs.

Donor Conditionality

The assumptions underlying donor conditionalities

The attempt by the donors to push through a far from tested reform model by attaching severe conditionalities to their lending agendas is in practice leading to the worst of all possible worlds. The era of structural adjustment reforms, administered through the medium of programme loans, has yielded rather limited gains. In Bangladesh, as in Tanzania, the very notion of conditionality derives from the belief that the host country does not want or feels unable to undertake the proposed reforms. The only way to push these countries on the route to reform is to attach liberal offers of aid as an inducement to undertake the reforms. A variant of this school of thought, usually coming from bureaucrats in the reforming DC, is the argument that donor conditionality strengthens the hands of the pro-reform group in the administration who can thereby sell the reforms to a reluctant Prime Minister or cabinet as a way of retaining the support of the donors. In practice, however, the attachment of such conditionalities, from its very conception, serves to erode the sustainability of the reform process.

The bureaucratic imperative

In resource-constrained economies, with a long tradition of looking to donors to finance every need, accepting donor conditionalities becomes the least of the problems faced by a recipient country. Officials who negotiate these conditionalities on either side are each driven by their own institutional imperative to sign such an agreement without too much fuss. The donor agency officials are anxious to convince their bureaucratic masters that they have (a) committed a large loan and (b) have persuaded the host government to accept all the conditions deemed appropriate to the success of the project or programme. This psychology has led to a compact between both donor and recipient bureaucrats to contract conditions which both know to be unimplementable. The growing evidence of failure to implement these unimplementable conditions has not led to any rethinking of such mendacious compacts amongst the bureaucrats. Instead we bear witness to a progressive lengthening of the number of conditionalities introduced into successive loan agreements between aid donors and aid recipients. The excessive detailing of these conditionalities, given the antecedents of this process, now borders on the farcical. The conditionalities are largely designed by the BWI officials and their expatriate consultants, in theory through extensive consultation with the concerned government. In practice, the local negotiators only too readily accept the donor's conditions since their own institutional imperative remains to sign the agreement and earn credit for bringing $ 50 million into the coffers of Bangladesh or Tanzania. Thus commitment to the conditionalities may have little to do with their intrinsic appropriateness for the country and much more to do with more private concerns for career advancement on the part of the negotiating bureaucrats.

In my own experience in Bangladesh, as a Minister concerned with both aid negotiations and approving aid funded projects, I have discussed aid projects with the concerned line ministries and have been given conclusive evidence that there is not the slightest possibility of the agency implementing many of the conditionalities which have been so painfully negotiated with the concerned donor agency. The officials concerned are, in very few cases, unlikely to remain in the same office when the time comes to honour the conditionalities to which they have committed their government. In such circumstances the concerned negotiators can make any commitment they like to the donors without being held accountable for its implementation. Where their political masters also remain more concerned to earn the encomium of raising the volume of aid commitments and remain too preoccupied to look at the small print of the conditions negotiated by their officials, the bureaucratic imperative to sign an agreement becomes the guiding motive for the transaction with the aid donors. In a political environment, where the concerned government does not have to account for its commitments made to the donors, either in the Parliament or at the hustings, acceptance of such conditionalities is only too readily forthcoming.

Defaulting on Conditionalities

The end result of this mutually irresponsible way in which conditionalities are conceived, negotiated and accepted, is the continuing spectacle of default. In Bangladesh, aid disbursements under a number of agreements signed with the World Bank, such as the loans for the Inland Water Transport sector, the Energy Sector Credit, the Industrial Sector Credit, the Jute Sector Credit, amongst others, have been suspended. In some cases the credit has not taken off because Bangladesh could not even fulfil the preconditions needed to make the credit effective. In other cases disbursements were suspended after the first or second tranche for failure to implement many of the conditionalities.

This experience of failure to implement conditionalities is no less commonplace in Tanzania as may be seen from the discussions in the OED World Bank report or in various aid evaluation reports (Netherlands, SIDA, Danida). Programme loans have become particularly problematic because they do not even offer an inducement to the concerned line ministry to improve its performance. A programme loan designed to realise reforms in the energy or industry sector provides cash foreign exchange which goes into the foreign exchange reserves of the GOB to fund imports. Obligations incurred by the Power Board, or the Industries Ministry, to improve performance in their sector which ease the budgetary strains of the Finance Minister but do little to provide immediate benefits to the line Ministry, presumes a sense of collective responsibility in the respective governments of both countries, which may not exist in practice.

The failure to implement conditions attached to the Energy Sector Program loan in Bangladesh has however not just led to a suspension of programme aid disbursements after the first tranche but has led to a suspension of new project loans to Bangladesh's power sector by all donors as a result of cross-conditionality conventions practised by the donor community. As a result not a single megawatt of new power capacity has been brought into commission under the signature of the present administration because the Power Board could not honour conditions negotiated by a Secretary and Minister from a previous regime which vacated office over five years ago.

Bilateral donors and conditionalities

In the case of Tanzania, bilateral donors have let the World Bank and IMF take the lead in setting conditionalities on their programme loans. The evaluation reports of Finland, SIDA, Netherlands and the aid documents of the US and UK, all pledge their adherence to the reform strategy designed by the BWI and put in place through the PFP (See Annexure I). Most of these donors do not directly incorporate categorical conditionalities into their own bilateral lending programmes.

Traditionally the Nordics and Dutch have pushed both Tanzania and Bangladesh towards paying more attention to poverty alleviation and the social sector. However their commitment to these goals have largely been realised through the composition of their aid programme and declarations of interest from the respective government rather than through itemised conditionalities (See Annexure I for lending preferences of the bilateral donors to Tanzania). In Bangladesh there have been few cases where any Nordic donor or Dutch aid project has suspended disbursements because they have been dissatisfied with the way in which a project or indeed, their whole aid programme, has progressed. Where they have been disappointed by the general direction of economic management, as was the case in Tanzania in 1983-84, donors have cut down their overall aid commitments or even threatened to suspend aid. It is rare for them to directly attach conditionalities to their own aid to the point where aid can be actually withheld. The decision by Norway and Sweden, at the end of 1994, to suspend disbursements of aid under the CIS programme until the GOT gave measurable evidence of improving its revenue collections from defaulters, was thus something of a revolutionary step for both these donors.

In Bangladesh, USAID at one stage used to attach quite strong conditionalities to its *PL 480* aid, when it wanted Bangladesh to privatise fertiliser distribution and made its aid commitments in the late 1970s contingent on such an agreement and compliance on the side of Bangladesh (Sobhan, 1984). But in recent years the BWI and now the Asian Development Bank have become the main agents for the design and enforcement of conditionalities in Bangladesh. Between them, these two agencies command enough leverage to enforce compliance from Bangladesh and concurrence from bilateral donors. Notwithstanding their leverage, the World Bank and ADB prefer to take on board particular donors to sign on to the conditionalities attached to their programme loan packages. Thus several bilateral donors suspended new aid commitments to Bangladesh's energy sector until the GOB could demonstrate compliance with the conditions attached to the World Bank's Energy Sector Credit. The World Bank suspended negotiations of new credits to the agricultural sector in Bangladesh until Bangladesh could show compliance with the provisions of the Food Crop Sector Loan negotiated with the ADB which imposed conditions about ending subsidies on fertilisers and demanded the sale of all irrigation equipment owned by a Parastatal to private buyers.

In Tanzania, the low share of the World Bank in the country's aid programme meant that its programme loan conditionalities could only become effective if other donors signed on to the project. This was in effect done through the CIS and OGL system which enhanced the purchase of World Bank programme loans which fed the same resource pool served by the Nordics and the Dutch. Thus between 1988-94 Table 6 shows that out of $ 1865.8 million committed under this programme, 44.5% came from the World Bank, which was the mainstay of the programme, as part of its programme lending operations in Tanzania. However 14.1% of all programme loans were contributed by Norway and Sweden and 35.6% by other donors, all of which served to considerably enhance the leverage exercised by the World Bank on the GOT in its conditionality-driven programme loans. When we consider that in this period 19% of all imports coming into Tanzania were underwritten by these import support programmes, the importance of the CIS/OGL aid programme for influencing policy leverage exercised by the BWI cannot be underestimated.

However, the policy leverage purchased by the World Bank through the CIS/OGL was, we have already observed, being rapidly undermined by the accumulating default on the CIS/OGL programme. Table 6 again shows that close to half of the imports under this programme did not generate counterpart resources from the agencies receiving the imports. Thus measures designed to enforce fiscal discipline under conditionality-driven programme loans were compromised by the provision of a soft budget constraint to the users of the OGL programme, many of whom were Parastatals who absorbed these imports without payment as a straight subsidy to their operations (Erikson, 1993b & 1995).

Donor Coordination

The Role of the World Bank

We have observed that the BWI have in recent years acquired a certain primacy in their influence over the development agenda of the GOT. This position was realised initially through their role as aid coordinator and their monopoly over the documentation prepared for the aid consultative meetings. This role as intellectual leader has, only in recent years, been strengthened by the ascendancy of the World Bank to the position of lead donor to Tanzania in the 1990s, when it accounted for 16% of total aid in 1990-92 and for 44.5% of all CIS/OGL aid in the 1988-94 period.

In the early phase of Tanzanian ownership over its development strategy in the 1970s, the GOT could freely draw upon a variety of sources for advice and aid which freed it from the dominance of the BWI or any one or group of donors. Such agencies as the ILO and academics from the Nordic countries, with views sympathetic to the perceived agenda of the GOT, competed freely in the market place for influence on Tanzania's policy. In that period, greater policy eclecticism prevailed even within the World Bank where there were elements of contradiction between the Bank and IMF over the stringency of the BWI reform agenda. In such circumstances there was little scope for the World Bank to play a lead role in aid coordination in Tanzania.

Even following the coming together of the Bank and Fund on working out a programme of reforms within

Tanzania and the gradual acceptance by the bilateral donors of the BWI prescriptions for reforms of the Tanzanian economy, donor coordination remained an informal process, which was only institutionalised after 1986. At that point the responsibility for chairing such coordination meetings was jointly assumed by the UNDP and World Bank, though initially the UNDP provided the secretariat for this coordination exercise. In recent years, as the Bank's capacity to service the donor consultative meetings with the GOT improved through its superior command over documentation, the Bank has assumed the lead role in aid coordination. The World Bank has used this coordinative role to strengthen the leverage it now exercises over the direction of the GOT's policy.

The principal area of donor coordination by the BWI in Tanzania originates from their lead role in programme lending. The role of the IMF in preparing the PFP, in consultation with the GOT's inter-Ministerial Technical Committee (IMTC), sets the basis for guiding the GOT's policy agenda and defines the measures for monitoring its implementation within a specific time frame. Other donors, such as Sweden and Norway, which co-finance the import support programme, thus implicitly accept both the leadership of the BWI in setting the reform agenda for the GOT and in monitoring its outcomes.

Aid coordination in Bangladesh

In this respect the lead role of the BWI in defining and monitoring the reform agenda in Bangladesh is identical to the role it plays in Tanzania. In Bangladesh the PFP is drafted by the BWI in consultation with the Ministry of Finance. The progress of the agreed reform programme is then evaluated by the World Bank through periodic coordination meetings, in Dhaka, amongst the donors and with the GOB, leading up to the Paris Consortium meeting in April every year. At the Paris Meeting the World Bank presents the end of term report on the progress with reform to all the donor members of the Aid Consortium, embodied in the World Bank's Country Economic Memorandum (CEM). The GOB is given a right of reply at the Consortium meeting, for which it prepares its own memorandum in response to the World Bank's report. In actual practice, the GOB's document for the Paris meeting is not so much a reply as an attempt to demonstrate the fidelity with which it has kept its programme on track with the agreed goals set in the PFP.

The implications of the lead role by the World Bank in Aid coordination

The problem with this approach to aid coordination through the BWI remains that both in Tanzania and Bangladesh the design of the reform as well as the evaluation of progress are vested with the staff of the BWI. In both Tanzania and Bangladesh it is recognised that the original draft of the PFP is prepared in Washington DC so that the respective officials negotiating the final documents are at best positioned to insert modifications in the draft but never to challenge either the overall strategy or to even incorporate substantive modifications into the BWI draft to reflect nationally determined priorities.

More seriously, the actual monitoring of progress has become the exclusive responsibility of the World Bank. The *grey cover* reports of the Bank cover the annual overview of the economy in the CEM and their sectoral reviews also appear in specific *grey cover* reports. The Bank thus defines the methodology as well as selects and interprets the facts which determine the evaluation of the GOB's or the GOT's reforms. In performing this task of both advocate and judge of the reform process, the World Bank disposes of lavish budgets to hire expatriate consultants, assisted in recent years by local consultants. These consultants, both expatriate and local, tend in most cases to be of a persuasion sympathetic to the agenda of the World Bank and/or to at least know where their bread is buttered. The discussion on both the validity of the reform model and its progress, discussed in aid coordination meetings, is thus heavily weighted by the world view and judgements of the BWI.

In Tanzania there is evidence that particular bilateral donors have been inclined to invite academic experts of a more independent point of view to review the validity of the prevailing reform agenda. The recent study of *Structural Adjustment in Tanzania, 1986-94,* prepared for the Danish Ministry of Foreign Affairs, is one such example. *The report of the Group of Independent Advisors on Development Cooperation Issues between Tanzania and its Aid Donors,* discussed earlier, again commissioned by the Danish Ministry of Foreign Affairs, is another such effort. In the Tanzanian scene, the important role played by the Nordics in the aid process has at least created some intellectual space for more independent appraisals of the BWI-influenced development agenda which have provided a professional input to be drawn upon by other donors, which is comparable if not superior to the work on offer by the BWI. However, notwithstanding the agnosticism informing much of the professional writing on the reform experience in Tanzania (e.g. the work of Gibbons and Raikes), there is no strong evidence that the bilateral donors have used such academic work to challenge either the validity of the BWI in setting the pace for the reform agenda for Tanzania or indeed its attempts in coordinating the aid process.

Alternative perspective on reforms in Bangladesh

By contrast in Bangladesh, until very recently, there has been no comparable effort to challenge the overall developmental vision of the BWI whose aid leverage is far more powerful than in Tanzania and whose monopoly over the policy agenda is thus far less open to challenge from the bilateral donors. The biggest of the bilateral donors to Bangladesh, Japan, is distinguished in its aid relationships by its silence on policy issues, notwithstanding the recent initiative by Japan in challenging the orthodoxy of the World Bank policies, voiced at the Board of the World Bank, which inspired the Bank's *East Asia Miracle Study*. In Bangladesh, Japan has silently accepted the agenda setting-role of the BWI and has satisfied itself with concentrating on its project lending activities which again carry very low policy conditionality compared to many smaller donors, such as the UK. However the very silence of Japan at the Bangladesh aid consortium meetings places its aid as a free leverage resource available to the Bank to influence the state of the policy discourse in Bangladesh.

Challenges to the intellectual hegemony of the BWI have thus come from civil society, in Bangladesh from some academic institutions such as the *Bangladesh Institute of Development Studies* (BIDS). Even here, only a very few general reviews of the structural adjustment policies of the World Bank have been attempted (Sobhan 1993a, Rahman), though particular aspects of BWI sectoral strategy have been critiqued by academics in Bangladesh. Such efforts have remained academic exercises which thus failed to provide a serious input into the policy debate at the consortium meetings.

The first such attempt to develop an alternative perspective to the Bank's dominance over the development discourse in Bangladesh was made by the so-called Like Minded Group (LMG) of donors, Sweden, Norway, Denmark, the Netherlands and Canada, which funded a study on the poverty-alleviating impact of aid. The study was coordinated by the North-South Institute in Ottawa but much of the work was done by Bangladeshi economists under the leadership of Dr. Mosharaff Hossain, a professor at Dhaka University. The results of the study confirmed that aid had done little to alleviate poverty in Bangladesh. The LMG has since supported an ongoing study on poverty, undertaken by BIDS. This latter study is now periodically referred to at the Paris meetings as a reference to the progress of the GOB in poverty alleviation.

A recent initiative of a more ambitious nature to challenge the intellectual hegemony of the World Bank in policy debate has originated in the effort by the *Centre for Policy Dialogue*, Dhaka, to assemble some of the leading economists of Bangladesh to prepare an *Independent Review of Bangladesh's Development* (IRBD). This IRBD, conceived by the CPD, made its first appearance in 1995, and is now committed to be published every year. The IRBD project, which is the first major attempt to produce a holistic, well documented and analytically insightful review of the Bangladesh development experience, has been published this year under the title of *Experiences with Economic Reform: A Review of Bangladesh's Development*. The intellectual weight of the IRBD is sufficient to provide some ballast to the LMG and other donors in challenging the interpretations of the BWI on the logic and status of their reform programme in Bangladesh. The IRBD is thus expected, every year, to provide the Paris Consortium, the Parliament and civil society, with an independent assessment of the reform process on its outcomes and validity.

Lack of aid coordination at the project level

Such an expectation from the IRBD to promote an alternative perspective to that of the BWI on Bangladesh's development process still remains prospective, since the IRBD has only just made its appearance. As of now, the BWI's coordinative role in Bangladesh appears even less challenged than it is in Tanzania. Ironically, notwithstanding the authority with which the BWI influences the macro-policy agenda, in neither Tanzania nor in Bangladesh have they been particularly successful in coordinating aid at the sectoral level. Thus in Tanzania some 40 donors are funding more than 2000 projects, across a variety of sectors. These projects represent the individual aid priorities of particular donors and embody their different philosophies, modes of implementation and mechanisms of evaluation. This diversity and complementary amongst donor priorities in Tanzania is captured in Annexure I of this paper. Inevitably there is both overlap and indeed contradiction in the objectives of many such projects. A similar proliferation of project interventions characterises Bangladesh's aid programmes.

For many years donors have viewed this proliferation and anarchy in the area of project aid with some concern, in both countries. Thus much rhetoric has been generated over the need to achieve coordination amongst donors at the sectoral level and to integrate their sectoral level aid plans with the macro-economic strategies put in place by the BWI. To this end, in Tanzania attempts are being made to subordinate the projects to the priorities set by the RFPB which is designed to prioritise aided projects for purposes of committing local budgetary resources. A similar assumption underlies the design of Bangladesh's *Three-Year Rolling Plan*, put in place in 1990, which was supposed to prioritise the commitment of local resources to priority aided projects.

Problems of sector level aid coordination

At the sectoral level, the GOT is supposed to design sectoral strategies which are supposed to provide the framework for guiding donor project aid contributions. The *Integrated Roads Programme* has been cited as one such example of a successful effort at a coordinated effort to attract aid (Helleiner et al). Similar efforts are supposed to be made to coordinate aid inflows into the social sector, agricultural sector and for the civil service reform programme (Ibid.). Similar sub-sectoral programmes on Health and Education are supposed to be on the drawing board.

I am not in a position to comment on the efficacy of these efforts by the GOT at sectoral or sub-sectoral coordination. Experience from Bangladesh suggests that coordination at the national, as much as the sectoral level, remains largely notional. The failure at sectoral coordination derives from certain structural features which remain inherent to the aid programmes of both countries as well as in their administrative practices. In both Bangladesh and Tanzania the presence of a macro agenda has thus never been reconciled with micro-projects. There are good reasons for this inability to reconcile macro-goals with micro-projects. This may be understood by discussion of the Bangladesh experience with planning.

Bangladesh's experience with coordinating sector plans

In Bangladesh, in successive five-year plans, the macro-chapters of the plan in the first part of the plan document reflect a philosophical statement of intent, underwritten by some macro-targetting derived from a rudimentary macro-economic model, fuelled by statistics of dubious reliability, which make the co-efficients which hold the model together quite outdated and hence largely unserviceable. The agenda-setting of the five year plans, which incorporated noble goals of high growth, improved self-reliance and significant poverty alleviation, in practice bore no relation to the second half of the plan document which set out the sectoral expenditure strategies of the plan. These plans were, in effect, the aggregation of projects, mostly aid-funded, most of which were carried over from the previous plan. Thus, the tyranny of the on-going projects largely determined the sectoral priorities of the successor plan. These carried-over projects from the previous plan period in turn reflected the priorities of the donors, their generosity and pace of aid disbursement. Such donor-influenced project expenditure priorities, in aggregate, bore only a tenuous relationship to the strategic and even allocative priorities of the GOB.

The induction of the *Three-Year Rolling Plan* in 1990, to replace the *Fourth Five-Year Plan* of Bangladesh, for the first time came to terms with the reality that Bangladesh had lost its capacity to discharge its developmental vision, articulated in its plan document, or indeed to retain any control over its developmental priorities which were now set exclusively by the prevailing configurations of donor aid commitments.

This determination of development expenditure priorities, set by the separate aid priorities and practices of a large number of donors, indicates that the concept of project prioritisation, so favoured by the donors, again remains a rhetorical exercise. Once a donor has committed funds to a project determined by its own donor aid mission, the commitment to this project is set in stone and nothing can cast it aside without putting the GOB or GOT into conflict with a particular donor. Occasional efforts by the GOB to discourage the prioritisation of a project favoured by a particular donor have involved threats from the donor aid mission that rejection of the project could prejudice the entire bilateral aid commitment from the concerned donor. Thus the GOB has, for all practical purposes, lost control over its development priorities. In the absence of a medium term plan to guide its priorities, Bangladesh now has to accept whatever project aid is offered by particular donors and to embrace the fiction that these priorities are its own.

In these circumstances, the only agency which can coordinate and prioritise aid to Bangladesh are the donors themselves. Whilst individual donors have been quite willing to cede such coordinative functions to the BWI for macro-policymaking, they have made no such gesture in the area of project aid where each donor has protected its sovereignty over its own projects with exceptional tenacity. Indeed, even within the World Bank, there is nothing like an overview to guide its project lending programmes. Thus different departments of the Bank set their own agendas for project design, size and priorities, which may not be in concert with the overall philosophy of the Bank's own macro-reform goals. For example, given the Bank's preoccupation with macro-expenditure economies, the sheer wastefulness of resources in some of its own over-designed individual projects in Bangladesh suggests that philosophy and practice, even within the World Bank, may not always be coordinated.

The complete autonomy of each donor over their own projects has now intruded into imposing their own programme priorities over recipient countries. Thus some donors now prioritise women in development, some the environment, some health care, most want to eradicate poverty and each claim the right to design their own projects situated within such programmatic guidelines. More recently, issues of human rights, democracy and 'good governance' have entered into the aid priorities of some donors and are being pursued in a highly eclectic manner by each donor, contributing to no end of confusion in the minds of their aid recipients as to what is aid-worthy political behaviour (Sobhan, 1995b). The formulation of programme priorities by particular donor agencies has thus created its own special form of verbal gymnastics. Recipients are advised by the aid agency that particular projects have to be fitted into the donor's particular set of programme priorities. This ends up in a collusive game in which a whole variety of projects, designed either by the donor or recipient, are written up in ways which make the vocabulary of the project conform to a donor's programme priority.

My very limited exposure to the practice of project formulation and design in Tanzania suggests that donor practices here are not very different from those in Bangladesh. As in Bangladesh, it appears that individual ministries negotiate their own projects with particular donors, derived from Ministerial or bureaucratic preferences, the entrepreneurship of commission agents or equipment suppliers, and the pet preferences of aid bureaucrats. In these circumstances, the notion that Tanzania's RPFB is anything more than a rationalisation of the accidental priorities, to emerge out of the previous micro-level project and programme commitments of individual donors, needs to be seriously investigated before one can accept it as the outcome of the strategic vision of the GOT. In the same way, the sector plans, including the road programme, merit much closer investigation to explore how far past and prospective donor project commitments have been elevated into the category of a well-conceived sectoral design, situated within a wider strategic vision of the GOT. The available discourse on the weak capacity of the GOT to set its own agenda, and the general acceptance of the complete loss of a guiding vision within the GOT, do not suggest the degree of purposefulness alleged to inform either the RPFB or the sectoral plans. Such an impression must, however, remain impressionistic and needs to be substantiated by more rigorous investigation of the dynamics of aid prioritisation in Tanzania and the pathology of development activity in any ministry of the GOT.

Delivery costs of uncoordinated project aid

One of the less salubrious outcomes of the lack of coordination in the use of project aid is the tendency for waste and institutional proliferation which characterise the aid programmes of Tanzania and Bangladesh.

Donors in Tanzania have tended to set up their own project bureaucracies, outside the existing bureaucratic structures, often with scales of pay kept outside the official pay structures. Over and above such institutional interventions, within the same sector donors also fund NGO projects to set up schools, health care centers, skill development programmes, whose projects co-exist, side by side, with donor-supported official projects.

This same culture of institutional proliferation has been in place in Bangladesh for the last two decades. The result is a move towards institutional anarchy with duplication of facilities in the same area and rising delivery costs for aid. In Bangladesh, almost identical projects, all designed to alleviate the poverty of youth, women, children, are negotiated separately by different ministries as well as by over 700 NGOs registered to receive foreign funds, with different donors. As a consequence, an analysis of a selection of aid funded poverty alleviation projects indicated high delivery costs, where for example it may take one dollar in project overheads to deliver one dollar in credit to the poor. Some skill development programmes for the poor have thus ended up with a cost per trained person which was higher than for producing a university graduate. Such high delivery costs originate in the need to set up separate project establishments, with provisions for administrative salaries, office establishment, transport, foreign trips and high investment in foreign consultants, who in some projects, are known to have consumed up to 40% of an aid project targeted to train poor women or provide credit to the poor.

System loss and transaction costs

Minimal efforts at aid coordination, both within the GOB and its donors, and between them, could lead to substantial savings of aid which could in fact be delivered directly to the poor. To the extent that the aid relationship, at the end of the day, is about a tax payer in Gothenburg, Sweden, wanting to alleviate the poverty of a destitute woman in Gaibandha, Bangladesh, the high delivery costs of this uncoordinated transaction may reduce, by up to 50%, the actual receipt of aid by the poor woman from her Swedish benefactor. The remainder of the 50% of the Swedish donor's taxes are consumed by the aid bureaucracy of both the donor and recipient country, including the even higher delivery costs when aid is channelled through the multilateral agencies, the share of expatriate as well as local consultants and all those illicit intermediates who appropriate a share of the aid enroute from the Swedish tax payer to the poor woman in Bangladesh. The high delivery costs of aid may be termed a form of *system loss* because it is a loss which is inherent in the institutional systems we have put in place to deliver aid. The illicit appropriations of a part of the aid flow by foreign and local intermediaries may be termed the *transaction costs* of delivering aid to the poor. If we add together both the *system loss* as well as the *transaction costs* of delivering aid from our generous lady in Gothenberg to a poor woman in Gaibandha, it is a wonder that any of this aid actually reaches the poor woman who provides the basic justification of this costly superstructure put in place to deliver aid.

In practice, however, it is up to the GOB and the GOT to take command of the coordination process through establishing their own development philosophy, locating it within holistic programmes, to instrumentalise their goals and to then design projects which can reflect these programme priorities. Once a recipient can achieve such control over its own development programme, it can also assume the responsibility for coordinating the aid programmes of its donors to fit into its national priorities. Such a bold move would hopefully drastically economise on delivery costs of aid. Unfortunately it is this failure of the GOB and the GOT to articulate their own national priorities or to generate minimal resources to underwrite these priorities which leads to the loss of control over their affairs which perpetuates anarchy in the aid process and raises the delivery costs of aid.

The Costs of Aid

The Terms of Aid

Both Bangladesh and Tanzania, as least developed countries, have benefited from their access to soft aid in the form of grants and soft loans. In Table 18 we present the changing composition and terms of aid flows to both countries. Between 1985 and 1993 the rise in the proportion of grant financing is apparent in both countries. It is lower in Bangladesh in 1993 because of the higher share of World Bank and ADB aid coming into Bangladesh compared to Tanzania. Both World Bank and ADB aid mostly come in the form of loan financing on IDA terms.

Most such multilateral loans are offered on soft terms and thus did not significantly add to the debt burden of either country. The exact terms on which Tanzania has accessed its aid is also presented in Table 18. This shows that, compared to both Sub-Saharan Africa and other LDCs, Tanzania has received aid on relatively easier terms, including both a higher share of grants and through the softer terms of its loans. Table 18 shows that between 1961 and 1990, the average maturity period, interest rate and grace period were consistently more favourable to Tanzania, compared to either its SSA neighbours or other LICs, which would include Bangladesh. In 1990, Tanzania's average maturity period for its loans was 17 years, compared to 12 for SSA and 11 for other LICs and its average grace period before loan repayments were to commence was 6 years, compared to 4 years for the other two groups. Similarly, in 1990, the average interest rate on the loan component of Tanzania's aid was 4%, compared to 8% for SSA and 9% for other LICs.

The easy terms on which both countries access aid is however not without a price. 'Soft aid' is now evolving into 'hard' aid because donors are now seeking their returns from recipient countries increasingly through the terms of the conditionalities imposed on the recipients of such 'soft' aid. Aid, which has to be repaid with interest, such as IRBD aid, measures its worth by whether it is indeed repaid with interest, even if the terms are below those on offer in the open market. Aid offered with a low repayment cost or no cost at all is deemed by the donors as a 'gift' or 'reward' for which they feel entitled to make demands on where this aid is used, on whom and with what results. Thus the rise in aid conditionality may be seen as directly related to a lowering of the financial cost of aid. The growth of conditionalities and emphasis on donor-driven reforms suggests that in both Bangladesh and Tanzania, donors feel that such 'gifted' aid is not being used very effectively and that donors, acting in the name of their tax payers from the donors' countries, are thereby entitled to demand a say in ensuring the more effective use of such aid.

The Debt Burden

Notwithstanding the softening in the terms of aid, the sheer volume of aid being delivered to both countries has raised the weight of the debt burden. Table 19 shows the extent of the debt burden, its share in relation to GDP and the weight of debt service, measured in relation to export earnings. It is evident that Tanzania's debt burden in relation to GDP was, at least since the early 1970s, much higher than in Bangladesh. In 1970, Tanzania's debt/GDP ratio was 17% , nearly three times the 6% ratio of Bangladesh in 1973. In 1980, the debt/GDP ratios for both countries had risen substantially but Tanzania's ratio was double that of Bangladesh. However, whilst Bangladesh's burden eventually rose to 54% of its GDP in 1994, in Tanzania its debt/GDP ratio in 1993 stood at an incredible 313%. This, in part, reflects the much weaker growth in Tanzania's GDP, as well as the faster increase in aid disbursements in Tanzania, compared to Bangladesh, in the last decade.

The end result of this build-up in the accumulated aid burden of Tanzania is to be found in the divergent trends in its debt service ratio. Notwithstanding the easy terms on which Tanzania has accessed its external resources, in 1993/94 its debt service ratio was 25% of its earnings. If however we take account of Tanzania's debt rescheduling at the Paris club, then its debt service charges come down to 11.9% of external earnings, a much more manageable figure. In contrast, Bangladesh's debt service ratio has come down from 28% in 1985 to 12% in 1993/94. This reflects the rapid growth in its export earnings in the last decade. By Third World standards, both Bangladesh's and Tanzania's debt service ratio are not too onerous, and may be compared with the ratio for LICs as a whole, which stands at 16.4%. In the case of Tanzania, much depends on what we assume about the actual export earnings of Tanzania, which may need to take account of its unofficial exports. However even taking this into account, Tanzania's debt, in relation to GDP, is at a frighteningly high level and raises a prescriptive claim for debt rescheduling or debt forgiveness. This problem has been recognised by the Paris Club which rescheduled $ 1.6 billion of Tanzania's debt and cancelled another $ 152 million. However more effort may be needed in this direction, since a debt/GDP ratio of 313% could compromise the future of the next generation in Tanzania unless there is a radical upsurge in growth as well as a generous write-off of its debt.

Tying of Aid

Both Bangladesh and Tanzania have been exposed to some tying of aid. In 1986, a study estimated that between 1971-83 Bangladesh lost about $ 728 million in the costs of aided commodity imports as a consequence of aid tying. This added 19% to the cost of commodities imported under aid (Sobhan, 1990b). However the diseconomies of aid tying were not uniform as some donor suppliers extracted a higher reward from tied aid than did others. In the case of Japan, for example, the tying of aid added 9% to the costs of the imported commodities compared to 29% for USAID-financed commodity imports (Ibid). The costs of tied aid for project aid are however estimated to be much higher in Bangladesh than those for commodity aid because of the higher degree of kickbacks associated with such aid. But no empirical evidence is at hand to support this argument where information is largely of an anecdotal nature.

No similar evidence is at hand for Tanzania to attempt an actual measure of the proportion of aid which is tied and its actual opportunity cost. Annexure I gives some casual evidence on this subject for some bilateral donors. It reports that both Sweden and Norway have limited their tied aid at a low and stable level, below 20%. Both Netherlands and Denmark have, in recent years, reduced their proportion of tied aid to Tanzania though the UK still ties a higher proportion of its aid than other donors mentioned here.

It might however be pointed out that aid coming into Tanzania as programme aid or as import support, whether from bilateral or multilateral sources, tends to be untied as it is designed to service the free markets for foreign currency. Multilateral aid is also untied. In contrast, bilateral project aid and technical assistance are more likely to be tied though some donors in Tanzania advised me that both their project aid as well as their import support aid had been untied. If we assume that, at the minimum, all import support plus multilateral aid is untied, then the estimates of untied aid to Tanzania come to about half of all aid disbursed between 1990 and 1993.

Table 20 provides the basis for the above computation by breaking down the composition of aid inflows into Tanzania between 1990-93. The table shows that 38% of aid inflows came from multilateral sources and that a quarter of all aid came in as programme aid. In an open market system, with the opening up of both trade and foreign exchange markets, it is much more difficult for donors to now tie their aid, so that some of the 50% of total aid which comes in as non-programme bilateral aid may also be assumed to be untied. Some donors, however, manage to ensure that their aid ends up being used in the country of source even though the aid is classed as untied. US food aid, for example, is still pegged to its farm support programmes, as indeed is the case of EEC food aid. Similarly Japan manages to keep its project aid sufficiently under its own control so that very little of such aid goes to any other than Japanese sources of supply.

6. THE ROLE OF TECHNICAL ASSISTANCE

The significance of Technical Assistance (TA)

Technical Assistance (TA) is treated separately from our discussion of aid relations in the previous section because of its special implications for the issue of ownership over policy making and for capacity building. It is argued here that TA is now playing a counter-productive role which undermines domestic capacities, distorts the skill market and erodes ownership over domestic policy.

TA in Tanzania

In Tanzania, the share of TA to total aid has increased steadily. Table 21 shows that the share of TA rose from 26.9% in 1980-85 to 42.6% in 1993. This level of TA in an aid programme is by any standards extraordinarily high. By way of contrast, in 1993-94 the share of aid disbursed as TA in Bangladesh came to less than 20%.

Of the $ 386 million in TA to Tanzania disbursed in 1993, the bulk of this, $ 362 million, is classified as *free standing* TA, compared to $ 24 million of *investment related* TA. The principal source of TA to Tanzania in 1993 was the World Bank which contributed 14.6%, followed by the EEC, which contributed 13% of TA. Amongst bilateral donors, the Nordic countries contributed between them 27% of all TA, with Denmark establishing itself as the largest of the bilateral donors. Surprisingly, the UNDP contributed only 2.3% of TA flows to Tanzania.

In 1993, the principal channels for the absorption of TA was the Administration, Planning & Finance sectors (APF) which absorbed 28% of all TA. This heavy investment in TA for the APF came to $ 107 million in 1993. Indeed, as between 1990-93, this sector remained the largest recipient of TA, absorbing 35% of all TA in 1990, 28% in 1991 and 33% in 1992, a total of $ 434 million or 31% of the $1.4 billion of TA disbursed between 1990-93.

Such a high level of investment in the area of TA for economic management and development administration in the 1990s could not be unrelated to the heavy investment made by the donors in influencing the direction of policy in Tanzania in this period. Not enough materials are however at hand to indicate where, in what areas and with what effect, such resources were used, since the UNDP tables indicate that the user agencies for some 95% of TA disbursed in 1993 remains 'unspecified' (UNDP 1994).

Problems of over-dependence on TA

The problem as defined by UNDP

Such a heavy investment in TA in Tanzania has not been free of the hazards associated with TA on offer to most DCs, including Bangladesh. The UNDP itself understates these problems but spells out the problems of using TA in Tanzania as arising from 'lack of qualified local counterparts, poorly designed training programmes, distrust of indigenous experts and ... strings attached to Technical Cooperation packages by donors' (UNDP, 1994).

The role of expatriate consultants

In recent years, under the new UNDP leadership and following a redesign of other donor agencies' guidelines there has been some effort to make better use of local expertise in Tanzania. However, for many years, Tanzania, as indeed Bangladesh and most African countries, has been a happy hunting ground for expatriate consultants. Entire institutions in many AIC countries have grown up or have continued to survive on the ability to fund research projects and consultancy works paid for out of the budgets of bilateral and multilateral donor agencies committed for providing technical assistance to Third World countries. In recent years, where 80/90% of personmonths of TA in Bangladesh may be supplied by local experts, 90% of the TA budget of an agency such as UNDP goes to expatriate consultants (Sobhan, 1994). Tanzania is no exception to this practice. This is paradoxical, because unlike many other SSA countries, Tanzania's professional resources are quite well developed. At least in the area of economics and planning, its capacities compare well with many Third World countries and would not be inferior to Bangladesh.

The attrition of local expertise

The problem with Tanzania, as with Bangladesh, has been the inability of the domestic market to provide competitive rewards to its best professionals, many of whom are located in fixed salary positions in academic institutions, the administration and Parastatals. The consequential erosion of real incomes of the most skilled Tanzanians and loss of motivation, originating in the dominance of policymaking by expatriate agencies and/or their consultants, has contributed to a process of capacity attrition. The best of such experts have joined the brain drain into the UN system or have availed of other professional opportunities abroad, though I find this to be far less evident in Tanzania compared to Bangladesh. Indeed in Bangladesh the best of the engineers, economists, doctors and other professional experts have moved abroad to North America, Western Europe and particularly to the Middle East. In elite institutions such as the Bangladesh Institute of Development Studies (BIDS) which, in its earlier incarnation as the Pakistan Institute of Development Economics (PIDE), founded in Karachi in 1958, was probably the first development research institute in the Third World, older than IDS in Sussex or the now famous Korean Development Institute (KDI), for which it was a role model, whole generations of economists, trained in the world's leading universities through programmes of international technical assistance, have moved abroad. A recent casual survey of the recipients of gold medals awarded to the top graduates of the Bangladesh University of Engineering and Technology found close to 80% of their alumni had migrated out of Bangladesh.

The opportunity costs of the domestic consultancy market

Bangladesh, of course, has an older and wider technical resource base than Tanzania, so it can continue to sustain its domestic institutions with a residue of competent professionals who stay home. But the price of retaining these experts at home is to see them absorbed into the domestic consultancy market which is, itself, almost entirely sustained by programmes of technical assistance. As a result, a great deal of expertise in Bangladesh is today tied up in writing consultancy reports, usually in the capacity of junior partners to expatriate consulting firms (Ibid). Many of these professional services on offer for consultancy work in Bangladesh remain invested in reports which are unread by the GOB. As a result, some of Bangladesh's best talents remain underused, even unread, since much of this consultancy work tends to remain unpublished. All this time invested in donor-driven consultancy services has a high opportunity cost in time diverted from teaching responsibilities, supervision of students, quality professional research of a publishable nature and in contributing to the domestic debate on policymaking within Bangladesh (Ibid).

This trend towards capacity attrition, observable in Bangladesh, repeats itself in Tanzania, where those skills retained at home remain heavily occupied in the international and domestic consultancy market. It is, however, worthy of note that fewer top professionals move abroad permanently from Tanzania than is the case in Bangladesh, but those Tanzanians who stay home are overwhelmed with consultancy obligations.

Ownership over TA and its implications

This dependence on donor driven consultancy work leads to loss of ownership over technical services by the recipient country. Most TA programmes in Tanzania, as in Bangladesh, originate from aid donors which usually design the terms of reference (TOR), define the methodology to be used, indicate the philosophy which may inform the report and often even spell out the conclusions they expect to read in the TA report. Lip service is paid to the concept of local ownership over such TA services. But few demands for such TA emanate from the felt needs of either the GOB (Ibid) or the GOT (Mukandala, 1992).

The commitment of the respective governments in Bangladesh and Tanzania for such largely unsolicited TA services is secured by the donor agencies, largely through inducements offered to the government officials supposedly commissioning these services. In Tanzania, as in Bangladesh, such inducements may extend from opportunities for overseas travel for negotiations and study tours, to provisions for material inputs built into

TA projects in the way of cars, office equipment, and funds for renting of offices for the TA project. In Bangladesh the yellow-plated vehicle, associated with a foreign agency, is seen in ubiquitous service with most senior government officials who are not normally eligible for official transport. More recently in Bangladesh, as in Tanzania, offers of handsome *per diems* offered by donors to attend TA- related seminars appear to have become commonplace. These yet modest financial inducements to make local bureaucrats more TA friendly have graduated into the recruitment of the more professionally qualified bureaucrats as consultants to donor projects (Mukandala, 1992, Sobhan 1994).

This extreme step in the co-option of senior bureaucrats into the service of the aid donors is not without its political problems where the same officials are expected to negotiate the merits of the same policy recommendations to which they have been party as consultants to a particular donor. In Bangladesh, for example, the World Bank co-opts senior bureaucrats into the preparation of some of their *grey cover* reports prepared in support of their programme loans to Bangladesh. The Bank fails to see the moral ambiguity involved in this exercise through the conflict of interest this imposes on such bureaucrats. These same consultants-cum-bureaucrats may have to advise their political masters about the wisdom of the policy reforms to which the government is expected to adhere under pressure of donor conditionalities. If the same bureaucrats have already contributed to writing the conditionalities into the World Bank's report can their advice be entirely objective?

Such practices, now in vogue in Bangladesh, seem to have extended themselves to Tanzania and many other SSA countries (Mukandala, 1992). In many such countries in SSA, the unpopularity and perhaps unviability of donor-driven conditionalities is being marketed to particular governments through the expedient of providing material inducements to top officials or professionals of these countries to 'sell' such donor-designed advice to their respective governments (Berg).

Much of this expatriate advice, mediated to SSA governments by local officials and consultants, may be perfectly sensible. But all such advice, offered by the back-door rather than presented up front through public debate over such policy advice, is hardly likely to be sustainable in the local political market place, particularly if it runs counter to democratic opinion.

Distortions in the TA market

Dualism in the consultancy market

Donor-driven consultancy contributes to serious distortions in the domestic market for technical services. It creates the basis for a dual wage system which creates parallel markets for the same skills (Sobhan, 1995). Those who can access the TA market move into a higher income bracket and social circle. This new life style is however not sustainable in the market place but can survive only though access to TA. The rewards on offer under such TA have, in both Bangladesh and Tanzania, been driven up by the continuing compulsion of donors to disburse most of their TA resources to expatriate consultants. Thus a three-tier earning system now operates in Tanzania and Bangladesh,' where expatriate consultants continue to be compensated at international standards, compared to local consultants, who, in turn, earn much more than their domestically salaried associates.

Expatriates are usual imported into both Bangladesh and Tanzania without reference to the availability of equivalent domestic skills (Sobhan, 1994, Mukandala 1992). Many of these expatriate experts are manifestly inferior to local experts, not just in terms of local experience but as to their professional qualifications. Some of these expatriates shamelessly pirate local research, without compensation and often without acknowledgement, for use in their consultancy reports or draw heavily on work by local experts who do the bulk of their work. For such redundant TA services donors are willing to pay double and treble the wages on offer to local counterparts, which both consumes the bulk of their TA budgets and also drives up compensation and costs for local TA services.

The manifest inefficiency and diseconomies inherent in the prevalent global donor-driven system of TA have invoked little corrective action by donors in spite of much breast-beating on the subject. The writer was both a contributor to and participant in one such high level conference in Paris a year ago, co-hosted by the President of DAC, the Administrator of the UNDP and the Vice President of the World Bank, with heads of many bilateral donor agencies also present. Notwithstanding eloquent commitments to reform the system of TA, the prevalent cost-ineffective systems of TA persist even today in violation of all the norms of comparative advantage with high opportunity costs for countries such as Bangladesh and Tanzania.

As a consequence of the inefficiencies of the global TA system, the governments in Bangladesh or Tanzania can today no longer afford the services of the best experts in their own countries even if they were to pay the local market price for such services. The only way local expertise can now be deployed to serve a public purpose is to motivate them with a feeling that their advice is likely to influence domestic policy. However as long as domestic policy is more likely to be influenced by aid donors, local experts will remain reluctant to sacrifice their time in quixotic gestures of public service, solicited by political or bureaucratic patrons who have surrendered their authority to make policy to the donors. Some local experts justify their work for the donors by arguing that it is better to influence the piper who calls the tune by working as their consultant than to waste their time with a government which dances to the donor's tune and prefers to listen to such expatriate advice in preference to their local professionals.

Mobilising domestic skills

In Bangladesh today, professional skills invested for a public purpose are increasingly becoming an endangered resource though attempts continue to be made there to recapture local skills to influence domestic policy agendas. One such attempt made in Bangladesh, to assemble the best skills available to influence public policy, was attempted in 1991. The then interim government in office for 3 months, to conduct a free and fair election, invited 255 of the top experts of the country to participate in 29 Task Forces to prepare reports on the state of the economy and the policy alternatives open to the newly elected government and Parliament. The 29 Task Forces produced work of exceptional value without remuneration as a voluntary public service. Regrettably the work was ignored by the new government which preferred the safer haven of BWI advice already on offer through their *grey cover* reports. More recently the Independent Review of Bangladesh's Development (IRBD) the Centre for Policy Dialogue, a Dhaka-based think-tank, assembled another such team of experts to undertake a review of the state of the economy. The impact of the IRBD is still to prove itself.

It is interesting to observe that Tanzania appears to be much better served than Bangladesh by the contribution of such local organisations as the Economic Research Bureau (ERB) of the University of Dar Es Salaam which has for over a decade been drawing together the best available professional skills to speak and write on important policy issues. The ERB, has, for the best part of a decade, assembled a variety of talents in the country every year to participate in a major seminar to address some problem of immediate policy relevance. The weight of this collective opinion, assembled in a single publication of great professional value, is not without impact on the domestic policy-making process. However, at a time when donors dominate the policy agenda in Tanzania, the value of these domestic policy inputs appears to be largely academic rather than influential amongst policy makers.

The emergence of the recently established Economic and Social Research Foundation (ESRF) under the leadership of Tanzania's leading economist, Samuel Wangwe, holds considerable promise of building another institutional base for establishing an indigenous source of policy research and advice.

In contrast Bangladesh with a world famous development research institute such as BIDS to draw upon, seems to extract much less collective service from its development specialists, whose largely donor-driven consultancy work remains, with some important exceptions, to be atomised and thus much less noticed at home compared to the outcome of the ERB seminars in Tanzania. It is to be seen if the recent efforts of the Centre for Policy Dialogue, in both assembling economists to prepare an annual IRBD and in bringing them into contact with policymakers and politicians in a regular programme of policy dialogues, will help to restore its development specialists to the public domain where they can exercise more influence on public policy.

However the efficacy of the ERB or the ESRF in Tanzania will be no greater than that of the BIDS or the

Centre for Policy Dialogue in Bangladesh, unless the government of the day in both countries and indeed the political opposition recognise the need for recapturing control over their domestic policy agendas. Until the political leadership of Tanzania and Bangladesh commit themselves to seeking policy alternatives, grounded in their domestic socio-political realities, and do so by drawing upon local expertise out of a genuine felt need, such exercises in domestic capacity building or retention will be exposed to attrition because of their lack of effective domestic use value.

7. AID AND GOVERNANCE

Weak Capacity for Resource Mobilisation

The Budget gap

The above discussions on the emerging resource gaps on budgetary and external account, as well as our discussions of capacity attrition in Tanzania and Bangladesh, remain intimately linked to the quality of governance. We have observed that the central macro-economic issue affecting aid dependency remains one of controlling current expenditure and augmenting domestic resources. Tanzania has been remarkable for the large share of recurrent expenditure (RE) in its TPE. The RE/TPE ratio has continuously increased from 65% in the 1970s to 81% in the 1981-86 period, to 85% in the 1986-94 period. By comparison, Bangladesh's RE/TPE ratio ratio increased from 39% in the first half of the 1980s and rose to 60% in the 1990s. In 1993/94, however, the RE/TPE share had again come down to 53%. In perspective it may be noted that, even at its zenith, Bangladesh's RE/TPE ratio was below levels realised by Tanzania at its lowest point. This may tell us something about the problem faced by Tanzania about committing a sufficiency of public resources for development.

Administrative depreciation

In both countries, we have observed that the high share of the recurrent expenditure derives from the obligations to pay wages and salaries to a large bureaucracy, most of whom are located in the lower rungs of the bureaucratic ladder. In Tanzania the policy of guaranteeing a job to every university graduate has not only placed an impossible burden on the budget but has led to a deterioration in the quality of the administrative service. Discussions with senior administrators, with exposure to the administration from the time of Tanzania's independence, indicate that recruitment and training standards have progressively deteriorated over the years. Today, with a far higher coverage and level of education than was at hand a quarter of a century ago and considerable investment of aid for purposes of education, training and capacity building, administrative performance appears, in the view of these former bureaucrats, to have deteriorated. Within the administration there is today an apparent unwillingness on the part of public functionaries to perform their assigned tasks in terms of investments of adequate time, to do a job of a desired quality, observing the required rules and procedures, to do the prescribed work on time or to be even available at the designated place to do their job (Mukandala, 1994).

This deterioration in the capabilities of the Tanzanian administration, as captured above by Mukandala, could be reproduced word for word for Bangladesh today, where both at the central, sectoral and local level, administrative capabilities have eroded exponentially. In Bangladesh and Tanzania, aid funded capacity building programmes build infrastructure which is not maintained, provide equipment which falls into disuse, train people who either join the brain drain or have to moonlight as consultants or work at second and third jobs to make ends meet. Such a situation derives from the absence or erosion of systems built around rules and precedents and the subversion of such systems for personal or parochial advantage under pressure of absolute and relative deprivation. As a consequence of this apparent betrayal of standards by the administrative leadership, the lower echelons of the bureaucracy take refuge in collective action to protect their incomes and jobs as well as to resist efforts to extract improved performance from them without substantial material incentives.

The tendency to eventually commoditise all public services to the point where the state withers away into an aggregation of private enterprises, operating under cover of public office, appears to be the response of the Tanzanian and Bangladeshi bureaucracy to the marketisation of society. Whilst the inability to protect real incomes may lie at the root of this deterioration in administrative capacities, the problem goes much beyond that to a general breakdown of the chain of command, where accountability disappears and maintenance of discipline becomes impossible. In such a system, it becomes difficult to reward differentiated skills, experience or effort. To address these problems as part of a donor-driven agenda for eliminating surplus employees misses the point, because such budget savings cannot be deployed to sufficiently upgrade compensation at the top to motivate public employees to perform at an acceptable standard. Thus public expenditure cuts cannot take place where they are needed because public employee compensation remains the holy cow of the system, where the employees have to be placated with periodic opportunities for across-the-board pay increases so as to protect the perennial erosion in their real wages. Such episodes of indiscriminate pay increases tend to be delayed and inadequate to provide sufficient incentives to improve performance where it is really needed. The share of public employee compensation in public expenditure thus continues to increase whilst the quality of public service deteriorates. Such a system of governance seems doomed to collapse by implosion to the point where the state degenerates into institutionalised predation.

The political economy of budget making

In stagnant economies, with few job opportunities, particularly for those with a basic education which serves to inflate their sense of self-esteem whilst equipping them with few productive skills, the educational system, the values of the society and the weakness of the economy together conspire to preserve the swollen public employee budget as a deadweight cost on the economy. This is a type of problem which cannot be accommodated within an agenda of parastatal or civil service reforms but demands societal level responses through a redirection of development strategy and an overall change in the quality of governance. Where powerful interest groups such as the military can protect their share of public expenditure, private sector bank defaulters and powerful parastatal trade unions can each command the political power to challenge donor-driven reform agendas in both Tanzania and Bangladesh, the issue of cutting public expenditure becomes an issue of governance and not of economic policy.

In the same way, improving revenue collections, we have seen, can be frustrated by the corruption of the revenue administration by individuals who would prefer to default on their fiscal obligations through private accommodation with various echelons of the state. The Tanzanian revenue crisis, which has exercised the donors to the point that both Sweden and Norway suspended CIS aid disbursements, is not going to go away as a consequence of donor pressure. As long as it remains advantageous for an individual to have his imports misdeclared through certificates provided by Tanzania's Investment Promotion Centre (IPC) and there are undercompensated officials who are willing to accommodate such illicit requests, such attempts at fiscal predation will persist. Some relief may be found in putting in place a system where no discretionary powers are left with revenue officials. But this would obviously imply that any attempt to provide policy incentives to influence expenditure in favour of investment over consumption, or provision for promoting basic needs over luxury consumption, will be exposed to abuse. The ability to put in place fiscal systems with minimal discretionary power, with sufficiently low rates of tax to lower the incentives for evasion and with improvements in the culture of law enforcement, may be difficult. But such is demanded, if a substantial improvement in revenue collection is to be realised.

In Bangladesh, the introduction of the VAT increased the coverage of the tax collection system and reduced the incentive for discretionary interventions which has served to raise public revenues (JRBD). But direct taxation levels remain low in relation to both total revenues and GDP, compared even to Tanzania. This is due to Bangladesh's very narrow tax base and the political reluctance as well as the administrative incapacity to widen the fiscal net to a level which makes a significant impact on domestic savings. In both countries, the answer would thus appear to lie in lower tax rates and wider coverage as the route to revenue enhancement and improvement in collection rates. But any change in the tax structure and improvement in enforcement of revenue collection needs again to be situated within an agenda of governance reform in both countries rather than as mere exercises in fiscal policy reform.

In the specific case of Tanzania, the peculiarities of the constitutional arrangement, which permits a dual fiscal system to prevail in mainland Tanzania and the island of Zanzibar, remain a recipe for the undermining of discipline in the collection of import revenues. The answer to this problem obviously lies in unifying the fiscal structures of the two regions, a measure which may require constitutional amendments. This may be a task of considerable political delicacy which can hardly be resolved through the donor's fiat.

Similarly, the donor advice to farm out the responsibility of evaluating the price of imported goods more accurately so as to discourage underinvoicing, through pre shipment inspection by foreign firms, has shown itself open to abuse. In Bangladesh, a recent system of permitting individual importers to produce pre-shipment certificates by recognised international firms lent itself to widespread abuse and has had to be withdrawn for such highly profitable but heavily taxed imports as cigarettes. Here again it may be asked why pre-shipment inspection works better in Indonesia compared to Bangladesh or Tanzania? The answer to such a question may be more material than the approach to introduce pre-shipment inspection as the panacea to weaknesses in the domestic system of revenue collection.. Here the culture of business, the quality of governance and the political will to change both, remains more central to the resolution of the problem than a donor-driven agenda of policy reform.

Governance and aid utilisation

The effectiveness of aided projects

In Tanzania, a large literature has been assembled about the problem of making more effective use of aid. Some of this is captured in the weighty report of the conference held in Dar es Salaam at the end of January 1995 to discuss the evaluation reports of several donor agencies. The discourse on aid effectiveness draws upon the argument that the efficacy of aid use remains more important than the volume of aid (Cassen). In Annexure I of this paper we have provided some measure of how different donors have evaluated the effectiveness of their respective aid projects. Different donors have come up with a mixed bag of results. The Dutch reported that two-fifths of their project investments may be regarded as absolute failures. Both Sweden and the Denmark reported negative results from their aid to industrial projects, whilst their infrastructure projects were reported to yield mixed results.

Aid effectiveness

The World Bank's evaluation of its aid experience found that, on balance, returns from most of their projects were below its original expectation. Its evaluation is cited at Annexure II. Industry loans seemed generally to have been below par. 12 out of 17 agriculture projects evaluated by the Bank had negative ERRs and four had ERRs below expectation; thus only one out of 17 Bank projects was deemed have performed up to the estimates made at the time of appraisal. Five out of six of the Bank's transport projects were below par but projects in telecommunications, energy and power, water supply and sanitation, although much delayed in implementation, were deemed generally successful. In the education sector, two out of six projects were deemed to have been successfully completed. The general record of the World Bank's self-evaluation of its aid projects does not suggest a very positive outcome from its aid experience in Tanzania.

The proximate causes for such poor outcomes from the projects of the World Bank are cited in Annexure II. Out of the eight causes identified by the Bank for its poor results, two, *infrastructure constraints* and *weak overall economic situation*, may be classified as originating in the condition of the Tanzanian economy, and one, *inappropriate sector policies*, reflects the need for policy reforms. However the remaining five issues cited by the Bank, of *bad project design, deficient staffing, inadequate support of government, undue haste to do follow on projects* and *insufficient supervision*, appear to be governance related issues. Of these, five issues *project design*, and *haste to do follow on projects* derive as much if not more from misgovernance in the donor institution rather than just the GOT.

A similar list of explanations could be cited to explain poor project performance in Bangladesh. One of the 29 Task Force Reports, cited earlier, which addressed the theme of *Aid Utilisation,* comes up with a list of implementation problems which could have been lifted directly from the World Bank report for Tanzania as cited in Annexure II.

The above list of reasons for weak project performance, assembled by the World Bank, tends to be replicated in the evaluation of other donors. To this list, cited in Annexure II, may be added the further list of problems common to both Bangladesh and Tanzania. These include problems of delays in implementation, in many cases due to attempts at the upper reaches of decision making to influence the choice of contractors and consultants, the lack of supervision of projects under implementation, and the complete lack of any national level concern over extracting positive results from projects, once completed. Thus bureaucratic time tends to be disproportionately distributed between negotiating aid, implementing aided projects and managing completed projects, with the time spent declining exponentially at each stage of the project cycle (Sobhan, 1990b). This distorted use of administrative time and political priority is the typical outcome of an aid dependent society which treats aid as a political resource for private consumption or for use to obtain partisan gain, rather than as a long term investment for realising the economic transformation of the country (Sobhan, 1984).

This singular failure to manage aid projects effectively leads inevitably to under-capacity use of projects and eventually capacity attrition, where projects simply run down from lack of administrative attention and political indifference. Defunct aid-funded factories, roads with pot-holes, out of use equipment, are symptoms of this careless use of aid. Donors deem this misuse of aid to be an outcome of lack of recurring revenue available to the recipient government. They feel that this inadequate expenditure on *O&M* could thus be addressed by providing budget and balance of payments support to contribute fungible resources for use in the recurrent budget in order to activate these moribund aided projects. These donors remain less inclined to view poor project maintenance as a measure of governance failure. Such weaknesses in governance contributed, in the first place, to the failure to manage the projects well enough. Such failures in governance led to the failure to keep equipment serviceable where it could generate a stream of goods and services which could have augmented the revenues of the project, to finance its own maintenance and/or could have contributed revenues to the government so that it would not look to the donors to finance its *O&M*. The traditionally low *ICORs* of aided projects provide a quantitative measure of the weak growth potential and savings performance which have been captured in Mjema's econometric exercises for Tanzania. The perpetuation of aid dependence would thus appear to be inherent in the peculiar circumstances of the aid relationship in both Tanzania and Bangladesh.

The effectiveness of programme aid

Now that an increasing share of aid is being invested in programme loans designed to change policy, the BWI is inclined to evaluate the effectiveness of such aid in terms of their degree of success in realising the reforms. Bangladesh today earns high marks for its successful reforms, measured by its improved macro economic balances (Min.of Fin., GOB). Unfortunately the burden of much of the earlier argument in this paper points to the importance of assessing the end results of such reforms and not in measuring the actual success in carrying through the reforms. In terms of outcomes, neither Bangladesh nor Tanzania score very high marks in terms of the acceleration in growth, structural transformation or the alleviation of poverty. In both Tanzania and Bangladesh, given the high volume of aid received under programme loans and the weak outcomes from their reform process, the World Bank's agenda of programme loans in these two countries could thus not be counted as a great success.

It would be useful to be able to carry through a more satisfactory exercise which estimates the impact of aid on poverty alleviation in Bangladesh. There is no lack of effort to establish such causal links at the global level (Cassen) or in innumerable project evaluation exercises. The truth is that donor interventions to alleviate poverty in Tanzania or Bangladesh cannot be seriously evaluated in the absence of a holistic programme of poverty alleviation articulated by either government. In the name of poverty alleviation all we have is a plethora of donor-funded projects, some of which alleviate some poverty but most achieve little, because these interventions tended to be unsustainable beyond the life of the aid-funded project. In such circumstances we need to develop acceptable measures of poverty, with concrete programmes with clear goals, within which donor funded projects can be situated in order to perform an assigned task within the poverty alleviation programme. Within such a programme perspective it would be more feasible to assess how far aid has managed to make a substantive dent on poverty. In place of such a framework for linking aid to poverty, what we have are a series of exercises, funded by the BWI and other donors, to ascertain whether structural reforms have aggravated or alleviated poverty. A recent exercise was carried out by the World Bank in Tanzania which was discussed in a major conference in Arusha in May 1995. The conference also drew upon a number of studies on poverty trends in Tanzania (World Bank, 1993c, Sarris, 1993). I have found these studies most instructive but unable to establish any link between poverty and either the BWI reforms or Tanzania's aid programmes. In the context of our study of aid dependency, it may not thus be very useful to pursue the issue of the poverty-alleviating impact of aid, which needs to be studied in its own right.

The Issue of ownership

Who designs the development agenda?

At the core of this peculiar juxtaposition of aid dependence and weak governance lies the issue of ownership over the development agenda. To answer this question over ownership we must identify who makes policy in both Tanzania and Bangladesh.

In the case of Tanzania, it may be argued that up to mid 1980, the GOT was clearly in charge of its development strategy. It was driven by a sense of mission, emanating from a charismatic leader of enormous moral integrity who commanded unique respect both internationally and at home. Mwalimu Julius Nyerere, as President of Tanzania, had a vision for his country and sought to imbue his government with this same sense of purpose (Legum et al.). It may be argued that Mwalimu's vision was flawed, that it was inappropriate to the needs of the country, or if originally appropriate, then became less so in later years and needed modification in its direction. Mwalimu's vision may be deemed inappropriate to the administrative capacities, political commitment and even the social characteristics of Tanzania. Such a debate on the validity of Mwalimu's vision for Tanzania obviously can only satisfactorily be addressed within Tanzania and by Tanzanians. It is inappropriate for itinerant expatriates to partake in this debate as much as it has been for the donors to influence the outcome of this debate. Too many donors and casual outside 'scholars' have tended to pass uninformed, ahistorical and hence politically insensitive judgements about Mwalimu's vision which are driven by hindsight and subjectivity. Such inappropriate comments do little to help us understand the context from which such a vision emerged or to create the basis for a similar capacity to develop an indigenous vision for Tanzania.

What is however at issue is that Tanzania was, for close to 20 years, more in charge of its own destiny than most Third World countries. In contrast, Bangladesh visionary phase lasted but a few years when it was presumed to be in change of its own development agenda. Hard as it may be to remember this in the Tanzania of today, the Tanzanian vision was once driven, however misdirected or inefficiently, by Tanzanians.

With the departure Mwalimu from office in 1985, when he voluntarily relinquished the office of President under the provisions of the constitution, it is universally acknowledged that policy making in Tanzania lost its sense of direction. From 1986/87 there is increasing evidence that the principal aid donors have taken over the direction of policy, at times almost with a sense of embarrassment at the lack of challenge from the GOT. Earlier attempts to challenge the authority of the donors through occasional questions raised from outside the government, because of the presence of Mwalimu as President of the ruling party, have, in recent years, weakened in their intensity. Today Tanzania's development agenda is indistinguishable from that of the universalist prescriptions of the BWI, itemised earlier in this paper and spelt out for comparison in Annexure III. Virtually every major policy initiative put in place in Tanzania in recent years appears to have originated out of initiatives by the World Bank or the IMF.

BWI role in policy reform in Bangladesh

In this ceding of hegemony to the BWI over its policies, Tanzania has followed a route now familiar to most LICs, including Bangladesh. It has been argued that over the last 15 years, not a single major policy reform in the field of development in Bangladesh has originated from within the GOB (Sobhan, 1984, 1993a). The closest the GOB came to formulation of its own policy was when it set up a National Commission on *Money Banking and Finance* in 1985 of which this author was a member. However even this Commission was inspired by the donors out of a concern for the deterioration in the banking sector, associated with massive debt default to the DFIs and NCBs (Sobhan, 1990a). Indeed, the actual policy document around which financial sector reforms were introduced by the GOB in 1990 originated in a *grey cover report* by the World Bank, prepared by expatriate consultants, and was put into effect as part of the conditionalities attached to a Financial Sector Programme loan. Virtually every other measure of policy reform in recent years originated from the World Bank or the Asian Development Bank. Some of these donor-sponsored programme loans are cited below:

- *The Industrial Sector Credit*: promoting import liberalisation;
- *Energy Sector Credit*: promoting improved performance of the Power Development Board;
- *The Small Irrigation Credit*: promoting privatisation of the irrigation sector and liberalisation of the import of irrigation equipment;
- *The Food Crop Sector Loan*: promoting desubsidisation of the sale of fertilisers and sale of irrigation equipment held by the GOB, to private buyers;
- *Public Enterprise Reform Loan*: promoting disinvestment of public enterprises;
- *The Jute Sector Loan*: promoting downsizing and disinvestment of public enterprises in the jute sector.

The above reforms were each underwritten by programme loans to which policy reforms were attached as conditionalities for the commitment of the loan. Most of these loans are disbursed in several tranches. Failure to implement the conditionality programmed as part of the loan during the time stipulated for implementation can lead to suspension of aid disbursements after the first or second tranche. Many other policy reforms or project sector level reforms originate in reports prepared by the consultants commissioned by Bangladesh's principal donors.

Some of the reforms introduced under BWI conditionalities may be eminently suitable for Bangladesh, in all or part. But the point at issue is the source of the reform proposal. If the need for such reforms is conceived by the donors, the terms of reference for the reform proposals are designed by the donors, the *grey cover report* is prepared by their consultants, assisted by a few local experts including some moonlighting civil servants, and the reforms are implemented only under pressure of conditional loans, what is left of the sense of vision and the credibility of the authority of the Government of Bangladesh? Over the last 15 years, successive governments in Bangladesh have thus been spared the inconvenience of enunciating a vision for their country or giving it substance through a set of policies conceived and designed within the GOB. Instead, both the vision and its execution have emerged out of the donor community.

Directing Tanzania's policy reform process

In Tanzania, one finds a bit more evidence of domestic initiative in directing policy reform through the establishment of several National Commissions. Thus, the *Presidential Commission on the Tax System*, chaired by E. Mtei and the Commission on the *Land Question*, chaired by the radical lawyer I. Shivji, are examples of GOT initiatives. But again, it would appear, that, as in Bangladesh, the inspiration for these National Commissions came from the donors, who sought, in the process, to share ownership of the reform measures which they felt were needed for Tanzania.

There is an increasing sense of drift on the part of the GOT and a growing passivity, noticeable even to donors, as to the role of the GOT. The RPFB was an attempt to establish a sense of direction for the GOT. But this exercise would have carried more credibility had it emerged out of a process of national debate rather than out of the state bureaucracy, and did not so closely approximate to the priorities laid out in the World Bank's own agenda summarised in Chapter 8: *Tanzania: Resolute Action*, in the CEM for 1993. Successive programme loans designed by the World Bank have set the contours of Tanzania's future development strategy. These include:

The Multi-Sector Rehabilitation Credit (1986)
The Industrial Rehabilitation and Trade Adjustment Credit (1988)
The Tanzania Agricultural Adjustment Credit (1990)
The Financial Sector Adjustment Programme

In recent years, following the suspension of CIS aid payments by Sweden and Norway in November 1994 over the issue of tax-exemptions, Tanzania is in the process of improving its tax collection arrangements and has recently set up a Revenue Authority under the leadership of a leading economist, Benno Ndulu, to institutionalise a more effective process of revenue collection. However even this initiative originated in conditionalities laid down by particular donors.

Government Capacity in Tanzania

The relinquishment of its authority to the donors in directing the development agenda in part may reflect a weakness in government capacity to formulate policy. There are indeed some highly competent economists and other professionals in the GOT, in the ministries of Finance and Planning, in the Bank of Tanzania and even in the office of the Prime Minister. However it is less evident that these skills are being used effectively to define strategy and design policy. It is reported that a committee has been set up by the GOT, headed by one of the senior professionals of the Planning Commission, to assemble a team to work out a long term vision for the government. It was less clear if this attempt by the GOT to set a new direction for Tanzania's future derived from an awareness of the eroded authority of the GOT or was part of a pre-election effort to demonstrate to the voters that the ruling party was in charge of the country's economic destiny.

In practice we have observed already that Tanzania is not short of professional expertise, located in the University of Dar Es Salaam and such think-tanks as the ESRF. Indeed it would appear that the well endowed ESRF, supported in part from the *African Capacity Building* programme, sponsored by a number of donors, was inspired by the need to build up an autonomous capacity for policy formulation within Tanzania. There is indeed evidence of some intimacy between the ESRF and senior bureaucrats in the economic ministries in the GOT. There is also some traffic between the local professional community and the government, as evidenced by the fact that members of the Faculty of Economics from the University of Dar Es Salaam are advising the Prime Minister, are in senior positions in the Planning Commission and another is now to head the new Revenue Authority. Academics are also invited in to advise the government and to serve on the National Commissions as is evidenced by the fact that Shivji, a teacher in the Law Faculty of the University, is chairing the Land Commission.

Attempts at policy autonomy in Bangladesh

On all available evidence it would appear to this writer that the GOT makes much better use of its professionals to provide an input into the policymaking process than does the GOB. In Bangladesh, for one brief period after the independence of the country in 1971, the new government of an independent Bangladesh set up the *Bangladesh Planning Commission*, headed by four of the leading economists of the country, all of whom had been intimately associated with the independence movement. The authority of the economists derived less from their professional reputation than their closeness to the political leadership at that time. This new *Planning Commission* was built up through the recruitment of some of the best professionals in the country and exercised, in its initial phase, considerable authority in influencing economic policy but much less authority over its implementation.

The professional capabilities of the *Planning Commission*, the confidence it enjoyed with the leadership and the political authority of the Prime Minister, which, in the early years of Bangladesh's history, was no less than that commanded by Mwalimu in Tanzania, enabled the Planning Commission to take a position which was both independent of and in many cases contrary to that of the World Bank. This assertion of both political and intellectual independence of the Planning Commission was not particularly appreciated by the World Bank, which had, through the 1960s, enjoyed exceptional influence over the direction of policy in undivided Pakistan, which was itself a highly aid-dependent country (Sobhan, 1984). Attempts by the new Bangladesh Planning Commission to recapture control over policymaking in an independent Bangladesh from the World Bank inevitably brought it into conflict not just with the World Bank but also with the permanent bureaucracy, which was, in the Pakistani period of Presidential autocracy, totally in command of the policymaking process, to the exclusion of both politicians as well as the professional classes. Since some of the Planning Commission's policy advice also alienated the embryo Bangladeshi business community, virtually all the traditional elite groups were inimical to the influence of this new organisation which contributed to the erosion of influence of the Commission with the political leadership. However in the hightide of the Planning Commission's influence for some three years, Bangladesh was more immune from donor influences in the direction of its own development agenda than has been the case since that time. This observation is made without prejudice as to whether the then Planning Commission may have been better served by paying more heed to BWI influences. But it does seek to establish the fact that for some brief moments Bangladesh was in charge of its own policies, whether right or wrong.

This sense of self-assertion in policy-making could not sustain itself in the absence of a strong fiscal effort underwritten by rapid economic growth. The exogenous shocks imposed on the Bangladesh economy in 1974 made the country much more dependent on aid and hence vulnerable to donor pressure. At the same time, the erosion in the political credibility of the government, at a time of economic hardship for ordinary people, made the political leadership much less inclined to persist with an autonomous development agenda.The compulsion for accommodation with the donors after the famine of 1974 set the stage for the reassertion of donor hegemony over policymaking in Bangladesh. But this process did not move into high drive till the change of regime in August 1975 and some sparks of policy autonomy were still evident in the body politic of Bangldesh during 1975. The high price extracted by the donors for this initial gesture of self assertion was enough to persuade all successive governments in Bangladesh that one could only challenge the aid donors at great risk to the survival of a regime. This may have been an exaggerated imputation to the authority of the donors but it was what successive governments of the day in Bangladesh came to believe.

The decline of the Planning Commission corresponded with a decline in the authority of the professionals and the re-ascendancy of the permanent bureaucracy over policymaking in Bangladesh. The younger of these bureaucrats, most of whom are now Permanent Secretaries, are professionally trained, a number holding doctorates in economics. However the new generation of bureaucrats have learnt from their seniors that close relationships with the donors is a safer and also more personally rewarding path to advancement. Since many of this new class of bureaucrats do not limit their ambitions for career advancement to upward mobility within the Bangladesh bureaucracy but aspire to careers in the international organizations, including the BWI and ADB, they have been particularly attentive to maintaining harmony with the donors on issues of policy . For those with more localised working ambitions, good relations with the donors were not without its advantages for personal benefit. As a consequence, the bureaucracy in Bangladesh has willingly, if gradually, surrendered its authority over policy formulation to the donors, even though some of them are quite competent to frame policy. This was in marked contrast to their predecessors from the Pakistani bureaucracy who saw themselves as part of the Pakistani ruling class, with more localised ambitions, who could thus afford to treat the donor community as partners and even instruments in perpetuating the authority of the bureaucracy over the Pakistani polity (Sobhan and Ahmad: 1980).

With this diminished appetite of the Bangladesh bureaucracy to influence policy, there has also been a corresponding attrition in professional skills within the government. Thus disuse of both their professional skills as well as the dimunition in their exercise of authority has made the bureaucracy into receptacles and then transmission agents for donor advice.

Disempowerment and governance

This reluctance of the bureaucrats, whether in Tanzania or Bangladesh, to take greater charge over the direction of public policy has served to weaken the public authority of the political leadership which depends on the bureaucrats for policy advice. A number of Finance Ministers in both Tanzania and Bangladesh have themselves been ex-bureaucrats and so have carried over their intimacy as officials with the donors to their more elevated office of Minister.

The problem in Tanzania, as much as in Bangladesh, has been that at least for the last decade the political leadership has enunciated no autonomous policy agenda of its own and has had to accept the received wisdom of the BWI, transmitted through the national bureaucracy, as its own political agenda. In Bangladesh successive Finance Ministers have uncritically embraced the BWI agenda as their own even where it imposes some political cost on their political party.

This willingness to concede to donor policy advice is, in part, driven by the fact that successive Finance

Ministers in Bangladesh, since 1974, have been professionals, without political authority or an electoral mandate. This lack of representative credentials has made the professional/bureaucrat Finance Ministers more inclined to seek the patronage of the donors rather than the support of the voters or indeed their political colleagues. These Finance Ministers have based their authority in the government, usually measured by their proximity to the President/Prime Minister, by securing the benediction of the donors and establishing their capacity to increase the aid budget. This continued patronage of the donors has depended on the fidelity with which successive Finance Ministers in Bangladesh have sought to accept the policy prescriptions laid down by the donors.

The political history of Tanzania is less familiar to the writer but bears some resemblance, in recent years, to that of Bangladesh, with the authority of the Finance Minister depending in no small measure on his relationship with the donors. The displeasure of the donors was believed to be a not insignificant factor in the ouster of the previous Finance Minister.

It should be kept in mind that once governments such as in Bangladesh become accustomed to the habit of genuflecting to donor influences, it becomes very difficult to reverse this trend, even when objective conditions become more conducive to the exercise of greater autonomy over the policy-making process. Civil servants fall out of the habit of arguing with the donors and live in perpetual apprehension of the personal and bureaucratic cost of appearing to be seen by donors as a recalcitrant element. Finance Ministers, who have established their authority within the government through their capacity to bring home lavish aid commitments due to the goodwill they have accumulated with the donors, find they have alienated themselves from their domestic political constituencies and must now depend on the patronage of the donors for their very survival. On rare occasions, when political Ministers do contradict the donors at moments of extreme provocation, this comes as a form of culture shock to the donors who have become too comfortable with the servitude of their clients. In such circumstances, as in Bangladesh today, where an improved fiscal and balance of payments position should have bought considerable space to the GOB to take its own initiatives, we still remain witness to a political leadership which continues to seek the approbation of the donors on all possible occasions and continues to leave the initiative to the BWI and their consultants to direct Bangladesh's economic policy through the instrument of the *grey cover* report.

It would thus appear that if, today, Tanzania were to seek to forge an independent direction in its economic policy it too would find that its capacities for autonomous action have become atrophied by disuse. Once a nation reaches this state of intellectual paralysis, aid dependence evolves from an economic condition into a cultural phenomena which conditions the national psyche.

8. AID AND DEMOCRACY

Aid and the nature of the state

Our earlier discussion on aid dependence has argued that dependence is not merely a question of numbers but originates in the very structures of the economy, the governance of the state and the thought processes of the government, where each of these processes stands in symbiotic relationship to the other. At the end of the day the aid relationship originates in the nature of the state itself. To take this argument to its conclusion we will therefore briefly look at the Tanzanian and Bangladesh states to see how far the nature of the respective states has influenced the aid relationship.

Donors and the Tanzanian state

It is significant that both Tanzania and Bangladesh have operated within authoritarian political structures for most of their history. Tanzania, from its independence until just a year ago, was a one-party state. This was without prejudice to the state's democratic mandate which derived from the unchallenged political authority of its leadership and strong political support for its ruling party. The one-party system, built into Tanzania's constitution, integrated the party and government within the state and established a dyarchy of power whose institutions duplicated each other throughout the country. The main feature of the one-party state lay in the absence, both institutionally as well as politically, of any political challenge to the authority of the ruling party and government. Whatever political conflict emerged had to be subsumed within the party. Thus political debate over official policy was rarely articulated in public and was internalised within the party or tolerated at an academic level (Tandon and Babu). This absence of political pluralism made the system much less sensitive to the weaknesses of policy or inclined to take corrective measures against failures of implementation. Too much depended on the vision, purpose and capacity of the leadership to identify its own mistakes and initiate corrective action.

Given the visible deterioration in the Tanzanian economy in the late 1970s, it is arguable that a more plural political system would have promoted more intensive debate and political challenge to the policy agendas of the government. Instead, the main challenge to the system emerged from the donors, which from the end of the 1970s, emerged as the main challenge to the authority of the state to formulate policy. Given the weakness of the economy and the increased dependence on the donors for aid, such a challenge was potentially formidable, notwithstanding the unchallenged authority of the leadership. Today one hears of much internal dissent within the government over the direction of state policy in Tanzania during the era of Mwalimu's leadership, but at that time not much was heard about such dissent. To the best of my knowledge, the first challenge at that time to the increasingly dysafunctional drift of state policy, arguing for some corrective action rather than a change of direction, emerged out of a seminar organised by the economists of the University of Dar es Salaam in 1984 (Lipumba et al, 1984). By that time the GOT was in deep conflict with the BWI, the IMF had suspended negotiations and the World Bank had cut off aid. In these times of visible hardship there was no discernible domestic challenge to the ruling party so that the political debate devolved into a question of the sovereignty of the Tanzanian state vis-a-vis the donors rather than on the nature and consequences of the official policy as well as the need for change. The confrontation of the economists in questioning the direction of state policy was quite commendable at that time but did not qualify as a political challenge to the authority of the state which remained unassailable in the absence of an institutionalised political opposition.

The loss of autonomy over policymaking in Tanzania

As and when the BWI asserted its hegemony over Tanzania's development agenda, it is noticeable that no corresponding public debate on the validity of this change in direction has emerged. The main criticism of the new direction of policy has come from the Chairman of the ruling party, the former President of the country, and again from within the academic community. The recent conference, *Beyond Structural Adjustment Programmes in Tanzania,* held in Dar Es Salaam in August, 1995 under the sponsorship of the ERB, has posed some challenging questions about the efficacy and future of the reform agenda. A quite sizeable literature of considerable professional merit is now on the table, originating from both Tanzanian and expatriate economists. Some of this work has been supported by the Nordic donors which suggests that there is a growing concern outside the BWI about the efficacy of the Structural Adjustment Reform agenda as well as the persistence of aid dependence (Helliener et al, Gibbons and Raikes).

This concern over the negative implications of the BWI reforms throughout SSA has in fact aroused concern throughout Africa. This may be seen from the initiative by CODESRIA, in Dakar, to assemble researchers from around Africa to initiate an African response to the hegemony of the BWI reform agenda over policy within SSA, with a view to develop more autonomous visions about development alternatives for SSA originating from within the African research community (CODESRIA).

Democracy and the donor-driven policy agenda in Tanzania

These growing concerns both over the impact of the BWI reform paradigm and the loss of autonomy over policymaking in Tanzania has inspired some constructive thinking in academic circles on future options for Tanzania (Msambichaka et al). However none of this has surfaced within a holistic framework which could constitute an alternative policy agenda for the country. More seriously, there is no political constituency to respond to such policy options. Discussions with opposition leaders in Tanzania contesting the first multi-party election indicate that the parties contesting for state power do not have a clearly articulated alternative agenda to that of Tanzania's ruling party. One of the principal leaders of the opposition indeed claimed, in a discussion with the writer, that his party would pursue the BWI agenda with greater sincerity than would the ruling party! Another leader indicated that they would seek some let up in the rush towards import liberalisation because of its impact on domestic industry. There is some concern about pushing too rapidly with the privatisation agenda because of the prospect of Asians taking over an excessive share of the productive assets in the economy and resuming the same economic hegemony which policies, based on the Arusha declaration, sought to correct. In practice, however, the agenda now put in place by the BWI and under implementation by the present GOT, remains without effective challenge now or in the future, in the absence of any serious, politically backed attempt to design an alternative more endogenously conceived, reform agenda.

This situation in Tanzania today is grounded in the more pervasive belief that the economy is now so dependent on aid for its current expenditures on public and private account that any threat to the flow of aid could have quite serious repercussions for the viability of the economy and indeed the survival of the polity. A wide constituency of people, with a stake in the continuity of the aid relationship, are now there to influence the thinking of the political parties. These groups include the bureaucracy, the new trading bourgeoisie who have prospered under CIS/OGL sustained import liberalisation, and those in the professional community who are prospering under donor-funded consultancy work. In the rural areas, the Booth study indicates that the wider availablity of consumer goods has been quite popular. However whether access to such imported goods can be sustained in the absence of an increase in export earnings and an enhancement of rural earning capacity remains another question. In contrast the Parastatals, the bureaucracy now joined by domestic private industrialists, entrepreneurs, and miscellaneous elements of the subaltern classes, including small traders, remain worried by the impact of the current policy agenda on their respective futures (CTI, Change, 1993).

The private industrialists of Tanzania, in particular, appear to be emerging as a potentially influential constituency who see little future for themselves under the present policy regime. Those who wish to survive in industry would be supportive of any political initiative to moderate at least the policies for import liberalisation. However, as in Bangladesh, this same industrial bourgeoisie also makes its living as traders or at least have family members who do so. Thus their urgency to change the thrust of a policy which is contributing to the de-industrialisation of Tanzania remains weak as they have the option to close down their factories and to return to their origins as traders.

Policymaking under democracy

In a democratic process, policymakers now have to take account of the various concerns of those conflicting constituencies over the issue of donor-dominance in policymaking. Throughout the country, whether in government, the private sector, or the professional classes, there is a feeling that the state is no longer in charge of the direction of the economy and that Tanzania's future is more dependent than ever on its external benefactors. This loss of ownership by the government over its policy agenda and of society over its vision for the future may not augur well for the aid relationship unless the donors wish to resume a colonial patrimony over the Tanzanian state.

Within the prevailing circumstances there is universal acceptance that reforms of the economy were needed and much of the BWI agenda has considerable merit. However the nature of this reform process, its underlying rationale, its ability to deliver its promised results, its distributive implications and above all, its sustainability without lavish donor support remain highly problematic.

Tanzania has now moved into a more plural political system with an incipient free press and opportunities for open public debate where political leaders have to worry about the concerns of their voters. Neither the ruling party nor the opposition can therefore uncritically accept an externally-driven development agenda. In one-party or authoritarian political systems, policymakers can afford to ignore domestic opinion and/or to expose their policies to the influence of the donors, since their accountability to a domestic constituency is much weaker. In such regimes the challenge to external influences thus has to originate in the sense of vision of the domestic leadership, as was the case in the pre-1985 period in Tanzania. In the absence of such a vision, the policymakers operate within a political vacuum which has only too readily been filled by the donors. The meeting of the *consultative aid group* thus becomes, for the Finance Minister, the equivalent of the budget session in a genuinely democratic Parliament. Such a situation may have been tolerable under presidential autocracies, faced with impotent legislatures. This situation can hardly prevail in a working parliamentary democracy where a Finance Minister's first responsibility is to Parliament. However, even in a working Parliament, whether in Tanzania, or in Bangladesh, unless the democratic opposition within and without Parliament, can mount an effective challenge to donor-sponsored policies, the Finance Minister will continue to look to the donors for his policy mandate.

Building a policy consensus

In a democratic polity where aid conditionalities generate adverse political consequences within the voting public, a Finance Minister cannot afford to push through an externally driven policy agenda with the same lack of concern as his counterpart in a less plural polity. Under a plural political system, if such an agenda is to be made politically sustainable, it has to be marketed to the political opposition through debate in Parliament, to civil society through debate in the country and to the professional community through an ongoing policy dialogue. In a donor-influenced polity, as prevailed in Bangladesh and Tanzania over so many years, there is no tradition of policy debate on development issues or the slightest attempt to build a democratic consensus behind policy reforms through the medium of such a debate both in the legislature and within civil society (Van Arkadie, 1994).

In post-democratic Bangladesh, Parliament has, unfortunately, never emerged as an effective arena for policy debate and Parliamentary committees, where more intensive discussions on policy reform may take place, have remained moribund. The present GOB itself took few initiatives since it was elected to office in 1991 to build a political consensus behind its policy reforms within or outside Parliament and indeed remained inhibited about even publicising its reforms. The reform agenda thus remained a private dialogue between the donors and GOB bureaucrats, ghettoized in the Finance Ministry, and devoid of support not only in Parliament and the country but even within the cabinet. To the extent that the negative effect of reforms were made an issue in local elections, it was argued that this may have cost the ruling party in Bangladesh the post of mayor in its two principal cities. If the economic reforms become an issue in the general elections, the cost to the ruling party may be heavier and may severely compromise the commitment of a successor government to the reform process.

This scenario in Bangladesh is not without relevance to Tanzania where experience with reforms in a non-plural system has not been dissimilar to that of Bangladesh. If however its reform process is to be made saleable in a plural polity, then old habits must be abandoned and a policy dialogue within the new Parliament, within civil society, using such agencies as the ERB and the ESRF, must be put in place, with the initiative coming not just from civil society but from the government itself.

In Bangladesh such an attempt by the Centre for Policy Dialogue to initiate such a process of policy dialogue has attracted the participation of the Finance Minister and other cabinet colleagues who sit in these dialogues with the opposition leaders, business community, NGO's, economists and even the donors, including those from the BWI, to debate economic policy. But this initiative, whilst holding promise, still does not respond to a felt need of the present GOB, which participates not out of an appreciation of the value of such a dialogue process but for the purpose of being able to tell the donors in the Paris Consortium meeting that it is engaged in a genuine attempt to project the reform programme through such public dialogues.

Reforms versus Democracy: A challenge to donor priorities

The donors have to grapple with their own dilemmas. Most donors are conscious of the limited impact and the shallow base of the reform process and would like to see reform sustained by a stronger democratic mandate. However public debate on the reforms, including a negative result at the polls, means that policymakers may need to modify the reforms, even reverse some elements of a reform and look to more endogenous alternatives. In such an event, donors will have to give serious thought as to whether they will respect democratic opinion in Tanzania or Bangladesh or they will persist in demanding perseverance with the reform process even if this puts the government into conflict with democratic opinion at home.

Donor commitment to promote democratisation as a critical component of their aid agenda may thus be put into severe contest with their more durable commitment to market- oriented reforms if the voters of Tanzania or Bangladesh repudiate the intensity of such reforms in the polling booth. The response of the BWI and the Western donors to the challenge by the voters in post-socialist Europe, to the sudden shock therapy being imposed on them by the BWI, suggests that when it comes down to making a choice, the donors would prefer to put their faith in their vision of economic reforms over the democratic concerns of the victims of such reforms. This leaves some rather confusing messages to political leaders in both Bangladesh and Tanzania who are both seeking to establish democratic systems in the wake of prolonged exposure to a non-plural political system.

9. CONCLUSION: THE ISSUE OF SELF RELIANCE FOR TANZANIA

Is self-reliance a meaningful option for Tanzania? If this poses the question whether Tanzania can or should do without aid, the answer is that it cannot and should not. Such *either/or* choices are indeed not very meaningful today since no country seeks to delink itself from the world system or can afford to do so. In these circumstances an agenda for self reliance, for countries such as Tanzania, really involves a more serious effort to find endogenous solutions which can make much fuller use of its available productive capacities, and professional skills, can add value to its abundant national resources and generate value from its human resources. This implies:

1. A Rethinking of the Development Paradigm

Re-industrialisation

(i) The present policy regime in Tanzania and much of SSA is contributing to capacity attrition with the closure of its industrial establishments. The disincentive for investing in new industry is perpetuating structural atrophy in Tanzania, which is itself at the root of Tanzania's growing aid dependency.

(ii) Tanzania thus needs to explore more carefully how to reactivate its production base, through rethinking the pace of its import liberalisation strategy. In providing some protective cover, over an agreed time-period, to let its industries become more internationally competitive, more creative thinking is needed to design policy instruments for keeping domestic producers competitive. Parastatals with a potential for sustainability must be kept efficient and compelled to operate within the discipline of the market place.

(iii) The search for such policy alternatives, in an era where industrialisation and closure of state enterprises has became part of the conventional wisdom, will demand courage, imaginative thinking and political commitment. Each country has to rethink both the conceptual basis for policy making and its application to its given situation. Closing factories in poor countries and opening markets indiscriminately to imports does not seem a sensible agenda and most people in Tanzania or Bangladesh do not believe it to be so.

(iv) Using available domestic capacity as the first stage of an agenda for industrial growth and export diversification has to be explored as part of a policy, situated within a longer term agenda, designed to find appropriate points of entry for Tanzania into the global division of labour. RMG industries with a capacity for backward linkage, drawing on high quality cotton produced in Tanzania and mobilising its low-cost labour, seem obvious areas for intervention.

(v) To deplete Tanzania's natural resources through export of its valuable mineral resources in a primary form does not appear to be an appropriate strategy for 1995. Investments in value addition, particularly in its mineral sector, hold great potential as part of the industrialisation process needed to promote structural change in Tanzania and could provide another strand to the goal of export diversification.

(vi) The issue of giving Tanzania's majority African population a more positive stake in the economy will have to be faced and cannot be resolved either through xenophobic outcries against minorities or through holding up the growth of the manufacturing sector. Here much can be learnt from the Malaysian experience of expanding the share of *bhumiputra* or local ownership of the economy through a more pro-active role of the public sector. In Malaysia a policy of initiating public ownership over sectors of the economy, using these institutions to broaden the equity stake of the *bhumiputras* in the enterprise and to then divest control of these enterprises to the new owners, raised the share of *bhumiputras* from around 2.5% in 1970 to 30% in 1990 (Salleh). This model may be explored as part of a package of measures to make Tanzania's parastatals more competitive.

2. Governance and Aid Dependency

(a) Governance and Development

(i) The issue of governance, its nature and link to the development process, needs to be diagnosed if both economy as well as efficiency of public expenditure is to be established and domestic revenues are to be enhanced.

(ii) The future of public enterprise needs to be considered as part of a wider agenda of good governance which creates an enabling environment for improving the performance of not just Parastatals, but utilities, health services and the public education system.

(b) Using domestic skills in policymaking

(i) The reform process must draw, first and foremost, upon the wealth of professional skills within the country. This demands a genuine marriage, based on a mutual need, between policymakers, political parties and Tanzania's professional community, to help design policy alternatives and provide independent analysis of the outcomes of the reform process. The role of the ERB and ESRF can be institutionalised to promote both dialogue and policy analysis.

(ii) The idea, put into practice in Bangladesh by the Centre for Policy Dialogue, of inviting professionals to annually prepare an independent review of the state of development as a commentary on the policy advice of the donors and the stewardship of the economy, may be tried out in Tanzania which has a wealth of professional talent to undertake such a task. The ERB/ESRF may, in fact, be commissioned by the GOT to prepare an independent review of the Tanzanian economy, to be presented both to the newly elected Parliament on the eve of the budget and to the donors on the eve of the aid group meeting. This independent report could become the key resource for public debate on the state of the economy and the merits of the reform agenda.

(iii) Local professionals should be used to their full capacity so that they can re-discover their self worth. The idea that their work will be put to effective use, in both policy making and political discourse, will be a far stronger incentive for creative effort than offering them lavish consultancy fees and excessive work obligations to write reports which may remain unread.

(iv) If external expertise for policy making and analysis is to be sought through TA provided by the donors, this should emerge as a felt need, articulated by local experts, who should both spell out the TOR and even identify the experts who may be associated with their work.

(v) In drawing upon expatriate expertise much greater use should be made of the intellectual resources of the South through sharing the experience of other DCs, particularly neighbours but also countries with problems similar to those of Tanzania, as well as learning from the experiences of the Asian 'miracle' economies.

(vi) Donors should attempt to remove distortions in the TA market by minimising the use of expatriates except when asked for and building an incentive structure which is competitive with the domestic private sector. Under no circumstances should expatriates be brought in if local skills are at hand to do the job.

(c) Promoting political consensus behind policy reforms

(i) Parliamentary Committees, headed by a member of the opposition, supported by a panel of independent local experts to assist them, should scrutinise all reform proposals, debate them and put their recommendations on the floor of the Parliament for ratification of the reforms.

(ii) The ERB/ESRF should develop a regular schedule of policy dialogues at the level of civil society, where they can bring together ministers, opposition leaders, bureaucrats, business, NGOs, donors and professionals. The lessons from CPD, Bangladesh, may again be useful for Tanzania, where the commitment of the GOT to a regular involvement in such dialogues needs to be secured.

(iii) Arising out of the output from the professional dialogues and the Parliamentary Committees, policy issues should be exposed to public debate at the grassroots level where NGOs should create fora for such discussions. Ordinary people need to be made aware of public policy if democracy is to be sustained, and a reform process must be exposed to public debate if it is to be sustainable.

(d) The role of donors

(i) Donors should be exposed to these dialogues at the professional level and constantly sensitised to the views of democratic opinion. They should come to terms with the reality that no reform process, imposed from without, is sustainable or even likely to be successful. Visiting aid missions, concerned with policy reform or programme evaluation, should, as a matter of routine, be exposed to these professional dialogues within Tanzania where they take account of independent professional opinion and can be invited to defend their policy advice. Full public disclosure should be made of all policy documents prepared by donor agencies.

(ii) Donors should open up the windows of their policy discourse to a more pluralistic vision about the policy needs of LICs such as Tanzania. They should be receptive to policy options coming out of the domestic dialogues and should provide space for Tanzania to develop its own policy options. The validity of such local policy initiatives should be measured by their outcomes and not by their fidelity to certain pre-conceived ideas of what is the 'right' policy.

(iii) Aid coordination should be made the responsibility of the GOT which should convene the annual aid consultative meeting in Tanzania, where it should present their programme and policy agenda, with quantifiable targets against which they can be evaluated. The GOT's policy document should be complemented by the independent review of the economy prepared by the ERB/ESRF. Donors should comment on both documents and time should be provided for a genuine debate where all three sides can be heard. Some thought may be given to inviting Finance Ministers of some neighbouring SSA countries and even other Third World countries to these consultative meetings, to ensure that Tanzania can draw upon a wider range of shared experience during its dialogues with the donors.

(iv) Some thought should be given to applying the concept of the *development contract*, first suggested by J. Stoltenberg when he was Foreign Minister of Norway. This should spell out the policy obligations of the GOT in return for which donors should commit their aid programmes for the financial year. This contract should also have provisions for guaranteeing access to the markets of the contracting AICs around which export industries can be developed in Tanzania. Prospective foreign investors may be invited to these meetings to see if commitments by them to make such investments could be linked to commitments of the donors to provide market access for the output from such investments, along with some additional lubricant by way of investment guarantees. Donors could also use the offer of their aid for infrastructure projects supportive of the foreign investment, which can be written into the development contract as a further inducement to attract private investors who remain extraordinarily reluctant to move into such LICs as Tanzania and Bangladesh.

(e) Conclusions : From aid dependence to self-reliance

All these suggestions made above remain rather random thoughts about initiatives to reduce aid dependence and put Tanzania on a more self-reliant development path. It must be appreciated that aid dependence is not just a set of macro-economic figures, it is a state of mind where the governments of the aid recipient countries have lost their capacity to think for themselves and have thereby relinquished control over the direction of state policy. Within this perspective of looking at aid dependence, self-reliance also has to be seen as moving beyond raising the GDS/GDP ratio towards recapturing Tanzania's capacity to take charge of its own policy agendas, where the government of the day must work out for itself through a process of democratic consultation, where it is going and how it is going to get there. Such an exercise is not a rhetorical proposition. It has to be concretised into policy agendas which realise structural change. But above all, it has to find expression in creating opportunities for local skills, resources and capacities to be more fully and effectively utilised in the policymaking process and to link this largely endogenous effort to an ongoing policy dialogue which makes politicians and civil society aware of policy issues which will influence the future of the country.

A casual outside observer of the Tanzanian situation, such as the writer, seeing its affairs in the perspective of the nation's history as well as in the context of his own country's experience with external dependence, is left with a sense of confusion. For people of my generation, Tanzania was a country founded on a torrent of hope, where a people, committed to the concept of *ujama*, under leadership of exceptional commitment, were showing the way to other Third World countries on how a backward country can chart its own destiny. Today, looking at this same country, again with an outsider's eye, one is disturbed to see that the well springs of hope, which inspired its people and indeed much of the Third World, seem to have run dry and the country and its once proud leadership are drifting towards an uncertain future, in a rudderless boat, blown along by the winds emanating from the donor community. For a country which has such a wealth of human talent and natural resources, with such an inspirational history, it should be inconceivable that it could not mobilise its immense inner resources to recapture control over its own destiny.

The future of Tanzania, or any other Third World country, cannot at the end of the day be decided in the offices of donors, however well meaning may be their intentions, unless these donors wish to recreate the age of colonialism where white or brown *sahibs* ran remote countries from horseback. That order collapsed many years ago and its contemporary successors are even less likely to succeed in running an empire by E-mail from Washington and through itinerant advisory missions. If Tanzanians cannot draw up their own plans for the future, articulate programmes to give substance to their plans, and design projects as well as policies to instrumentalise their programmes, then no donor can do this task for them, whether by lures of aid or by the attachment of draconian conditionalities to their aid. The only conditionality which should be attached to their aid to Tanzania or Bangladesh is that no policy or aid proposal, not developed within the country by local experts and lacking democratic support, will be entertained by the donors. It may be hoped that this mutual recognition of the limitations of the old order of relations between Tanzania and its aid donors will encourage the common search for a new pattern of relations which is both workable and democratically sustainable within Tanzania.

TABLES

Table 1

THE EXTERNAL RESOURCE BALANCE IN LOW INCOME COUNTRIES (LIC)

Number of Countries where the external resource balance has		All LICs	African LICs	Non African LICs
a)	Deteriorated between 1970-1993	27	19	8
b)	Improved between 1970-1993	6	4	2
c)	Remains Positive in 1993	4	3	1
d)	Resource balance was negative in 1993	40	26	14
e)	Negative balance remains above 5% of GDP	33	22	11
f)	Negative balance remains above 10% of GDP	20	15	5

Source: World Development Report, 1995.

Table 2

MACRO-ECONOMIC CHANGES IN LOW INCOME COUNTRIES (LIC), 1970-93

	1970-93				Low income countries (LIC) .	
	No of ALL LICs		Non African LICs		African LICs	
	(–)	(-)	(+)	(-)	(+)	(-)
1.GDP	15	20	6	7	9	13
2.GNP Per Capita[2]	15	23	7	7	8	16
3.Manufactu-ring Growth	6	11	4	4	2	7
4.Domestic Investment	11	19	3	5	8	14
5.Exports	20	16	6	4	14	12
6.Inflation	20	15	8	4	12	11

Note: + = Number of countries registering a positive rate of change between 1970-80 and 1981-93
- = Number of countries registering a negative rate of change between 1970-80 and 1981-93

Source: *World Development Report*, 1995.

Table 3

THE GROWTH IN EXTERNAL DEPENDENCE OF PUBLIC EXPENDITURE IN TANZANIA IN HISTORICAL PERSPECTIVE (1961-95)

Period	Ext.Fin./TDE (%)	Aid Grants/TDE (%)	Ext.Fin./TPE (%)	Recurrent Deficit / Recurrent Exp. (%)
1961-65	32.86	1.3	5.94	-
1966-70	27.72	0.6	7.78	-
1971-75	44.86	20.28	14.26	-
1976-80	47.63	54.22	17.56	-
1981-85	55.38	78.54	12.92	-
1986-90	165.13	32.84	27.52	5.5
1990-91	320.60	56.50	34.82	15.2
1991-92	259.50	41.50	43.35	11.3
1992-93	198.00	70.60	40.02	40.4
1993-94	170.00	81.70	58.90	28.7
1994-95	-	-		28.3

Note : 1961-85 figures, are based on annual averages.

Source: 1961-80: Mjema; 1986-94: World Bank, 1993a: 1994-95: Budget speech of Minister of Finance for FY 1995/96; Recurrent deficit/expenditure ratio 1986-90: J.J. Semboja in *Development Challenges and Strategies for Tanzania*.

Key: Ext.Fin = External Finance
TDE = Total Development Expenditure
TPE = Total Public Expenditure

Table 4

FINANCING OF TANZANIA'S RECURRENT BUDGET DEFICIT

(Annual Averages)

	1976/77-79/80	1980/81-85/86	1986/87-93/94
1. CIS as % of Total Budget Deficit		12.2	51
2. Loans and Grants as % Total Budget Deficit	64.5	95	39
3. Total Aid as % of Total Budget Deficit	-	107.2	90
4. Domestic Borrowing as % of Total Budget Deficit	56	45	19
5. CIS as % Recurrent Budget Deficit	-	37	129
6. Total Aid as % of Recurring Expenditure	42	54.3	42.4
7. CIS as % of Recurring Expenditure		6	24
8. Share of Development Expenditure as a % total Expenditure	35	18.5	14.5

Source: Doriye, 1995.

Table 5

THE CONTRIBUTION OF AID TO TANZANIA'S BUDGET

Period	Total Aid GOT Budget (Tsh billion)	Develop-ment (Tsh billion)	Aid for Recurrent budget (Tsh billion)	Share of Ai in Recurrent budget %	Share of Aid in Development budget
1990-91	52.9	26.0(49)	26.9(51)	19.2	56.5
1991-92	84.1	17.1(20)	67 (80)	41.2	41.5
1992-93	120.6	72.1(60)	48.5(40)	20.1	70.6
1993-94	226.6	111.0(49)	115.6(51)	45.8	81.7
Total 1990-94	484.2	226.2(47)	258(50)	32.6	64.2

Note: Figures in parenthesis show % shares of total aid going to recurrent and development budget.

Source: World Bank, 1993a.

Table 6

EXTERNAL FUNDING OF THE OGL/CIS AND DEFAULT RATES ON COMPENSATORY PAYMENTS

Sources	Total OGL/CIS of commitments 1988-94		OGL/CIS as % of total imports 1988-94	Default as % of disbursement of CIS/OGL 1987/88-1992/93
	$ Million	% Total		
1. Norway	123	6.6		44
2. Sweden	138.5	7.5		51
3. Other Donors:				49
I) World Bank	829.3	44.5		
ii) African Devt. Bank	109.7	5.8		
iii) Other bilateral Donors	665.3	35.6		
Total:	1865.8	100	19.0	

Source: (i) Bhaduri et al.

(ii) Conference on Aid Effectiveness in Tanzania: Based on Nordic & Dutch Evaluation Report. Paper by (S. Kimei on Programme Assistance: Lessons from OGL and CIS.

Table 7

TRENDS IN REAL PUBLIC EXPENDITURE IN TANZANIA

(Annual Averages)

	1976/77-79/80	1980/81-85/861	1986/87-93/94
1. Trends in Total Public Expenditure	100	67	74
2. Trends in Recurrent Expenditure	100	79	91
3. Trends in Development Expenditure	100	46	33
4. Share of Development Expenditure as a % of Total Expenditure	35	19	15

Notes : Index of real expenditure based on deflating current expenditure by National Consumer Price Index.

Source : Doriye, 1995.

Table 8

AID AND TANZANIA'S TRADE GAP

(Annual Averages)

	1966-70	1971-75	1976-80	1981-85	1986-90	1991-94
Trade balance (Annual average in million US $)	112.6	151.8	-522.4	-494	659.7	-992
Trade balance as % of imports	-6.8	-27	-34	-52	-46	-69
Foreign Aid (in US $ million)	-	135.6	456.8	603.4	924	1141.8
CIS as % of Foreign Aid			-	11.6	55.5	50.2
Foreign Aid as % of imports	-	27.6	53.7	69.3	88.7	80.0
Foreign Aid as % GDP	-	-	-	10	17	44

Source: Trade: 1966-92, World Bank, 1994d, 1992-94, IMF.
CIS Foreign Aid: Doriye, 1995
Total Foreign Aid: 1971-92, OECD.
1993-94, IMF.

Table 9

TANZANIA'S COMPOSITION OF IMPORTS

(Figs in US $ million, Annual Averages)

	Total import	Capital goods		Other intermediate goods	Consumer goods	GFCF (1+2–3) (in Tan Shillings)
			Machinery			
1980-85	1030	445 (43%)	256 (25%)	156 (15%)	181 (18%)	3658
1986-90	1179	499 (42%)	218 (18%)	319 (27%)	275 (23%)	4122
1991-93	1492	683 (46%)	255 (17%)	141 (9.4%)	466 (32%)	7543

Source: Doriye, 1995.

Table 10

TANZANIA'S INVESTMENT SAVINGS GAP, 1966-92

(Annual Averages)

	1966-70	1971-75	1976-80	1981-85	1986-92
1. Gross capital formation/GDP	24.2	26.8	28.0	18.1	24.6
2. Gross domestic savings/GDP					
i) Ndulu	17.1	12.9	15.3	10.5	5.1
ii) Mjema	19.2	16.3	16.6	9.2	
iii) Likwelile*	16.7	13.4	16.1	10.1	4.8
iv) Agarwal et al** (unadjusted)	-		-	10.4	1.0
v) Agarwal et al& (adjusted)	-	-		10.7	13.3
3. Ratio domestic savings/capital formation	70.7	45.1	54.6	58.0	14.8
4. Ratio foreign savings/capital formation	29.3	54.9	45.4	42.0	85.2
5. Resource balance/GDP	-1.6	7.1	9.3	-7.6	-29.6

Notes : * 1986-91
** 1986-90
(3) Based on Ndulu's savings estimates
(4) Based on Ndulu's savings estimates

Source: 1.Benno J. Ndulu Tanzania's Economic Development: Experiences/Challenges, Table 1.3 in **Development Challenges and Strategies for Tanzania.**
2.Likwele et al Foreign Aid & Economic Development in Tanzania, Table 10.1 (Ibid)
3.Mjema, 1995
4.Agarwal, et al., Structural Adjustment, Economic Performance, & Aid Dependency in Tanzania, (Table 1)

Table 11

MACRO-ECONOMIC TRENDS IN THE TANZANIAN ECONOMY
(Annual Averages)

	1966-70	1971-75	1976-80	1981-85	1986-90	1991-94
Annual GDP Growth Rate	5.2	3.6	2.6	0.7	4.1	3.4
Agricultural Growth Rate	4.1	2.5	1.8	3.0	4.8	4.0
Manufacturing Growth Rate	8.1	4.8	2.7	-4.9	0.34	3.1

Source: 1966-92, World Bank, 1994a.
1993-94, EIU.

Table 12

AID AND KEY MACRO-ECONOMIC TRENDS IN THE TANZANIAN ECONOMY PRE AND POST-ERF
(Annual Averages)

	1981-86	1990-94
Aid flows, Annual Average (in US $ million)	603	1142
GDP Growth per annum (%)	0.7	3.4
Aid/GDP (%)	10	44
Aid/Imports (%)	69	80
Aid/TPE	13	37

Source: 1981-92, Trade: World Bank, 1994a
1981-92, Aid: FCDC, UNDP, EIU
1993-94, Trade and Aid: EIU
1981-94, Aid/TPE: Doriye, 1995

Table 13

THE STRUCTURE OF TANZANIA'S EXPORT TRADE

(Million US $. Annual Averages)

Items	1976-80	1981-85	1986-90	1991-94
1. Traditional	326.1 (64)	260.2 (64)	221.7 (59)	255.5 (60)
2. Non-Traditional	182.0 (36)	145 (36)	156.8 (41)	173.7 (40)
i) Agriculture'	-	18.2 (4.5)	28.5 (7.5)	37.6 (9)
ii) Manufactures	76.8 (15)	40.6 (10)	76.6 (20)	65.8 (15)
Total Export	508.1 (100)	404.4 (100)	376.8 (100)	429.3 (100)
Primary Commodity Exports [1+2(i)]	326.1 (64)	278.4 (69)	250.2 (66)	293.1 (68)

Source: Customs+Crop Board & BOT; Customs & Sales Tax Department Data; Agricultural Sector Memorandum.

Note: Figures in parenthesis indicate % of Total exports.

Table 14

TRENDS IN AID DISBURSEMENTS

	1970-79	1980-89	1990-93	Total
Total Aid US$ million	2352	7148	4424.3	13924.3
1. Multilateral (%)	20.2	22.8	33.8	25.8
i) World Bank	7.4	10.2	16.2	11.6
2. Bilateral (%)	79.2	75.8	66.0	73.3
i) Sweden	18.0	11.0	10.4	12.0
ii) Netherlands	10.4	8.5	5.7	8.0
iii) All Nordic Countries	35.0	29.5	29.0	30.4
iv) Nordics+Netherlands	45.4	38.0	34.7	38.4

Source: For 1970-92 Evaluation of the Development Cooperation Between Tanzania and Finland, 1995.

For 1993 UNDP Development Cooperation Report; Tanzania. 1994.

Table 15

SOME MACRO-ECONOMIC RATIOS DEFINING THE SHARE OF MANUFACTURING IN THE TANZANIAN ECONOMY, 1970-93

	1970	1976	1981	1986	1993
1. Manufacture/GDP (%)	9	13	10	8	5
2. Manufacture/ Total Export (%)	-	17.7	28.1	12.5	14
3. Manufacture/Total Development Budget (%)	13.4	26.6	21.7	2.9	7.0
4. Manufacture/GFCF	15.4	14.0	25.3	24.0	13.0
5. Machinery/Total Import (%)			25	18	17
6. Total export/GDP (%)	-	19	12	8	19
7. Exports/GDP (%)	-	12	6	6	9.7
8. Traditional Export/Total export (%)	-	65.6	55	38	52
9. Import/GDP (%)	-	22	20	21	63

Source: 1-3 Mbelle
1-2, 1993, EIU
4 : Doriye, 1995
5 : Doriye, 1995
6-8: Customs, Crop Boards, BOT.
9. World Bank, 1994a and EIU.

Table 16

TANZANIA'S TERMS OF TRADE AND IMPORT PRICE TRENDS, 1996-92

(Annual Averages)

	1966-70	1971-75	1976-80	1981-85	1986-92
Terms of Trade Index 1985=100				91.4	68.3
2. Trends in prices of principal comm. exp const. 1985 US $/kg (1966-70 = 100)					
a) Coffee	2.3 (100)	2.21 (96)	4.31 (187)	2.52 (109)	1.56 (68)
b) Cotton	1.73 (100)	1.77 (102)	1.71 (99)	1.55 (89)	1.32 (76)
c) Sisal	0.39 (100)	0.6 (153)	0.55 (141)	0.48 (123)	0.45 (115)
d) Tobacco	3.1 (100)	2.9 (93)	2.2 (11)	1.86 (60)	1.79 (58)
e) Tea	2.77 (100)	1.81 (65)	1.82 (66)	1.53 (55)	0.99 (36)
f) Cashew	0.57 (100)	.41 (72)	0.54 (95)	0.72 (126)	0.65 (115)

Source: Customs & Excise Annual Trade Reports (BOT); Tanzania Economic Trends. (Economic Research Bureau. U.K. Dar es Salam) International Financial Statistics Yearbook (IMF); World Bank.

Table 17

BUDGET FRAME FOR THE ROLLING PLAN AND FORWARD BUDGET FOR TANZANIA

	1993/94	1994/95	1995/96 projected	1996/97
1. Recurrent Deficit as % of Recurrent Expenditure	26	9 (28)	11 (7)	10
2. Foreign Financing as % of Domestic Resources	62	51 (27)	58 (41)	53
3. Foreign Financing as % of Total Resources	39	33 (17)	36 (32)	31
4. Foreign Financing as % Total Expenditure	38	32 (16)	36 (20)	34
5. Foreign Financing as % of Recurrent Expenditure	35	10 (12)	17 (14)	15
6. Foreign Financing as % of Development Expenditure	58	87 (45)	82 (84)	79
7. Development Expenditure as % of Total Expenditure	15	29.4 (14.5)	29.5 (22)	29.7
8. % of Foreign Financing going to Development Expenditure	23	78 (14)	67 (63)	70
9. % of Foreign Financing going to Local Expenditure	77	22 (60)	33 (37)	30

Source: The Rolling Plan and Forward Budget for Tanzania 1994/95–96/97 Table 4.1, p.19

Figure in parenthesis from speech by Minister for Finance Lt. Col. Jakaya Kikwete (MP) Introducing to National Assembly the Estimate of Public Revenue, 1995.

Table 18

LOAN CONDITIONS TO TANZANIA VERSUS SSA AND BANGLADESH (SELECTED YEARS)

	AMP*			AIR*			AGP*			GFTA			
	LDCs	SSA	TZ	LDCs	SSA	TZ	LDCs	SSA	TZ	LDC	SSA	TZ	BG
1961	20	25	30	4	6	4	5	6	10	-	-	-	-
1970	18	18	30	5	6	4	5	6	10	31	37	21	
1974	16	17	29	6	5	4	5	6	10	1	29	36	19
1978	14	16	30	7	6	4	4	4	7	6.7	20	48	38
1982	14	18	28	10	8	4	4	4	7	7.7	22	80	42
1985	13	17	24	8	7	4	4	4	7				44
1988	12	14	21	8	7	4	4	4	7	-	-	-	57
1990	11	12	17	9	8	4	4	4	6	7.6	25	89	41

Source: World Bank, op.cit. 1991. Reproduced from Mjema, Table 5, Table 6 and for Bangladesh External Relations Divisions, Ministry of Finance, 1995, Table 3.0.

Notes :

AMP* = Average maturity period (years)
AIR* = Average interest rate (%)
AGP* = Average grace period (years)
GFTA = Grant finance in total aid
LDCs = Less developed countries
SSA = Sub Saharan African countries
TZ = Tanzania
BG = Bangladesh

Table 19

DEBT BURDEN OF TANZANIA AND BANGLADESH, 1970-94

	1970	1980	1985	1990	1993	1994
A. TANZANIA						
Total Debt (US $m)	65	2476	3752	6880	7522	-
Debt as % GDP	17	54	61	289	-	-
Debt service as % Exports		29	37(21)	58(15)	25(12)	-
B. BANGLADESH						
Total Debt (US $m)		5399.9	6289.9	10909.3	13615.3	15373.4
Debt as % of GDP	-	27	19	48	55	59
Debt service as % of Exports	-	18	28	21	14	12

Note: Figures in parenthesis indicate actual debt service after debt rescheduling

Source Tanzania: Gibbons & Raikes Table 8 Bangladesh: External Relations Division, Ministry of Finance, GOB, 1995, Table 9.0 & 10.0.

Table 20

FOREIGN AID TO TANZANIA BY SOURCE AND TYPE, 1991-93

		Amount
A. Total Aid for 1991-93 (in US Million $)		3078
B. Source (As % of total aid)		
1. Multilateral	37.7	
2. Bilateral	61.0	
3. NGO	1.3	
C. Type of Assistance (As % of total aid)		
1. Freestanding Technical Cooperation (FTC)		29.3
2. Investment Related Technical Cooperation (ITC)	6.0	
3. Investment Project Assistance (IPA)	36.5	
4. Programme/Budgetary (BOP Support) (PBB)	25.2	
5. Food Aid (FOA)	0.6	
6. Emergency & Relief Assistance (ERA)	1.1	
7. Unallocated	1.3	
D. Estimates of Untied Aid (As a % of total aid) (B(1)+50% of C(4))	50.3	

Source: Development Cooperation Report: Tanzania UNDP, October, 1994.

Note: Estimate of untied aid, to eliminate double-counting, deducts 50% of Programme aid shown above, which is also included under IDA's multilateral aid shown in B above.

Table 21

TANZANIA'S TECHNICAL ASSISTANCE (TA) PROGRMME 1980-93

	% of TA/Total Aid	Total TA in US $ million	Sources (%)		
			Multi-lateral	Bilateral	NGO
1. 1980-85 (Annual Avg.)	26.9	260			
2. 1989	32.5				
3. 1991	29.4	311	33	65.5	1.5
4. 1992	34.6	384	42	56.5	1.5
5. 1993	42.6	386	38	61	1.0
i) Free standing TA		362			
ii) Investment Related TA		24			
6. Principal Source of TA in 1993 (in %)					
a) Bilateral	80				
i. Denmark	9				
ii. Norway	7				
iii. Sweden	19				
iv. Japan	8				
v. Netherlands	6				
b) Multilateral	19				
vi. IDA	2				
vii. UNDP	5				
viii. EEC	4				
7. Disbursement of TA by sector (%)					
i. Admn. Planning Finance & other services	28				
ii. Transport	16				
iii. Agriculture	17				
iv. Human Resource	14				
v. Energy	15				

Source: Development Cooperation Report: Tanzania, UNDP, October, 1994.

Table 22

SECTORAL DISTRIBUTION OF EXTERNAL ASSISTANCE TO TANZANIA

(in %)

Sector	1991	1992	1993
1. Agriculture	16.3	12.5	11.9
2. Industry	18.2	11.6	8.1
3. Human Resource	13.5	14.4	16.0
4. Infrastructure	26.2	31.8	37.0
5. Management & Administration	25.8	29.7	27.0
Total	**100**	**100**	**100**

Source : Development Cooperation Report, Tanzania, UNDP, 1994

ANNEXURE I
BILATERAL DONOR AID STRATEGIES

AID PRIORITIES	DENMARK	FINLAND	NETHERLANDS	NORWAY	SWEDEN	U.K.	U.S.A
	Until 1980s Social Infrastructure: Since 1980s: 1. Women in Development 2. Environmental Protection 1990s Transport/ Energy	Until mid 1980s: 1. Forestry Since mid 1980s. 1. Transport 2. Energy 1990s: Energy/ Agriculture Transport/Water Development	Since 1980s: 1. Social service mainly Poverty Alleviation 2. Economic Infrastructure Road, Power & Telecommunications 3. Environmental Protection 4. Strengthening Administration	Since 1960s: 1. Social Sector 2. Agriculture 3. WID 4. Environmental Protection 5. Research Cooperation 1. Import Support 2. Balance of Payment Since 1980s: 1. Energy 2. Public administration 3. WID & Environmental issues 1990s: Economic infrastructure 1. Energy 2. Telecommunication 3. Transport Social sector 1. Education 2. Balance of Payment	1960s: Social Sector: Education & Health Since 1970s 1. Industry 2. Water Supply & Import Support 3. Education Mid-70s:		Since 1990s: 1. to manage wildlife 2. Democracy & Governance

CONDITIONALITY		1. Good Governance 2. Economic Policy Reforms 3. Improved budgetary discipline & improved expenditure control	1. Trade liberalisation 2. Exchange rate adjustment 3. Price deregulation 4. Financial sector reforms 5. Restructuring the financial system		1. Exchange rate adjustment 2. Public Sector retrenchment & privatization 3. Trade liberalisation/ Policy reforms 4. Good Governance 5. Price decontrol	1. Public Sector reforms 2. Renewable natural resources 3. Strengthening the Private Sector
AID TYING	1. Denmark has been tying its bilateral aid but the proportion of their bilateral aid declined after 1985		Dutch aid tying started at a high level but recent trends showed a strongly declining trend	Norwegian ODA has been tied at a relatively low & stable level (largely below 20%)	Swedish ODA has been tied at a relatively low & stable level (largely below 20%)	British ODA tying and much greater extent than Nordic Countries
ISSUES TO PROMOTE EFFICIENCY IN AID USE		1. Policy Dialogue 2. People's Participation	1. Country selection system 2. Policy Dialogue 3. Aid Procedures 4. Project Cycle Management 5. Institutional Structure 6. Aid Coordination		1. Aid Coordination 2. Decentralisation 3. Increased Concentration 4. Greater responsibility for the recipient	

AID PRIORITIES	DENMARK	FINLAND	NETHERLANDS	NORWAY	SWEDEN	U.K	U.S.A
AID EFFECTIVENESS	**Transport & Communication.** Negative outcomes	**1. Industry:** Negative Results **2. Agriculture:** Mixed Results **3 Infrastructure: Harbour Project:** Positive **4. Forestry:** Positive **5. Water:** Mixed Results **6. Education & Social Service:** Results are quite impressive	**1. Programme Assistance:** Which sugest extreme low rates return but was a part of expenditures **2. Capital Investment:** Two-fifths can be considered an absolute failure **3. Rural Development:** Mixed Results **4. Technical Cooperation:** Quite Effective **5. Sector Aid (Sugar):** Higher degree of effectiveness		**1. Industry Sector:** Negative **2. Education.** Mixed Results **3. 1970s: Water Supply:** Negative **4. Economic Infrastructure:** Positive **5. Aid for Policy Environment change:** Positive **6. Economic Reform Programme:** Quite Positive		
OWNERSHIP		1. Water Supply: a donor driven engineering project **2. Industry:** Mixed ownership Feasibility study Preparatory work (Donor Technology supply Finances Personnel) **3. NGO-Project.** Donor Driven	1. **Programme Assistance: Fertiliser supplier:** Donor driven **Cotton Industry:** Mixed Owner Technology: Donor **Manufacturing Industry:** Donor **3. Transport Aid Project:** Donor		**1. Public Sector & Budget Support:** Recipient Ownership **2. Civil Service Reform; Balance of Payment; Telecommunication & Construction:** Donor Ownership		**General Tyre Africa Ltd.** Project: Mixed

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AID INDICATIONS	DENMARK	FINLAND	NETHERLANDS	NORWAY	SWEDEN	U.K.	U.S.A.
AID POLICY TO PROMOTE	1. Economic Growth 2. Poverty Alleviation 3. Institutional Development 4. Human Resource Development	1. Balance in the national Economy 2. Poverty Alleviation 3. Human Resource Development 4. Empowerment of the Population 5. Consideration of Environmental factors 6. Effective Private Sector	1. Economic Self-Reliance 2. Poverty Alleviation 3. Human Based Development Resource	1. Economic Development 2. Poverty Alleviation 3. Targetting the Women	1. Economic Growth leading to Poverty Alleviation 2. Rehabilitation & Development of Social Services 3. Economic Reforms 4. Strengthening of the Democratic Process	1. Economic Growth 2. Poverty Alleviation	1. Economic Growth 2. Strengthening of the Private Sector 3. Regional Family Planning and Aids prevention
AID VOLUME	In 1993 Denmark was the largest donor to Tanzania a) 14.7% of 1991-93 total global Danish bilateral aid b) [illegible] Tanzania 1970s: $ 194 m 1980s: $ 495 m 1990-92: $ 263 m	a) Tanzania largest recipient of global aid b) Volume of aid to Tanzania 1970s: $ 70 m 1980s: $ 291 m 1990-92: $ 127 m	*Third/Fourth largest donor in Tanzania last two decades *1970s: $ 246 m increases 1980s: $ 607 m 1990-92: $ 202 m	*Major donor *In 1993 Norway was the second largest donor to Tanzania: 1970s: $ 250 m 1980s: $ 506 m 1990-92: $ 271 m	Principal aid donor until 1993 1970s: $ 422 m 1980s: $ 780 m 1990,91,92: $ 306 m	Is not a significant donor 1970s: $ 157 m 1980s: $ 415 m 1990,91,92: $ 197 m	Is not a major donor 1970s: $ 167 m 1980s: $ 175 m 1990-92: $ [illegible] m

AID INDICATORS	DENMARK	FINLAND	NETHERLANDS	NORWAY	SWEDEN	U.K.	U.S.A.
DISTRIBUTION OF AID BY SECTORS:							
I. *SOCIAL SECTORS:*		16.8% (1991-92)	19% (1990-92)	11% (1992)	13% (1991-92)		
1. Education		0.2% (1991-92)	11% (")		15% (")		
2. Health		1.4% (1991-92)	4% (")		4% (")		
3. Water Supply		12% (1991-92)	2% (")				
4. Public Administration		9.3% (1991-92)					
5. Development & Planning				25% (1992)	18% (1991-92)		
II. *ECONOMIC INFRAS-TRUCTURE:*		29% (1991-92)					
1. Energy		31% (")					
2. Transport		11% (")	7% (1990-92)				
3. Telecommu-nications							
4. Rural Development							
III. *PRODUCTION SECTOR*		33% (1991-92)		19% (1992)	25% (1991-92)		
1. Agriculture & Rural Devt.		18% (")	14% (1990-92)				
2. Industry, Mining & Construction		15.5% (")	60% (")				
3. Trading, Banking & Tourism				7% (1992)	46% (1991-92)		
IV. *PROGRAMME ASSISTANCE:*							
V. *FOOD AID*							
VI. *EMERGENCY AID*							
VII. *PROJECT AID*							
VIII. *COMMODITY AID*							
IX. *TECHNICAL ASSISTANCE*				6% (1992)	9% (1991-92)		
X. *MILITARY ASSISTANCE*							$0.2 million (1992)

Source: British aid to Tanzania, ODA, 1995; Conference on Aid effectiveness in Tanzania: Based on Nordic and Dutch Evaluation Reports, Der Es Salaam, 1995; Country Memorandum: Denmark's Development Assistance 1990/91, DANIDA; Evalution of Development Cooperation Between Tanzania and Finland. 1995:1, FCDC, Helsinki, 1995; Evaluation of the Netherlands Development Programme with Tanzania, 1970 - 1992, DGIS,1994; Havnevik, J. Kjell and Others: Tanzania. Country Study and Norwegian Aid Review, Centre for Development Studies, 1988; Memorandum of understanding on the development co-operation between Sweden and Tanzania, 1994; ODA, British Aid Statistics 1987/88-1991/92; SIDA, Evaluation of Swedish Development Cooperation with Tanzania. SASDA Report No. 5, 1994; SIDA Development Co-operation with Tanzania 1994/95 -1996/97, Embassy of Sweden, DCO, Dar Es Salaam, 1994; The "Green Book", US Overseas Loans & Grants; USAID/TANZANIA, Assessment of Programme Impact, FY 1994.

Annexure II
Evaluation of World Bank Projects

1. *Result of Project Evaluation reports*

(a) In the Agri/rural sector, of 23 operations 17 have been evaluated. Of these, 12 had negative re-estimated ERR, and four had ERR substantially below the estimate at appraisal. The outstanding example is the Cashewnut Development Project with re-estimated ERR being negative compared with an appraisal ERR of 39%; with processing capacity reaching a level three times that of cashewnut production and with four out of five project factories standing idle within four years after appraisal of the follow-on operation.

(b) In direct lending to Industry re-estimated ERR available for two (both textile) of the four projects were negative, partly reflecting low capacity utilization of 10% and 28%. Capacity utilization in the other two, leather products and pulp/paper, was 4% and 49% respectively. Massive financial losses of the operating enterprises resulted.

(c) In Infrastructure, of ten transport projects financed, re-estimated ERR are available for six, and of these five are substantially below ERR estimated at appraisal. Operations in Telecommunications, Energy and Power, Water Supply and Sanitation were generally successful though significant delays in completion were experienced.

(d) In the Social sectors results were mixed. Of seven Educational projects six have been reviewed; and of these only the first and sixth were successfully completed. The others failed to meet physical construction targets, were substantially delayed, and operations were hampered by staff shortages.

In general, effectiveness of Bank lending in institution building has been well below expectations, except in utilities where there was already a fairly good base with which to work. Technical assistance provided through project loans has met with Government reluctance to use loan funds for this purpose, given abundant technical assistance grants from other sources. Technical assistance operations have underprovided for and inadequately identified and planned for training, leading to frequent failure of this component.

2. *Causes for Poor Project Results*

Project completion reports and audit reports suggest that the proximate causes for poor project results were the following:

i) bad project design, selection, and preparation;
ii) lack of skills and deficient staffing;
iii) inappropriate sector policies;
iv) infrastructure constraints;
v) inadequate support by the Government;
vi) undue haste to do follow-on projects;
vii) insufficient supervision;
viii) weak overall economic situation.

The likely underlying causes can sometimes be inferred from the frequency with which certain proximate ones are cited in reviews. For instance, the frequency with which infrastructure is cited as a reason for project failure raises questions regarding the balance between infrastructure and other sectors in the country's investment program and in the Bank's lending program. The repeated reference to design, selection and preparation as causes of project failure, and the occurrence of serial failures in follow-on projects suggest that the Bank failed to identify and to heed lessons from its lending experience. Inadequate support by Government and manpower bottlenecks indicate difficulties with Tanzania's absorptive capacity; and raise questions about the overall size of the lending program. All these underlying causes point to deficiencies in the Bank's system for planning its lending operations. Some causes, e.g. sector policies and the overall economic situation, mainly raise concerns about the role of the Government, but they also reflect on the linkage (or lack of it) between macro-policy dialogue and project lending operations.
Source : Extract from World Bank, 1990a, pp xvii-xviii.

Annexure III

The Shared Vision of the GOT and the BWI

Policy recommendation	Rolling plan & forward budget	Policy frame work paper	World Bank's resolute action
1. Market based exchange rate management	Measures to be taken to strengthen market based exchange rate system.	Inter Bank market for foreign exchange to be the basis for exchange rate determination.	Depreciation of official exchange rate. To be carried on. Move towards market-based systems for the allocation of for Ex.
2. Liberalisation of trade policies	To take measures to form a trade regime free from quantitative restrictions.	Fully liberalise exports of traditional commodities, rollback increases in maximum tariff rate, eliminate exchange restrictions, allow coffee exporters to retain their receipts fully.	Make the import regime more liberal & market oriented & reduce tariff ensure accountability & transparency of OGL export promotion to be made more vigorous.
3. Reforms in fiscal policies	To pursue a much tighter fiscal policy to ensure budget surplus by controlling expenditure and mobilising additional revenue, introduce VAT system by the end of 1995.	Maintain fiscal restraint & achieve budget surpluses by broadening the revenue base, strengthening cost recovery & monitoring & controlling expenditure; and not allowing domestic bank financing of budget deficit. Introduce VAT system.	Generate budget surplus through improved monitoring of revenue & expenditure; and substantially reduce reliance on domestic financing of the deficit.
4. Financial sector reform	Restructuring of the state owned banks (NBC, CRDB, PBZ & THB), improvements to inter branch and inter bank clearance systems & elimination of lending to non performing borrowers.	Restructure National Bank of Commerce to improve efficiency of credit allocation & stem losses channelled through financial system. Through cessation of NBC lending to non performing borrowers, and clearance of inter branch transactions system	Encourage setting up new private banks; restructure state-run banks, and allow increased managerial autonomy & right to set their own interest rates, and allow the state-owned banks to remove the worst loans to a recovery trust
5. Reforms in monetary policy	Reduce inflationary pressures & increase domestic resource mobilisation by controlling refinancing from BOT & holding treasury bill auctions.	To reduce inflationary pressures, increase reliance on domestic resource mobilisation & improve allocation of financial resources.	Curb rapid monetary expansion & discourage commercial bank borrowing from central bank.

Annexure III (Contd.)

Policy recommendation	Rolling plan & forward budget	Policy framework paper	World Bank's resolute action
6. Public enterprise reforms	Liquidation & divestiture of parastatals, through executing performance contracts & maintaining hard budget constraints by ending direct & indirect subsidies.	Liquidation of privatisation of commercial parastatals under new management and/or ownership, and also through performance contract.	Privatisation of parastatals through management contracts, joint venture arrangements or performance contracts.
7. Labour & wage policy reform	Reduction in civil service employment; reform of the pay structure to reduce non-monetised allowances	Personnel control & retrenchment of redundant civil servants, & designing of a revised & integrated salary structure, that eliminates monetary allowances & in-kind benefits.	Retrenchment of civil servants, abolishment of guarantees of employment to University graduates, & referee in civil service introduce a pay reform.
8. Liberalisation of prices & domestic trade	Liberalised marketing policy for food & cash crops, & creation of enabling environment for the private sector & business development.	Elimination of commercial functions of crop boards; and approve unrestricted entry into domestic marketing, processing & export of traditional crops. Also facilitate liberalisation of inputs supply markets.	Elimination of price controls, phasing out of subsidies, & decontrol of goods for sale in domestic market
9. Social sector policies reforms/human resource development	To combat poverty & deprivation and thus improve people's welfare	To reduce poverty & import quality, quantity & equity of human resource development.	Provide expanded education & health services, allow private practice by govt. doctors, stress population control, improve the delivery of social services

Source:

1. The rolling plan & forward budget for Tanzania for the period 1994/95-96/97 (joint publication of Planning Commission & Ministry of Finance; July 1994.
2. Policy Framework Paper for 1994/95-1996/97, October 1994.
3. Tanzania: Resolute Action. The World Bank, 1993

Annexure IV
People in Tanzania with whom I had discussions on the Tanzanian development experience: 18-24 June and 6-19 August, 1995

A. Political leaders

1. Mwalimu Julius Nyerere, former President of Tanzania

2. Mr. E. Mtei, Chairman and Presidential candidate for CHADEMA and former Minister for Finance.

3. Dr. Abdur Rahman Babu, former Planning Minister and Vice Presidential candidate for NCCR

4. Mr. Alley Sykes one of the founders of TANU

5. Mr. Paul Rupia, former Chief Secretary to the Govt. of Tanzania and Parliamentary candidate for the ruling party.

B. Officials

6. Dr. Enos Bukuku, Economic Advisor to the Prime Minister

7. Mr. F. Kazaura, Principal Secretary, Planning Commission

8. Prof. Doriye, Deputy Principal Secretary, Planning Commission

9. Mr. S. Odunga, Deputy Principal Secretary, Ministry of Finance

10. Mr. G. Mbowe, Head of the Parastatal Reform Commission

11. Dr. Bevan Waide, Advisor to the Parastatal Reform Commission

C. Academics and Professionals

12. Prof. Sam Wangwe
Executive Director, Economic and Social Research Foundation (ESRF)

13. Dr. H. Semboja, Fellow, ESRF

14. Prof. V.J. Semboja, Director, Economic Research Bureau (ERB), University of Dar Es Salaam (UDSM)

15. Dr. M.S.D. Bagachawa, ERB, UDSM

16. Dr. H.P.B. Moshi, ERB, UDSM

17. Dr. Godwin Mjema, ERB, UDSM

18. Mr. E.G. Luvanda, Dept. of Economics, UDSM

19. Prof. N.Lipumba, former Chairman, Dept. of Economics, UDSM

20. Prof. R.B. Mabele, Chairman, Dept. of Economics, UDSM

21. Dr. A.V.Y. Mbelle, ERB, UDSM

22. Dr. Evelyn Maje, Dept. of Economics, UDSM

23. Dr. D. Bol, Visiting Professor, ERB, UDSM

24. Prof. R. Mukandala, Head, Dept. of Political Science, UDSM

25. Dr. Andrew S.Z. Kiondo, Dept. of Pol. Science, UDSM

Business community

26. Mr. Ashok Chande, Chairman, JV Group

27. Mr. Juma Mwapachu, Director, JV Group and Editor, *Change*

28. Dr. M.M. Devani, Chairman, Dar Es Salaam, Merchants Chamber

29. Mr. David A Mwaibulla, President, Tanzania Chamber of Commerce and Industry

30. Mr. Sadruddin Shariff, Chairman, Shariff Group

31. Mr. Bob Meghani, Chairman, Associated Breweries (T) Ltd.

32. Mr. S.K. Matabuzi, Chairman, Tanzania Exporters Association

33. Mr. A.A. Lalani, Managing Director, Savings and Finance Ltd.

35. Mr. Ibrahim H. Seuishi, Director, Coopers and Lybrand, Tanzania

36. Dr. Khaled Kamal Khan, President, Tanzania Medical Centre

Aid and Diplomatic Community

37. Mr. G. Egstrand, Head, SIDA

38. Mr. Erik Korsgren, Chief Economist, SIDA

39. Mr. David G. Bell, First Secretary (Aid), British High Commission

40. Mr. Robert Sykes, Director, British Council

41. Ms. Anne Christensen, Counsellor, DANIDA

42. Mr. Tore Gjos, Minister, Counsellor, NORAD

43. Mr. S.V. Ijzermans, Head, Development Cooperation, Netherlands Embassy

44. Mr. Mark Weintling, Director, USAID

45. Mr. Fred Witthans, Program Officer, USAID

46. Mr. Simon Nhongo, Deputy Resident Representative, UNDP

47. Dr. Francis, Lungu, National Economist, UNDP

48. Mr. M. Konishi, Resident Representative, World Bank

49. Mr. T. Thompson, Economist, World Bank, Resident Mission

50. Mr. Zafar Ahmed, Economist, East Africa Dept., World Bank and member IMF-World Bank mission

51. Mr. G.E. Gondwe, Deputy Director, African Department, IMF and leader of IMF-World Bank Mission to Tanzania

52. Ms. T. Lujabe - Rankoe, High Commissioner of South Africa

53. Mr. O.P. Gupta, High Commissioner of India.

ACRONYMS

AIC	Advanced Industrial Countries
APF	Administration, Planning & Finance sectors
BIDS	Bangladesh Institute of Development Studies
BIS	Basic Industries Strategy
BWI	Bretton Woods Institutions
CEM	Country Economic Memorandum
CIS	Commodity Import Support
DC	Developing Countries
DFI	Development Financial Institutions
DFI	Direct Foreign Investment
EFF	Extended Fund Facility
EPIDC	East Pakistan Industrial Development Corporation
ERB	Economic Research Bureau
ERP	Economic Recovery Programmme
ERP	Economic Reform Programs
ESRF	Economic and Social Research Foundation
GDS	Gross Domestic Savings
GFCF	Gross Fixed Capital Formation
GOB	Gaverment Of Bangladesh
GOT	Gaverment Of Tanzania
I&C	Intermediate & Capital
IMF	International Monetary Fund
IMTC	Inter-Ministrial Technical Committee
IPC	Investment Promotion Centre
IRBD	Independent Review of Bangladesh's Development
KDI	Korean Development Institute
LDC	Least Developed Countries
LIC	Low Income Countries
LMG	Like Minded Group
MFA	Multi Fibre Agreement
NCB	Nationalised Commercial Banks
ODA	Official Development Assistance
OGL	1Open General Licence
PFP	Policy Framework Paper
PIDE	Pakistan Institute of Development Studies
RE	Recurrent Expenditure
RMG	Readymade Garments
RPA	Reimbursable Project Aid
RPFB	Rolling Plan and Forward Budget
SAL	Structural Adjustment Loans
TA	Technical Assistance
TDE	Total Development Expenditure
TOT	Terms Of Trade
TPE	Total Public Expenditure
TWS	Third World States
WB	World Bank
WFP	World Food Programme

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When the new Sida was formed out of six former independent aid-agencies, five inquiries were undertaken to give the new Sida a common policy in vital areas and a coherent vision of the future. The inquiry into the future, Project 2015, consists of a series of studies and seminars aiming to review trends, problems and opinions which will have bearing on the environment within which Sida will be working 5-20 years from now. This volume is one of nine publications that presents the results from the 2015 project.

Aid Dependency is the subject of this volume. Sida has commissioned two well-known experts, Roger Riddell and Rehman Sobhan, to examine this highly complex and nuanced development cooperation problem. Their findings are very interesting and has great relevance for Sida and others interested in how this problem could be handled in the future. The studies are introduced in a commentary by Gus Edgren, Head of Sida´s Policy Department. He incorporates the discussion within Sida – and the aid community – with the results from Roger Riddell and Rehman Sobhan studies and gives us an idea how we must change the aid relation to avoid negative side effects in the future development cooperation.

Other publications from the 2015 project:

- Aid Management
- Trends in Social Development
- North East Europe
- Latin America
- Asia
- East and West Africa
- Southern Africa
- Development cooperation in the 21:st century

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