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The Governance Gap

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It is almost ten years since we were prompted by the inspiration of Professor Islam to think collectively of the relations between Bangladesh and the many aid donors, countries and institutions, which furnished aid in the first few years of independence. Much of what we said was familiar to the large number of people from other countries who had participated in trying to help Bangladesh in those early years as well as to those involved in negotiations with donors but we hope that in putting facts before a wide audience we succeeded in documenting a side of international aid transactions which for many commentators goes largely unsuspected. In this essay we reflect a little more on the conditions that enable outside pressures to be brought on those developing countries that have decided that it is in their interests to seek external assistance, and how some of the pitfalls which we described in our study[1] may be avoided.

The warning that we felt we should convey was of the danger of interference in almost every aspect of the determination of economic policy when dependence on aid is all-pervasive and apparently inescapable. 'The World Bank will seek to participate both by discussion and by studies of its own in the making of national plans . . . the Fund in turn pronounces on the government's financial policies and delivers its verdict on exchange rate policy', while the British design two-thirds of the industrial sector, the French the airport and the Russians the power supply. 'The attention of foreigners is not confined to material welfare. Health, education and family planning pass under their scrutiny as they analyse, criticise, advise, innovate and experiment in areas where they cannot have any certain knowledge of the consequences of the policies they advocate'.[2] Since we wrote there have been other studies of the influence of aid on Bangladesh, not least that of Professor Rehman Sobhan who wrote with feeling and conviction of the damage that aid and foreign interference were doing to the economy, people and national interests of Bangladesh. He, too, emphasised the loss of sovereignty resulting from aid dependence:

> Bangladesh's policy-makers continue to wait on decisions in Washington, London, Tokyo, Bonn and Paris before they formulate their annual development budgets, announce an import policy, formulate a food policy or even decide how many children should be born. The decision makers of the developed world hold the lifeline of any regime in Bangladesh in their hands and can visit havoc on the life of a country in a way which was inconceivable two decades ago. The sovereignty of the Bangladesh nation state, in its prevailing social configuration, is therefore likely to remain a polite fiction as long as Bangladesh does not challenge their current strategic assumptions and ideological preconceptions.[3]

This is, of course, no less true today than it was a decade ago. Bangladesh is an extreme case but the issues we were writing about apply in a wider context and affect other countries also if they become too highly dependent on aid, accumulate unmanageable debt or fall victim to violent economic change that affects their external position adversely. This prompts some reflection on the process that leads to progressiveness in the unfolding of influence, the form that influence may take and the ways in which this may be minimised, given that some involvement with donors is desired.

AID INDUCED STRUCTURAL CHANGE

It is not easy to put the theme of aid and influence into a theoretical setting. A natural starting point might be the two-gap model introduced into the discussions of economic development in the 1960s.[4] It will be recalled that in its simplest and unelaborated form the model focused on two obstacles to development. The first of these was the scarcity of resources which restricted savings and investment, the savings gap; the second was the inability to earn foreign exchange to finance imports in sufficient amount to realise the volume of production and investment which could otherwise be undertaken, the import gap. In either case, aid might bring relief but the dynamics of this lay imperfectly explored. While indeed the magnitude of gaps in the end would necessarily be equal once all forces impinging on the economic system had actually worked themselves out, the value of this analytical approach lay in the attention it gave to the mechanism of adjustment that brought about such equality, as well as in the attention it gave to the identification of the *binding* constraint on development.

Schematically one line of argument would run as follows: A poor underdeveloped country, perhaps stagnant for a long period, may have development potentials which are not realised because the economy by itself cannot, or at least in fact does not, bring forth the savings necessary to invest in such development; the country is too poor to develop and the resource gap constrains development. This gap can then be closed through the import of savings from other countries to allow investments to go ahead and development potentials to be realised. For this critical additional resource to be made available, an equivalent balance of payments deficit would have to be created, and thus an import gap follows as a necessary consequence of meeting the resource gap. Once this process has been started and assuming it is maintained over a period of years, the domestic structures of production and of resource development are altered and so are balance of payments, import and export structures. As these new structures are developed and maintained, they become ingrained in the economy of the country and any decision or need to shift back to the old structure of no resource and import gaps (or even to shift partly back to more equal balances) becomes difficult and can only be achieved over time. In other words, the developing country has become aid dependent both in terms of resource gap and import gap.

Moreover, once this process of aid dependence has started, unintended consequences follow which do not lend themselves to the neat textbook or theoretical analyses often advanced. In such constructions, there is a predetermined formal adjustment path in terms of national income entities. The process of adjustment is supposed to take the form of structural changes having the effect of increasing domestic savings to close the savings gap and other changes in output or demand which will achieve a balance of payments without the need to rely on aid. This is the end to which all developing countries may be expected to strive and in terms of macroeconomic analysis it is readily portrayed. It might be expected that the savings gap would diminish under its own volition. Incomes will increase; per capita incomes, in particular, will increase and, perhaps, the distribution of income will initially become more unequal, with the effect of increasing the propensity to save (although we accept that this may be uncertain); there may also be an increase in government revenues with the same effect, and the same qualifications, as well as other favourable structural changes. Whatever the precise mechanism, it is generally to be observed that increases in per capita incomes lead to higher savings. At the same time, economic activity will expand and develop and change its structure in such a way as to make the expansion of import requirements slower and the promotion of exports faster (or possibly to reduce both or any other combination that will bring the balance of payments into equilibrium, including the flow of private capital).

It is our contention that the adjustment process is not likely to follow the smooth progression often supposed and will be prolonged by aid dependence and distorted by foreign influence. The analysis cannot be conducted solely in terms of economic forces and changes but has to take account of social and political circumstances that may retard attempts to reduce dependence on foreign savings and forgo the use of resources provided from abroad. Very often the binding constraint will not be economic but political, even if it finds its expression in economic magnitudes.

The absence of determination to wean the economy from dependence on aid as quickly as possible has its consequences. Further dependence, it seems, can develop organically, leading to a wide-ranging shift of authority and effective decision-making power from national authorities and bureaucracies to aid providers. This shift opens up a third type of gap which cannot be subjected to easy measurement; it is essentially a political gap occupied by foreign influence inserting itself into the functions of government in the recipient country. The government is no longer the undisputed master in its own house; the situation is one of ambivalence; two sets of influence are now at work. As we expressed it earlier, 'a country as heavily dependent on aid as Bangladesh on foreign assistance, cannot escape continuous participation by donors in the formulation of its policies. It may prepare its five year and annual plans, its minister of finance may draw up his budget, the ministries may make their programmes, but all do so with the consciousness that dominant aid agencies are looking over their shoulder.'[5] Dependence on aid which started as an effort to fill material gaps finishes with a considerable surrender of control and authority. This we describe as the *governance gap*, measured by the degree of involvement of foreign powers in setting policy.

As we begin to reflect on this process, it becomes apparent that the process of ultimately eliminating the need for aid is not a simple one. There may be a whole host of different sets of strategies that might bring ultimate equilibrium into sight. Some might, for example, include import substitution on a substantial scale; others might lay stress on export promotion; still others might emphasise structural adjustment, or private enterprise or nationalisation. The possibilities are legion. But the choice between such strategies – or rather the balance between them – and the course of their implementation are all subject to the exercise of outside influence. In the real world one is led far from the simple equilibria structures of classical economics and, one might reasonably fear, into many types of models with different structures which would lead not to equilibria but to disequilibria, and again to many different outcomes that might favour one class of society or another, generate alternative financial structures, or favour consumption over investment and, in short, produce radically different outcomes. Couple all this with the effects of random and unpredictable disturbances and where do we stand?

In an age of economic modelling and all the sophistication of econometric science with the incorporation of stochastic processes into theoretical analysis, it might seem superfluous to stress the need to take account of the uncertainty of economic outcomes; but this is not really the point. What we are concerned about is the unpredictability of events which cannot be foreseen but which may make a nonsense of any preconceived views of how economies should be organised and how they function. This is all the more evident at the interface of economics and political organisation. Many of the major issues of economics are unresolved: many debates of the time do not produce determinate results, and many, perhaps well founded, views defy acceptance. What might have convinced the committed planners of Russia that they could be wrong, or the equally committed protagonists of capitalism that their answers might be unacceptable? Where monetarists and Keynesians jostle in indeterminate confusion who should be so bold as to say that one is right and the other wrong, or to seek to rationalise the discussion by remarking 'Horses for courses'? Still another aspect of this discourse is that maximisation subject to real life constraints is very different from maximisation in some abstract environment. The best is the enemy of the good and may be largely irrelevant in an unfavourable environment.

This raises the fundamental question of the right of outside bodies to offer advice or exert influence on the economic policies of recipient countries. While donor legislatures and administrators do have the responsibility of ensuring that public money is wisely spent this does not, by itself, confer any moral authority or political right on the donor to dominate the decision-making of the recipient country. Yet it often happens.

AREAS OF INFLUENCE

It is helpful to distinguish a number of different categories of influence. The first of these is concerned with setting objectives which will determine the priorities of development. Although disagreement about major objectives is always a possibility, there may be shared preoccupations that lead to a meeting of minds. In some cases these may concern common political objectives, as might apply to assistance given to Egypt or Pakistan, and these objectives may find some of their expression in the provision of economic support as well as military help. If objectives can be agreed, the exercise of influence is less likely to give rise to deep concern and this may extend to agreement on economic objectives removed from political ones; if so, a possible source of dissension will have been removed.

A second category of influence lies in attempts to intervene in the determination of general policy issues, even in a situation where there may be accord on major objectives. If, for example, the virtues of planning or the free market are strongly urged and ideological issues surface, there may be recurrent efforts to make the country see reason. Such pressures may be exerted by powerful donors or by international institutions.

A third category of influence is to do with implementation of assisted development programmes. This may take objectionable forms but it stems from the accountability of donor agencies to their controlling bodies and as such is understandable. If properly exercised, it may be viewed in relation to agreed objectives and the need to see that the assistance given is effective in the attainment of those objectives. This requires evaluation and it may be appropriate for the donor agency to carry this out even though most aspects of this function might be delegated to the receiving country if donors have confidence that it can be relied upon to carry out the necessary checks.

Finally, there is a subtle form of influence which takes place within accepted programmes and consists of the efforts of public or private interests within donor countries, and to some extent institutions, to realise their own objectives or ambitions, sometimes with the connivance of interests within the recipient country itself.

Ensuring acceptable returns from the provision of aid funds or other resources is among the more legitimate objectives of donor concern and influence. However, the area of legitimate influence of this nature depends on the type of the transaction, as may be illustrated by reference to the operations of private banks as against multilateral institutions such as the World Bank and the IMF. A private bank is generally concerned with the viability of the project that it is financing (lending to some individual or corporate body). Whether its loans will be serviced or not depends on the performance of the borrower within the economic framework of the country, as this may be determined by the government or economic forces. The lender's surveillance tends, therefore, to be limited to the entity to which the capital has been lent; there is little recourse beyond this. For the World Bank it is different. Lending is not so much to one specific entity, although the funds are destined for this, but to the government of the country. Not all the projects for which funds are made available will be revenue producing even if they are wholly beneficial in relation to their costs. In such cases, recourse for the sevice of debt cannot be solely to the entity benefiting from the loan since there is no strictly earmarked flow of funds from which payment can be demanded and from which payment is restricted. Following a similar line of reasoning, it follows that the Fund also is in the position of having to distrain on a borrowing country's resources and revenues and so it strives to influence events so that funds can be made to flow into its hands. It may, of course, take this process a stage further by endeavouring to get a debtor country to create conditions in which not only obligations to the Fund can be met but also the demands of other lenders, including some who have deftly insured themselves against loss by demanding government guarantees on their loans. These processes are to be seen at work in many countries, not only in those as economically down and out as the Sudan.

It follows that, unlike private banks, the World Bank and the Fund are rationally concerned with the total performance of the economy as it affects what is, in effect, a floating charge upon its assets and future performance. This gives a rationale for the great concern of international organisations with the performance of a borrowing country's economy as a whole, and not just those parts of it with which they are immediately involved. If such international institutions were constrained to lending only to specific entities from which, alone, they could demand repayment, there would be less justification for taking an interest in the overall performance of the economy. The overpowering lien on the resources of the country has also to be seen in relation to IMF's and the World Bank's demands always to be seen as a preferential creditor from which there is no escape.

Of course, differences between lending by private institutions and lending by international organisations can be over-drawn. On the one hand, private banks have lent massively indeed to governments of developing countries, not only to individuals and private corporate bodies, and therefore they now depend heavily on the economic and financial health of the borrowing countries; hence they have a direct interest in the success of governmental policies. On the other hand, international financial institutions, and the World Bank in particular, see themselves in a role of institutions for development, not merely as intermediaries in the transfer of resources to developing countries. In the pursuit of this wider objective the Bank clearly will be concerned with development strategies and policies in its member countries. However, while the Bank can reasonably claim an advisory role, this hardly gives legitimacy to the exercise of other types of influence, in particular to the linking of the level and composition of one or other agency's resource transfers to the acceptance of advice on issues of general development approaches.

It might appear that there should be a clear distinction between making commercial loans, including loans from the World Bank, and furnishing ODA (Official Development Assistance) or IDA (International Development Association) credits, which are free of most, if not all, interest charges. With concessional aid or IDA money, even very modest returns from a project would be sufficient to service it, and it might, therefore, appear inappropriate to ensure that some imaginary and commercial conditions of repayment should be met. This is not really the case. It is necessary to look beyond this to securing, in terms of social benefits, at least an equivalent return and by implication using the money to the best advantage in the face of the opportunity cost represented by some other project forgone. All these considerations are reinforced if the administrative and technical skills available in the borrowing country are weak or unsuited to the design, organisation and operation of a project that is being considered for financing. Satisfactory rates of return need to be insisted upon to ensure that a project is to be well executed and profitable in the widest sense.

Attempts by donors to determine the objectives of a developing country are potentially much more oppressive. In the determination of macroeconomic policy there are both internal and external objectives to consider and as usual in economic relationships they may be closely related. Intervention in policy formation may be more justified if there is a serious imbalance in the external payments position and this could apply to a large surplus as well as to a large deficit, although the former is hardly likely to apply very frequently in the case of a developing country which, even in surplus, would be unlikely seriously to inconvenience the rest of the world or even individual countries trading with it. A serious deficit is another matter, for financing it makes a call on the resources of other countries which they may not be willing to provide, or only on a temporary basis, without some assurance that the situation will be brought under control.

The balance of payments is not always a thing of particular concern in a developing country. If aid and capital inflows on acceptable terms serve to balance the payments position, pressure from donors to interfere in the determination of domestic policies will be much reduced. The justification for interference would have to be on other grounds, such as ensuring the maximum return on investments, as we have already suggested. It may be in some cases that there is a better understanding of economic forces and the selection of policies to control them by donor countries, or more likely institutions, than is available in the recipient countries, although this is by no means always the case; yet, even when it is not, the flow of recommendations is unlikely to be stifled. We can easily imagine Professor Islam in the position of a World Bank official; he was also the first Deputy Chairman of the Planning Commission in Bangladesh. In the latter role, the World Bank did not hesitate to offer him advice and to suggest changes in the policies he was advocating and supporting. One might be excused for wondering what advice Mr Islam, of the World Bank, might have offered Minister Islam, of the Planning Commission, if he had been able to change his hat with sufficient rapidity, and what Professor Islam might have said to both of them, which one may suspect would have been both pointed and tinged with a touch of sardonic humour. What, perhaps, should be grasped from this imaginary exchange of roles is that most administrators are not advancing the views they themselves advocate so much as putting forward the policies adopted by the institutions they represent.

When two strong decision takers confront each other in the way described above, there is the prospect of a battle for supremacy which may prove to be counter-productive. To force acceptance of external institutional views may lead to later economic disruptions of a different kind. In the case of Zambia, for instance, acceptance of the IMF's policies was followed by a reversion to ones that could be made politically acceptable. It is a telling fact that when oil prices were raised by the OPEC countries, the change was viewed with dismay by politicians, economists and financial journalists alike and that when oil prices began to fall, the same groups of observers again expressed anxiety. What was really of concern was not so much the changes themselves as the process of adjustment that would have to be undertaken in response to altered economic circumstances. Given that the success of economic policies can seldom be guaranteed it is as well to be cautious in advocating one course of action or another. If outside agencies are to advocate changes in government policies, it might be best to think of them as modifications to existing policies rather than as total reversals, and to remember that change is frequently difficult to assimilate.

In contentious matters, there is a very real danger that the advice offered to a country by an outside agency will align it with one or more contending factions, so involving it in matters of political controversy. It may be suspected that this is usually the case for there is often a political reason for apparently unsatisfactory economic policies and the most effective way to promote change may be to support those advocating it. To take but one example, and there are many more, in the Sudan there have been strong differences of opinion about the policies advocated by the IMF in recent years, so that institution has had both its supporters and opponents within the country and in consequence has inevitably become embroiled in domestic dissension and politics. Such differences may be reflected in the attitudes of the international civil servants who have dealings with developing countries, for institutions are not monolithic in the opinions of their officials. Alignment with a particular faction is not just a macro phenomenon, it occurs at the micro level also and sometimes in unexpected forms. There may be a common professional interest shared between government officials in a recipient country and businessmen in a donor country: the one may wish to operate certain types of equipment and the other to supply them with their preferences but this may not represent an optimal use of aid from the point of view of the recipient country and may be opposed by other organs of government such as the Planning Commission or the Ministry of Finance. Instances of this kind were brought out by Professor Islam in our previous study and they extended to pressures to carry out projects that were really not desirable or of low priority, although this did not prevent them from being supported by government departments within the Bangladesh government system.[6]

While donor countries may prefer to leave macroeconomic discussion to the Bank and the IMF, they have their own objectives for the exercise of influence. Some of these are concerned with their own national interests, tied aid being a typical example, but others are concerned with objectives that they think recipient countries should adopt. Very often these stem from the ethos of the donor country in question and represent a concern not primarily with a concept or judgement of objective efficiency so much as with a set of values that it is felt should be uniformly observed. These objectives may be entirely praiseworthy but they may not be those that recipient countries have most in mind. The so-called like-minded countries are very much concerned with helping the very poor within the countries with which they deal and their aid programmes are fashioned with this intention. While most donor countries would maintain that their objective in providing assistance was to combat poverty they would certainly differ in their approaches in the selection of groups to concentrate on and in the most desirable time-profile of the effects that they wished to create. By comparison with other donors, the approach towards poverty alleviation of the like-minded countries is more direct and immediate, at the present time, with packages tailored specifically to the needs of the poor. Here, as elsewhere, such programmes are not to be forced upon developing countries, however laudable they may be; cooperation, not coercion, must be the guiding light. It must also be recognised that programmes to help the poor are often difficult to identify and have a more than average risk to failure; and it may be suspected that programmes designed to benefit the most disadvantaged groups are frequently the most difficult and costly to implement and, if undertaken prematurely, prove to be largely unrewarding, involving disproportionate costs, not only in money, but also in the use of scarce administrative ability. The design of development programmes involves, above all, the achievement of balance between many competing objectives even if all of them are directed to the mitigation of poverty, and it involves a scrutiny of the development path over a period of time. Here, again, costs and benefits have to be balanced out at the margin so that the effort to relieve immediate poverty has to be restricted. Thus, it could well be wrong for donor countries to press programmes for the relief of immediate poverty too far, unless they are prepared to meet all the cost of doing so, including the effects of such programmes on other development activities. The exercise of influence, however well-be a helpful thing if it fails to recognise that in assessing the balance between needs, local administrators are likely to have a more certain economic and political touch.

If poverty-orientated policies as advocated by donors are to succeed, there has to be the fullest accord between donors and recipients or, as Norway puts it, between the cooperating partners. There is one country where this meeting of minds and intentions has been almost fully achieved: we refer to Botswana. This is an unusual country in almost every respect. It has a large area although much of it borders on desert and a small population of rather more than one million. It is a multiracial society with the political power in the hands of Africans who are fortunate to have a large number (although never enough) of competent administrators, many with European origins. Botswana is totally exceptional in having a considerable surplus on the balance of payments, largely generated by the sale of diamonds, one commodity that it is rather satisfactory to mine in present conditions. It is arguable that it has very little need for aid and that the very substantial amount that it has obtained has, in arithmetic terms, gone only to swell its reserves of foreign currency. A meeting of minds on objectives and approaches has proved surprisingly easy to attain in such circumstances and aid programmes have been administered with commendable success and relatively few cases of failure. In these circumstances the Norwegian approach to economic development has proved to be very successful.

One factor in this success has been the particular approach to the relief of poverty. Although diamond sales give Botswana a high per capita income, much of this income accrues to the government of the country and has been salted away in accretions to foreign exchange reserves of very large dimension. The conservative use of resources is justified on the grounds that the pace of development is determined not by the availability of funds but by the rate at which administrative skills, in business as well as in government, can be developed. Thus, extreme poverty is a continuing feature of the economy with some highly disadvantaged groups remaining outside the development net in many respects. Nevertheless, this has not prevented the very successful implementation of health and educational programmes with a poverty orientation; donor influence and cooperation in this has been very successful and satisfied both the objectives of the donors and the Botswana Government. If such programmes are to reach the poor very often they have to be made all-embracing and to include the rich as well as the poor. A limited programme runs the risk of being deflected to the rich in the first instance through the exercise of internal influence, and only saturation can be counted upon to frustrate this. It is this orientation of poverty programmes that has succeeded in Botswana. Norway's contribution to the poverty programmes has been to assist the development of a decentralised primary health care system by contributing 80 per cent of all bilateral assistance for it and providing medical personnel. In education, much the same process has been followed with, in this case, the assistance mainly of other countries, with the Nordic contribution coming from Sweden, and the United States playing a notable role in developing educational facilities of various types in addition to its other activities.

The next stages of efforts to relieve poverty in Botswana will be more difficult since they involve reaching thousands of remote-area dwellers and creating higher productivity employment opportunities for a large group of rural and urban people who now eke out a living at low levels of income. Again this will be approached by programmes involving cooperation between Botswana and donors working closely together.

It is not only in developing countries that it can prove hard to spread the benefits of material progress; the industrialised countries have the same problem although not to the same degree. The relief of extreme poverty is only one way in which the like-minded countries direct their socially orientated programmes. Norway includes the interests of women and care of the environment as important objectives which should be fostered by its aid programmes. In Botswana, both these objectives have a place but both can be overdone. It is understandable that Norway should attach particular importance to the effects of development on the environment, as it reflects the damage caused to that country from the pollution generated by other countries as well as domestically, but it goes much deeper than this, to a wish to preserve the world's amenities. Such issues do not touch closely on Botswana for there is very little atmospheric pollution that is liable to damage it or its neighbours. Nevertheless, other aspects of care for the environment are of importance and result from the incidence of damaging externalities which economic activities can inflict on the wider interests of the community. The ecology of the country is suffering considerably from the growth in numbers of cattle, which leads to damage to the land and may also constitute some threat to wildlife. These are, to a considerable extent, internal matters, though the preservation of wildlife has its international aspects, and the extent to which other countries should take it on themselves to become involved in such matters is not clear. Nonetheless, the exercise of influence may be justified in an effort to provide a balance of forces between environmentalists and cattle owners and to sustain the government in its efforts to provide for environmental issues in its development strategy, which it is doing in conjunction with internal pressure groups.

The issue of women's affairs is not, perhaps, one in which outsiders should be inclined to meddle in the context of Botswana. The government stoutly maintains that this is not an issue in its country where all citizens are treated equally without distinction. This is not the place to go into the niceties of such discussions but to suggest that some issues may be best left to the countries concerned and not foisted upon them because they have caught the limelight in response to pressure groups in the remote north. What may seem to some observers to be important issues about the status and rights of women arise in much more telling ways in other countries where, perhaps, aid agencies would be ill-advised to meddle. A possible solution to this kind of dilemma is for donor countries with particular interests to reserve part of their aid for the purposes they wish to support and to allocate it not through country programmes but by a more selective mechanism. This might take the form of making the aid available to those countries which support the same objectives as the donors, allocating it as an addition to the normal country programme. In this process there might be an element of competitive bidding. While this solution might commend itself to the Nordic countries and might be effectively implemented by them within firmly established programmes, it might not appeal to other donors which, if their requirements could not be met by particular countries, would be unable to divert their aid elsewhere, so that part of it would, in effect, be lost.

In recent years Norway has been undertaking a major review of the performance of its aid programmes in all the countries that it supports in a major way. The objectives of the Norwegian Government's programmes have been defined in government statements of policy and provide guidelines for aid administrators; they apply in much the same way to different countries and are directed particularly to the relief of poverty. In some cases it has been possible to carry out these intentions with considerable success, but they do not always conform to the recipient government's objectives as is shown in this quotation from the report prepared on aid to Bangladesh which notes that 'The import of Norwegian medicines was against Bangladesh's own drug policy', and that 'the supply of insect sprayers was a most unfortunate case which also conflicted with the country's own policy to protect domestic manufacturers of such sprayers'.[7] More important, perhaps, are programmes launched with the best intentions and aimed at the poor that prove hard to execute effectively. This applied to the Nordic integrated rural works programme in Bangladesh, where objectives of the donors and the government differed and in the event proved to be unrealistic. Nevertheless, the project was judged to have contributed to the development of Bangladesh and helped its mostly very poor people.

FACTORS MAKING FOR VULNERABILITY TO INFLUENCE

The above examples of the exercise of influence and difficulties in attaining the objectives of a particular donor country are insignificant in relation to the extent that influence is exerted in Bangladesh, as our previous study documents in great detail and comprehensiveness in relation to an earlier time. Behind any such discussions lurk a number of complicated and interrelated issues some of which are discussed below. The first of these is concerned with the circumstances that make the exercise of influence possible and where, in practice, influence is likely to be at its strongest. Here both political and economic realities will combine to determine the extent and the form of exercise of influence. A close ally may be more exposed to influence in the interests of political harmony and this will spill over into the economic sphere. There are a number of non-political factors that may make a country anxious to secure assistance. The first of these is backwardness itself. The poor themselves, who might hope to benefit most from economic development, are seldom in a position to influence events, but it is to be expected that pressures to move the country forward will emerge from government, political factions or perhaps some intellectual minority. In the search to promote growth, it is likely that the prospect of securing assistance will be vigorously pursued and that, in the interests of securing rapid growth, there will be pressures to secure large amounts of aid. Poor countries are not only poor in resources but often also in skills and know-how, all of which are readily available in the developed world. Moreover, there will be other handicaps such as exposure to periodic food shortages due to climatic reasons, a major factor in many parts of Africa as well as in Bangladesh; or dependence on the export of one or a few primary products subject to severe market fluctuations; or political interference from other countries inimical to economic progress.

The administrative capacity of government in poor countries can seldom be well developed; there may be neither traditions of central control, trained staff, nor adequate financial resources. All such disabilities can, in some measure, be made good by foreign assistance in the form of goods, personnel or technical assistance, including training. Offers of assistance in such circumstances will be hard to resist and the recipient government may be unable to lay down conditions that would protect from decisions being taken out of its own hands.

The distribution of aid among countries has never followed simple logical criteria. It might be expected, for example, that low-income countries would receive much more in aid than middle-income countries. In 1985, in terms of average, there was in fact very little in it. Excluding India and China, the average for the low-income countries was $16.2 per head (if India and China are included the figure drops to $5.2) against $14.6 for lower middle-income countries and $11.4 for all middle-income countries. What is much more in evidence is that countries with small population can expect to benefit highly in terms of income per capita and that large countries such as India and China with little more than a dollar of aid per head come off very badly. To have a population of over 25 million is almost a guarantee that aid will not exceed $10 per head, although Egypt is an exception as is even Bangladesh, with a population in excess of 100 million. For countries with a population less than this, aid per head can be very high, particularly if political considerations are working in the same direction. Thus, for Israel aid per capita amounted to $467 in 1985 and for Jordan the figure was $157.

For countries with populations the size of India or China the transfer of resources may be of smaller moment than the transfer of know-how. This need not involve the transfer of large amounts of resources which might, in any case, be difficult to do and would carry with it a potential threat to the recipient's control over the use of the imported resources. China seems well placed to avoid this; India has not always been free from the exercise of influence as is well documented.[8] In the 1960s, it was possible for pressure to be exerted on her to devalue in the interests of continuing to receive aid, but it is hard to think that the same scenario could be expected to apply today, for India is both in a strong economic position and has taken a firm stand against accepting unwelcome western interference, even if this means less aid and transference of technology. Moreover, it is one of the advantages of large countries that they can generally mobilise sufficiently capable and experienced politicians and administrators to resist encroachments on their sphere of influence. In this respect, small countries, sometimes with unstable governments, can be highly vulnerable and in no position to avert outside pressures.

For some countries, and particularly those small countries receiving relatively high amounts of aid per capita, dependence on aid is considerable. Several criteria can be used to describe this. For many of the low-income countries, and particularly those with French affiliations, the ratio of aid to GDP is high. In the case of Mali it was 35 per cent in 1985, for Niger it was 20 per cent, for Burkina Faso and Togo 18 per cent, for the Central African Republic 16 per cent and for Bhutan, Ethiopia, Nepal, Burundi, Rwanda, Somalia, the Sudan, Senegal and Zambia 10 to 15 per cent, as also for Bangladesh. Not all of these countries have very small populations. Distress has clearly influenced the amount of aid received by Ethiopia and the Sudan and is a factor in other cases. The objective of aid-flows is frequently to provide the necessities of life or to raise consumption.[9] This is typical of the approach of the Scandinavian countries; where consumption is regarded as inadequate it is considered that a country has a double claim on aid: poverty as it affects consumption and poverty as it limits the development effort. In the case of the relief of distress, aid may come free of strings, or any attempt to use it to influence policy may be totally opposed; in more vulnerable instances, the flow or withholding of aid for the relief of distress may be used as a political counter, as we have illustrated in the case of Bangladesh.[10] Nevertheless, for some countries aid should be making a significant contribution to growth. If it is assumed that the whole of aid had the effect of increasing investment, it could be said to have paid for the entire investment programme in a number of countries. Statistically, in for example Mali or Niger, it is evident that aid is supporting other activities since it is greater than estimated investment expenditure.

We have argued that the extent to which influence can be exercised depends in the first place on the importance of aid to the economy of a particular country. Within the total of aid, the contribution of individual countries and the distribution of the support that is given between donors is likely to be an important factor, although it may be of less significance if a consortium, or similar support group, is in existence. Of the five countries most dependent on ODA, Mali, Niger, Burkina Faso, Togo and the Central African Republic, it is not surprising to see that France is generally the dominant partner. Even here, however, there is appreciable diversification. In the case of Mali, France provided about 17 per cent of ODA over the four years 1983–6; other important country donors included the United States, Germany and the Netherlands, while among multilateral donors, the World Bank was a major contributor flanked by the African Development Bank and the EC. For Niger the picture is not essentially different with France accounting for about 20 per cent of ODA and the United States, Canada, Germany and, more recently, Italy prominent, with the World Bank, through its IDA wing, the African Development Bank and the EC well represented. In the case of Burkina Faso, France's share is only 16 per cent and there is again a wide distribution of donor countries and institutions. For Togo, France's contribution in 1985 and 1986 was small although it had been large in earlier years, and in 1986 Japan suddenly came into prominence so that the reduction in the French contribution was made good; again there is a fair diversification of receipts with IDA providing large sums. The picture presented by the Central African Republic is more distinct, with the French contribution amounting to 45 per cent over the years 1983–6 and the contribution of other countries being small, although the World Bank in its IDA contribution was prominent.

For the other countries mentioned above, the distribution of aid among donors is of a generally similar pattern. There is often a leading donor and sometimes a cluster of substantial contributors but there is invariably a spread. Concentration among the institutions is greater, as might perhaps be expected, with the World Bank always in evidence.

Other aspects of dependence include reliance on aid to meet balance of payments deficits. This is, of course, at the root of the whole affair: the object of aid is to increase resources and, with the extraordinary exception of Botswana, this can be done only if resources are imported via a balance of payments deficit. Few countries could expect to finance a resource gap of 10 to 15 or more per cent of the GDP for long if they had to service it on commercial terms. In principle the viability of commercial financing would depend on the rate of return that was being obtained on the investment and, within the total increase in production that might result from the use of additional resources, that part of it that could be appropriated for servicing loans, whether in the way of profit or increased (and unspent) tax returns. Since we are talking about aid rather than a commercial inflow of investment, this is not the question. It does, however, recur in another way: what are the consequences of being cut off from aid were that to happen? Bangladesh, in a slightly different context, has experienced this when the very large upward movement of import prices, after the 1973 oil price increase, completely destroyed the basis of the import programme leading to widespread disruption of the development effort and renewed hardships for consumers. And even more dramatically, the withholding of US food aid in 1974 had devastating consequences for the political as well as the economic life of the country.[11]

Government revenues are very much the prey to fluctuation in aid receipts. If aid were given to the private sector of the economy as a gift, government finances would not be directly affected. This is not, however, often the case and aid is either used by the government itself or channelled to the private sector through the sale of foreign exchange with a corresponding increase in government receipts. Few low-income countries raise more than 20 per cent of the GNP in taxation and the use of resources provided under aid is an important source of funds for public expenditure and for implementing the government's strategy. A collapse of external receipts, however it comes about, can have disastrous results, as witness the effects on Zambia from the loss of copper revenues.[12]

It might be concluded from the above survey of aid dependence in relation to major donors that there is little danger of a recipient country becoming dependent on an individual donor to such an extent that exposure to the withdrawal of aid from a single source would have devastating effects. While this may be true, it does not exclude the danger arising from concerted action, as we documented in our earlier study. Such action is very likely if dependence on aid is combined with an unmanageable debt problem or what sometimes will be the same thing, an unmanageable balance of payments position. In these circumstances donor countries may be relied upon to get together and to include in their pressures the interest of banks and other financial institutions that may be owed money. Even when this is not the case donors are likely to come together to pool information and exchange views, often in the country in question at regular meetings and sometimes more formally when the World Bank has organised a consortium with attendant meetings on Bank premises.

This process may go further than national boundaries; it extends also to the selection of targets for the development effort of United Nations countries; attempts to fix aid at 0.7 per cent of GDP for donor countries, which fortunately has not functioned as a maximum among countries generously disposed, or specification of broad objectives, such as attainment of health targets. This process is not confined to the majesty of full United Nations' resolutions but extends to the aspirations of the individual agencies, pushing basic needs, employment, the environment. Moreover, it may carry with it particular ideologies, fortunately not always the same ones.

CONCLUSION

It seems to us to be inevitable and unavoidable that aid donors will attempt to exercise influence on the countries that they assist. In some cases such influence could be beneficial but, whether it is beneficial or not, it is bound to be resented in most cases. Influence is exercised by individual donors acting independently as well as collectively, and the untrammelled influence exerted by multilateral institutions is pervasive. How then might a country seek to resist the pressures of influence from whatever quarter it may come?

The first maxim might be to strive to avoid too great a dependence on aid. To limit aid to not more than 10 per cent of GDP might be a sensible rule to apply. The five most exposed countries in our list appear to us to be in no position to resist advice from donor countries and agencies, particularly if the latter combine their approaches to some degree.

The second maxim might be based on the principle of divide and rule. The wider the net can be spread to attract donors, the greater the opportunity to play one off against another. Specialisation and administrative convenience may appear to dictate the assignment of different roles to different donors and, of course, this happens to some considerable extent; but it might be good practice always to think in terms of an understudy in order to offer the prospect of some competition in particular sectors. For some recipients, it may be possible to reinforce this if donor countries of different ideologies can be involved. In the same vein, coordination of the aid effort by donors should be discouraged when and where it goes beyond what can be effectively controlled and guided by the host country. For this strong institutions are needed in the recipient country so that it can be seen to be capable of conducting the government's business efficiently, including coordinating the use of aid.

A third maxim might be to try to arrange affairs in such a way as to limit potential damage in the event of aid being cut off or reduced. Apart from attaining self-sufficiency in the production of food, this might include raising exports, or replacing imports, to an extent sufficient to ensure that the economy could continue to function at an acceptable level if aid were to be cut off. Indirectly this might represent a return to the initial conception of aid or lending serving to build up productive capacity and in the process to provide the means to service loans by expanding exports. It might also involve using external financing for projects that could be divided into a series of stages, all of them self-contained and capable of yielding benefits on completion: construction of schools might fall into this category, billion-dollar dams would not. The ability to do this will depend on the maintenance of national sovereignty; if the governance gap has opened widely the recipient country will be at the mercy of donors in the determination of national policies well beyond the direct deployment of aid resources themselves.

A fourth maxim might be to do everything possible to improve the administrative ability of those in the public service. It is a constant complaint of donors that it is impossible to get things done and while this may reflect physical problems in some instances, frequently it is a case of administrative failures. Improvement of administrative capacities is a long drawn out business and the ability to do it depends on the availability of persons of sufficient educational attainments. Even in the best of circumstances administrative talent is likely to be very scarce. Relief may be given by the use of expatriate personnel, although this is a far from ideal solution. If it is to be fully successful and not itself an instrument of foreign control, the use of administrators from other countries has to be carefully regulated. Few countries could hope to do this with the success achieved by Botswana, particularly because administration in a small country is a very different thing from attempting to provide for the needs of a population of 100 million or more.

Fifthly, and ultimately most importantly, to resist undue influence the government needs to know its own mind and be prepared to stand up to donors. It is much easier as well as more tempting for donors to exercise undue influence if the government is in doubt, undecided and vacillating in its approach to development.

Finally, we return to a weakness we discussed in our earlier study: the power of large well-organised donor countries to gang-up on individual countries highly dependent on aid and the inflow of foreign capital. The developed countries are very powerfully organised in support of their interests. The World Bank and the IMF are regarded as institutions of the donors; they meet in many closed groups to discuss their economic interests, and in the Organisation for Economic Cooperation and Development (OECD) and the Development Assistance Committee (DAC) to concert their policies and attitudes to the developing world. The round-table meetings led by the United Nations Development Programme (UNDP) may be much better as a forum for discussion for they permit a dialogue between donors and recipients. The attempts of the LDCs to build up countervailing institutions have achieved only moderate success; the New International Economic Order is a dead letter and crucial decisions can be taken in institutions in which the developing countries are not represented or have little power. Is it possible that we are beginning to see an effective move towards a more balanced dialogue with the emergence of the South Commission under the guidance of Nyerere? In a less ambitious way, it may still be possible to do something. Any country facing a consortium or donor meeting is in the potential position of being a defendant facing a number of critics, maybe a score or more. Would it be possible to expand such meetings and include some representatives of other developing countries, not donors, involved with the recipient country, to provide both moral support and a more understanding outlook, and capable of exercising some pressures on the donor countries to expand their efforts and support the objectives of the recipient country?

Notes

1. Just Faaland (ed.), Nurul Islam, Jack Parkinson, *Aid and Influence*, London: Macmillan, 1981.
2. *Op. cit.*, pp. 11–12.
3. Rehman Sobhan, *The Crisis of External Dependence*, Dhaka: University Press, 1982.
4. See, for instance, H.B. Chenery and Alan M. Strout, 'Foreign Assistance and Economic Development', *AER*, 1966, pp. 679–773.
5. *Aid and Influence*, p. 11.
6. *Aid and Influence*, Chapter 6.
7. Ole David Koht Norbye, ed., *Bangladesh Country Study and Aid Review*, Bergen: Chr. Michelsen Institute, pp. 118–19.

8. Edward S. Mason and Robert E. Asher, *The World Bank since Bretton Woods*, Washington DC: Brookings Institution, pp. 196–7 and 455.
9. Gustav Papanek, 'The Effects of Aid and other Resource Transfers on Savings and Growth in Less Developed Countries', *Economic Journal*, vol. 82 (1972), p. 937.
10. *Aid and Influence*, Chapter 7.
11. *Aid and Influence*, Chapter 7.
12. For a discussion of this see *Zambia Country Study and Norwegian Aid Review*, Chapter 2, Bergen: Chr. Michelsen Institute, 1986.