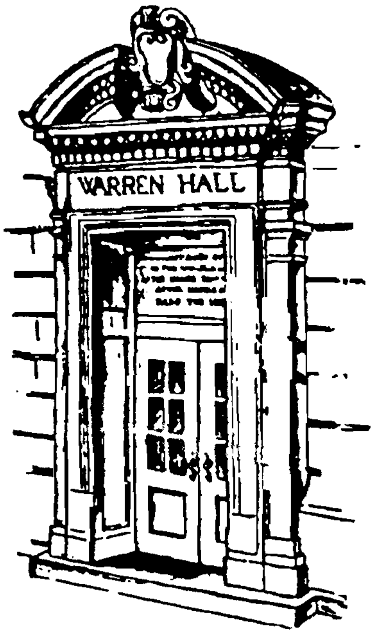

WP 99-06
March 1999

Working Paper

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A FRAMEWORK FOR THINKING THROUGH REDUCED AID DEPENDENCE IN AFRICA

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ABSTRACT

This paper suggests a framework for analyzing aid dependence, particularly in Africa. It argues that aid dependence, and not necessarily a low volume of assistance, is the major problem. It considers the context of the micro-institutional mechanisms of aid delivery, and the context of the macro-dynamics of aid. It proposes specific institutional remedies, and sets out questions that country specific analyses of aid dependence should attempt to answer.

* Paper prepared for the African Economic Research Consortium's Collaborative Research Project on Managing Transition from Aid Dependence in Sub-Saharan Africa. I am grateful to Raji Jayaraman and David Pottebaum for research assistance.

1. Introduction

This paper is based on the premise that the current level, composition and mechanisms of aid delivery in Africa are deeply problematic, and that a key part of the strategy of donors and recipients alike should be to reduce reliance on external official sources of finance. In particular, this paper is based on the following propositions, some more contentious than others:

1. An improvement in the mechanisms of aid delivery will increase the effectiveness of a given volume and composition of aid.

2. However, mechanisms of aid delivery are tied to the volume and composition of aid—and it is very likely that improving the mechanisms may lead to, or require, a reduction in volume and a change in the composition of aid.

3. Dramatic increases in aid in situations where policies and mechanisms seem right for now, may well lead to a deterioration in mechanisms and in aid effectiveness.

4. In many cases, a planned reduction in aid volumes, and associated changes in composition and mechanisms may be the best method of improving aid effectiveness.

5. In any event, basing future plans on increases or even sustained levels of aid is imprudent--African countries should start now to change mechanisms and domestic arrangements to handle perhaps sudden reductions in aid flow.

2. The nature of aid dependence

There can be little doubt that, in the ordinary sense of the term, there is a great degree of aid dependence in Africa. This dependence is composed of two elements whose co-existence may seem paradoxical at first sight. First, the nature of the aid and the mechanisms used to deliver it, make local administrative and political processes beholden to external constituencies, and are inefficient and uncoordinated to boot. Second, despite this inefficiency, a sudden reduction in aid, either in its totality or in one of its components, would cause severe economic and social disruption in many countries. These twin dimensions of aid dependence will bear some elaboration.

To fix ideas, let us take the case, perhaps extreme, of Mozambique. Wuyts (1996) shows that in the early 1990s foreign grants totaled around 35% of GDP and adding net long term capital inflow (mainly aid in the form of concessional loans) plus debt relief brought total aid to around 60% or more of GDP. He also shows that almost the entire increase in the gap between government revenue and expenditure form the early 1980s onwards was financed by aid. In some narrowly defined subsectors, almost all the expenditures (capital and recurrent) are being financed by donors--and "projects" include recurrent expenditures as well.

Wuyts (1996) lays out the key elements of dependency relevant for us. First, because of the proliferation of projects (405 in the Ministry of Health alone) there is a failure of accountability to central government and to the domestic political process. "These projects have high administrative costs (30 to 40 percent of project funds), operate on the basis of tied aid with respect to the acquisition of drugs or other materials, and often fail to coordinate their activities either amongst each other, or those of the ministry." Second, these projects all have recurrent costs, some portion of which has to be met by the government from central funds--this leads to further gaming between ministries, and the counterpart funds of program aid are mostly used for financing local cost components of projects agreed at sector ministerial level. Third, all of this, including negotiating program aid and debt relief takes up an enormous amount of time and energy of a small number of key officials, and there is increasing competition for the same small pool of managerial talent. And yet, given the numbers involved, a sharp and significant withdrawl of aid from Mozambique would clearly lead to major turmoil.

The anatomy of the Mozambique mess, which is repeated to different degrees in other countries, is composed of (i) the sheer magnitude of the flows involved and (ii) donors' need to monitor, evaluate and account for the flow of resources to their taxpayers. In fact, these two elements are closely intertwined, and linked to the incentive systems in highly paid donor agencies as much as in poorly paid African civil services. The incentives in donor agencies are closely tied to achieving transfer of resources, but done in a "safe" way, that is, in a way that the resource flow can be accounted and audited for in the framework of the donor agency's mandate, and done in a way that these accounts show resources flowing to priority uses as defined by the agency's political masters. With these incentives, it is not surprising that we have a proliferation of projects. On the side of the poorly paid African civil servants and related beneficiaries, the current system also works as well as can be expected. Each project creates an island from which some return and recompense can be had--not surprisingly, the dialogue is often not between the government as an entity and the donor, but between the relevant project unit and the Ministry of Finance say, on the release of counterpart funds mandated by the project agreement. Often, it is the project units in the ministry and in the donor agency together, pitted against the Ministry of Finance and that part of the donor agency which typically deals with the Ministry of Finance. Much time, energy, and political capital is spent in these sorts of games. The individual return, to the specific donor or project staff, of winning these games is quite high. The social return is close to zero because often a zero-sum game is being played, as in the case when several project units bid up the price of the same scarce skilled managerial talent.

This paper will start with a strategy for reducing aid dependence by improving the institutional mechanisms of aid delivery. However, this issue cannot be treated independently of the level or composition of aid flows--the following section will then take up this macro level issue.

3. The micro-institutional mechanisms of aid delivery.

3.1 Lessons from History

In discussing the current situation in Africa and moves in the direction of reduced aid dependence, it might be instructive to look at detailed analyses of closely related situations elsewhere and in earlier times. It is, of course, difficult to draw direct lessons from different periods with their own political economies and aid imperatives. However, it is interesting to note how familiar various official aid documents for Korea in the 1950s and 1960s feel when compared to current aid reviews for African countries. Thus, for example, in a Report to the U.S. Congress (1962) on the Korean aid program noted: "Measured in relation to [the] financial outlay the progress achieved in the economic development of Korea was considerably less than was reasonable to expect. A variety of interconnected causes account for this disparity. At the center of these causes were (1) a level of aid which the Korean economy could not absorb productively nor the Korean Government administer efficiently, (2) limited technical skills in Korea and (3) failure of the responsible United States agencies to recognize sufficiently these limitations in the annual programming of aid." Other, operational, documents of the time read very much like the latest World Bank mission report to an African country. Krueger's (1979) study of aid and trade in Korea's development confirms the difficulties of heavy aid dependence in the 1950s: "In light of American ambivalence as to aid objectives and the Korean determination to maximize aid levels as a means of reconciling their competing objectives, it was inevitable that bargaining over aid levels should have been accompanied by conflict." However, Krueger's analysis tends to suggest a steady decline of aid dependence as the process of development continued through the 1960s and 1970s, she gives high marks to the role that aid played in the initial stages, and views reduced aid dependence and development as mutually reinforcing.

Jacoby's (1996) study on US aid to Taiwan documents similar dependence in the 1950s, and makes interesting observations about the impact of the announcement in may 1964, that aid would be terminated after June 30, 1965: "The effects of announcing the decision upon the Chinese government were constructive. Confronted with the reality of economic self-support in another year, the government acted in many ways to further improve the climate for private investment, to promote exports...It dispatched trade missions to Latin America and to Africa, and eased controls of foreign trade and payments. In particular, its attitude towards the enlargement of Japanese investment in Taiwan, previously less than enthusiastic, became more receptive." However, it is also clear from Jacoby's account that he views the reduction in aid dependence as having been all the better for being gradual, for the US having stood firm on basic conditionalities, and for the aid reduction having accompanied the development process. He also emphasized the institutional dimension of the aid relationship—a specific account of this relationship for one institution is provided by Shen (1970).

3.2 The African case: An Ideal Set Up

As noted above, the African case resembles somewhat the situation of Korea and Taiwan in the 1950s, but with its own special features. In Africa, donors and recipients seem to be locked into a vicious spiral whereby weak monitoring and evaluation mechanisms in the recipient country, and an urge to disburse funds, leads donors to take an ever increasing intrusive role in public expenditure. Once this starts, the process undermines further local capacity and local will to take charge, face tradeoffs and make choices, which in turn justifies even further the pressure to "help" and at the same time the pressure to account for "tax dollars". Of course, one might argue, it is best for the aid dependence to be reduced pari passu with development. But this development has been a long time coming, and it can be argued that aid dependency is now a cause of the lack of development. At any rate, there need to be major institutional reforms to also aid to have the beneficial effect that it did, eventually, in Korea and in Taiwan.

Somebody, somewhere, will have to take the first, risky, step to break this spiral of aid dependence. The step is risky because it goes against individual and institutional incentives, which are all geared towards keeping the aid flowing. The key is to return spending authority, control and accountability to the country in question. The ideal system, one that we should aim for strategically, might look something like this. Every year, the government would present its rolling three year (say) expenditure and revenue plans in the framework of an overall development strategy. These plans would be discussed with domestic and donor constituencies, on the basis of which donors would commit resources under certain broadly defined criteria, which do **not** go into minute details of individual projects. The plans would be scrutinized for broad coherence and feasibility, and policy consistency. But once this is done, donors would contribute to a pool of aid which, along with the government's own resources, would finance the entire expenditure package. There would be no sense in which each donor would require a detailed accounting for where "its" money went. The dialogue would focus on overall priorities and directions, and donors would not have the false comfort that "their" money is financing schools and not military expenditure. Most important of all, the time, energy and political capital of local officials would be saved for analyzing and developing local priorities rather than managing the administration of a huge number of donor projects, each with its own accounting and administrative procedures. They would spend more time explaining the tradeoffs to their own people rather than negotiating with aid bureaucrats from donor agencies.

Notice also that the above ideal takes away the distinction between program aid and project aid. All aid is program aid under this scenario. There are projects still, of course, but there is no separate donor funding for each project. There may, for example, be special need for technical assistance in a project. But donors provide overall funding, and do not insist on particular types of technical assistance (from their nationals, for example). On program aid, a central issue is debt relief. We will return to this when we discuss macro issues of overall flows, but the time taken by senior officials in negotiating an endless cycle of debt relief, or gross flows of program aid to meet debt servicing, is a major tax on the development of the country. Deep debt relief (perhaps followed by corresponding reductions in gross flows--see later discussion) is therefore a central part of the ideal being proposed here.

3.3 Problems and Practicalities

So much for the ideal. Many objections will of course spring to mind. Some of these are to do with how we get to the ideal given where we are. But others are challenges to the ideal itself. Let us consider the latter class of objections first.

For example, it can be argued that the administrative hassles and inefficiencies with the current system of intrusive monitoring and management, as well as the tying of aid in different ways, is the price to be paid for having current levels of aid. For some reason, northern taxpayers are sold on the notion of tracing their dollars through the aid system and assuring themselves that these are spent on schools and not on guns. And unless mechanisms are in place to assure them of this, aid flows will be curtailed. Also, tied aid is a device for domestic redistribution which helps shore up levels of aid through constituencies which benefit.

Another type of objection would view the ideal as imposing a single monolithic "aid plan", no doubt dominated by the Bretton Woods Institutions, which would not allow for diversity of views and for experimentation. The current system, with a thousand flowers blooming, allows different donors to play different roles, transfer different skills, and so on. And the competition among donors is good for the country, which can pick and choose, rather than facing a phalanx of donors with an agreed agenda.

These objections, and others, can be debated and discussed. Ultimately it comes down to a judgment on whether the costs of the current system are worth paying. Whether the supposed higher level of aid induced by aid tying is worth the costs, and whether the internal political gaming between different ministries is worth the benefit from having a range of donors interacting individually and idiosyncratically with a myriad of players on the other side. In what follows we will take as our assumption that aid dependence has to be reduced, and focus on the practicalities of doing so. But it should be noted that without the political will to do so on both sides, technical solutions will count for little.

Let us turn then, to a discussion of the practicalities, and start by recognizing that many pragmatic efforts are indeed underway which make an effort, consciously or not, to approach the ideal set out here. Perhaps the best example of donor coordination in the sense described here came with the Special Programme of Assistance to Africa (SPA), which was devoted to coordination of program support. In the mid 1980s, with weak professional and policy consensus on even the "first generation reforms" like reducing overvaluation of the exchange rate, there was a real danger that countries would have competing macroeconomic reform programs, rather like their competing water sector projects or education projects, each financed by separate donors. The SPA first of all developed a common agenda among the donors and then jointly provided program support to those countries following suitable reforms. The SPA succeeded because it rode the wave (and to some extent promoted) an emerging consensus on fiscal prudence, appropriate exchange rates, and curbing the most egregious excesses of state production and distribution.

However, even here, and especially as we have moved into the second generation of reforms on which there is less consensus--privatization, financial sector liberalization, tariff reduction beyond low levels, inflation reduction beyond low levels, civil service reform, etc--many have argued that what really matters is domestic consensus on policy directions rather than the carrot or the stick of aid flows and cutoffs. But the practical problem is how to determine what is domestic consensus, particularly as we move into an era of democratization with its vibrant but contentious domestic discourse. How, practically, are the donors to know whether or not there is consensus behind the national development strategy which is the building block of the ideal proposed here? This is indeed an odd question, since in a functioning democracy the government of the day is meant to represent the national consensus. But it has to be recognized that in most African countries additional mechanisms may be required to test for consensus, mechanisms other than periodic elections in a fragile and nascent democratic process. One practical suggestion is to institutionalize (i) a national conference on development strategy, convened by the government, at which the strategy and the rolling expenditure plans are presented to and discussed with a broad cross section of society including, explicitly, the private sector and civil society and (ii) to include, in a formal way, private sector and civil society in the forum in which the government presents its plans and its aid proposals to the donors.

Even these suggestions, of national level fora for dialogue, may seem to stretch practicality. A set of immediate but intermediate activities, some already underway in some African countries, may provide the transition:

1. The government should prepare its own Public Expenditure Review and present it to the donors, rather than the donors relying on a World Bank driven process to reach a certain comfort level. The experience of Ghana may be useful here, as well as the discussions that have taken place in the SPA working group on Public Expenditure. Donors should provide capacity building support for this process but (i) not fall into the trap of running the process in the guise of providing support and (ii) take the short term costs of perhaps not having a "perfect" document to present to their masters.

2. Donor pooling of aid at the sector level should be advanced. Again, there are some good (and some bad) experiences of this already in Africa. The Sector Investment Programs currently underway provide a possible mechanism for donors supporting a single expenditure plan for a sector, designed by the government in consultation with the donors, civil society and the private sector. The experience so far suggests some advance on joint dialogue, but less so on pooling of resources--donors still seem very concerned with being able to trace their dollars through the system.

3. One way of improving donors' comfort levels on the use of their resources is to develop recipient countries' accounting and audit capabilities. Many efforts have been made in this direction, but often they have degenerated into donors supplying technical assistance to manage the accounting and auditing on "their" projects. Donors need to specify the standards that the national accounting and auditing services need to meet and then agree on a program to achieve this using local manpower. During the transition, with well specified mileposts, donors can either continue the level of financial support if progress is adequate, or they can reduce the support if progress is not adequate, but on no account must they get back to actually doing the accounting and auditing for the government, and especially not indirectly through ostensible technical assistance to projects.

4. Of the current donor consultation fora, Consultative Group (CG) meetings, chaired by the World Bank, and the Roundtable meetings, chaired by the UNDP, should become events on a regular (rather than a crisis) cycle, progressively be moved to the country from Paris /Geneva, increasingly involve private sector and civil society at least as observers, initially be moved to co-chairing with the country and eventually sole chairing by the country, and have as base documents only those prepared and fully owned by the government. Some of these steps are already underway. CGs have been held in the field in Tanzania and Ethiopia, and will be held in the field for Cote d"Ivoire and other countries in the near future, the private sector often makes presentations at CGs, and some documents are indeed prepared genuinely by the government (but others, such as the Policy Framework Paper, despite the claims, are prepared basically by outsiders). The major objection to the practical step of moving the CGs and Roundtables to the field is that these meetings may not attract as high a level of decision making participation from the donors as meetings held in Paris. This is a valid point, and it can be handled transitionally by rotating the location, but it illustrates precisely the problem with the current system, so the rotation will have to be transitional and come to an end sooner rather than later.

5. Another practical step that donors can take is to recognize upfront the wasteful competition that ensues when they fall over each other to deliver the same aid in the same sector. The ideal is of course for them to put all of their resources into a common pool. We have considered some steps towards that in the above. But the problem is that, given staff incentives within the donor agencies, the forces for fragmentation are quite high. A practical step might be for two or more agencies to come to a formal agreement on division of labor in the case of a particular country--the benefit of a formal agreement, apart from its symbolic value, is that it can become the benchmark for assessment at a later stage. These agreements can be agency wide or (more usefully perhaps) country specific.

4. The macro-dynamics of aid reduction

4.1 Aid in the context of macro flows

There two features of aid which are important in the context of macroeconomic flows. First, it is an addition to the absorption potential of the economy. Second, aid is a transfer to the economy through the government. Let us start with the first. As is well known by now, left to itself, the effect of aid flows on the macroeconomy are similar to the effects of capital flows in general. If all of the additional purchasing power is spent on tradable goods, the balance of payments deficit rises as a concomitant of the increased absorption. But to the extent that the increase is spent on non-tradable goods, there is an increase in the relative price of this goods, an increase in the profitability of their production, and a shift in the composition of production to the non-tradable sector. At one level, the ceteris paribus effects of a reduction in aid are exactly the reverse. The non-tradable goods sector will suffer as a result--in the short run all the factors used in that sector will suffer; in the medium to long run, the factors used more intensively in that sector will suffer.

The ceteris paribus implications of an aid reduction, and hence the possible counteracting policy interventions, thus depend on the roles of the tradable and non-tradable sectors in the economy. If, as is generally believed, the tradable sectors are relatively the more dynamic in terms of productivity growth, then this relative shift is no bad thing from the long term point of view. However, the short to medium term distributional consequences could be complex, and depend on country specific circumstances. Conventional wisdom has it that, in some African contexts, poorer household tend to be located in the tradable goods sector. If this is so, then the distributional consequences are likely to be benign. However, to the extent that non-tradable activities provide income for the poor--and in many settings it is women who depend for their and their children's livelihoods on non-tradable activities like food crops and petty trade--then the consequences are not likely to be so benign. Given an aid reduction, there may well be an argument for targeted policies to help those sectors and groups adversely affected by the relative price spillover effects.

Even aside from the distributional effects of relative price changes, there is the fact of reduction in absorption, pure and simple. Ceteris Paribus, this is bound to hurt someone, somewhere. The only policy issue is how this pain is to be distributed. The "policy neutral" consequences of a reduction in absorption, even at constant relative prices, is a complicated matter. But, given that aid flows primarily through government channels, the effects are intimately linked to the government finances. Faced with a reduction in its inflows, the government can either cut expenditures, or raise more revenue to finance a given level of expenditures. What combination of each is used will determine the distributional consequences of aid reduction. Much theoretical work has been done on the incidence of taxes and expenditures. There has been some empirical work in Africa but not enough--and the recommended mix will vary from country to country depending on, for example, the revenue raising instruments available. The instrument of domestic debt financing, newly available and increasingly utilized in many African countries, is also important in this context, especially with the caution that it may be being overutilised in many countries.

There are two types of changes, both related to policy, which could mitigate the relative price or absorption effects of an aid reduction. The relative price effects following an aid reduction comes about because the expenditure reduction entailed by the reduction of net flows into the economy falls at least partly on the non-tradable sector. Now, if government expenditure were, for example, more non-tradable good intensive than that of the private sector, the compositional effects could be mitigated by the government increasing its absorption relative to the rest of the economy. But this is an empirical question which can only be settled by country specific work--and there does not seem to be much (if any) work on this issue, which will also entail taking general equilibrium feedback effects into account.

The second type of change takes to the heart of the issue on the balance between private and public flows to an economy. Of course, if the reduction in aid were matched exactly by an increase in private flows there would be no difference in total absorption, and the only possible effects would be the result of differences in the sectoral composition of private versus public consumption. We will ignore this compositional difference here and focus on the issue of increases in private flows. There is of course a large literature on the benefits (and some of the problems) of private flows, why the global boom in private capital flows has passed Africa by, and what can be done about it. Micro-level institutional reform increasing predictability for private investors is often cited as the number one priority. In this context the argument is often made that Africa should first get an increase in private capital flows and then reduce its dependence on aid. On the face of it this makes sense in terms of the macro flow balances, but a micro-institutional perspective may give a different reading. The burden of the argument in the previous section was that the current aid system is such that much of the scarce public service talent is taken up in negotiating and administrating, in highly socially inefficient ways, a myriad of aid projects. The competition for this scarce talent is from different projects of different aid agencies--not from the private sector. While streamlining and indigenising the aid processes, as discussed in the previous section, will certainly help, it is the level of aid--the amount of money which needs to be pushed through the system, which explains at least some of the inefficiencies and demands of the system. The argument is thus that with a lower level of aid we would have a government, and an international community, less obsessed with the aid relationship and more focused on the needs of the private sector, and what is needed to attract foreign direct investment.

4.2 The debt question

The discussion above has been concerned with net aid flows to Africa, which have indeed been significant--5 to 10 percent of GNP is not uncommon, with extreme cases like Mozambique only highlighting the general situation. But official gross flows are even higher, because they partly simply refinance past official (and private) debt, in a setting where it is pretty much realized that Africa's debt cannot be repaid. In a strict sense, only net flows matter, at least for the macro-balance. Surely, Africa's debt does not matter if there is assurance that it will always be refinanced--can we not then just concentrate on efficient utilization of net flows, and on reducing net flows over time?

But the debt does matter, for three crucial reasons. First, the stock of outstanding debt deters investment for all of the "debt overhang" reasons familiar from Latin America, suitably modified to the (primarily) official debt scenario of Africa. Second, the stock of debt, and the constant and highly publicized reschedulings only sharpen the sense of dependence on outsiders, and the sense that the fruits of painful reforms will only go to outsiders. Third, the merry-go-round of debt rescheduling and large gross flows which leave comparatively smaller net flows, distorts decision making on aid and takes up the valuable time of senior and key policymakers and technicians.

For these reasons, a key element of a strategy for reducing aid dependence would be for official creditors to give deep debt relief and reduce gross flows to maintain net flows constant in the first instance. This can then form the basis for the country itself planning a reduction in net flows over time.

4.3 Dependence and Risk

A key component of worries about aid dependence is the risk that aid flows might be curtailed sharply--and if aid constitutes a large part of the government budget, then the consequence of any given risk of withdrawl may be more severe. This argument needs to be elaborated further, and compared with the standard argument on the volatility of the private flows which might replace aid flows.

For these worries to make sense, we have to specify the nature of the vulnerability, which is primarily linked to political and other factors in donor countries and agencies, and in the relationship between these and the recipient country. These are difficult to specify in general, but are present nevertheless. For any given degree of risk for a range of sources of finance, the theory of diversification requires not too great a reliance on any one source--particularly on the riskiest source of funds. For example, with two sources of finance the coefficient of the total is a weighted sum of the two coefficients of variation (the weights depending on the relative means, and not necessarily summing to one) and the covariance between the two sources. This is the sense in which the share of total finance coming from the riskier source should be reduced.

But the risk discussed above is the risk of volatility--the financing could go up as well as down. This is the sort of volatility discussed in the case of private flows. However, the risk typically discussed in the case of aid is that of sudden aid cutbacks because deteriorating economic conditions in donor countries, or deteriorating relationships between the donor and the recipient. Here the key driving force has to be a concern that the higher the current level, the greater the probability of cutback, and the greater the depth of cutback. It is clear that certain administrative models of allocation applied to donors would give this result--faced with budgetary cutbacks of their own, donors may very well decide to "spread the pain" and cut back the largest aid programs most, or aid programs which are large relative to the recipient economies.

The above considerations, although they need to be specified empirically for country cases, both suggest reorientation away from aid flows to private flows as a medium term strategy. But what about the short term? Are there ways in which a recipient country can protect itself from the "stop-go" of aid for any given average level of assistance? One answer to this is to go back to the earlier institutional discussion and strengthen further the pooling of aid flows of different donors so that cut backs do not have deep and capricious effects on particular sectors--cutbacks are distributed according to national level priorities. But the answer to general volatility on government resources is to develop further contingency funds, which are built up in good times to be disbursed in bad. This requires a somewhat more conservative fiscal stance in good times, and this in turn requires political will to pull off. Given the political will, a number of technical strategies can be used for dealing with risky inflows.

Notice how this discussion has reversed the normal sequence of argument. It is not the inherent volatility of commodity prices or domestic revenue sources which leads to a case for counterstabilizing flows of official sources (which is the explicit rationale for Stabex, for example, and which is implicitly the rationale when aid allocations are worked out within aid agencies). Rather, aid flows are seen as a separate source of risk to the economy, and the question is asked what the government can do mitigate this risk.

5. Implications for Specific Country Studies

The discussion in this paper has assumed that aid dependence is a problem, and has suggested some very general directions in which donors and recipients can move to reduce the problem. But in doing so it has also specified a particular conception of the problem, which might also give some guidance to specific country studies on aid dependence. In this section we will suggest ten specific exercises that such country studies might undertake to investigate the strategies of reducing aid dependence. Implicit in these suggestions are of course prior exercises in defining and tracing the contours of the phenomenon of aid dependence. We proceed in reverse order to that of the discussion in this paper--dealing with macro-issues first.

1. What is the tradable/non-tradable composition of public expenditure in general, and aid flows in particular? What are the likely quantitative consequences on the relative price of tradable versus non-tradable of, say, a 20% reduction in the "normal" level of aid flows? How do these effects flow through to income distribution and poverty effects?

2. What is the distributional incidence of (i) government taxation, (ii) government expenditures and (iii) government debt finance? Given these, what is the right balance for absorbing an aid reduction of 20%?

3. What is the econometric evidence on causality between aid flows and private flows? Over what period is a 20% cut in aid flows likely to be replaced by private flows, assuming (i) no policy response and (ii) various policy responses such as debt relief and domestic institutional reform.?

4. How does the volatility of aid flows compared to that of private flows, and to the volatility of government revenues? If there was to be a 20% cut in aid flows, perfectly substituted by private flows, what would be the impact on the total volatility of external flows, total absorption and government finances (under different assumptions of how cuts are to be distributed) in the country?

5. How, if at all, do government contingency funds work in the country? How much of the present volatility in aid flows could be handled through better use of contingency funds?

6. If all donor funds, project and program, were pooled, and then reallocated according to alternative hypothetical priority rules, how different would the allocation look?

7. How much time would be saved, net, by senior policy makers and officials if they did not have to either negotiate separate project agreements with individual donors or renegotiate debt and separate program aid flows but instead developed their own priorities and negotiated overall aid flows with a consortium of donors?

8. What institutional reforms would be needed to bring the accounting and auditing standards on government expenditures up to internationally accepted standards?

9. What are some alternative scenarios for the government taking over completely the production of a Public Expenditure Review that would meet domestic and international standards?

10. In the specific circumstances of the country in question, what are the pros and cons of, and logistical mechanisms for (i) holding the Consultative Group and Roundtable meetings in the country and on a regular cycle, (ii) preceding the meetings with a national conference on development strategy convened by the government, and (iii) incorporating civil society and the private sector integrally in the whole process?

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There are many critiques of aid but, surprisingly, very few analytical accounts suggesting strategies for reducing aid dependence or analyzing its consequences. The following are the papers I have relied on to develop the thinking represented in this paper.

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