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The Contradictions of Current Aid Doctrines

Foreign aid has benefited many Third World economies. Improvements in education levels and life expectancy, declines in poverty levels and infant mortality rates, and growth in economic production can all be linked at least in part to the actions of foreign aid donors (World Bank 2002a). Nonetheless, by the end of the 1990s, the donor community itself agreed that aid had been least effective in the poorest countries, where a substantial flow of resources had been least successful in generating the desired improvements in national welfare levels. The poor economic performance of the stagnant low-income states (SLIS) reviewed in the last chapter suggests that international efforts have been particularly frustrated in these economies.

What should the donors do to promote economic development in the stagnant low-income states? A remarkable consensus had emerged by the late 1990s among observers of the aid business about what was wrong with the traditional relationship between donors and low-income aid recipients as it had evolved since the end of World War II. First, there appeared to be general agreement that traditional aid conditionality had failed. Far from constraining governments or forcing them to adopt new policies, a large volume of aid to the low-income countries actually often served to sustain the nondevelopmental governments in power, which might have fallen without this external support. Second, the aid community agreed that the ineffectiveness of aid was often due to its failure to elicit "local ownership." Foreign aid engaged in a number of practices that ignored or exacerbated problems of local ownership and capacity building, thus often actually weakening the public institutions that might have promoted development (e.g., Bräutigam 2000, Knack 2000).

Foremost has been the problem of donor fragmentation: too many uncoordinated projects by too many donors. Third, state-led development strategies were generally viewed to have failed. Though the donors rarely acknowledged their own role in this failure, they argued that low-income states typically took on too many tasks and did not concentrate on the core economic functions of the state, despite their very limited resources and capacity. The general consensus among the donor community came to be that states should focus on a small set of activities and allow private actors to take on more tasks.

In sum, many observers agreed that *aid was simultaneously propping up states and keeping them weak and incapable of spearheading development*. Donors were directing a massive amount of resources to corrupt and incapable states without exacting anything in exchange. Too many low-income countries were suffering from "aid dependence," in which a large volume of aid and various donor practices were combining to undermine local ownership of the development process and the generation of institutional capacity.

This chapter examines the donor community's response to the three general lessons in the stagnant low-income states. The main theme I develop is that too little real change has taken place. Aid continues to provide low-income country governments with the wrong incentives. Too often, aid resources continue to actually help sustain governance deficiencies that have a directly negative effect on development. To be sure, donor solutions to past aid failures have resulted in some successes, but the solutions are often inappropriate for the poorest low-income countries, for which other solutions need to be devised. In addition, the solutions donors prefer are often the most convenient ones for their organizations and do not necessarily have much traction on the ground. Other, less comfortable lessons have been sidestepped and ignored, yet they are probably just as essential for truly effective foreign aid in the 21st century and for the economic renewal of the stagnant low-income states.

From Conditionality to Selectivity

Donors have always sought to impose conditions in exchange for their aid to recipient governments. But the number and stringency of the conditions grew rapidly in the 1980s, when donors came to believe that government policies and management practices were the primary cause of aid's failure to promote economic development. The emergence of structural adjustment lending in the 1980s generalized the practice of policy conditionality, in which loans were extended in exchange for macro and sectoral policy reforms on the part of the government. The mediocre performance of the first two generations of structural adjustment lending resulted in a deepening of conditionality, even as most evaluations of structural

adjustment criticized the donors' intrusive micromanagement that conditionality entailed. By the mid-1990s, conditionality had moved beyond narrow economic policy to focus on a wide array of sectoral and governance issues.

Conditionality proved ineffectual. To be sure, in many cases governments undertook the measures they had agreed to, which they would not have undertaken without external pressures. In addition, in particular instances, specific donors played hardball with a recipient government and cut aid sharply in response to governmental failure to implement agreed-to conditions. More generally, however, a number of studies (Killick 1998; Collier 1997; Mosley, Harrian, and Toye 1995) suggest that governments often did not implement conditions to which they had agreed, reversed reforms they had implemented as soon as donor support ended, or implemented agreed-to conditions but simultaneously introduced new policies that caused the same negative effects. Too often, governments agreed to implement policy changes with which they did not agree or for which they lacked some combination of the necessary commitment and capacity. On the other hand, governments also probably undertook some conditions—and received money for them—that they would have implemented even without donor pressure.

Some donor practices limited the effectiveness of the donors' own conditionality. For instance, every study of structural adjustment has argued that donors tend to impose too many conditions (e.g., Mosley, Harrian, and Toye 1995; Killick 1998). Conditional loans became "Christmas tree" operations in which donor personnel were tempted to add their own pet conditions, with little strategic thinking about priorities or implementation difficulties. Numerous internal World Bank reviews of its structural adjustment lending recommended limiting the number of conditions (World Bank 1986, 2001b). Yet the number of legally binding conditions in adjustment loans signed in fiscal 1999–2000 were still twice as high as those signed during 1980–84 (World Bank 2001b, 80, figure 42), suggesting how difficult it has been for staff in donor agencies to undertake necessary changes, a theme to which I return in the last chapter.

Donors, moreover, found it difficult to penalize governments that did not comply with conditionality, either because they did not fully understand the low level of compliance or because pressures to lend outweighed concerns about noncompliance. As Elliott Berg (2000, 300) has argued, "none of the parties to a structural adjustment program want it to fail. A cessation of disbursements is a personal defeat for responsible donor staff and the organizations they work for." Perversely, evidence suggests that governments that did not comply with donor conditions did not receive less external support (Burnside and Dollar 2000). In fact, one study (Alesina and Weder 2002) suggested that there was a positive correlation between corruption and aid during the 1980s and 1990s—more corrupt countries actually got more aid on average than less corrupt ones. In

effect, governments faced disincentives to comply with the donors to change their policies or improve their governance. The toothless nature of conditionality has been blamed for the ineffectiveness of much aid, particularly to low-income countries undergoing economic policy reform.

The new critiques of conditionality have focused on the fact that it was applied in an ex ante manner—in other words, aid was provided before governments had actually undertaken the measures to which they had agreed (Collier 1997). By the late 1990s, donors were moving to ex post conditionality strategies in which aid would reward governments only after they had undertaken reforms agreed to with the donors or even after the reforms agreed to had started to generate the appropriate outcomes. In other words, from providing funding to encourage a government to change its health-sector policy, donors like the World Bank have sought to move to the practice of waiting for the government to change its policy for that sector, or for the rate of immunization to go up, before providing foreign aid. In this logic, donors "select" recipients on the basis of their performance (Collier 1997, White and Dijkstra 2003). What has come to be called the "selectivity" approach has the advantage of establishing much more rational incentives for low-income country governments, since aid will now focus on those that are actually undertaking what the donors believe to be growth-friendly economic policies. As William Easterly (2003, 13) has shown, the need for greater selectivity has featured periodically in donor rhetoric since at least the presidency of John Kennedy. Nonetheless today, the donor community has reaffirmed its intention to replace conditionality with selectivity.

The main implication of a selectivity-driven aid program is that countries that cannot improve their policies and governance receive a sharply reduced volume of assistance. Proponents of selectivity approaches rarely admit to this politically incorrect prospect and instead state rather vaguely that aid to these countries could easily be redirected to the NGO sector until the governments improve their performance. Thus, an OECD report on what the organization has euphemistically called its "difficult partnerships" warns that pulling out of countries has the "potential of worsening the situation" and calls instead for a "pragmatic selection of those governmental and non-governmental agencies that share a commitment to poverty reduction" (OECD 2002, 3). Since these countries typically have few such governmental agencies and a weak and underdeveloped NGO sector with limited absorptive capacity, as was discussed earlier, the inevitable implication would be a sharp reduction of aid. In recent years, moreover, when donors have responded to governance deficiencies by reducing aid to the government, the total amount that has been redirected to the nongovernmental sector has in fact been quite small—perhaps because of downward pressure on aid volume. In practice, a reduction of aid to the government has meant a similar reduction in overall aid.

To what extent have the donors increased their selectivity in the last decade? While still early to judge, studies suggest at best a mild increase in overall selectivity in the late 1990s and early 2000s. The World Bank (2002a) itself argues that its lending has undergone such a shift toward greater selectivity that in the late 1990s what it defined as "good policy" countries received almost twice as much aid as "bad policy" countries. However, Easterly (2003, 13) examines the Bank's claims and finds they are based on several key assumptions and restrictions. For his part, Easterly (2001) finds no evidence of greater selectivity in Bank lending relative to either economic policies or general governance criteria. In his 2001 book, he echoes earlier research by Alberto Alesina and David Dollar (2000). Nancy Birdsall, Stijn Claessens, and Ishac Diwan (2001) find evidence of growing selectivity in multilateral lending, with respect to economic policies, in countries with lower overall debt levels. David Simon (2002) finds tentative statistical evidence for selective lending within Africa, based on governance criteria. For his part, Eric Neumayer (2002) finds little correlation between the quality of governance and the allocation of debt relief.

All this conflicting evidence suggests that any move toward greater selectivity is partial and inconsistent. Certainly, some of the most egregious performers of the past now receive a sharply reduced volume of foreign aid. It now seems incredible that the Mobutu Sese Seko regime in Zaire was at one point one of the leading recipients of aid or that Gnassingbe Eyadema's regime in Togo received $3.1 billion in official development assistance (ODA) between 1980 and 1997. In 2000, Togo received only $70 million, roughly a third of the levels it had received in the early 1990s, suggesting that President Eyadema's heavy-handed political techniques and the high levels of corruption in Togo had finally exhausted the donors' patience. A testimony to that patience, on the other hand, is the fact that Togo had continued to receive substantial external funding into the late 1990s, amounting to over $140 million a year, or 12 percent of GDP, as recently as 1996–97. Moreover, former Soviet republics like Uzbekistan and Kyrgyzstan, which benefited from sharp rises in aid during the 1990s, were neither democratic nor particularly committed to promarket policies, while fledgling democracies in Mali and São Tomé and Príncipe were not spared the same declines in foreign support as most of their authoritarian neighbors.

A closer examination of the evolution of ODA reveals contradictions in the application of selectivity that are remarkably similar to the previous problems with the application of conditionality. First, selectivity is applied inconsistently. In some countries, donors appear to care more about governance issues, while in others they focus on the quality of macropolicy. Donors are very strict with one regime and complacent about the problems in another. One problem is that the move to selectivity does not eliminate complex issues relating to how donors should assess

performance and what the precise parameters with which to evaluate success and failure should be (Adam and Gunning 2002). How much should donors weigh progress in policy performance as opposed to overall level? How quickly should donors punish policy lapses? These are very difficult questions to which reasonable people will provide different answers.

Another more serious problem is that all donors do not have the same preferences. One difficulty is of course that the link between policies and economic performance is not as strong as what the early proponents of the selectivity approach assumed. Several studies have cast doubt on the argument that there is an easily identifiable set of economic policies that helps make aid more effective and economic growth more likely (Tarp 2000; Easterly, Levine, and Roodman 2003). In part as a result, and despite the appearance of a growing consensus on policy matters under the general rubric of "the Washington Consensus,"[1] all donors are not selective in the same manner. At the most general level, the international financial institutions (IFIs) have sought to focus aid on countries based on the quality of their macroeconomic policies and have paid much less attention to issues of political governance, regarding which the IFIs have traditionally been uncomfortable. On the other hand, some bilateral donors have attached less importance to economic policy lapses but have paid much greater attention to governance issues and political performance.

Even if every donor is perfectly consistent in the application of a selectivity strategy—which is far from the case—it can still be true that overall aid allocation is not selective in any single dimension. In other words, to work, selectivity requires *donor coordination*, which has not improved significantly over the last two decades.

Second, and perhaps even more serious for the stagnant low-income states, selectivity strategies undermine needs-based strategies. As a common joke within the aid community goes, a rigorously applied selective strategy will result in aid being extended only to the Netherlands or Switzerland, given their unequaled record on governance and macropolicy. In fact, the model country for the selectivity-based allocation of aid is the "poor but virtuous" country, where the presence of extensive poverty combines with a well-intentioned and legitimate government. Unfortunately, there are few such countries. As I argued earlier, the overwhelming majority of the stagnant low-income states combine poor economic performance with governance problems and corruption. Indeed, their poverty results in large part from their lack of virtue. The exceptions are

1. The "Washington Consensus" (a term coined in 1989) refers to a set of economic policies, including fiscal discipline, price liberalization, trade reform, deregulation, and privatization, around which, allegedly, a broad consensus formed among economists at the leading Washington institutions focusing on development (Williamson 1993).

often new regimes: New, democratic governments emerged in the mid-1990s in two (Mali and São Tomé and Príncipe) of the five stagnant low-income states judged to be "free" by Freedom House in 2003. Because such governments should clearly not be held responsible for the disastrous performance of their authoritarian predecessors, they are an obvious target for increased aid in the context of selectivity strategies. How have they fared? In fact, both countries were rewarded with a minor "democracy dividend"; in real terms, their aid declined slightly between 1990 and 2000, albeit not to the same extent as some of their authoritarian neighbors.

Paradoxically, the emergence of the doctrine of selectivity in the donor community has come at the same time as a renewed call for attention to poverty alleviation and need-based priorities. Donors like the British Department for International Development (DFID) or the World Bank under James Wolfensohn, for instance, have moved toward explicitly focusing on social services and poverty reduction—at the same time as they have argued for rewarding good "policy performance." To be sure, the promise to focus aid on the neediest has often been made in the past but usually has been observed indifferently. Need-based aid is superficially attractive in political terms, as it allows governments to play up the humanitarian dimension of aid and defuse the populist criticism that aid is in effect "taxing poor people in rich countries on behalf of rich people in poor countries." But foreign policy and commercial motivations invariably carry larger political constituencies in donor countries than do humanitarian motivations for foreign aid, not a negligible advantage in periods of tight national budgets. That is why various studies suggest that the proportion of overall aid going to the neediest has not substantially increased during the last several decades.[2]

Some analysts within the World Bank appear to view selectivity and poverty alleviation strategies as compatible when they argue that the adoption of appropriate economic policies is a prerequisite of economic growth and poverty alleviation (e.g., Collier and Dollar 2000). In practice, however, it is difficult to believe that a rigorously applied selectivity strategy would target countries with the greatest need for poverty alleviation, and it is disconcerting that donor rhetoric often downplays the contradiction in promoting need-based and selectivity approaches at the same time.[3] Donors have the choice between not assisting the poorest countries because of their policy deficiencies and governance problems and being inconsistent in their application of the selectivity strategy. In fact, donors have typically chosen the latter approach.

2. For instance, see the severe judgment of Howard White (1996). For a somewhat different perspective, see Collier and Dollar (2000).

3. See Boyce (2002) for a similar argument.

Consistency being the hobgoblin of small minds, this is not necessarily a bad thing. The flexible application of selectivity principles, in which donors combine a concern for good economic policies and governance practices with poverty alleviation, without being tied to any preset standards, could lead to reasonable outcomes. Donors could judiciously balance the two imperatives. They could impose stricter policy and governance requirements in middle-income countries, in which poverty concerns are less pressing, while relaxing selectivity criteria in the poorest countries. In some borderline countries, the judicious provision of foreign aid might leverage important improvements in policies and governance. In other cases, a positive trend in policy and governance might be a better justification for donor assistance than overall level. Improving situations might justify external support even if they fell short of a predefined minimal threshold. Donors have to make judgments about the impact of their support on the evolving situation in the recipient country.

Nonetheless, why would donor organizations be able to make these judgments more wisely today than they did in the past? Some advocates of a sharp increase in foreign aid suggest that the motivations for foreign aid have dramatically changed in the recent past, so that aid allocation is more likely to be rational today. In particular, the end of the Cold War stopped donors like the United States from providing support to strategic allies like Mobutu in Zaire. Such justifications exaggerate recent historical discontinuities. Other, equally pressing foreign policy concerns are likely to shape US foreign policy, as the current debates concerning the role of aid in the struggle against world terrorism demonstrate. Indeed, the United States has been rapidly increasing its aid to Central Asian dictatorships. It provided $70 million in economic assistance to Uzbekistan in 2002, though the US Agency for International Development (USAID) itself recognized that the country's leadership "remains entrenched in a closed and stagnant political and economic system" (USAID 2003). It would be naive to believe that such foreign-policy pressures will not continue to shape foreign aid allocation decisions.

In addition, a quick examination of the record suggests that Cold War concerns shaped US aid allocation patterns much more than was the case for any other donor. For the other bilateral donors, ideological and commercial considerations were far more important in the allocation and implementation of aid programs during the 1970s and 1980s (Lancaster 2000). Thus, France's large aid program in Africa has been motivated by commercial and historical links with its former colonies, with Cold War considerations being of second-order importance (Cummings 2000, Chipman 1989). Much the same could be said for Japan. Such considerations will remain pertinent for the foreseeable future for most donors.

Debates within the Western donor community over which developing countries should receive debt relief provide a good example of how hard

it is for donors to stick to strict developmental criteria in the determination of the recipients of aid resources. The evolution of the criteria that the heavily indebted poor countries (HIPC) debt initiative has used since 1996–97 provides an illustrative case study (Birdsall, Claessens, and Diwan 2001; Neumayer 2002). The initially very strict criteria required governments to demonstrate a clear and unambiguous commitment to economic policy reform over several years, such that only a small number of countries would have been eligible for debt relief. This list of criteria was then considerably expanded as a result of pressures on the donors from various sources. Key academic analysts argued for broader coverage and more generous terms, while the NGO community sought more flexible conditions and a larger net flow of resources to the indebted countries, and individual donor governments pleaded for a relaxing of conditions on behalf of specific developing countries. For some countries, it was humanitarian pressures that resulted in greater inclusion; in others, a former colonial power pleaded the case, while in yet others, defensive lending pressures within the IFIs were at work (e.g., Sachs et al. 1999, Kapur 1997).

The final list of HIPC recipients turned out to be much broader and less selective. Indeed, Cameroon became one of the first recipients of debt relief in 1999, despite having won the dubious distinction of being chosen as the most corrupt country in the world by Transparency International the previous year (van de Walle 2001, 188–89). Still, the argument that the HIPC initiative has not generated enough volume of debt relief has continued to dominate criticism of the initiative, and the ability of governments to meet the original criteria has all but been forgotten. In a characteristic analysis, the British daily *The Guardian* ("Hypocrisy that Underlines HIPC," January 29, 2003) recently blamed only the donors for the amount of relief that was reaching debtor states and did not make a single reference to the ability of governments to meet the selection criteria: "The basic problem with the Cologne deal," the newspaper contended, "as with every previous attempt to reduce Africa's debt burden, is that the West's criteria for sustainability do not have anything to do with human needs, but were based on narrow financial parameters."

The Washington debates about the Millennium Challenge Account (MCA) during 2002–03 provide another case study of these dynamics (Radelet 2003, Brainard 2003). The criteria for eligibility discussed initially were strict enough that fewer than a dozen states qualified for this new bilateral aid program. Clearly, such a small list of countries would not be able to justify the full $5 billion program amount that President Bush initially proposed. Either the program would be redefined or its budgetary envelope would have to be substantially reduced, clearly highlighting the tension between aid volume and selectivity. Within nine months of President Bush's initial presentation of the account at the Monterrey Summit in March 2002, discussions within the administration included

the possibility of expanding the program to lower-middle-income economies, including China and Egypt. Though they are strategically and commercially important to the United States, neither has a particularly good governance record, and US foreign aid to Egypt has long been viewed as mired in inefficiency. By 2004, the administration was backing away from establishing explicit criteria for eligibility and moving toward a less transparent selection mechanism. In fairness, officials were still arguing for a program that would be driven by strict performance standards, but the jury was still out regarding how such a program would in the end be implemented. Also by 2004, the MCA's original envelope of some $5 billion had been sharply reduced; the fiscal 2004 administration request made public in late 2002 totaled just $1.3 billion (Brainard 2003). The administration argued this was justified by the need to scale up over time and did not affect its support for the initial scope of the program, but many observers in Washington viewed the proposal as extremely vulnerable to growing budgetary pressures, with the 2005 federal budget deficit estimated at more than $500 billion.

Diplomatic donor pressures from aid recipients are likely to further dilute the donors' ability to enforce selectivity policies. Thus, for instance, a number of African governments have signed on to the New Economic Partnership for Africa's Development (NEPAD) initiative, in which they promise to undertake a number of governance and policy reforms in exchange for a larger volume of aid. Despite considerable skepticism by much of the academic community (e.g., Chabal 2002), NEPAD has been offered up by the donor community as evidence that African governments have accepted the need for the kinds of policy and governance reforms they have long advocated.[4] A large majority of African states have signed on to NEPAD, including long-standing authoritarian leaders who never showed much inclination for reform. President Thabo Mbeki of democratic South Africa has been the public face of NEPAD. But five of the 15 governments represented in its implementation committee are regimes rated by Freedom House as "not free" and another 3 as "partly free."[5] Yet, by officially committing African states to the donors' agenda of reform, NEPAD pressures donors to lessen aid selectivity and push aid volumes.

Donor Fragmentation and the Search for Ownership

A second general critique of development practices linked the absence of donor coordination, donor micromanagement of aid, and the lack of local ownership. Poor aid coordination and the resulting donor frag-

4. Thus some World Bank officials have publicly expressed enthusiasm for NEPAD. See Madavo (2002). To be sure, very little donor money has actually gone to support NEPAD.

5. The "not free" states are Algeria, Cameroon, Egypt, Rwanda, and Tunisia.

mentation have long been viewed as counterproductive. The lack of aid coordination imposes two big obstacles to aid effectiveness. First, the absence of coordination has a negative effect on government management of aid. In some cases, the government is truly dedicated to development and actually wants to rationalize the aid, monitor it, and better integrate it into its overall development strategy. For such governments, scarce managerial resources are wasted grappling with the plethora of donor projects and programs. On the other hand, when the government is not all that dedicated to development, the absence of coordination provides an additional excuse for the government not to exercise any ownership over the aid it receives. The technocratic element in such governments, which would like to rationalize public management, is frustrated and disempowered in relation to the rent-seeking officials, for whom the confusion and complexity of the aid system provide a useful cover in which to engage in nondevelopmental activities. Clearly, uncoordinated aid is one of the primary causes of low ownership in low-income aid recipients.

Second, the absence of donor coordination militates against the implementation of other major donor objectives. One donor's independent allocation decisions can undo the positive effects of other donor decisions. For example, one donor's conditionality will be largely pointless if other donors do not collaborate and reinforce the signals being sent to governments and markets. This was true during most of the 1970s and early 1980s, for instance, when Scandinavian support helped undermine IFI conditionality in east and southern Africa. This was one case in which bilateral support was explicitly designed to lessen the sting of another donor's conditionality. Another such example was French support for authoritarian regimes in Cameroon, Togo, and Burkina Faso in the early 1990s, which sought to help these countries compensate for IFI conditionality on the economic front, on the one hand, and bilateral conditionality on the governance front, on the other (van de Walle 1993, Banégas and Quantin 1996, Médard 1999). One result was that overall aid levels did not decline for the francophone states, except in the case of Togo, even though certain bilateral programs (such as US aid) were cut substantially.

Despite these well-known problems, donor coordination has made remarkably little progress in recent years. In their study, Arnab Acharya, Ana Fuzzo de Lima, and Mick Moore (2003) find that the number of bilateral aid donors and projects in developing countries continued to increase faster than the amount of aid actually disbursed during the 1990s (see also Knack and Rahman 2004). The primary bilateral donors were present in an average of 107 countries in 1999–2001. Table 3.1 provides the view from the recipient side. Acharya, Fuzzo de Lima, and Moore (2003) estimate that the median recipient government interacted with 23 official donors in 1999–2001. Since the last decade has seen the rapid growth of NGOs and other "unofficial" donors, it is almost certainly true

Table 3.1 Distribution of aid recipients by the number of donors, 1999–2001

Number of recipients	Bilateral donors only	Bilateral and multilateral donors
With 1 to 9 donors	34	13
With 10 to 19 donors	93	27
With 20 to 29 donors	22	69
With 30 or more donors	0	40
Average number of donors	14	26
Median number of donors	16	23

Source: Acharya, Fuzzo de Lima, and Moore (2003).

that the managerial burden of aid on recipient governments has increased in recent years. For instance, the authors note that in Vietnam 25 bilateral donors, 19 multilateral donors, and 350 international NGOs were implementing over 8,000 distinct aid activities in 2002 (Acharya, Fuzzo de Lima, and Moore 2003, 3).

By almost any criteria, most low-income countries have too many donors and projects. Given the donor predilection for a physical presence in the country and a well-balanced portfolio of project activities and resident experts, the large number of projects almost certainly imposes efficiency costs—in unrealized economies of scale and scope. In addition, it imposes significant transaction costs. The minister of health has to meet with all the donors who choose to provide assistance to the health sector; someone has to read and sign off on each of the project identification papers, project proposals, quarterly project reports, evaluation mission reports, annual reports, technical project reports, and final evaluation reports. This represents a significant burden for qualified local officials. In addition, the pressure to hire good local professionals, and the ability to pay wages well above the levels of the civil service, means that donors and international NGOs are constantly drawing away off the most effective and entrepreneurial civil servants, thereby robbing governments of capacity —a problem noted repeatedly in documents on the aid environment.

A 1999 OECD report on foreign aid in Mali linked donor fragmentation to problems of local ownership. It found that as many as a third of all official donor projects had established parallel management structures and were not completely integrated into national ministerial agencies.[6] Donor projects benefited from import tax exemptions, which, the report argued, generated an unhealthy parallel procurement process. The con-

6. Mali is not unique in this regard. A recent World Bank report argued that independent project implementation units were "pervasive" in low-income countries (World Bank 2003a, 33).

siderably higher salaries paid by projects also created substantial distortions in local labor markets. The report concluded that the central government did not coordinate the aid, adding that "sectoral ministries submit and negotiate project proposals directly with the donors, when it is not the latter themselves who generate the proposals they wish to receive" (OECD 1999, 7, own translation of French document).

The report noted several other costs to the absence of coordination. One particularly striking weakness is the poverty of information about the overall system of aid. The report noted, for instance, that it was impossible to determine the number of foreign experts in a country at any given time or the total number of consultant visits in the previous year (p. 24). Similarly, it was impossible to determine the government's own contribution to the projects it had agreed to or, presumably, the future obligations it had incurred to ensure the sustainability of the projects.

Virtually all recent reform proposals argue that aid should better promote local *ownership* of the development process. Ownership is in this case a euphemism for two somewhat distinct objectives: First, some observers emphasize government ownership—the engagement and commitment of government officials in the design, implementation, and evaluation of aid activities. One of the policy recommendations of the aid effectiveness studies of the 1990s was that foreign aid should be better integrated into the central state's national development management structures (World Bank 1998, van de Walle and Johnston 1996). Current calls for greater government ownership reflect a prevailing view in the donor community that the passivity and low involvement of recipient governments in aid programs lessen their impact and sustainability (World Bank 1998). Governments that are more involved, goes the argument, will go the extra mile to ensure program success.

Second, for others—particularly those in the NGO community—ownership has come to mean something rather different: They advocate the need for more active participation of local populations and stakeholders in decision making. The argument here is that local populations and NGOs can improve the performance of both donors and the government in the implementation of aid projects. Rather than empower recipient governments, this view promotes the role of nongovernmental actors in the aid process. There is a long history of evidence that the involvement of stakeholders in aid projects improves their design and implementation (e.g., Chambers 1983; Isham, Narayan, and Pritchett 1995). There is also some evidence that participatory processes make the government somewhat more responsive and accountable and thus improve its performance over time.

Little evidence is available, however, that enhanced participation will help align government policy and donor objectives in the country, suggesting that these two distinct definitions of ownership are not necessarily complementary. It is far from clear that government officials are more

likely to feel committed to programs and policies that donors are pressing them to adopt because external agents have empowered a coalition of local actors to participate in decision-making processes. On the other hand, governments that are committed to a course of action they have negotiated with the donors are unlikely to look with favor on participatory processes that slow down or undermine policy implementation. The current donor rhetoric on ownership tends to obscure the tensions in these two versions of ownership, preferring a feel-good and rather vague view of local politics.

There is little doubt that the level of government ownership of donor-supported development activities can be quite low. For a variety of reasons, government officials agree to implement aid projects that they do not support. First, in some cases, the lack of technical capacity within the government accounts for the inability of the government to communicate its preferences to the donors. The latter may not have been receptive to the expression of those preferences, in any event, if they conflict with donor objectives. The pressure to move money and maintain program schedules can make the donor organization prefer its own proposals, often generic "off-the-shelf" projects that are easier to implement quickly. Second, governments may disapprove of the project objectives but desire some of the benefits of the donor support—from the finance the donor will provide for the procurement of vehicles, computers, and office equipment to the placement of nationals in overseas training programs (Berg 1997, 2000).

Ownership is particularly problematic in the stagnant low-income states, with their characteristic combination of low capacity, uncertain commitment to economic development, and various governance deficiencies. There are no hard systematic data on levels of government ownership in these countries, but in a majority of the projects that fail, evaluations note the telltale signs of an absence of government support: counterpart support from the government was never delivered as promised; key positions went unfilled for long periods of time; relevant ministries did not collaborate with the project; governments distanced themselves publicly from the objectives of the project, which in some cases contradicted stated government priorities; and, most telling of all, project outputs were not sustained following the end of donor support. Of course, low ownership may simply reflect the fact that an aid activity has failed. Governments are far more likely to actively support popular projects that are clearly successful and less likely to support ill-conceived projects that are failing. Nonetheless, insofar as local knowledge and complementary government activities can improve the design of a project and its likelihood of success, the active collaboration of the government throughout the life of a project is clearly desirable.

To promote ownership, the literature argues that donors should involve governments in the early phases of the aid cycle: Local officials'

preferences should weigh more in decision making. Donors should not anticipate government needs but wait for governments to make explicit requests for assistance. In addition, it is proposed that aid activities be better integrated into the government's own development activities. In the past, aid projects were too often consciously put on a parallel track—outside of ministerial structures—with their own separate budgets, non-civil service staff, and distinct procedures. The striking proliferation of these independent project units in the 1980s and the near total absence of donor coordination proved to be a tremendous managerial burden on governments, which could not monitor literally hundreds of aid projects and therefore came to view them as the exclusive responsibility of the donors. To promote ownership, donors are being urged to decrease the number of independent projects and integrate aid into the government's own programs (van de Walle and Johnston 1996, World Bank 2000).

The PRSP as a Solution?

Donors have long sought to promote aid programs that were better integrated into government development activities. Since the late 1980s, several bilateral donors have experimented with various sectorwide aid programs. The World Bank actively pushed sector investment programs (SIPs), which have evolved more recently into sector investment and maintenance loans (SIMs) (Denning 1994, Jones and Lawson 2000). All these programs are designed to reintegrate donor activities in a coherent government-planning framework to make aid-supported programs more "owned" by the government. In the ideal sectorwide aid program, the government and donors agree on a sectoral strategy, embodied in a set of policies, a plan, and a budget for the sector. All the donors then contribute funds to the government to implement the strategy. The donors continue their support as long as the government sticks to the agreement.

The most comprehensive current attempt to promote the ownership imperative has been the Poverty Reduction Strategy Papers (PRSP) approach. The World Bank developed this approach in the late 1990s and has since aggressively promoted it (Booth 2001, World Bank 2003a, Eberlei 2001, IDA and IMF 2002). PRSPs have been started in dozens of low-income countries following much the same logic, in which the donors agree with the government on a coherent, multipronged national poverty reduction strategy. The government is encouraged to promote a highly participatory process of decision making as it elaborates this strategy. The donors are then invited to help the government implement the strategy with a variety of more or less integrated activities. The Bank itself prepares a country assistance strategy (CAS) on the basis of the PRSP and identifies a certain number of activities to undertake in the country, typically including budget support for the social sectors. The PRSP process

has been widely extended in recent years. As of mid-2003, 15 stagnant low-income states had completed a full PRSP process, and Nigeria was the other stagnant low-income state not involved in an ongoing PRSP process (IMF and IDA 2003). Given how comprehensive this coverage is, and the lofty ambitions the IFIs have placed on then, it is worthwhile to ask how the PRSPs have functioned in practice and the extent to which they advance either local or government ownership.

In most low-income countries, PRSPs have become the cornerstone of the relationship between the government and the IFIs. Initially, the IFIs established the PRSP structure to ensure that governments used the resources from debt relief to fund poverty reduction programs. HIPC II debt relief was made contingent on the government's implementation of a PRSP process judged to be satisfactory by the World Bank and the International Monetary Fund (IMF), as was the eligibility of the government for those institutions' lending instruments. For instance, the IMF's Poverty Reduction and Growth Facility (PRGF) loans are now specifically designed to support an ongoing PRSP process. In a logic influenced by the selectivity approach described earlier, governments will get access to more donor resources once they have demonstrated their commitment to poverty reduction, by undertaking a PRSP that the IFIs consider satisfactory.

The ideal versions of sectorwide programming and PRSPs represent a potentially sharp departure from past practices in two ways. First, the process is designed to enhance local ownership since there is an emphasis on participatory decision making in the domestic arena. Second, PRSPs are designed to reduce the proliferation of aid activities and the problem of donor fragmentation by allowing donors to pool funds and engage in more coordinated activities, as defined by the government-developed antipoverty strategy. Ultimately, PRSPs should pave the way to donors pooling their resources for governmental budget support, though this seems far off.

To get a sense of the success of the PRSPs, I first ask, have they reduced donor fragmentation? Second, what is the evidence that they have promoted local and government ownership?

Although it is still too early to tell whether PRSPs will result in less donor fragmentation and greater coordination, early evidence suggests no decline in the number of donors and projects in low-income states. As suggested earlier, the sheer number of donors and aid projects does not appear to be decreasing. More specifically, the presence of a PRSP does not appear to be leading to major changes in how the donors conduct business. Thus, the sector program for health in Ghana, often held up as a highly successful sector program in the context of a PRSP, still did not capture more than a third of donor resources going to the health sector (Eriksson 2001, 18). Outside of the social sectors, the effect of the PRSP is presumably even less conspicuous, while the number of private and nongovernmental aid agencies, which are not involved in these programs, is constantly increasing.

The inability of PRSPs to arrest fragmentation should not be surprising. The World Bank and a small number of like-minded bilateral donors have led the PRSP process. Indeed, the Bank hesitates to get involved in any programmatic effort in which it is not the lead donor (Jones 1997). In most cases, IFI lending has been the foundation of the donor effort in support of the strategy that is elaborated. The Bank has also dominated the policy dialogue on which the PRSP process is based. The main bilateral donors have then been invited to contribute to the process. While not openly rejecting the process, most donors believe they can accommodate their traditional aid approach to the new system without major changes. As a semiofficial Japanese response to the PRSP makes clear, not all Japanese aid will be integrated into the PRSP, because "some priority areas for assistance identified by Japan's ODA Country Policy do not correspond to those contained in the PRSP" (Institute for International Cooperation [IFIC] and Japan International Cooperation Agency [JICA] 2001, 5). Like most donors, Japan establishes its own country strategy to direct its aid to any given country and does not necessarily take into account the PRSP until relatively late in its aid programming. In any event, like the old five-year plans of the 1960s and 1970s, PRSP documents are broad statements of development intent, and it is pretty easy for the donors to justify already-programmed projects in terms of language in the document.

Table 3.2 suggests this problem exists in most of the stagnant low-income states. Nine donors can claim to be the leading donor in one of the stagnant low-income states, while the Bank is the top donor in only nine of the 26 countries. Japan and the United States, two donors not all that receptive to the PRSP process, are the top donors in six countries, while the Bank is not even one of the top three donors in four countries. Moreover, even if the Bank can get the top three donors to follow its lead on the PRSP process, on average the top three donors only account for two-thirds of the aid going to the country.

Even bilateral donors that are committed to the PRSP may end up contributing to greater fragmentation. In some cases, donors contribute to the resulting sector programs in a more or less coordinated manner, though even donor agencies fully integrated into sector programming apparently continue to do their own monitoring and evaluation of their aid, typically as mandated by their own government. More often, in any event, donors contribute separate independent projects to the PRSP. In practice, program aid usually constitutes a small proportion of most donors' overall aid program in the country, and a number of donors have chosen to disregard the sector aid program framework entirely, because of policy differences, interagency rivalries, or because they find it hard to reconcile their different aid granting procedures and time tables. Some donors have simply not accepted the approach; for instance, USAID has not participated in any sector programs, largely because it has not been able to reconcile them with its own programming framework. Thus, while

Table 3.2 Top three donors of gross ODA, 2000–01 average

Recipient country	Top donor			Second donor			Third donor			Share of top 3 donors in total ODA
	Donor	Millions of dollars	Percent of total ODA	Donor	Millions of dollars	Percent of total ODA	Donor	Millions of dollars	Percent of total ODA	
Central African Republic	France	28	37	Japan	19	25	EC	11	15	77
Chad	France	37	24	EC	28	18	IDA	23	15	57
Comoros	France	11	46	IDA	7	29	EC	4	17	92
Gambia, The	IMF	9	18	IDA	9	18	EC	6	12	48
Ghana	IDA	198	31	United Kingdom	89	14	Japan	83	13	58
Guinea	IDA	55	26	France	40	19	United States	32	15	60
Guinea-Bissau	EC	18	26	Portugal	14	20	IDA	11	16	62
Kenya	IDA	143	30	Japan	83	17	United Kingdom	67	14	61
Kyrgyzstan	ADB	40	20	IDA	39	20	Japan	35	17	57
Madagascar	IDA	103	30	France	65	19	EC	41	12	61
Malawi	IDA	111	26	United Kingdom	85	20	EC	61	14	60
Mali	IDA	106	30	France	96	27	Netherlands	42	12	69
Mauritania	EC	95	40	IDA	55	23	Japan	32	14	77
Moldova	United States	41	34	IDA	22	18	Netherlands	14	12	64
Mongolia	Japan	95	44	ADB	32	15	Germany	22	10	69

Nicaragua	Spain	210	28	IDB	91	12	United States	87	12	52
Niger	IDA	70	30	France	50	22	EC	27	12	64
Nigeria	IDA	32	17	United States	29	16	United Kingdom	28	15	48
Pakistan	United States	438	33	IDA	370	28	Japan	246	19	80
São Tomé and Príncipe	Portugal	12	33	EC	6	17	IDA	4	11	61
Senegal	France	160	38	IDA	114	27	Japan	39	9	74
Tanzania	Japan	250	22	United Kingdom	222	20	IDA	150	13	55
Togo	France	33	57	IDA	13	22	Germany	8	1	80
Uzbekistan	Japan	57	34	United States	43	25	Germany	11	7	66
Zambia	IDA	178	30	United Kingdom	96	16	Germany	63	11	57
Zimbabwe	Japan	46	27	United Kingdom	21	16	Denmark	20	12	55
Average			31			20			13	64

ADB = Asian Development Bank
EC = European Commission
IDA = World Bank's International Development Association
IDB = Inter-American Development Bank (Fund for Special Operations)
IMF = International Monetary Fund
ODA = official development assistance

Source: Calculated by author from OECD aid statistics database at www.oecd.org.

USAID officially supports the PRSP process, it is not entirely clear what practical impact this actually has on USAID programming.

In sum, if only a few other donors accept the Bank's leadership in any one sector and the rest continue to pursue their own bilateral programming, sector aid programs amount to little more than another parallel management structure and do not promote local ownership of the policy outcomes.

Have the PRSPs altered the donor-recipient relationship and promoted greater ownership? In fact, the objectives of the PRSPs have evolved over time, in relation to ownership. The emphasis on government ownership has tended to recede in favor of participatory aims. Greater involvement of civil society has been viewed as essential to the welfare and poverty reduction objectives that are central to PRSPs. The implicit logic of these programs is that participatory processes will inform and strengthen governmental resolve to implement the programs. As a result, much more attention and resources are now devoted to the expansion of participation than to the ability of governments to integrate and coordinate donor activities. In this sense, the PRSP process does appear to be a genuinely novel approach to aid. It is true, as many critics have noted, that the process is less participatory than consultative: Case studies of ongoing PRSPs in the stagnant low-income states (Dante et al. 2003, Evans and Ngalwea 2003, Jenkins and Tsoka 2003) suggest that the typical mechanism for participation is public presentations of the PRSP to nongovernmental groups. The extent of actual give and take between actors and the extent to which civil society actually has an input into the final policy statement is not clear. As Jenkins and Tsoka (2003, 208) make clear about Malawi, the participatory processes do not necessarily increase the accountability of government: In a statement that could well apply to most stagnant low-income states, they write that "it is extremely unlikely that this will result in the emergence of domestic political leverage sufficient to hold government (or donors) accountable for commitments undertaken in the PRSP formulation process. Civil society remains extremely weak and fragmented, and government highly suspicious of the more vocal elements within its ranks." However, there is no gainsaying that the novelty of any type of public presentation of policy in what have been closed decision-making systems is a significant step forward and one of the real achievements of the PRSP process.

PRSPs have been much less successful in terms of promoting government ownership, because they have largely failed to change the nature of the relationship between governments and donors. First, the PRSP process is entirely an invention of the donor community, even if actual PRSPs are homegrown. Recipients would never undertake PRSPs if they were not a condition to access debt relief funds and more IFI lending. In this sense, PRSPs have merely replaced other IFI-driven processes that are imposed on recipient countries.

This is fairly clear if the scope and substantive focus of the PRSPs are examined. PRSPs have overwhelmingly focused on the social sectors and more specifically on service delivery, which the donors have come to focus on in the last decade. They are much less relevant to other developmental concerns such as capacity building in the core ministerial structures, and they are almost entirely silent on areas such as defense policy, where governments spend a large proportion of their own revenues.

Second, the format of PRSP documents and the types of policies they should include are closely defined by the World Bank, and its monitoring missions make sure countries remain faithful to the vision of PRSPs the Bank has laid out. So, even if the process is participatory and homegrown, the actual policies that emerge from the process are wholly predictable. I have informally asked half a dozen Bank officials with personal experience of PRSPs for examples of PRSPs changing specific Bank policies about given countries in a meaningful manner: Other than alleging a much greater likelihood of long delays in decision making, they have not been able to come up with any specific examples of such policy changes on the part of the Bank.

Third, implementation of donor projects in support of PRSPs often follows old, well-established patterns. For example, donor agencies face real pressure to demonstrate effectiveness to their domestic constituencies and legislative overseers. This leads to evaluations that emphasize short-term, quantifiable results, which are difficult to reconcile with the logic of PRSPs. As a result, the donor presence is often much more intrusive than the architects of these programs envisaged. In a generally positive review of the PRSP process in Uganda, Adam and Gunning (2002, 2050) write that to monitor the program, the donors find themselves "lock[ed] . . . into forms of micromanagement, based around a large number of input and process indicators that did so much to discredit earlier approaches to conditionality." In many cases, the demands of evaluation lead these donors to demand an identifiable, discrete component of the sector program for them to manage and then claim credit for, which in effect brings it back to a set of projects. Note that such a program may still represent a significant step forward, if the government retains an effective overall coordination role and helps promote greater discipline and collaboration among donors.

Moving Away from State-Led Development Strategies

Even as the donor community has concluded that greater government ownership is central to more effective aid, it has sought ways of bypassing central state structures in favor of private and local actors. Another conventional view that gained support in the 1990s has been that less aid should go to the central state and more to nongovernmental actors in the

private sector, civil society, and local communities. Somewhat paradoxically, even as the donors have become more demanding of central states in the low-income economies, they have developed the doctrine that fewer resources should go to these central states. Until the early 1990s, aid was overwhelmingly an intergovernmental exchange, and only a minute proportion of aid escaped central governments' control. This pattern was eventually seriously questioned, in large part because of the obvious deficiencies of central governments. The emergence of structural adjustment in the early 1980s coincided with the donor and academic communities sharply criticizing "state-led" development. The World Bank, under the intellectual leadership of Anne Krueger, was particularly important in this evolution. A number of critics have argued with this position, suggesting that the Bank had erred in a neoliberal direction and pointing to a handful of East Asian success stories as evidence of the merits of a highly interventionist central state (Wade 1990, Amsden 1989).

In practice, nonetheless, a large number of new institutional actors have emerged to take resources and attention away from central states. For the donor organizations, the practical dilemmas of how to overcome the legacy of weak indigenous institutions and nondevelopmental governments have largely pushed aside the intellectual debates about long-term development strategies. Donors have always sought viable organizational vehicles with which to deliver services and overcome endemic deficiencies in skilled-staff availability, communications, and infrastructure. The need to move relatively large volumes of aid has led most to favor expedient and short-term solutions to institutional problems. Not having found these vehicles within the state, donors have long turned their attention to other implementation mechanisms available in the short term—from independent project units to parastatals and, in the more recent past, to NGOs (van de Walle and Johnston 1996, Meyer 1992).

In the idealized interpretation of this evolution, particularly the version the donors endorsed, the central state will devolve a number of peripheral tasks—its past performance of which was mediocre anyway—to local governments and the voluntary and private sector. Thus refocused, a leaner and more effective state will emerge. Following standard economic doctrine, for instance, the World Bank's *World Development Report 1997* argues that low-income states should focus on the following "core public goods and services": "A foundation of lawfulness, a stable macro-economy, the rudiments of public health, universal primary education, adequate transport infrastructure, and a minimal safety net" (World Bank 1997; see also Stiglitz 1996).

The donors' dissatisfaction with the central state in low-income countries has led it to promote two new actors: the NGO sector and local government. In both cases, however, the net advantage gained is more modest than often assumed, and the negative impact on the central state's ability to promote development may outweigh any potential benefits.

The NGO Sector

NGOs have benefited from the belief that the private sector is preferable to the public sector and from the view that they are vehicles for democratization. The emergence of the NGO sector is particularly striking. In some low-income countries, NGOs now provide or implement more than a fifth of total aid flows compared with less than 1 percent 15 years ago (Hulme and Edwards 1997, Riddell and Robinson 1995). In certain sectors of activity, such as relief operations, they have become the dominant players, directly involved in the disbursement of over two-thirds of all funds ("Sins of the Secular Missionaries," *The Economist*, January 29, 2000). By one estimate, foundations and private Americans donate between $10 billion and $17 billion a year to development activities in Third World countries, and these totals appear to be rapidly increasing even as official aid has stopped increasing (Whittle 2002). Current debates within the aid community commonly advocate the expansion of aid efforts filtered through the NGOs (Clark 1991, 2003).

On the other hand, the amount and type of aid that can be channeled through NGOs is probably limited by the nature of NGOs in the low-income economies. They may have a comparative advantage in service delivery and managing intensive microactivities, but they are less likely to be effective for large public works or national-level activities. Donors are discovering that they quickly exhaust the low absorptive capacity of the NGO sector, unless they are willing to undertake substantial and time-consuming institution building. NGO projects are typically management-intensive; yet, most donors have not realized the managerial implications of decentralizing aid programs successfully. Instead, donors appear content to base aid to nongovernmental actors within their traditional administrative frameworks, leading to a high proportion of implementation problems (e.g., Bossuyt 1997).

It is convenient for donors to treat NGOs as little more than a cost-effective service provider for their activities in certain sectors. The donors save money and avoid having to address implementation difficulties, while nevertheless retaining ultimate control over activities. In authoritarian or corrupt regimes, delegating aid to NGOs allows donors to claim not to be supporting the government. Yet, the use of NGOs as donor service providers appears strikingly similar to the independent project units of the past and—as with—it is difficult to see how NGOs can contribute to long-term institution building outside of the state. While many NGOs have been able to forge deep links within the societies in which they operate, a large number are entirely reliant for their existence on the support of a small number of donors. In 2000, for instance, *The Economist* reported that only 9 of the 120 local NGOs in Kenya were not entirely financed by Western donors ("Sins of the Secular Missionaries," *The Economist*, January 29, 2000). These NGOs have apparently discovered that it

is a lot easier to raise funding from rich foreign donors than from extremely poor local communities. Whatever their discourse and original ambitions, such NGOs have no existence outside of the official aid system. This may explain why the empirical evidence suggests that NGO-implemented aid may suffer from worse sustainability problems than traditional aid (Riddell and Robinson 1995).

The absence of NGOs with dues-paying members has two implications. First, many of the organizations that have emerged are unusually reliant on external support. In many countries, the recent explosion of NGOs is in part the result of donor support (Dicklitch 1998). Donors view NGOs as cost-effective implementation vehicles for development activities and are willing to finance their expansion. Thomas Bierschenk and Jean Pierre Olivier de Sardan (1997, 447) note that many village organizations in the Central African Republic's countryside "are often established in the hope of receiving development aid, and apart from the fact that a sizeable number exist merely on paper, in all cases the meager results achieved seldom justified the scope of the funding provided by the donors. Like the development organizations which are behind their creation, these groups concentrate their efforts on inputs and not outputs: the procurement of subsidies as opposed to production of any kind."

Bierschenk and Olivier de Sardan's pessimism notwithstanding, reliance on donors does not preclude effectiveness and is not necessarily a bad thing (Hulme and Edwards 1997); in time, some of these donor creations may institutionalize and gain independence. But the absence of revenue generation often results in NGOs that are accountable to the donors rather than to their members and that follow a donor agenda (Van Rooy 1998).

Second, in the absence of dues-paying members, these organizations are much more vulnerable to being hijacked by the ambitions and dishonesty of individual entrepreneurs (Bratton 1994). Accusations of corruption and fraud by NGO managers are endemic in many countries, and the facts often belie the argument that the NGO sector is necessarily more virtuous than the public sector. Indigenous NGOs in low-income countries find themselves in an environment that is extremely propitious for abuses. Their governance structures rarely provide for mechanisms of accountability for their managers, since they often do not have dues-paying members, an autonomous board of directors, or an effective state fiscal agency to monitor them.

Decentralization and Local Government

The growing attention to *decentralization* in the stagnant low-income states emanates largely from the same logic. Donors increasingly view local

governments as potentially more effective than central governments at promoting development and more democratic because local governments are more accountable and responsive to the citizenry. Accountable and pluralistic local governments could assist, harness, and coordinate the rich resources posited to exist at the local level. The donors have argued that decentralization is a key component of their efforts to promote democratization of political life and to improve the efficiency of public services (Manor 1999). As a result, most donors have enthusiastically promoted national policies of decentralization and administrative devolution, and the 1990s witnessed efforts to implement decentralization in virtually every one of the stagnant low-income states.

In **Mali,** for example, laws passed in 1995 created 701 rural and urban *communes* to replace the old system of 270 *arrondissements*, and these communes will eventually have responsibilities for primary education, health care, local road construction and maintenance, public transportation, water distribution, and sports and cultural events. (In addition to the 701 communes, the reform creates 52 *cercles* or counties and eight regions; see CDIE 1998.)

In **Burkina Faso**, the government created the Commission Nationale de Décentralisation (CND) in 1993 to promote decentralization. An ambitious program was then defined, which created 33 municipalities in the country's principal towns and will eventually result in up to 500 municipal councils all over the country.

In **Niger** in the early 1990s, the new democratic government officially committed itself to an ambitious decentralization program. The end of the Third Republic and the installation of a military government did not end the decentralization momentum, even if one definite motivation for decentralization was to promote greater political pluralism in the countryside (Tidjani Alou 1998). Following local elections in 1999, some 994 municipal representatives and 787 communal officials were to be freely elected, suggesting the program's ambitious dimensions.

In **Pakistan**, the government initiated a decentralization process in 1999, which calls for the creation of 6,455 local self-governments, including 92 districts, 4 city districts, 307 *tehsil* governments, and 6,022 union councils. Eventually, the government foresees extensive fiscal decentralization, but in the short term, the biggest implication is the creation of local elected officials, which the government hopes will improve service delivery (World Bank 2002c, 9–11).

What are the prospects for these new local governments? In most low-income countries, decentralization has foreseen the transfer of certain responsibilities to the local level, and communities have been given new fiscal prerogatives. But very little systematic evidence is available on how much has already been achieved. Evidence exists of significant fiscal devolution to primary cities. An interesting USAID study of decentralization in Mali (CDIE 1998) also suggests that the process has proceeded

furthest for large towns but notes some uncertainty from the outset, even for towns, about the extent of fiscal devolution implied by the creation of these new local administrations.

The situation is somewhat different in the countryside, where it is usually quite premature to speak of significant devolution at this point. There is anecdotal evidence of newly elected officials in rural communities undertaking relatively bold initiatives on their own, usually in the realm of small village-level infrastructure or health and education services. In the absence of statistics, it is impossible to tell how significant a trend these experiences represent. The evidence does suggest that donors who are willing to finance decentralization activities drive much of the devolution. Central governments have more ambiguous attitudes toward reforms that would inevitably take away resources and discretionary power if fully implemented. On the one hand, in the current fiscal crisis and given their own lamentable record of providing services to populations, they are unlikely to turn down donor resources that pay for any level of government. Moreover, many face subnational pressures to decentralize authority (Ndegwa 2002, 1). On the other hand, they are unlikely to view the giving up of power with equanimity. Plenty of case studies suggest that whatever government impetus officially given to the process, in practice the central ministerial services often resist giving up long-standing prerogatives and discretion (e.g., CDIE 1998, Lambright 2003).

The absence of local revenues underlines the critical role of the donors in empowering local authorities. The IMF unfortunately does not provide any recent systematic data on revenues disaggregated by level of government in the poorest economies. Anecdotal data from a number of low-income countries nonetheless suggest how small a proportion of overall funding is likely to come from local sources. Thus, in 1991, Kenya's central government collected 98.3 percent of national taxes and local governments only 1.7 percent, despite a relatively long established tradition of local administration and much stronger municipal government than in most low-income states (Shome 1995, 250). Among low-income countries, the highest levels of local revenue generation may well be in Uganda, where it has been the government's priority for over a decade. Yet, Gina Lambright (2003) reports that even the most capable Ugandan district governments managed to finance well under 10 percent of their costs from self-generated revenues. In time, perhaps local authorities will be able to generate revenues to finance their activities; for now, they are heavily reliant on donors.

In sum, the search for alternatives to corrupt and incompetent central governments in low-income states has led donors to seek alternative mechanisms for aid implementation. The focus, unfortunately, has been more on instruments with which to move money rapidly rather than on the much more difficult task of building viable institutions outside of the central state. The donors are likely to discover that it is no easier to

build capacity within local government than it was in the central state apparatus. In practice, many of the flaws of aid dependency witnessed in the central state are being reproduced in the new institutions. Once again, these problems are terribly exacerbated in the poorest economies. Where the central state is weakest, the local government and civil society are also likely to be weakest.