Aid:

Bringing Development

Back in

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Political drivers of aid and development

- Ideas Ideology and the Politics of ‘Legitimation’
- Nationalism and nation-building
- Ideas of “catch-up”
- Solidarity
- National interests CONTENT

The case for aid

- Developmental arguments
  - "Poverty Trap" Argument
    - Bridge gap between available domestic savings and investment needs
  - Two Gap Argument
    - Bridge gap between need import of producers goods and Import capacity
- Geopolitical arguments
- Humanitarian Arguments
- CONTENT

Key Assumptions

- External conditions
  - Export Pessimism
  - Pessimism about private financial flows
- Internal conditions
  - Nation-building and developmentalist ideologies
  - Capable state
- CONTENT

Theoretical Foundations

Neoclassical approach	Structural approach
Assumptions	
Factor returns equal marginal productivity in all uses	Income-related demand changes in internal
No economies of and lags scale	Constrained external markets in adjustment
Perfect foresight and continuous equilibrium in all markets	Transformation of productive structure producing disequilibria in factor markets
Empirical implications	
Relatively high elasticities of substitution in demand and trade	Low price elasticity and lags in adjustment
Limited need for sector disaggregation	Segmented factor markets
	Lags in adopting new technology
Sources of growth	
Capital accumulation	Neoclassical sources plus:
Increase in labour quantity and quality	Reallocation of resources to higher productivity sectors
Increase in intermediate inputs	Economies of scale and learning by doing
Total factor productivity growth within sectors	Reduction of internal and External bottlenecks

Implications of structuralist argument for aid

- More pronounced role for state
- “Governing markets”
- ¨National development financial institutions
- Aid and structural constraints

The Truncated role of the state

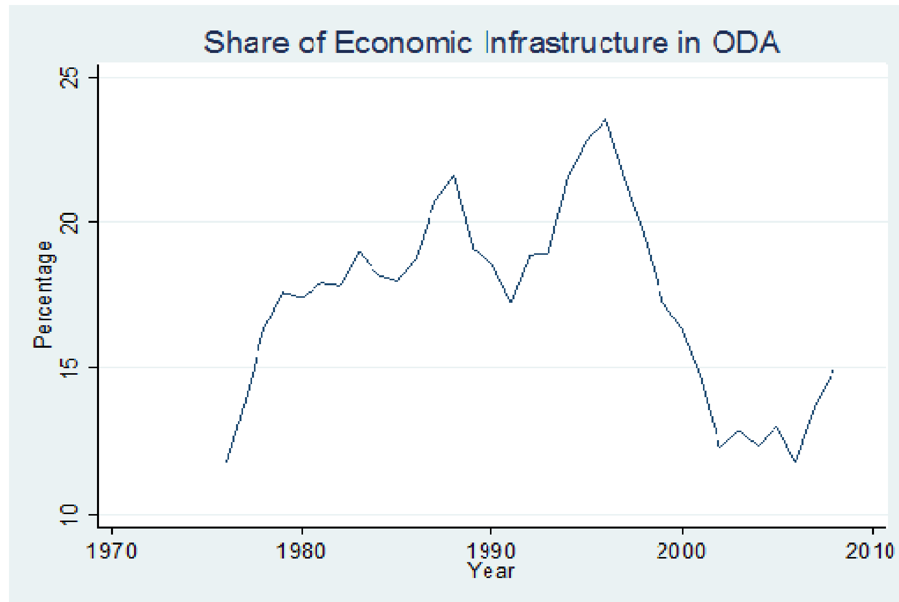
- Recipient without a plan
- Unwieldy Development Agenda
- Aid and the Non-Developmental Agenda
- Recipient without receiving institutions
  - Weakened “spending ministries”
  - Destruction or privatisation of Development Finance Institution

Implications of SAP on Aid, trade and Accumulation

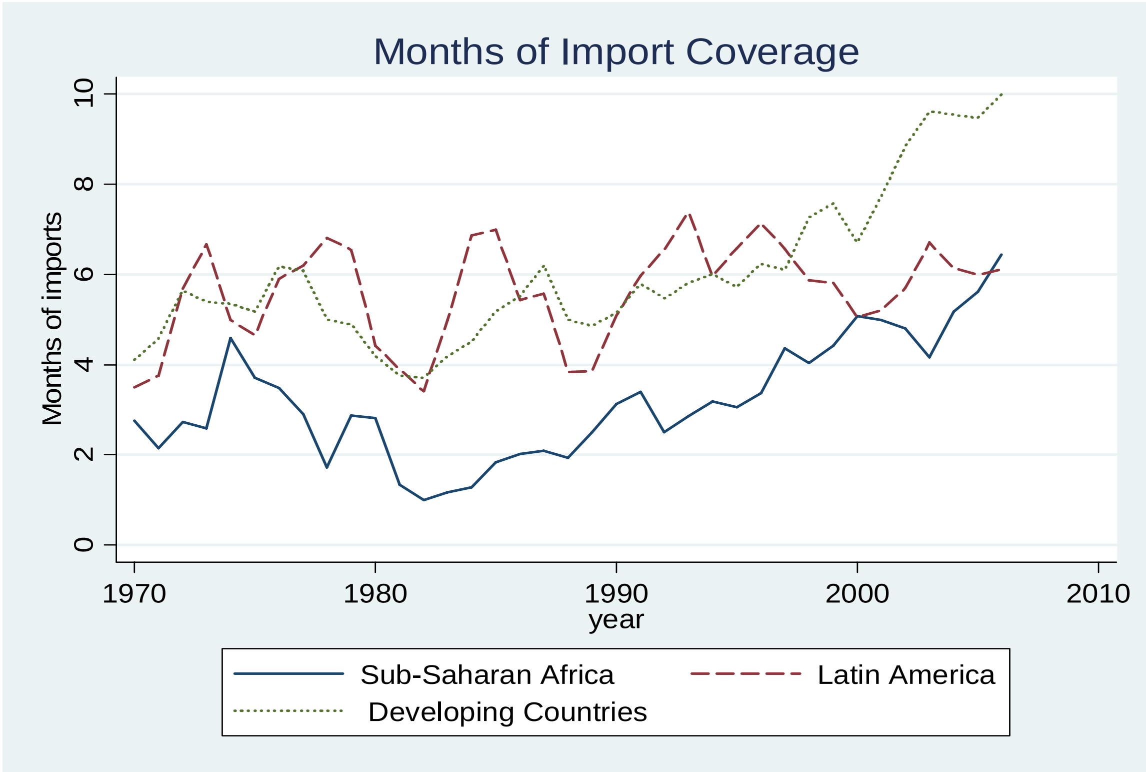
- Capital inflows and Aid
- Misuse of Foreign Exchange.
- Paradox of Aid and Excess Reserves

Constraints on Absorption

- Neglect of Big Ticket developmental Items
- Neglect of industrialisation
- Neglect of Infrastructure
- Neglect of Human Capital
- Neglect of agrarian transformation



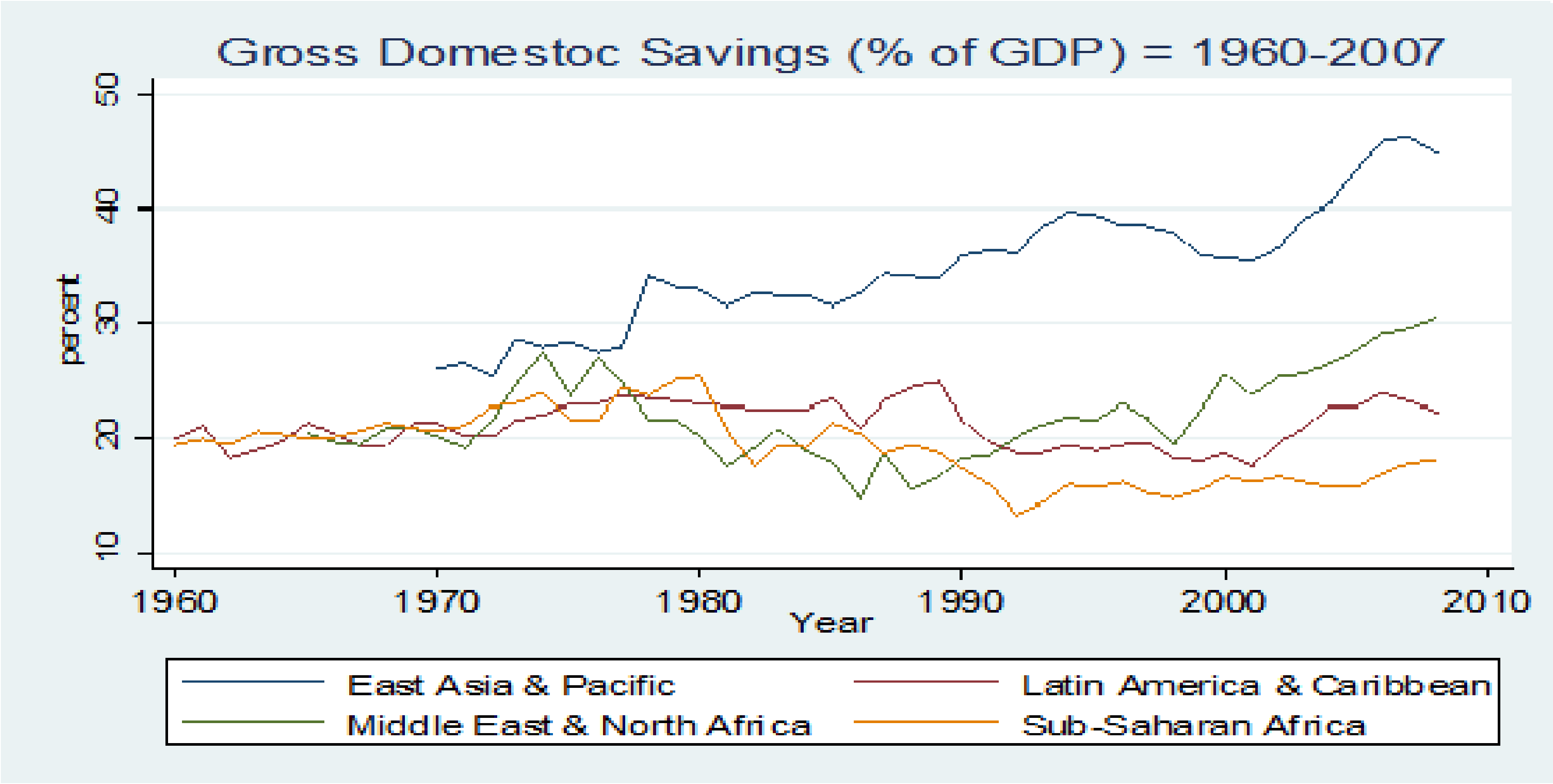
The Paradox of Excess Reserves



Neglect and misallocation of domestic resources

- Aid fuelling consumption booms
- No prioritisation of forex allocation

Consumption booms and low savings



- "By the end of the 1990s, it became clear that much of the increased deposits and capital inflows had gone into (1) unproductive private borrowing or state enterprise debt that had to be replaced by government debt in order to bail out depositors and lenders, (2) deficit finance, and (3) central bank debt to stabilize the economy. Thus it is not surprising that the financial liberalizations of the 1990s did not live up to the high expectations regarding sustained increases in growth or credit access." [World Bank, 2005: 226]

Import of capital goods

VARIABLES	Fixed Effects	Random Effects
Logcap	-10.91***	-7.099***
	-3.048	-1.797
Invest	0.304***	0.302***
	-0.0635	-0.0593
Aid	-0.195***	-0.174***
	-0.0586	-0.0569
TOT	-0.00625	-0.00966
	-0.0112	-0.0108
RER	-0.0321***	-0.0340***
	-0.00607	-0.00569
Industry	0.196**	0.152**
	-0.0822	-0.0775
Constant	83.81***	61.85***
	-16.97	-10.38
Observations	241	241
R-squared	0.321	
Number Countries cid	14	14

Standard errors in parentheses*** p<0.01, ** p<0.05, * p<0.1

Quality and quantity of donors

- Korea case - one donor
- Many donors one country case
- Average of 20
- Openness of structuralism and nationalist argument (war experiencing, Keynesianism and anti-communism) versus more neoliberal and triumphalism “consensus”

Distribution of Aid Recipients According To the Number and Type of Official Donors, 2000

	Type of aid donor	
	Bilateral donors only (n=22)	Bilateral and multilateral donors (n=53)
Number of recipients with 1–9 donors	34	13
Number of recipients with 10–19 donors	93	27
Number of recipients with 20–29 donors	22	69
Number of recipients with 30þ donors	0	40*
Total number of recipients	149	149
Average number of donors per recipient	14	26
Median number of donors per recipient	16	23

Consequences

- Problems of Coordination
- Fragmentation of nation bureaucracies
- “enclavisation” or “extraversion” of the bureaucracy
- Disembedding the state
- Lack of democratic accountability

Misuse of Local Skills

- "Despite massive technical assistance, aid programmes have probably weakened capacity in Africa. Technical assistance has displaced local expertise. And drawn away civil servants to administer donor-funded programmes—precisely the opposite of the capacity building intentions of donors and recipients" [World Bank, 2000 #2180]

Problems of recipients

- Lack of clarity about ends and focus
- Lack of determination to reach those ends upon which agreement has been reached.
- Decline of a sense of “self-reliance”

Thank you