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Managing Aid Dependence:

How African governments lost ownership and how they can regain it

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In the last decade there has been a significant shift in the paradigm for giving foreign aid, encompassed in the Paris Declaration on Aid Effectiveness in 2005. At the centre of the new paradigm is the idea of country ownership. Recipient governments are urged to take ownership of development policies and aid activities in their country, to establish their own systems for coordinating donors, and only to accept aid that suits their needs. By contrast, in many aid dependent African countries donors dominate decision-making over which policies are adopted, how aid is spent, and what conditions are attached to its release. This briefing assesses whether 'ownership' is likely to be an effective solution. It draws on research into how most African countries lost their ownership in the first place, and how others managed to retain it.

The Negotiating Aid Project

Between 2005 and 2007, the Global Economic Governance Programme carried out research on the factors accounting for the bargaining power in aid negotiations of governments in eight African countries: Ghana, Mali, Mozambique, Rwanda, Tanzania, Zambia, Ethiopia and Botswana. The case studies assessed the degree of control governments are able to secure over their development policies. Through the country cases the project sought to understand complex aid relationships from the viewpoints of recipient governments, investigating what strategies African states have adopted to advance their objectives in aid negotiations and how successful their efforts have been. The case studies developed detailed descriptions of the institutions and processes that make up contemporary donor-recipient relations. They concentrated on the past and present economic, ideological, political and institutional contexts of aid negotiations, and how these conditions shape the balance of negotiating capital between governments and donors. They then used specific cases of aid negotiations to move beyond this general picture. **The research is published as *The Politics of Aid: African Strategies for Dealing with Donors,* (ed.) Lindsay Whitfield, Oxford University Press, forthcoming 2008.**

Global Economic Governance Programme

BRIEFING PAPER

What is ownership?

Ownership is a vague term that appeals to people for different reasons. But two competing, and potentially contradictory, usages of the term can be distinguished. The first one sees ownership as *commitment* to policies, regardless of how those policies were chosen. The second is ownership as *control* over the process and outcome of choosing policies. We define ownership as the degree of control recipient governments are able to secure over policy design and implementation, starting from the viewpoint that African governments should have more control over their policies in order to reclaim their sovereignty. This definition goes against much current thinking in aid circles and among donors.

It is challenging to assess ownership as control. Discerning what is government-owned and what is donor-driven is complicated in aid dependent countries by the ways in which aid relationships have developed over decades of dependence, and by how the international aid system has expanded and entrenched itself in many countries. In particular, assessing government ownership is difficult because donor agencies have been instrumental in preparing, financing and implementing government programmes through the provision of consultants and technical assistants, through training and logistical support, and through the use of conditionalities.

Defining ownership on the basis of a set of numerical indicators would miss the complex and diverse dynamics which characterize contemporary aid relations. Instead, we used detailed country descriptions to assess the degree of ownership in eight countries, and then compare their experiences in order to explain differences among them. The eight countries are placed on a scale, in relation to each other, ranging from strong to weak ownership. Botswana has shown the strongest degree of ownership, and Ethiopia is situated firmly in the strong half of the spectrum. Rwanda is placed in the middle, with medium ownership. The remaining five countries are at the weakest end of the spectrum. They share several characteristics which account for their weak ownership. But countries' positions on this spectrum are not static. Indeed by the beginning of 2008, it looked as if Ghana and Zambia were increasing their ownership and trying to break out of the weak group. We return to this point, but first we explain why Ghana, Zambia, Mali, Mozambique and Tanzania have had such weak ownership compared to the other countries.

Ownership means control over priorities, policies, and implementation.

SPECTRUM OF GOVERNMENT CONTROL IN THE COUNTRY STUDIES

How most African Governments lost ownership

Contrary to what one might think, the degree of control by African governments over policymaking is not determined only by the volume of aid relative to the size of the economy Rwanda and Ethiopia rank higher in terms of aid as a percentage of gross national income (GNI) than most of the other countries. Botswana is omitted from the chart below because aid is now 1% of its GNI. The comparable figures would be immediately after its independence, when aid as a percentage of GNI averaged 22.7% during 1966-1970, but the government still maintained strong ownership.

Aid as a Percentage of Gross National Income

	2003	2004	2005
Ethiopia	20.2	18.8	17.4
Rwanda	20.3	27.1	27.1
Ghana	12.8	15.7	10.6
Mali	12.9	12.1	13.6
Mozambique	22.6	22.4	20.7
Tanzania	16.6	15.7	12.5
Zambia	14.1	22.5	13.9

Source: World Development Indicators, April 2007.

Receiving high levels of aid therefore does not necessarily entail a loss of ownership. Rather, it is the different contexts within which African governments and donors negotiate aid that explains the different levels of ownership. Changes in the global economy in the 1970s and early 1980s led to debt and balance

Aid dependence does not necessarily lead to a loss of ownership.

of payments crises in many African countries. This economic crisis marked a critical juncture that set some countries on a different path. These countries desperately needed foreign exchange and could only get it from one source. This presented an opportunity for the World Bank and IMF to expand their influence over macroeconomic policies. In spite of their increasingly limited leverage in aid negotiations, African governments in the weak group developed a range of strategies to protect their policy sovereignty and to evade conditionality. Such strategies include not implementing or delaying the implementation of reforms, as well as reversing reforms that had been implemented.

These strategies of evasion were increasingly closed down after the end of the Cold War. Respect for the sovereignty of African countries waned among Western country governments and international institutions, and the scope of the conditions attached to foreign aid expanded significantly. In the 1990s, donors moved beyond macroeconomic policy, placing conditions on a wide range of policy areas and seeking to transform the administrative and political systems in these countries. By the early 2000s, the Heavily Indebted Poor Country initiative and the Poverty Reduction Strategy Papers that came with it extended donor conditions to the process of policymaking itself. African state structures (many of which were already in poor condition) were profoundly weakened through these processes, along with the ability of governments to plan and express coherent visions for national development.

Donors moved beyond macroeconomic policy, placing conditions on a wider range of policy areas and eventually on the policymaking process itself.

Over two decades of continuous engagement with the World Bank and IMF, as well as an expanding list of official and private aid agencies from OECD countries, changed the conditions in which aid negotiations took place. This continuous engagement has created a set of common characteristics in the countries exercising weak ownership today:

DONORS EXPANDED CONDITIONALITY

A continuous and permanent negotiation process has developed over almost all policies, programs and projects between donors and government. Donors may give in on a condition or choose not to punish non-implementation of conditions, but they continuously assert their preferences through conditionality or through intimate participation in policy discussions and the management of projects. This puts an immense burden on African administrative systems and leads governments to spend most of their time responding to donor initiatives and negotiating on that basis, trying to work their own priorities in or waiting until implementation to steer the policy or project towards their preferences. This defensive strategy of dealing with donors leaves African governments little time and space to devise policies independently of donors.

DONORS CREATED JOINT PLANNING PROCESSES

Donor proliferation also led to fragmented aid management structures, with widely dispersed tasks, vague division of labour between ministries, and donors negotiating projects directly with specific ministries. Weakened policymaking and budgeting processes that resulted from the fragmentation of aid meant that recipient governments were in a weak position to coordinate aid according to a national development strategy. This took place against the backdrop of marginalized or non-existent national planning systems. Thus, donors often took up the initiative, coordinating aid among themselves and creating arenas for 'policy dialogue' with African governments. Recent aid reforms, such as general budget support, have increased the number of joint donor-government processes, the participation of donors in policymaking processes, and donors claiming the right to this participation.

New forms of giving aid, such as sector-wide approaches and general budget support, have led donors to demand greater participation in policy discussions and planning.

GOVERNMENTS RELIED ON AID TO GENERATE POLITICAL SUPPORT

Many African governments have relied on aid to retain their position in power since independence. But the contemporary phenomenon of political dependence is different partly as a result of the continuous engagement with donors, and partly as a result of new imperatives facing governments after the return to multiparty rule in the mid-1990s. Aid dependent African governments have become accustomed to the increased budgets that aid provides. Aid is a vital resource with which these governments seek to deliver goods and services or other promises they have made. Thus they are unwilling to take stronger policy positions or to chart a development strategy outside of the purview of donors, as they are afraid of risking reductions in aid that could

African governemnts benefited from subservience to donors undermine their political support and/or cost them the next election.

The fragile domestic political support of governments, combined with their dependence on aid to shore up their political legitimacy, therefore provides strong incentives for governments to remain in a subordinate position to donors. The conditions of permanent negotiation and institutional entanglement, at the same time, provide strong disincentives for recipients to challenge their subordination.

In sum, the governments in the weak group have accepted their subordinate position and the inevitability of intimate donor involvement in policymaking, and then pursued strategies to maximize their policy control within that context. These have not been successful strategies for securing ownership, even if they have guaranteed continuous (and often growing) aid flows.

How some African Governments maintained ownership

The generalized pattern of continuous engagement and its legacies did not apply so clearly in Botswana, Ethiopia and Rwanda. The contexts in which these countries negotiated aid were more favourable. At the same time, these countries also used their situation more effectively to increase their control over the outcomes of aid negotiations.

GOOD MACROECONOMIC MANAGEMENT

It is not economic growth that matters so much as the need to reschedule unsustainable external debts and the need for foreign exchange. There are huge differences in the level of economic growth in Botswana and Ethiopia, but both countries avoided the bite of debt and macroeconomic crises in the 1980s. Why? Botswana's government pursued prudent macroeconomic policies and used its revenue from diamonds in a fiscally conservative way. The Derg government in Ethiopia did not incur large debts to the West (because it could not) and it managed to retain a realistic international exchange value for its currency (despite import controls). Thus when the new government embarked on economic reforms in the 1990s, it approached the Bretton Woods institutions with a much less subservient posture than most African countries.

STRONG STATE INSTITUTIONS

Botswana and Ethiopia also have professional civil services, capable state institutions, strong planning systems, and centralized aid management systems. They either had these institutional components before receiving high levels of aid, or emphasized the need to build them through the use of aid. These institutional factors have been crucial to their ability to set the policy agenda and maintain ownership.

GEO-STRATEGIC IMPORTANCE

The government in Rwanda since 1994 has had partial success in controlling its policy agenda, despite having encountered economic crisis in the 1980s and having inherited devastated state structures after the genocide. Its medium ownership results largely from the rather unusual conditions that emerged in the aftermath of the genocide in 1994. The Rwandan Patriotic Front argued that some donors were tainted by their support for the Habyarimana government. Donors also had a limited ability to collectively push the government in directions it does not want to go, due to their different positions towards the post-genocide government. For different reasons, the governments in Ethiopia and Rwanda have been politically and geo-strategically important to key Western donors, increasing their ability to project an image of non-negotiability in key policy areas.

NATIONAL VISION

It is not the content of development vision, so much as the ability to translate it into a coherent development strategy. The governments of Botswana, Ethiopia and Rwanda have expressed a clear vision about where their countries are going and about the contribution of public policies to achieving that outcome. Despite the differences in the content of their development strategies, their coherence increased their ability to defend their policies in aid negotiations and to argue against some donor policy preferences. The problem for governments in the weak group was often that they lacked a coherent framework within which to situate their arguments for adapting or resisting donor prescribed reforms.

GOVERNMENT CONFIDENCE

The difference between the group of countries with weak ownership and those with stronger ownership is also due to confidence. The governments of Ethiopia (since 1991) and Rwanda (since 1994) are confident that donors will not abandon them, but are also willing to take the risk, whereas countries in the weak group are not.

Contemporary challenges for countries that have ownership

The experiences of Botswana and Ethiopia, and to some extent Rwanda, provide lessons for other African countries on how to retain ownership in the face of aid dependence. However, governments in these countries should take precautions to hold on to their ownership. Ways to do so include:

- Emphasizing economic diversification in order to reduce over-dependence on a few sources of revenue and promote exports to increase foreign exchange earnings.
- Promoting public investment, especially in infrastructure, and private investment, including attracting foreign direct investment in competitive regional and international markets.
- Creating reserve funds by running budget surpluses when possible and accumulating foreign exchange reserves. Reserve funds would allow governments to maintain macroeconomic stability and deal with uncertainties in aid flows.
- Refusing aid that does not address national priorities as well as aid for projects and policies that cannot be sustained in the future through domestic resources.

How ownership can be regained

More African countries have conditions similar to the group of countries with weak ownership than they do with Botswana and Ethiopia. But there are still lessons that can be learned from the experiences of governments with a history of stronger ownership. African governments do have room for manoeuvre in aid negotiations, if they choose to use it. They can also try to change the contexts in which they negotiate aid, although they face challenges in doing so. Indeed, the economic conditions facing African countries are already changing, and this provides new opportunities to African governments.

Take up new opportunities

African economies have been growing at faster rates than the average for the world economy. This is an entirely novel situation. African governments have achieved macroeconomic stability through changes in economic policy and better economic management. These improvements combined with increases in commodity prices since 2000 are driving an economic boom in Africa. The past few years have seen a reversal in a six decade trend where the region's share of global trade had been falling. The pattern of growth within Africa is becoming increasingly diverse, with more and more success stories. Investors are beginning to look at the region. New sources of finance have become available as the continent is seen increasingly as a place for high risk/high return investment.

African governments also increasingly have access to **new sources of finance** outside of the traditional donors. China has become a major provider of finance, both in terms of foreign direct investment and concessionary lending. African governments are increasingly looking to Chinese concessional lending because it is strongly supported by investment and trade policies and it does not come with intrusive economic policy conditions attached. China is also willing to provide loans and investment in infrastructure, energy, and the productive sectors—driving development in regions and sectors previously considered too risky or requiring too much prior investment to be of interest to Western donors.

The debt crisis played a key role in the decline of African negotiating strength in the 1980s. Furthermore, accessing **debt relief** was an important goal for most African countries in the late 1990s and early 2000s and significantly shaped the negotiating strategies of many countries in our study. Debt relief has lifted the burden of taking out loans in order to be able to service debt on past loans, but it has not provided much additional resources for use at the government's discretion. The amount of debt relief that African governments receive annually is too small to use for major public investments. Therefore, the main benefit of debt relief has been to improve the sovereign credit rating of African countries, allowing Ghana and Nigeria to raise new finance from international capital markets.

Increasing numbers of observers in African countries have identified **a gap in development thinking** among donors and opportunities in the global economic and ideological environments for African governments to press home more assertive strategies in negotiating aid on their terms. Some donors, such as the World Bank, are acknowledging that African countries need job creating growth and this requires more than good investment policy plus safety nets and social spending. Others are even considering the merits of a renewed focus on industrial policy.

It was a change in economic fortunes that led many African countries down the path of aid dependence, so we could expect positive economic changes to place African governments in a good position to break out of the vicious cycle of aid dependence and weak ownership. There are also plenty of successful examples around the globe from which African countries could learn.

Now is the opportune time to adopt more assertive strategies in negotiating aid and regaining ownership.

Now is the opportune time to adopt more assertive strategies in negotiating aid and regaining ownership. Will African governments act (and act quickly enough) to capitalize on these changing conditions in their aid negotiations? They still face some major domestic challenges to doing so.

Articulate a clear vision backed by policies to achieve it

African governments must express a clear vision about where their country is going and about the contribution of public policies to achieving that vision, in order to effectively defend their policies in negotiations with donors. Donors find it harder to challenge a recipient government's priorities if they are constructed within a coherent framework. The problem for African governments with weak ownership is not necessarily the absence of a development vision, but the absence of the confidence to assert that vision and to apply the necessary resources to producing and implementing plans.

African governments could:

- Couch their development strategy within a coherent framework which draws on the lessons of emerging economies as well as the failures of your own country in the past.
- Capitalize on recent renewed international debates, in aid circles and in academia, about what was successful for economic transformation in industrialized and emerging economies.

Mobilize domestic support for policies

African governments have typically used aid to assist them in winning domestic political struggles, to shore up political legitimacy, and to satisfy or deflect popular demands for development and social services. Where survival of African governments is linked to the continuation of aid and where the ruling party or government members derive rents from aid and are not ready, willing or able to do without them, then donors will have the upper hand in aid negotiations.

African governments could:

- Galvanize support within government ministries and gain the backing of leading politicians in order to present a more unified stance vis-à-vis donors in aid negotiations.
- Draw on the sense of dispossession and anger of poor majorities and mould their demands into a development strategy, explaining how these demands will be addressed through government policies and then mobilizing popular support for this development strategy. This political approach would enhance a government's leverage in negotiations with donors.

Improve planning systems and public administration

African governments' ability to produce coherent development strategies and policies, and defending them in aid negotiations, is undercut by weak national planning systems and disincentives at work within public administration. Ownership is rooted in capacity. African governments do not necessarily lack planning and policymaking capacity, but rather are stuck in a dependency syndrome in which it is easier to rely on technical assistance from donors or to divert responsibilities to donors. African bureaucracies are not incompetent and inefficient as donors often make out. But there are real issues of motivation for current civil servants and incentives to attract the next generation with the right calibre of skills. Public sector reforms are most likely to be successful if animated by a national project to reclaim ownership.

African governments could:

- Improve public administration and strengthen national planning systems.
- In the meantime, capitalize more on the existing capacity of the public administration and draw more on domestic resources outside of it.
- Invest time and human resources in preparing for negotiations with donors.
- Integrate technical assistance into public administration structures, and reject technical assistance that comes with aid, unless it meets their needs.

Centralize aid management and link it to planning systems

African governments' control over policy design and implementation is weakened as a result of the fragmentation of systems for managing and negotiating aid and of the extent of the entanglement between donor and government institutions. Fragmented aid management and institutional entanglement make it hard for African governments to devise their own policies and then present them to donors in aid negotiations. In the contemporary period, donors no longer just sit at the negotiating table, but have penetrated almost all of the steps of producing policies before they ever reach the negotiating table. Collective donor processes may increase donor coordination, but they also increase donor negotiating power and limit African governments' room for manoeuvre.

The experiences of Botswana and Ethiopia in managing aid and donors suggest some important institutional components of an aid management strategy for reclaiming ownership.

African governments could:

- Link aid management to the country's planning and budget process, so that aid is coordinated to support their development strategy. Have donors fund projects and programs outlined in the government's national development plan. A project not in the plan has to be discussed and justified. Insist that donors specialize in a few sectors.
- Centralize negotiations. Implementing ministries can have regular dealings with aid agencies, but the ministry coordinating aid remains in control of all negotiations.
- Negotiate with donors individually. Donor-led coordination is not necessary if aid is being coordinated through the government's planning process and according to its national plans. On the other hand, collective donor stances on policy or pool funds with conditions attached can undermine government ownership.
- Reject the proliferation of arenas for donor-government dialogue. Not only do these arenas institutionalize donor involvement in governance processes, they make it difficult for a government to keep track and coordinate aid relations. This raises a note of caution about budget support and joint assistance strategies, because they increase joint donor-government arenas and integrate donors further into policymaking processes.

Building state-society relations that support ownership

African societies increasingly have come to play a central role in formulating and implementing national policies and in holding their governments accountable. But the role of civil society has tended to be antagonistic with their governments. Organized social groups and NGOs rarely have a unified stance with their government on policies vis-à-vis donor demands. Instead, the aid relationship is a triangle of government, society and donors, where donors often play a mediating role between government and societal actors. And for their part, societal actors frequently look to external mechanisms, such as conditionality attached to aid, to achieve their policy objectives or to hold their governments accountable. This situation strengthens the hands of donors, which may occur at the expense of government ownership and ultimately democratic governance.

Civil society actors have a role to play in reclaiming ownership:

- Organized social groups and NGOs could work with government when there is clear agreement on policies or issues and try to find common ground when there initially appears to be less agreement, in order to increase the government's leverage in negotiations with donors.
- Citizens could focus on their government's role and responsibility in formulating policy by seeking explanations for policy positions; by trying to hold their government accountable for policy outcomes; and by not allowing their governments to use donors and conditionality as a scapegoat for policy decisions.
- Citizens could demand a more capable, effective and accountable state that can achieve their aspirations, rather than looking predominantly to donors and international NGOs to provide the solutions to their development problems or to make their government more accountable.

The Global Economic Governance Programme

The Global Economic Governance Programme was established by Professor Ngaire Woods at University College in 2003 to foster research and debate into how global markets and institutions can better serve the needs of people in developing countries.
The three core objectives of the programme are:

- to conduct and foster research into international organizations and markets as well as new public-private governance regimes
- to create and maintain a network of scholars and policy-makers working on these issues
- to influence debate and policy in both the public and the private sector in developed and developing countries

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