

**Economic Aid, Development, and Democracy: Does Aid Advance or Impede
Transitions to Democracy?**

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Abstract

The goal of this paper is to closely examine the relationship between aid dependence and governance and determine whether aid improves or impedes poor countries' transitions to democracy.

This paper outlines the main issues in the current debate on aid effectiveness; it discusses the theoretical discussion underpinning that debate and briefly examines the reasons why countries give. Finally, it tests empirical data on aid-dependent countries and closely evaluates on-the-ground reports of conditions in the test group.

In the empirical test, I analyze the relationship between two variables—aid reliance and democratic governance. The independent variable is aid inflows as measured as a percentage of nations' economies between 1990 and 2005. The dependent variable is the degree of democracy, as measured by Freedom House. The hope is that by evaluating data, one can identify trends that can help determine how donors should condition aid.

Introduction

This summer's heated dialogue about foreign aid by leaders of the Group of Eight (G8) industrialized countries provides a snapshot of the larger debate—and some would say conundrum—over aid effectiveness. Donors want to see greater accountability for the money they send to developing countries. Recipients want greater consistency in aid flows so they can more effectively plan and implement economic development programs.

As G8 leaders started arriving in Japan in July to assess their objectives, advocates for the world's poorest populations raised attention to the fact that the leaders have not lived up to promises they made three years earlier at a G8 summit in Gleneagles, Scotland.¹ The G8 leaders had promised to increase official development assistance (ODA)² by \$50 billion by 2010—an amount that would represent a two-fold increase in giving. Half of that increase would be directed to Africa.

The commitment was part of a much larger initiative known as the Millennium Development Goals (MDGs). World leaders representing 191 countries at the 2000 Millennium Summit agreed to reduce world poverty by 2015 by significantly increasing aid.³ The idea behind the MDGs is that most impoverished countries are caught in a perpetual state of underdevelopment and need outside help to escape the “poverty trap.”

The MDGs suggest that these poor and mostly landlocked African economies need large amounts of grants-based aid and debt relief to overcome internal constraints like high disease burdens, a reliance on low-tech agriculture, poor infrastructure, low

¹ At a press conference held in Japan in advance of the July 2008 G8 summit, Oxfam and One, two anti-poverty NGOs, said that while the United States, Britain and Germany are making generous commitments to development aid, France, Italy and Canada are not delivering on their aid promises. National Post. “Canada watering down G8 African aid commitments: activists. July 7, 2008. <http://www.nationalpost.com/news/story.html?id=638093>

² Official Development Assistance (ODA) is defined as: “Flows of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective, and which are concessional in character with a grant element of at least 25 percent (using a fixed 10 percent rate of discount).” (Source: IMF/OECD) It does not include military aid, peacekeeping, or lending by export credits agencies. ODA is distributed by 22 OECD member countries and NGOs to promote long term economic growth and provide humanitarian assistance.

³ MDG -- International agreements (such as Monterrey) provide the right framework for the MDGs: Low income countries need increased ODA to meet Goals; Countries are responsible for good governance; Private flows important but only partial substitute; and Market access critical for long-term economic growth. www.undp.org/poverty/docs/mdg-support/MDGplanning.ppt

population density and small internal markets.⁴ It is based on the theory that governance issues alone cannot improve economic conditions.

Only targeted public investments financed by ODA can alleviate poverty. Governance is, however, a key ingredient in the implementation of the goals. International agreements under the MDGs require receiving countries to improve governance issues in exchange for higher levels of aid.⁵

The quid pro quo is common in international giving. So it is no surprise that when G8 leaders met this July in Hokkaido, Japan with presidents of seven African countries—Algeria, South Africa, Nigeria, Senegal, Ghana, Tanzania and Ethiopia—G8 leaders promised to more money while African leaders promised to improve governance.

The problem is that neither the money nor the government accountability has materialized. According to estimates by an agency overseeing G8 promises, donor contributions are falling \$40 billion short of their aid commitments.⁶ Meanwhile, deteriorating conditions in Zimbabwe illustrate the fact that many African nations are still run by corrupt, authoritarian governments lacking transparency.

To Aid or Not to Aid?

This summer's G8 summit wasn't the first time leaders of rich and poor countries traded promises of aid-for-good governance. That exchange is well rooted in history; and the debate over aid effectiveness has generated an extensive amount of debate and research.

As long as impoverished countries need financial help from richer countries, multilateral institutions and nonprofits, the debate over aid will continue. The question is not whether to provide aid, but how to target donations to achieve the best results. So far, it has yielded some well-developed theories but no conclusive answers.

⁴ Poverty traps result from combination of three factors: High minimum capital threshold; Low savings rates; High population growth ("capital widening"). The MDGs also call for fair trading rules and predictable, untied aid. "The Economic Consequences of Africa's Special Needs."

<http://content.undp.org/go/newsroom/2008/july/consensus-for-achieving-the-mdgs-in-africa.en>

⁵ International agreements include the 2002 Monterrey Consensus and the 2003 Rome Declaration on Harmonisation.

⁶ Africa Progress Panel (a panel monitoring G8 progress). June 2008.

<http://www.africaprogresspanel.org/pdf/2008%20Report.pdf>

Jeffrey Sachs, Columbia University economist and advisor to the United Nations, argues that reducing poverty must be the primary goal of giving aid. Sachs says “Africa’s governance is poor because Africa is poor,” and he calls on governments to deliver far more aid money to needy Africa nations without precondition.⁷

William Easterly, a former economist with the World Bank and a professor at New York University, says Sachs’ approach to development is exactly what is wrong with Western aid programs. Easterly argues that grandiose ideas like doubling donations don’t produce results. The goals are too general, and the funds are distributed to governments that are often too corrupt or incapacitated to be able to put the funds to good use.

Easterly is in good company. Economists and social scientists like George Ayittey, Larry Diamond, and Steven Radelet also criticize aid for creating waste and supporting authoritarian governments.⁸ Ayittey argues that “Africa is poor because she is not free,” and he suggests that aid money simply fuels corruption.⁹

Radelet agrees, at least on the problem. “Much aid is wasted on countries with governments that are not serious about development and cannot use it well,” he said.¹⁰ He argues that donors should distinguish between well-governed and poorly-governed states when committing to long-term aid agreements and says recipients should establish and stick to specific, measurable poverty reduction goals.¹¹

Diamond, meanwhile, suggests that all too often aid fuels authoritarian regimes by generating resources regimes need “to keep the state alive, pay the army, police, and bureaucrats, and to deliver just enough to the population to avoid widespread protests.”¹²

Other researchers blame donors for the lack of progress among recipient countries. Abhijit Vinayak Banerjee, economist at MIT, says that the governments and

⁷ Sachs called on governments to double aid in 2006 and double it again in 2015. *End of Poverty*. Jeffery Sachs. Penguin Press. 2005.

⁸ Ayittey is a Ghanaian economist, president of the Free Africa Foundation, an associate scholar at the Foreign Policy Research Institute, and a professor at American University; Larry Diamond is a senior fellow at the Hoover Institution and a founding coeditor for the *Journal of Democracy*; Steven Radelet is a senior fellow at the Center for Global Development.

⁹ Ayittey repeatedly makes this comment. <http://www.american.edu/cas/econ/faculty/ayittey.htm>

¹⁰ *Spirit of Democracy*. Larry Diamond. Times Books. 2008. Pg. 323.

¹¹ “Aid Effectiveness and the Millennium Development Goals.” By Steven Radelet. Center for Global Development. February 2004.

¹² *Spirit of Democracy*. Larry Diamond. Times Books. 2008. Pg. 322.

non-governmental organizations (NGOs) make decisions about giving without proper analysis. He argues that donors should stop basing decisions on mechanistic social science analysis and obtain more on-the-ground knowledge about programs and countries.¹³

Mick Moore also blames donors for inefficient giving. Moore's list of complaints against donors is long. The main problem, according to Moore, is that donors are motivated by their own interests, rather than the goal of reducing poverty. NGOs that do have altruistic goals are inefficient, overly competitive, and uncoordinated.¹⁴

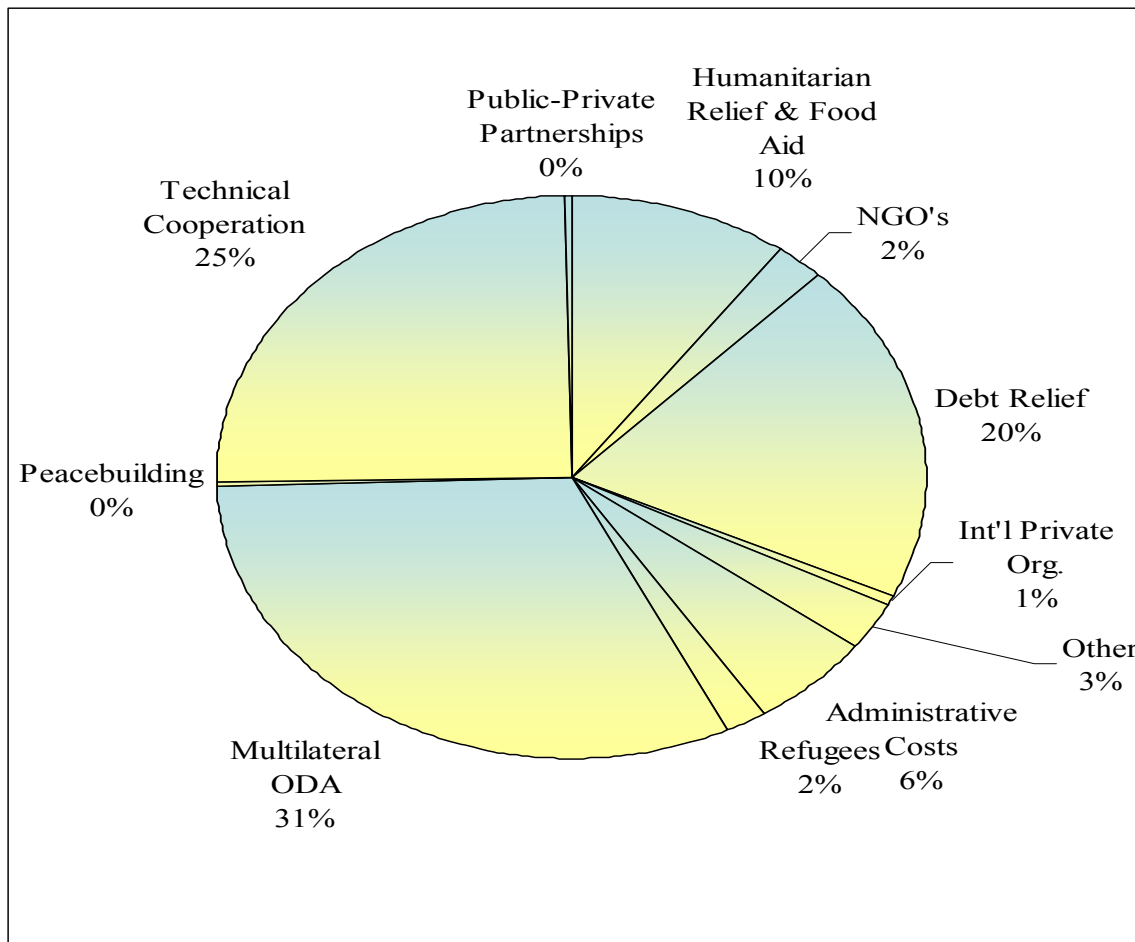
¹³ Making Aid Work. Edited by Abhijit Vinayak Banerjee. A Boston Review Book. 2007.

¹⁴ Ibid. pgs. 39-46. Moore is a professorial fellow at the Institute of *Development* Studies at the University of Sussex, U.K., and the director of the Centre for the Future.

Figure 1

Does Aid Promote Democracy?
Economic Aid ► Economic Development ► Democracy

Figure 2: Where do aid dollars go?



Disharmony Among Donors

In the absence of clear answers about how to best target aid, donors are using their own distinct formulas for distributing donations. Altruism directs only part of that giving. Donors' strategic and economic interests dominate most aid giving, according to a 2008 study by University of Rome Economists Alessia Isopi and Fabrizio Mattesini.¹⁵

In an earlier examination of official development assistance flows, Isopi and George Mavrotas determined that bilateral aid patterns vary greatly by donor.¹⁶ They found that while the United States gives mainly for political and humanitarian reasons, U.S. dollars often flow to countries with low levels of civil liberties. The Netherlands, Canada and Switzerland give to poor countries based on assessments of their needs.

In contrast, economic factors like bilateral trading interests direct giving by Spain, Australia and New Zealand. As a result, aid tends to flow to more developed and democratic countries. France is more likely to give to small countries with medium per capita income levels. Italy gives to small countries with equitable income distribution levels and a high degree of civil liberties. British aid appears to be tied to the recipients' ability to improve economic outcomes.

Only a few countries condition aid on democratic governance. Japan rewards good governance while giving for both altruistic and self-motivated reasons. Norway¹⁷ and Ireland reward countries with democratic institutions—something they see as being critical factors needed to improve human conditions.

Aid and Democracy

Some scholars like Diamond argue that donors should condition aid on democratic reforms. The thinking is that if governments improve policies and institutions to include their populations in decisions, then economic conditions will also improve.

¹⁵ Quaderno CEIS n. 266. Alessia Isopi, Fabrizio Mattesini. *"Aid and Corruption: Do Donors Use Development Assistance to Provide the Right Incentives?"*, (Gennaio 2008).

¹⁶ In 2006, the authors conducted an empirical analysis of OECD-DAC data covering 20 aid donors and 176 recipients over the period 1980-2003 to find bilateral aid patterns. UNU-WIDER. World Institute for Development Economics Research. Research Paper No. 2006/07 "Aid Allocation and Aid Effectiveness: An Empirical Analysis." Alessia Isopi and George Mavrotas. January 2006.

¹⁷ For more information on conditioning of aid by Norway, see <http://www.afrol.com/articles/10474>

Other scholars like Sachs insist that the goal of reducing poverty should come first. The reasoning is that aid helps weak economies develop, and economic development improves the likelihood for good governance.

The disagreement over sequence is similar to the underlying academic debate about the relationship between economic growth and democracy. While some theorists argue that economic reforms should trump democratic changes, Juan Linz and Alfred Stepan argue that political reforms should precede economic reforms.

One thing is certain: the relationship between economic performance and democracy is strong. As Seymour Lipset observed in 1959, “the more well-to-do a nation, the greater the chances that it will sustain democracy.”¹⁸ But what hope is there for populations in weak economies? Does democracy stand any chance of taking root and surviving in the least developed countries?

Adam Przeworski, a political scientist at New York University, shows that poor populations are likely to be ruled by dictators, and he suggests that regime type makes little difference in impoverished countries:

“Indeed, it appears that when countries are poor there is little governments can do, so that it makes little difference for economic growth whether rulers are elected or hold power by force.”¹⁹

At the same time, Przeworski suggests that the “poverty trap” is not binding. Countries like Taiwan, Singapore, and South Korea have significantly improved economic conditions while being run by dictators.²⁰

The hope by many development economists is that the remaining least developed countries can also break free from impoverished conditions. The question is, as industrialized countries increase aid budgets, will the additional revenue advance or impede democratic movements in recipient countries?

¹⁸ “Some Social Requisites of Democracy: Economic Development and Political Legitimacy.” Seymour Martin Lipset. *The American Political Science Review*, Vol. 53, No. 1. (Mar., 1959), pp. 69-105.

¹⁹ *Democracy and Development*. Przeworski, et al. Cambridge University Press. 2000.

²⁰ South Korea was under a dictatorship for part of the period discussed, while Taiwan and Singapore were ruled by dictators for the entire period. *Ibid.* pg. 270

Aid as an Influence

The goal of this study is to closely examine the correlation between aid dependence and governance. Does aid enhance governance and improve the chances for a successful transition to democracy? Or does it, as some scholars suggest, impede democratic transitions by giving authoritarian regimes resources to maintain power?

These questions require thorough empirical analysis of the interaction among multiple variables, including economic factors, level of income inequality, the Human Development Index, presence of corruption, and the degree of government transparency.

In this study, I analyze the relationship between two variables—aid reliance and democratic governance.²¹ The independent variable is aid inflows as measured as a percentage of nations' economies. The test group includes countries that receive large portions of aid in proportion to their overall economies in 1990 and in 2005. Large portion is defined as accounting for at least 10 percent of the Gross Domestic Product (GDP).²² The dependent variable is the degree of democracy, as measured by Freedom House.²³

The goal of the empirical test is twofold: Determine how many states within the test group are democratic; and evaluate how many states expanded political rights and civil liberties over a period of 15 years. The hope is that by evaluating data, one can identify trends that can help determine how donors should condition aid money.

²¹ Initially, I examined changes over five years. My original test group included countries that received aid worth at least 10 percent of GNP. Of those 28 countries, only three—Ghana, Mali, Mongolia—are “free.” Four countries became more free—from “Not Free” to “Partly Free”: Afghanistan*, Burundi, Gambia, and the Kyrgyz Republic. One became less free—from “Partly Free” to “Not Free”: Zimbabwe. And 23 countries stayed the same—either “Partly Free” or “Not Free.” It appeared that in the short-term, large amounts of aid in terms of a nation's economy does not appear to expand political/civil liberties. This analysis, however, was not satisfying because the data only covered five years. Also, I think GDP (gross domestic product) would be a better measure of domestic economies because GNP includes income nationals living outside the country earn.

²² The estimates on aid-to-GDP are from OECD-DAC database.
http://stats.oecd.org/wbos/Index.aspx?DatasetCode=ODA_RECIPIENT

²³ The Freedom House index assigns numbers to countries based on political rights, which enable citizens of a country to vote, elect officials, compete for public office, and hold officials accountable, and civil liberties, such as freedom of expression and religion, individual, associational and organizational rights without interference from the state, and rule of law. <http://www.freedomhouse.org/template.cfm?page=15>

As I started this research, I expected to find a strong correlation between aid reliance and nondemocratic regimes. It seems likely that governments that rely on aid as a source of revenue are less likely to be democratic. Many factors could lead one to this hypothesis. First, researchers have thoroughly documented that poor countries are the least likely to be democratic. (Przeworski, Lipset, Linz/Stepan, Easterly, Diamond)

Another reason is that because aid-dependent governments obtain resources from foreign sources, they rely less upon revenue from taxing their citizens. As many scholars studying oil-rich states have pointed out, public taxation is a form of democratic participation. History also shows that corruption runs rampant in aid-dependent states. Moreover, misuse of aid money is well documented.

For the reasons outlined above, I also expected to find evidence to support the assumption that aid impedes movement toward democracy.

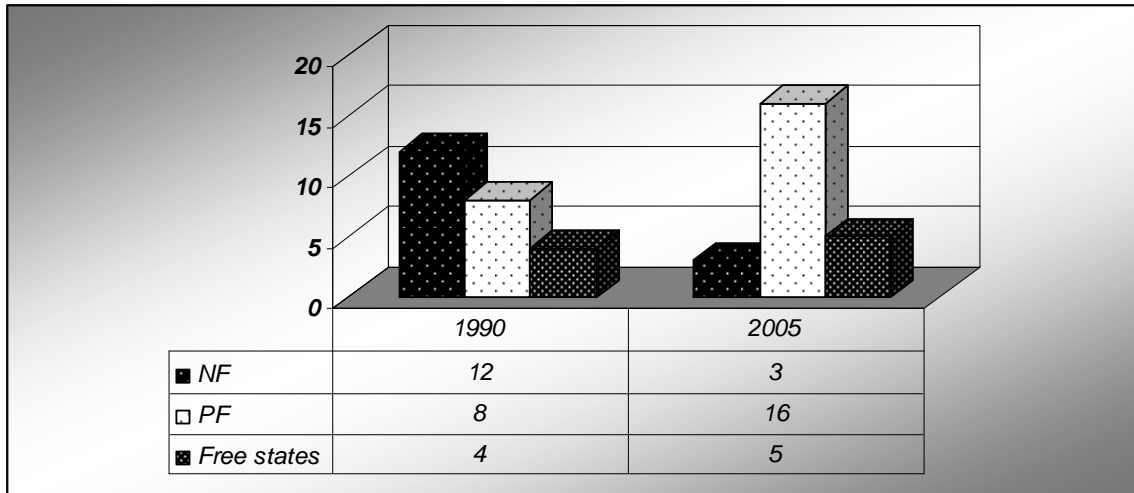
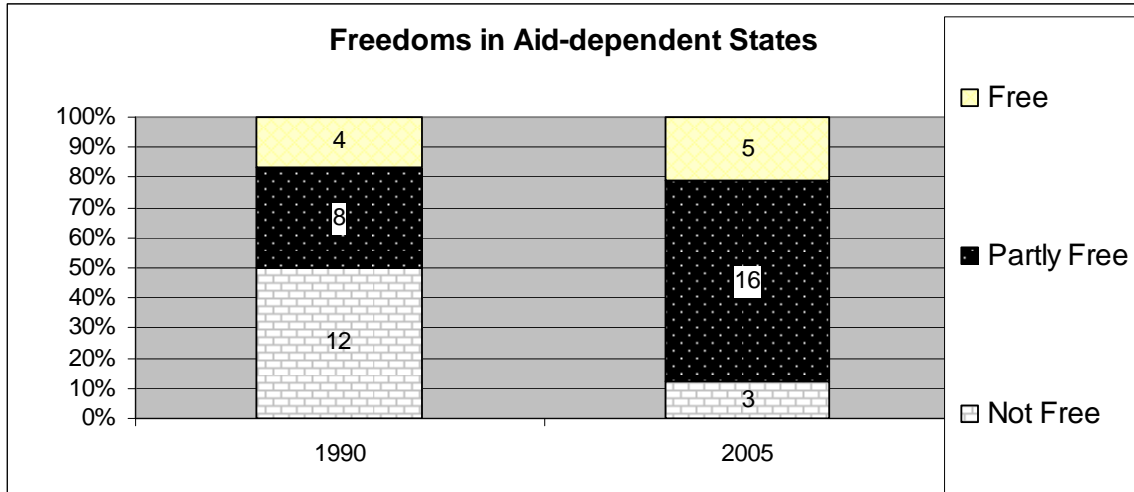
Findings on Freedom

As expected, the data show a strong correlation between aid and authoritarian governments. A majority of the aid-dependent states fell within Freedom House's Partly Free and Not Free categories, meaning that civil and political liberties are either limited in scope or severely restricted. Only four countries—Gambia, Samoa, the Solomon Islands, and Vanuatu—fell within Freedom House's "Free" category in 1990. One can argue that the remaining 20 countries missed the "third wave" of democratization, which Huntington estimates took place between 1974 and 1990.

The finding that aid-dependent states are, by and large, undemocratic is not surprising considering that research consistently shows linkages between impoverished states and a lack of democracy. The evidence does not explain causality, but it does lend credence to the idea that aid is at least one of many possible factors that discourage governments from expanding freedoms.

What's striking is that the results also show that aid-dependent states are not resistant to change. Foreign aid does not shield authoritarian governments from internal and external democratic pressures for change. Nearly half of the 24 states tested—eleven states—expanded political rights and civil liberties over the 15-year period.

Empirical Analysis of Aid-dependent States, defined as having aid account for at least 10% GDP in both 1990 and 2005



The governments amended their constitutions to expand individual rights and press freedoms, opened up their systems to multiple parties, held elections, and rooted out corruption.

Nine countries transitioned from “Not Free” states to “Party Free” states. Three countries—Cape Verde, Mali and Sao Tome & Principe—moved into the “Free” category. Mali made the greatest leap forward, from a “Not Free” status to a “Free” status. Indeed, progress is apparent.

These transitions demonstrate that aid does not predestine populations to be ruled by authoritarian governments. They negate assertions that aid empowers authoritarian regimes, regardless of willingness or ability to govern effectively. This is not to say that these countries are democratic. In fact, the Economist considers many of the transitioning states to be “flawed democracies” or “hybrid regimes.”²⁴

The test group includes 24 Countries that received aid worth at least 10 percent of their GDP in 1990 and in 2005:

Bhutan, Burkina Faso, Burundi, Cape Verde, Djibouti, The Gambia, Guinea-Bissau, Laos, Madagascar, Malawi, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Samoa, Sao Tome & Principe, Solomon Islands, Tanzania, Tonga, Uganda, Vanuatu, and Zambia

Some Democratic Backtracking

The news is not all positive. Nine countries—Laos, Madagascar, Nicaragua, Rwanda, Samoa, Tonga, Uganda, and Vanuatu—took no significant steps toward expanding democratic freedoms. Worse yet, two countries—The Gambia and the Himalayan Buddhist state of Bhutan—became less free. As for these two countries, it is doubtful that aid induced their democratic retreats. It is more likely that ethnic conflicts and instability led them to backtrack on democracy.

Bhutan held a “Party Free” label in 1990—a categorization it held since Freedom House started ranking countries in 1973. But by 2000 Bhutan had fallen into the “Not Free” category—a reclassification that is likely due to the country’s restrictions on

²⁴ The Economist Democracy Index. 2007.
www.economist.com/media/pdf/DEMOCRACY_INDEX_2007_v3.pdf

freedom of assembly, association, religion, and political expression. Bhutan has been on a path toward democratization since King Jigme Singye Wangchuck abdicated his throne on December 2006.²⁵

The Gambia's democratic retreat started in 1982, when it fell from a "Free" to a "Partly Free" status. Conditions worsened in 1994 after a military coup d'état banned politicians from participating in politics. The government eventually lifted the ban in July 2001 and held presidential elections in 2006, but a retired military colonel, Yahya A.J.J. Jammeh, has held the presidency since 1996.²⁶

Lessons from Change

Several of the countries that Freedom House credited for expanding freedoms were plagued by corruption scandals, ethnic conflicts, civil wars, and mismanagement of funds throughout the 1990s and early 2000s. Corruption scandals prompted donors to temporarily suspend aid to at least three of the nine countries that graduated into the "Partly Free" category.

A series of corruption scandals in Malawi between 1999 and 2007 marred the government's movement toward democracy. Today, the picture is still mixed. Researchers at the independent watchdog agency Global Integrity suggest that Malawi's institutional and legal foundation are strong enough to rival those in established Western democracies. Unfortunately, they point out, the country lacks the regulatory structure needed to curb corruption and campaign finance fraud.²⁷

Mozambique made steady progress toward democracy throughout the 1990s. The ruling party amended the country's constitution to allow for multiple political parties and expand individual and press freedoms. By 1992, Mozambique President Chissano and an anti-government resistance group signed a peace accord, which officially ended a 16-year civil war. Two years later, Mozambique held its first multiparty elections for president

²⁵ Bhutan held its first democratic elections for National Council December 31, 2007; the government has also ratified a constitution to allow for political parties and transfer some power to its National Assembly. Source: Business Anti-Corruption Portal, Background Information about Bhutan. <http://www.business-anti-corruption.com/normal.asp?pageid=171>

²⁶ The State Department.

²⁷ Global Integrity is an independent watchdog organization tracking governance and corruption trends...

and its new parliament.²⁸ Despite these advances, the country still ranks below other African countries when comes to providing a rule of law and controlling corruption.²⁹

Burundi didn't escape its "Not Free" label until 2004. It is surprising that progress came at all. Burundians have been swept up in mass violence and chaos since the early 1970s. Ethnic conflicts between the Tutus and the Hutus that escalated into a civil war in 1993 continue to disrupt order. The country has undergone scores of coup attempts, numerous massacres, and displacement of populations.

It is unclear how Burundi earned its "Partly Free" status in 2004. Perhaps it is due to a 2003 law that protects journalists from being forced to reveal their sources and allows newspaper publishers to print stories without the government's approval. However, that law also warned journalists against insulting the head of state, saying that such crimes would warrant prison sentences and heavy fines.³⁰ By 2005, Burundi had held its first democratic election and had enacted a new constitution that guaranteed power sharing between the Hutus and Tutsis.

Today, a lack of accountability beleaguers Burundi's government, especially in regards to political financing, judicial accountability, and dissemination of public information. On a positive note, Global Integrity researchers gave Burundi civil society and media outlets high marks for their efforts to fight corruption

Tanzanian civil society and media are also strong, according to Global Integrity. But like Burundi, Tanzania scores poorly in nearly every other category. The weakest areas include governmental accountability, political financing, civil service regulations, rule of law, law enforcement, and whistle-blower protections. Corruption ran rampant through all public sectors in Tanzania, according to a 1996 investigation by Tanzania's Warioba Commission and a subsequent report by the World Bank.³¹

Tanzania started improving its governance in 2001 after internal and external political pressures prompted parliament to make the government more transparent. Shortly thereafter, Tanzania secured \$3 billion in debt relief from the World Bank and the

²⁸ Global Integrity timeline. <http://report.globalintegrity.org/Mozambique/2007/timeline>

²⁹ The 2008 Worldwide Governance Indicators (WGI). The World Bank. (<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/MOZAMBIQUEEXTN/0,,contentMDK:21816009~pagePK:1497618~piPK:217854~theSitePK:382131,00.html>)

³⁰ Global Integrity Report, Burundi, 2007 (<http://report.globalintegrity.org/Burundi/2007>)

³¹ Global Integrity Report

International Monetary Fund.³² By 2006, the African Development Bank announced it would provide Tanzania more than \$640 million of debt relief on the basis of Tanzania's economic record and accountability with public finance.³³

Aid, Corruption, Conflict

This study shows that aid is an influencing factor on governments. The scope of this study, however, is limited and does not account for the multitude of noneconomic factors impacting governance. As noted above, conflict and corruption continue to plague impoverished countries that are also the countries most reliant on aid. Democracy stands little chance of taking root under these conditions.

As Przeworski rightly points out, scholars cannot agree about how important economic development is to democracy as compared to other factors.³⁴ Political legacy, history, culture, social structures, institutions, and international issues affect regimes.³⁵

Foreign aid, nevertheless, is a significant part of developing countries' livelihoods. For some countries, ODA represents more than a quarter of their total GDP. Coincidentally, many of these countries, including Eritrea, Rwanda, Malawi, the Congo, the Democratic Republic of the Congo, Burundi, Guinea-Bissau, and Sierra Leone, are also rated the lowest on the Human Development Index.³⁶ It is also interesting to note that many of the aid-dependent countries in the test group also have high levels of inequality (see chart on the next page).

³² Ibid. The debt relief was contingent on adhering to World Bank and IMF economic policy guidelines and institutional reforms.

³³ Global Integrity Commons.

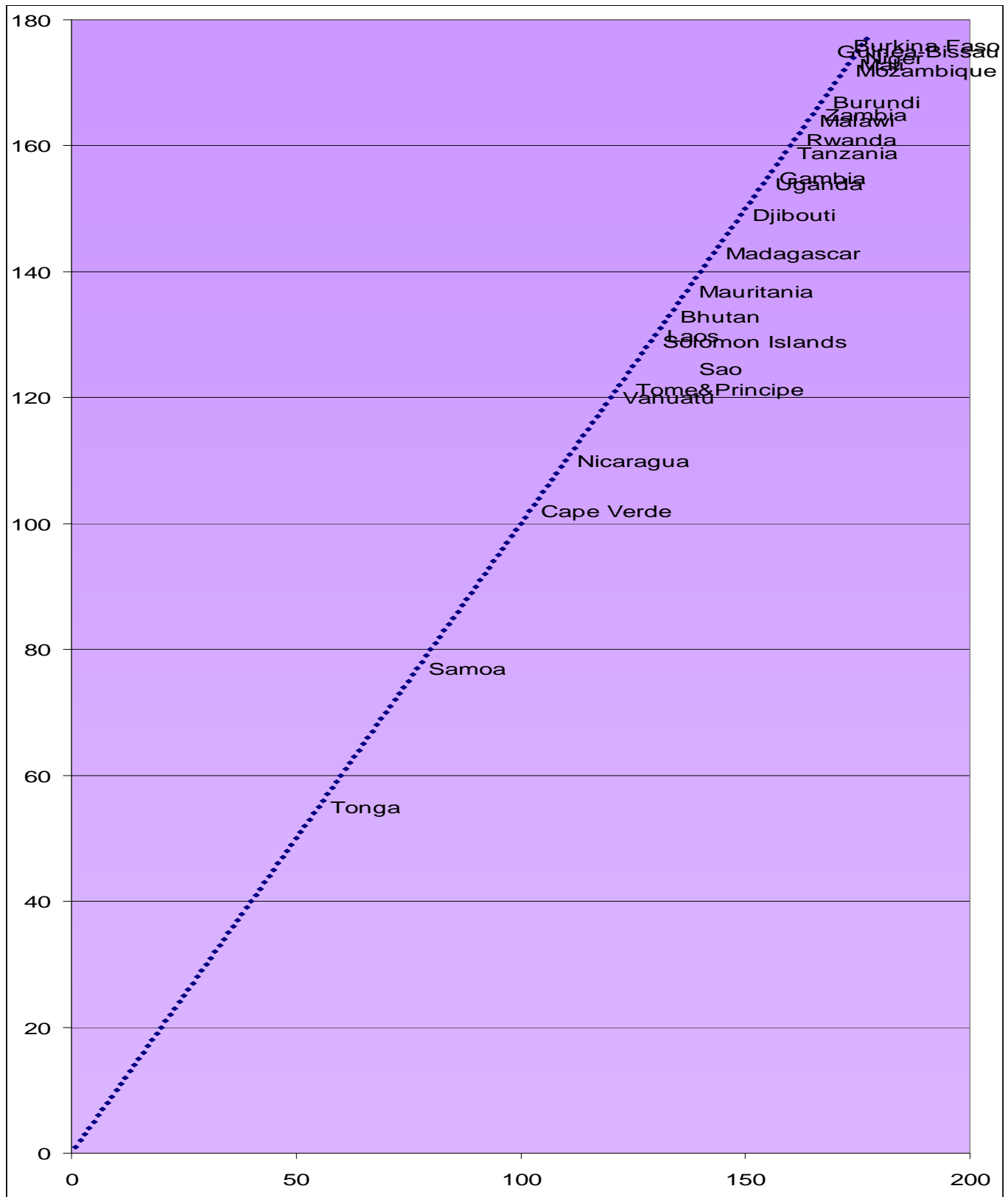
³⁴ Democracy and Development. pg. 79.

³⁵ Various scholars: Przeworski, Diamond, Dollar, Inglehart, Langenbacher, Lipset, Fukuyama, Almond and Verba, et al.

³⁶ Human Development Report, 2007/2008 pg. 290-293

http://hdr.undp.org/en/media/hdr_20072008_en_indicator_tables.pdf

Income Inequality in Aid-dependent Countries (Test group)



Studies show that aid helps weak economies grow, albeit slowly.³⁷ But doubling aid to LDCs does not necessarily increase the pace of growth. As Paul Collier, a development economist at Oxford University, points out, aid is subject to a diminishing returns effect.³⁸ When aid begins to account for a significant portion of a country's economy, it becomes increasingly less efficient, and eventually its value to society declines. Some economists suggest the inflection point is when aid reaches 16 percent of a country's GDP.³⁹

Many scholars, including Collier, suggest that aid will not raise economic growth in poorly governed countries.⁴⁰ At the same time, he points out that economic growth is often not the goal. Rather, the goal of giving to many landlocked and destitute countries is "to bring some minimal decency to standards of living."⁴¹

Conclusion

The conventional wisdom among donors is that aid works best in countries with good policies, strong institutions, and generous civil liberties. That explains why many donors select—or reward—these "good government" countries when distributing aid. It is just as legitimate for scholars to talk about a "poor governance trap" and "conflict trap" as it is for them to talk about a "poverty trap."

Still, the question remains: What should donors do about the remaining countries—those ruled by authoritarian governments? The *selectivity* approach favored by many donors excludes millions, if not billions, of people living in impoverished countries that desperately need help. It seems inhumane to punish those populations for the crimes of their leaders.

It is still unclear whether aid can advance the cause of liberty. But after giving careful study to the topic, I am convinced that liberty is rarely a goal donors champion when giving aid. Poverty reduction, controlling conflicts, treating disease, and fighting

³⁷ Paul Collier estimates that aid added around one percentage point to the annual growth rate—which averages 1 percent per year—of the world's poorest countries in the last thirty years. *The Bottom Billion: Why the Poorest Countries are Failing and What Can Be Done About It*. 2007.

³⁸ *Ibid.* pg. 100

³⁹ The Center for Global Development (2006?).

⁴⁰ *Ibid.* Bottom Billion. Pg. 105.

⁴¹ *Ibid.* Pg. 107.

malnutrition top the list, as do self-serving motives like export promotion, resource acquisition, and security concerns.⁴²

Unlike oil, aid is not a “curse.” Aid-dependent countries can and do expand political and civil liberties. Targeted giving can also improve living conditions for populations and help economies grow. Still, on-the-ground reports show that corruption is a persistent impediment to progress in many societies, and aid might simply fuel corrupt leaders and civil servants.

What is needed is more information about donors’ interests in giving and recipients’ use of funds. If aid is to be tied to conditions, it should be conditioned on transparency of information so that citizens in both donor and receiver countries can scrutinize and demand accountability. That scrutiny can only strengthen aid effectiveness and advance the cause of democracy in both developed and developing countries.

⁴² Contending Theories on Development Aid, by Leslie O. Omoruyi, Ashgate Publishing Co., 2001