

# A Primer for Aid Recipients

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*The 1950's and '60's were the hay-days of development "aid", when both donors and recipients sincerely believed in the overall good of aid. Since then aid has been seen often as a sop thrown to the developing after cheating them on the terms of trade. This article by Paul Streeten wittily illustrates the aid relationship. Paul Streeten is a well known writer on development problems and is now a professor at the University of Oxford.*

"Because I am witty you must not imagine I am frivolous, and I will not imagine that because you are pompous you are therefore serious".

— *Sidney Smith to a bishop.*

This short guide is written for aid recipients who wish to find their way through the political and bureaucratic jungle of donors' prejudices, myths, idiosyncracies and more sensible requirements.

The kings of Siam are said to have ruined obnoxious countries by presenting them with white elephants that had to be maintained at vast expense. In the modern setting this can be achieved best by tying a high-interest loan, called, "aid", to projects and to donors' exports and to confine it to the import content or better still some part of it, of the project. But even untied aid on soft terms can be used to promote projects of a white elephantine nature, because capital grants do not cover the subsequent recurrent expenditure which the elephant inflicts on his owners. Receiving aid is not just like receiving an elephant but like making love to an elephant; there is no pleasure in it, you run the risk of being crushed and it takes years before you see the results.

Economists have correlated aid received per head with a number of characteristics of the recipient country. Valuable lessons can be learned from this exercise. If you wish to maximise aid received per head, you must become a very small country.

If you are a member of a Federation, break away. If you have an irrendentist movement, encourage it. You must register a low temperature in the cold war, belong to NATO, CENTO, SEATO and as many other military pacts as possible. You must have a regime that declares that it is favourable to private enterprise. The fact that the public sector is in fact much larger in the countries 'that preach the virtue of private investment than it is in yours is quite irrelevant. You must attempt to get a high score on the check list of performance criteria — except when it comes to population policy when it is non-performance that counts.

The final incidence of much aid is such that it benefits the donor, not the recipient. Aid, by raising demand for the exports of donors and by reducing demand for the exports of recipients, while increasing their supply, tends to improve donors' terms of trade. Salaries of expatriate managers, technicians and administrators flow back into the countries from which they come. The CBI never fails to point out how private investment overseas generates a stream of demand for components, spare parts and materials from the investing country. Tied loans are extended for goods at uncompetitive prices, but have to be repaid, with interest, in convertible very hard currency. Charity therefore may begin abroad, but sometimes ends up at home.

If aid is not given to benefit pressure groups in the donor coun-

tries, it is given to undo the harm done previously. According to a news item in *The Times* (16th Feb. 1966) :—

"Vice-President Humphrey of the United States announced a \$50m. loan for Pakistan to reduce pressure on the national economy caused by the suspension of American economic assistance".

Much and a growing amount of aid is given to finance repayments of past loans and interest payments on them. Gross figures for aid have grown, while the only relevant figure — the net transfer of resources, has declined.

A simple test is this : whenever an overseas firm comes to you for a concession with the promise that it will raise your exports or encourage import substitution, and therefore be splendid for your balance of payments, check carefully what story it has told the authorities guarding the foreign exchange position in its mother country. Often you will find that the very same firm received permission to spend money abroad on the ground that the investment would strengthen the balance of payments of the capital exporting country. It may be the same firm that promises in its company report to export more from Britain, which also promises you to import less from Britain.

Many forms of aid received turn out, on closer inspection, to be aid given. Aid is, for this and other reasons, a three letter word. Donors may lend you at 8 per cent and you hold sterling or dollar balances at 4 per cent. Aid from donors' surplus capacity means that you, the poor, are helping to reduce unemployment and to raise profits in the countries of the rich. The acceptance of food aid helps the party in power in the donor country to keep the farm vote, sometimes at the expense of your indigenous agriculture. Purchases of fertilizers keep important branches of the chemical industry in business. Aid-tying enables producers to raise prices

against you and to acquire a captive market. Sending young and promising men to be trained helps donors to staff their hospitals, factories and universities with the best of your brains.

Always look a gift horse in the mouth, for it may turn out to be Trojan. Or, as Ernest Bevin used to say, when you open the Pandora Box, it's full of Trojan horses.

Many donors have promised to provide "financial resources . . . . . of a minimum net amount approaching as nearly as possible to 1 per cent of (their) national income". (UNCTAD Recommendation A. IV. 2). You must beware lest they will hit this target not by inflating aid, but by deflating their national income. The British Government has said "we shall hope . . . . . to be in a position to increase our aid to foreign countries . . . . ." (Cmnd. 2736, paragraph 5). The hope may be realised as a result of the break-up of the Commonwealth.

Much of what donors call "aid" is really aid to their own citizens. This does not only cover loans and equity investment yielding handsome rates of return, though tabulated by the Development Assistance Committee of O.E.C.D. as "aid". (It is rather as if, when buying a share of I.C.I. I enter the transaction as a charity). In addition to this, aid covers part of the compensation paid to former colonial civil servants for loss of career when they retire when a country attains independence. Aid covers compensation to individuals and companies who had claims to money, property or land in newly independent countries, which these countries did not meet. Compensation of British farmers in Kenya and the British South Africa Company in Zambia is counted as aid. If exporters, over-eager to sell, have acquired debts which cannot be repaid, and if their foolishly incurred debts are paid off by the British taxpayer, the payment is called aid to developing countries. Those who lost the war and pay reparations are also encouraged to count these damages paid to developing countries as aid.

There are a few simple rules which may help you to get aid.

First, potential donors have to be identified and their peculiarities and

idiosyncracies have to be studied, so that proper requests can be made and the right types of representative be sent out. In order to make the right impression on aid agencies their motives and methods must be studied: Send out, for aid negotiations, representatives who resemble the donors, or rather resemble the image that donors have of themselves. The representatives should speak the same language, literally and metaphorically, appear to accept the same values and have the same manners as the donor. To appeal to Englishmen, he must show common-sense, be able to engage in small talk, not to be too serious, too clever, too articulate or too learned, laugh at the Englishmen's jokes, which will suggest that he has a sense of humour, not be too successful with women and not have oily hair. To appeal to Americans, he must be frank, manly, un pompous, good at facts and figures and appear professional. To appeal to Germans, he should be hard-working, keen on private initiative and capable of formulating ideas in a coherent philosophical system with numerous categories, spelt out in long words with classical derivations. (A subsequent primer will be devoted to what appeals to Russian and Chinese donors). The more the representative approaches the image that each donor nation has of itself, while remaining properly deferential, the better his chances of success. It is useful to know the jargon: always say, and, more important, write: "absolute increases in income and income per capita are highly positively correlated with initial levels of income and income per capita" when you wish to say: the rich get richer. It is also useful to be familiar with the latest intellectual fads. To those who are impressed by the need to reform agriculture and limit population growth you must present programmes of land reform, large fertiliser purchases and cost/benefit calculation of the marginal sperm diverted. Others, eager to embark on thorough evaluation exercises, will be impressed if you can produce an evaluation of evaluators. Whatever you propose to do, be ready with an evaluation.

But to send out acceptable negotiators, who can play golf, or drink beer or be prepared to picnic, and

who can talk of the trade matrices, systems analysis and gaps is not enough. They must be well-briefed, documents must be ready on time and letters must be answered.

Amongst the projects, some of the best ones will stand little chance of success, while some of the worst most. Agricultural, fishing or forestry projects may show low rates of return, sometimes long delayed, but can make large contributions to the economy as a whole. They will not be very popular with donors. Projects with a small import content make good use of local resources but, because of the local cost theology of donors, will not attract much foreign aid. Large residential universities, preferably on fertile agricultural land, planetariums, auditoria and other monuments to which labels can be attached, may have no (or negative) development impact but are dearly loved by donors. Administrative buildings, police houses and even, in some cases, prisons may be essential but to ask for them is a pretty hopeless quest.

In matching projects with your donors, you must also pay attention to their balance of payments position. It is easier to persuade surplus countries to finance the domestic content of a project than deficit donors. Projects with a high import content should therefore be sold to those with balance of payments deficits. Make good use of the skills which donors can supply. It is not much use asking a catholic country for the pill, or one without a chemical industry for fertilizers, however important both pill and fertilizer may be. There is no point in asking for a project which requires for its execution managers whom the donor country is not able or willing to release. It is useful to employ knowledgeable aid consultants, preferably men who are familiar with the procedures of donors.

You do not have to know whether aid is given for military, altruistic, Machiavellian or profit-seeking reasons. But it is a great advantage to know something of the power games played in the corridors of the officers of the donor country and of the bargaining between different Civil Service departments concerned with the distribution of aid. If the

recipient can add his weight at a crucial moment and at a crucial point in the process of decision-taking into a balance of consideration and power, he may be able to make a substantial difference. Such knowledge may have less to do with merits of a case than with the idiosyncracies of ministers and their senior officials and with the state of bargaining on quite different fronts.

You must try to maximise the number of donors and aid channels. Although this adds to your administrative work, it makes it possible to play one against the other and to encourage them to compete. The larger the number of channels, the greater the number of vested interests and therefore the larger is likely to be the flow of aid. Always oppose efforts to co-ordinate, streamline, or integrate aid-giving activities and institutions. More difficult is the creation of the right kind of political climate. To the Americans and to the Germans, you must convey the impression that you are helping yourself; then Uncle Sam and Onkel Michel may wish to push the car you have started. To the World Bank and other donors, you must present consistent national plans. National planning, irrespective of the plans of other nations and sometime inconsistent with these plans, is the modern equivalent of 19th century *laissez-faire*. You may be forced to repeat and perpetuate myths, such as that your borrowing is only for import of capital goods, that it is only for projects that yield exportable goods, or for projects that "pay for themselves"; that all the money will be spent on the donor's products, and on his chosen projects, etc. Most important of all, you must perpetuate the myth that you will "take-off" within a specified period and that all aid will then come to a happy end.

If you have a good agricultural engineer or a good expert on fisheries, and you wish to do him a good turn recruit him for a U. N. technical assistance programme and ask for a similar expert from another underdeveloped country. Admittedly, both will be less effective in the foreign land, but their multiple salaries will be untaxed and paid for mainly out of rich countries' U. N. contributions. The more swapping of this type you can engineer, the

higher the standard of living of your experts, though admittedly their contribution to development is reduced.

It is useful to know the prevailing mythology of aid.

There has been a good deal of discussion of the harm done by project and procurement tying. No doubt, a combination of these two forms of tying can greatly reduce the value of aid of recipients, and either of the two by itself can be harmful. But success either in project tying or in procurement tying is limited, the limitation depending on a number of factors such as the stage of development of your country, the volume of your trade with the donor, etc. Project tying is limited by the fact that the donor's money only apparently finances a high priority project, while in fact it would have been carried out in any case with funds which are now freed for some low priority activity. Similarly, the possibility of switching always exists with procurement tying. Free foreign exchange earned through exports can be diverted to purchases from other countries, while the tied loan is used to buy what would have been bought in any case.

Another myth is the notion that, to achieve development, aid-financed imports must be capital goods. It is, of course, true that many underdeveloped countries cannot produce capital goods themselves, or only at excessively high costs. But the development problem is how to feed the workers who do the construction of investment goods, while consumption levels generally are very low. And to finance this surplus by importing food from abroad may make as great a contribution to development as importing the capital goods.

It is also said that you should borrow only for projects that yield exportable goods. Even where balance of payments relief is the main consideration, the whole balance of payments position must be considered. Any contribution to domestic production which, directly or indirectly, reduces dependence on imports, is just as useful as the production of exports.

It is further said that you should borrow only for projects that "pay for themselves" so that revenue collected is sufficient to service the

debt. But again, it is not the revenue collected from the aid-financed project but the total public revenue position that matters. If taxation from other sources can be raised sufficiently, there is no reason why a non-self-liquidating project, such as many agricultural or educational projects, should not be undertaken.

The donors' jargon of "taking off" into self-sustained growth serves psychological and political needs, but not analysis. As long as it is merely a rationalisation of donors' hopes to be rid of aid before too long, no great harm may be done. Even then, it may be better to educate opinion gradually by getting it to accept not only the permanent justification of capital flows across national boundaries, for there is no reason why each nation should be self-sufficient with respect to its capital requirements, but also towards the international solidarity which would enable it to envisage the possibility of an international system of taxes and subsidies on a pattern which has become generally accepted within advanced nation states. But the notion of "take-off" can carry misleading implications for current policy. It may give the impression that there is something inevitable or very easy in sustaining growth, once a critical point has been reached. Even when we adhere to the aeroplane metaphor, we must remember that crashes can occur. There is nothing automatic in sustaining development once certain savings and investment ratios have been achieved. Equally, "preparing the runway", by gradually building up local institutions, skilled and honest administrative service, an entrepreneurial class interested in building large-scale enterprises and in producing rather than trading, a reform-minded peasantry, etc. may be an essential pre-requisite for development, but show slight or no returns in terms of the ratios normally used to indicate distance from "take-off". There can be a good deal of development without any growth just as there can be growth without development. The metaphor taken from aeronautics can be adapted, but it is usually wiser to touch down from motoring or flying analogies and to ask who does what to whom when and why. Eschatology is no substitute for policy.