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# Unintended Effects of Development Aid – a brief overview

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## ABSTRACT

The effects of development aid have been extensively discussed, and the extent to which aid has been effective in achieving its goals is widely disputed. At the same time, several studies and theorists point towards the unintended and potentially negative effects of aid. This paper gives a brief overview of some literature on the unintended effects of aid. It touches upon issues such as Dutch disease symptoms, fungibility, corruption and rent seeking, and various social effects, and discusses the question of absorption capacity and the role of donors and donor conditionalities. Many of the negative effects associated with development aid are connected to the ways in which aid is administered and disbursed, and therefore some of those negative effects may be minimized if donors adjust their approaches. Recognition of country-specific circumstances, direct budget support, debt relief, building absorption capacity through institutional support, harmonizing donor interventions and limiting the number of donors present in each country or sector, may be the way forward, even if there are no easy solutions. Problems with development aid are often also caused by tangible political and bureaucratic hindrances that are not so easily removed. At the same time, it must be remembered that what may seem like a negative effect to a particular group, for instance a donor agency, may be perceived as a positive effect by other groups, and imagining that external interventions can be done neutrally, unbiased and with no significant consequences apart from the intended ones, is hardly realistic.

## INTRODUCTION

For several decades development aid in various forms, such as project aid, budget aid, and emergency relief aid, has been disbursed to developing countries around the world in order to engender economic growth, relieve emergencies, raise living standards, reduce poverty and rebuild post-conflict societies. The figure is around USD 2.3 trillion over the last five decades (Easterly 2005), which, on average, amounts to approximately USD 14 per person per year in low-income countries (Radelet 2006). As a significant part of this aid has been disbursed as loans, many recipient countries are experiencing serious debt problems and, more recently, aid in the form of debt relief to the poorest countries has been on the agenda as well.

The effects of development aid have been extensively discussed, and the extent to which aid has been effective in achieving its goals is widely disputed. Some studies conclude that aid does lead to economic growth in recipient countries, while others find that it does not. More recently a number of studies have shifted focus from economic growth towards welfare indicators and their relation to aid. Furthermore, several studies and theorists point towards the unintended and potentially negative effects of aid: To what extent does the large external infusion of funds affect a country's economy and political structure? And what kind of consequences does it have that these funds are most often accompanied by donor conditionalities?

This paper gives a brief overview of some literature on the unintended effects of aid, mainly focusing on macro-economic and political effects, but also including effects on the micro-level.

## DUTCH DISEASE SYMPTOMS

As the effectiveness of aid has for many years been measured mainly on its economic outcomes, it seems reasonable to start with a potentially negative economic effect of aid - the so-called 'Dutch disease'. The term is a macro-economic concept which was originally formulated to describe how the sudden increase in income following the discovery of natural gas in the Netherlands in the 1960s had an undesirable impact on the Dutch manufacturing sector, essentially through the appreciation of the Dutch real exchange rate (RER).

The theory is that an augmentation in revenues (originally from natural resources, but other large windfalls such as foreign aid or massive foreign investment potentially have a similar effect) will negatively affect a nation's productivity by raising the real exchange rate, thus impairing the competitiveness of the manufacturing sector. The argument is that development aid might generate such Dutch disease effects which will restrain progress of the tradable[1] goods sector and undermine growth in the recipient country. Furthermore, in relation to large inflows of foreign aid, there is a risk that the public sector becomes larger than the private sector through increased spending (Adam and Bevan 2006; Nkusu 2004).

However, due to the great complexity of the global economy it is very hard to determine whether a decrease in a nation's manufacturing sector is actually a case of the Dutch

[1] 'Tradables' are goods or services that can be traded far from where they were produced even without extensive infrastructure. The opposite - non-tradables- generally has higher transportation costs and short shelf-life, and is thus not ordinarily sold very far from where it is produced. The former includes wood, most industrial products, electronics etc., while the latter mainly includes foodstuffs such as meat, fish, many types of fruits and vegetables etc.

disease. Studies (e.g. Nyoni 1998; Sackey 2001; Adenauer and Vagassky 1998; Harvey 1992) of various countries receiving large amounts of aid have reached different conclusions, and it is rarely evident that certain developments are symptoms of the Dutch disease. In fact, evidence suggests that it is possible for a country to receive large amounts of foreign aid, including foreign aid which leads to increased public/government spending, without catching the Dutch disease (Nkusu 2004).

Nkusu argues that despite the fact that increased government spending caused by large amounts of foreign aid may generate problems of management, and may lead to an 'unnatural' raise in the recipient country's real exchange rate, this will not necessarily lead to Dutch disease. It is possible, he argues, to avoid this by giving necessary consideration to circumstances particular to the recipient country, including unutilized resources (especially labour) and the specific needs for infrastructure. The Dutch disease model assumes full, or almost full, employment in order for the Dutch disease to occur, a premise which is not present in most developing countries. If the recipient country is able to utilize its unused productive capacity as well as a part of the foreign aid to increase the production of non-tradables, the demand of which usually increases with substantial inflows of foreign aid, the Dutch disease may be avoided, and contrary to what the Dutch disease model assumes, the tradables sector may even be positively affected as well (Nkusu 2004).

It is also necessary to closely monitor the affected economic sectors and developments in the domestic macro-economy, and base further policies on relevant and cautious cost-benefit analyses. And even if the raise in real exchange rate is not avoided, this does not necessarily cause a decline in exports. This decline is generally a consequence of the increased government spending caused by factors such as full employment and the full utilization of the country's production factors (Nkusu 2004: 15-16).

Adam and Bevan (2006) argue that in order to assess the economic effects of foreign aid leading to increased public expenditure, it is necessary to first of all distinguish between short-, medium-, and long-term effects, as well as between supply-side and demand-side issues. Where Dutch disease symptoms may be one of the short-term effects of large amounts of foreign aid infused into the public sector, this effect will often be superseded by positive medium-term effects in welfare caused by a positive supply-side effect. This is particularly the case when aid is invested in lacking public infrastructure such as rural roads, leading to an improved market access for 'non-tradables' and an enhancement of private production. In fact, they show how the positive effects on total exports are strongest when the public expenditures mainly lead to an enhancement of non-tradables production. Thus, if the supply response follows domestic demands it is beneficial to the national economy, as it will lead to enhanced growth and investment, and consequently increase welfare and restrain the negative effects on the real exchange rate. In other words, even if the real exchange rate is affected on the short term, certain types of infrastructure may improve the climate for the production of non-tradables as the opportunities for a commercialization of these products is enhanced. Hence, Adam and Bevan (2006) recommend that supply-side issues should be a central part of an economic analysis of the effects of development aid.

However, they also acknowledge that there is a risk that higher public expenditure may negatively affect inequality and poverty alleviation objectives, as income distribution may worsen because rural households generally do not benefit proportionally from the collective increase in income. Public investment expenditure often benefits people employed in the service and manufacturing sectors rather than unemployed people and poor farmers. At the same time, while the increased production, and thus stronger competition in the non-tradables sector, benefits the domestic economy in general, poor farmers involved in the production of non-tradables may experience a decline in income, especially if the non-tradables produced are consumed domestically. Still, Adam and Bevan argue that a model allowing for a possible transfer of labour from the rural to the urban sectors, or for a change from non-tradable to tradable goods production, may show that this decline in income for rural households is less pertinent. All in all, it seems safe to conclude that foreign aid-induced Dutch disease effects depend on a number of factors which in a country-specific context may or may not stimulate a resource transfer away from manufacturing and a decline in exports (Adam & Bevan 2006).

## FUNGIBILITY

Another concern related to development aid is the question of fungibility: Aid intended for the social and economic sectors in order to generate improvements in welfare may simply substitute the funds that governments would have spent on these sectors anyway. Thus, instead of increasing funds directed at growth and welfare improvements, aid may free funds for other purposes not intended by donors - and which are unlikely to benefit the majority of the population - such as military, personal appropriation of funds etc. (Swaroop and Devarajan 1998). This undermines the purpose of development aid, helps legitimize governments engaged in rent seeking and renders evaluation of aid effectiveness difficult.

A frequent argument is that aid therefore only works when the recipient country exercises 'good governance' with 'sound economic policies' that leads to growth, as the fungible quality of aid renders growth the only sound mean for poverty reduction (e.g. Burnside and Dollar 1997).

A central point in the fungibility literature is that aid often increases consumption instead of being invested in productivity and growth. Griffin (1970) was one of the first to argue that aid may have a negative effect on growth, as governments in the recipient countries frequently use aid to increase government consumption rather than investing it in crucial economic and social sectors in order to reduce poverty, which means that aid may affect the recipient country's economy by reducing productivity and growth, for instance by subtracting human resources from the productive to the public sectors. An example from Benin (Bierschenk et al. 1993) shows how aid may contribute to a substantial increase in the number of employees in the civil service. Consumption also often takes the form of consumer subsidies and subsidised public services. This may be difficult to sustain once aid is reduced, but as it is hard to reverse such policies, especially if the government wants to stay in power and maintain its position as well as personal consumption, governments will often take up loans to continue existing policies and consumption rather than adjusting fiscal policies accordingly. At times, a government will take the option of printing more money, a solution which is of course very short-lived and detrimental to the national economy (Lensink and White 2001; Knack 2000).

Several others (e.g. Feyzioglu et al. 1998) have argued that sectoral aid is highly fungible, and Boone's analysis of 96 countries (1996) shows how large amounts of aid is consumed rather than invested, although his study has been widely criticised (e.g. Mavrotas 2002). Also according to Petersson (2007), sectoral aid is often fungible, but at the same time he finds that fungible aid is as effective as non-fungible aid.

Other studies, however, get different results, suggesting that aid is generally less fungible than is often claimed. For example, in an analysis of data for Indonesia, Pack and Pack (1990) find that aid has not been redirected to fulfill non-development purposes, but that it rather has been spent the way donors intended, and that aid has not caused the government to reduce their tax collection efforts. And in a preliminary study of several African economies, Van de Sijpe (2007) finds that aid-recipient governments actually increase their spending on education and health almost one for one with health and education programme aid, and he concludes that the fungibility of aid intended for health and education sectors is limited.

The fiscal response literature seeks to provide a different perspective on the discussion of fungibility, as the fungibility literature itself often fails to recognize the importance of government behaviour in recipient countries, although, it is argued, the effects of aid very often depend on this. Because most aid is given to governments, the fiscal response literature focuses on government behaviour in aid-recipient countries, particularly with respect to fiscal politics, including tax policies and expenditure level, and how these policies are affected by aid. Thus, the focus is on analyses of the ways in which public sector behaviour influences the impact of aid (Mavrotas 2002).

In line with the fiscal response model, Swaroop and Devarajan (1998) suggest that if a recipient country's own general public expenditure program already allocates adequate funds to the vital social and economic sectors, donors can direct their aid into these programs without the risk of fungibility, providing that the actual financing is subsequently monitored. Hence, the donor aid will be an addition to the existing budget, in the sense that social and economic sectors are not financed primarily by donor aid while domestic resources are spent on other, more dubious causes. In this way, they argue, sound policies are rewarded and fungibility problems may be avoided.

Still, the fiscal response model does not provide any conclusive answers concerning the impact of aid on the fiscal sector in recipient countries (Mavrotas 2002). One reason is that different kinds of aid (emergency relief, project aid, programme aid, etc.) have different effects. In other words, the impact of aid, including fungibility issues, seems to depend on the type of aid. For instance, project aid may not so easily replace government funding as programme aid may be able to, as the latter is a more direct addition to government resources, but views differ on this issue, as a proliferation of donor-funded projects focusing on for example health, education and micro-credit issues might also encourage a given government to allocate fewer funds for these purposes. Because each type of aid is influenced by varying conditions in different countries, these different types of aid may have different effects in the respective countries. Hence, cross-section studies may not be the best way forward. Rather, in-depth studies of individual recipient countries may be more appropriate in analyzing the macro-economic impact of aid on recipient countries, as such studies offer a better understanding of the various particular characteristics and contexts (ibid.).

## INSTITUTIONS, CORRUPTION AND RENT SEEKING

It is often argued that well-functioning institutions are critical to the development process.[2] Aid is more effective when the recipient country has sound public institutions and policies, because if institutions in the recipient country are strong, potential negative effects of aid are likely to be reduced (Burnside and Dollar 1997; 2000). However, foreign aid may have unintended effects on the quality of government institutions (Knack 2000), alter the citizen-state relationship, hinder investments and income growth, and encourage rent seeking and corruption.

Moss et al. (2006) point to this so-called aid-institutions paradox: On the one hand, well-functioning public institutions are to some extent a prerequisite of aid effectiveness because of their higher absorption capacity. On the other hand, the absorption of large amounts of aid may be counterproductive in committing recipient governments to building sound and sustainable institutions.

Aid alone will not generate sustainable development (Moss et al. 2006). State capacity and political development are closely connected to the state's ability to collect revenues, and accountability between citizens and governments depend to a large extent on citizens' role in contributing to state revenues. If states do not have the proper institutions, and thus are not able to gradually substitute foreign aid with other types of revenues, including taxes, sustainable economic development cannot be obtained and the country will be unable to get out of the trap of aid dependency. But in countries that receive large quantities of aid, governments may have fewer incentives to strengthen their tax collection and administration efforts (Ghura 1998). However, there is general disagreement as to whether this is in fact the case; several case studies find a negative relationship between aid and revenue collection (e.g. Fagernas and Roberts 2004a; McGillivray and Outtara 2003), whereas other case studies (e.g. Fagernas and Roberts 2004b; Osei et al. 2003) find the relationship to be positive.

The most economically successful developing countries have been effective in raising state revenues besides foreign aid, especially through the collection of taxes. It is quite common, especially in Africa, that the vast majority of a country's public budget and social services is funded by external donors and NGOs (Moss et al. 2006; Semboja and Therkildsen 1995) and tax efforts are typically limited. Many recipient governments also seem to find it politically convenient to blame donors for insufficient social services and the lack of growth, rather than assuming responsibility for providing their populations with basic social services (Moss et al. 2006).

Aid also plays a role in the budget process, and its volatile nature often renders budget planning difficult for governments, and makes long-term planning even more difficult (McGillivray and Morrisey 2000). Governments plan according to expected aid revenues meaning that they develop large budgets to fund numerous projects, but the continuation of these projects is largely dependent on foreign aid. Domestic budgets on their own are nowhere near being able to cover the costs, and aid dependency arises (Hazen

[2] See Sachs (2005) for the opposite view – that sound institutions are a product of development.

2006). At the same time, dependence is often not simply financial, but also administrative and technological (maintenance of machinery, etc.) (Lachenmann 1988), and one of the common consequences of aid dependency is that the primary role of bureaucrats no longer seems to be the execution of important development functions, but rather to obtain funds from donors (Moss et al. 2006; Whitfield 2009). At the same time, short-term project funding makes budget planning difficult, often harms existing institutions and replaces them with new ones that are not sustainable once there is no more external funding. Nevertheless, aid dependence may, according to Knack (2000), be less severe if the amount of aid that a country receives varies over time, as the recipient is not able to rely on a fixed and continuous amount of aid, and the negative influence on the quality of governance may be lessened. Still, this possible solution does not solve the difficulties with long-term planning for recipient governments.

Aid also profoundly affects the state-citizen relationship by transforming the relations between political elites and local citizens. Governments become less accountable to their populations when the majority of revenues are provided by external donors, and they do not need the support of their citizens in the same way. The distribution of aid thus becomes the main relationship between governments and populations. In this perspective aid may itself be counterproductive in reaching its goals of participation, ownership and accountability (Moss et al. 2006). This means that large amounts of aid render the support of the population less crucial for governments in recipient countries, and, not surprisingly, the external nature of the decision-making process discourages popular participation. At the same time, populations may refrain from putting pressure on local politicians and officials when they believe that policies are controlled from donor countries and organizations regardless of their efforts. Instead, people tend to perceive the role of these politicians and officials not as policy-makers, but rather as distributors of aid revenues, and their efforts will thus be directed towards influencing the distribution of aid by pushing for personal favours and patronage. In this sense, aid may strongly contribute to patrimonial patterns in local and national political economy (Moss et al. 2006).

The fact that aid may encourage rent seeking and corruption is one of the main problems of foreign aid (Knack 2000). Aid may increase the politicization of life in recipient countries, as officials, politicians and workers alike shift their efforts away from skills and knowledge that will benefit the economic and social sectors, towards skills that will optimize their share of aid (Knack 2000).

In some communities, especially in Africa, civil society is somewhat weak, few non-governmental institutions exist, and many of those that do are donor-funded and managed. Because of the funds from donors, the organizations' efforts towards autonomy are limited. At the same time, governments are not being held accountable for the services they fail to deliver, because local organizations and donors carry out these tasks, so in that sense they actually help governments escape accountability for their developmental failures, and, as discussed earlier, this enables governments to redirect resources into activities that will help them maintain their power (Moss et al. 2006).

Also Hazen (2006) points out that access to aid revenues brings power. Consequently, aid – regardless of whether it is budget support or aid given to NGOs – that does not take into account the existing conditions and power balances may very well reproduce or even exacerbate a number of problems. This includes personalized and discriminatory politics, rent seeking and conflict, thus strengthening corrupt regimes, which are likely to favour their supporters financially. Hence, if others want to benefit from aid revenues, they must support the people in power.

An analysis by Svensson (2000) aims to provide a political-economy rationale for why large inflows of foreign aid do not necessarily lead to general welfare improvements. He argues that the expectation of aid in itself may delay governments' provision of public goods, and similarly, resource dissipation is likely to increase from the expectation of aid alone. This means that the total impact of aid may be overestimated, as policies in the recipient country have been influenced before there has been any transferral of funds. Also Casella and Eichengreen (1994) find that the mere expectation of aid revenues may in fact negatively affect the stabilization of the economy in recipient countries as a result of a distributional struggle. Opposed social groups may avoid putting in any effort or resources until aid arrives, as they hope to minimize their own costs.

A point of discussion is the role of timing in this process. Casella and Eichengreen (1994) argue that timing is crucial, as stabilization is reached sooner when aid materializes early in the process, whereas the stabilization (and reform) process may be significantly delayed when aid funds are transferred too late in the process. However, Svensson (2000) finds that timing has no significant role to play, as aid has an adverse impact on economic stabilization regardless of the timing. He does agree, however, that foreign aid is more likely to exacerbate corruption and rent seeking in countries with powerful competing social groups[3], as organized social groups through appropriation or manipulation of the political system are able to obtain a significant share of government revenues. So, his argument is that what may seem like an economically irrational reaction to the inflow of funds in the form of foreign aid may in fact be politically rational, and foreign aid may subtly, but effectively, influence economic and political stability in the recipient country.

[3] One can, however, also argue the reverse: that powerful competing social groups keep each other in a balance hindering rent seeking.

## ABSORPTION CAPACITY

The issues of fungibility of aid, high government consumption and the impact of aid on public institutions and corruption in recipient countries lead us to the question of absorption capacity. Basically, this refers to the mechanism where foreign aid flows and the number of development projects in a specific country reaches a certain point, after which there are no further improvements in development, and sometimes outputs may even be negative. This relates to macro-economic, financial and administrative absorption capacity alike. This point suggests that a recipient country has a limit, beyond which it is unable to absorb further resources in a feasible manner, influencing the overall effectiveness of aid and possibly generating detrimental effects on the country's economy, institutions and even socio-structural patterns (Roodman 2006).

It has been suggested that aid constituting as little as 5 percent of a country's GDP may negatively affect local institutions (Berg 2000). Most aid-recipient countries, especially in Africa, fit into this category (as aid, in the case of the vast majority of African countries, constitute significantly more than 5 percent of the country's total GDP). However, other studies find the upper limit to be significantly higher. Clemens and Radelet (2003) find that the positive effects of aid start fading (or are reversed) when aid constitutes between 15 and 45 percent of GDP, depending on country-specific circumstances.

Through the application of the 'laffer curve', Lensink and White (2001) also seek to determine whether there is a quantitative turning-point of the impact of aid: Is it at all possible to argue that aid has a positive economic impact up to a certain point, but once this point has been crossed, the returns start to become negative? And, if yes, at what point does this happen? They refer to a study of Egypt, Syria and Jordan, carried out by Lavy and Sheffer (1991), which shows that the economic situation of these countries has deteriorated over the past four decades, despite the massive inflows of aid that the countries have experienced in the same period. They argue that the reason for this may be that substantial aid resources cannot be feasibly invested beyond a certain level, and once this level is reached, the remaining resources must be spent on consumption. Still, the outcomes are again highly dependent on the particular circumstances in each country and, like Clemens and Radelet, Lensink and White find that the point at which the positive effects stagnate or start becoming negative is much higher than what is normally assumed.

Absorptive capacity is affected by a number of factors. The question of the incentives and motivation of the recipient government and officials is central, as they may pursue personal objectives rather than being purely developmentalist. Aid delivery can be seen as production activities which involve two types of inputs, namely the donor's aid and the resources of the recipient, as well as two types of outputs: one being 'development' and the other being 'throughput' (Roodman 2006). Throughput signifies the personal benefits involved for donor- and recipient actors, such as bribes, per diems, career benefits etc. The variations in the throughput and functions of development production are related to absorption capacity, which means that increased aid levels may well affect development negatively, if donor officials/representatives and/or recipients are more focused on obtaining personal/private benefits than on reaching development goals. Finally, the question of sunk costs is of significance to absorption capacity. Sunk costs are costs that cannot be recovered once they have been incurred. Aid projects seem to involve considerable sunk costs (e.g. meeting with donors, taking them on field visits, writing reports, etc.) which must generally be covered by recipients, and this requires a certain degree of financial and administrative capacity (Roodman 2006).

## ABSORPTION CAPACITY AND THE ROLE OF DONORS

So, how do the problems with absorption capacity arise? Morton (1994: 16) partly blames donors, as they often fail to recognize that especially the poorest countries have very limited absorption capacity, which renders them unable to implement more than a limited number of development projects with success.

An important observation made by several researchers (e.g. Moss et al. 2006) is that donor proliferation poses a significant problem for many recipient countries. Moss et al. (2006) point to studies from Ghana which show that increases in foreign aid lead to a discrepancy between planned and actual spending, which indicate that meeting the wishes of external donors actually takes preference over the government's own public spending policies. Thus, donor pleasing becomes a central issue in budgeting and planning, an issue which, not surprisingly, becomes a serious strain on the domestic absorption capacity when there is a proliferation of donors in a given country.

Svensson (2005) lists three central incentive constraints directly related to absorption capacity. First of all, most donors have multiple objectives, which are rarely prioritized, and the specific prioritization and fulfilment of these objectives is often a heavy burden on recipient country resources, human and otherwise; secondly, measuring output and performance is generally difficult; and thirdly, performance incentives (for officials in recipient countries) are often weak.

Svensson points out that these incentive constraints are all exacerbated by the accountability problems which are caused by the broken 'feedback loop' of development aid: There is a geographical and political separation between the beneficiaries and the donors, and this 'missing link' between tax payers in donor countries and the poor in recipient countries means that people on both sides have weak, if any, ability to influence and sanction politicians on the other side. For instance, where experts and consultancy companies from donor countries have a certain amount of direct influence on donor country politicians, public officials in recipient countries have no or only little influence on these politicians, which may result in weak performance incentives.

A central aspect concerning absorption capacity is the type of aid given. When supporting projects, donors tend to fund direct investment whereas the recipient is expected to provide staff, maintenance and so on, and often the introduction of a new project renders it difficult for the recipient to continue existing projects for lack of capacity. Not surprisingly, when mainly individual projects are supported, the recipient country's capacity is not being improved to the same extent as when aid is given as budget support.

Donors may also harm the recipient country's absorption capacity by offering higher salaries and thus subtracting skilled professionals – which is generally a scarce resource in recipient countries – from the domestic public and private sectors, and in that way decreasing the quality of public governance, public service delivery and even economic growth (Knack and Rahman 2004; Brautigam 2000: 40-41). In this regard, donor proliferation seems to be a problem particularly when the level of aid fragmentation is high.

Furthermore, donors may, with their often insatiable demand for meetings and reports, and the introduction of projects poorly adjusted to local contexts and circumstances, heavily contribute to a reduction in aid effectiveness. The notion of sunk costs applies here: externally-funded development projects often pose significant expenses to the recipient, including numerous meetings and field trips with donors in different parts of the country, filing reports, etc. Again, donor- as well as project proliferation does nothing to diminish these problems (Roodman 2006). Knack and Rahman (2004) also attribute part of the success in countries such as Botswana, Taiwan and Korea to the fact that these countries have received a majority of their development aid from a single donor.

At the same time, donors influence each other, and actions by one donor is likely to have an impact on the outcomes of other donors' actions, which may ultimately end up influencing overall aid efficiency and the recipient's absorption capacity (Svensson 2005).

Thus, it seems as if aid effectiveness is likely to improve if donors succeed in addressing the problem of donor and project proliferation, especially if scale economies are present. In practice, donors may favour sectors such as infrastructure, where the likelihood of scale economies is higher. At the same time, Svensson argues, it is understandable that donors require a certain level of monitoring and accountability, but that too much is very likely to negatively affect overall aid effectiveness, as recipient countries' absorptive capacity may be pushed beyond its limits with detrimental consequences. For such countries, a solution could be that donors choose to fund a limited number of larger projects and activities (Roodman 2006).

During recent years, a still larger share of development aid is given as budget support. This seems to be a development that may partly solve some of the problems related to absorption capacity, particularly as harmonization and pooling aid contribute to reducing costs and alleviate the pressure on administrative resources. Furthermore, as a consequence, responsibility and accountability would be on recipients, which would again generate recipient capacity and most likely improve motivation and outcomes (Svensson 2005). Direct budget support or debt relief may well be the way forward, especially if it is primarily channelled to governments that make an earnest effort towards reducing corruption, improving fiscal accountability and ensuring that recruitment for the public sector is done on the basis of skills and merits (Brautigam 2000).

## SOCIAL EFFECTS OF AID

As all development projects and policies are introduced into dynamic fields involving a number of different actors, the results of such interventions cannot be accurately predicted. It should not be assumed that it is possible to plan the results of development aid as such, because projects and policies rely on local interpretations, support and/or opposition for their outcomes, be they 'successful' or 'failures' (e.g. Mosse: 2005; Bierschenk et al.: 1993).

Mosse (2005), Bierschenk et al. (1993), Elwert and Bierschenk (1988), Bierschenk (1988) and Lachenmann (1988) all deal primarily with the micro rather than macro effects of development aid, taking their point of departure in detailed analysis of particular development projects. Every development project becomes a field of (overt or covert) struggle between various social groups, each pursuing their own goals, taking different points of reference for their actions and interpreting goals and objectives in different ways. Thus, development projects become a constant process of negotiation between those groups, and as Elwert and Bierschenk (1988) argue, a planned development project is rarely either completely adapted or completely rejected, and it is not really possible to say whether a project is a success or a failure, because there will always be differing opinions, even if donors see it otherwise. There are winners and losers in all projects, sometimes the winners are those whom the planners targeted, other times they are not. Hence, what may be considered a failure or a negative effect for one group of people may be perceived much more positively by another group. Thus, the effects of a development project are best assessed through analysis of those various strategies and underlying struggles between the different groups involved (Elwert & Bierschenk 1988). Official aid policy discourses will be subject to various hidden processes, perspectives and interests, and the outcomes of these policies depend to a large extent on these circumstances. Consequently, aid relationships have systematic social effects, but not necessarily the effects that were planned for, and practice and local interpretation are just as important in shaping policies as policies are in shaping practice (Mosse 2005).

This means that despite the intentions and plans of the project designers, collective 'participation' and development of the local populations in recipient countries are ideals but hardly attainable in practice (Olivier de Sardan 1988). Development aid frequently generates structural changes in a given society, but it is rarely, if ever, a consensual process agreed upon by planners, experts, and various local groups. Rather, these changes are products of the interaction between these different groups and their various interests, norms and strategies, a process during which actors create norms and compromises which all become part of the dynamic social structure. Hence, in this perspective, particular ethnic groups, villages, states etc. should not be perceived as stable or homogenous units with common interests and strategies (Elwert and Bierschenk 1988). The transformation in local social structures may also involve the emergence of new social groups and categories, one example being the 'intermediaries' in several African societies, such as the 'fils du village' (son of the village) described by Athawet (in: Elwert and Bierschenk 1988). The 'fils du village' mediates between project beneficiaries and potential donors, and often influences the geographic distribution of development projects, such as infrastructure, by lobbying for his own village. These intermediaries are, according to Elwert and Bierschenk (1988), so common in development projects that their presence is hardly ever questioned or reflected upon, even if their presence is not necessary for development.

Furthermore, many development projects fail to consider the possible impact of hierarchies and power relations likely to influence the outcomes of the project, and rigid development policies may reduce a population's flexibility to cope effectively with the demands and challenges that these policies implicate (Elwert & Bierschenk 1988; Mosse 2005). This decreased flexibility in social arrangements may in fact be a very common consequence of project aid, and aid often seems to encourage involuntary transformations instead of 'social evolution' (Elwert & Bierschenk 1988). This widespread rigidity in thinking related to development projects may strongly work against existing and/or independent local initiatives, thus impeding local democracy and hindering true ownership (e.g. Lachenmann 1988; Bierschenk 1988). For example, Lachenmann (1988), using an example from Mali, shows how an irrigation project has generated transformations within local institutions and modes of organization and market, transformations which are generally detrimental to the local population. Furthermore, the introduction of irrigation agriculture in a community in Mali impacted negatively on social flexibility, thus reducing security and causing an over-exploitation of resources to the detriment of both ecology and economy. This is also partly caused by a frequent neglect of local peasants' views on possibilities and hindrances of a project during planning and implementation (Olivier de Sardan 1988).

When looking at for instance power relations, labour force mobilization, and the strategy of minimization of risks, donors/foreign experts and local actors frequently have very different views and understandings. 'Participation' may well be translated into patronage, and agricultural inputs into sources of credit. Failing to acknowledge this is likely to negatively interfere with the outcome of a project, and affect the social structure in undesirable and disempowering ways (Mosse 2005).

Furthermore, development projects involve both political and technocratic structures of action which may be incompatible, and even when the administrative and facilitating staff (locals as well as donor representatives) related to a project is very serious about the development process and its general outcomes, they also come with their own goals, strategies and interests, including personal careers, which may affect their choices and judgements significantly (Bierschenk 1988).

Last but not least, one of the more serious effects of development aid is, as Bierschenk et al. (1993) argue, the problem of venality, which means that social goods, services, and even relations become tradable: As aid to a large extent is a flow of money into a certain social context, it often unintentionally introduces money into social relationships such as marriage and religion rather than generating investment and growth within the economic sector. The effects regularly take the form of commoditization in the sense that social relationships become services that are tradable – they stimulate corruption, prostitution, (monetary) religious offerings, etc. In Lachenmann's (1988) example from Mali, the effects of a development project mean that different parts of everyday life have gone through a monetization or commodification process, where affectional and reciprocal relations have been substituted by monetary ones, and political actions have become similarly tradable.

## CONCLUSION

That development aid is not free of unintended, and sometimes negative, effects should perhaps not come as a surprise. Massive political, economic, social and cultural interventions donated, initiated or even imposed by external actors are bound to have a number of consequences on local and national settings. Some of these consequences are likely to be positive, and some may be negative. What is common for all of the potential, unintended effects that we have discussed here is that they are never a given. In fact, all of these possible effects can be – and are – questioned, disputed and sometimes repudiated. And whether negative effects emerge is highly context-dependent, and can rarely be ascribed to aid levels alone. However, they deserve due attention and so do attempts to minimize the risk of the effects actually materializing in a given national or local arena.

Many of the negative effects associated with development aid are connected to the ways in which aid is administered and disbursed, and therefore donors, at least to some extent, have a good chance of minimizing those negative effects by altering their approaches (Moss et al. 2006). This is, however, a theoretical argument. In practice, the problems with development aid are often also caused by tangible political and bureaucratic hindrances that are not so easily removed. Still, direct budget support and debt relief are by many seen as partial solutions to some of the problems related to development aid, and a decrease in donors working within a particular country or sector generally seems to have a positive effect. Furthermore, recognizing country-specific circumstances and strengthening sound institutions and thus building absorption capacity, as well as the harmonization of donor interventions, does seem to be a way forward, even if there are no easy, fix-it-all solutions.

Furthermore, as Bierschenk (1988) and others point out, what may seem like a negative effect to a particular group, for instance a donor agency, may be perceived as a positive effect by other groups, and imagining that external interventions can be done neutrally, unbiased and with no significant consequences apart from the intended ones is hardly realistic.

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