Impact of Conditionalities on Aid Effectiveness
In Ethiopia

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Abstract

In donors sense conditionality is regarded as an enhancing tool to resolve the existed complex problems that are related to aid implementation procedures (local administration, improving absorption capacity, proper utilization of aid resource, etc); designed to improve aid utilization. Commonly donors frequently state: aid recipient do not have the capacity or the confidence to create enabling environments that helps to reveres the socio-economic and institutional barriers. In these cases conditionality is regarded as a tool to induce aid effectiveness. However, there are few studies that confirm the validity and embrace imposing, of conditions before aid giving advances efficient utilization of aid. This paper analyzes the impact of conditioned aid and its repercussions in inducing aid effectiveness and reducing poverty in Ethiopia (to examine effect of ex-ant or ex-post conditionalities as an enhancing factor to increase efficiency). Main objective is to answer the questions: what are the implications of conditioned types of aid; and are they really a development promoting tool? We argue tying aid to pre/post conditions is not a problem but to impose conditions with out considering the willingness of the country government is becoming more of a threat than opportunity; increase aid wastages, creates dependence, and reduce confidence. Thus, ex-ante or ex-post conditions with out realizing the capacity of these who involve in aid administration and implementation procedures affects efficient utilization of aid resources. In most cases when conditions are imposed with out donor and Ethiopian government agreement it often led to various colossal impacts on the economic and political stability of the country. Despite donors thinking, “aid conditions are best tool to facilitate efficiency”, real practice is failing to do so, correspondingly aid becomes ineffective. Our analysis suggests how aid disbursement criteria’s are supposed to be scaled up, and conditions should be imposed.

Key Words: Aid, Conditionality, and Aid Effectiveness
Classification: Aid and Poverty Reduction

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Aid, conditionalities, and its Effectiveness in Ethiopia

1 Introduction

In Ethiopia, an inflow of external resources such as loans and grants has started in the mid of 1950, the year in which the relationship between the United States and Ethiopia reached a higher level. For instance pre 1975, about 75% of the required total investment during series of five year development plan periods (1957-1973) was covered by external capital. The magnitude of loans and grants that Ethiopia received in the years preceding the revolution was considerable. But due to the existing political economic system it hardly contributed to economic progress. It was characterized by trifling development objectives. Similarly, during the post revolution period too, “37 percent of total investment expenditure of the annual campaign of 1979-1983” was financed by foreign aid (Dejene 1989; p 13).

Comparatively the total aid flow to the country has increased under the current economic system. It is asserted that during 1980-97, Ethiopia’s total ODA receipt exceeded US $ 17 billion in nominal terms (US $23 billion in real terms). This comes out to US $1.0 billion (nominal) or US $1.3 billion (real) of annual inflow (Abegaz (2001).

Generally since the current policy changes the magnitude of loans and grants that the country received in subsequent years has increased continuously. In real term over the period 1991/92-1998/99 it increased by 13.97%, to reach nearly 2853.80 million Birr in 1998/99 (Ministry of Finance 2000).

Recognizing the role of aid in the last decade (since the introduction of market economy), while there have been some improvements and successes particularly in improving the social indicators, aid to Ethiopia has the least success story compared to other African countries such as Ghana and Uganda. While few poor countries manage to achieve long run-growth much in excess of 2% per capita per annum, and some do not grow much at all. Ethiopia’s growth of about 0.7% per capita over the last half century is typical of the poorest fifth countries (Easterly, 2002, pp. 19). Hence the issues related to aid effectiveness at reducing poverty of the country are debatable and questionable

When we try to see the impact of aid on poverty in Ethiopia (from the comparative studies explored) we have learned the slightest improvements achieved after the implementation of the economic reform program; the rate of poverty in the country has reduced and the consumption poverty head count index has declined by about 3% at national level, and by over 4 percent in rural areas but has increased by 11 percent in urban areas (Adem, 2002). However, none of these differences are statistically significant and the rate of poverty is still high, clearly indicates the challenges ahead. Therefore, this study attempts to answer the general question of:

1. Birr is Ethiopian currency. One US$ dollar is equal to 8.56 Birr.
Does the move from command to restricted free market economy lead to change in the inefficient utilization of aid, to improve economic growth and poverty reduction of the country?

Attempts is made to analyze the link between the roles of the latest policy changes (with regard to government spending policy) and effective utilization of aid. The main focus of this paper is to assess the link between conditioned type of aid and its impact on economic growth and/or poverty.

Concepts that are pertinent to the issues of conditionality (most used criteria by donors as a means of aid disbursement) and their impact are examined. Often donors imposed conditions, before the committed fund is disbursed, as a mechanism to induce aid effectiveness, which is used by most donors. But there are only few donors who agree on the idea of ‘conditionality is used as a working mechanism’. Some totally believe their aid is free of any pre-conditions (despite what they usually exercise) (informants).

2 Aid conditionality debate

Earlier Studies conducted on impact of giving conditioned type of aid have come up with different recommendations. Thus aid conditionality debates around the principles of giving tied aid (conditioned aid), falls on two extreme cases. While one group supports the package of giving conditioned aid; considered as the best criteria to control miss utilization of aid resources the other group have different view. Those who are in favor of conditions on aid offered try to show aid conditionality as an appropriate mechanism not only as a criteria to improve efficient utilization but also in terms of introducing new policies or other development programs in which the country would not have otherwise introduced or exercised. Where as the other group indicate the draw back of ex-ant or ex-post aid conditions. Though they believe that putting preconditions to the aid given (ex-ant or ex-post) can be a sort of guarantee to avoid misuse. They underline that pre-requisites should be fixed on the basis of balanced relations: ‘donor government coordination/agreement’.

The second group after making comparisons on the cost and benefit of putting conditions on the aid offered, recommend cases where aid conditionalities could have a win win impact (aid conditionalities could have positive consequences if implemented as per the donor and the recipient agreement and commitment).

In order to come to the focal point of our argument, we found it necessary to look at earlier studies. The arguments are formulated on the basis of different empirical and theoretical studies on a spectrum who are against, neutral, pro conditions imposed. We believe reviewing some of the earlier studies would help to have a clear understanding about the concept. It also reveals how our conclusions are derived Kayizzi Mugerwa, Steve(1998), shows how out put of reexaminations on aid and its effectiveness has led to increase disillusionment. His study marks the first signs that donors are willing to devise aid
relationships consistent with changes that have taken place in global geopolitics and economics. The kayizzi study tried to determines whether partnership makes the end of conditionality a mere change of a mood.

However, despite the initiative taken to improve the recipients participation in the decision making process (with regard to how and where to use aid) there are still unbalanced relations. Recipients are encouraged to propose the strategy of their development but real practices indicate they are neglected. Thus, partnership as a modus operandi, becomes widely used as the conditionality. However partner’s obligation as an approach of equal partnership that envisaged is far from that understood in international business.

Policy conditionality as being ineffective in promoting reform and its consequences like inhibiting the reform efforts of governments, insincerity about liberalization and sending wrong signals to the private sector is discussed by White and Morrissey (1999). These problems are compounded by the fact that recipients may have an incentive not to implement agreed reforms, and the donors increase their own utility by disbursing funds regardless of slippage. White and Morrissey discovered that conditionality designed under one scenario may not be effective under another.

This it leads to donor arbitrariness about what constitutes acceptable performance, and recipients may miss a performance target because of external shocks or unavoidable problems. In both cases, it has found that the recipient faces uncertainty that undermines the sustainability of the reform program. Finally, White and Morrissey (1999) recommend that if donors really want to maximize reforms, they should first identify the recipient’s performance and capabilities and then offer support. Otherwise aid tying will not improve either aid allocations or achieve the needed development programs, rather it may act as an inhibiting factor.

White (2001), reveals aid conditioned with ex-ant or ex-post has not led to better results. However in most of the aid recipient countries and particularly in Ethiopia, conditioned aid is becoming a burden to the government, to the individuals who are assigned to the project cite as an administrator or manager, and to the nation at large (creating dependency, institutional instabilities, etc).

\[\text{2. It is widely recognized that the world system favors advanced countries; ideas that are forwarded by the international organizations as working document for aid allocation or aid implementation are have less chance of discarding by the aid recipients.}\]
“The results are perhaps not surprising given the well-documented biases against aid for poverty reduction at various levels: country allocation, sector (sub-sector) of activity and in project design, there are biases in aid allocation. There is a bias in favor of small countries at the expense of large ones” (White, p 105). In most cases donors tend to favor projects that utilize goods and services (expatriates) from the donor country.

A study conducted by Holmqvist, Grant (2000), also shares similar conclusions to White and Morrissey. He presumed the existence of incomplete or asymmetric information as a credibility problem for government. He recommended: to convince the private sector about its intentions and government need to “signal its true type”. He has found, conditional aid will introduce more “noise” into this signaling process. Similarly, Grant’s analysis highlighted institutional or macro policy changes that are introduced through aid conditionality that never bring long lasting solution to the policy problems of poor countries. He stressed the notion that conditioned aid is not a good mechanism to attain aid objectives. Accordingly he stated “when project by pass domestic institutions to solve the problem that ideally should have been solved by these very same national institutions, then these project risks undermining the forces that may lead to a rectification of these institutions” P. 231.

Where as the study made by Svensson (2000), is not totally against giving conditioned type of aid. He shows the criterion that needs to be fulfilled when tied aid is given. Svensson’s point is that conditioned type of aid succeeds when donors are able to keep their promises that they have committed. “As a principle aid conditionality could partly solve the problem, but requires strong commitment ability by the donor. With out such a commitment technology aid disbursement are (partly) guided by the needs of the poor, resulting in low effort in the past of the recipient government to alleviate poverty” pp 63.

A study made by Federico, Giulio (2001), critically analyzed previous aid studies, and determined how conditionality contracts can assist to have efficient outcome many promote better policy even in the presence of imperfect donor commitments.

3. For details please refer the evaluation of the poverty impact of Danish aid ( DANIDA, 1996), World Bank review of their own poverty reduction strategy in Africa (World Bank, 1997), a review of the treatment of poverty in the work of SIDA, and finally, a study of a number of European donors ( Cox et al., 2000), were taken in to consideration.

4. The process of imposing conditionality undermines both the incentive to acquire these capacities and confidence in the ability to use them. Rather than involving large segments of societies in process of changes-there by changing their way of thinking it reinforces traditional hierarchical relationship. Rather than empowering these who could serve as catalyst for changes within these societies, it demonstrates their impotence. Rather than promoting the kind of open dialogue that is central to the democracy, it argues at best that such dialogue is unnecessary at worst counterproductive, for details please refer Stiglitz, 2002.
However, in a real sense, conditionality is time inconsistent and therefore ineffective. Hence, for successful implementation of conditionality, donors need to be able to keep nice promises (p 396).

In order to examine aid conditionality impacts (positive/negative) the author used principal-agent model with no information asymmetries. The model helps to isolate the respective roles of the recipient country’s inherent stackelberg advantages and of the donor’s access to technology commitment in determining the intensity of policy conditionality. It tried to explain how aid recipients have structural first-move advantages in relation to donors who lead them to have Samaritan’s Dilemma outcomes (these are characterized by poor policies in recipient countries and high aid transfer from donors). Finally, this study recommended balancing the conditions with the level of commitments made; a donor with weak commitment power can impose less conditionality contracts. This conditionality is a means of enhancing efficient use of resource and productivity; weak conditionality is preferable than the absence of conditionality.

Usually Conditionality applying donors (specifically the Bretton Wood Institutions) are often unable to put in place a system of rewards and punishments sufficient to overcome the frequent perceived conflicts of interest between themselves and recipient governments. This shows the credibility of threats of punishment made by the donors in the event of non-implementation (withdrawal of access to agreed or prospective aid (Killick, 1998).

While conducting this study (Killick, 1998) used a sample of 21 developing countries have chosen. According to the findings (in 18 out of the 21 sample countries), a number of countries transformed from weak to vigorous implementation of reforms during the period under study and that the key lies in the attitudinal changes of their respective political leadership towards reform.

When aid is given on conditioned basis the objective and interest of donor agencies and recipient governments rarely coincide. For the two parties are conditioned by different historical and institutional backgrounds. There are asymmetries in the incidence of adjustment costs, including the cost of mistakes, leading governments to more risks, being more cautious about the desirable speed of change. Nationalistic resentment of donor ‘inferences’ and inequities in the treatment of countries is apt to give rise to the generalized suspicion of externally induced (donor driven) policy reforms. Generally, conditionality occasionally tips the balance of power in favor of pro reformers within government.

Therefore, aid issues that should reconsidered complex: of all aid provision criteria (aid disbursement procedure), the way it is utilized by the domestic government, and overall all domestic processes are core
subjects that need to be contemplated. Given these ethoses, how far are donors’ disbursement procedures accommodating the need of the country’s development?

Focus points are pertinent to the issues of conditionality (the most pronounced criteria by donors as a means of aid disbursement) and of its impacts. Often donors imposed conditions before disbursing the committed fund, a mechanism to induce aid effectiveness.

This part of our paper will try to analyze the effects of conditioned type of aid in inducing its declared goal: addressing poverty of the country (the intuition is to examine effect of ex-ant conditionalities as enhancing factor). Therefore, first, after reviewing the general concept of conditionality the second one analyzes the relationship between policy design and aid conditionality in Ethiopia (are government decisions influenced by aid conditionality?), whether conditionalities are an opportunity or a threat will be illustrated on the third part. Finally summary and conclusion will be given.

Our discussion is based on the secondary information; documents reviewed and purposive interviews conducted. For more extensive illustration an effort is made to link this with the quantitative analysis made (a part of the thesis; dealt with quantitative analysis), which is very much related.

3 Aid Conditionality: Beyond the Brim

Conditionality refers to the criteria’s imposed as ex-ante or ex-post, associated to the support given by donors (bilateral and multilateral) on the aid recipient countries. Earlier it was dominantly used by IMF and IBRD, but nowadays most donors particularly bilateral aid organizations are using it as a tool for aid provisions.

The reason why these two multilateral aid institutions (IMF and IBRD) are using conditionality have discussed by various development economists; in most cases it used for policy implementations. Commonly IMF associate conditionality with ‘stabilization program, and IBRD to structural adjustment program, both are subject to policy conditionality (Raffer and Singer, 1996).

Surprisingly, when they were set up at Bretton Wood in 1944 (at the beginning), policy conditionality was not within their agenda. At the beginning IBRD is supposed to deal with reconstruction of war-devastated countries (program as well as project lending). But for the first 25 years its role on financing of projects was limited and the entire reconstruction program was taken over by Marshall Plan and other specific bilateral US aid measures.

In fact, during the early post-war development thinking one of their presuppositions is: in the poorer countries capital must have high rate of return, as a result there will be many projects waiting to be identified, formulated, and financed. It was during this time where project aid involved conditionality, but was more of tying project to some pre/post conditions rather than to the general policy.  

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5. Refer more on Burnside and Dollar, 2000; World Bank, 1998; donor should be more selective in the allocation of foreign aid, and aid should be given to countries that perform well.
In 1980s, conditionality emerged as a controversial issue, but it was appreciated by Keynes. He gave a great deal of thoughts to the whole notions; objected to a ‘grand motherly’ fund. While he proposed this, his basic conjecture was large fund. A fund equal to half of annual world imports should be embedded to conditionality’.

However, Keynes proposal, willing to concede conditionality was designed based on the amount of money, but IMF did not use the trade offs between the size of the fund and conditionality Instead proposed to tie any amount of fund to conditions. Nevertheless IBRD did not agree with this specific proposal tying project to aid; claimed abandoning of project limitations and shift to policy conditionalities.

Where as aspects related to project limitation was not associated within the IMF agenda, and focuses are towards program support. Its main role is providing liquidity to the countries that are not performing well by taxing the surplus countries; international tax on balance of payment at a rate of 1% per month, as proposed by Keynes.

Thus IMF is expected to play the role of a world Central Bank. However experience shows IMF never give aid free of conditions. Indicate how initial ideas are reversed, IMF harsh conditionalities and pressure become entirely on the deficit countries, it does not have a mandate to influences the richer or industrialized countries. These are looked after by the G8( previously known as G7). All these led to increase the dependency of developing countries in terms of financial support, adopting of development ideas and policy, and other decisions. In fact most aid recipient hoped aid conditionality would discard, and were very much excited on the words of Lewis. [“There could be no policy conditionality on foreign aid since southern countries would consider this as infringement of their sovereignty and would never accept it”, forwarded by W. Arthur Lewis in the late 1971 on his David Owen Memorial Lecture on ‘the evolution of foreign aid’. : cited in Raffer and Singer, (1996)]. But Lewis statement did not move beyond the paper and the hope of southern countries were shattered, and impact of conditionality became sever.

6. The types of conditions imposed were more general; also applied by bilateral aid projects. It was very much embedded to the project agreements, including commitment by the recipient government to provide local finance or otherwise co-finance the project, to make complementary investment (more towards increasing recipients participation on development) and to provide budgetary resource for operation and maintenance of project after completion- Raffer, and Singer 1996.)

7. Today strictly conditioned fund is 2% of annual world imports. The difference between the initial proposed idea by Keynes and the actual reveals a measure of the degree to which how the vision of international management has shrunk- from the book of Raffer and Singer 2001.

8. The rational idea of putting some pressure on surplus countries which have a deflationary impact on the rest of the world, rather than on countries that are facing balance of payment deficit, which by their excess demand for imports creates employment in the world economy was the main concern at the time of Bretton Woods).

9. The group of eight industrialized countries such as United States of America, Canada, United Kingdom, France, Germany, Italy, Japan, and Russia (Russia is included latter)
Therefore, notwithstanding the intended objective, actual practice shows that aid conditionalities proposed by the aid organizations (IMF, IBRD) as a mechanism to improve aid effectiveness are not working as it was forecasted, aid conditions are becoming major hurdles against utilization of aid on areas of development that could have brought significant and better changes.

3.1 Conditionalities: Its Influencing power on Institutional Stabilities and development objectives in Ethiopia
From the earlier discussions it clear that Conditionality comprises of all ex-ante/ex-post criteria’s imposed on the aid given. Most by donors (IMF, IBRD, and bilateral and multilateral aid organizations) tie aid to conditions exceptional to emergency or food for work development programs that became dominant in the 1980s. Aid tying to some criteria’s is becoming more popular and conditionality is regarded as a work document Especially under the Washington Consensus, where the confidence of donors particularly the BWI’s increased but governments determination have threaten more; .
Regularly imposing conditions to the aid offered is not totally bad idea, it all matters on the type of conditions imposed, as all are not having the same effects. Adelman. (2000) described the four different aid tying and are given as follows (P 93):

ODA loans are provided on the premise that the recipient country returns the money with interest according to the financial terms stipulated in the loan agreement;

(i) ODA grants and loans can be tied to procurement in the donor country or, in case of partial tying, in the donor country as well as a certain number of specified developing countries;
(ii) ODA grants and loans may be tied for specific development projects under supervision of the donor; and
(iii) in the case of program aid the money is committed and disbursed in accordance with the recipient country’s compliance with an agreed set of policies vis-à-vis the domestic economy.

Our study also supports Adelman’s (2000), notion, we considered the aid tying in the form of the last two P’s, mostly regarded as a good credit to the aid recipient countries.

Imposing condition on the project or program aid restricts the capacity and/or sovereignty of the country; Ethiopia receives large aid in this form. Moreover, an attempt is made to investigate impact of aid to procurements. Most often conditions imposed do not match the spatial and institutional aspects. All these undermines the importance of aid to the country, affects aid effectiveness as it leads to increase aid fatigue.

10. The strict conditionality imposed by the IBRD and the donors is based on a firm confidence that they know what is best for the recipient countries, that they have got hold of the sacred truth, that is the market-ruled principles (‘basics’) of neo-classical economics-for details please refer Raffer 1996.
Generally putting boundaries on the aid offered either on the process of aid allocation or implementation criteria or managing projects by expatriates increases the transaction cost of the aid (reduces aid effectiveness as greater portion of the money is used by the donors), undermines the technical capacity of the country; and retards domestic participation in development processes. It has been recognized that these criteria led to increase the total cost of the project than the expected benefits. Large sum of project money are always spent by the expatriates or consultants to maximize their benefits entertaining themselves either in the capital city of Addis Ababa and/or other major cities located in the outskirt of Addis to refresh their mind at the expense of the poor. Generally compositions of aid trends in Ethiopia since 1991, reveals, hardly any project or program aid offered to the government with a full grant of owning aid allocation and administration rules. Commonly, aid provision and disbursement are guided by the government’s willingness to accept the rules of donors and adoption of the internationally suggested strategies. In fact one of the reasons for the increment of aid flows to the country is: Ethiopia is one that tried to fulfill the need (criteria, requirements or prescriptions) of the international organizations. However, this is not to state that the recent policy changes are induced as a result the lobbies made by the internationals institutions (IBRD or IMF). Naturally major changes are effects of the latest moves into totally different economic system (from command to free market economy), which is result of 17 years of struggle. Therefore, it is logical that polices can not remain as they were, we believe the policy changes are result of the dynamic domestic political processes even if it matches to most of the decisions taken by donors. Nevertheless, in the actual process it does also reveal, the government of Ethiopia has gone through a lot of policy change pressures, particularly that of IMF and/or IBRD and most often submit to the proposal (at least partially) so as not to miss the financial support that can be given in return, provided if it does not compromise the sovereignty of the country. The latest macro and institutional policy changes made in Ethiopia fits to most of the decisions taken during “Washington Consensus” 1989. Ascertains conditionality is used more or less as a rewording tool; on the one hand dependency and weak institutional positions created by debt burdens, and on the other hand the skepticism of international aid institutions on the role of government (developing country) became the reasons to imminent with new ideas, proposed during the “Washington consensus” (Raffer and Singer. 2001).

11. Stated: project tying and policy conditionality, which can not be viewed as ambiguously bad features of aid delivery. Instead the first two P’s were taken as undesirable features of aid flows.

12. As it was clearly mentioned by Raffer and Singer (2001), there are many examples of projects not yielding expected benefits, negligent implementation causing grave damage, or absurd projects and aid fatigue.
Likewise, government of developing countries (Ethiopian government) are also trying to be flexible, accommodating their ideas into the international proposed strategy as donors' conditionality is most often take it or leave it. Aid tied to pre or post conditions are more of menu base meals in which the chance of having the food in the restaurant is highly influenced by the availability of that food not as per the menu prescriptions.

3.1.1 Aid Conditionality Effects on Policy Stabilities
This part of our paper will discuss how the latest policy changes designed in Ethiopia are influenced by aid conditionalities. It was perceptible that as a result of the aid nexus independent policy makings and national economic management are considerably unthinkable; donors use aid to maneuver the entire pace of the recipient country’s policy. Even in Ethiopia, to some extent, government decisions frequently fit to the idea that are proposed by international institutions (IMF, and IBRD; and it frequently shifts like a pendulum swing.

For instance, when the Bretton Wood institutions, particularly that of IMF and World Bank start to move back from the “Washington Consensus” to the internationally recognized new concepts even the strategies implemented in Ethiopian are designed in a way that matches to these new agendas. Reveals despite the Ethiopian government believe, entire policy of the country are home driven it is recognized that policy of the country is not entirely independent of donor pressures.

Many economists like Raffer, and Singer (1996, 2001), Stiglitz (2002), etc. tried to show donors’ interest on shaping the macro economic/institutional policy of most developing countries (Ethiopia), its increasing. Sometimes their main aim seems on aspect of getting the politics right rather than giving aid for some development or poverty reduction purpose. There are frequent request for the policy or institutional changes in return to the aid that they offer. “The debt problem and its ‘management’; new and strict forms of conditionality as well as changes in the global economic framework increased the dependency of southern countries (or the periphery as dependantistas would say) substantially so much so that one may arguably speak of de facto recolonization” (Raffer and Singer. 2001 p54). Consequently, the economic and political stability of the countries are treated. Disclose, in spite of the general presumption of donors: aid conditionalities are not imposed either to keep the interest of donors or to dominate the policy of developing countries, practical evidences indicate the reverse. In Ethiopia case since the government does not have full ground to evaluate whether the proposed package fits into the country socio-economic and political policy, conditionality is followed by a remarkable negative effect on aid utilization. Most of the aid criteria’s (conditions) are sort of quick actions, and donors are aware of the negative impacts “yet despite what we believe to be generally good intentions, the foreign aid system also
poses problems for governance in aid dependent states.” (A.Brautigam, Deborah and Knack, S. 2004, p. 256). but they are not liberal to revise their ideology.

Albeit this, more of supply driven process the government of Ethiopia is compelled to give some rooms to the donors, as present political demands of multilateral and bilateral developments are increasingly emphasized. This influences to do not have strong state in which its decision is driven by the domestic economic and political activities.

Finical problem is a pressing factor for the government to behave passively. It is hard to object to some of the donor aid policies even if the government is having some reservations on its credit. Thus the whole process of aid agreement needs to be reformed as it directly affects aid effectiveness by influencing policy and strategical changes, and indirectly by its impacts on aid quantity, and on resource allocation. Determining the impact of aid conditionalities on the domestic policy of the country is perceptible. Hence the total aid flows to Ethiopia, which is characterized by cyclical trends provides a clear picture about the aid policy relationships; highly influenced by the donors’ decision. For instance, as a result of the border conflict (and the attendant Ethio-Eritrean war) the total amount of aid flow, particularly from multilaterals has shown a subsequent declining. This was as a result of the immediate aid suspension, aid flow to Ethiopia started to revive only after the Algiers agreement was signed off.

However, donor withdrawal after the border conflict with Eritrea was not fair as it happen unpredictably\(^\text{13}\). Usually when ever economic or political uncertainties occurred donors need to take time and judge real practices on the ground, considering all dimensions. Otherwise immediate suspension of aid does not affect the government or the institutions. The poor are always the immediate victim from such quick aid canceling processes, “the government did not spend enough on the poor and thus violated conditionality, but imposing sanction might well mean a ‘double whammy’ for the poor” (Ravi Kanbur, 2000 p. 415).

Conventionally, whether aid conditionality impact on the paces of economic and political stability is minor or major, it has recognized how international agreed rules, which are mainly imported as a result of aid offered influences the whole administrative system and development strategy of the country. It’s quite acceptable by the government of Ethiopia and also by the donors that strategies designed to address poverty of Ethiopia has gone through a lot of trial and errors; agricultural policy is devised according to the suggestion of the donors, educational policy of the country fits to the WB proposed idea, trade and

\(^{13}\) This consensus highlights on the ten constituents such as: fiscal discipline, reduction of priorities in public expenditures, tax reform to lower marginal rates and broader tax base, interest rate liberalization, competitive unified exchange rates, trade liberalizations, liberalization of FDI inflows, privatization, deregulation, secure property rights (Herr, Hansjorg, and Priewe, Jan. (2004)).
exchange policies can not move beyond the suggestion of these institutions, and paces of politics and institutional structures are not freely decide either according to the government or the people. Donors have the power to draft different development agendas that has to be implemented in the country. And they often think conditions imposed by BWI’s prove effective to revisit bad government policies into the right track. As the donors increase their pressures on government, the government tried to confirm that the imposed conditions are getting well implemented. Nevertheless, neither aid managers nor policy implementers find it easy to meet the multiple development/policy targets; poverty reduction, environmental protection, improving gender equality, minimizing regional development variations, participation of civil society, community participation, etc. We all know these development ideas are vital, but if it does not fit to the capacity or the goodwill of those real actors who are assigned to implement the programs, it creates more confusion on the whole implementation procedures. Implementing process using the capacity that they have at their disposal is absurd.

Imply how donors use aid funds; as a means of dictating developing countries Not only implementing of development programs or policies but debt resettlements and other financial matters need to be operated as per the donors scale and prescriptions. For instance, the IMF-Ethiopia disputes over early loan repayments in order to reduce higher interest payments on the loan than it was receiving on its reserves. In addition, matters that have occurred pertinent to the current election process will give us a glimpse of how donors influence the county institutional or macro policy. Notwithstanding to the Ethiopian government expression:

14. After a year of war and rebuilding, international assistance was beginning to return to the country but Meles (the Prime Minister) was having problems with the IMF. What was at stake was not just $127 million of IMF money provided through its so-called enhanced Structural Adjustment Facility (ESAF) program (a lending program at highly subsidized rates to help very poor countries), but World Bank monies as well. This indicates how IMF has the power of controlling the aid recipient countries. Its distinct role in international assistance is to review each recipient’s macro economic situations and make sure that the economy is living within its means for details please refer E. Stiglitz, Jospeh. 2002 p 27.

15. Government move is on the basis of balancing the need of the donor and the need of the citizens, but attempt is to avoid some of the process that could aggravate the international relations: what could be the step of the donors is always predicted before any decision is passed out.

16. Though the ideas are important and necessary, the scope of development and availability of skills in the country limits its contribution, it is always advisable to begin with ideas that can be easily understandable and convincing to the community.
“we implement democracy not to please or displease other groups”, (the international organization who have the power to intervene). Nevertheless, it has observed that the government has gone through steps that he does not believe as justice. Had there not been any fear of halting either the debt cancellation or aid suspension, election investigation could not have been done at all, as the government strictly affirm that there was nothing fraud in the election process or in its results.

To a certain degree the government approach had something to do with the amount of aid; the north has always the power to intervene either in the political or socio-economic agenda or in both. Our main intention is not to show the political prospects, rather it is to indicate how aid is snags to the over all economic and political process of the country. Donors have a wider opportunity to dictate conditions, and they are sure that it would be implemented. But this approach undermines implementation and administration of the domestic policies. “This may result in acceptance of loans subject to conditions which are incompatible; for purposes which conflict or involve duplication; or with out due regard either for the government’s administrative capacity to implement the required policy changes or for the implications for future expenditure” Woodward, David. 1991.p 70.

Therefore, while aid is given donors need to analyze various factors, meeting the international development targets need to be evaluated on the basis of its practical applicability (how it is attained). Otherwise, Ethiopian government may try to bother more about the quantitative aspect at the expense of quality of aid.

3.1.2 Aid Conditionality versus Development projects

Project aid is the second and most type which are tied to some pre or post criteria. Regularly, the aid that flow in the form of project to Ethiopia does not regard the existed development realities like the skilled manpower; the country priority needs, and the natural calamities. When projects are launched, it is expected to match the thinking of the donor, and fit the style of the advanced or other countries, which are different. However, for an efficient implementation of projects you need the necessary requirement, particularly efficient human capital is a key dodge for better development progress (the industrialized countries experiences are some of the instances). Apparently, in Ethiopia the availability of human capital is so limited and projects cannot perform as per the expectation of the donors or the government. Better implementation of development targets demands technicians, engineers (design, construction, and implementation), economists, and other experts who can play a major role to optimize the return of the projects (Raffer) and Singer., 2001).

17. Quote from BBC interviewed to PM Meles, July 4th 2005
18. EU resolution made on aid procedures to be disbursed in Ethiopia after the disagreement between the current government and the opposition parties on the 2005 election pull results; “EU: MEPs urge an end to persecution of Ethiopian opposition.”
On the other hand most bilateral donors that offered aid to Ethiopia have greater expectations of high quality performances and they completely ignored the skill/capacity of civil servants at the grass root level; often this is precluded and the country is expected to function according to donors manual frame works.

Often donors are very particular about the procedure they intended. This is not only for efficient implementation of project, but also to maximize the benefit of those who work at the project. “When conditionality is violated not only stops the specific aid flows in question, but also puts in jeopardy the preparation of future aid projects and programs, on which depend the livelihoods and careers of agency staff as well as the image of the agency in the eyes of its political master” Kanbur Ravi, P. 416.

However project implementers are not able to perform neither according to the donor nor as to their skill. Continuous changes of project strategies are threatening them and sometimes wonder on which part of the development plan to concentrate. Frequent change of development strategies are destabilizing the execution of development plans (as the change become frequent they become even more destabilizing), and/or hinders from mastering their (grass root level project implementers) skills and implementing the expected goal.

In addition conditions imposed limits the government vision to be always on short run development; restrict government thought; sensitivity is on the line of fulfilling donor’s requirements that keeps on shifting form time to time so that the expected aid quotas will be released. This affects the whole aid program specifically the projects There is a popular resistance and unrest, and projects are not the type that are demanded by the government in such a way that could bring significant and appropriate changes on the wellbeing of the poor 19. Therefore, conditionality should become a two-way business. The notion of our paper fits to the arguments of Raffer and Singer’s, 2001. Proposed to follow genuine contacts in which both sides make clearly defined and voluntarily entered commitments, and remain in continuing (constant) consultation to adjust the contract in the light of unforeseen new circumstances. This idea could help to over come the sever impacts of conditionalsities hitherto faced by the Ethiopian government. When implementation of ideas are going to be on the basis of fair and balanced agreement and commitments, aid will become more effective, optimize the benefit of the aid recipient and objectives of the donor alike. Consequently the dependency feeling and other inferiority aspects of the aid recipients can be mitigated. Full ownership to the development strategy and policies enhances efficient utilization of resource and increases aid effectiveness’s.

19. The problem is very complicated. When the projects are good, which satisfies the need of the community the resources allocated to them are not sufficient, and or may phase out before attaining what is supposed to be. On the other hand the projects may not address the immediate need of the country but requires support from the government, which shares physical and human resource.
When donors are liberal, tie their aid honestly with some development packages that address the geographical and other factors of the country, values the idea proposed by the domestic government, aid conditionalities could enhance efficient utilization of resources, and helps to attain better economic growth. If conditionality is imposed on basis of the two agents’ agreement and coordination it can be equally effective to change the economic features of Ethiopia by bringing some positive changes either on the macro economic policy or utilization of the fund which contributes to development. Conditionality should not be to the extent that violets the mandate and confidence of the aid recipients, What matters are not on the connotations imposed but it is the conditionality of what ever type (Oxfam, 1995).

There are cases where conditionality helped inducing economic development of Ethiopia (either through policy or program or technical support). The current poverty reduction programs which is formulated through coordination and balanced commitment between the donor and the Ethiopian government is one of the best instances that can be raised. Government of Ethiopia believe the idea is not new; it is something, which was almost on the process so as to tackle the economic problems of the country (persistent poverty). Then when donors came with the idea of PRSP the government welcomed the proposal, found it as an appropriate and justified development program to address the needs of the citizenry which is undertaken through the support of the donors (IDC). This reveals how donors ideology and the county policy are so coordinated and implementations of PRSP is becoming on the basis of balanced participation20.

4 Aid Conditionalities in Ethiopia: An Opportunity or Threat

From the above point, we must have had an understanding about the relationships and the paradoxes between aid conditionalities and its manipulating power on the domestic policy of the country. Previous discussion deals with the general points related to conditionality impacts. Since conditionality is a criteria which is drawn from two extremes; institutions or development programs are borrowed, and transplanted on other countries (the donors as lesson drawers and the recipients as an attendant, to receive the lesson), the advantages gained from such lessons can not be regarded as a

20. The general framework of PRS has been discussed at various levels with different stake holders, was more of participatory. The whole approach followed demand and supply driven strategy unlike the other aid or development programs which is total supply driven. Supply driven leads to increase resource wastage, and create dependency that encumbers development.
necessary criteria that enhances recipients opportunity as it is clearly illustrated on the previous part. It is a concept viewed comprising of ‘hard core’ and pro forma’ elements and its impacts (negative or positive) as a good/bad policy inducing factor has to be evaluated from different (angles) sides.

Usually conditionality has the feature of hard-core or pro forma. Hard core conditionality is defined as “policy changes stipulated as a pre-requisite to the approval of, continued access to, a grant or loan, or to subsequent assistances” (Killik, 1997, p. 487). The prediction here is borrowing government will not voluntarily accept the policy or the idea that has transplanted by the donors, otherwise the stipulation would serve no meaningful purpose and would probably be counter productive. The pro forma element derived from hard core associates conditionality with positive outcomes; it is a tool used to encourage governments to take some positive actions either on their policy or development programs that they would not otherwise have attained. “The hard core conditionality is, however only a subset of the content of letter of intent spelling out the detailed content of adjustment programs. The reminder can be described as ‘pro-forma’ conditionality: mutually agreed, or non-significant, or formalistic provisions which both parties find it convenient to write into a program” (ibid, p. 487).

Given these two extreme processes of conditionalities, in order to examine whether conditionality is an opportunity cost or loss first it is necessary to state some of the main objectives of conditionality. Often donor states the objective of tying aid to some ex-ant or ex-post criteria is to induce aid with better results (enhancing aid efficiency). Even during our interviews with the donor representatives in Ethiopia (World Bank, EU, UNDP), we have learned that conditionality is regarded as the best tool to improve aid effectiveness. Underlined: “in a country with less skilled manpower and poor policies, conditionality can play a significant role to reshape the economic policy of the aid recipients, promoting the goal of development, as it is doing in Ethiopia practically” (Interview with informants/donor representative in Ethiopia, 2004).

Therefore to the donors conditionality is used as a best mechanism to offer incentives based on the criteria of selectivity that they used; conditioned type of aid is an inducing factor, encourage the government to do something it would not otherwise do(Peter, Larmour, 2002).

Given this general description, in order to see the implications of imposing conditions on the aid offered to Ethiopia, it is important to state the specific goals of aid conditionalities, helps to have a clear understanding and adds some more clarification about the whole aspect. Usually the main objective of posing conditions are classified into the following: (1) paternalism, where donors believe they know what is best for the recipient; (2) bribery, to persuade recipients to do something they would not otherwise do, corresponding to circumstances when both donor and recipient want to spend the aid budget but recipient does not favor reform, and on the same side donor do not want to lend more, and recipient do not want to implement reform; (3) restraint, the recipients agree on reforms. (Both parties favor and financing; both
maximize utility by having as much as possible of both aid and policy reform, on the other side donors do not like lending more) , but donor put conditions in place to prevent policy reversal; and (4) signaling, an indication to other donors and the private sector that the reform is sincere; (5) monitoring, when donors want to disburse their aid where it will do most good conditionality can provide a mechanism ensure that aid is going to the ‘right’ countries; and (6) supportive, some reforms may need financing. Objective number five and six are included by Howard White and Oliver Morrissey (Collier and Gunning (1996) cited in White and Morrissey 1997).

Variations in character of conditions imposed by donors are one of the main reasons for increasing of debates between the southern governments and the donors over the transplanted policies; all matters on which particular objective the donor is interested in. Therefore, in order to examine the impacts of conditioned aid on aid effectiveness in particular and on Ethiopian economy in general, we tried to draw some presumptions on the basis of the above objectives; these presumptions would help us to draw a very constructive point ( deducing our concepts based on the logical arguments presumed) about aid conditionality impact on aid effectiveness ( poverty reduction effect).

**Assumptions**

In order to examine whether aid to Ethiopia is an opportunity or threat the following assumption are drawn. These presumption facts are formulated based on the various discussion that have been made with the interviewed informants, and other relevant reviews that deals with concept of ‘conditionalities’. Believed all this information will help to answer the question of does conditioned aid offered to Ethiopia become a threat or an opportunity? These assumptions includes:

- Donors who impose some ex-ant criteria are an altruistic donor type and, the Ethiopian government appreciates this approach and work for the success of the aid with a good motive; the criteria’s imposed either to induce policies or programs are on agreement basis.

- Donors offer aid if and only if the transplanted policies or idea of development program are accepted and implementation is assured; governments agree to implement the conditions with some reservation; still need some room for maneuvering ( do not agree with the conditions but accepted it as it is because of the financial constraints).

- Conditions are already under implementation but because of different constraints the Ethiopian government fails to perform up to the donors expectation (environmental threats, lack of skilled manpower and less competence, let realization of the appropriateness of the donors idea; that it is not suitable to the area, etc)

- Due to different reasons the Ethiopian government is fully against all criteria’s imposed, and is not in favor of them ( do not show any willingness).
The above conjecture are not totally simulated ideas. They are constructed based on the procedures that are frequently exercised by donors and imposed on the Ethiopian government\(^{21}\). These presumptions are formulated because we believe that these concepts would enabled us to illustrate impacts of conditionality that are fully or partially tied to any of these assumptions. So our main argument is not on the general term of conditionality but on the economic rationale of the reform or projects aid that flows to the country (tied with unnecessary criteria). However, implementing of projects without due consideration of ownership of government will not help to alleviate the dared economic problem; fails to achieve its target, retards the competence of the development practitioners. Even the interviewed government officials have critically commented and stated: conditioned aid lacks credibility, and has been frequently questioned by the government on its need (informants view from MOFED). Detailed illustration of each assumption is given below.

Assumption one is a case where conditions are imposed on the basis of mutual interest of donors and Ethiopian government, necessary and important criteria to achieve the targets of both. When the government of Ethiopia accepts aid conditions willingly it creates convenient environment that enhances development of the country (policy reform or development idea) that could not have been done through the government initiative alone. In developing countries the government incentive to undertake structural reform are subject to moral hazard problems, therefore conditionality may help to strengthen the impact of aid on poverty (Svensson, Jacob. 2000). However, all interviewed government officials of the country (Ethiopia) stated that: most of the time conditions imposed either on project or policy are rarely discussed by both stakeholders, it is almost a one sided decisions. They witnessed: when conditions are imposed based on the consensus made between donors and the Ethiopian government (that government accept these criteria willingly), its economic impact is always fabulous. Expressed: condition imposed on aid would become supporting if it does not go far either beyond our capacity or our will (interviewed informants at national and regional level). Thus, the problem of conditionality rises when aid is offered with several components as a requirement to be fulfilled with out considering the government submissive. Brief illustration of imposing conditions on the basis of common agreed points is given by the figure below.

21. Not purely simulations, this is the way how the actual practice is, particularly with the type of project aid.
Fig 1: Conditions imposed on Agreement basis Enhances Economic Development.

The above figure explains situations where donors’ commitment is designed to address the economic problems of Ethiopia; in return the government is ready to adopt donors ideology for the type of conditions imposed are sort of government favored package. In these circumstances, conditioned aid creates conducive workable environment; policies or projects could help to have knowledge spillovers, and the government can use donor driven strategies to promote the country development objectives. “This can happen when agreement raises the credibility of a government’s policies, allowing it to surrender some discretionary power in order to pre-commit itself to a defined set of policies for some period into the future. So long as outsiders take the programs seriously, the government can enlist the BWI as tacit guarantors of time consistency of its policies, as a reassurance to investors and others. Hence, the idea that conditionality can offer a ‘technology of pre-commitment”’(Killick, 1997, p. 488).

It is undeniable that there are cases when aid given with some pre or post conditions has created better environment and has facilitated to obtain changes. For instance if we consider the conditions imposed by IBRD, with the aim of having better institutional policy in Ethiopia, the changes has helped to revert the development ideologies form blurred economic functioning to some what workable economic environment. Consequently better environmental policy ( various institutional and macro policy changes has been introduced), enabled to acquire different knowledge through education or on job training; assist to have better development target. Therefore, if conditionality is posed with some agreements and when the government is accepting the package of development or policy change with full sense of willingness its credit in changing the over all future of the country would be enormous.

Implementing of aid conditions on basis of common agreement lead to increase the total government spending and it enhances service development, as it is given by the graph. Receiving of aid with flexible conditions led to shift the budget line from AA to A'A', similarly consumption ( government capital expenditure) shifts form IC' to IC''. Thus as long as aid is free of any impositions, provision of aid leads to increase government expenditure ( capital expenditure); it shifts from a combination of goods XY to X'Y', which is higher than pre aid case.

Moreover, aid offered on the basis of agreed conditions (by government and donor) also contribute to the improvement savings. Similar to the shifts in budget lines and indifference curves the rate of saving also raises as a result of aid received, but if conditions are liberal and aid resources is utilized properly. When donor and government idea fits each other receiving of aid adds to saving than to consumptions. For instance, as a result of aid received saving raises from YA to Y'A'.


Whereas in the case of the other presumptions it is different, instead aid conditionalities may lead to have another adverse impacts\textsuperscript{22}. We have found it necessary to state that such cases occurred when donors imposed conditions that are mainly associated with some pre/post-criteria; mainly project aid in Ethiopia is stumbled by such problems. Implies donors’ preference is likely to be a complex function of both altruistic and self interest motives, served as a means to promote better short run policies while contributing either to the postponement or repeated change of home driven efforts that could contribute in a more fundamental ways. Hence assumption 2, 3, and 4 describes such type of incidents: often government of Ethiopia received tied aid and comes upon several absurd circumstances.

When aid is given on the basis of assumption two conditionalities will not be an enabling mechanism in a way that improves aid effectiveness; become a threat to the country development needs. Conditions which are imposed outside the wish of the Ethiopian government enforce the government against preserving of the program or implementing of the conditions fully\textsuperscript{23}. The government may show its unwillingness for different reason. But donors often state: conditions are imposed because of distrust on the aid recipient government, government is utterly dishonest and incompetent and can not be trusted at all and conditions are posed as a controlling mechanism. So they imposed the criteria whenever they want to maintain the objectives of conditionality, such as restrain, monitoring, and supportive. However, no programs can be implemented without the willingness of the Ethiopian government; even if it got implemented it would not be successful, “aversion will be highest when a program does not marry with recipient’s own objectives, and it is reduced when recipients owned the adjustment program” (http://www.christian-aid.org.uk, p. 21).

Therefore the assumption given on item two above; “conditions” accepted as important by both sides but the government do not agree on the approaches, led to increases aid fungibility “suppose an aid donor gives money to build a primary School in a poor country. If the recipient government would have built the school any way, then the consequence of the aid is to release resource for the government to spend on other items. Thus while the primary school may still get built, the aid is financing some other expenditure by the government” (Devarajan and Swaroop, 1998, pp 3).

To define fungibility of aid we adopt Devarajan and Swaroop (1998) definition of aid fungible; money given by donors that does not bring any significant and different type of benefits to the Ethiopian government, but we do not agree with the statement of ‘the activity could have been undertaken any way’.

\textsuperscript{22} A situation of international dependence which could led to have dualism; dual economy and dual society).

\textsuperscript{23} When donors imposed conditions outside the willingness of the recipient, it is a real problem and is proved neither many of the programs are not fully implemented nor many of the conditions remain unfulfilled, Raffer, and Singer 1996).
Because in the case of the country under study (Ethiopia) more than fifty percent of the capital budget is financed by aid and without that the activity could not have been implemented. Our argument is since aid is not financed the exact needed development programs of the country; aid outcomes are neither up to the expectation of the donor, nor up to government or the community. Therefore, posing conditions are creating a room for aid fungibility as it is given by the fig below.

Fig 2: Aid Fungibility, Consequences of Aid Conditionality
As a result of aid received the budget line shifted upward. Initially the government was pleased to receive this additional resource to finance various development purposes (road (X), and/or Health (Y)). However, procedurally how these aid should be allocated is restricted (donor proposed to use more of the aid resource specifically, to allocate in the areas only where they recommended (as per the conditions imposed). However because of the complicated nature of the country poverty there are areas of development that needs priori attention for development and the government wish is to use aid on these areas, where argen development orientation actions are required. However, donors do not agree with, indicates procedurally donors and governments vary, though aid is used to fill the financial constraint of the country the preference of the donor and the government does not coincide. Aid will turn into fungibility (Fungibility depends on whether donor and recipient agree on the evolution of the composition of expenditure). In Ethiopia most project aid are construed by this problem; most of the development needs of bilateral donors do not fall within the preference of the Ethiopian government and the country is not securing the total amount of benefit what it supposed to acquired from.
According to the figure, in return to the aid received the budget line of the government shifts form the original BB to B\(^1\)B\(^1\). Within the budget BB (domestic resource) government can maximize his utility on any of the points, as there are no barriers. But within budget line B\(^1\)B\(^1\) there are some restrictions posed by the donor agencies, and consumption is fixed only within the equilibrium point e\(^1\), but government wishes to use the resource on other combinations (e\(^1\)) combination at point X\(_2\) and Y\(_2\). Variations in donor preference encumber the government to do not have optimal utilization of resources as none of these points lie on the indifference curve (IC\(_3\)). Despite the availability of aid (supplementary resource) its impact on solving the financial constraint of the government and attaining the planned goal is far from reality; shows’ receiving of aid tied to some rigid preconditions adds more to consumption rather than to the government capital expenditure or savings; aid becomes fungible. Our understanding of fungibility matches to the finding of Mecgillivray and Moddissey, 2000.

When donors imposed some ex-ante or ex-post criteria aid will turn out as a threat than opportunity, Donor need to understand the real problem of the country, if aid has to be used efficiently government should get the mandate of deciding where the resource should be utilized, and donors should monitor on how the fund to be allocated. “The exposition of fungibility requires one to project where indifference curves will be under a new budget constraint. It may be the case that governments need to attain some critical level spending on specific areas, but would allocate on greater proportion, or even all, of budget increase to other areas”(ibid, p.419). This is to indicate that just because of the conditions imposed aid resource must have used in the areas where it does not bring substantial difference on the live of the poor. Therefore pre conditions imposed on aid should not be used as a mechanism of controlling the government it has to be an enabling factor, which is extended to improve contingency financing of the country. It was Killick (1997), tried to indicate where conditions should impose and what conditions should be. He underscore, “the use of conditionality should not be excluded entirely but donors should be reluctant to use the hard-core variety unless there are specific grounds for believing that it will produce good results. Conditionality should be the exception rather than the rule” (Killik, 1997, p. 494).

Tying of aid to some pre/post conditions also sterilizes the hope of the government, and affects implementation of annual development plans. Albeit the efforts of the government to increase the capacity of manpower, the problem of human resource (lack of skilled manpower) is one of the most challenging factor for the country to do not attain its development targets, led to back tracking of government commitments. The donors frequently call it “poor absorption capacity”, which raises the cost of the project than the benefits. Having less human capital is frequently stated by the donors as a reason for suspension of the already committed aid funds or disbursing of less aid. Though its impact (obstruction) is not limited only to foreign resources its implication on aid is worse; development idea
proposed by donors to be implemented as a project is more sophisticated, requires experts and other well known professionals beyond the existed capacity.

On the other hand when donors employ the skilled once they frequently miss use project money; aid will benefit the non-targeted groups (the money end up in personal bank accounts: high salary, per dim, personal secretary, personal car, and other less necessary items to run the project). Therefore, despite what is stated by Killick (1997) ‘partial fungibility’, the impact of this assumption: “conditions are already under implementation but because of different constraints the Ethiopian government fails to perform up to the donors expectation”, and its impact is sever; not partial but aid would become fully fungible.

Fig 3: Infeasible aid conditionalities and its intricacy on implementing of annual development plans
(Figure is drawn on the basis of Klick, 1997).

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24 According to development effectiveness report of 2003, capacity is defined as the ability of individuals, institutions, and societies to identify their development needs, set objectives and solve problem to achieve their goals in a sustainable manner (pp8). In Ethiopia there is limited availability of skilled manpower. Besides to that these that are skilled do not work with the government; neither the government offered them place. The ‘political difference’ are always one reason for the miss matches between these that are employed and what exactly is required. Only these who are political trusted are assigned in the major key administration areas, what ever their skilled is Development Effectiveness Report 2003.)
In general, for different reasons the third assumption procreate burden on the government. First in a country like Ethiopia where there are no skilled manpower donors multiple procedures does not solve the problem, rather it weakens them from exercising what they already know. Government officials or senior ministries devote much of their time to facilitate or participate in donor supervision missions; unable to invent other development ideas “donors may fragment central capacity for policy formation, entering with ministries into bilateral deals on multiple project with out determining whether their cumulative effects are collectively sustainable or mutually consistent” (World Bank, World Development Report 1997: p. 84). Second, when the conditions are not fulfilled donors suspend the committed aid, which creates a lot of complications on the over all implementation of the project. Third, there are pre-matured consolidation of projects (projects are forced to phase out before the due period) a punishment for not fulfilling of donors criteria, ascertains the money is neither productive in Ethiopia nor stored in the donor countries (wastage of man power utilization, and resource ( domestic and foreign).

As a result of aid suspensions the budget line is truncated. Consequently government of Ethiopia can only produce at $e$, not on the planned budget line at $e^{11}$. Sudden canceling of aid due to execution of projects far below the donors expectations lead budget line $D^1D^1$ to be kinked, as the budget amount get dwarfed government would be forced to consume only on budget line of DD. Conditionality left the government empty hand that led to several complication; particularly implementing of the already designed annul development programs would be become slightly complex. “When donors are not satisfied with the initial development of the project, it is common they suspend their aid and the project remains hanging in between”. Thus this type of aid conditionality affects the internal budget order of the government (created budget disorder), experts wastes time and resource to designed activities that would not be accomplished.

The fourth assumption is usual26. It refers to the case of missing the chances of receiving aid; a punishment for the government (the country) for not implementing the criteria proposed by a particular donor organization or multilateral. If conditions imposed by donors are not implemented and government nullifies the proposed ideas for different reason (especially in cases where it is highly related to the

25 The clash that has occurred as a result of election 2005 in Ethiopia, is a best examples for this conjecture. It has recognized how donors idea has keep on changing based on the daily idea shifts of the country politics ( dialogues between the government ( EPRDF) and the oppositions, demonstrations made by the political groups have played a significant role to make a lot aid cancellations; shift from giving of aid in the form of budget to the project type, which is less important).

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political and economic relation of the country) donors have a strong stand point; not giving the already committed aid amount. Even if the country has a good record related to proper utilization of previously offered aids, and/or making some improvements on the country policy. From what already is going on in Ethiopia it has recognized that past records cannot be a supporting evidence for the future rewards, to give aid.

For instance on relative base the government of Ethiopia is highly applaud for the achievements made ( it was stated in various international reports and the government was highly appreciated), and the country had a better record. But the political shocks ( as a consequence of 2006 election results) have influenced the previous positive achievements. We have seen even the criteria of “selectivity” which was used by the donor themselves as a reward mechanism is ignored; otherwise the government could not have faced such challenges.

In addition the ideas that are often reasoned out by donors is the frequent blames by IMF and IBRD for the government of Ethiopia against his rigidity related to land privatization and financial liberalization. IMF wanted Ethiopia not only to open up its financial markets to Western competition but also to divide its largest bank into several pieces; IMF regarded this as a means of strengthening the financial system by creating an auction market for Ethiopia’s government treasury Bills-a reform, as desirable as it might be in many countries, which was completely out of tune with that countries state of development; wanted the country to liberalize its financial market ( please also refer E.Stiglitz, 2002).

Donors frequently warn on this and they raise this issue of land privatization and financial liberalizations as two of the most necessary criteria and a better mechanism to achieve better development and receive more of aid ( during our interview this were two of the most important areas frequently raised by the WB and EU representatives in Addis). But government has already marked it as a sensitive area. To poor countries like Ethiopia liberalizing of financial market is not a feasible development strategy to reduce existed economic problems rather it may led to another complicated issues. Especially for the Ethiopian that earns less amount of income finical market liberalization will not solve the problem what they are really facing; would not led them to get credits at a reasonable terms or provide them better facilities. He believe this requires time and is a step wise procedure, not now ( Interviewed with Manyazewal, M.2004.). So despite the suggestions of the IMF the government of Ethiopia try to see the banking systems that are operating at present are quite efficient and up to the financial ability of the poor Ethiopians.

27. IMF insist on financial market liberalization believing that competition among banks would lead to lower interest rates. However real practices ascertains that the difference between borrowing and lending rates are far lower than those in other developing countries that had followed the IMF advice still for details please refer E. Stiglitz pp 31).
But what we are trying to indicate is from our discussion with our informants we have noticed that not accepting IMF idea seems to influence the quantity of aid received by the country. If the government declares land privatization or financial liberalization, aid flow to Ethiopia could have been high, at least higher than what exactly received now.

Conditioned aid reduces tax revenue and limits government vision. The goal of donors in the contemporary state system have complex economic underpinnings as the ideology of aid is so vast, ranging from economic determination to rational choice. Therefore, the political context of donors’ has great uncertainty about security and economic ‘interests’. The difficulty arises because the foreign policy centers on solving the immediate problem of developing countries without considering its adverse consequences in the long run; collective action problem is the basic barrier to sustainable aid (costs, such as taxes are visible, and divisible). And solving this collective action is complicated as the path varies according to the political system of various donors.

When donors’ motivation for sustaining aid is related to economic interest of the powerful donor groups; they draft aid policy with a view to its implication for their own economic benefit, and/or strengthening of their political relations that boosts their power to dominate the economic and strategical pattern of the aid recipients. Particularly when aid is designed as an effort to maximize benefits of donor states they often seek the conditions that could optimize their preferences from the situation of the international system linked to trade enhancement and expanded, more secure overseas investment opportunities. In these instances the state is a unified actor with interests; this interest arises from a state’s position in world affairs. Therefore aid in these cases is mainly used to advance such interests, whether diplomatic, commercial, and so on. In addition there are situation where donors feel justified to reduce the balance of payment cost of their aid by requiring recipient countries to purchase aid financed goods from the donor or other partner country, subject to some safeguards of appropriate quality and prices. But economist and multilateral donors have argued on this type of aid delivery system, “aid tying is a potential source of economic distortions, particularly in cases where the donor is overly concerned with the proton of home exports” (Adelman, 2000, p.94). Despite the long time argument on the harmful impact of giving such conditioned aid donors are skeptical on unveiling of these criteria’s.

Most of the project aid in Ethiopia is tied to specific activity that requires heavy cost to purchase materials to run the project activities. But, projects that require purchase of materials from abroad and or projects that import some items that are necessary to undertake the development program has an adverse impact on the total revenue of the country: for the items are imported with out paying the necessary import duties.
Conclusion

Regularly, developed countries proclaim provision of aid is with aim of assisting the economy of poor countries. However, objective of giving aid varies from donor to donor and in order to attain the intended aim (assisting of developing countries) or the other implicit agendas (political, commercial and or strategically) donors often link aid to some criteria’s.

These ex-ant or ex-post conditionalities or the aid tying are either to the premise (loans provided on the basis of the premise), procurement in donor countries, implementation of programs, and/or to specific projects. Imposing of one/all of these criteria’s to the aid offered is not totally erroneous; it all depends on how the conditions are imposed and whether it is fully accepted by the aid recipient government or not.

Usually donors imposed ideas taking into consideration either the experience of their countries or other developing countries and they expect all countries to perform homogenously. They act as a platonic guardian of developing countries, imposing conditions on southern countries and expect these conditions to be implemented assiduously. Despite this one sided aid implementation procedures, aid recipient often submit (unwillingly) to the supply driven criteria’s; the financial crisis forced them to accede donor package. However, impact of aid conditionality is not always the same; it differs on what types of tying is/are made and how the government is reacting towards it.

In this chapter we have discussed the general impact of conditionalities on aid effectiveness in Ethiopia, with particular attention to the period of EPRDF government. Besides to the general theoretical discussion, we have tried to highlight on the main conditions imposed to the aid offered, mainly conditions imposed in the form of the two P’s (project and program). More over we attempted to touch on the impact of aid tying related to procurements. But more emphasis is given on conditions related to projects, where most aid in Ethiopia is offered.

Nevertheless, imposing of conditions is not always an effective tool either to implement policies or various development activities of the country; sometimes it may end with unforeseen consequences (adverse impacts). For instance conditions imposed by IBRD/IMF can be enhancing factors only when donors and governments have proper and balanced partnership, coordination, dialogue, and commitment, conditionality with out all these would not led to have astonishing impacts.
To identify impact of imposing aid conditions on aid effectiveness, we have tried to formulate some prepositions (these are formulated on the basis of the theoretical reviews made and the real practices observed in the country). Our findings have been drawn based on the simulated ideas formulated, interviews conducted, and descriptive analysis made.

From the interviews conducted we have understood that aid conditionalities that are imposed on the aid offered, and are welcomed by the Ethiopian government have led to bring a considerable changes, on economic policy, institutional structure, and aid utilization procedures. Reveal when aid conditions imposed on the basis of common understanding of both agents, if donors idea matches to the economic, political, environmental, and availability of skills of the country then aid conditionalities plays a significant role to promote policies, and implementation of development projects will not be difficult. Since conditions are imposed on the bases of agreed points, government of Ethiopia can make use of donor development idea or policy proposals to transform the country from economical and political backward to some what reasonable state.

However the real experience reveals different, there are plenty of aid (project) given to the country with some pre/post conditions, these conditions are imposed with out proper and balanced agreements. In order to illustrate the impact of these conditions we have formulated some assumptions. According to some of the presumptions formulated and interviews conducted, we manage to derive conditionalities imposed restrict the efficient utilization of resource, and are working against the proposed agenda: became a distortionary factor to the economic and political stability of the country.

Usually government may have the wish and desire to implement these imposed conditions but there are various unpredictable factors that hinders from doing as it is supposed to be. In these cases, donors prefer to cancel or reduce the total amount of aid given thinking that there are resource wastages. Nevertheless, canceling of the already committed aid or allocating aid in the areas where the government does not prefer would have a greater impact on aid utilization (aid is becoming fungible), and it also creates budget destabilization. Besides, conditionalities related to procurement are acting as retard factor, affects the total revenue of the country.

In these cases aid would not bring the expected targets of the donors and the Ethiopian government. Instead giving aid tied with pre and/or post conditions became a threat than opportunity. Therefore, conditions imposed on project and program with out considering the spatial and skilled manpower who plays a meaningful role is always flawed. Thus, ‘one size fits all’ approach makes a case for more varied, and more challenging consequences, subsequently aid will become ineffective.
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