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Aid and Economic Self-Sufficiency

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Introduction

Donor countries and multilateral organizations may pursue multiple goals with foreign aid, including supporting low-income country development for strategic/security purposes (national security, regional political stability) and for short-and long-term economic interests (market development and access, local and regional market stability). Though foreign aid flows also include debt cancellation, emergency relief assistance, and technical cooperation, the bulk of aid is provided in the form of grants and soft loans for economic programs and projects (IFIAC, 2000). Ostensibly the ultimate goal of aid is that recipient countries develop to the point where they are "economically self-sufficient" and do not require further aid inflows (Prizzon, Rogerson, & d'Orey, 2017; Hailu & Shiferaw, 2016; Kasuga & Morita, 2012; Griffin & Gurley, 1985).

A large literature on aid effectiveness has sought to determine where and when aid flows might be associated with different indicators of development. Many conclude that there is lack of robust evidence that aid promotes economic growth (Doucouliagos & Paldam, 2009; Rajan & Subramanian, 2008; Roodman, 2007; Easterly, Levine, & Roodman, 2004; Easterly, Levine & Roodman, 2003; Kosack, 2003), but others find that aid has had a positive effect on growth (Brückner, 2013; Hansen & Tarp, 2000, 2001; Lensink & White, 2001; Fayissa & El-Kaissy, 1999; Fischer, Sahay & Vegh, 1996; Stoneman, 1975). Collier & Dollar (2002) conclude that aid is subject to diminishing returns, focusing on the relationship between higher levels of official development assistance (ODA) and development indicators such as per capita GNP, the ODA to GDP ratio, and measures of institutional and policy quality. Overall the literature suggests that aid effectiveness (broadly defined) may depend on the type and form of aid flows (Biscaye, Reynolds, & Anderson, 2016; IFIAC, 2000), the economic, social, and political context of recipient countries (Knack, 2009), and on the presence of natural and socioeconomic shocks (Combes, Ouedraogo, & Tapsoba, 2016; Dietz & Houtkamp, 1995).

While the literature on aid effectiveness is inconclusive, donors are interested in evidence that aid funding is not permanent but rather contributes to a process by which recipient countries develop to a point that they are economically self-sufficient (Prizzon, Rogerson, & d'Orey, 2017). The concept of "self-sufficiency" for low-income countries is inconsistently defined in the literature. In the sense that self-sufficiency involves reduced dependence on foreign aid for government spending, one potential measure is the share of aid in government expenditures (either overall expenditures or funding to specific areas). However this measure of self-sufficiency is endogenous to aid flows, complicating efforts to identify causal relationships between aid and the realization of self-sufficiency. Alternatively, some donors use measures of income per capita and ability to attract other sources of funding as indicators of a country's self-sufficiency (Carter, 2016; Knack, Rogers, & Heckelman, 2012; Moss & Leo, 2011). Multilateral aid organizations such as the World Bank's International Development Association (IDA), the International Monetary Fund (IMF), and the African Development Fund (ADF) for example aim for aid recipient countries to "graduate" from receiving concessional financing after they reach particular thresholds for GNI per capita and creditworthiness.

Finally, other research considers self-sufficiency to be a reflection of not only financial performance, but also institutional and social development. According to a review by Knack, Rogers, & Heckleman (2012), countries'

graduation from International Bank for Reconstruction and Development (IBRD) concessional funding has been associated with their level of institutional development and relative vulnerability to trade, financial, and other shocks, in addition to their per capita income and creditworthiness.

Aid-receiving countries, meanwhile, may be concerned with preventing donor-imposed financial shocks brought on by changes in their development status, and may be wary of thresholds used by donors to determine self-sufficiency. A recent working paper from the Organization for Economic Cooperation and Development (OECD) (Davies & Pickering, 2015) reports the results of interviews with 61 senior government officials from 40 countries receiving aid from OECD Development Assistance Committee (DAC) countries, finding that only 35% of respondents indicated that their government "has a formal or informal goal of, or strategy for, reducing reliance on development assistance" (*ibid.*, p. 39)[1]. The authors further find that fully 75% of countries in the survey have no specific timelines in place for a transition away from aid.

In this report we review the literature on economic self-sufficiency, including graduation policies of major international donors, to identify indicators commonly used to measure self-sufficiency and evidence that foreign aid has been successful in supporting countries to transition to self-sufficiency. Appendix A includes a summary of our search methods.

Our primary research question is to understand how "self-sufficiency" for an aid recipient country is defined and measured in policy documents and academic scholarship. This effort to conceptualize "self-sufficiency" informs our secondary research question, asking what is the evidence that country transitions toward self-sufficiency are associated with an identifiable set of conditions (e.g., aid by type—grants versus loans—or by sector—humanitarian aid, debt relief, economic or social infrastructure and services; access to other external funding resources such as FDI or remittances; or presence/absence of conflict or natural shocks)? In particular, we explore whether there is evidence of a role of aid in supporting transitions toward self-sufficiency. Many past studies on aid effectiveness have analyzed the association between aid flows and GDP growth and other development outcomes; we do not aim to further examine the effectiveness of aid. Rather, we are interested in analyses and/or case studies of where aid has or has not been effective in enabling recipient countries to become economically self-sufficient, as measured by commonly applied metrics for self-sufficiency.

This report proceeds as follows. First, we review the literature on measures of country self-sufficiency as discussed in multilateral and bilateral donor policy documents and in academic studies and gray literature on aid transitions. Commonly reported measures of self-sufficiency include aid inflows as a percent of GDP, aid as a proportion of government revenues/expenditures, GNI per capita, ability to raise government revenues (e.g., through taxes or bond markets), and various social and institutional measures of country performance (often embodied in donor standards for aid eligibility and for graduating from receiving concessional financing or other aid). Based on this review, we identify a set of countries highlighted in the literature and in specific donor policy documents as presenting examples of success or challenges in transitions toward self-sufficiency as measured by various indicators. Then, we summarize evidence from the literature on the relationship between aid and self-sufficiency and use this as a foundation for exploring the role of aid in transitions toward self-sufficiency in five case study countries. We analyze trends in aid and indicators of self-sufficiency for Botswana, India, Indonesia, Ghana, and Rwanda (all countries highlighted in the literature on self-sufficiency), evaluate the conditions under which increased self-sufficiency was realized (or not) in each country, and summarize evidence from the literature on the role of aid in this process. Each detailed case study is included as a separate attachment, and we present a summary of findings from the case studies at the end of this

[1] The authors further find that this percentage climbs to 41% for countries whose ODA/GNI ratio is above 10%. Countries classified as "fragile" were also more likely (44%) than "non-fragile" states (26%) to have a formal goal or strategy for reducing aid reliance.

report. Finally, we discuss key takeaways from the literature and the case studies on the role of aid in transitions toward country self-sufficiency.

Conceptualizing Self-Sufficiency

The concept of "self-sufficiency" for low-income countries is inconsistently defined in the literature, with most donor policy documents and studies not specifically referring to "self-sufficiency" but rather discussing various aspects of self-sufficiency or indicators that relate to self-sufficiency. The following section summarizes the ways self-sufficiency is defined and measured, including the various measures used by donor agencies to evaluate recipient country self-sufficiency, as well as measures reported in the published and gray literature relating to aid and self-sufficiency.

Donor Policies: Aid Eligibility (including Graduation and Exceptions) and Allocation

Donor organizations have various policies for determining which countries are candidates to receive aid and the conditions under which aid should be reduced or ceased. Aid eligibility policies (including rules surrounding graduation from aid eligibility and exceptions to such rules) and aid allocation policies thus help to define self-sufficiency of aid recipient countries by specifying the criteria used by donors to decide whether a country has need of aid or whether it can continue to develop without or with less aid.

We identified 19 documents that directly discuss self-sufficiency in the context of aid eligibility and/or aid allocation policies (summarized in Appendix B). Fifteen of the 19 are donor policy documents and the other four are academic studies of donor policies. The documents primarily cover aid policies for multilateral agencies, but the United Kingdom's bilateral Department for International Development (DFID) is also included. Multilateral donors with publicly available aid policies include the World Bank's IDA and IBRD, the ADF, the Inter-American Development Bank (IDB), the IMF, the GAVI Vaccine Alliance, the United Nations Development Programme (UNDP), the Joint United Nations Programme on HIV/AIDS (UNAIDS), the United Nations Children's Fund (UNICEF), and the Global Fund to Fight AIDS, Tuberculosis, and Malaria (GFATM).

Aid eligibility policies include policies establishing the conditions under which countries are eligible for concessional aid. Countries that meet the eligibility criteria for concessional aid may be considered less self-sufficient than countries that no longer meet those criteria. Aid eligibility policies typically consider countries' per capita income as a primary indicator of economic status, but may also take into account a variety of other factors depending on the donor organization:

- **Creditworthiness**: A measure of recipient countries' ability to access non-aid funding is one common consideration in aid eligibility criteria (World Bank, 2016; Knack, Rogers, & Heckelman, 2012; Moss & Leo, 2011; World Bank, 2010). Since creditworthiness is hard to measure, donors often rely on proxies such as the Institutional Investor's Credit Rating or surveys of economists and risk analysts.
- **Tax Revenue**: As with creditworthiness, some donor policies consider countries' ability to collect tax revenue as a source of funding (Prizzon, Rogerson, & d'Orey, 2017; Kharas, Prizzon, & Rogerson, 2014).
- **Other Considerations**: Some donor-specific criteria are used to establish aid eligibility, for example the Global Fund defines eligibility criteria to "identify which countries, based on disease burden and country economic capacity, may qualify to receive an allocation and apply for funding and under which conditions" (The Global Fund, 2006, p. 7).

Aid allocation policies include formulas for deciding how much funding eligible countries should receive (Carter, 2014). Formulas vary across donors, but fundamentally these rules apply weights to two characteristics of recipient countries: (i) the economic status of the country, to help donors ascertain the finance "gap" and identify the potential need for external resources (Chenery & Strout, 1966), and (ii) the country's ability to use

aid effectively, i.e., donors' assessment of recipient countries' capacity to manage aid inflows (Carter, 2014). As such, the various aid allocation criteria may provide an indication of the relative self-sufficiency of the recipient countries, with relatively less self-sufficient countries receiving greater aid allocations and vice versa. As with aid eligibility, the most common aid allocation criteria include economic status as measured by per capita income and related measures, and access to alternative sources of finance including credit-worthiness and tax revenues. However, relative to aid eligibility criteria, a broader suite of indicators are used by donors for aid allocation decisions, including:

- **Quality of institutions / Country policy assessments** (Carter, 2016; Saxenian et al., 2014; ADF, 2013; Knack, Rogers & Heckelman, 2012; World Bank, 2012; Moss & Leo, 2011; IDB, 2009): Sometimes referred to collectively as "performance of recipient countries," institutional quality is often the main factor determining aid allocation among eligible countries. For example, the IDA uses the Country Policy and Institutional Assessment (CPIA), which ranks countries based on indicators including institutional capacity, fiscal policy, and social equity, and Portfolio Performance Rating (PPR) to measure countries' potential aid allocation (World Bank, 2010).
- **Public debt ratio** (IDB, 2009): The public debt ratio is used as a measure of country economic vulnerability, and may also reflect a government's ability to raise funds in capital markets. There are different ways to measure the public debt ratio, including but not limited to: public and publicly guaranteed external debt as a percentage of GDP, general government net lending as a percentage of GDP, and total external debt or external public debt/GDP.
- **Aid to GDP ratio** (Prizzon, Rogerson, & d'Orey, 2017): The aid-to-GDP ratio is often used as a measure of a country's reliance on aid, with the expectation that if aid is effective the ratio will decline over time (though no firm causal relationship is established in the academic literature). The World Bank uses four other measurements to capture the country's aid dependency: aid as a percentage of GNI, aid as a percentage of gross capital formation, aid as a percentage of imports of goods and services, and aid as a percentage of central government expenditure (World Bank, 2007a).
- **Population** (Saxenian et al., 2014; Knack, Rogers, & Heckelman, 2012; World Bank, 2012; IDB, 2009): Simple population indicators are often used to gauge "country needs" in aid allocation, given eligibility under other criteria. However, some donors have their own measurements of population-related needs; for example, GAVI considers health needs using disease burden (The Global Fund, 2016).
- **Poverty** (Carter, 2016; UKAID, 2016; World Bank, 2010; USAID, 2006): Similarly, the extent of poverty is used to inform aid allocation decisions as well as aid eligibility. Measures include the money required to fill the poverty gap as a percentage of GDP (with a one percent target proposed by the World Bank) (Kasuga & Morita, 2012), and the multidimensional poverty index, which is proposed for use by DFID (UKAID, 2016).

In addition, some donors focus on sector-specific allocation criteria. For example, the GAVI Alliance considers a country's need for vaccines, the Global Agriculture and Food Security Program (GAFSP) considers mal-nourishment, and the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) considers disease burden.

Tables 1 and 2 summarize criteria used by international development organizations to establish aid eligibility and determine aid allocation for recipient countries. All of the organizations reviewed use measures of national production or income (generally GNI per capita) in aid eligibility and allocation decisions, however a broad array of other measures of economic performance and institutional quality are also widely used. Countries with better ratings on these indicators are considered as relatively less in need of aid and may therefore also be seen as relatively more self-sufficient. Countries may, however, have better ratings according to certain indicators and worse ratings for others, which may indicate that the country's transition toward self-sufficiency is more uneven, with greater self-sufficiency in some areas but continued reliance on aid in others.

Table 1. Indicators used by donors for aid eligibility

	Entity	Eligibility				
		GNI per capita	Credit-worthiness	Other	Aid exceptions	Lending/transition categories
Multilateral Finance Institution	African Development Fund (ADF)	< $1,215 (2016)	Y		Arrears clearance through the Heavily Indebted Poor Countries Debt Initiative (HIPC)	ADF-only; Blend/Gap; AfDB-only; Graduation
	Asian Development Bank (ADB): Regular Assistance	< $7,175 (2016)	Y	Does not reach a certain level of development as measured by major economic and institutional indicators		Group A (ADF only): Concessional assistance only; Group B (blend): Ordinary Capital Resources (OCR) blend; Group C: Regular OCR only; Graduation
	Asian Development Fund (by ADB)	< $1,215 (2015)	Y			Group A (ADF only): Concessional assistance only; Group B (blend): Ordinary Capital Resources (OCR) blend; Group C: Regular OCR only; Graduation
	Inter-American Development Bank: Fund for Special Operation (IDB)[2]	<$2,587				
	International Bank for Reconstruction and Development (IBRD)	< $6,895 (2016)		Unable to obtain loans under "reasonable" conditions and no private capital with "reasonable" terms		IDA-IBRD Blend; IBRD-only; Graduation
	International Development Association (IDA)	< $1,165 (2016)	Y		Arrears clearance; Post-conflict countries; Small island countries	Core IDA (IDA-only, Non-Gap); IDA Only (IDA-only, Gap); Blend; Graduation to IBRD
	International Fund for Agricultural Development (IFAD)	< $1,215 (2015) Using GDP per capita when significantly different from GNI	Y		Arrears clearance; HPIC	Highly concessional; Blend; Ordinary Lending Terms
	International Monetary Fund (IMF): Poverty Reduction and Growth Trust	< $1,215 (2015)	Y	Presence of short-term vulnerabilities	IMF's Extended Fund Facility for PRGF-eligible members with per-capita income above the threshold for World Bank concessional lending; HIPC	

[2] As of January 1, 2017, no new loans are financed from the FSO. Net Assets from the former FSO were transferred to the Inter-American Development Bank's Ordinary Capital (OC), and were used to fund a concessional blended loan for IDB's most vulnerable members (Bolivia, Guyana, Honduras, and Nicaragua) (IDB, 2017).

Vertical Fund	GAVI Alliance	< $1,580 (2016)			Access to Pneumococcal Vaccines	Initial self-financing; Preparatory transition; Accelerated transition; Fully self-financing
	Global Agriculture and Food Security Program (GAFSP)	< $1,215 (2015)		Members of the IDA that are in non-accrual status	Exception for some IDA blend countries and non-members of the World Bank	
	Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM)	Y (World Bank income group)		Disease Burden, Non G20, ODA eligible as determined by OECD (with exception of a reported disease burden above "high")	Small Island Economy – High Disease Burden exception; UMIC - Low-Moderate Disease Burden exception[3]	Low-Income Countries; Low-Middle Income Countries (LMIC) with high disease burden classification; LMIC with low/moderate disease burden classification/UMICs; Ineligible
	United Nations Children's Fund (UNICEF)	< $ 2,895		Has a UNICEF-supported Country Program		
Multilateral Donor	European Union (EU)	Y		Socioeconomic indicators & Strategic interests		
Bilateral Donor	Millennium Challenge Corporation	< $4,125		Comparative scores on 20 indicators in three categories: ruling justly, encouraging economic freedom, and investing in people		
	United Kingdom Department for International Development (DFID)			Countries where extreme poverty affects a significant proportion of the population, is projected to persist over the medium term, and the country is less able to self-finance poverty reduction		
	United States Agency for International Development (USAID)	Y (income level)		Social development indicators, institutional capacity, and strategic interests		

[3] "Recognizing the diversity of country situations, eligible UMICs with a 'high' disease burden and eligible 'Small Island Economy' exception countries to the International Development Association lending eligibility requirements19 with a 'low' or 'moderate' disease burden will only be eligible to receive a pre-defined maximum amount of funding." As found at https://www.theglobalfund.org/media/4227/bm35_06-eligibility_policy_en.pdf

Table 2. Indicators used by donors for aid allocation

	Entity	Allocation				
		GNI per capita	Measures of country performance/institutions	Population	Poverty	Other
Multilateral Finance Institution	African Development Fund (ADF)	Y	Y (Country Policy and Institutional Assessment - CPIA)	Y		African Infrastructure Development Index Score, Portfolio Performance Assessment
	Asian Development Bank (ADB): Regular Assistance	Y	Y (Composite Country Performance Rating - CCPR)	Y		Risk of debt distress
	Asian Development Fund (by ADB)	Y	Y (CPIA)	Y		Risk of debt distress
	Inter-American Development Bank: Fund for Special Operation (IDB)[2]	Y	Y (Country Institutional and Policy Evaluation - CIPE; CPIA)	Y		
	International Bank for Reconstruction and Development (IBRD)					Risk & prudence consideration
	International Development Association (IDA)	Y	Y (CPIA)	Y		
	International Fund for Agricultural Development (IFAD)	Y	Y (Adjusted CPIA)	Y (rural population)		
	International Monetary Fund (IMF): Poverty Reduction and Growth Trust	Y				Program-based conditionality for some support
Vertical Fund	GAVI Alliance	Y	Y (DTP3 Coverage Levels)			Need for vaccines
	Global Agriculture and Food Security Program (GAFSP)					Country readiness and proposal evaluation; degree of malnourishment
	Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM)		Y (Performance through incentive funding in NFM)			Disease burden and indicative funding
	United Nations Children's Fund (UNICEF)			Y (child population)		Under-five mortality rate of more than 30 deaths per 1000 live births
Multilateral Donor	European Union (EU)	Y (income category)			Y	Strategic interests
Bilateral Donor	Millennium Challenge Corporation	Y	Y			Country status reports, compacts and Threshold Programs, 16 specified indicators
	United Kingdom Department for International Development (DFID)		Y (Aid effectiveness as defined by the degree to which aid can translate into poverty reduction in a particular context)		Y	Strategic interests, fragility and self-finance
	United States Agency for International Development (USAID)	Y (income category)			Y	Local commitment and strategic interests

A subset of aid eligibility policies, ***graduation policies*** establish the conditions under which countries are no longer eligible for concessional financing. According to Knack, Rogers, & Heckelman (2012), "graduation" refers to the World Bank's formal determination that a country has attained a certain level of development that renders it ineligible for new IDA or IBRD borrowing. However, the concept of "graduation" from aid eligibility is not unique to the World Bank; rather it reflects the achievements of a country in reaching a certain level of development, management capacity, and access to capital markets (as judged by donors). The graduation policies of other multilateral institutions, including the IMF and regional development banks such as the ADF, the ADB, and the IDB, are generally closely aligned with those of the World Bank (World Bank, 2012).

In addition to the more common GNI- and creditworthiness-based measures used for aid eligibility policies, graduation policies may also incorporate various economic and institutional metrics into calculations of country graduation status. World Bank graduation from IBRD or IDA concessional aid, for example, is not an automatic consequence of reaching a particular income level, but is also based on the country's institutional development and capital-market access (Knack, Rogers, & Heckelman, 2012). Ultimately, graduation policies are often flexible because countries may remain vulnerable and subject to "reverse-graduation" even after crossing established GNI per capita thresholds for graduating from IDA concessional aid (Table 3).

Table 3. World Bank IDA graduations and reversals, 1961-2017

Country	Year of last IDA credit	Year of reverse-graduation to IDA	Country	Year of last IDA credit	Year of reverse-graduation to IDA
Chile	FY61		Cameroon	FY81	FY94
Costa Rica	FY62		Egypt	FY81; FY99	FY91
Colombia	FY62		Nicaragua	FY81	FY91
Nigeria	FY65	FY89	Congo Republic	FY82	FY94
Dominican Republic	FY73		Papua New Guinea	FY83	FY03
Korea	FY73		Zimbabwe	FY83	FY92
Côte d'Ivoire	FY73	FY92	Equatorial Guinea	FY93	
Turkey	FY73		St. Kitts and Nevis	FY94	
Botswana	FY74		China	FY99	
Ecuador	FY74		Macedonia, FYR	FY02	
Syria	FY74	FY17	Serbia	FY07	
Mauritius	FY75		Albania	FY08	
Swaziland	FY75		Montenegro	FY08	
Morocco	FY75		Azerbaijan	FY11	
El Salvador	FY77		India	FY14	
Paraguay	FY77		Angola	FY14	
Tunisia	FY77		Armenia	FY14	
Jordan	FY78		Georgia	FY14	
Thailand	FY79		Bosnia & Herzegovina	FY14	
Philippines	FY79; FY93	FY91	Sri Lanka	FY17	
Honduras	FY80	FY91	Vietnam	FY17	
Indonesia	FY80; FY08	FY99	Bolivia	FY17	

Source: World Bank, 2017

Although not the focus of this report, sector-specific programs provide an additional range of graduation policies and criteria (in this setting, self-sufficiency is defined in relation to the program/sector goals, as opposed to over-arching country metrics). For example, Chaudhry et al. (2012) summarize USAID's Family Planning program, which has graduation criteria related to financial, programmatic/institutional, and health outcomes, including:

- Total fertility rate is less than 3.0
- Modern-method contraceptive prevalence is greater than 55% of married women of reproductive ages
- At least 80 percent of the population can access at least three family planning methods within a reasonable

distance (may be farther than 5 km. for long-term and permanent methods)
- No more than 20 percent of family planning products, services, and programs offered in the public and private sectors are subsidized by USAID
- Major service providers (public sector, NGO, and private commercial sector) meet and maintain standards of informed choice and quality of care

These measures of self-sufficiency are related both to a country's ability to continue making progress toward sectoral outcome measures, and to the general level of development of the sector as a whole. By tracking graduation criteria for sector-specific programs—in contrast to graduation criteria for aggregated economic self-sufficiency—it is possible to evaluate whether measures of self-sufficiency in one sector correlate with measures of self-sufficiency for a country in aggregate.

Lastly, another subset of aid eligibility policies, ***aid exception policies*** include various circumstances donors have determined to justify continuing aid flows to a country that otherwise meets the criteria for graduation from concessional aid. Measures mentioned by various donors for aid exception (or aid extension) include the presence of selected indicators of country vulnerability, most notably a resurgence or continuation of conflict and continued exceptional treatment by other multinational development banks (World Bank, 2016; World Bank, 2012). Other justifications for exceptions to aid eligibility rules include special allocations for:

- **Arrears clearance** for countries whose payment for loans and credits are six months overdue—for example, Liberia has been in this status with the World Bank for 20 years (World Bank, 2007b);
- **Post-conflict countries** such as the support provided by the World Bank to Côte d'Ivoire, Afghanistan, Angola, Burundi, Congo, Eritrea, Liberia, Sudan, and others (World Bank, 2007b);
- **Small island countries** under 1.5 million people, which maintain their eligibility to receive IDA support even after exceeding graduation thresholds due to their "vulnerability [from] size and geography, and very limited credit-worthiness and financing options" (World Bank, 2017).
- **Special provisions for regional projects** (OECD, 2013); and
- Support for countries facing **natural disasters** (Moss & Leo, 2011).

Mechanisms for flexibility in aid provision include transitional support, as well as "blend" status (Table 4) used by the World Bank to classify countries falling between IDA and IBRD standards for aid eligibility (World Bank, 2016)[4].

Table 4. Provisions for IDA "Blend" status for transition from concessional aid

Type	Threshold (IDA18)	Available support from World Bank
Core IDA (IDA-only and non-gap)	Below $1,165 GNI per capita. No access to credit on private sovereign debt markets.	High risk of debt distress: 100% grants; Moderate risk of debt distress: 50% grants; Low risk of debt distress: loans on regular terms
IDA-only (gap country[1])	Above $1,165 GNI per capita. Not creditworthy.	Loans on harder "blend" financing terms, no IBRD financing
Blend	Below $1,165 GNI per capita. Creditworthy.	IDA hard-term credits and regular IBRD loans

[1]Gap countries are those with incomes above the operational cutoff, but which are not creditworthy for IBRD lending, and might therefore find themselves without access either to IBRD or IDA resources for their development (World Bank, 2001). Adapted from Carter (2016).

Moreover, given the risk of reversal (falling back into aid dependency) after graduating from concessional aid, some donors have policies for continuing to contribute to support countries' transition away from aid post-

[4] Allocations to World Bank "blend"-status countries which receive both grant-based and loan-based support through IDA and with large populations may be capped to ensure small countries obtain necessary resources (World Bank, 2016).

graduation. For example, the IDA includes a five-year delay between exceeding the aid eligibility threshold and new IDA lending ceasing (i.e., formal graduation) (World Bank, 2016). This delay allows country authorities adequate time to plan for their changed borrowing status. It also is designed to prevent reverse-graduation as a result of short-term volatility in income levels and creditworthiness (Moss & Leo, 2011; World Bank, 2016).

Despite such provisions, however, several countries have "reversed" after graduating from IDA concessional aid. A recent review of those reversals suggests they are closely linked to: (a) aid recipient country circumstances (mainly the country's GNI per capita) at the time of graduation; (b) the graduating country's reliance on IDA funding; (c) the country's track record of access to international capital markets; and (d) domestic economic structure and vulnerability to exogenous shocks (World Bank, 2016). The possibility of reversals following graduation, and the continued vulnerability of many countries after graduating indicate that graduation from aid eligibility should not of itself be equated with achieving economic self-sufficiency, even if it suggests a positive movement towards self-sufficiency.

Literature Perspectives: Evidence on "Self-Sufficiency" and Dependence

We found few academic papers using the specific term "self-sufficiency" to describe countries' ability to finance their own development without depending on foreign aid. Most studies included in this review use alternative terms such as "self-reliance" to describe the transition away from aid-reliance. For example, Fayissa & El-Kaissy (1999) cite the early contributions of Chenery & Strout (1966) as being the first to model "phases that developing countries pass through in the transition from backwardness to self-reliant status" (p. 38). The notion of self-sufficiency or self-reliance is also often invoked in the discussion of aid-growth relationships. For example, Hagen (2015) states: "Implicitly, aid has been guided by the goal of self-reliance" (p. 128). Finally, other authors have discussed the idea of self-sufficiency or self-reliance through antonyms, using the language of aid dependence (as recently reviewed by Hailu & Shiferaw, 2016). Using these broader definitions of self-sufficiency we identified 87 relevant articles to review.

Most of the published scholarship and gray literature on self-sufficiency/self-reliance focuses on the financial component of self-sufficiency, i.e., on a country's ability to self-finance its own development. Because the underlying argument for official development assistance (ODA) to low-income countries rests on the limited ability of many of these countries to raise sufficient resources through private capital markets and/or taxation to finance development (Adams & Atsu, 2014), several published sources look at self-sufficiency in terms of factors influencing countries' relative ability to access non-aid financial resources. The literature discusses two key capacities for the ability to self-finance:

(i) ***The ability to access alternative financial resources***, including managing sovereign bond debt, and
(ii) ***The ability to generate own revenue*** (through taxes and trade).

Issuing **sovereign bonds** can represent a sizeable source of external finance, which can contribute to financing investment projects, helping low-income developing countries (LIDCs) make progress in closing infrastructure and finance gaps that impede economic self-sufficiency (Presbitero, Gura, Adedeji et al., 2016). In one sense, sovereign bond issuance simply reflects a country's graduation from the group of ODA recipients into the status of "emerging market economies" (Grigorian, 2003), making it difficult to disentangle cause (graduation leading to creditworthiness) from effect (creditworthiness leading to graduation). But capital market access also reflects a de facto acknowledgement by funders that a country has surpassed some minimum level of governance capacity and creditworthiness necessary to self-finance development. Kharas, Prizzon, & Rogerson (2014) and Moss & Leo (2011) cite a country's creditworthiness as key indicator in measuring their self-sufficiency.

Gelos & Sandleris (2011) find that governments of larger and richer countries access bond markets more frequently. Kharas (2014) finds that variation between countries in terms of the rule of law is among the most important determinants of their access to private capital markets. Presbitero et al. (2016) conclude that a country is more likely to issue a bond when, in comparison with non-issuing peers, it has a larger economy, has higher per capita GDP, less public debt, and a more effective government. They also find that spreads on sovereign bonds are generally lower for countries with strong fiscal positions, as well as robust economic growth and strong governance institutions. Grigorian (2003) focuses on first-time and subsequent bond issues by emerging economies over the period 1980–2002 and finds that both external and internal factors matter: countries with better fiscal position, lower inflation and higher per capita GDP are more likely to issue bonds, with this association stronger in years when global economic conditions improve.

In 2013, LIDCs issued sovereign bonds amounting to US$4 billion, increasing in 2014, with Côte d'Ivoire, Ethiopia, Ghana, Kenya, Senegal, Vietnam, and Zambia issuing bonds totaling about US$8 billion (Presbitero et al., 2016). By 2014, seventy-four LIDCs had a credit rating allowing them to borrow in international capital markets; among them, twenty-one were rated as investment grade (Kharas, Prizzon & Rogerson, 2014).[5]

Table 5. International sovereign bond issuances by LIDCs, 1995-2014

Year of most recent bond issuance	Country	S&P rating at issue	Number of bonds issued, 1995-2014	Amount of most recent issue (millions, USD)
2014	Vietnam	BB-	3	1000
2014	Kenya	B+	4	750*
2014	Senegal	B+	3	500
2014	Zambia	B+	2	1000
2014	Ethiopia	B	1	1000
2014	Ghana	B-	4	1000
2014	Cote d'Ivoire	Not rated	3	750
2013	Bolivia	BB-	2	500
2013	Nigeria	BB-	3	1000*
2013	Honduras	B+	1	500
2013	Rwanda	B	1	400
2013	Tanzania	Not rated	1	600
2012	Mongolia	BB-	2	1500*
2007	Republic of the Congo	Not rated	1	480
1997	Moldova	Not rated	2	75

Source: Adapted by authors from Presbitero et al., 2016

NOTE: Bond amounts marked * denote that the amount is split between two issuances occurring on the same day. Countries are ordered by year of most recent bond issuance and by S&P rating at issue.

Tax revenues are another often cited indicator of country self-sufficiency. The 2010 African Economic Outlook observes: "The most effective way of increasing public revenue is through policies that increase the tax base through sustained economic growth" (African Development Bank & OECD, 2010, p. 104). Bräutigam (2002) and others argue that relying on aid rather than taxation could harm a country's capacity for financing its own development. Godfrey et al. (2002) for example highlight the potential danger of aid reducing government dependence on its citizens for tax revenue, which threatens long-term, post-project financial stability and can go so far as to worsen the quality of institutions (Knack, 2000). Combes, Ouedraogo, & Tapsoba (2016) find that large and sustained aid inflows result in authorities not maintaining or increasing tax effort and increasing their current spending at the expense of capital spending. However, they also find that while upward shifts in aid

[5] A credit rating above BBB- by Standard & Poor's or Baaa3 by Moody's is usually called "investment grade", indicating that issuers are likely to meet payment obligations (Standard and Poor, 2017; Moody's, n.d.).

flows have negative impacts on tax collection, downward shifts in aid have no significant effect on tax revenues.

Bräutigam & Knack (2004) examine tax revenue as a share of GDP to understand aid dependence, and find that higher aid in Africa is "associated with lower tax effort" (p. 256). They argue that aid need not be reduced, but rather disbursed more selectively to strong institutions (*ibid.*). Prizzon, Rogerson, & d'Orey (2017) also study the tax to GDP ratio and encourage governments to prioritize generating tax revenue because "…the transition to lower dependence on foreign aid flows may become riskier if public revenues, particularly tax revenues, fail to grow" (p. 8).

In addition to a focus on these two self-sufficiency outcome measures (access to alternative finance, and ability to generate own-revenue through taxation and market growth), the literature discusses several other indicators related to aspects of self-sufficiency. As in the case of aid eligibility and aid allocation policies, the published evidence and gray literature on factors relating to countries' ability to become self-sufficient primarily emphasizes a small set of economic growth indicators:

- ***GDP/GNI/GNP per capita*** (13 sources): These simple metrics are widely used in published papers and gray literature on self-sufficiency to measure countries' economic growth and reliance on concessional aid (e.g., Carter, 2016; Kim, 2015; Dercon & Lea, 2015; Kasuga & Morita, 2012; Arellano et al., 2009). Dietz & Houtkamp (1995) compare economic growth against aid per capita, finding that higher levels of aid in Africa were associated with lower levels of economic downfall (as measured through GNP per capita).
- ***Investment*** (2 sources): Investment levels are important measures of a country's ability to self-finance. McPherson & Gray (2000) outline an aid exit strategy and focus on high levels of gross national investment in addition to highlighting the importance of inflows of foreign capital to help encourage growth. Dijkstra & Van Donge (2001), in analyzing the aid and development trajectories of Uganda, look at investment levels across sectors and find that "public investment crowded in private investment" (p. 848) and that, as a result of spurring private investment and tax revenues, "foreign aid has boosted public expenditure in general…" (p.848).
- ***Trade*** (3 sources): Belshaw, Lawrence & Hubbard (1999) suggest that a high trade deficit is indicative of a country's long-term inability to continue paying off debt and grow its economy. Several other authors indirectly discuss the importance of trade in achieving self-sufficiency. Elbadawi (1999) and Dijkstra & Van Donge (2001) pay specific attention to the role of developing the export sector in a country's growth as a means to achieve economic self-sufficiency. Arrellano et al. (2009) find that aid substantially lowers tradeable goods output. Analyzing the case of Ghana, Whitfield (2010) finds that macroeconomic instability increased and harmed Ghana's development as a result of a large trade deficit driven by the growth of imports of non-oil products, which harmed the currency value.

Besides economic growth and the ability to self-finance, another way the literature discusses self-sufficiency is by focusing on a country's institutional characteristics. This is based on the argument that strong institutions are needed to sustainably leverage economic growth and sources of finance toward economic self-sufficiency. Two broad categories of indicators or measures widely used to capture institutional factors are:

- ***Quality of institutions*** (9 sources): Bräutigam & Knack (2004) focus on the impact of aid on institutions in weak states and note the importance of institutions to self-sufficiency: "Improving governance means building a better bureaucracy, increasing adherence to the rule of law, reducing corruption, and managing expenditure and revenue generation in a sustainable manner" (p.256). The authors conduct an empirical analysis and, after correcting for endogeneity, find that high levels of aid in Africa may be the cause of deteriorating government institutions rather than the reverse. They also note that high levels of aid can effectively promote both institutional, bureaucratic, and economic growth if channeled towards governments with "clear development priorities" (*ibid.*, p. 260). Roy (2016), Kim (2015), and Dijkstra &

Van Donge (2001) identify the strength of institutions as a key factor in driving development-oriented priorities in government. Godfrey et al. (2002) also highlight the importance of strong government institutions for self-sufficiency, identifying the chronic underfunding of the government in Cambodia as a major risk to long-term, post-aid project financial sustainability and as a primary driver of aid dependency. Specific indicators for assessing institutional quality referenced in the published and gray literature include the International Country Risk Guide (Bräutigam & Knack, 2004; Knack, Rogers, & Heckelman, 2012) and the Country Policy and Institution Assessment Index (CPIA) (Carter, 2016).

- ***Country policy assessment*** (6 sources): A related measure, several authors mention different approaches to evaluating a country's policies for the purpose of illuminating conditions under which self-sufficiency can emerge. Two sources cite the World Bank's CPIA as an indicator of country policy quality (Carter, 2016; Moss & Leo, 2011). Kasuga & Morita (2012) discuss the efficiency of government, and McPherson & Gray (2000) examine policies that drive the real exchange rate and the inflation rate. Knack, Rogers, & Heckelman (2012) focus more on the social policy aims of development and point to political freedoms, including the Freedom House measures of civil liberties and political rights, as relating to self-sufficiency.

Other broad institutional characteristics associated with realizing aid self-sufficiency (or inversely falling into or continuing aid dependence) discussed in the literature include:

- ***Ownership and conditionality*** (9 sources): The issue of recipient ownership relates the notion of aid conditionality, which is often discussed in the literature. Through a series of interviews, Dornan (2017) examines the "new" conditionality—which aims to be more collaborative between aid donors and recipients—to see whether effective conditionality provisions can both drive policy reform (a donor priority) while also supporting ownership of development priorities for aid-receiving countries. The author finds evidence of successful reforms in the Solomon Islands, Tuvalu, and Tonga, including government ownership of development priorities, but also reports a disconnect between the participatory ideal of the "new" conditionality and its implementation. Bulír & Hamann (2008) study the harmful effects of aid volatility on economic growth, and conclude that to reduce volatility, donors should relax conditions on aid. Horning (2008) frames the lack of progress towards economic development and environmental goals in Madagascar as a result of ongoing disputes brought on by misaligned donor and recipient priorities. Lastly, Hasselskog et al. (2016) recently explored an apparent paradox in Rwanda, noting that the country has long been highly aid-dependent, but has simultaneously seen strong ownership over its policy development: a 2011 OECD report gave Rwanda top marks for ownership. This was also reflected in a 2005 Country Development Framework (CDF) report from the World Bank which assessed the progress countries had made in implementing development frameworks across a range of indicators including six related to ownership.
- ***Absorptive capacity*** (3 sources): This term refers to the ability of a country to 'absorb' additional aid, i.e., to "manage aid productively" (Combes, Ouedraogo, & Tapsoba, 2016, p. 4437). Absorptive capacity is a broad concept encompassing "…the availability of human skills, and the institutional settings in which people work" (Killick, 2005, p. 16) and closely relates to institutional quality (*ibid.*). Killick (2005) argues that low absorptive capacity is the reason for the diminishing returns to aid observed by Collier & Dollar (2002) and that the lack of absorptive capacity is a threat to short-term aid initiatives transitioning to long-term ones. Finally, Batley (2005) points to the case of Mozambique as an example of donor disagreement over absorptive capacity—donors are channeling their funds into the government's budget but are split regarding the question of how much aid to provide and how fast to provide it.
- ***Gaming behavior*** (2 sources): Hagen (2015) points to aid-seeking behavior that can result from the donor-recipient relationship. The author quotes Harrison et al. (2009), who points to Tanzania's image-crafting in the aid landscape: "much of the 'country ownership' extant in Tanzania is to some degree anticipatory. That is, government technicians and planners know very well what kinds of development management

discourse appeals to the donors and they evoke these terms and techniques in order to increase their chances of gaining approval and access to aid and credit" (p. 294). Killick (2005) points to the "moral hazard" that can result from aid, including shifting government accountability from citizens to donors, using aid as a substitute for domestic revenue, and the presence of aid as a disincentive to pursuing pro-growth reforms.

Finally, the literature includes two further factors that do not measure drivers of self-sufficiency per se but may strongly shape a countries' ability to self-finance and/or improve institutional quality, and thus may affect a country's self-sufficiency:

- ***Population*** (2 sources): In discussing graduation from IBRD funding, Knack, Rogers, & Heckelman (2012) point to small countries of less than 1.5 million people as being more vulnerable to shocks but also more likely to have graduated. Similarly, the World Bank has created a 'small island economy exception' whereby small island countries under 1.5 million people maintain eligibility to receive IDA support even after exceeding graduation thresholds due to a perception of greater vulnerability (World Bank, 2017).
- ***Instability*** (1 source): Bräutigam & Knack (2004) identify governance crises brought on by factors like instability and war as being detrimental to the pursuit of self-sufficiency due to their effects on a country's economy and institutions. This instability "…increases the dependence of countries on aid receipts" (*ibid.*, p. 260).

Synthesis of Approaches to Defining "Self-Sufficiency"

Our review identified several metrics used in aid eligibility and aid allocation policies to determine when an aid-recipient country might be relatively more economically self-sufficient and therefore no longer qualifies for higher levels of concessional aid funds. Though the primary metrics used in eligibility and allocation policies (including graduation policies) all tend to focus on a small set of economic performance indicators (most commonly GNI per capita), a variety of other criteria including access to non-aid finance, overall institutional performance, and vulnerability to shocks or special circumstances are also included in policy documents. Many of these indicators and several others are linked to self-sufficiency (or conversely, aid dependence) in the peer-reviewed and gray literature (Table 6).

Table 6. Overlap in indicators of aid eligibility and self-sufficiency in donor policy documents and published scholarship

Indicators	Criterion for aid eligibility in policy documents	Discussed in relation to self-sufficiency in literature
Economic performance		
GNI per capita (or similar income measure)	X	X
Access to non-aid finance		
Creditworthiness & Access to Financial Markets	X	X
Tax revenue		X
Investment		X
Trade		X
Institutional performance		
Quality of country institutions	X	X
Country policy assessment	X	X
Absorptive capacity		X
Gaming behavior		X
Policy ownership and conditionality		X
Aid dependence		
Aid : GDP ratio	X	X
Aid : Government expenditure ratio		X
Aid per capita		X
Vulnerability		
Population	X	X
Poverty	X	
Instability (environmental, political, social)	X	X

Though country classification by income (such as GNI) has traditionally been used to guide international decision-making, there is an increasing concern that donor aid policies based on income overlook important dimensions of development, such as poverty, inequality, and health need (EPAR, 2016; The Global Fund, 2016). Countries like Mali and Chad, which have similar GNIs per capita and populations, differ greatly in infrastructure development. The opposite is also true: countries with wide disparities in population and GNI per capita like Niger and the Democratic Republic of Congo can have similar levels of infrastructure development (African Development Fund, 2013).

Brazys (2017) reviews the aid-dependency literature, and critiques the notion of thresholds of "self-sufficiency." The author finds that the thresholds most widely presented in the literature are 10% for the aid/GDP ratio and 50% for aid/government expenditure, but that these thresholds do not appear to be based on "any strong theoretical or empirical rationale" (p. 3). Instead, the author argues that self-sufficiency can be better understood along a continuum of increasing dependency or decreasing dependency (*ibid.*). Similarly, interviews with aid-receiving country officials conducted by Davies & Pickering (2015) reveal little recipient country support for thresholds imposed by donors that trigger reduced aid levels. When asked to identify the most- and least-appropriate benchmarks for transitioning out of aid, aid-receiving countries widely preferred self-generated benchmarks like "achieving adequate domestic resource mobilization outcomes" over external criteria such as "graduation from eligibility for World Bank IDA loans" (Davies & Pickering, 2015, p. 41).

Other critics argue that arbitrary income thresholds may have very little bearing on cross-country differences in access to and capacity to mobilize resources (Kenny, 2011). Some emphasize that government fiscal capacity is often much smaller than GNI per capita levels might suggest (The Global Fund, 2016). Kharas, Prizzon, & Rogerson (2014) find that there are no statistically significant patterns distinguishing low-income countries (LICs) from lower middle-income countries (LMICs) in terms of tax revenues and FDI inflows, and that the only flow where LICs do differ from the other income categories (LMICs and upper middle-income countries) is aid.

For decades there have been calls for policy reforms to incorporate better metrics to quantify the level of wealth or development in aid-recipient countries (EPAR, 2015), as well as the level of non-aid resources available to governments. Multilateral organizations engaged in global health, including GAVI, the Global Fund, UNAIDS, UNDP, UNFPA, UNICEF, UNITAID, the World Bank, and the WHO, recently launched an Equitable Access Initiative (EAI) in 2015. The purpose is to consider alternatives to GNI as a framework to assess countries' need for external financial support for health (The Global Fund, 2016).

There has also been some debate about whether and how to modify IDA's performance-based aid allocation (PBA) system to better support successful transitions to self-sufficiency. One suggestion has been to reform IDA's aid allocation formula so that it explicitly includes development outcomes (Kanbur, 2005). Another recent suggestion has been to modify the allocation formula to take into account vulnerability in order to capture structural impediments to economic growth, in particular economic vulnerability and lack of human capital while eliminating or deemphasizing the importance of the CPIA (Guillaumont, 2008; Guillaumont, 2009; Guillaumont et al., 2009). Various other indicators of economic vulnerability, including the United Nations' Economic Vulnerability Index (EVI), the Brookings Institution's Index of State Weakness in the Developing World, the Fund for Peace's Fragile State Index, and the Bertelsmann Stiftung's Bertelsman Transformation Index, have been advanced by the IDA (2010) as tools to inform aid eligibility and allocation criteria but are not included as graduation or allocation criteria in the donor aid policies reviewed. The IDA reviewed the potential use of several metrics, including the Human Development Index, the Economic Vulnerability Index, and the Multidimensional Poverty Index, but concluded that these indices either strongly correlate with GNI per capita or lack sufficient frequency or the coverage necessary for usefulness (2016).

Based on this review, we identify a set of countries highlighted in the literature and in specific donor policy documents as presenting examples of success or challenges in transitions toward self-sufficiency as measured by various indicators (Appendix C). We relied on three criteria for including countries on this list:

1. The country has experienced graduation and/or reversal from IDA or IBRD concessional lending;
2. The country is cited in the literature as an example of successful or unsuccessful "self-sufficiency", where successful means attaining transitioning status or becoming less dependent on aid while unsuccessful refers to countries experiencing prolonged reliance on aid or an inability to transfer aid into growth or better institutions; and
3. Other considerations such as an ability to raise funds in financial markets, projected graduation by 2020 by OECD, and indebtedness measures (based on the HIPC category by the World Bank).

As shown in Appendix C, the various indicators of self-sufficiency mentioned in donor policy documents and in the literature are not always aligned for a given country. For example, Albania graduated from eligibility for IDA concessional loans in 2008 and is cited as successful examples of countries that have transitioned to self-sufficiency in the literature, but does not score particularly well on metrics of country development ownership. Rwanda scores well on metrics of institutional capacity and ownership, but has yet to graduate IDA and is cited in the literature as a country that has not been successful in transitioning toward self-sufficiency. Some countries, only perform well in one area, such as Mali which only receives high ratings on country development ownership. Côte d'Ivoire graduated from IDA eligibility but experienced a reversal in 1992 and is considered a Heavily-Indebted Poor Country (HIPC), but was still the largest African bond issuer from 2004 to 2013. Indonesia on the other hand graduated from IDA eligibility in 1980, experienced a reversal in 1999 and then graduated again in 2008 and is cited in the literature as an example of a country successfully becoming more self-sufficient. Botswana graduated from IDA eligibility in 1974 and is now an upper-middle income country cited by the literature as a good example of using aid to strengthen institutions.

We selected five countries—Botswana, India, Indonesia, Ghana and Rwanda—to review through case studies, providing a more in-depth analysis of the literature on their transitions toward self-sufficiency and the available evidence on the role of aid in these transitions.

Analyses of the Role of Aid in Transitions toward Self-Sufficiency

A large literature on aid effectiveness has sought to determine where and when aid flows might be associated with different indicators of development. However, this review focuses on analyses of where aid has or has not been effective in enabling recipient countries to become more self-sufficient.

The relationship between aid, development, and dependency is the subject of ongoing scrutiny in published and gray literature. One branch of literature discusses the potential drawback of reliance on aid for a country's self-sufficiency. Several studies (Sabra & Sartawi, 2015; Killick, 2005; Godfrey et al., 2002; Younger, 1992; White & Wignaraja, 1992) discuss potential negative influences of aid on development outcomes from macroeconomic imbalances caused by the so-called "Dutch disease," which Godfrey et al. (2002) explain as "…the negative impact of a windfall increase in foreign exchange earnings from a particular source…on the rest of an economy" (p. 357). The mechanisms for Dutch disease impacts include a resource movement effect and a spending effect. Godfrey et al. (2002) describe the two effects and then connect these effects back to aid and self-sufficiency:

> *"The expansion of the booming sector pulls factors of production toward it and bids up their prices, and as a result other tradable sectors become less profitable and contract: this is the resource movement effect. Insofar as extra income arising from the booming sector is spent on nontradable goods, this bids up the prices of such goods relative to those of tradable goods, resulting in an appreciation of the real exchange rate. This exchange rate appreciation makes these tradable sectors less competitive in international and domestic markets and they contract further: this is the spending effect. Although usually linked to natural resource booms, "Dutch disease" can also be transmitted through massive "windfall" aid inflows (e.g., Younger, 1992 on Ghana and White & Wignaraja, 1992 on Sri Lanka). Knack (2000) goes further and suggests that aid can also transmit the "Zairean disease", worsening the quality of government institutions by among other things, reducing government dependence on its citizens for tax revenue." (p. 357)*

Another area of debate relates to the link between aid and tax capacity. In our review we find no clear consensus in the published and gray literature about aid's effect on a country's tax capacity, suggesting that aid may not have consistent effects on a country's transition to self-sufficiency by this measure. Heller (1975), Ghura (1998), McGillivray & Ahmed (1999), Moss, Pettersson, & van de Walle (2008), and Benedek et al. (2013) report negative associations between aid and tax revenues. But Khan & Hoshino (1992), Clist & Morrissey (2011), Carter (2013), and Clist (2016) find the opposite result. Iqbal (1997) finds no impact of aid on tax revenue, and Ouattara (2006) finds that the relationship is not significant.

Multiple authors note the presence of a "missing middle" that may threaten the self-sufficiency of countries transitioning out of aid. Namely, in multiple cases as aid volumes have gone down total financial resources available to government (through credit and taxation) have not gone up fast enough to compensate for the decline (Dercon & Lea, 2015; Evenett, 2009). Recent work by Kharas, Prizzon, & Rogerson (2014) finds that total government resources (tax revenues plus ODA) tend to decline when countries get richer (an argument that appears to refer to MICs and not necessarily LICs), and that increased tax revenue is only able to compensate for reduced aid once a country is well into HIC status. In particular, near the threshold GNI of $1000 per capita, tax resources (as a percentage of GDP) remain relatively insensitive to growth and only increase slowly as incomes rise towards $4,000.

Though the idea of aid-receiving countries eventually transitioning off of aid has become widely accepted, Collier (1999) critiques the fundamental assumption that governments *should* be weaned off aid, stating that

this opinion "can become widely held without most of its adherents being able to justify it in terms of supporting propositions" (p. 529). While McPherson & Gray (2000) argue in their debate paper that "African governments need to take explicit steps to formulate and Implement 'aid exit' strategies" (p. 1) they also note that "there is nothing fundamentally wrong with the principle of foreign assistance" (p. 3) and that "foreign aid can make a major difference *when it is constructively used for limited periods*" (p. 3, authors' emphasis). Loots (2006) reviews the aid effectiveness literature and challenges the notion of self-sufficiency, concluding that "developing countries, especially the least-developed ones, will always to a larger or lesser extent receive aid" and finds that the reviewed authors "are more concerned about the conditions that will ensure that aid is effective" (p. 378).

The effectiveness of technical assistance and capacity building programs has also been explored in the literature in terms of potential to strengthen institutional characteristics associated with self-sufficiency. Examining the case of Cambodia, Godfrey et al. (2002) critique the efficacy of technical assistance programs as largely "donor-driven in their identification, design and implementation" (p. 355) questioning the ability of these programs to improve the strength of country's institutions. Rabinowitz & Prizzon (2015) on the other hand, suggest that successful funding projects often involve aspects of technical assistance, and in their review of development project case studies found that "the combination of technical assistance was decisive in a sector's reform" (p.23). Additionally, several multinational organizations (IMF, 2017; OECD, 2017) currently engage in technical assistance programs that aim to improve on the characteristics of institutional capacity identified by literature as indicating self-sufficiency. For example, the IMF implements technical assistance projects for fiscal capacity development in fragile states (IMF, 2017). The OECD provides technical assistance in areas such as trade-related development and building tax capacity (2017).

Another topic of interest is the potential impacts on governmental aid policy ownership in relation to a new type of emerging donor: countries transitioning from recipients to providers of aid, like Brazil, China, South Africa, and India. In 2008, the OECD DAC estimated that emerging donor aid represented between nine and ten percent of global aid (Smith et al., 2010). Chandy (2012) reports that as of 2012 "in contrast to traditional donors whose aid volume is expected to stay flat over the medium term, total aid from emerging donors is forecast to double in the next five years." Emerging donors are offering more choices for financing to developing countries (Greenhill et al., 2013) and, as emerging donors do not typically attach policy conditions to their aid (Chandy, 2012; Smith et al., 2010) or follow other standards and norms formalized by "traditional" donors like the World Bank (Rowlands, 2008), recipient countries may potentially view emerging donor aid as less burdensome than aid from traditional donors. For example, Greenhill et al. (2013) report that in country case studies in Cambodia, Ethopia, and Zambia, the respective governments ranked emerging donors relatively better in terms of ownership, alignment, and speed as compared to OECD DAC donors. However, as noted by Greenhill et al. (2013), "[emerging donor] investment flows are small at the country level and are not yet changing the aid landscape significantly" (p. ix).

Transitions toward Self-Sufficiency in Case Study Countries

To further explore the relationship between aid and self-sufficiency, we reviewed the experiences of five case study countries: Botswana, India, Indonesia, Ghana, and Rwanda. These five were chosen from a larger list of countries that are in various states of transition toward self-sufficiency, based on the donor eligibility and allocation policies reviewed, and informed by discussions in the literature on self-sufficiency (Appendix C). These case studies serve as examples of countries in various stages of graduation from concessional aid funding and with different levels of success in transitioning toward self-sufficiency, as measured by the various indicators presented in donor policy documents in the literature (Box 1). They also cover a range of geographies (different regions of Africa and Asia) and vary widely by size of population and economy.

Box 1. Rationale for selecting case study countries

Graduated from concessional aid funding	Graduated, with reversal	Not yet graduated from concessional funding
Botswana is an upper-middle income country and is widely cited as a case of "success" in transitioning to self-sufficiency. **India** represents a large and diverse country that successfully graduated from IDA and has steadily reduced its reliance on aid. However, they are still struggling to meet key developmental goals, and continued aid flows are helping to address specific threats and development challenges.	**Indonesia** is graduated from eligibility for concessional loans only to experience a reversal and several shocks before ultimately graduating again.	**Ghana** is now categorized by the World Bank as a lower-middle-income country but has not yet graduated from concessional funding. Despite challenges, some literature predicts that Ghana will graduate from IDA funding before 2022. **Rwanda** is a low-income country that has not yet graduated from concessional lending, yet scores high on indicators for institutional capacity.

For each country case study, we examine evidence of the country's progress (or lack thereof) toward self-sufficiency according to the indicators identified in the literature and in donor aid policies. Drawing on the literature, we consider whether any conclusions can be drawn about the role of aid in these transitions. We include detailed country case studies as appendices to this report and summarize the key findings below.

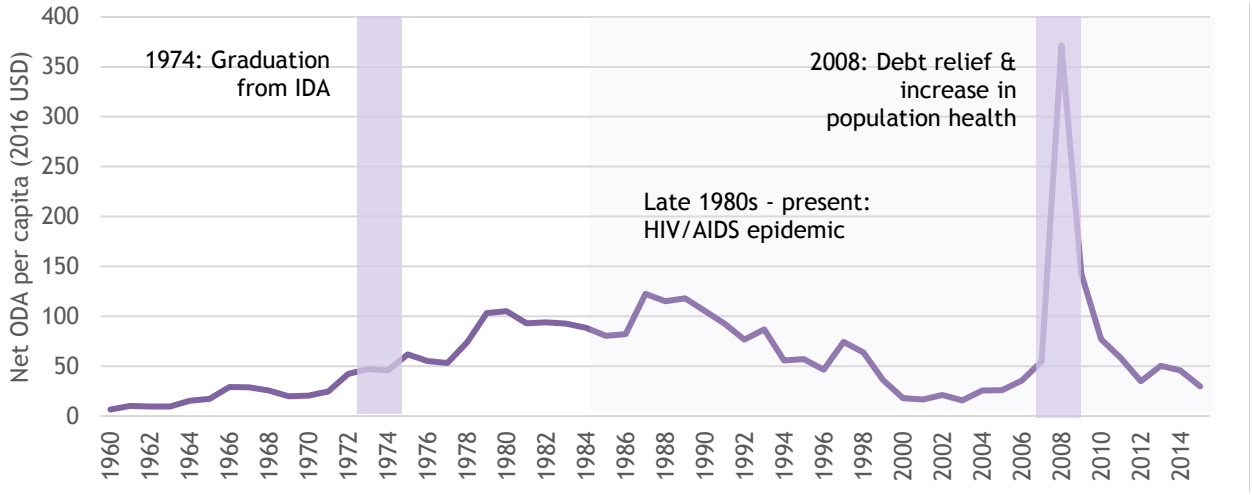
Botswana

Botswana is an upper middle-income country with a population of 2.25 million and a GNI per capita of $6,610 (World Bank, 2016a). A number of published and gray sources cite Botswana as a case study in successful development, despite adverse initial conditions, including an arid climate, minimal investment in infrastructure during the colonial period, and high levels of poverty and inequality at independence (Fosu, 2013; Acemoglu & Robinson, 2012; Lewin, 2011; Acemoglu, Johnson, & Robinson, 2002).

Lewin (2011) identifies three major factors as driving Botswana's high GDP growth and economic stability relative to the region. First, the acceleration of growth in the mining sector directly corresponds to GDP growth over time, and the sector currently contributes 40 to 50 percent of government revenue (World Bank, 2016b; Kamrany & Gray, 2014). Second, this wealth has been well-managed, avoiding the natural resource "curses" of political and economic volatility and Dutch Disease (Lewin, 2011). Finally, an early agreement with De Beers to market diamonds as a 50-50 public-private partnership has contributed to continuous investment in public services (Yeomans, 2016). Investments in human capital include high educational expenditure as a percent of GDP (9.6%) and per capita health expenditure of $385, well above the $94 average in Sub-Saharan Africa (World Bank, 2016a).

We did not identify any sources that specified the role of foreign aid in Botswana's transition to aid self-sufficiency. Trends in ODA, GNI, and tax revenue indicate that the expansion of the diamond industry coincided with a declining role for ODA in Botswana's public sector, with a brief spike in ODA in 2008 due to debt relief aid and aid targeting HIV/AIDS. Botswana's economic success is largely attributed to the discovery and sound institutional management of natural resource wealth (Nocera, 2008).

Figure 1. Net ODA per capita and exogenous shocks, Botswana, 1960-2014



Sources: USAID, 2017a; World Bank Open Data, 2016; IDA, 2016; AHO, n.d.

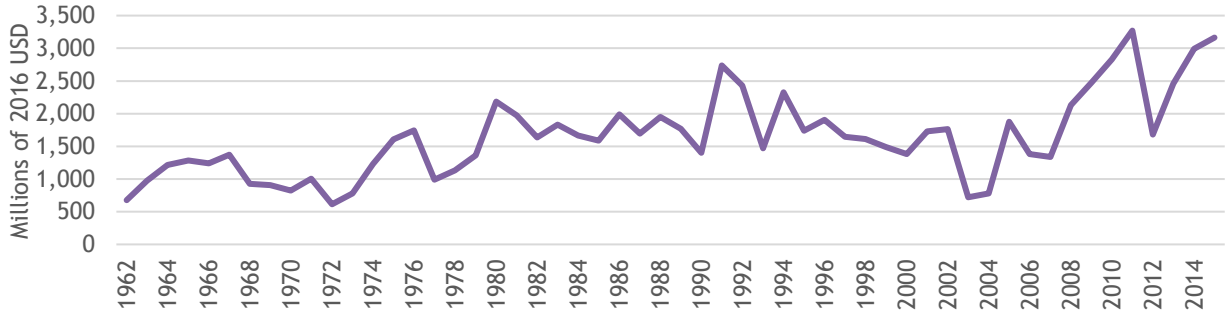
India

India is the "fastest growing economy in the world" (World Bank, 2017b, n.p.) with a 2016 GDP growth rate of 7.1% (World Bank, 2016a). Two factors are often referenced in the literature documenting India's rise: agricultural progress and economic liberalization. A period of agricultural intensification and technological improvements in the 1960s and 1970s (the "Green Revolution") spiked farm productivity across the nation (Pingali, 2012; Zeigler & Mohanty, 2010; Evenson & Gollin, 2003). The government undertook a series of policy changes in favor of economic liberalization in 1991 which many authors cite as spurring economic growth (Topalova & Khandelwal, 2011; Panagariya, 2004; Panagariya, 2001), though Rodrik & Subramanian (2004) argue that a more pro-business policy regime beginning in the 1980s is the real origin of India's growth. Panagariya (2001) argues that the economic reforms that helped spur India's economic growth in the 1990s were prompted by conditions associated with IMF aid.

In 2014, India officially graduated from IDA assistance—the highly concessional aid reserved for the poorest countries. This was largely due to India's GNI per capita growth and improved creditworthiness—the two primary criteria for determining graduation (World Bank, 2016d). The country is receiving transitional support through 2017 as it works to replace IDA aid with other sources of external funding.

Despite becoming an economic powerhouse, India continues to receive large amounts of aid, including programmatic/sectoral aid; in 2015, India was the fifth largest recipient of foreign aid worldwide (Vivek, 2017). This continuing aid flow relates to India's disparities in key development indicators, such as deaths of children under five (Rowlatt, 2015; Mandhana, 2012) and measures of family planning access (USAID, 2017b).

Figure 2. Net ODA in 2016 USD, India, 1962-2015



Source: World Bank Open Data, 2016

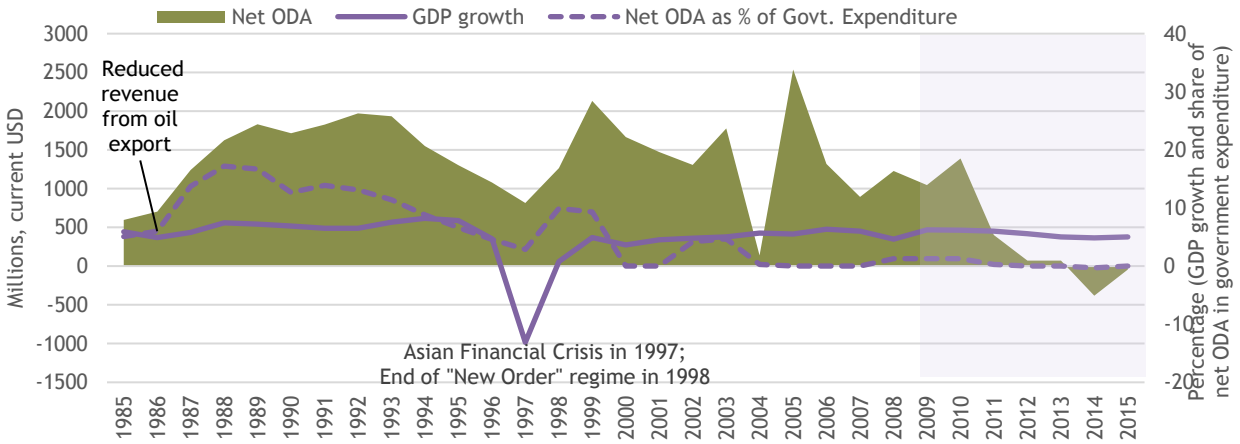
Indonesia

Indonesia is the largest economy in Southeast Asia (World Bank, 2017c) with a GDP per capita of $3,603 in 2016—making it a World Bank lower middle-income country (LMIC)—and has the world's fourth largest population at more than 260 million *(ibid.)*. A number of sources cite Indonesia as a successful example of a country that has transitioned out of high aid dependence toward greater economic self-sufficiency marked by a decrease in aid flows (Prizzon, Rogerson & d'Orey, 2017; Hailu & Shiferaw, 2016; Doody, 2013). However, the transition route was not linear—Indonesia graduated from eligibility for IDA concessional loans in 1980 only to experience a reversal in 1997 and several shocks before ultimately re-graduating from concessional aid in 2008. Net ODA is now close to zero or negative as Indonesia's repayments exceed new aid inflows (Figure 3).

Two widely cited factors associated with Indonesia's transition to self-sufficiency include government aid policies and trade. Guided by a philosophy of self-reliance, government aid policies have kept the contribution of ODA to social policy development to a minimum (Kim, 2014; Gough, 2001). Around the time Indonesia crossed the threshold to become a LMIC in the early 2000s, it passed a number of regulations, including the Law of Finance (No.17/2003), Law of National Treasury (No. 1/2004), and National Development Plan (No.25/2004) to limit the size of foreign aid to three percent of its national budget, thereby placing an upper limit on the involvement of foreign donors in domestic affairs (Marut, 2015). Trade, especially exports, was vital to Indonesia's self-reliance. Foreign exchange earnings from exports permitted Indonesia to purchase raw materials and machinery necessary for development; exports also contributed to Indonesia's ability to borrow from the world financial markets and international development agencies (Frederick, Worden, & Library of Congress, 2011).

While we did not identify any sources that definitively discuss the role of foreign aid in Indonesia's transition toward greater self-sufficiency, some authors argue the inverse—that aid eligibility and allocation criteria may have been harmful to Indonesia's economic and institutional development. Prizzon, Rogerson, & d'Orey (2017) believe that Indonesia is a good example of the "missing middle" whereby growing domestic tax revenue generation fails to make up for declining foreign aid support. Indonesia's transition away from aid dependence has presented challenges, including continued and even exacerbated corruption (Doody, 2013; Chowdhury & Sugema, 2005) and limited progress toward poverty reduction (Guillaumont, 2009; Guillaumont, 2008).

Figure 3. Net ODA (left axis), % GDP growth rate and net ODA in government expenditure (right axis), Indonesia, 1985-2015



Source: World Bank Open Data, 2016
Note: Negative net ODA indicates repayment is larger than aid inflow. The purple shading indicates two periods during which Indonesia had graduated from eligibility for World Bank IDA concessional loans.

Ghana

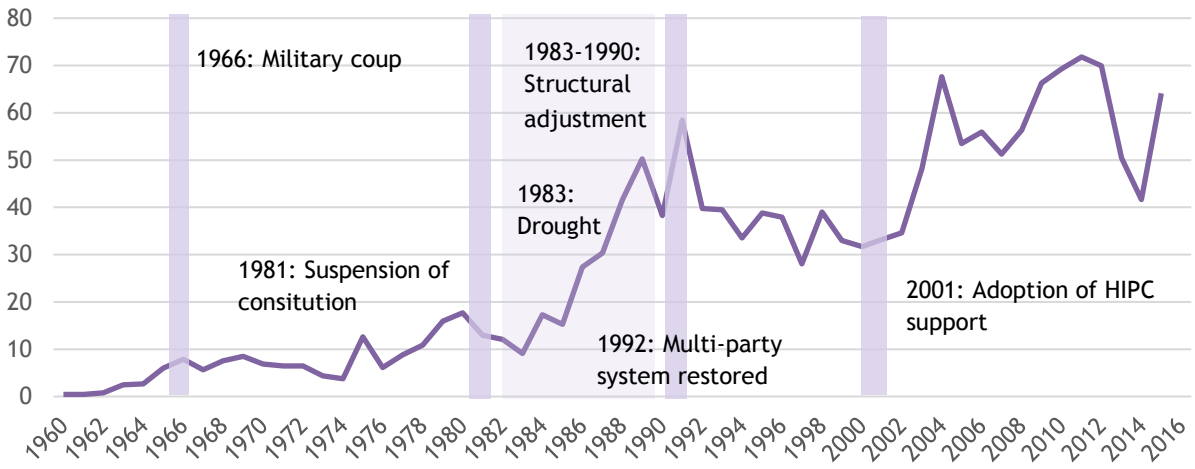
Ghana is a lower middle-income country, and the 8th largest economy in Sub-Saharan Africa with a GNI per capita of $1,380 in 2016 and a population of 28.2 million (World Bank, 2016a). After independence in 1957, Ghana experienced frequent military coups and a generally unstable political position, which culminated in a severe downturn in the Ghanaian economy from 1972-83 (Kim, 2015). Some of the first official international aid began arriving in Ghana during this era, in the form of a structural adjustment program (SAP) from the World Bank, the IMF, and other donors. Some authors argue that structural adjustment and its related economic and institutional reforms helped to improve certain measures of self-sufficiency (Tsikata, 2001) and others argue that the SAP led to ballooning external debt, political uncertainty and further aid dependence (Kim, 2015; Killick, 2010).Ghana's external debt accumulated over time, and the IMF classified Ghana as a heavily-indebted poor country (HIPC) in 1999, with the IMF providing Ghana with debt relief services after 2001 (IMF & IDA, 2001).

In the wake of a GDP-rebasing exercise in 2010, the World Bank's official estimates of Ghana's GDP shifted upward, moving the country from low-income (GDP per capita around $800 in 2009 USD) to lower middle-income (GDP per capita of $1363 in 2009 USD) status overnight (Moss & Majerowicz, 2012). Though this upward adjustment increased measures of Ghana's economic growth over a fairly short period, there are concerns that Ghana's high debt and inflation could compromise its graduation to blended or IBRD borrowing. Ghana continues to receive non-concessional funding from the IDA, in spite of exceeding the income threshold for graduation, at in part due to low ratings for creditworthiness (*ibid*.).

Ghana's ownership and institutional capacity measures are relatively strong (IBRD, 2003, Jones & Whitfield, 2009). However, literature suggests that Ghana's economic growth is hampered largely by its consistent history of poor fiscal performance and management, including "poor revenue collection built upon an inadequate tax base and low tax compliance" (Yartley, 2014, pg.4), and its inability to reach fiscal consolidation targets (World Bank, 2017d). Others have suggested that "Dutch Disease," arising from aid windfalls during structural adjustment in the 1980s, have undermined Ghana's economic growth (Younger, 1992).

Despite these challenges, there are some signs that economic and institutional indicators of self-sufficiency have improved in recent years, and Moss & Majerowicz (2012) predict that Ghana will graduate from IDA funding before 2022.

Figure 4. Net ODA per capita and exogenous shocks, current USD



Source: World Bank Open Data, 2016; Younger, 1992

Rwanda

Rwanda is a small land-locked country of 11.61 million people in the Great Lakes Region of Africa (World Bank, 2017d). With a 2016 GDP per capita of $703, the World Bank classifies Rwanda as a low-income country entitled to IDA concessional aid (World Bank, 2017e) and a Heavily Indebted Poor Country (HIPC) (World Bank, 2016c).

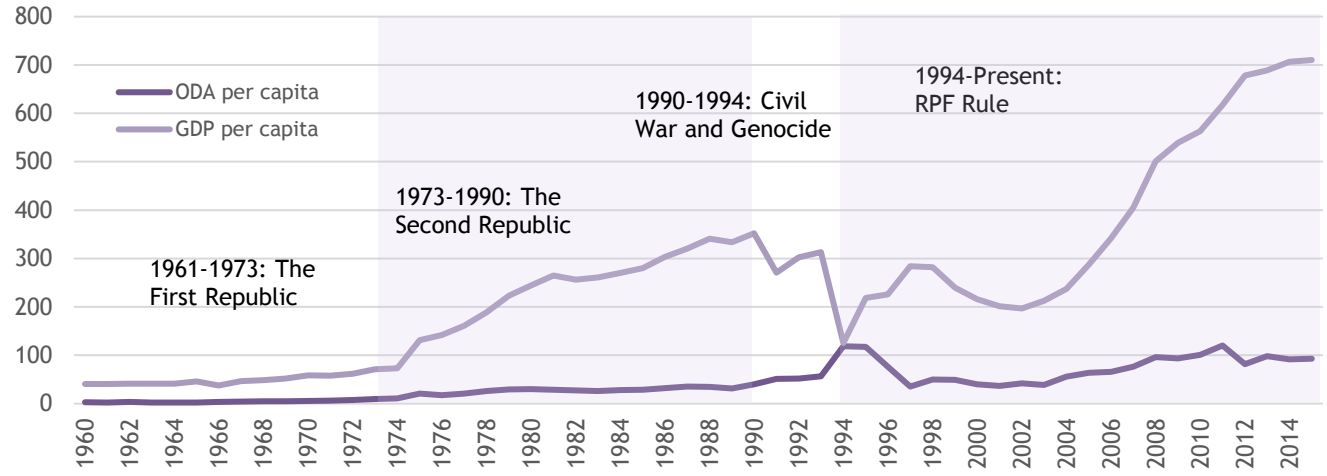
Both the academic literature and donor reports find that Rwanda is dependent on aid in terms of its economy, but relatively independent in terms of policy, scoring high on OECD, World Bank, and CPIA metrics of ownership over development priorities (Hasselskog et al., 2016; OECD, 2011; Zorbas 2011; Hayman 2009a; Hayman 2009b; World Bank 2005). Reports from the OECD (2011) and World Bank (2005) rank Rwanda high on the metrics of ownership and creation of development framework and policies. Rwanda also scores well on the Country Policy and Institutional Assessment (CPIA), which ranks countries based on indicators including institutional capacity, fiscal policy, and social equity, and Portfolio Performance Rating (World Bank 2017a).

In terms of economic dependence, various economic indicators support the claims in the literature that Rwanda is reliant on foreign aid, including high ODA to GNI ratio (Hayman, 2009a). For example, while net ODA received as percentage of GNI averages 8.7% for sub-Saharan countries, Rwanda's net ODA is 13.4% of its GNI. Though net ODA has dropped slightly as a proportion of GNI in recent years, ODA, OOF and private aid flows have increased significantly over the last decade along with government expenditures.

Rwanda's dependence on foreign aid grew steadily throughout the 1970s and 1980s during the Second Republic until it became "one of the most aided countries in the world" (Uvin, 1998, p. 40). The country underwent several shocks in the 1980s, including two droughts in 1984 and 1989, high rainfall in 1987, plant disease in 1988, and the decline of world coffee, tea and tin prices. These factors, particularly the drop in coffee prices, are cited as the main contributors to the subsequent economic crisis, as they weakened the government by reducing its revenue (Kimonyo, 2017; Ansoms, 2005; Uvin, 1998; Prunier 1995). Both Kimonyo (2017) and Uvin (1998) argue that aid was unsuccessful in preventing the economic crisis, which they see as a contributing factor to the 1990-1994 civil war and the 1994 genocide.

Today the government of Rwanda receives around twice as much aid as a percentage of GNI as the Second Republic did. While the Second Republic was required to devalue its currency as a part of the earlier Structural Adjustment Program (Chossudovsky, 1996), the current government of Rwanda is cited as being able to maintain ownership over policies in spite of donor disagreement (Hasselskog et al., 2016; Zorbas 2011; Hayman 2009a). Both Zorbas (2011), and Hayman (2009a) argue that the Rwandan government is uniquely successful in maintaining ownership of its policy priorities due to use of genocidal guilt, donor friendly language, support in donor countries for the Rwandan ruling party as a liberation movement, and a lack of cohesive vision between various donors.

Figure 5: Net GDP and Net ODA per capita (Current USD), Rwanda, 1960-2015



Source: World Bank Open Data, 2016

Discussion

While self-sufficiency is inconsistently defined in the literature and donor policies, commonly reported measures or indicators do fall into five major categories: **economic performance** (e.g. GNI per capita), **access to non-aid finance** (e.g. creditworthiness, ability to raise tax revenue, investment capacity, trade capacity), **institutional performance** (e.g. quality of country institutions, country policy assessment, absorptive capacity, gaming behavior, policy ownership), **aid dependence** (e.g. aid to GDP ratio, Aid per capita, aid to government expenditure ratio), and **vulnerability** (e.g. instability, poverty, population). Table 7 presents how the five case study countries perform along selected indicators of self-sufficiency according to these categories.

Table 7. Selected indicators of self-sufficiency for five case study countries

Category	Indicator	Botswana	India	Indonesia	Ghana	Rwanda
Vulnerability	Population in millions (2016)	2.25	1,309	261.1	27.58	11.92
	Poverty headcount ratio at $1.90/day	18.2% (2009)	21.2% (2011)	6.8% (2016)	13.6% (2012)	60.4% (2013)
Economic performance	GNI per capita (2016)	$6,610	$1,680	$3,400	$1,380	$700
	Concessional lending category	IBRD	IBRD	IBRD	IDA, HIPC	IDA, HIPC
Access to non-aid finance	S&P credit rating	A- (2016)	BBB- (2014)	BBB- (2017)	B- (2014)	B (2016)
Aid dependence	Net ODA per capita (2015)	$29.69	$2.42	-$0.17	$64.11	$93.02
	Net ODA as percent of central government expenditure	2.2% (2015)	0.8% (2013)	0.0% (2015)	22% (2011)	92% (2015)
Institutional capacity/ownership	CPIA rating	N/A	3.7 (2013)	N/A	3.5 (2016)	4.0 (2016)
	CDF rating	N/A	N/A	N/A	N/A	Largely developed (4/6 indicators); Action has been/being taken (2/6 Indicators)

Source: World Bank Open Data, 2016; Standard and Poor's, 2017
Note: Year of data points is in parentheses.

The relationship between aid and self-sufficiency is the focus of ongoing debate in published and gray literature, though the definition of "self-sufficiency" varies greatly. The main areas of controversy revolve around several common questions:

1) **Whether or not aid negatively impacts a country's progress toward self-sufficiency.** Dutch disease is a commonly cited issue (Arellano, 2009; Godfrey et al., 2002), and the case study literature on Indonesia, Ghana, and Rwanda provide several examples suggesting aid can actively hinder a country's ability to become economically self-sufficient. For instance, there is debate regarding aid effectiveness of SAPs in Ghana, with some arguing that SAPs led to ballooning external debt, political uncertainty and further aid dependence (Kim, 2015; Killick, 2010) and others arguing that structural adjustment and related economic and institutional reforms helped improve certain measures of self-sufficiency (Tsikata, 2001).

2) **Whether transitioning countries off of aid should be the assumed goal of donors.** While it is commonly accepted that aid-receiving countries should eventually transition off of aid (and the case study of Indonesia illustrates how government aid policies can formalize this stance by legally restricting the levels of ODA) some authors argue that this goal is misguided (Loots, 2006; Collier, 1999). The India case study highlights the complexity of total transitions off of aid by providing an example of how a country that is generally progressing toward economic self-reliance can still depend on large amounts of aid targeted toward particular sectors that are relatively less self-sufficient.

3) **Whether tax capacity can positively impact transitions toward self-sufficiency**. In our review we find no clear consensus in the published literature about aid's effect on a country's tax capacity. Similarly, the case studies do not point to a common theme. There is limited tax information available for Botswana. Tax revenue increases in Ghana (Yartley, 2014), India (World Bank, 2016), and Rwanda (World Bank 2016) have not been explicitly tied to progress toward self-sufficiency, and expanding tax revenues due to reform in Indonesia is cited as both a positive contributor toward government revenue increases and diversification (Stern, 2003), even as Prizzon, Rogerson, & d'Orey (2017) suggest Indonesia's expanding tax base cannot

cover the decline in ODA flows.

4) **Whether technical assistance and capacity-building programs can strengthen institutional characteristics associated with self-sufficiency.** Authors have both questioned (Godfrey et al., 2002) and affirmed (Rabinowitz & Prizzon, 2015) the effectiveness of capacity-building to improve country institutions. The Rwanda case study highlights the idea that, even within a country with relatively high institutional capacity and ownership indicators, capacity-building and strong institutions alone cannot drive economic self-sufficiency, though they may help a country recover faster from shocks (Ansoms, 2005).

5) **Whether a "missing middle" of government funding status can threaten self-sufficiency of countries as they transition out of aid.** Multiple authors indicate that the "missing middle"—defined as a situation where aid volumes have gone down and total financial resources available to government (through credit and taxation) have not gone up fast enough to compensate for the decline—can negatively impact a country's progress toward economic self-sufficiency (Dercon & Lea, 2015; Evenett, 2009). Indonesia is cited as a potential example of this phenomenon (Prizzon, Rogerson, & d'Orey, 2017).

6) **Whether emerging donors may impact the aid landscape, especially in terms of government aid policy ownership.** Emerging donors—i.e. countries who have recently started providing ODA, such as Brazil, China, South Africa, and India—are offering more choices for financing to low- and middle-income countries (Greenhill et al., 2013). As emerging donors do not typically attach policy conditions to their aid (Chandy, 2012; Smith et al., 2010) or follow other standards and norms formalized by traditional donors like the World Bank (Rowlands, 2008), recipient countries may potentially view emerging donor aid as relatively better in terms of ownership, alignment, and speed as compared to traditional donors.

The question of whether there is a causal link between receiving aid and transitioning to self-sufficiency is difficult to answer with certainty, as we can never know the counterfactual, i.e., what would have happened to a country's trajectory in the absence (or presence) of aid. Further, the relationship between aid and self-sufficiency is endogenous, as one key indicator of self-sufficiency is reduced reliance on aid. The existing literature is largely descriptive or non-experimental and does not causally test the impact of aid on measures of self-sufficiency, though some quasi-experimental studies test for associations between aid and particular indicators related to self-sufficiency, such as GDP growth. Much of the literature on international aid focuses on aid effectiveness, rather than the relationship between aid and self-sufficiency, and self-sufficiency is not consistently defined or measured. However, descriptive evidence from illustrative case studies does shed some light on the conditions associated with transitions toward self-sufficiency in certain contexts.

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Appendix A: Summary of Self-sufficiency Searches and Search Approach

Search string	Database	# of results	Sources identified for review
aid AND "self-sufficient"	Scopus	101	0
"development aid" AND "self-sufficiency"	Scopus	5	0
"development aid" AND graduation	Scopus	3	1
"effectiveness of development aid"	Scopus	15	6
"self-sufficiency" from foreign aid	Google	209000	9
graduation from ODA	Google	402000	4
"self-sufficiency" AND ODA	Google	358000	0
"transit out of foreign aid"	Google	4110000	0
"exit from aid dependence"	Google	1650	1
"escape from aid dependence"	Google	9	1
"dependent on aid" OR "aid effectiveness" AND dependency	Scopus	20	1
"aid dependen*" OR "dependent on aid" OR ("aid effectiveness" AND dependen*)[6]	Scopus	459	97
aid AND "self-sufficient"	Google Scholar	16,600	5
"development aid" AND "self-sufficiency"	Google Scholar	849	4
"development aid" AND graduation	Google Scholar	4,120	6
"self-sufficiency" from foreign aid	Google Scholar	117,000	2
graduation from ODA	Google Scholar	957	4
"self-sufficiency" AND ODA	Google Scholar	641	2
transit out of foreign aid	Google Scholar	16,500	1
exit from aid dependence	Google Scholar	17,000	5
escape from aid dependence	Google Scholar	17,100	3
"dependent on aid" OR "aid effectiveness" AND dependency	Google Scholar	1,420	7
((foreign OR international OR multilateral) AND aid OR "ODA") AND (self AND (sufficiency OR sufficient) AND (reliant OR reliance OR finance) AND (graduation OR exit)	Google Scholar	15,900	5
foreign aid OR ODA AND self sufficiency OR reliance OR dependence OR exit OR transition	Google Scholar	30,300	5
emerging donors AND aid OR ODA AND self sufficiency OR sufficient	Google Scholar	17,200	2

Summary of Search Approach

We identified documents related to self-sufficiency—donor policy documents, organization reports, peer-reviewed literature, and other sources—through targeted searching of the Scopus database, Google Scholar, aid organization websites and open web searches. In addition, we also reviewed works cited that appeared relevant in the documents identified through our web searches. The resulting documents included in our review fall broadly into two categories: donor aid policy documents and published and gray literature.

Donor policy documents (19 reviewed) present different perspectives related to self-sufficiency, with countries eligible for concessional aid considered less "self-sufficient" than ineligible countries that have reached certain thresholds relating to transition toward self-sufficiency. We reviewed 19 donor policy documents for donor aid eligibility, aid allocation, aid extension, and aid exception policies, to understand the criteria used by donors in determining when countries require aid – and would therefore not be considered self-sufficient. We also

[6] Replacing "aid dependen*" with terms like "state transition", "self-sufficient*", or "self-relian*" yielded either few new results or zero relevant results.

looked closely at graduation policies (a subset of aid eligibility policies) used by funders to determine when a country that has previously received aid should "graduate" and no longer be eligible for aid (and might therefore be considered self-sufficient). Appendix B provides a complete list of policy documents reviewed.

In reviewing the broader literature, we recorded information both on how aid dependency (the inverse of self-sufficiency) or exit from aid were defined, and on the factors put forward as contributing to realizing self-sufficiency.[7] We selected papers to review based on the following criteria:

- A paper is directly related to aid and self-sufficiency if:
    - It uses the term "self-sufficiency" in describing aid's contribution to a country's ability to self-finance its own development; or
    - It provides theory, evidence, or policy guidance related to a country's ability to self-finance its own development; or
    - It provides theory, evidence, or policy guidance on the financial, institutional, or social conditions supporting successful transitioning out of aid dependence.

- A paper is indirectly related to aid and self-sufficiency if:
    - It discusses one of the financial, institutional, or social factors directly related to self-sufficiency, but does not connect this discussion back to the role of aid in self-sufficiency; or
    - It provides theory, evidence, or policy guidance on the aid-economic growth relationship, with an emphasis on economic growth's contribution to the ability to self-finance development.

We identified 41 unique documents directly related to self-sufficiency measures, though the specific term "self-sufficiency" is only rarely used to refer to countries' ability to finance their own development without depending on foreign aid.[8] Four studies directly analyze donor aid eligibility or allocation policies (Carter, 2016; Kharas, Prizzon, & Rogerson, 2014; Knack, Rogers, & Heckelman, 2012; Moss & Leo, 2011), while others study aid and capacity building (Godfrey, Sophal, Kato, et al., 2002), the role of aid in achieving economic growth (Arellano, Bulíř, Lane, et al., 2009), correlates of successful exit from aid (McPherson & Gray, 2000) and, inversely, drivers of aid dependence (Brazys, 2017).

An additional 46 unique sources were identified as being indirectly related to aid and self-sufficiency. These documents discuss factors that contribute to self-sufficiency and aid dependence, including macroeconomic determinants of economic growth and donor policies, but do not focus on the role of aid in self-sufficiency.

[7]Because the specific term "self-sufficiency" does not appear frequently in the literature, results were coded as relevant to self-sufficiency if they mentioned (explicitly or implicitly) potential indicators or measures either of self-sufficiency (as discussed in donor policy documents) or of its inverse, aid dependence.

[8] The term "self-sufficiency" is sometimes used to describe other development outcomes relating to food security (Minot & Pelijor, 2015), economic independence of individuals rather than nations (Michalopoulos, Tattrie, Miller et al., 2002), and energy or resource production (Engelken, Römer, Drescher et al., 2016). Papers applying the term in such contexts were not included in this review.

Appendix B: Summary of Donor Aid Policy Document Reviewed

Donor	Year	Document type	Title	Reference
ADB	2016	ADB policy paper	Concessional Assistance Policy	Asian Development Bank (2016)
ADB	2014	ADB Operations Manual	Performance-based Allocation of Asian Development Fund Resources	Asian Development Bank (2014)
ADB, IDB	2016	ODI report	Graduation from ADB regular assistance: a critical analysis and policy options	Prizzon, A., Mustapha S. and Rogerson, A., (2016)
ADF	2017 (web)	ADF website information	ADF Recipient Country Eligibility Criteria	African Development Bank (2017a)
ADF	2017 (web)	ADF website information	ADF Country Resources Allocation	African Development Bank (2017b)
GAVI	2014	GAVI policy report	GAVI Alliance Annual Financial Report 2013	GAVI (2014)
GFATM	2016	The Global Fund working paper	The Global Fund Eligibility Policy	The Global Fund (2016)
IDB	2017	IDB website information	Concessional Resources	IDB (2017)
IBRD	2011	Published literature	Crossing the threshold: A positive analysis of IBRD graduation policy	Knack, S., Rogers, H., Heckelman, J.(2011)
IDA	2016	IDA policy paper	Review of IDA's Graduation Policy	World Bank (2016)
IDA	2012	IDA policy paper	Review of IDA's Graduation Policy	World Bank (2012)
IDA	2001	IDA policy paper	IDA Eligibility, Terms and Graduation Policies	World Bank (2001)
IFAD	2013	IFAD policy paper	Policies and Criteria for IFAD Financing	IFAD (2013)
IMF (PRGT)	2015	IMF Policy Paper	Eligibility to Use the Fund's Facilities for Concessional Financing, 2015	IMF (2015)
OECD	2014	OCED Brief	An outlook on ODA graduation in the post-2015 era	OECD (2014)
DFID	2016	DFID technical note	Bilateral Development Review: technical note	UK AID (2016)
UNICEF	2012	UN Economic and Social Council working paper	Report on implementation of the modified system for allocation of regular resources for programmes	UN Economic and Social Council (2012)
USAID	2006	USAID document	USAID Primer: What We Do and How We Do It	USAID (2006)
World Bank	2015	Center for Global Development Policy Paper	The World Bank at 75	Morris S. & Gleave M. (2015)

Appendix C: Countries Highlighted in the Literature on Aid and Self-Sufficiency

Country	Income group	Current lending category by WB	Issued bonds 1995-2014	Rational	Graduation (IDA or IBRD)	Reversal	CDF ownership rating (2005)	CPIA trends	USAID FP Status	References
Sub-Saharan Africa										
Botswana	Upper middle income	IBRD	N	Cited multiple times as "good example"(able to use ODA to improve the quality of the civil service, strengthen policy and planning capacity, and establish strong central institutions)	1974 (IDA)	N/A	Not Included	Not Included	Graduated	Hailu & Shiferaw, 2016; Killick, 2005; Brautigam & Knack, 2004; E. lbadawi,1999; Dietz & Houtkamp, 1995
Central Africa Republic	Low income	IDA, HIPC	N	Reversal; cited as "unsuccessful example", highly fragile	1973 (IDA)	1992 (IDA)	Elements Exist or are being considered (5/6 indicators) Little or No Action (1/6 Indicators)	Increased slowly across the board from 2005 to 2011 with higher rankings in management and fiscal policy, then dropped steadily with low rankings in property rights and rules based governance.	N/A	UK AID, 2016; World Bank, 2010; Mallik, 2008; Brautigam & Knack, 2004
Cote d'Ivoire	Lower middle income	IDA, HIPC	Y (Not rated)	Reversal, largest African bond issuers from 2004 to 2013	1973 (IDA)	1992 (IDA)	Elements Exist or are being considered (6/6 Indicators)	Increased steadily from 2005 to date, with the largest gains in improving human resources, debt policy and economic management.	Other USAID-Assisted FP	Presbitero et al., 2016; Ouattara, 2007
Gabon	Upper middle income	IBRD	Y (S&P rating BB-)	Reversal; projected to ODA eligibility threshold in 2017 by OECD	1977 (IBRD)	1998 (IBRD)	Not Included	Not Included	N/A	World Bank, 2016; Knack, Rogers & Heckelman, 2012; World Bank, 2010
Ghana	Lower middle income	IDA, HIPC	Y (S&P rating B+)	Among first group sub-Saharan countries outside South Africa to	No graduation	N/A	Substantially in place (1/6 Indicators) Largely Developed (2/6	Stayed stable from 2005 up to 2012, then dropped due to low rankings in fiscal policy	Priority Country	Kim, 2015; Holvoet, Gildemyn & Inberg, 2012; Angemi & De

Country	Income group	Current lending category by WB	Issued bonds 1995-2014	Rational	Graduation (IDA or IBRD)	Reversal	CDF ownership rating (2005)	CPIA trends	USAID FP Status	References
				issue bonds (2007); but also cited as "slow growing and with deteriorating living standard"			Indicators) Action Has Been or Being Taken (3/6 Indicators)	and economic management.		Renzio, 2011; Whitfield, 2010; Killick, 2005; Brautigam & Knack, 2004; Dietz & Houtkamp, 1995
Kenya	Lower middle income	Blend	Y	2 billion USD bond issuance in 2014, the largest in Africa history; blend status	No graduation	N/A	Action Has Been or Being Taken (4/6 Indicators) Elements Exist or are being considered (2/6 Indicators)	Increased with fluctuations from 2005 across the board, but especially in equity of public resource use.	Priority Country	Presbitero, Ghura, Adedeji & Nje, 2016; Dietz & Houtkamp, 1995
Mali	Low income	IDA, HIPC	N	Cited as "unsuccessful example"	No graduation	N/A	Largely Developed (1/6 Indicators) Action Has Been or Being Taken (4/6 Indicators) Elements Exist or are being considered (1/6 Indicators)	Stayed stable from 2005 to 2012, but then dropped suddenly across the board particularly in gender equality, property rights and rules based governance.	Priority Country	UK AID, 2016; Mallik, 2008; Brautigam & Knack, 2004; Dietz & Houtkamp,1995
Mauritania	Lower middle income	IBRD, HIPC	Y	Cited as "unsuccessful example"	No graduation	N/A	Largely Developed (1/6 Indicators) Action Has Been or Being Taken (5/6 Indicators)	Average scores stayed stable with small fluctuations, while indicators of budget and financial management, fiscal policy and marco-economic management grew and debt policy and others fell.	Other USAID-Assisted FP	UK AID, 2016; Feeny & McGillivray, 2011; Brautigam & Knack, 2004; Dietz & Houtkamp, 1995
Mauritius	Upper middle income	IBRD	Y	Cited as "successful example"; projected to exceed ODA eligibility by 2020 by OECD	1975 (IDA)	N/A	Not Included	Not Included	N/A	Presbitero, 2016; Grigorian, 2003; Bräutigam, 2002; Elbadawi,1999
Mozambique	Low income	IDA, HIPC	N	Cited as "unsuccessful example"	No graduation	N/A	Largely Developed (2/6 Indicators)	Increased slowly from 2005 to 2012 across many indicators then	Priority Country	Vollmer, 2013; Holvoet, Gildemyn &

Country	Income group	Current lending category by WB	Issued bonds 1995-2014	Rational	Graduation (IDA or IBRD)	Reversal	CDF ownership rating (2005)	CPIA trends	USAID FP Status	References
							Action Has Been or Being Taken (4/6 Indicators)	dropped sharply due to a decline in debt policy, economic management, and fiscal policy ratings.		Inberg, 2012; Feeny & McGillivray, 2011; Loxley & Sackey, 2008; Batley, 2005; Godfrey, M. et al, 2002; Wuyts, 1996; Dietz & Houtkamp, 1995
Seychelles	High income	IBRD	Y (S&P rating B)	Among first group of sub-Saharan countries outside South Africa to issue bonds (2006); exceeded ODA eligibility threshold in 2013 by OECD	No graduation	N/A	Not Included	Not Included	N/A	Presbitero et al., 2016; Grigorian, 2003
Sierra Leone	Low income	IDA, HIPC	N	Cited as "unsuccessful example"	No graduation	N/A	Action Has Been or Being Taken (3/6 Indicators) Elements Exist or are being considered (3/6 Indicators)	Decreased slightly in a range of indicators including rights and rule based governing and revenue efficiency mobilization from 2006 to 2011, but has since recovered and stabilized.	N/A	UK AID, 2016; Loxley & Sackey, 2008; Mallik, 2008; Loots, 2006; Brautigam & Knack, 2004
Rwanda	Low income	IDA, HIPC	Y (S&P rating B)	Issued a $400m bond in 2013 at yield of just 6.875	No graduation	N/A	Largely Developed (4/6 Indicators) Action Has Been or Being Taken (2/6 Indicators)	Increased significantly or maintained all indicators from 2005 to 2016, particularly business regulatory environment, debt policy, gender equality, policy and institutions for environmental stability, and trade.	Priority Country	Hasselskog et al, 2016; Presbitero et al., 2016; Holvoet, Gildemyn & Inberg, 2012; Feeny & McGillivray, 2011; Angemi & De Renzio, 2011; Brautigam & Knack, 2004; Godfrey,M. et al, 2002

Country	Income group	Current lending category by WB	Issued bonds 1995-2014	Rational	Graduation (IDA or IBRD)	Reversal	CDF ownership rating (2005)	CPIA trends	USAID FP Status	References
South Africa	Upper middle income	IBRD	Y	Cited as "successful example" of transitioning	No graduation	N/A	Not Included	Not Included	Graduated	Loots, 2006; Killick, 2005; Elbadawi, 1999
Zimbabwe	Low income	Blend	N	Reversal, blend status	1983 (IDA)	1992 (IDA)	Not Included	Increased significantly or maintained all indicators from 2005 to 2016 by a large margin across almost every indicator.	Other USAID-Assisted FP	Presbitero et al., 2016; Killick, 2005
East Asia & Pacific										
Indonesia	Lower middle income	IBRD	Y	Reversal; cited as "successful example"	1980, 2008 (IDA)	1999 (IDA)	Not Included	Not Included	Graduated	Prizzon & Rogerson A., 2017; Hailu & Shiferaw, 2016
South Korea	High income	N/A	Y	Reversal	1995 (IBRD)	1998 (IBRD)	Not Included	Not Included	Graduated	UKAID, 2016; Kim, 2015; Watson, 2013; Knack, Rogers & Heckelman, 2012; World Bank, 2010; Brautigam & Knack, 2004
Mongolia	Lower middle income	Blend	Y	Cited as "successful example", blend status, graduated from GAVI	No graduation	N/A	Elements Exist or are being considered	Despite a local peak in 2011, scores generally trend downward with fluctuations, particularly due to drops in fiscal policy and economic management rankings.	N/A	Presbitero, 2016; Saxenia et al., 2014; Feeny & McGillivray, 2011
Taiwan	High income	N/A	Y	Cited as "successful example" (able to use ODA to improve the quality of the civil service, strengthen policy and planning capacity, and establish strong central institutions)	No graduation	N/A	Not Included	Not Included	N/A	Brautigam & Knack, 2004

Country	Income group	Current lending category by WB	Issued bonds 1995-2014	Rational	Graduation (IDA or IBRD)	Reversal	CDF ownership rating (2005)	CPIA trends	USAID FP Status	References
Latin America & Caribbean										
Nicaragua	Lower middle income	IDA, HIPC	Y	Reversal; cited as "unsuccessful example"	1981 (IDA)	1991 (IDA)	Action Has Been or Being Taken (4/6 Indicators) Elements Exist or are being considered (2/6 Indicators)	Generally remained steady, with a slight decrease in public administration ranking.	Graduated	Feeny & McGillivray, 2011; Loots, 2006; Vos, 2011; Godfrey, M. et al, 2002
Trinidad & Tobago	High income	IBRD	Y	Reversal, sovereign bonds downgrade by rating agencies in 2016	1984 (IBRD)	1990 (IBRD)	Not Included	Not Included	N/A	World Bank, 2016; Knack, Rogers & Heckelman, 2012; World Bank, 2010
Venezuela	Upper middle income	IBRD	Y	Reversal, super high inflation, shrinking economy	1974 (IBRD)	1989 (IBRD)	Not Included	Not Included	N/A	Knack, Rogers & Heckelman, 2012; World Bank, 2010
Europe & Central Asia										
Albania	Upper middle income	IBRD	Y	Cited as "successful example"	2008 (IDA)	N/A	Action Has Been or Being Taken (5/6 Indicators) Elements Exist or are being considered (1/6 Indicators)	Not Included	N/A	World Bank, 2016
Hungary	Upper Middle Income	IBRD	Y	Reversal	2007(IBRD)	2009 (IBRD)	Not Included	Not Included	N/A	Knack, Rogers & Heckelman, 2012
Latvia	High income	N/A	Y	Reversal	2007 (IBRD)	2009 (IBRD)	Not Included	Not Included	N/A	Knack, Rogers & Heckelman, 2012; Grigorian, 2003
South Asia										
Bangladesh	Lower middle income	IDA	N	Cited as "unsuccessful example"	No graduation	N/A	Action Has Been or Being Taken (4/6 Indicators) Elements Exist or are being considered (2/6 Indicators)	Steadily increased from 2005 to 2009 then sharply dropped in 2011 across several categories and remained steady with some fluctuations from that point to date.	Priority Country	Khan, 2015; Sobhan, 2005; Brautigam & Knack, 2004; Billetoft & Malmdorf,1992

Country	Income group	Current lending category by WB	Issued bonds 1995-2014	Rational	Graduation (IDA or IBRD)	Reversal	CDF ownership rating (2005)	CPIA trends	USAID FP Status	References
India	Lower middle income	IBRD	N	On temporary transitional support from IDA	2014 (IDA)	N/A	Not Included	Remained steady from 2005 to 2008 with a slight decline from 2008 to date across a range of indicators.	Priority Country	Hailu & Shiferaw, 2016; Lipton, 2010
Middle East & North Africa										
Morocco	Lower middle income	IBRD	Y	Cited as successful example	1975 (IDA)	N/A	Not Included	Not Included	Graduated	Elbadawi, 1999
Tunisia	Lower middle income	IBRD	N	Cited as successful example	1979 (IDA)	N/A	Not Included	Not Included	Graduated	Elbadawi, 1999

1. OECD ODA eligibility is based on per capita income
2. HIPC-Heavily indebted poor countries
3. USAID Family Planning information retrieved from www.usaid.gov/what-we-do/global-health/family-planning/countries
4. CDF and CPIA information found at World Bank (2005). Enabling Country Capacity to Achieve Results. Retrieved from World Bank http://documents.worldbank.org/curated/en/209061468154491430/Overview and World Bank (2017). Country Policy and Institutional Assessment CPIA. Retrieved 11 September 2017 from World Bank https://data.worldbank.org/data-catalog/CPIA