Mitigating Structural Aid Dependency in Developing Economies

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1. Letter from the Secretary-General

2. Letter from the Under Secretary-General

Most Esteemed Delegates,

It is with great pride and enthusiasm that I welcome you to the World Bank committee of IhsanMUN'26. My name is Ilaf Bayazid, and I am honored to be serving as your Under Secretary-General.

I would like to start by extending my sincere appreciation and gratitude to the Secretariat and the organization team, whose efforts and commitment made this conference possible, and to the Head of Academy, Mohamed Al-Aini, for entrusting me with a committee and agenda item that I hold to a particularly high standard due to how important the topic is for me.

Aid is a narrative that feels intuitive. How could a word that means help or assistance be negative for the recipient, or anything other than virtuous for the donor? A deeper insight into global economic systems makes one thing increasingly clear: aid and development are neither neutral nor apolitical. As you soon will discuss, the very democratic structure of the state relies on its independence from foreign economic mercy.

In the words of Dambisa Moyo, "What is clear is that democracy is not the prerequisite for economic growth that aid proponents maintain. On the contrary, it is economic growth that is a prerequisite for democracy; and the one thing economic growth does not need is aid."

Quite like aid, this committee will not be neutral, and regardless of intention, it will not be apolitical. I promise to serve this committee with the commitment and dedication it deserves, and I hope to spark your interest in Economics. I look forward to engaging with every one of you.

Best,
Ilaf J. Bayazid
Under Secretary-General, Ihsan Model United Nations 2026

3. Key Terminology

Note:
The World Bank = IBRD + IDA.
The World Bank Group = IBRD + IDA + IFC + MIGA + ICSID.

Term	Definition
Aid Fragmentation	The proliferation of too many donors providing too many small, uncoordinated projects.
Aid Fungibility	An economic phenomenon in which foreign aid allows recipient governments to divert their own funds to other, often unapproved, areas.
Appreciate / Depreciate	Increase in value / decrease in value.
Austerity	Political-economic policies implemented by the government with the goal of reducing budget deficits and public debt.
Bilateral Aid	Aid transferred directly from one government to another.
Capacity-Building Programs	An initiative focused on the process of developing and strengthening the skills, instincts, abilities, processes and resources that organizations and communities need to survive and adapt.
Credit	The ability of a borrower to access funds when needed, often up to a set limit, with repayment required.
Concessional Loans	Loans given at a much lower interest rate than the market (standard) rate, often with long "grace periods" before repayment is expected.
Conditionality	The set of requirements (policy changes, austerity measures, privatization, etc) that the World Bank attaches to its loans.
Debt Relief	The partial or total forgiveness of debt, or the slowing or stopping of debt growth.
Debt Servicing	The act of making regular, scheduled payments of principal and interest on outstanding loans or debt obligations.
Deregulation	The reduction or elimination of government rules and restrictions, usually within a specific industry to stimulate growth (according to neoliberalism).

Domestic Resource Mobilization (DRM)	The process of generating, managing, and utilizing a country's own financial resources, via taxation, savings, and capital markets, to fund sustainable development and reduce dependence on foreign aid.
Evolution Roadmap	A strategic reform process initiated in late 2022 to transition the World Bank into a "better and bigger bank," aimed at addressing global challenges like climate change, pandemics, and conflict alongside its core mission of poverty reduction.
Fiscal Effort	The extent to which the government is able to utilize its potential revenue-generating bases.
Fiscal Substitution	An economic phenomenon in which recipient governments use foreign aid to replace domestic spending on specific projects or sectors, rather than using it as a supplement to increase total expenditure.
Foreign Direct Investment (FDI)	An investment in a company, made by a foreign investor, company, or government of another country. Describes controlling ownership of an asset in one country by an entity based in another country.
Free Market	An unregulated system of economic exchange, in which taxes, quality controls, quotas, tariffs, and other forms of centralized economic interventions by government either do not exist or are minimal. Central to neoliberalism.
Grant	A transaction where one party (the grantor) transfers money, property, or rights to another party (the recipient), *without requiring repayment*.
World Bank Guarantees	Risk-mitigation instruments used to leverage private sector financing for development projects in emerging markets by protecting private investors against non-commercial risks such as political violence, expropriation, and government breaches of contract.
Heavily Indebted Poor Countries (HIPC) Initiative	An initiative that provides comprehensive debt relief to the world's poorest and most heavily indebted countries.
Human Capital	The intangible, collective economic value of an individual's or workforce's knowledge, skills, health, and

	experience.
Institutional Loan Pushing	An often aggressive practice within lending institutions of prioritizing the disbursement of loans to meet internal targets, rather than based on a country's actual need or ability to manage the debt.
Institutional Outsourcing	The practice in which states (or organizations) delegate key functions or responsibilities to external actors such as international institutions, NGOs, or private firms, instead of handling them internally.
Interest	The cost of borrowing money *or* the return earned on investments; representing the price paid for using credit over time.
Loan	A financial transaction where one party (the lender) transfers a sum of money or property to another party (the borrower), *who agrees to repay it*, usually with interest, over a set period.
Millennium Development Goals (MDGs)	The United Nations Millennium Development Goals (MDGs) are 8 goals that UN Member States have agreed to try to achieve by the year 2015, focusing on reducing extreme poverty, hunger, disease, and inequality.
Milestone Advance Payments	A structured payment plan in which an upfront deposit is followed by subsequent payments released upon the completion of specific stages of the project.
Multilateral Aid	Financial assistance provided by multiple countries or international organizations, such as the World Bank or the United Nations.
Neoliberalism	An ideology and policy model that emphasizes the value of free market competition.
Official Development Assistance (ODA)	Government aid designed to promote the economic development and welfare of developing countries.
Open-Budget Portal	A digital, user-friendly platform that publishes government financial data to foster fiscal transparency and public participation. See: the World Bank's BOOST initiative.
Parallel State Structure	

Poaching	
Pooling Resources	
Privatization	
Project Implementation Units (PIUs)	
Protectionism	
Public Financial Management Reforms (PFM)	
Public-Private Partnerships (PPPs)	
Exchange Rate	
Social Contract	
Sovereignty	The supreme authority of a state to govern itself, its territory, and its population *without external interference*.
Structural Adjustment Programs (SAP)	
Sustainable Development Goals (SDG)	
Tied Aid	
Trade Liberalization	
Weighted Voting	The voting system used by the World Bank. Unlike the United Nations, where each member receives one equal vote, this system ties the number of votes a country has to its financial contribution.

4. Introduction to the World Bank

4.1. Overview of the World Bank

The World Bank is a specialized agency of the United Nations, as stated in the agreement with the United Nations which was initially approved by the World Bank's Board of Governors in September 1947 and then by the United Nations General Assembly on November 15, 1947. It is made up of 189 member countries.[1]

Established at the 1944 Bretton Woods Conference, the World Bank (under The International Bank for Reconstruction and Development) was originally created to help rebuild Europe and Japan after World War II destruction, by facilitating post-war economic cooperation, international investment, and the overall reconstruction of war-torn economies. Importantly, it recognizes the Bank as an independent organization and delineates its autonomy over lending and financial administration.

It has since evolved to its modern function, serving today as a global, independent coalition that aims to provide low-interest loans, zero-to-low interest credits, and grants to developing nations for investments in education, health, public administration, infrastructure, and private sector development. Their mission is to "end extreme poverty and boost shared prosperity on a livable planet."[2]

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[1] World Bank, "The United Nations and World Bank formalize relationship"

[2] World Bank Group, "Who We Are,"

4.2. World Bank Group Agencies

The World Bank *Group* consists of five distinct but integrated institutions.

1. ***The International Bank for Reconstruction & Development (IBRD)****:* offers concessional loans to governments of middle-income and creditworthy low-income countries. Moreover, it provides policy advice to help reduce poverty.

2. ***The International Development Association (IDA)****:* provides interest-free loans (credits) and grants to governments of poverty-stricken countries.

The term "World Bank" refers specifically to the IBRD and IDA, while the full Group includes the IFC, MIGA, and ICSID. Those two units work closely with other institutions of the World Bank Group as well as the public and private sectors of developing states to combat poverty and promote prosperity.[3]

3. ***The International Finance Corporation (IFC)****:* focuses exclusively on the private sector of developing countries.

4. ***The Multilateral Investment Guarantee Agency (MIGA)****:* promotes foreign direct investment (FDI) into developing economies by "reducing risk and fostering confidence among investors and lenders. "[4] usually by offering political risk insurance to investors and lenders.

5. ***The International Centre for Settlement of Investment Disputes (ICSID)****:* concerned with international investment dispute settlement; provides international facilities for conciliation and arbitration of investment disputes.

4.3. Mandate and Governance Framework

According to the IBRD Articles of Agreement, the purposes of the Bank are to facilitate the reconstruction and development of member state territories by easing the investment of capital,[5] to promote private foreign investment, or step in and provide funding itself, for development projects,[6] to promote the balanced growth of international trade and improve trade balance by encouraging international investment, which in turn raises productivity, the standard of living, and improves conditions of labor,[7] to organize its loans in relation to international loans of other

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[3] World Bank Group, "International Bank for Reconstruction and Development (IBRD),"

[4] Multilateral Investment Guarantee Agency, "About Us," https://www.miga.org/about-us

[5] World Bank Group, "Article I: Purposes," clause (i), in *Articles of Agreement of the International Bank for Reconstruction and Development,* https://www.worldbank.org/en/about/articles-of-agreement/ibrd-articles-of-agreement/article-I.

[6] World Bank Group, "Article I: Purposes," (ii).

[7] World Bank Group, "Article I: Purposes," (iii).

channels to ensure the most urgent projects are funded first,[8] and to consider how investments affect a country's economy and help them adjust accordingly, especially post-crisis situations.[9]

The World Bank operates under two primary goals, known as the "*Twin Goals*":[10]

1. ***Ending extreme poverty***: reducing the percentage of the global population that lives on less than $2.15 a day to no more than 3%.
2. ***Promoting shared prosperity***: increasing the income of the poorest 40% of people in every country.

The World Bank functions under a unique voting system, where voting power is weighted based on financial contributions (shareholdings). Major structural changes to the Bank's Articles of Agreement require an 85% supermajority. Although the Bank does not have a system of veto built into its mechanism, the weighted voting system has paved the way for the United States to effectively acquire de facto veto power, as it holds approximately 15.79%[11] of the total voting power. Moreover, leadership selection at the World Bank (and IMF) is subject to a historic 'gentleman's agreement', which has ensured that the IMF Managing Director has always been European and the World Bank President is a US national.[12]

Essentially, this gives the United States a unique position, ensuring that the Bank's lending strategies, and more importantly, the conditions attached to them, often align with its economic philosophy.

4.4. Financial Instruments

The Bank uses three main categories of instruments to execute its mission:[13]

1. ***Investment Project Financing (IPF)****:* finances specific government activities that *build physical or social infrastructure* necessary to reduce poverty and create sustainable development.

2. ***Development Policy Financing (DPF)****:* provides budget support to governments for policy and institutional reforms. This is often where *conditionality* occurs.

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[8] World Bank Group, "Article I: Purposes," (iv).
[9] World Bank Group, "Article I: Purposes," (v).
[10] World Bank Group, "World Bank Group's Twin Goals outlined by President Kim," The World Bank Group Historical Timeline, https://timeline.worldbank.org/en/timeline/eventdetail/3331
[11] World Bank Group, "United States," https://www.worldbank.org/ext/en/country/unitedstates
[12] Bretton Woods Project, "*What Is the 'Gentleman's Agreement'?,*" July 23, 2019, https://www.brettonwoodsproject.org/2019/07/what-is-the-gentlemans-agreement/
[13] World Bank Group, "*Financing Instruments,*" https://www.worldbank.org/en/what-we-do/products-and-services/financing-instruments

3. ***Program-for-Results (PforR):*** binds the disbursement of World Bank funds directly to the actual realization of results.

While the IBRD and IDA (the World Bank) primarily lend to governments using the three aforementioned instruments, other institutions within the World Bank Group provide other tools to engage the private sector, such as direct private investment (IFC), political risk insurance (MIGA), treasury products and risk management.

5. Introduction to the Agenda Item: *Mitigating Structural Aid Dependency in Developing Economies*

Aid, in its modern understanding, is intended to be a proponent of growth. Nevertheless, for dozens of developing nations, it has become a factor that effectively prevents developing states from becoming self-sufficient, keeping them reliant on the mercy of powerful states. The World Bank defines structural aid dependency as a situation where a country's government and economy are incapable of performing basic state functions without consistent, long-term inflows of foreign assistance.

In a purely economic sense, this is measured by the ratio of official development assistance (ODA) to a country's gross national income (GNI), or the percentage of the national budget that is funded by external grants rather than domestic revenue. When a state relies on foreign capital to pay for recurring costs such as civil service salaries, healthcare, education, and infrastructure maintenance, it has reached a state of economic dependency.

There exists a fundamental difference between dependency and *structural* dependency. Standard dependency is often a temporary condition resulting from a usually external shock, such as a natural disaster, a sudden conflict, or a global pandemic. In contrast, structural dependency is a status where the very apparatuses of a nation's economy and its institutional planning are designed around the permanent assumption that foreign funds will continue to arrive. This type of dependency is persistent and embedded within a country's economic and institutional systems, making reliance on external assistance a long-term condition rather than a temporary, short-term response. This traps the nation in a vicious cycle of aid fungibility and fiscal substitution, where the government uses foreign aid to cover essential public services, allowing it to divert its own limited tax revenue towards other areas rather than investing in self-sustaining growth.

From a political perspective, structural dependency leads to a shift in domestic accountability. When a state's survival depends on the financial approval of the World Bank or foreign donors, rather than its own tax-paying citizens, the government is likely to prioritize the policy conditions set by those external actors over its citizens' wants and needs. This results in a democratic deficit[14] where national policies are shaped by Washington-based frameworks, such

[14] Aarathi Krishnan, "The Democratic Deficit in Global Aid: Why Humanitarian Power Needs Public Accountability," The New Humanitarian, August 19, 2025,

as privatization requirements and austerity measures, instead of the specific socio-economic needs of the local population. This predicament forcefully prevents the development of a strong, sovereign social contract between the state and its people.

The deterioration of national sovereignty is perhaps the most critical consequence of aid dependency. When a state relies on external funding to maintain its basic operations, it effectively surrenders a portion of its decision-making power to the conditionality frameworks of the donors.

For the World Bank, mitigating aid dependency is an economic obligation to ensure countries can eventually stand on their own. For all of the aforementioned reasons, the Bank's goals cannot be achieved without analyzing the root causes, searching for solutions, and executing an action plan.

6. Historical Background and Evolution of Development Financing Approaches

6.1. Colonial Foundations

While charitable giving is an ancient human practice, the roots of foreign aid go back to the late 19th and early 20th centuries, when a system of financial transfers existed between colonial powers and their territories. Under the *British Colonial Development Act of 1929*, the first formal mechanisms for state-sponsored development were established.[15] By the 1920s and 1930s, powers like Britain, France, and Germany were supplying their colonies in Africa, Asia, and Latin America with regular aid. This "imperial aid" was primarily used to build the mechanisms of colonial extraction: ports, roads, and railways, specifically designed to connect the resource-rich colonies to global markets.[16]

6.2. Bretton Woods

The global financial architecture changed fundamentally in 1944 at the Bretton Woods Conference, where delegates from 44 countries met for the United Nations Monetary and Financial Conference held at the Mount Washington Hotel in Bretton Woods, New Hampshire.[17] The conference established the International Bank for Reconstruction and Development (IBRD) and the International Monetary Fund (IMF). While its initial focus was rebuilding war-torn Europe and Japan, it set the precedent for a centralized, multilateral approach to development

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https://www.thenewhumanitarian.org/opinion/2025/08/19/democratic-deficit-global-aid-why-humanitarian-power-needs-public-accountability

[15] United Kingdom, Import Duties Act 1932, 22 & 23 Geo. 5 c. 8, enacted version, https://www.legislation.gov.uk/ukpga/Geo5/20-21/5/enacted

[16] ReliefWeb. "History of Foreign Aid." https://reliefweb.int/report/world/history-foreign-aid

[17] World Bank Group, "Bretton Woods Conference," https://www.worldbank.org/en/archive/history

financing that would eventually shift toward the developing nations. The Bank's first loan was to France.

6.3. The Marshall Plan and Cold War Geopolitics (1947-1960s)

The Economic Recovery Act of 1948 was signed by President Truman on April 3, 1948. This would become known as the Marshall Plan, named after Secretary of State George Marshall who proposed that the United States should provide economic backing to aid reconstruction in postwar Europe[18] while blocking the expansion of the communist sphere of influence. The Cold War blurred the lines of aid, turning it into a primary weapon and tool of containment as well as geopolitical influence.

When the Marshall Plan took over post-war reconstruction efforts in Europe, the Bank quickly shifted to funding infrastructure projects around the world in sectors such as power, irrigation, and transportation. The first loan to a non-European country was to Chile in 1948 for $13.5M USD for hydroelectric power generation. In 1960, the creation of the International Development Association (IDA) marked a turning point, as the World Bank began providing "concessional" loans (low to no interest) to the poorest nations that could not attract private capital. Within this period, superpowers began securing political alliances in newly independent post-colonial states.

Overall, the Marshall Plan provided $13 billion for European reconstruction. This created a lasting, and perhaps flawed, model for development: that massive capital injections alone could reinvigorate an economy.

6.4. The Debt Crisis and Structural Adjustment Programs (1980s-1990s)

By the 1980s, rising global interest rates and falling commodity prices left many developing nations unable to repay their debts. This led to the era of structural adjustment programs (SAPs), directed by the World Bank and the IMF under the "Washington Consensus," a set of ten neoliberal economic policy prescriptions focused on free-market principles, trade liberalization, privatization, and deregulation to constitute the standard reform package promoted for post-crisis developing countries.

To receive emergency loans, recipient states were forced to implement deep policy reforms, including austerity, privatization of state industries, and trade liberalization.[19]

6.5. The Millennium Development Goals and Human Capital (2000-2015)

[18] U.S. National Archives and Records Administration, "Marshall Plan (1948)," https://www.archives.gov/milestone-documents/marshall-plan

[19] Nikolaos Tzifakis, "Post-Conflict Economic Reconstruction," in Encyclopedia Princetoniensis: The Princeton Encyclopedia of Self-Determination, ed. Wolfgang F. Danspeckgruber (Princeton: Princeton University, 2013), https://pesd.princeton.edu/node/586

The failure of SAPs was evident in their prioritization of debt servicing over social spending in health and education, which significantly hollowed out state institutions of recipient countries. This failure led to a human-centered shift at the "turn of the millennium."

In 2000, the United Nations established The Millennium Development Goals (MDGs), which were eight international development goals aimed at eradicating extreme poverty, improving health, education, and sustainability by 2015. They focused on quantifiable social outcomes, such as halving extreme poverty and reducing child mortality,[20] with most targets compared against 1990 levels.

This era saw a massive increase in official development assistance (ODA) and the introduction of the Heavily Indebted Poor Countries (HIPC) Initiative in 1996 by the IMF and World Bank, which provided comprehensive debt relief to the world's poorest and most heavily indebted nations, for the first time.

Nevertheless, this period deepened structural dependency, as many governments became "contractors" for donor-funded social projects rather than developing their productive economic sectors. In other words, the social benefits the citizens received took away from economic investment.

6.6. The Sustainable Development Goals and the Evolution Roadmap (2015-Present)

The current era is characterized by the sustainable development goals (SDGs), a set of 17 global objectives which were adopted in 2015 by all United Nations members for the 2030 Agenda for Sustainable Development. The SDGs broadened the development agenda to include climate action and inequality, and recognize that ending poverty must actualize alongside strategies that build economic growth.

The financial requirements necessary to materialize these goals is estimated in the trillions of dollars.[21] In response, the World Bank has moved towards an "evolution roadmap"[22] to address the fact that official development assistance (ODA) alone is insufficient to meet these goals. This evolution roadmap seeks to expand the Bank's mission from poverty reduction to "ending poverty on a livable planet." The main change is illustrated in the way that the Bank uses its

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[20] World Health Organization, "*Millennium Development Goals (MDGs)*," February 19, 2018, https://www.who.int/news-room/fact-sheets/detail/millennium-development-goals-(mdgs)

[21] World Bank Group, *Ending Poverty on a Livable Planet: Report to Governors on World Bank Evolution* (Washington, DC: World Bank, 2023), https://documents1.worldbank.org/curated/en/099092823122522428/pdf/BOSIB0c8b6a4f20d90b86e035c5e46c8414.pdf

[22] World Bank Group, *Ending Poverty on a Livable Planet: Report to Governors on World Bank Evolution* (Washington, DC: World Bank, 2023), https://documents1.worldbank.org/curated/en/099092823122522428/pdf/BOSIB0c8b6a4f20d90b86e035c5e46c8414.pdf

money. Instead of simply giving loans directly to governments, the Bank now focuses on attracting private businesses to invest in developing countries. As many private companies are afraid to invest in certain regions because they fear unsatisfactory returns, the Bank began providing guarantees, which is a promise that the Bank will pay the investor back if the project fails or if the government cannot pay.

Another important part of this modern strategy is domestic resource mobilization (DRM). The World Bank aims to help developing countries improve their own taxation systems. Currently, many developing nations do not have efficient tax collection systems, neither from citizens nor businesses. By helping these countries build fair and transparent tax offices, the Bank ensures that governments can eventually fund their own budgets. The goal is for countries to stop relying on external aid and instead use their own national income.[23]

7. Bilateral vs. Multilateral Aid

Foreign aid, within this context, is categorized into two main distinctions: bilateral and multilateral. This categorization is based on the administrative sequence (and therefore, the underlying objectives of the donor).

Bilateral aid occurs when capital or resources (aid) are transferred directly from one sovereign government to another. This format is historically the most common and is more often than not a strategic tool of foreign policy to strengthen diplomatic relations and even gaining preferential access to foreign markets,[24] allowing for criticism regarding the intentions behind the aid. Nevertheless, bilateral aid is faster and more targeted. This type of aid is closely connected with the concept of "tied aid," where the recipient is contractually obligated to spend the fund on goods and services from the donor country, ensuring that at least a portion of the funds is recycled back into the donor's own economy.

Multilateral aid involves the pooling of resources from multiple nations into international financial institutions, such as the World Bank or the International Monetary Fund. Next, these institutions redistribute the funds to developing countries based on the standardized economic criteria and global development goals. This type of aid mends the concern about being politically-charged that comes with bilateral aid, because it pulls the assistance away from the specific geostrategic interests of a specific nation.[25] For example, since the World Bank Group is owned by the governments of member nations, all of its work cannot be tied to a specific state.

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[23] World Bank Group, "*Mobilizing Domestic Revenues,*" World Bank Group Academy, https://academy.worldbank.org/en/our-programs/by-theme/domestic-resource-mobilization

[24] Julia Kagan, "What Are the Different Types of Foreign Aid?," Investopedia, https://www.investopedia.com/articles/investing/082616/what-are-different-types-foreign-aid.asp

[25] Organisation for Economic Co-operation and Development (OECD), Comparing Multilateral and Bilateral Aid: A Portfolio Similarity Analysis, OECD Development Perspectives, no. 22 (Paris: OECD Publishing, 2022), https://doi.org/10.1787/81686d2f-en

Nevertheless, it is not completely pure of political influence, often carrying policy conditionalities, requiring the recipient government to implement specific neoliberal structural reforms.

8. Theoretical Framework

8.1. Liberal Institutional and Institutional Perspectives

These theories argue that international cooperation through institutions, especially international organizations (IOs),

8.1.1. Liberal Institutionalism

Liberal institutionalism is an International Relations theory arguing that international cooperation amongst states is not only feasible but also sustainable and necessary, even in an anarchic system (absence of a central governing authority), through institutions and interdependence. It contends that international organizations mitigate conflict: when states are independent, the risks and difficulties of lending money across borders are too high; however, international organizations like the World Bank act as a neutral mediator that provide clear rules, expectations, data, and a stable environment.[26]

For developing nations, this framework argues that following global institutional standards is the most efficient way to gain access to the capital and expertise needed for growth, alongside benefiting from a stable environment.

8.1.2. Two-Gap Model (Chenery & Strout)

The two-gap model is a development economics theory used to justify the technical necessity of foreign aid. It identifies two specific "gaps" that prevent development within nations: a savings gap and a foreign exchange gap. It claims that the aforementioned gaps cannot be solved by local effort alone.[27]

1. The savings gap (investment constraint): in many developing economies, income levels are so low that domestic savings are insufficient to fund the investments needed for growth. Foreign aid fills this gap by acting as "external savings" that can be used to build infrastructure and industry.
2. The foreign exchange gap (trade constraint): even if a developing nation has local funds, it often lacks the hard currency (such as US Dollars or Euros) required to import advanced machinery and technology from abroad. If a country cannot export enough goods to earn this currency, and subsequently purchase advanced technology from abroad, its development stalls.

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[26] Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton, NJ: Princeton University Press, 1984), chaps. 4–6.

[27] Chenery, Hollis B. "*The Two Gap Approach to Aid and Development: A Reply to Bruton.*" The American Economic Review 59, no. 3 (1969): 446–49. http://www.jstor.org/stable/1808980.

Therefore, this theory claims that foreign aid or capital inflows are a "factor of production" necessary to fill these gaps, allowing a country to move through the stages of development until it reaches self-sustainted growth.

8.1.3. Human Capital Theory

While physical infrastructure is important, this theory argues that a nation's most valuable asset is the acquired abilities of its people. It asserts that investments in human beings, such as education, health, on-the-job training, and social benefits, should be treated as a form of capital. A smarter and more skilled workforce is more productive, subsequently earning higher wages, and is therefore more capable of solving domestic problems.[28] From this perspective, many developing nations are "poor" not because they lack land or labor, but because they lack the high-quality human capital needed to manage modern technology and institutions.

For the World Bank, this means that aid is most effective when it is used to improve the knowledge and health of a population. As human capital grows, the country's reliance on land and raw labor decreases. Investing in the population means building a permanent internal resource that can eventually generate its own wealth.

8.2. Neoliberal and Market-Based Perspectives

These theories emphasize the role of the free market, private enterprise, minimal state intervention, competition, and individual incentives in achieving economic progress.

8.2.1. Neoliberalism and the Washington Consensus

Neoliberalism is the economic philosophy that believes the free market is the most efficient driver of development. This theory suggests that for a country to grow, the state must minimize its role in the economy.

Due to the US's unique position within the World Bank, this is the framework under which the Bank attaches "conditions" to its loans, requiring recipient nations to adopt policies such as privatization, trade liberalization, deregulation, and austerity.[29] In other words, neoliberalism and the Washington consensus describe a specific "package" of policy reforms believed to be required for a developing nation to achieve stability. The goal is to make the country "inverstor-friendly" in order for private capital to eventually be able to replace foreign aid.

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[28] Bottone, Germana, and Vania Sena. "Human Capital: Theoretical and Empirical Insights." American Journal of Economics and Sociology 70, no. 2 (2011): 401–23. http://www.jstor.org/stable/41329192.

[29] John Williamson, "What Washington Means by Policy Reform," in Latin American Adjustment: How Much Has Happened?, ed. John Williamson (Washington, DC: Institute for International Economics, 1990), https://www.piie.com/commentary/speeches-papers/what-washington-means-policy-reform

8.2.2. Public Choice Theory

Public choice theory applies the economic logic of rationality to political science. It assumes that government officials are "rational actors" (like consumers in economics), who look out for their own interests and incentives rather than acting solely for the public good.[30]

In the context of aid, it suggests that structural dependency is often willingly maintained by local elites. These officials may prefer the "easy money" of foreign aid because it is easier to mismanage than tax money, which requires a government to be accountable to its own citizens.

8.3. Critical and Structuralist Perspectives

These theories argue that the global economic system is inherently and purposely imbalanced, and that aid is more often than not a tool for maintaining power hierarchies.

8.3.1. Dependency Theory

This is the core critique of international aid. It argues that the world is divided into the wealthy "core" and a poor "periphery." Dependency theory sees aid as a mechanism of control, suggesting that resources are constantly extracted from the periphery to enrich the core, and aid is used to ensure that those nations stay integrated into a system that benefits the wealthy periphery.[31]

8.3.2. "Kicking the Ladder" (Ha-Joon Chang)

This theory argues that the wealthy nations of today actually became rich using protectionism, government subsidies, and high import taxes. However, now that they have secured globally powerful positions, these same nations use international institutions like the World Bank to forbid developing countries from using those exact same strategies. Therefore, they are "kicking away the ladder" they used to reach prosperity.[32]

This term is also applied to describe how wealthy nations were able to reach their current levels of development during a period in which many contemporary international norms and expectations were either weak or entirely absent. These include limited labor protections (absence of minimum wage laws, weak workplace safety standards, even

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[30] James M. Buchanan and Gordon Tullock, The Calculus of Consent: Logical Foundations of Constitutional Democracy (Ann Arbor: University of Michigan Press, 1962).

[31] André Munro, "Dependency Theory," Encyclopaedia Britannica, https://www.britannica.com/topic/dependency-theory

[32] Ha-Joon Chang, Kicking Away the Ladder: Development Strategy in Historical Perspective (London: Anthem Press, 2002).

child labor tolerance), lack of environmental regulations (unchecked industrial pollution and resource extractions), and weak human rights frameworks. Think of how the rapid industrial growth of the Industrial Revolution in the United Kingdom was achieved through child labor and hazardous working conditions, or how European colonial powers extracted raw materials, or how the 19th-century United States relied heavily on protectionist tariffs. Since then, they have “kicked away the ladder” by institutionalizing a global international order that aims to ban the same strategies that brought their rise.

8.3.3. Post-Development Theory

Post-development theory argues that “development” is not a neutral economic goal but a cultural discourse created by the West to manage and control the global south. It suggests that the current aid system treats developing nations as "problems" to be solved by Western experts, silencing local, traditional knowledge and ways of living. It claims that by defining development through metrics like GDP and industrialization levels, international institutions force diverse societies into a single, Western economic model.[33]

In this sense, true independence requires abandoning the development framework entirely, seeing it as foreign-led intervention, and allowing locals to define their own future.

9. Causes of Aid Dependency

9.1. Internal

The persistence of aid dependency within a nation is shaped as much by the internal political logic of the recipient state as by external forces. In a healthy economy, governments rely on domestic taxation, which creates a fiscal edition of the social contract: citizens pay taxes; in return they demand accountability, transparency, social benefits, and a say in how the money is spent. When large inflows of foreign aid enter a country, leaders can bypass this contract. Aid is an unearned source of income, giving elites a source of revenue that is independent of the local population, and therefore independent of their demands. This allows the ruling class to maintain power through patronage, distributing aid-funded benefits to loyal supporters. Evidently, the concepts of economic independence and democracy are intertwined, both affecting the other.[34]

Moreover, when aid is abundant, there is an economically “rational” but nevertheless destructive incentive for governments to under-invest in their own institutions. As aid increases, and pressure to collect domestic taxes decreases, some of the state’s most vital organs such as the

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[33] Arturo Escobar, Encountering Development: The Making and Unmaking of the Third World (Princeton, NJ: Princeton University Press, 1995).

[34] Deborah A. Bräutigam and Stephen Knack, “Foreign Aid, Institutions, and Governance in Sub-Saharan Africa,” Economic Development and Cultural Change 52, no. 2 (2004): 255–85.

ministry of finance are "hollowed out." It makes government bodies ineffective and pointless, resulting in reduced effectiveness, slower decision-making, and reduced trust. Additionally, the presence of foreign-funded project implementation units (PIUs) often leads to scenarios where the most talented local bureaucrats are approached and offered higher salaries to manage aid projects than work for the national government, creating a cycle where the government becomes technically incapable of governing without foreign assistance as institutions have been bypassed and weakened by the aid apparatus itself.[35]

9.2. External

Certainly, an external drive simultaneously pushes developing nations into dependency. Aid agencies often operate as fragmented monopolies where there is little accountability for actual results. One of the main reasons for this is institutional loan pushing. Within organizations like the World Bank, the staff is often incentivized by a disbursement culture, where success is measured merely by the volume of capital moved rather than the long-term impact on the recipient's economy and independence. This creates systemic pressure to push new loans onto developing nations to meet internal budgetary targets, not taking into account the recipient's ability to either absorb the funds or manage the following debt. There also exists a "bureaucratic lack of feedback" as a mechanism for dependency. Because the "consumers" of aid have no way to "fire" the donor or switch to a different provider, aid agencies often ignore local needs in favor of satisfying their own internal checklists and home-country voters. They are in a position to impose top-down schemes that likely fail to adapt to local realities, ensuring that projects fail and the country remains in need of the next round of "expert" intervention.[36]

Another external factor is aid's geopolitical alignment. Aid is more often than not deployed as a tool of statecraft rather than pure development. Donors may maintain aid flows with the intention of ensuring that a recipient state becomes or remains a strategic ally, in some cases, against other states in situations revolving around security interests. In such cases, aid functions as a form of leverage, whereby continued financial support becomes implicitly or explicitly conditioned on diplomatic alignment, potentially pressuring recipient states to distance themselves from rival powers and drawing them into geopolitical tensions they would have otherwise avoided.

10. Mechanisms of Aid Dependency

10.1. Fiscal Substitution

Fiscal substitution is one of the most cited mechanisms of dependency because it alters the fundamental relationship between a state and its revenue sources, including its citizens. When

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[35] Deborah A. Bräutigam and Stephen Knack, "Foreign Aid, Institutions, and Governance in Sub-Saharan Africa," Economic Development and Cultural Change 52, no. 2 (2004): 255–85.

[36] William Easterly, "The Cartel of Good Intentions: The Problem of Bureaucracy in Foreign Aid," Journal of Policy Reform 5, no. 4 (2002): 223–50.

foreign aid becomes a significant component of the national budget, and is thought to be predictable and reliable, it leads to a decline in tax effort.[37] Over time, the state's fiscal institutions atrophy, leaving the government structurally incapable of funding itself without continued external assistance.[38]

10.2. Aid Fragmentation

Fragmentation occurs when a recipient nation is forced to simultaneously manage tens or hundreds of uncoordinated projects from dozens of different donors. In many developing nations, the number of separate donor missions can exceed 200 per year, forcing local officials to spend a significant portion of their working days simply meeting with foreign delegations.[39] This creates a massive burden that overwhelms the recipient's likely limited bureaucracy. Furthermore, this fragmentation leads to internal "poaching,"[40] where high-paying international agencies hire the most skilled local civil servants to manage their own projects, given that they can provide higher salaries.

More centralized structures, like the International Development Association (IDA) attempt to restructure and rectify this matter by pooling resources and providing the same development aid under one entity. Nevertheless, the reality for most nations is still aid that is decentralized and fragmented.[41]

10.3. Conditionality and Debt Sustainability Traps

Conditionality operates as a mechanism of asymmetric power and reinforcement by reward, where international financial institutions require recipient states to implement specific structural reforms (typically fiscal austerity, privatization of state industries, trade liberalization, etc) to qualify for assistance. They are intended to ensure economic stability; however, these conditions often bypass domestic political debate and lock governments into specific policy paths that may not align with local needs or popular demands.[42]

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[37] Bräutigam and Knack, "Foreign Aid, Institutions, and Governance."

[38] E. Resende, "Discretisation of the Non-Linear Heat Transfer Equation for Food Freezing Processes Using Orthogonal Collocation on Finite Elements," Brazilian Journal of Chemical Engineering 24, no. 3 (2007): 399–409, https://doi.org/10.1590/S0104-66322007000300009

[39] Emmanuel Frot and Javier Santiso, "Crushed Aid: Fragmentation in Sectoral Aid," OECD Development Centre Working Papers, no. 284 (Paris: OECD Publishing, 2010), https://www.oecd.org/en/publications/crushed-aid_218465127786.html

[40] Stephen J. Bigelow and Patrick Thibodeau, "What Is Employee Poaching (Talent Poaching)?," TechTarget, September 8, 2025, https://www.techtarget.com/searchhrsoftware/definition/employee-poaching-talent-poaching

[41] World Bank Group, "Defragmenting the Global Aid Architecture," World Bank, July 17, 2025, https://www.worldbank.org/en/news/immersive-story/2025/07/17/ida-s-role-in-aid-architecture

[42] World Bank, Conditionality Revised, https://documents1.worldbank.org/curated/en/524471468320048931/pdf/32524a.pdf

When these reforms fail to initiate sufficient growth, countries fall into debt sustainability traps. In this cycle, the debt-to-GDP ratio becomes unmanageable, and the government must enter a permanent state of debt servicing, where new inflows are immediately transferred to repay interest to creditors.

10.4. Institutional Outsourcing and Parallel State Structures

To ensure short-term project efficiency, donors often bypass local government ministries, once again deteriorating their role, and instead choose to deliver services through international NGOs or private contractors. This process is known as institutional outsourcing, in which states delegate key functions to external actors (such as international institutions, NGOs, or private firms) instead of handling them internally. This shifts control and accountability outside the original governmental institution, and creates parallel state structures that operate outside of the host country's sovereign authority.[43] These structures may provide immediate relief, but they prevent the development of permanent national institutions.

10.5. The "Dutch Disease"

The term "Dutch disease" describes an economic phenomenon in which a sudden boom in a natural resource sector (like gas or oil) paradoxically harms other sectors, such as manufacturing or agriculture. Since massive inflows of foreign currency cause the real exchange rate to appreciate, the country's domestic exports become less competitive on the global market because they are more expensive. This leads to de-industrialization, and as the productive base of the economy shrinks, the state becomes even more dependent on aid to finance the imports it can no longer produce or afford on its own export revenue.[44]

Those massive inflows of foreign currency by sales of natural resources can be theoretically substituted by massive inflows of foreign currency by aid. The results are the same.

11. Conditionality and Sovereignty

Conditionality shifts decision-making authority from national governments to foreign technocrats. When the World Bank mandates specific economic reforms, it effectively narrows a country's policy space, preventing local leaders from choosing socioeconomics paths that reflect their citizens' unique needs.

It is argued that accepting World Bank or IMF conditionalities is no different to sovereignty than agreeing to the United Nations Charter, or any other intergovernmental international agreement. However, such agreements are entered into on relatively equal and voluntary terms.

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[43] Jakob Svensson, "The Institutional Economics of Foreign Aid," Swedish Economic Policy Review 13, no. 2 (2006): 115–37, https://www.government.se/contentassets/1466e8522c49410c83ea2052c347d804/jakob-svensson-the-institutional-economics-of-foreign-aid/

[44] W. Max Corden and J. Peter Neary, "Booming Sector and De-Industrialisation in a Small Open Economy," The Economic Journal 92, no. 368 (1982): 825–48.

Conditionalities imposed by financial institutions, on the other hand, are often accepted under significant financial pressure. Nevertheless, these arrangements are not purely coercive, as they provide recipient states with access to critical financing, technical expertise, macroeconomic stabilization, and overall support that other international agreements do not offer.

12. Existing Solutions and Potential Policy Directions

12.1. Conditional Aid

Despite its controversy, conditional aid remains a primary tool used by donors to incentivize policy changes in exchange for capital. Nevertheless, moving conditionality away from reforms that will likely be resisted or even abandoned once the aid cycle ends is a possible policy direction. Conditionality can shift towards social safety net conditions, which can require a specific percentage of the loan to be protected for essential sectors like primary education or rural health clinics to ensure that the most vulnerable within the population are shielded during fiscal adjustments.

12.2. Results-Based Financing (RBF)

Results-based financing disburses funds only *after* specific, verified developmental milestones are achieved, shifting the focus from inputs to outcomes.[45] Although this may seem like the perfect solution to most of the aforementioned problems, it can place immense financial strain on developing countries that lack the upfront capital to start projects. A method of mitigating this is framing policies to include milestone advance payments, where a small portion of the capital is released immediately to cover startup costs, while the remainder is tied to verifiable indicators of successful performance such as literacy rate increases or completion of infrastructure.

12.3. Capacity-Building Programs

Capacity-building initiatives focus on the long-term transfer of knowledge and technical skills to local officials. The goal is to eliminate the need for foreign technical assistants, by ensuring that national ministries have the expertise required to manage their own economic systems.[46]

A sustainable approach could involve "mandatory knowledge transfer" clauses, which require foreign consultancy firms to pair their international experts with local civil servants, ensuring that technical proficiency remains within the country even after the project concludes.

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[45] World Bank Group, “Banking on Impact: What You Need to Know about Results-Based Financing,” World Bank, June 28, 2019, https://www.worldbank.org/en/news/feature/2019/06/28/banking-on-impact-what-you-need-to-know-about-results-based-financing

[46] Melissa Kelly, Alisa Currimjee, and Martin Galevski, “Common Challenges and Tailored Solutions: How Policymakers Are Strengthening Early Learning Systems across the World,” World Bank Blogs, April 23, 2024, https://blogs.worldbank.org/en/education/Common-challenges-and-tailored-solutions

12.4. Public Financial Management (PFM) Reforms
Public financial management (PFM) reforms aim to increase the transparency, accountability, efficiency, and reliability of a government in handling its budget. This is usually done by modernizing accounts and auditing processes to make sure that both domestic revenue and foreign aid are used for productive purposes rather than lost to corruption.[47]
The implementation of open-budget portals serves as a practical solution here, allowing citizens to access and study the real-time expenditure of international loans.

Nevertheless, both of those solutions come with their criticisms, as some argue that PFM reforms are another form of foreign intervention into domestic affairs.

12.5. Domestic Revenue Mobilization (DRM)
Domestic revenue mobilization (DRM) refers to the strategic effort through which governments generate, manage, and use their own resources, specifically taxes. It is associated with an effort to increase a state's internal income through taxation. Strengthening the national tax grid is the most direct way to oppose and counter fiscal substitution, allowing the government to reclaim its "power of the purse," as reliance on foreign aid decreases.[48] In the form of policy, technical assistance for tax law reform could be provided from experts to help developing nations capture revenue.

12.6. South-South Cooperation
South-South cooperation is derived from economically left-leaning perspectives, where the Global North is believed to be oppressing the Global South. This potential policy solution involves the exchange of resources and technology between developing nations. Since this model is based on shared historical experiences of subjugation and mutual benefit, and because it avoids the top-down policy conditionalities traditional with North-South aid, it avoids most of the criticism faced by neoliberal solutions. On the contrary, proponents of neoliberalism tend to oppose an extreme version of this, where the Global South rejects trade with the Global North, but not less extreme suggestions such as the implementation of regional aid hubs.

12.7. Debt Relief Mechanisms
Debt relief mechanisms, such as the HIPC Initiative, aim to cancel unpayable sovereign debts to provide nations with a "fresh start." This frees up the budget for items such as social spending; however, it often requires the recipient to agree to further structural adjustment programs to qualify. "Debt-for-Nature Swaps" represent an innovative policy alternative, where a portion of a

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[47] World Bank Group, "Financial Management Umbrella Program: Overview," World Bank Programs, https://www.worldbank.org/en/programs/financial-management-umbrella-program/overview
[48] World Bank Group, "Mobilizing Domestic Revenues," World Bank Group Academy, https://academy.worldbank.org/en/our-programs/by-theme/domestic-resource-mobilization

country's debt is forgiven in exchange for its commitment to local environmental conservation projects.

12.8. Public-Private Partnerships (PPPs)

Public-private partnerships (PPPs) function as long-term contracts between a government agency and a private company to fund and operate projects, typically public infrastructure. The private sector provides the upfront capital as well as the technical expertise, while the government provides the land and legal authority as well as lifts any other potential barriers. This overcomes the funding gap when the national budget is insufficient.[49] Nevertheless, certain measures and policies must be clearly and legally documented.

12.9. Institutional Strengthening

Institutional strengthening is building resilient national bodies. By reinforcing legal and regulatory frameworks, a country ensures its progress is sustainable and can indeed withstand the eventual withdrawal of international aid.[50] The creation of independent, anti-corruption commissions with the specific authority to audit projects funded by international financial institutions ensures that aid serves as a temporary means for growth rather than a permanent dependency.

13. Current Role of the World Bank

Within the scope of this agenda item, the primary objective for the World Bank is to restructure the traditional aid model into a framework that allows for sustainable self-reliance, in which developing nations do not become eternally reliant on foreign mercy. The specific implementation strategies remain at the discretion of the participating member states.

14. Questions to be Answered

[49] World Bank Group, Public-Private Partnerships Reference Guide (Washington, DC: World Bank, 2022), https://documents1.worldbank.org/curated/en/099011524111939011/pdf/P17218315f839d0d18db4145d96004bea4.pdf
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