

National Development Agencies and Bilateral Aid

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This is a draft. To quote, please consult the final version, published in Paul A. Haslam, Jessica Schafer and Pierre Beaudet, eds. [*Introduction to International Development: Approaches, Actors, Issues, and Practice*](#). Fourth Edition. Oxford: Oxford University Press, 2021, pp. 150-167.

LEARNING OBJECTIVES

- To understand the main terms and concepts applicable to bilateral foreign aid.
- To learn about the different reasons why donors provide assistance and how their priorities can vary.
- To appreciate current trends in and debates surrounding foreign aid.

This chapter provides an overview of the main actors, modalities, and resource flows involved in the aid that countries in the North provide to **recipients** in the South. It begins by explaining some key terms in what is known as **bilateral aid**. It then examines global aid flows, highlighting the differences among donors and analyzing the issue of their underlying motives. Finally, it explores which regions and countries receive the most aid, before turning to an overview of current trends and controversies in foreign aid.

CLARIFYING THE TERMINOLOGY

The providers of development assistance are usually referred to as **donors**, although “lenders” may be a more appropriate term in cases where the aid is in the form of loans. Most donors provide the majority of their aid—an average of about 70 per cent—directly to developing countries (known as **bilateral** or government-to-government aid) and channel the remainder of their funds through multilateral organizations such as the World Bank or UN agencies, for example, UNICEF (**multilateral** aid). This chapter limits its discussion to bilateral aid and donors. Multilateral institutions and development assistance are discussed in Chapters 10, 11 and 29.

The expression “foreign aid” is often used interchangeably with the more technical term **official development assistance** (ODA), as we do in this chapter. The two, however, are not quite synonymous. While foreign aid can include a wide range of assistance, what can technically be counted as ODA is more restricted. According to its official definition, ODA refers to “flows of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective, and which are concessional in

character with a grant element of at least 25 per cent” (OECD, 2003). This means that to qualify as ODA, funding must be provided by governments and its main purpose must be improving economic or social well-being in developing countries (see Box 9.1). Thus, donations from individuals, foundations, or private corporations, whether directly to developing countries or through the intermediary of **non-governmental organizations** (NGOs), do not count as ODA, nor do military assistance and export credits meant primarily to promote the sale of goods from the donor country. Aid to countries not classified as developing, such as Russia, does not qualify as ODA and is usually referred to as “official assistance.” ODA financing can be provided in the form of a grant (a non-reimbursable donation) or a loan (to be repaid), but to be counted as ODA the terms of the loan would have to be significantly better than what is available on the commercial market (with a lower interest rate, an extended period of repayment, and/or a “grace period” before the first repayment falls due). For this reason, private investment and commercial loans are excluded as well. However, ODA does include administrative costs, such as the costs of maintaining aid agency offices and the salaries of staff both at home and abroad.

There is some controversy over what should be included as ODA. For instance, donor governments have agreed to count as ODA the expenses incurred during the first year of resettling refugees in their countries (see Chapter 23). In this case, it is not clear that this fulfills the requirement that the main objective be “economic development and welfare of developing countries”; moreover, the period of one year is rather arbitrary. Furthermore, when development assistance is closely integrated with military and diplomatic initiatives—in Iraq and Afghanistan, for instance—it can be hard to determine exactly what constitutes ODA and what does not. A few countries are trying to revise the guidelines to include the cost of peacekeeping operations as ODA, even if the funds are spent on the donor country’s troops. (Currently, this only counts as ODA if the donor country is funding the participation of personnel from a developing country.) Critics object to the expansion of the definition of ODA, arguing that it leads to the militarization or securitization of aid and can prioritize the interests of donor countries rather than those of the recipients.

Box 9.1 | The Many Uses of Foreign Aid

- Foreign aid can be spent in numerous sectors and ways, including:
- To provide training and build local capacity.
- To promote social services, including education and health care.
- To promote the building of infrastructure, such as roads, bridges, dams, railways, and airports.
- To support policy reform, for instance, drawing up new legislation and regulations to protect the environment, fight corruption, or liberalize trade.
- To promote agriculture, including the adoption of new crop techniques.
- To promote industry, such as processing food or natural resources.
- To purchase technology.
- To provide humanitarian assistance, notably emergency housing, food, or health care, especially in cases of war or natural disaster.

OVERVIEW OF AID DONORS

Most industrialized countries that provide foreign aid belong to a donors' club known as the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD), headquartered in Paris. DAC members regularly provide the OECD with a breakdown of their aid figures, and the OECD in turn compiles the information, making it publicly available. Not all donors, however, are members of the DAC. Some OECD members have foreign aid programs but do not belong to the DAC, such as Chile, Colombia (which joined the OECD in 2020), Estonia, Israel, Latvia, Lithuania, Mexico, and Turkey. Several Arab states, including oil-producing Kuwait, Saudi Arabia, and the United Arab Emirates, also provide assistance, as do some developing countries themselves, such as Cuba, Taiwan, and Venezuela, but none of these is a member of the OECD (see Table 9.1). China in recent years has gained much attention for its foreign aid, especially to Africa. However, most of it is in the form of loans or investments that do not generally qualify as ODA. Moreover, it does not disclose full information on its aid, nor do other important providers of development cooperation, such as Brazil, India, and South Africa. This chapter concentrates on the ODA provided by the 29 member countries of the DAC, which constitutes some 75–80 per cent of global ODA.

In 2017, DAC donors contributed over US\$147 billion in ODA. Of this, almost \$106 billion was in bilateral assistance and \$42 billion in contributions to multilateral institutions. They spent \$14 billion of the bilateral aid on settling refugees in donor countries. Total ODA was 63% of the total amount of private financial flows to developing countries (including direct and portfolio investment), which totalled \$234 billion for that year. Additionally, NGOs contributed about \$42 billion (OECD, 2018b: Tables 2 and 13).

The total volume of foreign aid has followed various trends over the decades. As Figure 9.1 illustrates (using constant 2017 dollars to facilitate comparison), total DAC bilateral aid increased slowly in the 1960s and then much more rapidly in the 1970s. In fact, total aid flows increased by more than 50 per cent between 1970 and 1980, even when adjusted for inflation. Donors cut their aid in the early and mid-1990s, a period of “aid fatigue.” Between 1992 and 1997, total aid dropped by more than one-fifth. Contributions rose again quite dramatically after 1997, reaching an all-time high to date in 2016, more than twice as high as in 1997. Box 9.2 describes these aid cycles in greater detail.

Table 9.1 | ODA and “ODA-Like Flows” from Non-DAC Providers, 2017

| Donors | US\$ Millions | ODA/Gross National Income (%) |
|---------------------|---------------|-------------------------------|
| OECD Non-DAC | | |
| Chile* | 33 (2016) | Not available |
| Colombia* | 42 (2015) | Not available |
| Estonia | 43 | 0.16 |
| Israel | 351 (2016) | Not available |

| | | |
|------------------------|--------------|---------------|
| Latvia | 32 | 0.11 |
| Lithuania | 59 | 0.13 |
| Mexico* | 220 | Not available |
| Turkey | 8,121 | 0.95 |
| | | |
| Other providers | | |
| Azerbaijan | 19 | 0.05 |
| Brazil* | 316 (2013) | Not available |
| Bulgaria | 62 | 0.11 |
| China* | 3,615 (2016) | Not available |
| Croatia | 54 | 0.10 |
| Costa Rica* | 9 (2016) | Not available |
| Cyprus | 18 (2015) | Not available |
| India* | 1,695 | Not available |
| Indonesia* | 56 (2014) | Not available |
| Kazakhstan | 35 | 0.02 |
| Kuwait | 570 | 0.41 |
| Liechtenstein | 24 | Not available |
| Malta | 25 | 0.21 |
| Qatar* | 1,344 (2013) | Not available |
| Romania | 220 | 0.11 |
| Russia | 1,190 | 0.08 |
| Saudi Arabia | 908 | Not available |
| South Africa* | 95 | Not available |
| Taiwan | 319 | 0.06 |
| Thailand | 133 | 0.03 |
| United Arab Emirates | 3,957 | 1.03 |

Notes: Countries whose names are followed by an asterisk do not report their ODA figures to the OECD. Their figures are estimates of concessional finance for development (“ODA-like flows”). When data were not available for 2017, amounts are provided for the most recent year possible, indicated in parentheses.

Source: OECD (2018b: Tables 33 and 33a).

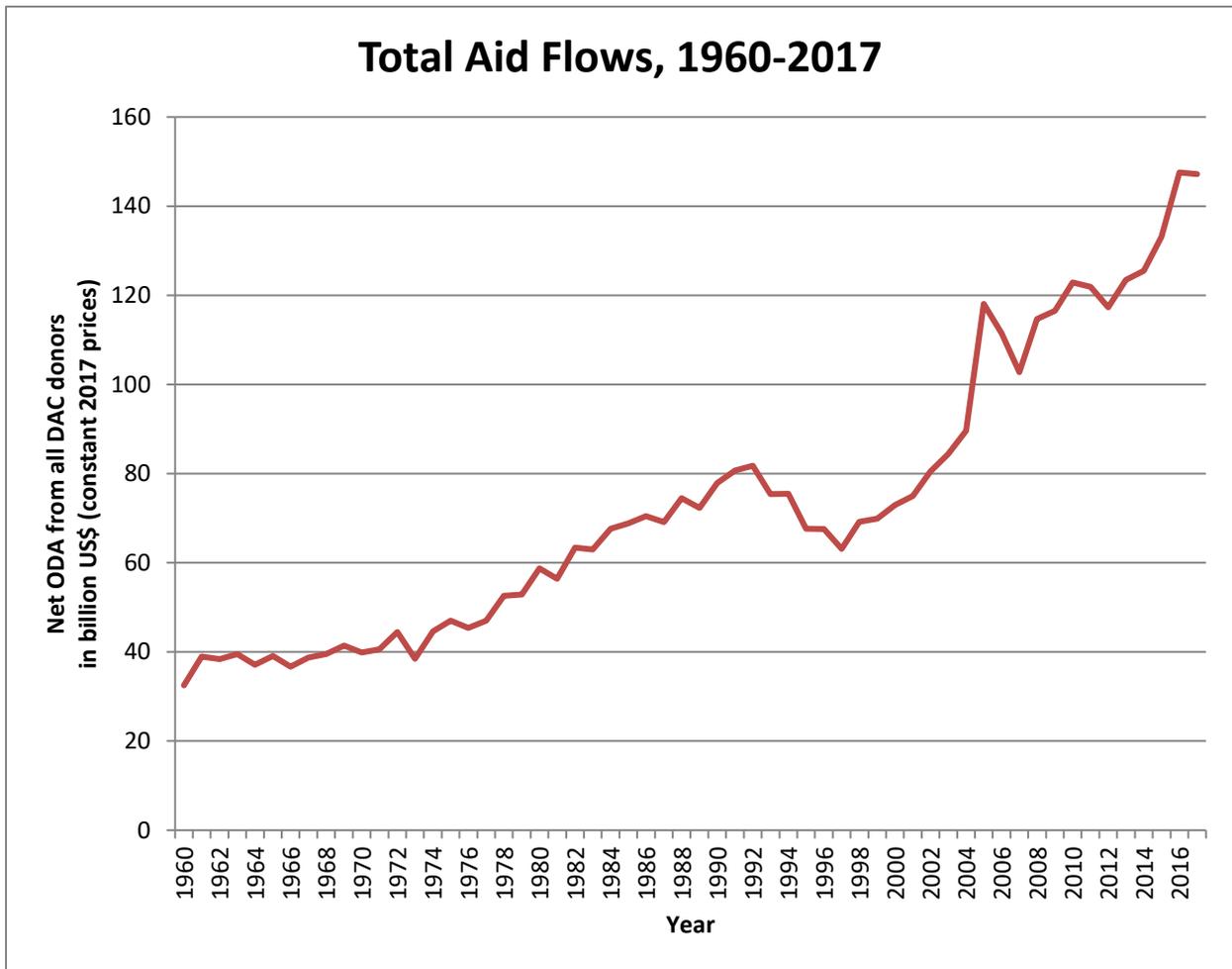
The most generous donor by far in dollar terms was the United States, whose ODA exceeded \$34 billion in 2018 (see Figure 9.2). The next four largest donors were Germany, the United Kingdom, Japan, and France, each of which contributed between \$12 billion and \$25 billion. At the other end of the scale, smaller countries, such as Slovakia, Slovenia, and Iceland, each contributed less than \$130 million in that year. Of the non-DAC donors that report their ODA figures to the DAC, the largest in 2017 was Turkey, which contributed \$8.1 billion, making it the world’s sixth-largest donor, followed by the United Arab Emirates (\$4.0 billion) and Russia (\$1.2 billion), all of which provided more ODA than what each of the 12 smallest DAC donors contributed. China’s concessional finance for development is estimated to total \$3.6 billion in 2013 (see Table 9.1).

Although absolute figures in US dollars immediately reveal who the most—and least—significant players are in the area of foreign aid, they tell us little about how generous the countries actually are when measured against their capacity to provide assistance. Relative generosity is normally calculated by dividing ODA by gross national income (GNI), gross national product (GNP), or gross domestic product (GDP), each of which provides almost identical figures.

In 1970, the UN General Assembly passed a resolution whereby donors would provide at least 0.7 per cent of their GNP in ODA by 1975 (see Box 9.3). DAC donors as a whole failed miserably to reach that target. In 2017, 42 years after the deadline, they collectively provided 0.31 per cent, less than half the proportion to which they had committed. Nonetheless, this was significantly higher than the 0.22 per cent provided in 2001–2 (OECD, 2018b: Table 4).

Individual donors’ relative generosity actually varies greatly from the average. In 2018, as illustrated in Figure 9.3, five DAC countries met or exceeded the UN target of 0.7 per cent: Sweden (1.04 per cent), Luxembourg (0.98 per cent), Norway (0.94 per cent), Denmark (0.72 per cent), and the United Kingdom (0.70 per cent), as did in 2017 (the latest for which non-DAC figures are available) Turkey (0.95 per cent) and the United Arab Emirates (1.03 per cent), the world’s most generous donor (see Table 9.1). At the bottom of the DAC scale, Slovakia and Greece contributed 0.13 per cent of gross national income in 2018, while the figure for Poland and the Czech Republic was 0.14 per cent. Paradoxically, the world’s most generous donor in absolute terms is also one of the least generous in relative terms: the US ratio was only 0.17 per cent for that year, less than one-sixth of Sweden’s contribution and not even a quarter of the UN target.

Figure 9.1 | Total Aid Flows from DAC countries, 1960–2017



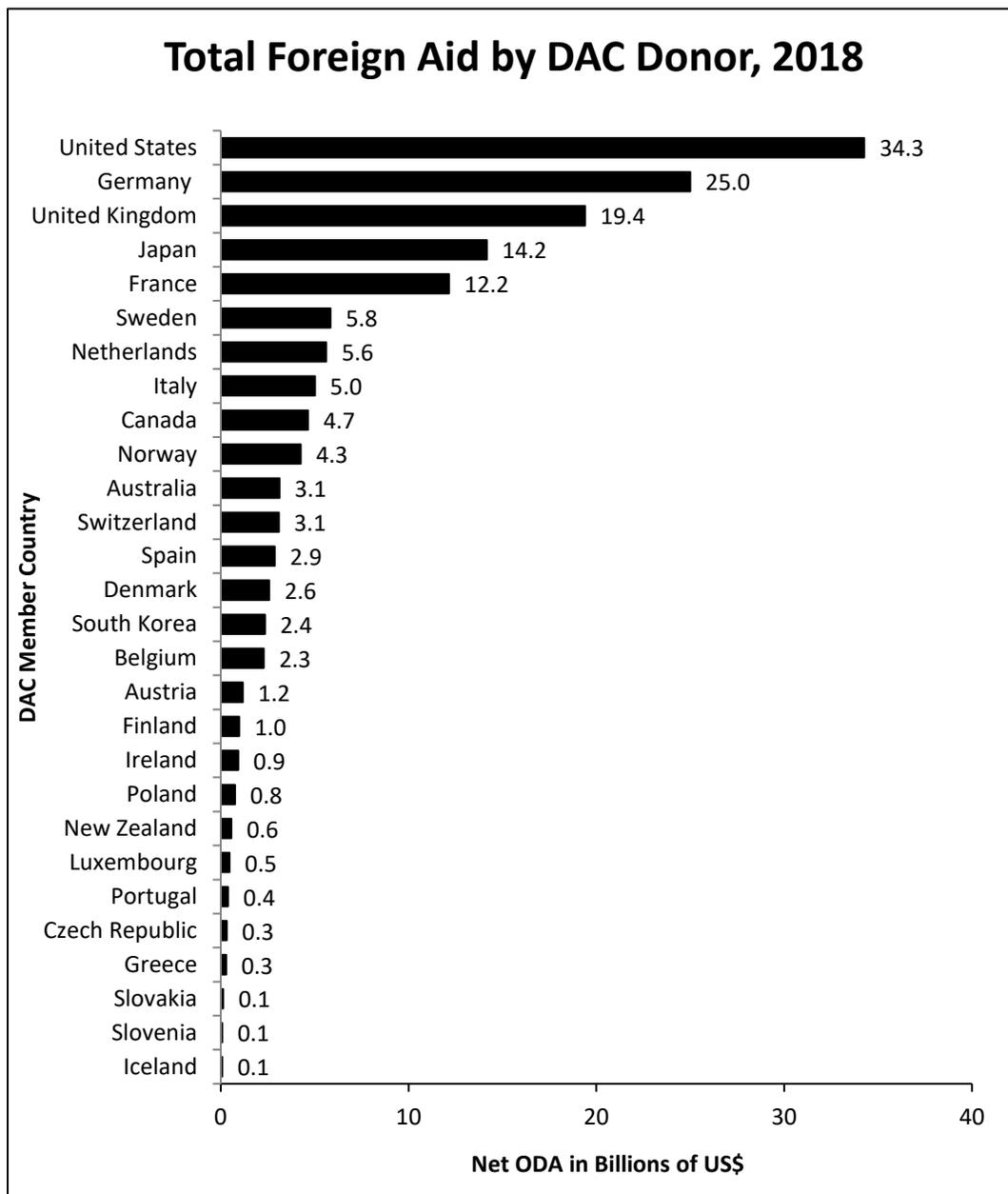
Source: Data extracted from OECD (2019b).

Box 9.2 | Foreign Aid Cycles

The 1970s were a period of great optimism regarding the use of foreign aid to promote development. Donors agreed at the United Nations in 1970 to steadily increase their ODA to reach a minimum of 0.7 per cent of their gross national product within five years. Although they failed to meet the target, as discussed above and in Box 9.3, donors did provide far more aid than ever before. In the 1980s, a period of slower growth in donor countries and severe economic crises in most recipient countries, new aid was often made conditional on major changes in economic policy. This slowed the growth of aid somewhat. In the 1990s, after the end of the Cold War and the collapse of the Soviet Union as a rival patron for many developing countries, Western donors cut their own foreign aid budgets, justifying the cuts mainly by invoking a need to trim their budget deficits. At the same time, donors were growing increasingly disenchanted with what they considered a lack of concrete results and unacceptably high levels of corruption in recipient countries. In 2000, the pendulum began to

swing back the other way. A new consensus emerged on the urgent need to fight poverty, especially in Africa, leading to an agreement on the Millennium Development Goals (MDGs, discussed below and in Chapter 24) to be reached by 2015. Between 2001 and 2016, total aid increased at a rate not seen since the 1970s. However, aid levels stagnated after 2016, suggesting that the Sustainable Development Goals (SDGs) adopted in 2015 and comprising ambitious targets for 2030, were not able to inspire donor countries to increase their total financial contributions.

Figure 9.2 | Total Foreign Aid by DAC Donor, 2018



Source: OECD (2019a).

DONOR MOTIVES

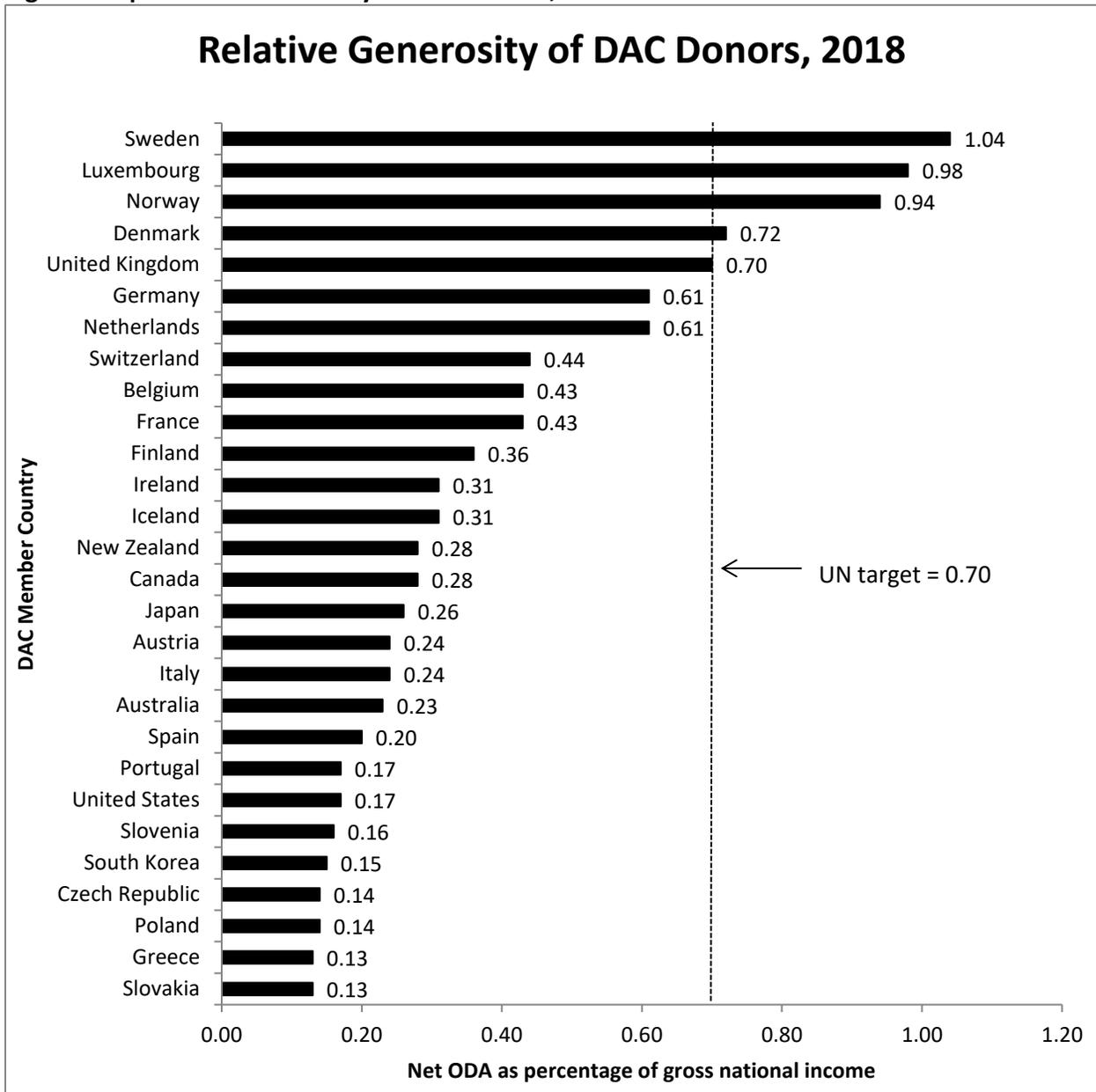
Donors provide development assistance for numerous reasons. One of them—and for many, the most important—is simply to help the less fortunate abroad. Thus, a primary justification is that just as social programs provide assistance to poor people at home, ODA should focus on helping people in other countries have access to food, housing, health care, education, and other basic necessities and opportunities. The best means of providing development assistance is often contested (as discussed below), but the goal from this perspective should not be related to self-interest. This motive is most often shared by NGOs and citizens of donor countries, if not by all development officials. There are different forms of this mentality. One can be motivated by charity, often inspired by religious beliefs (and sometimes viewed as paternalism), or by solidarity, a more left-wing concept that frames actors in the recipient country as equal partners. The latter is criticized by some as being naively idealistic and willfully ignorant of the need for a donor to pursue its own national interest.

Box 9.3 | The 0.7 Per Cent Aid Target

In recognition of the special importance of the role which can be fulfilled only by official development assistance, a major part of financial resource transfers to the developing countries should be provided in the form of official development assistance. Each economically advanced country will progressively increase its official development assistance to the developing countries and will exert its best efforts to reach a minimum net amount of 0.7 per cent of its gross national product at market prices by the middle of the Decade.

Source: International Development Strategy for the Second United Nations Development Decade, UN General Assembly Resolution 2626 (XXV), 24 Oct. 1970, para. 43.

Figure 9.3 | Relative Generosity of DAC Donors, 2018



Source: OECD (2019a).

A more self-interested motive, however, is widely shared, especially among government officials not directly involved in aid delivery, including those working in national defence, foreign affairs, and international trade. From their perspective, aid is primarily a means to pursue other foreign policy objectives, including diplomatic, commercial, and security interests. Under this logic, aid should be used to promote diplomatic initiatives, including assisting “friendly” countries, pursuing security objectives (for instance, rewarding countries that take part in the “war on terror” or winning hearts and minds in a country where the donor country’s troops are deployed), or facilitating investment and trade relations, including the sale of donor

nation goods and services in the recipient country. Aid programs also can serve to raise the donor's profile internationally, providing it with prestige among its peers as a country that makes an important contribution on the global level. The basic principle from this perspective is that foreign aid can be used to help people abroad, but that the selection of recipients and aid modalities should prioritize instances where it maximizes the direct and indirect benefits to the donor country.

Increasingly, donors are adopting a "whole-of-government approach" that integrates foreign aid more closely with other foreign policy objectives. This mentality is often criticized for using aid as a fig leaf, hiding the pursuit of naked self-interest behind claims that it is designed to help others. Simultaneously, donor countries are placing greater emphasis on supporting the private sector, often involving greater collaboration with their own multinational corporations (see Chapter 12). Depending on one's perspective, these partnerships can be described as innovative financing modalities to meet twenty-first century challenges or as corporate subsidies disguised as poverty reduction.

Since its origin at the end of World War II, foreign aid has simultaneously manifested altruistic and self-interested characteristics. Most donor aid programs are a compromise between these two perspectives, weighted differently from donor to donor. On the one hand, much foreign aid has been blatantly used as an instrument of foreign policy, most clearly during the Cold War, when foreign aid from the West often was explicitly targeted to prevent the expansion of Communism. Currently, ODA is more often linked to political and economic liberalization, including strengthening democracy, **good governance**, and the private sector in recipient countries (see Chapters 8 and 10). **Tied aid** (discussed in Box 9.4) is a clear manifestation of the principle that the donor's economy should benefit from the aid it provides, although most donors are phasing out the practice. On the other hand, many billions of dollars have been spent with no clear benefit to the donor. Emergency-related humanitarian assistance best embodies the principle of selflessness (see Chapter 29). Unless radical steps are taken, climate change will increase the number and severity of extreme weather-related events and therefore the need for humanitarian assistance (see Chapter 18).

There are other justifications for the provision of foreign aid, although they are not as widely held. Some, especially in developing countries, view ODA as a form of compensation for past or present injustices, whether colonial exploitation or an unjust international system. From this perspective, northern countries have enriched themselves from their unequal relationships with southern countries, either under colonialism in the past or currently under a global trading system that still disproportionately benefits wealthier countries, with an ongoing debt crisis that has many developing countries paying more to service their debt than they receive in foreign aid. Under this logic, if the net transfer of wealth is from South to North, donors have a duty to increase their ODA to at least balance out the flow of resources.

Under some interpretations of international human rights law, foreign aid can also be considered an obligation. For instance, under the International Covenant on Economic, Social and Cultural Rights, which was adopted at the United Nations in 1966 and became legally binding in 1976, everyone has the right to a free primary education. More broadly, the UN General Assembly adopted a Declaration on the Right to Development in 1986. In cases in which developing countries do not have the necessary resources to provide adequate opportunities for schooling, for instance, they cannot be held responsible for not upholding

those rights and, one could argue, donors must assume the obligation to ensure the rights are met. From this perspective, no distinction can be made among recipients based on donor interests—these rights are universal. Some would claim, however, that many developing countries have the means to meet these basic rights but fail to do so because of waste, corruption, or emphasis on other priorities. In such cases, they believe, governments should be held accountable for their own failings, and donors should not be obligated to assume their responsibilities.

Box 9.4 | Tied Aid

Some ODA is conditional on the purchase of goods and services from the donor country, even if they are not the cheapest or the best value for money, a practice known as “tied aid.” Tying aid increases costs by an average of 15 to 30 per cent, although in some instances the figure can be much higher (Jepma, 1991: 15). Sometimes the additional costs can be incurred for a decade or more. For instance, Canadian aid to Mongolia’s agricultural sector might require that equipment such as tractors be purchased from Canadian companies. Not only might those tractors cost more and be no better than, say, Japanese or Chinese ones, but Mongolia would have to buy Canadian replacement parts for as long as the tractors were in use.

Aid that can be spent regardless of the country of origin of the goods and services is referred to as “untied.” Donors have committed themselves to progressively untying aid, although they have not specified a deadline for eliminating the practice altogether (OECD, 2015). Some countries, such as Denmark, Sweden and the United Kingdom, have abolished tied aid altogether. Others, however, continue to tie a sizable proportion of their ODA, including Austria and South Korea (both 50 per cent in 2017), the Czech Republic (44 per cent), Poland (40 per cent), and the United States (36 per cent) (OECD, 2018b: Table 23).

CHARACTERISTICS OF DONORS

Individual donor countries often choose to focus on a particular region on the basis of geography, security interests, or former colonial ties. For instance, in 2016–17, Australia, Japan, South Korea, and New Zealand provided between 49 and 85 per cent of their ODA to Asia and Oceania, their “neighbourhood.” Eight donors—Canada, Iceland, Ireland, Luxembourg, the Netherlands, Sweden, the United Kingdom, and the United States—gave at least half of theirs to sub-Saharan Africa. No country concentrated the majority of its aid on the Middle East and North Africa or on Latin America and the Caribbean, though Spain came close (46 per cent to the latter region) (OECD, 2018b: Table 28).

Some countries transfer a much larger proportion of their aid to multilateral institutions than they disburse directly to developing countries (see Chapter 11). By doing so, they reduce their administrative costs but also some of their control over where and how their funds are spent. Figures from 2017 range from the Czech Republic, Greece, Spain and Hungary and Slovakia, which each provided 73–74 per cent of their aid through multilateral channels, to the United States and New Zealand, which respectively disbursed only 14 and 18 per cent multilaterally (OECD, 2018b: Table 13).

Donors also have varying institutional arrangements, priorities, and preferred aid modalities. The United States, for instance, the world's largest aid donor, has two main governmental aid agencies. The first, the United States Agency for International Development (USAID), since its creation in 1961 has been the principal government body for providing development assistance. A second government agency, the Millennium Challenge Corporation (MCC), was launched in 2004 with a narrower focus than that of USAID. The MCC aims to foster economic growth in a smaller number of countries that meet specific criteria regarding free markets, democracy, and good governance.

The US government openly acknowledges the simultaneously selfless and selfish motives of its ODA. For example, the USAID website states that "U.S. foreign assistance has always had the twofold purpose of furthering America's interests while improving lives in the developing world. USAID carries out U.S. foreign policy by promoting broad-scale human progress at the same time it expands stable, free societies, creates markets and trade partners for the United States, and fosters good will abroad" (USAID, 2019). The links between US security interests and development assistance are not difficult to trace. In 2016–17, the top recipient of American ODA was Afghanistan, which alone received 3.7 per cent of total US assistance to all developing countries. Its other largest recipients were Ethiopia, Jordan, Kenya, and South Sudan (OECD, 2018b: Table 32).

From its founding in 1968 to its abolition in 2013, the Canadian International Development Agency (CIDA) was responsible for disbursing most of Canada's ODA. Absorbed into the Department of Foreign Affairs, Trade and Development (renamed Global Affairs Canada in 2015), Canada's aid program operates in more than 100 countries. Its top five recipients in 2016–17 were Mali, Ethiopia, South Sudan, and Afghanistan (OECD, 2018b: Table 32).

France generally emphasizes aid to sub-Saharan and North Africa, where most of its former colonies are located. The top recipients of French aid in 2016–17 were Morocco, Turkey, Côte d'Ivoire, Cameroon, and Egypt (OECD, 2018b). Most of France's aid is managed by the French Development Agency, which provides assistance to 115 countries (Agence française de développement, 2019).

Sweden, the world's most generous aid donor in relation to the size of its economy, channels its aid mainly through the Swedish International Development Cooperation Agency (SIDA), which works under the authority of the Ministry of Foreign Affairs. It provides aid to more than 120 countries. In 2016–17, its top five recipients were Afghanistan, Tanzania, Somalia, Mozambique, and West Bank and Gaza Strip (the Palestinian Territories). African countries made up seven out of the 10 largest recipients (OECD, 2018b).

Most British aid is administered by the Department for International Development (DFID). Unlike its counterparts in most other countries, DFID is a full government department and is headed by a minister who sits at the cabinet table. Like France, the UK focuses its ODA mainly on its former colonies. Its top recipients in 2016–17 were Pakistan, Syria, Ethiopia, Nigeria, and Afghanistan (OECD, 2018b).

Although one can easily compare budgets and relative generosity, it is difficult to rank the overall performance of bilateral aid agencies. Some donors might be strong in one area, such as support to community development, but weak in another, for instance, being overly bureaucratic. Nonetheless, a few systematic comparisons of the main bilateral donors have been made. For example, the Center for Global Development, a US-based think-tank, annually

assesses and ranks 27 donor countries' commitment to development in a number of areas, including the quantity and quality of their foreign aid. Table 9.2 summarizes the results for 2018, with Luxembourg, Denmark, Sweden, and New Zealand ranked highest and the United States, Spain, Greece, and South Korea at the bottom of the list. This ranking is provided as just one example of a comparison of donors' aid policies. Other criteria and calculations, of course, could produce quite different results. The UK's Department for International Development, ranked sixth in aid, is widely considered one of the top development agencies. Box 9.6 explains why.

AID RECIPIENTS

The OECD's Development Assistance Committee maintains a list of countries and territories that qualify as recipients of ODA. The main goal is to be able to compile comparable statistics. Donors can still provide assistance to countries not on the list; they cannot, however, count it as ODA. The DAC periodically revises the list. For example, since 1989, following the collapse of the Soviet bloc, it has added a number of poorer European countries, including Albania, as well as a number of new countries, including Belarus, Moldova, Ukraine, and the former Soviet republics in Central Asia. The Palestinian Administered Areas/West Bank and Gaza Strip have been eligible for ODA since 1994 (they were previously counted under ODA to Israel), while Kosovo and newly independent South Sudan were included on the list in 2009 and 2011, respectively.

Table 9.2 | Commitment to Development Index, Aid Component, 2018

| Rank | Country | Score |
|------|----------------|-------|
| 1 | Luxembourg | 6.52 |
| 2 | Denmark | 6.42 |
| 3 | Sweden | 6.36 |
| 4 | New Zealand | 6.12 |
| 5 | Netherlands | 5.57 |
| 6 | United Kingdom | 5.43 |
| 7 | Norway | 5.40 |
| 8 | Canada | 5.37 |
| 9 | Australia | 5.36 |
| 10 | Ireland | 5.13 |
| 11 | Belgium | 5.13 |
| 12 | Finland | 5.06 |

| | | |
|----|----------------|------|
| 13 | France | 4.97 |
| 14 | Portugal | 4.92 |
| 15 | Japan | 4.89 |
| 16 | Austria | 4.76 |
| 17 | Germany | 4.65 |
| 18 | Switzerland | 4.61 |
| 19 | Italy | 4.45 |
| 20 | Czech Republic | 4.41 |
| 21 | Poland | 4.38 |
| 22 | Slovakia | 4.36 |
| 23 | Hungary | 4.32 |
| 24 | South Korea | 4.27 |
| 25 | Greece | 4.15 |
| 26 | Spain | 4.02 |
| 27 | United States | 3.96 |

Note: Average score is 5.0.

Source: Center for Global Development (2018).

Box 9.6 | What Makes a Good Development Agency? Lessons from the United Kingdom

Since it was created in 1997, the UK’s Department for International Development has gained the reputation of being one of the world’s best bilateral development agencies. According to one study (Barder, 2007: 300–13), DFID’s success can be attributed to a combination of factors, including:

- DFID has focused its aid policy on achieving outcomes, basing it on concrete evidence rather than ideological preferences.
- DFID has built strong in-house technical expertise but also consults widely with outside experts.
- DFID resists short-term pressures, including promoting British commercial interests, and focuses on long-term strategies centred primarily on poverty reduction in low-income countries.

- DFID is responsible for all British foreign aid, rather than its being split among various government departments.
- DFID has been represented at cabinet by ministers with strong leadership skills and important political profiles.
- DFID has enjoyed key support from the Prime Minister and the Chancellor of the Exchequer (finance minister).

Countries sometimes are removed from the list when they “graduate” to high-income status. In the 1990s, these countries included Portugal, Greece, Singapore, Israel, some Caribbean nations, and a few oil-producing countries. Between 2000 and 2014, Bahrain, Oman, and Saudi Arabia, several countries in the Caribbean, and numerous Eastern and Central European countries were deemed no longer eligible for ODA, notably Russia and countries that had recently joined the European Union or were negotiating accession. Most recently, the DAC took Chile, the Seychelles, and Uruguay off the list in 2018.

Overall, sub-Saharan Africa receives more foreign aid than any other region. In 2016–17, it received almost 42 per cent of DAC countries’ ODA. As can be seen in Table 9.3, the second largest recipient region was Asia and Oceania, receiving 26 per cent of total ODA, followed by the Middle East and North Africa (16 per cent). At the bottom of the list were Latin America and the Caribbean (9 per cent) and Europe (8 per cent).

The top recipients of foreign aid often vary from year to year, often depending on international politics. For instance, as indicated in Table 9.4, India was the top recipient in 2016–17, obtaining an annual average of \$3.5 billion, followed by Afghanistan, which received \$3.0 billion. Aid to the former is related to the former is due to the size and needs of the country, supplemented by the commercial interests of donors. Afghanistan experienced a surge in foreign aid that followed the US-led invasion in 2001, and this increased aid has gone hand in hand with Western security interests and the presence of foreign troops. Aid to the third-largest recipient of ODA, Syria, does not necessarily go to the Syrian government: Vast amounts are spent on humanitarian aid (see Chapter 29).

Table 9.3 | Proportion of Total ODA by Region, DAC Members, 2016–17

| Region | Share (%) |
|--|-----------|
| Sub-Saharan Africa | 41.7 |
| Asia and Oceania (excluding Middle East) | 25.7 |
| Middle East and North Africa | 15.9 |
| Latin America and Caribbean | 8.7 |
| Europe | 7.9 |

Source: OECD (2018b: Table 28).

Table 9.4 | Ten Largest ODA Recipients, 2016–17

| Country | Billion US\$ (annual average) |
|----------------|--|
| India | 3.5 |
| Afghanistan | 3.0 |
| Syria | 2.5 |
| Vietnam | 2.3 |
| Ethiopia | 2.2 |
| Iraq | 2.1 |
| Jordan | 2.0 |
| Indonesia | 2.0 |
| Bangladesh | 1.9 |
| Pakistan | 1.8 |

Source: OECD (2018a).

Because of great variations in the size of their economies, the top recipients of aid are not necessarily the most dependent on aid. The 10 most aid-dependent countries in 2017 can be found in Table 9.5. Three of the first four are island nations in the Pacific Ocean. With the exception of Afghanistan, the top 10 are all countries in sub-Saharan Africa or the Pacific region. In these countries, donors potentially have tremendous leverage to influence domestic policy. Such aid dependence, however, is relatively rare.

Table 9.5 | Ten Most ODA-Dependent Countries, 2017

| Country | ODA/GNI (%) |
|---------------------------------|------------------------|
| Tuvalu | 45.3 |
| Marshall Islands | 26.9 |
| Central African Republic | 26.0 |
| Micronesia, Federated States of | 25.1 |
| Somalia | 25.1 |
| Malawi | 24.6 |
| Kiribati | 21.2 |

| | |
|-------------|------|
| Liberia | 20.8 |
| Afghanistan | 19.8 |
| Tonga | 18.5 |

Source: World Bank (2019).

Different countries receive aid from different donors and for varying reasons. In other words, the structure and purposes of ODA can differ tremendously. Bangladesh, for instance, has for many decades been a top recipient of foreign aid. Its largest bilateral donor in 2016–17 was by far Japan (a fellow Asian country), followed by the United States (the world’s largest aid donor) and the United Kingdom (the former colonial ruler) (OECD, 2018a). A densely and highly populated country, Bangladesh is characterized by widespread poverty and is particularly prone to natural disasters that include cyclones and flooding. It is also known as the home of the Grameen Bank, one of the world’s most successful and innovative micro-finance initiatives.

During the 1970s and 1980s, the Soviet Union and many social democratic Western European donors provided a high level of assistance to Mozambique. The former was motivated mainly by geostrategic interests related to a Cold War struggle for dominance in the developing world, the latter by solidarity with a socialist country in Africa on the front line of the fight against apartheid in South Africa. The Mozambican civil war, however, prevented this aid from translating into economic development. Since the end of the civil war in 1992 and the country’s renouncement of socialism, a wide range of donors have disbursed huge amounts of aid to Mozambique, and the country has achieved a consistently high rate of growth, admittedly from a low starting point. In 2016–17, the country’s top bilateral aid donor was by far the United States (formerly its ideological opponent), followed by Japan, the UK, Germany, Sweden, and Portugal (its former colonizer) (OECD, 2018a).

Box 9.7 | Results-Based Management

Donors currently favour an approach known as results-based management (RBM). Although its goal of improving aid effectiveness is widely lauded, its requirement for measurable and verifiable results introduces distortions and biases in development assistance that, some believe, could outweigh its benefits. Not all goals can be easily or accurately quantified—for example, the rule of law, good governance, or independence of the judiciary. Setting indicators means that efforts will be deployed to improve those possibly arbitrarily chosen figures rather than meeting less tangible or undefined development objectives that could be of equal or greater utility, especially in the long term. See Chapter 28 for more on RBM.

Haiti, the poorest country in the western hemisphere, has long been plagued with social and political instability, notably since the Duvalier dictatorship was overthrown in the mid-1980s. Since then, the country has experienced a succession of democratic elections, military

coups, and instances of violent unrest. It was widely hoped that the 2006 elections would mark the beginning of a new era of reconstruction and development. However, in 2010, a devastating earthquake killed hundreds of thousands of people and destroyed much of the infrastructure, seriously setting back Haiti's development process. In 2016–17, the top donor was the United States, distantly followed by Canada, both of which are in the same "neighbourhood" as Haiti and have large Haitian populations, followed by France, the former colonial ruler, and Switzerland (OECD, 2018a).

CURRENT TRENDS AND CONTROVERSIES

Some current trends in foreign aid are relatively uncontroversial. For instance, almost all donors are taking measures to greatly reduce or eliminate tied aid. Likewise, bilateral donors, for the most part, have phased out loans, preferring to provide grants. In 2016–17, 18.6 per cent of DAC countries' ODA commitments were in the form of loans, while 100 per cent of the aid from many countries, such as Australia, the Netherlands, Norway, and the United States, was in the form of grants (OECD, 2018b: Table 20). Multilateral institutions, however, continue to provide a high proportion of loans, which have led to an extremely high rate of indebtedness in many countries (see Chapter 15).

A long-standing debate in foreign aid is whether the focus of assistance should be primarily on fighting poverty or on promoting economic growth. For a long time, especially in the 1950s and 1960s, the argument was made that economic growth would eventually "trickle down" to help the poor—that "a rising tide lifts all boats." Faced with a lack of evidence to support that assumption, the pendulum swung the other way in the 1970s, and donors put a higher priority on meeting the more immediate basic needs of the poor. By the late 1980s, donors had turned to macroeconomic reform as a prerequisite for growth, encouraging—some would say forcing—recipient countries to implement programs that actually weakened the social safety net for the poor. A decade later, it became increasingly harder to argue credibly that poverty was being reduced at an adequate rate.

A new consensus emerged on the centrality of more immediate action to alleviate poverty, culminating in the United Nations Millennium Declaration in 2000. The accompanying Millennium Development Goals set eight targets to be met by 2015, requiring urgent action to improve the lives of billions of people in all regions of the developing world. Their successors, the Sustainable Development Goals (SDGs), provided 17 even more ambitious goals to be met by 2030 (see Chapter 1). Although these sets of goals signalled that the pendulum had swung back to placing priority on fighting poverty in the short run, many other donor policies and activities still favour an emphasis on longer-term economic growth. For instance, debt relief and assistance from international financial institutions and many bilateral agencies, notably the US's Millennium Challenge Corporation, depend on the presence of a broadly defined "enabling environment" deemed amenable to economic growth. These conditions are often in addition to, rather than instead of, the components of 1980s-style structural adjustment programs (see Chapter 10). Donors are thus supporting policies that place a greater priority on poverty reduction while simultaneously implementing others that tend to reduce government spending on the poor.

A related issue involves which countries aid should be focused on. Many donors are making sub-Saharan Africa a priority because of its higher rate of poverty. But even within a given region, which countries are more “deserving” of aid? Should resources go to the poorest countries, since they need it the most? Or should donors focus on well-governed countries, where they believe it will be used more effectively? Those who are pessimistic about aid’s impact tend to favour the latter choice, which usually implies concentrating on middle-income countries, arguing that aid in poorly governed countries is all too often wasted. Critics respond that well-governed, wealthier countries are more able to attract investment or borrow money on financial markets and therefore do not need ODA as much. Low-income countries require aid, they argue, precisely so that they can improve governance and reach a stage at which they no longer need aid. Cutting them off, critics warn, would lead to “aid orphans” and great suffering, possibly even political or economic collapse, which could in turn threaten regional and international stability (and perhaps require costlier interventions later). Thus, those who believe that aid contributes to social or human development—a goal in and of itself, even if it does not quickly translate into economic growth—favour a greater emphasis on the poorest countries.

Similarly, there is no consensus on what specific recipient-country entity should be given ODA funds. Most disbursements are made directly to governments, but many worry that this feeds bloated bureaucracies and leads to graft. Left-leaning proponents of foreign aid are more likely to advocate providing funds to northern or southern NGOs, which they consider more likely to involve communities and meet people’s actual needs. Critics respond that using voluntary organizations to deliver services actually undermines the state and deprives it of resources necessary to ensure national standards and coverage. From a more right-leaning perspective, it is better for funds to be channelled through and to promote the growth of the private sector, which is considered the key to long-term development—a perspective that gained prominence in most donor countries in the 2010s (see Chapter 12). This approach, however, is criticized as inadequate, because a business’s primary motive is to make a profit, not to meet people’s needs.

Box 9.8 | How Effective Is Foreign Aid?

The contribution of ODA to development success stories is hotly debated. In instances where rapid economic growth and poverty reduction have occurred, notably in East Asia, there is no consensus on what role, if any, foreign aid played. In fact, some scholars of foreign aid have long argued that aid cannot help bring about development. Some claim that it distorts economies and is actually detrimental to long-term economic growth. Books by former World Bank staff members William Easterly, *The White Man’s Burden: Why the West’s Efforts to Aid the Rest Have Done So Much Ill and So Little Good* (2006), and Dambisa Moyo, *Dead Aid: Why Aid Is Not Working and How There Is Another Way for Africa* (2009), epitomize the belief that most aid is at best wasted and at worst counterproductive. By way of contrast, celebrity economist Jeffrey Sachs’s optimistic book *The End of Poverty: Economic Possibilities for Our Time* (2005) argues that aid can be extremely effective and that, in particular, a “big push” of well-designed development assistance would help billions of people escape the “poverty trap.”

In the 2000s, donors recognized the importance of co-ordinating their aid, channelling funds through joint programs and working more closely with recipient governments. The Paris Declaration on Aid Effectiveness (2005) and subsequent Accra Agenda for Action (2008) epitomize this trend, attributing to recipient countries the lead role in the design and implementation of their national development strategy, to be supported by donors in an integrated and transparent manner. Advantages include the elimination of duplication—or even contradictory programs—and of the onerous requirement of reporting separately to donors.

Uniting around one single development strategy, however, also carries some risks. It could be described as “putting all the aid eggs in one basket,” when past experience has shown that development plans do not always produce the desired results. Moreover, it places a tremendous amount of power in the planning and administrative capabilities of the recipient government, ignoring problems of lack of capacity or corruption. It also assumes that the government has consulted its population, represents it, or has its best interest at heart, which is not necessarily the case. Paradoxically, when donors act together, they are in a position of great power over the recipient country, which can hardly reject their opinions or pick and choose the advice it wishes to follow. After the aid funds have been transferred to the recipient government, however, donors generally lose control over how it is spent. Still, provisions for transparency may compensate for that, allowing donors to suspend further contributions if the funds are not used according to agreement or do not produce the expected results.

The prospect of aid harmonization weakened in the 2010s, with the rise of “non-traditional” or “emerging” donors, such as Brazil, China, India, and South Africa, among others. As their domestic economies gather strength, they increasingly seek a greater place in global political, economic, and commercial affairs. They have positioned themselves apart from the “traditional” DAC donors and, in fact, prefer to be called providers of development co-operation, rather than aid donors. The main label used to describe their development activities is “South–South Co-operation,” which is much more encompassing than ODA. It includes not only aid-like assistance but often trade- and investment-related activities as well. These countries signed onto the Paris Declaration as recipients but do not want to be guided by its provisions when they act as aid providers. They usually prefer to frame their co-operation as “mutual benefit,” rather than as altruism, and have retained many practices that generally are considered less effective in other contexts, such as tied aid (explained above) or sometimes, especially in the case of China, turnkey projects (for instance, building infrastructure with their own labour and handing it over once it is completed, without any local capacity-building). (See Chapter 14.)

Box 9.9 | Chinese Development Co-operation

Until recently, unlike most aid providers, China did not have a bilateral aid agency or a lead unit in its foreign ministry. The Ministry of Commerce managed foreign aid grants and zero-interest loans, while loans that charge interest at concessional rates fell under the responsibility of the state-run Export-Import Bank. China International Development Cooperation Agency, announced in 2018, will play an important coordinating role, especially for the country's ambitious Belt and Road Initiative.

In her comparison of Chinese and DAC aid, Deborah Bräutigam (2011) explains how Chinese development assistance places greater emphasis on building infrastructure and economic growth than do Western donors, who often prioritize social spending, such as primary education and poverty reduction. However, only a small fraction of China's financial support to developing countries meets the definition of ODA. Instead, the majority of funds consist of Chinese export and investment promotion and non-concessional loans. Bräutigam examined two prominent cases of Chinese development co-operation—a \$10 billion loan to the Angolan government between 2003 and 2010 for reconstruction after the country's civil war and a \$2 billion line of credit with the Nigerian government in 2006–9 to rebuild its railways—and found that neither should be counted as ODA, despite being described frequently as foreign aid. This does not mean that these forms of financing cannot promote development, but such spending should not be included in tallies of ODA—and used in comparisons with other countries' aid levels.

Some Western observers express great concern about the size of Chinese aid in particular and the way in which it serves as an alternative to Western ODA, which usually comes with conditions. Conditionality-free Chinese aid thus can help developing countries escape some of those pressures, such as for good governance. Usually, such fears are overstated. It is true that China supports some unsavoury dictatorships, but so do Western countries—just not necessarily the same ones. Also, there is a convergence of interests: commercial enterprises from all donor countries, whether “traditional” or “emerging,” have a long-term interest in stability and the rule of law in the recipient country. Moreover, there is a tendency to report any form of co-operation from southern donors as aid, which generates misleading comparisons. Because southern donors usually mix in what would be considered ODA in the OECD context with commercial and investment activities and they do not make publicly available all the data, it is very difficult to compare their aid or development co-operation figures with those of DAC countries. As can be seen in Table 9.1 and Figure 9.2 above, estimated Chinese foreign aid was actually smaller than Norway, Canada and Italy's in 2017, suggesting that its influence is usually exaggerated.

SUMMARY

This chapter has provided an overview of the main actors, modalities, and resource flows involved in the bilateral aid that countries in the North provide to recipients in the South. The chapter showed, for instance, how the size of a donor's aid program can differ greatly from its

relative generosity. The United States, though by far the largest donor by volume, provides a much smaller proportion of its national income in foreign aid than do donors such as Norway and Sweden, which have considerably smaller economies.

Key terms were explained, including the different forms of aid, such as tied aid, as well as various types of aid donors. Aid can be provided by governments, international organizations, non-governmental organizations, private foundations, and individuals. To count as foreign aid, or “official development assistance,” it must have as its main goal the promotion of well-being in developing countries. The chapter also explored the different reasons donors provide assistance: sometimes out of humanitarian concern, but often relating to their self-interests, including commercial, diplomatic, or security interests.

The chapter subsequently examined global trends in the provision of bilateral aid, including a comparison of important donors that illustrated how their motives, geographical focus, and priorities can vary. Some focus on their own security interests, while others concentrate their aid in former colonies, their “neighbourhood,” or the world’s poorest countries, mainly in sub-Saharan Africa. The chapter also considered which regions (above all, sub-Saharan Africa) and countries receive the most aid (India and Afghanistan in 2016–17), as well as which ones are most dependent on it (mostly African countries and islands in the Pacific Ocean). Current trends and controversies in foreign aid were discussed. For instance: Should aid seek to create economic growth or should it target more directly poverty reduction? What kinds of countries should receive the most aid? Finally, the chapter summarized bilateral donors’ most recent consensus on how to make aid more effective and highlighted some issues related to the rise in importance of non-traditional donors, suggesting that the latter might not have the negative influence that some fear. In sum, this chapter has introduced the reader to the main characteristics and debates regarding bilateral aid and the national agencies that contribute vast sums—over \$140 billion a year—to international development.

QUESTIONS FOR CRITICAL THOUGHT

1. Why should wealthier countries give aid to poorer ones? How much should they give and for what purposes?
2. What kinds of conditions, if any, should donor countries attach to their aid?
3. How should donors decide on which countries to concentrate their assistance?
4. Should donors provide their assistance directly to the recipient country’s government, to northern or southern civil society organizations, or to the private sector in the donor or recipient country?
5. What are the responsibilities of recipient countries, if any, in using foreign aid?

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