

## Foreign Aid in a Changing World

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Foreign aid, like the world in which it operates, is in a state of flux. Since the end of the Cold War, the sources, goals and modalities of aid have all shifted to a certain extent, but it is not yet clear what the result will be.

### Foreign aid during the Cold War

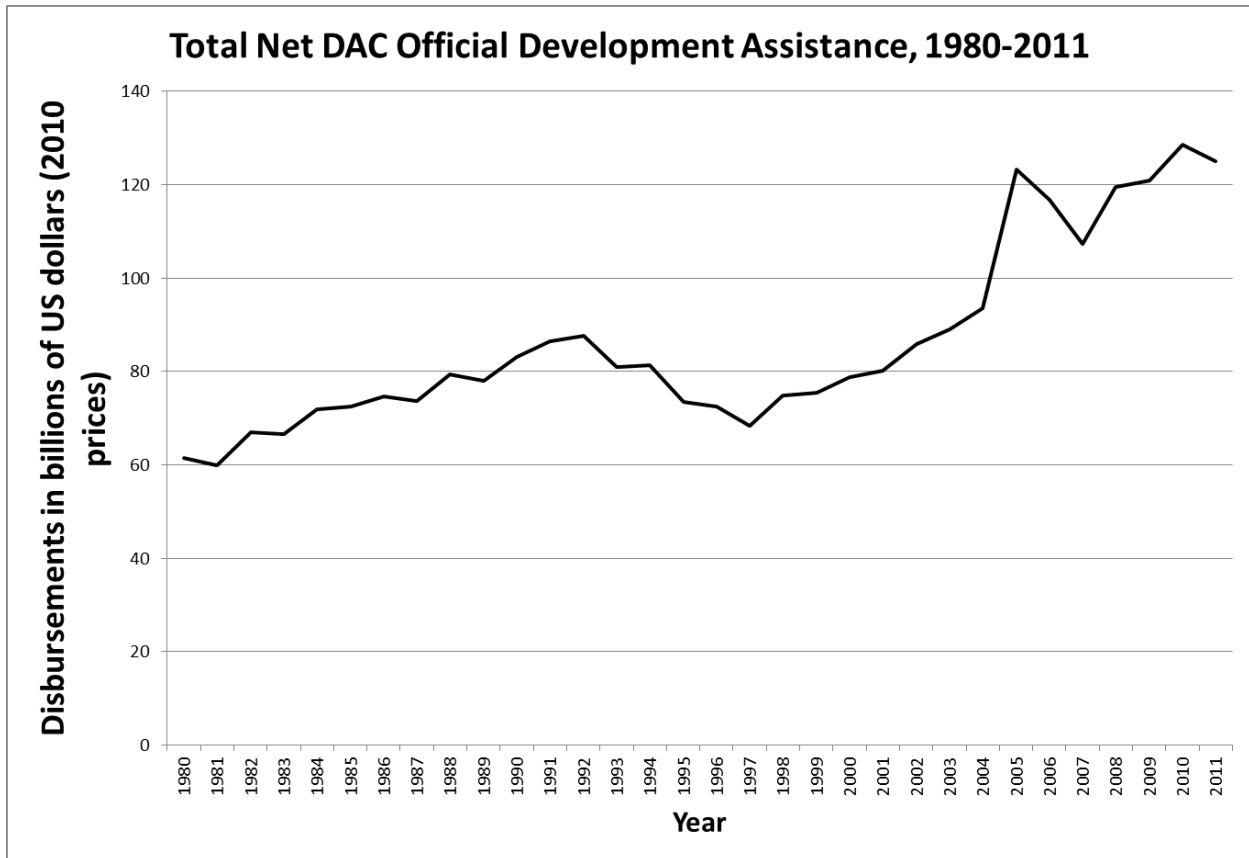
During the Cold War, there were two main donor groups, centred on the United States and the Soviet Union. The main Western donors formed the Development Assistance Committee (DAC) within the Organisation for Economic Co-operation and Development (OECD), the main coordination body of the Western industrialized countries. The Soviet Bloc established its own version, the Council for Mutual Economic Assistance (CMEA, also known as COMECON). Each provided assistance to its allied states in the developing world. Many DAC members also provided assistance to officially non-aligned socialist countries. Much of Western foreign aid during this period served as a tool of donor country foreign policy, especially in the case of the United States (Morgenthau 1962). Still, many donors also provided significant amounts for more altruistic purposes (Lumsdaine 1993).

Most foreign aid was – and still is – provided directly from government to government, known as bilateral aid, but a significant amount was channeled through multilateral institutions such as the United Nations and the World Bank. The focus of the assistance varied according to trends in development thinking. For instance, an initial emphasis on large infrastructural projects, such as hydroelectric dams, in the 1960s and 1970s failed to produce the expected ‘trickle-down’ benefits for the poor. As a result, donors placed greater emphasis in the 1970s on meeting basic needs. In the 1980s, facing persistent poverty, donors focused on macroeconomic stability and liberalization, but that approach has also proved disappointing.

### Early reconfigurations: aid in the 1990s

The collapse of the Soviet Bloc and the end of the Cold War presented the West with a tremendous opportunity to reallocate massive defence spending into more productive areas, including international development, and usher in the much heralded New World Order, based on democracy, good governance and free markets. However, the ‘peace dividend’ never materialized. Faced with severe fiscal deficits, Western governments, rather than reallocate military budgets funds to aid, actually cut their budgets in both areas. Knowing that their former rivals could not take advantage of the situation, they reduced aid spending without fear. As Figure 1 illustrates, total DAC aid disbursements fell after 1992.

The US’s ‘unipolar moment’ (Krauthammer 1990/91) also changed the nature of foreign aid. For instance, donors placed greater emphasis on democratization and peacebuilding. However, those efforts soon proved disappointing as well. Though donors helped liberalize political systems to a certain degree in recipient countries, the results often fell short of liberal democracy. In many cases, donors’ economic and security priorities meant that they did not translate their pro-democracy rhetoric into action (Brown 2005). Though several civil wars, which had been fed by superpower rivalry, did end in the 1990s, such as Mozambique’s, a number of new conflicts also emerged, including the Rwandan genocide and two deadly civil wars in Zaire/Democratic Republic of Congo. Indeed, during this time some jokingly referred to the New World Disorder.



Source: OECD Query Wizard for International Development Statistics, <http://stats.oecd.org/qwids>, extracted 6 May 2012

## Twenty-first century development cooperation

### Changing context

Early in the new millennium, two events profoundly reshaped the context of foreign aid and justified increased expenditure. In 2000, the United Nations’ member states unanimously adopted eight Millennium Development Goals (MDGs), which committed them to achieving ambitious poverty-reducing targets by 2015. This helped refocus foreign aid away from macroeconomic reforms towards

measures with more concrete short- to medium-term effects on the quality of life of billions of people living in poverty, including by reducing child mortality and achieving universal primary education.

The following year, however, the MDGs were overshadowed by a new threat that replaced Communism in Western mindset: terrorism. The attacks of 11 September 2001 led many donors, especially the United States, to reorient their development assistance to sectors and countries that played a central part in the ‘war on terror’. After US-led invasions, Iraq and Afghanistan became top aid recipients of foreign aid. Donors used aid – with limited success – to try to ‘win hearts and minds’ in conflict areas, rather than fight poverty per se, often administered by military actors instead of civilians. Increasingly, donors recast underdevelopment as a source of terrorism and a threat to Western countries, rather than a black mark on human conscience that needed to be reduced or eliminated for altruistic, ethical reasons.

Later in the decade, in 2007-08, a third event sharply affected the foreign aid context: the global economic crisis. The latter hit OECD countries especially hard, leading many DAC members to cut their aid levels, although some protected their aid budgets. (Figure 1 shows a drop in total expenditure in 2011.) The slow and uneven recovery not only threatened global aid flows but also discredited Western development models, especially when rapid-growing non-Western countries like China remained relatively unaffected (Birdsall 2012).

#### New actors and modalities

The stagnation of OECD aid after 2011 accelerated the rise in importance of non-DAC donors, already an important trend (Woods 2008). Often referred to as ‘emerging donors’, the growth in aid from countries such as Brazil, China, India, Saudi Arabia, Turkey and Venezuela not only multiplied the number of donors but also provided assistance on different terms from ‘traditional’ ones.

Following the end of the Cold War, especially after the early 2000s, DAC donors increasingly recognized their own part in the often disappointing results of development assistance. They recognized that not only was *more* aid needed, but also – perhaps more importantly – *better* aid. For instance, they have progressively implemented the principle that foreign aid should not be ‘tied’ to the purchase of goods from the donor country, as this practice adds to the costs of aid without any commensurate benefit from the recipient’s perspective (Jepma 1991). Donors have also increasingly worked together to provide joint assistance to government programs, for instance in the education sector, rather than working in isolation and supporting uncoordinated projects, such as the construction of schools.

In 2005, DAC members agreed to five basic principles, laid out in the Paris Declaration on Aid Effectiveness: a developing country’s lead role in designing and implementation its own strategies (known as ownership), donors’ alignment with the latter, coordination among donors (harmonization), mutual accountability and a focus on results. Despite donors’ enthusiastic embrace of these principles, to date they have largely failed to put them into practice (OECD 2011).

However, emerging donors, even if they endorsed the Paris principles as aid recipients, do not want to be bound by them when providing assistance of their own. In fact, they do not all share the basic concept of altruism that has to various degrees characterized the theory, if not the practice, of six decades of Western foreign aid. Whereas DAC members generally separate ‘official development assistance’ (defined as government assistance whose main purpose is improving economic or social well-being in developing countries) from other financial flows, Southern donors frame development

cooperation (as distinct from aid) as being of mutual benefit. They emphasize the value of bundling of aid and non-aid instruments, including investment, loans and trade, often relying on tied aid.

### Coordination problems and the future of the international aid architecture

An additional challenge to coordination in the field of development assistance is not only the growing number of actors but also of *types* of actors involved, many of which are reluctant to coordinate with traditional donors. Non-state development actors have become prominent, especially in the health sector, and often have a different approach to development. Like emerging donors, private foundations, such as the Bill and Melinda Gates Foundation, and ‘vertical funds’, including the Global Fund to Fight AIDS, Tuberculosis and Malaria, often operate outside traditional donor coordination mechanisms, as does the private sector. The lack of cooperation can lead to duplication of efforts, as well as contradictory approaches and activities.

In the past, DAC members of the and, to a lesser extent, the subset that comprise the G8 industrialized countries set foreign aid norms. To date, they have driven discussions of aid effectiveness, but this dominance is being increasingly challenged. Though the DAC and G8’s role in coordinating foreign aid is waning, it is not yet clear who or what will play a similar role for development cooperation in the future. The G20 and the UN Development Cooperation Forum are possible successors, but the international aid ‘architecture’ is still under construction – without a designated architect.

With the current focus on state-led development strategies, non-governmental organizations from both the global North and the South tend to be marginalized in development policy discussions. They are increasingly vocal and organized transnationally, which may help them claim a larger role in the future.

The implications of all these changes for foreign aid remain unknown. A convergence might develop among the practices and principles of the various actors in the field. Some of these new trends could help reduce poverty and inequality, but the effects of others may not be so positive. In addition, it is unclear what the main focus of development efforts will be after 2015, the target year for achieving the MDGs.

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