

## THE HISTORY OF INTERNATIONAL DEVELOPMENT AID

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### Introduction

The provision of aid to developing countries has become an increasingly important part of contemporary international relations. The number of aid donors has increased, and the total amount of aid given to developing countries has risen significantly, especially in the last 10 years or so. For many developing countries, relations with development agencies have become a central part of their international affairs, and for some of the most aid dependent states, foreign assistance has become central to their ability to provide services to their population. For western states, the provision of development aid has become an important instrument for achieving international objectives including the cultivating of political allies, opening markets, fighting terrorism, and constructing regimes of global governance. The provision of foreign aid has also been very controversial. There is an important (and very lively!) debate about how effective foreign aid has been in stimulating development, and thus about whether donor countries ought to be more generous in their aid provision. In addition, over the last ten years or so, there has been increasing pressure on western donors to provide aid in a more effective, coordinated and transparent manner. For all of these reasons, foreign aid is in important site of investigation into changing practices of global economic governance.

Given the centrality of foreign aid to contemporary international politics, it is easy to forget that as an institutionalized activity it is a relatively recent phenomenon. While there are important precedents, the provision of foreign aid results largely from the newly dominant position of the United States at the end of World War Two. Aid was seen as an important instrument in the foreign relations of the United States in the context of its broad ambition to create a relatively open and prosperous international economy and in the context of Cold War competition. While the United States

remained the largest provider (in absolute terms) of foreign aid for most of the period since the War, the provision of development aid was institutionalized more generally with the creation of other bilateral and multilateral agencies. During the period after World War Two the developmental paradigms that shaped the provision of aid changed significantly, as development agencies and academics responded to changing political and economic circumstances inside and outside developing countries.

This chapter explores these issues in turn and ends by reflecting on some of the challenges facing development agencies. Despite the quite considerable amounts of aid provided over the years, there remain important questions about how successful it has been in stimulating and sustaining processes of development, especially in the world's poorest countries. Second, the proliferation of aid donors has created problems of coordination and harmonisation between donors, both within individual development countries and at the more general level, and donors have come under increasing pressure to provide aid in a more transparent and accountable way.

This chapter focuses mainly on the donors that make up OECD DAC.<sup>1</sup> It does not look in detail at 'new' aid donors such as China, nor does it consider the role of NGOs in development. Both of these important issues are covered in other chapters in this volume (????). The OECD defines Overseas Development Assistance (ODA) as flows to developing countries and contributions to multilateral agencies, provided by governments or government agencies, which have as their main objective the 'promotion of the economic development and welfare of developing countries', and that are 'concessional in character'. This means that for monies provided to count as ODA there has to be something better about the terms than those available through commercial lending - this might be lower rates of interest or longer repayment times. This definition excludes military assistance, peacekeeping spending and assistance to refugees, even though these are important elements of the relationship between western states and developing countries. This definition also excludes private

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<sup>1</sup> There are 24 members of the OECD DAC: all the major western donors plus the EU.

financial flows to developing countries, although for many developing countries, especially middle-income ones, private financial flows have at times been very significant. Finally, aid encompasses more than just money and can include the provision of goods, technology and expertise.

### The United States and the Origins of International Development Aid

The origins of foreign aid an institutionalized activity lie in the political and economic ambitions of the United States at the end of World War Two. Some of the ideas and practices that made up this new form of activity go back a lot further of course. The idea that social and economic ‘progress’ was not only possible and desirable, but was the one of the main objects of government policy, stretches back at least to the Enlightenment. The idea that there might be mutual gains from economic development, although contested, again goes back to the ideas of the great Enlightenment thinker, Adam Smith. The British Colonial Development Act of 1929 provided for monies to be spent on development projects in British colonies (Little and Clifford 1965: 341-2). A more immediate precedent was the ‘good neighbor policy’ instituted by President Roosevelt in the late 1930s, during which the United States began to provide development loans to Latin American countries through the US Export-Import Bank (Helleiner 2006).

It was in the period after the end of World War Two, however, that international development aid became a key part of US foreign relations. The United States ended the War in a dominant economic and military position, and it used this to construct an international order that preserved and enhanced its own economic and security interests (Layne 2006: ch. 2). In 1945 President Roosevelt said that ‘there can be no middle ground here. We shall have to take responsibility for world collaboration or we shall have to take responsibility for another world conflict’ (quoted in Burley 1993: 130). Within this broad ambition, assisting developing countries through the provision of foreign aid had two different although related objectives.

The first was to assist in the development of a vibrant post-war international economy. One of the key features of the US post-war order was a commitment to characteristically liberal views about the mutual benefits that derived from economic development and a relatively open and stable international trading regime (Ruggie 1982). This was evident in Truman's 'Four Point' speech delivered at his inauguration in 1949:

We must embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas. More than half the people in the world are living in conditions approaching misery ... Their poverty is a handicap and a threat both to them and to more prosperous areas. All countries, including our own, will greatly benefit from a constructive program for the better use of the world's human and natural resources.

This was also evident in the creation of the International Bank for Reconstruction and Development (IBRD, now the World Bank) at the Bretton Woods Conference in 1944. US planners thought that the provision of development aid through the Bank would benefit the US because economic development would provide export markets for US products, and because they thought that economic prosperity and stability would lead to political stability and hence improved security for the US. But developing countries too were supportive of the Bretton Woods Agreement as they saw it as providing assistance and support for their own economic development (Helleiner 2006).

The provision of foreign aid was also driven by the emergence of Cold War competition. This can be seen as early as 1947 when Truman articulated what became known as the 'Truman Doctrine' in a speech before a joint session of the US Congress on March 12 1947. The backdrop to the Truman Doctrine was an economic crisis that gripped Europe during the winter of 1946-7. In the context of increasing tension between the US and the USSR, American policymakers became concerned that this

crisis would present political opportunities to the already strong communist movements in many European states. The Truman administration stepped in and provided military and economic assistance to both Greece and Turkey, and provided extensive economic assistance to other European countries through the Marshall Plan. Truman's 1947 speech can be seen as the clearest articulation that the US would use its financial and military assistance in the context of Cold War rivalry:

One of the primary objectives of the foreign policy of the United States is the creation of conditions in which we and other nations will be able to work out a way of life free from coercion ... I believe that our help should be primarily through economic and financial aid which is essential to economic stability and orderly political processes ... If we falter in our leadership, we may endanger the peace of the world – and we shall surely endanger the welfare of our own nation.

In other words, foreign aid would be used explicitly in the fight against communism. Other countries followed the United States in developing a foreign aid program, but there is little doubt that the US was the first state to make the provision of aid a regularized part of its foreign relations as an instrument for achieving both its broad economic and international goals, and the narrower goal of containing communism.

#### The development of the US aid program

Both of these kinds of rationales for the provision of foreign aid can be seen in the development of the United States aid program through the Cold War. US foreign aid to non-European countries really got going with the 1950 Act for International Development (McGuire 1962; Amuzegar 1958). The then Secretary of State, Dean Acheson, said that the Act was a 'security measure' as the United States' 'military and economic security is vitally dependent on the economic security of other people' (quoted in McGuire 1952: 343). In 1954, the International Cooperation Administration (ICA) was established to administer foreign aid and technical

assistance programs. In the same year the Food for Peace program (sometimes called the 480 program) was established to channel food aid to developing countries (Frank and Baird 1975: 142). In 1957, the Development Loan Fund (DLF) was established to provide loans on more concessional terms to the poorest developing countries. By the second half of the 1950s the ICA had established field offices in 60 countries and employed over 4000 staff (Cleveland 1959: 219-21). The 1961 Foreign Assistance Act created a unified agency – USAID – that drew together the ICA, the DLF, and the Food for Peace program. The new agency also started to develop new methods for distributing its aid. Of particular importance was the country programming process, whereby US aid would be conditional on the recipient country having an economic development plan. This contrasted with the previous method of *ad hoc* funding of individual projects (Lancaster 2007: 72). The amount of aid given also increased in the first half of the 1960s – particularly to Latin America and increasingly to Sub-Saharan Africa both in absolute terms and as a per centage of GNP. Although the containment of communism was an important element of the renewed stress on development assistance, it was also clear that the broader objective of economic development was being taken more seriously.

US aid began to rise significantly in the later 1970s and continued to rise through the first half of the 1980s for reasons that reflected both the political and developmental purposes of aid. The attempt by the Ford Administration to encourage a peace settlement between Israel and Egypt led to a significant rise in aid to both countries, such that they became the two largest single aid recipients by 1976. The US was also providing aid to a number of other states for fairly obvious political/Cold War reasons (Turkey – key NATO ally, Philippines – US military bases, Nicaragua – to combat left-wing insurgency). But the US was also providing aid to a variety of countries, particularly in Africa, where there were no especially compelling political interests – Mali, Benin, Burkina Faso for example (Lancaster 2007: 79). In addition, as a result of famine in Ethiopia and floods in Bangladesh, emergency aid and food aid rose sharply (Lancaster 2007: 178). Despite the initial scepticism of the Reagan administration towards foreign aid, much the same continued through the 1980s. Aid to Latin

America increased for obviously Cold War reasons, but so did aid to Africa. Total US aid to Central and South America rose from \$280m in 1980 to \$1,175m in 1985, while aid to Africa rose from \$1,507m to \$2,860m. By 1989 US bilateral aid was 30 per cent higher than it had been in 1980 (Lancaster 2007: 83). President Reagan neatly summarized all this in 1985: 'in helping our allies and friends meet their security, development and humanitarian needs, we directly support US interests and objectives. Our foreign assistance programs, despite any perceptions to the contrary, are manifestly in our own national interest' (White House 1985).

The period after the end of the Cold War was a turbulent one for US development aid in part because of renewed domestic criticism of the US foreign aid program. Nonetheless, by the mid-2000s US aid had nearly doubled from its level in 1989. Assistance to the states of Central and Eastern Europe (and then the states of the former Soviet Union) to aid their political and economic 'transition' to liberal economic and political systems became an important new component of US aid. Total aid to these state rose to over \$2,500m in 1994 (Lancaster 2007: 84; Carothers 1999: 50). Democracy promotion also became a more significant part of the US aid program. Total democracy assistance aid rose from \$165m in 1991 to \$435m in 1995, and aid for democracy in Sub-Saharan Africa tripled over the same period (Carothers 1999: 50-52). Another set of concerns for US aid came in the area of civil wars and peace building, and the US provided aid to numerous post-conflict states including of course in the Balkans, but also Haiti, Sierra Leone, Liberia, Columbia and Angola (Lancaster 2007: 85).

[GRAPH ONE ABOUT HERE]

The new Bush administration oversaw a really dramatic increase in US aid. Part of this is explained by significant amounts of aid given to Afghanistan and Iraq (and Pakistan), but there are other factors at work. First, in the aftermath of September 11 there was a reorientation of US national security strategy towards seeing developing

countries as a source of ‘threats’ to the US, and thus a renewed emphasis on aid as a mechanism to combat these (White House 2002). Second, there was a renewed stress on the developmental aspects of US aid provision, notably through the Millennium Challenge Account (MCA) announced in March 2001 (Radelet 2003a; 2003b). This provided a significant amount of money to a select group of low-income states that were ‘ruling justly, investing in their people and establishing economic freedom’ (quoted in Radelet 2003b: 171). The MCA involved 16 specific indicators including controlling corruption, respect for political rights, primary education spending, inflation and trade policy. It is probably the most important innovation in US aid provision since the creation of USAID and it is important to note that it is exactly developmental in purpose and targeted at poorer states. Finally, there was a marked increase in aid specifically directed at HIV/Aids prevention and treatment.

In 2004 USAID produced a policy paper that summarized the objectives of US aid policy (USAID 2004). It announced that the goal of US aid was not simply raising living standards, but ‘transformational development’: ‘Far-reaching, fundamental changes in institutions of governance, human capacity, and economic structure that enable a country to sustain further economic and social progress without depending on aid’. The paper also identified four specific goals for US aid: strengthening fragile states, responding to humanitarian crises, supporting US strategic interests, and managing global problems. There is clear continuity here with the place of development within the hegemonic ambitions of the US after World War Two, and it demonstrates the continued significance of foreign aid for achieving international objectives.

#### The institutionalization of foreign aid

The provision of foreign aid was institutionalized more widely in international politics from the 1950s onwards. Many states developed their own bilateral aid programs, partly in response to the emergence of US aid, and partly because they too found that foreign aid could be a useful instrument for achieving international objectives. In



addition, a number of new multilateral agencies were created.

### *Bilateral aid*

The USSR developed its own aid program from the mid-1950s in response to the growth of US aid and as part of a desire to assist countries in a transition to socialism (Guan-Fu 1983). While there are some parallels between Soviet and US aid (it was used by both to cultivate allies), there are also some differences. For one thing it was a lot smaller – for most of the period the Soviet aid program was only about one-quarter of the size of that of the US. Soviet aid also tended to be much more ad hoc and volatile – falling to almost nothing in the early 1960s, for example (Guan-Fu 1983: 75). Finally, Soviet aid was never really ‘professionalized’ in the way that it was in the US. There was no permanent development agency like USAID, rather a number of different bureaucratic entities were responsible for foreign aid. China has become a very significant provider of aid in recent years, but as early as the 1950s it too had a small but significant aid program, animated by a desire to influence newly independent states, and as a mechanism for competing with the USSR for influence in the developing world (Poole 1966).

In terms of size at least, the bilateral aid programmes of the western donors such as Britain, France and Japan were more significant. For Britain and France, large portions of their aid went to former colonies. Even by the mid-1980s, 70% of British aid went to Commonwealth countries, and nearly 90% of French aid went to its former colonies, especially in Sub-Saharan Africa (Killick 2005: 65; Lancaster 2007: 147). Despite the aid programmes of Britain and France being in this sense similar, they diverged quite significantly from the 1990s onwards. In 1997 the new Labour government in Britain created a new ministry – the Department for International Development (DfID) – that significantly increased the profile of aid and development issues within government, and oversaw a dramatic increase in total aid provision (Young 2001). DfID also modernised Britain’s aid policy, by developing a professional research capability and publishing influential policy reports (Morrisey

2002; see also DfID 1997, 2000). DfID's increased role was also related to British participation in larger international projects such as Kosovo, Afghanistan and Iraq. The situation in France was rather different. The 1990s was a period of crisis in French aid. This was related precisely to the close relationships France had tried to maintain with her colonies. Many of these colonies in Sub-Saharan Africa were experiencing sustained economic crisis, and as France was by far the largest aid donor to most of them, this increased the pressure on the French aid budget in the context of attempts to cut the French government deficit in preparation for European monetary union (see Cumming 1995 and Renou 2002). There was also a growing public perception inside France that French aid was being used to prop up African dictators, and enrich elements of the French political and economic elite – a perception heightened by a series of corruption scandals involving French companies in Africa (Lancaster 2007: 157).

Japan is probably the most interesting bilateral donor. Its' aid program was initially heavily concentrated on states in the region, and driven significantly by commercial considerations. Japanese aid went particularly to finance projects in the energy and mining sectors as a way for Japan to gain access to resources (Lancaster 2007: 115; Yasutomo 1989: 492). A number of factors in the mid-1970s led Japan to reconsider the size, scope and practices of its aid program. The Japanese economy had grown rapidly and as its exports had grown so there was a less urgent need to use foreign aid to expand export markets in the region. The fact that the economy had done so well also led the US to pressure Japan to share more of the burden of managing global affairs. Finally, there were some sharp criticisms of Japanese aid from both recipient countries and from other western donors about the excessively commercial, rather than developmental, elements of Japanese aid (Yasutomo 1989: 492-3). In 1977 Japan announced its intention to double its bilateral aid provision. To be sure, some of the largest recipients of Japanese aid during the first half of the 1980s remained states in the region - Indonesia, Thailand and Burma for example - but by the late 1980s Japan had also become the single largest aid donor to a number of African states (Lancaster 2007: 119). All through the 1990s, Japan was the largest aid donor in dollar terms.

This position was the result of the reduction in US aid provision and a deliberate strategy to become an 'aid superpower' (Yasutomo 1989; Lancaster 2007: chap 4). Its aid budget doubled through the second half of the 1980s and continued to rise rapidly through the first half of the 1990s. In the second half of the 1990s and into the 2000s, however, its aid budget declined as a result of on-going financial and economic crisis.

[GRAPH TWO ABOUT HERE]

Many other countries developed bilateral aid programs, such that we can consider the provision of development assistance to have become a 'norm' in international politics.

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### *Multilateral aid*

At the same time as bilateral aid was becoming a regularized part of international politics a number of multilateral development agencies were created. In terms of total aid provision and influence the most important was the World Bank (IBRD originally). The World Bank differed from the emerging bilateral development agencies in that it was established as a particular kind of bank. First, it was founded to provide loans for discrete development projects, rather than to provide general budgetary support to governments (although from the 1970s onwards it did provide this kind of support). Second, the World Bank was expected to raise investment capital through the sale of its own securities (bonds) in the financial markets, and although these were to be guaranteed by the member governments, the Bank was nonetheless established as a financial institution with obligations to those who purchased its bonds. This limited both the potential number of borrowers and the potential number of projects the Bank could finance. Calls for the provision of financing to developing countries on more liberal terms started in earnest in the 1950s, and led to the creation of IDA in 1960 states (Mason and Asher 1972: 385). The World Bank also differed from bilateral aid agencies in that it was also founded

on the principle that it would be 'non-political'. Article III5(b) of The World Bank's Articles of Agreement states that loans shall be granted with 'due attention to considerations of economy and efficiency and without regard to political or other non-economic influences or considerations'. This supposed non-political stance, however, was in tension with the formal power member states exercised through the system of weighted voting on the Board of Directors. In general the amount of votes a country has on the Board is determined by the amount of capital that countries pay into the Bank. The Board is charged with the day-to-day running of the Bank and approves all loans, policies, and Bank reports, and this gives developed states considerable power. There are also more 'informal' mechanisms for the US in particular to exercise influence (Gwin 1997). More generally, however, most of the time the US does not explicitly exercise the power it has over the Bank because it does not have to: the Bank promotes the broad goals of US policy simply through its day-to-day operations – as it was designed to do. There is no doubt that the World Bank has been by far the most influential development agency. Some of this has to do with the amounts of aid it distributes, but it also has to do with its research capability, the long-standing relationships it has developed with recipient states and close ties with the US government.

The Bank has dramatically expanded the scope of its operations. In the years until the 1970s the bulk of its lending was for infrastructure projects (Mason and Asher 1972). Under the Presidency of Robert McNamara, the Bank expanded its aid provision, but also began lending in new areas such as agricultural development, health and education. The expansion of the Bank's areas of concern continued through the 1980s and 1990s, with issues such as good governance, corruption, environmental protection, institutional development, and participation. As the official history of the World Bank published in 1997 pointed out, the Bank's problem by the middle of the 1990s was that its list of policy priorities had been stretched almost beyond recognition (Kapur et al 1997). The Bank has also faced extensive criticism from a variety of sources for, among other things, its environmental record, its record in dealing with persons displaced by projects it has funded, and its lack of accountability

(Rich 1994; Nelson 2001, Udall 1997). The Bank has tried to respond to these issues up to a point, and while it is still the subject of much criticism, it is probably also the most open and self-critical of all development agencies.

The World Bank was the only multilateral development agency until 1959 when the first regional development bank, the Inter-American Development Bank (IADB) was founded. This was followed by the establishment of the African Development Bank (AfDB) in 1964, and the Asian Development Bank (AsDB) in 1966. These are most important regional multilateral development agencies, although there are a number of others.<sup>2</sup> The Inter-American Development Bank (IADB) was created alongside the Organization of American States (Tussie 1995). Although Latin American states had a significant presence at the Bretton Woods conference they felt increasingly neglected by the Bank as it turned its attention to newly decolonized states (Krasner 1981: 305; Tussie 1995: 18). The IADB enshrined but also limited US power. The IADB was overwhelmingly reliant on US capital for its operations, and there was a degree of proportionality in voting rights at the IADB (proportional on provision of capital) that gave the US over one-third of votes and thus provided it with an effective veto over amendments to the Articles of Agreement (Tussie 1995: 18). On the other hand, the extent of proportional voting was limited by the stipulation that at least 50 per cent of voting rights lay with the borrowing members so that at least in principle the bank remained under the control of the Latin American states.

The AfDB was different from other regional development banks in that it was originally established without the participation of developing countries (English and Mule 1996). This had the fairly obvious implications that it was relatively poorly resourced. In the years after its founding the AfDB found it difficult to raise money on

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<sup>2</sup> These include: the East African Development Bank (1967), the Caribbean Development Bank (1970), the Andean Development Corporation (1970), and the Islamic Development Bank (1975). In the post Cold War era these are joined by the European Bank for Reconstruction and Development (1991) and the North American Development Bank (1993).

the international financial markets and members states did not fulfil their obligations to provide money to the organization (it was not until 2003 that the AfDB received an AAA rating from bond rating agencies). The financial problems came to head when the AfDB wished to create a soft-loan arm. Developed states were invited to participate in what became known as the African Development Fund in 1973. The structures put in place to govern this entity are in some respects extraordinary as there was a tremendous imbalance between financial contributions and voting rights (Krasner 1981: 324). Despite providing the overwhelmingly majority of the funds, developed states had less than 50 per cent of the voting rights, thus preserving the control of African states. In 1982, developed states were allowed to participate in the AfDB itself – thus providing a much needed boost to its capital, but again only on the proviso that its' African member states retained a majority of voting rights. Thus the AfDB had significant autonomy from developed states, and remained a largely African Bank with the President and majority of its staff being from the continent.

The Japanese had been pushing for the creation of a regional development organization since the early 1960s (Wan 1995: 511). It felt that its own economic and political interests in the region were not well-served by the World Bank, and as it was emerging from the immediate post-war period it wanted to exert more influence in the region (Kappagoda 1995). The United States was keen to establish a regional institution to support its increasing involvement in the region (Krasner 1981: 317). As a result of this, the AsDB was different from the IADB and the AfDB in that right from the beginning it had a strong presence of developing countries – notably Japan and the US, but also Australia and New Zealand, and unlike the IADB and AfDB, developing country members never had a majority of the voting rights. Japan is the most influential state in the AsDB (Wan 1995). In 1974 a soft loan arm of the Bank was established – the Asian Development Fund – to which Japan contributed nearly half the capital. By tradition the President of the Bank is Japanese and the Japanese government collaborated closely with the Bank. In the early years of the Bank's operations, the bank served Japan's economic interests well (Krasner 1981: 319; Wan 1995: 415). By the late 1970s and into the early 1980s, however, the obvious

connection between Bank lending and Japanese economic interests started to decline, even as its share of financial contributions to the organization rose. More loans went to countries where Japan had no significant economic interests (such as Bangladesh and Pakistan) and Japan's share of procurements also fell (Wan 1995: 517-8).

[TABLE TWO ABOUT HERE]

As we have seen, foreign aid has been given for a complex set of reasons (Morgenthau 1962; Lancaster 2007). Some was certainly given for the purposes of maintaining political allies, but even here there have been differences between states: France and Britain, for example, have been concerned with maintaining relationships with for colonies, while the US and Britain have both used aid as an important part of larger international projects. Some aid was also given more for commercial reasons, especially by France and Japan, for example. For many states, domestic politics has at various times been important in determining aid provision (Noel and Therien 1995). It is important not to be too cynical about the provision of development aid, however. The fact that over time it has continued to rise, and that fact that an increasing amount of it has gone to the world's poorest states, particularly in Africa, suggest that states and development agencies have had a genuine commitment to the broader project of development, even if that too is understood to be in some broad sense in the interests of aid-giving states.

### Changing development paradigms

Since the provision of international development was institutionalized in international politics, the theories and arguments that shaped the funding of projects and programs have changed quite significantly. In the years up to the early 1970s development policy was shaped by the development of a specifically 'development economics' and by 'modernization theory' (Williams 2011: chap 2) Modernization theory was concerned with political and social 'modernization', understood as the institutionalization of democratic government and the emergence of 'modern' social

and cultural attitudes (Almond and Powell 1965; Almond and Verba 1965; Inkles 1969, 1975). Development economics was concerned with outlining the economic policies that would lead to industrialization and sustained economic growth (Lewis 1954; Hirschman 1958). Both theories thought that 'development' involved processes of modernization similar to that of the developed west (industrialization, urbanization) and both groups thought that foreign aid could assist countries in that process. Finally, both theories (for rather different reasons) assumed that the state would play a significant role in driving the process of development, usually through active intervention in the operation of markets to provide the appropriate conditions for domestic development. In terms of development practice the primary outcome of these bodies of thought was a significant stress on infrastructure (dams, roads, ports, railways, electricity generation project) and industrialization.

During the 1970s a different set of arguments about 'basic needs' and 'redistribution with growth' came to the fore (Streeten 1981; Chenery et al 1974). In 1973, then President of the World Bank, Robert McNamara, said that 'the basic problem of poverty and growth in the developing world can be stated very simply. The growth is not equitably reaching the poor. And the poor are not significantly contributing to growth' (McNamara 1973). Associated with this was a new concern with improving agriculture (the majority of the poor lived in rural areas), health services and education and a downplaying of the role of large capital projects as the key determinants of development. This way of thinking about development was short-lived as a series of economic and political crises engulfed many developing countries, and as the 'golden age' of capitalism came to an end (Glynn et al 1990). In this context a new set of ideas came to the fore sometimes captured under the label of the 'Washington consensus' (Williamson 1989). In economic terms this meant the liberalization of markets, both internally, especially in agriculture, and externally in terms of trade and capital flows. As a corollary of this it meant reducing the role of the state in the economy (and thereby reducing the possibilities for rent-seeking and corruption) (Lal 1983). In terms of development policy the most important and controversial product of this was structural adjustment lending. This was the use of



conditional lending by the World Bank and IMF to encourage developing countries to enact market-friendly reform programs (for a summary and assessment see Mosley et al 1991). Structural adjustment lending was in fact not especially successful, either in inducing policy reform or stimulating economic development, and through the later 1980s and into the 1990s, what is sometimes called the ‘post-Washington consensus’ emerged, led in large part by the World Bank. This maintained the stress on the importance of allowing the market to allocate economic resources (rather than the state) but recognized that a vibrant market economy required a series of effective institutions to work at all properly and an effective, but not overbearing state, to monitor and regulate it (Williams 2008a). This led to an emphasis on such things as legal reform, banking regulation, and reducing corruption on the one hand, and good governance, decentralization and sometimes democracy promotion on the other.

By the late 1990s and up to the financial crisis of 2007/8 these arguments gained added significance in two ways. First, governance reforms and economic liberalization were seen as the key route for developing countries to tap into increasingly globalized patterns of trade and finance (DfID 2000; for an assessment see Rodrik 2001). Second, governance reforms in developing countries were seen as an important part of the construction and expansion of regimes of global governance. In the wake of the Asian Financial Crisis and September 11, for example, development agencies have taken a leading role in reforming banking and financial regulation in developing countries in order to prevent poorly regulated financial systems from posing a more general threat to western interests (Williams 2008b)

Alongside this, two other new policy concerns should be mentioned. First, a new language of ‘participation’, ‘ownership’ and ‘partnership’ emerged. At the country level this new concern manifested itself most significantly in the Poverty Reduction Strategy Paper (PRSP) process initiated by the World Bank and the IMF in 1999 (Craig and Porter 2003). The idea behind this was that governments would develop a poverty reduction strategy in consultation with civil society groups. Second, a more explicit concern with poverty alleviation found expression in the United Nations

Millennium Development Goals (MDGs). These were a series of development targets established in 2000 and included such things as: halving the proportion of people living in absolute poverty (defined as less than one dollar a day); ensuring universal primary education; reducing by two-thirds child mortality rates; reducing maternal mortality by three-quarters; and halving the proportion of people without access to clear drinking water. What makes the MDGs remarkable is not so much their content as the fact there was an immediate political consensus among almost all states and development agencies as to the desirability of these goals (Fukado-Parr 2004).

The contemporary situation is a complex one. The recent financial and economic crisis has undermined the legitimacy of the stress on liberalization and integration into the global economy in the eyes of many developing countries. In addition, the experience of China has led to a renewed stress on infrastructure and industrial development as the keys to development success. On the other hand the achievement of the MDGs remains at least officially a guiding principle of all western aid donors and good governance and democracy remain key aims of western aid provision.

### Challenges

One of the great questions surrounding the provision of development aid is whether it 'works' to promote economic development, and the answer has very important implications for contemporary arguments about whether developing countries need more foreign aid. Jeffrey Sachs, for example, has called for a large increase in aid to as a way to overcome the 'poverty trap' that characterises the world's poorest states. In this view foreign aid can play an important role in stimulating economic development (Sachs 2005). Other have been much more sceptical. William Easterly, for example, has made some very pointed criticisms of western aid and has argued that there is little evidence a substantial increase in foreign aid would make much difference to the development of the poorest states (Easterly 2005; 2006). Dambisa Moyo has gone even further and argued that foreign aid to Africa has often done more harm than good, and she argues that African states need to find a way to wean

themselves off aid if that are to be successful (Moyo 2009).

One of the difficulties of coming to any conclusion about this is that assessing the impact of aid is difficult. One problem is that 'works' might mean different things: it could mean that a particular project or programme achieved its stated objectives, or it could be understood in terms of impact on broader developmental or macroeconomic objectives, such as economic growth or poverty reduction. In terms of individual projects and programmes, Roger Riddell has concluded that for most donors, project success rates range from 70-85 per cent and that on balance success rates have improved compared to 1965-1985 (Riddell 2007: 180). These aggregate figures mask significant variations in success rates between countries and across sectors. The World Bank had most success in East Asia and the Pacific (nearly 90 per cent of project judged as successful) and the least in Sub-Saharan Africa (70 per cent). In terms of sectors, the World Bank rated its projects in transport, rural development and finance at 85 per cent and the environment at less than 70 per cent (World Bank 2005). The Asian Development Bank rated transport and energy as its best performing sectors (85 per cent), but financial and agricultural sector as its worst performing (50 per cent). The African Development Bank rated 75 per cent of its agricultural development projects as successful, but only 46 per cent of its financial sector projects (Riddell 2007: 182-3). In 1995 the World Bank produced a major evaluation of its structural adjustment lending. It reviewed the experiences and outcomes of 99 adjustment programs in 42 countries mostly from the mid-1980s onwards. Of the 88 operations given a rating, 32 were rated as 'unsatisfactory' (Jayarajah and Branson 1995: 276-79).

Even if individual projects and programs are more successful than not, this may have rather little impact on broader macro-economic or developmental variables, which tend to be determined by a complex set of factors and relationships, both internal and external (Kenny and Williams 2001). Developmental outcomes are shaped by a host of factors (changing terms of trade, oil price rises, fiscal crises, political instability), and can improve even with a host of 'bad' projects and

programmes. Teasing out the impact of aid is then very tricky and is compounded by questions about the quality of the macroeconomic and socio-economic data available in many developing countries, especially the world's poorest (Riddell 2007: 166-7). What evidence there is suggests that inflows of foreign aid may not have much positive impact on broad development indicators (Easterly 2005). Lancaster has concluded that 'most of the econometric studies of the relationship of aid to growth have found that aid has no significant impact, either positive or negative on economic performance' (Lancaster 1999: 44). This is not to say that aid does not do important and valuable things; but it does suggest that the contribution of aid to broad developmental variables might be relatively slight.

Even more unsettling for advocates of foreign aid are those arguments that suggest it may have a negative effect on developing countries. Moyo argues that it promotes corruption and dependency with significant consequences for development and democracy (Moyo 2009: 49). More specifically, it has long been argued that the lack of coordination between development agencies creates many problems for aid recipients (Cassen 1986: chap 7). Especially in the world's poorest states there may be as many as 30 official aid agencies operating and possibly hundreds of development NGOs. In these circumstances, and especially given the relatively weak capacity of recipient governments (and a desire on the part of some donors to bypass the government) serious problems of coordination have arisen. Often little thought was given to how individual projects fitted into an overall development strategy or to how recurrent costs would be financed, and donors often funded similar projects leading to overlap and redundancy. In addition, different donors placed different demands on recipient governments in terms of accounting, auditing and procurement.

In recent years there has at least been some recognition of the need to deal with these problems. The 2005 Paris Declaration on Aid Effectiveness was an international agreement on the part of western donors and developing country governments to develop country 'ownership' of development strategies, to

harmonize donor's policies, and encourage mutual accountability (OECD 2005). Subsequently meetings have been held in Accra in 2008 and Busan in 2011 to assess progress towards these goals. While the commitment to making foreign aid provision more effective is laudable, progress to date on actually implementing new practices has been slow. A 2011 OECD report on the implementation of the Paris Declaration suggests that only one of the 13 targets set has been achieved (OECD 2011).

Western donors have been criticized for other failings too (Birdsall 2005). It has often been argued that they have not paid enough attention to building indigenous institutional capacity, and thus not really laid the foundation for sustainable development. In many cases donors have simply by-passed existing government departments in order to implement their projects quickly. It has also been argued that they are often not thorough enough in evaluations of their own projects and programs, that they do not withdraw from failing projects and that the assistance they do provide is often volatile and unpredictable. Donors are also coming under much more pressure from the growing aid transparency movement.<sup>3</sup> For example, the International Aid Transparency Initiative argues that donors should disclose regular, detailed and timely information on volume, allocation and results of development expenditure (when available); that they should make public all conditions linked to disbursements; should provide full and timely information on annual commitments and actual disbursements; and provide developing countries with regular and timely information on their rolling three to five year forward expenditure and/or implementation plans (IATI 2012). The fact that many donors do not currently do this suggests that quite serious problems remain with the relationships they have with many developing countries.

### Conclusion

The provision of foreign aid has expanded and changed considerably. It originated as

a result of the very powerful position of the United States at the end of World War Two. Subsequently many other countries adopted the practice of aid giving, multilateral development agencies were created, and the amount of aid provided to developing countries has increased substantially. Foreign aid has been provided for a number of different reasons. While it would be wrong to deny the genuinely developmental purpose of some aid, much of it has also been used for political and security purposes, and in more recent times as a mechanism for creating regimes of global governance and combating terrorism. The developmental rationale for foreign aid has also changed, from a stress on infrastructure, to poverty alleviation, to economic liberalisation, to good governance and democracy and now participation and poverty reduction (again!). It will almost certainly change again.

While the developmental record of foreign aid has always been questionable it is certainly the case that in recent years it has come under a great deal more scrutiny. Serious questions have been asked about its effectiveness and about the way in which donor practices create a host of problems for recipient countries. Coming to any final conclusion about the impact (positive and negative) of foreign aid is hard, in part because it is quite hard to measure. It does seem safe say, however, that it has been decidedly mixed. Despite all the criticisms of foreign aid, however, there is no reason to think that it will disappear any time soon. Western states see it as an important instrument for the achievement of varied international objectives, including 'development' and many developing countries, for good or ill, have become reliant on it. It is likely then to remain a central part of international politics and international economic governance, warts and all, for many years to come.

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<sup>3</sup> See for example: [Publishwhatyoufund.org](http://Publishwhatyoufund.org); [makeaidtransparent.org](http://makeaidtransparent.org); and [aidtransparency.net](http://aidtransparency.net).

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