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How the Aid Industry Works: An Introduction to International Development

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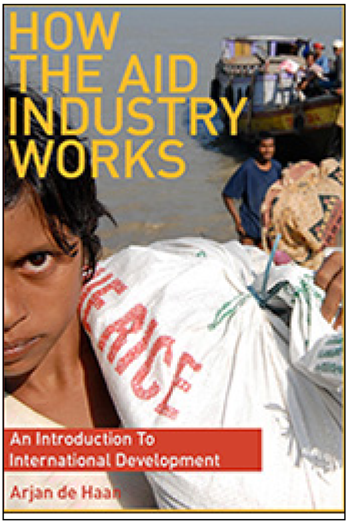

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Why Is Aid Contested?

International development is big business. Total global official aid flows from North to South are well over $150 billion annually, one-third of which goes to Africa. China and India are rapidly enhancing their role as aid providers. And international private philanthropies have become significant in terms of ideas as well as money, with the resources of the Gates Foundation, for example, outstripping the annual budget of major official donors like the World Health Organization. Donations by private medical companies add significantly to overall aid flows.

The number of organizations can be "baffling," according to the Development Assistance Committee (DAC), the body that brings together dispersed aid statistics and has worked hard to coordinate donors. According to its count, there are no fewer than two hundred bilateral and multilateral organizations (including only the "official" agencies) channeling official development assistance (ODA), all with their own strategies and principles. Many forms of public-private partnerships have added to the complexity particularly in the last twenty years or so. In some developing countries forty donors are operating, financing hundreds of projects. Dutch aid, for example, despite efforts to concentrate efforts, can be found in no fewer than 125 countries. Donors like the United States have multiple agencies within the government responsible for various aid activities. The policies of agencies tend to be inaccessible to outsiders and apparently always changing; procedures for project approval, for example, can be extraordinarily long. The language of the aid industry is often intractable, and it uses an incredibly large number of acronyms.

Recently, interest in development aid has seen a big surge, and to a large extent this has been sustained throughout the 2008–9 financial crisis, as the G20 meeting in London in April 2009 suggested. Large disasters like the Gujarat earthquake and the Asian tsunami mobilized governments and large constituencies of civil society, including diaspora communities. The 2008 cyclone in Myanmar and earthquake in China again highlighted the role of an international community, which found a previously unknown open reception in China and advocated continuously for access in Myanmar. The global Jubilee 2000 campaign advocated successfully for debt relief to the poorest and most heavily indebted countries, and the Make Poverty History campaign of 2005 advocated for substantially increased aid commitments. These raised awareness of and interest in the aid industry well beyond the earlier popular advocacy for relief such as that during the Sahel emergency of the late 1970s. Anti-globalization and other protests frequently bring the World Bank and International Monetary Fund (IMF) into the global public eye. Global civil society and protests against international institutions—which in 2007, for example, contributed to the resignation of the World Bank president—have become an inextricable part of globalization.

Alongside renewed concerns to alleviate deprivation in the South, global security concerns have brought renewed attention to global aid efforts. In the United States after 9/11, development was elevated after a decade of relative neglect and became seen as one of the pillars of national security alongside defense and diplomacy (Brainard 2007a; Natsios 2006). In other countries security concerns have been less overt in influencing aid programs, but the war in Iraq did become important for the aid programs, and Afghanistan became an important recipient of many countries' aid.

The practices, achievements, and failures of international development efforts are the main themes of this book. It focuses on the period following the Second World War, when the modern aid industry was built, often in the wake of independence of former colonial countries, supporting the new modernization projects, and accompanied by the new science of "development" economics and studies.

From the outset it is important to highlight the hugely differing perspectives on aid.[1] At one extreme are the many who claim that not enough aid is given, for example, those in the Jubilee 2000 campaign who advocated for debt relief, reversing the net transfer from poor to rich countries. In Canada, Stephen Lewis criticized in nationally broadcast lectures most of the rich countries for failing to live up to their commitments and failing to deal with the global HIV/AIDS pandemic (Stephen Lewis 2005). Jeffrey Sachs, having started his career in international development by advising governments how to reduce inflation, joined the camp of those forcefully advocating for more aid, including his time serving as adviser to Kofi Annan (Sachs 2005). At the other extreme are those who believe too much aid is given. This group includes those in the general public who suffered from the "aid fatigue" that was common in the 1980s and 1990s and those like William Easterly, among others, who does not like the aid practices of ambitious planning and believes development needs to be "home-grown" (Easterly 2006).[2] In the middle are those who focus on the ways in which aid is provided and the need for better assessment (Roger Riddell 2007), as well as those who argue that aid really isn't all that important and that other rich countries' policies—for example, on trade or migration—are much more significant.

For many agencies progress toward the Millennium Development Goals (MDGs) that were agreed upon after a summit in 2000 now provides a unified framework for the goals and measurement of success of the international community. But there are still large differences in the objectives of various countries aid programs (described in Chapter 2), and measurements and indicators of success also are radically different. Thus, individual agencies approach these goals differently, and the way contributions are assessed is not at all clear or agreed. Where donors' national interests are seen as key to the development programs, measurements of success, of course, differ as well.

Moreover, aid has been studied from different theoretical angles (described in Chapter 3). These differences can be summarized under a number of opposites. For example, much of the literature cited in this book has a strong emphasis on the management of aid; this literature has been criticized by authors that emphasize the importance of personal relationships in aid. Realist and Marxist perspectives focus on the role that aid plays in maintaining global power relations; scholars in a liberal tradition emphasize aid as a reflection of collaboration between states. Social-democratic theories highlight that foreign aid is an expression of norms and ideas to assist in the improvement of quality of life; post-modernist approaches focus on aid practices as discourse and ways of exerting power. The entrance of new donors, like China, is likely to bring yet other perspectives that cannot be predicted. I agree with Carol Lancaster (2007) that none of these theories adequately explains the complexities of aid; its principles always reflect a combination of motives, and aid practices tend to create their own dynamics, as do all policies, through the institutions responsible for their implementation.

At the end of the book, and following a discussion about how the impact of aid is measured, readers should be able to make their own judgments about these views. The rest of this introductory chapter highlights some of the main debates about international development: whether aid should increase, about the way aid is given, and whether aid is becoming irrelevant in the face of increasing private financial flows through trade and remittances. This does not cover all the arguments about aid. Notably, it does not cover the question of whether aid *can* reduce poverty. This is a question that runs throughout the book, and the book hopes to help readers to form their own opinion. This introductory chapter finishes with a brief introduction to the chapters in this book.

Argument 1: Aid Flows Should Increase

Commitments to international development are frequently subject to international debates among activists as much as government leaders. According to John Isbister, "Foreign aid has declined so much in both quantity and quality as to be almost irrelevant to the economic development of the third world" (2003, 221). In 2007 civil society organizations like Oxfam and ActionAid were quick to criticize the Organisation for Economic Co-operation and Development (OECD) countries' failure to increase aid to Africa, as promised during 2005.[3]

Calls for increased aid have been common at least since the Second World War, and there have been various waves of attention since. The immediate postwar period witnessed large-scale funding through the Marshall Plan, which provided infrastructure support to Europe. Aid to developing countries focused on technical assistance and cooperation. In 1951 a commission set up by the UN secretary general recommended an increase of aid, to about $5 billion a year, to help countries increase economic growth to 2 percent (Roger Riddell 2007, 27). Voluntary agencies started to expand work in developing countries. The early 1950s also were the period of the classic development theories, which identified both technical assistance and finance gaps as main obstacles for development.

The 1969 *Partners in Development* was one of the first and subsequently most commonly quoted official reports arguing for an increase in aid. The report was written by a commission set up by Robert McNamara, the newly appointed World Bank president, and chaired by Lester Pearson, Canada's prime minister. It called for rich countries to devote 0.7 percent of their gross national income (GNI) to international development, and to reach this level of funding in 1975. It also argued for a simultaneous increase in the efficiency of aid. Its focus was development, with less explicit attention to poverty. The target was adopted formally by the United Nations in 1970 and has featured in international debates ever since. Aid levels did rise during the 1970s, but average spending never came close to the target except in a few countries.

The optimism of 1970 was not to last long. It was quickly followed by emphasis on structural adjustment and stabilization of economies (discussed in some detail in Chapter 3) and aid fatigue based on perceptions that aid had failed to deliver results. Nevertheless, even throughout the 1980s there were calls for increasing aid, including World Bank reports on Africa, for example, in response to the droughts and famines in Sahel and Ethiopia, and because of increasing involvement of NGOs. Levels of aid continued to increase.

The 1990s—with the end of the Cold War, and economic and budgetary problems in donor countries like the United States and Japan—witnessed sharp reductions in ODA. The fall in aid to the poorest countries may have been even larger than the overall decline.[4] The amounts of aid to allied countries, including corrupt and repressive regimes, declined, but simultaneously the donors may have reduced their attention to conflicts and violence in developing countries. With the transition toward market economies, more attention started to be paid to the use of aid for governance reforms in the former USSR and for processes toward democratization in Africa.

From the late 1990s onward calls for increasing aid again became stronger, accompanied by a sharpened focus on poverty reduction as the overarching goal for development. An important OECD report in 1996 signaled a turnaround of the pessimism. The change of government in the UK in 1997 led to the formation of a new and separate ministry, and contributed to greater political interest, for example, among stars like Sir Bob Geldof and Bono.[5] Around the turn of the century the United Nations and the World Bank produced a range of publications highlighting the importance of and their commitment to poverty reduction and the MDGs. In March 2002 a large number of countries once again came together, in Monterrey, Mexico, pledging significant increases in aid flows (UN 2002), which was followed up during the General Assembly meeting in Doha in December 2008. The Monterrey conference was followed by the 2005 Gleneagles Summit under the leadership of the UK government as G-8 chair, and commitments were reaffirmed later when Germany took over the chairmanship of the G-8.

Showing a great deal of trust in the impact of aid, the UN Millennium Development Project calculated the amount of aid that would be required to achieve the MDGs.[6] The United Nations stressed the lack of funding particularly in social sectors; according to the 2005 *Human Development Report*, for example, average health spending in Sub-Saharan Africa was \$3–\$10 per capita, while the cost of providing basic health care was estimated at \$30 per capita (UNDP 2005, 79). The desirability for increased aid was highlighted by analyses like that of Howard White, who entitled an article "The Case for Doubling Aid" (2005).[7]

However, commitments have never been binding, and more often than not simply have not been honored. In donor countries political pressure apparently is not heavy enough, and aid probably not sufficiently significant in national politics, for the commitments to be honored consistently. The commitments by national leaders usually do not have direct legal or administrative implications. Exceptions to this include the UK's International Development (Reporting and Transparency) Act 2006, which commits the secretary of state to report annually on various areas, including expenditure on international aid and progress toward the UN ODA target for such aid to make up 0.7 percent of GNI. But in this case the commitment to increased aid is combined with commitments to enhance effectiveness and transparency, making the increase in allocation far from automatic.

Argument 2: Too Much Money Goes to International Development

The idea that too much money is spent on international development aid is very common. Public opinion often holds that too much money goes to foreign aid, and that very few positive effects are achieved, often because of corruption on the part of the rulers of poor countries. It appears that little of this is based on actual information. For example, in the United States the public often greatly overestimates the amount given to aid.[8] However, some OECD countries' governments are consciously trying to enhance understanding of development and campaigns like the MDGs, though perhaps too little is known about public attitudes toward aid.[9]

In 1989 Graham Hancock argued in a widely read book that the aid business should be abolished and that the highly paid aid bureaucrats, or "lords of poverty," should depart. In his view the industry's history has been littered with failures, and it has escaped public scrutiny. Riding

Box 1–1. Four Decades of Reports on Increasing Funding for International Development

Pearson Commission: Lester Pearson, 1969. *Partners in Development: Report of the Commission on International Development*. New York: Praeger Publishers. Called for ODA commitment of 0.7 percent of GNI.

Brandt Commission: Willy Brandt, 1980. *North-South: A Programme for Survival*. London: Pan Books. Called for doubling ODA by 1985.

World Bank, 1989. *Sub-Saharan Africa: From Crisis to Sustainable Growth*. World Bank. Proposed doubling aid to Africa.

DAC, 1996, *Shaping the Twenty-first Century: The Contribution of Development Co-operation*. Paris: OECD. Called for increasing aid, but without quantification, and focusing on enhancing the effectiveness of aid.

UN, *Monterrey Consensus on Financing for Development* (UN 2002). Urged developed countries to make concrete effort toward the 0.7 percent target (and 0.15–0.20 percent to the least developed countries), while stressing the need for a "new partnership." The Monterrey commitments were affirmed during negotiations at Doha in 2008.

UN Millennium Development Project. 2005. *Investing in Development: Millennium Development Goals*.

The Commission for Africa (set up by UK Prime Minister Tony Blair). *Our Common Interest*. 2005. London: Penguin Books. Called for an additional $25 billion in aid to Africa.

on the wave of interest in aid as highlighted above, former World Bank economist William Easterly published his view on international development. Based on his practical experience he highlights the "tragedy in which the West spent $2.3 trillion on foreign aid over the last five decades and still had not managed to get twelve-cent medicines to prevent half of all malaria deaths" (Easterly 2006, 4). According to Easterly, the main problem of aid has been the emphasis on grand plans and the domination of "planners," and limited ability to motivate people to carry out such plans. He suspects that the increased commitments will again be subject to a dominance of these planners, including those who think they can plan a market but fail to learn from past mistakes.

Calls for reducing aid are substantiated by different arguments, often interrelated. First, there is a common perception that aid has failed—as the quote from Easterly indicates. An article in the conservative US journal *The National Review* in 2002 argued that "a strong case can be made that foreign aid has been the problem for many developing countries, rather than the solution." Linking this to welfare debates in the United States, it continues: "Negative policies were perpetuated in the same way that welfare perpetuated dependency" (quoted in Lancaster 2007, 96). An article in *The Wall Street Journal* stated: "Despite star power, aid doesn't work" (Subramanian 2007), highlighting the potential damaging long-run effects on governance and economic competitiveness.[10] In an "ethnography of aid and agencies," David Lewis and David Mosse state that development policy is characterized by a striking incongruence between a seductive mix of "development buzzwords" and a "striking lack of progress in relation to a wide range of development indicators" (2006, 8).[11] Also, Hancock points out—not without basis—that countries who have not received aid have done well, while those that have received aid have not developed. It is often argued that many of the aid recipients are not committed to development and poverty reduction, and that aid may not manage to help improve governance.

Second, a strand of academic literature, often inspired by post-modernism, has challenged the nature of the aid industry altogether. Authors like Escobar, Ferguson, and Ignacy Sachs "argue that the entire development discourse is Western created and imbued with the usual dichotomies of Western superiority… [and] … justifies the existence of an interventionist and disempowering bureaucracy. . . . This critique argues that the entire development edifice—the concepts, the language, the institutions built up around it—*causes* the problems it supposedly seeks to solve" (Uvin 2004, 32).[12] Much of the popular critique, particularly against the World Bank or globalization and in support of the agendas of subalterns and social groups in the South, uses these forms of expression, emphasizing continued inequalities in power as root causes of deprivation. Even programs run by UN organizations like the International Fund for Agricultural Development (IFAD) do not escape the criticism that aid institutions cause development problems. While I do not share these criticisms, they no doubt contain much truth, and any practitioner ought to be aware of them.

Third, there are common concerns about aid dependency. In quite a few countries, particularly in Africa, donor funding can form half of the government budget, often for extended periods of time. New funding often leads to setting up of new agencies, and this may not contribute to solving problems and indeed may even worsen problems of existing public policy institutions. Equally, new loans are often thought not to help countries get out of debt traps. Critiques of structural adjustment, which we discuss in some detail in Chapter 3, often argue along these lines, pointing out—as the campaigns for debt relief have done—that poor countries over the years have paid back far more in loans than they have received.

A fourth argument against increasing aid refers to what is commonly called absorptive capacity. It is argued that recipient governments do not have the administrative or policy capacity to use increased aid flows effectively, particularly when these are disbursed in a short period of time. Economists warn of the implications of large financial inflows on the economy, and the possibility that this may cause "Dutch disease," that is, an appreciation of the exchange rate and resulting decline in competitiveness of national industries. However, there is some agreement among economists that for most aid-dependent countries, a foreign aid contribution of about 20 percent to the national budget does not lead to such negative effects and that the economic impact remains positive. And Jeffrey Sachs has strongly asserted against arguments around absorptive capacity that, for example, at current levels of funding it is impossible for health ministries in Africa to maintain a health-care system.

A fifth argument against increasing aid relates to the behavior of donors. While the history of the aid industry has been full of commitments to focus on recipients' priorities, the motives and structures of donors continue to drive the way aid is given; for example, aid is influenced by foreign-policy motives, which partly explain the great attention to aid during the Cold War and after 9/11. Commercial motives have been equally important in the way aid is provided. Much aid is "tied aid," where the money given must be spent on goods and services of the donor country. Donors' procedures also tend to be cumbersome, occupying valuable and often scarce government and administrative capacity. Donor projects and programs often create parallel reporting structures, which is particularly problematic when large numbers of donors are present in countries with low administrative capacity. Finally, donor funding can undermine local accountability (Uvin 2004); donors' role in relation to the accountability of national policies are discussed at different points in this book.

Argument 3: Amounts of Aid Matter Less Than How It Is Given

The arguments about absorptive capacity and donor behavior move us into a different set of arguments about aid, those focusing on how aid is given rather than whether there should be more or less aid. As already noted, advocacy for more aid often goes together with calls for improving the quality of the aid system; for example, the Jubilee 2000 campaign argued that new resources should focus on poverty reduction, the Pearson Commission argued for improvements in efficiency, and the Monterrey Consensus emphasized governance issues as central to delivering increased resources. The prestigious 2005 *Human Development Report* argued:

> International aid is one of the most powerful weapons in the war against poverty. Today, that weapon is underused and badly targeted. There is too little aid and too much of what is provided is weakly linked to human development. Fixing the international aid system is one of the most urgent priorities facing governments at the start of the 10-year countdown to 2015.

Many of the difficult questions about the delivery of aid are central to this book. Some of the more pertinent ones in discussions about increasing aid are discussed below (see Manor 2005).

A first argument emphasizes that aid is not well targeted, that too much money is spent in countries that are not the poorest. There are powerful historical, political, and strategic reasons determining that much aid is given to countries that are not poor. Many bilateral organizations have tried to focus their aid on the poorest countries. The UK with its public focus on Africa has official targets for increasing the share of the total aid budget to the poorest countries. But the pull of other political considerations remains large, and following 9/11 security concerns have led to an increasing—and often competing—focus on states that are thought to be threats to the North. The US aid program is openly tied to foreign policy concerns; in fact, in 2006 a former USAID administrator criticized the European aid programs for failure to align their aid to foreign-policy concerns (Natsios 2006). Similarly, Kurlantzick describes the recent Chinese aid program as a core element of China's global "charm offensive" (2007, 202).

A second and related argument has stressed that much aid—even if it does go the poorest countries—does not reach the poorest people. As we describe in the next chapter, since the 1950s the development industry has increasingly focused on ensuring that aid benefits poor people. The MDGs agreed upon in 2000 are a clear example of an instrument that aims to ensure targeting. Since the 1980s many development organizations, not least the World Bank, have been engaged in large-scale exercises to make sure that it is possible to know how many people are poor, uneducated, and so forth. But the ways in which aid does benefit poor people can be manifold (as discussed later), and this underlies many of the debates about aid. Moreover, assessing whether aid succeeds in benefiting the poor (the subject of Chapter 8) remains a very difficult question, even within agreed frameworks like the MDGs.

Third, even when it is agreed that the world's poorest people should be the prime beneficiaries of aid, controversy arises about whether it is desirable to provide these countries with large or increasing amounts of aid. The argument, put simply, is that many of the poorest countries are not able to use aid effectively. This can be for a number of reasons, but much of the focus has been around the "governance" in these countries (discussed extensively in Chapter 5 on aid approaches that emphasize administrative and public sector reforms). The agenda of good governance is broad and calls for improvements in political and economic institutions, administrative systems and government bureaucracies, and public service delivery.

An oft-quoted and influential—but also much criticized (as discussed in Chapter 8)—World Bank working paper first published in 1997 by Craig Burnside and David Dollar showed that aid is effective *if* its recipient government has the right policies, particularly good fiscal, monetary, and trade policies (Burnside and Dollar 2000). Paul Collier and David Dollar (1999) combined an argument about the need to move aid to those countries with the largest numbers of poor people and those countries that are able to use aid effectively. In their view, based on statistical analysis comparing large numbers of countries (cross-country regressions), such reallocation could increase the numbers of people lifted out of poverty from 30 million to 80 million a year. Collier's popular book *The Bottom Billion* (2007) again stressed the need to focus on countries where most poor people are (approximately forty countries) and the need to address the development "trap" of good governance—to which he adds the need to address other traps, those of conflict, of the natural resource curse, and of landlocked countries with bad neighbors.

Fourth, a relatively recent concern about how aid is given revolves around the political nature of the aid process. Such a critique is by no means new. Chapter 3 describes the perceived failure of the Washington Consensus that dominated in the 1980s (and the aid fatigue that blamed corrupt governments for the failure of aid) and how it led to increased attention to the importance of governance for development and poverty reduction. Further, poverty reduction strategy papers (PRSPs) called for country-wide consultations to determine strategies for providing aid (discussed in Chapter 6). The attention to the institutional determinants of development led an increasing number of authors to argue that aid needs to be much more sensitive to political conditions and to calls for political analysis—such as DFID's "drivers of change"—to inform aid allocation and strategies.

A fifth question about how aid is given stresses donors' habits, that is, the patterns of behavior and incentives that limit aid effectiveness. This involves a complicated set of issues, many of which we stumble upon in the rest of the book. For example, current aid is commonly compared with the Marshall Plan, implemented after the Second World War, which disbursed large sums of money in a short period of time, as opposed to the long term and relatively small sums of money of development aid—even though, and this is only an apparent contradiction, donors suffer from what is known as disbursement pressure, that is, both in World Bank and bilateral donors, staff experience incentives for high and fast disbursement.[13] Donor procedures tend to be cumbersome and time consuming. Aid flows are often unpredictable, often following financial cycles on the side of the donors rather than demand by recipients—and donors' priorities change frequently. Many people feel that there are too many donor agencies, working in uncoordinated ways. Some argue that donors' attitudes have the potential to undermine progress, and aid has the potential to contribute to rather than to reduce conflict. With respect to fragile states, Stephen Browne of the United Nations International Trade Centre concludes:

> The donor record is patchy to say the least. And the closer you come, the worse it looks. Donors bear some responsibility for not being there, but that is not the worst accusation.

> Donors also appeared at the wrong times with the wrong attitudes. Working within their own scripted agendas, they succeeded in sometimes unpicking and undermining development progress. (Browne 2007, 32)

Finally, tied aid has restricted aid's efficiency. While the UK "untied" its aid under the Labour Government, and other OECD countries have tried to do this for some time, and although an increasing number of recipient countries qualify for untied aid,[14] many donor countries continue to make collaboration with or purchase from their national companies a condition for the provision of aid.[15]

Argument 4: Foreign Policy, Trade, and Migration Policies Matter More Than Aid

A fourth set of arguments emphasizes that aid is not as important as many of its supporters argue. There are at least three important considerations, related to the position of aid in relation to donors' foreign policies; the importance of aid compared to private financial flows; and aid's importance in relation to remittances, which (unlike aid) have rapidly grown over the last decades. I argue that it is important to contextualize aid in this way, but that none of these makes careful study of aid any less necessary.

First, as reflected strongly in writings originating in the United States aid is an instrument of foreign policy or diplomatic purposes. The United States and others provided aid as a tool in the Cold War competition, and French aid has been instrumental in maintaining a sphere of influence. The recent rise of Chinese aid similarly can be interpreted as one of its diplomatic tools. The resurgence of interest in aid in the United States was closely related to the post-9/11 agenda and the new "transformational diplomacy" (Natsios 2006). In fact, foreign-policy considerations are important for all donor countries, even for those that have made development, poverty reduction, and humanitarian relief central to their policies. Alesina and Dollar (2000) confirm, based on quantitative analysis of bilateral aid, that foreign policy and strategic considerations (along with economic needs and historical links) have a big influence on which countries receive aid.

A second important question is how important aid is in a world in which private financial flows are so large. It is often argued that broader international economic policies are more important than aid programs alone. Civil society organizations have long emphasized that for global inequalities to be reduced, trade policies need to change. This is recognized, for example, in the Treaty of Maastricht and is central to many aid ministries' efforts to influence other government departments. Donor countries are criticized for hypocrisy when they provide aid while benefiting from, for example, import restrictions and subsidies to producers in the North, foreign investment that exploits countries in the South (with advice from donors helping to open up countries to global markets), the payments of interest on loans disbursed years if not decades ago, or the fueling of conflict through the sale of arms by companies in the same donor countries. Under the leadership of Clare Short, DFID made globalization the core theme of its Second White Paper, responding to a perceived need to "make globalization work for the poor," and arguing for the need for consistency in the policies of all government departments. The Commitment to Development Index, published on the Center for Global Development (CGD) website, is an initiative that rates rich countries' policies in seven component areas (aid, trade, investment, migration, environment, security, and technology) on the extent to which they help poor countries' development. Currently, the Netherlands, Denmark, Portugal, and New Zealand ranked best; Norway and Britain fall in the middle; and Canada, Australia, the United States, and Japan score lowest.

Similarly, it has been stressed recently that the financial contributions of migrants from the South outstrip development aid. Recent estimates put remittances at about US$200 billion or more, about double official aid flows. While earlier writings emphasized the danger of "brain drain," that is, the loss of human capacity following moves by educated people to richer countries, more recent analyses have emphasized the positive contributions of migrants. Some authors stress that remittances do not suffer from the problems of aid flows (like difficulties in getting the money to the right people) and corruption.

These arguments are important, and a development agenda is about much more than aid. But aid itself does have its place. Wherever foreign-policy considerations are dominant, constituencies for the use of aid for development purposes continue to exist. And private flows, through trade or migrants, cannot substitute for the essential role aid has played, and can play, in providing countries with the preconditions for their development, including being able to benefit from private flows, from which many of the poorest countries are still excluded. There may be too few successes, but there are enough to illustrate the point that aid does matter for the places and countries that are marginalized from globalization.

So Why Are Views on the Aid Industry So Different?

The views on aid diverge for many reasons. In the first place, aid has been used for different purposes: to support allies during the Cold War, to support countries and governments considered helpful in a global security agenda, to help countries develop, to address global poverty, and so forth. Because there are many objectives for aid, views on what it can achieve differ.

Second, and closely related, there are no agreed-upon standards to measure whether aid works (see Chapter 8). Even if we discount the foreign-policy and commercial purposes of aid and instead focus on the developmental aspects, there is still an enormous variety of purposes that can be categorized as development oriented; providing humanitarian relief, promoting economic transitions and reform, promoting democracy, addressing conflict and post-conflict situations can all legitimately be classified as aid. Poverty reduction can be achieved through a range of instruments, including those that help create an environment for economic growth, policies that help provide services for the entire population (like health and education), or programs that are targeted to the poor (like microfinance or cash transfers). While the MDGs now provide a generally agreed-upon framework for measuring progress, there are still many questions about whether one can attribute any of the progress, or lack thereof, to the aid industry.

But third, the differences also can have deeper underlying reasons. As described by Jean-Philippe Thérien (2002), the ideological differences between Right and Left have exercised a great influence on framing the aid debate, and the changes in political power over the last decades have influenced the changes in the shape of aid institutions. Partly mirroring these differences are differences in perceptions about responsibilities of states, in terms of their duty to provide for their citizens, as well as their ability to promote economic growth.[16] US national public social policies, for example, are relatively ungenerous compared to their European counterparts. But private charities are larger in the United States than elsewhere. These differences are clearly reflected in patterns of aid, as we will see in Chapter 2. Similarly, there are differences in expectations about the extent to which governments can promote economic growth and how much of this should be left to the private sector; again, ideas about the ability of the state are reflected in ideas about what aid can contribute and how much should be given.

A Brief Introduction to This Book

This book is neither a critique nor a praise of aid. It will not try to answer the question "does aid work?" (see Robert Cassen et al. 1986; Roger Riddell 2007) or why it has done "so much ill" (see Easterly 2006). It will show, however, that there are no easy solutions for making aid work. As we will see, what is seen as the success of aid differs among its many different protagonists and the people who criticize the industry. Understanding the different ways in which aid is provided, the varying objectives, and different ways in which it is assessed is the key objective to which this book aims to contribute.

The next chapter provides insight into the institutions that form the aid industry: the United Nations, including the Bretton Woods institutions, IMF, and World Bank; the main bilateral organizations, and the various ways in which countries have shaped their aid programs; the role and importance of NGOs, which have grown significantly over the last two decades; and the more recent but very rapid emergence of private charities, of which the Gates Foundation is probably the most widely known. While the club of donors is very diverse, and increasingly so, the group of recipients is even more varied (this is reflected in the ways in which donors have categorized countries), with countries that are more and less aid dependent, countries that have had high or reasonable economic growth and those that have stagnated for decades, and countries that have been in conflict or are "fragile."

Approaches to development, and development studies, have seen rapid evolution since the Second World War, and Chapter 3 briefly describes this history. First, I discuss the nature of development studies, which since the early 1970s has established itself as a separate academic discipline—more so in some countries than others—with a strong interdisciplinary and a problem-oriented or applied focus. The description of the trends in approaches covers how aid approaches emerged out of late-colonial concerns, followed by a focus on reconstruction after the Second World War and support to newly independent nations. The optimism of the 1960s was followed by the period of adjustment. The turning point can be put at 1973 with the oil crisis and political change in Chile, even though in the 1970s the aid agenda continued to expand and basic needs (and later human development) became more central. The period of dominance of the Washington Consensus during the 1990s was followed by a new or renewed focus on poverty as the central objective of development aid and increasing attention to the role of governance and institutions in promoting development. Finally, while the end of the Cold War reduced the influence of foreign policy over aid, the global security agenda after 9/11 provided new directions.

Chapters 4–6 then describe the practices and different approaches of the aid industry. A key and much debated distinction has been between *projects* and *programs*, signaling the way thinking about aid and development has evolved, but also some of the dilemmas in terms of donors' preferences and the needs of recipients. A project involves financial and technical support to a distinct activity with directly tangible objectives, such as building roads or giving immunizations. A program supports recipient governments' policies more generally, for example, through general "budget support" to finance ministries. Main organizations have used a combination of the two, and choices between the two are sometimes made for different reasons. Some agencies tend to focus entirely on projects, often using implementing agencies outside the regular bureaucracies of recipient governments. The World Bank has a strong focus on programmatic loans for adjustment and reforms. With the emergence of poverty reduction strategies and emphasis on donor "harmonization" and "alignment" an increasing number of organizations have adopted a similar form of programmatic support. Chapters 4–6 describe the characteristics and rationale of the different approaches, their origins, and the successes and continuing challenges. The themes in these chapters can be identified on a continuum between program and project approaches, with practical examples drawn from recent experience.

Projects, despite criticism, are still a very important part of donor approaches, and Chapter 4 highlights the rationale for these in terms of needs for donors to show results, the possibility to be flexible and demand driven, and potential for innovation. But projects also are perceived to have many disadvantages: an overload on recipient governments, particularly but not only in aid-dependent countries; "fungibility" of funding, referring to the possibility that donor funding leads to a reduction in recipient government funding in that specific area; and the likelihood of sustainability, that is, whether projects initiated or funded by donors will be maintained. Cases of project approaches highlighted include microfinance, sustainable livelihoods projects, social funds, and practices of technical cooperation, and Chapter 4 describes LogFrames as the most important planning tool for projects.

Whereas projects focus on one-time support for countries' development, reforms and programs (the subject of Chapter 5) focus on the broader administrative and policy systems in partner countries. *Reforms* have been a key element in the development debate since the 1980s. Reforms are complex processes, often involving dozens of policy prescriptions imposed by donors on recipient governments. From the 1980s onward, sector reform and sector-wide approaches have been developed as new instruments of the aid industry, as part of a move away from project approaches to a focus on the policy environment. These approaches have had notable successes, but practices have been more varied than optimists may suggest or hope. Progress has often been extremely slow, and donors have continued to operate projects with program approaches. Other issues relate to the relationship between program approaches and cross-sectoral policy choices, the importance of capacity for policymaking, the intensely political nature of aid and reforms, and how the impact can be measured.

While always part of common knowledge, during the late 1980s donors started to emphasize the need for country ownership for successful development. Chapter 6 describes *country-led approaches* and questions of the capacity of aid recipients and the perceived need for donors to harmonize their approaches. The approach to PRSPs has been much debated in the development community, and this chapter reflects on its place in the evolving aid industry, how it emerged, what it set out to achieve, how it has worked, its successes and failures in strengthening "ownership," and whether donors can live up to the commitments this approach entails.

Chapter 7 describes cross-cutting issues. Development debates in the last decades have been heavily influenced by urges to mainstream a number of concerns: environment, gender, participation, rights-based approaches. Each of these themes has a substantial literature, and this chapter places these in the context of wider development debates, how these approaches have or have not influenced mainstream debates, and whether they have managed to obtain a central place in aid practices. It is suggested that participation has obtained a central place partly because of evidence that participation leads to better project outcomes. Environment has become a key focus because of recent concerns over climate change. Gender and rights appear much more contested with the latter receiving very little attention, and the way in which the former has been mainstreamed challenged by many activists.

How does the industry know what it has achieved? As discussed above, debates over whether aid works continue to rage. During the last decades—under the influence of changing public service management practices and pressure by treasuries on government departments to show results, presumed or real aid fatigue, and influential critiques on structural adjustment—increasing attention has been devoted to measuring what aid has achieved. Chapter 8 describes the technical approaches to such measurement, the information on which assessments are based, the advantages and disadvantages of different approaches, and whether (and the ways in which) these assessments are taken seriously by organizations, and some of the perhaps unintended impact of the need to show results.

The final chapter reflects on *major challenges* to the practices of international development. For example, has aid become irrelevant, as trade and migration agendas seem much more important for development than the relatively low aid budgets, and as global security concerns have increasingly influenced aid approaches? What does the rapid entry of new aid donors like China, India, and the Gates Foundation mean, and do they upset attempts toward harmonization of donors? There is a tension between the needs of many of the poor countries and their capacity to use aid effectively, and there may be a dilemma between a strong focus on ensuring that aid reaches the poor directly and supporting broader development processes and structures. Finally, aid is and will remain an instrument of international politics; the challenge is how to ensure that this complements development and poverty reduction.