

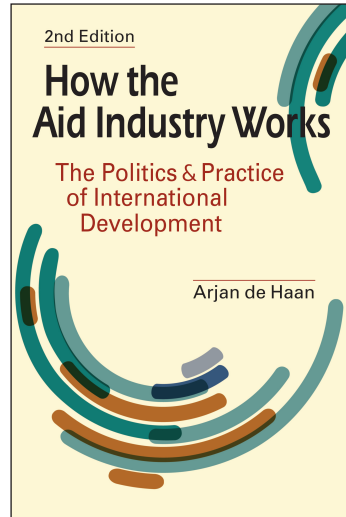
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How the Aid  
Industry Works:  
The Politics and Practice  
of International Development

SECOND EDITION

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# 1

## Why Is Aid Contested?

**INTERNATIONAL DEVELOPMENT IS BIG BUSINESS. TOTAL GLOBAL OFFICIAL** aid flows from North to South are over \$150 billion annually. In the last decades, China, India, Turkey, Brazil, and other countries have enhanced their roles as aid providers and, with that, introduced different approaches. International private philanthropies have become significant, with resources from the Bill & Melinda Gates Foundation, for example, outstripping the annual budget of the World Health Organization. The Gates Foundation was also a major donor for the development of Covid-19 vaccines.

The aid industry also is very complex. In 2007, the chair of the Working Party on Aid Effectiveness of the Development Assistance Committee (DAC), the body at the Organisation for Economic Co-operation and Development (OECD) that brings together dispersed aid statistics and promotes coordination between donors, noted the following:

A layperson observing today's aid industry might be understandably baffled by the sheer number of aid actors, funds and programmes. The last time the OECD counted, there were more than 200 bilateral and multilateral organisations channelling official development assistance. Many developing countries may have more than 40 donors financing more than 600 active projects, and may still not be on track to achieve the Millennium Development Goals. (Cedergren 2007)

That complexity refers to the “official” agencies only—each with its own strategies and principles. Public–private partnerships have added to the complexity, and the number of donors keeps increasing.

In developing countries, dozens of donors typically are in operation, financing hundreds of projects. Moreover, donors such as the United States have multiple agencies within the government responsible for various aid activities.

The policies of agencies, apparently always changing, tend to be inaccessible to outsiders, and procedures for project development are long and complicated. The language of the aid industry is often intractable, with many acronyms. The ambition of the aid industry is broad and has continued to expand: in 2015 at the United Nations, all countries agreed to the Sustainable Development Goals: 17 goals with 231 indicators.

Interest in development aid experiences surges. Disasters such as the Gujarat and Haiti earthquakes, the Asian tsunami, and the Ebola outbreak mobilize governments and constituencies of civil society, including of diaspora communities. The 2008 cyclone in Myanmar and the earthquake in China led to an increased role of the international community. In OECD countries, interest in international development is frequently fueled by celebrities who advocate for specific causes, such as Madonna, Angelina Jolie, Rihanna, Idris Alba, Oprah, Bono, and Bob Geldoff, or the Toronto-based WE Charity mobilizing young people in North America and the UK.<sup>1</sup>

The Jubilee 2000 coalition advocated successfully for debt relief for the poorest and most heavily indebted countries, and the Make Poverty History campaign of 2005 advocated for substantially increased aid commitments. This raised awareness and interest in the aid industry well beyond the earlier popular advocacy for relief, as seen during the Sahel emergency of the late 1970s. Anti-globalization and other similar types of protests frequently bring the World Bank and the International Monetary Fund (IMF) into the global public eye, and protests in 2007 contributed to the resignation of the World Bank president.

Alongside concerns about alleviating deprivation in the South, global security concerns focused renewed attention on global aid efforts. In the United States, after the 9/11 terrorist attacks, development was elevated after a decade of relative neglect and came to be seen as one of the pillars of national security next to defense and diplomacy (Brainard 2007a; Natsios 2006). The war in Iraq was important for aid programs. Afghanistan became an important recipient of many countries' aid; the US withdrawal from Afghanistan in 2021 was followed by debates about the impact that aid in this context had and can have (Shah 2021). Growing global interconnectedness has heightened concerns about the perceived spillover from underdevelopment, including in the form of migration and terrorism (Bermeo 2017).

### Box 1.1 The Sustainable Development Goals

In 2015, United Nations member states adopted the 2030 Agenda for Sustainable Development, a “shared blueprint for peace and prosperity for people and the planet, now and into the future.” This followed an extensive process of negotiation, including at the Rio+20 Summit (the United Nations Conference on Sustainable Development in 2012). The advocacy for this new framework, and how it was seen to differ from the preceding Millennium Development Goals (MDGs), including in terms of integrated approaches to economic, social, and environmental issues, is described in a detailed account by Colombian official Paula Caballero with Patti Londoño (2022).

At its heart are seventeen Sustainable Development Goals (SDGs), which—different from the MDGs—are a “call for action” for all countries, developed and developing, with a commitment to “Leave No One Behind” and concrete goals for global partnerships. Ending poverty and other deprivations is SDGs 1, and the development agenda stresses that this must go together with strategies that, for example, improve health and education (SDGs 3), spur economic growth (SDGs 8), reduce inequality (SDGs 10, SDGs 5 on gender), and tackle climate change and preserve oceans and forests (SDGs 13). The global framework includes 231 indicators that form the basis for regular national and global SDGs reporting.

Although the SDGs provide a unified framework for measurement of success of the international community in achieving the goals, and for calculations of amounts of aid needed, there are important differences in how agencies contribute to the goals. Similarly, how contributions are assessed is not uniformly agreed, for reasons documented in this chapter.

*Sources:* “Do You Know All 17 SDGs?” UN Department of Economic and Social Affairs, <https://sdgs.un.org/goals>; “SDG Indicators,” Sustainable Development Goals, <https://unstats.un.org/sdgs/indicators/indicators-list/>; Caballero with Londoño (2022).

The growing populism in OECD countries has put aid programs under pressure.<sup>2</sup> Some countries reduced their aid commitments, and aid orientation changed. For example, in Europe, particularly since the rapid increase in the number of refugees arriving in 2015, deterring migration has become an increasingly important consideration of development aid—despite experts’ warnings that such aid is unlikely to

achieve that objective. The “EU Emergency Trust Fund for stability and addressing root causes of irregular migration and displaced persons in Africa” became a key policy instrument to integrate aid with foreign and immigration policies.<sup>3</sup>

Both the Covid-19 pandemic and the climate crisis have given debates about development aid, again, a different dimension. Both have highlighted the global nature of public policy challenges, with calls for unified global responses, but also stark North–South differences, including concerns around global vaccine inequality, lack of commitment by the countries in the North that are mostly responsible for climate change to fund the necessary investments in lower-income economies, and more broadly a weakening of multilateralism (Benner 2020) and “contested global governance” (Chaturvedi et al. 2020).

Aid has been studied from different theoretical angles, as described in Chapter 4, and these can be summarized as a series of opposites. 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 that assist in the improvement of quality of life; postmodernist approaches focus on aid practices as a discourse and way of exerting power. The entrance of new donors such as China has brought yet other perspectives. Finally, much of the literature places a strong emphasis on the management of aid, which has been criticized by commentators who emphasize the importance of personal relationships in aid. 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 take on their own dynamics in the institutions responsible for their implementation, as all policies do. At the end of this book, following a discussion of how the impact of aid is measured, readers should be able to make their own judgments about these views.

The rest of this chapter highlights the main debates about aid: whether it should increase, whether the way aid is given is effective, and whether it 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—a question that runs throughout the book. I hope the book helps readers form their own opinion. This chapter finishes with a brief overview of the book.

## International Commitment to Increase Aid

Many claim that not enough aid is given. Economist Jeffrey Sachs has forcefully advocated for more aid, including when he was adviser to Kofi Annan, former Secretary-General of the UN, and with regard to creating “Millennium Villages,” in which over \$100 million was invested (Sachs 2005; Munk 2013). In Canada, former political leader Stephen Lewis in nationally broadcasted lectures criticized rich countries for failing to live up to aid commitments (Lewis 2005). The Jubilee 2000 campaign advocated for debt relief, and similar arguments were made in the context of the growing debt crisis and global pandemic in 2020. Civil society organizations advocate for reversing the net financial flows from poorer to richer countries, including through multinationals’ shifting profits to tax havens. Climate activists argue that the finance from rich countries to the South is insufficient, including in light of rich countries’ responsibility for the growing climate damage.

Calls for increased aid have been common at least since World War II, and official aid has continued to be “a brand with value,” thought to enhance national leaders’ reputation of generosity (Kenny 2020). Although public interest surges and recedes, studies suggest that there is continued public support for providing aid. Political changes in donor countries, such as the rise of populism in the last two decades, of course can significantly change aid approaches, but these are balanced by advocates within countries as well as countries’ participation in global forums.

The immediate post–World War II period witnessed large-scale funding through the Marshall Plan, which provided infrastructure support to Europe. Aid to developing countries that focused on technical assistance and cooperation was supported by development theory that identified finance gaps as a main obstacle to development. In 1951, a commission set up by the UN Secretary-General recommended an increase of aid to \$5 billion a year to help countries increase economic growth to 2 percent (Riddell 2007, 27). Voluntary agencies started to expand work in developing countries.

In 1969, a commission set up by Robert McNamara, the newly appointed World Bank president, and chaired by Canada’s prime minister Lester Pearson published *Partners in Development*, which became one of the most-quoted official reports arguing for an increase in aid. The report called on 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 advocated for a simultaneous increase in the efficiency of aid. Its focus was development, with less explicit attention to poverty. The target was formally adopted by the United Nations in 1970 and has featured in international debates ever since. Aid levels did rise during the 1970s—but average spending did not come close to the target.

This optimism around 1970 was not to last long and was quickly followed by emphasis on “structural adjustment” and stabilization of economies. “Aid fatigue” arose based on perceptions that aid had failed to deliver results. Nevertheless, throughout the 1980s calls for increasing aid continued, for example, in response to the droughts and famines in the Sahel and Ethiopia, by the World Bank in reports on Africa, and through increasing involvement of NGOs. Levels of aid continued to increase.

The 1990s—at the end of the Cold War and with economic and budgetary problems in donor countries such as the United States and Japan—witnessed reductions in aid. The decline in aid to the poorest countries may have been even larger than the overall decline (Browne 2007). 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, attention moved to the use of aid for governance reforms in the former USSR and for democratization processes in Africa.

From the late 1990s onward, civil society and international organizations’ calls for increasing aid again became stronger and were accompanied by a sharpened focus on poverty reduction as the overarching goal for development. The change of government in the UK in 1997 led to the formation of a separate ministry and contributed to greater political interest in development aid, with stars such as Bob Geldof and Bono getting involved, and support from Prime Minister Tony Blair and Finance Minister Gordon Brown, who both continued advocacy for international development after their careers in government. The UN and World Bank highlighted the importance of and their commitment to poverty reduction and the Millennium Development Goals. In 2002, in Monterrey, Mexico, US president George W. Bush committed to enhancing international aid; Monterrey became the first “Finance for Development” conference, followed by Gleneagles in 2005, Doha in December 2008, and Addis Ababa in 2015.

Showing trust in the impact of aid, the UN Millennium Development project calculated the amount of aid that would be required to



achieve the MDGs.<sup>4</sup> The UN stressed the lack of funding particularly in social sectors: according to the 2005 Human Development Report (UNDP 2005, 79), average health spending in sub-Saharan Africa was \$3 to \$10 per capita, while the cost of providing basic health care was estimated at \$30 per capita. Similar calculations to achieve the much more ambitious SDGs estimate that \$5 trillion to \$7 trillion in annual investment would be needed.<sup>5</sup> With that much-higher figure has come growing recognition that official aid will not be sufficient and that leveraging private finance is critical.

During the pandemic of 2020–2022, aid advocates compared the small increase in aid to rich countries’ governmental interventions. In some countries, international solidarity was posited as directly competing with needs at national levels.<sup>6</sup> Similarly, analysts and advocates have criticized developed countries’ commitments to providing climate finance to developing countries (Bos and Thwaites 2021). More recently, calls for rich countries to fund the costs imposed by climate change have increased.

Official commitments have never been binding, and often have not materialized. In donor countries, political pressure is not strong enough, and aid is probably not sufficiently significant in national politics, for the commitments to materialize consistently. An exception to this is the UK’s International Development (Reporting and Transparency) Act 2006, which committed the ministry to report annually on progress toward the UN aid target of 0.7 percent of GNI. This act was combined with commitments to enhance effectiveness and transparency, making the increase in allocation conditional. The UK did achieve the official target during 2013–2020, which was then followed by budget cuts.

## **The Arguments to Reduce and Abolish Aid**

Public opinion often holds that too much money goes to foreign aid. It is often observed that the public suffers from aid fatigue. Right-wing political parties and populists often argue for reduction of aid and heavily criticize international institutions. In a US Senate confirmation hearing, Senator Rand Paul stated, “70 percent of [foreign aid] is stolen off the top” (in Kenny 2022). Such critiques are often based in lack of information; for example, in the United States, the public often greatly overestimates the amount given to aid.<sup>7</sup> Aid agencies have made efforts to counter these claims through “branding” of aid interventions and enhancing awareness of the SDGs (Laws 2016; OECD 2017).

### Box 1.2 Five Decades of Reports on Increasing Development Aid

Pearson Commission: Lester Pearson, *Partners in Development: Report of the Commission on International Development* (1969)—called for official development assistance (ODA) commitment of 0.7 percent of gross national income.

Brandt Commission: Willy Brandt, *North–South: A Programme for Survival* (1980)—called for doubling of ODA by 1985.

World Bank, *Sub-Saharan Africa: From Crisis to Sustainable Growth* (1989)—proposed a doubling of aid to Africa.

OECD DAC, *Shaping the 21st Century: The Contribution of Development Co-operation* (1996)—called for increasing aid, without quantification, and focusing on enhancing the effectiveness of aid.

UN, *Monterrey Consensus on Financing for Development* (2002)—urged developed countries to make concrete efforts toward the 0.7 percent target (and 0.15–0.20 percent to least developed countries), while stressing the need for a “new partnership.”

UN Millennium Project, *Investing in Development: A Practical Plan to Achieve the Millennium Development Goals* (2005).

UN, *Framework Convention on Climate Change* (2009)—committed developed countries to provide \$100 billion annually in climate finance for developing countries.

UN, *Addis Ababa Action Agenda of the Third International Conference on Financing for Development* (2015).

UN, *Inter-agency Taskforce on Financing for Development: Financing for Sustainable Development Report 2021* (2021)—called for meeting aid commitments and debt relief.

There is a common perception that aid has failed. A *New York Times* article concluded that US\$13 billion in aid to Haiti after the 2010 earthquake “seems only to have helped perpetuate some of the country’s biggest troubles” (Abi-Habib 2021). An article in the *Wall Street Journal* (August 22, 2007) stated, “Despite star power, aid doesn’t work,” highlighting aid’s potential damaging long-run effects on governance and economic competitiveness.<sup>8</sup> 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 . . . [and] negative policies were perpetuated in the same way that welfare perpetuated dependency” (quoted in Lancaster 2007, 96).

Graham Hancock, a British author and journalist, argued in a 1989 book that was reprinted several times and in various countries that the aid business should be abolished; in his view, countries that had not received aid had fared better than those that had, and the industry's history was littered with failures. To be sure, there is no doubt that many development projects have failed: a detailed analysis in Ghana suggests that one-third of projects started were not completed (Williams 2017).

Riding the wave of interest in aid in the early 2000s, Bill Easterly published his view on international development as “the white man’s burden.” Based on his experience as a World Bank economist, he highlighted 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).

Dambisa Moyo, a Zambian economist with a career at the World Bank and Goldman Sachs, in 2009 published *Dead Aid*, which became widely quoted and a *New York Times* bestseller. She concluded that Africa remains in dire economic straits despite having received more than \$1 trillion from the West over the last half century, and she argued for building economic rather than aid relations, as well as deepening collaboration with China. She was heavily criticized by other scholars, but her arguments were supported by, for example, Rwanda’s president Paul Kagame.

The arguments to reduce aid take different forms. First, there are concerns about aid dependency. In many countries, particularly in Africa, donor funding has formed significant shares of government budgets. New funding often leads governments to set up new agencies, which may not contribute to solving and may even worsen problems of existing public policy institutions. Equally, new loans are often thought to ensnare countries in debt traps; critiques of structural adjustment and debt relief campaigns, for example, have argued that poor countries have paid back far more in loans than they received. Aid can negatively impact governments’ incentives to raise revenue and build state–society relations (Blair and Winters 2020).

A further argument against increasing aid makes reference to “absorptive capacity.” It is argued that recipient governments may not have the administrative or policy capacity to effectively use increased aid flows, particularly when these are disbursed in a short period of time. Economists warn about the economic implications of large financial inflows: they can cause appreciation in 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 to the national budget of about 20

percent does not lead to such negative effects. Jeffrey Sachs has argued against absorptive capacity concerns, highlighting, for example, that at current levels of funding it is impossible for health ministries in Africa to maintain a health-care system.

A third argument against increasing aid relates to the behavior of the donors. Though the history of the aid industry is full of donors' commitments to focusing on recipients' priorities, donors' motives and structures continue to drive the way aid is given. Aid is driven by foreign policy motives, which partly explains the great attention to aid during the Cold War and after 9/11. Commercial motives factor in as equally important in the way aid is provided. Much aid is provided as "tied aid," where the money given is required to be spent on goods and services of the donor country, as discussed below. Corruption in the aid industry exists but is hard to assess given the long channels through which aid is delivered.<sup>9</sup>

According to Easterly (2006), the main problem with aid was the emphasis on grand plans and the planners' limited ability to motivate people to carry out such plans. He stressed that development needs to be "home-grown." Michael Woolcock, a social scientist at the World Bank, and Chris Blattman, an economist and political scientist, highlight the need for aid practices informed by context-specific learning to build more strongly on local initiatives.<sup>10</sup> It is often argued that many aid recipients are not committed to development and poverty reduction and that aid may not be able to help improve governance.<sup>11</sup>

Donor procedures tend to be cumbersome, consuming valuable and often scarce governmental and administrative capacity, such as when donor projects and programs create parallel reporting structures, which is particularly problematic when large numbers of donors are present in countries with low administrative capacity. Mosse and Lewis (2006, 8) have argued that development policy is characterized by incongruence between a seductive mix of "development buzzwords" and "lack of progress in relation to a wide range of development indicators." Donor funding can undermine local accountability (Uvin 2004); donors' role vis-à-vis the accountability of national policies is discussed later in this book.

One strand of debate challenges the overall nature of the aid industry. Authors such as Escobar, Ferguson, and Ignacy Sachs have argued "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 . . . the entire development edifice—the concepts, the language, the institutions built up around it—*causes* the problems it supposedly seeks to solve."<sup>12</sup>

Over the last decade, calls for decolonizing aid have become more prominent,<sup>13</sup> with an increase in organizations such as No White Saviors. This argument was in part inspired by the Black Lives Matter movement and reinforced by critiques of the lack of global solidarity during the Covid-19 pandemic.<sup>14</sup> “Foreign aid is having a reckoning” read a headline in the *New York Times* in February 2021. Scholars have pointed at the discriminatory practices and attitudes in international development. Célestin Monga (2020) highlighted the prejudice he encountered as a Cameroonian World Bank economist, and the extent of racism in the aid industry was demonstrated in the UK’s International Development Committee’s (2022) report *Racism in the Aid Sector*. Analysis of public opinions in the United States have shown that negative views on foreign aid are linked to an underlying racial paternalism (Baker 2015). On the basis of conversations with 1,500 development practitioners, Clements and Sweetman (2020) concluded that the aid industry “relies on racialised, gendered relations of exploitation, extraction and inequality” and needs to change its focus from benevolence to solidarity.

### The Case to Reform Aid

In the middle of the arguments for and against aid, there are those who focus on the ways in which aid is provided and the need for better assessment. The discussion above, about absorptive capacity and donor behavior, already moves us into the arguments about how aid is given rather than simply whether there should be more or less aid. Advocacy for more aid often goes together with calls for improving the quality of the aid system, for example, the Jubilee 2000 campaign, which argued that new resources should focus on poverty reduction; the Pearson Commission, which argued also for improvements in efficiency; and the Monterrey Consensus, which emphasized governance issues as central to delivering increased resources. The *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. (UNDP 2005)

The difficult questions about the delivery of aid are central to this book, and this section lists the more pertinent ones. One argument

emphasizes that aid is not well targeted, in that too much money is spent in countries that are not the poorest. Powerful historical, political, and strategic reasons determine why so much aid is given to countries that are not poor. Many bilateral organizations have tried to focus their aid on the poorest countries, and have set official targets for increasing the share of the total aid budget for the poorest countries, but the pull of other political considerations dominates their actions. Since 9/11, security concerns have led to an increasing—and often competing—focus on states that are thought to pose threats of violence to the North. The US aid program is particularly openly tied to foreign policy concerns; in fact, a former US Agency for International Development (USAID) administrator criticized the European aid programs for the failure to align their aid to foreign policy concerns (Natsios 2006).

A second and related argument has stressed that much aid—even if it does go to the poorest countries—does not reach the poorest people. The aid industry has increasingly focused on ensuring aid benefits poor people: the MDGs and SDGs are instruments to ensure targeting, and unconditional cash transfers are promoted as an effective mechanism to empower poor people. Since the 1980s, many development organizations, not least of which the World Bank, have been engaged in large-scale exercises to make sure that it is possible to know how many people are poor. Randomized controlled trials inspired by the scientific method have become popular over the last two decades in the hope of making aid donations more effective. But the ways in which aid benefits poor people can be manifold. Assessing whether aid succeeds in benefiting the poor remains a very difficult proposition, even within agreed-on frameworks such as the SDGs.

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 range of reasons, but much of the focus has been on the “governance” in these countries, as discussed in Chapter 6 on aid approaches that emphasize administrative and public sector reforms. The agenda of good governance is broad, calling for improvements in political and economic institutions, administrative systems, and government bureaucracies.

An influential—and criticized, as we discuss in Chapter 8—World Bank paper from the late 1990s by Burnside and Dollar (2000) showed that aid was effective *if* its recipient government had the right policies

in place, particularly good fiscal, monetary, and trade policies. Collier and Dollar (1999) used statistical analysis (cross-country regressions) to show that reallocating aid to the countries with the largest numbers of poor people—and that can use aid effectively—could increase the numbers of people lifted out of poverty from 30 million to 80 million per year. Paul Collier’s publications *The Bottom Billion* (2007) and *Wars, Guns, and Votes* (2008) stressed the need to focus on countries where most poor people are (some forty countries) and the need to address the development “trap” of lack of governance.

A fourth concern about how aid is given revolves around the political nature of aid. As Chapter 4 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) led to increased attention on the importance of governance for development and for poverty reduction and the emergence of Poverty Reduction Strategy Papers (PRSPs), which called for country-wide consultations to determine strategies for providing aid. Although these are less prominent issues in debates over the last decade, they continue to inform IMF lending. 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 call for political analysis to inform aid allocation and strategies.

A fifth question about how aid is given stresses donors’ habits, the patterns of behavior and incentives that limit aid effectiveness. This involves a range of issues, many of which are discussed in the rest of the book. For example, current aid, with its longer-term nature and relatively small sums of development aid disbursed, is commonly compared with the Marshall Plan enacted directly after World War II, which disbursed large sums of money in a short period of time. Donors suffer from what is known as disbursement pressure: at the World Bank and bilateral donors, staff are incentivized for high and fast disbursement. The many donor agencies often work in uncoordinated ways and their procedures tend to be time-consuming. Aid flows are often unpredictable and follow donors’ financial cycles and preferences rather than demand by recipients.<sup>15</sup>

Some argue that donors’ attitudes can potentially undermine progress and increase the possibility of conflict. Autesserre (2021) described the “well intentioned but inherently flawed” and paternalistic operation of the “peace industry,” emphasizing that local initiatives rather than billions in aid are key to success. Stephen Brown of the International Trade Centre concluded:

The donor record [in fragile states] 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. (Brown 2007, 32)

Finally, donor countries often use foreign aid for commercial purposes and set collaboration with or purchase from their national companies as a condition for the provision of aid.<sup>16</sup> This tied aid may restrict its efficiency, and civil society frequently argues for “untying” aid. According to the OECD’s DAC, tied aid can increase the cost of development projects by 15 to 30 percent. Over the decades, and often following advocacy from within the development community, many countries have untied aid—for example, in the UK under the Labour government. According to the OECD, some 90 percent of aid is formally untied, but a difference between *de jure* and *de facto* untying remains.

During the 2010s, there was a growing pressure to use aid for donor countries’ self-interests. Trends in the Principled Aid Index show a decline in public-spiritedness among most donors and a growing importance of short-term transactional benefits. The fall in average principled aid scores is driven by the highly ranked donors, including Sweden, Canada, Ireland, Iceland, Denmark, and Norway. In the index, the worst-performing countries lag significantly behind the best-performing ones, but some are becoming more principled.<sup>17</sup>

### **Foreign Policy, Trade, and Other Policies Can Matter More Than Aid**

A further 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 to donors’ foreign policies, the importance of aid compared to private financial flows, and its importance *vis-à-vis* remittances that (unlike aid) have rapidly grown over the last decades.

First, as reflected strongly in writings originating in the United States, aid is an instrument of foreign policy and diplomacy. The resurgence of interest in aid in the United States in the early 2000s was closely related to the post-9/11 agenda and a “transformational diplomacy” (Natsios 2006). According to John Norris (2021), who credits USAID for contributing to successes in the Green Revolution, contraceptives, famine relief, progress against a range of diseases, and even



economic transformation in South Korea: “We should recognize that USAID’s most prominent failures have come in instances where the U.S. tried to use foreign assistance as a blunt strategic instrument.”

Foreign policy considerations are important for all donor countries, even for those that have made development, poverty reduction, or humanitarian relief central to their policies. Foreign policy and strategic considerations (alongside economic needs and historical links) have had a big influence on which countries receive aid (Alesina and Dollar 2000). Donor countries’ national policy institutions and ideologies influence how aid is given (Zimmerman 2007; Lancaster 2007).

A second question is: How important is aid in a world where private financial flows are so large, and constantly growing? It is often argued that broader international economic policies are more important than aid programs alone, and there are frequent calls to move “beyond aid” (Hulme 2016). Recipients of aid often emphasize that access to global economic cooperation is as important, if not more so, than aid. Civil society organizations have long emphasized that for global inequalities to be reduced, trade policies need to change, and advocates in aid ministries often try to influence other government departments. Donor countries are criticized 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), interest payments on loans disbursed years if not decades ago, or the sale of arms by companies in the donor countries. As such, UK minister for international development Clare Short made globalization a core theme of the ministry’s (second) white paper, responding to a felt need to “make globalization work for the poor” and arguing for the need for consistency in policies of all government departments.

Similarly, the financial contributions of migrants from the South outstrip development aid. Estimates put remittances at triple official aid flows. Although earlier writings emphasized the danger of “brain drain,” that is, the loss of human capacity following moves by educated people to richer countries, analyses have emphasized the positive contributions of migrants, and some authors stress that remittances do not suffer from the problems of aid flows, such as difficulty in getting the money to the right people and corruption.

The Commitment to Development Index tracks a range of international policies on their commitment to supporting international development goals for a growing number of countries. The 2021 version lists eight indicators for forty countries. This shows that some countries that

are leading on development finance are also leading on the environment, and some countries' trade and investment policies support their development finance commitments. But there are also large discrepancies: notably many rich countries' migration policies are not supportive of development.<sup>18</sup>

Thus, a development agenda is about much more than aid. But aid 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 can play, providing countries with essential preconditions for their development paths, including the ability to benefit from private flows, from which many of the poorest countries are still excluded. There may be too few success cases, but there are enough of them to illustrate the point that aid does matter.

### **Why Are Views on the Aid Industry So Different?**

The views on aid diverge for many reasons. In the first place, as highlighted, aid has been explicitly defined as fulfilling 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 potentially many objectives of aid, of course, views on what it can achieve differ too.

Second, and closely related, there are no agreed standards to measure whether aid works, which is discussed in Chapter 8. Even if we discount the foreign policy and commercial purposes of aid, and focus on the developmental aspects, an enormous variety of purposes can be categorized as development oriented: providing humanitarian relief, promoting economic transitions and reform, promoting democracy, addressing conflict and postconflict situations—all can 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 (such as health and education), or programs that are targeted to the poor (such as microfinance, cash transfers to the poor). Although the SDGs provide a generally agreed-on framework of measuring progress, there are still many questions about whether and how we can attribute any of the progress or lack thereof to the aid industry.

Third, the differences can have deeper underlying reasons. Ideological differences between Right and Left have exercised a great influence

on framing aid debates (Thérien 2002). Political changes over the last several decades have impacted the shape of aid institutions. These differences often mirror differences in perceptions about responsibilities of the state, in terms of the state's duty to provide for its citizens and its ability to promote economic growth. US national public social policies, for example, are relatively ungenerous compared to their European counterparts, whereas 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. There are ideological differences in expectations about the extent to which governments can (or should) 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.

## **Overview of the Book**

This book is neither a critique nor a praise of aid. It does not try to answer the questions “Does aid work?” and “Does foreign aid really work?” the titles of books by Robert Cassen and associates in 1994 and Roger Ridell in 2007, respectively, or why aid has done “so much ill,” as in Easterly's book of the same title (2006), or whether aid is dead, as Dambisa Moyo (2009) argued. It will show that there are no easy solutions for “making aid work,” as proposed by Abhijit Banerjee (2007). What is seen as aid's success differs among its many different protagonists and the people who criticize the industry. The key objective of this book is to help readers understand the different ways in which aid is provided, the varying objectives of aid, and the different ways in which it is assessed.

Chapter 2 provides insight into the institutions that form the aid industry: the United Nations, including the Bretton Woods institutions, the International Monetary Fund and World Bank; the main bilateral organizations—including relative newcomers, particularly China—and the various ways in which countries have shaped their aid programs; the role and importance of nongovernmental organizations (NGOs); and the newer private charities, of which the Gates Foundation is the largest and best known. The chapter ends with a description of the complexity of how donors allocate aid.

Although always common knowledge, during the late 1980s donors started to emphasize the need for country ownership for successful development. Chapter 3 describes country-led approaches and questions of, on the one hand, the capacity of aid recipients and, on the other hand, the perceived need for donors to harmonize their approaches.

This includes a discussion of Poverty Reduction Strategy Papers, program approaches, and country and vertical approaches and how each emerged, what they set out to achieve, how they worked, successes and failures in strengthening ownership, and whether donors can live up to the commitments this entails.

Chapter 4 describes the history of development studies, which established itself as a separate academic discipline in the early 1970s—more so in some countries than others—with a strong interdisciplinary and problem-oriented or applied focus. The description of the trends covers how aid approaches emerged out of late-colonial concerns, which were then followed by a focus on reconstruction after the war in Europe and support for newly independent nations. The optimism of the 1960s was followed by the period of adjustment, even though in the 1970s the aid agenda continued to expand and basic needs and 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 object of development aid. In the chapter, I also describe the increasing attention paid to the role of governance and institutions in promoting development and how the global security agenda after 9/11 provided new directions.

Chapter 5 describes the implementation of development projects. Despite critique of the project approach, projects remain a key modality for donors, and the chapter highlights this rationale: A project framework allows donors to show results, enables projects to be flexible and demand-driven, and provides a potential for innovation. Projects are perceived to have disadvantages as well: overloading recipient governments, particularly but not only in aid-dependent countries; “fungibility” of funding, which points to the possibility that donor funding can lead to a reduction in recipient government funding in specific areas; and sustainability, whether projects initiated or funded by donors will be maintained. The chapter highlights microfinance and sustainable livelihoods projects, and describes logframes as a key planning tool for projects.

Whereas projects focus on one-off support to development, reforms, and sector-wide approaches (SWAPs)—the subject of Chapter 6—reforms focus on the broader administrative and policy systems in partner countries. Reforms have been a key element in the development debate since the 1980s. They are complex processes, often involving dozens of policy prescriptions imposed by donors on recipient governments. Sector reform and sector-wide approaches emerged as new instruments of the aid industry in a move away from project approaches to a focus on the policy environment; Chapter 6 illustrates this movement and provides examples

from sector and budget support. These approaches have had notable successes, but practices varied. Often, progress is slow, and donors have continued to operate projects with sector approaches. Other issues relate to the importance of capacity for policymaking, the intensely political nature of aid and reforms, and how impact can be measured (which leads into the discussion of impact assessment in Chapter 8).

Chapter 7 discusses four themes that are integral to development but that have not always been central to the practices of the aid industry, with frequent calls to “mainstream” them: environment and climate, gender, participation, and rights-based approaches. Each of these themes has a substantial literature, and in Chapter 7 I place these in the context of development debates, how these approaches have or have not influenced mainstream debates, and how they have managed to obtain a central place in aid practices. Since 2010, the climate crisis has become central to aid debates, as has gender, notably with growing commitments for support. Participation became a central focus during the 1990s and 2000s, with seemingly less emphasis more recently, whereas rights-based approaches have remained much more at the margins.

How does the industry know what it has achieved? Government departments are under the influence of changing public service management practices and pressure by treasuries to show results. Add to that presumed or real aid fatigue and influential critiques on structural adjustment, and it has resulted in increasing attention devoted to measuring what aid has achieved. Chapter 8 describes the technical approaches to this, the information on which assessments are based, the advantages and disadvantages of different approaches, whether these assessments are taken seriously by organizations, and possible unintended impacts of the need to “show results.”

The final chapter summarizes major challenges to the practices of international development. Has aid become irrelevant, with growing importance of international trade and remittances, global security concerns, and declining relative importance of aid budgets? What do the growing number of donors mean, and what are the prospects for harmonization of donors? How can the aid industry manage the dilemma of balancing the needs of many poor countries with their capacity to use aid effectively? Should aid programs be focused on ensuring aid reaches the poor directly or on supporting broader development processes and structures. If aid remains an instrument of international politics, how can the industry ensure this status complements its focus on development and poverty reduction, and what does this mean for advocacy to decolonize the aid industry?

## Notes

1. The WE Charity was discredited in 2020, partly because of its role in Canada's internal pandemic responses (Findlay 2020). Martin (2016) describes the problems of “reductive seduction” in young people's commitment to help address poverty in developing countries.

2. Heinrich, Kobayashi, and Lawson (2021) provide an empirical analysis of foreign aid and populism, specifying the latter as anti-elitist and nativist sentiments.

3. EU Emergency Trust Fund for Africa, [https://ec.europa.eu/trustfundforafrica/index\\_en](https://ec.europa.eu/trustfundforafrica/index_en); discussed in an Oxfam (2020b) Briefing Paper.

4. UN Millennium Development Project 2005. Jeffrey Sachs, adviser to the UN Secretary-General—accompanied by rock star Bob Geldof and featured in a 2005 MTV special *The Diary of Angelina Jolie & Dr. Jeffrey Sachs in Africa*—published with Penguin his call to increasing commitment to aid.

5. The Sustainable Development Agenda can be found here: <https://www.un.org/sustainabledevelopment/development-agenda/>; Vorisek and Yu (2020) discuss the calculations of the costs of SDGs.

6. Miller et al. (2021) calculate the 2020 increase in ODA of \$8.4 billion is a mere 0.06 percent of the \$13.7 trillion of national government fiscal measures.

7. Opinion polls show that US citizens overestimate the amount of aid given by their government by as much as fifteen times, according to one, and forty times, according to another poll (quoted in Bolton 2007, 154–155).

8. The *Wall Street Journal* article is by Arvind Subramanian. Subramanian with Raghuram G. Rajan wrote a 2005 IMF working paper titled *What Undermines Aid's Impact on Growth?*

9. For example, in 2010 the United Nations Ethics Committee upheld complaints by a former UNDP employee who had suffered retaliation from the UNDP for alleging corruption in its Somalia program.

10. Michael Woolcock writes for the World Bank blogs (<https://blogs.worldbank.org/team/michael-woolcock>); Chris Blattman's writings can be found here: <https://chrisblattman.com/about/>. Stiglitz (2002) stressed the lack of adequate information for IMF prescriptions to be effective.

11. Documented, for example, in the 2022 book by former Department for International Development (DFID) chief economist Stefan Dercon, who concludes that countries' development depends on elites' “development bargains,” and aid is likely to be ineffective if that commitment does not exist.

12. See Uvin (2004, 32). Many of the authors in this strand of “deconstructive” commentary have been anthropologists. Mosse and Lewis (2006, 5) focus on “the interaction of ideas and relationships in development arena.” In “critical perspectives” on development, Kothari and Minogue (2002, 2), quoting Ignacy Sachs, have argued, “There has been a failure of the postwar development project.”

13. There is a rapidly growing literature on decolonizing aid: for example, Peace Direct (2021); Gender and Development Network (2021), with a focus on the UK; and Patel (2021). In 2021, the new USAID administrator's “new vision” for development and her own agency listed staff diversity as the priority for change (Power 2021).

14. See, for example, comments by experts in *The Guardian*, February 5, 2021. Jonathan Glennie (2020) calls for a radical reform of aid, stressing its narrative is outdated and patronizing; he proposes “Global Public Investment” as an alternative concept to that of aid.

15. The AidData Listening to Leaders program surveys the perspective of leaders in low- and middle-income countries on development priorities and progress

(<https://www.aiddata.org/ItI>). Masaki et al. (2021) analyzes the views and preferences of recipient countries' public sector officials.

16. The OECD DAC statistics provide information about status of untied aid: <https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/untied-aid.htm/>.

17. Gulrajani and Silcock (2020, 7); the Principled Aid Index measures the balance twenty-nine bilateral donors strike between advancing the values of global solidarity and protecting their national interests, as revealed by their aid spending choices over the previous five years. Also, see Mawdsley et al. (2018).

18. The Center for Global Development (CGD) regularly publishes the Commitment to Development Index, which describes development commitments in eight policy domains (<https://www.cgdev.org/project/commitment-development-index>).

