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CHAPTER 8

NATIONAL DEVELOPMENT AGENCIES AND BILATERAL AID

Stephen Brown

LEARNING OBJECTIVES

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

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

CLARIFYING THE TERMINOLOGY

The providers of development assistance are usually referred to as **donors**, although 'lenders' may be a more appropriate term in cases where the aid is in the form of loans. Most donors give the majority of their aid directly to developing countries (known as **bilateral** or government-to-government aid) and channel some of their funds through multilateral organizations such as the World Bank or UN agencies like UNICEF (**multilateral aid**). This chapter limits its discussion to bilateral aid and donors. Multilateral institutions and development assistance are discussed in Chapters 9 and 10.

The expression 'foreign aid' is often used interchangeably with the more technical term **official development assistance** (ODA), as we do in this chapter. The two, however, are not quite synonymous. While foreign aid can include a wide range of assistance, what can technically be counted as ODA is more restricted. According to its official definition, ODA refers to 'flows of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective, and which are concessional in character with a grant element of at least 25 per cent' (OECD, 2003). This means that to qualify as ODA, funding must be provided by governments and its main purpose must be improving economic or social well-being in developing countries (see Box 8.1). Thus, donations from individuals, foundations, or private corporations, whether directly to developing countries or through the intermediary of northern **non-governmental organizations** (NGOs), do not count as ODA, nor do military assistance and export credits meant primarily to promote the sale of goods from the donor country. Aid to countries not classified as developing, such as Russia, does not qualify as ODA and is usually referred to as 'official assistance'. ODA financing can be provided in

the form of a grant (a non-reimbursable donation) or a loan (to be repaid), but to be counted as ODA the terms of the loan would have to be significantly better than what is available on the commercial market (with a lower interest rate, an extended period of repayment, and/or a 'grace period' before the first repayment falls due). For this reason, private investment and commercial loans are excluded as well. However, ODA does include administrative costs, such as the costs of maintaining aid agency offices and the salaries of staff both at home and abroad.

There is some controversy over what should be included as ODA. For instance, donor governments have agreed to count as ODA the expenses incurred during the first year of resettling refugees in their countries. In this case, it is not clear that this fulfills the requirement that the main objective be 'economic development and welfare of developing countries', and moreover, the period of one year is rather arbitrary. Some accounting measures are also contentious. For example, when debt is cancelled, the full outstanding amount is counted for the year in which the loan was forgiven, even if the scheduled repayment would not have been completed for decades. This allows donors to boost their ODA for a given year without actually spending any additional funds, which produces a temporary 'blip' that distorts true aid trends. Furthermore, as development assistance becomes more closely integrated with military and diplomatic initiatives—in Iraq and Afghanistan, for instance—it becomes harder to determine exactly what constitutes ODA and what does not. A few countries are trying to revise the guidelines to include the cost of peacekeeping operations as ODA, even if the funds are spent on the donor country's

troops. (Currently, this only counts as ODA if the donor country is funding the participation of personnel from a developing country.) Critics object to the expansion of the definition of ODA, arguing that it leads to the militarization or securitization of aid and can prioritize the interests of donor countries rather than those of the recipients.

OVERVIEW OF AID DONORS

Most industrialized countries that provide foreign aid belong to a donors' club known as the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD), headquartered in Paris. DAC members regularly provide the OECD with a breakdown of their aid figures, and the OECD in turn compiles the information, making it publicly available. Not all donors, however, are members of the DAC. Some smaller OECD members have foreign aid programs but do not belong to the DAC, such as the Czech Republic, Iceland, and Turkey. Several Arab states, including oil-producing Kuwait, Libya, Saudi Arabia, and the United Arab Emirates, also provide assistance, as do some developing countries themselves, such as Cuba, Taiwan, and Venezuela, but none of these is a member of the OECD (see Table 8.1). China in recent years has gained much attention for its foreign aid, especially to Africa. However, most of it is in the form of loans or investments that do not generally qualify as ODA. Moreover, it does not disclose full information on its aid. This chapter concentrates on the ODA provided by the 24 member nations of the DAC, which constitutes some 95 per cent of global ODA.

IMPORTANT CONCEPTS BOX 8.1

THE MANY USES OF FOREIGN AID

Foreign aid can be spent in numerous sectors and ways, including:

- To provide training and build local capacity.
- To promote services, including education and health care.
- To promote the building of infrastructure, such as roads, bridges, dams, railways, and airports.
- To support policy reform.
- To promote agriculture, including improved crop techniques.
- To promote industry, such as processing food or natural resources.
- To purchase technology.
- To provide humanitarian assistance, notably emergency housing, food, or health care, especially in cases of war or natural disaster.

In 2008, donors contributed US\$121 billion in ODA. Of this, \$88 billion was in bilateral assistance and \$35 billion in contributions to multilateral institutions, while over \$1 billion in bilateral loans was repaid.¹ Debt relief accounted for \$11 billion of these amounts, \$9 billion was spent on humanitarian aid, and another \$3 billion went to refugee resettlement in donor countries. Total ODA was roughly equivalent to private flows to developing countries (including direct and portfolio investment), which also totalled \$121 billion for that year. NGOs contributed about \$24 billion (OECD, 2010a: Tables 2 and 13).

The total volume of foreign aid has followed various trends over the decades. As Figure 8.1 (using constant 2008 dollars to facilitate comparison) illustrates, total aid increased slowly in the 1960s and then much more rapidly after the mid-1970s. In fact, total aid flows more than doubled between 1970 and 1990, even when adjusted for inflation. Donors cut their aid in the early and mid-1990s, a period of 'aid fatigue'. Between 1991 and 1997, total aid dropped by one-fifth. After remaining relatively steady for the rest of

the decade, contributions rose again quite dramatically after 2000, reaching an all-time high to date in 2008, the latest year for which figures are available, about 70 per cent higher than 10 years earlier, in 1998. The trend-breaking amounts for 2005 and 2006 were inflated by exceptionally high debt relief, which as explained above provides a one-time boost reflected in accounting but not in actual spending on development activities. The DAC expects the upward trend to continue after 2008, based on many donors' recent pledges to increase aid, but at a slower rate, as several donors cut or postponed ODA spending in response to the global economic crisis (OECD, 2010a: 98). Box 8.2 describes these aid cycles in greater detail.

The most generous donor by far in dollar terms was the United States, whose ODA totalled almost \$27 billion in 2008 (see Figure 8.2). The next four largest donors were Germany, the United Kingdom, France, and Japan, each of which contributed between \$10 and \$14 billion, roughly one-third to half of the disbursements of the US. Smaller countries, such as New Zealand, Luxembourg, Greece, and Portugal, each contributed \$700 million or less in that year.

The largest non-DAC donor in 2008 was Saudi Arabia, which contributed \$6 billion. Though more than what each of the 11 smallest DAC donors contributed, this amount and the total \$9 billion that non-DAC countries contributed are dwarfed by the total amount disbursed by DAC donors.

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

In 1970, the UN General Assembly passed a resolution whereby donors would provide at least 0.7 per cent of their GNP in ODA by 1975 (see Box 8.3). DAC donors as a whole failed miserably to reach that target. In 2008, 33 years after the deadline, they collectively provided 0.31 per cent, less than half the amount to which they had committed. Nonetheless, this was significantly higher than the 0.23 per cent provided in 1997–8 (*ibid.*, Table 4). According to OECD projections, the ratio in 2010 will be 0.33 per cent, still a long way from the objective (*ibid.*, 98).

TABLE 8.1 ODA from Non-DAC Donors, 2008

| Donors | US\$ millions |
|-----------------------|---------------|
| OECD non-DAC | |
| Czech Republic | 249 |
| Hungary | 107 |
| Iceland | 48 |
| South Korea | 802 |
| Poland | 372 |
| Slovak Republic | 92 |
| Turkey | 780 |
| Arab countries | |
| Kuwait | 283 |
| Saudi Arabia | 5,564 |
| United Arab Emirates | 88 |
| Other donors | |
| Israel | 138 |
| Taiwan | 435 |
| Thailand | 178 |
| Others | 343 |
| TOTAL | 9,481 |

Note: Does not include China.
Source: OECD (2010a, Table 33).

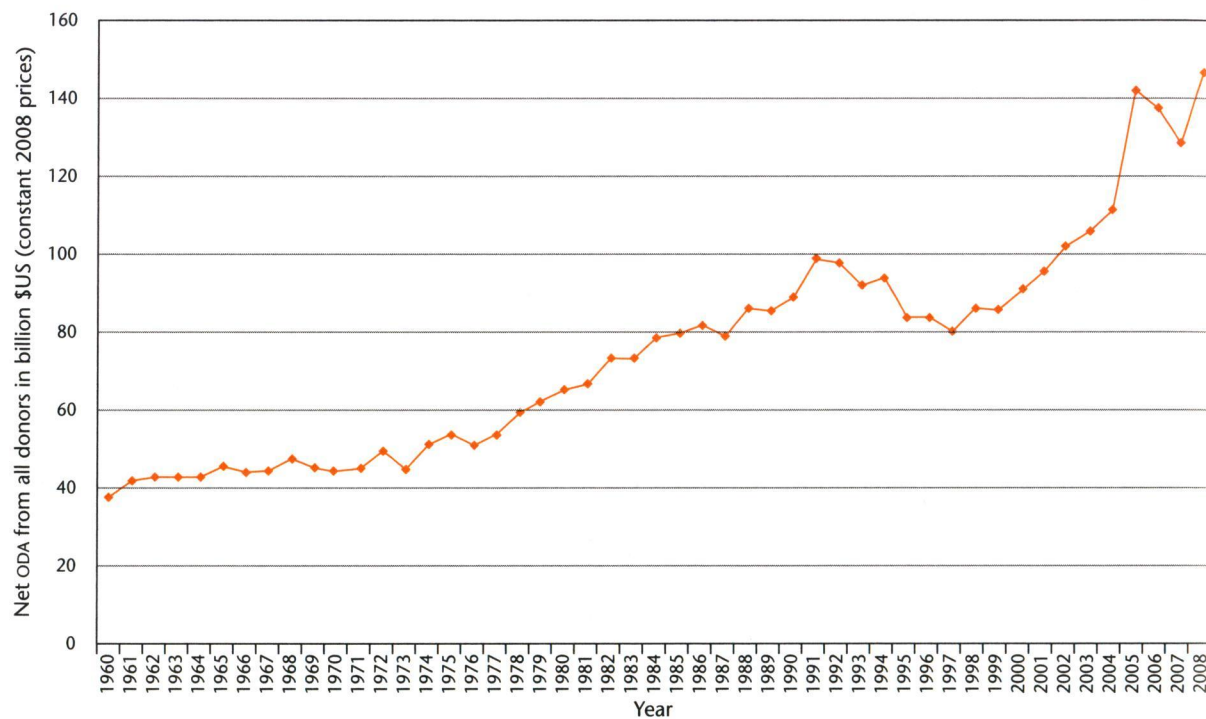


FIGURE 8.1 Total Aid Flows, 1960–2008

Source: Based on OECD data.

Individual donors' relative generosity actually varies greatly from the average. In 2008, as illustrated in Figure 8.3, five countries contributed more than the UN target of 0.7 per cent: Sweden (0.98 per cent),

Luxembourg (0.97 per cent), Norway (0.88 per cent), Denmark (0.82 per cent), and the Netherlands (0.80 per cent). At the other end of the scale, Japan contributed 0.19 per cent of gross national income in

CRITICAL ISSUES BOX 8.2

FOREIGN AID CYCLES

The 1970s were a period of great optimism regarding the use of foreign aid to promote development. Donors agreed at the United Nations in 1970 to steadily increase their ODA to reach a minimum of 0.7 per cent of their gross national product within five years. Although they failed to meet the target, as discussed above and in Box 8.3, donors did provide far more aid than ever before. In the 1980s, a period of slower growth in donor countries and severe economic crises in most recipient countries, new aid was often made conditional on major changes in economic policy. This slowed the growth of aid somewhat. In the 1990s, after the end of the Cold War and the collapse of the Soviet Union as a rival patron for many

developing countries, Western donors cut their own foreign aid budgets, justifying the cuts mainly by invoking a need to trim their budget deficits. At the same time, donors were growing increasingly disenchanted with what they considered a lack of concrete results and unacceptably high levels of corruption in recipient countries. In 2000, the pendulum began to swing back the other way. A new consensus emerged on the urgent need to fight poverty, especially in Africa, leading to an agreement on the Millennium Development Goals (MDGs, discussed below and in Chapter 13) to be reached by 2015. Total aid increased at a rate not seen since the 1970s, though it slowed after the onset of the global economic crisis in 2008.

2008. Paradoxically, the world's most generous donor in absolute terms is also the least generous in relative terms: the US ratio also was only 0.19 per cent for that year, one-fifth of Sweden's contribution.

ODA should focus on helping people in other countries have access to food, housing, health care, education, and other basic necessities and opportunities. The best means of providing development assistance is often contested (as discussed below), but the goal from this perspective should not be related to self-interest. This motivation is most often shared by northern NGOs and citizens of donor countries, if not all development officials. There are different forms of this mentality: One can be motivated by charity, often inspired by religious beliefs (and sometimes viewed as paternalism), or by solidarity, a more left-wing concept that frames actors

DONOR MOTIVATIONS

There are numerous reasons why donors provide development assistance. One of them—and for many, the most important—is simply to help the less fortunate abroad. Thus, a primary justification is that just as social programs provide assistance to poor people at home,

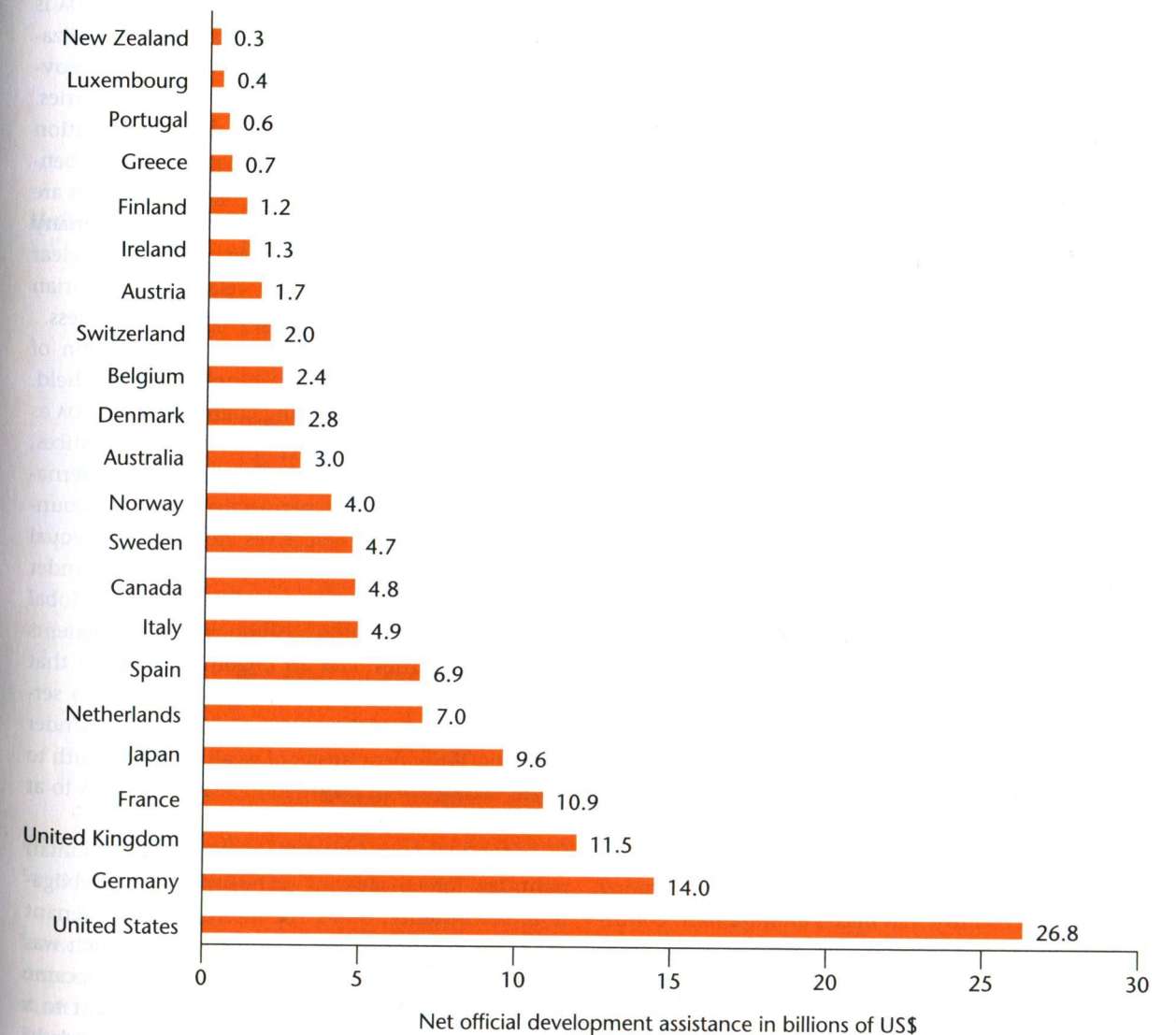


FIGURE 8.2 Total Foreign Aid by Donor, 2008

Source: OECD (2010a: Table 1).

IMPORTANT CONCEPTS BOX 8.3

THE 0.7 PER CENT AID TARGET

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

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

in the recipient country as equal partners. The latter is criticized by some as being naively idealistic and willfully ignorant of the need for a donor to pursue its own national interest.

A more self-interested motivation, however, is widely shared, especially among government officials not directly involved in aid delivery, including those working in national defence, foreign affairs, and international trade. From their perspective, aid is primarily a means to pursue other foreign policy objectives, including diplomatic, commercial, and security interests. Under this logic, aid should be used to promote diplomatic initiatives, including assisting 'friendly' countries, pursuing security objectives (for instance, rewarding countries that take part in the 'war on terror' or winning hearts and minds in a country where the donor country's troops are deployed), or facilitating trade relations, including the sale of donor nation goods and services in the recipient country. Aid programs also can serve to raise the donor's profile internationally, providing it with prestige among its peers as a country that makes an important contribution on the global level. The basic principle from this perspective is that foreign aid can be used to help people abroad but that the selection of recipients and aid modalities should prioritize instances where it maximizes the direct and indirect benefits to the donor country. Increasingly, donors are adopting a

'whole-of-government approach' that integrates foreign aid more closely with other foreign policy objectives. This mentality is often criticized for using aid as a fig leaf, hiding the pursuit of naked self-interest behind claims that it is designed to help others.

Since its origin at the end of World War II, foreign aid has simultaneously manifested both of these characteristics. Most donor aid programs are a compromise between these two perspectives, weighted differently from donor to donor. On the one hand, much foreign aid has been blatantly used as an instrument of foreign policy, most clearly during the Cold War, when foreign aid from the West often was explicitly targeted to prevent the expansion of communism. Currently, ODA is more often linked to political and economic liberalization, including strengthening democracy, **good governance**, and the private sector in recipient countries. **Tied aid** (discussed in Box 8.4) is a clear manifestation of the principle that the donor's economy should benefit from the aid it provides, although most donors are phasing out the practice. On the other hand, many billions of dollars have been spent with no clear benefit to the donor. Emergency-related humanitarian assistance best embodies the principle of selflessness.

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

Under some interpretations of international human rights law, foreign aid can also be considered an obligation. For instance, under the International Covenant on Economic, Social and Cultural Rights, which was adopted at the United Nations in 1966 and became legally binding in 1976, everyone has the right to a free primary education and to earn a livelihood. In cases in which developing countries do not have the necessary resources to provide adequate opportunities

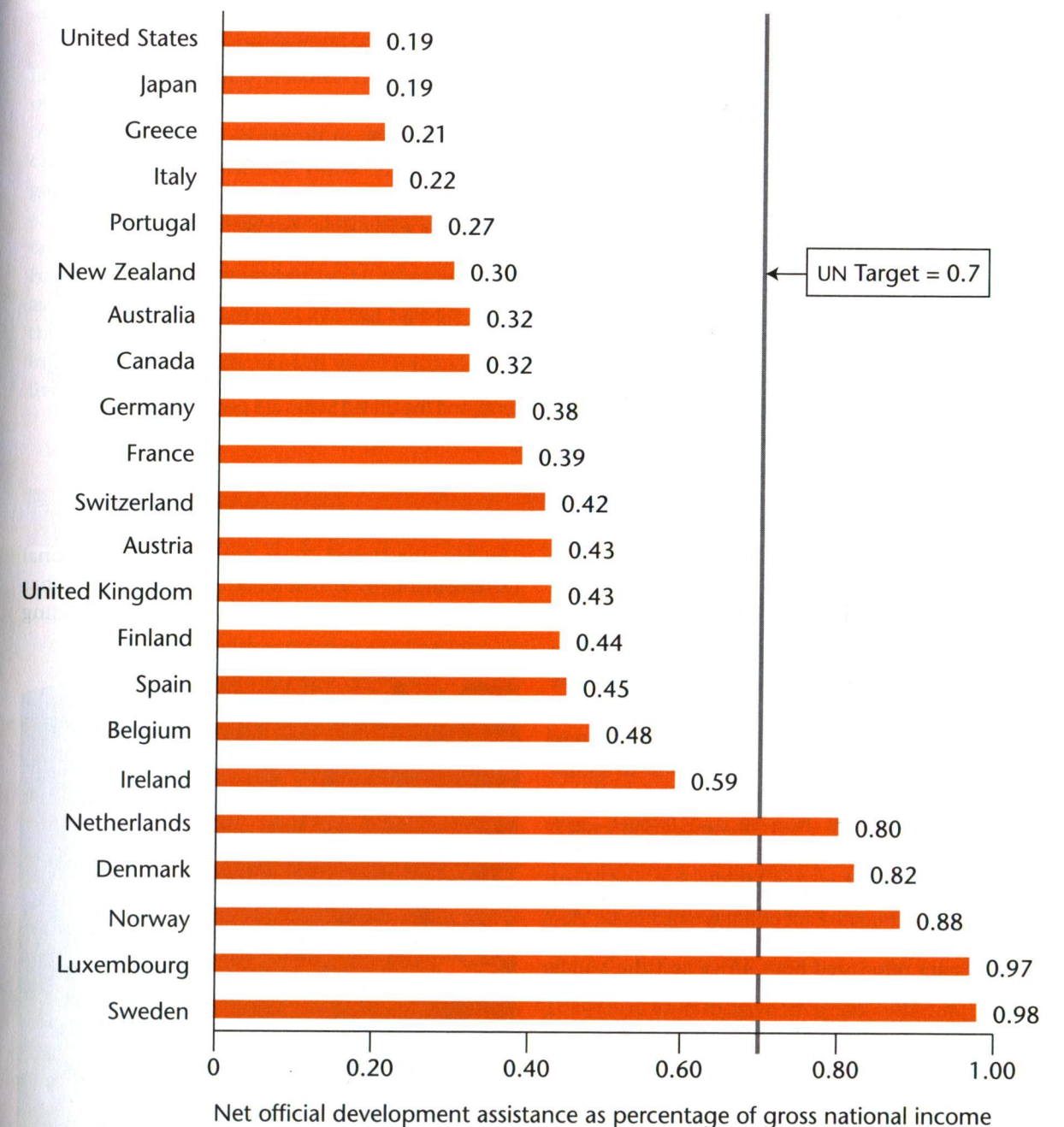


FIGURE 8.3 Relative Generosity of Donors, 2008

Source: OECD (2010a: Table 1).

for schooling and employment, they cannot be held responsible, and donors, one could argue, therefore must assume the obligation to ensure these rights. From this perspective, no distinction can be made among recipients based on donor interests—these rights are universal. Some would claim, however, that

many developing countries have the means to meet these basic rights but fail to do so because of waste, corruption, or emphasis on other priorities. In such cases, they feel, governments should be held accountable for their own failings, and donors should not be obligated to assume their responsibilities.

CRITICAL ISSUES BOX 8.4

TIED AID

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

Aid that can be spent regardless of the country of origin of the goods and services is referred to as 'untied'. Donors have committed themselves to progressively untying aid, although they have not specified a deadline for eliminating the practice altogether (Paris Declaration on Aid Effectiveness, 2005: 5, 10). Some countries, such as Sweden and the United Kingdom, have abolished tied aid altogether. Others, however, continue to tie a sizable proportion of their ODA, including Greece (62 per cent in 2008), Spain (30 per cent), and the United States (25 per cent) (OECD, 2010a: Table 23).

CHARACTERISTICS OF DONORS

Individual donor countries often choose to focus on a particular region on the basis of geography, security interests, or former colonial ties. For instance, in 2007–8, Australia and New Zealand gave more than 60 per cent of their ODA to Asia and Oceania, their 'neighbourhood'. Six other donors—Belgium, Denmark, Ireland, the Netherlands, Norway, and Sweden—gave most of theirs to sub-Saharan Africa. Austria and Italy concentrate their aid on the Middle East and North Africa, while Spain placed far more emphasis on Latin America and the Caribbean than any other donor. The United States prioritized both Africa and the Middle East (*ibid.*, Table 28).

Some countries transfer a much larger proportion of their aid to multilateral institutions than they disburse directly to developing countries (see Chapter 10). By doing so, they reduce their administrative costs but also some of their control over where and how their funds are spent. Figures from 2008 range from Italy, which spent 62 per cent of its aid through multilateral channels, to Australia and the United States, which respectively disbursed only 10 and 11 per cent multilaterally (*ibid.*, Table 13).

Donors also have varying institutional arrangements, priorities, and preferred aid modalities. The United States, for instance, the world's largest aid donor, has two main governmental aid agencies.

The first, the United States Agency for International Development (USAID), since its creation in 1961 has been the principal government body for providing

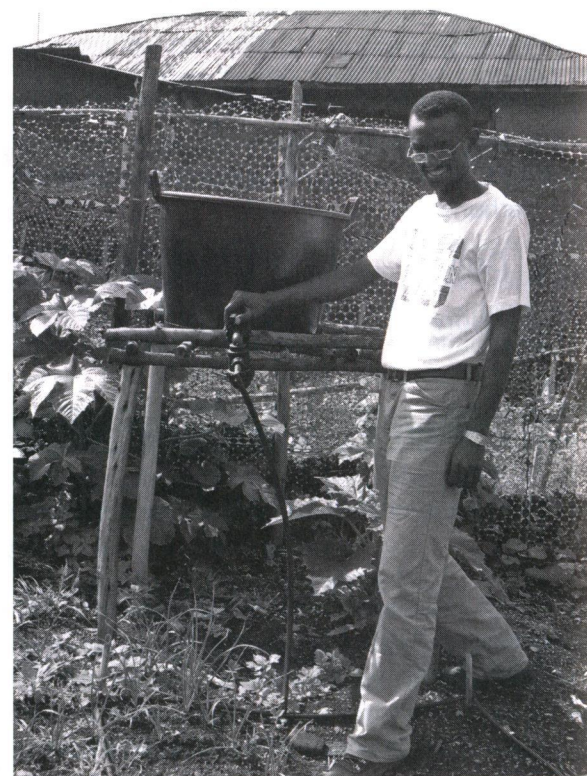


PHOTO 8.1 USAID project on irrigation of urban agriculture, Ethiopia.

Source: S. Kalscheur/USAID

development assistance. A second government agency, the Millennium Challenge Corporation (MCC), was launched in 2004 with a narrower focus than that of USAID. The MCC aims to foster economic growth in a smaller number of countries that meet specific criteria regarding free markets, democracy, and good governance.

The US government openly acknowledges the simultaneously selfless and selfish motivations of its ODA. For example, the USAID website states that 'US foreign assistance has always had the twofold purpose of furthering America's foreign policy interests in expanding democracy and free markets while improving the lives of the citizens of the developing world' (USAID,

2010). The links between US security interests and development assistance are not difficult to trace. In 2007–8, the top recipient of American ODA by far was Iraq, followed by Afghanistan, both countries with a significant US military presence. Together, the two countries received over 20 per cent of total US assistance to all developing countries. Next on the list were Sudan, Egypt, and Ethiopia (OECD, 2010a: Table 32).

The Canadian International Development Agency (CIDA) is responsible for disbursing most of Canada's ODA. Founded in 1968, it operates in more than 100 countries. Its two main recipients in 2007–8 were Afghanistan and Haiti, followed by Ethiopia, Iraq (mostly debt relief), and Indonesia (*ibid.*).

CRITICAL ISSUES BOX 8.5

THE CANADIAN INTERNATIONAL DEVELOPMENT AGENCY

Since its creation in 1968, the Canadian International Development Agency has spent over \$100 billion in foreign aid. As Canada's lead provider of ODA, CIDA has long been the subject of controversy. For decades, it has been widely criticized from a variety of perspectives.

Some criticisms are rather unfair, notably some unrealistic expectations placed on CIDA. For instance, when a Canadian Senate committee reviewed the agency's work in sub-Saharan Africa, it referred to '40 years of failure' and raised the possibility of abolishing CIDA (Canada, 2007). The authors of the report failed to understand that foreign aid is often not designed to deliver immediate results that can be attributed to the donor country. Increasingly, CIDA and other donors no longer provide aid to small-scale projects that they can identify as theirs, for example, six health clinics that Canadian aid made possible. Instead, they increasingly transfer funds to recipient governments in support for sector-wide programs, such as improving health care across the country. Especially if Canada pools its aid with other donors' assistance, it may be impossible to identify Canada-specific outputs, but that does not make CIDA's assistance any less worthwhile.

Better founded criticisms are directed against CIDA's activities that detract from its mission to '[l]ead Canada's international effort to help people living in poverty' (CIDA, 2009). Commercial, diplomatic, or

security motivations often influence the choice and amounts of assistance, such as, in recent years, Canada's massive injection of foreign aid to Afghanistan. In 2009–10, CIDA spent \$230 million in Afghanistan, making that country by far the largest recipient of Canadian ODA, with almost 9 per cent of Canada's total bilateral assistance to 114 countries (CIDA, 2010: 7–8). A large part of that assistance was meant to shore up Canadian military operations against the Taliban. Though many believe that ODA can be used to improve security in places like Afghanistan, others argue that foreign aid risks being squandered in an environment that lacks security. For example, aid can finance the building of schools, but the money will be wasted if it is unsafe for students to travel to and from school every day.

Canada—like most other donor countries—is seeking to make its aid more effective. Among other initiatives, CIDA has been focusing its efforts on 20–25 'countries of concentration' and three to five priority themes. Though working in fewer countries and sectors has the potential to improve aid effectiveness, the selection process itself becomes politicized and every new government, if not every new minister, changes the list of countries and themes. The resulting volatility and inability to undertake long-term planning, a hallmark of development, actually make aid more ineffective (Brown, 2011).

France emphasizes aid to sub-Saharan and North Africa, where most of its former colonies are located. The top recipients of French aid in 2007–8 were Iraq, Cameroon, Mayotte (a French overseas department off the east coast of Africa), Morocco, and Tunisia (*ibid.*). Most of France's aid is managed by the French Development Agency, which was created in 1941 and provides assistance to more than 60 countries (Agence française de développement, 2010).

Sweden, the world's most generous aid donor in relation to the size of its economy, channels its aid mainly through the Swedish International Development Cooperation Agency (SIDA), which works under the authority of the Ministry of Foreign Affairs (an institutional set-up parallel to those of Denmark and the Netherlands). It provides aid to more than 120 countries. In 2007–8, its top five recipients were Tanzania, Mozambique, Sudan, Afghanistan, and the Palestinian Administered Areas. African countries made up eight out of the 10 largest recipients (*ibid.*).

Most British aid is administered by the Department for International Development (DFID). Unlike its counterparts in most other countries, DFID is a full government department and is headed by a minister who sits at the cabinet table. Like France, the UK focuses its ODA mainly on its former colonies and—like Canada and the United States—on Iraq and Afghanistan. Its top recipients in 2007–8 were India, Iraq, Afghanistan, and Ethiopia (*ibid.*).

IMPORTANT CONCEPTS BOX 8.6

WHAT MAKES A GOOD DEVELOPMENT AGENCY?

Lessons from the United Kingdom

In recent years, the UK's Department for International Development has gained the reputation of being one of the world's best bilateral development agencies. According to one study (Barder, 2007: 300–13), DFID's success can be attributed to a combination of factors, including:

- DFID has focused its aid policy on achieving outcomes, basing it on concrete evidence rather than ideological preferences.
- DFID has built strong in-house technical expertise but also consults widely with outside experts.

Although one can easily compare budgets and relative generosity, it is difficult to rank the overall performance of bilateral aid agencies. Some donors might be strong in one area, such as support to community development, but weak in another, for instance, being overly bureaucratic. Nonetheless, a few systematic comparisons of the main bilateral donors have been made. For instance, the Center for Global Development, a US-based think-tank, annually assesses and ranks 22 donor countries' commitment to development in a number of areas, including the quantity and quality of foreign aid. The aid component of the index considers each country's relative generosity and adds points for policies like providing aid to the poorest recipients and allowing tax deductions for private donations. Points are deducted for tying aid, for providing aid to corrupt countries, and for splitting aid into a large number of small projects (Center for Global Development, 2009: 4). Table 8.2 summarizes the results for 2009, with three Nordic countries and the Netherlands ranked highest and the United States, Italy, Greece, and Japan at the bottom of the list. This ranking is provided as just one example of a comparison of donors' aid policies. Other criteria and calculations, of course, could produce quite different results. For instance, the UK is ranked ninth by this index and has an average score, but its development agency is actually widely recognized for its excellence (see Box 8.6).

- DFID resists short-term pressures, including promoting British commercial interests, and focuses on long-term strategies centred primarily on poverty reduction in low-income countries.
- DFID is responsible for all British foreign aid, rather than its being split among various government departments.
- DFID has been represented at cabinet by ministers with strong leadership skills and important political profiles.
- DFID has enjoyed key support from the Prime Minister and the Chancellor of the Exchequer (finance minister).

AID RECIPIENTS

The OECD's Development Assistance Committee maintains a list of countries and territories that qualify as recipients of ODA. The main goal is to be able to compile comparable statistics. Donors can still provide assistance to countries not on the list; they cannot, however, count it as ODA. The DAC periodically revises the list. For example, since 1989, following the collapse of the Soviet bloc, it has added a number of poorer European countries, including Albania, as well as a number of new countries, including Belarus, Moldova, Ukraine, and the former Soviet republics in Central Asia. The Palestinian Administered Areas, though not a country, have been eligible for ODA since 1994.

Countries are sometimes removed from the list when they 'graduate' to a higher income level. In the 1990s, these countries included Portugal, Greece, Singapore, Israel, some Caribbean nations, and a few oil-producing countries. As of 2005, Bahrain and numerous Eastern and Central European countries were deemed no longer eligible for ODA, notably Russia and countries that had recently joined the European Union or were negotiating accession. Other countries are expected to follow soon, including Oman and three countries in the Caribbean.

Overall, sub-Saharan Africa receives more foreign aid than any other region. In 2007–8, it received more than 40 per cent of ODA. As can be seen in Table 8.3, the second largest recipient regions were the Middle East and North Africa, as well as South and Central Asia, each receiving 15–20 per cent of total ODA. At the bottom of the list were Latin America and the Caribbean (8 per cent) and Europe (6 per cent).

Many of the increases in ODA since 2000 have been in the form of debt relief or in aid to Afghanistan and Iraq rather than increased spending in other developing countries. Most of the remaining aid went to Africa, whose proportion of aid has increased quite steadily from a low of about 20 per cent in 1999 to over 40 per cent almost a decade later. Nonetheless, it still fell more than \$10 billion short of the \$25 billion aid increase for Africa promised at the 2005 G8 summit (OECD, 2010a: 100).

The top recipients of foreign aid often vary from year to year, depending more on international politics than on anything else. For instance, as indicated in Table 8.4, Iraq was the top recipient in 2008, obtaining about \$9.8 billion, twice as much as the second-ranked

TABLE 8.2 Commitment to Development Index, Aid Component, 2009

| Rank | Country | Score |
|------|----------------|-------|
| 1 | Sweden | 14.3 |
| 2 | Denmark | 12.2 |
| 3 | Norway | 11.7 |
| 4 | Netherlands | 11.3 |
| 5 | Ireland | 9.8 |
| 6 | Finland | 5.7 |
| 7 | Belgium | 5.6 |
| 8 | Switzerland | 5.2 |
| 9 | United Kingdom | 5.1 |
| 10 | Canada | 4.8 |
| 11 | France | 4.4 |
| 12 | Spain | 4.3 |
| 13 | Australia | 3.6 |
| 14 | Germany | 3.4 |
| 15 | New Zealand | 3.4 |
| 16 | Austria | 3.2 |
| 17 | Portugal | 2.8 |
| 18 | United States | 2.3 |
| 19 | Italy | 2.1 |
| 20 | Greece | 2.1 |
| 21 | Japan | 0.9 |

Source: Center for Global Development (2009: 6).

country, Afghanistan, which received \$4.9 billion. Both countries have experienced a surge in foreign aid that followed the US-led invasion of Afghanistan in 2001 and the war in Iraq that began in 2003, and this increased aid has gone hand in hand with Western security interests and the presence of foreign troops. The third largest recipient of ODA, Ethiopia, is an 'anchor country' for the US and other countries in the fight against terrorism and the search for stability in a volatile region.

Because of great variations in the size of their economies, the top recipients of aid are not necessarily the most dependent on aid. The five most aid-dependent countries in 2008 can be found in Table 8.5. They are all small countries, in either sub-Saharan Africa or the Pacific region, where ODA accounts for more than 30 per cent of the total size of the economy. At the top of the list is Liberia, where foreign aid flows were almost twice as big as the domestic economy, a statistical anomaly

TABLE 8.3 Proportion of Total ODA by Region, 2007–8

| Region | Share |
|------------------------------|-------|
| Sub-Saharan Africa | 41.0% |
| Middle East and North Africa | 19.1% |
| South and Central Asia | 16.3% |
| Other Asia and Oceania | 9.7% |
| Latin America and Caribbean | 8.0% |
| Europe | 5.9% |

Source: OECD (2010a: Table 28).

produced by exceptionally high debt relief in that year, rather than actual development spending. Nonetheless, excluding debt relief still leaves Liberia with an extremely high ODA/GNI rate of about 100 per cent. In these countries, donors potentially have tremendous leverage to influence domestic policy. Such dependence, however, is relatively rare. The average for sub-Saharan Africa was 4.2 per cent, and for all other developing regions it was below 1 per cent (*ibid.*, Table 25).

Different countries receive aid from different donors and for widely varying purposes. In other words, the structure and purposes of ODA can vary tremendously. Bangladesh, for instance, has for many decades been a top recipient of foreign aid. Its chief bilateral donors by far in 2007–8 were Japan (a fellow Asian country) and the United Kingdom (the former colonial ruler), distantly followed by the United States and the Netherlands (OECD, 2010b). A densely and highly populated country, Bangladesh is characterized by widespread poverty and is particularly prone to natural disasters that include cyclones and flooding. It is also known as the home of

TABLE 8.4 Largest ODA Recipients, 2008

| Country | Billion US\$ |
|--------------------------------|--------------|
| Iraq | 9.8 |
| Afghanistan | 4.9 |
| Ethiopia | 3.3 |
| Palestinian Administered Areas | 2.6 |
| Vietnam | 2.6 |
| Sudan | 2.4 |
| Tanzania | 2.3 |

Source: OECD (2010a: Table 25).

the Grameen Bank, one of the world's most successful and innovative micro-finance initiatives.

During the 1970s and 1980s, the Soviet Union and many social democratic Western European donors provided a high level of assistance to Mozambique. The former was motivated mainly by geo-strategic interests related to a Cold War struggle for dominance in the developing world, the latter by solidarity with a socialist country in Africa on the front line of the fight against apartheid in South Africa. The Mozambican civil war, however, prevented this aid from translating into economic development. Since the end of the civil war in 1992 and the country's renouncement of socialism, a wide range of donors have disbursed huge amounts of aid to Mozambique, and the country has achieved a consistently high rate of growth, admittedly from a low starting point. In 2007–8, the country's top bilateral aid donor was the United States (its former ideological opponent), followed by the UK, Sweden, the Netherlands, Denmark, and Norway, many of which were continuing historical ties (*ibid.*).

Haiti, the poorest country in the western hemisphere, has long been plagued with social and political instability, notably since the Duvalier dictatorship was overthrown in the mid-1980s. Since then, the country has experienced a succession of democratic elections, military coups, and instances of violent unrest. It was widely hoped that the 2006 elections would mark the beginning of a new era of reconstruction and development. However, in 2010, a devastating earthquake killed hundreds of thousands of people and destroyed much of the infrastructure, seriously setting back Haiti's development process. In 2007–8, the top donors by far were the United States and Canada, both of which

TABLE 8.5 Most ODA-Dependent Countries, 2008

| Country | ODA/GNI |
|--------------------------------|---------|
| Liberia | 185.0% |
| Burundi | 43.9% |
| Federated States of Micronesia | 35.9% |
| Solomon Islands | 35.1% |
| Guinea-Bissau | 31.2% |

Note: Data for Afghanistan not available.

Source: OECD (2010a: Table 25).

IMPORTANT CONCEPTS BOX 8.7

RESULTS-BASED MANAGEMENT

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

are in the same 'neighbourhood' as Haiti and have large Haitian populations, followed by France, the former colonial ruler (*ibid.*).

CURRENT TRENDS AND CONTROVERSIES

Some current trends in foreign aid are relatively uncontroversial. For instance, almost all donors are taking measures to greatly reduce or eliminate tied aid. Likewise, bilateral donors, for the most part, have phased out loans, preferring to provide grants. In 2007–8, only 3.6 per cent of DAC countries' ODA commitments were in the form of loans, while 100 per cent of the aid from many countries, such as Canada, the Netherlands, the United Kingdom, and the United States, was in the form of grants (OECD, 2010a: Table 20). Multilateral institutions, however, continue to provide a high proportion of loans, which have led to an extremely high rate of indebtedness in many countries (see Chapter 14).

A long-standing debate in foreign aid is whether the focus of assistance should be primarily on fighting poverty or on promoting economic growth. For a long time, especially in the 1950s and 1960s, the argument was made that economic growth would eventually 'trickle down' to help the poor—that 'a rising tide lifts all boats'. Faced with a lack of evidence to

support that assumption, the pendulum swung the other way in the 1970s, and donors put a higher priority on meeting the more immediate basic needs of the poor. By the late 1980s, donors had turned to macro-economic reform as a prerequisite for growth, encouraging—some would say forcing—recipient countries to implement programs that actually weakened the social safety net for the poor. A decade later, it became increasingly harder to argue credibly that poverty was being reduced at an adequate rate.

A new consensus emerged on the centrality of more immediate action to alleviate poverty, culminating in the United Nations Millennium Declaration in 2000. The accompanying Millennium Development Goals set eight targets to be met by 2015, requiring urgent action to improve the lives of billions of people in all regions of the developing world (see Chapter 13). Although the MDGs signalled that the pendulum had swung back to placing priority on fighting poverty in the short run, many other donor policies and activities still favour an emphasis on longer-term economic growth. For instance, debt relief and assistance from international financial institutions and many bilateral agencies, notably the US's Millennium Challenge Corporation, depend on the presence of a broadly defined 'enabling environment' deemed amenable to economic growth. These conditions are often in addition to, rather than instead of, the components of 1980s-style structural adjustment programs (see Chapter 9). Donors are thus supporting policies that place a greater priority on poverty reduction while simultaneously implementing others that tend to reduce government spending on the poor.

A related issue involves which countries aid should be focused on. As mentioned above, many donors are making sub-Saharan Africa a priority because of its higher rate of poverty, although a couple of them concentrate their resources mainly on the Middle East and North Africa because of security concerns. But even within a given region, which countries are more 'deserving' of aid? Should resources go to the poorest countries, since they need it the most? Or should donors focus on well-governed countries, where they believe it will be used more effectively? Those who are pessimistic about aid's impact tend to favour the latter choice, which usually implies concentrating on middle-income countries, arguing that aid in poorly governed countries is all too often wasted. Critics

CRITICAL ISSUES BOX 8.8

HOW EFFECTIVE IS FOREIGN AID?

The contribution of ODA to development success stories is hotly debated. In instances where rapid economic growth and poverty reduction have occurred, notably in East Asia, there is no consensus on what role, if any, foreign aid played. In fact, some scholars of foreign aid have long argued that aid cannot help bring about development. Some claim that it distorts economies and is actually detrimental to long-term economic growth. Recent books by former World Bank staff members William Easterly, *The White Man's Burden: Why the West's Efforts to Aid the Rest Have*

Done So Much Ill and So Little Good (2006), and Dambisa Moyo, *Dead Aid: Why Aid Is Not Working and How There Is Another Way for Africa* (2009), epitomize the belief, shared by many, that most aid is at best wasted and at worst counterproductive. By way of contrast, celebrity economist Jeffrey Sachs's optimistic book, *The End of Poverty: Economic Possibilities for Our Time* (2005), argues that aid can be extremely effective and that, in particular, a 'big push' of well-designed development assistance would help billions of people escape the 'poverty trap'.

respond that well-governed, wealthier countries are more able to attract investment or borrow money on financial markets and therefore do not need ODA as much. Low-income countries require aid, they argue, precisely so that they can improve governance and reach a stage at which they no longer need aid. Cutting them off, critics warn, would lead to 'aid orphans' and great suffering, possibly even political or economic collapse, which could in turn threaten regional and international stability (and perhaps require costlier interventions later). Thus, those who believe that aid contributes to social or human development—a goal in and of itself, even if it does not quickly translate into economic growth—favour a greater emphasis on the poorest countries.

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

Increasingly, donors are co-ordinating their aid, channelling funds through joint programs and working more closely with recipient governments. The Paris Declaration on Aid Effectiveness (2005) and subsequent Accra Agenda for Action (2008) epitomize this trend, attributing to recipient countries the lead role in the design and implementation of their national development strategy, to be supported by donors in an integrated and transparent manner. Advantages include the elimination of duplication—or even contradictory programs—and of the onerous requirement of reporting separately to donors. Harmonization, however, also carries some risks. It could be described as 'putting all the aid eggs in one basket', when past experience has shown that development plans do not always produce the desired results. Moreover, it places a tremendous amount of power in the planning and administrative capabilities of the recipient government, ignoring problems of lack of capacity or corruption. It also assumes that the government has consulted its population, represents it, or has its best interest at heart, which is not necessarily the case. Paradoxically, when donors act together, they are in a position of great power over the recipient country, which can hardly reject their opinions or pick and choose the advice it wishes to follow. After the aid funds have been transferred to the recipient government, however, donors generally lose control over how it is spent. Still, provisions for transparency may compensate for that, allowing donors to suspend further contributions if the funds are not used according to agreement or do not produce the expected results.

SUMMARY

This chapter has provided an overview of the main actors, modalities, and resource flows involved in the bilateral aid that countries in the North provide to recipients in the South. Key terms were explained, including the different forms of aid, such as tied aid, as well as various types of aid donors. Aid can be provided by governments, international organizations, non-governmental organizations, private foundations, and individuals. The chapter also explored the different reasons donors provide assistance: sometimes out of humanitarian concern, but often relating to their self-interests, including commercial, diplomatic, or security interests. The chapter subsequently examined

global trends in the provision of bilateral aid, including a comparison of important donors that illustrated how their motivation, geographical focus, and priorities can vary. The chapter also considered which regions and countries receive the most aid, as well as which ones are most dependent on it. Current trends and controversies in foreign aid were discussed. For instance: Should aid seek to create economic growth or should it target more directly poverty reduction? What kinds of countries should receive the most aid? Finally, the chapter summarized bilateral donors' most recent consensus on how to make aid more effective.

QUESTIONS FOR CRITICAL THOUGHT

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

SUGGESTED READING

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RELATED WEBSITES

BetterAid (civil society)
betteraid.org

Canadian International Development Agency
www.cida.gc.ca

Center for Global Development (United States)
www.cgdev.org