Development Assistance

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Abstract

Essentially a creation of the post-World War II era, development assistance has since experienced a series of rapid transformations. While the “donors’ club” initially consisted mostly of a small number of multilaterals and wealthy nations, today’s major players also include countries like Brazil and China as well as numerous non-state actors. This paper charts the history of development assistance as it evolved from a Cold War competition to a growth and poverty reduction enterprise. In the course of this evolution, the organizational structure of development cooperation has gone from an architecture to an ecosystem. The paper concludes with a discussion of three strategic questions of development assistance, noting the diversity of solutions devised over time.
Keywords: foreign aid, official development assistance, aid architecture, effectiveness, targeting.

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Introduction

The concept of charitable assistance is as old as human civilization but has traditionally been undertaken by individuals giving to the less fortunate. By contrast, the concept of official development assistance (ODA) is almost entirely a creation of the modern era. Nations have always engaged in economic transfer for trade, military, and political purposes, but ODA, formally defined as flows of official concessional financing with the aim of promoting the economic development and welfare of poor countries, is a more recent phenomenon. Even the terminology was only introduced and used for the first time in 1969, although in reality ODA had already been flowing for some years. Historically, official development assistance has addressed a broad range of purposes, including providing humanitarian aid, promoting basic needs, fostering economic growth, and supporting the provision of effective, democratic institutions. ODA thus represents something new from the post-World War II period, a type of international solidarity unique in human history.

Systematized ODA traces its beginnings to the Bretton Woods institutions (BWI), created in 1944 as the world began to envision its recovery from the devastation of the Second World War. While these organizations had antecedents in the Red Cross (1863) and the government-funded
Committee for Relief in Belgium (1917) (Reinisch 2008), the BWI represented something different. Instead of simply treating wounded soldiers and feeding refugees, the BWI had ambitious and long-term goals: rebuild a war-torn continent, restore its former prosperity, and promote international economic cooperation. The International Bank for Reconstruction and Development (IBRD), the first of the organizations today collectively known as the World Bank Group, set out its purposes as: (i) facilitate the investment of capital for productive purposes; (ii) promote private foreign investment; (iii) promote the long-range balanced growth of international trade; (iv) focus on the “more useful and urgent” projects; and (v) assist in a transition from a wartime to a peacetime economy. Thus, the origins of ODA were firmly rooted in the notion that international cooperation was required to create the conditions for all countries to prosper and trade in a peaceful fashion.

This paper explores the changes in the nature and organization of development assistance since World War II. It first describes the context of development in the “Third World,” where the geopolitics of post-colonialism, globalization, and the role of the state have been playing out for seventy years. It then examines the organization of international development cooperation as it adapts from a loose grouping of rich countries to an international consensus rooted in the processes of the United Nations and the Millennium Development Goals. In parallel, ODA has
evolved from donor dominance and its corresponding aid dependency to mutual accountability and, most recently, to a new Global Partnership for Effective Development Cooperation. Along with these institutional shifts, the strategic priorities in aid management have evolved: where assistance should be allocated across countries to ensure the best value-for-money in terms of poverty reduction; how assistance should be provided; and what areas should be prioritized. The paper concludes with some observations about the future of a new aid ecosystem, with multiple actors and interlocking partnerships creating an open-source development model.

The “Third World” and its challenges

Initially, the division of the globe into the “First, Second, and Third World” arose as a Cold War convention to describe the demarcation of capitalist, communist, and non-aligned camps. However, as the Third World was mostly composed of poor nations, it quickly became synonymous with economic underdevelopment. Throughout the Cold War, ODA from the West was colored by efforts to ensure that Third World countries did not align themselves with communism, but instead embraced the concepts of private capital, investment, and free trade as the foundation for development. Given this context, it is not surprising that ODA has always
been intertwined with politics, a feature that continues to play out in the UN (where developing countries have organized themselves into a monolithic G-77 bloc), in governance of international development institutions, and in negotiations over aid conditionality.

The politics of development assistance to the Third World are deeply rooted in the history of colonialism. Almost every country in the Third World, with a few exceptions like Thailand, was at one point a colony of a Western nation. Colonial institutions in the form of legal codes, education systems, civil services, and language have persisted into the present day, as has the debate into colonialism’s complex legacies (Easterly 2012). For good or ill, and most probably some of both, colonial ties are one of the strongest determinants of ODA flows, with a number of Western European nations giving a majority of their aid to former colonies (Alesina and Dollar 2000).

Many Third World countries achieved their independence through nationalist movements that viewed colonial rule with suspicion. As colonies, developing countries had seen their share of global output collapse, most famously in India, where share of global output fell from 24% around 1700 to 4.2% just after independence in 1950 (Maddison 2010). Similar figures of relative decline were recorded all across the Third World and spawned a branch of development
thinking that linked relative decline to “unequal exchange” (Emmanuel), a structural reliance on raw materials (Prebisch), and other “dependency” theories (Singer, Cardoso). This perspective led some leaders to question the value of receiving ODA, especially when aid was tied or conditional on policy change. For instance, in the 1970s Jamaican Prime Minister Michael Manley campaigned on an anti-IMF platform, saying “we are not for sale” (Black 2001). Accordingly, there has been a persistent tension between the post-colonial desire for independence and sovereignty versus rich countries’ desire to bring developing countries into a neo-liberal world order based on private capital and market forces. That tension is now subsiding as the benefits from a globalized, market-oriented system have become recognized in most countries, and the alternative model of Soviet-style planning has been largely discredited.

The first flows of aid were premised on theories exemplified by the Harrod-Domar model, in which economic growth is driven by the level of capital investment. In this set-up, developing countries were considered to be poor and slow-growing because they could not obtain sufficient capital. The role of assistance from rich countries, then, was to correct this deficiency. As capital was unlikely to come in large enough quantities from the private sector, the public sector was required to step in.
The idea that economic growth was the key to alleviating poverty stood in contrast to the communist focus on equality and redistribution to increase welfare. With the passage of time, however, Western views on the primacy of growth became more nuanced. The watershed event in this transformation was World Bank President Robert McNamara’s 1973 Nairobi speech, in which he included numerous statistics starkly depicting the reality of poverty and called for a “reorientation of development strategy” (McNamara 1973). Measuring development by GNP growth, he said, ignored the fact that GNP calculations weight individuals by their economic worth; the poor thus barely factor into the number. If growth was not delivering poverty reduction, it could not achieve its objective of promoting a peaceful, stable, global economy. In this, McNamara implicitly recalled President Truman’s Point Four Program statement:

“Communist propaganda holds that the free nations are incapable of providing a decent standard of living for the millions of people in under-developed areas of the earth. The Point Four program will be one of our principal ways of demonstrating the complete falsity of that charge.” (Truman 1949) If ODA did not touch the lives of the poor, it would not be effective in achieving its political objectives. Since then, despite the disappearance of the communist threat, the concept of basic welfare as the ultimate end of development has endured as a lasting legacy of the McNamara Bank.
Figure 50.1: The evolution of development assistance: key events

The political negotiations at Bretton Woods proved enduring, establishing the basic contours of multilateral development assistance for decades to come. Motivated by the sovereign defaults of the 1930s, the economic consequences of the Versailles peace agreement, and the crippled state of European infrastructure, the delegates established the groundwork for the World Bank.
The IBRD gave its first loans to reconstructing France and other European countries, but re-oriented its focus toward economic development due to the sheer size of the newly enacted Marshall Plan. President Truman had approved a program of $17 billion (or about $160 billion in 2008 dollars) over three to four years, an annual expenditure of almost 2% of the U.S. GDP ($245 billion in 1947). Given the injunction in its articles of agreement to pursue “the more useful and urgent” projects, the IBRD started to shift toward richer developing countries, such as Chile, when the most obvious large reconstruction projects in Europe came to an end or were financed through the Marshall Plan.

The IBRD was not designed to provide humanitarian assistance. Its lending model reflected a view that countries’ capital requirements would evolve in a linear manner with their incomes. The poorest countries would need grants and concessional loans, but the richer ones could expand infrastructure and other public investments through non-concessional capital, first from the public sector with relatively long-term maturities, and then from the private sector in the form of foreign direct investment (FDI), bank loans, and ultimately bonds. Other forms of assistance were left to individual rich country governments and philanthropic organizations like the Red Cross and various religious groups. In the United States, President Truman attempted to expand and systemize American development assistance through his Point Four Program. In his
inaugural address, Truman championed the notion that the scientific knowledge of advanced nations, if properly shared, could eliminate poverty: “More than half the people of the world are living in conditions approaching misery. . . For the first time in history, humanity possesses the knowledge and the skill to relieve the suffering of these people” (Truman 1949). However, empathy was not the only motive at play. As Truman later remarked, the hungry are apt to “turn to false doctrines,” namely that of communism. Despite its intention to address such towering concerns, the Point Four Program was modestly funded, with the Foreign Assistance Act of 1950 allocating $35 million ($340 million in 2008 dollars) for technical assistance (Paterson 1992), a small fraction of the amount devoted to the Marshall Plan. Nonetheless, Truman’s Program marked an important change in U.S. foreign assistance, ultimately setting the stage for its modern form in the United States Agency for International Development (USAID).

Decolonization, poverty, and the fall of Chiang Kai-shek’s regime in China similarly combined to motivate the creation of the Colombo Plan. Australia, through the prominent urging of its Minister for External Affairs, Percy Spender, began to realize the need for an outward-looking foreign policy. It organized a meeting among Commonwealth countries in Colombo, Ceylon (Sri Lanka) in 1950 to outline an aid and technical assistance program for South Asia, agreeing both on communism’s threat to the region and the global benefits of Asian growth. Although the
program was no Asian Marshall Plan (or “Spender Plan”), its legacy has proved to be an enduring anchor of Western nations in South Asia to the present day (see Oakman 2010), with many highly placed individuals in member developing countries benefiting from scholarships and other training programs.

By 1960, donor aid flows had become large and broad enough to warrant professionalization and multilateralization. In the United Kingdom, a 1960 White Paper identified economic development as the best way of lifting poor nations out of poverty, and a Department of Technical Cooperation was created in 1961. In the same year, the United States Congress passed the Foreign Assistance Act, creating USAID. The World Bank’s International Development Association (IDA) was formed in 1960 to provide concessional credits to poor countries that were deemed not creditworthy for IBRD loans. In 1960, rich countries also established a committee called the Development Assistance Group (later renamed the Development Assistance Committee, or DAC) to “consult on the methods for making national resources available for assisting countries and areas in the process of economic development.”

The 1960s also marked the beginning of the first “UN Development Decade,” launched by the General Assembly in December 1961. The concept was for a “growth plus change” agenda, to be
implemented through a process that laid out specific goals for each country. Some of these goals, like a 5% minimum national income growth rate, were not generally achieved. Others, like smallpox eradication, succeeded beyond expectation. From this beginning, the UN has over time set out around fifty quantified, time-bound economic and social goals, culminating most recently in the Millennium Development Goals (MDGs), most of which have been largely achieved (Jolly et al. 2005). A few, however, including the famous pledge of advanced countries to provide 0.7% of GNP in the form of aid to developing countries, have been largely ignored.

The 0.7% aid target has had a mixed record. It was never accepted by the United States, but has provided a convenient rallying point for European and other aid donors. Its problems partly stem from the weak analytical underpinnings and justification for the figure. There is a suggestion that the starting point was the 1958 call by the World Council of Churches for countries to contribute 1% of their national income to support development. That figure dovetailed with academic calculations of the money needed to fill the savings and investment gap for developing countries to raise their growth rate to meet the UN targets. In 1968, UNCTAD noted that public flows represented two-thirds to three-fourths of total flows to developing countries; as such, they computed that official aid flow should be 0.75% of GNP. The more modest figure of 0.7% was a
political compromise recommended by the Pearson Commission in 1969 but has no formal standing (see Clemens and Moss 2005).

The institutionalization of the aid architecture during the 1960s and 1970s revealed serious cleavages in the development agenda, with the UN and other multilateral agencies struggling for leadership. Developing countries had a greater voice in UN discussions, where the focus was kept on aid, basic needs, and human development. The UN agenda reflected a “rights-based,” individual-centered approach to economic development, as laid out in the Universal Declaration of Human Rights (adopted by the General Assembly in 1948), coupled with a focus on post-independence state-building. Advanced countries, on the other hand, dominated the agenda of the World Bank and the DAC and maintained a focus on economic growth, debt, free trade, and private investment. The gap between these two agendas would grow so large that in 1977 the Brandt Commission on international development issues was formed to chart a new path forward.

For a brief period, there was a convergence of views between developing and rich countries. Robert McNamara was appointed President of the World Bank in 1968 and brought with him a bold vision. He set out to double the Bank’s overall lending volume in five years, with a focus on
reducing absolute poverty, shifting resources toward Africa, and strengthening assistance for education, agriculture, and population growth. In 1974 his Chief Economist, Hollis Chenery, published an authoritative volume, *Redistribution with Growth*, to balance the macroeconomic and poverty-reduction issues. But this rapprochement was short-lived. The food and energy price hikes of the early 1970s caused serious macroeconomic disruptions in developing countries, with bouts of high inflation and excessive deficits, funded temporarily through borrowing from commercial banks. That borrowing became unaffordable when the United States ratcheted up interest rates in a determined effort to bring down the double-digit inflation rates created by supply shocks and accommodative monetary policy.

In August 1982, Mexico became the first of many countries to announce that it could not repay its loans (FDIC 1997), ushering in a “lost decade” for development and forcing a prolonged period of fiscal austerity upon many countries. The Baker Plan bought some time for countries to avoid default by encouraging a rescheduling of bank debts, but it was not until the Brady Plan of 1989 that a long-term solution to the debt crisis was found.

The Structural Adjustment Programs (SAPs) introduced in the 1980s by the IMF and the World Bank widened the gap between those arguing for higher public investments in human capital and
poverty reduction and those focused on macroeconomic and fiscal rectitude. To the former camp, it seemed unfair that servicing the debt should come at the expense of cutting services designed to help the poor, when the benefits of borrowing were often captured by elites in developing countries. There was clear evidence to show that corruption and capital flight were important drivers of debt difficulties, but these had deep institutional causes and could not be easily remedied. Hence the options were cast in terms of stark choices: default or cut spending. Default, by and large, was considered unacceptable as it could undermine the basic objective of bringing countries into the global economy. When Brazil announced a moratorium on its debt payments in early 1987, the response from banks was chilling: they froze trade credit lines and other working capital, imposing huge costs on the Brazilian economy. Official organizations that could have provided Brazil with much-needed liquidity declined to do so.

Support for the Brady Plan, with its perceived tilt towards commercial banks over poor people, fueled criticism of the IMF and World Bank as neocolonialist institutions with inadequate concern for poverty reduction, a perception both tried hard to counter. Formulating a new approach based on “country ownership,” the two moved away from the staff-prepared Policy Framework Papers and encouraged countries to produce Poverty Reduction Strategy Papers (PRSPs), designed to foster local participation and to define more explicit partnership
agreements. Similarly, the DAC formally endorsed country ownership as one of five core principles of the 2005 Paris Declaration on Aid Effectiveness. Although it has taken time for some countries to build up their capacity to produce and implement such strategies, there is now broad consensus that the leadership and responsibility for this process rests with developing countries themselves. Handily, developing countries themselves recognized the costs of macroeconomic profligacy and have become more financially prudent.

Throughout this period, we have seen that development practitioners’ focus has swung back and forth between macroeconomic considerations, such as capital and infrastructure, and individualistic ones like basic needs and poverty. In some sense, the MDGs, with their focus on subjects such as child health and hunger, marked another shift in the latter direction. However, the new emphasis on country-ownership has generated pushback toward growth. Both Ghana and Vietnam added “growth” to “poverty reduction” in the titles of their national development strategies. Indeed, growth is perhaps the only way to ensure independence from donors and the strictures of aid conditionality.

The country-ownership focus requires a new architecture of development cooperation that has yet to be fully put in place. The prevailing architecture was organized around donor meetings,
whether in Paris, at the DAC, or Washington, at the World Bank. Developing countries had muted voices at these gatherings, despite some efforts to increase their participation. However, it has not been easy to replace these with country-based meetings. In some cases, developing countries do not have the capacity to host effective meetings (nor the willingness to disagree publicly with key donors). In other cases, donors have not delegated sufficient authority to their in-country representatives to permit them to make decisions on new partnerships.

Part of the difficulty with any form of meeting as the centerpiece of the development architecture is the sheer number of stakeholders—a problem that has become known as donor proliferation. In 1960, there were on average only two donors active in each developing country. By 2006, that number had grown to more than twenty-eight (Frot and Santiso 2009). Simultaneously, a growing number of international and local civil society organizations have become prominent donors, with some international non-governmental organizations (INGOs) now larger than many official aid agencies. Collectively, private philanthropy accounts for $50 to $75 billion in grants each year, and these organizations have large on-the-ground staff presence and accumulated experience (Kharas, Makino, and Jung 2011). While most INGO programs involve a large number of small programs, the private business sector, and some foundations, are attempting to develop scalable development solutions through new business models aimed at the “base of the
pyramid” and institutional investments, like agricultural research. In each case, such efforts usually involve some form of public-private partnerships.

An additional complication has been the intersection of the development and environmental agendas. The artificial separation between these was recognized as early as the Brundtland Report of 1987, which introduced a “sustainable development framework.” Real change started in 1992, at the Rio de Janeiro summit, out of which came the goals of promoting conservation, growth, and equality. Twenty years later, the Rio+20 conference again proposed a formal linkage between environment and economic and social development, paralleling UN Secretary General Ban Ki-Moon’s calls for a set of “Sustainable Development Goals” (SDGs) to replace the MDGs after 2015. The bold ambition of the SDGs has been made possible by the perceived success their predecessors. Agreed to in 2000 as part of the Millennium Declaration, the MDGs have framed the global debate on development for over a decade. Although some of the goals will not be met in the aggregate, and many more will not be met at the level of individual countries, the MDGs have firmly established the value of goal setting at the international level.

Thanks to the MDGs aligning the priorities of many development actors, the notion of an ecosystem rather than an architecture governing development cooperation relationships is taking
hold. In an ecosystem, there are complex interactions among stakeholders. Unlike an architecture, where there are strict relations between the components (and an acknowledged architect that designs the structure), an ecosystem may have no formal rules, but rather evolves in a way that serves the purposes of each actor. Although the actions of each actor have an impact on others, there is no need for formal rules to ensure compliance; self-interest does the job.

The tension between the architecture and the ecosystem is most strongly observed in the activities of advanced country donors and some emerging economies, particularly China. The advanced countries are eager for China to play by the same set of rules that they have established for themselves, including adoption of international social and environmental standards and promotion of good governance. The Chinese are reluctant to be bound by rules that they did not develop and that they feel have not resulted in effective project implementation. Developing countries prefer to use competition between Chinese and other donors to spur better performance from each, rather than organizing cooperation and harmonization. Similar issues apply to NGOs, many of which prefer to work outside of government systems and not involve themselves in formal coordination efforts.
The latest attempt to shape development cooperation is through the Global Partnership for Effective Development Cooperation, an outcome of the Busan Forum. It formalizes the acknowledgment that a variety of stakeholders should be integrated into development discussions. Its steering committee, which will effectively set its agenda, has three co-chairs, one each from advanced countries, emerging economies, and poor countries. The remaining membership of the steering committee includes non-state actors from business, civil society, and Parliamentarians. In opting for a governing structure that better reflects today’s major players, the Global Partnership thus provides a new model for modern international development. But as many of its members cannot make commitments on behalf of their full constituency, the steering committee is likely to be more effective in framing soft norms and a new narrative for the development ecosystem than in constructing a new architecture for true development cooperation.

Three strategic questions

The fundamental problems for development cooperation are the modalities of assistance. In particular: Who should get assistance? How should assistance be provided? In what areas should
assistance be given? Many different approaches have been tried over the years. Aid has been targeted at countries with strong democracies, those with strong economic policies, or sometimes simply those that donors hope to court politically. It has been provided through a mixture of money, technical assistance, and knowledge sharing. It has focused on agriculture, heavy industry, infrastructure, human capital, women’s empowerment, and the removal of trade barriers. Such divergent strategies highlight the extent to which development policy is still very much a work in progress.

**Targeting aid: Who should get assistance?**

Who should be targeted by development assistance so as to achieve the greatest impact? This seemingly simple question has understandably generated extensive debate. In the mathematical models of economic growth that informed the earliest efforts, solutions lay in the functional form assumptions of the relationship between output and capital. In the Cobb-Douglas formulation of the Solow growth model, for instance, capital exhibits diminishing returns, so capital-poor countries can obtain a higher output benefit from aid. These models suggest targeting the poorest countries, much as the IDA attempted to do at its inception.
Poverty targeting continues to be a major practice among development agencies. Gross national income per capita remains a strong predictor of aid (Alesina and Dollar 2000) and the concept is enshrined in much of the rhetoric used by aid agencies to justify their mission. The World Bank, for example, has coined the motto “Our dream is a world free of poverty” and includes per capita income as an explicit criterion in its aid allocation formula. Particularly for organizations in the public eye, poverty targeting has also come to mean targeting poor people rather than poor countries. British Prime Minister David Cameron, in defending Britain’s aid budget, implored Britons to consider the “millions of children around the world who are thinking: ‘Am I going to get the next meal?’” (Mulholland and Wintour 2012) Many NGOs advertise with a similar focus, asking donors to “sponsor a child” rather than to support the organization as a whole.

The focus on individualized cases of poverty has become so intense that it has drawn complaints for misdirecting the debate, skewing the focus, for example, disproportionately toward food issues (see, for example, Collier 2007; Banerjee and Duflo 2011). More generally, aid is wasted, or at best a minor palliative, when it is recipient country policies that form the primary barriers to development. Aid critics in this camp argue that poverty is the result of government mismanagement rather than a lack of resources, and hence support for mismanaged countries only prolongs the pain of underdevelopment. Indeed, aid is often kept flowing despite anecdotes
of waste and flagrant theft by developing-country politicians. Corruption was a taboo subject among development practitioners, acknowledged but not discussed in public, until World Bank President James Wolfensohn's 1996 speech in which he stressed the "need to deal with the cancer of corruption." (Wolfensohn 1996)

These critiques point to the fundamental problem of "aid fungibility." Aid to poor countries does not necessarily go to poor people—it can be diverted to rich people in poor countries. Even directly providing resources for educating poor children does not mean more resources for education; politicians may feel a lesser need to allocate domestic resources when donors fund education. In fact, most studies suggest that aid is highly fungible and so cannot be effectively targeted (Devarajan and Swaroop 2000).

One way of addressing these pitfalls is by aligning the vision and goals of the aid recipient and the donor. When that occurs, there is little incentive for countries to shift their own resources to another area when a donor steps in. Partly for that reason, the targeting focus has shifted toward rewarding countries with good governance and good policy environments. Academic studies (most notably Burnside and Dollar 2000) found that aid was only effective in countries with "good policy." Although their empirical results have not been found to be robust (Easterly 2003),
the intuitive appeal and implicit acceptance of the Burnside–Dollar results remains high among aid agency officials.

From a practical point of view, the “good policy” concept can only be operationalized if there is agreement on what constitutes good development policy. The economist John Williamson unwittingly provided this missing piece by outlining a set of propositions on which there appeared to be a consensus within the development community. The Washington Consensus (Williamson 1990) argued for fiscal discipline, pro-poor public spending, trade and foreign investment liberalization, deregulation, and other market-friendly measures. While it quickly became contentious (no mention of institutions or rule of law) and sometimes abused (removal of capital controls is often erroneously cited as one of Williamson’s recommendations), the Washington Consensus provided the basis for aid agencies to develop performance-based allocation systems—essentially targeting models. The most explicit of these was the foundation (by President George W. Bush) of a new style of aid agency, the U.S. Millennium Challenge Corporation (MCC), that competitively assigns grants to developing countries meeting good governance and policy criteria.
The biggest problem for targeting has been the micro-macro paradox articulated by Paul Mosley (1987): that aid might be effective at the project level but not at the macroeconomic level. This proposition implies that country-based targeting of aid to achieve better aggregate developmental impact is futile, and that aid should instead be provided wherever projects can be successfully implemented. Several empirical studies of aid effectiveness supported this conclusion by failing to find a systematic relationship between aid and growth (Easterly 2003; Rajan and Subramanian 2008). Others went further and argued that aid was often harmful (Moyo 2009). But more recently, a detailed review of the evidence by Arndt, Jones, and Tarp (2009) concluded that there does exist significant evidence for a positive association between aid and growth, reviving the case for targeting.

Despite the intense discussion of aid’s efficacy, the targeting of development assistance is often shaped by politics rather than impact. During the Cold War, this motivation was explicitly acknowledged. Truman and Spencer’s efforts at international engagement were spurred by a fear of “the communist threat.” Today, the rhetoric is more high-minded, but the desire to win friends remains the same. During her trip to Africa in August, 2012, U.S. Secretary of State Hillary Clinton promoted “a model of sustainable partnership that adds value, rather than extracts it” and made clear her strong support for democracy and human rights on the continent. Her
comments, however, were also intended as a salvo in a new U.S. “aid war” with China, implicitly linking the latter’s aid with a self-interested natural resource extraction unconcerned with human rights. More explicit discussions of the political benefits of foreign aid have also noted the links with the “war on terror” (see, for instance, Patrick 2006).

A number of academic studies also point to the political nature of foreign assistance. Alesina and Burnside (2000), for instance, find stronger correlations between aid and “political-strategic” variables than between aid and indicators measuring poverty or policy; for instance, years as a colony and UN votes have more explanatory power than income or democracy. Kuziemko and Werker (2006) also document that U.S. aid to developing countries on the UN Security Council spikes during those countries’ two-year term, strongly suggesting that the U.S. responds to their voting power in global forums rather than solely to their developmental needs.

The newest focus of a combined political-economic approach to targeting is on “fragile states,” nations whose governments fail to provide basic services to poor people because they are unwilling or unable to do so. A classic example of a fragile state would be Somalia, but there are many others; approximately 1.5 billion people live in fragile states today. Such countries have been targeted because poverty reduction there has been minimal over the last twenty years.
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(Kharas and Rogerson 2012) and because fragile states have become a potential breeding ground for terrorists. The recent efforts in Afghanistan and Iraq provide telling examples: these two countries alone accounted for one-eighth of global net aid disbursements between 2004 and 2008. The impact, however, has been disappointing. After billions of dollars spent, violence and graft have stalled even the most necessary of projects (Rosenberg 2012). The classic “need versus impact” trade-off that has long governed aid allocation discussions is perhaps most extreme in fragile state situations.

Busan has provided political support for a “New Deal” framework for improving development assistance to fragile states. Building on a dialogue among these countries, the “New Deal” sets out five goals for development cooperation to support: legitimate politics, security, justice, economic foundations, and revenues and services for the poor. What is noteworthy is the balance between narrowly economic and broader socio-political goals establishing the fundamental workings of a state. If these objectives are to be achieved, many donors will have to alter the way aid is targeted and disbursed. Success is far from guaranteed, necessitating a greater risk tolerance and long-term commitment. It remains to be seen whether development cooperation in these countries can avoid the destructive volatility that has characterized many aid programs (Kharas 2008). Fragile states are sure to be subject to cycles of advancement and mistakes. But
that short-term volatility should not be amplified by volatility in development cooperation driven by targeting formulas focused on annual performance metrics.

**Money, institutions, and knowledge: How should aid be delivered?**

Aid is often thought of primarily in terms of the delivery of money and commodities, but technical assistance, capacity building, debt relief, and other instruments have also been used over the years. Financial transfers were the main tools of the Marshall Plan and the World Bank credits and loans, and have been the principal focus of advocacy efforts to raise development cooperation. Although institutions and knowledge sharing are becoming more prevalent in growth theory (Acemoglu and Robinson 2012; Romer), net financial transfers still form the core of aid and thus prompt the most contentious discussions. For example, at Busan, developing countries argued forcefully to increase the share of aid provided as budget support, and have repeatedly criticized technical assistance as inadequately tailored to their own problems.

Analytical support for increasing financial transfers has come most prominently from Jeffrey Sachs’s reincarnation of the “Big Push” theory. Sachs describes poor countries as stuck in a “poverty trap,” returns to investment in any one area lowered by the absence of investment
in another. As an example, building a school in a rural area may not achieve the desired increase in enrollment if roads to the school are not also built. In this view, poverty begets poverty. To be effective, then, development assistance needs to be given in large amounts to “push” communities out of the poverty equilibrium. In keeping with this theory, Sachs has piloted large investments in the Millennium Development Villages project to demonstrate the need for simultaneous, complementary investments. Early evaluations of the Millennium Villages have been controversial, with Sachs’ evidence of their impact hotly disputed by other academics.

After the 1980s debt crisis, focus swung to supporting policy and institutional reform, exemplified by the World Bank and IMF structural adjustment programs. Some critics felt these programs went too far and questioned the connection between the reform programs and the loan’s objectives. For example, the IMF’s programs in East Asia to alleviate the regional banking and currency crises in 1997 and 1998 included many issues seemingly unrelated to the restoration of macroeconomic balance that is the IMF’s remit (Feldstein 1998). But despite such criticisms, most developing countries have successfully adopted structural reforms, either with international support or unilaterally, and have improved their macroeconomic stability, reduced debt levels, and brought down inflation (with notable exceptions like pre-dollarization
Zimbabwe). Many of these reforms are credited with helping developing countries avoid the worst effects of the Great Recession.

Development through institutional change is the core argument of Acemoglu and Robinson’s *Why Nations Fail* (2012). They argue that nations that develop “inclusive” institutions have much greater potential for growth compared to nations in which local elites support exploitative or “extractive” institutions that transfer rather than create wealth. Acemoglu and Robinson do not propose specific mechanisms for encouraging better institutions, but others do. Paul Romer has advanced the idea of “charter cities” in developing countries that would adopt institutional structures from an advanced country in special reform zones. The idea is that the success of these zones would then spread throughout the economy. Romer’s view that institutional change can be addressed by building and then expanding “islands of excellence” has been forcefully challenged by others, but it remains implicit in many development activities. While cities may be a big reach, it is practically a requirement for any major development project today to account for how it will improve local institutions, or at least circumvent their shortcomings.

Increasingly, developing countries are interested in questions of how to implement policy, rather than which policies to implement. There is a growing sense that the business maxim that success
depends 20% on strategy and 80% on implementation holds for development as well; many countries feel their greatest need is for advice on implementation, particularly in weak institutional contexts. This form of knowledge transfer has increasingly been provided by South-South cooperation, developing countries transferring their practical know-how based on their own experiences. It is far harder for advanced countries, or even multilateral institutions, to transfer this kind of knowledge.

A different knowledge trend in development assistance has been to identify better microeconomic interventions, such as optimal pricing for mosquito nets or policies to prevent absenteeism among government workers. The movement has been galvanized by the use of Randomized Control Trials (RCTs) that offer statistical reliability in interpretation of causality. Heavily promoted by groups such as the MIT-headquartered Jameel Poverty Action Lab (J-PAL), RCTs have proliferated. However, they are not a panacea; an RCT can show whether a particular project worked in a particular context, but any extrapolation to projects in different contexts (external validity) is necessarily tenuous. In some sectors, meta-studies of RCTs and other evaluations find that results are not robust (Glewwe et al. 2011), reducing faith that these studies radically expand knowledge of effective development interventions.
The search for the “silver bullet:” In what areas should aid be given?

Early aid interventions through the 1960s saw a heavy emphasis on funding for infrastructure. These projects left a long-standing legacy; for example, the Tarbela Dam in Pakistan was started in 1968 and still today provides around 20% of Pakistan’s electricity. The basic thesis was that infrastructure was not only a key missing factor in development, but also a key area of comparative advantage for advanced countries, as it required a mix of finance and advanced engineering knowledge for design and implementation.

But infrastructure projects brought with them a range of social and environmental problems (in particular with regard to resettlement), while their benefits were widely dispersed and often oriented toward the rich and middle classes who could afford the services. After the success of the Green Revolution, such considerations prompted the McNamara World Bank to reorient its focus toward the basic needs of the poor: agriculture, health, and education became the new focus areas for development. Partly as a result, the 1970s saw developing countries sharply expanding their borrowing to finance physical and human capital accumulation, ultimately leading to the 1980s debt crisis. While structural adjustment was effective in restoring macroeconomic balances, in many places it was also seen as responsible for austerity programs that slashed investments in development. One particular concern was that developing countries
began to over-exploit their natural resources. By the early 1990s, an influential environmental movement was calling for the integration of environment and development, resulting in the Rio agreements, including the Agenda 21, Forest Principles, the Biodiversity Convention, and the Framework Convention on Climate Change (including the Kyoto Protocol). These and other practices would collectively be termed “sustainable development.” The major development agencies enhanced their environmental activities, but not sufficiently to address the large and complex issues raised in Rio.

The year 2000 saw the Jubilee campaign—a massive coalition of youth groups, celebrities, churches and other civil society organizations—successfully pressure rich countries to absolve the debts of poor countries. While conditions were attached to these debt cancellations, restoring some of the attention on structural adjustment, the campaign’s visibility and the enormous sums of money involved made this issue the centerpiece of development debates for several years. In theory, the money saved from debt relief was supposed to be redirected toward poverty reduction programs. In practice, much of the savings were artificial. Countries simply did not have the money to service their debts, and the debt relief simply recognized this reality. *Ex post* assessments have not found that debt relief materially and significantly had an impacted development (Dömeland and Kharas 2009).
The large writeoffs associated with debt relief reopened questions of what had become of all the aid money. One obvious answer was that much of it had been stolen or wasted. The anti-corruption agenda begun by Wolfensohn was pursued even more vigorously by his successors, culminating in 2006 with a hotly debated report on strengthening World Bank Group engagement with governance and anti-corruption. The most contentious issue was the extent to which the World Bank should enter into the domestic political affairs of its borrowing country clients. The governance agenda also reversed the trend toward country ownership of development interventions, proposing that the World Bank should take up governance issues even when uninvited by the concerned country.

The changing fashions of development assistance suggest some hard truths. Development requires making progress on a range of complex, intertwined issues. Yet these cannot be tackled simultaneously, necessitating a difficult allocation of scarce resources among worthy goals. As yet, the “silver bullet” that identifies a primary missing ingredient to catalyze development remains elusive. No single idea among these successive priorities has been able to turn a struggling economy into a prosperous one. Indeed, after over a half-century of effort, there are discomfortingly few solid conclusions about how to achieve development. The consensus of
today is that each country must chart its own way forward. The ingredients of success may be
common, but the recipes—the implementation, sequencing, and phasing of the needed
investments, institutions, and incentive frameworks—differ from country to country
(Commission on Growth and Development 2008).

Conclusion

A major paradox of the twenty-first century is that, despite the failure to formulate a grand
theory of development, we nonetheless live in a Golden Age of growth. The past decade has seen
the fastest increases of per capita income and the most rapid reduction of poverty in history. As
more development success stories arise outside of Asia, these trends appear to be truly global.
While credit for this performance cannot be attributed directly to development assistance, there is
a growing body of evidence that such assistance has been valuable. Certainly development
assistance continues to enjoy enormous popular support in rich countries, and it has engaged the
energies of millions of professionals in official aid agencies, civil society organizations,
academics and, increasingly, businesses. Nobel laureate Robert Lucas’ comment that “once one
starts to think about [development issues], it is hard to think about anything else” (Lucas 1988) seems to apply far beyond the narrow world of academic economists.

Development assistance has a checkered history of constant adaptation. Caught at the intersection of politics, security, and economics, it has had to manage the tensions associated with post-colonial relationships, the Cold War, globalization, sovereignty, and human rights. Coordinating development assistance was once a simple matter of a few, mostly like-minded, countries sitting around a table to talk strategy and goals. It has morphed into an enormous undertaking involving all member states of the United Nations, hundreds of international agencies, thousands of international NGOs, and hundreds of thousands of community development organizations.

Development assistance is being transformed at a remarkable pace. A landscape once dominated by official aid agencies and government-to-government bilateral relationships is now being altered by important NGOs and hybrid “impact investment” private-sector companies. Technology is opening up new avenues for development cooperation among individuals. For example, the micro-credit site Kiva.org intermediates about $3 million a week, an amount approximately the same as USAID. Technology is also transforming the transparency of aid, and
increasingly of budgets, helping to shift accountability to citizens and Parliamentarians in developing countries themselves.

There is no single aid architecture (or architect) that can fashion rules governing the myriad activities undertaken in the name of development assistance. The system has become too complex. But that need not be a disadvantage if there is agreement on an overarching set of principles and a focused set of broadly shared goals. These principles ensure that even if development assistance is not a cooperative endeavor, it should at least be coordinated (Woods 2011). The distinction here is important. Few expect that China and the U.S. will cooperate extensively in their development assistance; in fact, many aid recipients hope they will compete with each other. But rather than poaching the best civil servants to work on one’s own projects or undermining country systems of accountability, the two can use formal agreements or implicit norms to coordinate and avoid waste and duplication. Examples of such behavior are increasingly common: the Istanbul principles of civil society, the Equator principles governing private business, and certification standards for sustainable production in specific sectors are all part of the growing web of norms that can lead to better coordination.
Perhaps the most important thread in this narrative will be the formulation of a set of sustainable development goals (SDGs), now being pursued by the United Nations. These goals will try to identify a few priorities for global action, while leaving flexibility for countries to pursue their own development paths. They will try to fuse the social, economic, and environmental aspects of development. If successful, the SDGs can mobilize resources and innovative ideas from millions of people and organizations, helping to align efforts of a large number of actors without having to agree on formal partnerships. But the complexity of the politics and the interconnectedness of these issues mean that success is by no means guaranteed. Failure to generate broad consensus on the goals could thrust development assistance into a chaotic state of competing interests and priorities. That would be particularly unfortunate for the world’s poor, who will increasingly be living in fragile states where domestic governments are unable to coordinate development assistance.

The rapid changes occurring in the world of development assistance have led to some calls for “the end of ODA.” Indeed, the proliferation of non-DAC donors and new modalities of assistance are rendering the old model of financial support for economically viable projects obsolete (Severino and Ray 2009). Thankfully, the innovations of the Digital Revolution offer an alternative to the increasingly fragmented system of today in the form of a new model for “open
source development.” The transaction costs of transferring resources, experiences, and knowledge are falling dramatically. Over two billion poor people today have no access to financial services. Thanks to the spread of cell phones and the development of mobile money, that figure is set to halve over the next decade, opening up opportunities for a range of new development services and approaches. Base-of-the-pyramid business models are viewing millions of poor people as customers or suppliers. In short, development assistance is rapidly becoming decentralized and competitive. To be sure, such a decentralized system will require new levels of information and transparency but it offers the promise of a fundamental break from the current modus operandi. Successful development assistance in the future will be characterized by partnerships that catalyze change and transform markets and institutions, creating the space for additional innovations and products aimed at improving the welfare of the poor.

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