To what extent do the arguments *against* development aid outweigh the case *for* aid in poor countries?

1.0 Introduction

Development Aid (*DA*) '*works, it doesn't work, it can work but that depends*…' (McGillivray et al 2006). Aid works well in some contexts, has no impact in others, and at times can cause negative outcomes in what has become the increasingly complex business of aid. The literature is now saturated; everyone has an opinion on whether or not aid is a good idea, and if it works (however that is measured). Scholars have argued convincingly for both sides of the polarised debate, but there is only a small body of literature that recognises the growing complexities of aid, focusing on reforming and strengthening the case for aid in poor countries. This paper addresses the critiques for and against *DA*, but also demonstrates that the picture is not entirely negative and that much can be done to improve the system. The question is not just whether the arguments detailing why aid doesn't work outweigh the case for aid but how we make aid more effective and efficient.

This paper will not provide detailed analysis of the econometrics of the debate since that has already been covered sufficiently (Pritchett 2008; Lensink and White 2000;) nor will it provide discussion on emergency aid, trade or debt[1]. This paper will focus on *DA*, otherwise referred to as official development assistance (ODA), and defined as aid which is given either bilaterally (from government to government) or multilaterally (from agencies like the World Bank to governments in recipient countries). *DA* largely consists of grants and concessional loans that are invested in infrastructure projects (roads, dams, and ports), the provision of large public goods, as well as the more traditional balance of payments support (Whitfield 2009; Riddell 2007:8).

This paper will provide a broader analysis that goes beyond 'cherry picked' case studies[2], choosing instead to focus on the structural constraints that prevent effective aid delivery and augment the arguments of *DA's* critics. Aid does work and is likely to always exist in some form so let the debate not be a question of whether or not to provide aid and why, but rather, what

[1] However, it is important to recognise firstly, the growing linkages between development and emergency aid and secondly, the increasing recognition from scholars that trade and debt relief are two crucial links in the chain to systematically reducing poverty.

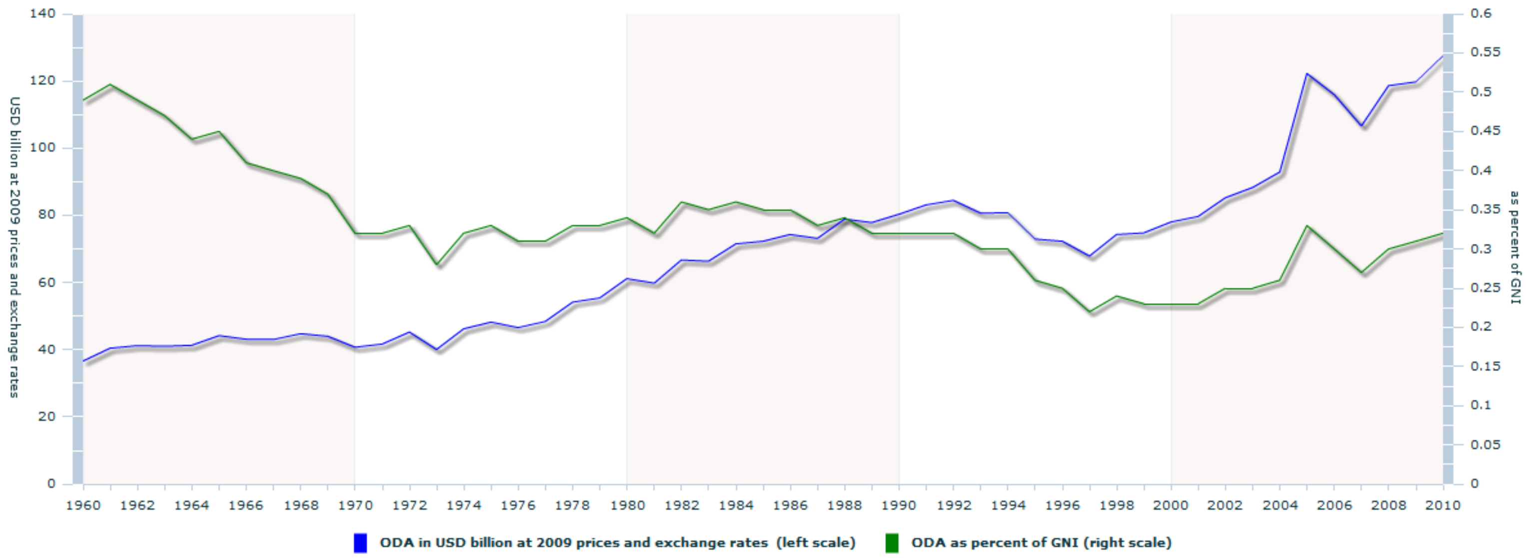
[2] Given the plethora of evidence used by scholars to support their arguments for and against aid, it would be ineffective here to select one case study that embodies this debate, since such a study does not exist.

we can do to improve aid delivery and how we can constructively use critiques against aid to improve the system (Riddell 2007; Whitfield & Fraser 2010; Birdsall 2008).

2.0 Review

The history of aid is important to briefly review here since the way that aid is provided has changed greatly over time, with rising multiplicity of donors, and *DA* flows at unprecedented peaks. In the fifty years since *DA* first appeared, the business of aid has diversified and become more complex than anyone could have predicted. Figure 1 shows how the provision of ODA has changed in the last 50 years.

Fig.1 Net ODA disbursements, total DAC countries.



Notes: Total DAC excludes debt forgiveness of non-ODA claims in 1990, 1991 and 1992. Preliminary estimates for 2010.

Source : http://stats.oecd.org/index.aspx?datasetcode=ODA_DONOR

There are key identifiable trends in the provision of *DA*; in the 1950s *DA* was mostly invested into infrastructure projects, in the 1960s and 1970s the developmental state model ruled, whilst the 1980s saw the neoliberal discourse become main-stream and the rise of the Washington Consensus (conditional lending). This meant that donors were able to force recipient countries to roll back the state and support the market in the belief that this would sustain economic growth. Evidence tells us though that this was not the case, and nowhere was the pain of structural adjustment felt worse than in Sub Saharan Africa (Kanbur 2000). This led to the post-Washington Consensus of the 1990s, which placed greater importance on 'getting institutions right'. Evidence was published by the World Bank and others that disputably showed a positive relationship between the provision of aid, growth and a good policy environment (Burnside & Dollar 2004; Reddy & Miniou 2006). At the same time as these developments occurred in the provision of *DA,* so too was there a big shift in the way that the international community conceptualised poverty and the rural poor allowing poverty to be understood beyond income indicators alone. This culminated in the creation of the Millennium Development Goals (MDGs) and the desire of donors to start seeing tangible results and reductions in poverty directly because of the aid they were providing; this supports the argument made here regarding the focus needed on making aid work.

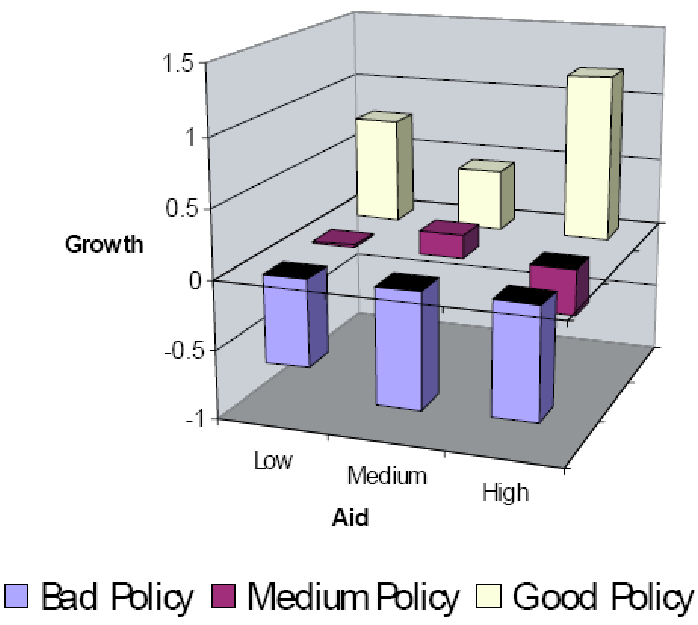
The methodologies employed to determine aid effectiveness as defined by donors, are often deeply flawed. This is important because the resulting data sets inform the mainstream perception of poverty. For example, the World Bank's figures on the number of people living on less than $1 and $2 per day are based on data from only 79 countries, with no data at all for 65 countries (Riddell 2007:167). Measuring aid is a significant challenge; not only do donors and scholars seek to discover trends in line with their own institutional affiliations and motivations, but the constantly changing delivery of aid makes it extremely difficult to measure. Is aid successful if it achieves short term objectives (such as building schools, providing health services to rural populations and so on) but fails in the long term to generate sustainable economic growth? Furthermore, who decides what the objectives of providing *DA* are and what successful 'development' looks like? It is generally agreed that many of the data sets used to prove aid's effectiveness are inaccurate or incomplete (Pritchett 2008; Easterly 2008; McGillivray et al 2006; Riddell 2007). This is in large part due to the lack of any overarching, long-term, cross-country data sets making it difficult therefore, to draw definitive conclusions about the overall impact of *DA*. Furthermore, donors are confident to launch projects that are not founded on evidence-based evaluations or trials (Pritchett 2008:123; Riddell 2007:12) so it is not surprising therefore that some projects succeed while others fail.

What follows is a broad analysis of *DA* looking at both sides of the argument. Some of aid's critics (notably Dambisa Moyo) employ what I refer to as a '*lazy thesis';* their focus is on criticising the weaknesses of the aid industry, arguing that *DA* should be stopped completely. They fail to recommend tangible reforms or address systemic constraints. It would be far easier to stop *DA* than to reform the structure of the current aid architecture (Whitfield 2009:13). Scholars like Whitfield, Riddell and Easterly instead provide a constructive critique on what is wrong with *DA* and, most importantly, how it can be changed to work more effectively and efficiently.

3.0 Analysis

In analysing the debates both for and against *DA*, the aid/growth/poverty reduction nexus needs to be better understood. Does such a nexus exist and where are the linkages? '*The effect of aid on poverty reduction is still something of an enigma'* (Degnbol-Martinussen & Engberg-Pedersen 2003:257). Significant research published by Burnside and Dollar, claims a positive link between aid and growth in a good policy environment (refer to Figure 2). Their data however, has been largely disputed (Easterly, Levine & Roodman 2003), and the linkages between growth, aid and policy are somewhat more vague than studies suggest. The general trend does appear to be that aid works better - in terms of promoting growth - in countries that have good policies and strong public institutions. However, there are too many outliers in the data and examples of fragile or fragmented states experiencing positive economic growth, sometimes without aid; *DA* does not necessarily result in growth and development (Degnbol – Martinussen & Engberg-Pedersen 2003:19)

Figure 2. Growth, aid and policy



Source: Burnside and Dollar 2004.

Nonetheless, the economic case for aid contributing to growth is relatively straightforward (if contested). *DA* offers financial and technical assistance to 'late late industrialisers' to provide balance of payment support and close the 'savings gap'. This is the idea that poor countries necessarily incur chronic trade deficits and disequilibria of their balance of payments in order to close the gap between investment needs (which are high to encourage economic growth) and levels of domestic savings (usually very low). The main economic justification for the provision of *DA* is to close this savings gap in developing countries (Riddell 2007). Large injections of short-term, directed *DA* has helped countries like Botswana and South Korea to develop relatively strong economies without maintaining aid dependency. The case for aid is hard to argue against, but many scholars have raised issues with the delivery and impact of *DA* that potentially outweigh its justification. Figure 3 summarises some of the key criticisms of *DA*, though time and space constraints deny the appropriate level of analysis on each of these issues.

Figure 3. DA rationale

Economic rationale for DA	Reality	Moral/social rationale for DA	Reality
Aid raises and supports savings and investment levels, closing the 'savings gap'	Aid has not promoted economic growth because it has replaced/reduced domestic savings and investment	Rich countries have a moral obligation to help poorer countries (declared motivation)	Richer countries do give large quantities of *DA* to poorer countries, but emerging markets like China and India have increasingly large foreign aid budgets
Aid increases the effectiveness of capital	Aid causes dependence and aid is misused.	Donors wish to maintain privileged access to resources and markets through the provision of *DA(* actual motivation)	For example, American interests in the Middle East, Britain's interests in decolonised areas etc
Aid generates growth and development.	Growth regressions are not robust	*DA* should build capacities of recipient countries to promote better human wellbeing and development, not just economic growth.	Large amounts of *DA* are spent on indicators other than economic, but donors fail to invest the funds into potential long term success (such as agricultural research, vaccines for malaria etc)
Aid ensures the fulfilment of poor people's basic needs	Aid is not as good at generating economic growth or reducing poverty, as trade and debt relief.	Aid should be directed towards achieving the Millennium Development Goals	Only a minor part of ODA is directed in Africa to financing public spending, 75% goes into reserves or debt buy-backs.
Aid provides states with the temporary capital needed to overcome budget deficits	Aid becomes a long term investment in countries, provided through short term delivery causing dependence, volatility and instability.		
Aid helps states to build institutions that will serve to support and sustain economic growth	Aid negatively impacts public governance in recipient countries, undermining the state and moving accountability and legitimacy to the donors rather than with domestic populations.		

Table: authors own input from Banerjee 2007; Lensink & White 2000; Moss et al 2005; Riddell 2009; Whitfield 2009.

Key proponents of *DA* cite the positive short term results and improvements in quality of life variables as evidence of aid's achievements. The success of the WHO's vaccination programs, the provision of free primary education throughout most of Sub-Saharan Africa illustrate the modest successes achieved through *DA* (Easterly 2008:25). To counter these successes though, donors do not widely publish the success they have sustained in terms of democratic process, economic growth, institution building and budgetary support; these are the largest budget lines of donors and it is significant that there is little conclusive evidence on these indicators.

In analysing the drawbacks of *DA* it is useful to disaggregate donors from recipient countries. Nancy Birdsall illustrates the problems with donors by talking about their 'seven deadly sins' (Birdsall 2008). Donors are impatient with institution building, envious of other donor's activities, ignorant of their own failures, too proud to recognise when exiting is appropriate, too sloth-like in pretending that participation alone is sufficient for recipient ownership of *DA,* greedy in providing unreliable and miserly transfers, and foolish in their lack of financing global and regional public goods - for example - investing in vaccines for malaria (Birdsall 2008:536).

Additionally, there are further drawbacks to *DA;* firstly*,* it is supply-driven in terms of volume, scope, design and intended use. Donors have doctrinal hegemony (Hanlon & Smart 2008:131) and exercise their power over recipient countries. For *DA* to achieve greater effectiveness, the onus needs to come from recipient countries. Moyo argues along similar lines, pointing out the dangers of victimising 'Africa' and how donors undermine country's capacity for growth, stifling it instead with large flows of tied aid leading to volatility and aid-dependence (Moyo 2010). Secondly, donors' declared motivations are significantly different to their actual motivations for providing *DA* (Degnbol-Martinussen & Engberg-Pedersen 2003:16); the commercial, strategic and political interests of donors significantly shape decisions of how to allocate aid. The larger donors particularly are motivated by these interests (Alesina & Dollar 2000); consider the United States for example, and its desire to spread liberal democracy and gain allies in the Middle East. The data below illustrates this by highlighting the poorest countries next to those countries that receive the most *DA.* It is clear that the poorest countries do not receive the most aid, indicating something other than moral obligation alone as the motivation of donors to provide aid.

Figure 4. Top ten recipients of ODA Vs ten poorest countries

Top Ten Recipients of Gross ODA from the United States (USD million)	
Afghanistan	2 991
Iraq	1 985
Pakistan	906
Sudan	840
Ethiopia	801
West Bank & Gaza Strip	783
Haiti	714
Kenya	579
Colombia	539
South Africa	527

Ten states with lowest HDI rank (ranked out of 187 countries)	
DRC	187
Niger	186
Burundi	185
Mozambique	184
Chad	183
Liberia	182
Burkina Faso	181
Sierra Leone	180
Central African Republic	179
Guinea	178

Source: OECD www.oecd.org/dac/stats , UNDP http://hdr.undp.org/en/statistics/data/

Thirdly, many critics of *DA* have used conditional lending as a prime example of why aid doesn't work and actually causes more harm to poor countries. Conditions attached to concessional loans to sub-Saharan Africa during the 1980s did not promote growth as was supposed. Instead, growth faltered and recipient countries became dependent on aid; Mozambique in the 1990s, for example, saw *DA* contribute to 30% of GDP (Kanbur 2000:419). Post conditionality politics and attempts to reform have seen nothing more than a move from hard to soft conditionality (Mosse 2005:8) with donors now heavily involved in providing budget support, which in theory allocates funds to a government to spend as it wishes, but in reality sees donors take part in government budget discussions and adds administrative burden to recipients.

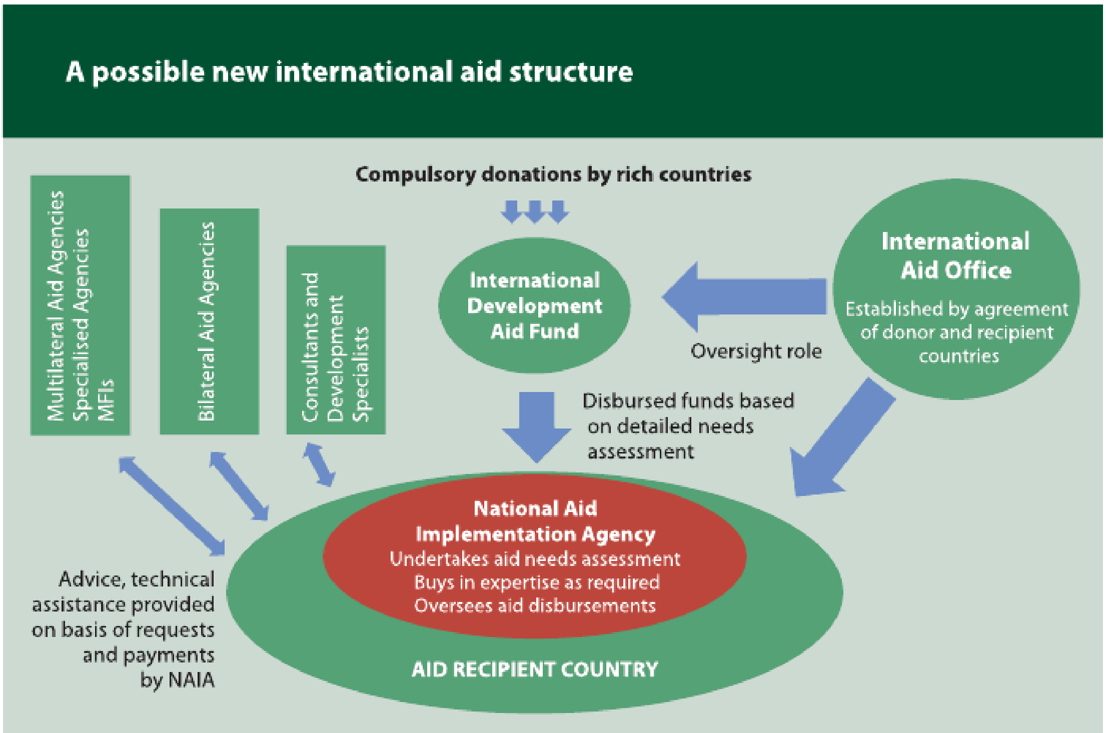
There are also arguments against *DA* that involve recipient countries directly, although these too can be linked back to the donors. Firstly, the business of aid has become increasingly complex and fragmented as donors continue to run multiple projects, in multiple sectors and in multiple countries. This leads to a strain on the administrative capabilities of recipient countries in meeting donor demands; in Tanzania, during the period 2000 - 2002, there were 1000 donor meetings each year and over 2,400 reports filed to donors quarterly. Tanzania announced a 4 month holiday from donors in response. This is indicative of the fragmentation of *DA* at the recipient country level (Birdsall 2008:523).

Secondly, the problem of aid dependence prevents recipient countries from being accountable to their citizens with less cause for maintaining legitimacy. This therefore reduces the incentive to cultivate effective public institutions, indicating that increased aid flows in this sense, may be more damaging than anything else (Mosse, Pettersson & van de Walle 2005).

The picture is clearly far from perfect, but it's not all bad. Recent attempts to reform *DA* have been made, with the Paris Declaration in 2005, increased efforts of harmonisation - through Sector Wide Approaches, SWAps – and more sincere attempts to give ownership to recipients. It is also important to take into consideration the role of factors external to aid in explaining some of aid's failures, for example, the rise in violent conflict in Sub-Saharan Africa, state collapse, the oil crisis of the 70s and harsh tariff/subsidy systems from the industrialised world that serve only to weaken the trade and export potential of developing countries. Despite serious structural weaknesses in *DA* provision, much has been achieved and development has come a long way in fifty years.

Moving forward then, the real debate is not over whether to reduce, maintain or increase aid. It is about deeper, structural reform to a system that is entirely unregulated; one that lacks an overarching organising mechanism because donors give voluntarily and so they are free to give as little or as much as they like. This leads to the volatility of aid that affects so many poor countries. Scholars have suggested tangible reforms that should be pursued in order to maximise the positive impact that *DA* can have in developing countries. Pooling funds at the country level is one suggestion (Birdsall 2008, Easterly 2008) along with increasing investment into manufacturing and boosting agricultural productivity (Whitfield 2009:10), focusing on the quality rather than the quantity of aid (Whitfield 2009; Riddell 2007) and redefining the mechanisms used for aid delivery as depicted in figure 5 below. Perhaps the most significant of all reforms to be made, is to push control and ownership firmly on the recipient countries; pooling money at a country level could help achieve this as local governments submit their own proposals and strategies for fostering growth. This discussion is important in the context of this paper, since the '*lazy thesis*' of some of aid's critics is based on the shortcomings of *DA* that could be resolved through these reforms. Therefore, in implementing some of these recommendations, *DA* would become more efficient and achieve longer-lasting reductions in poverty therefore outweighing the arguments made against *DA* more powerfully.

Fig. 5 A new international aid structure



Source: Riddell, in IPC 2007.

4.0 Conclusion

The arguments against *DA* do not outweigh the case for aid in poor countries; they merely inform how we must change systems of *DA*. Despite significant structural constraints, *DA* still helps to lift a significant number of people out of poverty. However, the shortcomings of the aid business reduce '*considerably the effective value of the aid that is transferred … and may even mean that … aid undermines longer term development prospects'* (Birdsall 2008:536). What has hopefully emerged from this discussion is the need to address those constraints endemic to the business of aid and recognise that it is not the quantity of *DA* provided that matters, rather the quality. In so doing, there is potential for *DA* that both meets the needs of recipient countries and makes more serious progress in poverty reduction.

This paper has sought to dig deeper than a simple discussion on the pros and cons of *DA*, in recognition of the complexity of aid today. The challenge lies in how to maximise aid delivery to the poorest people in the world. This means putting pressure on donors and scholars to decide whether or not the provision of *DA* is to reduce poverty in the short-term or to create growth more generally through longer-term interventions; the two are different priorities and won't necessarily provide the same results. If the debate only focuses on a simple analysis of pros and cons, and not on how we improve aid in order to help those people that live in absolute poverty then the discussion ceases to be constructive.

There are no silver bullets and the arguments made against *DA* are at times quite compelling; this is a complex industry that has to weave its way through corruption, commercial/strategic/political interests of donors, deep levels of bureaucracy and red tape, and often-fragile recipient states. But we can improve aid, deliver it more effectively to meet the real needs of the poorest people as well as build up the ability of states to provide strong institutions and support growing economies, by pushing for the reforms mentioned here to be implemented. The case for aid is always going to be more compelling than opposing arguments when '*lazy theses'* are provided and constructive critique remains limited. It would be far better to continue to achieve small successes through *DA* whilst trying to reform the broader, systemic failures of aid than to cut it completely and definitively.

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