

# **Public Policy and Management: Development Assistance**

## **Unit 1 An Introduction to Development Assistance**

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## Unit Overview

Unit 1 looks at the provision and distribution of development assistance. We define development assistance, identify the main providers, and consider the history of aid, particularly since 1950. We also examine and assess different reasons for donors giving aid, and aid allocation.

## Learning outcomes

When you have completed this unit and its reading, you will be able to:

- define what is meant by development assistance and its constituent parts
- identify and assess the main providers of development assistance
- identify the main trends in the provision of development assistance and recognise and categorise the main periods in its history post 1950
- distinguish and assess the altruistic and self-interested motives for donating official development assistance
- explain and discuss, broadly, where development assistance funds are distributed.



## Reading for Unit 1

Michael Clemens and Todd Moss (2005) *Ghost of 0.7%: Origins and Relevance of the International Aid Target*. Washington DC, Center for Global Development. Working Paper 68.

Asmus G, Fuchs A and Müller A (2017) *BRICS and Foreign Aid*. Washington DC, AidData. Working Paper 43.

Andreas Fuchs, Axel Dreher A and Peter Nunnenkemp (2012) *Determinants of Donor Generosity: A Survey of the Aid Budget Literature*. Germany, Kiel Institute for the World Economy. Working Paper 1789.

Baydag RM, S Klingebiel and P Marschall (2018) *Shaping the Patterns of Aid Allocation. A Comparative Analysis of Seven Bilateral Donors and the EU*. Bonn, Germany, German Development Institute. Discussion Paper 22/2018.

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## 1.1 What is Development Assistance?

'Development assistance', 'development aid' and 'foreign aid' are interchangeable terms for resources – primarily finance, but also human resources such as technical assistance – that flow principally from rich to poor countries, and which have the intention of alleviating hunger, poverty and distress and promoting economic development in the recipient countries. Development assistance can be divided into the following categories:

1. **Official Development Assistance (ODA)** provided by governments either as bilateral aid (country to country) or multilaterally, that is, channelled through agencies such as the UN, the World Bank and regional development banks (*eg* the African and Asian Development Banks)
2. Development assistance provided by **non-governmental organisations (NGOs)** such as Oxfam and **private philanthropic organisations** (*eg* the Ford Foundation, the Bill and Melinda Gates Foundation)
3. Humanitarian and emergency relief, which may be provided by any of the above organisations.

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## 1.2 Main Providers of Development Assistance

### 1.2.1 Official development assistance (ODA) from OECD DAC member countries

The Organisation for Economic Cooperation and Development (OECD) defines ODA as:

flows to countries and territories on the Development Administration Committee (DAC) list of ODA Recipients, and to multilateral development institutions that are:

- i. Provided by official agencies, including state and local governments, or by their executive agencies; and
- ii. Concessional (*ie* grants and soft loans; loans must have a grant element of at least 25%) and administered with the promotion of the economic development and welfare of developing countries as the main objective.

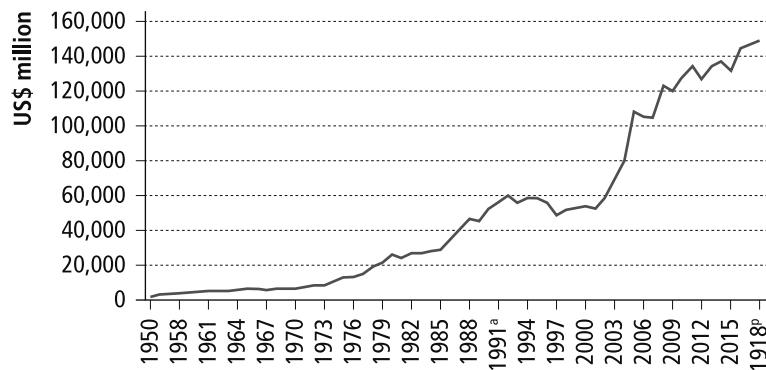
Source: OECD (nd c)

This definition excludes military aid and the promotion of donors' security interests, and transactions that have primarily commercial objectives, for example, export credits.

DAC aid is provided by member governments of the OECD, which consists mainly of developed countries. DAC was formed in 1960 by donor countries to coordinate and promote aid from donor governments.

## 1.2.2 DAC ODA – main trends

**Figure 1.1 DAC ODA flows 1950–2018 (US\$m)**



a: including debt forgiveness

p: preliminary figures

Source: OECD (nd b accessed October 2019)

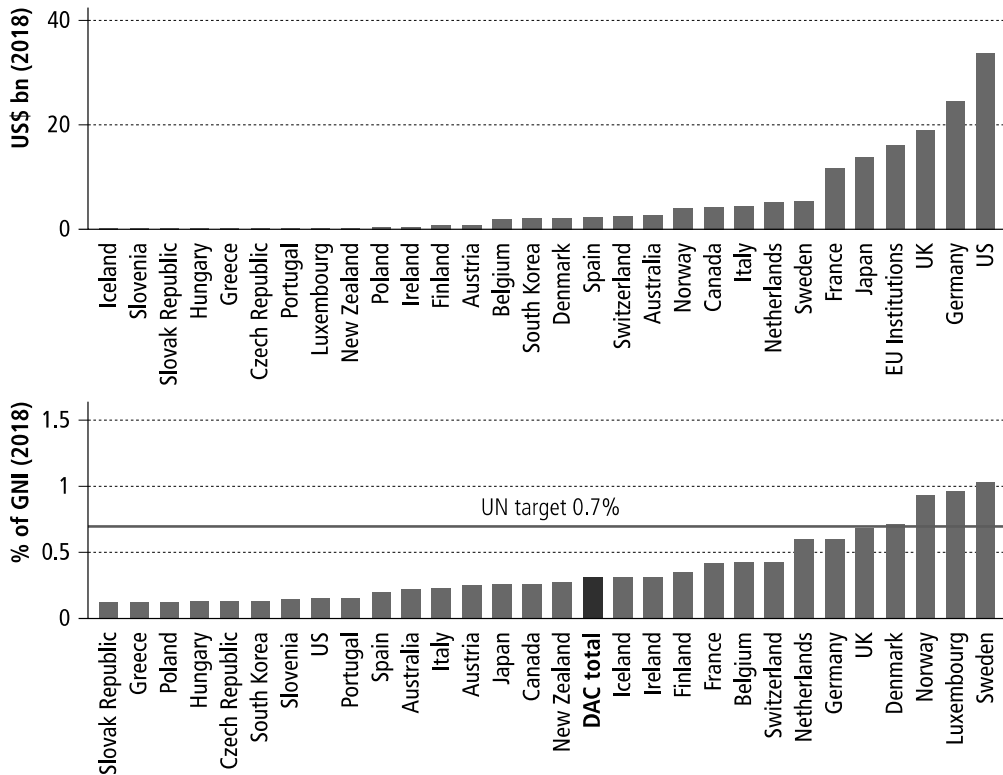
Figure 1.1 shows the total spending on ODA by DAC member countries from 1950 (US\$1.95bn) to 2018 (provisionally estimated at just over US\$149bn). These figures are at current prices, so inflation erodes their purchasing power over time. Note that the total excludes development assistance donated by non-members of DAC and aid provided by NGOs and private philanthropic organisations. However, ODA is a useful indicator of the trends in overall giving. Current data are available on the OECD website (OECD, nd d).

From 1950 the trend shows a steady increase in ODA, until the early 90s when the deep economic recession caused a contraction in ODA from US\$60.5bn in 1992 to US\$56.2bn in 1993. A further cutback occurred between 1995 (US\$58.9bn) and 1997 (US\$48.6bn) due to fiscal consolidation. ODA started to rise again towards the end of the decade and into the 2000s; by 2010 the total had reached a new peak of US\$129bn.

The financial crisis of 2007–9 in the developed world and the resultant big increase in government deficits and debt in those countries caused a cutback. In 2008 ODA totalled just under US\$123bn, but in 2009 this was cut back to US\$120.6bn. This was a period of fiscal austerity in many countries as they sought to reduce their budget deficits and levels of public debt. Such volatility in ODA can have adverse consequences for recipient countries in terms of their planning for development.

Riddell (2007) states that the causes of fluctuations in ODA defy simple or single explanations. He argues that ODA levels are affected by a mix of factors, including beliefs about the contribution, impact and importance of aid. ODA has also fluctuated in response to humanitarian disasters that vary in their pattern, their nature and extent, and the information available. Economic and financial conditions within donor countries are another influence, as seen in the 1990s and 2000s. ODA levels have also varied in relation to wider political and strategic influences within both donor and recipient countries.

**Figure 1.2 2018 ODA grant equivalent amounts in US\$bn (top) and as percentage of gross national income (bottom).**



Note: Grant equivalent calculates ODA loans as the grant equivalents of aid loans, i.e. the ‘gift portion’ of the loans, and is expressed as a monetary value.

Source: OECD (nd a accessed December 2019)

The top graph shows the total amount of DAC ODA (US\$bn) from each member country at current prices. The largest donors are the large economies of the US, Germany, UK, France and Japan, and EU bodies. The bottom graph shows ODA as a percentage of each country’s gross national income (GNI) – that is, its total annual income. This can be taken to equate approximately to a country’s ‘ability to pay’. Now we see that the countries donating the largest amount as a proportion of GNI are Sweden, Luxembourg, Norway, Denmark and the UK. All of these countries donate ODA to at least 0.7 per cent of GNI; the Pearson Report (1969) called for official aid to reach this target by 1975, and the UN adopted the target in 1970.



**Reading 1.1**

You should now read ‘Ghost of 0.7%: Origins and Relevance of the International Aid Target’ by Clemens and Moss (2005).

The authors trace the origins of the target from the World Council of Churches in the 1950s, and an initial target of 1 per cent of national income, to the Pearson Commission’s recommendation of 0.7 per cent. They also point out that until 2005 no country promised this amount, and the US, especially, remains unconvinced about the target. The authors argue that the adoption of the target was based on assumptions and a growth model (discussed in Unit 2) that are no longer relevant. Although the authors are sceptical about the impact of aid, they suggest it would be more sensible to calculate the

Michael Clemens & Todd Moss (2005) ‘Ghost of 0.7%: Origins and Relevance of the International Aid Target’, a Center for Global Development Working Paper; available in the reading for this unit.

amount of aid based on recipient countries' needs instead of as a fraction of the donor countries' national income.

 Make notes on the main points of their arguments.

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 **Review Question 1.1**

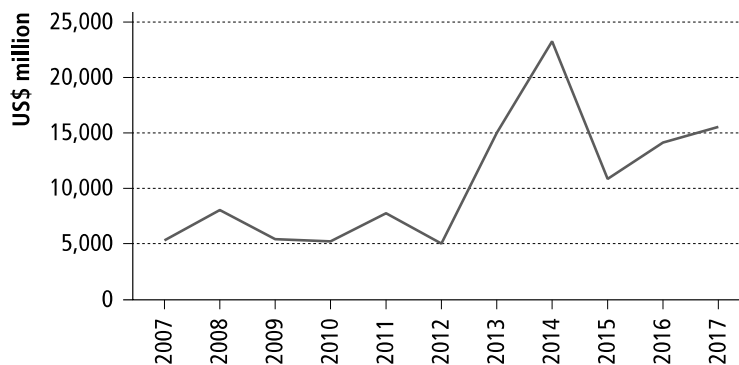
Although it makes sense to determine how much aid a country needs rather than how much a donor chooses to give, what do you think are the practical problems in determining a country's needs?

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### 1.2.3 Non-DAC bilateral ODA

The growth in bilateral ODA provided by non-DAC countries – sometimes called 'emerging' or 'new' donors (although some have been donating aid for a considerable period) – has attracted growing attention in recent years. It is hard to quantify the precise amount of assistance they contribute; some do not apply the same definitions and criteria as the DAC countries in calculating their aid, nor do some of them report the amounts they provide. However, the OECD reports non-DAC ODA at US\$15.5bn in 2017, as illustrated in Figure 1.3 (OECD, 2019a).

**Figure 1.3 Non-DAC countries ODA 2007–17 (US\$m)**



Source: OECD (nd 4)

These figures include some contributions from non-DAC countries who are members of the OECD, mainly Eastern European countries and some Arab donors.

### 1.2.4 BRICS non-DAC bilateral ODA

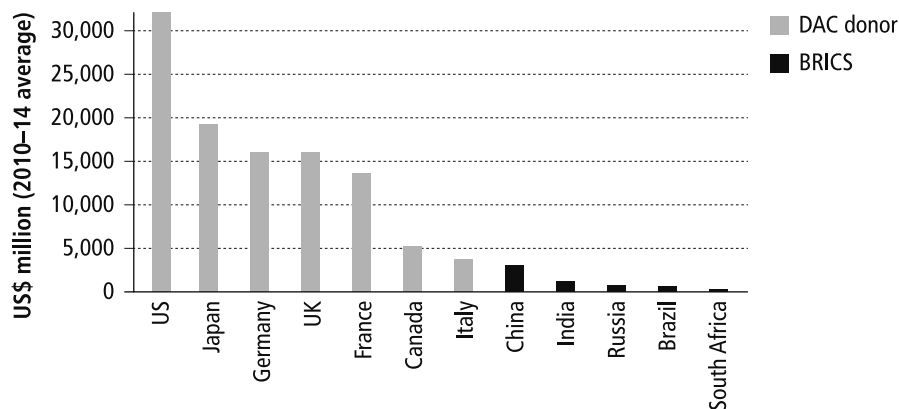
More significantly, this total largely excludes non-DAC countries such as Brazil, Russia, India, China and South Africa (the so-called BRICS group) and others. The Index of Global Philanthropy and Remittances (IGPR) calculated ODA for 11 of these countries at US\$9.7bn in 2014, as shown in Table 1.1 (figures in US\$m).

Table 1.1

Brazil	500	Mexico	529
China	3,401	South Africa	148
Colombia	45	Tanzania	0.23
India	1,398	Turkey	3,591
Indonesia	56	Uganda	0.1
Kenya	0.6		

Source: drawn from IGPR (2016) p. 14.

Figure 1.4 Annual gross disbursements of ODA (US\$m) (2010–14 average)

Source: Asmus *et al* (2017) p. 44.

AidData estimates for the BRICS countries as compared with the largest DAC donors are shown in Figure 1.4. While BRICS aid appears low by comparison with the largest Western donors, this hides the considerable amounts of 'official non-ODA' financing by the BRICS group (Asmus *et al*, 2017).

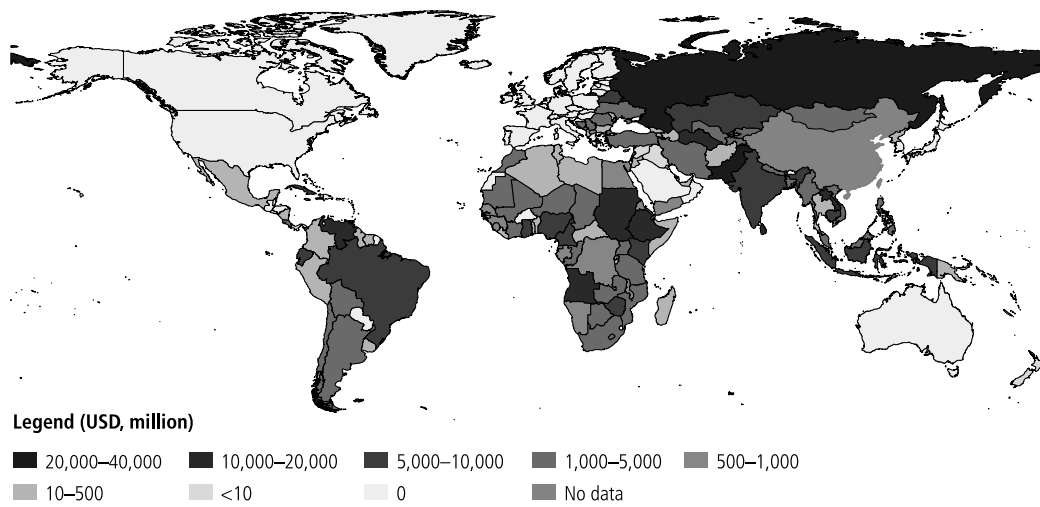
China has set up two multilateral lenders of its own: the New Development Bank (known as the BRICS bank and based in Shanghai, with financial contributions from all five BRICS countries) and the Asian Infrastructure Investment Bank (AIIB), set up in Beijing in 2015 despite US opposition. The AIIB has increased its membership to 70 countries, including every G7 country except Japan and the US (*The Economist*, 25 March 2017).

This initiative was partly in response to domination of the International Monetary Fund (IMF) and World Bank by Europe and the US, and the latter's refusal to back reforms in those institutions that would give the BRICS countries a bigger say in their operations. China is also setting up a Silk Road development fund ('One Belt, One Road') to boost 'connectivity' with its Central Asian neighbours (*The Economist*, 21 March 2015). The AIIB focuses only on infrastructure and lends about US\$2bn; by contrast, the Asian Development Bank, founded in 1966, focuses on all aspects of development and lends about US\$16bn a year (*The Economist*, 17 December 2016).

Woods (2008) attributes some of the growth in aid from the 'new' donors to failings in the 'established' development assistance from mainly Western governments, such as failures to increase aid, the imposition of

conditionality, not enhancing aid coordination and alignment, and not reforming aid architecture. In addition, the ‘new’ donors offer trade and investment in addition to aid, a defence of recipients’ sovereignty, and non-intrusion. Woods says that by offering competition in the market for development assistance, recipients’ bargaining position is increased; competition also exposes standards and processes that are out of date and ineffectual. According to Dreher *et al* (2017), China has positioned itself as a leading global financier of infrastructure projects. However, China does not disclose comprehensive or detailed information about the overseas development projects it funds.

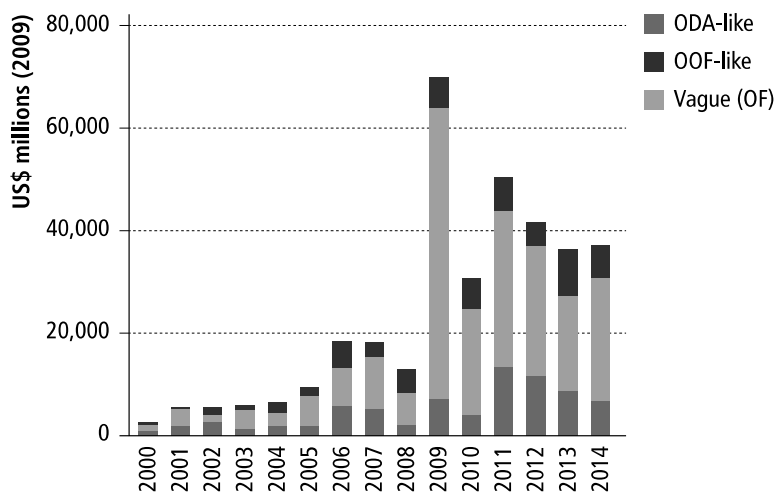
**Figure 1.5 World map of China’s development assistance (2000–14, financial amounts)**



Source: Dreher *et al*(2017)

Dreher *et al* (2017) estimate that between 2000 and 2014, China committed to more than US\$350bn in ‘official finance’, involving some 4,300 projects covering most of the globe except North America and Western Europe (see Figure 1.5). This is not much less than the total of US aid (US\$424bn).

**Figure 1.6 Chinese foreign aid (US\$m), 2000–14**



Source: Dreher *et al*(2017)




Figure 1.6 shows the annual flows in Chinese official finance between 2000 and 2014. OF ('Official Finance') includes both ODA (as defined by DAC) and 'Other Official Flows' (OOF) which lack the development intent and/or the concessionality that is required of ODA. Dreher *et al* (2017) report that China provides relatively little aid with a grant element of 25 per cent or more. A large proportion of the financial support that China provides to other countries comes in the form of export credits and loans that are at, or close to, market interest rates. The debt implications for recipients of this type of financial support are a source of concern. There have also been concerns raised about China's disregard for good governance in recipient countries; such lending imposes fewer conditions than ODA lending. The research of Dreher *et al* suggests that the grant element of China's aid does increase the rate of growth of GDP among recipients, but that the concessional lending (export credits and concessional loans) appear to have no impact.

Woods (2008) refutes some of the criticisms levelled at the 'new donors', such as their offering support to 'rogue states', their lending increasing the indebtedness of recipient countries, and their lower standards in relation to environmental matters, human rights and the like, as well as the suggestion that the absence of conditionality postpones necessary adjustment.



### Reading 1.2

You should now read the article 'BRICS and Foreign Aid' by Asmus *et al* (2017).

 Make notes on the major differences between the BRIC donors' aid policies and those of DAC donors. You should be aware of the focus of the BRICS donors and of the modalities by which aid is provided.

Asmus G, Fuchs A and Müller A (2017) *BRICS and Foreign Aid*. Washington DC, AidData. Working Paper 43.



### Review Question 1.2

Are the 'new' donors very different from the 'old' donors? What are the key differences?

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## 1.2.5 NGOs and philanthropic funding

Riddell (2007) defines NGOs as having three common characteristics:

- i) they have a direct or indirect involvement in humanitarian and development work
- ii) their activities are of a not-for-profit nature
- iii) they are distinct and separate from both governments and for-profit organisations.

The role of churches and church-based organisations in the colonial period, especially in Africa, is often cited as the beginning of development assistance. We would now call these organisations NGOs, and de Haan (2009) describes their role in the colonial period as 'significant'. Riddell (2007) points to growth in the NGOs' role in development assistance, especially in

the 1970s when they were particularly involved in rural development. Riddell also highlights the almost threefold rise in NGO income in the 1970s and the beginnings of the provision of ODA money to assist the financing of NGO development activities.

Riddell also says that despite the cutback in ODA in the 1990s, NGO funding increased in this decade, as did the proportion of their funds provided by governments. Governments not only provide financing to NGOs for direct use, but also channel funds through NGOs to run programmes and projects on their behalf. Current estimates from the OECD (2019a) suggest that in 2017, out of a total DAC ODA of US\$147bn, some US\$2.2bn was provided to NGOs based in donor countries, and US\$0.7bn to international NGOs (including developing country-based NGOs).

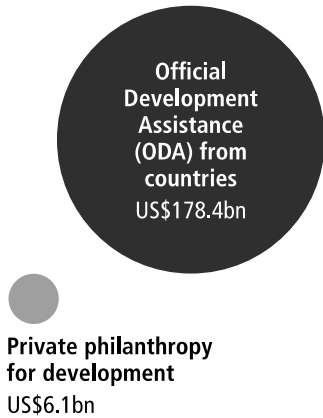
NGOs have also become more heavily involved in the provision of emergency and humanitarian assistance, and play a significant role in campaigning and seeking to influence official aid policy. Governments of some poor countries have also used NGOs to undertake service delivery projects. Recipient country-based NGOs have also become increasingly important, especially in South and East Asia (Riddell, 2007).

One of the difficulties in measuring the growth of NGOs is that there are no accurate statistics recording their numbers; moreover, the definition of an NGO varies. Some are international, while others are purely domestic. Should we include both? NGOs receive ODA finance from donor governments to fund their development work, as well as raising funds from other sources; such sources include fundraising from public donations (especially important in emergency appeals), private foundations, and trading activities. This diversity of funding adds to the difficulty of accurately measuring NGOs' contribution to development assistance. In addition, there is no single database that collects the amount of private sector aid, so how much NGO finances amount to in relation to development assistance is difficult to estimate. The OECD (2019a) estimates private grants as totalling US\$41.9bn in 2017.

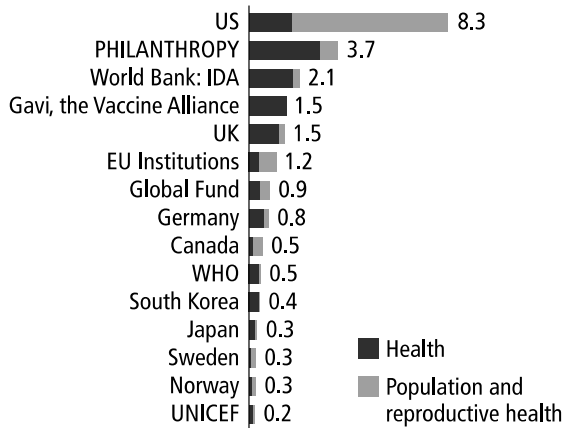
Private foundations have become an increasingly important source of development assistance. Some of these (*eg* the Ford and Rockefeller Foundations) are long-standing, while others are more recent (*eg* the Bill and Melinda Gates Foundation). The relative contribution of philanthropy to overall aid is illustrated in Figure 1.7.

**Figure 1.7 OECD estimates of private philanthropy**

Still modest compared to ODA in 2017 ...  
US\$bn, gross disbursements



... but still key in health sectors  
US\$bn, commitments

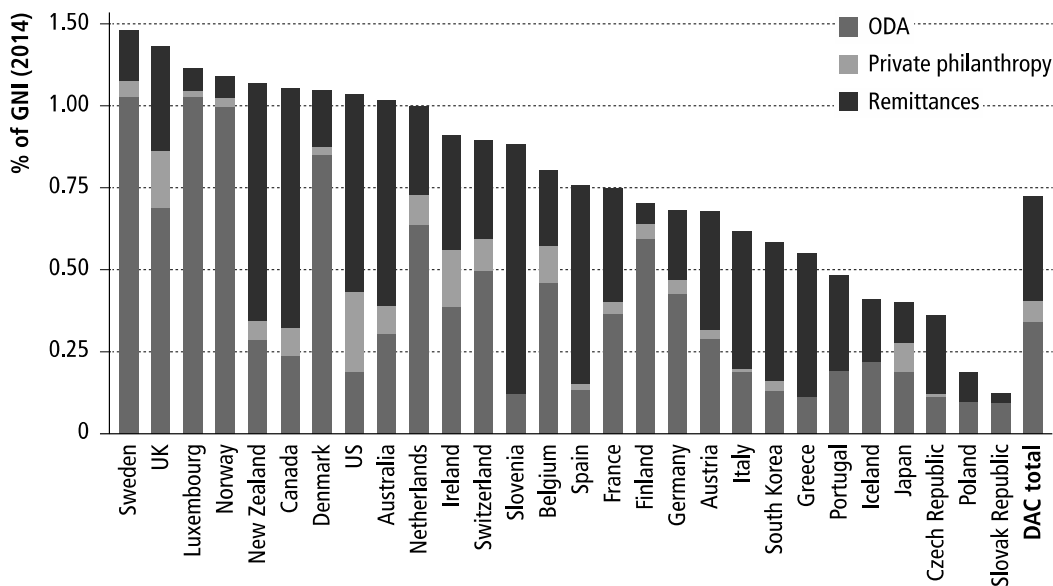


Source: OECD (2019b) p. 4.

In 2018, 26 of the largest foundations working for development reported information on their grant making and programme-related investment for development to the OECD DAC system, following the same statistical standards and definitions as ODA. Some of these data are shown in Figure 1.8. The OECD estimates that the 26 largest contributors' foundations provided US\$6.1bn for development in 2017. This compares with US\$178bn of ODA. Many of these foundations are particularly prominent in health sectors.

According to the IGPR latest report (2016), global philanthropy in 2014 amounted to some US\$64bn. The IGPR's definition of philanthropy includes contributions from foundations, corporations, private and voluntary organisations, individual volunteers, religious organisations, and universities and colleges.

**Figure 1.8 Total assistance from OECD donor countries to developing countries: ODA, philanthropy and remittances as a percentage of GNI, 2014**



Source: IGPR (2016) p.29.

The IGPR reports that many countries are significantly underestimating the levels of private donations reported to the OECD (which collects this data for the DAC donor countries), and some DAC countries do not report any private giving to the OECD. Figure 1.8 shows the flows of ODA, private investment, philanthropy and remittances in 2014 from individual countries as a share of their GNI. This indicates the significant role of philanthropy relative to that of ODA, according to the research of the IGPR. Philanthropy has grown significantly in the last decade, although this partly reflects improved methodology for calculating these flows. This has considerably increased the share of GNI going to developing countries from the developed nations; as a result, most exceed the 0.7 per cent of GNI for ODA, and some countries – notably the UK, US and Canada – rank considerably higher on this basis than they do on ODA alone.

Kharas (2007) suggests that the growth of private aid has been partly fuelled by scepticism about the impacts of official aid. Public opinion, he says, is much more favourable towards NGOs than multilateral aid donors such as the World Bank and IMF. One might expect donations to NGOs in the rich countries to fluctuate with economic conditions in these countries, increasing in periods of rising incomes and reducing at times of recession. Donations by wealthy individuals and foundations might also be expected to be sensitive to fluctuations in the stock market. However, these impacts do not seem to have been especially prevalent in the last decade or so.

Lewis and Kanji (2008) plot the change in the role of NGOs from purely emergency work to development activities as beginning in the 1980s, and they note the subsequent expansion of ODA provision to finance the NGOs' activities. They attribute this in part to the special qualities that NGOs offer compared with official donors, especially with regard to the poor and other marginalised groups. These qualities include the perception that NGOs have some measure of independence from ODA, their ability to provide opportunities for ordinary citizens to engage with development issues, and that they can engage more effectively than governments with citizens in the developing world, especially women or minorities.

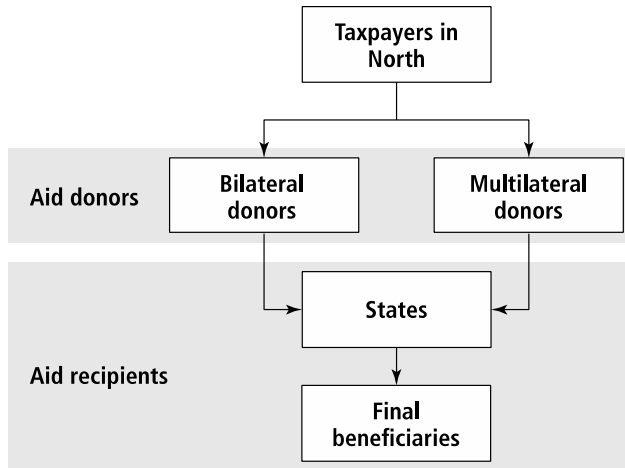
Grants by private voluntary agencies and NGOs are defined as transfers made in cash, goods or services for which no payment is required. The private sector comprises private corporations, households and non-profit institutions serving households. Development funding from the private sector is becoming more significant. This includes funding from private foundations (which play an increasing role in funding development and finding innovative ways to promote it), NGOs, and the for-profit private sector. This indicator is measured in US\$m constant prices, using 2014 as the base year (OECD, 2019a).

Figure 1.9 illustrates the change in 'aid architecture' that has occurred since the 1960s. The dominant model in the second half of the twentieth century was the provision of ODA, financed by developed countries' taxpayers in Europe and the US through either bilateral or multilateral institutions. The

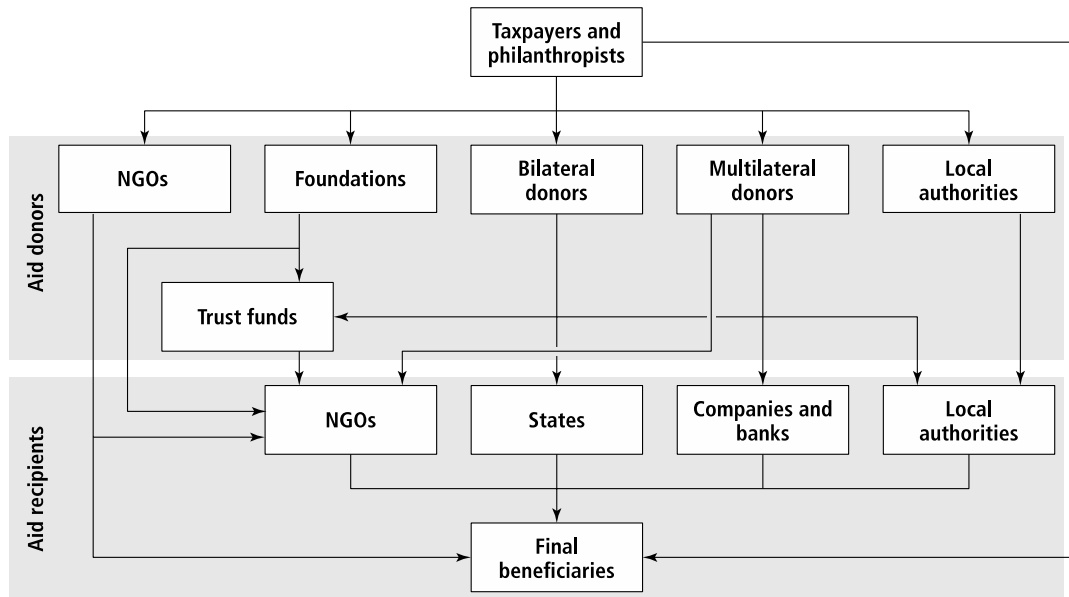
aid architecture post-2000 is illustrated in Figure 1.9b; sources of development assistance are much more heterogeneous, as are the channels through which aid flows to recipients.

**Figure 1.9 Changing aid architecture**

**a) Traditional ODA (1960s)**



**b) Global policy finance (2000s)**



Source: Severino and Ray (2010) p. 10.

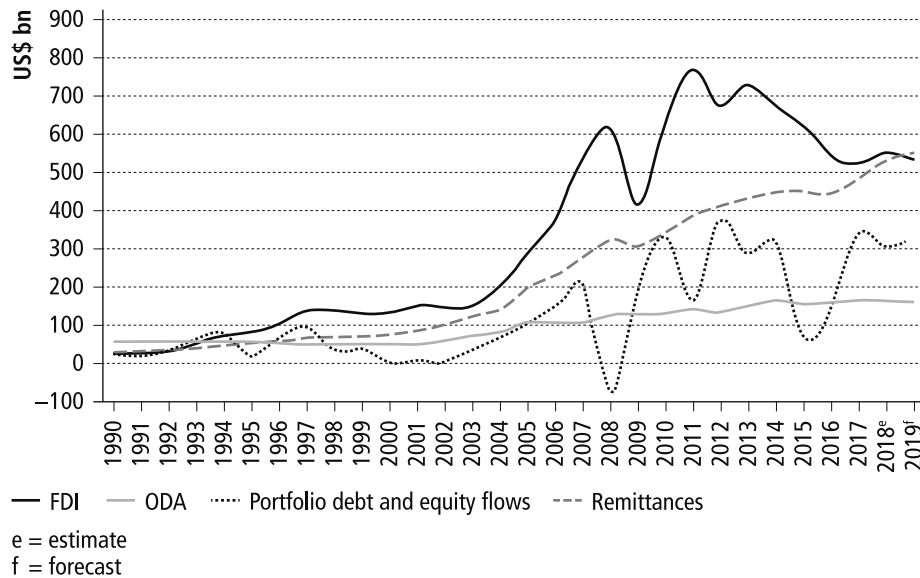
This fragmentation of donors, while increasing the total volume of aid donations, does bring its own problems. For example, it increases the transactions costs of aid being allocated to recipient countries and puts pressure on the latter in having to deal with a multiplicity of donors (see Unit 7).

**1.2.6 Remittances**

Remittances are cash sums sent from migrants to their home country and are a significant source of income in many poorer countries. They are not ODA, but it is useful to compare the amount of remittances with ODA. Figure 1.10 shows the flow of funds to developing countries from 1990 to 2019,

including foreign direct investment (FDI; the acquisition of assets in a country by foreign investors), remittances, and private portfolio debt and equity flows alongside the ODA. The flows of FDI and remittances considerably outweigh those of ODA.

**Figure 1.10 Global flow of funds to low- and middle-income countries, 1990–2019**



Source: World Bank (2019) p. 15.

Remittances have exceeded official aid – by a factor of three – since the mid 1990s. In 2019 they are forecast to have overtaken FDI as well (World Bank, 2019). World Bank estimates are that 270 million migrants around the world will have sent a combined US\$551bn back to low- and middle-income countries in 2019. Inflows of remittances improve a country’s balance of payments as well as raising the incomes of individual recipients. As the chart also illustrates, remittances are also a relatively stable source of foreign currency as compared with FDI and portfolio debt and equity flows.

## 1.3 A Brief History of Development Assistance

This section will examine the history of aid giving from its earliest origins, when such assistance was provided not by governments but by private voluntary donors and colonial administrations.

### 1.3.1 The origins of aid in colonial administration and the voluntary sector

Many authors attribute the growth of development assistance after 1945 to the setting up of the Marshall Plan in 1947. However, according to de Haan (2009), the origins of aid in many European countries can be traced back to the colonial period; many early development projects were set up by the colonial administrations of these countries. Riddell (2007) emphasises the role of international organisations such as the International Labour Organization,

the United Nations Relief and Rehabilitation Agency (1943–1947) and voluntary agencies, particularly churches and church-based organisations, during this early period.

### 1.3.2 The Marshall Plan and the 1950–1970 period

The European Recovery Programme (better known as the Marshall Plan), whereby the US devoted some 2–3 per cent of its national income to help restore Europe after the Second World War, is usually heralded as the start of the modern era of development assistance. It was largely focused on infrastructure to help reconstruct Europe and this focus was carried over for at least the next two decades in the aid given to poor countries (Riddell, 2007). Tarp (2010) suggests that the Marshall Plan's success fuelled optimism about the potential effectiveness of foreign aid in developing countries.

Goldin (2016) says that aid was initially focused on supporting former colonies, or was distributed for political and military reasons connected with the Cold War. De Haan (2006) concurs with Riddell in describing this period as one of optimism about the impact of foreign aid, although he associates some of the growth of aid in this period with donors' security concerns in the context of the spread of communism in Eastern Europe. Thus, he argues, the provision of aid was an integral part of (mainly US) foreign and national security policy.

Both Riddell and de Haan emphasise the popularity of infrastructure projects in this period. Tarp (2010) categorises the 1950s and 1960s as a period of state-led planning for economic growth and modernisation which it was anticipated would eliminate poverty and inequality (the 'trickle-down' effect). Picard and Buss (2009) categorise aid in this period as having a state-centric focus among both donors and recipients. This, it should be noted, was a period when socialism was still a popular form of government in the post-colonial world. Easterly (2006) describes this period as an aid-financed 'big push' that would allow a take-off into self-sustained economic growth. This 'take-off' thesis was promulgated by Rostow (1960).

### 1.3.3 The 1970s

Multilateral assistance grew in the 1960s and 1970s, especially after the creation of the International Development Association (IDA) within the World Bank, designed to channel resources to the poorest countries on 'soft' loan conditions, but also through the various agencies of the UN. This aid reached about 30 per cent of the total foreign aid in this period (Tarp, 2010). In 1973, Robert McNamara, then president of the World Bank, committed the bank to a focus on poverty reduction.

The dominant modality of aid in this period, according to Tarp (2010) and Glennie and Sumner (2016), was project aid – that is, aid intended for the implementation of specific capital investment projects, which were evaluated using cost-benefit analysis. Kanbur (2003) identifies a shift in aid towards poverty and social sectors such as education and health in the 1970s, and an

emphasis on direct beneficial outcomes rather than the 'trickle-down' effect from general economic growth. De Haan (2009) identifies other trends in this period as including an emphasis on redistribution, basic needs and participatory approaches to rural development.

Riddell (2007) identifies some of the main changes in development assistance in the 1970s as a growing emphasis on poverty with a consequent expansion in project aid, a renewed growth in aid levels, a series of initiatives concerned with the lack of development in low-income countries, and a noticeable increase in the role and approach of NGOs.

#### 1.3.4 The 1980s: the Washington Consensus

The 1980s saw a big shift in the dominant development doctrine. This was a 'turbulent' decade (Kanbur, 2003) with oil shocks, global recession and inflation ('stagflation'), the end of the Cold War in the final years of the decade, and the election of conservative governments, especially in the US (Reagan) and UK (Thatcher). Possibly as a reaction to the various economic problems of this period and the perceived failure of previous Keynesian policies, these governments led a move to more market-based approaches to public policy, including development. A menu of cutting public expenditure, reducing taxes, deregulating the private sector and reducing the role of the state was advocated for both developed and developing countries.

The focus of development policy shifted to internal domestic failure; achieving macroeconomic balance was seen as an essential prerequisite for renewed development, especially in terms of public expenditure, budget deficits and debt relief. Aid increasingly took the form of loans that were conditional on policy reform, often called *programme aid*. Easterly (2006) suggests that the failure of the *big push* led to the view that free markets would solve the problem of low growth and poverty. The shift away from project finance to *structural adjustment loans* was conditional on recipient countries adopting market-oriented policies ('rolling back the state', according to Tarp, 2010), including trade liberalisation, privatisation, deregulation, and public-sector reforms. Because these conditions were imposed by multilateral agencies including the World Bank and the IMF, both based in Washington, such policies became known as the *Washington Consensus*. Non-state entities – for-profit and not-for-profit, national and international – became increasingly important in aid giving, both as recipients of aid and as channels for aid (Glennie & Sumner, 2016). The reason for using private entities reflected the same ideology as that behind structural adjustment (Glennie & Sumner, 2016).

The Brandt Report (*North-South: A Programme for Survival*, 1980), which was produced as a result of growing criticism and scepticism about aid, drew attention to global interdependence. It stated that the rich world had to assist the poor and disadvantaged, and that this was in the rich world's own interest (Riddell, 2007).



### 1.3.5 The 1990s to the present

As seen in Figure 1.1, the pattern of development assistance in this period was marked by two contrasting trends. Aid was significantly reduced in the 1990s, both in real terms and as a share of GDP, and then substantially expanded in the first decade of the new millennium. According to Tarp (2010), the cutback can be attributed to several factors: the end of the Cold War, weakening relationships between developing countries and their former colonial powers, and a growing scepticism concerning the effects of aid. The 1990s saw the transition countries of Eastern Europe and the former Soviet Union become recipients of foreign aid, although these were recorded separately by the DAC at the OECD.

Kanbur (2003) suggests aid in the early part of the decade was still influenced by the doctrines of the 80s, and ‘shock therapy’ (that is, a rapid transition) was urged on the transition countries (former communist states) by many. Easterly (2006) labels the 1990s as an attempt to foster *good institutions*; ‘bad’ governments were seen as the cause of the lack of development after the free market reforms of the 1980s had failed. The dominant view became that the weakness of institutions, poor governance, and corruption were the main impediments to sustainable development. Property rights, enforcement of contracts and democratic accountability were all emphasised. Allied to this was an increasing emphasis on the role of aid in capacity building and development, the strengthening of governmental institutions and the pursuit of good governance.

Glennie and Sumner (2016) suggest that the perceived failure of aid to reduce poverty in the 1980s, together with an increasing number of sceptical analyses of the impact of aid, contributed to the reduction in the early 1990s.

Riddell (2007) contrasts the cutbacks in development assistance in the 1990s with the growth in emergency and humanitarian assistance, and draws attention to the resurgence of poverty reduction through the provision of development assistance. The expansion of aid from 2000 is explained by the more prominent roles of the UN and World Bank, the adoption of the UN Millennium Development Goals in 2000, some high-profile international conferences and summits and a number of significant reports, including the Millennium Development Report and the Commission for Africa Report, both published in 2005.

The expansion in development assistance from 2000 onwards has been referred to as another ‘big push’ or modern ‘Marshall Plan’, involving substantial increases in foreign aid to achieve the UN’s Millennium Development Goals; although, as the OECD commented in 2011, some donors have not met these or their other development assistance targets. The growth in development assistance in this period is also linked to security concerns following the 9/11 terrorist attacks in New York and Washington.

## 1.4 Why Do Countries Donate Development Assistance?

This unit began with a definition of development assistance that included the promotion of economic development and poverty reduction. However, we have also seen references to the self-interest of donors in relation to their political and economic objectives. Certainly, the greatest amount of concessional aid is normally provided to the poorest countries; however, this concern with the world's less well-off is not the only reason for aid, or even the dominant one. Riddell (2007) points out that for many major donors, such as the US, economic development and poverty eradication are not the main objectives of their ODA. Other objectives include serving the donor country's own interests: their foreign and security policies (*eg* the Cold War was used as a powerful justification for providing aid) and their commercial and economic interests. Another motivation may be based on historical ties, especially with former colonies.

Riddell summarises donor motives as follows:

- addressing emergency needs
- assisting recipients to achieve their development goals in terms of economic growth and poverty reduction
- showing solidarity
- furthering their own national political and strategic interests
- helping to promote donor country commercial interests
- recognising historical ties
- recognising the contribution that aid can make to providing and strengthening global public goods (see Box 1.1)
- promoting and improving the human rights records of recipient governments.

Source: Riddell (2007)

Riddell comments that most donors allocate aid based on a mix of these different factors, with that mix differing between donors and over different time periods.

In one of the earliest and most influential studies on donor motives, Alesina and Dollar (2000) examined a cross-country analysis of the distribution of bilateral aid during the period from 1970 to 1994. They found considerable evidence that the pattern of aid giving between donors and recipients was determined as much by political and strategic considerations as by economic needs and the policy performance of the recipients. It was significant that, other things being equal, poorer countries did receive more aid per capita, but there was considerable variation in this relationship.

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### Box 1.1 Global public goods

An argument for providing foreign aid is based on the provision and strengthening of *global public goods* (Kaul *et al*, 1999). Global public goods are goods that have an impact which goes beyond one country.

Public goods, in the economic sense of the term, are goods or services that are non-rivalrous in their consumption (*your* use of it does not reduce *my* use of it) and non-excludable (no one can be excluded from using it). Where both these conditions are met,

the goods are often called *pure public* goods. A pure global public good is marked by universality – that is, it benefits all countries, people and generations. Global public goods may be tangible (such as maintaining or improving the environment or the common heritage of mankind) or intangible (such as peace or financial stability).

Public goods will be undersupplied by competitive markets because of the ‘free rider’ problem – no single agent will consider the positive benefits on other agents of supplying this good. Some public goods may be *impure* in that they have spillover effects or *externalities*. This applies to individual nation states whose activities impact on others, especially their neighbours, for good or bad. Examples include refugees fleeing a civil war, poor control of infectious diseases and, most notably, environmental impacts due to pollution and the like, and impacts on financial stability and global human security (peace). In cases such as climate change, competitive markets will produce an under- or oversupply of these activities because in such markets no single agent will take account of the positive or negative effects on others.

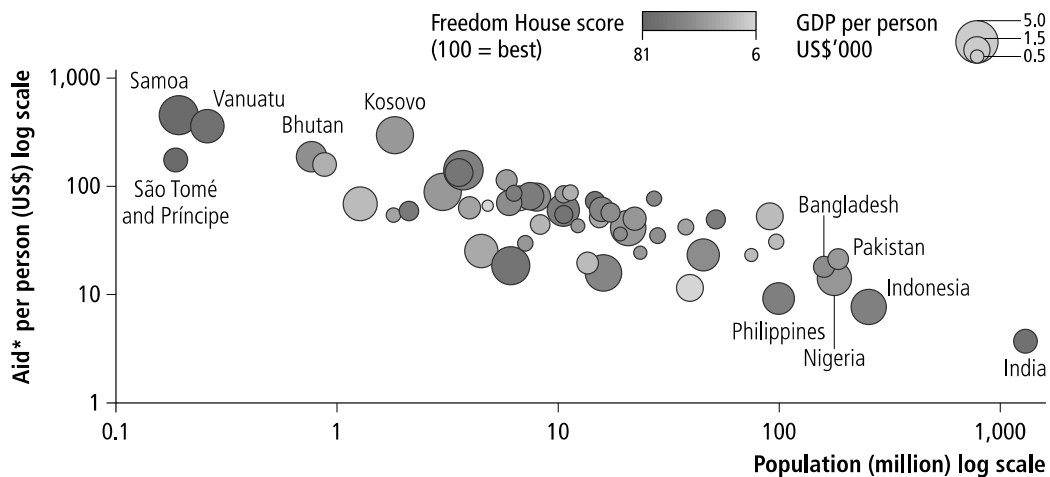
Global public goods require mechanisms of coordination between countries. Examples include:

- the need to coordinate tackling climate change, reducing CO<sub>2</sub> emissions, or protecting rainforests
- the coordination and channelling of foreign aid through international institutions that can distribute it more efficiently
- contiguous countries dealing with problems such as transportation between inland areas and coastal ports and other issues (particularly applicable in Africa)
- coordination mechanisms, which themselves are not costless.

If global public goods are undersupplied, and if increasing this supply would benefit poorer countries, then international public goods of this type would be legitimate targets of development assistance funds.

They also found that smaller countries received more favourable treatment on a per capita basis; Collier (2007) suggests that this is because donors wish to influence as many countries as possible. In conclusion, Alesina and Dollar suggest that their results might help to explain why foreign aid is, at best, only partially successful at promoting economic growth and reducing poverty in poorer countries, because non-economic motives appear to be more important in determining the flow of aid.

The correlation between ODA and small countries appears to be maintained in more recent data than that used by Alesina and Dollar, as shown in Figure 1.11.

**Figure 1.11 Population and aid per person 2014**

Berthélemy and Tichit (2004) contended that the end of the Cold War brought about reduced bias in aid allocation on the basis of colonial ties in favour of a fresh bias in favour of trade partners. A further study (Hoeffler & Outram, 2011) examined the data for the largest DAC ODA providers over the period 1980–2004 and analysed the influence on aid allocation of recipient need, recipient merit (*eg* human rights record, democracy) and donor self-interest. Their findings suggested that donor self-interest is an important determinant of aid allocation but is not as influential as Alesina and Dollar (2000) suggested; they found that donor-specific factors (income, merit) were as important in determining aid as all the other factors combined. The motives for donating aid may have implications for the analysis of the impacts of aid on growth (see Unit 2).

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## 1.5 Aid Allocation

This section is concerned with the distribution of development assistance and provides explanations for the way it is allocated. As we have seen, donor self-interests, or ‘non-developmental motives’ (Riddell, 2007) are an important motive for providing ODA and so we might expect this to feature in the allocation of ODA.

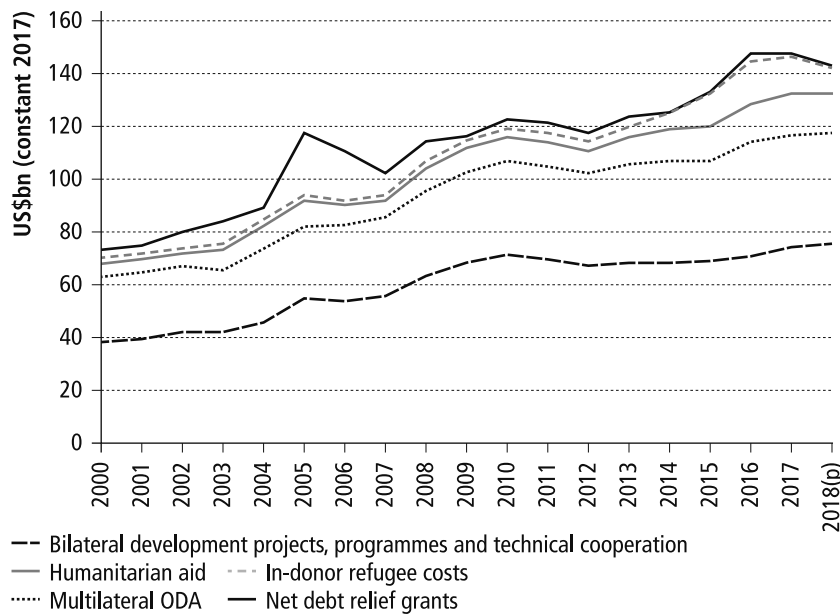
Riddell (2007) suggests we cannot assume that current donors would continue to donate similar amounts of aid if the aid were exclusively for development purposes. Moreover, it can be difficult to distinguish between development and non-development purposes for giving aid; many countries that receive aid for geopolitical reasons would also qualify by poverty criteria.

### 1.5.1 Aid modalities

Figure 1.12 shows that bilateral aid – that is, country-to-country aid – is the largest single component of DEC ODA, with multilateral aid (channelled through agencies like the World Bank and regional development banks) constituting the second main component. More recently debt forgiveness and grants of debt relief have become an increasingly significant share of foreign aid, especially in 2004–6.

The advantages of multilateral channels derive from their ability to collectively organise, pool and advance common global causes, while bilateral channels are conduits for donor control, visibility and preferences (Gulrajani, 2016).

Bilateral aid is frequently used to support the self-interests of donor countries, particularly where a proportion of such aid is ‘tied’ to purchases within the donor country; multilateral aid is less prone to these pressures. While such tying of aid may be helpful in harnessing domestic political support for aid within the donor country, it may mean that the aid provided is more costly and/or less effective than in the absence of such conditions. This is also a criticism of food aid and technical assistance, both of which are dictated by the donor country rather than the recipient country being able to choose the supplier.

**Figure 1.12 Components of DAC countries' net ODA**

Source: www.oecd.org 2019

Goldin (2016) says that tied aid was common until the 1990s. In 2001 DAC members agreed to untie their ODA to the least developed countries (LDCs) and heavily indebted poor countries (HIPCs) to the greatest extent possible. By 2016, 88 per cent of bilateral ODA was reported as untied (OECD, 2018).

Multilateral donors like the World Bank and Asian Development Bank are known to be able to direct a great deal of their resources to the world's poorest countries, resisting the political pressures that skew bilateral aid away from the poorest countries and towards, for example, former colonies (Briggs, 2015). Neumayer (2004) studied the determinants of aid allocation by regional multilateral development banks and UN agencies and found a bias towards less populous countries (also a factor in bilateral aid allocation) and former colonies. The three UN agencies contravened a third bias of bilateral donors, providing more aid to countries that were geographically more distant from the centres of the Western world. Economic need, human development, and political freedom were all significant in aid allocation.

Riddell (2007) highlights some changes in the ways in which development assistance is provided. These include a move away from small-scale and discrete projects to larger and more diffuse amounts of aid, some sector-wide and others designed for budget support. Growing attention has also been paid to the development issues in conflict countries – he suggests this blurs the distinction between development and emergency aid – and to the environmental aspects of development. Riddell also draws attention to the issue of donor fragmentation with a growing multiplicity of donors, both bilateral and multilateral, and the consequent problems, such as duplication and high administrative costs to both donors and recipients.

In terms of how development assistance is delivered to recipient countries, the main modalities are:

- **projects:** typically small-scale (micro), more focused on specific objects, and discrete
- **technical assistance**
- **sector/programme budget support:** funds are earmarked to finance an agreed plan for a sector (health, education, capacity building, *etc*) and accounted for and disbursed through recipient government systems; this method is now more prevalent
- **general (budget) support:** aid is provided as part of the recipient government's national budget, with comparatively little specification as to expenditure purposes or priorities by donors.

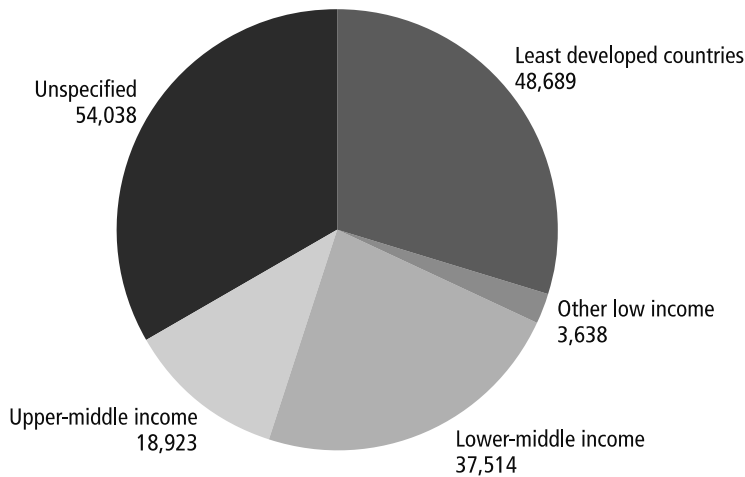
## 1.5.2 Distribution of DAC ODA

Net ODA may be distributed by income group (LDC, other low-income countries, lower middle-income countries (LMICs), upper middle-income countries (UMICs), unallocated and more advanced developing countries and territories) or by geography (sub-Saharan Africa, South and Central Asia, other Asia and Oceania, Middle East and North Africa, Latin America and the Caribbean, Europe, and unspecified).

## 1.5.3 Distribution of DAC ODA by income levels

Figure 1.13 shows the distribution of 2017 DAC ODA based on broad categories of average per capita income in the recipient countries. The actual recipient countries are shown in Table 1.2.

**Figure 1.13 Distribution of DAC ODA by country income levels, 2017**



Source: OECD (2019a) p. 2.

The lowest per capita income groups, the LDCs and low-income countries, received about 32 per cent of total ODA in 2017. A large proportion of ODA is unallocated (33 per cent), which leaves 23 per cent going to LMICs and 12 per cent going to UMICs. Although this distribution suggests that the poorest countries do not receive the bulk of ODA, we do not know the distribution of the 'unspecified' proportion of ODA. In addition, the categories are based on average per capita income; there is still a considerable amount of poverty among the LMICs, especially in rural areas. However,

the figures do support the view that ODA is allocated not just to assist development and poverty reduction.

**Table 1.2 DAC list of ODA recipients**

Least Developed Countries	Other Low Income Countries (per capita GNI <= \$1 005 in 2016)	Lower Middle Income Countries and Territories (per capita GNI \$1 006-\$3 955 in 2016)	Upper Middle Income Countries and Territories (per capita GNI \$3 956-\$12 235 in 2016)
Afghanistan	Democratic People's Republic of Korea	Armenia	Albania
Angola <sup>1</sup>	Zimbabwe	Bolivia	Algeria
Bangladesh		Cabo Verde	Antigua and Barbuda <sup>2</sup>
Benin		Cameroon	Argentina
Bhutan <sup>1</sup>		Congo	Azerbaijan
Burkina Faso		Côte d'Ivoire	Belarus
Burundi		Egypt	Belize
Cambodia		El Salvador	Bosnia and Herzegovina
Central African Republic		Eswatini	Botswana
Chad		Georgia	Brazil
Comoros		Ghana	China (People's Republic of)
Democratic Republic of the Congo		Guatemala	Colombia
Djibouti		Honduras	Costa Rica
Eritrea		India	Cuba
Ethiopia		Indonesia	Dominica
Gambia		Jordan	Dominican Republic
Guinea		Kenya	Ecuador
Guinea-Bissau		Kosovo	Equatorial Guinea
Haiti		Kyrgyzstan	Fiji
Kiribati		Micronesia	Gabon
Lao People's Democratic Republic		Moldova	Grenada
Lesotho		Mongolia	Guyana
Liberia		Morocco	Iran
Madagascar		Nicaragua	Iraq
Malawi		Nigeria	Jamaica
Mali		Pakistan	Kazakhstan
Mauritania		Papua New Guinea	Lebanon
Mozambique		Philippines	Libya
Myanmar		Sri Lanka	Malaysia
Nepal		Syrian Arab Republic	Maldives
Niger		Tajikistan	Marshall Islands
Rwanda		Tokelau	Mauritius
Sao Tome and Principe <sup>1</sup>		Tunisia	Mexico
Senegal		Ukraine	Montenegro
Sierra Leone		Uzbekistan	Montserrat
Solomon Islands <sup>1</sup>		Viet Nam	Namibia
Somalia		West Bank and Gaza Strip	Nauru
South Sudan			Niue
Sudan			North Macedonia
Tanzania			Palau <sup>2</sup>
Timor-Leste			Panama <sup>2</sup>
Togo			Paraguay
Tuvalu			Peru
Uganda			Saint Helena
Vanuatu <sup>1</sup>			Saint Lucia
Yemen			Saint Vincent and the Grenadines
Zambia			Samoa

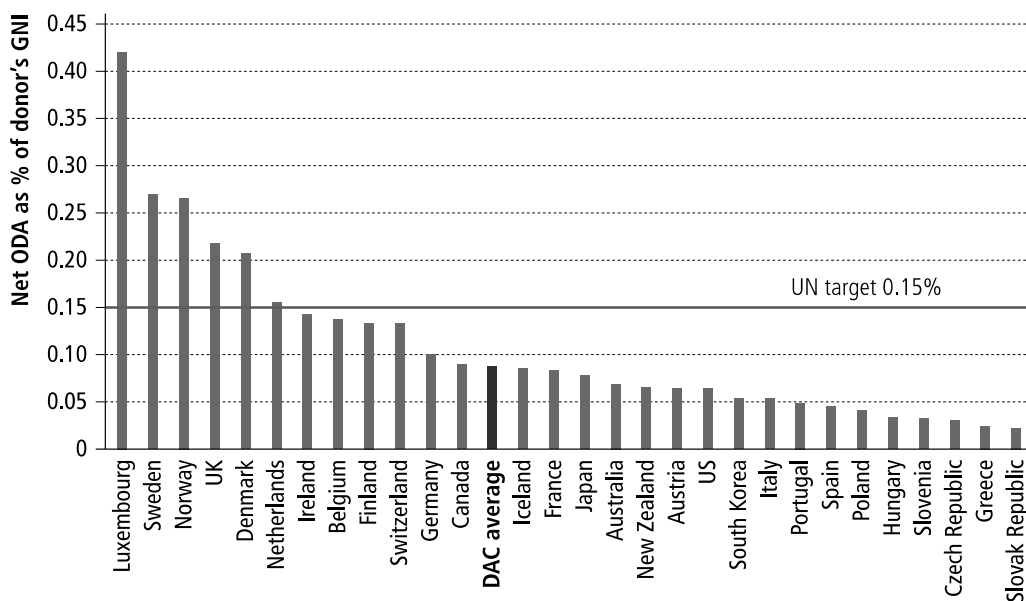


Serbia  
 South Africa  
 Suriname  
 Thailand  
 Tonga  
 Turkey  
 Turkmenistan  
 Venezuela  
 Wallis and Futuna

- 1 General Assembly resolution A/RES/70/253, adopted on 12 February 2016, decided that Angola will graduate on 12 February 2021. General Assembly resolution A/73/L.40/Rev.1, adopted on 13 December 2018, decided that Bhutan will graduate on 13 December 2023 and that Sao Tomé and Príncipe and Solomon Islands will graduate on 13 December 2024. General Assembly resolution A/RES/68/18, adopted on 4 December 2013, decided that Vanuatu will graduate on 4 December 2017. General Assembly resolution A/RES/70/78, adopted on 9 December 2015, decided to extend the preparatory period before graduation for Vanuatu by three years, until 4 December 2020, due to the unique disruption caused to the economic and social progress of Vanuatu by Cyclone Pam.
- 2 According to World Bank data from 10 July 2019, Antigua and Barbuda, Palau and Panama exceeded the high-income threshold in 2017 and 2018. In accordance with the DAC rules for revision of this List, if they remain high income countries until 2019, they will be proposed for graduation from the List in the 2020 review

Source: OECD (nd e)

**Figure 1.14 Total net DAC ODA to least developed countries as a % of donors' GNI, 2016**



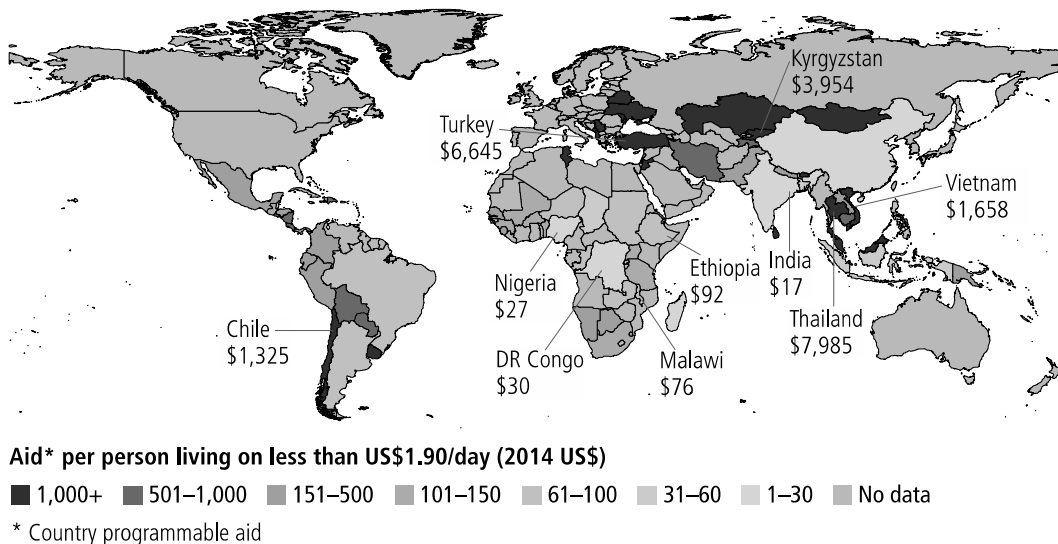
The UN set a target for developed countries to provide the equivalent of 0.15–0.20 per cent of their GNI in the form of ODA to LDCs (in parallel to countries' commitment to provide the equivalent of 0.7 per cent of GNI in ODA to developing countries). Figure 1.14 illustrates that only six countries met this target in 2016, and DAC countries provided only 0.09% of their combined GNI as ODA to LDCs.

Figure 1.15 shows the distribution by country of ODA per head of the population living in extreme poverty (defined as living on less than \$1.90 per day<sup>1</sup>). For example, India in 2014 had some 275 million people in extreme poverty and received \$4.8bn in ODA, which amounted to \$17 per poor person.

<sup>1</sup> There is more on poverty in Unit 3.

Vietnam also received \$4.8bn; however, with a much lower proportion of its population in extreme poverty, this amounted to \$1,658 per poor person. On this measure, South East Asia and South America fare better than elsewhere (*The Economist*, 11 June 2016).

**Figure 1.15 Distribution of ODA per head of the population living in extreme poverty 2014**



Source: *The Economist* (11 June 2016)

Riddell (2007) makes the point that if aid allocations were based more closely on poverty criteria, the impact of aid on poverty reduction would not merely be greater – it would be *significantly* greater. Collier and Dollar estimated (2002) that such a reallocation of aid would lead to a trebling of the numbers of people that could be ‘lifted out of poverty’.

Bigsten *et al* (2011) estimated that if the European Union countries wished to optimise the distribution of foreign aid for the sole motive of reducing poverty, they would need to reallocate \$19 billion of the \$27 billion of EU aid – over 70 per cent – and direct it to only the 20 poorest countries.

#### 1.5.4 DAC ODA by recipient country

Table 1.3 shows the top ten recipients of gross ODA in 2017. What can you infer about the distribution of ODA from this list?<sup>2</sup>

*The Economist* (11 June 2016) suggests that the Cold War era practice of distributing aid to friendly countries and former colonies has largely

<sup>2</sup> Afghanistan, classified in Table 1.2 as an LDC, and Syria (LMIC) either have been or are in conflict; we might suppose that their prominence on the list reflects this. India is listed as a LMIC and is an example of a country that still has large amounts of poverty despite its LMIC status. Confusingly, India (alongside some other MICs) also donates development aid. Ethiopia and Bangladesh, are LDCs; Indonesia, Pakistan, Vietnam are all LMICs. Perhaps surprisingly, Libya is classified as an UMIC, but has experienced considerable conflict in recent times.

disappeared but that aid is still a tool of foreign policy, hence the significance of aid to Afghanistan, Egypt, Jordan, Syria, Iran and Turkey.

**Table 1.3 Top 10 ODA receipts by recipient (US\$m, net disbursements 2017)**

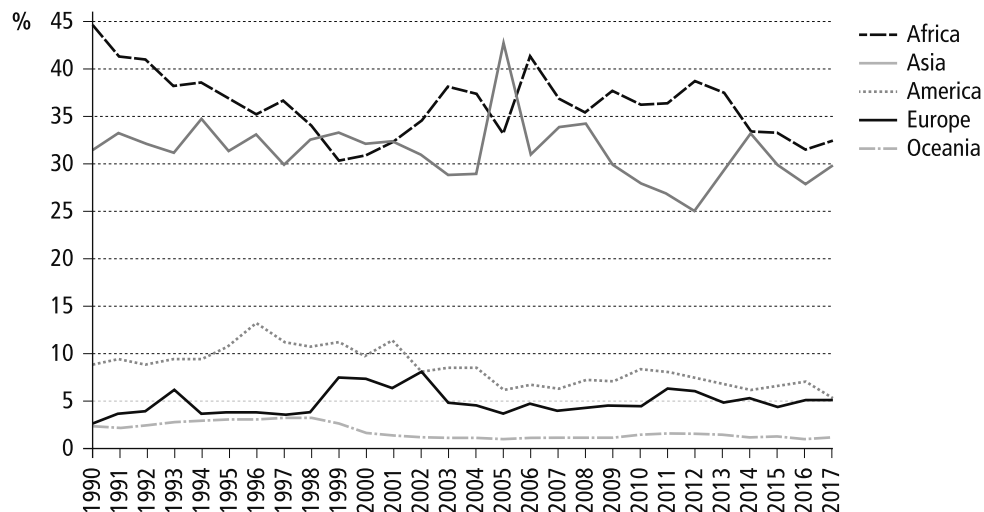
1	Syrian Arab Republic	10,361	6%
2	Ethiopia	4,117	3%
3	Afghanistan	3,804	2%
4	Bangladesh	3,740	2%
5	Nigeria	3,359	2%
6	Yemen	3,234	2%
7	Turkey	3,142	2%
8	India	3,094	2%
9	Jordan	2,921	2%
10	Iraq	2,907	2%
	Other	122,123	75%
	<b>Total</b>	<b>162,802</b>	<b>100%</b>

Source: OECD (2019a) p. 2.

### 1.5.5 DAC ODA by geographical region

Figure 1.16 indicates that Asia and Africa received the largest shares of ODA over the period 1990–2016. Africa's share has remained relatively stable while Asia's has declined, probably reflecting its greater success in achieving higher economic development.

**Figure 1.16 Regional shares of total net ODA (% total ODA), 1990–2016**



Source: OECD (2019a) p. 3.

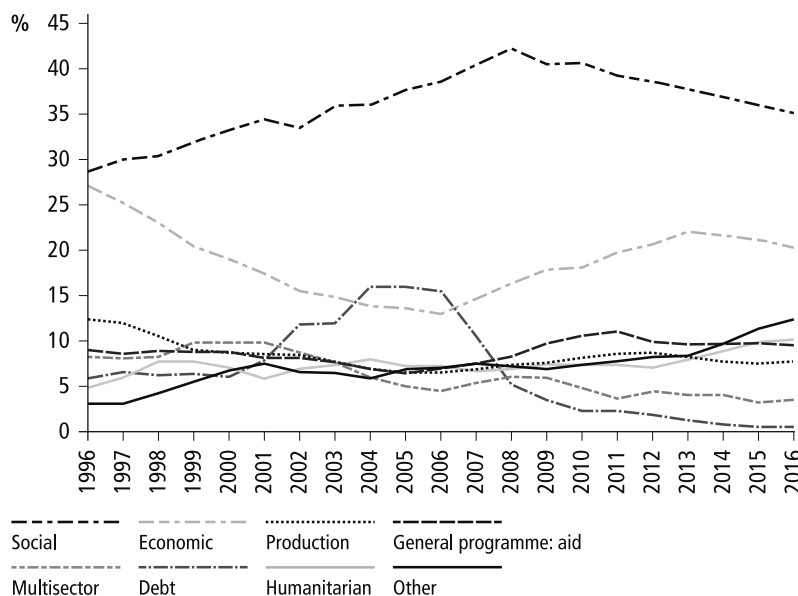
### 1.5.6 DAC ODA by sector

DAC ODA defines the following sectors of aid allocation (percentages from Figure 1.17):

1. **Social:** includes funding for education, health, and the promotion of civil society. In 2016 35 per cent of all sector aid was allocated to social infrastructure.
2. **Economic:** includes funds for projects in transportation, energy, communications and banking. 20 per cent of aid went to this sector in 2016.
3. **Production:** includes funding for agriculture, forestry and fishing, industry, mining and construction, and trade and tourism. In 2016 about 8 per cent went to this sector.
4. **Multisector support:** funding geared to projects that straddle several sectors, but basically includes the environment and biodiversity. Multisector support is a more recent category of aid and totalled about 8 per cent in 2016.
5. **General programme aid:** contributions to government budgets and support for macroeconomic reforms. About 4 per cent of aid was in this category.
6. **Humanitarian assistance:** encompasses emergency response, reconstruction and disaster prevention. Humanitarian Assistance funds are donated to assist in man-made or natural disasters and totalled about 10 per cent of aid allocation in 2016.
7. **Debt:** includes debt swaps, debt forgiveness and debt relief. Less than 1% was allocated in 2016.

Source: (<https://data.oecd.org/development.htm>)

**Figure 1.17 DAC ODA by sector**



Source: OECD (2019a) p. 9.

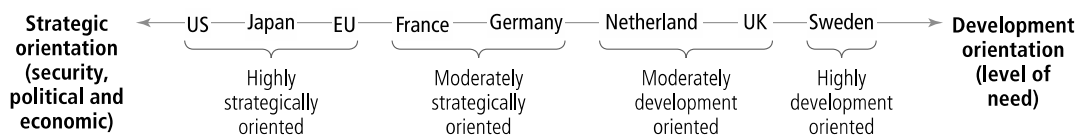


### Reading 1.4

You should now read the paper by Baydag *et al.* (2018) which examines the aid allocation of major DAC providers in Europe. They classify donor motivations as either **strategically motivated** – that is, their aid is focused on their own security concerns, foreign policy interests, economic interests and the like – or is **development oriented** so that aid is focused on recipients' needs in terms of development and poverty reduction. The more strategic-oriented a donor, the more likely they are to provide more aid to middle-income countries; the more development-oriented donors are, the more likely it is that their aid will target LDCs. The authors provide a qualitative assessment of donor motivations by comparing the stated intentions on the part of the donor and the actual flows to recipient countries. You should focus on the country cases in relation to their stated aims for providing ODA and the extent to which their actual allocation of aid reflects these objectives. An important comment from the authors is that there is no clear distinction between the two approaches, because they overlap; donor aims are a mix of the two approaches. They also found that donors do not always follow their stated intentions. Their analysis produced a spectrum of motives from the selection of donors in the study, as shown in Figure 1.18.

Baydag *et al.* (2018) 'Shaping the Patterns of Aid Allocation. A Comparative Analysis of Seven Bilateral Donors & the EU'. German Development Institute, Discussion Paper 22/2018, available in the reading for this unit.

**Figure 1.18 Spectrum of partner country selection approaches**



**Note:** The spectrum does not reflect an exact measurement or an exact ranking of the ODA providers; rather it reflects our indications from the case studies. These criteria have only been operationalised verbally and synthesised to a common outcome level (= level of strategic orientation).

Source: Baydag *et al.* (2018) p. 29.



### Review Question 1.4

Do you find the distinction between intentions (commitments) and actual flows (disbursements) useful?

What might explain the difference between the two?

## 1.6 International Agreements on Aid Effectiveness and Development

Over the past two decades, the OECD DAC and the UN have tried to arrive at a consensus about the processes of aid policy and distribution, with a series of agreements intended to guide development assistance practice. The UN held a conference on financing for development in Monterrey in 2002, which resulted in a global agreement on how the aid process was to be managed. Subsequent meetings in Rome (2003), Paris (2005), Accra (2008) and Busan (2011) produced consensual policies on making aid more effective and on improving the processes of economic and social development. Meanwhile, the EU's development assistance programme has been guided by an agreement between the EU and its member states and countries in Africa,

the Caribbean and the Pacific; the Cotonou Agreement (2000), enacted in 2003 and updated up to 2014, set out a framework for development cooperation for the EU and its development partners.

The Busan agreement<sup>3</sup> is summarised in these extracts from the final text.

Extracts from Busan Declaration 2011:

11. As we embrace the diversity that underpins our partnership and the catalytic role of development cooperation, we share common principles which – consistent with our agreed international commitments on human rights, decent work, gender equality, environmental sustainability and disability – form the foundation of our cooperation for effective development:

- a) Ownership of development priorities by developing countries. Partnerships for development can only succeed if they are led by developing countries, implementing approaches that are tailored to country-specific situations and needs.
- b) Focus on results. Our investments and efforts must have a lasting impact on eradicating poverty and reducing inequality, on sustainable development, and on enhancing developing countries' capacities, aligned with the priorities and policies set out by developing countries themselves.
- c) Inclusive development partnerships. Openness, trust, and mutual respect and learning lie at the core of effective partnerships in support of development goals, recognising the different and complementary roles of all actors.
- d) Transparency and accountability to each other. Mutual accountability and accountability to the intended beneficiaries of our cooperation, as well as to our respective citizens, organisations, constituents and shareholders, is critical to delivering results. Transparent practices form the basis for enhanced accountability.

12. These shared principles will guide our actions to:

- a) Deepen, extend and operationalise the democratic ownership of development policies and processes.
- b) Strengthen our efforts to achieve concrete and sustainable results. This involves better managing for results, monitoring, evaluating and communicating progress; as well as scaling up our support, strengthening national capacities and leveraging diverse resources and initiatives in support of development results.
- c) Broaden support for South–South and triangular cooperation, helping to tailor these horizontal partnerships to a greater diversity of country contexts and needs.
- d) Support developing countries in their efforts to facilitate, leverage and strengthen the impact of diverse forms of development finance and

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<sup>3</sup> Busan Partnership for Effective Development Co-operation, Fourth High Level Forum on Aid Effectiveness, Busan, Republic of Korea, 29th November –1 December 2011.

activities, ensuring that these diverse forms of cooperation have a catalytic effect on development.

13. We recognise the urgency with which these actions must be implemented. Beginning implementation now – or accelerating efforts where they are ongoing – is essential if our renewed approach to partnership is to have the maximum possible impact on the realisation of the Millennium Development Goals by 2015, as well as on development results over the longer term. We will hold each other accountable for implementing our respective actions in developing countries and at the international level. As we focus on implementing our commitments at the country level, we will form a new, inclusive Global Partnership for Effective Development Cooperation to support implementation at the political level.

#### **From effective aid to cooperation for effective development**

28. Aid is only part of the solution to development. It is now time to broaden our focus and attention from aid effectiveness to the challenges of effective development. This calls for a framework within which:

- a) Development is driven by strong, sustainable and inclusive growth.
- b) Governments' own revenues play a greater role in financing their development needs. In turn, governments are more accountable to their citizens for the development results they achieve.
- c) Effective state and non-state institutions design and implement their own reforms and hold each other to account.
- d) Developing countries increasingly integrate, both regionally and globally, creating economies of scale that will help them better compete in the global economy. To this effect, we will rethink what aid should be spent on and how, in ways that are consistent with agreed international rights, norms and standards, so that aid catalyses development.

29. Effective institutions and policies are essential for sustainable development. Institutions fulfilling core state functions should, where necessary, be further strengthened, alongside the policies and practices of providers of development cooperation, to facilitate the leveraging of resources by developing countries. Developing countries will lead in efforts to strengthen these institutions, adapting to local context and differing stages of development. To this end, we will:

- a) Support the implementation of institutional and policy changes led by developing countries, resulting in effective resource mobilisation and service delivery, including national and sub-national institutions, regional organisations, parliaments and civil society.
- b) Assess country institutions, systems and capacity development needs, led by developing countries.
- c) Support the development of improved evidence on institutional performance to inform policy formulation, implementation and accountability, led by developing countries.

d) Deepen our learning on the determinants of success for institutional reform, exchanging knowledge and experience at the regional and global levels.

The Cotonou Agreement<sup>4</sup> was based on the principles set out in Article 2:

ARTICLE 2: Fundamental principles

ACP–EC cooperation, underpinned by a legally binding system and the existence of joint institutions, shall be guided by the internationally agreed aid effectiveness agenda regarding ownership, alignment, harmonisation, results-oriented aid management and mutual accountability, exercised on the basis of the following fundamental principles:

—equality of the partners and ownership of the development strategies: for the purposes of implementing the objectives of the partnership, the ACP States shall determine the development strategies for their economies and societies in all sovereignty and with due regard for the essential and fundamental elements described in Article 9; the partnership shall encourage ownership of the development strategies by the countries and populations concerned; EU development partners shall align their programmes with these strategies;

—participation: apart from central government as the main partner, the partnership shall be open to ACP parliaments, and local authorities in ACP States and different kinds of other actors in order to encourage the integration of all sections of society, including the private sector and civil society organisations, into the mainstream of political, economic and social life;

—the pivotal role of dialogue and the fulfilment of mutual obligations and accountability: the obligations assumed by the Parties in the framework of their dialogue shall be central to their partnership and cooperation relations; the Parties shall work closely together in determining and implementing the necessary processes of donor alignment and harmonisation, with a view to securing a key role for ACP States in these processes;

—differentiation and regionalisation: cooperation arrangements and priorities shall vary according to a partner's level of development, its needs, its performance and its long-term development strategy. Special treatment shall be given to the least developed countries. The vulnerability of landlocked and THE COTONOU AGREEMENT 19 island countries shall be taken into account. Particular emphasis shall be put on regional integration, including at continental level.

These agreements have shaped the way in which both national and multi-national bodies have managed the ODA process. They embody policy preferences including promotion of democracy, institutional development in recipient countries, and harmonisation of donor programmes and practices to avoid duplication of effort.

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<sup>4</sup> Signed in Cotonou on 23 June 2000; revised in Luxembourg on 25 June 2005; revised in Ouagadougou on 22 June 2010.



## 1.7 Conclusion

In this unit we have drawn attention to several key issues in relation to development assistance. These include:

- definitions of development assistance
- the main trends in the provision of ODA by the DAC countries
- the other main providers of development assistance
- the historical development of the provision of development assistance
- the motives for donating development assistance and the political, strategic and commercial considerations of donor countries and agencies
- outlined recent agreements on aid effectiveness and development.

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