

Public Policy & Management: Development Assistance

Public Policy & Management: Development Assistance

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Public Policy & Management: Development Assistance

Course Introduction and Overview

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1 Introduction

Governments regularly transfer cash or make concessionary loans to other governments in order to promote economic and social development, improve the welfare of the recipient governments' citizens, or help out with humanitarian assistance after a natural or human-created disaster. Politicians from the richer countries of the world attend high-profile conferences and commit their governments to increasing these transfers, often encouraged by popular campaigns in their home countries. Citizens of the richer countries, and many in poorer countries, regularly donate money to voluntary organisations involved in the same sorts of transfers, especially at times when disasters such as floods, earthquakes and tsunamis occur, but also in between these events, hoping that their contributions will improve the lot of the world's poorest people.

The transfer process is managed through a medium-sized industry of governmental organisations, international bodies such as various parts of the United Nations and the European Union, development banks, such as the World Bank, Asian Development Bank, African Development Bank, Islamic Development Bank and a large number of non-governmental organisations, all supported by consultants and experts, including academic institutions training and educating their staffs. People spend their whole careers in this industry, administering financial flows, designing and managing projects, writing assessments, evaluating results and raising funds.

There are divided views on the impact of all this effort. Some argue not only that aid does not work to promote economic development but also that aid itself holds back development by propping up corrupt and inefficient governments and distorting investment flows, exchange rates and domestic markets. At the other end of the opinion spectrum are those who argue that aid is essential and could be effective if only it were improved both in quantity and quality.

Others, such as Roger Riddell, one of whose books¹ you will read for this course, are carefully analytical about the impact of the aid effort and argue for improvements in the way aid is delivered, without claiming that aid can or will solve the problem of poverty or unequal wealth and income distribution.

This course enables you to look at the evidence of the impact of these aid efforts, lets you examine the flows of funds, the organisations involved in aid delivery and the processes of allocating aid and designing the aid programme. We ask you to study the course and its readings with an open mind and reach your own views about what works and what does not work.

¹ Roger C Riddell (2007) *Does Foreign Aid Really Work?* Oxford: Oxford University Press.

2 The Course Authors

Tony Allen has recently retired from the University of Westminster in London where he was a Principal Lecturer and Subject Leader in Economics, teaching on both undergraduate and postgraduate courses. A graduate of the Universities of Hull, London and Brunel, he taught at Westminster (formerly the Polytechnic of Central London) for 33 years. His research interests lie in applied microeconomics, particularly the economics of regulation, transactions costs and boundaries of the organisation, and the economics of education. He has been a member of the Associate Faculty of Henley Management College since 1986, contributing to their MBA programmes, and a Visiting Lecturer in Economics at the Middlesex University Business School, both in the UK. He has been a tutor at CeFiMS since 2003 and an external examiner in economics at Brunel and the University of Hertfordshire.

Norman Flynn is the Academic Director of the Public Policy and Management Programme, and Director of the Centre for Financial and Management Studies, University of London. He has previously been Chair Professor of Public Sector Management at City University of Hong Kong and has held academic posts at London School of Economics, London Business School and the University of Birmingham.

He has written about public sector management in the United Kingdom, Europe and Asia, public sector reform in developing countries and about the relationship between business government and society in Asia. Recent books include *Public Sector Reform: An Introduction (European Commission)*; *The Market and Social Policy in China* (edited with Linda Wong) (Palgrave Macmillan); *Miracle to Meltdown in Asia: Business, Government and Society* (Oxford University Press), and (with Franz Strehl) *Public Sector Management in Europe (Pearson)*. *Public Sector Management*, 6th edition, was published by Sage in 2012. Further publications are listed on his website:

<http://www.normanflynn.me.uk>

He has teaching and consulting experience in China, Finland, Georgia, Kenya, Norway, Scotland, Slovenia, South Africa, Sweden, Turkey, Ukraine and the United Kingdom.

The authors are grateful for feedback on drafts from Jérôme Dendura.

3 Course Content

The course begins with a definition of development assistance and some descriptive material on trends in its volume and history. It then asks why governments give development assistance and finds a variety of motivations. The flows of assistance globally are then described, along with more detail about three examples:

- the United States Agency for International Development
- the European Commission
- the Islamic Development Bank.

The first unit also examines the various 'High Level Forums', held in Paris, Accra and Busan, which have shaped donor operations.

Unit 2 looks at the relationship between economic development and development assistance. To answer the question 'does development assistance contribute to economic growth?' it looks first at some theories of economic development and then at some of the literature that has evaluated the impact. It then considers the impact of conditionality (the various conditions that have been attached to development assistance) and asks whether the way that assistance is given (known as the 'aid modality') makes a difference.

Unit 3 is concerned with a specific category of aid – humanitarian assistance, which is given in cases of natural disasters such as floods, earthquakes or typhoons and in cases of conflict and unrest. It looks at three examples, the Haiti earthquake, the 2010 floods in Pakistan and the 2011 drought in the Horn of Africa. It finds that the effectiveness of humanitarian aid is variable, and points to some of the mistakes that can lead to failure.

Unit 4 is about the impact of development assistance on poverty. Poverty reduction was not always the main aim of development assistance and the unit looks at the development of policy in this direction. It then covers some technical issues on the definition and measurement of poverty, and on human development indicators. It looks at the impact of aid on poverty. It also shows that a small proportion of development assistance goes to the poorest countries. One instrument for directing assistance towards the eradication of poverty is the Poverty Reduction Strategy Paper, but it has been found that this approach has had, at best, mixed results. The case example on poverty reduction in this unit is India's anti-poverty programme.

Unit 5 looks at the agencies involved in development assistance. It starts with a theoretical discussion about why aid agencies exist (to align recipients' preferences with donors' preferences) and then describes national agencies or 'bilateral donors'. This relies mainly on the textbook, but extra material is given on Japan, China in Africa and one of the emerging players on the development assistance field, Brazil. The discussion then turns to multi-national agencies including the World Bank and the International Monetary Fund and a small selection of Non-Governmental Agencies, with the examples of Save the Children and the Catholic Agency for Overseas Development. Finally, the unit describes the multilateral development banks that work in addition to the World Bank. It ends with a critique of the operation of the agencies, a theme that is taken up later in the course.

Unit 6 looks at funding, starting with the Organisation for Economic Co-operation and development members, then the non-members, and how some of the largest non-governmental agencies, such as Oxfam, are funded. It goes on to a discussion about the reasons for and impact of aid volatility. The second half of the unit looks at some of the tools that agencies such as the World Bank and the International Monetary Fund use to assess the eligibility of countries to receive development assistance, including assessments of their financial management systems, their policy processes, their country strategies and the degree of risk that each country poses.

Unit 7 turns to implementation. It examines the different ways of distributing development assistance, which were covered briefly in Unit 2. It looks especially at budget support, the preferred way of operating that emerged from the Paris Declaration. It then considers the use of development assistance to promote and encourage changes and improvements in management and governance. There are four examples: assistance to Afghanistan; an assessment of the degree of 'aid effectiveness' in assistance to Rwanda; a particular attempt to use development assistance to improve governance the European Commission's 'Governance Incentive Tranche'; the direct funding of a public management reform in Morocco

Unit 8 gives you a chance to reflect on what you have learned in the course. It has only two readings: one polemic which condemns development assistance as damaging to economic, social and political development; while the second reading asks the provocative question why donors do not simply give money directly to poor people to improve their lives. These are chosen to help you reflect on what you have studied, consider whether the development assistance effort over the past six decades has been effective and what has been learned from the experience.

4 The Course Structure

Unit 1 A Brief History of Development Assistance

- 1.1 What is Development Assistance?
- 1.2 Development Assistance – Main Trends
- 1.3 A Brief History of Development Assistance
- 1.4 Why Do Countries Give Development Assistance?
- 1.5 Aid Allocation
- 1.6 Conclusions

Unit 2 Development Assistance and Economic Development

- 2.1 Introduction
- 2.2 Development Assistance and Economic Development – Theory
- 2.3 The Impact of Development Assistance
- 2.4 The Impact of Different Modalities of Development Assistance
- 2.5 Conclusions

Unit 3 Humanitarian Assistance

- 3.1 Introduction
- 3.2 Emergencies
- 3.3 Is Humanitarian Aid Effective?
- 3.4 Aid in Conflict and Post-Conflict Situations
- 3.5 Case Studies
- 3.6 Conclusions

Unit 4 Making Poverty History

- 4.1 Introduction
- 4.2 Foreign Aid and Poverty: The Development of Policy
- 4.3 Concepts and Measurement of Poverty

- 4.4 Poverty and Development Assistance
- 4.5 Evaluation of the Impact of Development Assistance on Poverty
- 4.6 Conclusions

Unit 5 The Aid Agencies

- 5.1 Introduction
- 5.2 National Aid Agencies
- 5.3 Multinational Government-Based Agencies
- 5.4 Private Foundations
- 5.5 Non-Governmental Organisations (NGOs)
- 5.6 Multilateral Development Banks
- 5.7 Managing Aid
- 5.8 A Critique of the Operation of the Aid Agencies
- 5.9 Conclusions

Unit 6 Funding and Resource Allocation

- 6.1 Introduction
- 6.2 The Funding of Overseas Development Assistance (ODA)
- 6.3 Non-DAC Bilateral Aid Donors
- 6.4 NGO Funding
- 6.5 Aid Volatility
- 6.7 Assessing Eligibility
- 6.9 Conclusions

Unit 7 Implementation – Aid Modalities, Conditionality and Aid Effectiveness

- 7.1 Introduction
- 7.2 Choice of 'Aid Modality'
- 7.3 ODA, Governance and Reform
- 7.4 Case Studies
- 7.5 Conclusions
- 7.6 Feedback on Case Studies

Unit 8 Reflections on Development Assistance

- 8.1 Introduction
- 8.2 Dead Aid?
- 8.3 Give Money to the Poor?
- 8.4 Schools of Thought
- 8.5 Have Your Opinions Changed?
- 8.6 Preparation for the Examination

5 Learning Outcomes

Our ambition is that once you have completed the course, you will be able to:

- define what is meant by development assistance and its constituent parts and outline the main trends in development assistance

- discuss some of the theory of economic growth and the role of development assistance in promoting economic growth and how successful it has been
- describe what makes for successful and unsuccessful humanitarian assistance, including the relationship between immediate disaster relief and longer term reconstruction and development assistance
- explain the evolution of development assistance policy in relation to poverty reduction and human development, including the definition and measurement of poverty
- evaluate some of the evidence of the impact of development assistance on poverty reduction and social development
- describe the main aid agencies and their ways of working, and the links between them and governments
- analyse the main trends in the provision of ODA by the Development Administration Committee member countries of the Organisation for Economic Cooperation and Development and from non-member countries
- gauge the growth in the role of NGOs and private foundations in the provision of development assistance and the sources of their funding
- discuss the resource allocation processes of the aid agencies
- describe the technical assessment processes that agencies go through prior to allocating funds
- distinguish between the different ways of distributing aid (projects, policy support, budget support)
- assess the extent to which the Paris Accord, Accra Agenda for Action and Busan Statement have been implemented in practice.

6 Study Materials

The main textbook for this course is the book by Roger Riddell, *Does Foreign Aid Really Work?* Riddell has spent a career in the development field. From 2008 to the end of 2010, he was a member of the UK Department for International Development's Independent Advisory Committee on Development Impact, where he led the committee's study on the quality of evaluation. From 1999 to 2004, he was the International Director of Christian Aid and led Christian Aid's international development, relief and policy teams and the agency's expansion into central Asia and has worked extensively in conflict countries such as Afghanistan, the Palestinian Occupied Territories and Sierra Leone.

From 1984 to 1999, Riddell was a Senior Research Fellow at the Overseas Development Institute, a London-based think-tank, where he published work on aid, NGOs, manufacturing, mining and regional integration, and was responsible for leading research and consultancy teams for many bilateral and multinational aid agencies. In 1980, he was appointed Chair of the first post-independent Economic Commission in Zimbabwe, conducted the first poverty studies in urban Zimbabwe in the early 1970s, and from

1981 to 1983 he was Chief Economist for the Confederation of Zimbabwean Industries.

The book you will be using is the second major work by Riddell, the first being *Foreign Aid Reconsidered*, published twenty years before. It is essentially a review of the evidence on the reasons for which governments engage in aid work, the institutional arrangements for aid, and on the evaluation of aid effectiveness.

The textbook is supplemented by a variety of other materials, with readings included in your Reader. It is important as you work through these materials that you recognise their different origins and the purposes for which they were written. Additional resources will be available on the course area of the OSC.

One category of materials includes policy documents written by the aid agencies themselves, such as the World Bank, the Organisation for Economic Cooperation and Development (OECD) and the European Commission. These readings are mainly normative, in the sense that they set out what they consider *should* be done. The first four documents that you will read come into this category – they are the various declarations about how aid should be delivered, resulting from the ‘High Level Forums’ on aid, organized by the United Nations and the OECD. When reading official declarations on intentions, we must recognize that this is what they are: they are not descriptions of what actually occurs in practice.

There is another sort of reading which is largely descriptive of institutions and practices by institutions not covered much in Riddell’s book – most notably the aid efforts of China and Japan and of non-Governmental Organisations, which are covered in Unit 5.

The third type of reading is analytical work by academics and practitioners. These readings are written to academic standards and will have been subject to academic peer review, or are chapters in books whose publishers will have put the work through a review process. The journals from which these works come include *Development Policy Review*, *Journal of International Business and Cultural Studies*, *Journal of Development Studies*, *International Affairs*, *Development and Change*, *Economic Policy* (World Bank). This course is quite intensive, and you will probably not have time to read much if anything beyond the material supplied, but if you wish to continue reading after you complete the course, these are the sorts of journals that we recommend you browse.

The fourth type of reading, which is used mostly for case studies, is official evaluations of various aid interventions. These include an evaluation of the state of humanitarian assistance by Active Learning Network for Accountability and Performance in Humanitarian Action (ALNAP), evaluations of the response to Pakistan’s floods of 2010, Haiti’s earthquake and US aid to Afghanistan.

A fifth category of reading consists of critiques of various aspects of the aid process. The first, in Unit 2, is a small case example of the impact of the aid agencies on medical staff pay in countries in which they operate; the second a critique of the diversion of aid to war lords to perpetuate civil wars; the

third, in Unit 5, is a critique of the diversion of funds by the aid agencies themselves in Afghanistan; in Unit 6 there is a critique of a particular assessment tool, the World Bank's Country Policy and Institutional Assessment, and of the use of 'good governance' as an assessment criterion.

The final category, of which there are two examples, is the *polemic* – there has been no shortage of written materials telling the world how to end poverty, led on the academic side by Professor Jeffrey Sachs in the mid 1990s who gave academic support to the popular movement to increase the volume of aid. At the other end of the polemical debate you will read Dambisa Moyo, a proponent of the idea that aid hinders economic, social and political development.

The volume of reading may look daunting at first sight. As you progress through the course you will see that we recommend extracts from many of the readings, confining your reading to the essentials. We decided not to cut the readings, in case you wish to read the whole articles or chapters, which may contain both historical material that is interesting but not absolutely essential and methodological discussions which you may not need to follow.

On the OSC and in the text you will see links to short films and talks, which will illustrate some of the themes in the course. If you have access to a fast internet connection, we recommend that you look at these, although they can be seen as supplementary to the course, rather than core material.

7 Study Advice

You will have your own motivation for studying this course: you may work for a government that is giving aid, or for one that receives it. You may even work for one of those governments like South Africa that both receives aid and gives it. Or you may work in an agency, such as the World Bank or an NGO, whose function is to engage in development assistance through loans or grants. In each case, your employer will have its own policies, procedures, analytical and assessment tools which it uses as part of the process of disbursing or receiving development assistance. While this course will look at some of the administrative tools and devices used in the process it cannot be a training course in particular organisations' procedures.

Rather, the course offers different types of materials and evidence to enable you to make your own judgments about the effectiveness of the aid effort, what works and what does not work, why weaknesses occur in the processes of designing and delivering aid and how the processes could be improved. In making those judgments, you are invited to review a wide range of written materials, as we describe above.

We recommend that you complete the readings in the two months time over which the course is live. There is the constraint of producing two assignments, after week 4 and week 8, which will focus your reading. If you do not manage to complete the whole of the reading during the eight weeks, we recommend that you put aside time before the examinations to review what you have already read and complete the remainder. In both the as-

signment and examination assessment, your examiners will be looking for evidence that you have engaged critically with the materials provided.

We understand that some students are more comfortable learning theories first and then applying them, while others prefer to start from examples and look at theory later. We hope that whatever your preferred learning style, you will be able to benefit from studying this course, with its mixture of theoretical and empirical material.

We encourage you to use the OSC to discuss the course with your classmates and your tutor. You will have fellow students directly involved in the issues that this course covers and the learning can be enhanced by you sharing your professional experience.

8 A Warm-up Questionnaire

To warm up for the course, we would like you to answer the following questions, which will give you a summary of what you think about some aspects of development assistance. We will ask you to complete the questionnaire again when you have completed the course, so that you can see whether your ideas have changed.

The numbers range from 'strongly agree' at number 1 to 'don't know' in the middle, at 3, and 'strongly disagree' at number 5 (with degrees of strength, of course, at numbers 2 and 4).

Proposition	1	2	3	4	5
1. It is the moral duty of the governments of rich countries to devote part of their revenue to help poor countries					
2. Development assistance can significantly improve economic growth in poor countries					
3. Governments in receipt of aid can spend the money they receive as they wish					
4. Governments who give aid have the right to demand good governance and democracy in the countries they give money to					
5. Governments only give aid so that they can gain access to resources from which they would otherwise be excluded					
6. Freedom from poverty is a human right that applies to all people					
7. All aid flows should by-pass governments and go direct to NGOs, civil society organisations and individuals					
8. Aid should never be given to countries ruled by dictators					
9. Most aid goes to the poorest countries					
10. Humanitarian assistance generally develops the capacity of the people affected by disasters					

9 Assessment

Your performance on each course is assessed through two written assignments and one examination. The assignments are written after

weeks 4 and 8 of the course session, and the examination is written at a local examination centre in October.

The assignment questions contain fairly detailed guidance about what is required. All assignment answers are limited to 2,500 words and are marked using specific marking guidelines. Penalties are incurred for breaking the word limit. When you receive your grade it is accompanied by comments on your paper, including advice about how you might improve, and any clarifications about matters you may not have understood. These comments are designed to help you master the subject and to improve your skills as you progress through your programme.

The written examinations are 'unseen' (you will only see the paper in the exam centre) and written by hand, over a three-hour period. We advise that you practice writing exams in these conditions as part of your examination preparation, as it is not something you would normally do.

You are not allowed to take in books or notes to the exam room. This means that you need to revise thoroughly in preparation for each exam. This is especially important if you completed the course in the early part of the year, or in a previous year.

Preparing for assignments and exams

There is good advice on preparing for assignments and exams and writing them in Sections 8.2 and 8.3 of *Studying at a Distance* by Talbot. We recommend that you follow this advice.

The examinations you will sit are designed to evaluate your knowledge and skills in the subjects you have studied: they are not designed to trick you. If you have studied the course thoroughly, you will pass the exam.

Understanding assessment questions

Examination and assignment questions are set to test different knowledge and skills. Sometimes a question will contain more than one part, each part testing a different aspect of your skills and knowledge. You need to spot the key words to know what is being asked of you. Here we categorise the types of things that are asked for in assignments and exams, and the words used. All the examples are from CeFiMS examination papers and assignment questions.

Definitions

Some questions mainly require you to show that you have learned some concepts, by setting out their precise meaning. Such questions are likely to be preliminary and be supplemented by more analytical questions. Generally 'Pass marks' are awarded if the answer only contains definitions. They will contain words such as:

- Describe
- Define
- Examine
- Distinguish between
- Compare
- Contrast
- Write notes on

- Outline
- What is meant by
- List

Reasoning

Other questions are designed to test your reasoning, by explaining cause and effect. Convincing explanations generally carry additional marks to basic definitions. They will include words such as:

- Interpret
- Explain
- What conditions influence
- What are the consequences of
- What are the implications of

Judgment

Others ask you to make a judgment, perhaps of a policy or of a course of action. They will include words like:

- Evaluate
- Critically examine
- Assess
- Do you agree that
- To what extent does

Calculation

Sometimes, you are asked to make a calculation, using a specified technique, where the question begins:

- Use indifference curve analysis to
- Using any economic model you know
- Calculate the standard deviation
- Test whether

It is most likely that questions that ask you to make a calculation will also ask for an application of the result, or an interpretation.

Advice

Other questions ask you to provide advice in a particular situation. This applies to law questions and to policy papers where advice is asked in relation to a policy problem. Your advice should be based on relevant law, principles, evidence of what actions are likely to be effective.

- Advise
- Provide advice on
- Explain how you would advise

Critique

In many cases the question will include the word 'critically'. This means that you are expected to look at the question from at least two points of view, offering a critique of each view and your judgment. You are expected to be critical of what you have read.

The questions may begin

- Critically analyse

- Critically consider
- Critically assess
- Critically discuss the argument that

Examine by argument

Questions that begin with 'discuss' are similar – they ask you to examine by argument, to debate and give reasons for and against a variety of options, for example

- Discuss the advantages and disadvantages of
 - Discuss this statement
 - Discuss the view that
 - Discuss the arguments and debates concerning
-

The grading scheme

Details of the general definitions of what is expected in order to obtain a particular grade are shown below. Remember: examiners will take account of the fact that examination conditions are less conducive to polished work than the conditions in which you write your assignments. These criteria are used in grading all assignments and examinations. Note that as the criteria of each grade rises, it accumulates the elements of the grade below. Assignments awarded better marks will therefore have become comprehensive in both their depth of core skills and advanced skills.

70% and above: Distinction As for the (60-69%) below plus:

- shows clear evidence of wide and relevant reading and an engagement with the conceptual issues
- develops a sophisticated and intelligent argument
- shows a rigorous use and a sophisticated understanding of relevant source materials, balancing appropriately between factual detail and key theoretical issues. Materials are evaluated directly and their assumptions and arguments challenged and/or appraised
- shows original thinking and a willingness to take risks

60-69%: Merit As for the (50-59%) below plus:

- shows strong evidence of critical insight and critical thinking
- shows a detailed understanding of the major factual and/or theoretical issues and directly engages with the relevant literature on the topic
- develops a focussed and clear argument and articulates clearly and convincingly a sustained train of logical thought
- shows clear evidence of planning and appropriate choice of sources and methodology

50-59%: Pass below Merit (50% = pass mark)

- shows a reasonable understanding of the major factual and/or theoretical issues involved
- shows evidence of planning and selection from appropriate sources,
- demonstrates some knowledge of the literature
- the text shows, in places, examples of a clear train of thought or argument
- the text is introduced and concludes appropriately

45-49%: Marginal Failure

- shows some awareness and understanding of the factual or theoretical issues, but with little development
- misunderstandings are evident
- shows some evidence of planning, although irrelevant/unrelated material or arguments are included

0-44%: Clear Failure

- fails to answer the question or to develop an argument that relates to the question set
- does not engage with the relevant literature or demonstrate a knowledge of the key issues
- contains clear conceptual or factual errors or misunderstandings

[Approved by Faculty Learning and Teaching Committee, November 2006]

Specimen exam papers

Your final examination will be very similar to the Specimen Exam Paper that is included below. Your final examination will have the same structure and style and the range of questions will be comparable to those in the Specimen Exam Paper.

CeFiMS does not provide past papers or model answers to papers. Our courses are continuously updated and past papers will not be a reliable guide to current and future examinations. The specimen exam paper is designed to be relevant to reflect the exam that will be set on the current edition of the course

Further information

The OSC will have documentation and information on each year's examination registration and administration process. If you still have questions, both academics and administrators are available to answer queries.

The Regulations are available at www.cefims.ac.uk/regulations.shtml, setting out the rules by which exams are governed.

UNIVERSITY OF LONDON

Centre for Financial and Management Studies

MSc Examination

Postgraduate Diploma Examination

for External Students

91DFMC360

PUBLIC POLICY & MANAGEMENT

PUBLIC FINANCIAL MANAGEMENT

PUBLIC MANAGEMENT

POLICY STUDIES

Public Policy & Management: Development Assistance

Specimen Examination

This is a specimen examination paper designed to show you the type of examination you will have at the end of the year for this course. The number of questions and the structure of the examination will be the same but the wording and the requirements of each question will be different. Best wishes for success in your final examination.

The examination must be completed in **THREE** hours.

Answer **THREE** questions, *at least ONE* from **EACH** section. The examiners give equal weight to each question; therefore, you are advised to distribute your time approximately equally between three questions.

**PLEASE DO NOT REMOVE THIS PAPER FROM THE EXAMINATION ROOM.
IT MUST BE ATTACHED TO YOUR ANSWER BOOK AT THE END OF THE
EXAMINATION.**

Answer **THREE** questions; *at least ONE* from EACH section.

Section A

(Answer at least one question from this section)

1. What lessons can be drawn from the experience of the response to the earthquake in Haiti in 2010 for other humanitarian assistance efforts?
2. To what extent have the development assistance programmes in Rwanda followed the principles set down at the High Level Forums in Paris and Accra?
3. Why was so much development assistance resource wasted in Afghanistan?
4. Was the response to the 2010 flood in Pakistan successful?

Section B

(Answer at least one question from this section)

5. What is the evidence on the impact of development assistance on economic growth?
6. To what extent has development assistance been successful in reducing poverty?
7. Why do governments devote resources to development assistance?
8. What are the policy objectives of EITHER China's OR Japan's development assistance programme?

[END OF EXAMINATION]

Public Policy & Management: Development Assistance

Unit 1 A Brief History of Development Assistance

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Unit Objectives

Unit 1 looks at the provision of development assistance from a historical perspective. We define what is meant by development assistance and consider the history of aid, particularly since 1947. We also examine and assess different reasons for donors giving aid.

Learning Outcomes

When you have completed your study of this unit, you will be able to

- define what is meant by development assistance and its constituent parts
- identify the main trends in the provision of development assistance and recognise and categorise the main periods in the post-1947 history of the provision of development assistance
- distinguish and assess the altruistic and self-interest motives for donating official development assistance
- explain and discuss, broadly, where development assistance funds go to.



Reading for Unit 1

Course Textbook

Roger Riddell (2007) *Does Foreign Aid Really Work?*, Chapters 2 'The origins and early decades of aid-giving', 3 'Aid-giving from the 1970s to the present', 6 'The political and commercial dimensions of aid', and 8 'Charity or duty: the moral case for aid'.

Course Reader

United Nations (2003) 'Monterrey Consensus 2002'.

OECD (2005/2008) 'The Paris Declaration on Aid Effectiveness and the Accra Agenda for Action'.

4th High Level Forum (2011) 'Outcome Document'.

Alberto Alesina and David Dollar (2000) 'Who Gives Foreign Aid to Whom and Why?'

1.1 What is Development Assistance?

'Development assistance', 'development aid', 'foreign aid' are interchangeable terms used to refer to resource flows of financial and human resources such as technical assistance, principally from rich to poor countries, which have the intention of alleviating hunger, poverty and distress and promoting economic development in the recipient countries. More precisely, development assistance can be divided into the following categories:

- 1 *Official Development Assistance (ODA)* provided by governments (bilateral aid) and through multilateral agencies such as the UN and World Bank
- 2 *Development assistance provided by Non-Governmental Organisations (NGOs)* such as Oxfam and Christian Aid and private philanthropic organisations such as the Gates Foundation
- 3 *Humanitarian and emergency relief*, which may be provided by any of the above organisations.

Financial assistance is provided partly by grants and partly through concessional loans.

ODA is defined by the OECD as 'grants or loans to countries and territories on the DAC¹ List of ODA Recipients (developing countries) and to multilateral agencies, which are:


- a) undertaken by the official sector
- b) with the promotion of economic development and welfare as the main objective
- c) at concessional financial terms (if a loan, having a grant element of at least 25 per cent).

In addition to financial flows, technical co-operation is included in aid. Grants, loans and credits for military purposes are excluded. Transfer payments to private individuals (e.g. pensions, reparations or insurance pay-outs) are, in general, not counted.



Reading

The first definition outlined above is given in Chapter 1 of the course textbook, Roger Riddell, *Does Foreign Aid Really Work?* You should now read pages 17–21 of Chapter 2, where there is further discussion on the definitions of development assistance.

 Make sure your notes include Riddell's distinction between development aid whose purpose is for economic development and that of aid for humanitarian and emergency assistance.

Roger Riddell (2007) *Does Foreign Aid Really Work?*, Chapter 2 'The origins and early decades of aid-giving', first section 'Defining aid'.

1.2 Development Assistance – Main Trends

We begin this section with a further reading from your textbook.

¹ DAC is the Development Administration Committee of the Organisation for Economic Cooperation and Development. Founded to coordinate aid efforts in 1961, its operational arm is called the Development Cooperation Directorate



Reading

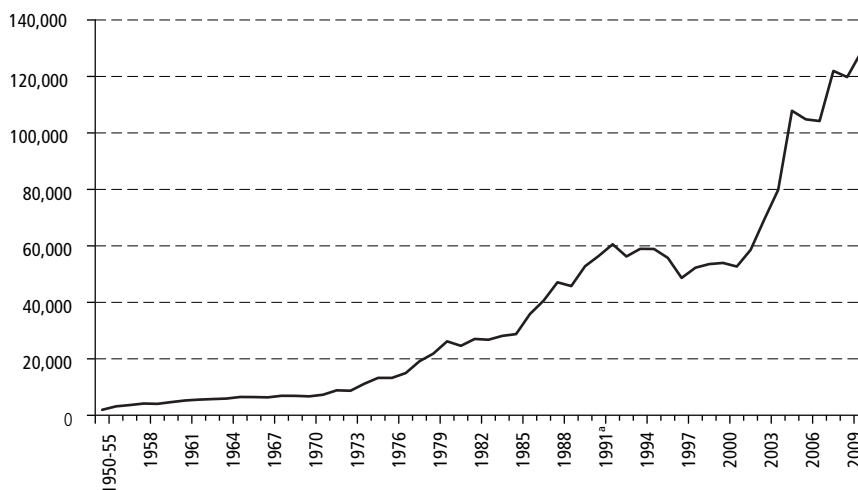
You should now read pages 21–23 in Riddell, which provides an outline of the pattern of ODA since 1950.

Roger Riddell (2007) *Does Foreign Aid Really Work?*, Chapter 2 'The origins and early decades of aid-giving', section 'A snapshot of the history of aid'.

As Riddell points out, the trend of ODA is a useful indicator of the trends in overall aid giving. The charts on page 22 of Riddell have been supplemented by Figure 1.1 below. You can further update the data by accessing the OECD web site (www.oecd.org).

Figure 1.1 updates the total spending on ODA by the member countries of the OECD's Development Assistance Committee (DAC) up to 2010. ODA includes funding for both short-term emergency and longer-term development purposes. Note that this total excludes aid donated by non-members of DAC and also aid provided by NGOs and private organisations.

Figure 1.1 Total net ODA from members of OECD's DAC 1950–2010 (US\$m)



^a Including debt forgiveness of non-ODA claims, except for total DAC (1990-1992)

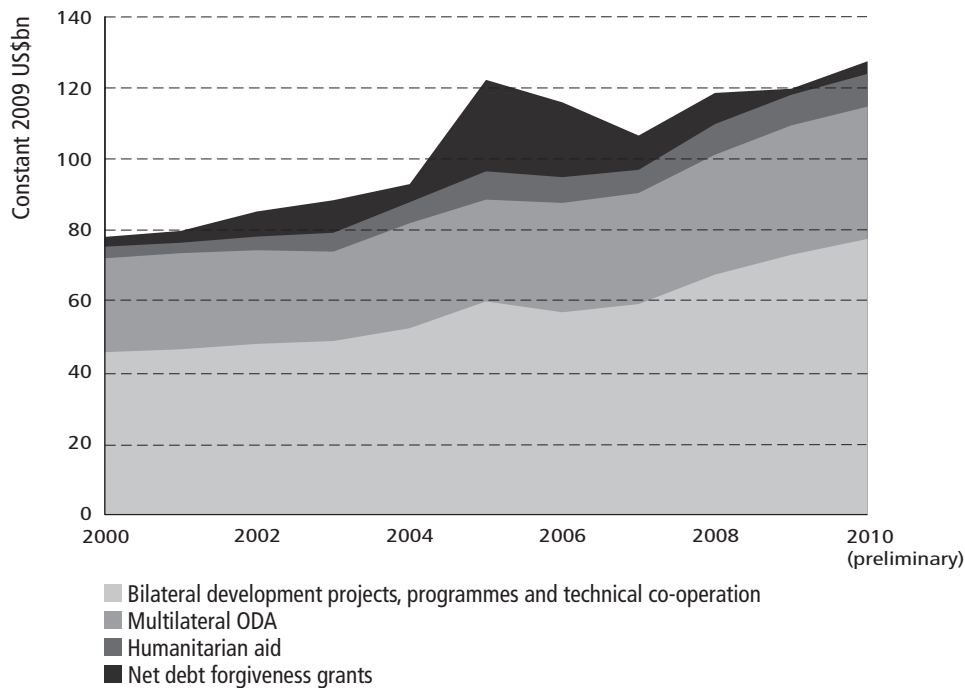
Source: OECD 2011

The steady increase in ODA was interrupted in the early 1990s due to fiscal consolidation in donor countries after the recession at the start of the decade, but it started to rise again towards the latter part of this decade. In the new millennium, ODA has been boosted by new international initiatives such as the G8 Gleneagles agreement in 2005, and by 2010 ODA had reached a new peak of US\$129bn. The financial crisis of 2007–09 in the developed world and the resultant big increase in government debt in those countries may cause a cutback similar to that seen in the early 1990s but, as yet, this has not materialised in the data. The OECD is forecasting an increase in aid over the period 2011–13, though at a sharply reduced rate of a real-terms [inflation-adjusted] increase of 2% a year, compared with an average of 8% over the period 2007–10 [OECD 2011].

Figure 1.2 shows that bilateral aid – that is, country-to-country aid – is the largest single component of ODA, with multilateral aid, which is channelled through agencies such as the United Nations, the World Bank, and various development banks, constituting the second main component. In more

recent years, debt forgiveness grants or debt relief have become an increasingly significant share of foreign aid, especially in the period 2004–06.

Figure 1.2 Components of ODA (constant 2009 US\$bn)



Source: OECD 2011

There is a considerably more detailed account of the main bilateral and multilateral donors in Chapters 4 and 5 in Riddell (this is the subject of Unit 5 in this course). In these chapters, Riddell draws attention to the issue of donor fragmentation with a multiplicity of donors, both bilateral and multilateral, and the consequent problems that this produces – such as duplication and high administrative costs to both donors and recipients. You are not required to read these chapters now, but if you have time they will add to your understanding of donor efficacy.

To put the flows of ODA into perspective, Table 1.1 shows the flows of funds to developing countries, including Foreign Direct Investment (the acquisition of assets in a country by foreign investors), remittances (cash from migrants to their home country) and private debt and portfolio equity alongside the ODA flows.

Table 1.1 Resource flows to developing countries, 2000–2009 (US\$ billion)

	2000	2004	2005	2006	2007	2008	2009
Foreign Direct Investment	149	208	276	346	514	593	359
Remittances	81	159	192	227	278	325	307
ODA	49	79	108	106	107	128	120
Private debt & portfolio equity	27	93	211	165	434	157	85

Source: World Bank (2011) p.17

As the table shows, for developing countries as a whole, ODA made up 13.7% of all flows in 2009, down from 16% in 2000, with FDI and Remittances showing much more significant flows².

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 in the voluntary sector

Many authors attribute the growth of development assistance in the post-1945 era to the setting up of the Marshall Plan in 1947, but according to de Haan (2009), the origins of aid in many European countries can be traced back to the colonial period, and many early development projects were set up by the colonial administrations of these countries. Riddell emphasises the role of international organisations such as the International Labour Organisation, the United Nations Relief and Rehabilitation Agency (1943–1947) and voluntary agencies, particularly churches and church-based organisations during this early period.



Reading

You should now read pages 24–26 in Riddell, which outlines the origins of aid before 1949.



Your notes should include the main points.

Roger Riddell (2007) *Does Foreign Aid Really Work?*, Chapter 2 'The origins and early decades of aid-giving', section 'The origins of aid: the pre-1949 era'.

1.3.2 The Marshall Plan and the 1950–70 period

The European Recovery Programme (better known as the Marshall Plan), whereby the US devoted some 2–3% 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. Tarp (2010) suggests that its success fuelled optimism about the potential effectiveness of foreign aid in developing countries.



Reading

The types of aid, its growth and the underlying rationale for aid in the 1950s and 1960s are outlined in Riddell, pages 26–30, which you should now read. The theoretical basis for development assistance during this period, notably the '2-gap' model as outlined in this section, will be explored in more detail in Unit 2. It is perhaps salutary to note Riddell's comment that some of the main theorists of this period pointed to the additional need for human skills, institutional change and the efforts of recipient countries in

Roger Riddell (2007) *Does Foreign Aid Really Work?*, Chapter 2 'The origins and early decades of aid-giving', section 'The 1950s to the 1960s'.

² Of course, the relative weight of these flows varies by country. For example, in 2008, ODA to Kenya was US\$ 1.36 billion, while remittances were \$600 million and average FDI is around \$150 million.

addition to financial aid, but these caveats were neglected and had to be re-learned some 40 years later. The concluding extracts from the Pearson Commission, on the adoption of a target for aid of 0.7% of GNI and the need to enhance the efficiency in the use of aid, also resonate with later periods.

De Haan (2006) concurs with Riddell in describing this period as one of optimism concerning 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 and the 'Cold War.' 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 aid 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 takeoff 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, and was designed to channel resources to the poorest countries on 'soft' loan conditions, and through the various agencies of the UN. This reached about 30% of the total of 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), was project aid – to be used 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 from aid 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.



Reading

Riddell identifies some of the main changes in development assistance in the 1970s; these include a growing emphasis on poverty with a consequent expansion in project aid, a renewed growth in aid levels, together with a series of initiatives concerned with the lack of development in low-income countries and a noticeable shift in the role and approach of NGOs. You should make notes on this section on pages 31–33.

Roger Riddell (2007) *Does Foreign Aid Really Work?*, Chapter 3 'Aid-giving from the 1970s to the present', the beginning of the first section 'The 1970s and 1980s'.

1.3.4 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, inflation (‘stagflation’), the end of the Cold War at the end 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 the previous Keynesian policies, these governments led a move to more market-based routes 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, both for developed countries and developing ones.

The focus of development policy shifted to internal domestic failure, and 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), which involved trade liberalisation, privatisation, deregulation, and public-sector reforms. Since these conditions were imposed by multilateral agencies such as the World Bank (WB) and the International Monetary Fund (IMF), both based in Washington, such policies became known as the *Washington Consensus*.



Reading

Now please read pages 33–38 of Riddell.

 As well as the above issues, Riddell also covers the Brandt reports (1980, 1983), the rise in ODA in the second half of the 1980s, the growth in emergency aid, and the changing role of NGOs. Your notes should clarify these issues.

Roger Riddell (2007)
Does Foreign Aid Really Work?, Chapter 3 ‘Aid-giving from the 1970s to the present’, the remainder of the first section.

1.3.5 The 1990s to the present

As has been illustrated in Figure 1.1, the pattern of development assistance in this period is marked by two contrasting trends. Aid was significantly reduced in the 1990s and then substantially expanded in the first decade of the new millennium. According to Tarp (2010), this cut-back can be attributed to a number of factors including 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 by many. Easterly (2006) labels the 1990s as an attempt to foster *good institutions* as 'bad' governments were seen as the cause of the problem of lack of development after the failure of the free market reforms of the 1980s. The dominant view in development 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.



Reading

This period is covered on pages 38 to 46 in Riddell and you should read and make notes on this section.

 Note particularly that Riddell attributes the cut back in development assistance in the 1990s to a number of factors. He contrasts the cut-backs in development assistance with the growth in emergency and humanitarian aid in this period. He also draws attention to the resurgence of reducing poverty through the provision of development assistance. The expansion of aid from 2000 is explained by the 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.

Roger Riddell (2007)
Does Foreign Aid Really Work?, Chapter 3 'Aid-giving from the 1970s to the present', most of the section 'From the 1980s to today'.

The expansion in development assistance from 2000 onwards has been referred to as a (another) 'big push' or modern 'Marshall Plan', involving substantial increases in foreign aid in order 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 terrorist attacks of 9/11 in New York and Washington.

In the final section of Chapter 3, Riddell 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. There has also been growing attention paid to the development issues in conflict countries, which he suggests, blurs the distinction between development and emergency aid, and also to the environmental aspects of development. The other main development that Riddell draws attention to is the increased contributions of wealthy philanthropists together with new private foundations, such as the Gates Foundation, and the rise in corporate donations for development.

1.3.6 The High Level Forums

The growing dissatisfaction with the way in which aid was distributed and managed, especially among recipient governments, has led to some fundamental discussions about the processes involved in aid.

Since 2002 there have been meetings of heads of state and ministers from donor and recipient countries, each producing an agreed statement on the policy towards funding, processes of managing aid flows, conditionality and principles. The first of these 'High Level Forums', held at Monterrey in 2002, produced a comprehensive statement that both committed donor countries to increase the volume of aid, and made statements about what was necessary for the recipient governments to do in order to generate growth and mobilise domestic investment – including macro-economic stability, good governance, democracy, the fight against corruption, infrastructure development, basic services and capacity development.

The second Forum of over 100 countries was held in Paris in 2005. The declaration signed at this meeting was designed to change the way in which aid was distributed, including a commitment that, by 2010, 85% of aid would appear in national budgets. The principles expounded in that Declaration were the following:

- *Ownership*: partner countries exercise effective leadership over their development policies and strategies, and co-ordinate development actions
- *Alignment*: donors base their overall support on partner countries' national development strategies, institutions and procedures
- *Harmonisation*: donors' actions are more harmonised, transparent and collectively effective
- *Managing for Results*: managing resources and improving decision-making for results
- *Mutual Accountability*: donors and partners are accountable for development results.

A third High Level Forum was held in Accra in 2008. Here, delegates assessed progress towards the Paris principles and agreed a further Agenda for Action in order to enact those principles from 2008 onwards. The most recent, the fourth High Level Forum, was held in Busan, Republic of Korea, at the end of 2011. The documents from these meetings are all reproduced in your Course Reader.



Reading

The **full text of the Monterrey Consensus**, the Paris Declaration and the Accra Agenda for Action are all reproduced in your Reader, as is the 'Outcome Document' from the 2011 Busan Forum.

You should look through these documents in order to understand the objectives and proposals of the successive High Level Forums. As we progress through the course, you will see how they have impacted on the processes involved in ODA.

United Nations (2003) 'Monterrey Consensus 2002', OECD (2005/2008) 'The Paris Declaration on Aid Effectiveness and the Accra Agenda for Action', the 4th High Level Forum (2011) 'Outcome Document' are all reproduced in your Course Reader.

1.3.7 The growth of Non-Governmental Organisations (NGOs)

NGOs involved in development assistance are generally characterised as organisations which are distinct and separate from governments and whose activities are not-for-profit. These organisations include charities, self-help organisations and such organisations as the Grameen Bank in Bangladesh, which provides credit to a large number of poor households.


The role of churches and church-based organisations in the colonial period, especially in Africa, has already been mentioned. We would now call these NGOs. De Haan (2009) describes their role in the colonial period as ‘significant’. Riddell in Chapter 3 (page 33) points to the growth in the role of NGOs in development assistance, especially in the 1970s. He attributes part of this shift to the inability of churches to finance the running costs of schools and hospitals, which in a number of countries were given over to government.

Together with independent NGOs, these organisations began to diversify and expand their activities, most notably into rural development, credit and saving. Another factor in their growth was the return of rich country volunteers who had worked in poor countries, in programmes such as the UK’s Voluntary Service Overseas (VSO) and the USA’s Peace Corps, who either then sought employment with NGOs or set up their own. Riddell points to 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.



Reading

You should now read pages 48-49 in Chapter 3 of Riddell.

 Note that despite the cut back in ODA in the 1990s, NGO income rose in this period as did the proportion of their funds provided by official donors. Note, too, their use by poor country governments in the delivery of services, their growing role in emergency and humanitarian assistance, their role in campaigning and seeking to influence official aid policy and the rise of recipient country-based NGOs.

The diversity of NGOs has led to the relabeling of such organisations as ‘Civil Society Organisations’ (CSOs).

The growth of NGOs is further described in Chapter 4 of Riddell (pages 53–55). 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; others are purely domestic. Should we include both? Polman (2011) cites evidence from the UN Development Programme, which estimates the total number of international NGOs at more than 37,000. De Haan (2009) suggests that development-focused NGOs are a significant part of the aid industry and that, on average, some 15% of aid flows are spent through them. OECD estimates are in 2009 member countries of DAC providing some 0.06% of their GNI in the form of non-ODA flows to developing countries (OECD, 2011).

Roger Riddell (2007)
Does Foreign Aid Really Work?, Chapter 3 ‘Aid-giving from the 1970s to the present’, the rest of the chapter.

1.4 Why Do Countries Give Development Assistance?


1.4.1 Donor motives

We might expect development assistance to be given in order to assist economic development in poorer countries and thus contribute to faster economic growth and the alleviation of poverty. Humanitarian concerns with fighting poverty suggest an altruistic motive and certainly the most concessional aid is normally provided to the poorest countries – witness the World Bank’s IDA income ceiling limit on the ‘soft’ aid it provides. However, this concern with the less well off in the world may not be the only reason for aid or, indeed, even the dominant one. In an earlier chapter (4) on bilateral donors, Riddell 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 underlying development assistance may include serving the donor country’s self-interests such as their foreign and security policies (the Cold War was used as a powerful justification for providing aid) and also their commercial and economic interests. Another motivation may be based on historical ties, especially with former colonies.



Reading


First study Chapter 6, pages 91 to 94 to in Riddell.

 You should note Riddell’s list of motives for donating development assistance and his review of the research on these motives, covering the work of Maizels and Nissanke (1984), Alesina and Dollar (2000), McGillivray (2003) and Berthélemy (2004, 2005).

You should also read the article ‘Who Gives Foreign Aid to Whom and Why?’ by Alberto Alesina and David Dollar (2000).

This classic paper is a cross country analysis of the factors which appear to determine the distribution of bilateral aid during the period 1970–74 to 1990–94. The authors find considerable evidence that the pattern of aid between donors and recipients is determined as much by political and strategic considerations as by the economic needs and policy performance of the recipients. Significant factors determining the allocation of aid include a colonial past and political alliances. Although Alesina and Dollar’s results indicate that, other things being equal, poorer countries receive more aid, there is considerable variation in this relationship. In addition, they find that smaller countries are given more favourable per capita treatment. Why do small countries do better? Collier (2007) suggests it is because donors wish to influence as many countries as possible. Notice the conclusion of Alesina and Dollar that their results may help to explain why foreign aid is, at best, only partially successful at promoting growth and reducing poverty, because non-economic factors appear to be more important in determining the flow of aid.

Finally, you should read pages 94–98 of Riddell’s Chapter 6, which reviews the recent history of donor aid in the light of the above influences and pays particular attention to the major donors of ODA.

 Your notes should cover all the main points raised in these readings.

Roger Riddell (2007) *Does Foreign Aid Really Work?*, Chapter 6 ‘The political and commercial dimensions of aid’, pages cited; Alberto Alesina and David Dollar (2000) ‘Who Gives Foreign Aid to Whom and Why?’, reprinted in the Course Reader from the *Journal of Economic Growth*.

1.4.2 Tied aid

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). In 2009 the OECD reported that 15.3% of total bilateral ODA was tied, with an additional 0.2% being partially tied. However, there was considerable variation around this average; countries that do not tie their aid include the UK and Ireland; the highest proportions of tied aid were provided by Portugal (72%), Austria (almost 55%), Korea (51%) and Greece (50%). The US figure was 30% (OECD, 2011).

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 come from the donor country, rather than the recipient country being able to choose the supplier.



Reading

First study Chapter 6, pages 98 to 101, in Riddell.

This section covers tied aid and you should summarise this in relation to how aid is tied, the evidence on tied aid and its costs.

Roger Riddell (2007)
Does Foreign Aid Really Work?, Chapter 6 'The political and commercial dimensions of aid', the section 'Commercial interests in aid-giving'.

1.4.4 Global public goods

A more recent argument for providing foreign aid is based on the provision and strengthening of *global public goods* and reducing the effects of *global public 'bads'* (Kaul *et al.*, 1999).

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, such 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). In many cases, they are 'outcomes' rather than 'goods' in the usual sense of the term. They may be *intermediate* global public goods, such as international regimes, in that they contribute towards the provision of final global public goods. International regimes include international agreements and international organisations intended to implement such international agreements.

Public goods will be undersupplied by competitive markets because of the 'free rider' problem – no single agent will take into account 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 spill over and 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. In these cases, competitive markets will produce an under- or over-supply of these activities because in such markets no single agent will take account of the positive or negative spillovers on other agents.

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

- the need to co-ordinate global carbon emissions
- the co-ordination and channelling of bilateral aid through international institutions that can distribute it more efficiently

and, particularly in Africa where contiguous countries have to deal with problems such as transportation between inland areas and coastal ports and other issues,

- co-ordination 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.

1.4.5 A moral case for development assistance?


You have read the seminal article by Alesina and Dollar which traced the relationship between aid, the existence of a previous colonial relationship, the size of countries in receipt of aid, and other variables that explain where aid is given or loaned. Before looking specifically at which countries receive aid, let us consider the moral case for aid and ask whether the moral case affects the allocation of aid.



Reading

First, please read Riddell's Chapter 8, where he argues that the moral case for humanitarian assistance is the same as the moral case for development aid – that aid can alleviate poverty and reduce preventable deaths.

Part of the moral argument is based on the widening gap between the richest and the poorest in the world. If this presents a reason for aid, it could be argued that the purpose of aid is to save the conscience of the people in the richest parts of the world who have benefitted from the system that produces such an increasing disparity between the welfare of the best and worst off.

 As you read the chapter, please make sure you note the basics of the arguments, especially utilitarianism, the theory of justice (Rawls), Sen's capabilities approach to development and a rights and obligations approach, and that you can answer the following question.

- What conclusions do these moral approaches to aid lead you to, with respect to where aid should be given?
-

The utilitarian approach would seem to tend towards aid being given where it would provide the greatest 'return', or the biggest increase in welfare per unit of expenditure – that is, aid going to the poorest people in the world. A

Roger Riddell (2007)
Does Foreign Aid Really Work? Chapter 8
'Charity or duty? the moral case for aid'.

liberal justice approach would favour the 'aid effectiveness' agenda – that aid should go where it can be shown to produce the best results. An approach based on rights and obligations would probably conclude that aid is not the answer to the income distribution that has resulted from the way the world economy is run – income distribution would be more effectively corrected by changes in trade policies, exchange rates, relative wages in rich and poor countries.


1.5 Aid Allocation

In this section we take a look at more recent distributions of aid spending, by the USA (through USAID), the European Union and the operations of the Islamic Development Bank. First, however, turn again to your textbook.



Reading

The final part of Chapter 6, pages 101 to 106 in Riddell, summarises the more recent evidence of aid allocation studies which have examined the distribution of aid over time, within and between recipient countries.

 This is an important section and you should summarise Riddell's review of these studies in your notes. This summary should include the amount of aid that goes to comparatively well-off countries as compared with the poorest ones; and the evidence suggesting that if aid allocation was based more closely on poverty criteria, then development assistance could contribute significantly to its reduction.

Roger Riddell (2007)
Does Foreign Aid Really Work?, Chapter 6 'The political and commercial dimensions of aid', the remaining sections of the chapter.

The following tables show the distribution of aid from OECD member countries in 2009, the top 10 donors and a classification of the types of country receiving the aid.

Table 1.2 ODA to developing countries – summary

1.2a Top 10 receipts by recipient, US\$ million, net disbursements in 2009			
1	Afghanistan	6 070	5%
2	Ethiopia	3 820	3%
3	Viet Nam	3 744	3%
4	Palestinian Admin. Area	3 026	2%
5	Tanzania	2 934	2%
6	Iraq	2 791	2%
7	Pakistan	2 781	2%
8	India	2 393	2%
9	Côte d'Ivoire	2 366	2%
10	Congo, Dem. Rep.	2 354	2%
	Other recipients	95 247	75%
	Total	127 627	100%

1.2b Top 10 donors, US\$ million, net disbursements in 2009

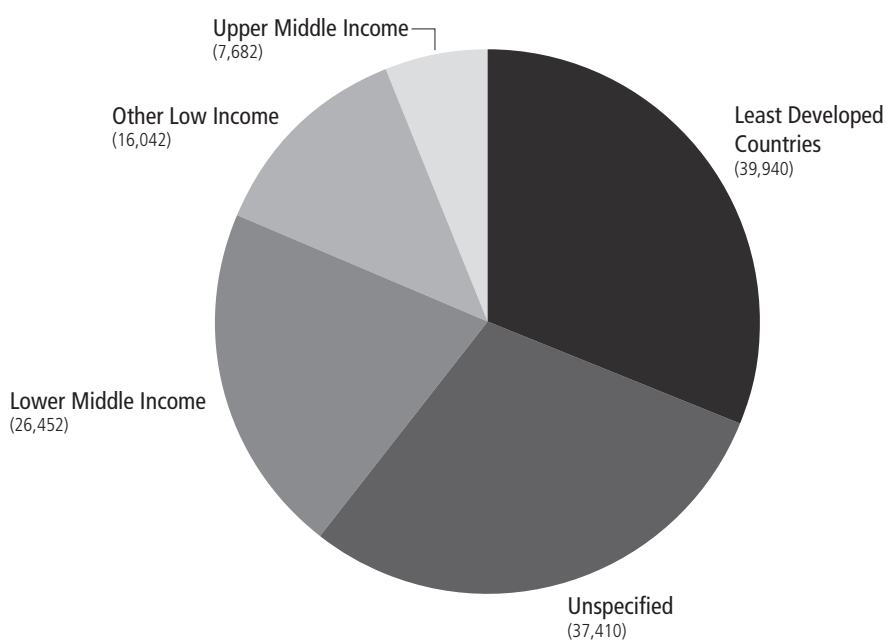
1	United States	25 174	20%
2	EU Institutions	13 021	10%
3	IDA	8 961	7%
4	United Kingdom	7 657	6%
5	Germany	7 097	6%
6	France	7 019	6%
7	Japan	6 001	5%
8	Netherlands	4 798	4%
9	Spain	4 473	4%
10	Norway	3 168	2%
	Other donors	40 157	31%
	Total	127 627	100%

1.2c Trends in ODA

	2008	2009	% Change
ODA Net Disbursements (2008 USD million)	126 656	131 272	3.6
ODA Commitments (2008 USD million)	153 400	163 435	6.5
Population (thousands)	5421 479	5493 992	1.3
Net ODA per capita (USD)	23.4	23.2	–

Source: for all three tables, OECD, Development Aid at a Glance, 2011

Figure 1.3 ODA by income group (USD millions), 2009, net disbursements



Source: OECD, Development Aid at a Glance, 2011

Afghanistan is the biggest single recipient, followed by Ethiopia. The US and the European Union are the biggest donors, followed by the World Bank IDA. The chart shows that least developed countries receive about one third of all aid.

1.5.1 Example 1: USAID

Table 1.3a breaks down aid flows through USAID. What do you notice about the distribution?

Table 1.3a Top 20 benefiting countries (Obligated Program Funds) for FY2010 and FY2011, through 31 March

Country	FY2010	FY2011
Afghanistan	2,755,671,228	57,610,006
Pakistan	1,351,634,685	343,698,200
Haiti	701,379,625	133,601,639
Israel	596,529,460	504,696
West Bank/Gaza	387,120,025	168,674,476
Kenya	500,427,374	5,580,373
Sudan	462,877,610	37,239,593
Jordan	363,375,929	100,249,366
Ethiopia	350,258,089	27,219,396
Georgia	339,465,998	10,405,429
South Africa Republic	347,449,184	1,953,872
Egypt	320,115,027	8,242,346
Nigeria	295,792,542	23,333,516
Tanzania	312,689,352	3,134,891
Uganda	269,467,038	11,850,768
Iraq	220,524,820	60,688,407
Indonesia	262,002,937	17,848,628
Dem. Republic of Congo	163,325,098	92,438,351
Mozambique	234,429,203	4,379,934
Liberia	229,133,134	8,070,512

Source: for both tables, USAID, June 2011

- Afghanistan and Pakistan received \$4 billion in aid in 2010
- Haiti was third, a result of the post-earthquake assistance
- World Food Programme received the single largest amount, followed by a series of corporations operating in the aid industry, led by Chemonics, with \$458 million.

The next table shows the top contributors to aid for these two years; note the distribution and the difference between the two years.

Table 1.3b Top 20 vendors (foreign government excluded) for FY2010 and FY2011 through 31 March

Vendor	FY2010	FY2011
World Food Program	1,078,275,437	330,829,134
Chemonics International Inc	458,591,535	374,181,997
Global Fund	791,252,368	–
Development Alternatives Inc	486,592,862	128,014,798
Partnership for Supply Chain Mgt	432,468,862	157,700,000
The Louis Berger Group Inc	418,408,445	114,694,836
International Relief and Development	411,826,830	104,972,233
John Snow Inc	398,991,227	83,097,245
IBRD/WBI	460,057,993	–231,253
Academy for Education Development	341,205,619	73,035,956
Family Health International	247,285,033	127,095,245
Catholic Relief Services	259,951,766	67,592,385
International Organization for Migration	218,646,101	97,505,401
Deloitte Consulting LLP	265,330,730	36,407,339
Management Sciences for Health	207,728,737	93,505,725
ABT Associates Inc	202,537,194	97,527,867
Research Triangle Institute	192,463,477	75,290,936
Creative Associates International Inc	162,954,111	51,616,002
Mercy Corps	165,584,958	46,768,409
Pact Inc	116,678,867	85,112,345

Source: USAID, June 2011

1.5.2 Example 2: European Union

Turn now to Table 1.4 below.

Table 1.4 Top 20 recipients of European Commission development aid in 2010, net disbursements, Euro Million, and GDP per head in 2010, US\$

	Euro million	US\$ per head GDP
Occupied Palestinian Territory (West Bank)	340	2,900
Congo, Democratic Republic	270	300
Afghanistan	254	900
Turkey	222	12,300
Serbia	218	10,900
Haiti	217	1,200
Kosovo	211	6,600
Pakistan	203	2,500
Ethiopia	177	1,000
Morocco	168	4,800
Malawi	154	800
Sudan	146	2,300
Mozambique	143	1,000
South Africa	140	10,700
Burkina Faso	123	1,200
Ukraine	114	6,700
Niger	112	700
Republic of Moldova	104	2,500
Egypt	102	6,200
Dominican Republic	99	8,900

Source: adapted from the European Commission, 2010

If we look at the top 20 recipients of development assistance, similar to the USAID list, we see the result in Table 1.4 above, which shows the top 20 recipients of the EU aid budget by country in 2010. What do you notice about the distribution here?

Clearly these figures are a result of a variety of policy choices, including the decision to support occupied Palestine, to spend money in the immediate neighbourhood of the European Union, both in countries to the east of the EU and in North Africa, to support the reconstruction of Afghanistan, to promote development in selected developing countries.

1.5.3 Example 3: Islamic Development Bank activities

Turn now to Table 1.5 Cumulative IDB group operations by major modes of financing from 1396H to end 1431H(2) (1 JANUARY 1976 — 6 DECEMBER 2010) on the following page.

In this example, clearly, Bangladesh, Pakistan, Iran, Saudi Arabia and Morocco have been priority countries for the IDB.

1.6 Conclusions

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

- definitions of development assistance
- the main trends in the provision of development assistance
- the historical development of the provision of development assistance
- motives for donating development assistance
- that aid allocations studies suggest foreign aid doesn't always go to the poorest countries because of political, strategic and commercial considerations by donor countries and agencies.

Table 1.5 Cumulative IDB group operations by major modes of financing from 1396H to end 1431H⁽²⁾ (1 JANUARY 1976 — 6 DECEMBER 2010) (Amount in million)

	Total Project Financing			Technical Assistance			Total Trade Financing			Special Assistance Operations			GRAND TOTAL		
	No.	ID	\$	No.	ID	\$	No.	ID	\$	No.	ID	\$	No.	ID	\$
Afghanistan	6	51.0	76.9	3	0.9	1.4	0	0	0	21	11.7	15.8	30	63.6	94.1
Albania	21	125.4	186.6	6	0.8	1.1	1	3.3	5.0	3	1.0	1.4	31	130.5	194.2
Algeria	40	446.9	591.7	11	3.0	4.0	188	1,490.0	1,887.7	7	4.5	5.6	246	1,944.4	2,489.1
Azerbaijan	31	471.7	706.9	12	2.2	3.2	8	52.4	78.9	4	1.5	2.0	55	527.8	791.0
Bahrain	91	950.9	1,385.8	6	0.9	1.3	19	203.5	286.5	0	0	0	116	1,155.3	1,673.6
Bangladesh	68	589.6	856.1	9	3.4	5.2	213	5,369.6	7,733.7	12	28.8	35.6	302	5,991.4	8,630.6
Benin	36	161.1	227.3	25	5.6	7.1	5	26.0	35.0	1	1.3	1.4	67	194.0	270.8
Brunei	5	38.5	49.2	1	0.2	0.3	0	0	0	0	0	0	6	38.7	49.5
Burkina Faso	53	248.5	347.0	34	9.8	12.6	6	133.7	206.1	9	8.3	8.8	102	400.3	574.5
Cameroon	26	185.4	261.1	13	2.9	3.6	1	10.8	17.0	3	1.3	1.7	43	200.4	283.4
Chad	37	216.4	312.3	29	4.6	6.3	1	2.1	3.2	10	9.9	10.8	77	233.0	332.5
Comoros	4	8.8	11.1	13	3.4	4.9	3	5.9	7.5	3	0.9	1.1	23	19.0	24.5
Cote d'Ivoire	15	186.1	279.8	1	0.3	0.4	3	48.5	76.3	5	1.0	1.2	24	235.8	357.7
Djibouti	31	160.1	242.9	16	2.7	3.7	1	7.6	12.0	10	1.7	2.3	58	172.1	260.9
Egypt	44	637.8	907.8	13	2.8	3.9	118	1,626.9	2,323.4	4	1.1	1.5	179	2,268.6	3,236.7
Gabon	16	279.3	409.5	4	1.7	2.2	0	0	0	0	0	0	20	280.9	411.8
Gambia	32	114.8	165.2	20	3.3	4.5	19	69.6	103.0	4	1.7	1.8	75	189.4	274.6
Guinea	53	242.7	327.9	34	8.1	10.7	6	37.9	48.8	6	6.1	7.8	99	294.8	395.2
Guinea Bissau	2	2.0	2.2	8	2.7	3.8	2	11.6	15.0	3	1.1	1.2	15	17.4	22.3
Indonesia	93	951.6	1,392.7	11	2.1	3.2	39	645.3	902.3	4	2.9	4.4	147	1,601.8	2,302.5
Iran	76	1,537.9	2,252.1	15	4.3	6.6	174	1,715.0	2,481.8	7	10.0	13.3	272	3,267.2	4,753.8
Iraq	7	53.4	68.2	8	0.9	1.3	35	264.9	301.3	12	4.0	5.5	62	323.3	376.2
Jordan	65	654.3	917.7	23	4.8	6.5	69	678.9	824.8	1	0.2	0.3	158	1,338.2	1,749.3
Kazakhstan	20	317.0	471.4	10	1.7	2.4	8	67.0	101	5	1.3	1.9	43	387.1	576.7
Kuwait	27	185.2	268.5	7	1.2	1.6	48	763.1	1,131.5	4	6.5	7.5	86	956.0	1,409.1
Kyrgyz Republic	14	83.5	124.2	11	2.7	4.0	0	0	0	7	1.7	2.4	32	88.0	130.6
Lebanon	51	587.8	825.9	8	3.9	5.7	11	157.9	221.5	21	7	9.8	91	756.6	1,062.9
Libya	17	280.9	386.0	4	2.4	3.3	10	230.0	299.8	2	2.9	3.8	33	516.2	692.8
Malaysia	55	784.1	1,115.0	7	0.9	1.4	41	201.2	281.7	5	8.8	11.4	108	995.0	1,409.5
Maldives	20	78.7	113.4	11	1.6	2.2	7	77.2	119.0	3	0.6	0.8	41	158.1	235.4
Mali	52	314.9	446.5	29	8.9	12.0	13	133.9	199.8	12	14.9	16.5	106	472.6	674.9
Mauritania	60	359.9	523.4	39	16.6	23	7	60.8	84.5	7	9.7	11.1	113	447.0	642.0
Morocco	59	1,113.3	1,619.7	21	3.9	5.5	117	1,721.9	2,389.3	4	1.2	1.5	201	2,840.3	4,016.0
Mozambique	17	88.7	126.6	7	1.5	2.3	1	9.8	15.0	5	1.8	2.2	30	101.8	146.1
Niger	44	192.0	271.6	41	10.9	14.5	20	109.2	138.3	18	10.2	12.2	123	322.2	436.6
Nigeria	3	59.4	90.5	2	0.2	0.3	12	132.4	205.0	30	5.9	7.9	47	197.8	303.7
Oman	36	450.7	598.1	7	1.8	2.4	1	1.4	2.0	2	0.4	0.5	46	454.3	603.0
Pakistan	92	1,510.7	2,245.4	9	1.7	2.5	242	3,832.7	5,191.1	11	8.5	11.7	354	5,353.7	7,450.6
Palestine	22	58.3	82.0	11	4.6	6.7	0	0	0	42	41.3	53.3	75	104.2	142.0
Qatar	32	389.3	590.0	1	0.1	0.1	0	0	0	0	0	0	33	389.4	590.1
Saudi Arabia	91	1,115.9	1,654.9	23	2.6	3.7	162	1,879.4	2,750.9	2	0.1	0.1	278	2,998.0	4,409.6
Senegal	64	417.1	588.7	28	8.8	11.3	25	192.9	272.6	7	12.9	14.2	124	631.7	886.8
Sierra Leone	25	85.5	121.8	27	5.5	7.1	1	3.2	5.0	4	2.8	3.6	57	96.9	137.5
Somalia	6	19.3	24.1	15	2.9	4.0	4	36.1	46.2	43	9.6	13.3	68	67.8	87.6
Sudan	95	728.4	1,065.8	25	3.8	5.4	29	264.4	372.4	20	19.4	23.5	169	1,016.0	1,467.0
Suriname	5	22	32.3	1	0.1	0.2	1	7.4	10.0	2	0.1	0.2	9	29.6	42.7
Syria	38	643.3	921.2	7	1.1	1.6	25	108.8	130.5	1	0.2	0.3	71	753.4	1,053.5
Tajikistan	23	120.6	173.0	14	3.0	4.4	2	15.3	24.0	9	1.1	1.5	48	140.0	203.0
Togo	15	78.2	113.2	6	1.5	2.2	1	4.2	6.0	2	1.4	1.7	24	85.2	123.1
Tunisia	53	757.2	1,107.0	9	1.7	2.5	160	803.9	1,094.9	4	3.3	4.2	226	1,566.1	2,208.6
Turkey	94	1,025.2	1,442.1	8	3.9	5.2	298	2,421.1	3,226.2	5	17	20.4	405	3,467.3	4,693.9
Turkmenistan	10	199.8	306.9	3	0.6	0.8	0	0	0	1	0.2	0.3	14	200.7	308.0
U.A.E.	90	504.3	756.0	8	0.7	0.9	19	329.5	469.7	0	0	0	117	834.5	1,226.6
Uganda	10	47.9	69.9	16	3.3	4.4	5	11.3	13.9	9	3.4	4.5	40	65.9	92.6
Uzbekistan	22	308.9	476.3	6	1.4	2.1	1	31.8	50.0	7	1.4	1.9	36	343.6	530.2
Yemen	58	359.8	515.7	28	6.8	9.1	41	351.9	420.3	8	7.1	8.6	135	725.7	953.7
Regional	51	468.9	713.5	290	61.7	90.3	2	90.9	142.0	68	44.5	61.9	411	665.9	1,007.7
Special	4	62.5	85.0	0	0	0	1	14.8	20.0	0	0	0	5	77.3	105
Non Member Countries	33	179.5	272.2	9	0.6	0.9	5	114.3	176.0	842	195.9	263.9	889	490.4	713
Net Approval	2,260	2,313.0	2,315.9	1,063	246.1	343.7	2,231	26,583.4	6,959.3	1,341	541.9	702.1	6,895	49,684.30	70,320.9
Gross Approval	2,562	4,955.60	5,860.00	1,126	261	364.1	2,738	30,159.70	1,920.40	1,374	547.7	710.1	7,800	55,923.90	78,854.60

(1) Figures are net of cancellation (unless otherwise specified) and include ICD, UIF, IBP, APIF, and Treasury Operations

(2) Cut-off date for the data was 30 Dhul-Hijjah 1431H (6 December 2010)

Compiled by Data Resources and Statistics Department from all departments and entities in IDB Group. *Source:* Islamic Development Bank Annual Report 2011.

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