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DANIEL MAXWELL

■ aid, international

International aid, or official development assistance (ODA), comprises a wide range of financial and nonfinancial components. These may take the form of cash transfers as well as grants of machinery, technical advice, and analysis and assistance in capacity-building support. Although foreign aid is often envisaged as transferring resources from rich to poor countries, the reality is more complex, with more than half of all ODA actually going to middle-income countries.

Early Foreign Aid The history of modern aid and colonialism are in many ways intertwined. In order to extract raw materials and exploit economic activity abroad, the colonial powers provided investment capital, technology, and personnel to colonies. Examples include the Belgian-initiated railroads in the Congo, the French design of the Suez Canal, and railroads and roads built under British rule to transport primary commodities in southern and eastern Africa.

Explicit reference to aid became more widespread in the 1940s. During this period, the wealthier countries began considering broader economic development as a goal, focusing on aspects of engagement that were not directly or exclusively related to extraction and exploitation. This reflected an evolution of economic and strategic interests (and in part was associated with the decline of mining relative to other sectors and also with the development of air and other military capabilities). It also reflected a changing understanding of human dignity in which human rights and self-determination emerged in strong opposition to earlier Darwinian notions, which had reinforced colonial notions of superiority. The 1940s also brought to the fore arguments for the need to invest in strategic alliances and in peace.

The period immediately following World War II saw a concerted effort to avoid a repeat of the post–World War I peace process and reparations, which had served at best as a short-term palliative. It was recognized that peace required economic integration and this required both financial flows and policy changes to bring about closer economic integration. The new vision for sustained peace through economic opportunity gave rise to the Marshall Plan, as well as to the Bretton Woods conference and the creation of multilateral institutions such as the United Nations (UN), the World Bank, and the International Monetary Fund, whose goal was to increase international cooperation and assistance. This architecture largely remains in place today.

Increasingly, broad goals such as education were supported by emergent foreign aid programs and endorsed in parliamentary acts of the time, such as the 1948 British Overseas Development Act. In 1949, President Truman's inaugural address proposed the creation of a program for development assistance. The UN's 1951 report on *Measures for the Economic Development of Under-developed Countries* (with Arthur Lewis as the lead author) advocated the creation of a dedicated UN fund to support development, as well as an International Finance Corporation (IFC) to underpin private investment (five years later the IFC was established as part of the World Bank Group). In the 1950s and early 1960s, following the granting of independence to most colonies, many former colonial civil servants were employed in newly established aid projects, so that while the expatriate personnel remained, the nature of the relationship changed.

The initial focus of these institutions was on rebuilding war-torn Western Europe and Japan and on stabilizing the world financial system, rather than on broader notions of development. Indeed, the first four of the World Bank's loans were devoted to postwar reconstruction. In addition to supporting the activities of the multilateral agencies, the wealthiest countries began to set up their own bilateral initiatives to provide aid flows and technical assistance to developing countries. In 1960, Canada created an External Aid Office, and in 1961 the United States created the United States Agency for International Development, France inaugurated a Ministry for Cooperation, Japan created the Overseas Economic Cooperation Fund to provide loans for developing countries, and Germany established its development bank, the Reconstruction Credit Institute (KfW). Sweden and the United Kingdom established bilateral aid agencies in 1962 and 1964, respectively. These agencies at first focused on former colonies, leaving broader global reconstruction and development to the multilateral institutions such as the World Bank. Over time, however, the objectives and strategy of multilateral institutions and national agencies converged, and there is now a significant degree of overlap.

From the outset, nongovernmental and other groups had ambitions that were often ahead of governments' views on aid. For example, the World Council of Churches in 1958 called on the rich countries to allocate 1 percent of their national income to aid for developing countries. This was later taken up by the Development Assistance Group, which was established in 1960 as a forum for consultation among aid donors at the Organisation for European Economic Co-operation (OEEC), which became the Organisation for Economic Co-operation and Development (OECD) later that year. A target of 0.7 percent was agreed by the UN General Assembly in 1970, but by 2006 it had been reached by only five countries, despite the fact that rich countries are much wealthier and poor countries are much better managed than when the pledge was made.

Foreign Aid during the Cold War Chilling relations between the West and the Soviet Union meant that from the 1950s to the fall of the Berlin Wall in 1989, Cold War politics became a key determinant in all foreign policy, and not least aid. Increasingly aid was used as a means to support and bolster friendly states. Where geopolitical interests were involved, economic and military support were often closely interconnected.

In Zaire (now Democratic Republic of the Congo), for example, aid was used as a strategic tool. Between 1960 and 1990, more than $10 billion was disbursed in aid to Zaire in support of an increasingly brutal and corrupt dictatorship. Maintaining a strategic alliance, rather than development effectiveness, was the objective. Similarly, political and economic factors were the main drivers of large aid donations in support of the transition to a market economy in Eastern Europe and Central Asia. Not surprisingly, such aid was not correlated with long-term poverty reduction. Such cases have lent support to aid skeptics.

A key characteristic of foreign aid during the Cold War period was its "tied" nature: aid was allocated to the purchase of specific goods and services from the donor country. In this way, much aid never left the donor countries, as it ended up paying for consultants or services (such as foreign-language radio broadcasts).

Food aid also became prevalent. In part this reflected the growing agricultural subsidies in Western Europe, the United States, and Japan, which rose to more than $300 billion per annum. These rich countries protected their markets from competitive imports and subsidized their farmers, dumping surpluses on world markets, often as food aid. Poor countries were unable to compete in agriculture and trade, and the dumping of food on world markets undermined and destabilized agricultural prices and production in developing countries. As outlined by Goldin and Knudsen (1993) and Sen (1982), the distortion of markets and policy failures contributed to price instability, long-term decline in agricultural prices facing developing country farmers, and even famines. While protectionist trade policies in the rich countries undermined the potential for sustainable growth in many developing countries, rich countries' aid policies provided at best a partial response to short-term humanitarian needs. Similarly, while significant quantities of aid were directed into investments in irrigation and other agricultural infrastructure in developing countries, the undermining of the rural economy as a result of protectionism by rich countries provides a classic example of a failure to achieve policy coherence.

Although there has been some progress in untying aid since the end of the Cold War, tying persists in many aid programs today. Meanwhile, agricultural protectionism continues to have a pernicious influence on world agricultural markets and trade, with the negative impact far exceeding the aggregate poverty-reduction impact of aid (Goldin and Reinert 2007).

Adjustment Programs Adjustment (or macroeconomic policy-based) aid was developed in the 1970s. This was designed to respond to the severe macroeconomic imbalances experienced by many poor countries, characterized by ballooning deficits and debt that were aggravated by exogenous shocks from oil prices, interest rates, and other sources. The constellation of conservative political leadership in the United States (Reagan), the United Kingdom (Thatcher), and Germany (Kohl) was also important, with aid acting as an agent of reform and bolstering the private sector. By the late 1970s, aid was increasingly predicated on the recipient country's acceptance of conditions that sought to enforce macroeconomic and trade reforms, and to facilitate private (particularly foreign) investment. The focus on structural economic reforms was not accompanied by corresponding attention to institutional reform or investments in education and health, and neglected demands of social cohesion. This limitation, along with the mounting assertions of self-determination by rapidly democratizing governments, as well as the pendulum swing in rich countries away from their former preoccupation with market solutions, meant that by the mid-1990s, following the end of the Cold War, adjustment lending had become far less common.

Poverty Reduction and Recent Development Models The reform of aid policies in the 1990s responded to a range of factors. These included the end of Cold War preoccupation with strategic allies, the success of the growth paradigms in China and India, the failure of major aid efforts (not least in Africa), and intellectual evolution—particularly in the areas of understanding around economic growth, poverty reduction, and development. Perhaps the most striking belated change was the recognition that to reduce poverty, aid should be focused on those countries where poor people lived and in which the governments were willing and able to act to overcome poverty. In addition, as poverty increasingly was recognized as multifaceted, the policy discussions and interventions around poverty reduction became more nuanced.

By the late 1990s, the goals of development began to embrace the elimination of poverty in all its dimensions, by improving education, health, and other human capacities, not simply focusing on income. Scholars such as Sen (1999) gave intellectual form to the emerging understanding that development means increasing the control that poor people have over their lives. This is derived through a combination of education, health, and greater participation in politics and community decisions, as well as from improvements in access and income. It is also clear, and beginning to be reflected in aid policy, that the various dimensions of poverty are related, and that income growth generally leads to progress in the nonincome dimensions of poverty and vice versa.

From the early 1990s, this rethinking of development was associated with an increase in aid flows to health, education, and infrastructure. Due mainly to improvements in two countries, China and India, where government policies are largely but not entirely independent of aid, social indicators such as health and education on average have improved very quickly since the mid-1970s in developing countries.

Direct targeting of health and education goals, rather than waiting for improvements to follow income gains, has led to a virtuous circle that has improved the welfare of individuals and families. On average, at every level of income in developing countries, infant mortality fell sharply during the 20th century, and life expectancy increased by 20 years (from mid-forties to mid-sixties) over a period of only 40 years. The global trend in life expectancy remains very positive, although HIV/AIDS has dramatically reversed this trend in a number of countries, particularly in southern Africa.

Developing countries also experienced dramatic improvements in literacy: whereas in 1970 nearly two in every four adults were illiterate, now the proportion is only one in four. Particularly important is the greater focus on female literacy, as this has been shown to be pivotal in improving the health and human development levels of children and communities. These achievements cannot solely or even primarily be attributed to aid, but rather to a combination of national policies (not least in China and India) along with growing integration and the adoption of new health and other technologies.

The unevenness of the performance of developing countries, and ability of some very poor countries to grow despite resource constraints and others to squander abundant resources, has led to a growing focus of the aid community on governance and institutions. Increased attention to governance and institutions also has been associated with growing interest among academics in this topic. In the pragmatic world of aid agencies, attention to governance, and to institutional development more broadly, has been translated into growing budget allocations for the development of civil servants and building of regulatory authorities and judiciaries. It also has been associated with a growing emphasis on the allocation of aid in light of the performance of the recipients.

Millennium Development Goals In 2000 heads of state of both rich and poor countries committed themselves to achieving the Millennium Development Goals (MDGs). These are:

- eradicate extreme poverty and hunger
- achieve universal primary education
- promote gender equality and empower women
- reduce child mortality
- improve maternal health
- combat HIV/AIDS, malaria, and other diseases
- ensure environmental sustainability
- develop a global partnership for development

The Millennium Declaration marked a major step in the history of aid. For the first time, the international community came together to establish clearly defined common goals with a set of agreed measurable targets and results for developing countries, donor agencies, and the multilateral institutions. Building on this declaration, the 2002 Monterrey Conference established a new partnership for development in which the rich countries promised to increase both the volume and the quality of aid in return for commitments from developing countries to undertake vital reforms to enhance aid effectiveness. Despite the remarkable achievements in many countries, not least in China, it is becoming clear, however, that many or most of these goals will be missed, except perhaps that of halving income poverty, which will be met at the aggregate global level. Many developing countries have failed to live up to their Monterrey commitments on poverty reduction and good governance. Similarly, the rich countries have fallen well short of their commitments. Aid flows have increased, but these remain far short of the agreed targets, and the Doha Development Round of trade negotiations appears to be a long way from meeting even minimal expectations. The tremendous achievements of the MDGs, not least in terms of mobilizing public opinion in many rich countries, are therefore at risk of dissipating due to inadequate political will.

Types of Aid and Harmonization As figure 1 shows, only around 20 percent of bilateral aid in fact ends up as a cash transfer into the hands of the recipient country (“other bilateral”). Around 80 percent takes the form of aid to multilateral organizations, debt relief for countries such as Afghanistan and Iraq, administrative costs, costs for refugees living in donor countries, and technical cooperation—including support to students from developing countries studying in donor countries (imputed student costs). Although this indirect assistance may make an important contribution, it is often driven by the priorities of the donors and is no substitute for predictable, multiyear flows of aid mobilized behind government programs that are agreed upon by governments and across the donor community. Such

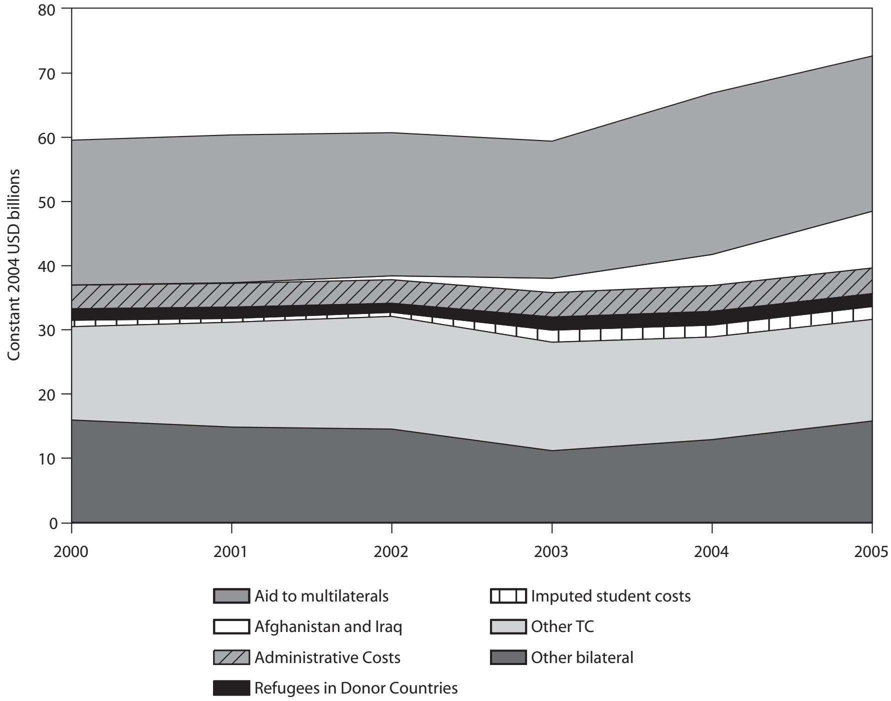

Figure 1

Aid components, 2000–2005. Source: OECD Development Aid Committee (DAC) data.

harmonization and coordination are vital to reduce the currently high transaction costs of aid, which divert scarce resources—including the time demands on the most competent civil servants—into projects and activities that have too often been donor priorities rather than recipient national priorities.

Considerable progress has been made in harmonizing approaches to aid. The 2005 Paris conference and subsequent Declaration on Aid Effectiveness brings together multilateral and bilateral donor agencies around common standards. While the MDGs provided a landmark in terms of defining common goalposts for development, the harmonization agenda aimed to ensure that the donors played as one team. Significant improvements in coordination among a number of the traditional major donors point the way forward. As diverse aid flows are increasingly combined into broad multidonor activities, the challenge for donors is to convince their skeptical voters that their taxes have been spent wisely. Although attributing the impact of aid to individual donors may be counterproductive, in that it suggests that development is not a national responsibility, aid—like all public expenditures—requires accountability.

Levels of Aid, Aid Quality, and Evaluation Aid flows increased markedly between 1945 and 1960, but subsequently slowed and from 1990, when it averaged 0.34 percent of the gross national income (GNI) of the donor countries, declined to around 0.22 percent of the GNI of high-income countries in 2001, as shown in figure 2. The recommitment to aid at the Monterrey Conference in 2002 finally arrested this decline, with ODA reaching a record high in 2005. Subsequently, aid flows again slipped back, reflecting the fact that the inclusion of Iraq and Nigerian debt write-offs had temporarily inflated the numbers earlier. Going forward, the key uncer-

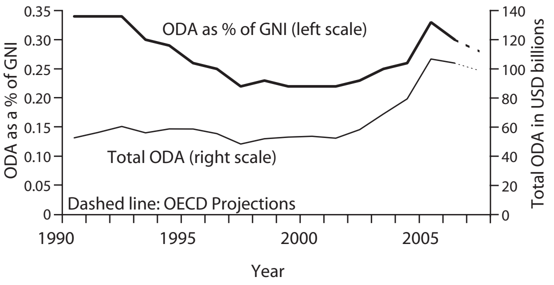

Figure 2

Aid flows. Source: OECD Development Aid Committee (DAC) data.

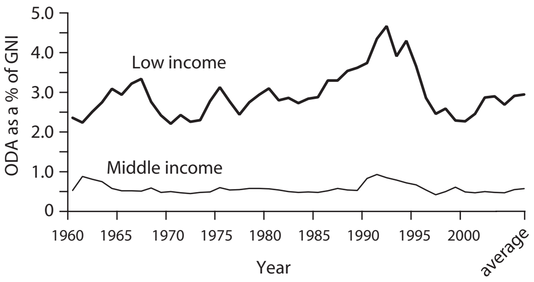

Figure 3

Foreign aid receipts as a percentage of low and middle income GNI, 1960–2006. Source: OECD Development Aid Committee (DAC) data.

tainty is the extent to which donors will honor the pledges made at Monterrey and reiterated at the 2005 Gleneagles G8 Summit, where it was agreed to double aid to Africa and to achieve the 0.7 percent commitment.

In comparison with domestic investment and government expenditure, aid flows are small. Development aid to developing countries in 2005 was a record $107 billion, but even without taking account of the fact that most of this was not transferred to developing countries, aid remained less than one-third of foreign direct investment in developing countries ($334 billion), which itself was only a small fraction of total investment in developing countries (more than $2 trillion). Although increasing the volume of aid is vital, improving its quality is even more important.

Both the relatively small levels of aid and the instability of these flows for middle- and low-income countries are reflected in figure 3. Since aid is typically small compared to budget and private investment flows, and more unstable, the key challenge is to ensure that aid effects systemic changes such as introducing ideas and improving practices. These in turn have positive effects on growth and poverty reduction. Such indirect effects are difficult to measure and attribute, however, and, as indicated earlier, attribution risks undermining government leadership and harmonization. It is important that aid be provided not solely for short-term and relatively easily measurable objectives.

A growing body of literature had sought to use randomized techniques to provide improved rigor to the evaluation of aid. Impact evaluation and other evaluative methods may be expected to become a necessary part of the toolbox of aid agencies as they and the recipient governments seek to enhance the effectiveness of pubic expenditures. These techniques yield powerful insights when applied through carefully designed studies of projects or programs but typically they are less helpful at the macro policy level, where there is limited scope for randomization or associating single actions or actors with particular outcomes.

The complexity of social and economic change means that the impact of foreign aid cannot be easily separated from other factors. The most successful projects are ones in which recipients are strongly committed and in charge of the development process, and where there is good partnership among donors and with local leadership. Recipients are then particularly well placed to draw on foreign aid, with a view to both learning lessons from international experience and funding well-defined investments that can underpin growth and poverty reduction. For such recipients, the objective is to become self-sustaining and to turn from being net aid recipients to donors, as has been the experience of China.

The increasing focus of aid on countries with relatively sound policies has meant that the estimated poverty-reduction productivity of ODA is significantly better than it was in the early 1990s. Countries with poor policies and poor institutional quality cannot simply be isolated, however. Some recent studies have found that the impact of aid on growth is strong regardless of institutions and policies, and it is necessary to be cautious about the evidence in this area.

Weak States If viable institutions and policies are conducive to effective use of aid, what should be done in weak or failed states where these do not exist? Such states usually lack the governance, institutions, and necessary leadership for successful reform. Each incompetent government has its own specific problems, and aid interventions must be tailored to addressing and overcoming these. A growing specialist literature has examined the lessons of interventions in weak states, and a number of pointers to supporting such countries have emerged. It has been shown that knowledge transfer and capacity building are more effective than large-scale financial transfers and that improving basic services such as health and education is also important. In such situations, the potential role for the United Nations, in particular in terms of coordination, is often underestimated and tends to be inadequately resourced in terms of personnel and funds. While Ethiopia, Mozambique, and Uganda are postconflict success stories, unfortunately many other countries have seen little significant progress in the past decade. The challenge for aid agencies is to remain engaged but not to throw good money after bad policies. Part of the response lies in attention to coherence between aid and other policies, especially in weak states and in countries beset by conflict, as emphasized by Collier (2007).

Global Public Goods Although much of the attention in the aid debate has been on support to countries and national projects, global initiatives are also significant beneficiaries of aid. An important step in development is supporting what are known as global public goods. These are public goods whose benefits are felt beyond the border of any one country, benefiting the poor in many countries and even all humanity. The pooling of resources and coordination across national boundaries, and between the public and private sectors, is vital in addressing such global issues. These include combating major infectious diseases such as HIV/AIDS and malaria, developing better crops, managing intellectual property, and dealing with climate change.

An example of a global aid initiative is the Consultative Group on International Agricultural Research (CGIAR). This is a partnership working toward sustainable food security and poverty reduction through scientific research in the fields of agriculture, forestry, fisheries, policy, and environment. The partnership includes countries, international and regional organizations, private foundations, national agricultural research systems, civil society, and the private sector, all of which support the work of 15 international research centers. The CGIAR significantly helped the Green Revolution, which began in South Asia in the 1970s and has led to impressive gains in production of basic food crops across the developing world. Between 1970 and 1997, yields of cereals in developing countries rose more than 75 percent, coarse grains 73 percent, root crops 24 percent, and pulses nearly 11 percent.

Private Initiatives and New Donors The Global Alliance for Vaccines is an example of aid in support of a global public good. It is also indicative of the rapidly growing contribution of private donors. The Bill and Melinda Gates Foundation and other relatively recently established private aid donors, as well as privately launched campaigns such as the Clinton Global Initiative, are adding to the contribution and in terms of financial flows overtaking the more traditional nongovernmental aid institutions such as the Ford and Rockefeller Foundations, civil society groups such as Oxfam and Save the Children, and religious foundations. Together, these nongovernmental flows are channeling aid that in many countries, and perhaps also in aggregate, now exceeds the public flows. This greatly increases the potential as well as the complexity of aid (see Klein and Harford 2005). In addition to the rapid growth of private flows, interesting experiments are under way that seek to build on public-private partnerships and leverage official flows. One such example is the pilot Innovative Funding Facility for Immunization. The

French-led actions to increase aid flows through a levy on airline travel and the British-led securitization of future aid flows to raise finance from capital markets are indicative of the way that innovation and partnership are beginning to change the shape and potential of the traditional aid architecture.

The transformation of traditional aid recipients, notably China, into highly significant aid donors has challenged the aid establishment. The thrust of the OECD official donors has been closer coordination and ensuring that the recipients conform to governance and other standards. China's and other new aid donors' perspectives and objectives are not necessarily aligned with those of the traditional donors, and these new donors have not been part of the OECD Development Aid Committee coordination process. The growth in these new aid flows, both from private foundations and from governments such as China and Venezuela, has meant that there have been significant increases in the volume of aid. The key questions concern the coordination and quality of this aid and the extent to which it will be able to avoid the dangers of tied aid and aid fragmentation that undermined previous surges in aid. The ending of the Cold War and the ability of countries to access aid together with a range of development ideas and technologies have made the biggest difference to development outcomes in recent years.

A New Way Forward The polarization of the aid debate between the strong advocates, such as Sachs (2005), and deep skeptics, such as Easterly (2006), reflects an oversimplification of the complexity of the development challenges and the need for strong domestic and international actions. Resources alone will not be sufficient to ensure that poverty goals are met. Level of commitment and quality of policies and institutions in recipient countries are the primary determinants of progress. It is also evident that, when a country is committed to reform and poverty reduction, external support (which may not be limited to aid) can have substantial payoffs. An important area in which rich countries can provide support is through reforms of their own trade and other policies. As important as robust global growth is reform of the protectionist policies of rich countries (such as in agriculture and textiles), which are so damaging to poorer countries. As Goldin and Reinert have shown (2007), changes in trade, investment, migration, environment, security, and technology policies in rich countries would pull many out of poverty. The Commitment to Development Index and associated analysis by the Center for Global Development provides an indicative summary of the importance of coherence between aid and other policies.

Coherence between aid policies and other policies is vital. For example, aid donors' support for health and educational systems is undermined by the recruitment of teachers, doctors, and nurses to work in the rich countries. Similarly, support for agricultural programs is undermined by protectionism and subsidies that prevent developing countries from competing on world markets. With continued reform momentum and steady external support, past experience suggests that developing countries can extend and deepen the progress of the last half-century. Despite the progress made in the past 50 years, an immense poverty challenge remains. Approximately 1 billion people still live on less than one dollar per day. Aid has never been more effective in supporting growth and reducing poverty, and returns on aid have increased sharply. Raising the volume and the quality of aid is a moral, strategic, and economic imperative.

See also aid, bilateral; aid, food; aid, humanitarian; aid, military; evolution of development thinking; Millennium Development Goals

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