

Burnell, Peter

**Working Paper**

## Foreign aid resurgent: New spirit or old hangover?

WIDER Research Paper, No. 2004/44

**Provided in Cooperation with:**

United Nations University (UNU), World Institute for Development Economics Research (WIDER)

*Suggested Citation:* Burnell, Peter (2004) : Foreign aid resurgent: New spirit or old hangover?, WIDER Research Paper, No. 2004/44, ISBN 9291906336, The United Nations University World Institute for Development Economics Research (UNU-WIDER), Helsinki

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United Nations  
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**WIDER**

World Institute for Development Economics Research

Research Paper No. 2004/44

## **Foreign Aid Resurgent**

New Spirit or Old Hangover?

Peter Burnell

July 2004

### **Abstract**

This study is premised on the view that reports circulating in the 1990s, claiming foreign aid was in terminal crisis, were premature. Aid's reviving fortunes are explained in terms both of a growing awareness of the uneven implications of globalization and the after-effects of the terrorist events of 11 September 2001. However these two 'drivers' make uneasy partners. Furthermore, aid for democratization, argued in the 1990s to be an instrument for indirectly addressing socioeconomic weakness and improving development aid's effectiveness—making it a positive feature in a bleak decade—is increasingly seen as problematic. For now, aid's resurgence should target pro-poor development rather than democratic reform, although the likelihood is that old fashioned determinants of *realpolitik* will continue to get in the way.

Keywords: foreign aid, international linkages to development, role of international organizations

JEL classification: F35; O19

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\* Dept. of Politics and International Studies, University of Warwick; email: peter.burnell@warwick.ac.uk

This is a revised version of the paper presented at the UNU-WIDER development conference on Sharing Global Prosperity, Helsinki, 6-7 September 2003.

UNU-WIDER gratefully acknowledges the financial contributions to the 2002-2003 research programme by the governments of Denmark (Royal Ministry of Foreign Affairs), Finland (Ministry for Foreign Affairs), Norway (Royal Ministry of Foreign Affairs), Sweden (Swedish International Development Cooperation Agency—Sida) and the United Kingdom (Department for International Development).

ISSN 1810-2611

ISBN 92-9190-633-6 (internet version)

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UNU World Institute for Development Economics Research (UNU-WIDER)  
Katajanokanlaituri 6 B, 00160 Helsinki, Finland

Camera-ready typescript prepared by Liisa Roponen at UNU-WIDER  
Printed at UNU-WIDER, Helsinki

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## Introduction

The analysis proceeds from a summary of aid's decline in the 1990s (section 1) and recent recovery (section 2) to an explanation (section 3) highlighting two potentially competing agendas: first, globalization and poverty; second, post-*September 11* and other new security concerns. Section 4 assesses the contribution of political development aid to aid's reviving fortunes. Section 5 argues that confused and imperfect understandings over the relationships between socioeconomic and political variables only make more likely a situation where *realpolitik* is a major determinant of aid, so that notwithstanding signs of aid's recovery, its developmental impact will remain insecure.

### 1 Foreign aid down but not out

Official development assistance (ODA) peaked in the early 1990s and subsequent trends appeared to confirm predictions of inexorable decline. All major donors reduced ODA relative to gross national income (GNI); by 2000 the DAC states were providing a smaller share (0.22 per cent) than at any time since the late 1940s, moving further away from the 0.7 per cent target the UN General Assembly adopted in 1970. Over the decade, annual ODA flows in real terms declined by around 10 per cent, and by 40 per cent to Sub-Saharan Africa, which has the highest concentration of least developed countries.<sup>1</sup> Although lower middle and upper middle income countries retained their share—around one-third of ODA—the proportion going to least developed countries fell from around 36 per cent to 29 per cent. Only a few countries like China and Tanzania were relatively unscathed. Mozambique embarked on post-civil war reconstruction and witnessed a substantial aid decline. India and Pakistan, formerly sizeable aid recipients, experienced considerable declines, although Vietnam became a major new beneficiary. In Latin America newly stabilized El Salvador was a notable loser.

The reasons behind the trends are well known. Pre-eminent was the collapse of the Soviet Union. This dramatically reduced US support both for bilateral and multilateral ODA, driven during 1945-90, when United States was top donor, by national security and geopolitical strategic concerns. In Japan, the largest ODA provider for most of the 1990s, financial and economic deterioration caused popular and government support to sag as the decade wore on. Germany's willingness to continue its historically large ODA budgets was undermined by the financial, economic, and political costs of reunification. The European Union (EU), while vying to become one of the world's leading donors by volume (together with member states' bilateral aid, the EU accounts for just over half of all ODA), became more preoccupied with its own internal agenda: enlargement to the east (which could drain EU finances), deeper political integration, and preparations for the single currency. Aid budgets were a soft target, as member states sought to restrain public spending so as to satisfy the convergence criteria for monetary union. In Britain, where the incoming Labour government in May 1997 endorsed the Conservative Party's animus against overt increases in direct taxation, pressure to allocate more resources to domestic social

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<sup>1</sup> Data in this paragraph from *The DAC Journal* (2001: 68).

policy was trailed as a political priority. The newly rich countries of East Asia showed no inclination to share the burdens of international assistance, let alone fill the gap left by large former donors like Saudi Arabia and the Soviet Union. Then came the Asian financial crisis (1997), generating requests for massive external financial support from the International Monetary Fund (IMF).

A widespread perception set in that there was growing 'aid fatigue' among the public, articulated by both the political left and the more influential right, fuelled by doubts about aid's effectiveness even with respect to the ethically-rooted development objectives. Furthermore, in many countries the increasingly onerous foreign debt overhang appeared to confirm these doubts, suggesting that new aid, particularly loans, would only compound the problem. And an ideology of international political economy that privileges *private* capital flows and trade over aid became increasingly influential, locating responsibility for development in the developing and transition economies themselves. In the late 1990s, dramatically increased foreign corporate investment and commercial bank lending to a few developing countries in East Asia (primarily China) and Latin America made ODA look increasingly insignificant. Certain favourable developments made aid look less essential anyway. For example, peace became the norm in Central America. It was expected that post-apartheid South Africa would provide an engine of growth for all southern Africa. A more stable Middle East involving peace between Israel and the Palestinians looked a real possibility after the 1991 Gulf War. All in all, then, aid's future was judged 'precarious' as recently as 2000 (Hopkins 2000: 423).

## 2 New spirit

Recent developments suggest that trends have finally turned the corner. Thus prior to the international conference on 'Financing for Development' (Monterrey, March 2002) the Bush administration unexpectedly revealed proposals to increase its bilateral aid, linked to economic policy and governance conditionalities. The increase involves an extra US\$10 billion over 2004-06, of which US\$5 billion would appear in 2006 (subsequently a new government agency—the Millennium Challenge Corporation—was announced as being responsible for distributing the funds). This 'Millennium Challenge Account' followed an EU pledge to increase ODA by up to US\$7 billion annually by 2006. EU member states agreed to raise their contribution to at minimum the EU's current average (0.33 per cent of GNI), entailing an extra 22 billion Euros and raising the average to 0.39 per cent. The combined US and EU pledges would raise the DAC ODA/GNI ratio from 0.22 per cent to 0.24 per cent (assuming annual real income growth averages 2.5 per cent)—still a long way from the 0.33 per cent of 1990-92. Of course the US pledge, implying a real terms increase in aid of around 40 per cent by 2006 over 2003, still leaves aid's share of the federal budget and GNI at historically low levels (Shapiro and Birdsall 2002). And as time passes, slow progress on implementation owing to familiar problems of poor coordination and rivalry among different bureaucracies in the government tarnishes the picture. Nevertheless, President Bush in a state-of-the-union address in 2003 again surprised his detractors, by increasing by US\$10 billion to US\$15 a 5-year emergency plan for AIDS relief in Africa and the Caribbean (although indicating only US\$1 billion of this for the UN's Global Fund). This put pressure on European leaders to consider a matching commitment.

It is difficult not to see these various pledges as a form of competition to avoid the moral ‘low ground’, with implications for the respective desires to influence international policy towards development cooperation in multilateral forums especially. Also, after *September 11* the US administration began courting diplomatic support for its global campaign against terrorism, and was conscious of criticism of its increasingly unilateralist tendencies and weak aid contribution to ‘international burden sharing’. (The US’s proportional share has fallen continuously since the early 1960s, and at 0.11 per cent of GNI now, with only 0.02 per cent going to the least developed countries, the US compares unfavourably with all other DAC donors, despite regaining from Japan the position of largest donor). Moreover, even modest promises are not always kept (in July 2003 the relevant US House of Representatives sub-committee trimmed the administration’s aid appropriations request, but reapportioned AIDS funding to the UN Global Fund). And they look insignificant compared to the challenge posed by world poverty or in relation to US defence expenditures or OECD domestic agricultural subsidies. After all, the UN’s Millennium Development Goal of halving the proportion of people living in extreme poverty by 2015 is reckoned to require at minimum a doubling of world aid. And disagreements persist over funding the IDA, whose interest-free loans are crucial to the poorest countries that cannot attract international private capital, with the US wanting the World Bank to convert at least half of its lending into grants. Concerned commentators say this will erode its funding base (repayments by borrowers to the IDA were US\$13 billion between 1992 and 2001); ultimately dependence on, and political vulnerability to, major donors would increase, especially given continuing US opposition to developing-country demands for greater voting rights on the Bank’s board. Meanwhile Japan, hitherto top donor, far from showing more inclination to exercise global leadership over aid’s overall direction is set to make further reductions in its ODA. The EU too still has difficulty in agreeing and applying rigorously a coherent vision for its development cooperation. EU aid implementation remains notoriously bureaucratic.

Nevertheless, it would be difficult to deny that the climate for aid has improved. Observers interpreted the millennium challenge as a signal that the US is becoming more open to persuasion that aid *might* be developmentally efficacious in certain circumstances. In the words of Jeffrey Sachs, the ‘US is waking up from a 20-year sleep in the development field. We can forgive them not immediately knowing everything that has been happening during their slumbers’ (*Financial Times* 25 March 2002). Of course, the publications mill on aid never did stop working overtime (nothing attracts attention quite like the manner of its passing), but there does now seem more enthusiasm to move the debate forward. One example is the endeavour to unlock ‘added value’ in our understanding of complex development and aid issues by combining interest in ODA’s effectiveness with the analytical framework offered by public goods theory. The demand for international/global public goods of all descriptions—which according to one estimate accounts for only 9 per cent of aid (a further 30 per cent is allocated to national public goods)—looks bound to increase, so fuelling demands for much more aid.<sup>2</sup> Indeed, major issues where aid is invited to contribute range ever more widely, from meeting refugee and humanitarian crises (in

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2 See te Velde (2002). Poverty reduction is but one of the global public goods; others include peace and environmental goods.

the 1990s a significant growth area for aid) to combating illicit drugs production and trafficking, checking the spread of communicable diseases and addressing environmental threats, all features of the new security agenda. Target-setting remains in fashion too: the UN 'World Summit on Sustainable Development' (September 2002) agreed to halve the number of people without access to sanitation facilities and safe water to one billion by 2015. This will require help from aid.

Economists, too, have regained the courage to reassert some good news about aid, contrasting with previous years' emphasis on the doubts and reservations. The positive association between aid inflows and economic growth has been restated, noting that even aid not directed into investment can still benefit welfare and development. Poverty has definitely moved centre-stage in the discourse and the policy rhetorics. For example, a joint statement of the EU Commission and Council in 2002 enshrined poverty reduction as the main objective of its development aid. The World Bank's *World Development Report 2000-01: Attacking Poverty* was greeted favourably—'in some ways this recent report really is a step forward' (Boer 2001: 288)—unlike the 1980s when the Bank was widely held responsible for it being a 'lost decade for poverty'. Of course the OECD's *Shaping the 21<sup>st</sup> Century: The Contribution of Development Cooperation* (1996) first provided a significant milestone, setting clear targets for global poverty reduction and social development. And then came the Bank's *Assessing Aid. What Works, What Doesn't, and Why* (1998), reconfirming the view that ODA (more especially multilateral aid) is an effective instrument against poverty—so long as the recipient countries have the right political will, appropriate policies, institutions and governance. The calculations suggest that additional assistance of US\$1 billion would raise 284,000 people above absolute poverty, compared with only 105,000 people ten years ago. There is now a standard requirement that governments write poverty reduction strategy papers, in consultation with civil society, for endorsement by the Bank and IMF.

Finally, the end of the cold war did more than liberate aid from some old political constraints. It provided an enabling environment for new political objectives and aid rationales, namely democracy, 'good governance' and human rights, to be sought directly via projects or programmes and also through adding political conditionalities to aid's other conditionalities. The belief that such political reform might serve economic liberalization in formerly statist and authoritarian regimes was particularly important for aid to retain US support. New dimensions in the academic study of aid came about, involving not just economists but political analysts and international relations experts too. New questions came into vogue, such as how can the effectiveness of political aid be measured and do the methodologies allow meaningful comparison with the returns to more conventional development aid? Are political conditionalities likely to be more successful than the mixed record of economic conditionalities?

So, despite the ill omens of the early 1990s, reports of aid's death were greatly exaggerated. The pledged flows and the mood music have been lifted, nowhere more so than in Britain, where both the status within government and the resourcing of the Department for International Development (DfID) have increased under Blair's Labour government. The Chancellor of the Exchequer canvasses international support for more substantial debt relief to poor countries, endorsing calls for a doubling of world aid, and supporting for this purpose a proposed International Finance Facility

that would leverage money from the private capital markets—immediately dubbed a ‘modern Marshall plan’. Britain’s ODA is set to increase to nearly £4.6 billion, 0.40 per cent of national income, by 2005-06, constituting a 93 per cent real terms increase since 1997. By then all of Britain’s ODA should be untied, technically-speaking; DfID publicity claims that 90 per cent of bilateral flows will target low-income countries.

Naturally for aid’s most enthusiastic proponents, these developments can never promise enough. But approval for aid at the highest levels and lively public debate are an improvement on hostility (as from Thatcher’s premiership) and stale debate or no debate at all. Even contributions like the suggestion that the World Bank has undergone a ‘tragic deterioration’<sup>3</sup> and is now in crisis, can be interpreted in a positive light. They reflect the somewhat myopic position of right-wing bankers and economic purists, expressing regret for defensible Bank initiatives to consult representatives of poor communities, incorporate competent NGOs in the policy process, and address gender and environmental considerations—developments that many aid supporters believe can be profoundly beneficial.

### **3 Explaining recent developments**

Explaining aid’s revival could easily get caught up in theoretical debates over the relative importance of structure and agency, ideas and interests, the push and pull of endogenous and exogenous forces. A full audit of influential factors would have to tease out relationships between demand and supply side forces as mediated by formal and informal institutions, both private and public sector actors at national, international and sub-national levels. Here, only two factors—and the tensions between them—will be visited: globalization, and the consequences of *September 11*.

#### **3.1 Globalization and poverty**

The concept of *globalization* and its historical origins are contentious issues. Contemporary usage varies from simple propositions about increases in world trade and foreign direct investment to ideas about the increased interconnectedness of peoples more generally and supra-territoriality. Different social science disciplines offer different perspectives; globalization’s meaning and significance are contested even *within* disciplines or sub-disciplines, international relations for instance. That said, there are implications for aid.

One side of the debate rejects World Bank confidence in the declining number of people in absolute poverty and inequality among households. Instead, it maintains that globalization’s effects are unequal and there are losers (whatever the unit of analysis—households, larger social groups, whole countries, or regions), both relative and absolute, chiefly in the developing and post-communist worlds. Even in countries like China, where the numbers in absolute poverty are declining, increased inequality can be highly significant if it really is the case that relative poverty is disempowering

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3 Cited in *Financial Times* (28 August 2001).



for the least well-off. Substantial inequality increases the rate of economic growth required to improve the condition of the poorest. Wade (2001) goes even further than the claim that world income distribution is becoming more unequal. He argues that incomes in the lower deciles of world income have probably fallen absolutely since the 1980s, and the number of people in absolute poverty has probably increased.<sup>4</sup> Whatever is the true picture now, what is beyond doubt is that over 50 countries experienced negative economic growth between 1990 and 2001, including many that saw social development in retreat.

The realistic option in all this is not to try to reverse the tide of globalization, but rather to make an intelligent use of policy instruments so as to optimize its effects, capture the benefits and *reduce or compensate* for the harmful consequences. This implies a role for concessionary transfers. They can support the casualties of globalization (peoples whose livelihoods are disrupted) and societies so peripheral that they will not experience the potential benefits or make progress in isolation either (around two billion, mainly very poor people, are reckoned live in countries that are neither globalizing nor developing). In addition, there is now a greater appreciation of how increased poverty and immiserization often go together with violent conflict. The surge in peace settlements in conflict zones seen immediately after the end of the cold war turned out to be yet another false dawn. The expected duration of conflicts appears longer than previously thought. Ergo the scope for humanitarian intervention and sustained programmes of assistance to post-conflict reconstruction and development has increased.<sup>5</sup> Timor Leste (East Timor) is already eligible. Zimbabwe post-Mugabe can expect to see a dramatic increase in ODA; Sri Lanka too has been promised several billion dollars in return for progress in building peace.

There are several different issues here; needless to say, if assistance is to help, then different forms must be directed to different situations. There remains much analytical work to be done to refine our understanding of how different kinds of intervention can achieve the desired effects. Over the years researchers have accumulated plenty of case lore about what does *not* work well, or may not work at all. But assured knowledge about the secrets of success and the identity of transferable solutions or ones that can be replicated and scaled up remains elusive. That ‘the road to hell is paved with good intentions’ is a staple reflection among specialists in international development cooperation, applicable even to the NGOs. Even so, awareness of the negative side of globalization still strengthens the case for international assistance—whether the reasoning is grounded in morality and justice, or in the security of the rich world (more on that below). Only critics who believe considerably more radical action is required like reversing globalization or abolishing capitalism, fundamentally disagree.

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4 The relationships between economic openness, growth, poverty and inequality are all in dispute, but there seems little doubt that international inequality ‘is of staggering proportions ... And the only available data show world inequality to be increasing’ (Wade 2001: 39). White’s view of the data is that the real income of the poor fell between 1988 and 1993 (White 2001: 334).

5 See Collier *et al.* (2003).

### 3.2 The events of *September 11, 2001*

It has become *passé* to say the events of *September 11* ‘changed the world’, altering both the way we understand contemporary politics and the prospects for global stability and peace. The consequences for aid are only now unfolding. They are positive and ambiguous.

Heightened sensitivity to international terrorism followed by the invasion of Iraq in 2003 and concern about the proliferation of weapons of mass destruction have provoked a return to the kind of foreign policy behaviour associated with old-fashioned *realpolitik*. The consequences of *September 11* included *inter alia* immediate US offers of bilateral debt relief to Pakistan, culminating in the cancellation of US\$1 billion (out of US\$2.8 billion) and relaxation of aid sanctions imposed in 1990 (in response to fears about nuclear proliferation). Japan was pressed by the US to show solidarity by lifting aid sanctions too. Pakistan, of course, was (and remains) critical to US counter-terrorism objectives in Afghanistan and inside Pakistan and Kashmir (hence President Bush’s offer of a US\$3 billion package of financial and military assistance, in June 2003). At the time of the invasion of Afghanistan autocratic former Soviet republics in Central Asia were made offers of US aid, in return for use of military bases. Turkey seemed well poised to capitalize from planned US preparations for the invasion of Iraq, until the chances of a deal collapsed amid recriminations—but not before the US reputedly offered Turkey a choice of either US\$24 billion (US\$4 billion in grants and the balance in loan guarantees) or a US\$6 billion lumpsum grant (including US\$2 billion in military sales/forgiveness of military debts) (*Financial Times* 20 February 2003).<sup>6</sup>

Issue linkage between Islamic fundamentalist hostility to the US and the conflict between Israel and the Palestinians is a contentious subject. But to combat the former and play a key role in the latter, the US will probably maintain substantial assistance to ‘moderate regimes’ as in Egypt (a major recipient of US aid since the Camp David Agreement, 1978) and, now, Jordan. In this theatre at least, aid’s usefulness as a bribe or reward in exchange for political concessions has not gone away. Israel’s indebtedness to the US for ‘security assistance’ of around US\$3 billion annually (including US\$1.8 billion in military aid)—increasing to a request in 2003 for US\$4 billion grant aid plus US\$10 billion in loan guarantees—is legendary. It seems unlikely to decrease. The deteriorating situation in the Middle East has generated further opportunities for large-scale humanitarian and post-conflict reconstruction assistance. In late 2003 donors were called on to provide US\$2 billion in emergency assistance for the Palestinians alone: between 60 and 75 per cent are reckoned to be existing on less than US\$2 a day. Substantial aid will have to be part of any political deal to create an internationally recognized Palestinian state, just as it eventually dawned on the US administration that the reconstruction of Iraq will need massive financial support, well beyond Iraq’s limited ability to pay.<sup>7</sup>

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6 Turkey apparently first asked for US\$92 billion, and then US\$30 billion. Subsequent offers by the US included an US\$8.5 billion bridging loan ahead of disbursement of US\$6 billion in grants, of which US\$4 billion would be for the economy (*Financial Times* 27 February 2003).

7 Coalition Provisional Authority views reported in *Financial Times* (25 June 2003). US Congress voted US\$2.4 billion for Iraq’s reconstruction in April 2003.

Afghanistan itself poses a dynamic new aid frontier, promised up to US\$4.8 billion in grants (plus loans) by the international donors for 2002-06. In March 2003 Pakistan chipped in US\$100 million to rebuild transport and trade links. Eventually very much larger sums will be needed, if the Afghan authorities can create the absorptive capacity to make a productive use of the funds. Elsewhere, the US administration seems set to increase security assistance to the authorities in Colombia, in what looks like ‘mission creep’ from the original campaign of supporting counter-narcotics operations to waging war against ‘left-wing terrorism’. In Africa, US diplomatic initiatives appear to link offers of aid to secure long-term access to oil (African supplies to the US average around two thirds of the crude oil obtained from the Persian Gulf) and cooperation in fighting anti-US terrorism there. It is difficult to believe that neither the US nor France included aid packages in their efforts to gain the support of African ‘swing state’ members of the UN Security Council over voting on a second resolution on Iraq prior to the actual invasion.

Yet to many eyes, the events of *September 11* seemed to graphically confirm the security case for the rich world to be more proactive in tackling world poverty, in what could be a clear case of mutual benefit involving the poor. Blair told his hosts in Ghana, ‘There are times in politics when it is possible to do what was thought to be impossible a short time before. This is such a time. Let the developing and the developed world create together that decent prosperous future’.<sup>8</sup> One view is that a society’s economic progress may actually increase the appetite for, and means to threaten, international violence. But a different and frequently expressed view is that extreme poverty, resentment at gross international inequalities, and despair all provide fertile ground for forms of ‘anti-system behaviour’—whether targeting rich countries directly or operating indirectly through the intervening variable of violent domestic conflict. Frances Stewart (2001: 33) expressed it thus: ‘It is clearly fairly easy for leaders, such as Bin Laden, to mobilize the economically deprived against the economically privileged non-Moslem world’.<sup>9</sup> What is most important here is not whether poverty actually is the main cause of something like international terrorism (or the other ‘new security’ threats)—clearly a complex and debatable claim—or, even, the state of perceptions among the international aid bureaucracies. Instead, it is that reasoning like this, is being used in high places to shape and justify present day commitments to aid; at minimum it has acquired strong presentational credentials.

The problems posed to the rich world by ‘rogue states’ and fragile or failing states (of which there are several) also now loom much larger in public debate than in, say, 1995, when first the US marines and then a United Nations force withdrew from the chaos in Somalia. President Bush, after first maintaining that the US would not be drawn into providing support for nation-building or state reconstruction in countries like Afghanistan, then took a contrary line over Iraq. It seems the ‘logic of neoimperialism is too compelling’, given the dangers to global security of non-involvement (Mallaby 2002: 6). Also, the connections between poverty and several of

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8 Tony Blair quoted in *Financial Times* (9/10 February 2002).

9 According to Michel Camdessus, Managing Director of the IMF, at least one-third of the separate discussion during the ‘retreat’ among heads of state at the Monterrey conference (2002) was devoted to the possible link between poverty and terrorism (*The Courier* 2002: 6). Jessica Mathews (2001: 9), president of the Washington DC-based Endowment for International Peace, says, ‘it is clear that the new US interest in aid and development stems from the anti-terrorism connection’.

the other conditions that are now construed as global or regional security threats—large-scale movements of illegal migrants and (even) legitimate asylum-seekers, internationally organized crime, the rapid transmission of disease across borders, and so on—are now widely recognized. Such concerns presently affecting EU countries in their relations with the Maghreb could well increase now that the EU has enlarged to the east, bringing proximity to struggling economies in Belarus and Ukraine that much closer.

Almost everywhere the political dimensions in aid relations are never far from the surface. Take, for example in Sub-Saharan Africa the idea of a New Partnership for Africa's Development (NEPAD), which Blair warmly welcomed. It appears to suggest an African willingness to acknowledge Africa's share of responsibilities for improving Africa's economic and political prospects. The idea of a mechanism for self-regulatory peer review in Africa seems central to the proposal. In return there would be more aid and trade concessions; the G-8 summit in June 2003 secured conditional pledges to Africa worth £4 billion annually (Kofi Annan called the outcome 'a turning point in the history of Africa and indeed the world' [*The Independent* 28 June 2002]<sup>10</sup>), all of which makes African reluctance to openly criticize Zimbabwe's flawed presidential election of March 2002 look an inauspicious omen (the Common Market for Eastern and Southern Africa observer mission proclaimed it was conducted credibly, freely and fairly). And then in November 2002, President Mbeki announced that peer review should be restricted to economic aspects of governance. Of course the anti-capitalist/anti-globalization protestors see NEPAD as irrelevant anyway—just another elite-formulated, top-down initiative that can only fail.

In sum, while recognition is still very strong that some countries continue to need aid because they are poor, old-fashioned political factors play a large part in translating need into *effective* demand—into donor support for aid and influencing their aid resource allocations, bilateral disbursements especially. Thus the size and shape of the market for aid are a political construct. Furthermore, questions about whether economic progress, even if it does reduce poverty, will solve the kind of problems raised in this section—and *how* aid might best contribute—continue to be controversial in development studies and among aid practitioners. The past tendency for 'magic bullets' to disappoint the hopes that were at first vested in them now inclines observers to be cautious, nowhere more so than in respect of political development aid.

#### **4 Political development aid: from rise to dénouement?**

If aid generally (or aid volumes specifically) now faces a more promising future than seemed likely just a few years ago, then it is ironic that political development aid—more specifically democracy assistance—could be a partial exception. A significant increase in 'international cooperation for democratization' (the politically more

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<sup>10</sup> European leaders and Canada pushed unsuccessfully for larger sums. The same summit promised £13 billion over ten years for a programme to destroy Russia's unwanted nuclear stockpile.

correct term) followed the collapse of the Soviet Union.<sup>11</sup> In political science the ‘new institutionalism’ claims that politics matters: it is no mere epiphenomenon, or dependent variable, of ‘deeper’ economic and social structures. Thus political institutional reform, engineered or underwritten by international assistance, can make a difference to the way countries are governed, irrespective of their economic situation. That, in turn, will lead to improved economic management of those countries and so their prospects of enjoying economic, social and human development will increase too. This clutch of beliefs provided some intellectual underpinning to political development aid. Bush’s address on national security strategy outlined to Congress, 20 September 2002 declared the US will ‘use our foreign aid to promote freedom and support those who struggle non-violently for it, ensuring that nations moving towards democracy are rewarded for the steps they take’ (*Financial Times* 21/22 September 2002). Subsequently Bush proposed to spread democracy and freedom throughout the entire Middle East.

However, there is always a lag between the inauguration or expansion of new kinds of activity and the devising of suitable methodologies to evaluate results and appraise performance. The story so far in regard to democracy assistance is not wholly encouraging. The evidence to date underlines the difficulties facing attempts to promote any or all of the following: a rigorous respect for the rule of law (by powerholders in particular); a durable system of competitive party politics that steers between single-party dominance and unstable hyper-pluralism/factionalism; a sustainable increase in the strength and vitality of a supportive version of civil society; inter-communal trust and cooperation in societies where deep-seated divisions exist. Even the limited objective of consolidating judicial autonomy seems elusive, unless much more fundamental changes in the social, cultural and political context are secured. In respect of democracy, aid practitioners are still very far from establishing a consensus on ‘best practice’; analysts now seriously question even some of the basic concepts, including the kinds of democracy and civil society that are being encouraged. Problems similar to those that have long beset more conventional ODA are endemic, for example issues concerning relations with partners in civil society projects—formerly the repository of great hopes, just like the NGOs in socioeconomic development work. Establishing ‘ownership’ (or should it be authorship?) and preventing dependence are typically proving to be problematic, as are the idea and practice of ‘partnership’. The sequence events in Iraq after the fall of Saddam have only added to the growing scepticism about ‘doing democratic development’—both with respect to Iraq itself and the ‘domino effect’ that reform there was supposed to have on the rest of the Arab world.<sup>12</sup> Of course, suspicions in that region about barely concealed ‘hidden agendas’ involving US economic imperialism and Israel’s territorial objectives do not help. They reinforce a perception in some quarters that the West’s commitment to democratization—whether by means of democracy projects or through aid conditionalities—is both unprincipled and unreliable.

In the political economy of aid, political conditionalities represent one of the more obvious sites where power and wealth meet. The calibration of an optimal mix of

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11 See Burnell (2000); and Carothers (1999).

12 See Ottaway (2003).

support for political projects/programme with those ‘positive conditionalities’ (inducements of economic development/financial aid in return for improvements in democracy, human rights, ‘good governance’) and the ‘negative conditionalities’ (threatened ODA sanctions in the event of non-compliance) remains, at best, experimental. The *economic* conditionalities that became the norm in the 1980s were conceived on the grounds that it was essential to get economic policies and institutions ‘right’. By the 1990s this was overtaken—or overlaid—by the view that an essential (albeit not sufficient) requirement could be to ‘get the politics right’ first. The simple view was that sound economics would take over afterwards, and facilitate poverty reduction thereafter, although both these inferences remain controversial. So, enter political conditionalities, albeit with some confusion over whether priority should be given to promoting democracy or to human rights or to ‘good governance’, and over the tensions between these three objectives or among their constituent parts.

Alas, just as some economists now dismiss economic conditionality’s effectiveness, or argue that measuring compliance is problematic (as well as worries about adverse social effects), and instead recommend targeting aid on states already committed to ‘good’ policies and institutions,<sup>13</sup> so good grounds exist for scepticism about political conditionalities too. Against this backdrop NEPAD may be interpreted in either of two ways, neither of them complimentary. One view is that NEPAD represents a tacit acknowledgement by the West that political conditionalities do not work and some alternative, more consensual approach to leveraging political change is indicated. Another is that it represents a final attempt to strengthen conditionality, by invoking the threat of collective punishment (aid sanctions) even against the region’s more economically and politically liberal states should their leaders fail to bring obdurate colleagues like Mugabe into line. Neither interpretation removes serious problems with political conditionality on both the donor and recipient sides.

#### **4.1 Donor side**

By comparison with economic conditionalities it is even more difficult to formulate political objectives of conditionality in clear, agreed language that will allow progress/regress to be measured objectively and furnish a sound basis for judging policy compliance. Fine-tuning the conditionalities in subsequent ‘rounds’ is an even more imprecise art than in respect of economic targets/objectives/conditionalities. More significant, our understanding of the relationships between the stipulations typically associated with political conditionalities and their wider political impact (anticipated and actual), and of the temporal dimensions and sequencing are far more tentative than what we think we know about the management of public financial and economic affairs.

The absence of a true counterpart to the central enforcement mechanism and coordination that the Bretton Woods institutions provide on economic conditionalities does not help. Of course, their Articles of Agreement rule against political goals. And given that states in the ‘international community’ frequently privilege the high politics of bilateral diplomacy over collective action, it is inevitable that contradictions and

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13 See *Journal of Development Studies* (2001).

inconsistencies arise in the political demands they make through their aid relations—sometimes at the expense of pro-democracy goals. Here the EU is no exception: members will hide behind the EU's collective stance to 'talk tough', as when spelling out conditions to the 79 Africa-Caribbean-Pacific partner states in the Cotonou Agreement, but individually sometimes default on EU solidarity when pursuing bilateral relations with favoured states.

So, democracy promotion faces strong competition from the donors' other foreign policy interest, including both commercial or national economic interests and strategic geopolitical concerns. Democratic conditionalities even have to compete with other kinds of political conditionalities. The British government's (failed) bid to make European Union ODA conditional on recipient cooperation in controlling illegal migration is one example.<sup>14</sup> The US faces choices over whether to maintain good relations with (semi-)authoritarian regimes that cooperate in fighting terrorism, or pressing them to become more like liberal democracies—choices made all the sharper by the divided counsels over whether it is poverty, or political oppression, that provides the most significant breeding ground for terrorism. After all, there are cases where democratization could mean states becoming more responsive to pro-Palestinian sentiments: Pakistan's parliamentary elections (October 2002) amplified the political voice of Islamists. In Indonesia's new democracy, there is the potential for Muslim parties to hold the balance of power in the elected parliament. The West's reaction to the Bali night-club atrocity in October 2002 provided weight to the military and other security forces (given US aid) notwithstanding continuing human rights abuses (in Aceh province, for instance). Unlike small, debt-distressed least developed countries, such as Zambia, that have few bargaining resources, little pro-democracy pressure is exerted on China, easily the largest aid recipient in the 1990s, from either Japan (the major donor) or an increasingly friendly US administration.

The clash of donor political imperatives is unavoidable and, of course, need not always be cause for concern. For instance in post-conflict environments (where the risk of conflict occurring again is disproportionately high) the entrenching of civilian rule, evidence of political stabilization and state reconstruction might—should—take precedence over the niceties of democracy. Electoral irregularities may be condoned, as in Nigeria's presidential elections in February 1999 and April 2003; and even the postponement of elections can seem appropriate. EU aid support to Macedonia provides a different example.<sup>15</sup> But just as often the situation looks more like incoherence in the policy process, or serious disagreements over strategy between major donors or inside entities like the EU or the US administration. Thus, for example, Bush's robust line against the 'axis of evil' was criticized for undermining putative reformers in Iran; in Egypt, the US's war on terrorism has offered a pretext to the government to silence dissent.

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14 Floated in advance of an EU summit of leaders in June 2002, there was strong opposition from inside the cabinet and from some EU governments like France.

15 Following a highly critical evaluation by independent consultants commissioned by EuropeAid (set up by External Affairs Commissioner, Chris Patten), donors including the EU approved US\$515 million of new aid—more than double the predicted amount—at a pledging conference, 12 March 2002. This aid was supposed to bolster an August 2001 peace deal reached between Macedonia's government and ethnic Albanian 'rebels', which looked close to collapse.

## 4.2 Recipient side

In responding to aid conditionalities, autocrats self-evidently will be more inclined to make economic than political concessions where the latter obviously threaten their interest in retaining power. Many ruling elites have shown themselves adept at neutralizing the potential domestic political fall-out from structural economic adjustment, such as by externalizing the responsibility for painful economic measures. Semi-authoritarian rulers have appeared to concede donor political pressure for multiparty elections for instance, but by frustrating the very purpose—the substitution of a more legitimate, accountable government. Irrespective of whether conditionality is understood primarily to be a coercive instrument, a bribe, an exchange, or an exercise in persuasion, the chances of achieving ‘ownership’ look more remote for democratic conditions than economic conditions, in respect of these regimes. By comparison, economic policy conditions have not infrequently been adopted where they could be used to further the interests of the power-holders—the privatization of state enterprises to rent-seekers in the ruling elite being a typical example.

Finally, many political conditionalities could be largely redundant anyway not just for non aid-receiving countries like Saudi Arabia but where the main threats to democracy or democratization come from actors largely beyond the control of elected governments. In some cases that can mean the military and security services, in others terrorists and guerrillas/freedom fighters, or some debilitating combination of very fragile state structures and non-state actors. The exact relevance of aid-supported pressures to democratize will vary with whether the chosen perspective is short or longer term. So, for example, in respect of the EU’s offer of one billion Euros for reconstructing Afghanistan, the EU Commissioner for External Affairs expressly ruled out specific conditions despite the EU’s desire to see fiscal transparency and an end to opium poppy cultivation and a more ethnically mixed government.<sup>16</sup> In countries like Pakistan, strengthening the state’s ability to govern, maintain order and collect taxes can look as attractive as promoting democracy. And we should not forget that democratization—or interventions designed to enable democratization—can be highly destabilizing, and produce some profoundly anti-democratic effects.<sup>17</sup> Far from drawing on the ‘democratic peace’ hypothesis (namely, democracies are peace-loving and so a world made up of democracies will be stable and secure), attempts to force the pace of political change could transform even some non-Islamic countries into greater risks to security, because of the internal turmoil it brings—another reason, then, for being more restrained. For a time in 2002, certain European governments considered the idea of delaying World Bank funding to Pakistan, but note the reason: not to apply pressure for political liberalization/democratization, but to press for greater efforts to control cross-border terrorism vis-à-vis India. The US rejected even this limited idea, fearing it might destabilize President Musharraf’s leadership (*Financial Times* 7 June 2002).

The reality is that attaching political conditionalities to aid may well be more effective at promoting some political objectives (partial liberalization or conversion of

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16 Chris Patten, ‘I don’t think there is any country where you would be mechanistic about conditionality’ (cited in *Financial Times* 21 May 2002).

17 See, for example, Huntington (1996) and Snyder (2000).



authoritarian into semi-authoritarian regimes) than others like democratic consolidation. It is not simply that donors ‘tend to have a natural bias in favour of the incumbents whom their funding buttresses’ (van de Walle 2002: 74). But ‘consolidation’, whether understood as democratic ‘deepening’ or as democracy’s longevity, requires the internalization of democratic values by society. Attempts at imposition are misguided, unless the indigenous political culture and possibly the social and economic conditions too change in ways that make democracy’s advance possible. Again the example of post-Saddam Iraq provides confirmation. Possibly political conditionality could be more effective at retarding complete democratic reversal by would-be autocrats than at promoting sustainable democracy. Yet examples like President Mugabe (with some assistance from Libya) suggest that nowhere will it deter leaders determined to get their way, even though the country might desperately need ODA.<sup>18</sup> Given the limitations of politically conditioned aid, in certain circumstances other kinds of leverage offer much greater purchase, for instance the ‘carrot’ of EU accession inducing democratic reform in transition economies.

## 5 Big debates, familiar conclusions?

This analysis questions the judgement of many in the 1990s that ODA is in terminal decline. It does not set out to defend aid against its critics. Nor does it claim that henceforth there will be impressively sustained growth in the real volume of aid or its quality. The increasingly heavy financial burden of the US’s involvement in Iraq could hit its willingness to commit ODA elsewhere. And Japan could be set to reduce its UN funding, if its ambitions for a permanent seat on the Security Council are thwarted.

But with hindsight it is clear that the context of multiple driving forces and plural objectives that has long characterized aid is just as pronounced as ever. After all, that fact combined with the vested interests that cause numerous governmental, inter-governmental and non-governmental institutions to defend their own corner, helps explain aid’s survival. New frontiers for ODA have opened up; and there remains much scope to make the debt relief under the heavily indebted poor countries initiative more liberal. And policy-oriented economists and development practitioners continue to explore ways of further strengthening the developmental case for aid.

That said, there are two unresolved debates running through the meld of aid policy’s political determinants. The first debate considers that either socioeconomic development leads ultimately to democratization—which provides a strong case for development assistance—or, alternatively, democratization can be a condition for socioeconomic development, which appears to suggest using aid to promote democracy. The second unresolved debate considers that either the main threats (not

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18 UK Foreign Office Minister for Africa Baroness Amos, replying to MPs asking for even just one example of British influence in Zimbabwe before or since the March 2002 presidential elections: ‘I cannot give ... that kind of assurance ... We are all deeply frustrated’ (*Financial Times* 15 May 2002). She later told the National Press Club, Pretoria that the Zimbabwe situation was causing foreign investors to ‘think NEPAD a lost cause’ (cited in *Financial Times* 1 April 2003). Baroness Amos was subsequently appointed Secretary of State for International Development.

just international terrorism) to global security originate in poverty/ social malaise and the consequential domestic violence—and so aid should address the socioeconomic roots through conventional ODA—or, alternatively, these threats owe much to the domestic political conditions. The latter could make change of political regime a prerequisite, preferably to be brought about voluntarily or by ‘soft power’ (including aid’s political conditions) rather than force. In every case, clearly, there is a chain of causal assumptions, which creates several points at which the argument might conceivably break down in practice and frustrate the overall effect. In particular we are not now so confident that aid can produce democratic progress; the record of democracy assistance and the chances of making aid political conditionality effective both disappoint.

Moreover, there are some ‘no-go areas’ and some comparatively unpropitious terrain for democratization and for democracy promotion (Middle East may be an example) and for political conditionalities (India’s decision in mid-2003 to ‘drop’ 22 government donors is a response to political criticism by donors). Other, more effective methods for securing political change exist but they do not necessarily promise democracy, and they can have adverse economic and social consequences. In some instances, continued cooperation with (semi-)authoritarian regime retains its attractions, in the short term at least. Perhaps, then, aid should concentrate on pursuing pro-poor development, with just the possibility that where development takes place, it will deliver a bonus in the form of benefits to democracy and/or security, the latter directly and/or indirectly.

Regardless of what credit is given to alms-racing in securing the West’s victory in the cold war and defeating communism, there can be no doubting that *realpolitik* heavily compromised aid’s ability to advance developmental goals in the past. Put differently, if correcting or compensating for globalization’s more adverse social effects had really been given priority, then ODA’s regional, country, and sectoral allocations and the terms and conditions on which it was supplied would all have been very different. Quite plausibly, the future will not look very different. On the one side, recent aid initiatives connected with security issues illustrate how global estimates of the market for aid can be hostage to political fortune. They can be affected drastically by sudden political events. Favourable political developments in, say, North Korea, Myanmar and Cuba could dramatically increase the effective demand and absorptive capacity even for development aid. On the other side, reduced attention to some very poor, stable, peaceful countries could be part of the opportunity cost of doing more to address new international security concerns. Perversely, some such countries might be marginalized even further. Moral hazard could creep in, if major donors appear to favour countries where they have a paramount concern with their own security interests. Thus, although in general weakness is not a (negotiating) strength, there are instances where it might serve as such, leading to patterns of aid allocation at variance with a concentration on effective pro-poor development. Emergency food and energy aid to near-nuclear North Korea is illustrative. North Korea’s total economic collapse no less than its achievement of nuclear power status would have serious consequences for South Korea and much farther afield. Given North Korea’s current political leadership and the potential for instability, the chances that collapse and nuclearization could happen together present an especially powerful case for international assistance. The regime in North Korea has not been slow to try to capitalize on this.

Thus although at one level aid's prospects look brighter now, it is premature to say that the judgement future historians will pass on the present era will be any kinder than the often damning reports that social scientists have written in the past. For one thing, history tells us that promises of more aid do not always materialize. For another, aid's political drivers mean we cannot be certain that ODA will be substantially reallocated to countries with policy environments that favour pro-poor development. Economists advise us that in countries with weak institutions an increase of badly-designed aid can actually harm the prospects for sustainable development—and frustrate effective democratic governance. Nevertheless, that may well not be sufficient to prevent some aid going to some such countries. Conversely political neglect will mean that some societies which most need help (in Africa for instance) will not get the amounts and kinds of assistance they need. That aid has always been *inter alia* a political instrument harnessed to the pursuit of national interests by rich powerful states is hardly news. But its significance for a resurgent aid industry should not now be underestimated either. Notwithstanding all the new spirit informing an increase of support for aid to both development and democracy, there could still follow a very familiar hangover.

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