Introduction

The future of foreign aid is precarious. With aid in decline, violence in developing countries on the rise, and Western countries interests in global outreach increasingly uncertain, a new formula for relations between donors and aid receiving countries is evolving. Countries with the greatest need are also the ones most troubled by weak institutions and political upheavals. Such recipients need more effective governments. This demand is voiced in this volume’s papers and elsewhere. It fuels aid in support of state strengthening. The rise of aid for capacity building, governance and democracy, however, poses a major dilemma. On the one hand, institutional weakness is recognised as a major barrier to aid effectiveness. On the other hand, donor efforts to link aid to improved governance compete with recipients’ preferences to protect existing privileges. Weak states do not readily use aid to improve their polities or economy. The central task for the changing aid regime is to develop strategies to resolve this dilemma. The post-cold war aid regime requires a formula for aid that goes beyond conventional economic liberalism to support the strengthening of states burdened with failed institutions.

As noted in Chapter 3, the share of GNP that rich countries contribute to official development assistance is in decline, in some states for over twenty years. In spite of the increased generosity of some states, since 1992 net aid disbursements from OECD states
dropped, falling from over $62 billion to less than $50 billion in 1997. Not surprisingly, this decline has spawned interest in what caused it and what will happen in the future. This chapter addresses these questions. Drawing on the earlier contributions to the volume, it explores conditions influencing future bilateral and multilateral aid, with principal attention to large donor states, since their outlooks shape their own as well as multilateral flows.

In addressing these questions, this chapter focuses principally on political explanations. Previous chapters mainly addressed the economic dimensions of aid. They asked how its performance as an instrument for development could be improved. Only occasional attention was paid to political economy issues, such as how politics influences the allocations and results of aid. Yet some grasp of why richer countries are willing to transfer resources to poor countries is essential to any creditable forecast about future aid flows. Further, since aid supplies are contingent on results, and on the willingness of recipients to accede to aid conditions, the political motivations of those in control of recipient governments, as well as those with power in donor states, must be considered. Together these factors determine the allocation and use of aid. In considering the causes of aid, and reflecting on what causal conditions support foreign aid, political economy perspectives are useful. A political economy perspective treats aid as a policy action of donors, to be explained by political and economic goals. These, in turn, are products of culture, institutions, power distribution and the dynamics of competitive interests (Gilpin 1987, Nelson 1990, Cassen and associates 1994 and Schraeder et al. 1998).

There are various traditions in political economy, ranging from economic determinism and rational choice modelling to idea-grounded social constructivism (Mueller 1997, Bates 1998 and Staniland 1985). This essay draws on at least three approaches. In one, foreign aid is determined by the economic interests of powerful groups within donors.
Executive and legislative branches make economic policy with a view to its implications for their power. The second approach explains aid (bilateral and multilateral) as an effort to maximise benefits to donor states, deriving preferences for them from their situation in the international system. In the third aid is the outcome of bargaining among units, a kind of political market made up of donor aid bureaucracies, multilateral aid agencies and recipient government officials. All three help explain donor motivations. Since preference formation and estimation is controversial, this essay relies little on formal models or deductions from assumed interests. It uses historical language to speak of motivations and goals (not preferences and strategies), particularly for donors. Motivations are discussed as emergent properties from social context.

In the first approach, groups within states - e.g. parties, sectors, firms and NGOs - press for various policies. Empirical evidence about how various unbundled components of a state see their interests affected by aid is the basis for explaining aid outcomes. Political leaders, interacting within executive and legislative branches set policy on levels and allocations of aid. Bureaucracies and personalities seek to improve their situation by strategic uses of aid; patronage and sort-term solutions often dominate choices (Nelson and Eglinton 1993 and van de Walle 1998).

In the second approach the state is a unified actor with interests. These interests arise from a state’s position in world affairs and its cultural values. Aid is used to advance interests, whether diplomatic, commercial or cultural. Because donors pursue multiple goals, and these vary over time and among donors, it is difficult to generalise about the weight these goals play in explaining aid. For example, economic gains seem important in Japanese aid, political goals in French aid and global welfare improvement in Nordic aid (Chapter 3).
In the third approach, producers and consumers of foreign aid set terms (prices) by bargaining. Units remain states or government agencies, but in interaction. Donors want a bundle of outcomes in return for their aid. One outcome is from other donors. In this context they want burden sharing and co-ordination for achieving common goals. Among recipients, donors want compliance with their conditions. Recipients, of course, want aid without conditions. Donor–recipient exchanges can be considered strategic results of co-operative bargaining games. Acceptable outcomes for players are aid arrangements within each player’s win set, varying according to to which side pulls the other closest to its preferred position (Putnam 1988).

As world political conditions change, foreign aid changes: both its size and purposes. There has never been a pure economic development assistance regime. Rather, foreign policy has created and sustained various aid regimes among donors (Grant and Nijman 1998). Until 1990, cold war concerns provided a core motivation for aid. Recipient states did not fail because it was in the interests of the cold war combatants that they not fail. Development was a secondary concern; rentier elites were not obliged to account to donors for aid effectiveness in terms of economic or political improvements. Now that the cold war is over, foreign policy is more geared towards international public goods, including containing international ‘bads’. Ironically, international public ‘bads’ have multiplied as states once propped-up by strategically motivated aid are now openly failing. This situation provides a new focus for aid efforts. Donors should intervene in crisis situations (see Chapter 17), so as to contain negative externalities and gear their assistance in normal times to institution-building. In the short term, the donor objective is not higher economic growth in aid recipients; if it were, aid would go to countries with competent states and good policies, ones already relatively rich and able to attract private investment. The priority for aid in the coming decade should be for
institutionalising political stability, seeking the best package of long-term reduction in political crises and better future economic growth among states too risky for private sector funds. It is not an easy task.

**Explaining the decline in aid**

Explaining the change in aid volumes and especially its decline in the nineties begins with recalling how the system of foreign aid evolved over its first 50 years, as reviewed in Chapters 1 and 3. The institutionalisation of foreign aid after the Second World War occurred in a context of the cold war. Welfare principles dominated economic policies of donors (Noel and Therien 1995). Strategic political considerations were the major force shaping aid allocations, at least bilateral ones (Wood 1986 and Ruttan 1996). While moral concerns underlay aid, especially emergency relief, this motivation was never paramount, certainly not in a sustainable fashion.iii These founding principles and regime features changed. The demise of the United States as a hegemonic donor was reflected in the drop of U.S. aid as a per cent of U.S. GNP, from over 2 per cent in 1950 (not shown in the figure), to about 0.6 per cent in 1960-2, and only 0.08 per cent in 1997 (see Figure 19.1).iv
Figure 19.1

Multilateral agencies played a growing role in the regime, as the World Bank and the UNDP facilitated co-ordination in aid administration, while the Development Assistance Committee (DAC) of the OECD encouraged more generous giving among its member countries, along with establishing guidelines for what counted as aid. From the sixties to 1992, the amount of official development assistance rose steadily, even taking inflation into account (see Chapter 3). It centred increasingly on impoverished countries, as successful developing states in Latin America and Asia ‘graduated’ as recipients. Japanese and European aid especially increased, surpassing U.S. contributions. Equitable development and economic reform became more central principles for justifying aid. Then, following the end of the cold war, with the collapse of the Soviet Union in 1991, funding peaked and declined.

Sources: OECD (1999a).
Note: UN-target donors are Denmark, Norway, Netherlands and Sweden.
The decline in foreign aid occurred for six reasons. First, the end of the cold war made it less important. Second, globalisation attenuated aid tied to colonial interests. Third, growing budget pressures squeezed donor resources. Fourth, disappointment with the effectiveness of aid weakened popular support. Fifth, donor country special interest coalitions supporting aid unravelled. Finally, neo-liberal philosophies challenged some of the intellectual foundations of aid. A brief elaboration of these reasons follows.

_Cold war ending_

The end of the cold war reduced both aid and the ability of recipients to manoeuvre among donors. In donors most engaged in the cold war struggle, particularly the United States and the Soviet Union, domestic support for aid evaporated with the end of the global ideological clash. Predictably, among OECD members, the largest declines in aid since 1992 are reported for the United States, followed by close military allies Germany, Japan, Australia. The declines in aid from 1992 to 1998 for each of the OECD countries corresponds fairly well to a rank ordering of countries in terms of the intensity of their involvement in cold war activities. The erosion of cold war motivations did not affect all these donors. In the eighties, for example, nonaligned states, such as Finland and Switzerland, did not use aid for strategic purposes. They also avoided substantial decline in the nineties. Nominal cold war alignments, moreover, such as NATO membership, is not a good proxy for strategic motivation of foreign aid. Those states that accepted (and have reached and surpassed) the UN aid volume target (0.7 per cent of donor GNP) in their national policy had both the least decline in terms of aid volume (Figure 19.2), in terms of their relative aid effort (Figure 19.1) and the least responsibility for the cold war world structure."
Aid from China and Russia, and other former communist states also declined. These states give little or no aid today. This decline, likewise, is a function, at least partially, of the cold war’s demise. Many of these states have become aid recipients. Their role in the aid drama today stands in striking comparison to their role from the 1955-80 era. Once significant contributors to the aid regime (Schraeder et al. 1998), these states now absorb billions of aid monies in efforts to transform their economies from command to market based ones and to encourage their peaceful transition into a global liberal economy (Grant and Nijman 1998). The rise in aid to these recipients basically absorbed aid increases after 1989; since the mid-nineties this put pressure on the availability of development aid for traditional poor countries. vi
The case of aid to the Horn of Africa is instructive. In spite of large needs, foreign aid has declined. From the sixties through the eighties, cold war alliances were the major factor shaping aid flows to that area. In the eighties Somalia and Sudan received large amounts of U.S. aid as a product of alignments. Ethiopia, following the rise to power there of Marxist military leaders, lost foreign aid from the West. Today, global alliances do not mobilise or direct aid.

In sum, the end of the cold war both reduced support for aid and loosened constraints on its use. From 1948 until 1991, the great risk to security from a war between the two large alliances caused each side to mobilise and use aid as a tool to shape relations with other states. Aid continues today for other reasons. As security-based incentives declined, overall aid did not fall immediately; and for certain donors with commercial or global welfare interests aid grew.

*Dying patron--client ties*

A second reason for declining aid levels is the atrophying of international patron--client relations. Globalisation of economic and cultural production has subordinated links originating in earlier colonial ties and spheres of influence. For great powers, these ties, which pre-date the cold war, were important in justifying and allocating aid in the fifties and sixties. The desire of France and Britain to maintain economic and cultural links with former colonies, and similar desires by the United States with respect to areas it formerly governed or strongly controlled, such as the Philippines, Liberia and Panama encouraged aid that could provide direct budgetary support to friendly governments. The French focus on states in West Africa is particularly revealing. French ties to West Africa were not part of a strategic alliance, but represented the protection of historical investments in overseas peoples and expatriate residents. Aid supported a network of
commercial and cultural links. The aim was to build political stability in those countries with which France shared historical and linguistic identities (Schraeder et al. 1998). A review of aid to six West African states in 1987-91 by the French ministry of co-operation concluded that ‘France’s development aid contributed to the reproduction of social economic and political systems that are clientist and predatory.’ (quoted in Lancaster 1999: 121).

In the last decade these culturally based political and economic links have weakened as donor country firms responded to global and Europe-wide market imperatives. Popular interest in these overseas locales also waned as global humanitarian opportunities captured the attention of large NGOs. A residue of support for client-maintenance remains; French aid continues to be concentrated, for example. The United States continues to give aid to countries with special ties, but without emphasis on maintaining solidarity of customs. A decline in client-oriented aid is notable in the case of the United Kingdom. It has loosened its targeting of aid to former colonies, reacting to a vocal development lobby and strong support of the Labour party. Portugal and the Netherlands also have historical ties that promote aid. Other donors have developed a target group of countries based on shared political philosophy, as in the case of Nordic states with Tanzania. The special sentiments linking particular donors and recipients, whatever their origin, have withered in recent years, especially as experiences of success dropped.

One result of this withering of sentiments is diminished aid to ‘client’ governments. This, in turn, has reduced aid’s role in stabilising these polities. Of course, this role is controversial. Aid to train police and military, or to bolster a particular set of officials, is of debatable value, witness such aid to Vietnam in the sixties or Somalia and Zaire in the seventies. Further, in Africa, where aid rose dramatically in the wake of fiscal crises,
famines, and devastating civil wars in Uganda, Chad and Mozambique, more aid actually weakened the polity. The proliferation of donors with individual projects created a complex nightmare of planning, oversight, evaluation and negotiation in weak states. Donor demands overwhelmed government capacity.

Some political uses of aid to promote stability continue. For instance, aid still goes to help stabilise countries or regions, such as the Middle East, Eastern Europe or Southern Africa. Some aid may go as a bulwark against terrorism. Such flows are donor specific. U.S. aid to Egypt and Israel and European aid to Eastern Europe and Russia stand out as examples. Japan’s aid to Asia may also play such a role, though it rests more on commercial and regional stability interests. Bilateral aid to prop up particular client states, however, is over (Ruttan 1996 and Lancaster 1999). Furthermore, multilateral aid is harder to use for state support, even though technical assistance from the World Bank or UNDP is specifically designed for capacity building (see also Chapters 6 and 12). While multilateral agencies are often more trusted by recipients, they are less able to exercise political conditionality, certainly overtly. Multilateral agencies have charters and governing bodies with strong respect for putative sovereignty. This inhibits aid used to prop up governments, or to force political reform. Their failure in this task has been broadly assailed (van de Walle 1998).

Tight budgets

A third reason for the decline of aid is budgetary constraints. Many OECD governments reduced their aid in the nineties, at least from trend levels, a likely consequence of broader efforts to lower government deficits. Both domestic and foreign expenditures came under pressure. Military spending and foreign aid suffered cuts, many in absolute terms. Entitlement programs expanded, gaining a larger share of allocations, even as
benefit levels for such programmes were tightened. Reasons for this tightening varied. Among European countries, the decision to meet the Maastricht’s treaty’s criteria for entering the Euro-currency arrangement required substantial shrinking in budget deficits in the years leading up to January 1999. Slow economic growth made the fiscal cuts required particularly painful. Some were dramatic. In Italy, for example, after large increases in aid budget pressures in the nineties, combined with disappointment about fraud and waste in projects, brought about a fall in Italian aid of over 50 per cent. In the United States, aid declines since the eighties can be linked to tax cuts and legislatively mandated caps on budget expenditures. Once the Clinton administration promoted a balanced budget goal, austerity across a large realm of discretionary expenditures ensued. In Japan, which became the largest single donor in 1992, aid declined by over 30 per cent from 1995 to 1996. The collapse of the balloon economy and the subsequent long recession explain a large part of Japanese aid downturn. The fiscal reform law of December 1997 schedules aid volumes to fall from 1997 levels by 10 per cent a year from 1998-2000. In the face of this austerity, aid from conservative welfare states declined the most and from socialist welfare states the least (Noel and Therein 1995).

Budget constraints also affected non-OECD donors. Falling government revenues in oil rich Middle East states explain their budget induced decline. These countries, so heavily dependent on export revenues from oil, encountered budget crises in the nineties as world prices plummeted. Since the Gulf War, the flow of aid from Saudi Arabia, Kuwait and other smaller neighbours has dwindled. At one time, in the seventies, these donors funded 5-10 per cent of total aid commitments. Today there are few aid donors outside the OECD. The small amounts of aid provided by countries such as Argentina, Taiwan and Brazil are dwarfed by other aid flows.

Poor performance
The fourth reason for the decline in aid volumes is disappointment with performance. Sometimes labelled ‘aid fatigue’, this factor is best understood as lack of satisfaction that aid is working. Aid has been seen to fail in many countries, especially in Africa. The failure of economic development in some countries, ones increasingly targeted for aid in the eighties, was particularly disappointing. viii Some analysts blamed failure on donor governments, pointing out that they had undercut development results by giving priority to other donor state purposes, particularly political and commercial interests. ix There have long been critics of aid who doubted its efficacy. x More recently, critiques have suggested donors were culpable thanks to their support for bad economic policies in earlier years, e.g. helping parastatal development in the sixties and seventies, coupled with insufficient attention to the impact of aid on recipient institutions in subsequent years (van de Walle 1998). Other damning attacks on donors arise from dependency theorists. They claim that aid is really provided in order to exploit recipient countries, with the effect of slowing development (Amin 1973 and Seligson and Passe-Smith 1998). This charge still resonates among some donor NGOs and recipient country officials. Finally, after 50 years of experience, there is a massive accumulation of critical evaluations of aid, especially failed projects in Africa. These critiques informed much of the analytical work reviewed in this volume’s earlier chapters, including the influential work of the World Bank by Burnside and Dollar (1997) discussed in Chapter 4. In general, flaws in donor motivation, bureaucratic mismanagement and recipient country socio-political distortion of aid objectives were identified. The reaction to perceived aid failure has been to identify better ways to use aid more effectively. As Eric Thorbecke illustrates in Chapter 2, each successive decade has brought efforts to correct and improve aid.

Domestic publics and elites have absorbed some of the skepticism raised by critics (Noel and Therein 1995: 547-48). In Japan, for example, less than half the population in
1996 thought foreign aid benefited ‘developing countries’ while 15 per cent held it was of no benefit. Fact finding missions by parliamentary bodies have raised concerns about ineffective results and misused resources. In the United States, after years of public discussion of such results, it is not surprising that in 1998 about half the population favoured giving no aid. While only 10 per cent of those considered ‘leaders held this sceptical view, leaders support for aid levels declined (Reilly 1999: 38). The decline in trust of government in many OECD countries might provide a more general reason for some of these views. In fact, for the U.S. population aid has never been viewed favourably. The portion of the public supporting it in principle ranged from 52 per cent in 1974 to 46 per cent in 1998 (Reilly 1999: 21). Disappointment with aid probably accounts for the downward shift in support for aid among leaders more so than other factors.

**Smaller special interest payoffs**

A fifth reason for a decline in aid support is that special economic interests in donors are less powerful. It can be argued, indeed is argued, that aid has the most support from groups inside donors that derive selective advantage from it. These include firms with investments in recipient countries, or who provide exports tied to aid, and bureaucracies with employees with career interests in aid - including NGOs. There has been an impressive growth in NGOs in the last two decades, and they have developed strong ties to aid programmes that help fund them. Their growing strength creates a powerful lobby for continued government allocations (but, as the sixth reason suggests, their success reinforces a presumption that development can be addressed as a private sector responsibility). Business firms with profits linked to guarantees or direct payment from an aid account also actively support aid levels in their home country. The growth of direct foreign investment, the development of alternatives to aid for increasing export
sales and trans-corporate co-operation have reduced the salience of aid for most firms operating overseas or who are heavily export dependent. Moreover, there is a vicious cycle at work. Once the aid pie begins to shrink, the fewer domestic economic interests it will serve. In addition, there can be a decline in the lobbying weight of groups that historically supported aid, as their interest or their ability to shape aid declines.

Another reason why aid has weaker special interest constituencies is because the countries receiving aid have changed. As aid has shifted from Asia to Africa, and from fast to slow growing countries, the results sought in these recipients promise fewer political and economic benefits for export or financial interests within donors. Aid has less relevance as a way to open recipients’ markets if those markets have very small potential. Exporters look to market benefits in large countries such as China or Nigeria, none of which receives significant per capita aid. The decline of aid compared to direct foreign investment also reduced commercial interests support. The IMF is more effective than aid institutions in promoting their interests. A kind of downward cycle of support results. All these factors have made aid less relevant to donor country firms and bureaucracies.

*Ascendent neo-liberal outlook*

A sixth, and final, reason for lower aid volumes is the shift to neo-liberal views. In the global climate of opinion, the size and intervention of government has come to be considered excessive. Such views are dominant in western welfare states as well as socialist ones. The United States and Great Britain championed reduction of entitlement spending. This view, first fashionable in the eighties, became triumphant by the nineties, as the Soviet Union and China began to adopt market-oriented economic policies. As governments are less trusted and market solutions are celebrated, the use of
governments to transfer resources globally has become decreasingly legitimate. Yet some motor for efficient progress is needed. This is increasingly met by the rise in private capital flows and foreign investment, especially by multinational corporations. Such flows has grown remarkably compared to portfolio investment, short-term loans, or aid flows (see Chapter 3 and Stopford 1998). Most of these funds, however, do not reach very poor countries, such as those in Africa, with the greatest gaps between needed and realised public investment. Yet these private flows do reduce support for the public system of aid that had supported international financial flows, especially World Bank lending. With large capital flows occurring outside the Bretton Woods institutions, and with the concessional lending of the World Bank largely targeted to very poor states, such as those in Africa, aspirations about aid launching rapid growth, as it seemed to do for South Korea, Indonesia and Taiwan, have waned. Confidence in aid as an instrument has eroded. Its past association as a successful boost in the early years of Asian state-led development was undercut by the 1997-8 Asian crisis. The neo-liberal creed in extreme form has no place for foreign aid as a public good; aid as charity should be voluntary, not tax based. NGOs, successfully mobilising private funds, confirm this ideal.

The effect of this shift in ideas is manifest in the programme of various political movements to cut ‘welfare’ both domestically and internationally. It can also be seen in concern about the unsustainability of national entitlement policies. Deep scepticism about state solutions pervades analyses by individual states and multilateral agencies, such as the OECD and the World Bank. The solution to past aid failures is more market-oriented solutions. Ironically, privatisation as a solution does not exclude public funds to assist this process, even though logically this requires state management of the process (see Chapter 12 and Kahler 1988). Thus a broad shift in world views about aid emerges from the ascendance of a neo-liberal orientation. In donor countries, a decline
in national welfare has been matched by a decline in foreign aid (Noel and Therien 1995). Such judgments have been reinforced by the analysis of aid failures.

Four donor motivations

What support for aid is likely to exist inside donors for such future directions? Coalitions of internationally oriented populace, mobilised by political parties and the advocacy of NGOs, will be particularly necessary to sustain aid, especially as development imperatives supplant earlier political ones. However, aid targeted on development goals must also relate to the self-interested motivations of donors. We know that the goals of donors in the contemporary state system have complex economic underpinnings. The political context faced by donors has great uncertainty about security and economic ‘interests’, as conventionally defined. Foreign policy goals centre on combatting immediate disturbances, such as conflicts, emergencies and global environmental threats. The difficulty in pursuing these goals suggests that a collective action problem is the basic barrier to sustainable aid. Benefits of aid are so dispersed that donor political interests are hard to marshal. Costs, such as taxes, are visible and divisible in comparison. How to overcome the collective action problem is complicated, to say the least; paths to doing so will vary according to the political system of various donors and the assets available to mobilise populations within their existing national creeds.

Donors have four motivations for sustaining aid. These provide opportunities in various donors for mobilising support, domestically and transnationally. They also represent desiderata shaping aids size, packaging and effectiveness. These are: (i) the pursuit of global public goods, (ii) economic development benefits for donors, (iii) domestic special interests and (iv) increased willingness of recipients to accept conditionality. The first will draw on collective benefits from reduced violence, disease, pollution
achieved by aid. The second will build on national self-interest in gains from trade and investment thanks to economic development. The third rests on interest group pressures and bureaucracies that organise and serve these. The last rests on what recipient countries are willing to do to get aid; they are likely to pay higher prices in terms of loss of implementing conditionality.

*Global public goods*

In the nineties threats to political and economic values have emerged from the rise in wars and conflicts (Chapter 17), the financial instability in global markets seen in the Asian crises (Chapter 14) and the increase in pollutants and diseases which flow across borders (Chapter 11). Donor countries have an interest in reducing these threats. A more benign and secure global environment is a key donor goal to which aid can be attached. This goal is now widely cited by donors, both in general and in announcing specific commitments. The World Bank and many bilateral donors have a growing portfolio of projects to improve the environment, to secure better governance and to support strengthening financial sector regulatory capacity. An intellectual foundation for these initiatives rests on a recognition of the importance of public sector institutions in providing frameworks. The domination of neo-liberal ideas, eschewing public sector intervention, is hence challenged by these global concerns (Gray 1998). The pendulum swinging toward neo-liberal philosophy has probably reached its apogee. Hence, the scepticism about aid it encouraged, seeing aid as an inappropriate welfare transfer, is offset by concern about international market failures, including states in collapse. Global public goods encourage aid as a way to build constraints against market excesses.
A wide variety of practices threaten global welfare. Dumping wastes in the ocean, cutting tropical forests, releasing carbon emissions into the atmosphere are all understood to create shared environmental losses to people around the world. The spread of infectious disease and other public health hazards also are preventable losses. Industrialisation and population pressures exacerbate these global ‘bads’, while the absence of regulatory mechanisms permits them. Some international paths to collective action have been designed, both through international treaties and via transnational politics, the latter via international NGOs that support environmental lobbying by local affiliates. Donor publics seeking these collective goods recognise aid as a tool. Its role includes reducing transaction costs of negotiations and inducing co-operation instead of free riding by having rich countries bear some of the costs of jointly beneficial actions by developing countries.

Analytically, there is an appealing case for increasing the supply of global public goods, from research to the environmental regulation, from financial arrangements to conflict reduction. A recent World Bank World Development Report (World Bank 1997a) stressed the role of the state for welfare improving action. With the rise in refugees and hot money, interest in dampening destabilising flows of people and money is high. Donor government budgets have grown by billions of dollars to control the substantial rise in the last decade of flows of people and illegal substances that have fostered efforts to strengthen border controls, at least in Europe and the United States. Among political elites in donor states enhanced aid may also be attractive as a way to use international agreements to leverage desired national policies, for example, on trade or regulation of illegal economic activity.

With the waning of the cold war, defects in state institutions and their performance on issues of protecting natural resources and the environment have gained general visibility
and mass appeal. Calls for intervention to offset bad effects in developing countries are striking. In addition, health threats, gender equity, pollution, hunger and poverty related suffering has built broad coalitions in donor states, spurred on by NGO actions, international conferences and trans-governmental co-operation.  

*Economic development*

A second goal motivating donors is the benefits they derive from economic development in recipient states. The earlier chapters in this volume make a strong case that aid has been, or at least can be effective in promoting development. For the donor state as a whole, looking at its reasons to commit both bilateral and multilateral funds, there is near universal recognition that development will be linked to trade enhancement and expanded, more secure overseas investment opportunities. To care about such benefits, confidence in the efficacy of aid and development is needed. One explanation for earlier failures in development has been that foreign governments were, at least as perceived by public opinion in donors, resisting aid objectives. Tying success to adaptive and monitored project objectives and relating these to the prospect of accelerating development, are measures by which the decline in aid can be limited. Support for aid is also greater if the recipients are viewed as worthy. Success in achieving development in aid concentrated on ‘worthy’ states can reverse cynicism that has grown around the process (Kapur 1998 and Grant and Nijman1999). Amending aid practices to realise greater effectiveness involves greater country targeting, capacity building and improvement of bureaucratic management, as was earlier proposed as a supportable target when linked to economic performance (Chapters 1, 5-9 and Lancaster 1999).
The exact importance of economic development, to donors at least, is difficult to measure, through gains from trade from poor country recipients. Among OECD states, the share of trade with such aid target states is small and not growing. The financial exposure of debt in these states is likewise small, even though these are countries with the highest debt burden relative to their economies. Economic development goals for aid may be inversely proportional to the size of a recipient. Were per capita aid to become significantly larger in countries with large populations - China or India, for example - the consequences for donor economies from aid accelerated growth would weigh far heavier. Aid could also be linked to smoothing global firm alliances. Political resistance in these countries makes this unlikely; hence the weight of development benefits are likely to come from accelerated growth in smaller countries. Moreover, the participation of these states in global economic affairs has diffuse value. In recent years, donors encouraged adoption of economic rules that are conducive to global capitalist growth and to increased trade, by these states. Membership of WTO virtually doubled (Chapter 16). Countries such as France and the Nordic states abandoned support for state centred development models. This convergence of policy thinking on economic issues lowers global transaction costs. Aid reinforces this great transformation. Economic growth also improves realisation of donor goals for political performance (Przeworski 1998).

In sum, the shift of aid toward the most difficult development cases reduces direct benefits to the donor economies, but increases gains from a reduction of global burdens and threats which can be avoided by growth. Narrow donor interests distorting aid flows is sometimes blamed for poor performance. Past failures of aid have been explained by the allocation and absorption of aid according to non-economic factors that undermine its desired effectiveness on development. The appeal of developmentally focussed aid in
coming years is that it could escape this distortion, accepting that aid to weak states
must be multi-dimensional to be effective.

*Domestic coalitions*

We have noted how unbundling the nation-state as a unit allows us to see how special
interests within countries form coalitions to support various aid policies. These interests
are substantial; the problem is putting together coalitions supporting diffuse goals.

Virtually all donors link aid to domestic exports: either for commodities or services
such as technical assistance. Inside donors, firms then compete to protect their share of
benefits from a dwindling aid appropriation. Firms and sectors that see foreign aid
expanding their incomes, lobby for aid appropriations. This varies depending on the
influence such groups command and the salience of aid for their profitability. Labour,
for example, long a supporter of aid in OECD domestic politics, has gradually withdrawn
support, especially as trade with developing countries is perceived as bringing pressure
to keep wages low. Sectoral influence on aid policy is nicely illustrated by food aid.

This aid flow (discussed in Chapter 8) has long enjoyed strong farm sector support,
most visibly in the United States. As the power of the farm lobby’s voting bloc has
dropped (as there are fewer farm voters and legislators), and as their interest in
subsidising exports moved toward the solution of trade negotiations to gain more
market access abroad, farm sector support of aid weakened. In the case of food aid,
humanitarian groups have become more important. While farm interests still join forces
in support of appropriations for this tied form of aid, their importance has waned.

Getting rid of U.S. and EU surpluses unduly drove the size and allocation of food aid and
distorted aid effectiveness. This is one reason Colding and Pinstrup-Andersen (Chapter
8) propose giving the World Food Programme (WFP) a larger role in food aid
management, because as a UN body is less subject to disposal pressures. The risk in
cutting ties with special interests, however, is that as selective benefits are lost, groups inside donors will lose interest in aid. This has occurred, as we noted, with regard to food aid; it is also the case with respect to financial sector support for aid (Haggard et al. 1993).

Domestic coalitions then explain differential support for types of aid; and they partially account for the variety of support aid enjoys among donors. Generally, the larger the aid package, the more benefits can accrue to specific firms or sectors in a donor country, and the more intensely these groups will build winning coalitions in budgetary struggles over scarce resources. Often support coalitions form around particular components of aid that directly affects them. Universities lobby for the research and institutional strengthening lines in aid budgets. Contracting firms bid for airports and phone systems. Once shares of aid budgets are settled, however, these various special interests support the overall appropriation. xvii

NGOs, such as church organisations and political parties are the most frequently used vehicles for articulating equity demands. Such groups have been strong advocates in donor countries for generous foreign aid. Thus, interest group politics is not exclusively grounded in selective economic gains. Every donor’s culture is saturated with various demands for justice, duties to others, requirements for national rectitude. Foreign aid from OECD states is justified by various formulas by which national responsibilities are met by providing aid. Among these are concerns for international welfare (or distributive justice) and for burden sharing among donors. In socialist welfare states, aid objectives continue to be especially visible in support of aid for reasons of national philosophy (Noel and Therien 1995).
One player among such coalitions is the aid bureaucracy itself. Bureaucratic interests exist for all established agencies, which quite naturally seek to maintain themselves. Managing aid is a profession, and it attracts people committed to its goals. Not surprisingly they lobby to protect or increase their resources. Like physicians, they have a body of received wisdom about how to achieve the goals of aid, usually development. Multilateral institutions do this quite openly, with national citizens testifying to parliaments on behalf of appropriations. They promote allocations to their work by speeches, reports, and mobilisation of support from allies in other parts of government and the private sector. These bureaucracies have a limited ability to shape appropriations. This is true for both domestic based government bureaus and multilateral agencies. Indeed, many government branches - foreign affairs, trade, commerce and intelligence ministries, for example - weigh in to support aid. For them it is a complimentary resource for carrying out their tasks. Multilateral agencies, such as the World Bank and UNDP have officials who pursue aid promotion interests. They have lobbied through legislative testimony and personal networks in their home countries.

*Increased concessions from recipients*

A final motivation for donors is increased influence for each aid dollar. Historically, some recipient countries have shopped wantonly for aid, while others accepted aid only if it fitted with their own plans and preferences. Over time, however, except for the rapidly growing countries of Asia, recipients have moved toward, offering more concessions to donor preferences. Attitudes are far more accommodating compared to twenty years ago. One reason for this is the loss of an option to switch among donors; with the end of aid from the Communist bloc this has largely disappeared. The ease with which Indonesia, Egypt and India resisted aid and policy pressures from the West
in the sixties is over. Especially in Africa, recipient countries have become supplicants, trotting out a range of projects in hope to capture aid (Lancaster 1999).

As a result, donors can now bargain for more. Even elements crucial to power maintenance, such as corruption, may be open to concessions. Gaining support for international positions is less salient to donors compared to aid regimes of earlier years. They can now ask a higher policy and institutional price for their money. What donors can now demand in such circumstances, in return for aid, is for these standard ways of corruption to end. This is no easy request. Corruption, associated with over-billing and capital flight can become institutionalised in the aid receiving country to the point that it would be hard to avoid a diversion of aid. However, corrupt predatory states now have difficulty raising revenues to pay the costs of government. Hence, government requires financing from foreign aid. In spite of donor policies eschewing the financing of ‘recurrent’ costs, this avenue opens a powerful path to address the state strengthening target. Given the importance of state institutions for development, as suggested, donor agencies may attempt to ensure future sustainability by demanding political reform of institutions (North 1998).

Of course, changes in recipient attitudes are not simply bought by aid. When first China and, by the nineties, Russia became recipients, their orientations toward aid and development strategies had first shifted, thanks to internally driven forces. Official policy favoured market-oriented economic policy; aid was to support political liberalisation as defined by the recipient. Another event raising the malleability of recipients has been a rise in natural and man-made emergencies. These created growing demands for emergency aid. A third factor encouraging recipients to accept greater conditions was the end of options in finding alternative sources of aid. When famine
came to North Korea in 1995 it led to large flows of aid from Western governments, mostly through the UN. Resistance to external influence abated, at least partially.

In review, the last reason for sustaining or increasing donor motivation for aid is that recipients will be concede more in return. Broad concessions are possible, including an assault on society-wide corruption, an end to human and property rights violations, and the use of regulatory capacity to expose illegal public and private actions, such as tax evasion. The failures reported by Elliot Berg in Chapter 12 occurring in the privatisation process illustrate the importance of such changes. Another area in which recipients might offer higher concessions is in the regulation of finance and the environment. Weak state authority has failed to cope with the rapid changes; opportunities for predation in the globalised economy’s financial and raw materials markets grow (Ascher and Healy 1990). Indifference by the aid regime to these problems, will leave the lessons of past aid unused. The result will be a further decline in moral anchors and, in the absence of norms for living in a highly monetised society, anomie and a climate for corruption and social conflict will prevail.

**Strategies for aid sustainability**

The shift in the organising rationale for aid - from cold war rivalry, North–South paternalism and state-led development to globalisation and market-oriented growth - has contributed, along with tumbling aid levels, to a weakening of global authority (Hopkins 1995). This also unleashed new economic interests and cross-national alignments that affected bargaining within the aid regime. The underpinnings of aid, institutionalised in the post-WWII era, will not continue on inertia alone. Future aid will necessarily be linked to these changes. Or it will disappear. In response to this challenge, new and more complex formulas for aid have been put forward (Chapters 1 and 16-19 and World

What prospects are there for this emerging future aid regime? Three targets for aid have wide appeal among diverse elements in the donor and recipient communities. These are (i) state strengthening, (ii) improved market management and (iii) emergency safety nets. These targets are recommended as problems for promoting future aid. Moreover, motivations of donors are favourably predisposed to these targets, since they appeal to overlapping transnational coalitions and can be linked with benefits, as argued earlier.

Previous chapters provide background for this claim. Several of this volume’s authors - e.g. Irma Adelman in Chapter 2 and Tony Addison in Chapter 17 - see the deterioration of states as a major obstacle to development. While aid effectiveness can be undermined by a poor set of policies, the right policy environment is chimera without a functioning state. After all, a state’s key role is to set up conditions for markets to operate. In particular, developing country markets are recognised as imperfect (Chapters 12 and 14). So reforming markets is a second target. Finally, with widespread poverty and growing instability, refugees and internally displaced peoples have grown. Aid linked to emergency needs commands priority. This target represents a politically sustainable path for reinforcing international safety nets. It is an insurance mechanism to protect vital human and physical capital. The increased share of aid going to emergencies is likely to continue, since the conditions creating these emergencies continue with the growth of failed states and the large impact of natural disasters on crowded, ecologically vulnerable populations. Below, these three aid targets are considered in more detail.

*Strengthening states*
Political goals are important. There has been a continuous growth in the number of wars, especially civil wars, since 1950. The rise of internal wars has spilled across borders, involving neighbouring states and even out-of-region participants. The Balkans and the Great Lakes region of Africa are the most striking instances. The involvement of the UN in Somali, Cambodia and Southern Africa, and of NATO in the Balkan wars, suggests that containing armed conflict is a rising goal of Western states, especially when refugees threaten to destabilise surrounding states. This goal is only weakly undertaken in Africa, however, as Congo (Kinshasa) has become the locus for nine countries and a dozen transnational insurgent groups to engage in fighting.\textsuperscript{xx}

From about 10 wars ongoing during 1945-5, there were perhaps 50 wars being waged in the nineties, most of them internal wars, and with enormous total death rates. This growth, encompassing conflicts from Sri Lanka and Afghanistan to Liberia and Colombia, is due to complex factors, including the prolonged duration of fighting, which became chronic in many areas. The prospect is that peace will be short-lived in areas afflicted with these semi-legitimate, semi-sovereign states. This creates a case for targeting aid to the task of nurturing peaceful conditions in such anarchic conditions, as was made by Tony Addison (Chapter 17). He sees a continuing role in areas where ‘incomplete peace’ lurks. The first concern is to improve the operation of polities so that ethnic rivalry, or the quick wealth from capturing resource rents, does not spawn conflict. Domestic conflicts endanger food supplies, basic institutions, and are a barrier to any long-term development (de Soysa and Gleditsch 1999). A second goal of targeting state failures is to discourage internal wars from generating refugees, promoting terrorist movements and increasing threats to stability, all of which can spread elsewhere. Exigencies of change, including ethnic conflict, nationalism, and globalisation, have caused the rise in conflict. The Rwanda case highlights failures of past aid to create conditions for peace. Peter Uvin argues that when civil war flared in 1991-2, structural adjustment-based aid utterly failed to address growing political rifts.
Projects focussed on food production, family planning, education and health, were judged against narrow technical benchmarks. Five billion dollars of foreign aid, delivered over 15 years, condoned official racism, ethnic identity cards, corruption, violence, hatred and human right abuses (Uvin 1998). Responsible government criteria as aid requirements, if credible and even modestly effective, would have averted this calamity.

Strengthening state institutions is also a prerequisite for securing increasingly important global collectives goods. Within the current world system, stability, predictability and recognition of rights are necessary properties of a state if environmental damage and international crime is to be confronted (Mittelman and Johnston 1999). The absence of terrorist threats, for example, can be linked to expected state compliance with rules that discourage and penalise terrorism. On the positive side, the aim is to make it possible for developing countries to deliver global goods on environment, human rights, migration control and health. Weak conflict-ridden states are the worst resource exploiters and make the largest mess for others. Efforts to strengthen such countries are supported by neighbouring states, by donor states’ foreign affairs ministries, military institutions and attentive publics and by environmental and humanitarian NGOs. State strengthening efforts relate to governance/democracy projects, technical assistance for capacity building and basic budget support.

How to manage such aid successfully, however, is difficult (Lancaster 1999). Agreement on broad goals is not easily transferred into effective aid projects in this area of capacity building and state formation. The major question facing such aid use is not ‘what’ but ‘how’. For example, if ensuring rule-of-law rights are core elements in a successful state, then how is this achieved? Will assistance to judiciary organisations or police work? Strengthening government institutions with technical support and by
privatisation, for example, are widely endorsed as ways to improve public sector performance. Yet Elliott Berg’s review of public enterprise reform (Chapter 12) and Channing Arndt’s discussion of technical assistance (Chapter 6) suggest a paucity of success in strengthening efforts. Lessons for effective aid reviewed earlier suggest that direct aid to officials and institutions may not work. If so, indirect aid to incumbent officials which strengthen them politically may be the best strategy (Kapur 1998 and Lancaster 1999). This strategy aims to improve intangible goods, such as legitimacy. Conceivably, infrastructure projects can achieve this, while constraining corrupt officials through using the aid to exact conditions making it harder for them to hide their money. Bank transparency around the world could also work to stop international opportunities for money laundering and tax evasion which plague states with bankrupt treasuries. So external pressures are needed, in order to prevent domestic rent-seeking or other self-serving tendencies by public or private agencies and these can be achieved through tough bureaucratic norms within OECD countries as well using aid to provide external sanctions.

Similarly, the importance of the rule-of-law within countries is a logical part of this target, but we need research help. The design of contextually sensitive and effective projects, including how they should relate to government, is a challenge. Deepening authoritative expectations is a complex task and may require long-term adaptive aid financing. Too little is said regarding its importance in the international context and in creating conditions for effective state regulation, to achieve, among other goals, the creation of private market guarantees and sensible privatisation of state enterprises (Chapters 12 and 13). Stable expectations, based on a reliable civil service, are as crucial as a country’s laws, if the aim of aid is to promote economic stability.

*Market management*
The second promising direction for future aid is to target market construction and financial management. This is the next stage of structural adjustment. The barriers to privatisation and good policies identified in various earlier chapters need to be tackled. The chapter by Irma Adelman, for example, affirm that the desiderata of efficient markets - information, free participation, multiple actors - do not occur readily. State oversight, regulatory mechanisms and provision of corrective ingredients, such as information, are important elements in constructing markets. Markets are not self-provisioning. They require external resources and constraints. The imperfections in markets, dramatised for Asian countries in financial crises of 1997-9, are striking. Aid can be targeted to address these imperfections, certainly in those countries with multiple banking problems, and with heavy debt. Financial markets are of special concern for securing improved frameworks, both to control panic instability and resolve excessive indebtedness. The pattern of debt crises and economic downturn in the nineties moved from Mexico to affect a wide array of countries from Indonesia to Russia. And the deep indebtedness of Africa festers, as the failure of debt forgiveness programmes for the most heavily indebted poor states has failed. The most poignant cases exist in Africa. The World Bank, the IMF and the UN agencies have all stressed for national governments to take the lead and initiate economic management that addresses their imbalances of globalisation. The basic taxation capacity of many countries is so crippled that they skew their economies toward taxing too heavily the most productive sectors, such as exports, as the easiest to reach. This distorts markets, and is unnecessary. Policies can be adopted that involve little bureaucratic costs and more decentralised arrangements (Chapters 12-15). The revenue base for governments could be improved if national level corruption, both official and private, could be lowered.

Poverty and emergency safety nets
The third target for aid is poverty and emergency safety nets. This theme coincides with commitments to poverty reduction at the OECD and the World Bank. Poverty is connected emotionally to emergency relief. International relief assistance plays the role of a safety net for the poorest countries and peoples. The rise in emergency aid coincides with the return to a poverty focus, which had been the central goal of aid in the seventies prior to policy reform or the structural adjustment ascendance. The treatment of emergency aid as a special, unfortunate use of funds would be replaced by eliminating the emergency to development continuum in aid design. The targets are those poor vulnerable people whose climb from poverty can be set back decades by emergencies. Rescuing them with international assistance, when recipient countries lack the resources to do this, can be linked to long-term strategies both analytically and institutionally. For example, in Bangladesh in 1998, the worst flood in the 20th Century in threatened the well-being of thirty million poor and causing $1.5 billion worth of damage. Aid provided by dozens of international agencies protected these endangered people from ruinous effects. The aid was channelled through (and strengthened poverty-oriented) local institutions, both state agencies and non-governmental ones, such as the Grameen Bank. It supported local safety nets and averted the worst consequences of the flood for Bangladesh’ most impoverished populations (Kahn 1999). Early warning systems for emergencies also offer a link between information about the conditions of the poor, their needs, and their abilities to adapt to new opportunities following a shock to their lives, a consideration that may offset the rapid expansion of information that otherwise increases rich and poor divides (World Bank 1998b: ch. 8).

Summary
The three targets discussed above: (i) state strengthening, (ii) market management and (iii) poverty and emergency safety net guarantees all relate to diffuse goals: global goods and economic justice. There is no simple design for aid-use in pursuing these targets, as earlier chapters made clear. Aid channels and modalities to impact these are necessarily context dependent, including emergency aid to protect human capital. What does appear true is that such aid may be more intrusive of sovereignty than previous aid.

Strengthening states appeals broadly to popular concern about threats from the international sphere. Reilly (1998) found that international terrorism, for example, seen as out of control in weak states, was the most frequently cited threat to the United States according to the American public. Support for using aid to improve markets can be found among the development banks, private international financial and corporate institutions, and their government allies in ministries of finance, trade, commerce and legislative bodies. Support for the twin aid goals - sustainable reduction of poverty and emergency responses - involves helping the most vulnerable and comes from the same coalitions generally. It is the poorest, after all, who are most endangered by disasters (natural or man-made). Support for long-term poverty reduction through institutions such as the Grameen Bank is popular with the same groups: NGOs, political parties and foundations concerned about global inequities. These coalitions support emergency humanitarian relief and are frequently the most effective advocates of poverty-oriented aid. Even though emergency aid is criticised as a ‘Band-Aid’, unsustainable, and even counter to long-term goals, it is supported by the same humanitarian sentiments that put poverty at the top of the aid policy agenda.

Conclusions: future conditions
Development - economic, social, and sustainable - without an effective state is impossible.

(World Bank 1997a: 18)

A major condition for sustainability of future aid is a belief in its efficacy. Such a belief rests on seeing improvements linked to aid. And this, in turn, is affected by what donors and recipients want improved. Complex social processes shape aid use, including the administrative management of donors and the policies and state machinery of recipients. As noted throughout this volume, state institutions make a big difference in development. Adelman emphasised that ‘a government with substantial autonomy, capacity and credibility is required for successful long-term economic growth.’ (Chapter 2). North (1993) shares this view, asserting that institutions of formal rules, informal norms and enforcement probabilities determine economic growth. He finds a pressing need to understand how third world and East European polities operate in order to promote development through informal constraints. The focus on institutions in this volume pushes future aid toward attention to informal rules that affect states, markets and vulnerabilities of the poor.

Many aid receiving candidates are anarchical states. In Africa and the post-communist world terms such as patrimonial, shadow, rent-seeking, semi-sovereign, mafia-like and corrupt have been used to characterise the polity. These two areas have been the major foci for aid in the nineties. Most of the 50-odd wars of this decade are internal and occur in these two areas. Thus the basic capacity of states to deliver security is problematic. As noted in Chapter 17, aid can play a vital role in rescuing peoples from the damage of conflict. It also can assist state formation, helping build administrative structure and analytical or steering capacity. The vital role these play in development processes has been stressed in earlier chapters (e.g. Chapter 2). Aid to these countries, aimed at state
reform may require unconventional development assistance packages. State strengthening would focus on core functions: legitimate force to uphold order, tax collection to finance public goods, technical assistance to enhance military and tax collection skills and controls to limit corruption, encourage civic norms and expand accountability. These and other governance elements need deepening. Withholding aid has been the major tool for political conditionality. This does not work very well because of pressures to release funds already earmarked. Given this problem, and the desire to aid weak states, one goal of aid must be to acknowledge ends that maximise its relation to political performance and minimise the ability of predatory officials to hijack it for private purposes.

For both rich and poor countries, state failure promises to be the greatest threat in coming decades. Openness and sound economic policies are largely irrelevant in situations where capital flight dominates private market financial calculations. For states to ‘own’ a set of policies, including use of aid, there must first be a state structure. Aid to provide a transition from anarchy must precede aid for a transition to a stable development path. From the states of the former Soviet Union to the collapsed governments in Africa, there is a growing vacuum of political order - a vacuum that aid undertakings are challenged to fill. Aid for political construction requires delicate balancing in which the trade-off between conditionality and ownership is acknowledged. This dilemma is still to be resolved. Yet it must be so that countries with the greatest needs, often ones most troubled by political upheavals, will not continue to be the ones least able to absorb aid efficiently. Resolutions of the dilemma relate to the three targets for aid discussed earlier. To the extent these targets grow among donor motivations, they will point directly to behavioural obstacles for aid effectiveness, such as corrupt or merely under-skilled human capital. This theme is easier to observe than address. A major future task for research on aid effectiveness is to explain how recipient
governments can realise stronger capacity as well as some authentic ‘ownership’ of their work as a result of aid. Reducing failures of political institutions in recipients requires prescriptions with greater specificity. We need to know how aid can effect real improvements in politics.

This essay has looked at changing donor motivations and asked what can and should shape future aid. With decay in recipient country institutions a problem, with a rise in support for global goods, such as environmental protection, and with donors enjoying increased scope to demand concessions from aid recipients, targeting aid to save failing political institutions commands and deserves broad support.

Notes

* The author is most grateful for research assistance and advice by Sandip Sukhtankar of Swarthmore College, and to the wisdom provided by two extremely helpful commentaries, Professors Finn Tarp and Steven O’Connell.

i Most political economy interest addressed in this book focussed on how recipient government behaviour affected aid’s impact (see Chapters 2 and 18). The most persistent theme by the World Bank and scholars in the nineties has been how ‘good policies’ in recipients were crucial to aid effectiveness. Ravi Kanbur notes that in donor–recipient relationships the ‘donor is the leader, and decides on the level of aid. The recipient is the follower who, taking as the given the level of aid, decides on actions […]. The level of aid is thus chosen to maximise the donor’s preferences, subject to the reaction function of the recipient […].’ (Chapter 18).

ii The major debate addressed in Chapter 4 about aid effectiveness is relevant here. Hansen and Tarp’s view that aid works even in an unfavourable policy environment implies that targeting vulnerable peoples
even in weak states remains a meaningful donor strategy when poverty alleviation is the overriding goal of aid policy.

iii Lumsdaine (1993) suggests altruism has become ascendant, but various studies suggest this has been, at best, a secondary motive (Chapter 3, Alesina and Dollar 1998, McGillivray and White 1993a, Noel and Therien 1995, White 1974 and Wall 1973).

iv Even excluding Marshall Plan funds, aid in the nineties was many times higher.

v NATO members, such as Norway, Denmark and Netherlands, along with Sweden maintained high levels of aid relative to their GNP, having adopted the UN target for development in national legislation. These four countries are thus denoted UN-target donors in Figure 19.2.

vi In 1992-6 Russia and China received $9 and $16 billion of aid, respectively; amounting to about 10 per cent of all aid during this period (not even counting the growing aid to East Europe and former states of the Soviet Union).

vii Once aid became institutionalised as a practice in international affairs, the regime developed an inertial force of its own. Multiple purposes sustained it (see Chapters 1-4, Lancaster 1999 and Schraeder et al. 1998). In classic fashion, by creating international institutions and organisations for aid, the practice of aid has been continued even as older motives for it have weakened (Keohane 1998). The effort of DAC to develop a new rationale for donors, focussing on poverty reduction and co-operation in aid implementation, is such an institutional adaptation. The bureaucratic reorganisation of bilateral aid agencies, the World Bank and UN development organisations, including their wide adoption of impact criteria to assess aid, are further evidence of adaptive institutional change (see Chapter 18 for further discussion).

viii The concern with disappointment is widely discussed (e.g. Cassen and associates 1994, van de Walle 1998, Lancaster 1999 and Chapters 1-4).
Political motivations distorting aid effectiveness is a frequent conclusion in economic analyses of aid donor motivations, as noted in Chapter 4 and by Alesina and Dollar (1998).

See Bauer (1973) or Boone (1994, 1996).


From an effectiveness perspective, these organisations offer a myriad of advantages and problems in their role in the aid process (Weiss and Gordenker 1996 and Hulme and Edwards 1997).

Aid is targeted to countries largely outside the group of states with rising salience for international politics (see Stremlau 1994 and Chase et al. 1999).


Princen and Finger (1994) detail the efforts of this environmental coalition. The advocacy group, *Bread for the World*, cites a network of 41 international NGOs that have become powerful advocates on these issues (BFWI 1999).

Economic models can capture some aspects of gain, including links of aid to trade patterns (Schraeder et al. 1998), but indirect gains from positive externalities of growth, such as unwanted economic migration or cross-border crime are illusive to estimation.

Aid then can be an important resource for particular donor country actors, both private businesses and non-profit humanitarian organisations. These private sector international actors lobby both home and ‘partner’ country governments to win contracts for providing ‘public’ goods, e.g. telecommunications or consulting services. In emergencies, for example, there is a group of firms that specialise in the rapid delivery of supplies such as vehicles and camp provisions. Foreign aid is visible pursuit for agencies with fairly hard target allocations at stake. Ravi Kanbur notes the power of such contractor groups in lobbying
the World Bank and bilateral donors for releasing committed funds in spite of Ghana’s failure to meet agreed conditions for aid (Chapter 18). Aid has subsidised the contracts of national firms doing business with foreign governments and it has rewarded foreign governments for favourable treatment of national firms. Inside donor countries, similar benefits occur. In Canada, for instance, the CIDA is quite explicit about its aid supporting 36,000 employees and notes that 70 per cent of aid is spent in Canada.

Universities and research institutes are another part of the pro-aid coalition in most donor countries. More than half of French aid is tied to domestic enterprises and Japan has used its aid to fund joint ventures and public works requiring employment of Japanese firms.

xviii The impetus of bureaucracies to maintain or expand their role is a major theme in political analysis, well explained by Lancaster (1999).

xix As cold war rivalry subsided, it created a permissive environment that increased the bargaining strength of remaining donors. The imposition of structural adjustment conditionality in Africa in the eighties was facilitated by this weakening of manoeuvre room for recipients (van de Walle 1998). With no pressures from competing rivals, aid has been delinked from prestige or alliance considerations. Economic need and prospective performance rise in comparative salience.

xx In 1998-9 the Congo experienced an internal armed conflict with the added fighting among nine armies, eight from neighbouring states: Rwanda, Uganda, Burundi, Angola, Namibia, Sudan, Chad and Zimbabwe.

xxi The New York Times (1999) reported that only two of 29 eligible countries under the World Bank--IMF Heavily Indebted Poor Countries (HIPC) debt relief initiative had received debt relief after the plan had been announced two and a half years prior. The World Bank promoted debt relief as a way to fight poverty, and estimated that the cost to donors of waiting one year grew by 30 per cent.

xxii African Finance Ministers recognised the dramatic negative impact of capital flight on development, and resolved to ‘take the necessary steps to stem and reverse capital flight, including preventing
macroeconomic policy lapses or policy inconsistencies, which are likely to trigger, or contribute to capital flight.’ (ECA 1999).

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