



# 8

## National Development Agencies and Bilateral Aid

### CHAPTER SUMMARY

This chapter provides an overview of the main actors, modalities, and resource flows involved in the bilateral aid that countries in the North provide to recipients in the South. Key terms are explained, including the different forms of aid, such as food aid or tied aid, as well as various types of aid donors. Aid can be provided by governments, international organizations, non-governmental organizations, private foundations, and individuals. The chapter also explores the different reasons donors provide assistance: sometimes out of humanitarian concern, but often relating to their self-interests, including commercial, diplomatic, or security interests. The chapter subsequently examines global trends in the provision of bilateral aid, including a comparison of important donors that illustrates how their motivation, geographical focus, and priorities can vary. The chapter also considers which regions and countries receive the most aid, as well as which ones are most dependent on it. Current trends and controversies in foreign aid are discussed. For instance: Should aid seek to create economic growth or should it target more directly poverty reduction? What kinds of countries should receive the most aid? Finally, the chapter summarizes bilateral donors' most recent consensus on how to make aid more effective.

### VIDEO RESOURCES

**2009 Munk debates: Be it resolved foreign aid does more harm than good.**

**Lewis and Collier vs Moyo and De Soto**

a) <http://www.youtube.com/watch?v=I8hgCeN5EwA>

Time 4:35

b) <http://www.youtube.com/watch?v=WClqi4Yr3Ys&feature=related>

Time 6:49

- c) [http://www.youtube.com/watch?v=hEtelIN\\_MvA&feature=related](http://www.youtube.com/watch?v=hEtelIN_MvA&feature=related)  
Time 7:45
- d) <http://www.youtube.com/watch?v=ZBzMmggxFso&feature=related>  
Time 8:16
- e) <http://www.youtube.com/watch?v=enDmHgJC4eY&feature=related>  
Time 8:27

Debate page at source: <http://www.munkdebates.com/The-Debates/Foreign-Aid>

In a world where over 3 billion people live on under \$2 a day, where economies and threats are globally interconnected, and where only small amounts of aid are given, should wealthy nations do more? Or, given the poor track record of aid, the support it provides to dictators and tyrants, and the actual need for individual entrepreneurialism and free markets, should we focus our limited resources elsewhere? This Munk Debate explores the opportunities and hazards of foreign aid, by debating the question “Is foreign aid to the developing countries doing more harm than good?”

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**From Haiti to Vietnam, the EU contributes to the MDGs**

[http://www.dailymotion.com/video/xewsaf\\_from-haiti-to-vietnam-the-eu-contri\\_news](http://www.dailymotion.com/video/xewsaf_from-haiti-to-vietnam-the-eu-contri_news)

Time 3:22

The EU is committed to supporting developing countries in achieving the Millennium Development Goals for example halving the proportion of people living in poverty by 2015. This video highlights the EU’s contribution to fight hunger, facilitate access to water, health and education, and to reduce the impact of climate change, in Haiti and in other developing countries.

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**Aid, Debt, and Economic Development Series: Structural Adjustment Policies (SAPs)**

<https://www.youtube.com/watch?v=LL6nqhyQC0o>

Time 11:30

Brad Cartwright discusses structural adjustment policies and evaluation policies.

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**0.7 per cent GDP by 2012: Ireland supports international aid**

<http://07by12.blogspot.com/>

Time 1:57

This video supports the campaign to encourage Ireland to reaffirm its commitment to providing 0.7 per cent of its GNP to international aid.

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**Are Poor Countries Doomed?**

<https://www.youtube.com/watch?v=K8UITygCYjo>

Time 3:50

John Green discusses the three myths at the center of Bill and Melinda Gates’s 2013 annual letter: (1) Poor countries are NOT doomed to remain poor. (2) Foreign aid is NOT a waste of money. (In fact, health aid at least is an astonishingly good investment.) (3) Saving children’s lives does NOT

lead to overpopulation. (In fact, decreasing infant mortality has consistently slowed population growth all over the world.)

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### **Foreign Aid and Developing Economies**

<https://www.youtube.com/watch?v=ymHvCZ98FyA>

**Time 1:11:51**

Experts discuss whether there is a link between aid and economic growth, and what aid strategies, if any, can facilitate economic growth.

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### **Why Aid to Africa is Not Working**

<https://www.youtube.com/watch?v=n4a-FZjPreg>

**Time 1:01:30**

At the Jepson Leadership Forum, economist Dambisa Moyo, named one of *Time* magazine's most influential people in the world for 2009, discusses her book *Dead Aid: Why Aid is Not Working and How There is a Better Way for Africa*. In it, she unflinchingly confronts what she sees as one of the greatest myths of our time and argues that foreign aid to Africa be phased out and replaced with innovative ways to finance development and encourage fair trade.

## **REVIEW QUESTIONS**

1. What is meant by the term “official development assistance”?
2. What does it mean to look at “relative generosity” when examining aid statistics?
3. List and briefly describe at least three motivations for giving foreign aid.
4. Some argue that aid should primarily aim to reduce poverty, while others contend that aid should promote economic growth. Discuss.
5. Should the majority of aid go to the poorest countries, or to more affluent countries that may have the capacity to use the aid more effectively?
6. For what reason are military assistance and export credits meant primarily to promote the sale of goods from the donor country not considered to be ODA?
7. What are the weaknesses of results-based management in improving aid effectiveness?

## ANSWER KEY: REVIEW QUESTIONS

1. Official development assistance (ODA) refers to “flows of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective, and which are concessional in character with a grant element of at least 25 per cent.” In other words, ODA must be given by governments (not private actors like corporations or foundations) and it must aim to improve economic and/or social well-being in the recipient country. Thus, military aid and export credits do not qualify as ODA. Furthermore, ODA should be in the form of a grant or a loan that is offered on easier terms than on the commercial market. (p. 142)
2. In contrast to absolute levels of aid, which reflect the total amount given, relative generosity refers to aid as a proportion of the capacity to give. This is typically calculated by dividing ODA by GNI, GDP, or GNP. Relative generosity, then, tells us more about how much a country gives compared to its overall economic ability to give. In 1970, the UN General Assembly passed a resolution establishing 0.7 per cent of GNP as the target for ODA. Most countries, however, have failed to reach this level of aid provision. (p. 144)
3. One motivation for foreign aid is to help citizens of other countries who live in poverty. This approach aims to contribute to an improvement in the living conditions of citizens in developing countries. This may be driven by charitable, often religious, concerns, or by a feeling of solidarity. Some, such as those who embrace a cosmopolitan perspective, argue that there is a moral obligation to help people in need, regardless where they live. Another set of motivations for foreign aid can be classified as self-interested, rather than selfless. Such motivations see foreign aid as simply another tool of foreign (political and/or economic) policy. Aid in this view is used to achieve other goals, usually tied to the interest of some group(s) in the donor country. It is worth noting that this view need not be purely selfish, as for instance those who argue that the best aid is that which helps both donor and recipient. (pp. 146–148)
4. The view that the primary purpose of aid ought to be the promotion of economic growth in the recipient country is based on a specific understanding of how to reduce poverty. That is, this view does not ignore poverty. Rather, it suggests that poverty can be most effectively reduced when growth occurs in the economy (trickling down to all groups). However, an opposed view contends that the benefits of growth do not always “trickle down,” and thus aid should be focused primarily on helping people meet their basic needs. In this view, it is important to identify the causes of poverty in order to reduce poverty. (p. 155)
5. Those who argue that aid should go to the *poorest* countries emphasize the need to reduce *absolute* poverty rates. This view prioritizes Sub-Saharan Africa as the area most in need of aid. In contrast, another view suggests that aid be given to countries that have the greatest *capacity* to use it most effectively. This view tends to prioritize middle-income countries due to concerns over poor governance in the poorest countries, which prevent the effective use of aid (due to the prominence of corruption, etc.). However, critics of this view argue that such countries are better able to attract foreign investment in private markets, and therefore do not need ODA as much as the poorest countries do. (pp. 156–158)
6. The reason simply is that ODA refers to “flows of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective, and which are concessional in character with a grant element of at least 25 per cent”. In addition, ODA financing can be provided in the form of a grant (a non-reimbursable donation) or a loan (to be repaid), but to be counted as ODA the terms of the loan would have to be significantly better than what is available on the commercial market (with a lower interest

rate, an extended period of repayment, and/or a “grace period” before the first repayment falls due) (p. 142).

7. Although its goal of improving aid effectiveness is widely lauded, its requirement for measurable and verifiable results introduces distortions and biases in development assistance that, some believe, could outweigh its benefits. Not all goals can be easily or accurately quantified—for example, the rule of law, good governance, or independence of the judiciary. Setting indicators means that efforts will be deployed to improve those possibly arbitrarily chosen figures rather than meeting less tangible or undefined development objectives that could be of equal or greater utility, especially in the long term. (p. 155)