



GROUP OF EIGHT

Foreign Aid to the Developing World Update

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Introduction

Today, the **standard of living** that a person can expect to have depends more on geography than on motivation, intelligence or hard work. A vast gap in lifestyle separates the incomes and living conditions in developing countries from those in the developed West. The West began its slow and arduous process of **industrialization** with the capitalist revolutions in England (17th century) and France (18th century), which overthrew the repressive feudal societies that were hostile to the functioning of free markets. Soon, the capitalist fever spread to other European countries, as people got a taste of the wealth and higher living standards that investment, competition, and trade brought. Rulers in Germany and Russia saw Britain and France overtake them in military, political and economic power during the 19th century, and felt threatened. Germany and Russia succeeded in using state economic policies, such as strategic investment and state sponsored research, to jumpstart industrialization, and nearly caught up with Western Europe in a fraction of the time it had taken Western Europe to develop. Europe had started the capitalism craze, which eventually spread throughout the World. The United States industrialized in the 19th century.

However, not all countries had the right conditions for development. Much of Africa, Asia and Latin America remain underdeveloped. Many people subsist on less than \$2 per day. Why was the West so lucky? This has been the focus of decades of research. Some scholars, such as Max Weber, suggest that a liberal, Protestant culture is the most important determinant of economic growth. However, this does not explain why South Korea and Taiwan underwent such rapid industrialization from the 1950s-80s to become wealthy nations, and why China is now growing so rapidly. Andre Gunder Frank believes the answer is dependency: colonized countries are exploited by their former colonizers through trade and multinational corporations, and as a result of this exploitation, cannot develop independently. However, this cannot explain how India and South Africa have developed. Other scholars, such as Rostow, argue that countries can only develop once the ‘traditional society’, characterized by feudal structures, illiteracy, and rural agricultural societies, has been replaced by the Western ideals of individualism, diversity and achievement. Chalmers Johnson believes that the state must guide development through strategic economic policy. But Jeffrey Sachs argues that state **intervention** in the market more often harms economic outcomes. There is no clear answer for why some countries

Standard of living—*the degree to which one’s lifestyle is comfortable and secure.*

Industrialization—*a process of economic development in which industries and markets expand.*

Intervention—*an action taken by a government that disturbs the natural equilibrium in a market and results in inefficiency.*

have developed, yet others have remained poor and traditional.

Whatever the cause of international inequality, richer countries have sought to assist developing countries along their path by using foreign aid. Aid may be unconditional or **conditional** (tied to some set of criteria such as economic or political freedom). It may be bilateral, such as US aid to countries in Latin America, or multilateral, such as donations to the UN or the **Bretton Woods** institutions. Aid can also be private, such as through the Bill and Melinda Gates Foundation.

Summary of the Problem

The effectiveness of monetary aid is passionately disputed. Some believe it is wasted, arguing that it is rarely distributed fairly or efficiently within the recipient country. This may be because of government corruption or ineffectiveness, lack of economic expertise and infrastructure, or selfish conditions placed by donors (e.g. the requirement that the recipient buy its exports from the donor). Professor William Easterly argues that the determinants of long run economic growth are not properly understood and that foreign aid has been marginally effective or even detrimental for development. Professor Jeffrey Sachs, on the other hand, argues in academic articles and in his book *The End of Poverty* that foreign aid and debt forgiveness will help underdeveloped countries achieve the UN Millennium Development Goals (MDGs) and possibly eliminate extreme poverty by 2025.

Governments and scholars disagree over how foreign aid ought to be distributed. The US is skeptical of the United Nations, charging that the UN has too much corruption and is too bureaucratic. The US tends to give aid bilaterally—directly to the recipient country—or through the Bretton Woods institutions (International Monetary Fund and World Bank) in which it holds a lot of power. US aid, particularly during the recent Bush administration, has often been conditional along three guidelines – ruling justly, investing in people, and economic freedom. Europe, on the other hand, tends to donate through multilateral organizations such as the UN, the OECD and the European Development Fund, and more strongly supports the work of Non-Governmental Organizations (NGOs), which are run privately on donations and perform a variety of tasks such as disaster relief, human rights advocacy, health and education promotion, and **community development**.

Recent Developments

UN Targets and the Millennium Development Goals

The Millennium Development Goals (MDGs) are a set of eight targets related to social and economic development. Adopted by most

Conditional aid—*economic assistance that is tied to some set of criteria such as freer trade laws or political freedom.*

Bretton Woods—*the name of the conference where the IMF and the World Bank were founded in the 1940s; the phrase generally refers to the system of rules, institutions, and procedures that regulate the international monetary system.*

Community development—*increasing capacity and sustainability at the community level – a role that NGOs often play.*

countries in the UN Millennium Declaration of 2000, the MDGs are supposed to be achieved by the year 2015. The goals include halving extreme poverty, achieving universal primary education, promoting gender equality and empowering women, reducing child **mortality** by two-thirds, reducing maternal mortality by three-quarters, halting and reversing the spread of AIDS, and ensuring environmental sustainability in all development programs.

Mortality—the number of deaths in a given time or place.

The MDGs are not solely the responsibility of the UN – many NGOs and Western governments are participating in development work outside the auspices of the UN. However, the UN (particularly the UN Development Program) has the expertise and infrastructure to do much of the work required. The UN therefore needs massive amounts of funding from donor countries in order to work towards achieving the MDGs. Countries agreed to meet the UN target for foreign aid of 0.7% of Gross Domestic Product (GDP) by 2015. However, only five countries are meeting this target already, with many others, including the US, Britain, France, China, and Russia falling very far short. There are currently no effective enforcement measures to ensure countries fulfill their promises to give aid.

As a result of the failure of many countries to honor their aid commitments, and also due to recent unexpected events affecting the world economy (such as the financial crisis, the food crisis and the oil crisis), it is unlikely that all of the MDGs will be met by 2015. The annual Millennium Development Goals Report of 2008 analyses data and predicts that, without greater commitment by the rich world, goals such as reducing the proportion of people in sub-Saharan Africa living on less than a dollar a day by half will not be met. Furthermore, the report shows that the total amount of aid given by developed countries in 2007 declined for the second year in a row. The report states that reduced global growth over the near future and higher inflation expectations are likely to make achieving many of the MDGs impossible without greater commitments from the West.

A high-level conference on the MDGs attended by a wide range of countries was held in October 2008. Many new commitments were made (though old commitments were not universally reaffirmed), but it remains to be seen whether countries have the political willpower to push through with these. Even if these commitments are met, expectations have been reduced and the MDGs may need to be revised if there is to be a realistic chance of achieving them.

Fragmentation in Aid Distribution

During the first week of September 2008, the High Level Forum on Aid Effectiveness met in Accra, Ghana. This group, which arose from the 2005 Paris Declaration on Aid Effectiveness, concluded at the Accra conference that aid distribution is highly fragmented and uncoor-

dinated. There are too many agencies, too many procedures, and too many small projects, so the achievement of goals and efficiency is suffering. According to the OECD, 38 small countries each had more than 25 official or multilateral donors to deal with, which requires high administrative costs and results in a lack of coordination between programs. There are more than 37,000 international NGOs now operating, and the number of aid projects by bilateral donors has increased to 80,000.

The multiplicity of aid agencies and projects creates large expenses for developing countries and is clearly an inefficient way to reach common goals. This suggests that donor countries ought to **streamline** their aid channels, perhaps by giving more of their aid through multilateral institutions such as the UN. Little can be done about NGOs, which receive mostly private donations.

Streamline—to simplify or make more manageable.

Another solution would be for developing countries to lay down a set of rules and a framework within which NGOs, multilateral institutions, and bilateral donors must work, increasing coordination and efficiency. However, this may make donors less willing to assist the developing country.

Aid as an Issue of National Interest

The newly appointed US Secretary of State, Hillary Clinton, recently announced an overhaul of US aid programs. An advocate of what she calls “smart power”, Secretary Clinton believes that development assistance is as important as diplomacy and defense in advancing goals of foreign policy. The resources that the Bush Administration had shifted to the military, Clinton said, would be refocused onto aid projects. She believes this would help to repair America’s image on the world stage, as well as effectively promote the overseas development that will likely be in America’s long term national interest.

USAID, the US Agency for International Development, published a report that proposes several strategic goals for its aid, including promoting democracy, driving economic growth, improving people’s health, mitigating conflict, and providing humanitarian relief. All of these goals are desirable from the perspectives of both the recipients and the US. Where aid can be used to promote democracy, such as through education, this benefits the US because democracies are more likely to become US allies. Improving world health reduces the chance of diseases affecting American populations. Clearly, aid can be in the interests of both recipients and donors, and goes beyond simply a moral issue.

Focus of the Debate

Delegates will need to consider several points of contention. They must consider how much aid ought to be given, and through what mechanism. Perhaps aid is ineffective at promoting development or too prone to political hijacking to be useful, and maybe capitalism and the gradual development of markets is the only route to prosperity.

If aid does play an important role in development, is the UN goal of 0.7% GDP reasonable or achievable? Bilateral aid can result in further **fragmentation** of aid distribution, reducing the efficiency and coordination of programs. Private aid cannot be directly controlled by governments, although tax incentives can be created for higher or lower donations to private organizations such as NGOs. However, NGOs, like bilateral aid projects, increase the fragmentation of aid delivery. Perhaps multilateral donations are the most effective and efficient way to encourage development; however, the US has criticized the UN for corruption and many left-wing groups have blasted the Bretton Woods institutions for alleged imperialism and extremely liberal policy prescriptions.

Fragmentation—*the act of breaking apart or being incomplete.*

Delegates should also consider whether the practice of tying aid to political benchmarks is useful in promoting development and social goals, or whether conditionality is too prone to exploitation by donors or too restrictive for recipients.

Questions for Policymakers

Delegates should address the points of contention listed above, coming to conclusions based on their national interests. Countries suffering from the financial crisis may find it less desirable or politically less feasible to increase or maintain foreign aid levels. Countries ought to consider what regions, if more highly developed, would be of greater importance to the national interests. Also, how can the effectiveness and coordination of aid be improved? Would certain conditions on aid promote the national interest?

Conclusion

Foreign aid is a topic for economists, social scientists, politicians and even moral philosophers. In the G8, delegates will be representing the governments of their countries, and so should make decisions and compromises accordingly, taking into account current conditions around the world.

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