

*To our wives
Lotte and Ilse*

The Foreign Aid Business

Economic Assistance and Development
Co-operation

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1. Aid and help – a necessary distinction

ALL AID SHORT OF REAL HELP?

While the words 'aid' or 'donor' suggest altruism and generosity in everyday English, this relation does not necessarily hold for 'development aid' or 'development assistance' as it is called more formally. These are purely technical terms in development economics and to avoid those wrong perceptions shrewd language wants to create, a book on 'aid' must clarify this at the very start. Of course these terms were coined intentionally to imply help, altruism and generosity. Actual 'aid', however, is not necessarily helpful nor altruistic, although it might be so or it might be motivated by enlightened self-interest. Quite often though interest groups in donor countries have helped themselves rather than the South's poor, and occasionally aid, or 'development aid', has come in handy to finance wars or military coups.

At present the club of Western donors organized in the Development Assistance Committee (DAC) of the OECD, defines official development aid or Official Development Assistance (ODA) as:

those flows to developing countries and multilateral institutions provided by official agencies, including state and local governments, or by their executive agencies, each transaction of which meets the following tests:

- a) it is administered with the *promotion of the economic development and welfare of developing countries as its main objective*, and
- b) it is concessional in character and contains a *grant element of at least 25 per cent.*

(OECD 1985, p. 171; emphases as original)

A donor is someone who effects such payments. Resources crossing the North-South divide – such as export credits, direct investments by transnational corporations (TNCs), or commercial bank loans – which cannot be subsumed under this definition adopted by the DAC in 1969, are presently called 'flows'.

Initially the North regarded any flow to the South as 'development aid', based on the philosophy that whatever emanates from the North must be good for the South. This perception was in line with both neoclassical and orthodox Marxist approaches to development and their strong, if not virtually exclusive emphasis on physical capital accumulation. Myrdal (1970, pp. 315ff) pointed out that the distinction between ODA and 'flows' made in official

DAC statistics was regularly and systematically blurred. Economists, experts, officials, journalists, everyone equated 'flows' with 'development aid' – a malpractice tolerated and occasionally supported by the DAC 'by some of the titles of tables and comments on the tables' (Myrdal 1970, p. 316).

This generous presentation of one's own generosity produced puzzling results: 'In the DAC statistics petty fascist Portugal year after year is given the place of honor as having the largest "flows" to underdeveloped countries in comparison to its gross national product' (Myrdal 1970, p. 324). The explanation was simple: Portugal, one of the poorest European countries and itself an 'aid' receiver at that time, had a low GNP and fought a protracted colonial war in Africa. As wars are costly, substantial flows of resources to Angola and Mozambique were recorded.

Myrdal's critique contributed greatly to a change of perception and to a clearer definition of ODA. Nevertheless the DAC has never totally dropped the notion that flows across the North-South divide are always conducive to development. The recent uncritical enthusiasm about increases in private flows, including highly volatile, speculative capital, which quickly evaporated after the Mexican crash in 1995, seems to derive from this deep-rooted conviction.

The DAC's present ODA definition deserves close scrutiny. Although it is generally accepted, it must be recalled that it is a definition by one group of donors, not by recipients. ODA figures produced by each member state are reviewed by other DAC members. No recipient is involved in this process of control. Other groups of donors in the South, such as India, China or OPEC members, and the USSR and Eastern European countries as long as they were donors, have apparently accepted the DAC's definition and statistics, including data on their own flows. At least neither OPEC nor the former communist countries have ever tried to present their own figures in a comparable way, which does not make an objective assessment easier. Thus all internationally quoted data, including those of Southern donors are published by the DAC.

Strictly speaking test (a) in the definition of ODA is not a test at all. People disagree on what 'welfare' or 'economic development' means, and there is even more disagreement on what measures promote them. However an actual increase in welfare or an actual promotion of development is not necessary – the intention suffices. Therefore (a) applies automatically, unless the donor's intentions to the contrary (for example doing harm or having another main objective) can be conclusively proved, which is next to impossible. Activities pointedly referred to as 'lethal aid' by Brigitte Erler (1985), a German ODA critic, fall within the definition of ODA if the main (not even exclusive) objective is to promote welfare and development. There is no logical reason not to include military activities if soldiers shoot or kill mainly to promote welfare and economic development. Possibly as a result of Myrdal's remark

on Portugal, 'any kind of military assistance is excluded' officially according to the DAC (OECD 1985, p. 171). However the IBRD (1990, p. 253) cautions: 'Although this definition is meant to exclude purely military assistance, the borderline is sometimes blurred; the definition of the country of origin usually prevails.'

Military assistance is not always excluded officially either. In 1990 the US started to include substantial amounts of military debt cancellations (1990: \$1.2 billion; 1991: \$1.86 billion; OECD 1992, p. 109) in its ODA statistics. The US forgave Egypt military debts because the country fought Iraq with the Americans in the Gulf War. The DAC agreed to review the appropriate recording of debt forgiveness, particularly of military debt and non-ODA export credits. These debt reductions were accepted as ODA, although with 'appropriate footnote indications and further explanations where required' (OECD 1992, p. 86). The DAC recorded them as ODA for members reporting them but did not include military debts in the DAC total. Thus the sum of ODA by all members was bigger than the DAC total – one had one's cake and ate it.

During the review it was argued that military debt forgiveness was not military aid; if undertaken in the context of supporting effective policy programmes, its economic effect was said to be similar to programme aid. Finally the US attempt to have military debt reductions recognized as ODA within the DAC was unsuccessful. The DAC confirmed that forgiveness of military debt was:

a new and separate transaction dissociated from the purpose of the original transaction, that the inclusion as ODA is based on the development motivation of the act of forgiveness, that this logic is also the basis for including as ODA forgiveness of debt arising from export credits and that therefore both types of debt forgiveness should be treated statistically in the same way. (OECD 1992, p. 86)

Although military debt reductions are therefore ODA according to the DAC, it was agreed not to record them as ODA in the future 'in deference to concerns expressed over public opinion impacts' (ibid.) while forgiveness of non-ODA export credits is now recorded as ODA. The fact that donors encourage Southern Countries (SCs) to reduce military expenditures and arms imports was also seen as a reason why recording military debt reductions as ODA would be inappropriate. There is, however, another convincing point not raised by the DAC. If debt forgiveness for military aid were accepted as ODA, any such transaction could easily be transformed into ODA by 'selling' arms first 'on credit' and 'forgiving' these debts afterwards. Finally there is one important distinction between military and other loans which justifies this differentiation. In practice export credits would quite often have been recorded as ODA if the grant element had been sufficiently

high, naturally so if the goods had been given as grants. Thus the differentiation between military and non-military debts is justified, even though the latter need not actually promote development.

In its *World Development Report 1990*, the IBRD (1990, pp. 127f) concludes: 'Many "aid" programs in donor countries cover an assortment of activities (including commercial and strategic initiatives) which often have, at best, a tenuous connection with development.'

The *Human Development Report 1994* (UNDP 1994, p. 72) documents that high military spenders received much more aid per head than other SCs. Until 1986 this first group received five times as much as low military spenders from bilateral sources. In 1992 they were still getting two and a half times the amount. In extreme cases this relation is even much more pronounced. As strategic allies, Israel and Egypt received from the US 100 times and 37 times respectively more aid per head than Bangladesh. In the case of multilateral donors, military spending seems to make little difference in the distribution of funds. As money is fungible, more aid to countries with high military outlays means that non-military aid too frees resources for military spending, money which would otherwise have to be used for urgent purposes now financed by aid.

HELPING DONORS THEMSELVES: AID AND COMMERCIAL INTERESTS

Northern politicians openly stress employment effects of ODA to their constituencies. The Federal Republic of Germany (FRG) even introduced a law demanding that employment effects in Germany must be proved for each German project (Erlar 1985, p. 85). Commercial pressures on aid are not new but — as the DAC itself acknowledges — they 'have been growing in recent years' (OECD 1995, p. 28). In defence against Republican plans to slash aid substantially, US-AID 'distributed fat folders of documents showing that nearly 80 percent of its budget is recycled to the United States' (*Time*, 29 May 1995).

Nevertheless there seems to exist only one case where doubts regarding the intentions of a donor were loudly and officially expressed by the DAC itself. Austria, a small country, which had routinely reported substantial amounts of export credits as ODA, had reached 0.53 per cent of her GNP in 1982, thus placing herself well above the DAC average. In a review of her performance in 1984, the DAC downgraded Austrian ODA, which had been reported on a commitment rather than on the agreed disbursement basis, to 0.35 per cent, and expressed strong doubts about the 'development orientation' of these flows (OECD 1985, p. 172; 1988, p. 69). However while it is easy to prove

that these export credits were of benefit to Austrian exporters, it is impossible to prove that they had not been administered with the main objective to promote welfare and economic development. It should also be noted that mixed credits or 'associated financing' combining ODA and export credits proper have always been tolerated by the DAC (OECD 1985, pp. 243ff).

The Aid and Trade Provision (ATP), a controversial part of the British bilateral aid programme (cf. Toye 1994, on whom this passage is largely based), illustrates the problems of combining aid and commercial gain very clearly. In essence it represents a form of subsidized exports. For this reason most development economists would argue that it represents trade promotion rather than aid, and should therefore be charged to the budget of the Department of Trade and Industry rather than the aid budget administered by the Overseas Development Administration. The supporters of ATP argue that it is necessary as a retaliation against export subsidies given by other industrial countries in order to put British firms exporting to SCs on a 'level playing field'. It is also argued that this benefits British firms, creates employment and thus helps to make the aid programme more acceptable, increasing popular and parliamentary support for aid.

The critics reply that this is essentially a beggar-thy-neighbour form of competition between donor countries and that it would be better to abolish such export subsidies by international agreement. This would increase the value of aid to SCs because they would not be limited in their sources of procurement. Moreover the critics question the benefits to the British economy and to employment by pointing out that in fact ATP is concentrated on a small group of very large firms. This is certainly confirmed by the ATP statistics which show that over the last few years 55 per cent of ATP money has gone to five large firms. While these firms may benefit, this will be at the expense of their competitors and at the expense of the taxpayer, with the result that there will be no net welfare gain for the British economy.

Another criticism borne out by statistics is that ATP aid is given mainly to better-off middle-income countries, and thus diverts aid from poorer SCs. In the 1991–92 period 68 per cent of British aid other than ATP went to the 50 poorest countries, while the corresponding percentage for ATP was only 51 per cent. The figures for preceding periods consistently tell the same story. In relation to this, Africa received only 27 per cent of ATP money in 1991–92, as compared with 38 per cent of other non-ATP aid; this goes against the declared intention to concentrate the aid programme increasingly on Africa as the poorest continent.

Another criticism of ATP aid is that it takes place in an atmosphere of lack of transparency and lack of proper examination. The request for ATP money comes from a private firm which has formulated the project for the purposes of increasing sales and profits, and negotiated it with a governmental or

government-designated private equity in an SC. Thus these projects have not been subjected to the normal scrutiny for impacts on the environment, on poverty, for the observation of human rights, or other criteria governing the aid programme. It is true that theoretically the officials of the aid agency (in the UK case the Overseas Development Administration) can examine the request and refuse ATP money if the proposal does not conform to aid criteria. In practice however it has been the UK experience that private firms present the aid agency with a *fait accompli*: a prior commitment has already been made to the government or an agency in the recipient country and the firms will plead that lengthy examination will jeopardize the whole project. This puts aid officials under pressure. In the notorious case of the Pergau Dam in Malaysia, which has moved ATP into the centre of public debate, it was found that the examination of this project from the point of view of the guidelines which should apply to the British aid programme was not sufficiently lengthy or sufficiently detailed under the pressure of the argument that the contract would otherwise be lost. There is certainly no element of competitive tendering and insufficient publicity given to the way ATP money has been allocated in the past.

In the light of this criticism one would wish that ATP be removed from the aid programme or radically reformed, preferably by way of international agreement. The only agreement reached so far is the so-called 'Helsinki Package' aimed at avoiding trade distortions by the use of tied aid and associated financing as well as at ensuring that aid credits do not substitute viable commercial financing (OECD 1995, p. 30). Naturally an escape clause exists, enabling donors to proceed with projects not conforming to the agreement: 'a letter to the Secretary-General of the OECD, outlining the overriding, non-trade related national interest that forces this action' (*ibid.*) is all that is needed. In 1992 this escape clause was used for 10 of the 28 projects considered commercially viable by the controlling Consultation Group. For 1993 this source declines to give figures.

ODA is often used to open markets to domestic products, subsidize one's own firms, (especially those in problem regions), or to fight unemployment, even if products are delivered on actual – in contrast to merely technical – concessional terms. In such cases the donor is able to shift part of the costs of domestic economic policies onto SCs. This is apparently one reason for the popularity of tied aid: loans are only provided if the SC agrees to spend the money in the donor country, or to use special, sometimes more expensive carriers for transport. Aid might thus be subject to double or triple tying.

In creating multiplier and accelerator effects as well as leading to additional purchases (for example spare parts), aid exports have beneficial repercussions on Northern economies. It was estimated that every dollar of tied aid results in an increase of \$2–\$3 in the (developed) donor's GNP (Shibata

1982, p. 4). As tying restricts the number of possible suppliers to very few firms, it promotes overcharging (Bhagwati, 1970). Erler (1985, p. 85) claims that the German practice of tying ODA increases prices by 20 per cent on average.

The possibilities of using ODA to the donor's own advantage have often been criticized. In the 1960s and 1970s demands were voiced to replace bilateral ODA (given from country A directly to country B) by multilateral concessional flows (channelled via international organizations such as the UN or the IBRD). The rationale was that greater international publicity, international tendering and mutual control by donors would eliminate the worst shortcomings of bilateral ODA, also reducing the possibilities of single donors to exert political influence (Balogh 1970). In the meantime the notion that multilateral is necessarily better than bilateral aid has become very debatable. As the closer scrutiny of the records of multilaterals such as the IBRD has shown, these institutions have often been extremely careless, unwilling to take the interests of 'beneficiaries' into account, and have very often exerted political influence on SCs. Projects violating human rights have been financed by them, as well as by bilateral donors. In spite of international tendering, Northern countries are keenly calculating ratios between contributions and money flowing back. Big and powerful industrialized countries, such as the US, have reason to be particularly content. The hope that multilateralism might improve aid records was thus not vindicated.

THE GRANT ELEMENT – MEASURING 'CONCESSIONALITY'

In contrast to test (a), the grant element of at least 25 per cent is a more objective measure of ODA. The present value of an actual loan (aid does not necessarily mean grant) is compared with the present value of a loan carrying 10 per cent interest. The figure of 10 per cent is a conventional figure supposed to reflect the donors' opportunity costs or their costs of raising capital. The OECD (1985, p. 172) quotes the following examples of loans where grant elements just surpass the threshold:

- 4 per cent interest, seven years maturity, including three years grace (no repayments during the first three years)
- 5 per cent interest, 11 years maturity, including four years grace
- 5 per cent interest, 15 years maturity, no grace period.

If the interest rate charged is not below 10 per cent, the grant element of a loan is zero. Obviously an outright gift has a grant element of 100 per cent. In

all cases the whole loan rather than the grant element – which would be the actual subsidy according to the DAC's reasoning – is recorded as ODA.

As the grant element simply measures the difference between conditions of repayment it need not imply a gift or subsidy at all. For example if a firm from the donor country charges the recipient double the price which would be paid on the world market, the loan will also double. A 5 per cent official loan with 15 years maturity would yield a grant element of just above 25 per cent, qualifying this transaction as ODA although the recipient has been heavily overcharged. The more excessive the overcharge the higher the recorded ODA and, in consequence, the more 'generous' the donor.

As Yeats's (1990) analysis of iron and steel trade showed, overcharging of African countries was the rule during the period 1962–87, with biennial averages of up to 70 per cent and over for these quite homogeneous products. Apparently for a shorter period Portugal overcharged by over 120 per cent(!) on average. There is no reason to suggest that exports declared as ODA were necessarily always at better prices. The less homogeneous the exports, the easier overcharging becomes. Bundling whole turnkey plants with management, marketing or transfer of technology contracts (a rather popular ODA practice) yields a package deal which often cannot be compared with similar arrangements, especially for a buyer with the information resources of a small SC. Market studies, project analyses or the formulation of tenders by donor-financed experts also allow donors to cut out competition by foreign suppliers. Gerster (1989, p. 28) documents the example of a plastic products plant in Togo, sold at nearly 300 per cent of its 'fair market price' according to a 'high official of the World Bank in Togo'. Such examples document that surcharges of at least 34 per cent necessary to make one's 'generosity' commercially profitable could easily be accommodated.

Gerster's example itself was most probably not recorded as ODA, because the author would certainly have mentioned this. However to the extent that the Swiss government was involved via a public export risk guarantee, it qualified at least as 'other official flows' in DAC terminology, increasing the transfer of resources to SCs in DAC statistics.

The constant 10 per cent assumption offers donor countries with sufficiently low domestic rates of interest another option of profitable charity. If the rate at which the government can issue bonds at home is, for example, 6 per cent (historically not unrealistic) it could give a 7 per cent ODA loan, thus combining earnings with philanthropy, at least as long as the domestic rate of interest does not rise to or above 7 per cent and the recipient is able to service the loan. To qualify as ODA the loan would have, for example, 30 years maturity and 11 years grace, or 22 years maturity and 16 years grace. Using the grant element formula presently applied by the DAC, interested readers can calculate different ODA options yielding immediate financial

gains to the 'donor'. To discourage such ODA, DAC Terms of Recommendation specify a minimum grant element of well over 80 per cent on average. This however is only recommended and the profitable loans above would still qualify as ODA by DAC standards.

All ODA figures should thus be read with appropriate caution. To illustrate the volume of aid one might quote Rosenstein-Rodan's (1981, p. 4) comparison that the US spends on aid about 'as much as is spent on Kleenex'. Appendix A.1 gives some concrete examples of what has been recorded as 'aid'.

THE PARTICULARLY PRECARIOUS DATA SITUATION OF NON-DAC DONORS

DAC figures on non-DAC donors have occasionally been criticized in the past and justify doubts about their reliability. Nevertheless these donors have never tried to provide statistics comparable to those of the DAC. As will be shown in Chapter 4, close analysis of DAC figures on Soviet ODA by Kaiser (1986) exposed so many contradictions and irregularities that politically motivated manipulation is the most plausible explanation. Of course the fact that neither the USSR nor its allies did ever provide reasonable information – as repeatedly requested by both the OECD and the G77 (OECD 1985, p. 118) – certainly does not speak in their favour either. The practice of non-DAC donors to withhold information, and the resulting precarious database, must be severely criticized too.

Criticism of the DAC's presentation of OPEC ODA was voiced by Shihata (1982, pp. 5f) amongst others and is presented in detail in Chapter 9. He points out that the possibilities of tying OPEC aid are extremely limited. Exporting mainly oil, OPEC countries cannot use ODA for export promotion in the way traditionally done by the North. It should be added that multiplier and accelerator effects hardly exist within the big OPEC donors because of their extreme concentration on oil. A substantial part of OPEC money has thus been used to finance imports from the North.

The former Soviet bloc apart, other donors exist. Non-DAC members, such as Greece, Iceland and Israel give ODA on a relatively small scale. But more important: the DAC has repeatedly stated that a 'growing number of developing countries' (for example OECD 1985, p. 119; 1988, p. 91) have given development assistance. These flows are logically at odds with the prevailing Northern perception of aid as help for the South by the North. They are however fully compatible with the DAC definition of ODA. The flows are not even documented in a way comparable to OPEC's. According to the DAC the availability of data is bad, and there have apparently been no serious attempts

to improve it sufficiently. The quality of South-South ODA is no worse than North-South aid, as the OECD's (1985, p. 119) extremely favourable opinion of Chinese aid proves (see Chapter 9).

WHO GETS AID AND WHY?

As the recipient of ODA must be a 'developing country' by DAC definition, a liberal use of this term increases the amount of aid and flows. The DAC has always been eager to extend the group of potential receivers, including the EU member Greece and, not so long ago, Portugal and (until 1982) Spain. Also included are Malta, Cyprus, Turkey (both member of NATO and Group B, the industrialized countries in the UN), and Israel, traditionally the major US aid receiver. During 1986/87, for example, 15.8 per cent of US ODA went to Israel (OECD 1988, p. 219). Yugoslavia, a non-aligned country which has seen itself as part of the South rather than the West, was also included.

Colonies and dependencies are naturally 'developing countries', even if they are legally part of the donor. Costs of regional policy or colonial administration may thus turn to aid. In the late 1950s when the list of recipients was initially made, this was not felt to be controversial. Meanwhile however 'the question of propriety of including as ODA contributions made by a Member country to territories with which it has a constitutional relationship has been debated by the DAC' (OECD 1985, p. 171).

Nevertheless such flows continue to be included. In the case of France, whose ODA to its overseas departments and territories (DOM/TOM) is particularly large, two separate aid figures are shown. In the case of the Netherlands, the UK and the US not even this precaution is taken. Therefore we find Reunion, French Polynesia, the Netherlands Antilles, the Virgin Islands, the Falklands, Crown Colonies such as Hong Kong and the Caymans, and the US Trust Territories all on the list of aid recipients. The US Pacific islands have traditionally been among the major recipients of US aid. Reunion, Martinique and French Polynesia usually occupied the top ranks of French ODA during the 1980s, receiving more than one fifth of total ODA. In 1980/81 for example, they received nearly 30 per cent (Reunion and Martinique alone 24.7 per cent) according to the OECD (1988). All DOM/TOM received nearly one-third of French aid at the end of the 1980s. The Netherlands Antilles have usually been among the top three or four recipients of Dutch ODA, which makes British ODA to Gibraltar, St. Helena and the Falklands look comparatively modest.

For obvious reasons Eastern Europe was excluded from this list 'designed for statistical purposes' (OECD 1985, p. 171) during the Cold War. The present change in global politics, the demise of the partition of Europe

together with Western interest to channel money there, have quickly prompted the idea to include these countries. After some discussions on whether to include the former Eastern bloc, a compromise was agreed not to do so (see Chapter 14). Some of the former Soviet republics were included in the list of ODA beneficiaries, but the OECD has recently initiated a special chapter on financial assistance to the former Eastern bloc. If the East had been included in the list of recipients, this would have boosted ODA; furthermore declining flows to SCs could have been statistically compensated by increased resources to the East.

Through analysis of the regional distribution and concentration of aid, the major political interests and their shifts can be clearly discerned. According to the 1963 Clay Report '72 per cent of total (military and economic) assistance appropriations' were concentrated on 'allies and other countries at the Sino-Soviet border'. After criticizing dispersion of aid to an excessive number of countries, the report claimed that economic assistance to some non-allied countries was beyond that 'necessary for our interests' (Ohlin 1966, p. 21). In the 1950s and 1960s South Korea and Taiwan were major recipients of US aid, as well as India, which the US tried to lure away from Soviet influence. During the period of the Vietnam War Vietnam occupied top ranks, accounting for more than 10 per cent of total US aid in some years. In 1992–93 Israel (13 per cent) and Egypt (10.5 per cent) received nearly one-quarter of US aid, followed by El Salvador, Somalia, the Philippines and Colombia (OECD 1995). In 1991–92 Egypt, participating actively in the Gulf War, received 29 per cent of total US ODA, far ahead of Israel's 9.9 per cent (OECD 1994).

The same interest pattern can be discerned with all other donors. Old colonial ties are still clearly visible. Commonwealth countries, particularly India, receive most of British aid. Francophone countries enjoy significantly more financial sympathy from Paris than others. Burundi, Rwanda and Zaire have been Belgium's biggest recipients. Over 50 per cent of Portuguese ODA went to Mozambique in 1992–93, 24.1 per cent to Angola, Cape Verde, Guinea-Bissau, São Tomé and Príncipe and Brazil. All other major recipients received less than 0.01 per cent of Portuguese aid (*ibid.*). Historic continuity also exists in the case of Germany – Turkey, where the German Empire had imperialist interests, is still a major recipient.

Aid by non-DAC donors also mirrors political and economic interests. Arab aid has been highly concentrated on Arab and Muslim countries. For obvious reasons the handful of developing CMEA members, most notably Cuba, had traditionally received an extremely heavy chunk of Soviet ODA as long as CMEA aid existed.

QUANTITATIVE TARGETS

Quantitative targets were set and accepted for both ODA and all flows. In 1968 the Second UNCTAD adopted a decision demanding the North provide annual net flows (aid and other flows) to the South of at least 1 per cent of their GNP, picking up an idea initially introduced in a less precise form by the World Council of Churches (OECD 1985, p. 135). In this context, 'net' means that repayments or repatriation of assets in connection with previous flows are deducted from gross inflows. ODA is also measured on a net base. The 1 per cent norm mirrors the postwar idea that any flows of resources to the South could only be welcome. It was endorsed and accepted — but not necessarily implemented — by DAC members. Better known nowadays is the famous 0.7 per cent target for ODA, whose history and origin will be described in Chapter 4.

In 1980 finally, a separate sub-target on behalf of least developed countries (LLDCs) was introduced by the International Development Strategy for the Third UN Development Decade, and confirmed by the UN Conference on LLDCs in Paris 1981. The sub-target was 0.15 per cent of GNP for the first half of the 1980s and should have risen to 0.2 per cent afterwards. With the exception of New Zealand, Switzerland and the US, all DAC donors accepted this target before 1986.

MULTILATERAL AID AND 'DEVELOPMENT FINANCE'

ODA targets include both bilateral aid and contributions to multilateral organizations. A vast number of multilateral institutions exist, such as the IBRD group (or World Bank, as the IBRD prefers to call itself) and regional development banks (see Chapter 3). In contrast to the recognition of bilateral ODA on the basis of actual payments (disbursements) rather than mere pledges (commitments), contributions to multilaterals have not been judged equally severely. In 1980 DAC members agreed to record capital subscriptions to multilaterals on a deposit basis, that is when a note encashable on demand is deposited, rather than on an encashment basis. Before 1980 both methods of recording had been used. To illustrate this point: when the IBRD was established only 10 per cent of capital subscriptions were actually paid in. The remainder was on call, forming part of the Bank's assets and improving its standing in credit markets. When its capital was doubled in 1959 members did not have to pay any funds at all, the increase was simply added to the unpaid portion. Nevertheless deposit-based statistics record a net flow of resources in favour of SCs.

These imputed 'flows' are calculated as ODA for OECD countries. But SCs contribute to multilaterals too. A logical problem emerges: are SCs

granting ODA and, if so, to whom? To themselves? According to the DAC anyway it is not to those countries of the North that are (unlike Greece) not included in the list of ODA recipients.

Contributions to multilaterals are recognized as a DAC member's ODA even if the activities of those multilaterals cannot be qualified as ODA, which is mostly the case with development banks. These banks lend at terms much too tough to qualify as ODA. The OECD (1985, p. 172) quotes a grant element of only 3 per cent for normal IBRD lending in 1984. Naturally the grant element depends on the going market interest rate. If it is comparatively low, the grant element is higher. Most helpfully the DAC coined the term 'official development finance' in order 'to recognize the developmental value of lending by multilateral development institutions' (*ibid.*, pp. 172f). It should be noted that bilateral loans with similarly tough conditions are not qualified with equal benevolence. Also there is no objective criterion to measure this alleged developmental value or even to prove that it exists at all. Thus it may appear that another positive sounding expression was created by DAC members, who hold the majority of shares in international development banks such as the IBRD.

In the 1980s the IBRD succeeded in gaining a leading role as an aid co-ordinator, and successfully invited bilateral donors to participate in IBRD projects by financing parts of them. The problem of aid co-ordination is highly ambivalent. On the one hand there exists much scope for doing so, as for example Kenya's water supply documents where 18 different makes of water pumps were supplied by a variety of donors (Cassen et al. 1986, p. 318). Diversity though might be a good or a bad thing. If pump types are chosen according to geological differences this might even be optimal. If donors' export interests are the driving force, pumps inappropriate to the specific circumstances might be brought in. Co-ordination, on the other hand, makes the country face a unified front of donors, which results in an enormous amount of leverage on the recipient's decisions, especially so in some very poor countries that are literally kept going by aid disbursements. Supposing that Kenya's diversity of pumps does not merely result from inefficiency but may derive from deliberate export promotion by donors, the problem of diversity might not be cured by co-ordination.

Actual experience of co-financing between bi- and multilateral donors does not dispel such fears. The official Three Years Programme of Austrian ODA by the Ministry of Foreign Affairs (1989, p. 39f) states with utmost clarity that co-financed projects (with the IBRD) are judged not only by developmental criteria but also by whether they lead to Austrian exports. After listing some projects the Ministry writes: 'The actual realisation of projects now depends on whether Austrian industry will be able to obtain the contracts...' (our emphasis and translation). Such practices are not restricted to donors expressing their intentions so bluntly (OED 1989, pp. 52f).

Regarding leverage, Cassen et al. (1986, p. 155) remark quite frankly: 'Individual donors are rarely effective in promoting economic reform through non-project assistance. They should therefore work in concert with other donors and the international financial institutions.' As the experience of the 1980s has shown, (programme) aid has been increasingly used to force SCs to adopt economic policies according to donors' perceptions, even though donors themselves do not necessarily adopt these policies. The IBRD and the IMF have made SCs adopt the economic policies of the Reagan-Bush administrations, which have led the US economy into crisis. Currently donors have started to focus on a new form of conditionality.

NEW TRENDS IN CONDITIONALITY

In perceptible contrast to the decades of the Cold War, North-South relations have become characterized by an increasingly strong emphasis on good governance, democratization, participatory development, transparency and accountability. In spite of their obvious importance these demands, directed at the South by Northern donors, had not been emphasized in an even remotely comparable way for quite a long time. For decades the most corrupt torture-regimes have benefited from strong support by the West, such as Baby Doc in Haiti, Nicaragua's Somoza family and Zaire's Mobutu, because they were considered bulwarks of the 'Free World'. Or in the famous words of a US president describing one of the Somozas: 'He is a son of a bitch, but he is our son of a bitch.'

After the Cold War human rights or good governance are suddenly manifestly present both in bilateral and multilateral development co-operation, adding a new dimension of political conditionality to the traditional instrument of so-called 'economic conditionality'. Seeing both need and scope to strengthen market mechanisms, the donor community shows a growing interest not only in principles of good management (governance) by public institutions but also – at least rhetorically – in the observation of human rights. Regarding economic aspects these principles include sensible economic and social policies, financial accountability and the creation of a market-friendly environment. Aid is said to have become increasingly conditional on appropriate observation of these new, political demands. But donor practice does not live up to donor rhetoric. Furthermore demands directed at SCs may go beyond what Northern governments themselves practise. This new trend in development co-operation will be discussed in more detail in Chapter 12.

NON-GOVERNMENTAL DONORS

Foreign aid is not the exclusive domain of states. Voluntary, Non-Governmental Organizations (NGOs), which are discussed in Chapter 9, are also engaged in development co-operation (Gordon Drabek 1987). Grants by private voluntary agencies from DAC countries amounted to slightly less than 10 per cent of ODA during the second half of the 1980s. 'Well over 2000' (OECD 1985, p. 151) NGOs in OECD countries were active in development assistance, relief and development education about a decade ago and their number has increased dramatically since then. NGOs are diverse, ranging from religious to non-denominational institutions, from self-taxation groups and NGOs raising their own financial resources to mainly (or wholly) government financed NGOs. As 'non-governmental' is the only common denominator of NGOs, the term covers a wide variety of organizations from altruistic volunteers or experts and NGOs with reasonable or small overheads to sectarians who offer food for conversion and private enterprise activities in the charity market. Occasionally secret services are said to have used NGOs for their purposes.

Criticism of ODA, especially of official predilection for gigantic projects and its adverse results, and successes of dedicated NGOs and their ability to reach down to grass-roots level have increased their importance. The OECD (1985, pp. 153f) gives credit to Northern and Southern NGOs for pioneering approaches, such as primary health care or rural development, but also sees Northern NGOs as 'perhaps the strongest domestic constituency or lobby' for ODA in industrialized countries owing to their advantages over huge bureaucracies in implementing small grass-roots or community self-help projects. Participatory development co-operation with affected locals is a strong principle of NGO projects. To some extent NGOs might also be seen by aid officials as a way to use funds without having to find projects themselves.

NGOs have formed national and international umbrella organizations and several official donors have established institutional contacts to NGOs, such as the NGO Liaison Committee of the EU or the UN Non-governmental Liaison Service.

AID UNDER CRITICISM

From its early years aid, particularly official assistance, has been criticized and evaluations of its usefulness have been made. Examples are Cassen et al. (1986), Lipton and Toye (1990) and White (1993). Contending that there is no good evidence that aid is beneficial for growth, White argues that there exists no good evidence to the contrary either. Thus he thinks that results are

not sufficiently sound to justify radical policy conclusions such as the reduction or abolition of aid. As he is able to produce evidence that aid does indeed increase investment, a rather unflattering conclusion of the general effectiveness of aid follows logically: it may boost investments that do not result in growth. This does not imply of course that each single aid project failed.

Interestingly criticism came from such divergent poles as Milton Friedman (1970), P.T. Bauer (1976) and Gunnar Myrdal (1985). The reasons though were quite different. Friedman argued that the market would do better anyway with regard to development, and that aid should be restricted to achieving political purposes. Myrdal on the other hand saw ODA as mainly self-serving, as well as supporting 'corrupt, exploiting cliques' in the South. Therefore he advocated discontinuing any aid except in three cases: emergency aid, support for the very few countries where governments actually cared for the population (he specifically mentions the 'liberated' Nicaragua of the Sandinistas, and Tanzania under Nyerere), and to help dissidents within SCs.

Aid fatigue has become a widespread phenomenon. The UNDP (1994, p. 72) contends that it has even been growing in the South. Answering critics who argue that aid has failed altogether and call for a total stop, the UNDP (1994, p. 69) states that 'legitimate criticism should lead to improvement, not despair'. In spite of disenchantment on both sides, donors and recipients, it claims that 'the development process – along with foreign assistance – has had more successes than its critics usually concede' (ibid.). Thus it sees the end of the Cold War as a 'rare opportunity to make a fresh start' (ibid.), calling for a restructuring of aid to become more participatory and people-centred to benefit genuinely the poor – something it has hardly done so far.

Appendix 1 Recorded examples of aid or development finance

The Broadening Interpretation of ODA

The OECD (1995, p. 118) points out that while the definition of ODA has not changed for over 25 years, 'changes in interpretation have tended to broaden the scope of the concept'. This means that administrative costs, imputed costs of students from SCs (since 1984) and aid given to refugees from SCs in the North have been included successively as ODA. Aid to refugees has been increasingly reported as ODA since 1991, although available for some time. This help to refugees in the North, while laudable and necessary, does not promote economic development at all. If donors had not decided to increase the coverage of activities subsumed under ODA, their present performance would be noticeably worse.

Administrative Costs Within Donor Countries

The DAC has included administrative costs since 1979 to avoid understating the value of aid provided. This argument is defensible, although these sums are, strictly speaking, not flows to the South. Technically it is possible to increase aid by spending more money on one's own civil servants.

Students from SCs

After some debate the DAC agreed to record 'indirect costs' of SC students. DAC members where tuition is free may multiply costs per student by the number of SC students, recording this as a grant to SCs. In contrast to scholarships no actual payments are made, nor is the developmental value of the received education assessed. If students stay in the North, actually saving the 'donor' the costs of raising them to university level this is nevertheless ODA. ODA is recorded even if registrations are only made to get a residence permit but no lectures are attended. This method is not applied to foreign students from other industrialized countries – substantial grants (though by definition not ODA) thus go unrecorded. In Austria, the main user of this statistical technique, these imputed sums have frequently been higher than