

## Chapter 2

# Foreign Assistance: Substance and Practice

### 2.1 The Substance and Evolution of Foreign Aid

Foreign aid comes in many forms, including large-scale official development aid from central governments (provided to developing countries), official assistance (provided to developed countries), aid provided by lower levels of government (local government and specialized government departments), as well as unofficial aid from non-governmental organizations. Despite the relatively systematic statistics that the Organisation for Economic Co-operation and Development/Development Assistance Committee (OECD/DAC) attempted to gather on official development aid and official aid, other types of aid funds can come from a wide variety of sources: sometimes these are semi-official—local government and NGOs engaging in aid activities using official development aid monies—sometimes these activities are supplemented by self-funding. Thus, tracking statistics and conducting research are very difficult. Nevertheless, we can still observe that since WWII foreign aid has played an increasingly important role in international relations. This can be seen in relationships between individual countries, especially between developed countries and developing countries, building channels and networks for communication. Funds, equipment, technologies, ideas and systems flowed via foreign aid between donor and recipient countries. Changes in the international environment have directly led to the evolution of foreign aid activities' focus areas, styles, channels and foreign aid mechanisms, and because of this, foreign aid has become an important window through which we observe and understand international relations. Observing foreign aid activities can help us better understand many changes in the world in which we live, and understand the implications of these changes and the way they become manifest.

During the early period of foreign aid following WWII, foreign aid already encompassed the dual motivations that would thereafter be present in the history of foreign aid: unselfish motives—including various types of humanitarian aid and aid designed to promote economic and social development in the recipient country;

and selfish motives—serving donor countries' own national interests. Aside from military aid that for the most part is not made public, during different historical periods and different international environments the specific goals of foreign aid (here primarily referring to development aid) were constantly in flux, creating aid programs or development topics that emerged from a very specific historical context. Based on these topics, foreign aid can be divided into different periods.<sup>1</sup>

During the 1960s, particularly after the Cuban missile crisis, there was a period of time during which a strategic confrontation and institutional competition appeared between the East and the West. By the period in which this situation was stabilized, the Soviet Union had already ceased its aid to China. After Western European countries had recovered economically, they became important members of the OECD/DAC, and began to pay attention to global issues in development, especially with regard to providing former colonies with development assistance. At the same time they became active in the United Nations development agencies on the multilateral stage. Because each country was focused on its own economic recovery and growth, gains in economic development and production capacity naturally also became focal issues in global development, and various types of economic indicators became important evidence in measuring the degree of development. At the time, it was generally believed that economic prosperity would solve problems of poverty; indeed it was thought to be the only way to promote development. All that had to happen was to make the cake bigger, and this was the only way that the poor or poor nations would benefit. As a result, official development aid monies became a substitute for or supplement to private capital, flowing toward the vast undeveloped regions of the world.

The oil crisis that began in 1973 cast a shadow over the capitalist world's optimistic belief that it could continue to develop, and the Western world began to reflect upon its development theories. Then emerged the idea of "basic human needs" as a guiding principle for foreign aid. Keynes' national intervention theory was used in the realm of foreign aid, making "guaranteeing the basic livelihood of the poorest" an important goal of foreign aid, and various kinds of social development indicators were applied to evaluate development, producing a great effect on the use of foreign aid monies.

By the 1980s, with the emphasis of "the Reagan doctrine" and "Thatcherism" on the reform of the Western capitalist system and the role of the market, improving the institutional environment through foreign aid once again became the focus of aid agencies, and the role of foreign aid as a policy tool for expanding the free capitalist system became increasingly clear. Throughout the 1980s, the primary goal of many aid programs was to encourage recipient countries to transition to a market economy system, constituting an important element of "economic conditionality" in the realm of foreign aid.

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<sup>1</sup> Zhou Hong: "On Foreign Aid and Modern International Relations," *Europe*, 2002, Issue 3, pp. 1–11; Browne, Stephen (1990), *Foreign Aid in Practice*, Pinter Reference, pp. 3–42; and Robb, Caroline, "Changing power relations in the history of aid," in Groves, L. and Hinton, R., ed. *Inclusive Aid*, Earthscan, 2004, pp. 21–41.

After the collapse of the Soviet Union in the 1990s, the role of foreign aid as a strategic tool diminished. Many donors began to reduce their aid budgets. At the same time, however, because some former Soviet countries chose to take a capitalist path, foreign aid budgets for “countries in transition” rose sharply. The majority of funds were used to realize policy objectives, such as democracy, human rights, and good governance. These foreign aid practices had been widely used in aiding other countries, and they became a post-cold war “political conditionality” in the realm of foreign aid.

After the end of the cold war, the international environment changed in major ways that could hardly have been predicted. Under the impact of economic globalization, various non-traditional security problems derived from extreme poverty began to directly impact donor countries’ own safety and stability, and poverty reduction once again topped the global development aid agenda.

From the evolution of foreign aid, it is possible to see that, on the one hand, key donors were continuously redefining their own benefits and core strategic aims as the external environment evolved. On the other hand, they continuously searched for the most effective means of providing aid based on recipient country situations, in order to wield greater influence.

## 2.2 Types of Foreign Aid

Aid flowing to foreign countries is of many types and purposes: there is humanitarian aid and military aid, there is official aid and official development aid, and there is aid coming from private foundations, corporations, political parties and other semi-official sources, as well as non-governmental sources. Amongst all forms of foreign aid, official development assistance is the largest in scale. Although its strategic intentions are nowhere near as clearcut as those of military aid, its reach is the greatest and its influence is the deepest, and no other forms of assistance can compare. China, as a developing country, has received a large amount of official development assistance from Western developed countries and international agencies, along with other official aid that has been used for development aims.

### 2.2.1 *Official Development Aid*

Official Development Aid (ODA) is a special type of funding source.<sup>2</sup> The concept of “official development aid” currently recognized internationally has been defined by the OECD/DAC. According to this definition, official development aid must meet three basic criteria: first, aid funds must come from donor country

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<sup>2</sup> Browne, Stephen, 1990, *Foreign Aid in Practice*, Pinter Reference, pp. 61–64; and Cassen, Robert et al., ed., *Does Aid Work?* Clarendon Press, pp. 2–3.

government financial budgets and be executed by donor country governmental institutions; second, aid must serve to promote socioeconomic development in the recipient country and further goals related to the welfare of the people; third, aid money must be provided at rates more favorable than those of the global capital markets and should include 25 % or more in donations. In recent years, many donors have one by one voluntarily raised the percentage of donations included in their aid monies, making aid a more powerful lever.

Although the above definition provides a general outline of official development aid, it requires clarification in some places. First, recipients of aid should be independent, sovereign nations, and aid money provided to colonies should not be included in calculations. Taking France as an example, within OECD/DAC statistics the funds that France provides to its overseas regions and territories are tallied separately. Second, because official development assistance takes development as its goal, intergovernmental financial transfers used for other goals should be excluded, such as emergency humanitarian aid, military aid, and price subsidies.<sup>3</sup> At the same time, because OECD/DAC rules state that official development aid should be concessional in nature, government loans that do not meet the standards for concessions are excluded. Third, some aid monies coming from donor countries flow through non-governmental organizations to recipient countries. Although donor country governmental institutions or international donor institutions do not execute these aid monies, they are still included in official development aid calculations. However, funds raised by these non-governmental organizations through other private channels are not included in official development aid calculations.

One thing that must be noted is that statistics produced by OECD/DAC regarding official development assistance do not reflect the total amount of flows into recipient countries. A discrepancy exists between the amount of foreign aid promised and the amount of foreign aid actually appropriated, depending on the form of aid being given, this discrepancy can be particularly obvious. In addition, any kind of aid includes a certain percentage of administrative costs used to pay for foreign aid project management costs and foreign aid agencies daily expenditures. Within OECD/DAC, administrative costs on average constitute between 3 and 5 % of aid totals. In the soft loans issued by the International Development Association (IDA),<sup>4</sup> these fees account for approximately 6 % of aid totals. In some international agencies whose work centers on providing technical assistance, administrative costs can exceed 20 % of the total aid project budget.<sup>5</sup>

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<sup>3</sup> There is no clear distinction between emergency humanitarian aid and development aid, but donor countries generally treat the two differently. In their budgets, they leave a certain amount of funding for unforeseen needs. When large-scale humanitarian disasters occur, donor countries can also hold emergency meetings at the international level to raise money. Price subsidies are a kind of relatively hidden method of financial transfers. For example, the Soviet Union and Saudi Arabia sell crude oil to developing countries at prices lower than those of the international market. This is a price subsidy.

<sup>4</sup> A branch of the World Bank, responsible for issuing soft loans with favorable conditions. Currently, its reach is shrinking.

<sup>5</sup> Browne, Stephen, 1990, *Foreign Aid in Practice*, Pinter reference, p. 64.

### ***2.2.2 Other Inter-governmental Aid***

Aside from official development assistance, cross-border aid payments also include humanitarian assistance,<sup>6</sup> other official (capital) flows (OOF, other official flows),<sup>7</sup> and other forms of payments. Humanitarian aid for the relief of suffering in the civilian population following natural disasters is primarily used to provide for the basic needs of refugees. Other official capital flows include:

- Grants that essentially serve business goals;
- Intergovernmental transfers used for development goals that include less than the 25 % standard in donations;
- Official financial transfers in the form of export subsidies and other incentives to encourage exports;
- Bonds guaranteed by donor country governments that are issued by multilateral development banks;
- Financial subsidies given to the private sector in the form of financial gifts;
- Funds used to support private sector investment.

### ***2.2.3 Non-governmental Aid***

Non-governmental aid is primarily divided into two types: private aid<sup>8</sup> and foundation donations. Private aid comes from private individuals, flowing to recipient countries through non-governmental channels, with non-governmental organizations responsible for implementation. Private aid often is used for charitable enterprises, influenced by current events, these charitable enterprises often take as their goal the promotion of economic and social development in the recipient country, and have a humanitarian aspect. During the late 1980s, private aid constituted 7–8 % of the official development aid provided by OECD/DAC members. Private aid not only is the oldest form of aid, but it also has risen consistently in recent years as a result of the great expenditures on philanthropic and development work coming from the new technology sector and the immense new wealth it has generated.

Private aid often is given through foundations. Most foundations publicly state that their mission is to promote development for the public good, but in many developed Western countries, the management of foundations is market-oriented. That is to say that the registration process for foundations follows that of commercial enterprises, but with more favorable terms, such as the tax-free treatment enjoyed by charitable foundations. Their funding sources, aside from their own

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<sup>6</sup> Browne, Stephen, 1990, *Foreign Aid in Practice*, Pinter reference, p. 60.

<sup>7</sup> Browne, Stephen, 1990, *Foreign Aid in Practice*, Pinter reference, p. 91.

<sup>8</sup> Browne, Stephen, 1990, *Foreign Aid in Practice*, Pinter reference, pp. 82–84.

assets and private contributions, can also include funds received through official channels. Over the long term, the largest and best-known global foundations have engaged in cooperative financing with multilateral and bilateral donors, further strengthening the capacity and influence of foundations.

## 2.3 Forms and Channels of Foreign Aid

### 2.3.1 *Grants and Loans: Foreign Aid with Different Preferential Terms*

As described above, official development aid should include 25 % or more in grants. In the practice, different aid projects provide different preferential terms. Aid consisting of 100 % donations is a grant, and all other forms of aid are soft loans given on preferential terms. How can we assess the preferential terms of soft loans? The real value of loan capital gradually declines each year. When the time comes for the loan to be paid off, and the real value of the original capital plus the interest paid by the recipient country does not exceed the real value of the loan itself, then the loan contains a percentage in grants. The portion attributable to grants is the difference between the two. From the time that the loan was issued, calculating a 10 % annual decline in the real value of the loan, loans with an interest rate of less than 10 % would then include a percentage in grants. The longer the loan period, the lower the interest rate, the greater the proportion in grants. With an interest rate of 5 %, a 15-year loan period would essentially include 25 % in grants.<sup>9</sup>

The proportion of aid provided through grants and loans differs between different donor countries and aid agencies. Among the major bilateral donors of the OECD/DAC, the official development aid given by some countries is 100 % grants.<sup>10</sup> In key international aid agencies, as well as in loan capital from the World Bank and regional development banks, there is a large proportion of capital raised from international capital markets, thus the proportion in donations is relatively low. Taking the World Bank Group as an example, loans from the International Bank for Reconstruction and Development mostly reach the 25 % standard for grants, thus the OECD/DAC has classified it as (OOF), and the main aid agencies under the United Nations system primarily provide grants.

<sup>9</sup> Browne, Stephen, 1990, *Foreign Aid in Practice*, Pinter reference, pp. 84–88.

<sup>10</sup> According to 2005 OECD/DAC statistics, through 2003, all DAC member states, with the exception of Japan and Greece, provide official development aid consisting of 92 % and above in donations. Australia, Austria, Canada, Denmark, Finland, Ireland, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Switzerland and England all provide official development aid consisting of 100 % donations, so the official development aid of these countries is completely given in the form of grants. See OECD, *Peer Review of Germany*, 2006, p. 81.

### ***2.3.2 Key Donors and Recipients and the Main Channels for the Flow of Foreign Aid***

After providing a brief introduction to the concept of official development aid, we will continue with a discussion of the following questions: Who provides aid? Who receives aid? And through which channels does aid flow?

#### **2.3.2.1 Key Donors and Recipients**

After WWII, countries providing aid abroad can be divided into three categories: the main developed capitalist nations, Arab Gulf OPEC countries, and socialist countries including the Soviet Union and Eastern Europe.

The first countries to provide aid after WWII were the Western developed nations, and they had the greatest impact on the development and creation of global aid activities and aid system. The United States of America's Marshall Plan is without a doubt the origin of current official development assistance, and the two major colonial powers, United Kingdom and France, were also the earliest countries to provide overseas aid (primarily to their colonies). In 1960, as western countries became engaged in overseas aid activities, the Organization for European Economic Cooperation (OEEC) which had been created to implement the Marshall Plan was restructured to become the OECD, and tasked with coordinating foreign aid policies among donor countries. Within this organization, the Development Assistance Group (DAG) was established with the major donors as its members; in 1961, the group changed its name to the DAC.<sup>11</sup> This became an important mechanism for coordinating and influencing foreign aid activities.

Although OPEC member states in the Gulf were not OECD/DAC members, they had channels for coordination with the DAC and were indirectly influenced by DAC policy. The aid activities of socialist countries were independent of the OECD/DAC and were not influenced by DAC. Aid conditions and means of implementation were very different to those of Western countries. After the dissolution of the Soviet Union, the majority of central and eastern European and Commonwealth of Independent States (CIS) countries went from being donors to becoming recipients of aid. Based on its standards for average per capita income, the OECD/DAC divided these countries into low income, middle income, and high income countries. An annual review of their aid recipient status is conducted, and this guides international aid activities across the globe. At the same time, this shapes ideas and norms in the realm of aid.

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<sup>11</sup> Founding members of the OECD Development Commission include: Belgium, Canada, France, Federal Republic of Germany (West Germany), Italy, Japan, Portugal, the United States, Britain and the European Economic Community. There are currently a total of 22 member countries. In addition to the founding members, other members include: Australia, Austria, Denmark, Finland, Greece, Ireland, Luxembourg, Netherlands, Norway, Sweden and Switzerland.

Many developing countries in Asia, Africa and Latin America have been recipients of OECD/DAC aid and also aid from socialist countries. After the collapse of the Soviet Union, central and eastern European and CIS countries began to receive aid from the West, reflecting major changes in the international situation and global power.

Since its establishment, the People's Republic of China has received substantial aid from the Soviet Union, and it has also provided aid to developing countries in Asia, Africa and Latin America. After Reform and Opening Up, China began to receive official development aid from developed Western countries. Currently, although China still receives official development aid from outside, it also provides foreign aid, making China rather unique among recipient countries.

### **2.3.2.2 Official Channels for the Flow of Foreign Aid: Bilateral and Multilateral Assistance**

Although official development aid funds come from the donor country governments, aid does not necessarily flow through official channels. There are many channels through which aid funds flow, and they belong to three main types: bilateral channels, multilateral channels and private channels. The first two can be classified as official channels, while the latter is clearly an unofficial channel.

In bilateral aid, the donor country government is not only the funder of aid programs, but also the implementer of these programs. Since the establishment of the OECD/DAC, the main donor countries have established government agencies responsible for development aid work,<sup>12</sup> setting aid policies in accordance with their own internal laws, negotiating with recipient countries with regard to aid arrangements, and taking responsibility for the implementation and management of aid projects. Generally speaking, the principal aim of bilateral aid is to serve the overall foreign policy goals of the donor country, with the motivation for aid provision lying in concrete political, economic and strategic goals that are influenced by domestic policy and public opinion within the donor country. Thus, bilateral aid activities are not always able to meet the development needs of recipient countries.

Multilateral aid is development financing that is provided through major multilateral aid agencies. The largest multilateral aid agency is the IDA of the World Bank. In 1988, approximately 44 % of multilateral aid was issued through the IDA. After IDA come the aid agencies that are part of the United Nations system, key among which are the United Nations Development Programme (UNDP), the United Nations Population Fund (UNFPA), the United Nations Children's Fund (UNICEF) and the World Food Programme (WFP). Aside from these agencies, the United Nations system also includes some specialized agencies that are engaged in implementing specific projects, such as the World Health Organization (WHO),

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<sup>12</sup> For detailed information on the aid agencies and aid policy formulation processes of key donor countries, see Zhou Hong, ed., *Foreign Aid and International Relations*, China Social Sciences Press, 2001.

the Food and Agriculture Organization (FAO), and the United Nations Educational, Scientific and Cultural Organization (UNESCO). These organizations primarily provide technical assistance.<sup>13</sup> Within these two large systems, there are also regional development banks established at the regional level and based upon the World Bank model, including the Asian Development Bank, the African Development Bank and the Inter-American Development Bank. After the end of the Cold War, because of the increasing prominence of global issues, a number of semi-official foundations focused on global problems have emerged, including the Global Fund, the Global Environment Facility and others. Aid from these agencies resembles that of multilateral agencies in nature.

The role played by multilateral aid agencies is not only that of a provider of funds. They also serve other important functions, including providing a wide range of economic analysis and advice, publishing research reports, compiling aid statistics and trend analyses, determining the focus areas for aid activities, evaluating aid activities, and coordinating policies between major donors.

Multilateral aid agencies are independent of donor country governments, and they have their own decision-making processes and management systems. They also receive more input and participation from recipient countries, and are less influenced by donor country interests. However, the United States of America played a key role in the establishment of multilateral agencies, and the US has the highest number of votes in the World Bank and International Monetary Fund (within the World Bank it is the only country with the right to exercise a “one vote veto”). In addition, the US continues to use the geographic and cultural advantages of multilateral aid agencies (such as the World Bank and UNDP) located on American soil to exert influence on multilateral agencies. Because the institutional framework of multilateral agencies often limits unilateral behavior on the part of the US, the US has taken the lead in debt owed to multilateral agencies, and this resulted in a substantial decrease in the scale of multilateral aid activities after the end of the Cold War. As a result of this, during the mid-1990s, UNDP faced a serious budget crisis. However, as traditional and non-traditional security threats have worsened, people have rediscovered the knowledge and experience of multilateral agencies, as well as their relatively neutral role, and they have an irreplaceable role to play in the response to global challenges.

### **2.3.2.3 Unofficial Channels for the Flow of Foreign Aid: Non-governmental Organizations, Private Enterprise (Non-profit Organizations)**

Aside from the official channels described above, much official development aid flows to recipient countries through unofficial channels. For example, in the US, the agency responsible for foreign aid activities is the US Agency for International

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<sup>13</sup> These four agencies are the primary funding institutions within the UN system, and their primary role is to provide external aid funding. The primary role of each specialized agency is to implement projects and provide technical assistance, and these are called specialized agencies.

Development (USAID). Many non-governmental organizations participate in USAID-funded aid activities since USAID solicits bids from private enterprises (non-profit organizations) and non-governmental organizations for the implementation of aid projects.<sup>14</sup>

Currently, there is a global trend toward encouraging the NGO sector to participate in aid activities. There are three main reasons for this. First, Western aid agencies believe that waste in aid projects often arises from corruption and poor management on the part of government. Only by getting more beneficiaries involved in development aid activities can society as a whole develop.<sup>15</sup> In addition, as a part of state interventionism, developed countries use foreign aid as a tool to change the world according to their foreign policy, harmonizing development in developing countries with the global system, though retaining an emphasis on the Western system. Another important part of the development experience in the West has been decentralization in decision-making and civil society participation. Third, Western development aid agencies believe that NGOs have specialized knowledge and technical skills, as well as long-term experience inside recipient countries accumulated over time. They believe that NGOs better understand the recipient country needs and can more easily become involved at the grassroots level, and that they have a greater ability to respond rapidly to local development needs. In addition, the non-governmental sector can also provide additional funding to supplement gaps in official development aid.

#### **2.3.2.4 Primary Roles and Relationships Among Participants in Aid Activities**

Multiple aid channels mean multiple aid roles. Relationships in aid are not just one-way relationships between donor and recipient country governments; rather, there is a complex network of relationships. Within this network there are many roles, including: donors providing bilateral aid, various types of multilateral aid agencies, various levels of government within recipient countries (central government, ministries and local governments), including international NGOs and NGOs and various other implementing agencies and beneficiaries within aid recipient countries.<sup>16</sup> These different roles are influenced by their own social and cultural backgrounds, bringing to aid activities different values, different behavioral norms and organizational structures, different management methods as well as different

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<sup>14</sup> Zhou Hong: *The United States: Foreign Aid as a Strategic Tool*; Zhou Hong, ed. *Foreign Aid and International Relations*, China Social Sciences Press, 2001, pp. 161–213.

<sup>15</sup> OECD/DAC, 1996, *Shaping the twenty first century: the Contribution of Development Cooperation*, Paris.

<sup>16</sup> See Hinton, Rachel and Groves, Leslie, 2004, “The Complexity of Inclusive Aid,” in Groves, L. and Hinton, R. ed., 2004, *Inclusive Aid*, Earthscan, pp. 21–41. See also Ostrom, Elinor et al., 2001, *Aid, Incentives, and Sustainability. An Institutional Analysis of Development Cooperation*, final draft, Stockholm: Sida/UTV.

interests. The exchange of ideas, harmonization of systems and modes of behavior permeate every aspect of aid activities. As a result, foreign aid objectively guarantees a certain level of interaction between donor and recipient countries, making it an important channel for broadening and deepening country-to-country and people-to-people relationships.

At the same time, aid as a vehicle for exchange reflects the unequal power relationship between donor countries and recipient countries, and this is an important factor in understanding foreign aid.<sup>17</sup> Discussions about “ownership” run throughout foreign aid activities. Under the strong control of recipient country governments, donor country agencies can only assume a relatively low profile in policy dialogues with recipient countries. From this perspective, questions of ownership are in essence “who leads recipient country development?” and “who decided the content and form of aid activities?”<sup>18</sup>

Leaving aside other forms of aid to focus on official development aid, we can see that before the 1960s, development aid efforts were led by recipient countries, in many cases by the central governments of recipient countries. This is because within the global system of that time, sovereign nations were the primary actors. Sovereign nations, in particular developing countries that had newly achieved independence and were objects of contention in a polarized world order, urgently required foreign capital to use for nation building. Against this historical background, people generally believed that government agencies in aid recipient countries had the basic capacity and willingness to solve development problems. They also believed that aid activities would provide only additional funds, technologies and specialists, which could be used to strengthen the capacity and efficiency of government institutions. Because of this, providing financial assistance was the common practice at that time, and many aid funds were injected into recipient country governments to be used by the government in a unified fashion along with other funds.

By the late 1970s, donor countries began to call into question the role of recipient country governments, and they began to strengthen direct management of aid monies. Financial aid decreased, and more aid monies were used to support specific projects. Through implementation of projects, donor countries established management mechanisms independent of recipient country governments, with donor staff directly choosing projects and implementing projects. At the same time, another important change was that donor countries began to put forward various kinds of conditionalities to recipient countries, especially conditions aimed at directly influencing the long-term development and basic economic and political systems of recipient countries.

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<sup>17</sup> For a detailed analysis of inequalities in aid, see Zhou Hong, “Foreign Aid and Modern International Relations,” *Europe*, 2002, Issue 3, pp. 1–11.

<sup>18</sup> Jerve, Alf Morten (2002), “Ownership and partnership: does the new rhetoric solve the incentive problems in aid?” in *Development Studies Forum*, NUPI, December, 2002, pp. 389–407.

Conditionality evolved along with historical developments, and from this evolution it is possible to see changes in the relationships between donor countries and recipient countries. For example, donor countries had advocated for recipient country “ownership” and “results orientation,” shifting aid activities from providing financial aid and technologies to bringing in monitoring and evaluation of specific project implementation. Aid monies brought donor country representatives to the deepest reaches of recipient country society, a feat difficult to match through normal diplomatic activities. In addition, the particular form of aid also can impact the balance of power between donor country and recipient country. This will be the topic of discussion below.

### ***2.3.3 Main Methods of Foreign Aid***

Official development aid as seen in DAC statistics comes in different forms, which can be roughly divided into three major types based the content of aid: financial aid, technical cooperation and food aid. Aid activities can be divided into two major types based on how they are organized: projects and plans. Among different types of aid activities, the relationship between donor and recipient countries also varies.

#### **2.3.3.1 Capital Assistance, Technical Assistance and Food Aid**

Financial aid and technical cooperation are the two most common types of aid. This is due to the fact that most people believe that the main reason for underdevelopment is a lack of funding and out-of-date technology (including management experience). Through financial aid, recipient countries receive additional funds, using them for purposes such as the establishment of basic infrastructure; the purchase of modern equipment; and the stabilization and balancing of government budgets. The Structural Adjustment Loans issued by the World Bank should be classified as one form of financial aid. Within this type of aid, recipient countries have a relatively large say in deciding how funds are to be used, and their use is also relatively flexible. The goal of technical cooperation is to help recipient countries raise their level of knowledge, their technical capacity for production and management experience. By contrast with financial aid, however, technical cooperation is generally a fixed model, primarily undertaken as part of specific aid projects involving expert consultations, staff training, organization of short-term courses, scholarships to allow students from recipient countries to study overseas or providing relevant information and data, equipment and technologies.

Generally speaking, within technical cooperation it is the donor who takes the lead in project implementation. After the donor and recipient countries together have determined the specific content of the project, the donor hires specialists, chooses implementing agencies and takes care of other matters. The relevant fee standards are also decided by the donor, and in most cases, project finances for technical cooperation are controlled by the donor, and are not shared openly

with the recipient country. Some technical cooperation projects are stand-alone projects; the funding sources for these projects are often based on grants. Some are an organic part of financial aid projects, used for feasibility studies of loan projects, staff training and other areas.

Two trends have emerged within international aid activities. First, the proportion of aid spent on technical cooperation has risen consistently. In the 1960s, only around 10 % of official development aid was spent on technical cooperation, but by the end of the 1980s, roughly one third of official development aid came in the form of technical cooperation.<sup>19</sup> Second, projects with hybrid financing have emerged, such as loans integrated with grants as a kind of soft loans, and the grant portion of loan projects is often used for technical cooperation related to the project. These two trends are targeted at a lack of knowledge, technology and management experience in developing countries, but the desire of donors to exert a greater influence on recipient countries through the implementation of more technical cooperation projects cannot be overlooked.

### 2.3.3.2 Projects and Programs

Projects are the most common form of aid, but they are only a vague concept. Projects can be large or small: small to the point of offering one single scholarship opportunity, or large to the point that they include several countries, involve key ministries, and extend over a period of decades. Aid projects generally have the following distinguishing characteristics. First, projects should have clear goals, generally focused on a clear, well-defined, concrete problem, and managed by the recipient country government as a single agency. Second, projects can effectively manage financial transfers of project funds, and can clearly demarcate participant responsibilities. Third, projects generally have a project framework that defines the work to be done by each party in the project, the responsibilities of each party, and a breakdown of various types of financial resources for the project. Fourth, upon conclusion of a project, donors can evaluate the project with relative ease based on the project framework.

Compared with plans, projects are focused on specific problems, and projects can bring visible, tangible results. Because of this, projects are often compared with isolated islands within developing countries. On these islands, donors are able to exert a definite influence, but they are not necessarily able to exert a positive impact on the overall course of development in a recipient country.

After the 1973 oil crisis, the western world went through an internal process of reconsidering their own paths and systems. This was first seen in the US and the U.K. with the pursuit of the free capitalist “Reagan doctrine” and “Thatcherism,” which brought a series of reforms that shrank government expenditures and strengthened the role of the market. One of the effects that this had on the world of foreign aid was to transform project aid into “planning” aid.

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<sup>19</sup> Browne, Stephen, 1990, *Foreign Aid in Practice*, Pinter reference, pp. 76–79.

“Planning” aid emerged during the 1980s. “Planning” emphasizes adjustments to the overall systemic structure, the structural adjustment loans provided by the World Bank are examples of this kind of “planning” aid. Recipient countries must promise to undertake reforms in key policy areas in order to realize a balance in international payments. These include trade, public policy and systems reform, and their goal is not to engage in piecemeal reforms but rather to promote comprehensive reform. In addition, sector planning is another important form. Sector planning involves a somewhat smaller range of reforms compared with structural adjustment loans, with reforms limited to specific sectors, but likewise incorporating policy and systems reform.

Projects and planning complement one another, both influencing the progress of development in recipient countries in different ways. After the end of the cold war, donor countries tended to implement aid plans, and often came up with country-specific aid strategies based on the unique situations of recipient countries, using them to encourage development in the recipient country that suits the donor nation’s strategic plans. The development of planning was the same as that of the development of technical cooperation, serving the goal of exporting ideas and systems from the donor country, it can have not only an inestimable impact upon the long-term development of the recipient country, but also is an important tool for donors to change the world through changing recipient countries.

### ***2.3.4 Policy Dialogue and Conditionality***

Leverage is an important part of foreign aid as a policy tool. Official development aid accounts for just 0.1–1 % of the gross domestic product in donor countries, but this small amount of resources can generate a great impact. In some cases, it can even influence the political/economic system and development path of recipient countries. Foreign aid is able to exert such a strong influence because it brings about changes in internal policies within recipient countries. The leverage behind foreign aid is manifested in two ways: first, it encourages dialogue between donor and recipient countries in a number of different areas (including internal governance); second, the conditionalities attached to foreign aid often force recipient countries to initiate policy reforms.

#### **2.3.4.1 Foreign Aid and Policy Dialogue**

Policy dialogue refers to policy discussions, consultations and negotiations<sup>20</sup> between donors and recipient countries on internal policy frameworks that influence aid activities and the overall economic system of recipient countries. Policy

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<sup>20</sup> Cassen, Robert et al., 2nd ed., *Does Aid Work?* Clarendon Press, Oxford, p. 58.

dialogue occurs primarily through persuasion and education to lead recipient countries to adopt reform measures suggested by donors.

Beginning in the 1980s, at the same time that the IMF required debtor nations to adopt balance of payments measures and the World Bank issued structural adjustment loans, a wide range of policy dialogues took place between these two institutions and recipient countries. Moreover, these policy dialogues were focused on issues of macroeconomic policy in recipient countries. As the World Bank developed its large research institutions and policy advisory groups, their knowledge advantage enabled them to take the lead in policy dialogues.

After this, policy dialogues expanded into the realm of bilateral aid, and the scope of policy dialogues continued to grow. From economic reforms aimed at establishing market economies, talks expanded to include “good governance,” human rights, democracy and other areas. Currently, aid activities facilitated by policy talks remain an indirect, yet very important, channel for donor countries to exert their influence, particularly in some countries that do not rely heavily on foreign aid funds. In addition, the role of foreign aid as a lever is also manifest in direct intervention in the form of conditions attached to aid.

#### 2.3.4.2 Foreign Aid and Conditionality

Based on the definition put forth by Tony Killick, aid conditionality refers to an agreement reached between recipient countries and donors: if the recipient country adopts or promises to adopt certain measures, the donor will provide a specified amount of aid in order to support the implementation of these measures.<sup>21</sup> Consequently, the main difference between conditionality and policy dialogues are that conditionalities have a certain mandatory nature. Donors can threaten to not provide aid or to cease providing aid, thus forcing recipient countries to institute reforms at the levels of program management and policy. The method of adding conditions to foreign aid became common practice in international aid activities after the 1980s, highlighting the nature of official development aid as a type of policy tool. In small and weak countries heavily reliant upon aid, conditionalities became an effective means by which donors could intervene in internal governance.

According to analyses done by Olav Stokke, aid conditions in different periods have had different points of emphasis. The conditionalities of the 1980s aimed to promote market liberalization, and most were economic conditions, a representative case being the World Bank structural adjustment loans. By the 1990s, after the collapse of the Soviet bloc and the breakdown of polarization, donors began to attach broad political conditions to foreign aid, such as conditions related to good governance, human rights and democracy. This endowed foreign aid with the mission of exporting systems and values.<sup>22</sup>

<sup>21</sup> Killick, Tony, 1998, *Aid and the Political Economy of Policy Change*, Routledge, p. 6.

<sup>22</sup> Olav Stokke, ed., 1995, *Aid and Political Conditionality*, FRANK CASS & CO. LTD, London, pp. 1–87.

Aid conditionalities run through every stage of foreign aid activities. There are prior (ex-ante) conditions—if a recipient country does not promise to adopt certain measures, then aid activities cannot commence or funds cannot be transferred. There are mid-term evaluations<sup>23</sup> based on criteria established by donors to evaluate the progress of aid activities and the implementation of reform measures agreed upon beforehand. Based on these evaluations, decisions are then made as to whether or not to continue to provide funding. There are also subsequent (ex-post) conditions that determine whether or not to continue to provide aid based upon evaluations of projects that have already concluded.

Conditions can be divided into 6 different levels based on the nature of the conditions.<sup>24</sup> From highest to lowest, these include: first, those that touch upon the entire government and management system; second, those that influence national policy in the recipient country; third, those that influence specific policies in specific sectors within the recipient country; fourth, conditions at the level of planning or projects that decide how the recipient can use funds; fifth, various types of financial conditions that decide the degree of concessions provided by the donor to the recipient (whether these are grants or loans); and sixth, various conditions related to project management, including financial procedures, audits, reporting and evaluation, payments for technical cooperation experts as well as discounts on equipment to be imported for the project. It can be clearly seen that the higher the level of conditionality, the greater the intervention in the internal affairs of the recipient country. From 1980, looking back over trends in aid conditionalities, they not only expanded from economic to political conditions, but also evolved from the lower levels to the higher levels. This kind of trend reflected worsening inequalities in aid activities.

## 2.4 Why Provide Aid?

After providing a simple answer to the question of what foreign aid is, we will now examine questions regarding the motivations for foreign aid. Based on foreign aid experiences before 1980, Stokke has divided the motivations for foreign aid into: humanitarian internationalism, with humanitarian care being the primary purpose of foreign aid; realistic internationalism, with the realization of national interests being the primary purpose of foreign aid, but without interfering in the internal affairs of another countries; and radical internationalism, with the export of values and sociopolitical systems being the primary purpose of foreign aid.<sup>25</sup> Looking at

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<sup>23</sup> Based on Killick's classifications, this type of mid-term condition is called "trigger actions," and this is a condition for the receipt of the next period of funding. See Killick, Tony, 1998, *Aid and the Political Economy of Policy Change*, Routledge, p. 7.

<sup>24</sup> Olav Stokke, ed., 1995, *Aid and Political Conditionality*, FRANK CASS & CO. LTD, London, pp. 1–88.

<sup>25</sup> Stokke, Olav, ed., 1989, *Western Middle Powers and Global Poverty*, The Scandinavian Institute of African Studies.

the development of foreign aid activities since the 1990s, the motivations for foreign aid have not gone beyond this range. But since globalization, concerns about global problems have gradually increased. Based on the current situation, the motivations for foreign aid activities can be divided into three types: first, altruistic motives, with the realization of economic and social development in the recipient country as the primary purpose; second, serving the national interests of the donor, with the realization of the donor nation's economic, political and safety benefits as the primary purpose; and third, devotion to solving global problems. These three motivations cannot be clearly separated, but rather are all reflected within foreign aid activities.

### ***2.4.1 Development Goals: Promoting Economic and Social Development in Recipient Countries***

Official aid funds come from tax revenues in donor countries, and they differ from social transfers within sovereign countries. Donors must carry out cross-border financial transfers. Even if only a small proportion of tax revenues go to other countries, appropriate justifications must be found. Some of these justifications are made public, and some are not. Justifications that are not made public include strategic and military aims, and the main justification that is publicized is the “moral obligation” of developed countries. Through providing aid, donors change the world based on their own worldviews, and view this as their responsibility.

This so-called “moral obligation” comes from Christianity, particularly from missionaries who engaged in missionary work in former colonies. These missionaries traveled broadly preaching that “those with material wealth” should “have compassion for” their less fortunate brothers, because “God’s love lives in their (rich people’s) hearts” and thus rich people “should use actions to express our love.”<sup>26</sup>

This kind of “universal love” evolved into “human kindness” in later versions. These were the reasons donor countries gave to persuade people and mobilize funds for aid projects after WWII. In the late 1950s and early 1960s, the main donors one after another wrote “concern for the welfare of all people” into their own foreign aid policy declarations. In 1962, when the Swedish government set foot into the realm of foreign aid and publicly expressed Sweden’s foreign aid policy, it clearly stated Sweden’s faith in human dignity and social inequality, solemnly written on its banner: [NEED ORIGINAL QUOTE FROM AUTHOR]<sup>27</sup>

Although donor countries have each expressed the desire to take on responsibility for the common development of humanity, they have different understandings of the goals of human welfare and development, and each maintains its own view

<sup>26</sup> The Bible, Chinese edition, New Testament: 1 John, 3:10, 16, 17, 18.

<sup>27</sup> Cited in Riddell, Roger C., 1987, *Foreign Aid Reconsidered*, The Johns Hopkins University Press, p. 6.

of how to realize these goals. Add to this the national interests of donor countries that are mixed in with foreign aid, and the result is large variations between donor countries' foreign aid activities and their national interests. This makes strengthening coordination between donor country aid policies an important issue in international aid activities.

Among all donor countries and foreign aid agencies, the aid agencies of the United Nations system are the most concerned with development questions. During the 1970s, UNICEF spearheaded the notion of providing aid to satisfy "humanity's basic needs," giving a new direction to aid activities. In the late 1990s, the United Nations put forward the Millennium Development Goals, which was recognized by all member states and become an important standard in guiding current foreign aid activities.

Although the presence of national interests in bilateral aid are unavoidable, that aid also strives for the goal of human development. Aside from moral responsibility, another important trend is the push to make financial support for the development of less developed regions be seen as a kind of "investment in the future." An OECD/DAC document from May 1996 states frankly:

Development co-operation has also led to the emergence of new economic partners who play an increasingly dynamic role, generating new trade, investment, and jobs—as well as the need for adjustment—in our own countries. Developing country markets for OECD exports have expanded by 50 per cent since 1990.<sup>28</sup>

#### ***2.4.2 Serving the Economic, Political and Security Interests of Donor Countries***

That foreign aid activities must protect the economic, political and security interests of donor countries is an unspoken truth, but it has consistently been a leading motivation guiding foreign aid activities. Foreign aid activities are closely linked with the desire to expand overseas markets, and sometimes they are even motivated by a desire for the resources of the recipient country. Aid given by many countries carries conditions for the purchase of donor country products. In addition, foreign aid activities often provide subsidies to create competitive advantages for donor country corporations by influencing the economic system and economic policies of the recipient country, and collaborating with recipient countries on matters such as product technological standards. Aid monies also may be used for market research and research on the feasibility of investment programs, helping donor country corporations to expand their markets.

More important, foreign aid also serves to capture strategic territory, to maintain traditional linkages, and to push for certain types of social and political

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<sup>28</sup> See OECD/DAC, 1996, Development Partnership in the New Global Context, <http://www.oecd.org/dac>.

systems.<sup>29</sup> After WWII, the earliest and largest-scale aid activity, the Marshall Plan, came into existence as the US and the Soviet Union raced to control territories in Europe. The primary role of the Marshall Plan was to control the expansion of communism in Europe. The Marshall Plan not only brought Western European countries into the embrace of the US, but foreign aid also helped American products to become dominant in the European markets. And in a different camp, the Soviet Union also consolidated ties with new socialist states through foreign aid, establishing the Soviet Union as the leader within the socialist camp. Through aid projects, the Soviet Union promoted its style of planned economy. Khrushchev said that communism would triumph over capitalism not by relying on armed intervention in capitalist countries, but rather by relying on the superiority of the socialist mode of production.<sup>30</sup>

Changes in the focus of foreign aid activities revealed changes in the ways that donor countries understood their own interests. During the Cold War, the focus of international relations was overwhelmingly on the opposition of the two camps, and aid activities were organized around this struggle. Aid was given as a means to win over those in the middle, expand each camp's pool of resources and product markets, and expand the influence of the camps' respective systems and ideologies. After the end of the Cold War, the situation changed rapidly. The Soviet bloc disintegrated, and for Western donor countries the most important issues shifted from the security concerns of maintaining a balance of power in a polarized era, to the emergence of more global and regional problems: the environment, anti-terrorism, international crime, illegal immigration, HIV/AIDS, and swine flu. Thus, the focus of foreign aid began to shift toward these areas.

### 2.4.3 Solving Global Problems

Currently, an important motivation for donors providing aid is to solve global problems that transcend national borders. The U.N. Millennium Development Goals emphasize two global problems: one is HIV/AIDS and infectious diseases, and the other is environmental protection. After the end of the Cold War, official development aid fell for a time due to a lack of motive forces. However, because donor countries quickly recognized the key importance of threats posed by global problems, the scope of aid once again grew, with the size of aid focused on global problems growing at the fastest rate.

Bilateral aid began to lean toward areas related to the global problems described above. The OECD/DAC made environmental sustainability and environmental improvement its primary focus area for development cooperation in the new millennium.<sup>31</sup> Other important recipient countries have similarly made aid-related

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<sup>29</sup> Zhou Hong: "Foreign Aid and Modern International Relations," Europe, 2002, Issue 3, pp. 1–11.

<sup>30</sup> See Robert Walters: US-Soviet Aid, Chen Yuan, Fan Ba, trans., Commercial Press, 1974, p. 43.

<sup>31</sup> See OECD/DAC, 1996, Development Partnership in the New Global Context, <http://www.oecd.org/dac>.

policy adjustments. At present, environmental protection has become an important area of aid. In addition, various poverty reduction goals also indirectly serve to address global issues because they are related to improving living conditions in recipient countries

## **2.5 New Trends and New Characteristics of Current Global Official Development Assistance**

After the end of the Cold War, the strategic importance, practical function and effectiveness of development aid were all broadly called into question within donor countries. As a result, foreign aid expenditures fell. Entering the twenty-first century, OECD/DAC countries went through a new round of adjustments to their aid policies during which they broadened the scope of their aid; widened the channels through which they provide aid; deepened the field of aid; politicized the focus areas of aid; and diversified and networked the ways in which they provide aid.

### ***2.5.1 Development Trend 1: the Overall Scope of Official Development Aid Has Continually Increased***

After the end of the Cold War, in 1995, DAC member states reviewed and debated the significance and role of official development aid in light of a number of factors, such as the decline in strategic importance of official development aid after the cooling of tensions in the global security situation; rapid economic globalization; the burdens faced by donor countries in adjusting their own domestic economies; and excessive public expenditures. At the same time, public opinion and experience appeared with regard to the massive declines in official development aid. From 1995 to 2000, OECD/DAC countries net official development aid declined each year, from US\$58.78 billion to US\$53.749 billion. The decline in 1997 was the greatest: compared with 1995, aid declined by US\$10.315 billion.<sup>32</sup>

After the September 11 attacks in 2001, the US sent troops to Afghanistan, and the global political and security environment underwent a sudden change, and the decline in official development aid began to shift as a result. The spread of war and terrorism triggered the international community to focus on development issues. International public opinion (particularly in Europe) held that extreme poverty and under-development were breeding grounds for terrorism, and that development, peace, security and other issues were inseparable. It also held that

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<sup>32</sup> Data source: Latest OECD statistical tables on official development aid, <http://www.oecd.org/dac>.

war cannot solve problems of poverty and development, and that it cannot easily address non-traditional security problems. In this environment, the U.N. held its first conference focused on the issue of financing for international development in Monterrey, Mexico, from March 18–22, 2002. The conference reaffirmed the Millenium Development Goals put forth by the United Nations at the turn of the century, asking each country to “increase international financial and technical cooperation for development” to ensure sufficient funds for “stable flows into developing countries and countries with economies in transition” to stabilize the situation there.<sup>33</sup> The European Union, a major foreign aid donor, took the lead in stating that poverty is at the root of terrorism, and that poverty alleviation and counter-terrorism efforts must be closely linked. At the same time, the EU pledged significant budget increases<sup>34</sup> for development cooperation. The period of gaid fatigue after the end of the Cold War had come to an end. After this, donors one by one began to promise to provide more official development aid (for developing countries) and official aid (for countries with economies in transition) for developing countries and countries with economies in transition.<sup>35</sup> Beginning in 2002, OECD/DAC countries with the exception of Japan generally increased official development aid funding, with an average annual increase of over US\$10 billion (Fig. 2.1). France, Germany, and other Northern European countries were the first to increase their official development aid spending, followed by the U.K., the U.S., Australia, and other Anglo-Saxon countries over the past 2–3 years. In 2005, a major increase appeared in Japan’s official development assistance funding.

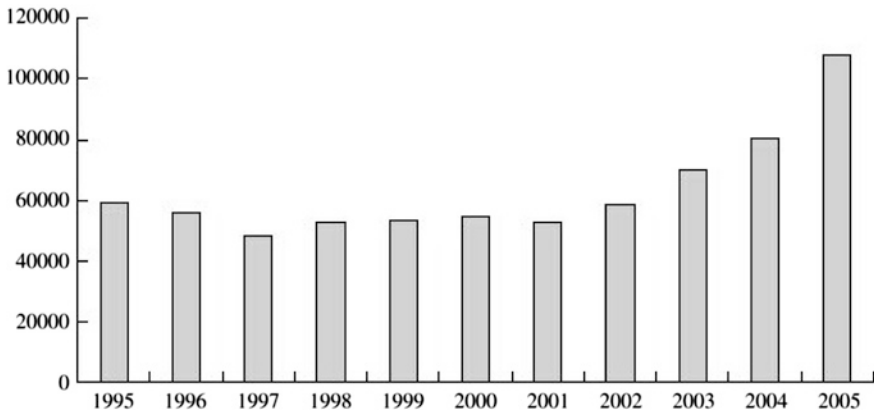
Since 2000, the share of official development assistance as a proportion of Gross National Income (GNI) in DAC countries had risen, from 0.22 in 2000, to 0.25 in 2003 and 0.26 in 2004. In 2003, the average per capita contribution ranged from US\$25 (Portugal) to US\$388 (Norway). The average per capita contribution in the US was US\$55.<sup>36</sup>

<sup>33</sup> The United Nations International Conference on Financing for Development, the draft outcome document, 2002, Monterrey, Mexico, pp. 2, 5–6. <http://www.un.org/chinese/events/ffd/docs/aconf198-3.pdf>.

<sup>34</sup> Bush pledged that the United States budget for official development assistance would increase by 50 %, which is an annual increase of US\$50 billion. EU committed to increase its foreign aid budget by €100 million between 2002 and 2006 increased. See: United Nations International Conference on Financing for Development, the draft outcome document, 2002, pp. 5–6, [www.europa-eu-un.org/articles/en/article\\_3285\\_en.htm](http://www.europa-eu-un.org/articles/en/article_3285_en.htm).

<sup>35</sup> Canada’s Prime Minister promised at the Monterrey Conference an annual average increase in ODA of 8 %, doubling ODA by 2010.

<sup>36</sup> In 2003, the average per capita contribution to ODA was 70 US dollars in DAC countries. The top 5 countries include Norway (388 dollars), Luxembourg (354 dollars), Denmark (265 dollars), Sweden (218 dollars) and the Netherlands (154 dollars). The lowest countries are Portugal (25 dollars), Greece (26 dollars), New Zealand (32 dollars), Spain (37 dollars), Australia (50 dollars) and the United States (55 U.S. dollars). See: UNDP, Human Development Report, 2005, p. 278.



**Fig. 2.1** Annual change in net ODA among OECD/DAC countries. (Unit: US\$1 million) *Data source* The OECD formally released these data on its website in May 2006; 2005 figures are based upon projections. *Y-axis:* Unit (US\$1 million); *X-axis:* (Year)

### ***2.5.2 Development Trend 2: DAC Countries Increase the Proportion of Grants, and the Political Goals of Aid Become More Obvious***

In recent years, OECD/DAC countries have generally increased the proportion of grants in the aid that they gave. Grants accounted for 76 % of German bilateral aid in 1999, rising to 86 % in 2004. In Sweden, 98.6 % of bilateral aid funds come in the form of grants. Of course, not all countries increased the proportion of grants. For example, Australia excluded government loans from ODA statistics; the U.K. provided 13.91 % in in-kind aid, retaining 0.68 % in trade provisions. Spain, because its level of development is relatively low, still must rely on foreign aid to expand overseas markets. As a result, its proportion of grants is 12 % lower than the DAC average and its proportion in loans is higher than 8 %.

Compared with loans, grants are favorable and have a stronger leverage, making it relatively easy for donors to achieve non-economic goals. Because recipient countries do not need to repay loans, they tend to “unconditionally” accept donor conditionalities. Grants generally are used for non-economic and non-superstructure policy dialogues, such as poverty alleviation, environmental protection, basic education, public health and even governance, grassroots democracy and human rights dialogues. Grants come in the form of (soft) technology advising, training and other ways that facilitate donor transfers of ideas and experiences.

There are several reasons for the increasing use of grants. First, donors already have access to markets, and they do not need to use foreign aid as a way to obtain resources and market access. Second, the poorest developing countries often do not have the ability to repay loans, and in the end loans must be waived and

changed to grants. Third, the poorest countries rely heavily on grants. Fourth, grants allow donors to have a greater leadership role and voice in official development aid. Giving aid grants to a small number of the poorest nations is worth it from the donor perspective, whether considered from an economic point of view or a political point of view. Because of this, in the past several years, key OECD/DAC members have all reduced the number of countries receiving aid, focusing on key development partners. With regard to this kind of policy, US president George W. Bush explained: “We must tie greater aid to political and legal and economic reforms” and invest these funds “in nations that govern justly, invest in their people and encourage economic freedom.”<sup>37</sup>

The increase in grants as a proportion of aid and the increasing leadership role of donors are directly proportional. Because of this kind of leadership, official development aid in recent years has tended to “soften,” with its focus shifting from agricultural development and basic industrial infrastructure construction in the early years; to the development of human resources, basic education, public health, environmental protection, women’s development and other areas in the middle years; to the realm of superstructure, with major policy advising projects and dialogues in the areas of legislation and the judiciary, good governance, democracy, human rights and other areas. Recently, DAC donors have intensified their efforts in poverty alleviation, but they have redefined poverty, assigning the causes of poverty not to a deficiency of funds, technology and markets, but rather defining it as a state characterized by “the inability to achieve” certain standards of living... “The poor live without fundamental freedoms to live the kind of life they value.” Because of this, it became necessary to make poverty alleviation a top priority in the development aid of all countries in order to eliminate conflict, violence, social instability, HIV/AIDS and other hidden global threats.<sup>38</sup>

### ***2.5.3 Development Trend 3: the Foreign Aid System Has Become Increasingly Networked Both Internally and Externally***

Networks include three aspects: first, the networks between donors in cross-border aid projects; second, the networks within donor aid agencies; and third, networking activities conducted by donors within recipient countries. Some international

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<sup>37</sup> Remarks by the US President (G.W. Bush) at United Nations Financing for Development Conference (NO MENTIONING OF 911), Cintermex Convention Center, Monterrey, Mexico, <http://www.whitehouse.gov/news/releases/2002/03/20020322-1.htm>.

<sup>38</sup> World Bank: Development and Poverty Reduction: Looking Back, Looking Ahead, October, 2004.

political scientists have labeled these phenomena (transnational) “network politics” or “network governance.”<sup>39</sup>

### **2.5.3.1 Network Process 1: Close Cooperation Between Multilateral and Bilateral Aid Agencies and the “International Aid Regime” Has Emerged, Imposing “Soft Constraints” on Fragmented Donors**

The international aid system has been in a constant state of construction and development since the end of WWII. The important members of this system include agencies such as the OECD/DAC that engage in multilateral policy research, advising and creation of public opinion; the World Bank and the various development agencies of the United Nations that engage in multilateral policy related aid; the individual members of OECD/DAC that provide bilateral aid based on their own national situations and national interests; and an even greater number of fast-growing unofficial and semi-official international specialized aid organizations or foundations. For example, the Global Fund was established in 2002 under the initiative of UN Secretary General Kofi Annan. To date, it has provided 130 countries around the world with aid for the prevention and treatment of AIDS, malaria and tuberculosis. There are also international consortiums, private agencies, and civil society organizations. These public and private funds have created a new network of common partnerships focused on key problems with an economic and even political power that should not be underestimated. Aside from the Global Fund, another body with a relatively large amount of funding and influence is the Global Environment Facility (GEF), created in 1994. There are also numerous funds focused on global education, as well as large NGOs that have been consistently active in the field of development, such as OXFAM.<sup>40</sup> These funds have covered gaps in existing aid funds, and at the same time strengthened global partnerships.

The international aid system has several platforms for networking, with the World Bank, the UN and the OECD/DAC having the most influence. These agencies all engage in research on development aid, publish their own research results, influence and even monopolize public opinion on international aid. They hold both regular and ad hoc joint conferences as a mechanism for communication, with continuous communications between staff members, exchanges of information and political consultations. Surrounding these platforms and active around each

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<sup>39</sup> For relevant theory, see: Beate Kohler-Koch, and Rainer Eising, 1999. *The Transformation of Governance in the European Union*, London: Routledge; Johnes Candace, 1997. *A General Theory of Network Governance: Exchange Conditions and Social Mechanisms*, Academy of Management Review; Maarten Hajert and Hendrik Wagenaar (eds.), 2003. *Deliberative Policy Analysis: Understanding Governance in the Network Society*, Cambridge, UK.

<sup>40</sup> Paud Murphy, “Recent Trends in Development Cooperation and on the Contribution of Higher Education Institutions and some suggestions for a role for Universities Ireland in Africa”, <http://www.crossborder.ie/pubs/ui africa.pdf>.

bilateral donor country and their advisory bodies are international NGOs and large and medium sized foundations. Between multilateral and bilateral donors, official and unofficial donors, there have already been situations of joint financing and joint management of foreign aid projects. This type of networking between donors is a direct result of the Monterrey conference appeal “to enhance collaboration among all stakeholders.”<sup>41</sup>

The networking of international aid organizations led directly to a convergence of international aid ideas and methods. Things like the OECD/DAC peer review process and other evaluation mechanisms have created an invisible pressure on every donor country, and many donors look to international standards in their aid guidelines, issues and focus areas, and goals and methods. For example, the rate of “un-tied” foreign aid, “ODA as a proportion of GNI” and other ideas all were put forth by international aid institutions, and later became widely recognized in the field of aid. This kind of pressure forces donor countries to achieve consistency in many guidelines and policies. When Russia took over the presidency of the G-8 round, it promised to increase foreign aid obligations and to further develop collaborations with multilateral agencies.

The phenomenon of networked cooperation within the international aid system (such as joint financing and management) has blurred earlier institutional distinctions. First, it has become difficult to distinguish between policymaking and implementation. Second, the demarcations between multilateral organizations and non-governmental groups have become less clear. The result of all of this has been the appearance of some new signs, such as: (1) the appearance of funding in various specialized global fields; (2) a focus on specific aid issues and not aid organizations; and (3) a focus on aid effectiveness within the recipient country and not the process.

The trend described above of increased networking within the international aid system has given leading forces within the realm of foreign aid a voice and impact that is greater than their investments alone. Together with other countries, agencies and individuals that provide aid, this has created a great pressure from international opinion. In this environment of “soft constraints,” each donor country uses its traditional advantages to provide different countries with aid based on its own national situation and needs.

### **2.5.3.2 Network Process 2: National Agencies Managing Foreign Aid Started to Undergo Adjustments and Restructuring Based on New Conditions**

Based on the changes described above, many donor countries have begun to adjust and restructure the formulation and management of their foreign aid policies. The direction of restructuring is through merging, down-sizing and reconfiguring to strengthen cooperative networks between domestic and international agencies;

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<sup>41</sup> The United Nations International Conference on Financing for Development, the draft outcome document, 2002, Monterrey, Mexico, p. 2.

between various domestic agencies; and between official and unofficial agencies. For example, in 2001, Germany merged two entities responsible for financial cooperation, the Reconstruction Development Institute (KfW) and the German Investment Corporation (DEG). In 2002, it merged two agencies responsible for project training, Carl Duisberg Gesellschaft (CDG) and Germany's Foundation for International Development (DSE), to create Capacity Building International (InWEnt). In 2003, Germany's Federal Ministry for Economic Cooperation and Development (BMZ) underwent an internal restructuring, making it easier to coordinate various aid agencies that required stronger communications and collaborations, strengthening the capacity of "front line" teams in policymaking and implementation. Some other countries, such as France, have also established similar inter-ministerial committees that aim to bringing the various agencies together to coordinate efforts on the same policy issues, to formulate policy together, and to have a rational division of labor.

Throughout the process of adjustments, donor country civil society and NGOs have acquired a more important role than ever before. For example, Spain underwent a series of adjustments to solve the problem of having too many layers of agencies involved with aid. It established an inter-ministerial committee on international cooperation, the Council for Development Co-operation and other agencies to coordinate various government agencies on the one hand, and forming liaisons with various policy advisory and civil society groups on the other. Half of the 27 members of Spain's Council for Development Co-operation come from official agencies, and the other half come from civil society groups and research agencies. Based on preliminary estimates, over 90 % of funds for non-governmental aid agencies rooted in Western societies come from multilateral and bilateral agencies. Their responsibilities are not only to provide services to the recipients of aid, but also to foster social forces and create linkages between these social forces and organizations and donor country NGOs, to help them play a greater role in global development work.

### **2.5.3.3 Network Process 3: with Regard to "Capacity Building" and "Network Building" in Recipient Countries**

The international aid system believes that non-traditional security threats facing the world have arisen primarily from a number of global problems, such as extreme poverty, degradation of the environment, the spread of infectious disease, international crime and international terrorism, and that the solutions to these problems lie in improving the capacity for governance in "failed states" that are producing these problems. Recipient countries need to improve their domestic situations with regard to democracy, human rights and good governance (including rule of law), and that this is the only way to control these threats. To this end, each player in the international aid system, including bilateral donor nations, based on their individual advantages, have separately invested development aid specifically focused on global problems, such as sustainable development, poverty reduction,

environmental protection, HIV/AIDS prevention and care. At the same time, they have intensified support for work in the areas of human rights, rule of law, social development (non-government) and democracy in recipient countries.<sup>42</sup>

In order to make the “soft” aid described above more effective, in the late twentieth century, the international aid system developed the ideas of capacity building and participatory development.<sup>43</sup> These ideas were quickly and broadly applied to various areas in recipient countries. Through various types of capacity building and participatory development projects, Western donors involved different kinds of stakeholders in project design, implementation and management processes. Within the recipient country, Western donors created governance networks involving central government, local/provincial government, corporations, individuals and social organizations. Currently, this mode of development cooperation has been adopted in nearly every area of aid, and it is changing the traditional top-down management approach into a bottom-up participatory approach.

During the process of recipient country capacity building and participatory development cooperation, the role of NGOs has been highly regarded. This is because the international aid system believes that recipient country development cannot rest on the power of government alone, but that it must also rely on the development of civil society. From 2000, NGOs began to participate more in the implementation of bilateral official development aid projects supported by key DAC countries. For example, 18 % of Sweden’s bilateral official development aid was implemented by NGOs.<sup>44</sup> Over 70 % of Canada’s bilateral official development aid is implemented by Canadian NGOs, private consulting firms, and research and academic agencies. US NGOs and non-profit organizations in the development aid sector consume 0.04 % of the US GDP, and the OECD/DAC average is 0.03 %.<sup>45</sup> In his remarks in Monterrey, Mexico, on US foreign aid policy,

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<sup>42</sup> In recent years, Canada’s aid has focused more on health, education, good governance and private sector development. These accounted for 57 % of aid expenditures in 2004–2005, and rose to 76 % in 2005–2006. Good governance aid reached US\$565 million, accounting for 23.0 % of total spending. See: Canadian International Development Agency Estimates 2005–2006, Part III: Report on Plans and Priorities, p. 5. Sweden’s global development policy proposed eight key areas of assistance: human rights, democracy and good governance, gender equality, sustainable use of resources and environmental protection, economic growth, social development and security, conflict management, and global public goods. In 2003, aid for human rights and good governance amounted to US\$363 million, accounting for 27 % of net expenditures for that year. See: OECD/DAC, Peer Review of Sweden, 2005, p. 33.

<sup>43</sup> Capacity building refers to the process through which individuals, organizations, institutions and society (individuals and collectively) develop their capacity to perform their functions, address problems, and devise and achieve goals. See: Charles Lusthaus and Charles Lusthaus and Marie Hélène Adrienm, “Capacity Development: Definitions, Issues and Implications for Monitoring and Evaluation”, Universalia, July 1999 (Draft), <http://www.universalia.com/capdev/paper/paper.htm> and: Capacity Development. Technical Advisory Paper, 2. New York: United Nations Development Program, 1997, p. 3.

<sup>44</sup> OECD/DAC, Peer Review of Sweden, 2005, p. 27.

<sup>45</sup> Burghard Claus and Michael Hofmann, The Development Cooperation Policy of the USA, German Development Institute GDI, Berlin 1988, p. 27.

US president George W. Bush emphasized that “We will promote development from the bottom up, helping citizens find the tools and training and technologies to seize the opportunities of the global economy.”<sup>46</sup>

Because this type of development model requires extensive manpower and field guidance, in the past few years, as each major donor country has reformed its aid agencies, all have enhanced the authority of overseas management agencies and grown the “front line” teams working in development. Some countries have made their foreign aid agencies independent of their overseas embassies to facilitate grassroots work, as well as networking with lower levels of government and civil society partners. In this regard, the EU and the UK stand out.

Because of this, international donors first began to mobilize various forces from within to participate in foreign aid work, and have later helped to foster social forces within recipient countries. After this, the focus turns to establishing networks between multilateral and bilateral agencies, between governments and NGOs, between NGOs themselves, between recipient and donor country governments, and between lower levels of government.

From the period after WWII, when two camps separately provided aid, to the appearance of the current international aid system and the appearance of aid networks, international economics and politics have seen a period of dramatic change. Through these dramatic changes, some powers have declined and some have grown stronger. These dramatic changes led to the creation of global markets, as well as the appearance of diverse international actors, including multilateral agencies, bilateral agencies and NGOs. In its history of receiving foreign aid, New China has witnessed precisely this process of change.

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<sup>46</sup> Remarks by the US President (G.W. Bush) at United Nations Financing for Development Conference (NO MENTIONING OF 911), Cintermex Convention Center, Monterrey, Mexico, <http://www.whitehouse.gov/news/releases/2002/03/20020322-1.html>.

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