The Development of Aid

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By

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PREFACE

Aim of this book

"The one who by rediscovering the old can contribute to the new is worthy to be called a teacher"
—Confucius

The aim of this publication is to describe, as accurately as possible, the different phases and trends in international development co-operation over the last 60 years and to relate this to the main political and economic events during those years. "Aid" has moved from crisis to crisis, but managed to reinvent itself on every occasion. It is not the purpose here to analyse in detail whether the different forms did or did not contribute to development. For some writers aid was only positive:

- "Effective Aid to the Poor" (Acton Institute 1993)
- "Stop Hunger Now" (NGO created 1998)
- "Aid Does Work" (UN Secretary General Kofi Annan, at Monterrey Meeting 2002)
- "Make Poverty History" (Anti Poverty Movement, created in 2005)
- "Why Development Aid Matters" (Bill Gates 2011)

For others aid was negative:

- "Aid as Imperialism" (Theresa Hayter, 1971)
- "Tödliche Hilfe" (Mortal Aid: Brigitte Erler, 1985)
- "Lethal Aid" (Severine Rugumamu 1997)
- "Dead Aid" (Dambisa Moyo 2008)
- "The Aid Trap" (Glenn Hubbard and William Duggan 2009)

Many libraries are filled with studies, evaluations and research publications on whether aid helped or not. Perhaps there are almost as many publications on the different theories underpinning the different approaches. What is missing, until now, is a publication analysing what actually happened, analysing in detail what different forms aid took and relating this to the background of main events during the different phases.

When I was driving from Nairobi in Kenya to Arusha in Tanzania, I realized that the road construction project there, implemented by the Chinese, resembled very much road construction projects implemented by Western donors in the fifties and sixties. The project was financed by the Chinese, management was Chinese and environmental considerations were not the most important ones. “Shouldn’t we learn from history,” I asked myself? I started looking for comprehensive studies and books, showing what donors have actually done since the “invention” of Official Development Aid. I only found publications for individual countries or organisations and in many cases only for a limited period:

- “US Development Aid: an Historic First: Achievements and Failures in the 20th Century” (Samuel Butterfield 2004)
- “Anfänge der deutschen staatlichen Entwicklungspolitik” (Horst Dumke 1997)
- “UK Aid Policy and Practice” (Christopher Erswell 2001)
- “La politique française de coopération au développement: Cinquante ans d’histoire au miroir de l’Europe” (Corinne Balleix 2010)
- “The World Bank since Bretton Woods” (Edward Mason and Robert Asher 1973)
- “The UN and Development” (Olav Stokke 2009)

Old aid formats appear over and over again. In the fifties and sixties most of the aid provided, concentrated on roads, railways, ports and power generation. Most aid provided by China in the first decade of this new century was concentrated also in these sectors. We have to learn from history, because, as the Earl of Avon (Sir Anthony Eden) stated in 1962; “Man’s capacity for making the same mistakes over and over has no limit” (quoted in Armstrong 1972, 319) or as Albert Einstein (1879-1955) said: “Insanity is doing the same thing over and over again and expecting different results” (quoted in International Development Should blog 2011). This is not to say that, what the Chinese are doing today is wrong, but it is important to study why certain approaches in development co-operation have changed in the past. The same arguments might still be valid today.

We will concentrate on official development aid (ODA), on exactly what Jan Breman (in Lieten 1996, 26) wanted to avoid: the history of aid as a target in itself. Contributing to the history of ODA was a colossal task in itself: more than 1.100 books and articles, archives and statistics were consulted. Others might perhaps be tempted to write the history of other forms of aid, including assistance provided by NGOs. Assistance provided under colonial rule, will be mentioned, but does not officially qualify as official aid. There will be a special emphasis on defining the different specific characteristics of the different periods, defining “paradigms” and on analysing why the world moved from one paradigm to the next. Putting developments in their historical context might help to better understand why things have developed and changed. Special attention will be paid to analysing how consensus building with respect to these new paradigms was realized, and to analysing the role of different networks defining the shots with respect to development co-operation.

Studying history produced sometimes surprising parallels:

- Khrushchev said in a report to the 20th Congress of the Communist Party of the Soviet Union in 1956: “Today they (developing countries) need not go begging to their former oppressors for modern equipment. They can get it in the socialist countries, free from any political or military obligations” (cited in Walters 1970, 30). This sentence applies almost literally to China’s position vis-à-vis Africa today, including “obligations” as agreeing to the choice of projects and tied aid.
- In the sixties the Vietcong ruined a successful American fisheries project by suggesting that eating the fish would cause leprosy. At this moment several Islamic countries block international vaccination campaigns by stating that these would cause infertility.
- The One China policy today resembles very much the Hallstein Doctrine applied by the Federal Republic of Germany in the sixties
- The Keizai Kyoryoko policy in Japan in the sixties (three-into-one economic co-operation, unifying trade, aid and investments), resembles very much the Aid for Trade Provision used by Prime Minister Thatcher in the UK in the eighties, and the strengthening of Dutch companies using aid provisions as proposed by Minister Ploumen in the Netherlands today.

This book is intended for students and professionals who are getting involved in the “aid“ process, or even for those that are working already in the “aid industry” for a longer period and who want to enlarge their understanding. Knowing and understanding what happened in the past will help them to understand today’s challenges and perhaps to avoid mistakes.

How to Read this Book?

Instead of starting straight away with the description of the history of aid and development co-operation, I judged it necessary to start with a discussion of frequently used terms. A first issue, which needed clarification, was “aid”. Different terms have been used in the past, and even if the term “aid” was used, this meant different things to different people. Different interpretations were often linked to different motives to provide aid. There were many, and several applied in combination with other motives. For a better understanding it was therefore important to have a clear view of these motives as well. Although this book starts its overview in the forties, “aid” as such was not new. To get a correct historical perspective a short overview is given of different forms of aid before the 1940s. A more difficult term was the word “development”. Applied to societies it was first used in the 18^{th} and 19^{th} centuries. When the aid process started, for most it implied “economic development”, later it was enlarged to “human development” and during the last two decades emphasis changed to “sustainable development”. Related to these different focuses, was the problem of how to measure “development”. Increasingly complex indices have been developed over time.

A bridge between these issues is the question of “what are developing countries”. Aid is only defined as aid if it is provided to developing countries, but definitions and approaches differ. At the end of the first chapter, it is shown that “aid” as such changed over the years. By coincidence this happened more or less every decade. This explains the structure of the rest of the book. It coincides with a series of “Development Decades” introduced by the United Nations, starting in the sixties. In some of its publications the World Bank followed this approach, concluding that “the beginning of a new decade has always marked a change on the aid scene” (IDA 2007, 27).

The first “historical” Chapter starts in the 1940s, not because “aid” started in that decade, but because in that period the foundations were laid down for the actual aid practice in the fifties and following years. Major events and positions contributing to that foundation are reviewed. The rest of the Chapters are constructed following a similar structure: first an overview is given of the political and economic context of the decade, in order to put the actual aid process in a historical context. The main part of every chapter is the presentation of the facts and figures: what happened and how aid was organized by the different donors. The emphasis is on the main 10-12 donors of every decade. A specific component of this part is the analysis of how the importance of “aid” developed over the years, not only in absolute terms but also as a percentage of GNP/GNI. The following part of every chapter covers different aspects of aid: conditionality, tied aid, project or programme assistance, grants or loans, bilateral or multilateral, sectoral concentration and for later decades also specific parts on debt, NGOs and poverty policies. Based on these different componnts a kind of "paradigm" is constructed for every decade, summarizing the main characteristics of the aid process in that decade.

The changes in the different paradigms do, of course, not come automatically. We have tried to identify why certain things have changed, asking the question "cui bono" (for whose benefit). We analysed in this context who were the key players and networks and how consensus building took place. Every chapter ends with a summary of "lessons learned", contributing to changing the paradigm of the next decade.

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CHAPTER ONE

AID AND DEVELOPMENT: AN INTRODUCTION

Before starting to review the history of development co-operation, it is important to discuss first some of the terms that will be used frequently in this book: "aid": what is it, why is it given, and "development": what is it, and how can it be measured? For many aid professionals in the sixties, "aid" and "development" came to be so closely linked as to be almost interchangeable (Hunter 1972, 24).

1. What is Aid?

What do we mean with the term development co-operation, or the term aid? In 1965 Ian Little and Juliet Mary Clifford indicated that "aid was an ambiguous word" (Little and Clifford 1965, 13). During the forties the United States used the terms "co-operative action" and "grant-in-aid" for its assistance to Latin America (Picard 2009, 72). In 1949, when the incoming President of the United States, Harry Truman, delivered his inaugural address, he used the phrase "assistance to underdeveloped areas". A Group of Experts, appointed by the first Secretary-General of the United Nations, Trygve Lie, recommended in a report in 1951: "to assist the under-developed countries… to distribute grant-in-aid for specific purposes" (Stokke 2009, 95). In resolution 520(VI) ECOSOC, the Economic and Social Council of the UN, was invited to elaborate a plan "for establishing, as soon as circumstances permit, a special fund for grant-in-aid and for low-interest, long-term loans to under-developed countries". This plan was to be submitted to the General Assembly in 1953. In 1953 the new President of United States, Dwight Eisenhower, called for replacing the arms race by "aid".

Terminology changed over the years: in the early years almost everybody used the term "aid", either "foreign aid" (which in many cases also included military aid), "overseas aid", "international aid", or "development aid". Little and Clifford noted the confusion surrounding the word “aid” in saying, "Buying something from a man may help him, but one does not speak of “aiding” him, if it is something one wants" (quoted in Hagen and Ruttan1987, 30). Later on, when developing countries became more self confident, one wanted to avoid the feeling that poor beggars were receiving charity, so “aid” was replaced by “assistance” or “development assistance” (compare the DAC’s “Official Development Assistance” (ODA), defined in 1968). Several years later, the new terms “co-operation”, “economic co-operation” and ”development co-operation” were used to show a more equal relation between donor and recipient. Brian Atwood, former DAC Chair, stated in 2012 that the word “assistance” would be denigrating. He felt that the word humiliated aid beneficiaries and gave the impression that they needed handouts. “Economic co-operation” may also apply to any co-operation between countries, between countries of the European Union and “development co-operation” can be so wide to include “South-South co-operation”. By using the term “co-operation” the terms “donors” and “recipients” or “clients”, were replaced by “partners”. Therefore different donors use these days the term “international co-operation”.

“The Guardian” analysed in 2011 that: “In the Paris Declaration, written in 2005, the word "aid" was used 57 times, while "co-operation" only gets two mentions. In Accra, the follow-up to Paris in 2008, “aid” is still the predominant term, used 48 times, but “co-operation” makes 12 appearances. But in the Busan Declaration (2011), "aid" is all but banished as the term to describe money transfers from rich to poor countries. Not counting jargon (for example "aid-for-trade") it is used only six times in the whole document, while “co-operation” is used 41 times”.

It is clear that in the early years of development co-operation, the terms were not very precise and co-ordinated. Some suggested that private investments and trade would qualify as well as aid (Cumming 2001, 16-20). Dietrich Kebschull suggested in 1971 that aid should consist of capital aid (financial aid), technical assistance and trade assistance (lower import tariffs: Kebschull 1971, 77). Some countries included loan guarantees, trade subsidies and short-term export credits, while others included cultural programmes (Black 1968, 68). The OECD-DAC (quoted in Betout-Mossé 1962, 593) defined in 1962 that aid should cover:

- Grants by the public sector
- Loans by the public sector, for a period longer than 1 year
- War compensation payments
- Loan consolidations
- Export credits

- All loans and investments by the private sector, for a period longer than 1 year
- Net contributions to multilateral organisations

There were many dilemmas' to be solved. If "aid" were limited to counting statistically those grants and loans, which were given on very generous terms, it would include also bribes and military loans. If "aid" would be limited to include only those flows which were provided with the intention of promoting development, it would ignore the fact that the aid-givers' motives were inevitably mixed. And it would lead to a "circulus in probando" or begging the question:

> "Aid always helps: this cannot be gainsaid,
> If it helps not, it clearly is not aid"

(White 1974, 22), although Bob Geldof, organizer of the Live Aid concerts, did not agree: "something must be done; anything must be done, whether it works or not" (Geldof 2005). Prof Martin Bauer of the London School of Economics summarized: "Progress is evidence of its efficiency and so an argument for its expansion; lack of progress is evidence that the dosage has been insufficient and must be increased", and "aid is thus like champagne: in success you deserve it, in failure you need it" (quoted in Hancock 1989, xiv).

Discussions on the definition of aid became more important in the sixties when burden sharing and minimum levels of financial transactions were discussed. Until then, all financial flows were included in the discussions, but it had a major flaw, in that governments had no means of programmeming or predicting the private element of capital flows, which in many years were more than half the total flows. Jan Tinbergen, at that time Chairman of the UN Committee for Development Planning, proposed in 1964 to limit "aid" to official flows (concessionary and non-concessionary). Then in 1967, developing countries at their first ministerial meeting (the so-called G-77 group) in Algiers, proposed to calculate aid flows, net of amortization and interest payments. In 1968 the DAC finally agreed on a definition for Official Development Assistance (ODA). They defined it as the flow of grants and soft loans from the donor's public sector for developmental purposes, net of repayments of capital, but disregarding interest. The definition was tightened in 1972 by the addition of a minimum level of grant element that the loans would have to meet to qualify as ODA (DAC 2002, 1-2). In addition the term "social development" was replaced by "welfare" (IDA 2007, 32).

The DAC publication "Is it ODA?" summarized (OECD-DAC 2008): aid transactions are those flows, provided by donor Governments to low- and middle-income countries, which are:

i. provided by official agencies, including state and local governments, or by their executive agencies, and
ii. each transaction which:
    a. is administered with the promotion of the economic development and welfare of developing countries as its main objective; and
    b. is concessionary in character and conveys a grant element of at least 25% (calculated at a rate of discount of 10%). If a loan qualifies as ODA, then the whole loan is reported as ODA, and not just the grant element. However, loans with duration of less than 5 years are not included (Cumming 2001, 14).

This implies that the DAC defined five elements: (a) the type of flows (equity, grants, loans or technical co-operation); (b) the source (official sector of donor countries); (c) the recipients (they must be on the DAC list); (d) the development/welfare purpose of the related transactions; and (e) their concessionary character (Van Heukelom 2012, 11). In addition the DAC defined Official Assistance (OA) as aid provided by Governments to countries with per capita incomes[1] above the World Bank's "high income" threshold[2]. In 2003 the OECD recognized 150 ODA eligible countries (part I countries) and a further 36 qualifying for Official Aid (part II countries": Browne 2006, 12).

Although apparently clear and neutral, this definition must be seen as the product of a political compromise which, over the years, required fine-tuning. From the left-wing aspect, it was argued that the definition of aid should be restrictive, so as to avoid an overblown representation of the developed countries' generosity. From the right-wing view, people pleaded for a broad definition that might include the widest possible range of donor practices (Thérien 2002, 451).

However, the term "economic development" is not very clear. At this moment ODA does include resources provided for relief, emergencies and humanitarian aid, although it might be argued that these types of aid do not

[1] For three consecutive years

[2] Richer countries with per capita incomes higher than approximately $9,000 (Bahamas, Cyprus, Israel and Singapore) and countries that were formerly part of the Soviet Union or its satellites.

contribute directly to "economic development" (Browne 2006, 12), but simply reconstruct things and keep people alive.

The question, whether a loan could be included in the ODA calculation, was a bit complicated. The present value of an actual loan had to be compared with the present value of a loan carrying 10% interest. This 10% was a conventional figure supposed to reflect the donors' opportunity costs for raising capital. The difference between the 2 present values should be at least 25% in order for the loan to qualify. The DAC gave as an example the case of a loan with 5% interest, 15 years maturity and no grace period. This loan did just qualify (Raffer 1996, 9) but this implies that today's loans, with much lower interest rates, easily qualify as ODA.

A next point is the fact that loans have to be repaid. These amortizations are deducted (once made) from the total flow of official aid, but the related interest payments are not (Mende 1973, 58). This implies that for certain donors aid flows could be negative for certain years.

A related problem is that ODA includes the full face value of concessionary loans without distinguishing between the pure loan part and the concessionary part. Concessionary loans entail repayment obligations, and, therefore, the aid involved, i.e. the net financial cost to donors, is only a fraction of their face value. The inclusion in ODA of the full face value of these loans overestimates therefore the aid content. Several sides suggested that only grants, that are pure unrequited transfers, should be accounted at full value (Chang 1999, 3). Little and Clifford had suggested in 1965 the same: "it should refer only to the value of the subsidy implicit in the total flow of resources" (Little and Clifford 1965, 13). Presenting the total flow of public loans and grants, would be "lumping together incommensurables with a vengeance" (Little and Clifford ibidem, 253). Under the ODA definition, non-concessionary loans include loans on market terms as well as concessionary loans. The aid content of the latter - i.e., the donor's cost involved in these loans – is therefore not captured by ODA (Chang, ibidem). In order to make up for these problems, Charles Chang proposed to use a new denominator: Effective Development Assistance (EDA), where for concessionary loans, the present value of the associated expected debt service obligations are to be deducted from the disbursed loans (Chang, ibidem, 5). However, for this approach hardly any corrected statistics are available.

Military aid, peacekeeping and anti-terrorism activities do not qualify as ODA, although the United States always included military aid in the fifties and sixties in its aid figures. More recently different donors promoted a closer co-operation with their military forces, in the case of

Afghanistan. Not included either are transfers to individuals (remittances to family members, which became more important during the last decade), donations from the public (private aid), commercial loans, export subsidies (although Austria included this in its ODA figures in the eighties and nineties: Raffer 1998, 7-8), payments of prices above market levels for imports, such as the US sugar quota imports or French import prices for African tropical products (Pincus 1967, 308) and foreign direct investments (FDI). Debt reductions do qualify (excluding those on military loans[3]: Raffer 1996, 5). Before the DAC defined the terms of aid more precisely in the sixties, especially Japan which provided war reparation payments to a series of Southeastern countries and regarded this as the beginning of its aid programmes. There are many ways in which donors can exaggerate their aid figures. Kunibert Raffer estimates that "if ODA had been measured strictly according to the DAC's own criteria, the total of aid would have been roughly $20 billion lower in 1994 than official data claim" (Raffer 1997), out of a total of approximately $60 billion.

Another problem is that some of the grants and loans are "tied", which implies that Developing Countries are obliged to buy goods and services in the country of the donor. Prices to be paid are not always the cheapest in the market, so the net value for Developing Countries could be substantially lower, up to 25% less (Dollar and Pritchett 1998, 6). The same applies to Food Aid, which is valued at world market prices, but in many cases is provided from surplus stocks: "… if we try to estimate the value to the US of shipments of agricultural surpluses, we would inevitably arrive at a substantial smaller amount" (Mason 1964, 13), as products might be much cheaper at world market prices.

The ODA definitions are a bit vague. The World Bank cautions that "the borderline [between grants and loans] is sometimes blurred" (quoted in Raffer 1998, 3). The "West" sometimes tinkered with Soviet statistics for political purposes. The OECD suddenly excluded in 1974 huge amounts given by the Soviet Union in the form of price subsidies, mainly to Cuba (Browne 2006, 13). This indirect aid was in line with the original definition above and had been explicitly accepted as ODA by the OECD until 1973 - without mentioning this substantial change explicitly until 1980. Soviet aid was thus reduced dramatically, by happenstance at a time when the Soviet Union would otherwise have outperformed the US in aid measured as percentages of GNP according to the OECD's own figures,

[3] In 1990 the US started to include substantial amounts of military debt cancellations in its ODA statistics. The DAC recorded these figures for the US, with appropriate footnotes, but did not include the amounts in the DAC totals (Raffer 1996, 5)

finally reducing Soviet aid close to nothing (Raffer ibidem, 2). The definition is so soft that critical minds might call it well chosen. Demanding the promotion of economic development and welfare as the main objective allows nearly anything to pass as ODA (Raffer ibidem, 2), although one might question whether structural adjustment support should count as “the promotion of economic development and welfare”. More recently the concept has been broadened. The OECD itself agreed to include:

- administrative costs of managing aid flows (since 1979),
- imputed costs of students from the South (since 1984) and
- assistance provided to refugees during the first year after their arrival in the donor country ("eligible to be reported for some time but widely used only since 1991") (Raffer ibidem, 5). It is estimated that about 2% of ODA is used in this way, especially in Australia and France (Bolton 2008, 119).
- promotion of development awareness…
- debt forgiveness on non-ODA debt (even military debts: IDA 2007, 33)
- assistance to civil police work, e.g. training of police

The following elements were excluded:

- cultural programmes in developing countries whose main purpose is to promote the culture or values of the donor
- the enforcement aspects of peacekeeping missions.

These additions brought the international NGO ActionAid, with headquarters in South Africa, to redefine “aid”. ActionAid excluded what they labelled “phantom aid” (the estimates are for 2003, in US $):

- aid flows not targeted at poverty reduction, estimated to be worth $4.9 billion
- double counted as debt relief, totalling $9.4 billion
- overpriced and ineffective Technical Assistance, estimated at $13.8 billion
- tied to goods and services from the donor country, costs estimated at $2.7 billion
- poorly co-ordinated and with high transaction costs, estimated at $9 billion

- too unpredictable to be useful to the recipient (lack of data prevents an estimate)
- spent on immigration-related costs in the donor country; totalling $1.5 billion
- spent on excess administration costs; totalling $0.4 billion (Patrick Bond estimated 14% of all aid to be spent on transaction and administrative costs. This would imply more than $10 billion: Bond 2006, 34).

In this way ActionAid arrived at much lower figures for “real aid”, implying for 2003 only 39% of ODA (ActionAid 2005, 17). The widely respected Washington-based Centre for Global Development calculated that ODA should be discounted by fully 61% to represent its real value and by even 65% of aid provided via charitable organisations (Bolton 2008, 152).

Reacting to this and building on earlier analyses, the OECD-DAC introduced in 2007 a new concept, “country programmemable aid” (CPA), to provide a better estimate of the volume of resources transferred to developing countries (Benn 2010, 1). CPA is the portion of aid that each donor (bilateral or multilateral) can programme for each recipient country. CPA is a subset of ODA outflows. It takes as a starting point data on gross ODA disbursements by each recipient but excludes spending, which is:

- inherently unpredictable (such as humanitarian aid, food aid and debt relief); or
- entails no flows to the recipient country (administration, student costs, debt relief, development awareness and research and refugee spending in donor countries; the costs of technical co-operation are included); or
- is usually not discussed between the main donor agency and recipient Governments (food aid, aid from local authrorities here, core funding to international NGOs, aid through secondary agencies, ODA equity investments and aid which is not allocable by country).
- CPA does not net out loan repayments, as these are not usually factored into aid allocation decisions. CPA, in short, tracks the portion of aid on which recipient countries have, or could have, a significant say and for which donors should be accountable for delivering “as programmed”. CPA outflows from multilateral organisations to recipient countries are included in this definition.

Overall, for DAC members CPA is roughly a little over a half of their gross bilateral ODA. CPA has been rising over the period 2005-08 at a rate of 4%, in line with gross ODA but excluding volatile debt relief and humanitarian aid spending. Administrative costs and other non-CPA categories have risen slightly, but this was in most cases due to better reporting rather than underlying expansion of spending (Benn 2010, 1). Country programmemable aid is a useful tool for measuring the overall quality of donor ODA as it provides a basis for transparent forward planning and accountability by donors and recipients, and is much closer to ODA reported in country budgets and country aid databases. In addition, it provides a way of comparing coherence and the likely impact of different donors' efforts at the country level. CPA shows a much higher relationship to national growth and development than ODA (Development Co-operation Forum 2012). But for the moment there are not many reliable historical time series on CPA available. One attempt was made by Homi Kharas at the Brookings Institute based on OECD figures. It showed that since 1975 there has been some increase in aid volumes, but shows at the same time that the CPA as a percentage of total aid is decreasing from 59% in 1975 to just 36% in 2005 (2005 $ millions: Kharas 2007, 9):

	Total Aid	**CPA**
1975	43,330	25,440
1985	63,376	35,298
1995	62,738	28,545
2005	104,136	38,398

The problem of defining aid and measuring aid flows has become a problem of present interest, as China does not present its "aid figures" according to the above ODA definitions. Chinese figures do include "government supported investments", which do not qualify as ODA. These investments would represent 53% of all recorded Chinese aid in 2008 (Lum 2009, 7).

Furthermore, there is a difference between "commitments" (promises) and "disbursements" (transfers). An important part of "commitments" cover obligations not only in the year of the decision but also for subsequent years, and not all commitments are always fully disbursed. Commitments therefore are not a valid way to analyse annual aid flows (OECD 1963, 26). Happily enough DAC statistics include both commitments and actual payments. But if we take "disbursements" there is a problem with actual transfers by countries to multilateral agencies: that same money is not necessarily used in the same year by these multilateral organisations. The "disbursement" figures in any single year therefore do not necessarily show the aid amounts received by developing countries (Bhagwati 1970b, 7).

A next problem with respect to the ODA is the question of what are "developing countries". The OECD-DAC has developed a specific list, but other organisations use sometimes slightly different lists (see section 6).

The overall conclusion is that there is no solid and reliable definition of aid. Jagdish Bhagwati concluded that "it is meaningless to add together, in dollar values" various components of aid (Bhagwati 1972, 78). Sajal Lahiri added that the "costs" to a donor and "worth" to a recipient could be very different from their nominal values (Lahiri 2005, 5). For the purpose of this book we have concentrated on ODA disbursements, but we have to realize that figures shown are only rough estimates. The main emphasis will be on long term development processes, and only occasionally refers to emergency or relief assistance as these mitigate only short term crises.

2. How is Aid Delivered?

In the beginning of the fifties and sixties a distinction was made between capital aid (financial), technical aid, and trade related aid (Hans Singer in Besters 1966, 733 and following). This distinction seems to have originated in the United Nations where first a programme for technical assistance was created (1949) and a decade later a special Fund for (limited) financial assistance. Trade related aid was normally connected to proposals to lower tariffs. More recently a distinction was made between project and programme aid (Cumming 2001, 23-24):

Project aid was for many years one of the main types of aid. Aid provided under agreements, specifying the end use of the money delivered, was normally defined as project aid (White 1974, 166), or as Stefan Koeberle and Zoran Stavreski defined: "projects are characterized by the targeted use of funds for specific activities for which objectives and inputs, required to achieve them, have been defined" (quoted by the University of the West Indies 2012). The Project Management Institute added that every project had a definite duration (PMI 2013), including a defined beginning and end. Ian Little and James Mirrlees defined a project as "any scheme, or part of a scheme, for investing resources, which can reasonably be analysed and evaluated as an independent unit" (Little and Mirrlees 1974, 3). The receiving country, at least in theory, proposed a project to a donor defining in precise terms what should be done. In this way the donor could keep track of aid money, could set precise objectives and could monitor progress towards the realization of these objectives. It allowed the donor to keep control over the selection of projects. The Charters of the World Bank, IDA and USAID all favoured projects and opposed proposals by developing countries for general development or the underwriting of general development programmes (Mikesell 1968, 169). However, at the end of the sixties and early seventies, the effectiveness of traditional project financing was questioned by donors, concerned about creating parallel systems outside a government's budget framework, therefore weakening institutional capacities, low disbursement rates and limited impact (Koeberle, Stavreski and Walliser 2006, 3). In 1965 Hans Singer stimulated the debate on project versus programme aid, but mainly tackled the issue of fungibility of project aid (Carlin 1970, 1). He added "even if there is no substitution between projects… the efficiency of the (funded project) would still depend on the soundness of the recipient's total investment programme.." (Toye 2004, 266). A report on the capacity of the UN development system, produced by Robert Jackson in 1969, criticized the project approach as a whole and called for a broader approach (Jackson 1969). The World Bank came to accept that the success of their individual loan projects, measured by their ex-post rates of return, was reduced because of the deterioration in the broader economic environment in which they had to operate (Toye, ibidem). The Commission of the European Communities concluded in a 1979 study, that the project approach involved the risks of "foreignness, enclavement and inflexibility", stemming from the fact that the planning of operations took place outside the proposed beneficiaries' world (Dupriez 1979, 229).

Several techniques, coming from the military and private sectors, have been applied to improve the management of projects, such as Gantt Charts, the Critical Path Method (CPM), the Programme Evaluation and Review Technique (PERT), the Cost Benefit Analysis (CBA: de Silva 1984, 11) and the logframe method. Using the CBA method, the World Bank estimated in the early 1980s that their projects yielded more than 20%!

Programme aid is a much more complicated format: "a programme is not easily defined" (Dale 2004, 58). Milton Esman and Ronald Herring opposed projects simply with "policies" (Esman and Herring 2001, 6). There was (and is) no unified definition of what a "programme" constituted. For some a programme was just a group of related projects (some defined this as "bunch aid": Pronk 1969, 3), managed in a co-ordinated manner to obtain benefits not available from managing them individually (PMI 2013). For others, programmes were sometimes just large projects with so many subordinate goals and strategies that they began to be called programmes (Degnbol-Martinussen 1999, 41). Alan Carlin of the RAND Corporation defined it in 1966 as "assistance whose disbursement is tied to the recipient's expenditures on a wide variety of items justified in terms of the total needs and development plans of a country, rather than any particular project" (Carlin 1966, 3). For the Japanese National Graduate Institute for Policy Studies, programme aid is typically balance of payments support (see hereunder), through commodity loans (GRIPS 2004, 5). The Universities of the West Indies defined it as a long-term series of interventions, sometimes with no defined end point. The Wiki on Types of Aid, defined programme aid as aid given to a specific sector, such as the funding of the education sector of a country. Others, moving in the direction of budget support (see hereunder), identified the programme approach with providing money, flexibly available for productive use (de Silva 1984, 12) or transferring money to a recipient's budget subject to conditions on how to allocate the available resources (Camara 2004).

In 1979, at UNCTAD V in Manila, the Philippines, the World Bank announced that it would initiate a new type of lending, called programme lending. The loan "vehicle" was not a physical project but a programme of policy changes, the start of supporting structural adjustment programmes. Previously the World Bank considered this type of lending unsound. World Bank President Eugene Black called them at one point "fuzzy loans" (Toye 2004, 266). The project approach was defined in the Charter of the World Bank, and as important sums were mobilized on the private market, "project-approaches" (cost-benefit analysis) were used to assess the different loan requests (Acheson 1972, 70-71). Already in 1949 a group of experts, appointed by the Secretary General of the UN, recommended that the World Bank should make loans for "general development purposes not only in special circumstances but generally", but this proposal was rejected. Black commented that a loan for a general purpose "really means a loan for a purpose or a purpose unknown" (Acheson 1972, 74).

In the early 1980s USAID called all support other than projects "non-project assistance" (NPA), being all aid provided directly to governments in order to support policy reforms (Oakerson 2012, 4). In 1989 the UN General Assembly underlined the importance of "the need for a shift from a project approach to a programme approach.." (Resolution 44/211, 22-12-1989). The OECD agreed in 1991 on a definition "Programme assistance consists of all contributions made available to a recipient country for general development purposes i.e. balance of payments support, general budget support and commodity assistance, not linked to specific project activities" (quoted by White 2003, 17). One of the reasons for donors to use programme aid was that it was seen as particularly suitable for influencing policy changes in developing countries. It could be switched on and off more easily than project aid, "rewarding" countries that had performed well. Furthermore, programme aid would avoid the destructive effects of the proliferation of individual donor projects, could be disbursed quickly in case of acute problems and could more easily finance local expenses (White ibidem, 456-457). As programme aid implied a contribution to total government expenditure foreseen in development plans, some called this "plan aid" (Pronk 1969, 3).

We will use the term programme aid here as a type of aid which makes resources available for a larger set of activities, without necessarily defining all the different components, usually for a longer period of time, covering sometimes several interlinked sectors, such as integrated rural development programmes. The advantages as compared to project aid are clear: it takes account of the larger financial requirements of a developing country, the donor needs to invest less manpower and time, and it can be made conditional upon adoption and/or implementation of specific policies for the programme area by the recipient. But there is less possibility to check the use of aid money, without being accused of interference with internal affairs. It should not come as a surprise that the differences between projects and programmes were sometimes not very precise; the World Bank labelled support programmes to small scale industries "project aid" (White, ibidem), or used the two terms in one and the same title "Nigeria HIV/AIDS Programme Development Project". Many other donor organisations and recipients organized and formulated programmes as project proposals (Degnbol-Martinussen 1999, 188). The view on "programmes" was further complicated by the fact that different donors or funds call themselves "programmes", such as the United Nations Development Programme and the World Food Programme.

The programme approach resembled the movement of foreign capital during the last 2 decades of the 19th century and the first one of the 20th, where private markets of the western world provided loans to the Governments of developing countries, which did not spell out in detail the different activities to be undertaken (bonds). The project approach, introduced by the World Bank in the 1950s, was designed to "correct" the faults of this earlier type of lending (Hawkins 1970, 91). But several colonial powers supported the administrations of their colonies and continued somehow after independence to do so using the earlier model. In order to get rid of this kind of long-term commitment, France and the United Kingdom were later happy to switch to the project format ("projectisation").

Programme support could come in different forms. **Budget support** and **balance of payments support** are the 2 main forms (White ibidem, 17). The OECD defined budget support in 2005 as “a method of financing a partner country’s budget through a transfer of resources from an external financing agency to the partner government’s national treasury. The funds thus transferred are managed in accordance with the recipient’s budgetary procedures. Budget support is typically based on an agreed set of performance indicators in the form of institutional or policy reform measures or outcome indicators” (University of the West Indies 2012). More recently the term “Policy-based lending” was used for the same budget support approach or “development policy lending” (World Bank).

Budget support can either be provided to the general budget, if there is sufficient confidence that the government’s management is correct, or to specific sectors (education, health, agriculture etc.). When general budget support was provided in the early sixties as a continuation of support to colonial administrations, it was called grants-in-aid (UK), or “subventions d’équilibre budgétaire” (France). A specific form of general budget support was the payment of the salaries of officials of the new administrations (or in some cases their pension rights).

One of the main forms of sector budget support programmes is Sector Investment Programmes (SIP: World Bank 1996b). These SIPs are long-term national programmes covering public expenditure – in whole or in part – in one sector. Unlike a project, it is not confined to a local geographical area, nor is it restricted in time. SIPs do not include private investment. Sector Wide Approaches (SWAps)[4] have the same characteristics as SIPs, but, whereas SIPs are prepared and managed by the country using government procedures, SWAps may be financed separately via a basket fund or individual projects within the programme (Merkle, Website Swisstph.ch).

Opponents of budget support argue that it is fungible and as such likely to end up in the pockets of corrupt government officials or to be spent on things unwanted by the public in donor countries. This criticism led to the search for aid instruments that could ensure that recipients used the resources provided in line with donor preferences while at the same time avoiding the problems associated with project-based aid. One such instrument is **aid on delivery** (AoD). This aid is a form of budget aid that is disbursed proportionally to the achieving of pre-defined goals by the recipient country. This is intended to allow donors to fund expenditure on

[4] The European Commission refers sometimes to SWAPs as Sector Policy Support Programmes (ODI 2013, 118)

their priorities without having to get involved in implementation. (Stewart 2012). At the same time this implies a kind of conditionality in a different form.

Balance of payments support is a mixed form. Foreign currency is made available to central banks of recipient countries. Once exchanged for national currency, after selling the foreign currencies to importers, the proceeds can be made available to the government's general or sector budgets. USAID defined already in 1963 the financing of imports as "programme assistance": it is "linked to an assessment of the overall requirements and resource availabilities of the country and finances imports in support of development programmes without tying the aid to specific projects" (quoted in Mikesell 1968, 169).

Balance of payments Support can be organized in different ways. A first possibility is via **Commodity Import Support** programmes, either providing specified commodities or services (sometimes for a specific sector) or foreign currency funds for the purchase of these commodities (White 1996, 4). Food Aid is a specific form of such Commodity Import Support. One may distinguish between 3 different types of Food Aid: programme, relief and project aid. Programme food aid is provided to support recipient Governments' budgets directly or to reduce balance of payments deficits. Relief food aid is aimed at people suffering from natural or man-made disasters. Project food aid is provided to selected groups to support specific development objectives or projects (Gupta 1999, 75). Targets may be different but all 3 have balance of payments support effects. DAC Statistics combine the first and last forms in the DAC Statistics as "Development Food Aid". Similar import support programmes could be used for other commodities including fuel, fertilizers (as in the Marshall Plan) and medicines or other emergency relief goods.

A next possibility is when donors want to limit imports by specifically excluding certain goods (no arms, no luxury goods): the Open General Licence system. Donors could also agree retroactively to finance the imports of certain commodities: Retroactive Financing (White, ibidem).

More general forms of Balance of payments Support are Price Subsidies and Debt relief. **Price Subsidies** were provided by the Soviet Union by paying higher prices for the export products of developing countries (for sugar from Cuba, or products from Egypt and Sudan, in some cases paying a bonus of 30%: Stokke 1967, 253). At times also the Caisses de Stabilisation, created by France in 1956 paid higher amounts for coffee, cocao and cotton when world market prices were low. The European Communities later introduced the Stabex system, also providing for compensatory payments in the case of low world market prices. The other way around could also be applied: providing cheap imports to developing countries, for example cheap gas (for example, Russia providing cheap gas to the Ukraine). A very special form in this context is the guaranteeing of exchange rates of certain developing countries by the Central Bank of a donor country, like the case of maintaining the exchange rate of the Franc CFA. In the early days, price subsidies were included in ODA figures, but when the Soviet Union threatened the first place of the United States, sugar subsidies for Cuba were excluded.

Debt Relief (of accumulated concessionary or commercial loans) helps the balance of payments of a country in difficulties, and saves money on the national budget. It could be provided by bilateral and in some cases multilateral donors. Relief might imply lowering of interest rates, longer grace periods (or a break, postponing further repayments), longer repayment periods or cancelling of (parts) of the principal. Specific forms of debt relief are interest rate subsidies and loan guarantees. Some call attention to the risk that debt relief is counted twice in ODA flows: once as a concessionary loan and once as debt relief.

Quite recently the Paris Declaration (2005) called for the commitment to providing two-thirds of aid in the form of **programme-based approaches** (PBAs). The DAC defined PBA as a way to "engaging in development co-operation based on the principles of co-ordinated support for a locally owned programme of development, like a national development strategy, a sector programme, a thematic programme or a programme of a specific organisation" (quoted in ODI 2013, 118). PBAs included budget support and SWAps. Even project assistance and commodity import support might qualify, if the following criteria were observed (DAC Glossary):

1. Is the host country or organisation exercising leadership over the programme supported by donors?
2. Is a single comprehensive programme and budget framework used?
3. Is there a formal process for donor co-ordination and harmonization of donor procedures for at least two of the following systems: (i) reporting, (ii) budgeting, (iii) financial management and (iv) procurement?
4. Does your support use at least two of the following local systems:
   - (i) programme design,
   - (ii) programme implementation,
   - (iii) financial management and
   - (iv) monitoring and evaluation?