

WHY FOREIGN AID MOSTLY FAILS

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I. INTRODUCTION

Foreign aid programs in the post-war period find their genesis and inspiration in the Marshall Plan mounted by the U.S. to reconstruct the war-torn economies of Europe, complemented by similar forms of assistance to Japan during the period of U.S. occupation. In both cases, this assistance contributed to a rapid and dramatic reconstruction of many of these economies, with Germany and Japan quickly emerging as major economic powers in the post-war era.

However, in both cases, these two countries possessed highly educated work forces, well-developed infrastructure, high levels of technological sophistication, and well-established institutional and organizational capacity in the public and private sectors. Very few of these conditions were replicated in developing countries, many of whom were granted independence by their former colonial powers (sometimes with very little in the way of advance preparation or transition), beginning in the mid-1950s. Moreover, developed countries' motivations to provide foreign aid to developing countries were subject to a number of serious distortions. First, with the onset of the Cold War in the late 1940s, many developed countries were inclined to provide aid at levels and in forms that reflected judgments about the ideological affinities of recipient states with either communism or capitalism, or other geo-political considerations, irrespective of whether this aid well served basic development priorities. Second, many developed

countries, in their aid policies, showed strong preferences to their former colonies, reflecting historical ties, again according secondary importance to whether the aid was being effectively utilized by recipient countries. Third, many donor countries saw aid partly as an export promotion strategy through “tied aid” conditions. Thus, as we explore in more detail below, evaluations of the efficacy of foreign aid to developing countries over the post-war period range from mixed to disappointing.¹

In recent years, most developed countries have officially committed themselves to increasing levels of foreign aid to 0.7% of GNP.² Currently, aid levels, on average, are running at about half of this number.³ Current official development assistance and debt relief, from multilateral, regional, and bilateral sources, was about \$ US100 billion in 2007.⁴ To put this number in perspective, this is about the annual expenditure budget of the Ontario provincial government in Canada, serving the needs of about eleven million people. By way of contrast, almost three billion people in developing countries live on less than \$2 per day. About 70% of aid is provided on a bilateral basis and 30% on a multilateral basis.⁵ About 70% of all official development assistance is provided directly to recipient governments. NGOs account for about another \$24 billion in development

¹ For a comprehensive and balanced description and evaluation of the history and efficacy of foreign aid in the post-war period, see Roger C. Riddell, *Does Foreign Aid Really Work?* (Oxford University Press, 2007).

² Karina Rollins, (ed.) “The Index of Global Philanthropy,” (Washington D.C.: Center for Global Prosperity, 2007), p.7

³ Karina Rollins, (ed.) “The Index of Global Philanthropy,” (Washington D.C.: Center for Global Prosperity, 2007), p.10

⁴ Organization for Economic Co-operation and Development (OECD), Development Co-operation Directorate, “Debt Relief is down: Other ODA rises slightly,” (April 4, 2008).

⁵ Organization for Economic Co-operation and Development (OECD), Development Co-operation Directorate, “Reference DAC Statistical Tables,” Available At: www.oecd.org/dac/stats/dac/reftables.

assistance and emergency and humanitarian aid for about another \$15 billion a year on average.⁶

A number of major controversies surround the foreign aid-development nexus, which we briefly review below, largely drawing on a spirited (and at times vitriolic) debate between two leading contemporary development economists, Jeffrey Sachs and William Easterly. Sachs, in his book, *The End of Poverty: Economic Possibilities of our Time*, argues for a much more expansionary foreign aid policy (in fact, a trebling of aid over the next two decades).⁷ William Easterly, in his book, *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good*, argues that foreign aid in the past has done little to improve the long-term well-being of the citizens of developing nations (beyond short-term emergency or humanitarian aid)⁸ and that there is no reason to suppose that a dramatic expansion of aid is likely to have a larger impact in the future.⁹ Sachs regards Easterly as “notorious as the cheerleader for can't-do economics,” while Easterly portrays Sachs as a hopelessly utopian global central planner. More recently, Dambisa Moyo has joined the debate taking an even more critical view of aid in the case of Africa.¹⁰ In her book, *Dead Aid*, she suggests that foreign aid has undermined development by providing external funding for developing

⁶ See Riddell, *Does Foreign Aid Really Work?*, *supra* note 1 at p. 259 and 317.

⁷ Jeffrey Sachs, *The End of Poverty: Economic Possibilities for our Time*, (New York: Penguin Group, 2005).

⁸ Although such aid has not been immune from criticism: see Linda Polman, *The Crisis Caravan: What's Wrong with Humanitarian Aid?* (Metropolitan Books, 2010).

⁹ William Easterly, *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill And So Little Good*, (Oxford: Oxford University Press: 2006); see also Easterly, Introduction, in William Easterly (ed.), *Reinventing Foreign Aid* (Cambridge, Mass.: MIT Press, 2008).

¹⁰ For an example of this debate see Jeffrey Sachs, "Aid Ironies," *Huffington Post* (24 May 2009). Available online at: http://www.huffingtonpost.com/jeffrey-sachs/aid-ironies_b_207181.html; Dambisa Moyo, "Aid Ironies: A Response to Jeffrey Sachs," *Huffington Post* (26 May 2009). Available online at: http://huffingtonpost.com/dambisa-moyo/aid-ironies-a-response-to_b_207772.html; William Easterly, "Sachs Ironies: Why Critics are Better for Foreign Aid than Apologists," *Huffington Post* (25 May 2009). Available online at: http://www.huffingtonpost.com/william-easterly/sachs-ironies-why-critics_b_207331.html.

country political regimes, which has propped up venal, repressive, or incompetent governments by rendering them unaccountable to their citizens for their tax and expenditure policies.¹¹ These authors represent three fundamental perspectives which frame more specific debates about foreign aid: Sachs advocates substantially increased aid, Easterly is critical of increasing aid, at least without a major re-orientation of current aid strategies, while Moyo believes aid is damaging and should be eliminated completely.

Other recent assessments by long-time aid practitioners of the efficacy of foreign aid in promoting long-term economic development support a generally pessimistic view, in large part because foreign aid (which is mostly government-to-government) has done little or nothing to transform dysfunctional institutions in developing countries and may indeed have helped to perpetuate them,¹² leading to what some commentators have called an “aid-institutions paradox”.¹³

II. NORMATIVE RATIONALES FOR FOREIGN AID

Many people feel there is a moral duty to assist those in need, including those living in conditions of extreme deprivation in developing countries. For libertarians, as exemplified by the views of Canadian philosopher Jan Narvedson,¹⁴ this duty is limited to only those who suffer from evils which donors have inflicted on them, no matter where, and donors owe these people compensation. In a foreign aid context, one might argue

¹¹ Dambisa Moyo, *Dead Aid: Why Aid is Not Working and How There is a Better Way for Africa*, (New York: Farrar, Strauss, Giroux, 2009).

¹² See Ashok Chakravarti, *Aid, Institutions and Development* (London: Edward Elgar, 2005); Mary Shirley, *Institutions and Development* (London: Edward Elgar, 2008), chap. 4.

¹³ See Todd Moss, Gunilla Pettersson and Nicholas van de Walle, “An Aid-Institutions Paradox? A Review Essay on Aid Dependency and State-Building in Sub-Saharan Africa,” in William Easterly (ed.), *Reinventing Foreign Aid*, *supra* note 8.

¹⁴ Jan Narvedson, “We Don’t Owe Them a Thing: A Tough Minded but Soft Hearted View of Aid to the Faraway Needy,” (2003) 86 *The Monist* 419.

that in the case of developing countries that were formally colonies, there may be a duty of compensation on the part of the former colonial powers. In this analysis, a debt is owed to countries where development was inhibited by colonial powers which adopted policies that undermined traditional belief systems and forms of social organization, including in some cases, the promotion of slavery, the exhaustion of natural resources, or the drawing of arbitrary borders that created dysfunctional states. However, this argument does not account for aid given to the many contemporary developing countries that were never colonies. Further many decolonized countries have become very successful middle- or high-income developing countries post-independence (e.g., Singapore, Hong Kong, Taiwan, South Korea, Malaysia, Chile, Botswana), so that there is not a close correlation between earlier colonial experience and contemporary need for foreign aid.

From a utilitarian perspective – or at least a global utilitarian perspective – it seems obvious that global well-being is likely, in principle, to be increased by the wealthy in developed (and some developing) countries making what for them is likely to be modest sacrifices to dramatically enhance the well-being of the most destitute in poor countries. Peter Singer, in a recent book,¹⁵ takes this view, arguing from the analogy of a stranger encountering a child drowning in a pool of water who can be easily rescued, perhaps at the minor expense of a new pair of shoes that the stranger is wearing. However, these arguments which rest on a moral obligation to assist those living in developing countries are critically contingent on a demonstration that such transfers of wealth will in fact make the needy in poor countries better off. Whether this is true or not

¹⁵ Peter Singer, *The Life You Can Save: Acting Now to End World Poverty* (New York, N.Y.: Random House, 2009).

is essentially an empirical question on which (as we have noted) the evidence is not generally encouraging. The utilitarian case for foreign aid may be strengthened when aid yields a peace or security dividend for donor countries by stabilizing recipient countries whose failure may lead to military conflicts, a major exodus of refugees that require resettlement, or provide a haven for international terrorists.

The normative case for expansive forms of foreign aid is perhaps strongest when based on some notion of intrinsic universal human rights and basic universal individual freedoms, as articulated, for example, by Amartya Sen in his book *Development as Freedom*.¹⁶ In this case, the argument in favour of aid does not assume that its primary goal is to promote economic growth. Instead it suggests that aid may enhance the agency of individuals in developing countries, although whether it actually does so rests again on empirical judgments, and where the state is the major source of deprivation of these freedoms makes institutional reform again a central objective of foreign aid (however intractable).

III. IS THE CURRENT AMOUNT OF FOREIGN AID ENOUGH?

Sachs argues that many developing countries are caught in a “poverty trap” which prevents self-sustaining growth.¹⁷ The trap results from a lack of investment due to low or non-existent savings rates, accompanied by disinvestment caused by depreciation of existing capital and population growth. Large infusions of foreign aid can break this trap by facilitating investment in human capital; business capital; infrastructure; natural

¹⁶ Amartya Sen, *Development as Freedom* (New York, N.Y.: Alfred A. Knopf, 1999).

¹⁷ Jeffrey Sachs, *The End of Poverty: Economic Possibilities for our Time*, " (New York: Penguin Group, 2005).

capital; public institutional capital; and knowledge capital (although the existence of poverty traps has been strongly contested).¹⁸ Sachs argues that successes with foreign aid programs to date warrant confidence that they can be effectively scaled up to help developing countries escape the poverty trap. In this respect he identifies as successes the Green Revolution in Asia, the eradication of smallpox, the global alliance for vaccines and immunization, the control of African River Blindness, the eradication of polio, the spread of family planning, the development of export processing zones in East Asia, and the mobile phone revolution in Bangladesh and elsewhere.

Sachs argues that incremental investments of foreign aid often fail to address all the links in a causal chain that explain chronic poverty. For example, if children of primary school age lack access to schools, aid donors could build classrooms, but these would be of little or no value without teachers to staff them. In turn, teachers are of little or no value if they have not received proper training or if children lack basic textbooks. In turn, classrooms and teachers are of little value if young children are unable to attend school because of poor roads or debilitating diseases or economic imperatives within the family that they work rather than acquire an education. To mitigate these family pressures, expanded economic opportunities need to be provided to parents or other forms of financial support, and in order to motivate both parents and children to attend school and take education seriously they need to be offered economic opportunities after an education has been acquired to justify the investments in this education.¹⁹

¹⁸ For sceptical views on the existence of “poverty traps”, see William Easterly, “Reliving the 1950s: The Big Push, Poverty Traps, and Takeoffs in Economic Development,” (2006) 11 *J. of Economic Growth* 289; Aart Kraay and Claudio Raddatz, “Poverty Traps, Aid, and Growth,” (2007) 82 *J. of Development Economics* 315.

¹⁹ Jeffrey Sachs, *The End of Poverty: Economic Possibilities for our Time*, " (New York: Penguin Group, 2005).

Sachs notes that Americans in public opinion polls regularly report on average that foreign aid accounts for 20% of the federal budget, roughly twenty-four times the actual figure.²⁰ Peter Singer argues that if we accept the premise that all lives have equal value, wherever they are lived, the small amount that Americans contribute to foreign aid is morally indefensible.²¹ He starts with the top 0.01% of U.S. taxpayers, earning an average of \$12,775,000 per year and assumes that they could each give a third of their annual income. For the next 0.1%, he assumes they could give a quarter of their income; the next 0.5% could give one-fifth of their income; the top 1% could give 15% of their income; and the remainder of the nation's top 10% could give 10% of their income, yielding a total of \$404 billion from just 10% of American families. If such a scheme were extrapolated worldwide it would generate revenue of \$808 billion annually for development aid – vastly in excess of the figure that even Sachs thinks is required to lift many developing countries out of poverty.

Easterly, on the other hand, while not necessarily opposed to increases in levels of aid, views such increases as an exercise in futility unless there are reasons for assuming that they will be more effective than the \$2.3 trillion in aid provided to developing countries over the past five decades, including \$568 billion to Africa over the past forty-five years.²² He favours piecemeal or incremental initiatives that are subject to rigorous independent evaluations of their efficacy. Instead of funding "grand plans" administered by poorly functioning aid agencies and corrupt recipient governments, foreign aid should

²⁰ Jeffrey Sachs, "The Development Challenge," (March/April 2005), Foreign Affairs.

²¹ Peter Singer, "What Should a Billionaire Give – and What Should You?" *New York Times*, December 17, 2007, subsequently slightly modified in Singer, *The Life You Can Save: Acting Now to End World Poverty* (NY: Random House, 2009).

²² William Easterly, *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill And So Little Good*, (Oxford: Oxford University Press: 2006); Easterly, Introduction, in Easterly (ed.), *Reinventing Foreign Aid*, *supra* note 8.

focus on small-scale social or business entrepreneurs, or Searchers (rather than Planners), as he calls them who seek out innovative development solutions. He advocates more emphasis on demand-driven aid initiatives by citizens and communities in developing countries, rather than supply-driven initiatives from external donors. By funding these alternative development agents, inadequate governance can be bypassed, which will allow modest development advances through gradual and small-scale change. Only when institutional stability allows for expectations to develop which promote domestic savings and investment can large-scale foreign aid make fundamental changes to the economic systems of developing countries. This again depends on success and stability in institutional reform.

Once donors make aid commitments, it is crucial to development efforts that they are fulfilled.²³ As noted above, the gap between commitments and actual aid flows can be dramatic, and the aid that is delivered is often volatile and unpredictable, as donor priorities change or agency capacity to disburse funds varies. This prevents long-term policy formation and creates expectations of volatility which establish perverse incentives to focus government spending on short-term consumption, rather than investment. This has a generally negative effect on aid effectiveness, and undermines government policy in recipient countries.

IV. WHICH COUNTRIES SHOULD RECEIVE AID?

If one takes the view that an expansion in levels of aid should be predicated on reasonable assurances of efficacy, it is then appropriate to turn to factors that have limited

²³ Oya Celasun and Jan Walliser, "Predictability of aid: Do fickle donors undermine aid effectiveness?", *Economic Policy* July 2008 pp. 545–594

the efficacy of aid in the past (other than the factors noted at the outset of this chapter) as a prelude to consideration of reforms to the institutional architecture of the foreign aid system. Are some aid environments more supportive of effective foreign aid than others? In a widely cited World Bank study reviewing the post-war aid experience, *Assessing Aid: What Works, What Doesn't and Why?* published in 1998,²⁴ the authors conclude from the empirical experience that aid works best in good policy and institutional environments and is often wasted or dissipated in other environments. This conclusion, as a matter of intuition, seems compelling, although it has been challenged empirically,²⁵ but even if well-founded it raises a major foreign aid dilemma: developing countries with good policy and institutional environments will often have less pressing claims for aid, as measured on many common economic and social indicators, than developing countries that lack these environments.²⁶ As Moises Naim puts it (rather too dramatically), “the paradox is that any country capable of meeting such stringent requirements is already a developed country.”²⁷ Failed or fragile states present this dilemma in its most acute form, but many developing countries exhibit a mix of good and bad policies and good and bad institutions.

According to Paul Collier, in his book, *The Bottom Billion*,²⁸ foreign aid should be concentrated on the sixty or so developing countries comprising the poorest billion citizens of the world and suffering from one or more of the various traps that Collier

²⁴ David Dollar and Lance Pritchett, *Assessing Aid: What Works, What Doesn't and Why* (Oxford University Press, 1998).

²⁵ See William Easterly, “Can Foreign Aid Buy Growth?” (2003) 17 *J. of Economic Perspectives* 23, and Riddell, *Does Foreign Aid Really Work?* *supra* note 1, at p. 232.

²⁶ See Jakob Svensson, “Absorption Capacity and Disbursement Constraints,” in Easterly (ed.), *Reinventing Foreign Aid*, *supra* note 8.

²⁷ Moises Naim, “Washington Consensus or Washington Confusion,” (Spring 2000) *Foreign Policy* 87 at 96.

²⁸ Paul Collier, *The Bottom Billion: Why the Poorest Countries are Failing and What Can Be Done About It* (New York: Oxford University Press, 2007).

describes, i.e., the natural resource trap; the landlocked-with-bad-neighbours trap; the civil conflict trap; and the bad governance trap. But, of course, these countries are precisely those where the good aid environment described by the World Bank in its review of the post-war foreign aid experience generally does not exist. For multilateral, regional, and bilateral aid agencies already facing a significant level of public skepticism in donor countries as to the efficacy of aid, this may be viewed as an extremely high risk aid strategy if providing aid to countries that need it most is unlikely to have the desired effects due to institutional and policy failures.

V. HOW SHOULD AID BE COORDINATED?

Coordination problems manifest themselves in a wide range of dimensions in the foreign aid field. First, within large multilateral aid organizations such as the World Bank and a plethora of UN agencies, and replicated to some extent in regional and bilateral aid agencies, personnel and budgets are typically organized into various subject area groupings, e.g., rural development, infrastructure, governance reform, sustainable development, gender issues, etc., which in turn are overlaid by geographic groupings by country or region. Aid dispensers experience strong incentives to disburse money quickly, as a readily observable measure of activity, while resisting both independent evaluations of outcomes and acknowledgements of failure (from which lessons for the future may be learned).²⁹ Within recipient governments, there is a somewhat parallel set of organizational issues, with various line ministries of government, e.g., health, education, infrastructure, often in some tension with central ministries such as finance, in

²⁹ See Lant Pritchett, "It Pays to be Ignorant: A Simple Political Economy of Rigorous Program Evaluation," in Easterly (ed.), *Reinventing Foreign Aid*, *supra* note 8.

competing for donors' assistance, again with similar incentives to "move the money," while avoiding honest and rigorous evaluations of results.

On the donor side of the equation, these problems are compounded horizontally by donor proliferation, where many donor agencies (recalling that most aid is bilateral) are active in the same subject areas and countries or regions, each reflecting its own citizens' or taxpayers' preferences or priorities³⁰ (or else these would be only one global aid agency). Each country's aid agency has strong political incentives to "plant the flag" on as many visible projects as possible, and in many cases in as many countries as possible, even though the result is often dozens or even hundreds of donors or their agents involved in various aid projects in a given developing country. Each aid recipient country receives official development assistance from an average of 26 different official donors and upwards of 30 substantial NGOs.³¹ Donor agencies are often unaware of the multiple donor agencies working on similar projects, and thus make aid allocation decisions with imperfect information about the overall funding going to a particular sector. On the recipient side, disbursing aid from multiple sources burdens recipient governments with high transaction and managerial costs in complying with each donor's reporting and accountability requirements, reducing general governmental capacity and undermining the government's ability to attend to basic functions.³² Problems of horizontal coordination on the recipient side are compounded when sub-national levels of government, community organizations, local or foreign NGOs, or "ring-fenced" aid

³⁰ See Ritva Reinikka, "Donors and Service Delivery"; Stephen Knack and Aminur Rahman, "Donor Fragmentation"; and Berton Martens, "Why Do Foreign Aid Agencies Exist?" in Easterly (ed.), *Reinventing Foreign Aid*, op.cit.

³¹ Riddell, *Does Foreign Aid Really Work?* *supra* note 1, at pp. 52, 54; and Ashraf Ghani and Clare Lockhart, *Fixing Failed States: A Framework for Rebuilding a Fractured World* (New York: Oxford University Press, 2008), chap. 5.

³² Nancy Birdsall, "Seven Deadly Sins: Reflections on Donor Failings," CGD. 2005.

projects are involved in the aid delivery process (which problems are often compounded by “poaching” by these organizations of some of the most knowledgeable employees of the host government at much higher salaries). From the recipient side, Ashraf Ghani, the first Minister of Finance in the post-Taliban government in Afghanistan, describes how the central budgetary process was undermined by the proliferation of donors, contractors and sub-contractors, NGOs and projects. This confusion undermined government attempts to establish a coherent set of strategic priorities.³³

Individual donor agencies also face problems of vertical coordination, when aid is delivered through a chain of contracts and sub-contracts with local or foreign contractors or NGOs. There would seem to be obvious gains in aid effectiveness to be realized by bilateral aid agencies developing substantial expertise in a few sectors in a few developing countries (and hence achieving a comparative advantage in these sectors and countries). However, there appear to be powerful institutional and political incentives driving in the opposite direction, such as desire for donor visibility within many recipient countries and the international aid community.³⁴

Here again we confront the “aid-institutions” paradox identified earlier in this discussion of foreign aid: bypassing governments in recipient countries (even those with weak governments) poses various risks. Many charities and NGOs suffer from their own transparency, accountability, and effectiveness problems.³⁵ Setting up a composite body of government, donor and NGO representatives (“independent service authorities”)

³³ Ashraf Ghani and Clare Lockhart, *Fixing Failed States: A Framework for Rebuilding a Fractured World* (New York: Oxford University Press, 2008), chap. 5.

³⁴ Danielle Goldfarb and Stephen Tapp, *How Canada can Improve its Development Aid: Lessons from Other Agencies* (Toronto: CD Howe Institute, Commentary No. 232, April 2006); John Richards, *Can Aid Work? Thinking About Development Strategy* (Toronto: CD Howe Institute, Commentary No. 231, April 2006).

³⁵ Singer, *The Life You Can Save*, *supra* note 16.

in recipient countries to address coordination problems (as Collier and Riddell propose)³⁶ raises similar issues of transparency and accountability, as well as the risk of dysfunctional internal politics within such bodies and the creation of a parallel *de facto* government that further undermines the legitimacy and effectiveness of the *de jure* government.³⁷ However, channeling all aid through weak governments – in its purest form, simply enhancing the central government’s budgetary capacity – runs its own set of risks: the risk of gross misallocation, even misappropriation, of aid resources, and even in more favourable circumstances being unappealing to donor countries whose domestic political constituencies may be unimpressed by the seeming irresponsibility of writing blank cheques to foreign governments in developing countries without visible projects to point to as the result of aid expenditures.

VI. SHOULD AID BE CONDITIONAL AND ON WHAT?

An attempt to address the conflicting relationship between the interests of aid donors and those of developing country governments is the use of conditionality in the terms on which aid is provided to encourage recipient governments to comply with donor interests or expectations. Some forms of aid conditionality are, on their face, quite perverse from a development perspective. In particular, tied aid whereby donors require recipient governments to commit to purchasing inputs, goods or services from firms in donor countries has been found to diminish the value of aid by 15 to 30 percent relative to what the amount of aid could purchase in the open market. This also freezes out local

³⁶ Paul Collier, *The Bottom Billion*, *supra* note 28, pp. 118-120; Riddell, *Does Foreign Aid Really Work?* *supra* note 1, at p. 396.

³⁷ See Ritva Reinikke, “Donors and Service Delivery,” in Easterly (ed.), *Reinventing Foreign Aid*, *supra* note 8.

suppliers in developing countries from the growth opportunities which arise from participating in the aid delivery process. Tied aid still accounts for a significant percentage of bilateral aid (approximately 50 percent), although substantial progress has been made in recent years, through the OECD, in reducing this percentage.³⁸

In other cases, aid conditions reflect what donor agencies believe recipient countries should accord a high priority to in development objectives, regardless of whether these priorities are shared by the population or governments of the recipient countries. Just as there are problems of non-alignment of preferences among donors, there are often problems of non-alignment of preference between donors and recipients reflecting broken information (accountability) feed-back loops where citizens/taxpayers in donor countries are ill-informed of the effects of aid in recipient countries, and citizens in recipient countries have no political voice in donor countries.³⁹ If governments in recipient countries are weak, incompetent, corrupt or unaccountable to their citizens, there may be reasons for circumspection about recipient governments' articulation of aid priorities. Thus, in many cases, governments in developing countries are the problem, not the solution. In such cases, aid conditions should ideally be informed by some broader canvassing of priorities amongst representative groups of citizens of the developing countries in question if the problem of broken information (accountability) feed-back loops is to be mitigated. This is not easy for external donor agencies to orchestrate in the absence of established broadly-based consultative mechanisms and in the face of potential resistance from the recipient country's government itself. Thus, in many cases, aid conditions are routinely violated or imperfectly followed by recipient

³⁸ See Riddell, *Does Foreign Aid Really Work?* *supra* note 1, at pp. 100, 101.

³⁹ See Berton Martins, "Why Do Aid Agencies Exist," Jakob Svensson, "Absorption Capacity and Disbursement Constraints," in Easterly (ed.), *Reinventing Foreign Aid*, *supra* note 8.

countries' governments, and almost as routinely ignored by many donor agencies facing imperatives to continue to disburse the aid to meet expenditure commitments, regardless of unmet conditions.⁴⁰ This phenomenon is exacerbated by the problem of conditionalities imposed by different donors at cross-purposes with one another, and by the problem of effective monitoring of compliance with aid conditions because of the fungibility of money. Thus, for example, if a country commits itself to allocating aid that it receives to primary school education, it may simply reallocate resources of its own that it would otherwise have spent on primary school education to other purposes (e.g., military expenditures), while claiming that the aid received has been allocated to its intended purpose. In some cases, aid conditionality, particularly when a new reform-oriented government in a recipient country has taken office, can serve the useful function of providing a credible commitment to an agreed agenda of policy and institutional reform, as well as sending credible signals to domestic and foreign economic agents (including foreign investors) that the new government is committed to a well-defined, long-term development strategy. However, these cases seem very much the exception, rather than the rule.

VII. WHAT ENDS SHOULD AID ATTEMPT TO SERVE?

One view of the purposes of foreign aid (largely espoused by Easterly) is that aid should be confined to serving basic humanitarian needs at the grassroots levels and attempt to relieve the most severe forms of destitution or deprivation. On another view (largely espoused by Sachs), aid should serve much more ambitious purposes and

⁴⁰ Jakob Svensson, "Why Conditional Aid Does Not Work and What Can Be Done About It?" (2003) 70 *J.of Development Economics* 381.

espouse an activist pro-development agenda that sets poor developing countries on a self-sustaining path to greater economic prosperity in the future.

These two views have important implications for how aid should be delivered. On the first view, much humanitarian aid might be most effectively delivered through local community organizations and NGOs and international NGOs, largely sidestepping governments, at least in failed or fragile states, although problems of coordination will remain a daunting challenge. On the second view, this much more ambitious pro-development agenda requires a capable, activist, and well-motivated state to coordinate major investments in infrastructure such as roads, ports, communications systems, education and health care systems, the administration of justice, etc. Incongruously, in our view, Singer, who supports Sachs' arguments for much larger volumes of foreign aid to underwrite a "big push" for development, seems to imagine that this objective can be achieved solely or primarily through local, decentralized initiatives of community organizations, charities, and NGOs (which resonates much more closely with Easterly's more modest views of the ends of foreign aid).

A yet further view, espoused by Hubbard and Duggan, is predicated on the premise that very few societies throughout history have become prosperous without a thriving private sector and that akin to the Marshall Plan, aid should single-mindedly be focused on promoting the growth of the private sector and providing complementary inputs in the form of physical and institutional infrastructure that are preconditions to its growth, on the assumption that greater revenues from growth can then finance various social investments in, e.g., health and education, although one might question whether

some of these investments are not pre-conditions to the emergence of a thriving private sector.⁴¹

VIII. FOREIGN AID AND INSTITUTIONAL REFORM

It is useful to situate institutional capacity issues noted above primarily in the context of the Sachs-Easterly debate about foreign aid. Sachs, in arguing for a “big push” on foreign aid, largely ignores these institutional issues, rather casually pointing to the fact that there are several governments in sub-Saharan Africa that possess the institutional competence and integrity to use more aid effectively (leaving as an unanswered mystery what should happen in the many other cases). Easterly, on the other hand, in the face of these institutional dysfunctions, seems largely to throw up his hands in despair and resign himself to aid being deployed on the margins of the development enterprise in small, incremental, local initiatives (such as drilling wells for local villages, providing mosquito nets, vaccinating against various tropical diseases, etc.). Singer attempts to skirt issues of institutional capacity entirely by focusing on private, voluntary donations to NGOs and charities while failing to recognize that such decentralized giving and receiving is quite inconsistent with “big push” strategies of economic development (which he seems to favour). For Moyo, aid has mostly pernicious effects, so the less aid the better, hence rendering irrelevant questions of how to reform aid policies.

The enormous challenge, largely unaddressed by these authors, is whether limitations on institutional capacity and legitimacy can be addressed effectively so that a much larger volume of aid can responsibly be provided to developing countries with

⁴¹ R. Glenn Hubbard and William Duggan, *The Aid Trap: Hard Truths About Ending Poverty* (Columbia University Press, 2009); see also Kurt Hoffman, “Placing Enterprise and Business Thinking at the Heart of the War on Poverty,” in Easterly (ed.), *Reinventing Foreign Aid*, *supra* note 8.

some reasonable confidence in its likely efficacy.⁴² Setting these institutional issues to one side or treating them as of second-order importance in debates over foreign aid is largely to condemn aid to ineffectiveness in precisely those environments where citizens are the victims of the most severe forms of deprivation. However, confronting these issues requires donors to forego the illusion that aid is a largely technocratic rather than political exercise and that tensions with traditional notions of state sovereignty can be avoided. We can no longer persist with the fallacy that poorly performing governments in developing countries simply lack information, technical expertise, and resources (which aid can provide) but are otherwise well-motivated towards their citizens.⁴³

Our starting point is to acknowledge that aid agencies require as committed clients self-identified agents of institutional reform with self-identified agendas for reform supported by significant and broadly representative constituencies within developing countries. In some (rare) cases this may be the government itself, but much more commonly pockets of reformers within agencies of government or constituencies outside government committed to an institutional reform agenda. This agenda cannot be imposed from outside by pretending that “Djibouti is Denmark” or by “skipping straight to Weber,”⁴⁴ but requires an authentic domestic political constituency with a reform agenda that is sensitive to the particularities of their country’s context, history, politics, and culture.

Given such a reform constituency, foreign aid donors can provide both financial and technical support to such constituencies to assist them in pressing their reform

⁴² See Riddell, *Does Foreign Aid Really Work?* *supra* note 1, at pp. 373-377.

⁴³ See Ashok Chakravarti, *Aid, Institutions and Development* (London: Edward Elgar, 2005).

⁴⁴ Lant Pritchett and Michael Woolcock, “Solutions Where the Solution is the Problem: Arraying the Disarray in Development,” in Easterly (ed.), *Reinventing Foreign Aid*, *supra* note 8.

agenda and also exert leverage on government and its agencies by withholding or terminating government-to-government aid for failure to be responsive to this reform agenda against measurable milestones. Increasing the percentage of aid channeled through multilateral institutions is likely to increase this leverage (although at the risk of larger systemic policy errors and less policy experimentation at the individual donor level). Reforming the governance structure of such institutions to make them more fairly representative of the developing and developed world is also likely to enhance the legitimacy of exerting such leverage. Invoking accession negotiations for membership of trade or broader economic cooperation regimes offering valuable long-term benefits (as the E.U. has done with some success with new member countries from Central and Eastern Europe) to extract, monitor, and enhance meaningful institutional reform commitments that enjoy support from substantial domestic constituencies is an analogous strategy that has some promise (but has been insufficiently exploited more generally).⁴⁵

At the end of the day if one believes that institutions matter to development, to give up on foreign aid as an important agent of institutional change is to condemn the citizens of many of the world's poorest countries (with the world's poorest governments) to a future of more or less perpetual deprivation. Rethinking the most effective bundle of "carrots and sticks" to drive institutional change is the central unmet challenge on the foreign aid agenda. Until this "aid-institutions" paradox is unlocked foreign aid will mostly fail to advance long-term development objectives.

⁴⁵ Michael Trebilcock and Ron Daniels, *Rule of Law Reform and Development: Charting the Fragile Path of Progress* (London: Edward Elgar, 2008), chap. 10.