

VISION ON EFFECTIVE AID AND DEVELOPMENT

Shah Nawaz

PEAS, University of Education
Lahore,
Pakistan
shah_448@yahoo.com

Muhammad Azeem

PEAS, University of Education
Lahore
PAKISTAN
knowledge_jhumra@yahoo.com

Masood Khalid

Project Finance Manager
CIDA, Lahore
PAKISTAN
masoodkhalid_peas@yahoo.com

Dr Nasir Mehmood

Punjab School Education Department
PAKISTAN
cheernasir@yahoo.com

Fatima Zahra

Hammayat-e-Islam Khawateen College
PAKISTAN
itsfatimazahra@yahoo.com

ABSTRACT

Aids by public or private organizations are often criticized for their negative effects. Aid does not contribute to economic growth and poverty reduction but a great concern given the role that aid is expected to play in achieving specified objectives and promotion of under developed areas. The many developmental objectives that aid is expected to achieve are based on the fundamental assumption that aid achieve developmental outcomes. Feeny (2004) concludes that growth in the many countries would have been lower in the absence of aid. Burnside and Dollar (2000) aid works in all countries it works better in countries with better policy regimes. Kosack (2003) found that, contingent on the extent of democracy in beneficiary countries, aid was positively associated with the level of well-being achievement among countries. This paper focuses on vision on effective aid & development.

Keywords: aids, development, political corruption

INTRODUCTION

The ultimate objective behind the aid effectiveness efforts is to help developing countries build well functioning structures, systems and prudent policies so that they are able to manage their own resources, development and reduce their dependency on aid.

Aid usually refers to assistance given by some to other fulfill specific need. It is a voluntary transfer of resources from one country to another, given at least partly with the objective of benefiting the recipient country. It may be given by individuals, private organizations, or governments.

Official organizations and those scholars who are primarily concerned with government policy issues frequently include only government-sourced aid in their aid figures, omitting aid from private sources.

The most widely used measure of aid, "Official Development Assistance" (ODA) is such a figure. It is compiled by the Development Assistance Committee of the Organization for Economic Co-operation and Development. The United Nations, the World Bank, and many scholars use the DAC's ODA figure as their main aid figure because it is easily available and reasonably consistently calculated over time and between countries. The DAC consists of 22 of the wealthiest Western industrialized countries plus the EU; it is a forum in which they coordinate their aid policies.

HISTORICAL BACKGROUND

While the concept of development aid goes back to the colonial era, the origin of modern development aid roots in the context of Post-World War II and the Cold War: Launched as a large-scale aid program by the United States in 1948, the European Recovery Program, or Marshall Plan

was concerned with strengthening the ties to the West European states to contain the influence of the USSR. This political rationale is well summarized in the Truman Doctrine, in which United States president Harry Truman stated the anti-communist rationale for U.S. development aid in his inaugural address of 1949, which also announced the founding of NATO

After the end of the Cold War, the declared focus of official aid began to move further towards the alleviation of poverty and the promotion of development. The countries that were in the most need and poverty became more of a priority now.

Aid Types

Project aid: Aid is given for a specific purpose e.g. building materials for a new school.

Programme aid: Aid is given for a specific sector e.g. funding of the education sector of a country.

Budget support: A form of Programme Aid that is directly channeled into the financial system of the recipient country.

Sector-wide Approaches (SWAPs): A combination of Project aid and Programme aid/Budget Support e.g. support for the education sector in a country will include both funding of education projects (like school buildings) and provide funds to maintain them (like school books).

Food aid: Food is given to countries in urgent need of food supplies, especially if they have just experienced a natural disaster. Food aid can be provided by importing food from the donor, buying food locally, or providing cash.

Untied Aid: The country receiving the aid, can spend the money as they choose.

Tied aid: The aid must be used to purchase products from the country that donated it or a specified group of countries.

Technical assistance: Educated personnel, such as doctors are moved into developing countries to assist with a program of development. Can be both programme and project aid.

Unilateral vs. multilateral: unilateral aid is given by one country directly to another; multilateral aid is given through the intermediacy of an international organization, such as the World Bank, which pools donations from several countries' governments and then distributes them to the recipients.

The Impact of Effective Aid

The international aid effectiveness movement began taking shape in the late 1990s. Donor governments and aid agencies began to realize that their many different approaches and requirements were imposing huge costs on developing countries and making aid less effective. They began working with each other, and with developing countries, to harmonize their work in order to improve its impact.

Peter Singer. (2009) argues in *The Life You Can Save*. New York: Random House that over the last three decades, "aid has added around one percentage point to the annual growth rate of the bottom billion." He argues that this has made the difference between "stagnation and severe cumulative decline." Aid can make progress towards reducing poverty worldwide.

Critiques on the Impact of Aid

Critiques of the impact of aid have become more vociferous as the global campaigns to increase aid have gained momentum, particularly since 2000. There are those who argue that aid is never effective. Most aid practitioners agree that aid has not always worked to its maximum potential, but that it has achieved significant impact when it has been properly directed and managed, particularly in areas such as health and basic education.

There is broad agreement that aid is only one factor in the complex process needed for poor countries to develop, and that economic growth and good governance are prerequisites.

Development Aid and Corruption

While development aid is an important source of investment for poor and often insecure societies, aid's complexity and the ever expanding budgets leave it vulnerable to corruption. Corruption is very hard to quantify as it is often hard to differentiate it from other problems, such as wastage, mismanagement and inefficiency.

Researchers at the Overseas Development Institute have highlighted the need to tackle corruption with, but not limited to, the following methods:

- a. Pressure needs to be resisted to spend aid rapidly.
- b. Continue to invest in audit capacity, beyond simple paper trails;
- c. Establish and verify the effectiveness of complaints mechanisms, paying close attention to local power structures, security and cultural factors hindering complaints;

Aid Effectiveness

Aid effectiveness is the degree to which development aid works, and is a subject of significant disagreement. Dissident economists such as Peter Bauer, Milton Friedman (1963) argued that aid is ineffective:

"... an excellent method for transferring money from poor people in rich countries to rich people in poor countries".

Many econometric studies in recent years have supported the view that development aid has no effect on the speed with which countries develop. Negative side effects of aid can include an unbalanced appreciation of the recipient's currency (known as Dutch Disease), increasing corruption, and adverse political effects such as postponements of necessary economic and democratic reforms.

It has been argued (Eugad Manual - Section 1) that:-

"much government-to-government aid was ineffective because it was merely a way to support strategically important leaders."

Besides some instances that only the president (and/or his close entourage) receives the money resulting from development aid, the money obtained is often badly spent as well.

One of the criticisms has been that Western countries often project their own needs and solutions onto other societies and cultures. In response, western help in some cases has become more 'endogenous', which means that needs as well as solutions are being devised in accordance with local cultures. For example, sometimes projects are set-up which wish to make several ethnic groups cooperate together. While this is a noble goal, most of these projects fail because of this intent.

It has also been argued that help based on direct donation creates dependency and corruption, and has an adverse effect on local production. As a result, a shift has taken place towards aid based on activation of local assets and stimulation measures such as microcredit.

Aid has also been ineffective in young recipient countries in which ethnic tensions are strong: sometimes ethnic conflicts have prevented efficient delivery of aid.

In several instances, loans that were considered irretrievable (for instance because funds had been embezzled by a dictator who has already died or disappeared), have been written off by donor countries, who subsequently booked this as development aid.

Another problem is the way on how development projects are sometimes constructed and how they are maintained by the local population. Often, projects are made with technology that is hard to understand and too difficult to repair, resulting in unavoidable failure over time.

Local population in some cases is not very interested in seeing the project to succeed and may revert to disassembling it to retain valuable source materials.

A common criticism in recent years is that rich countries have put so many conditions on aid that it has reduced aid effectiveness. Donor countries often require the recipient to purchase goods and services from the donor, even if these are cheaper elsewhere.

According to Gerbert van der Aa. (2008),

“for the Netherlands, only 33% of the development aid is successful, another 33% fails and of the remaining 33% the effect is unclear. This means that for example for the Netherlands, 1.33 to 2.66 billion is lost as it spends 4 billion in total of development aid (or 0,8% of the gross national product).”

An excerpt from Dr. Thomas Dichter's (2003) recently published book *Despite Good Intentions: Why Development Assistance to the Third World Has Failed* reads:

"This industry has become one in which the benefits of what is spent are increasingly in inverse proportion to the amount spent - a case of more gets you less. As donors are attracted on the basis of appeals emphasizing "product", results, and accountability...the tendency to engage in project-based, direct-action development becomes inevitable. Because funding for development is increasingly finite, this situation is very much a zero-sum game. What gets lost in the shuffle is the far more challenging long-term process of development."

Rosalind Eyben (2010), a Fellow at the Institute of Development Studies. Her evidence to the inquiry stated that effective aid requires as much investing in relationships as in managing money.

RECOMMENDATIONS

In aid strategies, there is a need to exit low priority and low impact areas, however politically correct they may have been, and instead concretely emphasize much more the following:

- i. priority to *governance and political corruption*, focusing much more on the “*demand side*,” including support to many institutions outside of the executive branch, and with donors paying more attention to the challenges of elite capture and money in politics;
- ii. furthering *capacity, probity and freedom of the media* ought to become a much higher priority for many donors and recipients;
- iii. fully embracing the *IT revolution*, where the traditional donor “aid effectiveness” approach is behind, in spite of the enormous value it brings to governance improvements and development effectiveness (well beyond traditional “e-government,” towards “m-governance,” and more efficient and uncensored dissemination of data and evidence);
- iv. accelerating adoption and support for *innovative public-private partnerships*, such as advance market commitments in health, transparent concessions in infrastructure, provision of governance and anticorruption guarantees by institutions such as MIGA, expanding the scope and country and sectoral coverage of the Extractive Industry Transparency Initiative (EITI);
- v. integrating into the traditional donor industry and strategies the existing reality of the ascent of *non-traditional official donors and of private donors*;
- vi. a significant move towards *much more selectivity* (and transparency) in aid programs, which is long overdue – regarding which governments to support, when to opt for funding to local government or non-government institutions instead, or when to emphasize non-lending modalities;
- vii. a further shift in aid strategies and programs to *integrate the reality of the new role for governments resulting from the crisis*, which will require highly dedicated and specialized initiatives on governance, transparency and integrity;
- viii. The challenges of governance, capture and corruption are complex and politically sensitive, explaining the backtracking among most of the donor aid industry in recent times, and the

general unease to frankly debate these issues in the open. Yet the antecedents and magnitude of the current global financial crisis offers a unique opportunity to embark on bolder governance reforms and aid strategies than before, among rich, emerging and developing countries.

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