

Foreign Aid Revisited: Aid Effectiveness and U.S. Development Agenda

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Abstract

Foreign aid has historically played an enormous role in driving economic and societal change around the globe, but its effectiveness and true value for donors and recipients are still hotly debated. The emergence of the U.S. in the aid industry with its early undertakings through the Marshall Plan has inaugurated and shaped the development sector as we know it today. The U.S. remains an influential player in the industry acting with national security, commercial and humanitarian considerations in realizing its policy objectives to help those in need. As the world moves towards a greater recognition of foreign aid, as the force for a positive change, there is a global plea to make aid more effective for better development results.

Keywords: foreign aid, development, aid effectiveness, donors, recipients, U.S.

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Introduction

Foreign aid carries broad implications for economic growth and social development, as it influences many areas of human life and well-being across all continents where it is delivered. The multifaceted nature of aid complicates assessment of its combined effects on aid recipients. Economic effects, which are relatively quantifiable, coupled with softer aspects such as its role in strengthening recipient countries' governance and institutions, are subject to much debate. Different actors, who have varied stakes and roles in aid industry, examine the effectiveness of aid from multiple perspectives, while some motivations for

aid continue to conflict with one another (Radelet, 2006, pp. 2-16). This often creates disjointed, lopsided narratives, calling for holistic approach to measuring effectiveness. The aid discourses can even have heightened political overtones and come into the media limelight³, which is not surprising, as aid certainly has strong political implications. It can even be argued that politics and foreign policy are the “most important determinants of aid flows” (ibid, p. 6). A case of the United States provides a good entry point for examining the salient aspects of aid considering policy choices that underlie U.S. development agenda, affecting the lives of millions worldwide.

Foreign Aid Effectiveness Contested

Irrespective of differences of thought and judgement over the aid effectiveness, there is nevertheless a broad consensus between multilateral and bilateral donors and recipient countries that aid is meant to support growth and development, and that it should be effective. This consensus is captured in the landmark 2005 Paris Declaration on Aid Effectiveness, calling for increased impact of aid on development, which is further reinforced by the 2008 Accra Agenda for Action (OECD, 2008). The central theme evolves around making aid more responsive and coordinated between donors and recipients, stressing, among other principles, the necessity of strengthening local country systems and institutions to increase effectiveness, at the same time putting recipients in the driver's seat for development results. At the global level, the signatories also pledged to accelerate achievement of the United

Nations Millennium Development Goals (MDGs)⁴, one of which relates to partnering for development. Measurement of aid effectiveness against the pre-established indicators over time reassured donors and recipients of the complexities of achieving progress, urging them to sharpen their focus on inclusive development at the 2011 Busan Partnership Forum (OECD, 2011). They agreed that development should be sustained through the concerted efforts of all development stakeholders – government, private sector, civil society, including institutions and organizations across all sectors, and citizens at large. The term “aid effectiveness” is now increasingly being replaced by “development effectiveness” to recognize the role of all development actors in the process by giving aid a more systemic dimension (USAID, 2014, p. 3). Besides, 160 countries which endorsed the

³ On the CNN Amanpour Talk Show on April 1, 2019, Roberta Jacobson, former US Ambassador to Mexico, commented that U.S. foreign assistance was not a gift, and that U.S. generally extended assistance because it was in their own interest, not just in a recipient country's interest. Referring to pulling out aid from three central American countries of Honduras, Guatemala, and El Salvador in the

spring 2019, David Urban, former Trump campaign strategist, noted that U.S. did not want to “throw good money after bad” to those who used money to stay in power.

⁴ MDGs were replaced by the UN's 17 Sustainable Development Goals in 2015 with a targeted achievement date of 2030.

Busan Partnership, agreed that development effectiveness better captured the subtleties and challenges of aid giving.

Despite this broad consensus, donors' discourses appear to magnify effects and downplay aid inefficiencies if examined against the theories of the aid skeptics. The skeptics radically challenge the benefits, and theorize that aid has deepened inequalities, perpetuated vicious circles of poverty, disturbed inherent social and cultural structures, created societal fissures, and resulted in more human suffering and underdevelopment (Escobar, 1995; Bauer, 1979; Easterly, 2006; Galbraith, 2007). Arturo Escobar, who extensively studied development in the Third World⁵, takes criticism to the extreme by entirely rejecting what he thinks is the Western-constructed mainstream paradigm of development, while Galbraith argues that early development efforts undertaken by the Western bilateral and multilateral donors to rebuild the economies of the third world in the 1960s gave rise to symbolic modernization, maximized economic growth, and selective growth (Galbraith, 2007, p. 57). While theories of the aid skeptics are not without empirical evidence, their judgements appear to have been influenced by the zeitgeist of the neocolonial era, and the aggressive early development initiatives following the end of World War II, exposing their suspicions and fears that a new colonial order was in the making.

The skeptics' iconoclastic views on foreign aid and development run contrary to the mainstream understanding of aid, which drive the donors' and recipients' agendas today. While the aid proponents appear to have turned a deaf ear to its radical critics, they have, nevertheless, come to recognize that aid has been mismanaged and misallocated for too long

⁵ The term Third World arose in the Western industrialized community, during the years when it referred to itself as the First World and to the Soviet republics and satellites as the Second World. The Third World, or the Other World, refers

and for too many. As for the reasons for failures, the World Bank, for example, is cited to have attributed aid ineffectiveness on economic growth and poverty reduction to corruption, lack of sensible policies and good governance (Easterly, 2003, pp. 23-48). The World Bank's chief economist Nicholas Stern argues that aid has had its fair share in reducing poverty in poor countries despite many challenges (Stern, 2002, pp. 15-24). In any event, the skeptics have done their part in shaking some orthodox beliefs by giving aid a softer edge and shifting the entire focus from growth-oriented discourses to genuine development that integrates human rights, human security, and cultural norms at all levels – national, local, and societal (Stiglitz, 2002; SID, 2007). Interestingly, the debates about self-reliance, which is a core theme behind the 2020-2025 USAID-Georgia Country Development Cooperation Strategy, appear to have emerged from this human-centric approach.

Today the development scholars and practitioners are hard at work putting all the pieces of the development puzzle together. Shifting from conventional views on aid to development assistance, which has wider implications for all areas of human life, calls for more holistic understanding of what makes aid really work in practice.

The United States in the Development Arena

The OECD's Development Assistance Committee classifies the United States as the world's largest donor as measured by total dollars in Official Development Assistance (ODA) amounting to USD 34.6 billion in 2019 but ranks it the lowest with only 0.16% of its Gross National Income (GNI) pledged in aid⁶. "US aid

to most of the countries in Latin America, Africa, Asia, and the Middle East (Weatherby et al., 2007).

⁶ 0.7% is the United Nations ODA/GNI target agreed in 1970, but historically, fulfillment of this commitment by donors has been uneven. Luxembourg, Norway, and

is paltry... and much of that assistance is allocated not so much by humanitarian concerns as by geopolitical motivations”, writes Stiglitz (Stiglitz, 2002). While numbers usually oil the wheels, they do not tell the whole story of what makes the aid industry tick, and how the effect of numbers could multiply or shrink to achieve the development objectives.

The international development industry is inextricably linked with the U.S., and its presence strongly defines the contours, and shapes actions of the development stakeholders around the globe. It is even argued that the idea of development was reformulated after U.S. President Truman’s coinage of the term “underdevelopment” (Esteve, 2007, p. 12), which imbued its meaning with an implicit Western bias still palpable today. Although the European Recovery Program, or the Marshall Plan, which initiated the so-called development era in 1947, was conceived around economic reconstruction of the 17 Western and Southern European countries, there were strong geopolitical, strategic, and military motivators at its core. The U.S. aimed to restore the European power balance, and to strengthen American national security through the containment of communism, which threatened to divert Europe’s economic and military potential to the Soviet ambit; extend its influence across Eastern Europe and beyond; and to integrate Germany’s western zones into the Western economic and political orbit (Leffler, 1988, pp. 278-306). In his May 1947 letter to Secretary of State George Marshall, the American diplomat Jefferson Caffery, wrote: “Soviet penetration of Western Europe, Africa, the Mediterranean, and the Middle East would be greatly facilitated” (Caffery, 1988, p. 280), pointing that the American security was in peril. This neatly explains the United States’ motivations behind its early development efforts, which, according to Marshall’s renowned June 1947 speech at Harvard University, were aimed at eradicating poverty: “Our policy is

directed not against any country or doctrine but against hunger, poverty, desperation, and chaos” (Marshall, 1947, p. 5).

Around USD 12.5 billion of aid was disbursed from 1948 to 1951. Western Europe’s aggregate GNP increased 32 percent, and its success as measured by economic recovery figures was obvious. The biggest strategic win, however, was that this recovery effort propelled the creation of the North Atlantic Treaty Organization (NATO) in 1949, the first peacetime military alliance to deter the soviet threat. As Kunz contends, “The Marshall Plan was a limited investment that paid incalculable dividends” (Kunz, 1997, p. 170). The same reasoning can be applied to making judgements about the effectiveness of any U.S. aid program where hard data tell only part of the story. Geopolitical and strategic motivations that feed U.S. national interests continue to have a lion’s share in U.S. development agenda today, but this is not to discount that its corollary of promoting democracy, social and economic change and institutional strengthening is ignored. In referring to objectives of U.S. foreign economic aid, Milton Friedman, a prominent U.S. economist and an aid critic, even asserts that America’s national interest and humanitarian ideals coincide. He believes that when nations develop economically, America also achieves its fundamental objective of a world where humans realize their potential to the fullest. For this to happen, however, it is in America’s national interest that these nations “choose the democratic rather than the totalitarian way of life”, otherwise “We cannot long hope to maintain a free island in a totalitarian world” (Friedman, 1995).

U.S. foreign aid agenda is formally designed around three broad categories of national security, commercial and humanitarian interests. (1) national security concentrates the U.S. efforts on promoting

Sweden are among the most generous, contributing about 1% of their national income to aid.

stability, democracy and rule of law, health, and environmental sustainability; countering global threats, including terrorism; investing in military and security programs of the U.S. allies; (2) commercial interests drive the U.S. to invest in the economic growth and trade promotion programs that will eventually create markets for U.S. exports and jobs in the U.S.; (3) humanitarian programs include provision of food, shelter and other essentials to conflict-affected and other vulnerable people around the globe (Morgenstern & Lawson, 2020). According to 2018 estimates, U.S. aid was delivered to more than 170 countries and territories, and its obligated aid funds, including military assistance, totaled USD 47 billion, an estimated 1% of its federal budget.

The heated debates over the effectiveness, and even the wastefulness of aid spending have taken to the policy level. The most vehement and vocal opposition to the proposed aid cuts during the Trump tenure in 2018 came from policymakers and U.S. Senators like John McCain, Tim Kaine, Bob Corker, Lindsey Graham, Barbara Lee, Marco Rubio, and Robert Menendez, among many others. Democrats and Republicans alike claimed that reduction in aid would dampen U.S. national security, diminish the U.S. global leadership role, and deprive the needy of the essential assistance to sustain their livelihoods, triggering global instability as a result. Whether the effectiveness is challenged or not, the debates nevertheless point to the key driver of aid flows – U.S. national security and strategic leadership, with hints on U.S. moral obligation to help those in need. As former State Department executive Carol Lancaster hypothesizes, U.S. aid has been characterized by continuing dualism, which implies the mixture of diplomatic and development considerations behind aid that she partly ascribes to “adversarial nature of the US political system” (Lancaster, 2013, p. 4).

In this tug of war over aid spending, which is only a minuscule share of the federal budget, Congress

has recently managed to increase the level of funding to counter the nationally declared threats of Iranian, Chinese, and Russian influence on a global scale; address global humanitarian and health challenges, including COVID-19 pandemic; and finance private development projects in developing countries through the establishment of the U.S. International Development Finance Corporation, America’s development bank, in 2019. A historical trajectory and volumes of U.S. aid also clearly expose U.S. policy considerations and choices behind aid flows, which have gone through highs and lows in response to various worldwide events such as the end of the Cold War in the 90s, when the aid level dropped substantially, and then soared up again following 2003 when the Iraq and Afghanistan military assistance efforts were initiated, to name a few (Morgenstern & Lawson, 2020). The establishment of the Millennium Challenge Corporation and the President’s Emergency Plan for AIDS Relief in 2004 are also among many other illustrative examples of how aid reflects U.S. policy commitments and adapts to global developments.

Conclusion

A broad consensus exists between multilateral and bilateral donors and recipients on the importance of aid for economic growth and development. It is also widely recognized that aid should be made more effective to reap the true development gains. Many development practitioners, policymakers and scholars would agree, however, that aid sometimes disregards the development objectives it is meant to pursue due to a plethora of reasons, no matter how well-intentioned aid might be. It is therefore up to all stakeholders on both sides of the aid equation – givers and takers, to ensure that it is spent in a way that supports both growth and development and, at the same time, is aligned with the strategic trajectory, national interests and security of

both donors and recipients. The U.S. will continue to shape foreign aid practices around the globe, moving beyond the role of a simple donor to embracing broader implications of its policy decisions.

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