FOREIGN AID: INCONVENIENT TRUTHs

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Abstract

Achieving foreign aid's well-advertised goals of equitable development remains elusive. That truth is inconvenient for those convinced of development aid's positive potentials. But despite its failures, and the attacks it suffers, foreign aid keeps growing. Is this a case of hope triumphing over experience? Or is failure a useful pretext for keeping alive a large old, ineffective industry? Or are there interests at stake other than those of the world's poor? This article probes another kind of inconvenient truth: in today's world system, benefits largely flow from poor to rich, and that the development aid system colludes in redistributing wealth upward.

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1. Failing, yet Successful

Few public policies are attacked more frequently than foreign aid, yet few show more staying-power. Since its emergence in the late 1940s, official development aid has been denounced as a source of giveaways to undeserving regimes and a burden on taxpayers. Nevertheless, spending by Western donors continues to rise, and that by China, India, the Gulf monarchies Brazil, Russia and Turkey has grown vigorously in the new century. Former recipients such as Ecuador, Poland, South Africa and Thailand have now become donors. Such trends gladden many hearts, including those of development educators and advocates of global citizenship and solidarity. After all, at the core of their campaigns to promote UN development goals and to 'Make Poverty History' has been a conviction that development aid expresses effective solidarity. Without aid, it is said, stronger economic growth, lower incidence of poverty and better governance won't be realized. Development aid is thus heavily freighted with many hopes and ambitions.

Is this faith in development aid based on its proven performance? Going by early and quite specific cases, the answer is partially *Yes*. Western aid helped Koreans and Taiwanese build new economies in the 1950s and 1960s. In southern Africa it helped bring on the end of apartheid and contain the spread of AIDS. Yet despite those achievements, aid's overall results have been mixed, weak or short-lived. Failures have been

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acknowledged even by aid industry insiders. Two scholars, who were World Bank staff members at the time, began their overview paper on foreign aid as follows: "Conventional development assistance rhetoric proclaims poverty reduction and sustainable development in poor countries to be its principal objectives. It is widely recognized, however, that development assistance has a mixed, but generally poor, track record of achieving these objectives" (Blunt *et al.* 2011: 172). Moreover, official aid has sometimes been counter-productive, even 'toxic'. Since the late 1970s especially, market fundamentalist, shrink-the-state policies promoted from the top of the aid system have helped weaken economies, shatter public sectors and shred social fabrics. Aid has helped to boost income inequality (e.g. Herzer and Nunnenkamp, 2012) and to escalate civil conflict (Bluhm *et al.* 2016). Books about aid's failures in pursuit of equitable, emancipatory development would today fill at least a small bookshelf[2].

In response, aid industry leaders have routinely called for better management, a sharper focus on results, harmonization, more donor coordination, and so forth. A further reflex is to flee into the future with a new slogan, a new theme, a new policy formula. Officials in recipient countries are then expected to take 'ownership' of these new ideas - and indeed it takes little time for new mantras to enter the development discourse at receiving ends.

Some development educators, campaigners and kindred journalists have noted these critiques, sometimes joining in the criticism. Some international Non-Governmental Organizations (NGOs) have published strong critical assessments of mainstream aid (e.g. Christian Aid 2005), and 'watchdogs' in non-Western countries today regularly monitor and criticize aid policies and practices, such as in the annual *Reality of Aid* reports.

Yet beyond the graveyards of failed paradigms, programmes and projects, development aid continues moving forward. It is receiving more money and taking on ever-longer lists of tasks. For the period 2001-2015 there were only 21 targets under the eight Millennium Development Goals. Today, looking 15 years forward to 2030, there are 169 targets under 17 Sustainable Development Goals. Coalitions backing these goals have stressed the roles of publicly-financed development aid. Other funding sources, notably large corporations, are expected to contribute; hence promotion of 'blended' funding, public-private partnerships and other kinds of subsidies for the private sector. But official foreign aid is supposed to do the heavy lifting, as expressed for example in resolutions from the latest Financing for Development Conference, held in Addis Ababa in mid-2015. In short, aid is burdened with many – perhaps too many - ambitions and expectations.

2. Other Agendas

It's astonishing when you think about it. Why should a such a poorly-performing industry be asked to carry on, to be freighted with yet more tasks and to be provided with yet more money? Is this a case of hope triumphing over experience?

These questions take us to deeper levels, to consider the main drivers and compasses of development aid, and the interests it serves. Although they get little publicity and even less scholarly attention, knowledge of these

[2] Selective surveys of this literature appear in Sogge 2002, Riddell 2007; Blunt *et al.* 2011 and Engel 2014. Critical literature on humanitarian or emergency aid – not discussed in this essay – also exists, but is smaller.

matters has slowly accumulated. It points to another inconvenient truth: the mainstream aid system chiefly serves interests of donors. Powerful actors in richer countries use foreign aid, with its aura of beneficence, in pursuit of the following kinds of self-regarding agendas:

Diplomatic and Political Influence. To buy goodwill or to coerce recipients, aid is a useful tool of statecraft. It can buy votes at the United Nations and stabilize client regimes. Withholding aid, or merely threatening to reduce it, is used to punish governments. Recall the West's denial of development aid for Cambodia, one of the world's poorest countries, for ten years after 1979, in a show of diplomatic ostracism. Aid also helps open doors to powerful people. As a former senior US aid official put it, "Foreign aid… is like political campaign contributions: it can facilitate the access of those providing it to those receiving it." (Lancaster 1999: 118). The Left has long denounced the use of aid to keep client dictators in the saddle, but voices on the ordo-liberal Right, such former World Bank economist and aid critic William Easterly (2016), are now denouncing flows of Western aid to autocratic regimes.

Geostrategic and Military Advantage. Since 11 September 2001, much aid has been subordinated to geo-strategic military aims, that is, 'securitized'. At the same time military doctrine and operations have become 'developmentalized', exemplified by 'hearts-and-minds' projects that now figure in military repertoires. These complement older practices by which aid lubricates access to territory, such as in Kyrgyzstan, where Western aid was exchanged for use of airbases serving NATO[3] operations in Central Asia (Wilkinson 2014). Also in the name of security, European aid is now supposed to help curb irregular migration from Africa (Nielsen, 2016). Together with this 'merger of development and security', identified by Mark Duffield (2001), has come expanded use of private firms chiefly from OECD[4] countries, contracted for developmental, humanitarian and security services – a lucrative business that feeds on failure, and described by Naomi Klein (2007) as 'disaster capitalism'.

Mercantile Gain. Scholarly findings leave no room for doubt that trade, investment and financial aims are major drivers of foreign aid. Econometric research underscore this inconvenient truth. "Virtually without exception," two seasoned researchers have stated, "the research so far has found that the political and economic interests of donors outweigh the developmental needs or merits of the recipients" (Hoeffler and Outram 2011:240).

Companies that export goods and services are among major beneficiaries. Sales by Dutch exporters to an average recipient country increase in the short run by €7 to €9 for every €10 that the Netherlands disburses for that recipient country (IOB 2014). In the longer run, as accumulated goodwill and force of habit take hold, recipient lands become even more lucrative markets. Export earnings by 22 donor lands in the period 1988-2006, increased on average 2.15 dollars for every dollar the donor had disbursed as official aid (Martínez-Zarzoso *et al.* 2010: 23). Beyond improved exports, wider economic gains can be achieved: in the 2000s, for every 100 Francs the Swiss government had disbursed in the past, the Swiss GDP grew between 129 and 151

[3] North Atlantic Treaty Organization.
[4] Organisation for Economic Co-operation and Development.

Francs; in addition, aid accounts for over 20 thousand full-time jobs in Switzerland (Carbonnier *et al.* 2012). These seldom-reported facts about returns to foreign aid help explain its popularity under old and new donors.

Aid monies are spent disproportionately in the donor's own economy. Because domestic interests benefit, support for aid unsurprisingly spans the political spectrum from the pro-poor Left to the pro-business Right – something observed even in the United States of America, where skepticism about foreign aid is intense (Milner & Tingley 2010).

Making aid conditional on the purchase goods and services from the donor country ("tying") has been officially discouraged, yet it persists both formally and informally (Carbone, 2014). But because it is so lucrative – suppliers routinely get 15 to 30 per cent above than they would receive for the same goods and services on open markets – tied aid remains difficult to eliminate. It occurs commonly where aid packaged as 'technical assistance' (usually supplied by consulting firms) and as food – keeping potentially antipathetic citizens in rural areas and shipping ports happy. Market penetration and export promotion (with advice, credits, insurance and infrastructure) are old and disputed roles of almost every country's foreign aid.

Those sorts of arrangements are tactical. More powerful and long-lasting are strategic measures in the service of donor economic interests. These work chiefly through the diffusion of donor-approved ideas, mainly policy formulas elaborated at the highest echelons of the aid system. They are transmitted as 'expertise' and 'sound policy' through systems of 'knowledge management', and imposed through hard conditionalities led by the IMF, and softer methods such as the diffusion of the OECD's 'Policy Framework for Investment'. Aid agents frame thinking, fashion the rationales or 'talk' about policies. As discussed in critical literature (for example, Chang and Grabel 2014), these aid-driven agendas have included the following: liberalization of financial sectors, including introduction of stock markets and of donor country banks; shifting of taxes from importers and exporters to domestic consumers; privatization of public assets including public services; curbing of labour rights; job cut-backs in the public sector; enforcement of WTO[5] rules – in short, measures desired by large foreign interests. Emphasis often rests on competition, including competitive lowering of business taxes as elements of improved 'investment climates'. Exemplifying this are the World Bank Group's efforts to promote "competitive cities" (World Bank Group 2015) and its 'Doing Business' rankings that indicate which countries meet the wishes of global corporations.

Are foreign investors in fact satisfied when recipients create pro-corporate business climates? The answer is *Yes*. Indeed according to one study (Woo, 2013) the more stringent the requirements of donors, the greater the satisfaction of investors. Given that many donor policies imposed in the name of equitable development have generated unimpressive and even counter-productive effects (such as weakening public management and services – see Reinsberg *et al.* 2016, and Ortiz *et al.* 2015), it is increasingly clear whose interests enjoy priority.

In other fields, foreign aid has brought significant benefits to donor country interests. Here are three examples:

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[5] World Trade Organization.

i. ‘*Green revolution’ technologies*. Developed with aid monies to boost farm output in poor countries, improved crop varieties were rapidly taken up by western agribusinesses in North America, Australia and elsewhere, earning those companies billions. Up to the early 1990s, returns to Western agribusiness were forty times the amount paid out by the US as foreign aid for research and development of the farming technologies intended for the poorest countries (Alston *et al.* 1998).

ii. *Combating infectious diseases*. Contrary to a belief that aid-financed programmes target maladies affecting mainly people in the tropics, research shows rather convincingly that “development aid is intended to alleviate the threats to populations within the donor state” (Steele, 2011: 73).

iii. *Scholarships*. Since the 1960s foreign aid has brought hundreds of thousands of students from poorer countries to study at universities in donor lands. Today, scholarships and student expenses absorb more than $3 billion in aid – virtually all of it spent in donor homelands. Monitoring the long-term outcomes of scholarship programmes is almost non-existent, but there is some evidence (Marsh, 2016) that many former aid-supported scholarship holders are retained in richer countries, or work abroad in Western businesses and other institutions.

3. Reverse Flows

In the public imagination, foreign aid serves to redistribute resources downward from richer to poorer. If that is the case, then aid faces powerful counter-currents. For today’s global capitalism redistributes resources upward, from poorer to richer. That is an inconvenient truth. In late 2016, in a study described as “the most comprehensive analysis of global financial flows impacting developing countries compiled to date”, researchers show that “since 1980 developing countries lost US$16.3 trillion dollars through broad leakages in the balance of payments, trade misinvoicing, and recorded financial transfers.” (GFI[6], 2016). Full data are not available since criminal revenues, corporate invoicing and some payments for intellectual property escape official registration. But the last several decades have seen substantial transfers of wealth from poorer places to rich country jurisdictions, in some part thanks to rich country tax policies and under-investment in tax inspection. The following graph combines available data on developing countries’ “Net Resource Transfers” (calculated on the basis of inflows = positive, outflows = negative) in nominal dollar terms and in terms of aggregated national GDPs[7].

[6] Global Financial Integrity.
[7] Gross Domestic Product.

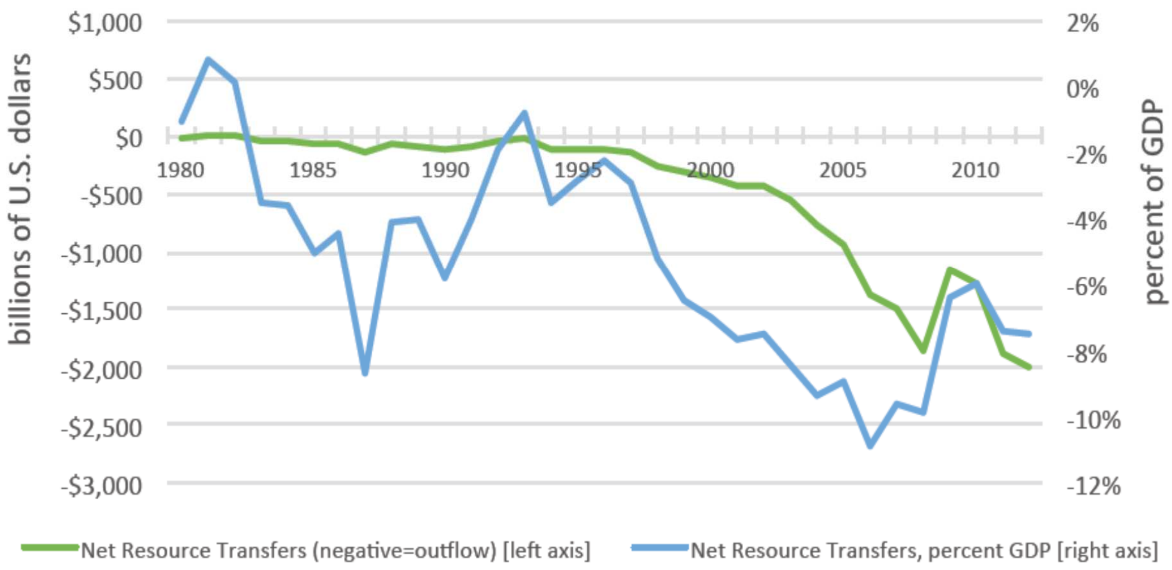

Figure 1 - Net Resource Transfers in terms of aggregated national GDPs
Source: GFI 2016, page iv.

These figures, largely about non-aid flows, include foreign aid (inflows) and repayment of aid system loans (outflows). Outflows clearly dominate and they correlate with aid flows. Two economists working with available data on 71 recipient countries for the period 1971-2012 conclude that "approximately 25 percent of any increase in foreign aid typically did not make it into the domestic economy." For Sub-Saharan Africa, the proportion of aid triggering outflows was about 40 percent. (Das and Serieux, 2015:40).

The fact of reverse flows poses an inconvenient question: *How and to what extent has the aid system contributed to this net upward distribution of wealth?* This inconvenient question is almost never asked or probed in any depth. Acknowledging that fact, one aid specialist has written: "The paucity of research on the economic return to foreign aid may be due to the difficulty to get hold of the relevant data. But it also reflects the political sensitivity of the issue in donor countries: both low and high return rates may weaken the domestic coalition in favour of foreign aid" (Carbonnier 2013: 1). Yet in this darkened, seldom-visited field, evidence is detectable that the mainstream aid system colludes in drawing resources from poorer places to interests in richer places. Here are examples, culled from scholarly literature:

Natural resource transfers. Donor countries use aid in negotiating their access to such things as ocean fish, tropical hardwoods and hydrocarbons.

Accumulation of Reserves. Under vigorous donor pressure (Rodrik, 2006) poorer countries have poured trillions of dollars into Western banks under a rationale of self-insurance (Dadush and Stancil, 2011). As the economist C. P. Chandrasekhar has pointed out "This reverse flow of capital essentially means that excess savings in emerging markets are being 'recycled' in ways that put the responsibility of allocating that capital in the hands of a few financial decision makers … sitting at the apex of a concentrated global financial system." (Chandrasekhar, 2011: 38).

Lending as Aid. When aid comes as a grant, most of it is usually absorbed at receiving ends. But in Sub-Saharan Africa, when aid arrives as a loan, about 60 percent rapidly departs the recipient country as if through a revolving door (Ndikumana & Boyce, 2011). This compounds an old, largely hidden practice of donor profiteering from their lending. Loans presented as concessional have in some cases carried non-concessional, even above-market, conditions (Chang, 1998). Today, loans are making a comeback, approaching nearly 20 percent of all development aid. Lending today comes on much harder terms than in prior decades, suggesting that donor profiteering could be advancing via the debt channel (Ferry *et al.* 2016).

Financialization. Guided by market fundamentalist policy formulas (relaxation of controls over inward and especially outward capital flows, promotion of stock markets, lowered taxes and regulations, etc.) the most powerful players in the aid system, led by the IMF[8] and World Bank, have vigorously promoted private financial interests as part of wider efforts in support of private sector development. This includes the promotion de facto of tax havens, as some aid system banks tolerate the use of tax havens (Vervynckt, 2014).

Paying for Intellectual Property. Acting almost as bailiffs, donors routinely help to extract payments to big pharmaceutical and software firms who own patents, copyrights and other kinds of 'intellectual property.' In the years 2012-2015, sub-Saharan African countries together paid about $10 billion to these private interests, up from about $8.7 billion in the years 2007-2010, according to the World Bank. Countries must pay for intellectual property, as required by WTO rules – rules that are virtually mandatory under donor conditionality. Because rich country tax laws allow firms to hide profits, these World Bank data may actually understate the true scale of extraction.

Beyond these direct points of engagement, there are fields where the mainstream foreign aid system has failed to show much concern, despite evidence of massive losses for poor country public sectors.

Taxation: Having tempered an earlier antipathy toward public sectors, donors have begun to see the virtues of effective taxation, not least because their own treasuries face revenue shortfalls. This comes none too soon, for repairs are badly needed. A report for the German Bundestag by a leading authority on taxation states that tax avoidance (that is, making use of legal arrangements) costs poorer countries between $100 to $200 billion annually, while tax evasion (breaking rules) costs them more than a trillion dollars annually (Murphy 2016). Rules and means to enforce them have shown positive trends in recent years, thanks mainly to action and research by academics, journalists and civil society groups. Mainstream politicians now see tax justice as a vote-winner. A few official donors, with Norway leading[9], have made self-financing of development via better taxation a policy priority.

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[8] International Monetary Fund.

[9] Tax for Development, Norad https://www.norad.no/en/front/thematic-areas/macroeconomics-and-public-administration/tax-for-development/. An important initiative begun with Norwegian aid funding is the International Centre for Tax and Development: http://www.ictd.ac/

Anti-competitive practices: A few donors have shown interest in curbing cartels and monopolies in domestic markets in certain aid recipient countries, such as Vietnam. But they show almost no interest in the impact of anti-competitive practices by transnational economic actors. Data are scarce and imprecise, but existing knowledge indicates that transnational cartel practices impose huge costs. Estimated losses to poorer countries are thought to be equivalent to, at minimum, 50 percent of aid received, but could match as much as 300 percent of aid received (van Bergeijk, 2010).

In sum, poorer countries provide far more resources to richer country interests than they receive in foreign aid. Yet to demonstrate this inconvenient truth is challenging. On almost every issue-area discussed here, detailed information is not publicly available. Legal systems, administrative rules and political agreements shield most of these counter-flows from public view, in both recipient and donor lands. Every year, thousands of aid system evaluations of 'downstream' activities and policies take place on assumptions that rich aid the poor; but I know of no formal evaluation, and little journalism, looking at the far larger 'upstream' mechanisms by which the poor subsidize the rich.

4. Beyond pseudo-solutions

The inconvenient truths presented in this far-from-comprehensive essay may dishearten readers motivated by ideals of solidarity and equity. A belief in the potentials of foreign aid to realise those ideals is probably held by many global educators and others promoting global citizenship. Such beliefs are also present in communities of scholars and policy-makers. Reflecting on the decades-old Aid Effectiveness Literature (AEL), two economists specialised in this field have written: "Most researchers share a prior: We want aid to work for moral/political reasons… The [aid] industry has an interest in results showing that aid works. It is well known that sponsor interests give priors that bias research in many fields. Researcher priors and sponsor interest mean that there is a risk of bias in the AEL. This risk is not unique to the AEL, but it needs to be acknowledged nevertheless." (Doucouliagos and Paldam, 2015:325).

This short article may challenge some preconceptions or 'priors' held in the community of global educators. However its point is not to put in question those ideals of solidarity and equity, but rather to throw fresh light on conventional wisdoms about the means for realizing those ideals. One of those vaunted means, development aid, turns out to be a source of pseudo-solutions, and in some cases a source of problems rather than solutions. Given the existence of 'priors', the complexity of the issues, inadequacies of available information and the walls of secrecy concealing many global flows, there are challenges for educators, activists and researchers. Relative to the huge edifices of data and writings about flows from rich to poor, information and analysis about reverse flows are still in rudimentary scaffolding.

There are also ethical challenges. Ethical action requires getting beyond pseudo-solutions and going for what is authentic. In 1943, at a time of enormous human suffering, one of the 20th century's greatest activist-philosophers, Simone Weil, wrote about respect and practical compassion for others, insisting that these must be concrete and authentic: "All human beings are bound by identical obligations, although these are performed in different ways according to the circumstances…. The obligation is only performed if… expressed in a real, not a fictitious, way" (Weil, 1949; trans. 1952). Today, in framing debate and education about responsibilities, that plea has lost none of its relevance. It calls for lucidity, hence for a rejection of pseudo-solutions.

In a number of fields, activists, academics, journalists and NGOs have responded positively. A prime example is their success in advancing tax justice[10]. Today, their focused efforts have begun to pay off, as stronger tax enforcement and new rules yield more revenues for public purposes. As this essay was being written, a bloc of non-Western governments at the United Nations, with leadership from Ecuador, is pressing to create a global tax body (Edwards, 2017). A system of global taxation won't be with us soon, but as the idea gains 'hands and feet' it would introduce means of genuine, equitable redistribution. Today's inequitable, upward redistribution may thereby be reversed, and authentically 'downward' redistribution promoted.

Initiatives in other fields – from transparency and accountability of financial actors to control over light weapons and toxic wastes – researchers, activists and educators are advancing emancipatory agendas outside the aid system, sometime nudging that system in other, more positive directions. Development educators are summoned to help build and spread the knowledge to advance that effort.

[10] Exemplified by the Tax Justice Network (http://www.taxjustice.net/) and the Financial Transparency Coalition (https://financialtransparency.org/)

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