

Rethinking foreign aid: where do we go from here?

Seminar with Göran Hydén organised jointly by DDRN and Danish Institute for International Studies (DIIS)
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Göran Hydén's presentation

Göran Hydén started by stipulating that he would be making overgeneralisations in order to cover interesting issues. He then gave three reasons why he thought it was important to rethink foreign aid now:

1. Foreign aid has changed: has become more political, formalized and a-historical; largely Africa
2. Africa has changed: many more partners, new assertive middle class, more optimism
3. Foreign aid has not been independently scrutinized; consultants are mere sub-contractors

Afterwards, Hydén elaborated on what he thought was wrong with foreign aid. He found it problematic that foreign aid starts from a welfare state perspective, and that it is assumed that states are the central actors and countries receiving foreign aid must become like Western donor countries in order to develop. Working from such a perspective, donor countries are blind to how they reached their level of development in the first place, forget how painful it was to get there, and have no conception of development other than it is expected to create change for the better. Hydén noted that this conception of development characterised the new Danish development strategy where foreign aid is seen as a positive-sum game. Hydén said he felt the true nature of development was being overlooked today. In the 1960s and 1970's, development was understood very differently from now. Modernization and underdevelopment theories saw it as a historical process, where human beings were embedded in structural

relations that could not be easily abandoned. Both accepted that development produces both winners and losers, structures take time to change, and democracy is a product of development, not a condition for it. Since the 1980s, neoliberal and positivist ideas have taken over. Hydén noted that donors have moved their interventions from the bottom to the top and develop strategies as if everything can be tackled in one go. He expressed that this also characterised the new Danish development strategy. There is a lack of consideration of structural factors and no sense of sequencing or prioritisation. As a result, the goals set for foreign aid are complex and difficult to manage. According to Hydén, Official Development Assistance, i.e. government-to-government transfers of aid, is a system that is no longer productive and has outlived itself. It was OK when the premise was that foreign aid was temporary, meant to complement local efforts, and thus just fill gaps. Today, foreign aid has become institutionalized and created a dependence on donors that is questionable for many reasons:

- It engenders accountability relations outwards or upwards rather than inwards or downwards toward parliament and civil society. The Paris Declaration has not changed much, if anything, because ownership of donor funds remains with government.
- It stifles domestic readiness to reform institutions. Especially harmful are the big reform projects that have been attempted in the public sector. State institutions remain the weakest link in the development chain; yet, they get to handle the funds.
- It creates a sense of frustration with the new aid architecture because donors are now increasingly a cartel speaking with one voice and requiring dialogue on issues that are not priority to government leaders or top civil servants who see much of it as a waste.
- Direct budget support and national ownership do not go together with donor demands for results. Recipients do not operate with the same timeline as donors; nor do they see development as a carefully planned process but one that is inspired by good and creative leadership. What is achieved matters more than how it is achieved – the donors' position.
- It encourages a sense of "business-as-usual" attitude with no one really being willing to talk about bringing foreign aid to an end. Only one country – Botswana – has really said goodbye to foreign aid on its own accord. Other countries continue to rely on it and donor sense of global responsibility keeps it alive.

Finally, Hydén discussed where we should go from here. As he saw it, foreign aid would most likely phase out. Countries such as China are competing with the OECD countries for influence in Africa. A new more assertive middle-class is rising in African countries with an interest in changing governance and the critique of foreign aid, especially as determined by Western donors, is growing. Alternative resource flows are getting increasingly important: private investments; private remittances; philanthropic entities. Poverty reduction is an unsustainable strategy if the aim is also to create sustainable development. According to Hydén, foreign aid will be helpful to recipients in Africa only if donors are ready to think "outside the box":

- Begin from the premise that the "glass is half-full, not just half-empty", i.e. build on local institutions rather than treating them as problematic.
- Produce more with less: do not channel money via governments only when other institutions, local government and civil society, are being starved. For example, create development funds to which all stakeholders have access.
- Think investment, not grants. Development is a risky business but one that deserves patience and a long-term perspective, not the financial frames of government budgets.
- Engage with all stakeholders on an equal basis. Make funds available on terms that are the same for government, parliament, local government and civil society. Take away the difference in terms that exist between ODA and project funding. Encourage twinning arrangements and private-public partnerships.
- Break the donor cartel. Danish strategy (like that of other Nordic donors) talks about coordination, harmonization and a greater role for the EU. Flexibility is more desirable than concentration, if looked from an African perspective. The latter is good only for the donors.

- Follow the lead of the Asians. Invest in what African countries themselves prefer: infrastructure. It is the continent's Achilles Heel.

Hydén's final conclusions were the following:

- Donors must go back to the drawing-board, but they also need a group of new architects that look at foreign aid not from the donor, but the recipient perspective.
- Donors must accept that African actors look at development through a different prism than they do.
- Donors must accept that their faith that freedom is a precondition for development rests more on political faith than any scientific evidence.
- Donors must accept that development is not a managerial or technical task, but take the consequences of its political nature. First step has been taken with acceptance of power analysis and political economy studies, but accepting it all the way means recognizing that development has always been led by an elite, sometimes more enlightened, other times not so, and that it is more often a zero-sum than a positive-sum game, at least in the shorter term perspective.



Discussion

Firstly, Lars Engberg-Pedersen commented on Hydén's presentation making the following main points:

- It is possible to come with more criticisms of development aid. A further criticism could be development aid's national focus and the need for more international cooperation.
- Hydén's overgeneralising approach is questionable because it is important to acknowledge that the picture is different from country to country. One should therefore assess country situations and decide whether aid has a role to play. It is dangerous to conclude that aid should be phased out.
- It is important to recognize that aid is not the only contributing factor contributing to development. There are other important factors such as the global economy. Therefore,

one should focus on determining where aid is needed. Poor countries with small state budgets can still benefit from aid.

- Thus, it may be more relevant to speak of a reform of foreign aid rather than it phasing out. It is impossible to predict donor aid as it is more linked to politics in donor countries than to conditions in recipient countries. An idea could be to cut that link and find another way to finance development cooperation.

Then the floor was open for questions and comments to Hydén. The main points of the discussion are summarized below:

Definition of development:

- A participant questioned Hydén's definition of development and commented that he had left out development's economic side. Hydén said that his definition of development was associated with the society level, not the individual level. As he saw it, there is a need for social forces to capture the development agenda and bring about economical and social contradictions that will create more change than what there is today and make things more dynamic. Hydén acknowledged that people increasingly relate to each other in economical and ethnic terms, e.g. in Kenya, lessons have been learnt and with a new constitution, social change is on its way. This component of development is not 'nice', but is a necessary component of sustainable development domestically.

Development policies and their impact:

- Hydén was asked to give his view on the issue of development funding going to issues not traditionally associated with development aid, i.e. conflict resolution, regionalism and terrorism prevention. To Hydén, this reflected an implicit acceptance among donors that foreign aid can have unanticipated consequences and provoke conflict. Thus, he saw such funding as an attempt to repair damages caused by donors' own naivety when aid was initially pledged to recipient countries.
- One participant wondered what Hydén's view on giving aid to resource rich countries was, seeing that there are also poor people in resource rich African countries. Hydén did not have a clear answer to this as he noted that there were also differences between resource rich countries, but advocated an adjustment of aid to country-specific needs.
- Hydén was also asked whether he thought development aid is really beneficial, seeing that grants created an African dependency on donor countries. The participant also wondered what the way forward was and how one could use the resources transferred by the African Diaspora more proactively. Regarding grants, loans and conditions, Hydén expressed that the Paris declaration was strong on giving recipients more access to and control of aid. However, it presents a principal-agent problem. When donors give direct budget support, they expect accountability in return. In order to make sure money is well spent, they expect expenditure tracking. Despite the climate of trust created by the Paris Declaration, problems arise when money is badly spent. Donors withhold budget support if they believe that the money will not be used. Regarding the way forward, Hydén said that he believed in putting money into funds and letting NGOs, civil society, local and national government compete for funding. The funds should be designed so that a board of trustees, with all stakeholders represented, determines who receives grants. In this way, one creates situations where governments do not take donor money for granted and it is more difficult to end up with accountability problems.
- One participant asked why African leaders like the Asian approach to foreign aid and wondered how Western donors would address sustainability if they chose to follow this route. Hydén answered that African leaders like the Asian approach for political reasons; it entails less conditionalities. Also, African leaders generally see production as more important than services and infrastructure is a big part of that.
- Another participant commented that in terms of global flows, aid is becoming less important compared with other flows such as remittances and trade restrictions. Hydén

acknowledged that aid is insignificant in financial terms, but stated that it is significant in the sense that it determines power structures in recipient countries, keeping problematic political elites in power.

- A participant commented that education was a missing factor in Hydén's lecture and stated that education was a key factor in achieving democracy, citing Cuba and Brazil as positive examples. Hydén agreed that education was important for democracy and development, but noted that the way that money has been spent in recent years has destroyed more than it has achieved, because donors have insisted on building schools instead of focusing on content.

New ways forward;

- Following Hydén's mention of funds as a way forward, a participant noted that some donors are already working in this manner, citing civil society funds in Benin as an example, and that one should be critical towards funds as a solution because the money in the funds is still often captured by state actors. In response to this, Hydén pointed out that different fund models exist. For example, the Millennium Challenge Cooperation (MCC) Fund is different from the fund model advocated by Hydén because it is controlled by one donor. According to Hydén, the criteria which a country must fulfill to receive funding from the MCC fund are so hard to fulfill that if one took them literally, only Finland and Norway would qualify as grant recipients. What Hydén suggests is national funds with multiple stakeholders and a thematic area focus.

In conclusion, Lars Engberg-Pedersen stressed the importance of reallocating resources on a long term basis and noted that innovative ideas for development exist, e.g. President Sarkozy's suggestion of taxing international financial transactions and the UN's suggestion of combining this with country level trust funds.

