

## International aid

Aid can be either bilateral, or multilateral. Bilateral aid is between two economies, whereas multilateral aid is where economies pool their aid, which is distributed to developing economies. The role of the World Bank in development is to act as the distributor in multilateral aid, on the behalf of economies giving aid.



Governments and non-government organisations (NGOs) participate in giving aid. NGOs are predominantly charities, and increasingly governments recognise working through charities can be beneficial, using the existing 'grass roots' networks the charities have in place rather than giving to governments in an economy.

Aid is not only money, and aid may also take 'real' forms such as capital.

Aid can be thought of as short term emergency relief and long term development aid, though the World Food Programme, for example, is neither disaster relief nor aid for a development project but ongoing relief aid.

When a government gives aid it can take the form of grants or loans at below market rates of interest.

The UK department for international development (DFID, secretary of state Hilary Benn) has a budget annually for official development assistance which can take the form of official development finance – loans at market rates of interest – or official development assistance – loans at below market rates of interest or grants. Only official development assistance is true aid.

Aid is a controversial issue. Peter Bauer, a free market economist favoured by Thatcher in the early 80s was opposed to aid arguing structural adjustment was more important and the free market would bring about growth and development. This viewpoint has now lost favour within government.

In 1998 the World Bank report looked at the effectiveness of aid and concluded that aid is most effective in economies which have undergone some structural adjustment and are very poor economies. Aid is scarce as Western economies give less than 1% of their GDP in aid so must be directed to the 'highest impact' areas.

The effectiveness of aid can be measured using the millennium development goals. Ex-Soviet and Asian states are seeing development and broadly on target to meet the millennium development goals. The Economist magazine summarises development in sub-Saharan Africa as insufficient to meet any of the criteria for development.

The report argues that in addition to the use of the market based economic system economies must make a sincere commitment to good governance.

These notes are from a lesson on Monday 28<sup>th</sup> February 2005.

## **Sub-Saharan Africa**

### *Justification for aid*

Mr Sachs is confident that with a firm commitment by Western economies sub-Saharan Africa can achieve its Millennium Development Goals by the 2015 deadline. To achieve this the aid will need to be used effectively to encourage market reforms and promote the development education, health, infrastructure and a more important role for women.

Aid needs to be designed for long term projects and recurrent expenses to be taken into account so projects can succeed. Corruption needs to be seriously considered and funds directed so they arrive at productive projects not at the feet of the ruling elite.

### *Arguments against aid*

Aid is often given for disaster relief and short term projects. For aid to be effective in promoting development long term costs need to be considered. Good governance is also crucial as a corrupt government can direct aid to projects unhelpful for development. The Economist suggests Mr Sachs has been somewhat lenient in his definition of good governance, classifying only economies like North Korea as poorly governed.

Aid alone does not bring about development. Structural adjustment by both developing and developed economies through the transition to a market based economy and removal of trade barriers will bring about self-fuelling economic growth.

### *Critics*

The notion of 'top down' development and each country tailoring its own plan for aid distribution is akin to centralised planning, a model for development now out of popular favour as planning has inherent flaws caused by the imperfect knowledge of planners.

The targets set by Mr Sachs are also very ambitious. They require lots of funding from Western economies and a high rate of return on aid.

These notes are from a homework given to cover a lesson on Friday 4<sup>th</sup> March 2005.