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The Development and Challenges of Aid Relationships:  
Where is International Aid Heading?

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## The Development and Challenges of Aid Relationships: Where is International Aid Heading?<sup>1</sup>

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### Abstract

International aid plays a key but contested role in stabilizing the global economic order by helping 'late developers' (LDCs) to provide services and grow. However, it creates asymmetric power relationships between donors and recipients, which succeed when interests and incentives can be harmonized but not when they conflict, as they often do in fragile and fragmented states, producing non-compliance and failed programmes. The global aid system has responded to this challenge in very different ways since the second world war in response to decolonization, the neo-liberal revolution, and the need to address economic crises. We will provide a brief history of these changes, an analysis of challenges involved in reconciling donor-recipient interests, review recent attempts to increase aid efficiency through Political Economy Analysis and New Public Management, and conclude by identifying the challenges confronting EU-Africa cooperation generated by the COVID-19 crisis.

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### Aid Relationships and the Global Economic Order

The unity and stability of the global economic system has always depended on aid relationships that sustain the concessional transfers from rich donor countries to poor countries. These transfers depend on voluntary exchanges between sovereign governments, multilateral organizations and civil society organizations and individuals, but they also form a partially coordinated system of aid relationships that impose real obligations on their participants, even if they are not subject to collective control and enforcement. This system of global governance is coordinated by the IMF and World Bank (the IFIs), the UN, the Development Assistance Committee (DAC) of the OECD, development ministries in donor countries; the international NGO community, and their counterparts in recipient countries. It has been established to address a variety of threats caused by international inequality and exclusion, economic, political and humanitarian crises, mass migration and environmental degradation. The agreements cannot be imposed on states, NGOs and private donors, but they do represent an ordered system, even if it works according to what Bull (1977) calls anarchic principles, because it depends on voluntary but binding agreements and mutual benefits rather than centralized enforcement. This raises complex question the effectiveness of aid, and of different kinds of *aid relationships*, especially in the least developed countries (LDCs), where their ability and willingness to implement agreements may be low.

Aid has made important contributions to global governance, but its practices, motivations and achievements are heavily contested. While its supporters argue that aid increases the welfare of rich and poor countries by stabilizing the open global order, its critics claim that the system is driven by

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<sup>1</sup> This article is a shortened version of Brett, E. A. (2016), "Explaining Aid (In)Effectiveness: The Political Economy of Aid Relationships", LSE International Development Working Paper, 16-176, 1–19.



selfish national interest and perverse incentives, creating considerable waste and bad performance (Moyo, 2009; Easterly 2006; Bauer 1972; Engberg-Pedersen, 1996; Ferguson, 1996; Bond and Manyaya 2002). Both views rest on credible evidence, which will be briefly reviewed in the following sections.

The article first outlines the historical development of the aid system. It then presents the policy challenges faced by donors and the system itself. Next, the strategies of Political Economy Analysis (PEA) and New Public Management (NPM) to improve aid effectiveness are presented and critically reviewed. Finally, the future role of EU-Africa cooperation is briefly discussed.

### **The History of Aid Relationships**

Changes in the global system, the political climate and crises, have produced significant changes in the power relations and political strategies that govern the international aid system.

Colonial powers began aid programs in the 1920s and 1930s to strengthen economic relations with their colonies, where they used aid to build the infrastructure needed to export raw materials and their own manufactured goods (Brett, 1973). The modern aid system was created in the 1940s by the USA, the IMF and the World Bank to deal with post-war and then post-colonial reconstruction and transformed through Structural Adjustment Programs (SAPs) in the 1970s and 1980s, which promoted the shift from state to market-led development (Bauer, 1972; World Bank, 1981; Little, 1982; Lal, 1984). This induced fundamental structural and political consequences for LDCs and post-communist states since SAPs forced them to cut deficits, devalue currencies, privatize state-owned enterprises and reduce state controls over domestic and international markets. It produced radical changes in the allocation of wealth and power that benefitted strong firms and states, but were resisted by threatened groups, evaded by rent-seeking regimes, and imposed excessive demands on weaker states that lacked the capacities needed to implement them. Democratic reforms were included in Structural Adjustment Programmes (SAPs) in order to improve accountability by replacing weak regimes, and/or to strengthen the ability of excluded groups to influence their behavior, strengthening the 'third democratic wave that took place in the 1980s and 1990s. (Acemoglu and Robinson, 2006; Huntingdon, 1991). This was accompanied by a critique of austerity oriented SAPs to Poverty Reduction Programs (PRPs) that still focused on market-based policies, but also recognized the need to strengthen state capacity, and invest in pro-poor services, small-scale enterprises and micro-credit systems (Hickey, 2012).

In the 21st century, the focus shifted to global agreements turning democracy and poverty reduction into a binding obligation. This resulted in a series of high-level agreements, which were negotiated and led to the Millennium Development Goals (MDGs) in 2000, the Paris Declaration on Aid Effectiveness in 2005, and the Sustainable Development Goals (SDGs) in 2016.

These agreements represent a serious attempt to avert the tensions generated by earlier aid policies, but they ignore many serious obstacles that are caused by deeper and more persistent problems - conflicts over limited resources, growing poverty, exclusion and inequality in fragile states that cannot compete effectively in increasingly open world markets, resistance from deep-rooted political and economic elites; the refusal of rich countries and individuals to forego unsustainable consumption levels and the reluctance of poor countries to avoid increasing emissions to catch up. These problems will undoubtedly be greatly intensified in unpredictable ways by the economic dislocation caused by ongoing attempts to control the Covid 19 pandemic. (Carboni, & Casola, 2020)



At the same time, the aid industry has become more complex and fragmented. New public donors such as China and private donors like the Gates Foundation, international and local NGOs and private companies have gained influence.

### **The Complexity and Challenges of Aid Relationships**

Aid may involve mutual interests and cooperation, but it can also involve serious tensions, especially in LDCs where governments have limited resources, represent opposing groups, and operate in a context of intense poverty, insecurity, and contested power relationships.

In aid-dependent countries, aid makes a significant contribution to the budget and thus generates intense competition between different parties, such as government, civic organizations etc. Donors play a key role as they can give or withhold support. However, their control is always incomplete because non-compliant rulers and their supporters have sovereign rights and can therefore evade unacceptable demands. Donors are often willing to fund under-performing programs in order to spend their budgets; they may disapprove of repressive regimes, but they cannot impose their decisions on them, and are obliged to avoid partisan political interventions that challenge their political authority or strengthen opposition parties and movements.

However, since their decisions play a key role in maintaining or undermining weak states and their leaders, their interventions have unavoidable political and policy consequences. The aid system is therefore based on asymmetric power relationships, disputed sovereignties and competing, often contradictory objectives. Aid relations depend not only on the interests and capacities of the individual partners, but also on the tensions that arise in the negotiation and implementation of agreements between partners. They are governed by weakly enforced rules and divergent goals that produce contingent outcomes that depend on the bargaining power of each side. Thus, while donors try to promote programs that are consistent with global agreements, their own resources and the interests of their supporters, it depends on whether they are compatible with the interests of local governments and on their ability or inability to resist unacceptable demands.

Recognizing these tensions provides us with a realistic approach to the complex and contentious processes of negotiating mutually beneficial agreements and an appropriate regulatory framework. It also raises difficult questions about the role and effectiveness of aid conditionality, and the current commitment to local leadership and political ownership embedded in the Paris Agreement and SDGs.

A realistic approach shows that aid relationships do not depend on aid per se, but on the nature of the interests that motivate the behavior of the governments and social movements on both sides. Donors should learn from the failures and successes of the past, recognize the need to challenge the authority of repressive elites, and recognize the limits of the neo-liberal assumption that free markets, democratic elections and “local ownership” will produce pro-poor solutions.

The ability of weak states to evade formal conditionality in the 1990s led donors to shift support to stronger states with “good policies” (Collier and Dollar, 2002, 1476; Ritzan et al., 2000), marginalizing the poorest people in the poorest countries. Despite the exclusion of formal conditionality in current aid agreements, donor judgements about the ability of any state to respond to their demands represent a powerful form of implicit conditionality and influence the scale and terms of their support. Thus, aid negotiations are relatively collegial in successful states like Ghana and Uganda,



but heavily contested in fragmented states like Nigeria, Pakistan and Nicaragua where regimes are not committed to poverty alleviation and political and economic settlements are characterized by disruptive class, ethnic or sectarian conflicts. The donors' ability to sustain viable programs in fragile states like Afghanistan, Somalia and the DRC, that can no longer "exercise effective power within their own territories" (Clapham, 1996, 21) is even more problematic.

*Thus credible explanations for success or failure depend on the ability to identify the political and economic tensions that govern interactions between donors and recipients at local, national and global levels as both donors and recipients attempt to reconcile their often contradictory goals and policy paradigms, especially in fragile and fragmented states.* This requires a holistic and interdisciplinary approach, which has produced excellent research on the national variables that influence the behavior of either donor or recipient governments (Gulrajani, 2014; Brown, 2013; Copestake and Williams, 2013) but far less emphasis on the contradictory processes generated by the interactions between donors and recipients in different contexts and periods.

The tensions within aid relationships and resulting crises have led donor countries to address, rather than evade, the problem of bad governance and bad policies, and have confronted them with two key challenges: to persuade reluctant rulers to respond to democratic demands and implement pro-poor policies, and to strengthen the organizational systems required to do so. They have turned to Political Economic Analysis (PEA) to help them understand and respond to the first, and to New Public Management (NPM) to address the second challenge. Both attempts will be explored in more detail in the following section.

## **Attempts to Increase Aid Effectiveness**

### *Political Economic Analysis (PEA)*

The critical role of political variables in aid effectiveness is now widely recognized. Donors are aware of their role within recipient countries and have created a body of interdisciplinary policy theory referred to as PEA<sup>2</sup>. It should "encourage donors to think not only about what to support, but also about how to provide support," (DFID, 2009) taking political feasibility into account.

Several studies have reviewed the impact of PEA on aid policies. According to Unsworth (2009) it has improved "the scope and quality of internal debate among donor staff" by increasing the awareness of political systems and their impact on development. However, most studies emphasize the limited nature of its impact, especially in weak states as the fragile structures and contradictory norms, incentives and political constraints impose serious constraints on applying PEA. Unsworth (2009, 884) also points out that it is "influencing specific aspects of donor activity, [but] it is not prompting a more fundamental reappraisal of the implicit model of how development happens".

Nevertheless, PEA provides the policy community with critical insights into the role of political variables in policy reform, and the limitations of formal conditionality in obliging weak states to adopt pro-poor programs. PEA recognizes that aid effectiveness indeed depends "primarily on efforts at the country level," and on the need for donors to "focus on facilitating these efforts, not

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<sup>2</sup> "Political economy analysis is concerned with the interaction of political and economic processes in a society: the distribution of power and wealth between different groups and individuals, and the processes that create, sustain and transform these relationships over time" (DFID, 2009).



on trying to replace them” (Booth 2011: 3), and provides us with the best informed analysis yet available of the challenges involved in combining ‘local ownership’ with pro-poor policies.

The emerging consensus calls for interventions that work with local needs, capacities, and interests (Levy, 2014). It tries to enhance “functioning (or performance levels), achieved via whatever means enjoys political legitimacy and cultural resonance” (Pritchett et al. 2010). It seeks to replace governance reform by a ‘theory of change’<sup>3</sup>, where micro-level initiatives provide a platform for the emergence of ‘islands of effectiveness’ within a broader sea of dysfunction — securing some gains in the short term, and serving as a platform for cumulative gains over the longer-run in both governance and poverty reduction (Levy, 2014).

However, PEA underestimates the need to transform the authoritarian institutions that enable their rulers and supporters to suppress the local movements.

Theorists argue that liberal democratic states are a necessary pre-condition for progressive cooperative solutions (for an extended analysis see Brett, 2009). However, donors cannot rely on conditionality or moral exhortation to strengthen the ability of excluded elites and the poor to force repressive regimes to acknowledge their right to “binding consultation” (Tilly, 2007), or invest directly in organizations involved in partisan politics. However, donors can help them to develop the consciousness and organizational capacities needed to do so.

The PEA literature acknowledges this need, but could do more to strengthen civil society and the state by investing in the organizational capacity of business and labor organizations, civic associations, media and advocacy groups, and tertiary education that has been neglected, and thus weakened the society’s leadership and organizational capacity that is an essential pre-requisite for long-term democratic development. (Brett, 2017) This always involves an implicit threat to their political neutrality, so donor states need to find ways to do this without involving themselves directly in partisan politics – one good example being the role of the German political foundations like the Konrad Adenauer and Friedrich Ebert Foundations.

#### *New Public Management (NPM)*

The aid literature has concentrated on the macro-level relationships between donors and their local counterparts, rather than the micro-level ‘agency’ problems involved in reforming the organizational systems that determine the terms that donors impose on the implementing agencies at the local level that carry out their projects and programmes. These agency problems need to be addressed by reforming the incentive and authority systems that govern public and private service delivery systems.

Donors formerly focused exclusively on state-managed projects, but state-failure and the shift to neo-liberal theory has led them to fund private firms and NGOs that are directly accountable to donors or consumers. This can undermine state capacity, but adopting a pluralistic strategy that tailors solutions to the differing needs and capacities of different kinds of community and society now dominates the policy agendas of all DCs as well as LDCs, It is informed by NPM theory that identifies the strengths and weaknesses of the authority, incentive and accountability systems that

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<sup>3</sup> “A theory of change is a detailed description of the mechanisms through which a change is expected to occur in a particular situation. A theory of change identifies the goals, preconditions, requirements, assumptions, interventions, and indicators of a program, providing important insight into and guidance on intervention and impact evaluation design.” (World Bank, 2020).



motivate governments, firms and civic organizations, and enables practitioners to make informed rather than ideological choices between them.

These capacities differ in strong, weak or conflicted states, and enables donors to tailor their interventions to suit their specific needs by funding projects that increase the ability of recipients to use voice and/or exit to demand better services from their agencies (Hirschman, 1970; Paul, 1992). This approach gives practitioners a menu of organizational options, rather than an externally designed template, and one that incorporates the possibility of 'hybrid' solutions that combine external and local practices in creative ways in order to take account of the weaknesses and conflicts that characterize fragile and fragmented states (Malinowski, 1945; 1961; Brett, 2009; 2016). Thus, while NPM can be used to weaken the state, and lead to regressive 'public-private partnerships', it can also be used to strengthen the ability of the state to regulate the whole system, redistribute resources, and to weaken the ability of repressive rulers to use old-style monopolistic state bureaucracies to extract rents and suppress opposition.

The ability of private firms and civics to function effectively also depends on the ability of progressive social and political movements, including donors themselves, to strengthen their capacity to demand progressive reforms, and resist attempts by their opponents to block them. Thus donors need to develop long-term programmes designed to support a long-term transition to 'best practice' institutions in weak states by combining PEA and NPM strategies by investing in the organizational systems that represent excluded classes and the awareness of the beneficiaries that receive them, as well as the actual agencies that supply pro-poor services. However, they should also accept the need for 'second best' hybrid solutions in the short run, that may not meet the standards set by the SDGs, by incorporate and adapt local institutions and thus enable them to generate new and better solutions that local people can actually 'own'.

### **Conclusion: The Future of EU-Africa Cooperation**

This analysis of how PEA and NPM could still be used to improve EU-Africa cooperation, but our ability to do so will be severely tested by the disruptive impact of Brexit and the COVID-19 pandemic. Brexit will end British contributions to the EU aid budget, and its ability to influence its aid policies, while the global lockdown has forced all states to control social behavior and rescue the private sector from its disruptive effects. This has generated the deepest economic recession in modern history that has taken neo-liberal policies off the agenda and imposed potentially unsustainable strains on already weakened state apparatuses across Africa.

Our ability to rescue the liberal global order from a potential catastrophe now depends on the ability of DCs to mobilize the resources needed to get their citizens back to work by refinancing the corporate and private sectors now threatened by bankruptcy, and to help African states to manage their fiscal crises and restore their productive capacity. This challenge is comparable to the post-war crisis that gave birth to the modern aid system, but is taking place when European aid budgets will be subjected to intense stress. We need a comparably radical response now that will demand major changes in all of the structures and economic policy regimes that have dominated the aid system since the structuralist crisis of the 1980s.





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