

# The Politics of Foreign Aid

## This week's readings:

- Sachs (2012), "Aid Works"
  - Dunning (2004), "Conditioning the Effects of Aid"
  - Deaton (2015), "Why Trying to Help Poor Countries Might Actually Hurt Them"
  - Class slides: Foreign Aid in International Relations
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## Big questions:

1. Does foreign aid promote development or dependency?
2. How do geopolitical contexts shape aid effectiveness?
3. Can institutions overcome collective action problems in aid delivery?

## What is foreign aid?

Foreign aid is "*public [government] assistance with a grant or concessional component administered to promote development*". Includes:

- **Humanitarian aid** (emergency relief)
- **Development assistance** (health, education, infrastructure)
- **Budget support** (direct financing to governments)
- **Security aid** (military training/equipment)

Global aid totaled \$204 billion in 2022, with major donors including USA (\$61B), Germany (\$35B), and EU institutions (\$19B). Note that when private donors are considered, the US figure rises to over \$100 billion.

## Does foreign aid work?

There is a fierce disagreement about whether aid actually accomplishes what it sets out to do. What does it mean for aid to be effective?

- Achieving **sustained improvements in human welfare** (e.g., reducing child mortality, eradicating diseases).
- Avoiding distorting local governance (e.g., creating aid dependency or distorting accountability).

## Sachs: Aid is effective

Sachs argues that aid effectively improves welfare while avoiding distortions.

- **Life-Saving Impact:** Strong evidence that foreign aid has reduced infant and maternal mortality, notably through simple interventions such as anti-malaria bed nets.
- **Scaling Success:** Between 1995 and 2010, increased funding helped support major health campaigns and extend vaccine coverage.
- **SDGs:** Aid-supported initiatives have been central toward progress on achieving the Sustainable Development Goals (the successor to the MDGs).

## Counterarguments to Critics

- **“Aid breeds dependency”**: Rwanda received 40% of GDP as aid post-genocide while growing at 7% annually since 2000
- **“Aid fuels corruption”**: Global Fund audits show < 1% fraud rate in \$4B/year health programs

## Deaton & Easterly: Foreign aid creates more problems than it solves

Deaton and Easterly argue that aid is well-intentioned but ends up breeding corruption and creating domestic issues that would not otherwise exist.

- **Corrosion of Accountability**: By providing governments with non-tax revenues, aid can weaken the social contract between citizens and their leaders.
- **Dependency and Distortion**: Excessive reliance on external funds may encourage corrupt practices and stifle the development of robust domestic institutions.
- **Mixed Economic Outcomes**: Empirical observations suggest that, in several cases, heavy inflows of aid correlate with slower economic growth—raising questions about its overall developmental efficacy.

## Institutional issues with aid

- **Principal-agent problem** Donors (**principals**) delegate resources to recipient governments (**agents**). This relationship is intrinsically prone to conflicts over priorities.
- **Moral Hazard**: When aid is seen as a safety net, recipient governments may have diminished incentives to implement self-sustaining reforms.
- **Adverse Selection**: Donors frequently lack complete information about recipient needs and capabilities, complicating the effective targeting of assistance.
- **Fungibility**: Even if aid is designated for healthcare or schools, money is fungible.
  - ▶ Governments can redirect their own resources away from those sectors.
  - ▶ Example: Water wells built by donors might allow a regime to spend more on patronage, the military, or private gain.

## Credibility of conditionality

To mitigate the principal-agent problem, donors often seek to tie aid disbursement to policy reforms or governance improvements (e.g., democracy, human rights, nonproliferation).

- **Commitment problem**: If donors fear losing a strategic ally or access to markets, they may be not be incentivized to enforce conditionality. Politically important recipients know this!

## Cold War vs. Post–Cold War Dynamics (Dunning, 2004)

- **During the Cold War**: Geostrategic competition between major powers (e.g., the U.S. and the Soviet Union) often led donors to prioritize strategic alliances over rigorous enforcement of aid conditionality. Threats to withdraw aid were less credible because losing an ally carried high political costs.
- **After the Cold War**: With diminished ideological competition, Western donors could make their aid conditional on political and economic reforms. Empirical evidence suggests that the positive relationship between aid and democratization became statistically significant only in the post–Cold War period.

### **General implications:**

- The effectiveness of aid in supporting democratic reforms is heavily contingent on the broader geopolitical environment. “Important” recipients have more leeway.

## **Why do donors provide aid?**

Donors justify and structure their aid programs for a variety of reasons that generally fall into two broad categories:

### **Instrumental (Strategic) Reasons:**

- **Geopolitical influence:** Aid is often used as a tool to secure strategic alliances, counter rival influence, and gain favor with key governments. By supporting politically or strategically important countries, donors aim to extend their sphere of influence.
- **Economic interests:** Donors may use aid to open new markets for their exports, secure access to natural resources, or stabilize regions that are vital to their economic and security agendas.
- **Political leverage:** Conditionality attached to aid (such as demands for political or economic reform) allows donors to shape domestic policies in recipient countries in ways that align with the donor’s broader strategic or ideological goals.

### **Humanitarian Reasons:**

- **Alleviating suffering:** At its core, humanitarian aid is about saving lives, reducing poverty, and addressing urgent needs in health, education, and food security.
- **Promoting development:** Beyond short-term relief, many aid initiatives are designed to bolster long-term human and institutional development, thereby helping recipient countries build sustainable, self-reliant societies.
- **Spreading values:** Donors may have an interest in promoting the welfare of marginalized groups. This is controversial: For example, many aid programs require protections for LGBTQ+ people, while recipients governments sometimes protest about cultural imperialism.

## **Designing effective aid programs**

- **Targeted Approaches:** Focusing on specific sectors (e.g., public health or education) with clear accountability and monitoring mechanisms can maximize the benefits of aid.
- **Institutional Strengthening:** Aid should ideally complement domestic capacity-building efforts rather than substitute for robust fiscal and administrative systems.
- **Mitigating Dependency:** Programs must be structured to ensure that external assistance empowers local processes and does not foster long-term reliance or reduce citizens’ demand for government accountability.

## **Reflection questions**

- How can donors structure conditionality to be both credible and effective without exacerbating dependency?
- What reforms are needed within recipient countries to ensure that aid contributes to sustainable development and democratic accountability?

- In light of geopolitical shifts, how should the international community balance strategic interests with the humanitarian goals of foreign aid?