

PSCI 4012

Global Development

Foreign Aid and Development

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Today's Plan

- Global foreign aid regime
- Aid skepticism
- Critiques of aid skepticism
- Group exercise

Foreign aid regime

Types of foreign aid

- Soft loans: “aid given to a recipient with the expectation that it will be repaid, but with terms for the loan that are lenient to the borrower” (Baker, 2014)
- Debt relief: “aid in the form of an LDCs debt to foreign investors”

Foreign aid regime

Types of foreign aid

- Bilateral aid: aid given by a government to another government or to an NGO or a private citizen in another country
- Multilateral aid : donor countries provide funds to an international organization such as the UN that in turn distributes the funds to recipient countries, NGOs or private citizens

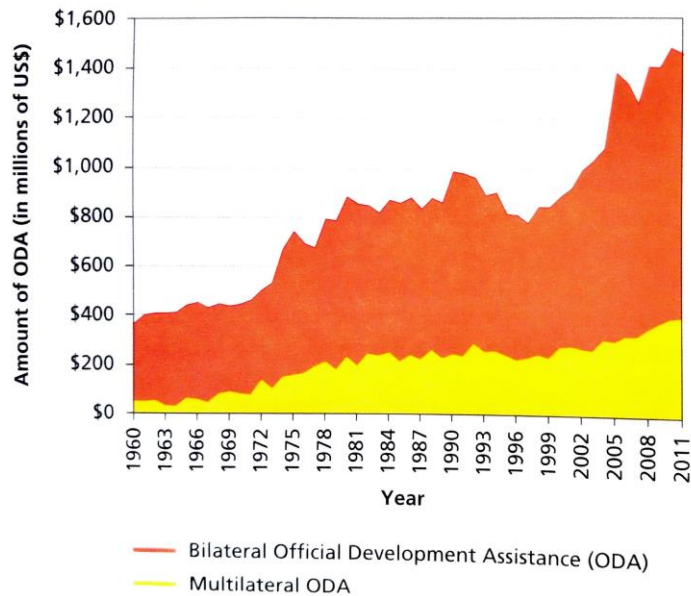
Foreign aid regime

Motivations for foreign aid

- Humanitarian
- Political influence
- Economic stabilization

Foreign aid regime

Official Development Assistance Flows, 1960–2011



Aid skepticism

- Since 1940s the West has spent more than \$ 2.5 trillion to foreign aid
- According to aid skeptics, this spending did not help achieving the desired goals
- According to aid skeptics, foreign aid flows negatively affect:
 - sustainable economic growth
 - quality of governance
 - price stability
 - ...

Aid skepticism

Why foreign aid doesn't work according to aid skeptics?

- Politically motivated aid usually empowers authoritarian structures in the recipient countries
- Political motivations divert funds from the most neediest to recipients that are less in need but geopolitically important
- Donors expect economic returns from recipient countries
- There is no effective mechanism to hold aid agencies accountable
- Donor fragmentation causes inefficiency in outcomes
- Some recipient countries don't have sufficient absorptive capacity

Critiques of aid skepticism

- The LDCs are in a poverty trap, they need a big push to jump start growth and sustain it
- Aid programs achieved huge successes in health and education outcomes
- Foreign aid sometimes doesn't work, because donor don't give enough aid
- Over time, effectiveness of aid had been improving. We are learning from our mistakes

Group exercise

- You are a board member of an international aid agency
- You are going to plan how to spend your \$100 million budget during the next fiscal year
- The below table includes information about all aid projects to which you can allocate funds

	Project 1	Project 2	Project 3	Project 4
Recipient country	Ukraine	Bosnia	Sierra Leone	India
Aid project	Helping war victims	Land mine cleaning	Distributing bed nets to prevent malaria	Improving women's education opportunities
Regime type	Hybrid	Hybrid	Hybrid	Democracy
GDP Per Capita	\$9200	\$13400	\$1600	\$7800
State Fragility Score	70	80	90	70