

# The Evolution of Development Assistance

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The form and objectives of development assistance have been evolving over the last decades. The objectives were determined by the changes of the development doctrines. In the late 1940s, the aid for recovery and reconstruction dominated in the world aid architecture. Then, donor countries supported state led initiatives and activities in recipient economies. Besides, foreign aid was directed to social sectors like education and health. In the 1980s and 1990s, donors provided aid for market reforms has arose in developing countries. Recently, the main objective of development assistance has been achieving MDGs (Millennium Development Goals). Aid from Western donors is highly conditional. Recipient countries have to fulfil strict development assistance regimes. Contrary to Western donors, Arab and emerging donors provide mainly unconditional assistance. Development assistance objectives have been also affected by the changes in donors' foreign policies. In the 1950s and 1960s, bilateral flows dominated. Since the 1970s, the assistance from multilateral institutions has expanded.

Keywords: development assistance, foreign aid, economic growth

The development assistance has increased significantly over the last decades. Donor countries distribute it to recipient countries directly or indirectly through multilateral institutions. After the Second World War, bilateral flows dominated. Since the 1970s, the assistance from multilateral institutions has expanded.

The development assistance has been determined by the changes of the development doctrines and the changes in geopolitics. In the post-war period, the aid for recovery and reconstruction prevailed in the world aid architecture. In the 1960s and 1970s, development economists argued that governments should take the leading role in economic development, so donors supported state led initiatives and activities. The development paradigm of the 1980s and 1990s changed substantially. It suggested that market should be given the central role in development. Besides, trade should be liberalized, industries deregulated, and public enterprises privatized (Hodler & Dreher, 2013, p. 63). Therefore, the main world donors supported market reforms in recipient countries. Recently, donors have been providing aid for poverty reduction, health and education improvement, and the development of institutional quality.

The aim of this paper is to analyse the changes in forms and objectives of the development assistance over the last decades. In this paper, the analysis of theoretical and empirical studies on the development assistance, and reports of multilateral aid institutions are used.

### **International Development Efforts After the Second World War**

After the Second World War, countries in Europe, such as the Soviet Union, countries in North Africa or

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East Asia required recovery and reconstruction aid. The first important initiative of foreign aid was the European Recovery Program (the Marshall Plan). Under the plan, the United States transferred over USD 13 billion to the devastated countries of West Europe in the years from 1948 to 1951. The largest amounts of the American aid were provided to the United Kingdom, France, Italy, the Federal Republic of Germany, and the Netherlands. Sixty percent of the Marshall aid was spent on primary products and intermediate inputs (food, feed, fertilizers, industrial materials, and semi-finished inputs). One sixth of the aid was spent on fuel, another one sixth on machinery, vehicles, and other commodities. Marine transport costs accounted for the remaining 7% of the aid (De Long & Eichengreen, 1991, p. 14).

Economic growth in the European recipient countries accelerated in 1948. Growth coincided with the beginning of the Marshall Plan implementation, and continued at a high level during the aid programme years. Therefore, the plan was quickly perceived as the example of development aid effectiveness and became a justification of foreign assistance for decades. Moreover, it became a model of development in the underdeveloped countries.

The Marshall Plan was without doubt a great achievement of the American foreign policy. However, among economists, there is no clear opinion of its impact on output growth in the recipient countries. Eichengreen and Uzan (1992, p. 15) claim that there is no obvious correlation between the American aid and the rates of economic growth in the European economies. According to De Long and Eichengreen (1991, p. 5), the Marshall Plan should be treated primarily as a successful adjustment programme.

The first American plan for international economic development was the Point Four Program. It was announced by Harry S. Truman during his inaugural address in 1949. The Point Four Program was a technical assistance programme for developing countries in Africa, Asia, and Central and South America. Contrary to the Marshall Plan, it offered small-scale transfers of technology and education programmes with a minimal American financial involvement. The main idea of the programme was to offer technical advice and create conditions for the inflow of foreign capital in order to initiate output growth in the recipient economies. The basic means to achieve a sustainable development was the improvement of standards of living in poor countries.

The Point Four Program took different forms which were often adjusted to specific needs of local communities. For example, under the programme, American experts helped to modify legal processes in Liberia. They also instituted a new monetary system in Saudi Arabia or promoted new filing systems in public offices in the Philippines. Moreover, a variety of schools and medical research facilities were established in India (Macekura, 2013, p. 149).

Besides, the United States launched aid programmes for South Korea, Taiwan (then Formosa), Viet Nam, the Philippines, Thailand, India, Iran, Jordan, and Pakistan under the Mutual Security Act (1951)<sup>1</sup>.

At the beginning of the 1950s, a reconstruction plan for the Asian economies damaged during the Second World War was launched. The idea of the "Marshall Plan" for South and Southeast Asia appeared during the meeting of Commonwealth Foreign Ministers in Colombo, Sri Lanka (then Ceylon) in 1950. This programme of foreign aid was called "the Colombo Plan for Cooperative Economic Development in South and Southeast Asia". Originally, the founding members were Australia, Canada, New Zealand, the United

<sup>&</sup>lt;sup>1</sup> The Mutual Security Act was modeled on the Marshall Plan. However, under the act not only economic but also military assistance was provided to American allies.

<sup>2</sup> In December 1977, after the advance of the control of the con

<sup>&</sup>lt;sup>2</sup> In December 1977, after the adoption of new constitution, the official name of the plan was changed to the Colombo Plan for Cooperative Economic and Social Development in Asia and the Pacific.

Kingdom, India, Pakistan, and Sri Lanka. The first four countries became principal donors. The United States joined the Colombo Plan as the first non-commonwealth country in 1951. Japan became one of the major donors in 1954. Nowadays, the organization consists of 27 members, including non-commonwealth countries<sup>3</sup>.

Countries in the Asia Pacific Region received assistance not only because of their economic backwardness but also for political reasons. The Colombo Plan was an attempt to counter communist expansion in the newly independent Asian countries (Oakman, 2000, p. 68).

The assistance under the Colombo Plan took two main forms. First, the aid was provided in the form of grants and loans for national development programmes and projects in agriculture, power, infrastructure, communication, and equipment, and production inputs including food grains, fertilizes, machinery, farm and laboratory equipment, and transport vehicles. Second, the assistance was provided in the form of services of experts and technicians and scholarships for study abroad in advanced technology, supply of special equipment for training and research, and institutional building of educational and training facilities (The Story of the Colombo Plan, 2012, p. 15). The assistance was generally used for the development of infrastructure and education in the recipient countries.

Donors' funds were mainly allocated to large industrial projects in the public sector of the recipient countries. For example, under the Colombo Plan, the construction of the Gal Oya Dam (1951) in Sri Lanka was finished with Canadian assistance. New Zealand supported the construction of All-India Medical Research Institute (1956). The Durgapur Steel Plant in India set up in the late 1950s has been assisted by the United Kingdom and the grain silo-cum-elevator at Hapur (1958) in India was constructed with the contribution of the United States. The construction of the Warsak Dam (1960) in Pakistan was assisted by Canada. Besides, under the Colombo Plan, many irrigation projects were realized.

In the 1950s and the 1960s, bilateral assistance was developed and expanded. Apart from the United States, the Soviet Union became a major world donor. The donor countries provided foreign aid mainly for development of infrastructure and education.

## Increase of Foreign Assistance for State Led Initiatives and Activities

In the middle of the 1950s, the Soviet Union engaged in the international development assistance. Nikita Khrushchev announced the expanded Soviet aid programme in 1956 during the XX Congress of the Communist Party of the Soviet Union. In this way, Zhdanov's "two-camp" doctrine<sup>4</sup> was replaced by the concept of a "zone of peace" that included besides the socialist countries also these of the non-aligned countries that were not members of a Western-sponsored military pact. Newly independent developing countries were to be supported with generous loans and grants in order to develop their economies along socialist lines.

The Soviet Union provided aid first to countries in Asia and in the Middle East and then became active in Africa<sup>5</sup> and Latin America. Egypt, India, Ghana, Guinea, and Mali were among the first countries that received the Soviet aid (Guan-Fu, 1983, p. 72). For example, in 1954, the Aswan Dam in Egypt was built with the

<sup>&</sup>lt;sup>3</sup> Retrieved from http://www.colombo-plan.org.

<sup>&</sup>lt;sup>4</sup> In 1947, Andrei Zhdanov claimed that the world had been divided into two opposite camps: the Western capitalist countries led by the United States and the Soviet bloc.

<sup>&</sup>lt;sup>5</sup> At the beginning of 1956, the Soviet Union had diplomatic relations only with one African country (Ethiopia), while by the end of 1966 with 25 countries in Sub-Saharan Africa (Kanet, 1968, p. 161).

Soviet assistance, and in 1955 the Bhilai Steel Plant in India. Besides, the Soviet Union channelled lots of resources to Indonesia<sup>6</sup>.

The Soviet development assistance was provided in form of: credits with a grant element of not less than 25%, grants, favourable terms for purchase services of Soviet personnel abroad, favourable terms for educating national cadres of the developing countries, favourable terms for the transfer of technology and know-how, favourable terms (prices) in foreign trade, preferential marine transport tariffs (Bach, 1985, pp. 269-270). However, credits at low interest rates dominated in the Soviet assistance.

The Soviet aid was mainly allocated to large-scale industrial projects in the public sector of the recipient countries (large steel plants in India and Turkey, metallurgical projects in Algeria, Libya, and Nigeria, irrigation projects in Algeria). The famous exception was a huge sports complex with a stadium with capacity of 100,000 spectators that was set up in Jakarta in 1962.

The Soviet Union offered also loans to exploit natural resources (mainly oil and gas) and establish independent national industries in recipient countries. Such loans were given to Afghanistan (1963), Algeria (1966), Iran (1966), Guinea (1969), Syria (1969), and Iraq (1969-1971). The Soviet Union not only delivered machinery and equipment for assistance projects or transport materials but also dispatched technicians to developing countries and provided training for local personnel (Nowak, 2014, p. 76).

Besides, the Soviet Union put great emphasis on the training students from developing countries. It provided higher education and professional training free of cost for them. Moreover, foreign students have received scholarships that were more than four times higher than those offered to the Russians (Kanet, 1968, p. 172). In 1960, the Soviet Government established People's Friendship University<sup>7</sup> in Moscow. It was a special university for students from Asia, Africa, and Latin America. At the University, political training was as important as specialized training.

In the 1960s, the number of foreign students in the Soviet Union increased rapidly. For example, from 1961 to 1966, the number of university students from African countries increased more than six times to about 4,000. It is worth noting that in 1956 only 46 students from developing countries were trained in the Soviet Union (Kanet, 1968, p. 167).

On the other hand, the American bilateral programmes were continued. By the late 1950s, the Eisenhower administration moved away from the small-scale technical assistance programmes. Instead, the United States again started to support large-scale development projects in poor countries.

Next, the Kennedy administration expanded the development assistance. In 1961, John F. Kennedy initiated a large assistance programme for Latin America named the Alliance for Progress. The programme was launched during the meeting of the Inter-American Economic and Social Council at Punta del Este, Uruguay. The main aim of this ten-year programme was to accelerate economic and social development in the region.

The programme assumed: achieving a rate of economic growth of 2.5% per capita per year in any country of Latin America, accelerating the process of industrialisation, raising agricultural productivity, increasing standard of living of the population, raising the construction of low-cost houses for the poor, a more equitable distribution of national income, eliminating adult illiteracy, and increasing life expectancy at birth. In order to

<sup>&</sup>lt;sup>6</sup> Boden (2008, p. 116) claims that from 1959 to 1965 (the year of the collapse of Soviet-Indonesian relations), Indonesia received 21% of all Soviet aid provided to all non-socialist developing countries.

<sup>&</sup>lt;sup>7</sup> In 1961, the university was named after Patrice Lumumba. The university's name was changed to the Peoples' Friendship University of Russia in 1992. Today, the university is one of the leading state higher educational institutes in Russia. It trains students from 140 countries. Retrieved from http://www.rudn.ru.

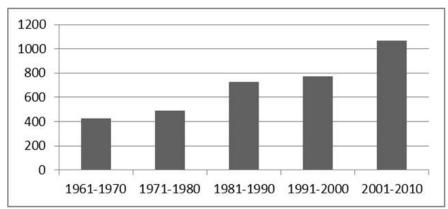
achieve these objectives, the United States declared that the Latin America countries would obtain assistance USD 20 billion during 10 years<sup>8</sup>.

In 1961, Kennedy also created the United States Agency for International Development (USAID) that was responsible for administration of the bilateral economic assistance. USAID brought together American foreign assistance organizations and programmes that operated before. The agency supported first the state led initiatives and activities in recipient countries.

Besides, the United States expanded its bilateral food aid. According to Barrett, Mohapatra, and Snyder (1999, p. 647), 80% of it were food aid programmes<sup>9</sup>.

In the 1960s, other industrialised countries became aid donors. Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, and Portugal established the Development Assistance Group (DAG) in 1960. A year later, the DAG became the Development Assistance Committee (DAC). In 1961, the United Kingdom, the United States, and the Commission of the European Economic Community joined the DAC<sup>10</sup>. The main objective of the DAC has been the coordination of its members' aid policies.

From 1961 to 1970, the DAC countries spent about USD 423 billion (in constant 2010 prices) on development assistance. In the next four decades, an increase in ODA<sup>11</sup> was observed (up to about USD 1,065 billion in the years 2001-2010). The trend of ODA is presented in Figure 1.



*Figure 1.* Trend in net ODA to developing countries (USD billion, 2010 prices). Source: the calculation based on (http://dx.doi.org/10.1787/888932700979).

By the 1970s, food aid represented over 20% of ODA. In the 1970s, more than a quarter of ODA was committed to the agriculture and industry in recipient countries, and more than 20% of ODA was spent for social infrastructure and services such as education, health, water supply, and sanitation (Hjertholm & White, 2000, p. 25).

<sup>&</sup>lt;sup>8</sup> The Charter of Punta del Este, Establishing an Alliance for Progress Within the Framework of Operation Pan America, August 17, 1961. Retrieved from http://avalon.law.yale.edu/20th\_century/intam16.asp.

<sup>&</sup>lt;sup>9</sup> Food aid is classified into three categories: programme, project, and emergency food aid. Under the programme food aid, food is given as government to government grant, loan or concessional sale. Then, food is sold at market prices on local markets to finance development projects in the recipient country. Project food aid is provided mainly as a grant to support specific projects or activities (food-for-work programmes, school feeding). Emergency (humanitarian) food aid is distributed for free during natural disasters (famines, earthquakes, and floods) or wars.

The DAC grouped 28 world's main donors in 2013.

In 1969, the DAC defined the Official Development Assistance (ODA). ODA consists of flows of concessional financing to developing countries and multilateral institutions provided by official agencies. The flows must contain a grant element of at least 25% (using a fixed 10% rate of discount). The main objective of ODA is the promotion of the economic development and welfare of developing countries. Retrieved from http://www.oecd.org/dac.

State led initiatives were also supported by multilaterals. In the early 1960s, institutional foundations of the current multilateral aid system were established. In 1960, the World Bank set up the International Development Association (IDA) in order to provide assistance in the form of grants and very soft loans to the poorest countries in the world. The main aim of the IDA was reducing poverty, accelerating economic growth, reducing inequalities, and improving people's living conditions<sup>12</sup>.

Besides, regional development banks were established. They offered financial and technical assistance to developing countries in different regions of the world. The Inter-American Development Bank was created in 1959 to provide loans, grants, and technical assistance to Latin America and the Caribbean<sup>13</sup>. The African Development Bank was founded in 1964 to support projects and programs that contribute to the economic and social development in Africa<sup>14</sup>. In 1966, the Asian Development Bank was set up. At the beginning, it supported a food production and rural development in the Asia and Pacific region. Then the bank has expanded its support for education, health, infrastructure, and industry<sup>15</sup>.

In the 1970s, Arab countries emerged as important donors. They established bilateral aid agencies: the Kuwait Fund for Arab Economic Development (1961), the Abu Dhabi Fund for Development (1971), the Saudi Fund for Development (1974), and multilaterals: the Arab Bank for Economic Development in Africa (1973), the Arab Fund for Economic and Social Development (1974), the Islamic Development Bank (1975), the OPEC <sup>16</sup> Fund for International Development (1976), and the Arab Gulf Program for United Nations Development Organizations (1980). In order to optimize the effectiveness of assistance, the Coordination Group of Arab National and Regional Development Institutions were set up in 1975.

The Arab development assistance is highly concessional with a grant element ranging from 25% to 75%. Besides, it is free from political and economic conditions and has practically never been tied. The bilateral aid agencies provide grants, loans, guarantees, and technical assistance. Whereas, the multilaterals provide mainly low-interest loans and guarantees to developing countries.

Aid has first been allocated in sectors important to economic development like transport and telecommunications, energy and industry, and mining (Neumayer, 2004, p. 296). Besides, Arab aid agencies have created banks for the poor in many Arab countries.

African countries have attracted 50% of the group's total commitments, Asia (48%), and the remainders were Latin America, and the Caribbean, and Eastern Europe. Arab assistance has been provided to over 100 developing countries (Speeches Delivered at the Symposium on Arab Development Aid, 2003, pp. 20-21).

In the 1980s, the major world donors changed their development assistance objectives.

#### **Conditional Versus Unconditional Development Assistance**

In the 1980s, Western donors revised their views on the role of state in economic growth and development. The widespread government intervention was no longer necessary to promote growth. What is more, it was the main barrier to achieving that growth (Kenny & Williams, 2001, p. 4). Donor countries began to support the market approach to development. The foreign aid took a form of the budget support conditioned on policy reforms. Recipient countries had to implement market reforms based on the assumptions of the Washington

Retrieved from http://www.worldbank.org/ida.

<sup>&</sup>lt;sup>13</sup> Retrieved from http://www.iadb.org.

Retrieved from http://www.afdb.org.

<sup>15</sup> Retrieved from http://www.adb.org.

<sup>&</sup>lt;sup>16</sup> OPEC stands for the Organisation of Petroleum Exporting Countries.

Consensus<sup>17</sup>. Besides, the International Monetary Fund (IMF) and the World Bank developed stabilization and structural adjustment programmes for developing countries. The main IMF programmes were the Structural Adjustment Facility (1986) and the Enhanced Structural Adjustment Facility (1987) (Nowak, 2013a, p. 29).

In the early 1990s, the centrally planned economies of the Central and Eastern Europe and the Soviet Union were supported in their transition to market economies. Donors focused first of all on governance issues. From the beginning of the 21st century, DAC donors have concentrated their efforts on achieving the Millennium Development Goals (MDGs)<sup>18</sup>.

DAC donors priorities have been changing over years. An increase of standards in development assistance has been observed. In the early 2000s, DAC prepared many documents with recommendations for donors how assistance should be designed in order to increase its effectiveness. For example, DAC countries have been focused on the promotion of poverty alleviation, sustainable development, and development of trade capacity in the recipient countries. They have also concentrated on gender equality and women's empowerment, and violent conflict prevention as essential determinants for development. Then, DAC donors have regarded security from violence and good governance as fundamental for sustainable economic, social, and political development.

In recent years, less conditional assistance from emerging economies has become an alternative source of aid for developing countries. One of the most important emerging donors is China. Its assistance has been mainly directed to large-scale infrastructure projects and energy facilities. Lately, China has increased its assistance also to projects which build institutional capacity and develop human resources. China combines loans, credits, and debt write-offs with special trade arrangements and commercial investments (Woods, 2008, p. 1205). Other significant emerging donors are Brazil, India, and the Republic of South Africa.

Brazil focuses on transfer of knowledge through technical cooperation to Latin America and Africa. Priority areas for Brazilian programmes are: agriculture, professional education, health (HIV/AIDS), environment, and public administration. India provides development assistance primarily to its neighbours. It focuses mainly on training and capacity building and soft investments in recipient countries. The Republic of South Africa provides development assistance to other African countries. It focuses on general improvements in governance, human resource development, and on local priorities such as conflict prevention.

Compared with the DAC aid, assistance from emerging countries is provided in different terms. Recipient countries do not have to fulfil the Western strict development assistance regimes and adopt specific economic policies and targets. Emerging donors declare that they respect for sovereignty of recipient countries and do not interfere in their policies. It seems that they have a better understanding of recipient needs, because they are more familiar with the problems of developing countries. However, emerging donors are often blamed for

<sup>&</sup>lt;sup>17</sup> The consensus recommends among other things: reduction of budget deficits and inflation, liberalization of prices and interest rates, deregulation, tax reforms, and privatization.

<sup>&</sup>lt;sup>18</sup> The goals include: halving extreme poverty, achieving universal primary education, promoting gender equality and empowering women, reducing child mortality, improving maternal health, halting the spread of HIV/AIDS, malaria, and other diseases by 2015, ensuring environmental sustainability, and developing a global partnership for development. Retrieved from <a href="http://www.un.org/millenniumgoals/bkgd.shtml">http://www.un.org/millenniumgoals/bkgd.shtml</a>.

<sup>&</sup>lt;sup>19</sup> The DAC Guidelines on Gender Equality and Women's Empowerment in Development Co-operation (1999); Its Complement Guiding Principles for Aid Effectiveness, Gender Equality and Women's Empowerment (2008); The DAC Guidelines Poverty Reduction (2001); The DAC Guidelines Strategies for Sustainable Development (2001); The DAC Guidelines Strengthening Trade Capacity for Development (2001); The DAC Guidelines Helping Prevent Violent Conflict (2001); The DAC Guidelines and Reference Series Security System Reform and Governance (2005). Retrieved from http://www.oecd-ilibrary.org.

providing "rouge aid" and undermining the merit-based aid allocation by traditional donors (Dreher et al., 2011, p. 1961).

In the last decades, the largest world donors have changed the development assistance objectives many times. However, the relationship between development aid and economic growth in recipient countries has rarely been positive. In many cases, foreign aid is more harmful than helpful to the economy (Nowak, 2013b).

### **Conclusions**

The development aid programmes link objectives of economic growth with political strategy. During the Cold War, the assistance from industrialised countries was used as means to combat with global communism. On the other hand, for the Soviet Union, the development aid was a useful instrument to promote communism in newly independent countries. Since the mid-1950s, development assistance has become an important means in competition for influence in Asia, Africa, and Latin America between the Soviet Union and the United States.

Besides, development assistance has always been an important component of donors' foreign policy.

The form and objectives of development assistance have changed over the last decades. Aid has been adjusted to changes of development doctrines. In the 1950s and the 1960s, donors supported mainly large-scale industrial projects in recipient countries because development economists claimed that economic growth was mainly constrained by the lack of infrastructure. Then donors turned to poverty reduction strategies and focused on meeting basic needs of people in poor countries. In the 1980s, Western bilateral and multilateral donors concentrated on stabilization and adjustment in recipient countries. Next, they supported good governance and again focused on poverty reduction. Recently, they have been trying to meet MDGs.

Western development assistance is highly conditional. Therefore, unconditional assistance from emerging donors has been getting more and more attractive for developing countries.

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Development assistance which is nondemocratic in origin and non-transparent in practice, and stops real progress (Naím, 2007, p. 95).

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