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CHAPTER 2

FOREIGN AID EFFECTIVENESS: THEORETICAL AND EXISTING STUDIES OVERVIEW
2.1 Introduction

The definition and evaluation of aid effectiveness is a complex problem and a very
hard task at the same time. Over the last six decades, hundreds of researchers have
generated a huge amount of literature reaching contradictory conclusions as to the
justifications of aid, the impact of aid on growth and its role in promoting
administrative reform processes as a condition for achieving comprehensive
development in recipient countries and reducing global poverty as a whole (Monkam,
2008: 18; and also see Gibson et al, 2005; and Bourguignon and Sundberg, 2007). As
a result, there is still a lack of theoretical harmony surrounding the effectiveness of
foreign aid.

Two competing broad views and conceptual perspectives on the potential of
foreign aid effectiveness have emerged. The public interest perspective (PIP) argues
that there is straightforward or an indirect positive effect of aid on development
outcomes and selected macroeconomic variables such as savings, investment, and
growth (Hansen and Tarp 2000, 2001, and also see Fielding et al, 2006; Mosley et al,
2004; Morrissey, 2003; Gomanee, et al 2003; Burnside and Dollar 2000; Clemens et.
al. 2004; Moreira, 2005). Thus, foreign aid is essential to plug an investment gap that
poor nations have. In return, this will get those nations out of the supposed “poverty
trap” (for example see Sachs, 2005; Williamson, 2009; and Stiglitz, 1998). A contrasting
perspective has grown in foreign aid discourse, which is the public choice perspective
(PCP). It perceives foreign aid as ineffective and possibly harmful to recipient
countries (Boone 1996 and 1995; Easterly, 2006 & 2003; Easterly, 2001; Roodman,
2004; Rajan and Subramanian, 2005; Bauer 2000, as cited in Williamson, 2009).

The aforementioned studies and many others have evaluated aid effectiveness
from both micro and macro levels, relying on both cross-country comparisons and
single country case studies, and by using broad surveys of a qualitative and multi-
disciplinary analysis as well as empirical analytical studies (Hansen and Tarp 2000:
357). I believe that a complete survey of aid effectiveness studies is not possible and
essential for this dissertation. Instead, in the third section of this chapter, I focus on
summarizing the arguments of the two main conceptual perspectives: the public
interest perspective (PIP) and the public choice perspective (PCP). In the fourth
section, selective explanations related to public choice perspective (PCP) will be

1 The overseas development assistance, as it is well known in today’s world as foreign aid, commenced by the Point Four
Program that was proposed by U.S. President Truman as the fourth point in his Jan. 20, 1949, inaugural address. Truman
“called for a ‘bold new program’ for making the benefits of American science and industrial progress available to ‘un-
derdeveloped’ countries.” The Point Four Program came directly out of the experiences of the Marshall Plan that oper-
ated by the U.S. government in 1947 and aimed at the reconstruction of Europe after World War II (Dichter 2003, 55;
Roodman 2004, 3). The international community originally formed World Bank (WB) and the IMF in 1945 to respond
calls for help and to gap filling at a point where there was a financial deficit in the war torn countries of Europe and Asia.
reviewed in order to investigate the different factors and issues related to foreign aid ineffectiveness.

At the end of this chapter, there is a brief presentation of the main theoretical argument of this study, which can be used to explain why foreign programs are ineffective. This study argues that the “Local Knowledge Syndrome” (LKS)\(^2\) is conceptually tied to ineffectiveness in donor-promoting public sector reform programs. The LKS is the lack of clear understanding of the existing formal and informal institutional and organizational environments in a specific recipient government body, which are the critical determinants of whether imported public management ideas will work or not in poor nations. Most government bodies in the poor nations operate using informal power structures, which are far more significant than the formal structure of power and rules.

My argument in this study is that the LKS can be solved by valid interactions and associations among the actors involved in the process of the aid intervention in a specific place and time. This becomes clear later in this chapter, Chapter 1 and Chapter 3, as the characteristics of actor-network perceptive are used to validate the process of local knowledge incorporation in order to ensure aid project effectiveness. In this dissertation actor network perceptive is not limited to a theoretical discussion but it is used as an analytical method that allows us “to compare the actor networks, identify patterns in network creation and eventually understand and explain the factors and conditions of the societal processes that lead towards responsible aid intervention” (Voeten, 2013: 17). The idea of actor network perceptive is significant for this study, (as I explained in Chapter 1 and in the coming chapters) as it detaches notions of success from objectively measurable validity and instead explains it through the mobilization of allies and the associability approach of reform.\(^3\)

The final section of this chapter is the concluding part. I start however by defining the some important concepts for this chapter: foreign aid and aid effectiveness.

2.2 Defining Foreign Aid and Aid Effectiveness

2.2.1 What is Foreign Aid?

Foreign Aid literature is ambiguous in its definition of Foreign Aid. Some authors define foreign aid as “all financial flows from donor nations to developing and transition countries, including official grants and loans, economic aid and trade

\(^2\) - LKS is fully conceptualized in Chapter 3 and chapters thereafter.

\(^3\) - The applicability of this theory to development studies will be defined, suggesting that its value lies in the way it allows us to rethink the notion of success in development: the development associability approach. However, to incorporate local knowledge, the actor network creation should be successful. “In this case, actor network perceptive suggests that the success of the actor-network can be attributed to the extent and durability of its alliances. The more alliances involved in the network, and the more people and things that work to maintain the network, the more successful it will be” (Scott-Smith, 2013: 4).
financing, charitable aid, security and military assistance, and political aid” (Akramov, 2006). Charitable aid is illustrated in terms of the donor effort against hunger, misery and despair in poor nations. Economic aid is defined in terms of sustaining the efforts of the populations of economically underdeveloped countries to develop their resources and to create conditions for self-sustained economic growth. Political, security and military aid is seen in terms of the donor aid programs and efforts to achieve “political stability in a recipient country, reducing the potential for conflicts, supporting peace, the promotion of democracy, the preservation of political independence of former colonies and maintenance of a sphere of influence for Western donor countries” (Pronk, 2005: 3). After events such as the 9/11 terrorist attacks, the war against terrorism has become part of aid giving to some poor nations. Industrialized (donor) countries have realized the need for close cooperation with governments of developing countries to ensure global security. They have also begun to understand that persistent poverty makes developing countries vulnerable to security and other threats. Therefore, aid has been increasingly shifted towards the challenges of development (Burnell, 1997 as cited in Akramov, 2006).

The above definitions can be used as a starting point for this study, alongside the standard definition of “official development assistance” (ODA). “Between 1960 and 1972, the donors wrestled with these questions in order to develop a definition that would enable them to record and compare their core development aid in a consistent manner. Member countries of the Development Assistance Committee (DAC) of the OECD now report their aid on the basis of an agreed definition of official development assistance (ODA)” (Brautigam, 2009: 15).

The Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD) used the term ODA for the first time in the early 1970s. It consists of grants or loans that a bilateral or multilateral donor gives to a recipient country to promote economic development and reduce poverty. It “comprises funding from governments to developing countries (those with a per capita income below a regularly adjusted threshold) and to multilateral institutions such as the United Nations Development Program or the World Bank” (Brautigam, 2009: 15). The OECD also has data on official development assistance (ODA) that includes technical cooperation, such as providing advice on making economic reforms and using new techniques in farming. The OECD in its data excludes military assistance, political development programs, export credits, and debt forgiveness for military loans from the definition of official development assistance (ODA). There are three criteria that ODA should satisfy (O’Neill, 1997):

- The two parties of the ODA relationship should be officials, i.e., aid is given by the official sector of the donor country and received by an official sector of the recipient country.
- The main course of aid should aim to promote the development process
and reduce poverty in the recipient country by promoting public sectors reforms.

- Aid must be granted on concessional terms, which in the case of a loan means that at least 25 percent of it must be in the form of a grant (see also OECD, 2001 and Akramov, 2006).

This dissertation takes an even broader definition of ODA to include all money given by a donor country to a recipient that would be classified as official development assistance, including military and security aid, political development programs, export promotion, debt forgiveness, and non-concessional aid that is lent by bilateral aid agencies rather than multilateral aid agencies. In other words, any money from government donor organizations that benefits recipient countries in the form of grants, concessional loans, or non-concessional loans is considered foreign aid. The only exception is the use of credit from the International Monetary Fund (IMF), which is excluded unless otherwise noted (O’Neill, 1997). I go beyond this definition to include a range of aid programs that aim to build the capacity and capability of the respective sectors, to be self-standing in managing their comprehensive development processes. In Chapter 8, I return to this definition when I consider how donor-promoted public sector reform process is working in the context of Yemen.

2.2.2 Defining Aid “Effectiveness”

What is aid effectiveness? In both foreign aid literature and amongst practitioners there is no agreement about how to define the term aid effectiveness. Many studies argue that is because of a number of interlinked reasons. First, aid is provided by different agencies that have very different objectives. Some objectives are altruistic, such as achieving development and reducing poverty in a recipient county. Others are egoistic, focused on the self-interests of a donor country such as promotion of trade, the protection of global public goods, and the war against the global terrorism. Second, there are a number of different factors that influence development outcomes beyond the provision of aid, e.g., civil wars and natural disasters in recipient countries. The argument is that the mix of motives for aid giving and the different factors that influence development outcomes “obviously make the development of a measure of aid effectiveness which has a broad acceptance and comparability challenging” (Burall, and Roodman, 2007: 3, and also see Lancaster, 2006 and De Haan, 2009).

The adopted definition of foreign aid or Official Development Assistance (ODA) in this study is: the grants or loans that a bilateral or multilateral donor gives to a recipient country to promote its development in its comprehensive meaning - economic development, social development, and political development. In this dissertation I define aid effectiveness to mean the extent to which aid programs and projects succeed or fail, in achieving their development targets in a recipient country.
“Criteria for examining the success of projects usually focus on their original aims and objectives. Success is then measured by the nature of the objectives, and the extent to which these objectives have been achieved. An effective aid program, according to this view, has good aims, it achieves what it sets out to achieve, and it does so because it has inherent strengths in design and implementation. We might call this view the ‘development validity’ position, as it draws attention to the connection between success and aims” (Scott-Smith, 2013: 11).

However, in this dissertation I focus more on the relationship between foreign aid and donor-promoted public sector reforms programs and projects related directly to the egotistic aspect of aid giving: prompting development and reducing poverty within fragile states to ensure security and stability at the global level. I believe that aid projects aimed at prompting public sector reforms are part of efforts and agendas of donors for reducing poverty and achieving welfare for those poor and miserable societies.4

Of course, one can argue that foreign aid is only a part of the picture in a recipient country, and any recipient country has its own natural and financial resources that can contribute to promoting development processes. On this point I would argue that for many recipient countries, especially (though not exclusively) in Yemen, foreign aid remains a key element of efforts to promote sustainable development and poverty reduction. Given the volume of resources that it involves, continued efforts to make aid made more effective are important (Domingo et al, 2009: 7).

The total financial commitment of donors to Yemen in the last 15 years has been nearly 13 billion USD, which represents more than 30 percent of the annual national income of the Yemeni nation. In my interview in 2010 with the Yemeni Deputy Ministry of Finance for the Budget Sector, he told me that about 95% of Yemen’s annual public income is allocated to finance the government’s net operating costs such as salaries, allowances and other day-to-day governmental costs, and only 5% of is allocated to finance public services and capital expenditures, that are the core to establish a healthy economy system for the nation and reducing poverty. The Deputy Ministry of Finance for the Budget Sector confirmed that external resources from donors finance 95% of public service and capital expenditures either in the form of grants or loans. He added that the external grants represent about 50% of the total external financial resources that Yemen had received over the past ten years5.

To define the concept of aid program effectiveness quite differently, there is an alternative view known as the ‘development associability’ position. Scott-Smith (2013) proposed this approach by using the theoretical elements of actor network

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4 - An argument about this point can be found in an advance level elsewhere.
5 - In addition to the interview that the researcher has done on 19 of November, 2010, with the Deputy Ministry of Finance for the budget sector in Yemen, the researcher has collocated and reviewed the aid flows and the national budgets of the both countries at the same period that mentioned above, in which I found that the same percentages are correct. This is done based on the data of OECD 2006-2010 and World Development Indicators 2005-2010.
perceptive (see chapter 1 for more details). This approach does not look at the stated objectives of a program and then measure effectiveness against them. Instead, it looks at how the objectives came about and if they are accepted in the first place, and then measures how people become convinced by these aims. At the base of this approach is the view that projects are built not on some inherent validity or superiority, but on the mobilization of stable and durable allies (2013: 6). Furthermore, the development associability evaluation approach captures the complex reality of development programs in a specific time and place where: size and longevity often has nothing to do with program aims, strength, or values; where projects may exist for many years in the absence of any formal markers of success; and where projects with many of these markers may never even get off the ground. “The ‘development associability’ approach refuses to associate success with any purely formal achievement of aims, nor with any universal or transcendental values. It seeks to remind us that development projects do not succeed because they “achieve their aims, but they succeed because they convince enough people that their aims are good. Similarly, development projects do not fail because they cannot meet their aims, or even because their aims are bad; they fail because they have not nurtured enough supporters who believe in the value of their aims. Success in development projects, by this view, is a matter of how strong and how wide the associations around the project are constructed” (Scott-Smith, 2013:10).

This dissertation employs Scott-Smith’s (2013) definition of the term of foreign aid project and program effectiveness, adding that if we have strong and wide associations around the project that are constructed effectively; the network of actors will be strong and a lot of problems such as cultural conflicts, absence of trust, and lack of openness, flexibility or mutual understanding will be avoided. Indeed, these problems can influence the process of interactions between actors in order to incorporate local knowledge during the policy design and policy implementation in a specific place and time, and make or break aid programs. These factors are identified and discussed in Chapters, 1, 3 and 10, where I show how they work against aid programs’ effectiveness at both levels: the recipient side and the donor side.

My criterion for the conceptualization of aid effectiveness is to measure the contribution of foreign aid in promoting public sectors reforms, using the development validity position or the development associability position, which lead to economic and social development and welfare in recipient countries. Therefore the concern here is whether donor-promoted public sectors activities are effective or not in reality. In foreign aid discourse, this criterion has been explored from different methodological and ideological perspectives. There are contradictory perspectives and empirical results about the justifications for and effectiveness of foreign aid, which I look at in the following section.
2.3 Foreign Aid Justification and Effectiveness: Contradictory Debates

Since donors started providing foreign aid to recipient countries, a growing body of research has dramatically increased our knowledge of how aid affects development processes in recipient countries and what factors determine the level of aid effectiveness. This literature has introduced two competing views and conceptual perspectives on foreign aid justification and on the potential of aid effectiveness: the public interest perspective and the public choice perspective. Based on these two competing conceptual perspectives, hundreds of empirical studies have investigated aid effectiveness in recipient countries, and have achieved contradictory results. It is far beyond the scope of this dissertation to provide a detailed review of such studies. Instead, I focus on summarizing the macro- and micro-level studies relating to both the public interest perspective and the public choice perspective which have investigated aid effectiveness in terms of both the aid-growth relationship and the aid-development relationship. This focus reflects the observation of Easterly (2001) when he argues that some recipient countries show a political economy model of growth without development (2001:1).

In subsection 2.3.1, I review evidence on the perspective of public interest on foreign aid justification, focusing in particular on one leading conceptual study of this perspective by Sachs (2005). Then, in subsection 2.3.2, I review evidence on the perspective of public choice on foreign aid justification, again focusing in particular on one competing and leading conceptual study of this perspective, which is by William Easterly (2006). After these two subsections, I move on to an analysis of empirical studies and explanations of aid ineffectiveness that are commonly used in foreign aid literature. As stated in chapter one, the main task of this dissertation is to provide an answer as to why Foreign aid is ineffective. The coming chapters do so by reviewing the main explanation of aid (in)effectiveness and then testing the theoretical paradigm of this dissertation.

2.3.1 The Public Interest Perspective and Foreign aid Justification

The public interest perspective was, and remains, a center argument for the use of foreign aid over the last sixty years in both macro- and micro-analyses. Hundreds of scholarly studies on the public interest perspective have argued that most “poor developing countries lack domestic savings to finance existing profitable investment opportunities and have limited or no access to international private capital markets; thus, official foreign assistance could play an important role (the only source in many developing countries) in filling the financing gap in order to attain a needed investment level and targeted growth rate” (Akramov, 2006: 33).

Most conceptual or high-level studies relate to the public interest perspective of foreign aid and they seldom provide empirical evidence to support their arguments (Akramov, 2006: 36). This section reviews in detail a particular and exceptional study,
which does build on empirical evidence, Jeffrey Sachs’ *The End of Poverty: Economic Possibilities for Our Time* (2005). Sachs’ analysis and proposals are backed up by his practical and field experience, as he has worked for twenty years in hundreds of countries across the world to promote economic development and welfare. In the study, Sachs provides successful examples of western donors’ experiences in aiding the poor countries: “The green revolution for food production in Asia, especially in China and India, vaccines and immunizations, antimalarial bed nets, oral rehydration therapies, agroforestry to replenish soil nutrients, antiretroviral medicines, the spread of family planning, and so on. In almost all of these cases, the technologies were first developed for the rich-country markets, or were sponsored for the poor nations in a special donor-led process” (Sachs, 2005: 282).

Sachs argues that at the most basic level the key to ending extreme poverty is “to enable the poorest of the poor to get their foot on the ladder of development,…at least to gain a foothold on the bottom rung, from which they can then proceed to climb on their own” (2005: 226 & 2). In doing so, the author suggests that you must first consider how the poverty trap works in poor nations and how foreign aid helps overcome it. He explains that in households that are impoverished, “All income goes to consumption, just to stay alive. There are no taxes and no personal savings. Nonetheless, depreciation and population growth continue relentlessly. The result is a fall in capital per person and a negative growth rate of per capita income; that leads to further impoverishment of the household in the future.” The figure depicts a vicious cycle of falling incomes, zero savings and public investment, and falling capital per person as a result” (2005: 246).

Sachs’ theory of how official development assistance (ODA) helps to overcome the poverty trap in poor nations is shown in Figure 2.1 below. In Sachs’ perspective, ODA can help “to jump-start the process of capital accumulation, economic growth, and rising household incomes” (2005: 249):

Sachs (2005) provides a solution of how donors can help the poor countries to foot on the ladder of development that shown in the above figure 2.1, in the form of official development assistance (ODA), helps to jump-start the process of capital accumulation, economic growth, and rising household incomes. The author suggests foreign aid should feed into three channels:

A little bit goes directly to households, mainly for humanitarian emergencies such as food aid in the midst of a drought. Much more goes directly to the budget to finance public investments, and some is also directed

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6 - Jeffrey D. Sachs has been cited by the *New York Times Magazine* as “probably the most important economist in the world” and by *Time* as “the world’s best-known economist.” He has advised an extraordinary range of world leaders and international institutions on the full range of issues related to creating economic success and reducing the world’s poverty and misery. Now, at last, he draws on his entire twenty-five-year body of experience to offer a thrilling and inspiring big-picture vision of the keys to economic success in the world today and the steps that are necessary to achieve prosperity for all. CF, See, http://www.powells.com/biblio/1-1594200459-0.
toward private businesses (for example, farmers) through microfinance programs and other schemes in which external assistance directly finances private small businesses and farm improvements. If the foreign assistance is substantial enough, and lasts long enough, the capital stock rises sufficiently to lift households above subsistence. At that point, the poverty trap is broken, and figure 2.1 comes into its own. Growth becomes self-sustaining through household savings and public investments supported by taxation of households. In this sense, foreign assistance is not a welfare handout, but is actually an investment that breaks the poverty-trap once and for all. (2005: 246).

Having discussed the conceptually broad view of the public interest perspective to the potential justification and impact of foreign aid in recipient countries, Sachs (2005) concludes that more aid investment is needed to end poverty in poor nations by filling the financial gap, thus improving basic saving, capital accumulation and growth. Moreover, Sachs claims that enhanced aid is needed, not just extra aid. Donors should focus on both the quality and quantity of foreign aid. It is currently difficult to realize the development objectives of foreign aid. Foreign aid is driven by donor objectives and tied to contractors from donor countries. For example, only about 24% of net bilateral aid is directed to real capital investments in low-income countries7.

2.3.2 The Public Choice Perspective and Foreign Aid Justification
I now turn to discuss another conceptual approach: the public choice perspective and foreign aid justification. This argues that aid has been negatively associated with

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7 - This point is fully covered in the coming sections where I consider why foreign aid is not effective.
growth and development in recipient countries and that it harms them rather than helps.

In many instances throughout the years, critics of foreign aid have argued that the objectives of foreign aid are worthwhile but that its premises are wrong and it is just a waste of money (see for example: Freidman, 1958; Little and Clifford, 1965; Loomis, 1968; Bauer, 1972). Most of these studies argue that aid flows have largely contributed or will contribute to the failure of development efforts in many developing countries by enlarging government bureaucracies, perpetuating rent-seeking and corruption, and enriching the elites in poor countries (in Akramov, 2008: 34). One of the strongest contemporary critics of foreign aid is William Easterly who has written many books related to the subject of foreign aid effectiveness, the most important one is *The White Man's Burden* (2006). Easterly wrote this book as part of an ongoing debate with Jeffrey Sachs. The White Man's Burden is a thorough refutation of Sachs’ (2005) argument that poor nations are trapped in a so-called “poverty trap” from which there is no possibility of escape except when donors provide a large volume of foreign aid. Easterly(2006) provides statistical evidence (see Table 2.1 below) showing

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*Source: The White Man’s Burden, Easterly (2006)*
that so much of aid has been spent with little growth and little poverty reduction have been achieved. Although the White Man’s Burden of the astronomical sums of money of foreign aid he spent, aid programs have been negatively associated with growth in recipient countries. This negative association does not prove that aid caused the decrease in growth, but it does show that aid has not always been able to halt the deterioration of growth, and that success can occur without foreign assistance in aid-receiving countries (Also see Monkam, 2008).

The question these figures pose is why ten countries achieved the worst per capita growth rates during the years 1980-2002, despite to some extent receiving more aid than the ten countries with the best per capita growth rates during the same period\(^8\). Easterly (2006) and many other scholars such as Stephen Browne (2006) have provided answers to this question. They argue that this paradox occurred because of two major factors. First, development is essentially a domestic matter and development progress depends on the way governments are managed. The ten countries that achieved the best per capita growth rates are now emerging into middle and upper income status and have mostly managed their development processes well. They have used the resources at their disposal to development ends and they have acted as facilitators of enterprise and progress (Browne, 2006:10). By contrast, the ten countries that achieved the worst per capita growth rates during the years 1980-2002 have suffered from poor and inappropriate management and corruption. At worst, they have been at the mercy of cynical regimes of despoilers, not developers. Many have also suffered the disadvantages of challenging geography, limited resource endowment and natural disasters (Browne, 2006).

The second major factor of the paradox is that some poor countries have a lack of financial resources to finance their development process. Unfortunately, the donor countries that have much to offer have often provided aid with the wrong development policies and delivery mechanisms. Most donor agencies are unaccountable, and do their jobs without minimum standards of transparency. Scholars of conceptual perspective, find that the externally-created solutions that foreign aid offers in many cases have actually undermined the capacity of the recipients to direct their own affairs. They claim that Foreign Aid has much to harm recipient countries and argue against scaling up foreign aid flows a Sachs (2005) advocates (in Akramov, 2006: 35)\(^9\).

To overcome these problems, William Easterly puts forward two ideas. First, recipient countries should find solutions to improve their own management capacities

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\(^8\) - Some other authors such as Diego (2010) argue that comparing those ten countries with the best rate of GDP and the ten countries with the worst indicates an inverse relationship between aid and economic growth. From 1980 to 2002, the ten countries with the best per capita growth rates were under IMF programs only 11.6 percent of the time. Meanwhile, the ten worst countries were under IMF supervision nearly five times as long (2010, p9).

\(^9\) - As the second perspective is straightforward the one of the basic theses of this study, as it is drawing to provide ample evidence why foreign aid does not work, I will focus more on this strand of research in the coming sections and chapters of this study.
to effectively absorb external aid. Second, “planners” should rethink the following question: “What can foreign aid do for poor people?” It is true that there are always wealthy people willing to help disadvantaged people. The proposal here is that: “it should be the duty of aid agencies to take that generosity and effectively apply it to small focused projects that clearly address the needs of the poor” (in Diego, 2010: 9). If the West cannot learn from its mistakes and effectively bring assistance to those in desperate need, neither aid nor economic theory will ever eliminate poverty or ensure global wealth. “There will always be those who are poorer than the rest” (Easterly, 2006: 3). For in the open expressions of Easterly, (The only Big Answer is that there is no Big Answer) (Easterly, 2006).

Aid donors should develop more effective delivery and allocation techniques of foreign aid to achieve positive effects. Aid agencies should also improve their transparency standard (Easterly 2006 and Williamson, 2008). They should have “comprehensive availability and accessibility of aid flow information in a timely, systematic and comparable manner that allows public participation in government accountability” (Moon and Williamson, 2010: 2). In this sense, policy-makers can obtain transparent information from lower levels about the different problems in recipient countries and then they can deal with them effectively, by designing appropriate development policies. Indeed, such claims were made in the Paris declaration on aid effectiveness in 2005, and the follow-up conference of donors and recipients at the Accra Agenda for Actions in 2008.10

There is another strand of research related to the public choice perspective that goes beyond Easterly’s critique of foreign aid. Proponents of this school agree with Easterly that aid has not achieved its goals, such as promoting development and reducing poverty in recipient countries. Second, they agree with Easterly’s argument that the casual variables of foreign ineffectiveness are: (1) an inappropriate development model based on the “financing gap”, with lack of capacity of recipient countries to effectively absorb the foreign aid, and (2) maladministration caused by a lack of accountability for aid agencies and the weak structure of aid delivery system as a whole.11 Proponents disagree with Easterly’s proposal on reforming the aid system. For example, Sorens (2007) and Deepak Lal (2006) argue that aid delivery is

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10 The Paris Declaration (2005) and Accra Agenda for Action (2008) are ‘founded on five core principles, born out of decades of experience of what works for development, and what doesn’t. These principles have gained support across the development community, changing aid practice for the better. It is now the norm for aid recipients to forge their own national development strategies with their parliaments and electorates (ownership); for donors to support these strategies (alignment) and work to streamline their efforts in-country (harmonization); for development policies to be directed to achieving clear goals and for progress towards these goals to be monitored (results); and for donors and recipients alike to be jointly responsible for achieving these goals (mutual accountability)’. However, the issue, of changing the donors and recipients their behavior and practice after these conferences, has been under debate in foreign aid literature. I will address this debate in the next sections of this study. CF: Development Co-operation Directorate (DCD-DAC) available http://www.oecd.org/document/18/0,3343,en_2649_3236398_35401554_1_1_1_1,00.html, visited on 15/7/2011.

11 The argument related to the nature of the aid delivery system is exploited in the Chapter 5.
fundamentally unreformable, because the aid agencies which manage the aid interventions are essentially un-reformable themselves. Sorens argues, “If the aid agencies were to be reformed along the lines Easterly suggests, they would lose their political reason for existence. Although publicly funded aid has largely failed, there is substantial evidence supporting the benefits of private foreign direct investment (FDI) and not-for-profit micro lending” (Jason Sorens, 2007: 17). Sorens adds that “both historical and contemporary evidence suggests that the most important pro-development reform that Third World governments can make is to structure their political institutions so as to facilitate credible governmental commitments to private property rights, contract enforcement, and competitive markets” (Jason Sorens, 2007: 20).

To sum up, the public interest perspective states that aid is justified. It helps poor nations and increasing aid flows by donors to recipient countries are necessary to fill the financial gap, which poor nations suffer from. It regards the financial gap as the main cause for the exacerbation of poverty in poor nations. Public choice perspective on the other hand, finds that foreign aid is ineffective in achieving its ultimate objectives: prompting developments, growth and reducing poverty in poor nations. Moreover, it argues that foreign aid actually harms rather than helps the poor nations, and suggests that foreign aid flows should stop to avoid such harm.

In the remainder of this chapter, I discuss in greater detail the backdrop of the justifications of donor-promoted public sector reforms in recipient countries. I consider the main motivation and focus of this study, being why is foreign aid ineffective in promoting public sector reforms, achieving development and reducing poverty in recipient countries? I review literature on aid ineffectiveness in depth, using the arguments of the public choice perspective and isolating the arguments of the public interest perspective. The next section is an introduction to the main explanation of the foreign aid ineffectiveness as presented by the public choice perspective and related scholars and participants. Finally, I look at the other explanation relating to local knowledge syndrome (LKS) which is main focus of this dissertation.

2.4 Why Foreign Aid is Ineffective: Towards a Theoretical Model

The question of “What is wrong with foreign aid” is very complex. It is a logical and grand question, which has still not been conclusively answered. Ostrom (2005) argues that “almost every part or process of the aid system has been criticized, from the geopolitical agenda of donors to the distributive politics of recipient countries; from the ties that bind aid to procurement from private firms in the donor’s country to the constraints on aid bureaucrats’ decision-making power; from the type of aid given to the type of accountability demanded” (2005: 5). Aid ineffectiveness is still a problem that is quite unresolved. In the discourse on foreign aid, there are many
reasons for the shortcomings of foreign aid ranging from weak policies and institutions in recipient countries to problems within the donor countries themselves (Monkam, 2008:1-2; Lancaster, 2007: 82-83).

2.4.1 Weak Policies and Institutions in Recipient Countries

On the recipient side, much of the focus of macro studies has been on bad governance as an explanation of the disappointing performance of aid in recipient countries (World Bank 1998; Lancaster 1999, 2007; Easterly 2006; Ear, 2006; Alesina and Dollar 2000). As a broad explanation, bad governance calls attention to a series of problems in political and economic institutions and policies, political and social accountability, administrative systems and government bureaucracies, and public service delivery in recipient countries (de Haan, 2009: 8).

Many studies related to this explanation regard the fight against bad governance as an “uphill battle” that works against aid effectiveness. Donors provide hundreds of good governance programs to overcome the problem of bad governance, but bad governance remains a significant obstacle to the effectiveness of aid programs. Since the 1950s donors have employed countless development measures to try to address the problem of bad governance in recipient countries. Empirical evidence shows that the complex problems related to bad governance have prevented the establishment of necessary reform conditions or the successful utilization of these development measures. Regardless of the good intention of donors, many studies argue that aid has been a mistake, because it has harmed the poor nations instead of helping them. Indeed, there is a great raft of evidence that suggests foreign aid exists in a perpetuated “vicious cycle”. This states that poor nations have become increasingly dependent on foreign aid. They reduce their efforts at market reforms that could enhance public production and tax income in the rest of the economy, and divert aid to government expenditure (Bauer, 2000: 45-48). Furthermore, “foreign aid is effectively fungible and, thus, can be used by recipient governments to finance unproductive consumptions” (Bearce and Daniel, 2010: 838).

There is a widespread orthodoxy among academics and aid providers alike that aid ineffectiveness is a result of a central and dominate variable, politics, which determines not only the conception and shape of aid interventions, but developmental success and failure in all human societies. Considering the politics of poor nations provides an understanding of the different performances of these societies. The politics in any society are shaped and in turn influenced by the “character” of its ruling regime (Leftwich, 2000: 4). Proponents of this orthodoxy argue that aid is ineffective because the majority of recipient countries are ruled by “authoritarian” regimes, and most of them suffer from the absence of “democratic good governance”. The latter refers to a political regime based on the model of a liberal-democratic polity, which protects human and civil rights and also a competent, non-corrupt and
accountable public administration. Such political systems, the argument goes, are functional for competitive, free market economies, and they can utilize aid in effective manner (Leftwich, 2008: 605).

An important example of this orthodoxy is *Falling Behind* (2008). Edited by Francis Fukuyama, this book aims to explain the nature of the development gap between Latin American countries, the majority of which are aid recipients and the United States. Tracing the histories of development over the past four hundred years and focusing in particular on the policies of the last fifty years, the contributors conclude that the political authoritarian regimes in most Latin America countries are at the root of the divide. They find that the authoritarian regimes maximize the welfare of a fixed ruling coalition instead of maximizing the welfare of a whole society authoritarian regime maximize the welfare of a fixed ruling coalition instead of maximizing the welfare of a whole society (Fukuyama, et al, 2008).

**Authoritarian Regimes and destructive and unproductive policies**

Many cross–country studies that have investigated the relationship between the quality of governance in its political sense and aid ineffectiveness provide some preliminary empirical evidence to support the hypothesis that democratic institutions are one determinant of aid effectiveness. The reason is that political accountability increases government endeavor at all levels. That is, the degree of political accountability will determine the extent to which external resources of aid will be utilized for productive purposes\(^{12}\). In response, Svensson (1999) finds that aid has a negative impact on development in countries without an institutionalized check on governmental power because aid is often used to satisfy a non-democratic government’s own non-productive goals. Many other empirical studies such as Van Rijckeghem and Weder (1997) and Schwalbenberg (1998) confirm this. Unproductive development policies are in some cases “intentionally” chosen by self-interested authoritarian regimes in recipient countries, which have short-term prospects.

Boone (1996) and Bauer (2000) argue that the miserable conditions in most recipient countries are not a result of unproductive policies but a result of “destructive” policies adopted officially by their political dictators. Boone (1996) analyzed the effectiveness of foreign aid programs to gain insights into the political regimes in 97 aid recipient countries. The author considers three alternative stylized political/ economic regimes: (I) an egalitarian regime, (II) an elitist regime and (III) a laissez-faire regime. Boone concludes that of the three, elitist political regimes are the most ineffective users of aid\(^{13}\). Poverty is often enhanced by the destructive official policies

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\(^{12}\) Svensson (1999) has listed several studies that dealt with this theoretical perspective.

\(^{13}\) For the other two types of regimes, Boone (1996) finds that the egalitarian regime has an optimal policy that is to transfer the aid resources to the poor and hence improve poverty indicators. The laissez-faire regime has an optimal policy that is to use the aid to lower distortionary taxes, and hence stimulate investment and growth. These two regimes have no problems with using aid in an effective way but the problems are related to the elitist regime, which in itself is a big problem as the public suffers from it in their daily life.
introduced by such as regimes, rather than by capital shortage\textsuperscript{14}. Bauer (2000) provides a long list of such damaging policies including:

persecution of the most productive groups, especially ethnic minorities, and sometimes their expulsion; suppression of trade, and at times destruction of the trading system; restriction on the inflow of foreign capital and enterprises; extensive confiscation of property including forced collectivization; voluntary or enforced purchase of foreign enterprises which absorbs scarce capital and deprives the country of valuable skills; price policies that discourage agricultural production; expensive forms of support of unviable activities and projects, including subsidized import substitution; and the imposition of specific economic controls which, among other adverse effects, restrict external contacts and domestic mobility and so retard the spread of new ideas and methods (2000, p.43).

Why are “destructive” development policies introduced?

The reasons why recipient countries adopt unproductive policies is their lack of capacity to develop sound policies. The argument here is that the foreign aid can contribute to strengthening these capacities to develop the necessary policies to absorb foreign aid in an effective manner. Indeed, this is the main role of foreign aid on the ground. It is tragic and bizarre when recipient governments officially and intentionally adopt “destructive” development policies to satisfy the egoistic interests of their corrupt ruling elites. When donors provide aid to such an environment, it will not be effective. Donors are engaging in an “uphill battle”, and eventually it is a battle they lose.

There are many reasons why such regimes introduce “destructive” development policies to keep their countries in poverty. The first reason is a reflection of the internal political egoistic interests of corrupt ruling elites in recipient countries. As Easterly (2007) stated, elitist political regimes explicitly want to limit the productive capability of the poor, because of the latter’s potential to create political activism that would threaten the regime. The second reason is a reflection of an external, economically egoistic interest of corrupt ruling elites. It reflects a “public choice” to create an environment that actually attracts aid by encouraging donors to give more aid in a humanitarian response. Donor allocation of foreign aid is often based on the level of poverty in a recipient country. Elitist regimes want to continue to attract donor support, so have the incentive to keep the country poor continues. If elitist politicians understand that they will benefit from foreign aid they will create/maintain poverty in their societies, creating a paradox around foreign aid effectiveness on the recipient side. These regimes want more external financial resources to promote development and reducing poverty; but they adopt damaging policies that create misery in their countries (Williamson, 2008: 13). Bauer (2000) uses an empirical example of Ethiopia and Sudan in the 1980s which makes this argument clearer. “The

\textsuperscript{14} - Boone (1995) has listed studies that supported this conclusion: Friedman (1958); Bauer (1971); Dreze and Sen (1989); Casella and Eichengreen (1995).
destructive policies of these governments have been largely responsible for the mass misery which in turn has been so effective in eliciting large sums of both official aid and private charity” (2000: 50).

The third reason offered by Easterly and Levine (1997: 5) is that ethnic diversity in recipient countries is one of the main causes of “destructive” development policies, as well as poor education, political instability, inadequate infrastructure, and other factors associated with slow development. “While debate persists, an assortment of political economy models suggest that polarized societies will be both prone to competitive rent-seeking by the different groups and have difficulty agreeing on public goods like infrastructure, education, and good policies”15. Lane and Tornell (1998), Lahiri and Raimondos-Moller, (2000), Bridgman (2003), Rajan and Subramanian (2005) and Michał Hulej (2006) confirmed the findings of Easterly and Levine (1997) that the number of ethnic groups living in a recipient country affects aid effectiveness, unless the recipient country builds institutions that protect common resources from appropriation. Moreover, Michał Hulej (2006), by using a difference-GMM estimation model16, showed that the effectiveness of anticipated aid disbursements is negatively related to the number of powerful groups, with adverse effects being observable even before actual disbursement of aid takes place.

To show how the causal mechanism of ethnic fractionalization in recipient countries works against aid effectiveness, Migdal (1998) argues that ethnic fractionalization within those countries poses a formidable obstacle to elitist regimes as they attempt to maintain power. To overcome this obstacle, elitist regimes provide political patronage to key ethnic figures central to political and material mobilization in order to maintain their political support.

A good example that illustrates the theoretical foundation of Migdal (1998) is provided by Cohen (2006), who investigates the relationship between ethnic fractionalization and foreign aid effectiveness in Kenya. Cohen provides empirical evidence that ethnic interests have unexpected effects on the processes of formulating and implementing aid interventions. The author finds that in the 1991/92 financial year, the government of Kenya approved 654 development projects that were financed in the form of grant or loan by different aid agencies. However, the number of approved externally funded projects was somewhat less, as the government divided these projects into many sub-components. A major reason is “that both Government officials and aid agency professionals wanted a sufficient number of sub-projects to ensure that all ethnic areas received a fair share of the funded activity. Another reason why there were so many projects is that the ruling ethnic coalition used domestic

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15 Cited in Easterly and Ross Levine (1997), who presented many studies that are debating this, such as political economy models: [Alesina and Tabellini, 1989; Alesina and Drazen, 1991; Shleifer and Vishny, 1993; Alesina and Rodrik, 1994; Alesina and Spolarente, 1995].

16 -The definition of this mode has provided by Rajan and Subramanian (2005) and Michal Hulej (2006).
resources to earn rents from capital construction projects that were to be implemented in their home areas” (Cohen, 2006: 9-10). Similarly Bayart (1994) provided empirical evidence of “10 African dictators whom he used public office to divert large sums, including foreign aid, to their tribe members or clients. And elected or authoritarian populist regimes, defined as regimes “seeking to mobilize and represent the poor”, also use distortionary policies to redirect funds to their supporters” (Bayart, 1994 in Boone 1996: 2).

2.4.2 The Egoistic Behavior of Donors and Foreign Aid Ineffectiveness

A Response to the aforementioned causal logic is that different studies argue that donors have the ability to enforce reform conditions associated with their aid, by credibly threatening to hold back future aid giving (Bearce and Daniel, 2010). However, the public choice perspective (PCP) finds that most donors are still tying their aid-giving to egoistic interests such as political, strategic, commercial, cultural, and religion interests. The crux of the problem is that donors have a high intention of achieving those egoistic interests, but little interest in holding recipient countries accountable for achieving anything productive with aid (see for example Jason Sorens, 2007; Easterly, 2005, 2006, 2007, 2011; Stephen Browne 2006). This prevalent explanation of aid ineffectiveness goes further and shows that the egoistic interests of donors often work against the altruism objectives of aid-giving, corrupting aid projects’ outcomes and thus reducing the effectiveness of aid interventions (e.g. Lancaster 1999, 2006; Easterly 2006; Lindsay Whitfield, 2009).

Lancaster (2007) divides the question of why aid was given into two sub-questions: (1) “what purposes did governments pursue with their aid?” and (2) why did they choose those purposes and not others? Lancaster points out that many “scholars and practitioners have debated whether it was or should be provided for primarily diplomatic purposes—advancing the national security and economic interests of the donor country—or whether it was or should be provided mainly to help better the human condition in countries receiving the aid”(2007: x).

If we consider the body of international relations literature related to foreign aid, there are two core theoretical perspectives on international politics that attempt to explain foreign policy behaviour in the context of international politics: political realism and constructivism. This may provide us with some theoretical directions in understanding some of the dynamics that surround foreign aid effectiveness.

An ‘advocate’ of the political realism perspective was Hans Morgenthau (1948),

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17 Other studies, such as by D.W Brinkerhoff (2005) found that certain clientelistic practices have hidden positive functions, such as giving poor people access to resources.
19 - Hans Morgenthau is considered one of the “founding fathers” of the realist school in the 20th century. This school of thought holds that nation-states are the main actors in international relations and that the main concern of the field
who viewed nation-states and/or their respective governments as unitary actors in, and a part of, an international system which create strong incentives for policy and behavior, and act rationally in response to challenges and opportunities emanating from that system. They opt for policy choices or actions that are deemed to maximize their strategic goals and objectives. Morgenthau assumed that the strategic goals and objectives of governments are “national interests”.

The constructivist perspective argues that a sort of norm rather than national interests inspire foreign policy behavior. “These norms are defined as inter-subjectively shared value-based expectations of appropriate behavior” (Boekle, Henning et al, 2001:3) and they derive their ‘power’ from their ability to ‘prescribe’ what is to be regarded as ‘appropriate behaviour’ (Finnemore and Sikkink, 1988). Thus, in a simplistic sense, norms set standards of what is right and/or what is “wrong” within a given society.

The political realism perspective ignores domestic factors in formulating foreign policy, while the constructivism perspective regards domestic factors as mediating the impact of external events and trends on foreign policy choices. Lancaster (2007) argues that neither of them adequately explain the complexities of aid’s purposes. The constructivism perspective considers domestic factors, but it often draws on the field of comparative politics. Moreover, both constructivism and political realism lack one important element: the impact of domestic politics on aid giving, and thus aid effectiveness. Lancaster (2007) argues that the ways in which foreign aid policies are formulated and reformulated are periodically reviewed (and often influenced) by a variety of domestic political forces and agendas inside a donor country. She provides a conceptual framework that identifies four categories of domestic political forces shaping foreign aid effectiveness at the domestic level: ideas, political institutions, interests, and the aid organization (that is, the way governments organize themselves to manage their aid) (Lancaster, 2007:4-19).

Lancaster (2007) presents a conceptual framework that explores the relationship between domestic forces and aid effectiveness. The domestic forces include, but are not limited to, widely-shared ideas relevant to aid-giving, a donor country’s political institutions, the interests competing for control over aid-giving, and the way donor governments organize themselves to manage their aid (Lancaster 2007:6). Figure 2.2 (Below) highlights Lancaster’s conceptual framework and provides a simplified yet sufficient illustration of the patterns of interactions among major and informal is the study of power. Morgenthau emphasized the importance of the national interest, and in Politics among Nations, he wrote, “the main signpost that helps political realism to find its way through the landscape of international politics is the concept of interest defined in terms of power. Cf, http://en.wikipedia.org/wiki/Hans_Morgenthau, visited on 3rd October 2011.


21 - This section based on Lancaster's (2007) theoretical approach explains the relationship between domestic forces in a donor country, international factors, and foreign aid effectiveness in a recipient country.
domestic forces. It highlights further interactions with the guidelines from a donor government’s foreign aid policy, as it is a member of the international system. This figure shows the relative importance of all of these elements in the churning mass that is policy-making towards the processes of formulation and implementation of foreign aid policies by donor countries (Lancaster 2007:24):

**Figure 2.2. Showing the Main Domestic and International Forces that Have Influence over Foreign Aid Effectiveness, and their Relationship**

Lancaster (2007) calls shared ideas relevant to aid-giving in a donor country “worldviews”: there are widely shared values in a given society — based on its culture, religion, ideology — about what is “right”, “wrong”, “appropriate” and “inappropriate” in public and private life. Lancaster (2007) argues that the worldviews in a given society can affect foreign aid through considering the following main questions: How do basic values regarding the obligations of the rich to help the poor and the role of the state in fulfilling such obligations affect the purposes of foreign aid in different countries? How do widely shared views about the appropriate role of the state in society affect the existence of civil society organizations, which, in turn, can affect the purposes of aid? Lancaster (2007) tested this conceptual argument through several case studies. For example, she finds that the norms of “social solidarity that underpin the social democratic traditions in Scandinavia and the Netherlands has undoubtedly facilitated the popularity of foreign aid in those countries”22…The Japanese tradition

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22 - There is no debate that those norms under ongoing changes. For example, I find that in the Netherlands now public orientation of aid giving has changed through different factors: the international economic crisis and its consequences on the Dutch society and the recent rise of the extreme right on the political map in the country. In the financial year 2011, the Dutch government cut its yearly foreign aid to poor nations by half. What I would like to inform the reader here is that the shared values of Dutch society have changed as an extreme right party got a high percentage of the votes
of strong state–weak society has impeded the development of relief-and development-oriented NGOs there (2007:18).

According to Lancaster (2007), a donor country’s political institutions help shape the rules of “the political game”: they determine who sets the issue agenda, who has the right of access to decision-makers, who chooses policies, and who can veto decisions. Lancaster argues that there are many political institutions that directly and indirectly affect aid giving such as voting rules or electoral rules. A political system based on minority voting can more easily get their issues, including the aid issue, on the national political agenda than in a political system based on majority voting. This is because minority parties can get their niche issues on national agendas as a price of joining a specific political coalition. Another factor, states Lancaster, is the nature of the political ruling systems—parliamentary system versus presidential—and, especially, the role of legislatures in both systems. In parliamentary systems, the executive is drawn from the parliament and typically relies on its party majority or on a governing coalition in the parliament to remain in power. As a result, legislatures in parliamentary systems have a tendency to support government policies, including aid policies. The opposite case is a presidential system, especially when the majority in the parliament is from one party and the president comes from another. In this system, there is a tendency for parliament members to criticize executive branch policies, including foreign aid policies, and those criticisms in turn can deepen public skepticism about the efficacy and appropriateness of foreign aid. The final factor is the role of local governments and semi-public entities such as advisory committees and state-supported NGOs who have access to policy-makers, and thus can affect policy-making regarding foreign aid policies.

The domestic forces in a donor country are self-interests competing for control of aid giving. There could be commercial interest groups that are supporting the commercial purposes of aid. These groups often regard aid as a vehicle for increasing their export markets or who view aid as a means of enhancing their access to much needed raw materials. Furthermore there may be public interest groups that support aid for relief, development and many others purposes. Interest groups with religious or ethnic proposes that have goals in recipient countries, such as the dissemination of religious values. These different interest groups have a very complicated network of organizations to exert pressure on policy makers, such as agricultural producer groups, chambers of commerce, business associations or individual corporations, trade unions, churches, universities, ethnic diasporas and informal networks of influence.

Another domestic force inside a donor country is the way donor governments organize themselves to manage their aid, and particularly if there is special in the Dutch parliamentary election in 2010 compared to the last election. The role of the political institution in aid giving is presented in the coming section but I give an example here to show how the two elements are linked to each other.
organization or development ministry or combining of different ministries. Organizers of aid within donor governments have a strong influence on the purposes of aid and effectiveness for two main reasons. From a bureaucratic political perspective, it is logical that government organizations are political actors in their own right. They have advocates or lobbyists for their own mission and interests. Those agencies have executive rules and limits that they should follow in carrying out their functions. However, in reality the case is different; though those public agencies sometimes act wholly within the executive rules and confines, often they do not. They “work outside those confines, allying themselves with private interest groups at home or international organizations, foreign government agencies, and international NGOs or interest groups with which they share interests” (Lancaster, 2007: 20). In some cases a specialized agency within the donor country that manages aid interventions uses “consultants” (contractors) who are normally involved in studies or in implementation of aid projects in recipient countries and they themselves form groups with any firm that they can share interests with. Secondly, when a single public agency has a more unified and elevated authority to perform functions as related to a particular public purpose, e.g. foreign aid policy, the greater the influence that agency will have over the policies and programs related to its basic mission and purpose.

The conceptual framework of Lancaster (2007) explores the relationship between domestic forces in a donor country and aid giving and is a simplification of a considerably more complex reality shrouding foreign aid discourse at the domestic level. It presents a wide range of actors and factors that engage in the aid process at different levels and positions on the domestic level in a donor country. For example, the actors and factors can be either formal individuals or organizations and either informal individuals, organizations, and norms and ideas within a donor society. They have interests and concerns in shaping the processes or interventions of foreign aid. Those actors, indeed, have their own objectives and guidelines behind concerns. They are trying to influence what should be done, how it should be done and where it should be done (Carlsson, Jerker & Wohlgemuth, Lennart, 2003:11). Although the objectives and guidelines of these actors frequently change, they have a role in shaping how a donor government acts externally with other members of the international system and put continuously strong pressure on the techniques and methods by which both bilateral and multilateral aid agencies are managing aid interventions in recipient countries. Indeed, in most cases, foreign aid policy objectives are rooted and reflected in the domestic forces of the donor country.

23 - Sithara Batcha (Health/Pop. Nutrition Officer within USAID) spends her working time reading project proposals. Most of these proposals come from donor businesses and NGOs. By waiving regulations, she mentions that organizations, which receive aid, can only buy goods (including but certainly not limited to automobiles and pharmaceuticals) produced in a donor country.

24 In this study, the focus is on bilateral aid agencies and not on multilateral ones.
Having outlined the main assumptions of the conceptual framework of Lancaster (2007) to understand how domestic forces influence aid policy’s formulation and implementation in a donor country, this section now moves on to briefly present the well-known analyses of political realism perspective in international relations in order to situate the above Figure 2.2 in its proper context. The argument here is that foreign aid policy may be perceived as a foreign policy objective in its own right or as an instrument to achieve other (national) interests of a donor country, based on the role of politics at the international level, and such as role can be analyzing by investigating the nature of a donor country’s interaction with the other members of the international system (Stoke, 1988: 20).

The concept of (national) interest that is so central to political realism means that, in international relations, nation-states and/or their respective governments are unitary actors in international relations who opt for policy choices or actions that are deemed to maximize their strategic goals and objectives. The strategic goals and objectives of governments are ‘national interests’. The justification of such a position is that states are part of an international system which creates its own strong incentives for policy and behavior, and act primarily in response to challenges and opportunities emanating from that system in the way that can realize in most cases their national/ self-interests (Lancaster, 2006 and Berthelemy, 2006).

Scholars from the realist school claim that aid policy is merged into foreign policy traditions and objectives and therefore is made in a setting where the primary motivation is to pursue their own egoistic behavior (thereby linking aid to the self-interests of donors)(Stokk, 1989: 1). Donor strategic interests generally include, but are not limited to, “diplomatic interests (e.g., establishing military bases, securing UN votes, supporting a preferred regime); commercial interests (e.g., “tied” aid, providing exports subsidies to donor countries firms, focusing on projects with high foreign exchange components; and cultural interests usually provided to promote a donor’s religion, language, or values” (Lancaster 1999: 75-77 in Monkam, 2008). The pull of other strategic considerations remains strong, and since 9/11, global security concerns have led to an increasing—and often competing – aid focus on states that are thought to form threats of violence to the West (Brainard, Lael, 2007).

An alternative perspective relates to political altruism. Many scholars argue that donors that relate aid to recipient needs and merits can base their motives of aid giving on altruistic behavior. The definition of recipient needs is not simple, yet most participants in the debate simply measure it by the income per capita of the recipient. The definition of merit however is much more controversial. Although there is a general agreement to refer, somewhat vaguely, to “good governance” criteria, such criteria are not easily defined (Berthélemy, 2006:78). The common understanding among foreign aid studies is that altruistic behavior would imply that aid decisions are made independently of the specific relation that may exist between the donor and
the different recipients (Berthélemy, 2006:78).

Some studies have argued that since US President Nixon sought to “emphasize the humanitarian aspect” of foreign aid in 1969, these sorts of rationales have been used to explain foreign aid provision. The only exception for foreign aid which can obviously be considered as altruistic is humanitarian relief: responses to global public health threats, natural disasters, or food aid and other support provided in emergency situations. Put differently, the empirical examples show that aid is not provided on altruistic grounds. Instead, the assumption is made that it leads to or facilitates the attainment of other interests. Moreover, even the humanitarian (altruistic) motives of aid giving are combined with an extensive willingness to promote national interests or influence abroad (Berthélemy, 2006: 78).

Foreign aid is predominantly considered as an international public good and is supported for this reason. It is not moulded in a setting in which aid can promote development and reduce poverty in recipient countries. The ultimate objectives of aid giving as announced by donors in the Paris declaration (2001), Washington consensus and (2005) Accra conference (2008) are to promote development and reduce poverty in recipient countries, thus ensuring its effectiveness.

Foreign aid is created in a setting in which both domestic and international forces influence the outcome (Olav Stokke, 2008). The argument of this perspective, therefore, is most important to us because it says we cannot understand what shapes the relevant aid policies, strategies, priorities, and uses, and thus aid effectiveness, if we do not take into account strategic goals and objectives of a donor country (Neacsu, 2009). A basic proposition can be posited here: foreign aid projects and programs can only be successful in promoting development in recipient countries when the egoistic benefits for donor governments associated with aid provision are quite small. Donors should be able to enforce their reform conditions on recipient countries when the strategic benefits of aid provision are relatively small, leading to development and economic growth in recipient countries (Bearce and Daniel 2010: 838).

It might be true that there are some donors who intend to give aid based on altruistic objectives. In this sense, they might impose some reform conditions that can ensure productive utilization of foreign aid by recipient governments. However, even when we have some donor countries who intend to give aid free of egoistic interests, there may also be a conditionality problem stemming from the fact that aid comes within a vast bureaucracy more intent on justifying its “bureaucratic existence”

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25 - These series of Global Conferences were encapsulated in the Millennium Declaration and Millennium Development Goals (MDG), which focus on human development outcomes as the focal point for coordinated action between development partners. The eight MDGs are: i) eradicating extreme poverty and hunger; ii) achieving universal primary education; iii) promoting gender equality and empowerment of women; iv) reducing child mortality; v) reducing maternal mortality; vi) combating HIV/AIDS, malaria and TB; vii) ensuring environmental sustainability; and viii) developing a global partnership for development. Specific tar-gets and timeframes have been identified for each one of the MDGs CF: Olsson, Jan, and Lennart Wohlgemuth. 2003: P40.

26 Bearce, David H., and Daniel C. Tirone (2010) have reviewed many studies that take into account such a proposition...
than on helping the poor (Bearce and Daniel, 2010). Bureaucrats of aid agencies are carrying out their functions without the necessary accountability and the minimum standards for transparency, claiming that many aid programs and projects were effective and successful in achieving their altruistic objectives, even though in reality they were not. The Lords of Poverty (bureaucrats) consider aid as a “profitable business” that they should continue running (Hancock, 1989). According to Hancock (1989), foreign aid becomes “nothing more than a transaction between bureaucrats - a deal which gets done, in the name of others, by intermediaries and brokers. The real principles in the affair - the taxpayers in the wealthy countries and the poor in the South - are treated as though they are somehow incidental to the main event” (Hancock, 1989:62).

2.4.3 Synthesis of the Main Argument: the LKS Explanation

Although this study strongly agrees with the previous explanations of the ineffectiveness of foreign aid programs and projects, it argues that aid projects and programs could certainly work better and achieve more satisfactory results within countries which have poor governance, and where there are multiple goals in aid-giving. It is also true that foreign aid programs are noble, sensible, and represent the good intention of rich nations to help more disadvantaged people in the poor nations. It seems that economists and political economists have failed to pay attention to a main “assertion” raised by this study that aid practitioners in the field and those in charge of development policies at the highest institutional levels should be in touch with reality by incorporating “local knowledge” within careful project design and/or implementation and adopting delivery mechanisms. They should take into consideration the patient’s (recipient country’s) formal and informal context with institutional and organizational constraints that are in a specific time and a specific host context or in “particular” problem-solving circumstances or contexts (Lam, 2006). If I claim as a doctor (donor side) that my remedies (donor-prompted public sector reforms programs and projects) could not cure the disease (the bad governance in recipient countries) or even relieve the pain and the suffering of my patient, it is clear that I should think again about the diagnosis, and the remedies that I have given my patient are not applicable to deal with his or her type of illness.

The doctor and the patient are dealing with a difficult disease that has arisen through many factors. This disease is named in this study as Local Knowledge Syndrome (henceforth LKS). It needs great efforts from both doctor and patient, especially in incorporating its causal mechanisms within the policies to give the right remedies. This syndrome needs a long time to be solved in the diagnostic phase and/or the execution phase. The doctor and the patient should adopt a symmetric interaction process and united network during all stages of the aid intervention to deal with the complex problems in such an uncertainty setting (LKS). There is a need
for “other ways to deal with the uncertainties of complex societal issues. Solving wicked problems is, given the substantive, strategic and institutional uncertainties, not only an intellectual design activity but also a strategic and institutional challenge. Given the mutual dependencies that make it impossible for the involved actors to solve complex problems in isolation, the processes of problem solving is, first, an issue of interaction where the actors with a stake in the problem must manage to coordinate their perceptions, activities and institutional uncertainties” (Joop Koppenjan and Erik-Hans Klijn, 2003:9). Otherwise, it may affect the processes and the methods by which development aid programs and projects are formulated and implemented. It can lead to a failure of aid programs to promote public sector reforms in developing countries.

From this perspective, this dissertation considers LKS as a third potential explanation of foreign aid programs’ ineffectiveness. The significance of this explanation is not limited to the concept of LKS and foreign aid ineffectiveness but is going one step further and trying to open the “black box”, to explain why this problem appeared within foreign aid systems. I argue that the only way to overcome the dilemma of LKS is to have more constructed associations around the project between the patient and the doctor, to get to know and understand each other during the policy design and implementation and to create a successful actor network (see Chapter 1).

To have effective associations and interactions, there should be openness, trust, flexibility, peace, no conflict, and most importantly, the doctor should realize that their patient does not know how to heal themselves and thus the doctor should help them to find this way: in other words, to be an agent of change. Furthermore, a successful project manages to “convince more people to support its aims, it manages to involve more institutions in funding, it manages to mobilize more experts in implementation, and it makes greater use of material objects that give the project a more durable physical form. It is this network of durable, extensive alliances that explain the success of a project, not its inherent value or validity. Furthermore, this network of alliances is created not because a project is ‘right’ or wrong’, but because people and things are convinced that the project can advance their own interests, according to the role in the project they have been assigned” (Scott-Smith, 2013:2).

To sum up, although this study strongly agrees with the previous explanations of the ineffectiveness of foreign aid programs and projects, it argues that aid projects and programs could certainly work better and achieve more satisfactory results within countries which have poor governance, and where there are multiple goals in aid-giving. The problem is that most economists and political economists have failed [to incorporate “local knowledge” within careful project design and/or implementation](#). This argument is fully covered in the next chapter, divided to explain the main factors that influence aid participants to incorporate local knowledge during the policy design and/or policy implementation stage and even the evaluation stage.
and adopting delivery mechanisms. In the next chapters, we examine this problem, known as the Local Knowledge Syndrome (LKS), in detail.

2.5 Summary and Conclusion

This chapter draws on two contradictory perspectives of aid-giving justifications and effectiveness of foreign aid programs and projects, PIP and PCP, and three explanations in relation to the debate about why foreign aid programs are often ineffective. The PIP approach argues that aid investment is needed to end poverty in poor nations by filling the financial gap that can improve basic saving, capital accumulation, and growth. The competing PCP approach argues that the objectives of foreign aid are worthwhile, but that its premises are wrong, and that it is just a waste of money. PCP argues that foreign aid has been negatively associated with growth and development in recipient countries and that it harms them rather than helps.

The PCP approach provides two main explanations for why foreign aid programs did not work and will not work. Since the 1950s, donors have employed development measure after measure to address the problem of bad governance in recipient countries. Empirical evidence shows that the complex problems related to bad governance in recipient countries have prevented the establishment of either the necessary reform conditions or the successful utilization of these development measures. Responding to this causal logic, different studies related to PCP argue that donors have the ability to enforce reform conditions associated with their aid by credibly threatening to hold back future aid. However, the public choice perspective finds that most donors still base their aid giving on political, strategic, commercial, cultural, and religious self-interest. The problem is that donors have a high intention to achieve those egoistic interests compared to their lack of interest in holding recipient countries accountable for achieving anything productive with aid. The PCP approach goes one step further and argues that, even when we have some donor countries who intend to give aid free of egoistic interests, there may also be a conditionality problem stemming from the fact that aid is provided by a vast bureaucracy more intent on justifying its “bureaucratic existence” than helping the poor.

The key deriving theoretical response or hypothesis to PCP briefly posed in this chapter, combined to take the form of the theoretical framework of this study, is that foreign aid programs are noble, sensible, and well-intended on the part of rich nations to help more disadvantaged people in the poor nations. Aid projects and programs can certainly be effective and achieve satisfactory results in a poor policy environment and bad governance and with the existence of multiple donor goals. But this will only happen if aid practitioners in the field and those in charge of development policies at the highest institutional levels incorporate “local knowledge” within a careful project
design and/or implementing and adopting delivery mechanisms to ensure effectiveness.

After reviewing the literature related to foreign aid effectiveness and developing our theoretical bridge in the present chapter, the next chapter addresses our theoretical strand more closely by defining the concept of local knowledge and showing how local knowledge is so important for the effectiveness of aid donors promoting public sector reforms in recipient countries. The next chapter takes into account the factors that affect the process of incorporating local knowledge at the policy design and the implementation of aid interventions.