Foreign Assistance

Different Strokes

for

Different Folks

JEAN ADEN

October 2011

A US-KOREA INSTITUTE AT SAIS REPORT

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CONTENTS

FIGURES

EXECUTIVE SUMMARY

This report analyzes the foreign assistance of the United States, Japan and the United Kingdom from the immediate aftermath of World War II to the present. All three cases involve countries in the top tier of the Development Assistance Committee (DAC) of the OECD, establishing them as important alternative models for donor countries in search of global reach.

The report focuses on three purposes of aid:

- **A development purpose**, which promotes economic and social progress, leading to a reduction of poverty in less developed countries, and reflects both international development effectiveness and the aid providers' specific development experience;

- **A commercial purpose**, which involves aid providers drawing financial benefits from their aid activities; and

- **A security purpose**, which leads aid providers to allocate aid flows to countries and regions deemed significant to the provider's security concerns.

Comparing the three cases, we see that the US, Japan and the UK have each struck a different balance among the development, commercial and security purposes of their foreign assistance.

In Japan, the country's predominant commercial purpose has been evident in the active role of its private sector in formulating commercial strategies and identifying and implementing aid projects, and by Japan's uneven progress untying its aid. Japan's development purpose reflects its own development experience as Asia's first export-led industrial nation and communicates an East Asian development model to its Asian neighbors. As such, it diverges to some extent from the international development model articulated by the DAC. Japan's security purpose has been less conspicuous but hardly less important. Within post-World War II US-Japan security arrangements, the US presses Japan to consider development assistance as part of its contribution to global security, and Japan both increases and allocates aid in parallel with US commitments.

Japan's East Asian neighbors—Korea, Taiwan, Thailand, Malaysia and to some extent China—have received Japanese aid and replicated the Japanese growth model. Whether the Japanese approach will add as much value in other regions is less clear, but even if not, the Japanese contribution to East Asian growth has been remarkable.

In the UK, the country's cabinet-level development ministry articulates a simple and powerful development purpose focused on poverty reduction in the poorest countries, prioritizes development policy coherence across the UK government, and closely aligns the country's development purpose with the development effectiveness criteria of the DAC. Britain is committed to reach the UN level of effort target of 0.70 percent (less than one percent) of GNI by 2013, and should it reach this goal, will become the first donor country of substantial size (62 million population) to do so.

Britain's commercial purpose, once powerful, is now dormant, given its transition from one of the most tied donors in the 1980s to its current fully untied status. Although its security responsibilities and the scope of its global involvement declined following the end of the Cold War, Iraq and Afghanistan were the second- and third-largest recipients of UK aid in 2009, second only to India.

The UK's foreign assistance delivers value added on two levels: by modeling poverty reduction in the poorest countries through delivery of access to education, health care, water and sanitation mainly to poor rural areas; and by providing valued development policy leadership to the European Community, with a focus on current urgent issues such as development effectiveness in fragile and conflict-affected states.

In the US, a strong security purpose has been evident since the immediate aftermath of World War II. The US essentially uses its foreign assistance, which is more than double the aid volume of the second ranked donor, to help stabilize the global commons. The largely security-driven Marshall Plan (1948-51) and the Camp David Accords (1973 and 1978) set the course of US foreign assistance until the end of the Cold War, and the attacks of September 11, 2001 reaffirmed the primacy of the security purpose, even as the role of the Defense Department in aid delivery steadily grew. While US humanitarian aid receives high marks from the DAC, the extreme fragmentation of US aid gives cause for concern. While the US publicly supports the DAC's Recommendation on Untying ODA to the Least Developed Countries and Highly Indebted Poor Countries, reliable information about the proportion of US aid funds that is tied to goods and services provided by American firms is scarce.

Can the US' security- and development-driven aid system add value in recipient countries? To the extent that its security focus draws the US into fragile, conflict-affected countries, immediate positive evidence of development effectiveness, which typically involves a longer time frame, may be limited.

What does this mean for the Republic of Korea?

First, Korea as a new major player in foreign assistance can choose its own mix of purposes and adjust them with time and circumstances to create its own uniquely Korean brand of aid.

Second, like the United States and Japan, Korea's security concerns will affect how it allocates its foreign assistance.

Third, rhetoric notwithstanding, commercial motives can be found in the implementation of Japanese, US and even some UK aid. What Korea can learn is to avoid allowing commercial motives to undercut development and security purposes, while recognizing the need to sustain domestic support for its foreign assistance initiatives.

Fourth, Korea will want to consider how its development experience compares with the development effectiveness criteria advocated by the DAC, and how the two development perspectives can best complement each other.

INTRODUCTION

This is the first of a series of reports commissioned by the US-Korea Institute at SAIS to assess South Korea's issues and options as it expands its official development assistance (ODA) programs and takes its place as the newest member of the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD).

Following the devastating Korean War of 1950-53, the outside world wondered whether South Korea would remain so destitute that it would require subsistence-level aid indefinitely. Instead, Korea dug in and effectively used the US$12.69 billion aid received from the US, Japan, the World Bank and the United Nations to construct a core economic infrastructure and an industrial base, which helped lift per capita income from just US$82 in 1962, to US$574 in 1975, to US$20,590 in 2010.

While still a member of the World Bank's lending list (graduation came in 1995), Korea began offering technical cooperation to neighboring countries in the 1970s. In 1987, Korea's Ministry of Finance established an Economic Development Cooperation Fund (EDCF) within Korea Eximbank, to offer loans in support of economic development in developing countries. Four years later, the Ministry of Foreign Affairs launched the Korea International Cooperation Agency (KOICA), with a remit to provide grants and technical assistance to developing countries. In 2010, these lead agencies disbursed US$1.17 billion development assistance to 122 countries.

Having accomplished one of the most successful economic transformations of the twentieth century, transitioning from a major aid recipient to major aid provider within fifty years, Korea has recent firsthand development knowledge and experience as an aid recipient to share with others who are in the process of development, and is keen to develop its position as a donor and member of the international donor community, commensurate with the size of its economy. Despite having only recently joined the DAC, the OECD's choice to locate the 4th High Level Forum for Development Effectiveness (HLF-4) in Busan in November 2011 is an indicator of Korea's potential to help shape the strategic agenda, while expanding its own development commitments.

Even as Korea prepares to host HLF-4, the global roster of donors has become more crowded. The Development Assistance Committee has been the primary international forum for donors to compare experience and foster consensus on development effectiveness criteria since 1961. The DAC has 24 members with significant aid programs, and includes the World Bank and other multilateral donors as observers. It collects and analyzes data on members' ODA volume, level of effort (ODA/GNI), and allocation of aid among countries, regions, income levels, uses and instruments. The DAC does not publish formal norms by which it assesses the developmental quality of aid from member states, but it does have informal yet clear criteria, evident in its data and its periodic "peer reviews" of the aid programs of member states. DAC members are expected to conform to these criteria, and regularly scheduled, publicly available peer reviews critique their ODA performance and recommend improvements. DAC member countries disbursed US$129 billion in 2010, divided between their own bilateral programs and indirect contributions through multilateral development institutions.

Non-DAC governments, such as China, Brazil, India, Russia, Iran and the oil-rich Gulf countries, have expanded their bilateral ODA, especially to neighbors. Some of these countries are simultaneously aid recipients and emerging donors. Their guiding principles of southern solidarity, mutual benefit and avoidance of conditions are traditionally demanded by donors in return for assistance, which they deem inconsistent with their principles. Due to accounting and reporting anomalies, it is difficult to say exactly how much aid these countries give. Some of their transactions may bundle ODA with commercial lending to purchase raw materials. Nevertheless, non-DAC official aid appears to be substantial—US$10 billion in 2009—and rising. The greatest uncertainty pertains to the largest donor, China.

Since Ted Turner and Bill Gates began channeling significant support to developing countries over a decade ago, private development assistance has grown rapidly and, at current growth rates, may eventually eclipse ODA. Private aid differs significantly from ODA—it is oriented toward direct support for poor people and communities, and responds relatively quickly to opportunities for change. Aid from private foundations, international NGOs and corporations, and religious groups totaled US$60 billion in 2009, and some private donors contribute more than some DAC member countries.

Recent developments provide both good news and bad news for providers of foreign assistance. Never has so much aid been offered by private, bilateral and multilateral providers. This expansion inevitably leads to competition among donors and aid fragmentation.[1]

The Republic of Korea has become a major donor at a time of relative abundance of aid, and must therefore search for a niche where the hard-earned won of its people can have a real and demonstrable impact. Although Korea should avoid imitative behavior, there is much to be learned from the experiences of those who have already traveled the ODA road—Japan, the United Kingdom and the United States. Our intent is to assess each country's mix of purposes for its aid, focusing on three types:

- ***Development*** purposes promote economic and social progress, sustained by economic growth, leading to a reduction of poverty and improvement of the human condition in less developed countries. These purposes encompass both the development process as defined and shaped by international bodies such as the DAC, and individual donor countries' specific, firsthand development experiences, as reflected in their aid philosophies and allocations;

- ***Commercial*** purposes involve donors' efforts to draw financial benefits from their aid activities for their own economies. Examples include structuring their aid flows to promote exports, access raw materials for industry, and/or support their own balance of payments; and

- ***Security*** purposes comprise donors' allocation of aid flows to countries and regions deemed important to the donor's security concerns. The objective is to promote economic and political stabilization and improved security in recipient countries in order to prevent developmental problems in those countries impacting security at home. Although security purposes have been evident for decades, they have become more prevalent in the decade since the September 11 attacks, and some involve military aid providers operating in war zones.

1 The mean project size has fallen from US$3.12 million to US$1.6 million between 1996 and 2006, in real terms. The median size of a new activity is now only $67,000. Homi Kharas, "Development Assistance in the 21st Century," Contribution to the VIII Salamanca Forum, The Fight Against Hunger and Poverty, p. 8.

Our intent in the three cases offered here is to assess each country's mix of purposes, and whether the different mixes result in different aid outcomes.

THE JAPAN CASE: AID FROM THE FLYING SWAN

Japan has an impressive history as a leading international donor. In the 1950s, even while struggling to rebuild its war-devastated economy at home, Japan launched a war reparations program in Asia, consisting of energy, transportation and other infrastructure projects requested by its Asian neighbors. From the 1980s onward, Japan allocated massive resources for aid—approximately US$52.4 billion and US$113.6 billion in the 1980s and 1990s respectively. After a decade of steep increases in its ODA budget, Japan overtook the United States in 1989, and remained number one by ODA volume among DAC members through 2000, peaking at US$14.8 billion in 1997. Japan has subsequently demonstrated its staying power as an aid provider. Even after a decade-long recession and rising fiscal deficit forced significant cuts in its aid-giving in the late 1990s, Japan today ranks fifth among DAC members, after the US, UK, Germany and France. In 2010, Japan distributed US$10.8 billion net ODA, and operated in 146 countries (see Fig. 1).[2]

As noted above, most donors' aid activities have multiple purposes, and this is particularly true for Japan. Characterizing Japan's purposes as solely commercial or even mercantilist, as some have done, is simplistic and unilluminating. We will show here that while commercial purposes have been important in Japanese aid, development and security purposes have become more salient with Japan's maturation as a world power.

The architecture of Japanese aid

Three cabinet ministries play key decision-making roles concerning Japan's aid—the Ministry of Foreign Affairs (MOFA), the Ministry of Finance (MOF) and the Ministry of Economy, Trade and Industry (METI, previously known as the Ministry of International Trade and Industry (MITI)). Two sub-cabinet-level agencies implement these ministries' aid-related decisions—the Japan Bank for International Cooperation (JBIC), formed in 1999 through a merger of the Overseas Economic Cooperation Fund (OECF) and the Export-Import Bank of Japan; and the Japan International Cooperation Agency (JICA), previously known as the Overseas Technical Cooperation Agency (OTCA).[3]

The Ministry of Foreign Affairs has primary oversight over JICA, and is responsible for coordination among the concerned ministries and aid agencies. MOFA advocates the use of aid for two purposes: to support Japan's diplomatic relations, with special reference to the US-Japan security arrangement; and to pursue the internationally accepted goal of improving the economic and social conditions of low-income countries, as articulated by the Development Assistance Committee of the OECD. MOFA also manages parts of the government's grant aid program and is responsible for Japanese participation in the international financial institutions. Under MOFA oversight, JICA has aligned more closely than JBIC with

2 Japan is one of the smallest donors relative to the size of its economy. In 2009, Japan's level of aid effort, measured as ODA/GNI, was 0.19, among the lowest in the DAC. Japan's ODA/GNI tied with the US at 0.19, and only Korea had a lower ODA/GNI, at 0.09; the DAC average ODA/GNI was 0.46. This and other data are drawn from the Development Assistance Committee of the OECD unless otherwise noted.
3 JBIC's predecessor, the OECF, was created in 1960, to manage ODA loans. JICA's predecessor, the OTCA, was established in 1961, to provide technical training and grant assistance.

the evolving development effectiveness criteria of the DAC. Nevertheless, MOFA's US-Japan security concerns can and do trump its support of the DAC criteria, as in Iraq and Afghanistan.

The Ministry of Finance determines overall aid volume, directs multilateral funds to the World Bank, the United Nations and the regional development banks, and oversees JBIC. During the Asian financial crisis of 1997-98, MOF ordered a 30 percent drop in the volume of Japan's ODA, and channeled US$80 billion in grants to its Asian trading partners.

Nineteen other ministries and agencies are intermittently involved with aid, and collectively managed approximately 11 percent of Japan's total aid budget in 2003.[4]

Like most DAC donors, Japan has a fragmented aid architecture, which reflects the views of multiple interests within society as well as multiple cabinet-level ministries, and these ministries prepare their own ODA budgets with little inter-ministerial coordination. As a trading nation, it is in Japan's interest to help promote the economic development of its trading partners, particularly in Asia. In the early years of its development assistance, commercial considerations were the overriding motive for giving aid, and Japan used aid as a way to access sources of raw materials for its industry and open markets for its exports. Today, commercial purposes remain important in Japanese aid, although development and security purposes have bulked larger over the last several decades.

Japan's aid philosophy

Japan's aid philosophy is grounded in its own development experience during the Meiji era (1868-1912), in which close cooperation between the Meiji government and the large corporations (zaibatsu) was the major driving force for the country's emergence as Asia's first export-led industrial nation in the first two decades of the twentieth century. Given Japan's lack of natural resources, its industrialization was necessarily outward-looking and focused on the rest of Asia, which provided natural resource imports in exchange for manufactured goods.

A second powerful experience shaping Japan's approach to aid was its postwar reconstruction and transformation into a leading global economy in a single generation. During reconstruction, Japan used World Bank loans to construct core economic infrastructure (power stations, railroads and highways) and industry and to develop human resources to operate this infrastructure (skilled workers and managers in particular). These investments contributed significantly to its early rapid economic growth, which averaged 9.4 percent annually in the 1960s. As Japan had been known for punctually repaying the loans that fueled its own growth, Japanese ODA generally favored loan instruments over grants, in the belief that the discipline of loan repayment obligations would help build aid recipients' self-reliance and problem-solving abilities, thereby making development outcomes more sustainable.

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4 These other aid providers included the Cabinet office; the Ministry of Education, Culture, Sports, Science and Technology; the Ministry of Health, Labor and Welfare; the Ministry of Agriculture, Forestry and Fisheries; the Ministry of Land, Infrastructure, and Transport; and the Ministry of Environment.

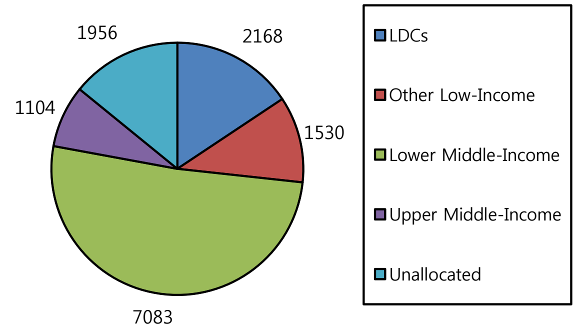
Figure 1: Japan at a Glance

Net ODA	2008	2009	Change 2008/09
Current (USD m)	9601	9469	-1.4%
Constant (2008 USD m)	9601	8545	-11.0%
In Yen (billion)	994	884	-11.0%
ODA/GNI	0.19%	0.18%	
Bilateral share	71%	63%	

Gross Bilateral ODA, 2008-09 average, unless otherwise shown

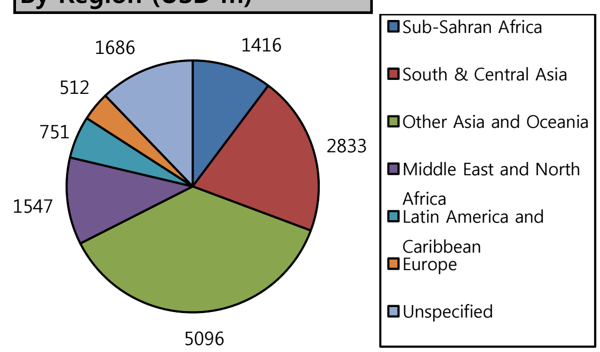
By Income Group (USD m)

Clockwise from top



Top Ten Recipients of Gross ODA (USD million)	
1 Indonesia	1370
2 India	1240
3 China	1200
4 Viet Nam	1104
5 Iraq	974
6 Philippines	580
7 Bangladesh	508
8 Turkey	428
9 Sri Lanka	341
10 Malaysia	229
Memo: Share of gross bilateral ODA	
Top 5 recipients	43%
Top 10 recipients	58%
Top 20 recipients	67%

By Region (USD m)



By Sector

Source: OECD-DAC; www.oecd.org/dac/stats.

A third formative experience shaping Japan's organization of its aid was its payment of war reparations[5] totaling US$2 billion to thirteen East and Southeast Asian countries, beginning in 1954 through 1977. A hallmark of the reparations projects was their "request-based" format, meaning that the recipient government must submit a request for each project to the Japanese government. During the 1950s and 60s, however, recipient countries' capacity to prepare project proposals was limited, as was the Japanese government's presence in these countries and experience in identifying and appraising development projects. Under these circumstances, large Japanese corporations, some of whose presence in the recipient countries predated the war, were designated to help identify projects for Japanese government funding.

5 Under the Treaty of Peace between Japan and 48 Allied nations, signed in San Francisco in September 1952, Japan agreed that it should pay war reparations to countries occupied during the war, and that it would enter into negotiations with those countries to compensate them for repairs of damage done in accordance with bilateral agreements.

The recipient government would request funding for the identified projects from the government of Japan, and Japanese firms would implement the project. Reparations created a process and a momentum for what later became Japan's foreign aid programs and aid organization.

In 1954, Japan joined the Colombo Plan and provided a small amount of technical assistance to its Asian member states, marking the official beginning of Japan's foreign aid. Soon, the government decided that yen loans on concessional terms were the vehicle it needed to expand its relationships in Asia and elsewhere. It negotiated a yen loan with India in 1958 to pay for Japanese goods and services to develop iron ore in Goa, and soon thereafter additional loans for India, Paraguay and South Vietnam.

In 1960, Japan began to organize management of its aid. It created a new agency—the Overseas Economic Cooperation Fund—to administer the growing number of aid loans. OECF lending would be overseen by the four agencies—MOFA, MOF, MITI and the Economic Planning Agency—that were supervising the reparations payments at the time and had developed an interest in the purposes and uses of Japan's foreign assistance. In 1961, the Japanese government put into place the final piece of its aid structure—the Overseas Technical Cooperation Agency (later to become JICA), which combined technical training and assistance activities of several existing agencies, provided in the form of grants. MOFA was put in charge of the new agency, with an understanding that a significant portion of the agency's senior officers would be seconded from other the ministries and agencies, as well as from the private sector, to ensure their views and interests were taken into account.

The mixture of commercial and development purposes in Japan's reparations and development assistance in these early years influenced the sectoral composition of Japan's aid portfolio, resulting in a large proportion of capital-intensive economic infrastructure projects, particularly transport and energy, but few health or education projects. Like most other aid providers during this period, Japan "tied" its aid, meaning that the recipient country was required to procure the goods and services funded by the aid from Japan. Aid was seen at this time less as a gift directed at reducing poverty abroad than an investment in growth, both for Japan and the recipient country.

The DAC came into being within months of the establishment of Japan's two aid agencies in 1960-61. Its eleven initial members included the UK and six other European countries, Canada, the US, and the European Union Institutions.[6] Japan, keen to participate in multilateral fora and regain international acceptance as a respected nation, became a charter member of the DAC, and its only East Asian member, in 1961. Membership in the DAC has encouraged Japan to shift increasing portions of its funding from strictly commercial toward more developmental goals.

Snapshot: Japanese aid in 1970

An overview of Japanese aid in 1970 provides insights into its purposes at that time. The aid amounted to $458 million. As a percentage of GNI, it was 0.23 (1/5 of 1 percent), one of the lowest among DAC countries and below the DAC average of 0.34. The bulk of it was provided as bilateral aid, with only 15 percent going to multilateral institutions. Ninety-eight percent of Japan's bilateral aid was directed to Asia, with two-thirds going to the Far East, especially in Indonesia, Korea, the Philippines and

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6 The DAC's original members were Belgium, Canada, France, Germany, Italy, Japan, Netherlands, Portugal, United Kingdom, United States and the European Union Institutions.

Thailand, and most of the balance to South Asia, primarily Pakistan and India. The aid was concentrated in commercially attractive sectors, especially energy, industry, mining and transportation. A significant amount was provided as import support and food aid. Very little was allocated to social sectors such as health or education. The grant element in Japanese aid was the second lowest of any DAC member state, at 39 percent (as opposed to the DAC average at 63 percent). And the terms of Japanese aid were among the hardest of any among DAC members.[7]

Japan's emphasis on bilateral aid in the sectors attractive to Japanese exporters and its relatively hard terms were indicators of the importance of commercial purposes during these early years: Tokyo wanted to reestablish good relations with the governments in Asia in particular, regain its position as a respected member of the international community, and, most immediately, gain export markets and access to raw materials in countries relatively familiar and close to home.

Commercial purpose

The commercial purpose of Japanese aid has been evident from the earliest bilateral reparations agreements between Japan and the Asian reparations recipients in the mid-1950s. As noted above, the reparations process was overseen by four bodies with lead roles in the formulation of Japan's overall economic strategy—MOFA, MOF, MITI and the Economic Planning Agency—all of which maintained close relationships with the private sector. The establishment of the OECF and OTCA in 1960-61 was an essentially bureaucratic action; no formal legislation defined the authority or procedures of the new aid agencies, and interaction between the four and the new agencies was governed by informal understandings regarding access of the bodies and private sector actors to the two agencies. The structural inclusion of economic and trade officials and private sector actors in the agencies' ODA policy and implementation activities continued at least through the 1990s; at any given time, roughly one-third of OECF's and OTCA/JICA's permanent staff was seconded to other government or private sector organizations, and imported personnel from MOFA, MOF, MITI, the Economic Planning Agency and private sector nominees took their places. These arrangements enabled the private sector not only to influence and participate in particular ODA projects, but also to leverage a major shift in the country's strategic direction in the early 1990s, from the made-in-Japan export strategy of the 1950s through 1980s, to a strategy of Japanese direct investment in export platforms across Asia, which helped Japan elevate its position in the international economic division of labor.

In this context, the tied versus untied status of a country's foreign assistance (that is, whether aid recipients are required to purchase goods and services from the donor country or not) is one of a number of indicators of the relative importance of commercial purposes in a given donor country. Nevertheless, the DAC's efforts to encourage untied aid and Japan's responses can provide additional perspective on Japan's commercial purposes. Even as most donors appeared content to continue tying their aid, arguments for untying it were raised within the DAC from the late 1960s. Proponents of untying argued in terms of development effectiveness, that limiting aid recipients' purchases to goods and services from the donor country reduces projects' efficiency on the ground by as much as 15 to 30 percent. Counterarguments for continued tied aid pointed to the need to maintain a base of support for ODA within the donor country, without which ODA programs cannot be sustainable. Tied aid, they said, generates

7 Carol Lancaster, Foreign Aid: Diplomacy, Development, Domestic Politics, University of Chicago Press, 2007, pp. 114-15.

support from influential commercial interests, and from the wider public, because it increases the donor's visibility in the recipient country.

Several failed attempts within the DAC to reach agreement on untying bilateral aid underlined the sensitivity of this issue. Although ten member countries agreed to a Memorandum of Understanding to reciprocally untie their bilateral development loans in 1974, the oil crisis diverted attention to more pressing issues.[8] Japan's initial attempt in the late 1970s to untie its aid to China and Indonesia, its two largest programs, were met by a "firestorm" of protest from Japanese engineering and construction firms, whereupon the untying initiative was suspended.

The DAC brokered an Arrangement on Guidelines for Officially Supported Export Credits, also known as the Helsinki Agreement, in 1991. However, its provisions were so narrow (it applied only to projects in the poorest countries that could not get commercial financing, and required a minimum 35 percent grant element), that it was widely regarded as ineffectual.

In 2001, after three years of concerted effort and negotiations among member countries, the DAC finally enacted a Recommendation on Untying ODA to the Least Developed Countries. Although it initially applied only to projects in the poorest countries (i.e., least developed countries or LDCs), its scope was later expanded to include HIPCs (highly indebted poor countries) as well. Its key elements included a clear goal to untie 70 percent of all bilateral ODA to LDCs by 2002, effort sharing among donors, transparency requirements, and systematic reporting and monitoring of DAC member countries' tying and untying results, in order to maintain a level playing field.

Japan's progress untying its ODA has been uneven. Japan's reported level of untied aid in 1992 was high (79 percent) relative to the total DAC average (57 percent). The OECF reported in the mid-1990s that 98 percent of ODA loans were untied and subject to International Competitive Bidding, and that no fully tied loans had been extended since 1988. Grant aid managed by JICA and the Ministry of Foreign Affairs remained partially tied, and technical cooperation remained almost entirely tied. According to figures reported to the DAC, 84 percent of Japanese bilateral ODA was untied in 2008, above the DAC average of 81 percent. According to OECF statistics, actual OECF contracts were distributed as follows in 1994: 27 percent went to Japanese enterprises, 57 percent to developing country enterprises, and 16 percent to enterprises in industrial countries other than Japan.

However, the positive reported steps toward untying its ODA notwithstanding, Japan has also created two major new tied loan funds since 1997, including a US$5 billion Special Yen Facility during the Asian financial crisis and a Special Terms for Economic Partnership (STEP) program in 2002, which is explicitly tied to procurement of Japanese goods and services. More recently, a DAC Peer Review reported anomalies in Japan's account of its untying practices, such as requiring that the primary contractor in grant projects be Japanese, but reporting such projects as untied, and failure to untie its technical cooperation assistance, which comprises 13 percent of its bilateral aid. The Peer Review also cited Japan's failure to develop a plan to extend untying of its ODA, not only to the poorest countries, but to middle income countries, which account for 51 percent of its projects.[9]

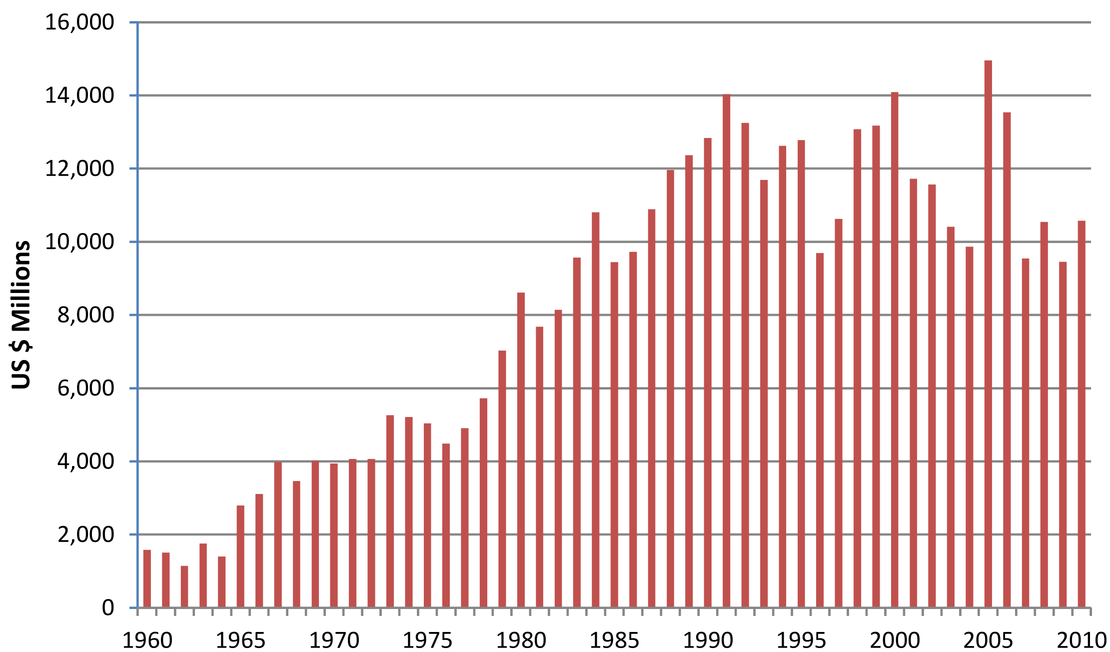
8 OECD, "Untying Aid to the Least Developed Countries," July 2001.

9 OCED, Japan: Development Assistance Committee (DAC) Peer Review, 2010, p. 21.

Development purpose

By the late 1970s, sustained rapid growth had positioned Japan rapidly to increase its ODA volume (see Fig. 2). In 1977, Japan pledged to double its ODA to $2.8 billion in five years, followed by successive five-year doubling commitments in 1981, 1985 and 1988. In 1989, having reached an ODA volume of US$9.0 billion and overtaken the United States, Japan claimed "aid superpower" status as the largest donor in the world. In the 1990s, while the US and European donors cut back their ODA budgets following the end of the Cold War, Japan's ODA expenditures continued to rise, peaking at US$14.8 billion in 1995. As of 1996, Japan accounted for 23 percent of total ODA disbursements by DAC members.

Figure 2: Total Japanese Aid (Net)



Source: OECD.

From the 1970s onward, other DAC members had moved away from their earlier capital-intensive, infrastructure-based approach toward a "basic human needs" approach, emphasizing agriculture, primary health care, and basic education in the poorest countries. This new perspective prioritized reduction of poverty over economic growth, social infrastructure ODA over economic infrastructure, least developed countries over lower-middle level countries, and grants over loans, and was increasingly reflected in the best practices advocated by the DAC. A broad concern with social development, poverty and governance issues entered DAC member countries' policy dialogue and ODA programming.

Implicit in this approach are the following assumptions, embraced by most major aid-giving governments from the 1990s onward: that more aid is better for the most impoverished countries, since middle-income countries are less needy and have alternative sources of development financing; that aid for social sector activities such as health, education, water and sanitation is preferable to aid for economic infrastructure which, though important, can at times be funded from alternative private sector sources; and that the higher the grant element in aid, the better for the poorest countries. These priorities obviously in many ways contradicted the assumptions of Japan's corporate-led, export-driven commercial model of development, which Korea, Hong Kong, Singapore, Taiwan, and eventually China successfully adopted.

Following the steep drop in Japan's ODA volume in 1996 and its relinquishment of number one donor status to the US in 2001, MOFA came under strong pressure from both the Japanese public, whose support of ODA increases had plummeted, and from the DAC to articulate a more transparent ODA strategy. The resulting revised ODA Strategy of 2003 declared Japan's intention to "converge" with international norms, endorsing the idea that "human-centered development" and the enhancement of people's welfare should be key concepts in Japan's ODA strategy, that economic growth is only a means to achieve human-centered goals, and that Japan's "request basis" approach to project identification should give way to a more proactive country programming approach.

Nevertheless, the ODA Charter also explicitly recognized the continuing significance of Japan's own development model as a template for Japanese ODA – a significance which is rooted in the perceptions and preferences of the Japanese public. Among the public, common justifications for Japanese aid focus primarily on maintaining a significant role and respect for Japan in the world and on Japanese national interests, both commercial and diplomatic. A 2002 poll found that in terms of Japan's role in the world, 55 percent of the Japanese public thought the country should help maintain international peace and security; 42 percent wanted their country to address global problems (reflecting Japan's own experience with environmental degradation during its early rapid development); and only 14 percent expressed a concern for supporting development abroad. In a 1987 poll that asked about the reasons for Japanese ODA, only 33 percent responded that "humanitarian obligations" were among the rationales. The Japanese public continue to perceive growth as the key driver of development, with much less focus on direct action to reduce poverty.

Hence the programming of Japan's ODA has been slow to change, and continues to differ significantly from the development effectiveness criteria of the DAC. Reflecting the lower-middle income status of many of its Asian recipient countries, Japan continues to provide a smaller percentage of its bilateral aid to low-income countries than the DAC average, on considerably harder terms and with a greater focus on infrastructure. Even within the increased aid, Japan has recently provided for social infrastructure, much of it is for equipment and construction and is often focused on advanced education or health services, rather than on the simpler services needed by the poor that are usually assumed to be at the heart of an approach to development emphasizing poverty reduction. As of 2007-08, 37 percent of Japan's portfolio was allocated to economic infrastructure, versus 15 percent for all DAC members; only 22 percent of Japan's portfolio was allocated to social infrastructure, versus 41 percent for all DAC members; loans accounted for 40 percent of Japan's disbursements versus 8 percent of all DAC members' disbursements; grants made up only 38 percent of Japan's disbursements versus 57 percent of all DAC members' disbursements; and only 19 percent of Japan's ODA went to the poorest countries, versus 35 percent of all DAC members' ODA. The bottom line is that Japan has maintained its own priorities, grounded in its own compelling development experience, while simultaneously attesting to its adherence to the long-term goals of the DAC.

Security purpose

Japan's inability to expand its military presence beyond defense of the home islands and small-scale involvement in peace-keeping operations has led the United States to bring ongoing pressure to bear on Japan's Ministries of Foreign Affairs and Finance to consider development assistance as part of Japan's contribution to US-Japan security arrangements. The *gaiatsu* process, involving application of foreign pressure to bring about aid policy change on the part of Japan, led Japan to increase its ODA at times and in locations parallel with US commitments from the 1970s onward.

Since the 1970s, *gaiatsu* has helped precipitate the broader allocation of Japanese ODA beyond Asia, to all major developing regions of the world, including significant amounts to countries of economic and strategic importance, such as Iraq, Afghanistan, Pakistan, Turkey, Egypt and Sudan, with which Japan otherwise had little contact. While the share of Japanese ODA allocated to Asian countries exceeded 98 percent in 1970, Asia's share of Japanese ODA dropped to 70 percent by 1980, with 10 percent each to Latin America, Africa and the Middle East. By 2000, Asia's share dropped to 55 percent, and has remained at that level, even as Iraq became the fifth largest recipient of Japanese ODA as of 2008-09. Japan has provided US$8 billion to provide reconstruction support in Iraq, including the dispatch of Japanese engineering troops, from 2003 to the present, and US$5.3 billion to Afghanistan from 2007-08 to the present.

THE UNITED KINGDOM: POST-IMPERIAL DEVELOPMENTALISM

Great Britain administered forty percent of the earth's surface at the height of empire, and its commitment to development assistance and development skills inherited across generations of administrators makes its evolution as an aid provider nearly unique. There have been formal government aid flows from Britain to peoples overseas since the 1920s. In the 1970s, the UK, together with the US and France, accounted for 75 percent of all ODA flows. In 2010, it distributed $13.6 billion net ODA, ranked second in aid giving among DAC members after the US, and operated in 90 countries. Its current aid architecture, consisting of a single cabinet-level ministry, the Department for International Development (DFID), is highly unusual among DAC member countries, where fragmentation among multiple ministries and agencies is the rule.[10] DFID consistently wins praise from other DAC members as a recognized international leader in development and model for other donors, due in particular to its ability to work across government, its transition from one of most tied providers of aid in the 1980s to its current fully untied status, and its significant contributions to the quality of joint work with other donors.[11]

The UK's development purpose has been dominant since the late 1990s, as indicated by its close alignment with the best practices of the DAC and ability to prevent subordination of development policies to other foreign policy interests. Although subject to changing political winds, its commercial purpose, once powerful, is now dormant, given that tied aid has been declared illegal in Britain. Its security purpose, as indicated by its substantial commitments in Iraq and Afghanistan, has coexisted, at times somewhat uneasily, with its development commitments during the last decade.

British aid in historical perspective

As a colonial power, Britain created judicial authorities, established police forces and trained more modern bureaucrats than any other colonial power. Britain's aid program is rooted in its colonial history. The UK government established a fund to support industry and agriculture in the colonies in 1929, followed by a Colonial Welfare and Development Act in 1940. The postwar Labour government took the view that it should play a substantial role in supporting the development of the colonies. The Colonial Development and Welfare Act of 1945, an altruistic product of poverty-stricken postwar Britain, provided substantial resources for long-term schemes of public works, social services and agriculture. The Overseas Resources Act of 1947 created two bodies, a Colonial Development Corporation to operate in the colonies, and an Overseas Food Corporation, with a mission to bring about a "speedier and more widespread development of our territories overseas for the benefit of the colonial peoples, whose low standard of living can only be raised by greater use of their natural resources."

10 DFID manages most aspects of UK international development policy including cooperation with multilateral institutions (the EU institutions, the World Bank, UN agencies and regional development banks, in particular the African Development Bank). DFID managed 86 percent of the UK's total bilateral aid in 2008. UK aid from other government departments included the Export Credits Guarantee Department (4.4%), the Foreign and Commonwealth Office (4.2%), the CDC Group (2.7%), the Ministry of Defense (0.9%), Gift Aid (0.8%) and a Foreign and Commonwealth Office and Ministry of Defense Conflict Pool (0.6%).

11 OECD, The United Kingdom, Development Assistance Committee (DAC) Peer Review, 2010.

Britain was itself a recipient of foreign aid for the postwar economic stabilization and reconstruction of Europe under the US-supported Marshall Aid Plan. Britain was one of eighteen recipients of the Marshall Plan-supported US$13 billion European Recovery Program (1948-51), of which 24 percent (some US$3.1 billion) was allocated to Britain. The Marshall Plan both built support for the idea of foreign aid and led to the establishment of an important international development institution. In 1948, the Marshall Plan aid recipients, the US and Canada sought to create a permanent organization, the Organization for European Economic Cooperation (OEEC), to distribute Marshall Plan aid, promote cooperation for the reconstruction of Europe and develop intra-European trade. In 1960, the same parties reconstituted the OEEC as the Organization for Economic Cooperation and Development, and the OECD's new emphasis on development led to the establishment of the Development Assistance Committee in 1961.

In 1958, the UK began offering grants and concessionary loans to former colonies that were members of the Commonwealth and to several non-Commonwealth countries. In 1964, it established a single integrated development ministry to concentrate responsibility for overseas aid. The Ministry of Overseas Development (ODM) was mandated to assist economic development of poorer countries and to manage both bilateral and multilateral aid. The intention was that the ODM be separate from the Foreign Office and led by a Cabinet minister, so that it could influence broader government policies that impacted on poor countries, and development policies would not be subordinated to other foreign policy interests.

During the 1970s and 1980s, however, these expectations were not realized. Alternating Conservative and Labour governments repeatedly reshuffled the development aid function—on the one hand, transferring it back to the Foreign Office and giving greater weight to political, industrial and commercial objectives alongside development objectives, then on the other hand, separating the development function from the Foreign Office, but failing to secure a place for the development minister at the cabinet level. Although there was a reasonably generous increase in UK aid resources during the 1970s, from 0.37 percent to 0.51 percent of national income, without a separate voice within government, the development function could not influence broader government policies that impacted on poor countries, and the most important decisions concerning aid were taken by an interdepartmental committee.[12]

Development purpose

The prosperous "new Britain" of Margaret Thatcher gave rise to the generosity of New Labour. Britain under Prime Minister Blair had the resources as well as the will to deepen its commitment to overseas development assistance. In 1997, the incoming New Labour government made three related changes to the structure of UK aid institutions and policy:

- An independent ministry, the Department for International Development, was created, headed by a member of the Cabinet, with responsibility for aid and development. Like its predecessors, the new department had responsibility for bilateral aid and the funding of multilateral development institutions, but it was also made responsible for ensuring consistent development policy across the government as a whole;

- Poverty reduction was identified as the overarching objective of aid and development policy,

12 Owen Barder, "Reforming Development Assistance: Lessons from the UK Experience," Center for Global Development, October 2005.

and quantifiable and measurable targets were identified by which to track progress toward this objective, based on the Millennium Development Goals; and

- The concept of policy coherence was introduced, which acknowledged that managing aid spending was only one part of development policy, and that the new department had a legitimate voice in the formulation of government policy in other areas, such as trade, conflict and foreign relations, for which other government departments had primary responsibility.

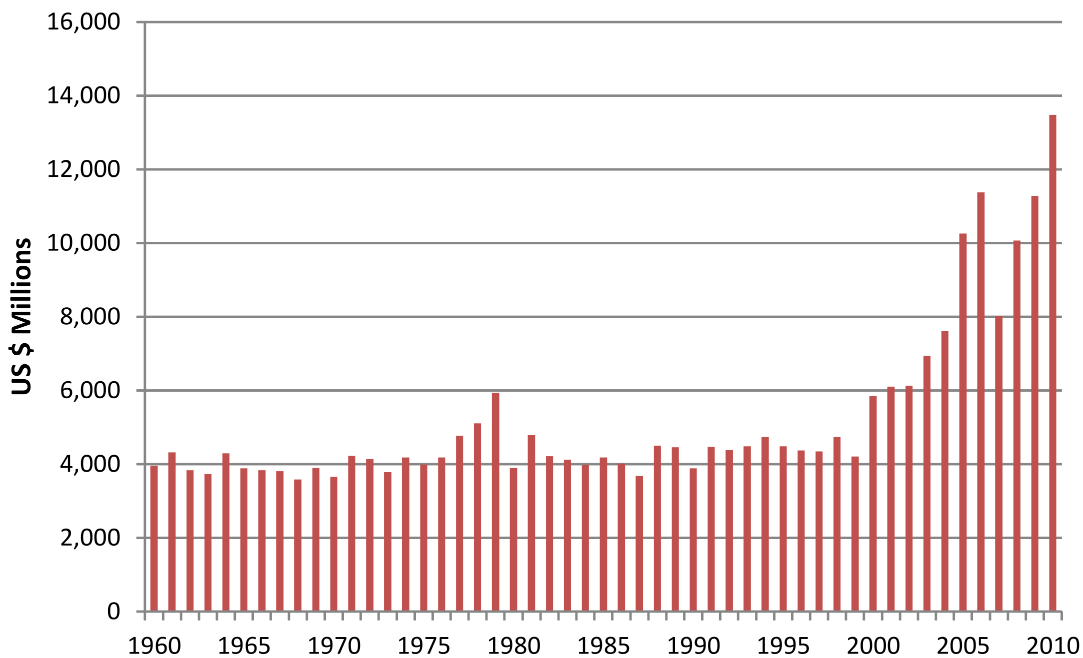
Several factors were essential in making these changes effective. First, Parliament passed the International Development Act 2002, which enshrined in law the single purpose of aid spending: every development project or program must by law either further sustainable development or promote the welfare of people and be likely to contribute to the reduction of poverty, thereby creating a solid legal basis for the new department. The motive for including all aspects of development policy in the department's remit was the recognition that there were important limits on what aid alone could achieve—a great many other policies pursued by rich nations have as much or more impact on the reduction of poverty. Although laws in Britain can be readily altered by incoming government, there are no signs to date of any intent of the current Conservative government to change this law.

Second, after years of declining development assistance budgets in the 1980s and flat budgets in the 1990s, the Government committed to increasing public expenditure on development. Since the UN General Assembly endorsed the aspiration of countries increasing aid to 0.70 percent of GDP in 1970, successive UK Governments had committed to move toward this figure, without setting a date by which it would be reached. Finally, in 2004, the Secretary of State for International Development and the Finance Minister agreed on future increases in aid at a rate which would reach the target of 0.70 percent by 2013, and budgeted for those increases. The incoming Conservative government in 2010 confirmed its intention to honor the 2013 commitment, and Prime Minister David Cameron has reiterated this promise as recently as June 2011 (see Fig. 3).

Third, DFID and the other departments whose remits most directly impact development gave credence to policy coherence by serving together on cross-departmental committees at both cabinet and subcommittee levels. The Secretary for International Development chaired development and trade subcommittees, which included high-level officials from the Department of Trade and Industry, the Foreign Office, the Ministry of Defence, and the Department for the Environment, Food and Rural Affairs, and together they formulated Public Sector Agreements, which established strategic cross-government development objectives and targets, to which multiple departments contributed. Also, by participating in cabinet-level trade, environment, conflict prevention and foreign relations subcommittees, the Secretary gave voice to development issues, albeit not always the deciding voice, and ensured that the impacts of proposed policies on development concerns were understood and taken into account.

A lesson learned from serving together on cross-departmental committees was that reorganizing responsibilities and powers between government agencies need not be a zero sum game. British government departments learned that they could be more effective and influential if they worked together to deliver coherent policy objectives than if they spent their time and resources fighting for turf. Other government departments were persuaded that they had something to gain from the emergence of a strong, confident agency with responsibility for development assistance.

Figure 3: Total United Kingdom Aid (Net)



Source: OECD.

Fourth, the Government acknowledged in a White Paper that, given the size of its economy, Britain could make only a modest difference in development on its own, but that much more could be done by working closely with other donors. DFID has built a formidable internal capacity to analyze a broad range of policies affecting development, including trade, environment, agriculture, conflict prevention and debt relief, in order to better inform government's decisions with on-the-ground evidence of policy outcomes. This capacity, in the context of the Department's embrace of collaboration with other donors, helped DFID to become quite influential throughout the international development community after 1997. Moreover, it has also informed DFID's participation in cross-departmental committees within the UK government, and helped different departments find common ground.

Thanks to these supportive factors, the development policies of the UK are closely aligned with the development effectiveness criteria of the DAC. The UK wins consistent praise from the DAC for its commitment to reach the UN target of 0.70 percent of GNI by 2013, its strong engagement in fragile states, its robust humanitarian assistance and its leadership in aid effectiveness and international aid reform efforts. The DAC also commends the UK's advances in policy coherence through its use of cross-government committees, its strong commitment to low income countries (which received 61 percent of its bilateral aid in 2008, as compared to 34 percent of total DAC aid), and its support for social infrastructure (42 percent of its total aid, as compared to 41 percent of total DAC aid) (see Fig. 4).

During the 1990s, there had been a significant increase in the proportion of global aid going to richer countries, away from poorer countries (within a roughly constant total for global aid). DFID decided to address this not only by changing the allocation of UK aid toward the poorest countries, but also by drawing attention to the allocation of global aid resources, which were not well targeted toward reaching the Millennium Development Goals. In 1998, DFID set itself an objective of reversing the trend of European Community aid spending, an increasing proportion of which was going to better-off countries.

In 2002, DFID agreed with the Treasury (the UK's Finance Ministry) to a public target that it would increase the proportion of DFID's bilateral program going to low income countries from 78 percent to 90 percent. This commitment, which demanded a significant shift in resources to the poorest countries with per capita income of US$935 or less, became known as the "90-10 rule." In 2003, DFID published a technical analysis which looked at the results of studies of aid effectiveness to predict where aid spending would have the most impact in terms of lifting people out of poverty, based on the recipients' income, population, extent of poverty and the quality of governance. This created a publicly available benchmark allocation of aid spending, optimal in its effect on poverty reduction, from which deviations would have to be justified.

Finally, in addition to passage of the International Development Act 2002, another way Parliament supports the UK's development purpose is the nature of its oversight of DFID. Two Parliamentary bodies, the International Development Committee and the National Audit Office, oversee DFID's operations. The International Development Committee is appointed by the House of Commons to examine DFID's expenditure, administration and policies. The National Audit Office scrutinizes and reports on public spending on behalf of Parliament, including assessments of DFID's value for money by sector. While Parliament may debate, for example, a DFID expenditure report in the context of the government's commitment to increase aid to 0.70 percent of GDP by 2013, and the International Development Committee may take evidence from NGOs and others on performance issues such as DFID's work in fragile and conflict-affected states, Parliament stops short of advising DFID on its allocation decisions going forward, as does the National Audit Office. This parliamentary oversight affords DFID significant independence and operational flexibility, and contrasts markedly with the US Congress' interaction with the lead development agency in the US.

Commercial purpose

From the 1960s through the 1990s, the UK, like many other donors, "tied" much of its aid to procurement of British goods and services. Because Britain suffered from chronic balance of payments crises, in order to maintain a positive balance of payments, British aid in general could not be spent on meeting local project costs. Aid projects were often selected, not for their developmental benefits, but because they could be designed in such a way as to have a high proportion of UK content. For example, Britain's Indonesia program had to concentrate on groundwater projects, because they were the only identifiable rural development activities that would use UK goods and services, such as consultants, drilling equipment and pumps.

In 1977, partly to shore up its difficult relations with UK business, the Labour government introduced the Aid and Trade Provision (ATP), which formalized the tying of British aid. This enabled aid to be linked to non-concessionary export credits, with both grant aid and export credits tied to procurement of British goods and services. Pressure for this provision came from UK businesses and the Department of Trade and Industry, in part because France had begun offering aid for exports in countries, such as Kenya, to which it had not previously given substantial aid. The effect of the ATP was to bias aid toward higher-income countries and more capital-intensive projects, and the developmental impact criterion for project approval was only superficially applied.

Figure 4: United Kingdom at a Glance

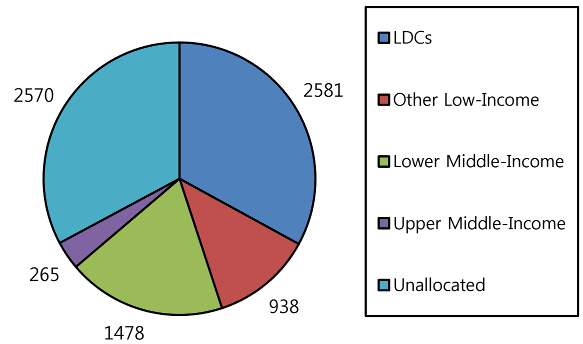
Gross Bilateral ODA, 2008-09 average, unless otherwise shown

Net ODA	2008	2009	Change 2008/09
Current (USD m)	11500	11491	-0.1%
Constant (2008 USD m)	11500	13162	14.5%
In Pounds Sterling (million)	6356	7356	15.7%
ODA/GNI	0.43%	0.52%	
Bilateral share	64%	67%	

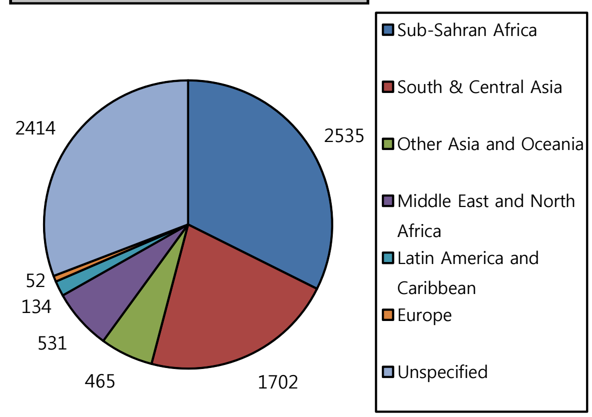
Top Ten Recipients of Gross ODA (USD million)	
1 India	654
2 Iraq	344
3 Afghanistan	323
4 Ethiopia	298
5 Bangladesh	251
6 Sudan	246
7 Pakistan	239
8 Tanzania	236
9 Congo, Dem. Rep	209
10 Nigeria	202
Memo: Share of gross bilateral ODA	
Top 5 recipients	24%
Top 10 recipients	38%
Top 20 recipients	54%

By Income Group (USD m)

Clockwise from top



By Region (USD m)



By Sector

Source: OECD-DAC; www.oecd.org/dac/stats.

The election of a Conservative government under Margaret Thatcher in 1979 resulted in a significant expansion of the Aid and Trade Provision, and a number of bilateral aid projects were designed to support British businesses, including steel mills, Leyland buses, Hawker-Siddeley aircraft and Westland helicopters. The new government also expressed its willingness to promote foreign policy objectives such as maintaining the UK's leadership role in the Commonwealth and its permanence of its seat on the UN Security Council, through its aid program.

In the 1990s, with the rising wealth of the "new Britain" and the end of the Cold War, the UK Government was able to reduce the weight of foreign and economic policy considerations in its aid allocations, and instead to link aid more directly to democracy and good governance. A 1994 High

Court ruling that there could be no legal basis for the Government to use development funds for mainly commercial purposes increased the pressure to break the link between aid and commercial considerations (see Box 1: The Pergau Dam).

The New Labour government produced two White Papers that addressed commercial policy problems. The 1997 White Paper abolished the Aid and Trade Provision program, but left room for continued use of "mixed credits" that met development criteria, but that still allowed aid to be tied to British contracts. The 2000 White Paper announced that UK aid would henceforth be completely untied. As noted above, the International Development Act 2002 enshrined in law the designation of poverty reduction as the single valid purpose of British aid expenditures, shifted DFID's measure of success from spending targets to results-based poverty reduction targets, and made it illegal for UK aid to be used for any purpose other than poverty reduction. The government untied aid completely, which was estimated to increase the effectiveness of aid by between 15 and 30 percent.

So did these pronouncements end commercial pressures on allocation of aid? In the 1980s, 70-75 percent of the British bilateral aid program was restricted to goods and services originating in the UK. During that decade, the balance of payments gradually lost its political significance, partly as a result of the abolition of exchange controls in 1979. This reduced the government's macroeconomic interest in using the aid program to promote British exports. By the late 1990s, OECD figures indicated that only 10-20 percent of British bilateral funds remained formally tied. Nevertheless, as is common in other donor countries, Britain's aid providers still write terms of reference and contracts with known and trusted British consultants in mind. In practice, the UK procurement system has changed little, and remains difficult for non-British nationals to access. Knowledgeable sources estimate that 70 percent of actual aid spending is still on British goods and services.

Whereas the Aid and Trade Provision may have generated business for the British construction industry in particular from the 1970s to the 1990s, it is worth investigating whether DFID's emergence as a purveyor of best practices in development and organizer of fruitful collaboration with other donors in venues such as the DAC after 1997 may have generated substantial work and/or jobs for development consultants.

Security purpose

Following the terrorist attacks of September 11, 2001, UK foreign policy increased its focus on identifying and supporting weak and failing states, and on removing the conditions that create the circumstances in which terrorists could recruit and organize. DFID set out its approach in a policy document in 2005. It argued that lack of security was a significant obstacle to achieving the Millennium Development Goals, and that poverty and fragile states created fertile conditions for conflict and the emergence of new security threats including international crime and terrorism.

DFID's 2006 White Paper, *Eliminating World Poverty: Making Globalization Work for the Poor*, committed to increasing the UK's support in at least ten countries where improved security was identified as a priority. The 2009 White Paper, *Building Our Common Future*, expanded the security mandate to a broader view of security and justice as core responsibilities of the state.

Under the new strategy, DFID committed itself to pay greater attention to regional conflict and insecurity; and to countries that were pivotal to regional security; expand safety, security and access to justice

Box 1: The Pergau Dam

The Pergau Dam is a hydroelectric dam in Malaysia, near the border with Thailand, and is the largest aid project ever financed by the UK. In March 1988, Britain's Defence Secretary signed a "Defence Export Protocol" with Malaysia, which committed the UK government to provide 20 percent of the value of the arms sales in the form of aid. In November 1988, a consortium of British companies applied to the Department of Trade and Industry for ATP aid for the Pergau dam. In March 1989, prompted by a visit by the Malaysian Prime Minister, Dr. Mahathir Mohamad, to 10 Downing Street, the Ministry of Overseas Development rushed through a two-person, two-day appraisal, on which the Prime Minister made an offer of a GBP68.25 million grant, based on a contract price of GBP316 million.

In 1990, the Ministry of Overseas Development and the Department of Trade and Industry, having sent a joint mission to survey the Malaysian power sector, found that the Pergau project, as proposed, would raise electricity costs for Malaysian consumers, because electricity could be produced much more cheaply by gas turbine power stations. The Ministers of Overseas Development and Trade and Industry were opposed to providing support for the dam. However, Britain's High Commissioner to Malaysia and Minister for Defence Procurement argued that withdrawing support from Pergau would adversely impact UK-Malaysia relations and the defence sales relationship, and the Prime Minister, John Major, agreed with their assessment. The Foreign Minister overruled the objections and authorized expenditure from the aid budget of GBP234 million—more than three times the original estimate.

Although officials denied any link between British aid and arms sales to Malaysia, a judicial review brought by an NGO spawned a long-running court case, which eventually led to a High Court ruling in November 1994 that aid for Pergau was in violation of the Overseas Development Act of 1980, which allows the Foreign Secretary to make aid payments "for the purpose of promoting the development or maintaining the economy of a country... outside the UK for the welfare of its people." The High Court ruled that the project was not of economic or humanitarian benefit to the Malaysian people. The Foreign Secretary subsequently told the House of Commons that he would not appeal against the court ruling, but that the Government would meet its contractual obligation to pay for the three-quarters-built dam.

Source: Owen Barder, "Reforming Development Assistance: Lessons from the UK Experience," Center for Global Development, October 2005, pp. 31-32.

programs; refocus governance work to promote accountability which promotes security; increase efforts on conflict reduction through the conflict prevention pools (see below); and encourage transparency of payments for the extraction of natural resources.

There was considerable pressure within the UK government to increase DFID's spending on reconstruction in Afghanistan and Iraq. However, DFID's 90-10 rule (see above) prevented allocations to the poorest countries from being reduced in order to accommodate increases in Iraq (which counted as a middle income country). In order to increase spending in Iraq without breaching the 90-10 rule, DFID decided to accelerate its planned withdrawal from seven other middle income countries, and reduce spending in another eight middle income countries, including China, Russia and South Africa. By 2008-09, Iraq was the second-largest recipient of UK aid, at US$344 million, second only to India, and Afghanistan was the third-largest recipient, at US$323 million.

Prior to its commitments in Iraq and Afghanistan, DFID already had a growing role in both the UK's and the DAC's responses to the changing security landscape. The UK government established the Global Conflict Prevention Pool and the Africa Conflict Prevention Pool in 2001. The purpose of these pools was to bring together the resources of the Ministry of Defence, the Foreign Office and the Department for International Development, to permit a more strategic approach to conflict reduction. The pools had a budget of about US$300 million a year between them. Each was governed by a cabinet committee of Ministers from the three departments, chaired by the Foreign Secretary (Global Conflict Prevention Pool) and the Development Secretary (Africa Conflict Prevention Pool). Each department spent money allocated to it under its own arrangements for accountability, once the strategy had been approved by the interdepartmental committee.

Initiatives under the pool arrangements included development of new governance and justice systems; disarmament, demobilization and reintegration of fighters into society and development of alternative livelihoods for them; small arms reduction programs; and training for police, armed forces and other parts of the security sector in democratic and accountable systems which respect human rights. Most of the money was spent on non-capital support for these objectives.

In Sierra Leone, for example, the Africa Conflict Prevention Pool coordinated a program to retrain and re-equip both the army and the police, the creation of a Ministry of Defense with civilian oversight, funding for an anti-corruption unit, and support for a truth and reconciliation commission. The pools were especially successful in promoting coordinated activities in the Balkans, Afghanistan, the Middle East, North Africa, Nepal and Indonesia.

Within the DAC, DFID has also been a key driver of the DAC work on fragile states. It was the co-chair of the DAC fragile states group, and is currently co-chair of the International Network on Conflict and Fragility task team, where it has made a case for security as a basic entitlement of the poor, and its leadership and innovative approaches are most appreciated.

THE UNITED STATES: AID FROM THE KEEPER OF THE GLOBAL COMMONS

The United States is a leader in the international development community because of the large size of its economy, its global reach and its drive for global influence. As the post-World War II keeper of the global commons, the US has spent more on foreign assistance and on defense than any other nation. The US Marshall Plan provided massive resources for European recovery following World War II, thereby launching the postwar era of significant and sustained aid flows from wealthier to poorer countries. The United States has been the largest donor in the DAC since its establishment in 1961, except for several years in the 1990s, when Japan ranked number one (see Fig. 5). Five aid-giving bodies in the US federal government—the US Agency for International Development (USAID) and the Departments of Defense, State, Agriculture and Treasury—deliver more than 90 percent of US aid funding. They, together with 21 other US departments, agencies and programs with aid offerings, comprise the most fragmented aid architecture in the DAC. In 2010, the US distributed US$39.4 billion aid (net), an increase of 264 percent since 2001; operated in 150 countries; and accounted for 24 percent of total DAC aid.

Security purposes have dominated the allocation of US aid, particularly during the Cold War and following the attacks of September 11, 2001. The US is the only DAC member whose defense department or ministry is a major provider of aid. Among the many aid providers in the US government, USAID is the most prominent champion of development purposes. USAID is generally aligned with the development effectiveness criteria of the DAC, yet has difficulty preventing its development mission from being overwhelmed by other foreign policy priorities. The commercial purposes of US aid have reflected the interests of American manufacturers, agriculture and labor. Although the US claims tied aid has declined, there is little information about what portion of funds for program implementation are used for goods and services provided by American firms.

Box 2: A Note on Numbers and Sources

The numeric measures of foreign assistance used in our three cases come from several different sources, and can lead to discrepancies in reported aid amounts. One reason for such variation is the different definitions of foreign assistance used by the different sources. The US budget uses a narrow definition of aid, which excludes programs run by US federal agencies outside the State Department/USAID framework. USAID's database, in contrast, uses a broad and evolving definition of foreign aid, which in past years has included Departments of Defense and Energy nonproliferation assistance and aid provided by other US agencies that the OECD would not classify as foreign assistance. Official Development Assistance, as defined by the DAC, differs from both US budget categories and the USAID database, primarily because it excludes all military assistance. Here we use the international (DAC) definition and numbers for all three countries, but also refer to country-level measures in the US case, in order to capture the significant security purpose in US foreign aid.

The architecture of US aid

Three cabinet departments play key decision-making roles concerning US aid—the Department of State (DOS), the Department of Defense (DOD) and the Department of the Treasury. A sub-cabinet-level agency – the US Agency for International Development, established in 1961—implements the largest share of the bilateral aid-related decisions of DOS and DOD. A second sub-cabinet-level agency—the Millennium Challenge Corporation (MCC), established in 2004—reports to DOS but was designed to be more development-oriented and less closely bound to the strategic concerns of the US government than USAID.

In addition to programs jointly managed with USAID, the State Department directly administers activities dealing with international narcotics control and law enforcement, terrorism, weapons proliferation, democracy promotion, non-UN peacekeeping operations, refugee relief and support for a range of international organizations such as UNICEF. The Director of Foreign Assistance within the State Department has authority over most State and USAID programs and provides "guidance" to the approximately 20 other agencies that manage foreign assistance activities. DOS's Bureau of Political-Military Affairs has policy authority over the Foreign Military Financing and International Military Education and Training programs, Peacekeeping Operations, and the Pakistan Counterinsurgency Capability Fund, which totaled US$4.7 billion in 2010.

The Defense Security Cooperation Agency under the Defense Department administers all "traditional" aid-funded military assistance programs, under the policy guidance of the State Department. The DOD also conducts an array of state-building activities, including development assistance to Iraq and Afghanistan, which were once the exclusive jurisdiction of civilian aid agencies. Training and equipping the Iraqi and Afghan police and military has also mainly been supported under the DOD budget, and totaled US$2.7 billion in 2010.

The Agriculture Department provides food aid grants to developing countries, for humanitarian relief, which is delivered by USAID, and for development purposes, delivered by multilateral organizations such as the World Food Program, or private voluntary organizations.

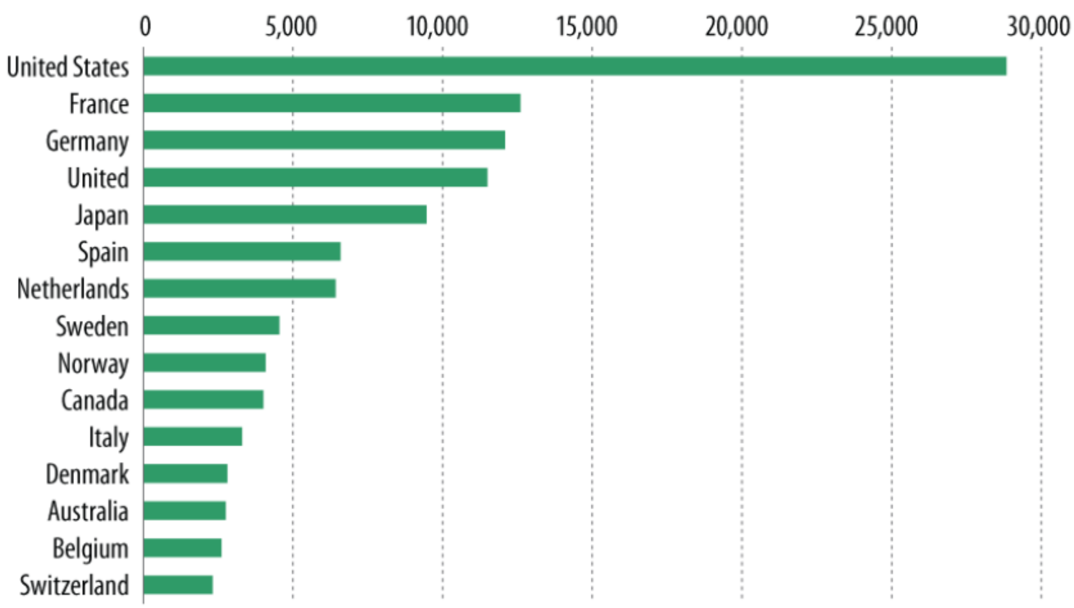
The Treasury Department manages US contributions to and participation in the World Bank and other multilateral development institutions, as well as foreign debt relief and a technical assistance program offering temporary financial advisors to countries implementing economic reforms and combating terrorist activity.

USAID has administered the bulk of US bilateral aid since 1960. Its operations are decentralized, with more than 70 percent of its 8,844 staff working overseas. Its responsibilities include: the bulk of US bilateral development programs, including social and economic infrastructure projects; significant political and strategic development assistance through an Economic Support Fund, focused mainly on Israel and Egypt; the bulk of US humanitarian aid, including food aid; and civilian security programs, including counter-narcotics and weapons non-proliferation.

In addition to the above broad array of aid actors in the executive branch, the legislative branch of the US government plays a substantial role in shaping aid policies and determining federal expenditures on aid. The President proposes annual aid expenditures that must be appropriated annually by Congress.

Each year, the US Congress debates extensively the size, composition and purposes of the proposed aid programs, and the appropriations committees of the House and Senate each have the final say over how aid is to be used, and what countries and organizations receive it, in general and in detail. It is common practice for Congress to "earmark" funds or negotiate special "directives" for specific projects that are supported by a few politically influential persons or groups, or embody strongly-felt political themes and require immediate follow-through on the part of the Administration. In 2001, USAID identified 270 separate provisions and earmarks in the development legislation. The cumulative impact of earmarks and other directives on development cooperation leads to two kinds of inefficiencies: a) difficulty in finding locally appropriate solutions, which runs contrary to the commonly accepted principles of host country ownership and local partner collaboration; and b) an inefficient funding process, which impedes US coordination with other donors.

Figure 5: Official Development Assistance from Major Donors, 2009 (million US$)



Source: Tarnoff C, Lawson ML. 2011.

Both branches have played a role in complicating the US aid system. When the President wishes to intervene in support of developmental goals, as happened increasingly frequently since 2001, he is likely to create a new, separately funded aid program, such as the MCC or the President's Emergency Plan for AIDS Relief (PEPFAR), rather than disburse additional resources via existing programs. At the country level, USAID's Development Assistance programs, which aim to support long-term development activities, often collide with its Economic Support Fund, which supports short-term foreign policy and national security imperatives. In the absence of an overarching goal or set of goals around which to design a strategy for aid, as in the UK's embrace of poverty reduction, the US lacks means of controlling this dysfunctional, runaway fragmentation. This ongoing fragmentation makes US aid both more rigid and more diffuse than aid programs of other countries, and severely limits the policy coherence of US foreign assistance.

A brief history of US aid

As noted above, US foreign assistance has its roots in the immediate post-World War II period. In February 1947, having learned that the British would no longer be able to support Greek resistance to a communist-led insurgency or to help Turkey to modernize its military in the face of Soviet pressure, President Truman and his Secretary of State, George Marshall, determined that the US would have to help these countries maintain their independence and territorial integrity. And because the problems confronting Greece and Turkey were as much economic as military, the US would need to provide economic assistance to stabilize and expand their economies. The US Congress agreed to the President's appeal, and later that year, the administration announced the Marshall Plan, a US$13 billion, four-year program for economic stabilization and recovery in Europe. US Marshall Plan expenditures peaked in 1949 at about US$8 billion (about US$60 billion in constant 2010 US$), which amounted to more than 2.0 percent of US GDP in that year—a level of effort that has never since been equaled by the US or any other donor country (see Fig. 6).

In the early 1950s, two events—the success of the communist revolution in China and the invasion of South Korea by North Korea—led to the prolongation and geographic spread of US ODA. President Truman provided additional aid to help the Europeans rearm, to persuade countries along the perimeter of the Soviet Union and the PRC to join Cold War alliances with the United States, and to stabilize and expand the economies of key allies, such as South Korea. Aid to Europe dwindled by the mid-1950s, and by the end of the decade was phased out for the most part. Predecessor agencies of USAID expanded US assistance to developing countries in East Asia, the Near East and South Asia and, in smaller amounts, to Latin America and Africa in the late 1950s.

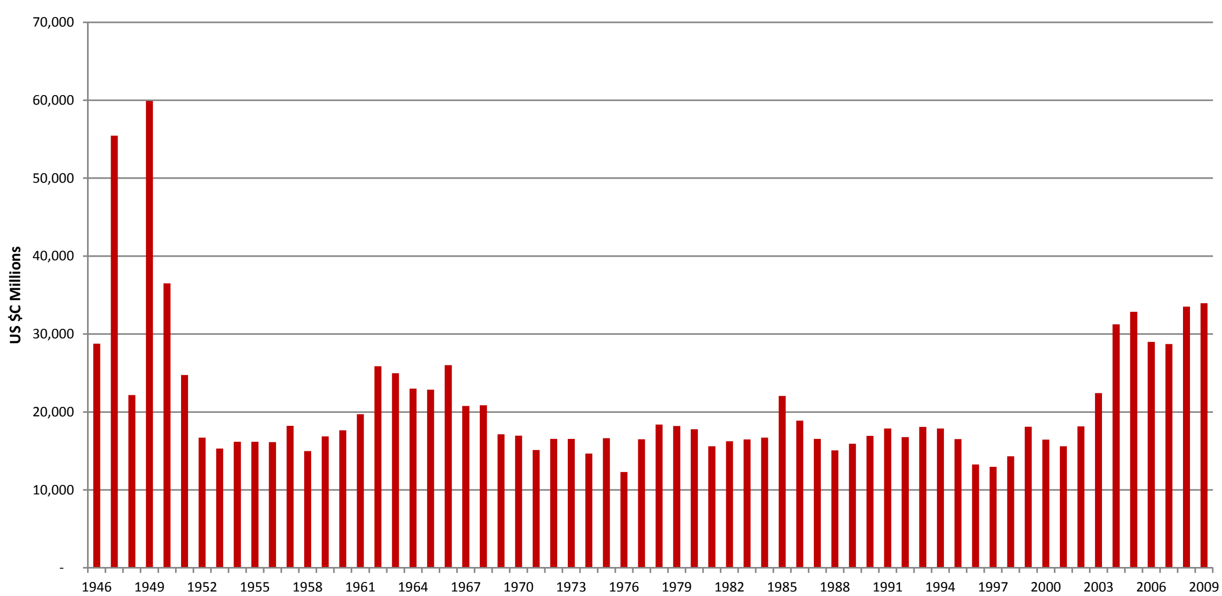
John F. Kennedy, who became president in 1961, brought renewed enthusiasm for foreign assistance. His initiatives involving US aid included: a regional focus on Latin America (the Alliance for Progress program was intended to counter the Marxist government in Cuba) and newly independent states in sub-Saharan Africa; pressing governments in Western Europe and Japan to take up the burden of aiding development abroad; sponsoring the Foreign Assistance Act of 1961, which created a legal foundation for an expanded US aid system, including establishment of USAID as a semi-independent, subcabinet-level aid agency whose administrator would "take foreign policy guidance" from the Secretary of State; and establishing the Peace Corps to send Americans to help in technical assistance, training and management of small aid projects in developing countries. There was extended debate within the Kennedy administration and Congress regarding where the new aid agency would be located. Some urged the establishment of a new cabinet-level agency that would combine existing aid programs. Others suggested instead that existing aid programs be merged and placed in the Department of State. In the end, it was decided to create a semi-independent, sub-cabinet-level aid agency whose administrator would report to both the Secretary of State and the President.

In the 1970s and 1980s, two factors drove increases in total aid. Public support for combatting hunger in low-income countries such as Bangladesh and Ethiopia expanded aid spending in the US and Europe. In 1973, the US persuaded Israel and Egypt to agree to reaffirm their ceasefire and to commit to settle their differences peacefully, by including in the package significantly increased aid levels as an incentive to their keeping the agreement. Israel received US$350 million in 1975, up from US$50 million the previous year, and in 1976, Egypt received US$245 million, up from US$80 the previous year. The Camp David Accords of 1978 were backstopped by very large further increases in aid for both Israel and Egypt. The approximately US$2 billion per year aid for the two countries equaled a quarter of annual US bilateral aid, made them the first and second largest recipients of US aid through most of the remainder of the century, and confirmed "peace-making" as a prominent foreign policy purpose of US aid. By the 1980s, the US had a truly dualistic aid program—with strong security and development purposes.

Until the early 1970s, most US development assistance looked a lot like that of Japan, that is, it was oriented toward loans for construction of capital-intensive economic infrastructure, education and training. In 1973, Congress, with the support of the executive, mandated a shift in the use of US aid toward funding "pro-poor" projects for the "basic human needs" of the poor, with an emphasis on poor countries, to be used for such activities as primary education, primary health care and agricultural development, since most of the poor were in rural areas. This was part of a shift from economic infrastructure loans to social infrastructure grants across the DAC—by the 1990s, most DAC countries focused their aid portfolios on grants and technical assistance.

Another issue driving an increase in US aid during the 1980s was the last major Cold War conflict, in Central America. The US government used aid to fortify existing governments in the region against leftist challenges, and rewarded governments, such as Honduras, that supported US policies. Between 1980 and 1990, US aid to Central America and the Caribbean rose from US$250 million per year to over US$1 billion. By 1996, following regime change in Nicaragua, US aid to this region dropped to just US$175 million. The combination of a foreign policy crisis in Central America and a humanitarian emergency and deepening development crisis in Africa thus supported an increase in the overall volume of US aid in the 1980s, to nearly US$10 billion by 1989—30 percent higher than it had been in 1980.

Figure 6: Total US Aid (Net)



Source: USAID, Greenbook (accessed July 2011).

The early 1990s saw the end of the Cold War and, with it, the loss of a major rationale for US foreign aid. It was also a decade in which the development rationale appeared to weaken in the US, with an erosion of confidence in the effectiveness of aid in furthering development, and a decline in public support for aid. These changes coincided with efforts to cut the federal budget and the size of government, all resulting in the greatest decrease in aid since the end of Marshall Plan. Across the board budget-cutting under Clinton drove aid expenditures to a low point of US$9 billion in aid in 1996. New allocations for democratic transitions, conflict and fragile states brought a partial recovery in aid resources in the latter 1990s.

At the same time, other US agencies with largely domestic mandates began forming their own international aid programs in 1990s. The Treasury launched a technical assistance program on tax and other financial policies; the Department of Labor created programs to combat child labor in 51 countries worldwide; and the Centers for Disease Control fielded research, surveillance and response services for international disease control in all developing regions. These new programs added as much as US$500 million to total US aid by 2000, and by 2009 accounted for US$12.6 billion, approximately 26 percent of total US aid.

In the new century, the attacks of September 2001 abruptly revived US interest in aid. The White House issued a National Security Strategy for the United States of America in 2002, which declared that the US would use force preemptively to counter threats to its security, but also affirmed that development must be one of three top priorities of US foreign policy, together with defense and promoting democracy abroad. Aid budgets rose at a rapid rate, expanding by 40 percent between 2001 and 2005, and exceeding US$30 billion—the highest since the Marshall Plan in 2010 dollars—by 2010. The 9/11 attacks had raised public consciousness of the potential for problems abroad to harm US security at home, making the public more supportive of larger aid flows.

Snapshot: US aid in 2010

In 2010, US foreign assistance totaled US$39.4 billion—nearly three times the aid provided by the second-ranked United Kingdom. In real terms, this was the highest level of US foreign assistance since 1985, though still far short of the Marshall Plan levels. As a percentage of GNI, US aid in 2010 was 0.20 (1/5 of 1 percent), one of the five lowest among DAC countries (only Greece, Japan, Italy and Korea were lower) and below the DAC average of 0.31. USAID and the State Department, the primary administrators of US foreign assistance, provided US$10.93 billion for health, education and social welfare programs; US$10.38 billion for security-related assistance; US$5.21 billion for economic growth activities; US$4.98 billion for humanitarian assistance; and US$3.64 billion for governance programs. Assistance was provided almost exclusively on a grant rather than loan basis.

Key US foreign assistance trends in the decade preceding 2010 included growth in development and humanitarian aid, particularly global health programs, and, following the September 11, 2001 terrorist attacks, increased security assistance for US allies in the anti-terrorism effort. In 2010, Afghanistan, Israel, Pakistan, Egypt and Haiti were the top recipients of US aid, reflecting long-standing aid commitments to Israel and Egypt, the strategic significance of Afghanistan and Pakistan, and emergency earthquake-related assistance to Haiti. Africa was the top region at 29 percent, with the Near East and South and Central Asia each receiving 26 percent. This was a significant shift from 2000, when the Near East received 60 percent of US aid, and reflects both the expansion of security assistance to Afghanistan and Pakistan and substantial increases in HIV/AIDS-related programs concentrated in Africa. Other notable trends since 2000 include the increasing role of the DOD in foreign assistance, and aid targeting countries that have demonstrated a commitment to good governance, exemplified by the creation of the

Millennium Challenge Corporation.

Security purpose

Support of national security goals has been a principal purpose of US foreign assistance from its inception. The scale and global reach of US aid reflects the global security role undertaken by the US following World War II.

Anti-communism and national security were the main motivations for the Marshall Plan and the expansion of aid beyond Europe in the 1950s, based on a belief that if standards of living were improved, countries under pressure from the Soviet Union or the PRC would be less attracted to communism. Aid was also used in some instances to help secure US military base rights and other support in the anti-Soviet struggle. Although its primary motivation was strategic, the acceptability of aid to the public was reinforced by humanitarian considerations.

After the Cold War, the focus of foreign aid shifted to various regional issues, such as Middle East peace initiatives, the transition to democracy of eastern Europe and the republics of the former Soviet Union, and illicit drug production and trafficking in the Andes. As noted above, without a security rationale, annual foreign aid expenditures reached a nadir of US$9 billion in the mid-1990s—the lowest level since the mid-1970s.

Responsibility for ensuring that security concerns are reflected in aid flows is spread across USAID, the State and Defense Departments, and the Office of the President. USAID established a Security-Supporting Assistance account, the predecessor to the Economic Support Fund, in the mid-1960s, with the primary purpose of promoting specific US economic, political or security interests, as opposed to development purposes. Following the 1979 Camp David accords, most ESF funds went to Israel, Egypt, the West Bank and Jordan, in support of the Middle East Peace Process. Following the end of the Cold War, USAID channeled aid flows through ESF to the former Soviet Union and Eastern Europe, to support their transition to market economies and particular strategic political interests.

The State Department manages two civilian security assistance accounts aimed at global concerns that are deemed threats to US security, including terrorism, narcotics, crime and weapons proliferation. These aid flows address post-conflict recovery, humanitarian demining, and police force training in Iraq, among others.

The role of the Department of Defense in aid delivery has grown rapidly since 2001, driven by perceived difficulties facing civilian actors in delivering aid in highly insecure environments. DOD's unmatched capacity to rapidly deliver humanitarian and disaster relief assistance wins consistent praise from the DAC and others. The State Department administers and the Defense Department implements Foreign Military Financing (FMF) and International Military Education and Training (IMET) programs, which mainly go to Israel and Egypt.

In 2003-04, the US$20 billion Iraq Relief and Reconstruction Fund, which constituted the steepest increase in total aid since the Marshall Plan, was directly managed by the Office of the President.

While the bulk of these security-related activities fall outside the DAC's definition of ODA, they are integral to US foreign assistance, per the US National Security Strategy of 2002.

Development purpose

For fifty years, USAID has been the principal advocate of the development purposes of US foreign assistance within the US government, and the US aid provider with the most on-the-ground development experience. However, several factors critically constrain its capacity to pursue development effectiveness in the crowded field of US foreign assistance providers. As a semi-autonomous, sub-cabinet level agency taking foreign policy guidance from the Secretary of State, it has little opportunity to give voice to development concerns elsewhere in government, or to ensure that the impacts of other departments' policies on development concerns are taken into account. As well, Congressional earmarks and directives significantly compromise USAID's ability to allocate budget resources among countries and sectors for maximum development effectiveness. An example of the dysfunctional sprawl and fragmentation of US aid is the Support for Eastern European Democracy Act and the Freedom Support Act (which targets the former Soviet republics), which are implemented by more than a dozen US agencies, and supposedly coordinated by a State Department official whose authority is limited to the State Department and USAID.

Another consequential trend is that USAID is moving more and more money with fewer and fewer people, in effect outsourcing most of its operations. The number of USAID staff has fallen by one-third since 1990. Between 1998 and 2006, reductions in direct-hire staff were accompanied by a sharp increase in foreign assistance spending, with the result that aid disbursement per staff member grew by 46 percent to US$2 million. In many cases, USAID has become a wholesaler to wholesalers—letting large contracts for aid work, usually to consulting firms, which then sub-contract much of the work to other firms or NGOs. Under these circumstances, there is little likelihood of the sort of build-up of internal analytical and implementation capacity observed in Britain in the early 2000s taking place at USAID.

Due to the ongoing fragmentation of funding among aid providing bodies and the recent redirection of aid work away from USAID, the Agency was responsible for only 39 percent of total US aid in 2005, down from 50 percent in 2002. A primary factor in this decline was the rapid increase in aid disbursements managed by the Department of Defense, which reached 22 percent of total aid in 2005, up from 6 percent in 2002.

The Millennium Challenge Corporation was created in 2004 with the purpose of concentrating relatively large packages of US resources in a limited number of low- and lower-middle income countries that have demonstrated a strong commitment to political, economic and social reforms, and is more development-oriented by design. Under the MMC model, recipient countries that meet its eligibility requirements formulate, propose and implement mutually agreed multi-year (ordinarily five-year) project plans known as compacts. Compact agreements include agreed objectives, actions expected of each party, performance indicators and rigorous evaluations. Under a joint presidential and congressional commitment, MCC's budget is exempt from congressional earmarks or directives, and procurement under its compacts is completely untied.

Given these features, as well as its focus on recipient design and ownership of compacts, grant-based financing for the poorest and transparent eligibility criteria, the MCC is generally more closely aligned with the development effectiveness criteria of the DAC than is USAID. Nevertheless, given that it managed compacts totaling US$7.5 billion and an annual budget of US$1.1 billion—less than 3 percent of the total foreign assistance budget—in 2010, the MCC does contribute to the ongoing fragmentation of US foreign assistance.

The DAC, in its most recent Peer Review of the US, commends the US National Security Strategy of 2002 for affirming that development must be one of three top priorities of US foreign policy, together with defense and promoting democracy abroad. It questions, however, whether this status will translate into a clear vision of development purposes, or whether US aid projects will remain primarily a tool to support other priority political goals. The DAC also commends the US as the largest provider of official humanitarian assistance, and its “unparalleled operational and technical capacity to respond to major crises,” but expresses concern about DOD’s growing role in foreign assistance.

Commercial purpose

The US State Department has not been willing to allocate significant amounts of aid to further specific commercial goals, and is powerful enough to fend off attempts by other US agencies to divert aid for that purpose. US departments that favor using aid directly for commercial purposes, such as mixed-credit project financing schemes—the Department of Commerce, the US Ex-Im Bank and the Department of Agriculture in the case of food aid—have limited influence on the allocation and use of US foreign aid.

As is common among the DAC member countries, the US began its mission as a donor to developing countries with the expectation that virtually all the goods and services purchased under aid projects would originate from the US and be furnished by US suppliers. The “Buy America” provision of the Foreign Assistance Act (FAA) of 1961 requires that aid funds be spent “only in the US, the recipient country, or developing countries,” unless the required goods or services are not available in the designated countries or the President determines that procurement from an otherwise excluded country is necessary. Despite repeated efforts to replace the FAA 1961 with entirely new legislation to address the many anomalies of this fifty-year-old law, the law remains in effect today, though the “buy America” provision may be relaxed for reasons of availability, emergency or efficiency on a case-by-case basis.

The principal advocates of “buy America” have been manufacturers, agriculture (farmers demanding that US food aid be grown on American soil and shipped by American vessels) and labor (unions demanding that goods used in US-supported aid projects be American-made). Interestingly, the DAC Recommendation on Untying ODA to the Least Developed Countries of 2001 exempted food aid and technical cooperation from its untying requirements. Until the 1990s, an elaborate tracking scheme was in place to show the volume of reflows of aid funding to US providers of goods and services, and where such reflows took place—but no longer. Most USAID funding is now via grants and cooperative agreements with implementing partners. While many implementing partner organizations are US-based and employ US citizens, there is little information about what portion of the funds for program implementation are used for goods and services provided by American firms.

Following the DAC’s issuance of the Recommendation on Untying ODA to the Least Developed Countries in 2001, the US sought and received a waiver from the “buy America” provision that enabled it to implement the Recommendation, albeit unevenly. The US joined the nations committing to reduce tied aid in the Paris Declaration on Development Effectiveness in March 2005. According to the DAC, the portion of tied aid from all donors fell from 70 percent of total bilateral aid in 1985 to 12.5 percent in 2008. As of 2008, however, 25 percent of US bilateral aid remained tied. Nevertheless, significant blocks of recent US aid have been entirely untied, including Iraq relief and reconstruction, Afghanistan reconstruction and assistance to Pakistan and tsunami-affected countries.

CONCLUSION

This report analyzes the foreign assistance of the United States, Japan and the United Kingdom from the immediate aftermath of World War II to the present. All three cases involve countries in the top tier of the Development Assistance Committee of the OECD, establishing them as important alternative models for donor countries in search of global reach.

We have focused in particular on three purposes of aid:

- **A development purpose,** which promotes economic and social progress, leading to reduction of poverty in less developed countries, and reflects both international definitions of development and aid providers' specific development experience;

- **A commercial purpose**, which involves aid providers drawing financial benefits from their aid activities; and

- **A security purpose**, which leads aid providers to allocate aid flows to countries and regions deemed significant to the provider's security concerns.

Our main finding is that the purposes driving these countries' aid are complex. Aid providers pursue not just one or another purpose, but combine multiple motives that vary over time.

In the case of Japan, the country's commercial purpose has been evident from the outset, as indicated by the active role of its private sector in both formulating commercial strategies and identifying and implementing aid projects, and by Japan's uneven progress untying its aid. The commercial purpose is only part of the story. Japan's development purpose reflects its own development experience as Asia's first export-led industrial nation and communicates an East Asian development model to its Asian neighbors. As such, Japan's approach diverges to some extent from the international development model articulated by the DAC. Japan's security purpose has been perhaps less conspicuous but hardly less important. Within US-Japan security arrangements dating from the 1950s, the US brings pressure to bear for Japan to consider development assistance as part of its contribution to global security, and Japan both increases and allocates aid in parallel with US commitments, and uses its aid commitments as part of its security relationship with the United States.

Have Japan's mix of purposes and its manufacturing-led model of export-driven growth added value in recipient countries? Japan's East Asian neighbors—Korea, Taiwan, Thailand and Malaysia—have received Japanese aid and replicated the Japanese growth model. Following the death of Mao, China adopted a similar model, aided by development cooperation with Japan. Whether the Japanese approach will add as much value in other regions is less clear, but even if not, the Japanese contribution to East Asian growth has been remarkable.

In the UK, the country's cabinet-level development ministry articulates a simple and powerful development purpose focused on poverty reduction in the poorest countries and makes development policy coherence across the UK government a top priority. Britain's development purpose is closely aligned with the development effectiveness criteria of the DAC, and its commitment to reach the UN target of 0.70 percent of GNI by 2013 is on track. Given that the five DAC members currently operating above the 0.70 mark each have populations less than 16 million, the UK will become the first donor country of substantial size (62 million) to achieve this milestone.

Britain's commercial purpose, once powerful, is now dormant, given its transition from one of the most tied providers of aid in the 1980s to its current fully untied status. Given that Europe has been peaceful since World War II, Britain's security responsibilities and the scope of its global involvement declined following the end of the Cold War. Nevertheless, even as British soldiers were posted to Iraq and Afghanistan, DFID made the two countries the second- and third-largest recipients of UK aid in 2009, second only to India.

The UK's foreign assistance delivers value added on two levels. DFID models poverty reduction in the poorest countries by delivering access to education, health care, water, sanitation and food security in a transparent manner, while encouraging investment in economic growth. On another level, DFID provides valued development policy leadership to the European Community, with a focus on current pressing issues such as development effectiveness in fragile and conflict-affected states and bringing military and civilian expertise together in on-the-ground Stabilization Response Teams.

In the case of the US, a strong security purpose has been evident from the immediate aftermath of World War II to the present. The US essentially uses its foreign assistance to help stabilize the global commons. The Marshall Plan (1948-51) and the Camp David Accords (1973 and 1978), both of which were largely security-driven, set the course of US foreign assistance until the end of the Cold War. The attacks of September 11, 2001 reaffirmed the primacy of the security purpose, even as the role of the Defense Department in aid delivery steadily grew. While certain programs such as humanitarian aid receive high marks from the DAC, the extreme fragmentation of US aid is cause for concern. Regarding the US' commercial purpose, while it publicly supports the DAC's Recommendation on Untying ODA to the Least Developed Countries and Highly Indebted Poor Countries, there is little reliable information about what portion of US aid funds are tied to goods and services provided by American firms.

Can the US' security- and development-driven aid system add value in recipient countries? To the extent that its security focus draws the US into fragile, conflict-affected countries, positive evidence of development success, which typically involves a longer time frame, may be scarce.

Comparing the three cases, we see that the US, Japan and the UK have each struck a different balance among the development, commercial and security purposes of their foreign assistance. At the dawn of the twenty-first century, Europe has greater stability and peace than at any time in the twentieth century, which has allowed Britain to be somewhat less concerned with security in allocating its aid. The US and Japan have greater ongoing security concerns and global responsibilities, and for these reasons, security plays a larger role in their allocation of foreign assistance.

What does this mean for the Republic of Korea?

First, Korea as a new major player in foreign assistance can choose its own mix of purposes and adjust them with time and circumstances to create its own uniquely Korean brand of aid.

Second, like the United States and Japan, Korea's security concerns will affect how it allocates its foreign assistance.

Third, rhetoric notwithstanding, commercial motives can be found in the implementation of Japanese, US and even some UK aid. What Korea can learn is to avoid allowing commercial motives to undercut development and security purposes, while recognizing the need to sustain domestic support for its foreign assistance initiatives.

Fourth, Korea will want to consider how its own development experience compares with the development effectiveness criteria advocated by the DAC, and how the two development perspectives can best complement each other.

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