



**International  
Relations PhD  
Program**

## **SUMMARY OF THESIS**

**Balázs Szent-Iványi**

**The Effectiveness of the International Development Aid Regime**

Ph.D. thesis

**Thesis supervisor:**

**Dr. Tamás Szentes**

Member of the Hungarian Academy of Sciences

Budapest, 2009

**Department of World Economy**

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# 1. Subject of the Thesis

The thesis analyzes the changes that have taken place in the international development aid regime since the turn of the Millennium due to the changing nature of the international security environment. With the advent of globalization, the advanced countries of the world are increasingly affected by the security threats generated by poverty and state weakness in developing countries. Terrorism, environmental degradation, mass migration, global epidemics, weapons of mass destruction, organized crime and drug trafficking are all potential threats from which developed countries cannot isolate themselves. In the past years the dubious results of the wars in Afghanistan and Iraq have showed that hard military power alone is not sufficient for combating such security problems. Possibly, the only way to mitigate these dangers in the long run is through the eradication of the global development gap and poverty (Brainad *et al* 2003) and the stabilization of weak states. The advanced countries have numerous instruments to accomplish these goals. Foreign aid is undoubtedly one of them, but so far the West has failed to achieve significant results by using it.

The main hypothesis of our thesis is that the evolving new nature of the international security environment has led to profound changes in the practice of foreign aid, especially when comparing it to the Cold War era. Since the turn of Millennium, the Western donor countries that provide the bulk of international development assistance are increasingly motivated to use aid as a catalyst for starting economic growth and reducing poverty. During the Cold War, donors had very different motivations, as they saw foreign assistance as an instrument to build strategic alliances, gain political influence and various economic benefits. Supporting economic growth and reducing poverty were only secondary goals. However, due to the changes in the international security environment, the goals that donors aim to achieve with development assistance are also changing. This shift should be discernable in the changing effectiveness and allocation of foreign aid. In our thesis we empirically try to identify the actual changes in these two issues and attempt to prove that they are results of the changing international security environment. In other words, we suppose that donors have reformed the quality and allocation of their aid resources as a response to the challenges of state failure and global poverty. Therefore, we wish to examine the following four hypotheses:

1. Since the turn of the Millennium, donors are visibly trying to increase the contribution that their development resources make to economic growth and/or poverty reduction in partner countries.
2. The allocation of aid has shifted since the turn of the Millennium: donors are increasingly preferring to give aid to countries that are in need of it (they have low per capita incomes) and have shown good performance (they have engaged in democratization, have implemented pro-growth policies and created good institutions etc).
3. The changes observed are caused by the fact that the new nature of the global security environment has created a shift in donor motivations.
4. In contrast to the Western donors, the effectiveness of aid, as well as its efficient allocation is not a concern for the emerging Central and Eastern European aid donors.

By examining the first three hypotheses we can prove that the international aid regime has entered a new era, which has highly different characteristics than the aid regime of the Cold War era. The fourth hypothesis supposes that the emerging international development assistance policies of the Central and Eastern European donors conform to a different logic of operation than the one identified on a global level.

Our topic is relevant for many reasons. Our approach is comprehensive, as it links the effectiveness of aid and its allocation to the interests of donors. According to our knowledge, no similar research has been carried out in the literature. The aid effectiveness literature<sup>1</sup> is currently quite distinct from the literature of aid allocation.<sup>2</sup> A further novelty of our approach is the theoretical background we employ. As far as we know, the theory of international regimes has not been employed so far to explain changes in the practice of foreign aid. Hopefully however, our choice of topic will have important implications for Hungary as well. In 2001, Hungary began the creation of its international development assistance policy and set of institutions in line with European norms. Our country first started disbursing aid in accordance with this new policy in 2003. Although Hungary had channeled resources to third world countries as international development assistance during the Communist era as well, after the transition the country turned from aid donor to aid recipient, practically dismantling its foreign aid activity. Examining the

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<sup>1</sup> Most important works include Cassen *et al* (1986); Boone (1996); World Bank (1998); Burnside – Dollar (2000); Hansen – Tarp (2001); Lensink – White (2001); Guillaumont – Chauvet (2001); Collier – Dollar (2002); Kosack (2003) Dalggaard – Hansen – Tarp (2004); Islam (2005); and Rajan – Subramanian (2005b). See McGillivray *et al* (2005) for a review of the literature.

<sup>2</sup> See McKinley – Little (1977); Maizels – Nissanke (1984); Schraeder – Hook – Taylor (1998); Alesina – Dollar (2000); Dollar – Levin (2004) Berthelemy (2006a; 2006b); Kuziemko – Werker (2006); and Younas (2008).

theoretical and empirical questions of aid effectiveness and aid allocation can therefore be important contributions to the formation of Hungary's current foreign aid policy. By gaining a thorough knowledge of the international aid regime, Hungarian decision makers can be able to plan more efficient aid programs, but also influence decisions made by multilateral aid donors in which Hungary is a member, such the World Bank or the European Union. Our research has the potential to help Hungary in creating a characteristic strategy and image in field of international development.

## 2. Methodology

The topic of international development assistance cannot be understood without its wider world economic and historical context, therefore the first chapter of the thesis attempts to give a brief overview. The existence of the global development gap, the effects of globalization, and the academic literature related to development and foreign aid of the past 50-60 years are all such important contextual topics. In the second chapter of the thesis we narrow our focus to the international foreign aid system, and introduce our theoretical framework. We chose to use and adapt the theory of international regimes to study the global foreign aid system. Regime theory emerged in the 1970's, and consolidated in the early 1980's, mainly due to the works of Stephen D. Krasner (1982; 1983) and Robert Keohane (1984). According to Krasner's (1982: 189) definition "international regimes are defined as principles, norms, rules and decision-making procedures around which actor expectations converge in a given issue-area."<sup>3</sup> The empirical background of regime theory came from the observation that since the 1970's international governance in various functional issue areas could not be explained merely by the presence of international organizations or the bargaining processes between states. It is widely shared today in the literature, that global governance, especially in the era of globalization and complex interdependence is influenced by a multitude of factors (Karns – Mingst 2004: 42). Beyond nation states and international organizations, transnational corporations (TNC's), non-governmental organizations (NGO's), various advocacy groups, and even private individuals all have an influence on decision making in functional areas, not to mention the effects of abstract norms, principles and accumulated knowledge. Regimes are a much broader and more fluid

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<sup>3</sup> The term "regime" is also used in social sciences to denote the form of government in a given country. We do not use the term in this meaning in the thesis. For more on the topic of defining regimes, see Haggard – Simmons (1987).

concept than international organizations, and the usage of this abstraction allows us to grasp all the factors that influence international governance in a given topic. A multitude of interpretations of regimes exist in the literature, in the thesis however we primarily rely on the interest-based and the knowledge-based approaches (Hasenclever *et al* 1997). Even though some authors have voiced criticism regarding regime theory (see for example Strange 1982 or Nye 2001), altogether we feel it is a useful analytical framework for our thesis.

The conceptual and theoretical apparatus of regime theory can easily be adopted and we can think about the international aid system as a specific international regime. The *international development aid regime* is the main level of analysis in our thesis. The international development aid regime is highly institutionalized, fragmented, state-based, and characterized by a low level of legalization (Bennett – Oliver 2002; Abbott *et al* 2000). The most important actors in the regime are nation states, even though numerous international organizations and NGO's exist within its frames. Donor countries disburse approximately two thirds of their aid directly to partner countries, and only the remaining one third is channeled through multilateral organizations. (OECD 2007a: 13e). This means that in the end both bilateral and multilateral aid flows are financed by donor country tax payers. Still, the role of international organizations is not to be underestimated. Besides disbursing the funds channeled by donors, international organizations are also important forums for coordination and norm creation, and through these means they have the possibility to influence donor behavior (Degnbol-Martinussen – Engberg-Pedersen 2003). Multilateral organizations are also important knowledge centers, and the research carried out by them can also influence the way donors act. International NGO's and for-profit companies, including TNC's, are also important actors in the regime, as they are the ones who usually implement aid-financed projects, but they can also try to manipulate donor behavior (Villanger 2006). The partner countries may also attempt to influence the way the regime works, but as experience shows, the results they are able to achieve are usually quite moderate. The regime is therefore characterized by the dominance of donors (Farkas 2008). However, the policies and institutions created by partner countries (in part at least) determine how effective development resources will be.

The characteristics of the international development aid regime outlined above have many important implications regarding the allocation and effectiveness of foreign aid. Due to the fact that the regime is dominated by the donors, we can safely state that it is the interests and motivations of the donors that have the greatest single influence on the performance of the

regime. The motivations of donors for giving aid therefore play a crucial role in the thesis. Donor interests may be classified into four broad groups: political, economic, security and ideological interests.<sup>4</sup> The various motivations may be present both in the short run and the long run (Paragi – Szent-Iványi 2006), and greatly determine a given donor's aid policies perform in practice. If, for example, a donor puts a special emphasis on securing short term economic benefits through foreign aid, resources granted by her will be highly tied to exports, which on the other hand can have negative implications on the effectiveness of these resources.<sup>5</sup> If however poverty reduction is a crucial goal for a donor (due to security related or other interests), she will favor partners with high levels of poverty. Many other examples can be cited to underpin the relationship between donor motivations and the characteristics of aid flows.

The most important question concerning our conceptual framework is to determine from a theoretic point of view the factors that can lead to change in the international development aid regime. In other words, how can we explain that in the Cold War era the regime worked quite differently than it does today? One of the central tenets of regime theory is that regimes have a tendency to remain stable and resist change, especially if they have written and highly formalized rules. Since the international development aid regime lacks a high level of formality, we can suppose that changes may occur at a relatively rapid pace in the regime. We have derived the way the regime works from the interests of its dominant members, the aid donor Western countries. If the interests of donors change for some reason, so will the regime. Although some models have already been developed in the literature to explain changes in a country's foreign policy (see for example Gustavsson 1998), none have been formulated specifically to address changes in foreign aid policies, at least to our knowledge. We identify three change-inciting factors:

- changes and shocks in the global political and economic environment;
- the effects of international organizations and the regime itself on its members, or in other words, processes of socialization and learning;

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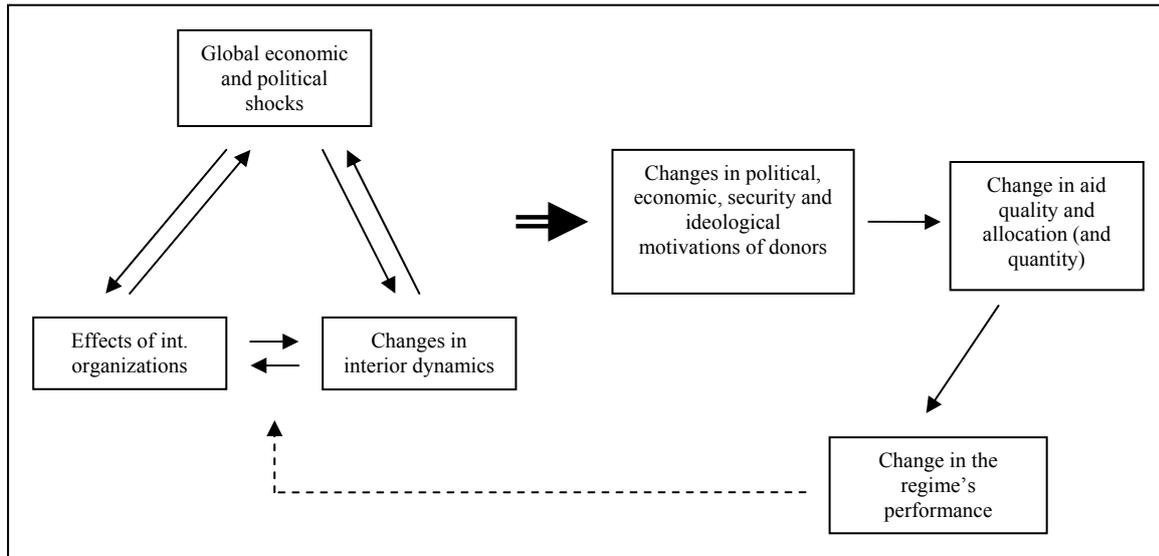
<sup>4</sup> Perhaps the difference between political and security related interests is not so clear cut, still we feel it is a useful distinction. Under political motivations we mean the interests of donors in building strategic alliances and gaining influence in partner countries via aid (such as persuade the partner country to vote with the donor in various international organizations). Security related motivations on the other hand cause the donor to directly address issues which can potentially pose a threat to its citizens. Degnbol-Martinussen and Engberg-Pedersen (2005) use a further category, that of environmental motivations, however we feel that these fit into the group of broad security motivations. Furthermore, some would argue that the term moral motivation should be used instead of ideological, this however has a more constrained meaning.

<sup>5</sup> Throughout the thesis, we interpret aid effectiveness in terms of what effect aid has on the development of the partner country, regardless of what motivations and actual goals the donors have. See section 3.1.3. in the full thesis for a thorough explanation.

- changes in the interior power relations and dynamics within donors;

Our arguments are summarized in the simple model shown in Figure 1., with which we can interpret the main forces and process of change in the international development aid regime.

Figure 1: A dynamic model for understanding change in the international development aid regime



Source: own figure

We use this simple model, which is based on the main tenets of interest-based regime theory, as an analytical framework for examining our four hypotheses. In our first hypothesis we have stated that since the turn of the Millennium donors are visibly trying to increase the contribution of their development resources to economic growth and/or poverty reduction in partner countries. To see whether this is actually true, we employ a qualitative methodology. Our second hypothesis, concerning the changing allocation of aid, is examined using quantitative methods. The third hypothesis, which links the potential changes in aid effectiveness and aid allocation to the changes in donor interests, is examined using quantitative methods. Finally, the fourth hypothesis concerning the characteristics of the Central and Eastern European donors is analyzed using both qualitative and quantitative methods, similar to the methods used during analysis of the first two hypotheses. A more detailed explanation of our methodology, as well as our results can be found in the third section of this current summary.

## 3. Key Findings

### 3.1. Changes in Aid Effectiveness

We have decided not to employ quantitative methods for examining aid effectiveness, due to the fact that their usage is surrounded by large debates in the literature and there are no conclusive results (see for example: McGillivray *et al* 2005; Roodman 2007). The method of project evaluation is also not an appropriate approach, mainly due to the low external validity of the results and the difficulties of constructing a representative sample of aid projects. Our dissertation therefore uses a third, qualitative approach to grasp potential changes in aid effectiveness.

First we examine the main factors that can potentially decrease the effectiveness of aid, then we take into account the international initiatives of the past decade aimed to mend these distortions. Finally we, examine what effects the recommendations of these international initiatives have had on the practice of the donors. Of course, with this approach we cannot grasp the changes in how much more effective aid has become in promoting economic growth,<sup>6</sup> rather just the changes in the aid delivery mechanisms of donors. However, one can hardly argue the fact that if the procedures and mechanisms of aid delivery become more efficient, then aid as a whole will also become more effective in promoting economic growth and poverty reduction.

We evaluate the changes in the aid delivery mechanics of donors using the OECD DAC's<sup>7</sup> „peer reviews“. The DAC publishes a review of a given donor's aid policies and practice every four to five years, in which it examines the changes that have taken place since the last review. By analyzing and synthesizing the 22 DAC peer reviews published between 2003 and 2007, we can get an overarching picture of how donors are trying to address the questions of aid effectiveness and if changes are actually taking place or not. As far as we know, there have been no attempts in the literature so far to synthesize the conclusions from these reports. We have carried out the analysis along the lines of the following topics and questions, always aiming to indentify change in the given donor's practice:

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<sup>6</sup> Due to the fact that the econometric methods used to this end in the literature are highly debated, we do not think that grasping the final effectiveness of aid (its contribution to economic growth or poverty reduction) is possible.

<sup>7</sup> The OECD Development Assistance Committee (DAC) is the most important forum of coordination for the advanced donors.

1. Changes in aid strategies
  - a. Has the donor declared poverty reduction as its main strategic goal?
  - b. Does the donor use country strategies for programming its resources?
  - c. Does the donor involve the partners in formulating country strategies?
  - d. Has the effect of written strategies on practice increased?
2. Changes in organizational structure
  - a. Has there been a decrease in the number of organizations (ministries, aid agencies, etc.) that deliver the aid, or did coordination between the existing organizations improve?
  - b. Has there been devolution in favor of the representative offices/embassies in partner countries?
3. Changes in policy coherence
  - a. Have formal institutions been created to enhance policy coherence?
  - b. Does the government have a legal obligation to ensure policy coherence?
  - c. Do these institution and legal instruments really influence practice?
4. Changes in aid quality
  - a. Has the usage of program-based aid become more common?
  - b. Has the proportion of untied aid increased?
  - c. Has the proportion of “reliable” aid<sup>8</sup> increased?
5. Changes in aid concentration
  - a. Has the geographic concentration of aid increased?
  - b. Has the sector concentration of aid increased?
6. Changes in aid evaluation
  - a. Has the donor formulated a strategy for carrying out evaluations?
  - b. Is the organizational department responsible for carrying out or outsourcing evaluations independent?
  - c. Is there feedback from the conclusions of evaluations towards policy makers and program designers?
7. Changes in cooperation with other donors
  - a. Does the donor take part in delegated partnerships or joint project implementation with other donors?
  - b. Has the donor created joint country strategies with other donors?

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<sup>8</sup> The specific indicator we use is what percentage of aid channeled by the donor is included in the recipient’s state budget.

Using a point system developed by us, we evaluate the performance of the DAC donors in all of the categories above. The analysis is summarized in table 4.2. of the full thesis and details of the analysis can be found details in Appendix 2. Due to restrictions in extension, we only list the most important conclusions of the analysis in this current summary.

- We can observe significant improvements in many of the topics examined. By summarizing the main conclusions of the OECD DAC peer reviews published between 2003 and 2007, it is quite clear that many donors have made poverty reduction their main strategic objective, have adapted the country strategy approach, have rationalized their aid mechanisms by decreasing the number of organizations delivering their aid and increasing the role of their embassies and have created institutions to increase policy coherence. They are also decreasing the proportion of their aid that tied to exports, increasing the ratio of program-based aid and are placing an increasing emphasis on the evaluation and feedback of results. Coordination among donors has seems to have improved according to the OECD DAC.
- However, the performance of the donors is highly uneven. Besides the well known gap between the Nordic donors and all the others, we have also observed some surprises. According to our analysis, donors can be placed into three broad categories: (1) donors which are highly committed to improving the effectiveness of their aid (Australia, Canada, Denmark, Germany, Ireland, the Netherlands, New Zealand, Norway, Sweden, the United Kingdom and the United States); (2) donors making medium level efforts (Finland, France, Greece, Japan, Luxembourg, Switzerland); and (3) donors that are lagging behind (Austria, Italy, Portugal, Spain). Perhaps our most important observation is that the English-speaking donors, which are perhaps mostly affected by the changing nature of the international security environment, have all made significant steps to improve aid effectiveness since the turn of the Millennium.
- While most donors do make formal reforms in the fields of strategy formulation and legislation aimed at increasing effectiveness, the effects of these reforms are yet to be felt in practice. It is difficult to identify any meaningful improvements in the area of policy coherence or in terms of feedback and organizational learning from project and program evaluations. Progressive aid strategies emphasizing poverty reduction are frequently not reflected in practice.

Taking the above into consideration, it is not easy to draw any conclusions on how the effectiveness of aid has changed in the past years. Some of the donors are clearly trying to

improve their aid practices, while others are not. The effects of formal reforms are difficult to identify in practice. It is clear that the conclusions of our analysis do not permit us to accept our first hypothesis in its original form (*„Since the turn of the Millennium, donors are visibly trying to increase the contribution of their development resources to economic growth and/or poverty reduction in partner countries.“*). We can however, accept a softer version: *„Since the turn of the Millennium, a significant number of donors have created aid strategies, processes and organizational structures which have the potential to increase the contribution of their development resources to economic growth and/or poverty reduction in partner countries“*. Therefore, although we do not accept our original hypothesis, it is difficult to dispute that there are discernable changes in the international development aid regime, and these changes point towards increasing aid effectiveness. The mechanisms and processes of the past are definitely under change.

### **3.2. Changes in Aid Allocation**

Certain distortions caused by aid are not the results of donor behavior or the structure of the international development aid regime, but rather stem from the fact that partner countries are unable to sufficiently absorb these resource flows due to weak policies and institutions.<sup>9</sup> There is an emerging consensus in the literature that the only way to remedy these problems is by transforming the allocation of aid. (Burnside – Dollar 2000; Collier – Dollar 2002; Kosack 2003; Dalgaard – Hansen – Tarp 2004). According to this “ideal” allocation of aid, recipients with lower levels of income and better economic policies or stable (and democratic) institutions should receive more aid. In good policy and democratic institutional environments aid can effectively compliment the home grown efforts of the partner county.<sup>10</sup> Although such an envisaged transformation of global aid allocation raises numerous concerns (for example what would happen with those extremely poor countries which are not capable of formulating good policies and creating pro-growth institutions), it is difficult to debate from an aid effectiveness point of view (Degnbol-Martinussen – Engberg-Pedersen 2003).

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<sup>9</sup> Such distortions include Dutch-disease type problems (Heller – Gupta 2002; Gupta – Powell – Yang 2005; Rajan – Subramanian 2005a, 2005b), aid dependency syndrome (Van de Walle 2001; Moss – Pettersson – Van de Walle 2006; Musto 2005; Easterly 2006; Whitfield – Jones 2007; Janus 2009), or increasing corruption and rent seeking (Svensson 2000).

<sup>10</sup> This casual relationship can be accepted intuitively too: democratically elected governments have greater incentives to spend aid on investments that benefit wide segments of the population. There is however an extended empirical literature see for example Brown (2001), Kosack (2003), or Moss – Pettersson – Van de Walle (2006).

We use a simple regression model to test whether donors are taking these two factors into consideration when making decisions on how they allocate their development resources. The dependent variable of our model is the per capita aid level of recipient countries, and the independent variables measure the political, economic, security related and ideological motivations that determine the volume of aid that donors disburse to each recipient.<sup>11</sup> We estimate the model using two datasets to permit the comparison of the results. The first dataset covers the years between 1984 and 1990, and represents the Cold War era of the international development aid regime. The second dataset is for the years between 2001 and 2006, representing the current era of the regime.<sup>12</sup> Using these two datasets, we calculate arithmetic averages for each period for every variable in order to rule out possible distortions arising from annual fluctuations in the data. This way we basically get two cross-sectional datasets. By estimating the model on the two datasets, we can draw conclusions as to which factors determined the allocation of aid during the Cold War and which factors influence it today. The model is summarized in equation (1).

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<sup>11</sup> For a detailed description of the model and an explanation of the independent variable see the full thesis. The model is variation of the ones used for similar ends in the literature (Alesina – Dollar 2002; Dollar – Levin 2004; Berthelemy 2006a; 2006b; and Younas 2008).

<sup>12</sup> The boundaries of the two periods may seem arbitrary, but they have been defined so for practical reasons, mainly stemming from the availability of the data. See the full thesis for a detailed explanation.

$$\log(\text{ODAcap}_j) = \beta_0 + \beta_1 \log(\text{pop}_j) + \beta_2 \log(\text{GDPcap}_j) + \beta_3 (\text{inFDI}/\text{GDP}_j) + \beta_4 \log(\text{col}_j) + \beta_5 \text{GDPgr}_j + \beta_6 \text{Int}_j \quad (1)$$

where

- ODAcap<sub>j</sub>: the average annual per capita aid (ODA) received by recipient j in the given period;
- pop<sub>j</sub>: the average size of recipient j's population in the period;
- GDPcap<sub>j</sub>: the average annual per capital GDP level of recipient j in the given period, measured using purchasing power parity;
- inFDI/GDP<sub>j</sub>: average inward stock of foreign direct investment in percentage of the GDP in recipient j in the given period;
- col<sub>j</sub>: the amount of years recipient j spent as a colony since 1990, measured at the beginning of the period;<sup>13</sup>
- GDPgr<sub>j</sub>: average annual growth rate of recipient j's GDP in the given period;
- Int<sub>j</sub>: average institutional quality in recipient j in the given period (using the indicators developed by Freedom House or Political Risk Services).

For the Cold War dataset, we find that the recipient country's population size, the amount of inward FDI, years spent as a colony and the size of GDP per capita are all significant variables in explaining the average annual amount of aid a country got per capita between 1984 and 1990. According to our results, during the Cold War a recipient got higher per capita aid if it had a small population, was relatively poor, had intense economic relations with the West and the longer it was a colony after 1900. Using the dataset representing the era after the turn of the Millennium, we get quite different results. Although the size of the population and the level of per capita incomes are still significant, the other two variables are not. However, the variable measuring institutional quality (using the democracy index published by Freedom House) became significant. This means that between 2001 and 2006 a recipient got more aid per capita from the donors if it was poor, had a small population, and had a relatively more democratic government. The intensity of economic and political relations between a given recipient and the donors does not explain variation in per capita aid levels after the turn of the Millennium. We examined possibilities for multicollinearity for both datasets and found that it is not a significant threat. We also carried out some simple sensitivity tests and found that our results are robust.

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<sup>13</sup> We substitute a value of 1 for countries which were not colonies after 1900.

The emerging conclusions are quite clear. During the Cold War, donors mainly took into account the size of country, income levels, economic and political (historical) ties when deciding how much aid to give to a country. After the Millennium however we see a marked change, and donors are favoring poor but democratic countries, who are able to use aid resources more effectively. This observation is consistent with the recommendations of the theoretical literature. Despite the relatively strong evidence, we cannot accept our second hypothesis in its original form, as income levels of the recipient countries were important factors during the Cold War as well (originally, we supposed that they were not). The fact that donors take the level of democracy into account is however a new phenomenon. We therefore accept the following, modified form of our second hypothesis: *the allocation of aid has shifted since the turn of the Millennium: donors are increasingly preferring to give aid to poor countries that have shown good performance (they have engaged in democratization and respect human rights).*

### **3.3. Motivations behind the Changes**

While examining the first two hypotheses we found that it would be difficult to deny that visible changes have happened in the international development aid regime, both concerning the effectiveness and the allocation of aid. The direction of changes is in line with our expectations, even if the changes are not so rapid as we have thought. Concerning our third hypothesis, we examine whether these changes are results of the shift in the global security environment or not. For the analysis we use the model summarized in figure 1., which explains changes in the international development aid regime by identifying the factors that affect donor behavior. Donor motivations for giving aid can change as a result of three factors: global economic and political changes and shocks, the effects of international organizations, and changes in dynamics within donors.

First we examined the effects of changes and shocks in the global political and economic environment. We argued that the most important such change affecting donors is the emergence of weak states. Although weak states have existed during the Cold War as well, due to accelerated globalization the advanced countries are increasingly affected by them. The phenomena of weak states and its links with global poverty are discussed in detail in the thesis. States that are incapable of fulfilling their task have today become the norm among developing

countries (Collier 2007). These states cannot protect their citizens (Woods 2005), are incapable of providing public goods and public services (Rotberg 2002). The weakness of the state can pose an incentive for armed conflicts and organized crime (Fearon 2005). Citizens in these countries have to search for different solutions in order to ensure their survival. As the state in many developing countries gradually lost its capacities and its capabilities to take care of its responsibilities, aid donors had to step in and fill the void. The existence of weak states and their potential effects on advanced countries were realized by Western societies after such events as the 9/11 terrorist attacks (and the later bombings in Madrid and London), which we can think of as the most important shocks showing the emergence of a new international security environment. The emergence of weak states and its links with global poverty is the most important external change that affects donor motivations for giving aid. As we show in the thesis, no other world economic or political event in the past two decades would have made the observed shift in foreign aid policies and practices necessary.

Concerning the effects of international organizations, we analyzed the four most important multilateral organizations in the international development aid regime: the World Bank, the UN family, the European Union and the OECD. It emerged clearly from the analysis that all four organizations are endeavoring to influence their member countries; it is not evident however how successful they are in doing this. The World Bank for example tries to convince bilateral donors to align their aid activities to the Poverty Reduction Strategy Papers (PRSP) of the recipient countries in order to increase ownership and predictability of development resources (Klugman 2002). We can say that the bank is reasonably successful in its attempts, as we have seen during the analysis of the first hypothesis that a number of donors have adopted the PRSP approach (see Appendix 2 of the thesis). Concerning the EU and the OECD, there is quite an extensive literature on how these organizations impact on their members. The literature related to the OECD mainly emphasizes the role of soft norms and peer pressure (Pagani 2002; Marcussen 2004a; 2004b; Guilmette 2007). In case of the EU, the literature on “Europeanization” provides some ideas (Smith 2000; Olsen 2002; Featherstone 2002; Checkel 2003). With perhaps the exception of the UN, which seems to stress aid quantity instead of quality, all the examined international organizations are putting a growing emphasis on the topic of aid effectiveness, but we can also observe the increasing presence of security related topics (such as the management of armed conflicts and weak states) in their various publications and reports. It is evident therefore that the international organizations in the development aid regime are providing similar incentives to donors as the global political and economic changes are. We have to note however,

that an important conclusion of both the OECD-related literature, and the literature on “Europeanization” is that international organizations can only exert influence on their members if the interests of the latter coincide with the goals of the organization. In other words, pressure from international organizations alone cannot be a sufficient factor in explaining shifting donor practices.

It is difficult to draw any conclusions that are valid for all donors in case of interior dynamics and power structures. Although the inhabitants of a country may have their own opinions on international development, the topic is rarely seen on domestic political agendas (Otter 2003). It is also difficult to observe any trends that are present in all donors, or at least in a majority of them.

We closed our analysis with two case studies, one on the United States, the other on the United Kingdom. We showed how these two countries have reacted to the global economic and political changes, and we also examined their interior dynamics. The emergence of weak states and the security threats they pose were important driving forces in the changes that have occurred in the foreign aid policies of these countries over the past decade (in case of the US we can find explicit references to this in official documents). The role of interior dynamics is well illustrated by the case of the UK, as reforms in foreign aid began in 1997 when the Labour Party came to power. The case of the US clearly shows that security motivations were the main reasons for reforming US foreign assistance, while in case of the UK these external changes and shocks proved cardinal in sustaining the results of earlier reforms, as emphasized in various official government documents.

Summing up our results, even though it is not easy to isolate the various factors which affect donor motivations, we have found clear evidence that security concerns, or addressing the threats posed by weak states and global poverty to be more precise, were the most important factors behind the changes we have observed in the international development aid regime. International organizations have also tried to push donors towards more effective practices, and references to security problems can also be observed in their case as well. *Therefore, our analysis has supported our third hypothesis, namely that the changes observed in the international development aid regime are caused by the shift in donor interests resulting from the new nature of the global security environment.*

### **3.4. The Characteristics of the Central and Eastern European Emerging Donors**

Our final hypothesis suggests that the emerging foreign aid policies of the Central and Eastern European countries are quite different from those observable on the level of the international development aid regime. For practical reasons, we restricted our analysis to the four Visegrád countries (the Czech Republic, Hungary, Poland and Slovakia), as they have the most advanced aid policies in the region. During the Communist era, these countries all had international development policies, but these were suspended during the transition process. The four countries began reformulating these policies after the turn of the Millennium. There is a clear pressure on the Visegrád countries from the Western donors (and international organizations like the OECD and the EU) to adapt to the international development aid regime, implement its norms, practices and philosophy (see for example Michaux 2002, or Fodor 2005). The Central and Eastern European countries however have very different historical, political and economic characteristics than the OECD DAC-member donors, and these characteristics definitely slow down (if not thwart) this adaptation process. The most important distinctive traits are the following:

- The Visegrád countries were not colonial powers. Due to this and the fact that they are small countries, their former political relations with developing world countries are rather limited. Many of them first made formal contacts with developing countries during the Communist period, and the effects of this are felt to this day.
- In close relation with the above, their economic relations with developing countries are also limited.
- The Visegrád countries are not influenced so heavily by security threats coming from weak states and global poverty, at least on the level of popular perceptions. On the other hand, stability in their neighborhood (namely the West Balkans and the CIS-region) is of paramount importance to them.
- The topic of international development is not part of the public discourse in these countries. Awareness on development issues among voters and citizens is much lower than in Western countries.
- The four countries themselves are facing development challenges of their own, it is likely therefore that governments do not think that spending large amounts on foreign aid is justifiable to the taxpayers.

The characteristics listed above lead to quite different aid practices than what we have observed in case of the international development aid regime dominated by Western donors. To show how

these characteristics influence practice, we attempted to examine the main details of development resources disbursed by the Visegrád countries. It is relatively evident that these donors are not placing any emphasis on ensuring the effectiveness of their aid, and there are no signs of reforms similar to the ones most Western countries have implemented in the past years. Although lack of data is a serious obstacle to a detailed and thorough analysis, we can still safely conclude that the four countries lack strategic focus, they have way too many partner countries, their aid delivery systems are highly fragmented, they lack clear project evaluation and feed back mechanisms, and the interests of the partner countries is not taken into account during the planning, programming and disbursement of resources.

We also analyzed the factors affecting the allocation of the aid of Visegrád countries between 2001 and 2006, using a similar regression method employed while testing hypothesis two. The dependent variable of our model was the average annual amount of aid per capita that partner countries received from the Visegrád donors between 2001 and 2006. We left out the variables related to foreign direct investment and colonial years from our model and instead decided to include three dummy variables. These dummies indicate whether a given partner country belongs to the Western Balkans, the CIS region, or was a former partner country of any Visegrád donor during the Communist era.<sup>14</sup> We identified highly different factors than we did in case of the Western donors: our results indicate that although the size of the recipients population naturally still has an effect on the amount of per capita aid it receives from the Visegrád countries, all the other factors differ from the ones observed on the level of the regime. The Visegrád countries do not take the income levels and previous performance (such as the quality of policies or democratic institutions) of the partner countries into consideration when determining the amount of aid it gets. All three dummy variables mentioned above however are significant, with quite large coefficients. The regression analysis has therefore supported the notion that regional stability is important for the Visegrád countries, since they mainly give development aid to the neighboring countries. Supporting far-flung developing countries is not vital for them, but since due to international pressure they have to provide some aid resources to such states, they choose countries that were already partners in the Communist era, regardless of the levels of income and previous performance these partner show.

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<sup>14</sup> This last group mainly comprises countries which had socialist or communistic regimes at some point during the Cold War era and turned to the Soviet block for assistance. Such are, among others, Yemen, Ethiopia, Viet Nam, Mongolia, Cambodia, Angola, Mozambique, Laos, etc.

*We have found clear evidence supporting our fourth hypothesis. The four Visegrád countries do behave quite differently concerning the effectiveness and the allocation of their aid than the Western donors who determine the international development aid regime. We therefore accept the hypothesis.* Still, the question arises whether this is so because the Visegrád countries really do have markedly different motivations for giving foreign aid, or in the long run we can expect a certain convergence between them and the western donors.

## **4. Conclusions**

Summing up the main conclusions of the thesis, we found clear evidence that a new era has begun in the international development aid regime since the turn of the Millennium. The most important characteristic of this new era is that donors see it increasingly important to make sure that their aid resources effectively contribute to global poverty reduction and the strengthening of the state in developing countries. We argued that the main reason for this is the new nature of security threats that donors face, arising from state failure, poverty, and globalization. Combating poverty is the only viable means for countering this security threat. It must be noted of course that the changes we have identified in the international development aid regime are not as radical as we had supposed, but they are undeniably present.

Many questions for further research arise from conclusions of our thesis. We also feel that our methodological apparatus, especially the adaptation of regime theory to the study of foreign aid could be used with success to address other questions as well. The most important further areas for study are the following:

1. What effects will China and other emerging donors have on the way the international development aid regime works?
2. How will the characteristics of the Central and Eastern European donors influence their potential convergence to the practice of the advanced Western donors?
3. What possibilities does Hungary have in the field of international development aid?
4. What further reforms and innovative forms of aid would be desirable to enhance the effectiveness of foreign aid?

In the concluding chapter of our thesis we also addressed some issues which are raised by our results in a broader world economic context. Perhaps the most important such question is what

effect the observed changes will actually have on the weak states themselves. Will foreign aid be able to deal with the security challenges arising from the existence of such states, and, in a broader sense, will it be able to contribute to the closing of the global development gap? Foreign aid is only one component in the complex puzzle of economic development and on its own it is probably not able to counter those world economic processes and asymmetrical interdependencies that create the global development gap. This fact raises two major questions: (1) what are the results then that foreign aid *can* achieve on its own and (2) will the forces that shaped the changes in the international development aid regime induce shifts in the workings and institutions of the broader world economy? Concerning the former, aid has a crucial role in improving living conditions for the poorest segments of society and in making sure weak states do not collapse to total anarchy and chaos. Perhaps they may not be able to solve the problem, but with their help further deterioration may be avoided. Concerning the latter, the world economy would need several reforms, from radical changes in the institutions of global governance through the reorganization of the global trading system all the way to the integration of environmental concerns in global policies, but it seems there is little chance for these to happen. Perhaps making aid more effective is all that donors are willing to do.

Finally, we thought it important to make a few remarks on how the current global economic crisis affects our results concerning foreign aid. The crisis has a negative effects on the worlds poorest countries (due to the decreasing prices of raw materials and contracting export markets), and can therefore intensify the security problems caused by state weakness. The results that have been achieved in poor countries in the past years may be nullified by the crisis, and the deteriorating living conditions and prospects of people will intensify the global security problems. Due to decreasing revenues, governments will have to scale back on expenditures and their capacity to carry out their tasks will decrease, whilst their dependency on aid will increase. The danger of armed conflict will also increase. The crisis therefore will definitely have a negative effect on the global security environment and will create an incentive for donors to react.

The question is how the donors will react. Historical evidence shows that in times of economic crisis donors usually scale back the amount of aid they give to partners. It is of course possible that while decreasing the amount of aid they disburse, donors will simultaneously also place a greater emphasis on increasing effectiveness. We can also however imagine such an extreme situation in which donors turn to protectionism, with illusions of defending the well being of

their own citizens. This can have catastrophic effects on global welfare. Economic protectionism may also induce rich countries to try and address security problems not by combating global poverty and state failure, but through interior “homeland security” measures, perhaps even through the increased restriction of human rights.

It is therefore difficult to draw any clear cut conclusions concerning the effects of the crisis. Although it does reinforce the motivations that donors have towards eradicating poverty, it is yet unclear how they will react. We have some ground for hope however, as we have shown in the thesis that so far the donors have responded in the correct manner to the changes in the international security environment.

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Washington D.C.: World Bank.

## 6. Relevant Publications by the Author

### Journal articles

- Transition and foreign aid policies in the Visegrád countries. A path dependant approach (with András Tétényi)  
*Transition Studies Review*, 2008, 15(3)
- Szükség vagy érdek? A nemzetközi fejlesztési együttműködés érdek- és motivációrendszere (with Beáta Paragi)  
*Társadalom és Gazdaság*, 2006, 28(1): 99-121.
- A nemzetközi fejlesztési együttműködés politikai gazdaságtana;  
*Kül-Világ* 2005/4

### Working papers

- State Fragility and International Development Co-operation  
*United Nations University, World Institute for Development Economics Research (UNU-WIDER) Research Paper No. 2007/29*

### Books and book chapters

- Az Európai Unió nemzetközi fejlesztési politikája [The European Unions International Development Policy]  
In: Kengyel, Ákos (ed): *Közösségi politikák [Community Policies]*. Budapest: Akadémiai Kiadó (forthcoming)
- A bilaterális fejlesztéspolitikák összehasonlítása [Comparing Bilateral Development Policies] (with Sára Vári and Beáta Paragi)  
In: Kiss, Judit (ed): *Milyen legyen Magyarország nemzetközi fejlesztéspolitikája? [How should Hungary's international development policy look like?]* Budapest: Institute for World Economics of the Hungarian Academy of Sciences 2008.
- A nemzetközi fejlesztési segélyezés gazdasági hatásai a donorországokban [The Economic Effects of International Development Aid in Donor Countries] (with Sára Vári)  
In: Kiss, Judit (ed): *Milyen legyen Magyarország nemzetközi fejlesztéspolitikája? [How should Hungary's international development policy look like?]* Budapest: Institute for World Economics of the Hungarian Academy of Sciences 2008.
- A szabadkereskedelmi tárgyalások nehézségei. Esettanulmány az EU-AKCS gazdasági társulási megállapodásokról [The Difficulties of Free Trade Negotiations. Case Study on the EU-ACP Economic Partnership Agreements]  
In: Blahó, András (ed) *Nemzetgazdaság – integráció – világ gazdaság. Tanulmányok Palánkai Tibor akadémikus 70. születésnapja tiszteletére. [National Economy – Integration – World Economy. Papers in Honor of the 70th Birthday of Tibor Palánkai]*. Budapest: BCE 2008.
- Nemzetközi fejlesztési segélyezés. Tankönyv [International Development Aid Textbook]*(coauthor with Beáta Paragi and Sára Vári, editor). Budapest: Tett Consult Kft. 2007.

*Az Európai Unió nemzetközi fejlesztési politikája és az Európai Fejlesztési Alap. Összefoglaló és szöveggyűjtemény [The European Union's International Development Policy and the European Development Fund]* (author and editor). Budapest: Tett Consult Kft. 2007.

Az államkudarok kérdése a nemzetközi fejlesztési együttműködésben [The Question of State Failure in International Development Cooperation]

In: Marton, Péter (ed) *Államok és államkudarok a globalizálódó világban [States and State Failure in a Globalizing World]*. Budapest: Teleki László Foundation 2006.

### **Papers presented at international conferences**

Transition and foreign aid policies in the Visegrád countries. A path dependant approach (with András Tétényi)

Presented at *Beyond Transition: 1989 – 2009. International Conference on the Transformation of Socialist Economies*, 16-17 June 2009, Liverpool

The Role of Central and Eastern Europe in the EU's Development Policy (with András Tétényi)

Presented at the *12<sup>th</sup> EADI General Conference*, 24-28 June 2008, Geneva

State Fragility and International Development Co-operation

Presented at the *UNU-WIDER Conference on Aid*, 16-17 June 2006, Helsinki

Hungary – Development Co-operation (with János Balla)

Presented at the *Konrad Adenauer Stiftung's Workshop with Stakeholders in Development Cooperation in the New European Union Member States*, 7-8 December 2005, Brussels

### **Book reviews**

Divergencia a fejlődő világban. Paul Collier The Bottom Billion című könyvéről [Review on Paul Collier's Bottom Billion]

*Köz-Gazdaság*, 2008, 3(1): 224-227

David Warsh: Tudás és a nemzetek gazdagsága – könyvrecenzió [Review on David Warsh's Knowledge and the Wealth of Nations]

*Köz-Gazdaság*, 2006, 1(2): 145-148

### **Publications on other topics**

A lisszaboni stratégia eredményei és a nemzetközi kihívások – foglalkoztatási szempontból [The Lisbon Strategy – Results and International Challenges. An Employment Perspective]

(with Márk Bató)

*Köz-Gazdaság*, 2008, 3(2): 209-222.

A közvetítés kontingenciamodellje [The Contingency Theory of Mediation]

*Külügyi Szemle*, 2004, 3(1-2): 189-206.