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Development Cooperation – Between Rejectionist and Reform-oriented Criticism

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Despite undisputed progress in the field of development and a widespread consensus on the importance of development cooperation (DC), it has been accompanied from its very beginning by a broad spectrum of criticism. This paper offers an overview of the main areas of criticism, but deliberately avoids any assessment of both their substance and potential counter-arguments.

An intrinsic distinction is made here between rejectionist criticism of fundamental principles and well-intentioned, reform-oriented criticism. Criticism of fundamental principles questions the objectives of development cooperation at their most basic level. Critical positions identified in this context are the populist, neo-Marxist and post-colonial/ post-development critiques. In contrast, reform-oriented criticism focuses on the inadequate effectiveness attributed to Official Development Aid (ODA). Possible causes discussed include inappropriate strategic approaches, donor country self-interest, and the undesired side-effects and perverse incentives associated with ODA.

Criticism of the fundamental aims of DC

The aims of development cooperation come under fundamental criticism from a number of sides. Particular distinction is drawn here between populist, neo-Marxist and post-colonial/ post-development critiques.

Populist criticism of DC

Populist criticism of DC originated during the tide of decolonisation which took place in the

1950s and 1960s, and focuses on the interests of the population in the donor country. The central argument runs that scarce tax revenues should be spent on domestic projects, and not distributed among “corrupt leaders in far-off countries”. A prominent early exponent of this line of criticism was the Frenchman Raymond Cartier, at that time editor-in-chief of *Paris Match*. Cartier repeatedly complained that French taxes were being squandered in Africa, and he held the former colonies responsible for France’s economic decline. Similar arguments are still put forward today by right-wing populist parties.

Neo-Marxist criticism of DC

Neo-Marxists question whether transferring the North’s capitalist path towards development to the “underdeveloped” countries of the South is credible as an objective. The North claims to be developing the countries of the South, whereas in fact the underdevelopment of the South is a precondition for the development of the North. This argument goes back to theorists such as Andre Gunder Frank and Immanuel Wallerstein, according to whom the global capitalist system can be divided into a highly developed core and an underdeveloped periphery. Under this system, the “imperialist core” uses its political, economic and military power to access the raw materials and new markets available in the periphery. This enables the capitalist system to continue, but simultaneously leads to poverty and underdevelopment in the South. Development and underdevelopment are thus two sides of the same coin.

According to the neo-Marxists, development

cooperation is no more than an instrument used by the capitalist core to dominate the underdeveloped periphery. This proposition is represented in works such as Teresa Hayter’s *Aid as imperialism* (1971). Hayter still argues today that the objective of ODA is not to promote economic development and combat poverty in the South. In reality, its principal aim is to serve the interests of the capitalist North, including those of its multinational conglomerates and banks. Creating public infrastructure within the periphery is said to be particularly important here, as it ensures that “capital” is able to exploit sources of raw material, markets, and cheap labour.

Post-colonial/ post-development criticism of DC

Post-colonial critics see development cooperation as a continuation of colonialism, as it is the “Western” path to development, with its foreign concepts and values, which is “imposed” on beneficiary countries. Specific processes in European and North American development history are identified as the ideal standard (whilst glossing over their downsides), whereas other social systems are interpreted as inadequate versions of this ideal model (as in “underdeveloped countries”). Hence after 1945 the “Third World” was “invented”, in order to do away with it again – a process which Arturo Escobar described in 1995 as “The Making and Unmaking of the Third World”. Critics found fault not only with the fundamental Eurocentrism of this view, but also with the depoliticisation inherent in describing “development” as a technical problem.

The “post-development” debate, which fundamentally questioned both the concept and practice of “development” (e.g. Sachs, 1993), deserves separate mention here. In this context the “development project” is deemed - for various reasons - to have failed. First, the generalisation of a Western model of development threatens local cultures, and is therefore fundamentally undesirable. Secondly, against a background of increasing global inequality, it does not make sense to talk of the South “catching up” in terms of development. Finally, for environmental reasons the

model offered by the “developed” countries is not a suitable template. In summary, therefore, the Western development project is attacked as being culturally imperialistic, socially unjust and environmentally unsustainable. As an alternative to the Western developmental discourse, critics recommend a return to local culture and radical democracy.

Criticism on the effectiveness of DC

Reform-oriented criticism focuses on the alleged ineffectiveness of development aid. This view is supported by a number of recent studies, which have been unable to identify any statistically significant correlation between inflows of development aid funds and economic growth in the beneficiary countries (e.g. Rajan and Subramanian 2008; Doucouliagos and Paldam 2009).¹

The causes of ODA’s alleged ineffectiveness remain controversial. In particular, reform-oriented critics draw attention towards inappropriate strategic approaches to development, self-interest on the part of donor countries, and the unintended side-effects and perverse incentives associated with ODA.

Inappropriate strategic approaches to development

Some critics trace the alleged ineffectiveness of development aid back to inappropriate strategic approaches. The question of the “right” development strategy has been the subject of intense debate for decades. This has covered issues such as satisfying basic needs vs. promoting growth, domestic-oriented development vs. export-oriented development, large-scale projects vs small projects, structural approaches to combating poverty vs. direct poverty-reduction measures, budgetary aid vs project-based aid, etc.

In more recent debates it has been argued that, first and foremost, the level of development aid is inadequate, and this is a crucial obstacle to effective development cooperation. This position goes back in particular to Jeffrey Sachs (2005). The development economist argues that doubling the annual volume of ODA would fill the funding gap in developing countries and free them from the “poverty trap”. According to his theory, a financial “big push” of this type will not only make it possible to achieve the Millennium Development Goals (MDGs), but also lead to the complete elimination of extreme poverty

ventions – in land, machines, transport networks, technology, the social sector, legal systems, etc. Ultimately, only large-scale, systematically planned external start-up financing can free developing countries from the poverty trap.

By way of contrast, William Easterly, Sachs’ intellectual opponent, sees development cooperation’s lack of success as being specifically rooted in its adherence to large-scale development planning. In *The White Man’s Burden* (2006) Easterly propounds the theory that development cooperation is excessively dominated by “Planners”. According to Easterly, “Planners” work on the basis of predefined answers, rely on the knowledge of external experts, and fail to obtain - or do not want - direct feedback from the target group. “Seekers”, on the other hand, are characterised by an open, outcome-oriented approach; they have local knowledge, they learn continuously from experience in the field and are accountable to aid beneficiaries. Development cooperation overall must focus more on promoting these “Seekers”, and then implement successful approaches across a broad front. Easterly is supported here by development economists Esther Duflo and Abhijit Banerjee (2011), who plead the case for a new form of evidence-based development aid. Experimental methods of evaluation, as commonly used in medical research, should make it possible to differentiate between effective and ineffective interventions.

Others have argued in turn that development cooperation will be especially ineffective if recipient countries have “bad” economic or political governance (e.g. Burnside and Dollar 2000). “Bad” economic governance - in the form of lax budgetary policy, high inflation, excessive foreign debt, protectionism, etc. - is especially counter-productive. But “bad” political institutions - such as autocratic decision-making structures, the absence of the rule of law, a lack of press freedom, uncertain ownership rights, high levels of corruption etc. - also counteract the positive impact of ODA. The importance of “good governance” to effective ODA is also emphasised in Paul Collier’s *The Bottom Billion* (2007).

However, this has been contested in its turn by political economists such as Ha-Joon Chang (2002), who views this focus on “good governance” as precisely the cause of development cooperation’s lack of effectiveness.

Chang argues that industrialised nations and emerging countries alike pursued – in the course of their own development processes – highly interventionist policies in the areas of industry, trade and technology, which greatly contributed to their own developmental success. In this respect, the raft of liberal macro-economic policies promoted under development cooperation contradicts the experience of history and hinders productive economic development. Focusing on “good” political institutions receives similar criticism, since many of the institutions which are commended in the developed industrialised nations have been the outcome of economic development, rather than a precondition for that development. For Chang therefore, the pressure which donor countries place on “good governance” amounts to “kicking away the [development] ladder”. The alternative proposed is to pursue active industrial, trade and technology policies. Dani Rodrik’s (2004) plea for a “new” industrial policy is aimed in a similar direction.

Self-interest in donor countries

Other critics have long pointed out that ODA is often not targeted primarily on the needs of the beneficiary country, but serves instead the strategic and commercial interests of the donor nation (e.g. Maizels and Nissanke 1984; Alesina and Dollar 2000; Younas 2008). In many cases developmental effectiveness was never the primary objective, and it should therefore not be the expected outcome.

A rough distinction can be drawn between the donor’s political, military and economic interests. In the first two cases ODA may be provided in order to protect the donor’s political or military influence within a country (often a former colony) or a region. This has been of enormous significance, especially during the Cold War, but it has also remained a widespread phenomenon thereafter. Economic interests are protected first and foremost by pursuing development cooperation, primarily with those countries where there are strong investment ties or trade links. Critics find the practice of *tied aid* - i.e. the provision of aid with a stipulation that it must be spent on procurement contracts made with the donor country - to be a particularly striking index of economic self-interest.

In a similar vein, foreign experts and long-term consultants are accused of a frequent tendency to make themselves indispensable;

¹ However, this finding clearly contradicts evaluations conducted at a micro-economic level, which attest to a high level of effectiveness for most development projects. The cause of the “micro-macro paradox” is the subject of dispute.

as a result, instead of helping to remove barriers to development, they can become barriers themselves.

Unintended side-effects and perverse incentives associated with ODA

Other critics have focused in their turn on unintended side-effects and perverse incentives which detract from achieving maximum developmental impact.

To date, the discussion of unintended side-effects at the macro-economic level has largely taken place under the heading of *Dutch disease*. This term describes the economic phenomenon whereby additional capital inflows drive the recipient country's exchange rate higher, endangering the competitiveness of its export sector and thereby limiting long-term growth prospects. In principle, the Dutch disease can be unleashed by any form of capital inflow – including ODA (Rajan & Subramanian 2005; Doucouliagos and Paldam 2009). In specific terms, a high inflow of ODA is said to lead to a rise in overall domestic demand and thereby drive up the price of non-tradable goods (services, real estate, etc.). The result is an increased demand for labour and rising wages within the non-tradable sector, whilst labour and other resources are withdrawn from the tradable sector (i.e. agricultural and industrial products). Since export-oriented sectors generally demonstrate the greatest growth potential, this weakens the prospects for long-term growth.

Unintended incentives are a particular topic of discussion in *The Samaritan's Dilemma* (2005) by Elinor Ostrom and her co-authors. The dilemma is that the provider of aid cannot be certain whether he is really helping the party seeking assistance, or if the aid will simply be "taken advantage of", and will contribute to the development of a "recipient mentality". This is based on the Principal-Agent theory, with its problem of asymmetric information. According to the authors, within development cooperation there exists a complex network of Principal-Agent relationships. This encompasses not only donor and beneficiary governments but also bilateral and multilateral implementation organisations, contractors, civil society actors, and the target group. The main problem now is that the connection to the target group within this system is poor. This leads to a multitude of perverse incentives within the system of development cooperation, which can undermine the effectiveness of development aid.

Moreover, development cooperation has long been criticised as an obstacle to the establishment of development-friendly policies and institutions (Bauer 1972). This "aid-institutions paradox" is presently the subject of renewed debate (Moss, Pettersson, and van de Walle 2008) and is also being increasingly taken up by African writers such as James Shikwati (2006) and Dambisa Moyo (2010).² Central to this discussion are the substitution (or "crowding out") effects unleashed by ODA, which critics claim affect not only public revenue and expenditure, but private investment as well. The fungibility of aid is a much discussed phenomenon. This effect can arise if financial cooperation funds are used to finance projects which the partner country would otherwise have implemented of its own accord. In this instance development cooperation has no additive value, but simply replaces the partner country's own efforts. Taken to the extreme, beneficiary governments could be put in a position which enables them to retreat from their social and political responsibilities and spend the resources they have saved in areas which are detrimental to development (e.g. arms purchases).

Substitution effects have also been identified as having a negative impact on fiscal policy. Significant inflows of ODA can free local elites from the politically challenging necessity to generate tax revenues on an independent footing by putting in place competent administrative structures. This undermines capacity building at the national level. At the same time, governments dependent on ODA are primarily responsible to their donors. In these circumstances, those in power locally have little incentive to consider the interests of local or national stakeholders, or to campaign for popular approval on the basis of public services. Overall, therefore, development cooperation can support the existence of authoritarian states with little capacity for development.

Ultimately, ODA can lead to *rent-seeking* behaviours in governments and administrations. Corruption and mismanagement tend to be strengthened rather than weakened, since development cooperation projects and programmes contain a wide range of opportunities for patronage (lucrative jobs, "facilitating payments", investment funds, etc.). According to critics, patronage opportunities of this sort are of enormous significance, most especially

in times of economic crisis, and they often serve to counteract externally instigated processes of reform (van de Walle 2001).

Conclusion

Development cooperation has faced criticism over many years. A presentation of the main positions and arguments shows that there is no specific criticism of development cooperation which is universally agreed and accepted. It is more the case that the multiplicity of critical arguments reflects the equally high number of developmental concepts which presently exist.

Experience has shown that almost every criticism contains a grain of truth, even if many aspects of the points being criticised can certainly be called into question and refuted. The biggest challenge for development cooperation is to engage constructively with criticism and to learn from it, but without losing sight of DC's strengths and successes in the process.

This is easier to achieve in the case of reform-oriented criticism than it is with criticism of fundamental principles, since in the latter case it is not the route but the destination which is being called into question. But development cooperation can learn even from this form of criticism: for example, post-colonial criticism may sound like an exaggeration to many "practitioners", since significant progress has been made over recent years in terms of increasing partner countries' participation and ownership. Yet the plea for greater self-determination can still serve as an incentive to ensuring that the ideas and the values of the target group are placed even more firmly at the centre of development cooperation. ■

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² Authors such as Shikwati and Moyo link their arguments with radical calls for DC to be abolished. This demonstrates that the distinction assumed here between criticism of fundamental principles and reform-oriented criticism is not always clear-cut.

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