

Book Review

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***Development Without Aid: The Decline of Development Aid and the Rise of the Diaspora*, by David A. Phillips, Anthem Press (available in hardback and paperback editions), ISBN 9780857283030, London and New York, April 2013 | 234 Pages | 229 x 152mm / 9 x 6 | 14+ figures).**

In the book, David Phillips argues that sensible domestic policies are the key determinants of sustainable economic and social transformation of the poor countries rather than injection of development aid which, in most cases, fails to deliver the promised benefits. While such a view is not uncommon in the contemporary development literature, the novelty of the book is its challenge of several conventional wisdoms in the context of development aid. For example, Phillips argues that the conclusions derived from the aggregative view on aid are not likely to be tenable for individual countries whereas the quality and relevance of domestic economic policy explain the differences in performance among individual countries despite unprecedented globalisation and increasing interdependence among the countries in the world. The author, however, does not take a one-sided view on the issue rather his effort has been to acknowledge several areas where development aid can make useful contributions especially in the domain of global public goods.

As is well known, the growing gap between the rich and the poor countries has dominated international relations for a fairly long time. While development aid has been used for helping the poor countries to overcome their problems, there is evidence that decades of aid inflows have done little in changing the destinies of many of the poor countries and breaking their structural barriers to development. This has led many to argue that there is more to the problem of development than just giving aid.

Two questions are pertinent to the basic tenet of the book. First, is there any clear link between development aid and progress in the poor countries? Second, has aid succeeded in making the poor countries better off or has it undermined progress? Unfortunately, the past development experience does not provide a clear answer to the above questions to put forward any informed generalisations.

One of the central arguments of the book is that without a proper understanding of the cultural and other characteristics of the people in the recipient countries, the flow of aid alone is unlikely to create effective impacts on poverty and deprivations. In this context, what becomes important is to have a better appreciation of the internal dynamics of the aid recipients' society to ensure that aid contributes to sustainable development.

Two Complementary Perspectives

To start with, two perspectives that guide the development of the arguments put forward in the book may be noted. First, the analysis draws heavily on the recent discussions on the aid experience in the poorest countries in Africa including the author's work while he was employed in the World Bank. The perception has also been supplemented by the author's own experience of living in what is now Malawi during his formative years. The basic thrust of these arguments is to build a critique, based on his analysis and observations, of development aid as a somewhat alien resource in the context of desirable transformation and development of the poor countries.

The second perspective has been to move beyond development aid and bring into the forefront one of the major recent global dynamics which has become increasingly important in the context of development, e.g. the rapid growth of the world's diasporas as a quasi-national resource of developing both financial and human capital. The book examines the role of such resources as a potential substitute of development aid in promoting indigenous development processes in the poorest countries, especially in Africa.

Framework of Arguments

The book is organised in nine chapters including the introduction that, among others, provides the author's experience of growing up as a child in the British colony which later became Malawi. The growing up of the author in a significantly aid-dependent economy in Africa seems to have significantly influenced him in forming the perceptions reflected in the book. In chapter two, a review is provided on typology and evolution of development aid within a historical framework which brings out important issues of aid effectiveness. Chapter three examines the issue of aid effectiveness from both macro and micro perspectives. His conclusion seems to support the hypothesis that aid has not been effective on balance, especially in the case of non-capital aid. The reasons, covering economic, structural, geographical and historical factors, are analysed in chapter four. The chapter maintains that a dysfunctional and extremely unequal power relationship exists between the recipients and the donors which, inherited

over the years, alienates the aid recipients. It also identifies systemic factors as responsible for low aid effectiveness. Chapter five looks into the dynamics of the emergence of the diasporas as a powerful agent for change while chapter six examines the potential of the diasporas emerging as a new pathway of reducing poverty along with what is needed to make such a transformation. Chapter seven examines the possibilities of the new “Aid Model” to overcome the systemic problems and enhance aid effectiveness in the background of persistence of unequal power relations, both globally and nationally. Chapter eight works out an aid exit strategy for the poor countries. Finally, the book ends with chapter nine along with a postscript and conclusions drawn especially taking Malawi as an example.

Internal and External Determinants of Development

The book forcefully argues that a proper understanding of the country’s culture that aid seeks to help is of primary importance without which no effective impacts should be expected. A better appreciation of the internal dynamics of the recipients of development aid is more likely to ensure that aid contributes to sustainable development. If these factors are ignored, it becomes difficult to have a holistic understanding of the aid dynamics and socioeconomic development in the poor countries.

The relationships between aid and (under) development are complex making it difficult to evaluate the role of aid in development. This is equally true for the claim that there is a link between development aid, poverty and bad domestic policies, so that any claim that development aid is ineffective is also unlikely to be generalised. The present volume has made significant contribution towards elaborating these debates. In addition, there remains a contention between two groups: those who believe aid failure results from domestic factors within the recipient country, while there are others who argue that it is attributable to external impediments such as the unjust and unequal global economic structure.

Broadly speaking, the arguments of the book extend the view that development aid often harms, rather than helps, the poor countries (see, for example, Bauer 1971, 1981). Such a view has persisted for a long time leading the lobby of the developing countries (e.g. G-77) during the latter half of the last century to argue for the creation of the New International Economic Order (NIEO), and press for massive wealth and technology transfer to the developing world. One of the early proponents of international power and wealth redistribution ideology was President Julius Nyerere of Tanzania who mentioned: “In one world, as in one state, when I am rich because you are poor, and I am

poor because you are rich, the transfer of wealth from the rich to the poor is a matter of right; it is not an appropriate matter for charity” (Bauer and Yamoy 1977: 27).

In the above context, the author puts forward some clear observations regarding the role of aid in developing countries. Based on empirical analysis of changes in economic and social fabrics in the poor countries, especially in Africa, Phillips observes that “there is no evidence to show that development aid has achieved its self-proclaimed goal of ending poverty, nor any likelihood that it ever will as it is currently organized and practiced. Foreign development aid is simply not the kind of instrument that can achieve such a goal” (p. 178).

The author of the present book emphasises the view, forcefully argued by Peter Bauer earlier, that outside donations do not develop societies; the forces of change must be generated from within except in the area of global public goods (Bauer 1993). The suggestion is to identify alternatives of making aid more effective in areas where it has proven successful and has in fact helped in development. The author observes that the current global “aid model” does not seem to work properly, especially in the context of the poorest countries, for which he identifies the broad social, economic and institutional contexts as inimical to success. The political and social dynamics of the Third World countries and the relationships between the donor and the recipient societies remain somewhat misunderstood and significantly unjust especially in the context of development aid which accounts for the bulk (around 90 per cent) of the total official development assistance (ODA). For example, a total of US\$130 billion was allocated in 2010 as development aid for longer term economic and social development of the recipient countries.

Moreover, there is no clear correlation between aid and socioeconomic development and debates on what contributes to aid effectiveness remain somewhat unresolved. What are the sources of failure of aid? There has been intense debate between those who believe aid failure is the result of factors internal to the recipient countries while there are others who argue that it is attributable to external impediments such as the unfair global economic structure.¹ There are many others who emphasise the dependency card and blame the global economic structure for the underdevelopment of the poor countries (e.g. Amin 1972).

¹ For example, in the context of Africa, it has been argued that ‘aid to Africa is a band-aid, not a long-term solution’ as aid does not aim at transforming Africa’s structurally dependent economies. See Akonor (2008).

Trade and Related Issues

The book explores the nature, magnitude and characteristics of financial and resource flows between the rich and the poor countries along with their social and political implications for development. In this context, Phillips integrates the issues of trade protection especially in terms of market price support through trade barriers, production subsidies and export subsidies. He observes that the Aid-for-Trade Initiative which was launched in 2005 seems to have already attracted increased skepticism about the value of the Initiative. It is alleged that the Initiative avoids the main problem of removing the remaining barriers while providing customary capacity building and other support. The author cites examples which show that welfare losses resulting from trade impediments in the poorer countries, the economic cost of barriers and subsidies significantly exceed the value of foreign assistance to these countries.

Varying Country Evidence on Aid Impact

The book holds that there exists contrasting evidence on the impact of development aid amongst the poor countries. On the one hand, there exists a group of countries which had received marginal amounts of development assistance relative to the size of their economies (e.g. in East and partly in South Asia, and South America) which, however, have been the most successful in reducing poverty over the last two or three decades. On the other hand, there are countries (especially in Africa and a few in Asia and Latin America) where development aid has become dominant but has performed badly in terms of moving out of poverty. He also cites cases where some have got worse.

Based on the above observations, Phillips formulates the hypothesis that countries in which development aid is a minor factor in the economy and society have derived beneficial impact, while countries have often failed in cases where development aid has become the major factor. Although the above observations in no way reflect any causality and the direction of causation is probably ambiguous, the author forcefully infers that development in these countries has not worked or has worked very poorly indeed.

The Problem of Aid Dependence

Most poor countries are highly dependent on aid and these countries face the dilemma, as the age-old saying goes “you cannot bite the fingers that feed you”; and hence it is argued that these countries are unable to become self-reliant for their development. The fundamental answer to widespread poverty and slow structural transformation rests therefore on changing the poor domestic policies

in these countries which, in many instances, stifle economic incentives and ingenuity and waste domestic resources.

The present book argues that the paradigm that propagates the strong and almost universal role of development aid is faulty, especially due to its pervasive contribution towards losing control over the development path by the country itself along with increased vulnerability due to the long-term and often unsustainable dependence on aid.

In addition, despite commitments by OECD countries to increase development aid, the recent trend of ODA is somewhat declining. Many analysts argue that this has been contributed by the rise in ODA for “global housekeeping functions” such as managing the environment, controlling illicit drugs and preventing infectious diseases like HIV/AIDS adversely affecting availability of aid for poverty reduction and social development in the poorest countries.

This has also led many to argue that aid can reduce poverty is a myth since “aid has been and continues to be, an unmitigated political, economic and humanitarian disaster” for most poor countries (see, Moyo 2009). The vicious cycle of aid is also apparent in the “paradox of plenty” as reflected in the fact that Africa, which is the receiver of the largest amount of aid, is also the most conflict ridden continent in the world. It has been argued that the estimated costs of armed conflicts in Africa between 1990 and 2005 exceeded US\$300 billion, an amount which is almost equal to overseas development aid to Africa during the same period (UNDP 2007).

Conclusions

It is rather difficult to draw conclusions from a book like the present one which brings out the practical paradigms surrounding one of the controversial issues of development like the development aid, especially in the poorest countries. Probably, this is also beyond one’s expectation especially in view of the fact that there is no single magic wand (or stick) to command development to appear.

Most of the so-called traditional empirical studies focus on economic growth within the macroeconomic domain without taking cognizance that development is much broader than just statistically significant improvement in GDP per capita. The reality is that there could still be widespread poverty at the grassroots level even when a country is perceived to have attained appreciable levels of macroeconomic growth.

Moreover, given the unclear and ambiguous nature of empirical literature on aid effectiveness, one cannot reach a firm conclusion that aid has led to (under)

development in Africa. However, we reiterate our argument that unless aid/development discussions incorporate socio-cultural factors, we cannot fully appreciate why foreign aid has failed to deliver “development” in the poorest countries, especially in Africa.

In the present book, the author calls for a return to the culture-development milieu which have been somewhat over-shadowed by the macroeconomic “buzzwords” in the recent development literature. This is against the backdrop that inasmuch as GDP growth rates matter, policies and institutions work in some socio-cultural milieu which has mostly been ignored by the donors and the recipients of development aid alike. The focus is too often on financial resource alone, to the detriment of aid performance.

One of the major contributions of the present book is to help move the perception of development in poor countries squarely beyond development aid and its role, architecture and design in order to re-assert an indigenous development path for development of the poor countries. This clearly brings out that there is more to the development problem of the poor countries than just providing development aid to turn the present things around.

One possible option for the practitioners of development is to move towards a low-aid market-based development model that encourages trade and investment from both foreign and domestic sources including an enhanced developmental role of remittances. In this context, one may argue that the view which holds that aid is entirely redundant in development of the poor countries is somewhat a simplistic generalisation. One may further argue that trade and FDI have not been entirely beneficial to the poor countries either. It is now time to acknowledge that, within an open economy framework, market is not necessarily the answer to reducing poverty as some of the basic social prerequisites like “strong social security network, high social expenditures, high minimum wages and job security” are “sacrificed in order to attain the needed level of competition” in the context of global trade (see, Berry 2000). Similarly, available evidence points out that FDI has little impact on poverty reduction and other fundamental development goals in the poor countries.

The issue is thus not simply whether aid increases dependency and reduces the role of domestic policy. What is necessary is to identify the “essentials of development aid” that can play the critical role in unleashing the forces of development of the poor countries and identifying the country-specific ways of making aid influence, not determine, the development of the poor countries.

This is a very well-written book which will no doubt have a wide readership covering practitioners of both public and development policy among the

development partners and national policy makers alike. This will also be relevant to academicians and researchers especially those involved in the broad area of development covering both policy and structural transformation issues.

The practitioners of development need to confront the arguments put forward by the author for creating an aid paradigm that is consistent with its professed aims and objectives. The book will no doubt promote interesting and constructive debate over the relative roles of development aid and international migration and remittances as well as their potential to promote sustained development in many of the world's poor countries. In the context of the unresolved controversies relating to the developmental role of external aid, the author makes important contributions towards bringing out the importance of country-specific insights in understanding the mechanisms and processes that explain why, how and when aid works in particular societies which are key considerations for making the design and delivery of development aid effective.

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