Aid and Governance

Temanummer: Danmarks udviklingssamarbejde: muligheder i en udfordret verden

The relationship between aid and governance has been a topic of considerable discussion and debate within the international development community. Good governance and effective institutions have long been spotlighted by development partners as essential for economic development and aid effectiveness. With the adoption of the Sustainable Development Goals in 2015, they have been recognized globally also as development goals in themselves – framed, as set out in SDG 16, with attention to peace, access to justice, and 'effective, accountable, and inclusive institutions'. Yet at the same time that aid has been seen to play a pivotal role in international efforts to support and incentivize better governance, long-voiced critiques have spotlighted how it also may have (unintentionally) negative impact on the same. Recent global trends and events further have served to focus attention on the role of aid, and the challenges faced by aid, in relation to governance and institution-building.

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For Nordic and other Western donors, conflicts in Syria, Ukraine, and elsewhere, alongside related migrant flows, have spotlighted both the importance of and the challenges to aid-supported peacebuilding and state-building. Meanwhile, geopolitical shifts and global democratic backsliding have prompted new attention to the role of aid in the promotion of democracy and human rights. Globally, the Nordics have stood out both in the strength of their own democratic institutions and in their long-standing reputation for aid commitment in this area. While discussions of aid and governance have evolved over time, the topic has remained central, possibly becoming even more so in the coming years. Consistently among the handful of donor countries that have met – or exceeded – the 0.7% GNI aid target, Sweden, Norway, and Denmark in particular have an important role to play in these discussions.

From the good governance agenda to the aid-institutions paradox

From the late 1980s through the 2000s, 'good governance' in one scholar's terms, 'assumed the status of mantra for donor agencies as well as donor countries' (Nanda, 2006). This discussion, for one, spotlighted domestic over international causes for development outcomes, with a key World Bank study attributing 'the litany of Africa's development problems' to 'a crisis of governance' (World Bank, 1989). Good governance also was highlighted as a prerequisite for economic development, 'perhaps the single most important factor in eradicating poverty and promoting development' (United Nations, 1998). Further, good governance was linked centrally to aid effectiveness. In the late 1990s, a study by economists Craig Burnside and David Dollar began circulating, which showed through analysis of cross-country data that aid's impact on economic growth was positive only when 'good policies' were in place (Burnside & Dollar, 2000) – a finding strongly challenged in a number of subsequent analyses which provide evidence of aid's overall positive impact (Arndt, Jones, & Tarp, 2016; Dalgaard & Hansen, 2017).

These discussions nevertheless focused donor attention not only on providing positive support for the strengthening and reform of governance institutions, but also on incentivizing better governance by taking into account the quality of governance in decisions about the distribution of aid. By the early 2000s, influenced by the Burnside-Dollar findings, the Monterrey Consensus (2002) reflected broad agreement that aid should be distributed selectively to countries with 'good' policies, where it would be most effective.

In practice a laundry list of diverse institutions, policies, and practices, the good governance agenda also was subject to considerable critique. Making a case for 'good enough governance', Harvard professor Merilee Grindle argued that there was nothing much inherently wrong with most of the items on the list, but that the approach paid insufficient attention to historical evidence, sequencing, and timing, imposing criteria that were unrealistic and exceptionally burdensome on aid-recipient countries (Grindle, 2004). Other critiques centered around the 'one-size-fits-all' nature of good governance models and their poor fit with diverse real-world contexts – models seemingly based on 'Sweden or Denmark on a good day, perhaps' (Andrews, 2008). Pushing such models on low-income countries was not only futile, Andrews and other critics argued, but counterproductive, producing hollowed-out states with governance institutions that looked formally like those in wealthy countries, but did not function in practice (Pritchett, Woolcock, & Andrews, 2013; Reinsberg, Kentikelenis, Stubbs, & King, 2019).

Another line of critique pointed to the unintended harms of aid on governance and accountability, regardless of its aims, especially in aid-dependent countries (Bräutigam & Knack, 2004; Moss, Pettersson, & van de Walle, 2006). This work for instance, cautioned that reliance on aid over domestic revenues could serve to reorient government accountability towards donors over citizens. Likewise, it meant weak incentives to build the institutional capacity for tax administration and collection, a core component of state capacity. The modalities through which aid was provided also could pose problems, for instance flowing through ministries of finance and circumventing legislative budget discussions, thus strengthening the hand of the executive over the legislative branch and undermining oversight by elected representatives.

Advancing a still broader indictment of aid's impact on governance, in *The Tyranny of Experts*, William Easterly argued that an expert-led and top-down approach dominated development work – and that it not only had failed to end global poverty, but also served to entrench top-down, authoritarian leadership in aid-recipient countries (Easterly, 2013). Multiple accounts of misappropriation and corruption in aid tell a related story. Journalist Michela Wrong's *It's Our Turn to Eat*, for instance, explores aid and corruption in Kenya and the efforts of whistleblower John Githongo (Wrong, 2009). One recent study estimated that 7.5% of World Bank aid on average was 'captured' by corrupt officials, finding its way into offshore bank accounts (Andersen, Johannesen, & Rijkers, 2022).

Aid's overall impact

Such critiques introduce an important dose of skepticism and caution into aid discussions. From the beginnings of aid as an institution after the Second World War, the widely acknowledged success of the Marshall Plan in facilitating economic and political reconstruction in Europe has set expectations for many about what could be accomplished with sufficient external assistance – with a 'Marshall Plan' for Africa, or for Afghanistan or Ukraine for instance. Even with the best intentions and vast monetary investments, these critiques showed us, engineering good governance is not straightforward, and aid has, in some places, made things worse.

At the same time, such critiques have sometimes prompted overgeneralizations, that aid harms governance on the whole. What does the empirical record tell us? Although several early cross-county studies show negative impact (Knack, 2001), later analyses point to little overall empirical support (Dijkstra, 2018; Knack, 2004). Drawing on new data for an over 25-year period, economists Finn Tarp and Sam Jones show that the data simply do not support claims that aid has had a systematic negative effect on political institutions (Jones & Tarp, 2016). Indeed, they document a small *positive* net effect of total aid on political institutions, driven largely by stable inflows of 'governance aid'. Findings in my own research, focused on aid's impact on democracy, are broadly consistent (Niño-Zarazúa, Gisselquist, Horigoshi, Samarin, & Sen, 2020).

Towards a new idealistic realism?

What implications do these discussions have for donor countries like Denmark today? One clear conclusion that can be drawn is that aid has both supported and hindered governance and institution-building. This has several key implications for aid policy. One is the value of being realistic about what aid reasonably and likely may accomplish, setting expectations appropriately for all. A second is that the most pressing questions for development policy and research today are not so much in further documenting success and failure, but in building deeper understanding of when and why aid has more positive versus more negative impact in this area, and what might be done to facilitate better outcomes overall. Which contextual factors to keep in mind in identifying whether an approach that worked in one place is likely to work similarly in another, for instance? Which aid modalities or project design features are most promising?

One factor that consistently seems to matter in the success of aid interventions is some degree of local ownership. In other words, aid works best when it supports locally-led policies and reforms, not interventions that are purely donor-driven, carried out by external actors and reflecting external priorities only. On a broader scale, Stefan Dercon, former chief economist of the UK's DFID (now FCDO) advances a related argument in *Gambling on Development*: what is special about countries that developed when compared to those that did not, he argues, is not any specific set of policies or institutions, but the existence of a 'development bargain' among the country's elites (Dercon, 2022). When such a bargain exists, aid has helped to catalyze development, but prospects in countries without such a bargain are poor. By extension, donors could consider the existence of such a bargain in allocating aid monies for maximum effectiveness. Nordic donors, who have stood out in terms of their long-term country partnerships, might pursue such a strategy also in sectoral allocations within these countries – i.e. by favoring aid to sectors with strong domestic coalitions for development where aid is most likely to have impact.

A key challenge with this 'betting on winners' approach is increasing concern over fragile and conflict-affected countries – where, by the OECD's estimate, some 86% of the world's extreme poor will live by 2030. Fragile states tend to be poorly governed and to have weak state capacity and legitimacy. National governments may not legitimately represent local priorities, and state institutions may be poor managers and implementers of aid-supported activities – across multiple sectors. Often deeply divided, fragile and conflict-affected states are perhaps least likely environments for elite development bargains to exist. Assessments of aid's effectiveness in supporting better governance in these contexts give overall an uninspiring picture of mixed at best. Indeed, one recent assessment of the effectiveness of aid in Afghanistan, Mali, and South Sudan between 2008-21 concluded dismally that 'development aid is not a suitable tool for addressing the core problems of fragile states', it 'does not improve governmental capacity, does not lead to better governance, and does not provide more stability' (Zürcher, 2022).

In face of these challenges, donor countries could turn inward or focus their aid investments on the surest prospects, yet abandoning fragile states to their own devices would be both a humanitarian and a strategic blunder for wealthy countries. Even setting aside humanitarian obligations, conflicts can enlarge and send migrants across borders. Research and practice spotlight no silver bullets. Even when donors have strong commitment to local ownership and sustainability for instance, it can be difficult to implement in practice. In *The Samaritan's Dilemma: The Political Economy of Development Aid*, Clark Gibson and colleagues illustrate this based on research with SIDA, showing how problematic incentives can be inherent in development cooperation relationships, across diverse aid modalities (Gibson, Andersson, Ostrom, & Shivakumar, 2005). But there is still a growing and diverse body of work upon which to keep building. For instance, 'community-driven development' projects have been implemented in fragile contexts in an effort to be less top-down and donor-driven in aid interventions. Some assessments suggest limited impact, while others point to more promise (Samii, 2023). More broadly, many donors today speak the language of 'localisation'. Although in practice most interventions still are not locally led or managed, the Grand Bargain reached at the World Humanitarian Summit in 2016 set multiple targets, including allocating at least 25% of funds to national and local actors, and the number of signatories continues to rise (Ramachandran & Gisselquist, 2024).

The end of the end of history

Thirty years ago, political scientist Francis Fukuyama famously declared 'the end of history' with Western liberal democracy proven to be the 'winning' ideological model (Fukuyama, 1992). But the world today is fast changing. Last year, the Varieties of Democracy (V-Dem) Institute found that global democracy was at its lowest point since 1986 (V-Dem Institute, 2023). By 2022, 72% of the world's population, it noted, lived in autocracies. Such trends raise major concerns, both for the civil and political rights of those in autocratizing countries, and in terms of implications for global peace and prosperity. They have prompted renewed attention by Western donor countries to the role of aid in democracy promotion. The Nordics have a unique position in these discussions due both to their long-standing attention as donors to democracy and human rights, and to their own domestic institutions, which place them consistently at the top of global democracy ratings and offer a global model of social democracy.

The emergence of new global actors and donors adds new complexity to these discussions. With the rise of new global actors, traditional donors, including the Nordics, have less leverage on aid-recipient countries. What role new actors will play is evolving. One point that is clear is that the record of democracy in the BRICs – Brazil, Russia, India, China, South Africa, Egypt, Ethiopia, Iran, Saudi Arabia, and the United Arab Emirates – is decidedly more mixed than among the 32 members of the OECD DAC. Much of our dominant research and thinking on aid and governance has been done since the so-called 'end of history'. As the world shifts, these approaches will be surely challenged.

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