philippine studies

Ateneo de Manila University • Loyola Heights, Quezon City • 1108 Philippines

Assessing Aid

Review Author: Henry M. Schwalbenberg

Philippine Studies vol. 48, no. 4 (2000): 582–583

Assessing Aid: What Works, What Doesn't and Why. A World Bank Research Report. Oxford University Press, 1998. 148 pages.

With the ending of the Cold War, not only has the level of foreign assistance changed dramatically, but also our understanding of its proper role in facilitating the development process. The World Bank's research report, *Assessing Aid,* succinctly summarizes contemporary mainstream thinking on foreign assistance in a way that is accessible to the general public and extremely relevant to students of the Philippine economy. Given the closing of US military facilities and the changing strategic importance of the Philippines, the role of foreign assistance in the Philippine economy has changed dramatically since the ending of the Cold War. I have argued elsewhere* that this change will benefit the Philippines as the economy switches from its dependence on foreign aid to a more productive reliance on international private capital flows.

In the early years of the Cold War, economists believed that foreign aid would simply supplement domestic savings and thereby generate the momentum needed for an economy to take off and become self-sustaining. The success of the Marshall Plan in post-war Europe could be created throughout the world, providing the economic foundations needed by democratic governments to withstand Soviet expansionism. It was this type of thinking that originally justified US foreign and military assistance to the Philippines. Over time, however, political scientists and economists became much more critical of foreign aid. While valuable in many situations, it usually displaced domestic savings and it frequently distorted the flow of funds into less productive investments. A minority would even argue that foreign assistance was almost always damaging to an economy. In order to contain Soviet influence, Western nations, all too frequently, were willing to use aid to support anti-democratic governments that preyed off their own people. I am sure that the example of US assistance to the Marcos' regime will immediately come to mind to the readers of this journal.

The ending of the Cold War has not only reduced the political support in the West for foreign assistance, but more importantly in my view it has also reduced the need to trade off humanitarian concerns against strategic interests. As *Assessing Aid* shows, there has been a major rethinking of the role of foreign assistance since the Cold War ended. For middle income countries with significant human and physical resources such as the Philippines, the ending of the Cold War has meant large reductions in foreign aid and a more productive, though not without pitfalls, reliance on international private capital markets. For the much poorer countries of sub-Saharan Africa, the end of the Cold War has meant aid only for those countries that manage their economies properly.

Current research as summarized in *Assessing Aid* shows that there is no strong link between aid and economic growth. While aid may have cemented valuable political alliances during the Cold War, there was only a 50-50 chance that it would lead to economic growth. After establishing this general result, the authors then try to learn if there was any set of circumstances under which aid would almost always lead to economic growth. They found a significant link between foreign assistance and economic growth only among those countries that had a "good" policy and institutional environment. By "good" policy the authors mean a government that roots out monopolies, fights inflation, and maintains open trade and investment links with the rest of the world. By a "good" institutional environment they mean a government accountable to its people due to a vibrant civil society. When these conditions exist, foreign assistance is likely to succeed. But when these conditions do not exist, foreign aid is likely to be wasted and should be withheld according to the World Bank research report. The authors argue that a great deal of aid is not needed. But what is needed is the proper targeting of that limited and scarce aid. First, it should be targeted to the poorest countries; and, then, only to those countries which properly manage their economies. In the post Cold War period, we can already see that these new sets of norms are being applied to many developing countries. Middle income countries, such as the Philippines, must rely primarily on private capital markets, while poorer countries that do not manage their economies properly or do no respect civil society are increasingly denied assistance.

What I find disappointing in *Assessing Aid,* is their discussion of how the international community should respond to those poorer economies that are mismanaged by anti-democratic governments. Clearly the international community does not want to pump into these countries fund that will only be used to support a predatory elite at the expense of the general population. But there must be something the international community can and should do in these very difficult situations besides just walking away from it. The authors suggest targeting a limited amount of funds aimed at nongovernmental organizations that may, over the long run work as a catalyst for change. While agreeing with the authors' point, I kept hoping that they would flesh it out more. For example, the Philippine experience under the Marcos regime and the eventual rise of People Power may provide valuable lessons on how international support for local nongovernmental organizations can eventually set the stage for fundamental political reform in a country. It is a study that needs to be done as we now face seemingly intractable problems in several sub-Saharan African nations.

Henry M. Schwalbenberg
Graduate Program
International Political Economy and Development
Fordham University