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22 February 1985

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Dear Charles,

OVERSEAS AID: POLICY AND POLITICS

You will remember that I told you that I was putting together some reflections on aid policy generally after my 4 months at the Overseas Development Administration. The attached is the result. It is very much a personal paper, and has not been cleared with the usual battery of authorities on this subject. So the responsibility for it is mine.

Yours ever

Crispin Tickell

OVERSEAS AID: POLICY AND POLITICS

1. Four months ago I joined the Overseas Development Administration. It has been a lively time, with the organization of short term relief for Ethiopia and Sub-Saharan Africa, the conclusion of the new Lomé agreement (involving long term help for the 65 poor countries associated with the European Community), and final determination of the aid budget for 1985-6.

2. Anyone involved in overseas aid should ask himself why we give aid at all. It is certainly expensive: the cost of the British aid programme is almost twice that of the Diplomatic Service. Aid affects our relations with nearly all countries in the world: directly with those, mostly in the Commonwealth, which are recipients, indirectly with the other industrial countries which are donors. It could be a powerful arm of British foreign policy. Yet we sometimes find that it is an arm which can be twisted against us. The multiplicity of purposes for which it is given creates contradictions which prejudice or at least limit its good effects. It generates idealism, cant, altruism, make-believe, and power politics in an interesting, confusing and sometimes combustible mixture.

Purposes of Aid

3. Four main reasons are usually given for aid. For this purpose aid can be defined as transferring tax payers' resources - money and skills - in one country to a variety of recipients in another. In all cases the results of such transfer may be good, bad or indifferent. In aid, as in war the effects are so various that they cannot be entirely foreseen.

- (a) Political: From time immemorial the governments of rich and powerful countries have given money to the governments of poorer and less powerful ones. Their purposes in doing so can range from helping to keep

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a particular government or political and economic system in place, buying support for specific policies, to creating or maintaining an atmosphere in which the influence of the donor can be exercised. It is always hard to determine the effectiveness of this kind of aid. Failure to give it might have made little difference. There are risks of boomerang effects. Giving such aid can lead to dependence, irresponsibility and blackmail on the part of the recipient. The penalties of withholding or ending aid are usually greater than the initial advantages gained from giving it.

- (b) Commercial: Apart from creating an atmosphere in which the exports of the donor country can flourish in the recipient, aid can be tied to the purchase of goods and services in the donor country. Most of the resources given by the donor country therefore return to it. Aid can also form part of packages designed to secure contracts which might otherwise have been given to competitors in other industrial countries. Trade supported by aid may have the good result of promoting the economic growth of the recipient country more cheaply than would otherwise be the case. Moreover it provides business to companies in the donor country. But it involves questionable economics. It can lead to the misuse of the resources of both donors and recipients: in the case of the donor by using tax payers' money to maintain industries which would not otherwise be competitive and which in an ideal world would give place to something that was; in the case of the recipient by making possible or promoting projects or other works which have little economic justification, thereby distorting the economy and absorbing resources which could have been put to better use. There is often a kind of conspiracy between industry in the donor country and public

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authority in the recipient to tap tax payers' money from the donor government.

- (c) Developmental: Sharp disparities between rich and poor countries are seen as no more tolerable than comparable disparities within rich countries. From the beginning aid has had a moral dimension and has attracted idealism in the West. Those in search of markets for their goods also favour development. Only if poor countries develop their resources can such markets be created, and only thus can they come to participate in the open world trading system with all the strength it has given its members. Since the end of the last World War and more conspicuously since the breakup of the colonial empires, there has been a substantial and deliberate transfer of resources from rich countries to poor ones. The results have been mixed. Many countries have acquired wealth-generating facilities which would otherwise have been beyond their capacity for many generations. They have received vital help and education in running their administrations as well as improving the structure and productivity of their economies. The application of scientific methods, for example in controlling pests or developing new genetic strains of plant, has been startlingly successful. Yet there is no clear relationship between receipt of aid and economic growth; and the cumulative impact of aid has often upset social harmony. The effect has been to help change of all kinds, good and bad: the political process, the shape of the economy, social relationships, and the way people live. New values and technical skills have been introduced which together have promoted rapid population growth, and modification, sometimes for the worse, of the physical environment.

- (d) Disaster relief: Help of this kind springs from feelings of common humanity. Donor governments do

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for other countries what they would do for their own people. Dangers arise when disaster relief - in particular food aid - becomes semi permanent. Here it can have the effect of disrupting local markets, inducing feelings of dependence, and delaying necessary adjustments to new economic circumstances.

4. Discussion of the reality of aid problems is obscured by the vocabulary in which they are enveloped. By speaking of "North/South" or of "the Third World" we tend to establish groupings which might not otherwise exist. On any objective analysis they are artificial. Likewise by speaking of "developing", "under-developed" or "developed" countries we nourish the illusion that there is some biological process by which countries, like organisms, grow from one stage to another on a pre-determined course. Countries and still more regions within countries, can be distinguished in countless ways. Apart from crude categories based on average GNP per capita income, economies can be characterized by the proportion of wealth and employment arising from production of industrial goods, food stuffs, minerals, oil and other raw materials. Many so called developing countries have rich and advanced sectors, and many so called developed countries have poor and backward ones. India and China fall into a category of their own. The world is a kaleidoscope of different economic activities. The pattern changes all the time. Only those with knowledge of history, politics, ways of thought and human cussedness can explain what otherwise would be an arbitrary arrangement of linkages between states and communities.

5. Although the rhetoric lags behind, the way aid is given already recognizes at least some of the realities. Politically directed aid goes - or should go - primarily to vulnerable or otherwise precarious governments where relatively little aid has a relatively big effect. Commercially directed aid goes - or should go - primarily to countries where there is already a genuine market, trade and investment are established, and wealth can be expected to increase. The problems of countries in this category are often temporary, regional and self-inflicted. Aid directed for developmental

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purposes goes increasingly to the really poor countries whose prospects for economic growth would otherwise be minimal. Disaster aid goes to countries which cannot easily cope with disasters by themselves. Yet it has been the practice to lump all recipient countries together, and attribute to them, as they attribute to themselves, a special status of "development", which gives them claims on the industrial countries of political as well as economic character.

6. The underlying problem is not that of "development" as usually defined. It is the impact of industrial society on the rest of the world. In the perspective of history, industrial society is brand new. If our animal species has been around for 2 or 3 million years, people have lived in tiny hunter gatherer groups for all but the last 5,000 of them. Only 150 years ago did they begin to form industrial societies on any scale. As a complex of ideas as well as economic practices, industrialization is still expanding at a giddy rate. It has corroded the base of all other societies by profoundly changing moral values; increasing disposable wealth and expectations; multiplying human numbers; and drastically modifying the environment - land, sea and air - which had been broadly stable for hundreds of millions of years. No wonder there are problems within and between different parts of the world.

Basis for Policy

7. As the people who began the industrial revolution, and let its expansion worldwide, the British have long been at the frontiers. Withdrawal from imperial responsibilities has left some with a conscience about events in areas beyond the frontiers which we once controlled. We may no longer have a Colonial Office, or even a separate Commonwealth Office, but their ghosts linger on in the Overseas Development Administration which has the brief "to encourage sustainable economic growth in developing countries and to help raise the living standards of their people, ... [with] ... appropriate weight to political, commercial and

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industrial considerations". The ODA's counterparts in other industrial countries probably have similar objectives.

8. In setting objectives of this kind, it is as well to be clear about the scale of the problem. The impact of dominant industrial society on the rest of the world is a process to be compared with the impact of the first settled agricultural and urban communities on the hunter gatherer tribes of the forests and steppes. This vast and unstoppable process far outreaches the control of any human agency. More resources flow from industrial countries to the rest of the world than could ever be encompassed in aid. Whatever the size of our consciences, there is relatively little we can do to ease the passage of those now adapting themselves to new values and ways of life. We can certainly help at the margin. We can also do harm at the margin. Our fundamental aim should be to help others work towards an equilibrium in which our and their interests can flourish.

9. In these circumstances what should the rôle of aid be? If the underlying problems are so vast and aid is so marginal, is it worth giving aid at all? Part of the answer lies in the catalytic effects of aid. Applied in the right way to the real problems it can have results out of proportion to the resources devoted to it. There are two overriding issues which concern our species as a whole.

- (a) Population growth: The change in the relationship between birth rates and death rates, and the absolute increase in birth rates, are a conspicuous result of the impact of new technology in the form of medicine and hygiene. Industrial societies have more or less adapted themselves and established a tolerable balance. But the rest of the world has not yet done so, and resulting growth in numbers, tightly compressed in time, has created the threat of human as well as environmental disaster in certain parts of the world. Events in such marginal areas as the Ethiopian highlands are a good example of population outgrowing the capacity of the land to support it. Higher living standards do

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not automatically lead to smaller families. A more fundamental adaptation to new ways of life is needed. It should be a basic Western objective to promote that adaptation as soon as possible through the educational process. Support for the responsible national and international bodies is indispensable. Progress has already been made. In few areas is the contagious effect of a successful programme more evident.

- (b) Degradation of the environment: Population growth has contributed to drastic change in the environment. Ill-considered industrial and agricultural projects have often made things worse. At present we see a steady advance of the world's deserts, an equally steady retreat of the world's forests, and increasing chemical pollution of the world's land, sea and air. The industrial countries remain the biggest polluters. But there the problems are recognized, and by virtue of developing technical skills, most are capable of solution, albeit at high cost in resources. But in non-industrial countries the problems are not fully recognized, and in many places are getting worse. Another basic Western objective should be to ensure that these countries do not repeat the mistakes of the industrial pioneers, and should henceforth manage their economies with greater respect for the environment. Damage to the environment in one country can rapidly lead to damage in another. In the common interest aid should be tightly linked to environmental requirements: the world cannot afford more deserts, less forests and more pollution without risk of damage to the biosphere itself. For this purpose we should work more closely with other industrial countries, again through the educational process. In agriculture conservation

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needs to be linked to development as part of routine farm practice.

10. In the light of these considerations we should look at priorities in the use of the kind of aid - over two thirds of the current programme - which has been given to the poorest parts of the world for broadly developmental purposes. The record of the last forty years does not show that donor countries always know best. Much money has been wasted, often by unthinking transplantation of Western methods and technology into alien soil. Even projects which have yielded roughly what was expected of them have sometimes been of doubtful benefit. The Aswan Dam across the Nile has certainly increased the quantity of land under irrigation, enlarged agricultural production, created reserves of water, and generated a lot of electrical power. At the same time it has helped spread waterborne diseases, caused higher evaporation of water and salinization of irrigated land, reduced the agricultural productivity of Lower Egypt, and damaged fishing and the eastern Mediterranean. There are similar cases. A different tragedy now in the possible making arises from new techniques for protecting cattle from the tsetse fly. Unless protection against the tsetse fly is accompanied by tight management of cattle numbers and movements, some of the last grasslands of Africa may follow the highlands into sem-desert.

11. These are not arguments for inaction. In their own interest, there is much for the industrial countries to do. But they should be more selective and change the emphasis in their policy. After all some countries, especially in Asia, no longer need aid. Under tough political direction, they have adapted themselves to the industrial revolution through a combination of good management, hard work, private enterprise and social discipline. In some places the results may be lop-sided, but a wealth-creating private sector is now well established, and the main need of such countries is to attract more private investment and secure wider access to industrial markets. The same can be said about

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parts of Latin America. The Mexicans, Brazilians and Argentines know the formula for success if only they could learn to apply it. Such countries as India and Indonesia are moving in a similar direction. Within their economies, trade, investment and technical assistance (especially in agriculture) are of more importance than aid in the old sense. But many countries, particularly in Africa, remain sunk in poverty, and have scarcely begun to come to terms with the industrial revolution. They have made every mistake in the book with the consequence of visible economic deterioration. These countries require special attention.

12. First neither donors nor recipients should be too ambitious. The donors should concentrate on the better management of what exists in the way of economic activity and infrastructure, and allow for greater local variation and idiosyncrasy. They should not be in too much of a hurry. They should not attempt more sophistication than is really necessary: a multiplicity of small locally built dams and irrigation schemes, the introduction of new agricultural methods, including plants genetically adapted to local requirements, the improvement of local roads and paths, the training of barefoot doctors and village clinics are often better in promoting adaptation to new ways of life than the large projects and grand facilities which have often characterized aid in the past. More modest policies will often require the transfer of human skills through training and education on the spot rather than money passed directly to governments. Before supplying aid the donors should also try to examine more carefully the longer term effects of their actions, and help recipient countries cope with the likely social as well as economic consequences. In focussing their efforts on particular economic sectors donors should also do more to evaluate their programmes as they proceed, and not be shy about adapting them in response to changes in local circumstances. Finally donors should remember that in the long run the most successful countries have been those which concentrated on export promotion rather than import substitution. The donors should not reward the success of such countries by closing their markets to them.

13. Inevitably conflicts of interest between donors and recipients will arise, but the experience of the last forty years has perhaps made such conflicts less acute. Even those countries in sub-Saharan Africa which have gone backwards in the last 10 years have recently shown themselves better aware of their past mistakes and future needs. As for the donors, they too seem more ready to work together than in the past and to avoid wasteful competition. Nonetheless many problems between donors and recipients remain. To manage them better, local coordination among the donors is essential. Without it recipient countries can all too easily play on the commercial and political rivalries of the industrial countries, and thereby avoid or at least delay putting their economies into better order according to the well-tried methods of the World Bank and the International Monetary Fund.

14. It is never easy to strike the right balance between the multilateral and bilateral components of an aid programme. The multilateral programmes managed by the World Bank together with the macro-economic prescriptions of the International Monetary Fund merit our firm general support. They sometimes have the advantage of political neutrality in the eyes of recipient governments. The conditions they wish to impose therefore look less painful than they would from individual donors. In theory at least aid given through the European Community can have similar advantages. So far such aid has not been nearly as well directed and managed as that of the World Bank, but it can and should be improved. In the future the Community could provide a useful vehicle for establishing relatively neutral and better controlled aid programmes to the poor countries signatory to the Lomé Convention.

15. But there is no substitute for bilateral programmes in many parts of the world. They give the donor country greater political and economic control, and ensure that tax payers' money is used to best advantage. They encourage private investment, They are usually more efficient than multilateral programmes, and also more responsive to local needs. For political purposes they represent an identifiable common interest between donor and

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recipient. In our case aid is one of the essential components of the Commonwealth relationship. It affects and lubricates our relations with poor countries worldwide. At present the bilateral country programmes, together with technical assistance, amount to just over half the British aid programme. It would be wrong to reduce that proportion further.

16. All aid programmes have a commercial content, and there is no reason to pretend otherwise. British firms have broadly used the experience they have gained in tied bilateral aid to win contracts in the wider more competitive field opened up by the World Bank and its subsidiaries. British companies are likewise increasing their share of contracts available under European Community aid. Most of the aid given in bilateral programmes returns to Britain in the form of contracts and manpower costs. The rest goes on local costs. For the World Bank and its subsidiaries a great deal more returns to Britain than the government contributes in the form of capital subscription. Taken together the commercial returns to this country are substantially greater than the contribution from the British tax payer. This may be a surprising result. But it reflects British experience of recipient countries, and is a product of our imperial past. We must make sure it continues.

17. Another element is the help the government gives British companies to obtain contracts against foreign competition through the Aid Trade Provision. This is in effect a subsidy to British companies whose justification is to balance subsidies given by foreign governments to our competitors. The result of this competitive subsidizing is often misuse of recipients' as well as donors' resources, and the government is seeking to establish international rules to reduce and eventually outlaw this practice. The threat of the United States to intervene massively in what has hitherto been the practice of European countries and Japan should concentrate other donors' minds. Recently a self-denying ordinance on the part of donors bidding for a particular contract has shown what could be done.

18. Aid given for purely political purposes is a permanent feature of international relations. While recognising its value, we must also recognise its limitations, and the dangers it creates. The same can be said of aid given to cope with disasters. Neither should become permanent, nor create the kind of dependence which can undo much initial good.

19. Finally in considering the aims and methods of aid-giving, we should work for a change in vocabulary. Some words and phrases are convenient shorthand, and will be hard to replace. Some are so deeply embedded that it will take a conscious effort to remove them. But nearly all contribute in one form or another to the notion that countries can be categorized in a fashion which distinguishes those with an industrial base (broadly the members of OECD with the Soviet Union and the East European countries) from the rest of the world. An accompanying notion is that the rest of the world can establish a similar industrial base sooner or later, and that those which are already industrialized have a moral obligation to make others so too. Neither notion corresponds with reality; and neither is conducive to British interests. Words must be found to express the diversity of the truth.

Conclusion

20. Aid is so heterogeneous in character that generalities about it are hazardous. Those attempted above carry their own hazards. But in broad terms we can say that when rightly applied our aid

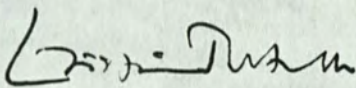
- with that of others helps the world adapt to the impact of the industrial revolution.
- with that of others and alone helps countries most at risk by providing new means for generating wealth and for establishing political and economic stability.

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- provides substantial benefits to British industry and the British economy; and
- is a useful political instrument for exerting British power and influence overseas, and in particular helps hold the Commonwealth together.

Whether we succeed in these purposes is substantially a matter of method. Our methods require constant adaptation to changing circumstances. The programme as a whole must always be seen in the light of a nice and evolving judgement of interest.

February 1985


Crispin Tickell