

Title:

The Political Economy of Foreign Aid Flows

By

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Abstract:

This thesis examines the rise in bilateral aid disbursements over multilateral aid between 2000 and 2010. It would be simply stated that such a trend would be due donor nations focusing on strategic self interests. I argue, using a combination of principal-agent theory, foreign policy analysis and the effect of institutions, that new political actors in donor nations found a window of opportunity to alter the level foreign disbursements and in several cases, increase the overall level of foreign aid. Bilateral aid eventually rose due to both the worldviews of these new decision makers as well as how their policies were influenced and shaped by local institutions. In this thesis, I focus on the US, the UK and Japan as donor nations and the World Bank's International Development Association. In the US case, political and cultural institutions along with the worldviews Bush Administration officials shifted US bilateral aid upwards. In the UK, local institutions along with the perspectives of New Labour officials result in higher British bilateral aid disbursements. Japan's political actors initially focused on the country's economy but later actors, with their worldviews and shaped by historical norms, increased Japan's bilateral aid vis-à-vis its contributions to IOs.

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List of Abbreviations

AsDB Asian Development Bank

ARTF Afghanistan Reconstruction Trust Fund

ATP Aid and Trade Provision

AWRMI Africa Water Resources Management Initiative

BIS Department for Business, Innovation and Skills

BRICS Brazil, Russia, India, China, South Africa

CDI Commonwealth Debt Initiative

CDC Commonwealth Development Cooperation

CGD Center for Global Development

CPIA Country Policy and Institutional Assessment

CRS Congressional Research Service

CSR Comprehensive Spending Review

DAC Development Assistance Committee

DECC Department of Energy and Climate Change

DEFRA Department for Environment, Food and Rural Affairs

DFID Department for International Development

EAC Economic Affairs Committee (House of Lords)

EC European Commission

ECB Economic Co-operation Bureau (Japan)

ECGD Export Credits Guarantee Department

ED Executive Director (to the World Bank Group)

EPA Economic Planning Agency

ESF Economic Support Fund

Energy Sector Management and Assistance Programme

EU European Union

EU EA European Union External Affairs (House of Lords)

FCO Foreign and Commonwealth Office

FPA Foreign Policy Analysis

FY Fiscal Year

G7 Group of Seven Nations

G8 Group of Eight Nations

GAVI Global Alliance for Vaccines and Immunisation

G20 Group of Twenty Nations

GEF Global Environment Facility

GNI Gross National Income

GDP Gross Domestic Product

HIPC Highly Indebted Poor Countries

HM Treasury Her Majesty's Treasury

IBRD International Bank for Reconstruction and Development

ICADI Independent Advisory Committee for Development Impact

ICADI Independent Commission on Aid Impact

ICB International Co-operation Bureau (Japan MOFA)

ICSID International Centre for Settlement of Investment Disputes

IDA International Development Association

IDC International Development Select Committee

IDG International Development Goal

IEG Independent Evaluation Group

IFC International Financial Corporation

IFF International Financial Facility

IFI International Financial Institution

IMF International Monetary Fund

IPE International Political Economy

IR International Relations

JICA Japan International Corporation Agency

JEXIM Export-Import Bank of Japan

JFC Japan Finance Cooperation

JSDF Japan Social Development Fund

LDC Least Developed Country

LDP Liberal Democrat Party (Japan)

LICUS Low Income Country Under Stress

LOC Library of Congress

MCC Millennium Challenge Corporation

MCA Millennium Challenge Account

MITI Ministry of Trade and Industry (Japan)

MOFA Ministry of Foreign Affairs (Japan)

MDB Multilateral Development Bank

MDG Millennium Development Goal

MDTF Multi-Donor Trust Fund(s)

MEFF Multilateral Effectiveness Framework

MIGA Multilateral Investment Guarantee Agency

MOD Ministry of Defence

MP Member of Parliament (United Kingdom)

NAO National Audit Office

NGO Non-Governmental Organisation

ODA Official Development Assistance

ODI Overseas Development Institute

OECD Overseas Economic Co-operation Fund (Japan)

OECD Organisation for Economic Construction and Development

OMB Office of Management and Budget

PA Principal-Agent

PAC Public Accounts Committee

PEPFAR President's Emergency Plan for AIDS Relief

PHRD Policy and Human Resources Development Fund

PRSP Poverty Reduction Strategy Paper

PSA Public Service Agreement

RDB Regional Development Bank

SDR (World Bank Group) Special Drawing Rights

SFRC Senate Foreign Relations Committee

SSA Sub-Saharan Africa

TICAD Tokyo International Conference on African Development

UN United Nations

UNDP United Nations Development Programme

UNICEF United Nations Children's Fund

USAID United States Agency for International Development

US Treasury United States Treasury

WBG World Bank Group

WP White Paper

Chapter 1: Introduction: The political economy of foreign aid

1.1 Background

Foreign aid has been a central component of the contemporary foreign policy arena for many decades, especially after the Second World War. Financial aid contributed by developed countries may act as a major source of external financing to improve a recipient country's overall economic growth (Todaro and Smith, 2006: 727). Therefore foreign aid can be officially defined as Official Development Assistance (ODA), or assistance meant for economic development purposes only (OECD, 2008a: 1). In practice, the economic development of recipients may often be placed as a secondary objective by many aid donors. This is because donor nations provide foreign aid in order to achieve individual foreign policy and commercial objectives (Dudley and Montmarquette, 1976; O'Brien and Williams, 2007: 321). As a consequence, foreign aid flows and policies continue to constitute an essential set of power relations between the world's richest and most powerful economies and the world's Least Developed Countries (LDCs) (O'Brien and Williams, 2007: 322). This form of aid is termed as bilateral aid.

Foreign aid may also be channel via external bodies such as International Organisations (IOs). Many donors would channel a portion of their aid via IOs ranging from large United Nation (UN) organisations, Multilateral Development Banks (MDBs) or Regional Development Banks (RDBs). Aid provided via IOs has generally been considered to be less politically-motivated as these organisations have global development as their primary objective. Multilateral aid naturally is aid channelled via a longer route to reach recipient countries. States as members or shareholders of IOs nevertheless may be able to influence the actions of these organisations. Together with bilateral aid, it constitutes the bulk of global aid flows.

Global aid flows have altered dramatically changed especially since the start of the twenty first century. Previously, global foreign aid flows had dipped after the end of the Cold War due to donor fatigue and budget constraints (Riddell, 2005: 28-29; Van der Veen, 2011: 8). Excluding debt relief, overall aid decreased from around US\$79 million

in 1991 to around US\$65 million in 1997 (OECD, 2009a: 12).¹ At the turn of the century, the Millennium Development Goals (MDGs) were signed by many donor nations. Aid levels conversely increased after 2000. The phenomenon is that bilateral aid disbursements have risen higher and faster than multilateral flows.

Between 2000 and 2006, bilateral aid increased from US\$58 million in 2000 to US\$98 million in 2006 (OECD, 2009a: 12). Between 2007 and 2010, global bilateral aid increased gradually increased by about US\$17 million (OECD, 2013: 11). This increase in bilateral aid has specifically increased over contributions via the World Bank's International Development Association (IDA) (Rogerson et al. 2004:16; Maxwell, 2005: 1, Burall et al. 2006: 5; Riddell, 2008: 51). The recent OECD report *2010 DAC Report on Multilateral Aid* stated that the IDA's disbursements have even dropped behind that of other IOs such as the European Commission (OECD, 2010a: 11).

In contrast, aid via multilateral organisations was held at a constant level of around US\$20 million between 2001 and 2006 (OECD, 2009a: 12). Between 2007 and 2010, multilateral flows did see a growth rate of 9 percent in 2008 and 5 percent in 2010. Aid from donor nations through IOs nevertheless remained just below US\$30 million across this time period. If contributions to European Union (EU) (OECD, 2013: 11). The two OECD documents were measured in different financial values—the *2012 Multilateral Aid report* in US\$ 2010 constant prices. It is nevertheless obvious that bilateral aid has risen higher and faster than multilateral aid across the last decade.

1.2 Key research question

Given this phenomenon of foreign aid flows, this thesis therefore aim to unravel the question: Why did major donor states increase bilateral aid disbursements during the 2000s?

This puzzle of rising bilateral aid may simply be attributed to states responding to the contemporary 'aid effectiveness agenda' or the Paris Declaration. This 2005 agreement

¹ This was based on 2006 US\$ constant prices.

amongst bilateral donors, IOs and civil society aimed at improving the impact of aid. It was meant to reduce to decouple aid from national interests and focus more on development themes (OECD, 2005). The rise in bilateral aid could be attributed to donors providing more development-related aid to recipients. This nevertheless cannot be said to be true for all donor nations. Furthermore, if donors were meeting the Paris Declaration, both forms of aid would have risen at the same rate. The rise in bilateral aid could also simply be due to donors responding foreign events.

Yet, the above is too ambiguous an assertion and ignores aid channelled via IOs. Aid levels amongst major donors instead rose due to new political actors seizing the opportunity to alter their aid levels in light of internal and external events. To the contrary, bilateral aid increased over multilateral aid as the internal bureaucracy and contextual constraints shaped the final decisions for aid donors. In order to ascertain this argument, three sub questions will be examined. These are:

- 1) Why was there a change in aid disbursements by major donors?
- 2) Why was there an increase in aid disbursements by major donors?
- 3) Why did aid disbursements increase more through bilateral channels?

For question (1), a common reason amongst most donors was the rise of new political actors taking advantage of a new window of opportunity to alter the volume of aid in their individual countries. This question helps to discover who drives the change in global aid across this decade. As revealed in the thesis, it is the key decision makers within donor nations who found a window of opportunity to alter the global composition of aid flows.

Question (2) helps to further unravel exactly why and how these new actors altered the composition of foreign aid. A simple reason would be that they were responding to the foreign policy environment. It may be said that this is true for any new political actor. Nevertheless, this time period saw not just national security-related events like the war on terror but also international development-linked events such as the Millennium

Declaration, the 2002 Montreal Consensus for Development and the 2005 G8 summit. The question helps to draw out decision makers perspectives of their external environment and thus their reactions as seen by the channel of foreign aid. Decision makers across donor nations naturally differ when attempting to address both kinds of foreign policy concerns.

Question (3) centres directly on the research puzzle. Bilateral aid rose compared to multilateral aid due to a) the decisions of key political actors; b) the effectiveness of aid-dependent IOs, and the c) the constraints of institutions within donor nations. Part a) is as listed under question 2. The foreign policy analysis (FPA) will help to identify the characteristics of actors and thus their decisions. Part b) refers to the how donor nations, specifically the key actors, view the effectiveness of IOs and how they are awarded with more aid channelled through them. The principal-agent (PA) theory, as detailed further in the thesis, would help to explain how states as principals choose to provide aid through IOs who are the agents. Institutions as stated in part cc) are the rules, procedures and standard procedures within each country. As decision makers form their decisions, they more often then not are influenced by the local institutions they find themselves.

1.3 Justification and parameters

Investigating such a question and puzzle undoubtedly would require an examination of a large number of IOs and bilateral aid agencies. This thesis therefore will narrow the study of IOs towards just the WBG's International Development Association (IDA) and three major donor nations: the United States (US), United Kingdom (UK) and Japan. At first glance, this focusing on just three donor states and one IO may be said to illustrate an inaccurate and too narrow picture of foreign aid flows. Nevertheless, extending the scope to a larger number of donors and IOs would not be plausible for a thesis. These three donors and this specific IO are already major players in the global aid arena, with these entities providing a large proportion of global aid. They further wield substantial influence over the decision making over aid.

The IDA is one the key agencies within the WBG, the other being the International Bank for Reconstruction and Development (IBRD).² The IBRD assists middle-income countries while the IDA specifically provides development assistance on LDCs (see World Bank, 2011a; IDA, 2011a). The IDA is selected first because the organisation is considered to be one of the largest development-related IO in the international arena. The IDA itself is one of the few dispersing the largest about aid globally. A second and more important reason for choosing the IDA that it requires periodic funding for its aid resources. This is achieved through replenishment rounds every three years (Marshall, 2008: 36; IDA, 2011a). Through these replenishments and daily engagement, the Bank's major shareholders delegate the authority—the right to use their own aid and create aid policies—to the IDA.

This delegation is reflected in the principal-agent (PA) model in economics, international relations (IR) and International Political Economy (IPE). Delegation to an external entity may occur especially due to its distinct abilities in performing the task more effectively than individual principals or states. (Hawkins et al. 2006: 14-17). With this delegation of authority, there is, however, a propensity for the agent to perform differently than expected (Bauer, 2002: 282; Hawkins et al, 2006: 8). Member states or shareholders are still able to influence the IDA to some degree, especially since it dependent on replenishments. It is because of the IDA's resource-dependent nature that I selected the IDA as a case study.

A third reason for choosing the IDA is due to the varying amount of contributions it has received across the years. The WBG received the largest amount of core funding between 1987 and 2001. These contributions nevertheless decreased between 2001 and 2006, with more contributions were channelled via the European Commission (EC) (Organisation

² The World Bank as commonly mentioned, comprises mainly of the IBRD and the IDA. The WBG consist of these two organizations as well and three others: the International Financial Cooperation (IFC), the Multilateral Investment Agency(MIGA) and the International Center for Settlement of Investment Disputes (ICSID). See <http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/0,,contentMDK:20103838~menuPK:1696997~pagePK:51123644~piPK:329829~theSitePK:29708,00.html> .

for Economic Co-operation and Development (OECD), 2009a: 25).³ A later OECD report further noted that contributions to the World Bank decreased slightly in 2008. The IDA's resource mobilisation department also noted that in the late 1990s, contributions to the IDA were surpassed by contributions to the EC and UN Funds and Programmes (IDA, 2007a: 4). The IDA may not be the only development aid IO globally. Yet, it is known as the main IO that focuses assistance directly towards LDCs. With the IDA no longer the main multilateral channel for major donors, it begs the questions a) whether the IDA has been perceived to be an effective aid-disbursing organisation and b) whether donors were focused on assisting LDCs during this time period.

The three donor nations were specifically selected primarily because they constantly have been the top aid donors and contributors to IOs. As Riddell (2008) noted, the United States has been the largest donor in terms of quantity. It provided around US\$27 billion in overall aid in 2005. This was followed by Japan providing around. Japan in fact was the largest OECD donor in the 1990s before its position was overtaken by the US. The UK has often been the third largest donor, with an ever rising aid volume since 1997 (Riddell, 2008: 55-61). Beyond their aid disbursements, these three countries are also key shareholders of the WBG and its agencies. These countries sit as on the Executive Directors in the WBG on top of their position in the Board Governors (World Bank, 2013a). As members of the Board of Executive Directors, these three states are responsible for monitoring the Bank's operations and have oversight over the WBG's activities.

As will be further discussed in the thesis, these countries furthermore have been some of the largest contributors to various IDA replenishment rounds. Therefore, these countries therefore wield a significance level of influence in shaping the operations of the IDA and the entire WBG. These donor nations will form the basis of the cases investigated in this thesis. Each case study provides different rationales for the various sub-questions regarding changes in aid volumes. These factors all build up to form the argument that

³ These were measured in US\$ 2006 constant prices and considered the contributions of only OECD member states core member states.

actors' decisions and political constraints have formed the increase in bilateral aid. In all three cases, the common reason for changes in aid disbursements is new political actors taking advantage of a new window of opportunity.

In the case of the US, new political actors such as Bush Administration figures definitely wanted to alter the level of US aid, despite the prevail distrust of aid amongst US political community. Aid disbursements increased especially because state actors wished implement their worldviews and also respond to external foreign policy events. The US did not distrust the IDA, in fact, it was willing to contribute substantial amounts through it, depending on the IDA's performance. The eventual increase in US bilateral aid was due to political institutions, specifically the interaction between the executive and legislative branches, shaping the decision making process. With appropriations differing from the requested amount, US bilateral aid rose higher than its contributions through multilaterals.

In the case of the UK, new political actors such as the Tony Blair and Gordon Brown premiership did alter the volume of UK aid disbursements. Unlike the US, these actors arrived with their vision that the UK should be a leading nation for global development. They also believed that aid should be utilised for development and not necessarily just explicit foreign policy matters. Therefore, in relation to question (2), overall UK aid increased due to actors' perception of their external environment and the role of aid. The UK did favour multilateral institutions as part of its drive to improve global development. UK bilateral aid however was higher than its multilateral flows as there was a strong focus for the UK itself to be a leader in improving international development.

Japan presents a unique case amongst major aid donors. Its overall aid flows decreased at the start of the decade as opposed to the US and the UK (OECD, 2000a: 159, 201 and 205). Its net aid disbursements only increased by US\$ 2000 million between 2009 and 2010 (OECD, 2014: 42). As with their western counterparts, Liberal Democrat Party (LDP) leaders had their perspectives of their external environment. They were, however, more influenced by their internal environment—to reduce government spending due to

the weak Japanese economy. Japan's aid volumes did increase in later years, due to external pressure and the perspective of Japanese leaders, especially from former Prime Minister Koizumi. As with their western counterparts, Japan weighed the effectiveness of IOs when contributing aid through multilateral channels. Japanese bilateral aid however increased above its multilateral flows due to the long standing cultural and political institutions within Japan. These included the post-World War Two perspective regarding aid as well Japanese interests in Asia.

These drivers for change of aid levels are summarised in Table 1 below.

Table 1: Drivers of change for aid levels

Key Drivers for Aid Changes/Country	United States	United Kingdom	Japan
Changes in aid disbursements	-New political actors (Bush Administration officials)	-New political actors (New Labour leaders)	-New political actors (LDP Administration)
Increases in aid disbursements	-Actor's view external environment (War on Terror, Development) -Actors perception of what the world should be (aid as a means to secure the US)	-Actor's view of external environment (Development) -Actor's perception of what the world should be (role of aid as a means to improve development)	-Actor's view of external events (Asia, War on Terror) -Pressure from OECD donors (However, actors initially more concerned country's economy)
Increases in aid via bilateral means	-US political institutions (appropriations process) along with need to fund MCC resulted in higher bilateral aid over multilateral aid	- UK valued the role of the IDA yet in the drive to improve development and become a leading donor, the UK focused aid through its own channels, with local institutions aiding this policy	Actors perception (Koizumi's perception of Japan's role internationally) -Japanese historical perspective (longstanding perception of aid post WWII)

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The investigation of foreign aid trends across a ten year time period would naturally use a large number of numerical data. One central challenge in doing so is the different currencies used by the various donor states mentioned above—the US dollar, the UK Pound and the Japanese Yen. Another challenge regarding data is that sources may present in varying values, adjusted to different price levels.⁴ A possible solution to this is to solely use the OECD’s data (see OECD Stat Extracts, 2010). While this database uses just the US dollar, it still has incomplete data at different time periods. This thesis therefore still uses different currencies with regards to foreign aid data. It nevertheless aims to use shape data to form accurate pictures of both bilateral and multilateral aid.

1.4 Contributions to the literature

This thesis contributes the following to the IPE literature. First, it draws a closer focus on the principal in PA theory. PA literature has considered the principal actions’ on agents and their decision making. Nevertheless, a majority of the literature depicts the principal as a unitary figure. States as principals consist of a diverse range different of actors with different perspectives regarding aid, development and foreign policy. These actors are not unitary actors, but individuals whose decision making are shaped by their perspectives and influences from internal and external environments especially institutions. Moreover, states as principals do conduct the same as they delegate. This again is not generally noted within PA theory and this thesis aims to depict the constraints of PA theory.

Second, the thesis aim to show the politics of delegation in practice. In the PA model, delegation to an agent or agents involves the distribution of tasks to that party and thus a partial loss of control. Principals may wish to implement guidelines to control the actions of agents. The research in this thesis will show states do not readily apply restraints on agents, even though the agent may be frequently acting away from principals’ interests. Principals also do not explicitly impose financial constraints on agents, even though they

⁴ See for example, ‘What is the difference between current and constant data’
<https://datahelpdesk.worldbank.org/knowledgebase/articles/114942-what-is-the-difference-between-current-and-constan>

may conduct policies against the wishes of shareholders. Shareholders also do not allocate their contributions to IOs based on purely the agent's performance. Instead, financial disbursements are also shaped by the environments surrounding these shareholders.

Third, this thesis adds by examine both bilateral and multilateral aid in the same frame. Much of the IPE and IR literature has examined both forms of aid in separate forms. Bilateral aid has often been examined within the arena of international security or foreign policy. Aid via multilaterals has also been discussed in terms of an IO's performance, independence or principals' actions with regards IOs. Only a sparse amount of the IPE literature examines both channels one together. This is in contrast to other studies such as development economics which has academic articles on all forms of aid. The majority of development assistance after all stems from the financial resources of donor states. An examination of both channels together will draw a closer examination of the politics and decision making surrounding aid flows.

A further contribution is the examination of non-core aid or trust funds in the development aid arena. This is multilateral aid through IOs like the IDA but earmarked for specific purposes. Donors have stronger control over aid via trust funds than multilateral contributions and have increasingly been creating such funds (OECD, 2010a: 3, 18). This channel for development aid has drawn money away from core budgets to IOs. Other academic disciplines have a small amount of publications covering trust funds. In contrast, there is a sparse amount of literature in IPE regarding non-core aid. This thesis contributes by examining contributions to trust funds within the scope of the international aid architecture. It will examine if states are channelling money to trust funds due to a distrust of IOs such as the IDA.

1.5 Field work and data Sources

The complex nature of global foreign aid flows were best understood through direct engagement with those involved. Therefore, I conducted archival research and semi-

structured interviews with officials from bilateral aid agencies and staff from the WBG. The list of interviewees arranged by interview date can be found in Annex 1.

These interviews were conducted across two years, with the majority of interviews taking place both in the UK and during a three month research trip to Washington DC. The number of individuals interviewed in total was slightly more than thirty. This undoubtedly stills represents a limited view of aid flows. Nevertheless, interviews were much in depth to over all possible themes.

The majority of interviews were semi-structured in nature to capture as much detailed information. The exception was interviews via email: these were made only when the interviewee was unable to meet up in person. Interviews varied in length due to interviewees' answers and addition questions. On average each interview lasted an hour. A wide range of interviewees were selected, especially those who dealt bilateral aid programmes or policies, and those dealing with IDA contributions. A few interviews were achieved via the 'snowball' technique, especially through recommendations from initial interviewees.

If certain officials were unavailable or unable to be found, the next best individual was contacted. Interviews generally centred on the (1) IDA replenishment process and (2) the IDA's effectiveness for officials dealing with the IDA. Those dealing with bilateral aid were queried regarding the role of bilateral aid and its effectiveness. Both types of officials were also questioned on the possible trade off between bilateral and multilateral aid in their countries. Staff members from think tanks were questioned on both issues and other topics relevant to aid.

While there were a general set questions prepared, questions were modified during the actual interviews. This was because many interviewees being new to their job or not close enough to the aid decision making process. Interviews took place at or around the headquarters of the various organisations and each interview lasted one hour on average. The range of interviews still might not have provided the full picture of aid flows.

Nevertheless it gave me a stronger understanding of the political economy of aid disbursements.

1.6 Structure of the thesis

This thesis is structured as follows. The next chapter, Chapter 2, provides a review of the literature regarding both bilateral and multilateral aid flows. It will cover literature from not just IR and IPE, but include development economic sources. The chapter will first focus on the quantitative change in overall aid across the last decade. Second, it will cover multilateral aid flows, particularly the formation of the IDA and explain how IDA replenishments occur. Such a review will provide a background to how delegation occurs. This will then be followed by a review of the bilateral aid literature. It will provide the various rationales for providing bilateral aid and the difference between bilateral and multilateral aid. This section will next review the limited literature regarding trust funds. The chapter will reveal a wealth of information of aid flows, but indicate the lack of analysis of both bilateral and multilateral aid flows together.

Chapter 3 provides the theoretical framework for the thesis. It utilises both PA Theory and FPA to form a clearer understanding on the rise in bilateral aid over multilateral aid contributions. The chapter begins by detailing the rationale for delegation. It explains the core benefits that states gain from delegation, especially to large organisations like the IDA. It then will show how agents might deviate away from the task assigned to them. This will be followed by how donors try to control IOs and the limits to such control. This section will argue that PA theory provides a limited framework for how aid flows to IOs in practice. The next section details FPA as a subset of IR theory. It will particularly focus on the individual personality of key decision makers which shape the final actions of countries. As with PA theory, I will show how FPA alone cannot help depict the channelling of aid. Instead, this section will show how a combination of PA theory and the perspectives of decision makers present a more accurate setting to comprehend aid flows.

Chapter 4 to Chapter 6 are the case study chapters. Chapter 4 starts by examining the political economy of US aid flows across the last decade. It argues that US bilateral aid rose due to how actors responded to internal and external pressures, especially global development norms. These pressures and the perspectives simultaneously shaped US aid through multilaterals, particularly the IDA. The US share of IDA contributions, however, decreased due to the institutional constraints of the US system.

Chapter 5 centres on the UK's aid flows. Unlike the US, British actors before 2000 had preconceived notions of development and development aid. They placing improving global development as a key national objective and providing aid was the key tool to meet this objective. British aid volumes therefore rose across the period, with bilateral aid rising faster than contributions through IOs. The UK did not intentionally channel more bilateral aid due to a dislike of the multilateral system. Rather, it has been aiming to be a leading aid and development donor in the global arena. This would also explain the UK's high usage of World Bank trust funds.

Chapter 6 examines a prominent non-Western aid donor, Japan. Here, the combination of PA theory and FPA is less able to frame the pattern of Japanese aid. This is due to the fragmented organisational structure. Unlike British and US aid, Japan's aid volume decreased across the ten year period. Japan strong increase in bilateral aid was due to actors' responding to international events and working within the constraints of Japanese political institutions. Japan's contributions to IOs, in contrast, fell due 1) to the country's long differing view of development from other international donors and 2) its long-standing preference of ensuring aid is branded as Japanese aid. Chapter 7 concludes by summarising the case studies and discussing within a larger context. It also highlights future areas of research.

Chapter 2: Literature Review: Bilateral, Multilateral and non-core aid

2.1 Introduction

The World Bank Group (WBG)'s IDA, as noted in the introduction, is definitely not the only organisation that provides foreign aid to developing countries. Such assistance has been disbursed by a range of organisations states, global funds and private groups. These have been increasing in numbers over the years, with IOs such as the IDA are increasingly facing other organisations with similar objectives. States as contributors of development assistance thus have a diverse range of channels to pass their resources through. As noted, bilateral aid disbursements have always been higher in proportion to contributions to IOs by states. OECD data has nevertheless shown a rapid rise in bilateral disbursements across the last few years. At the same time, there has been an almost flatling of contributions to multilaterals.

The need by donor states to address external events such as the rise of terrorism and conflict states could easily explain the rapid rise in bilateral aid. Likewise, the flat lining of multilateral aid may be easily attributed to states viewing IOs as less effective in handling developing aid. The above may appear to be the broad reasons for the changing nature of aid flows. After all, the PA theory in IR and IPE suggest that states are principals, delegating their development assistance to IOs, which are agents.

This delegation occurs, as agents have a comparative advantage in performing the task at hand. Principals may thus alter their contributions if they view agents not performing to their expectations. PA theory nevertheless, only considers the channelling of aid in one single direction. It also generally classifies the agent as always more effective than the principal. The theory does not consider the principal performing the same task it delegates. In this case, the state disburses and controls its aid directly. PA theory also depicts the state as a single actor delegating to a single agent (Hawkins et al. 2006).

In practice, a state consists of various groups that govern or have an interest in development assistance. More often than not, these various actors have diverse positions over the quantity of bilateral and multilateral aid. This is especially so in political

structures where the legislative branch is independent of the government. Various actors in key leadership positions possess differing perspectives of their roles and the international realm. Furthermore, these actor's decisions are also influenced by local institutions. Such dynamics within the state results in unpredictable and uncertainty aid disbursements, especially towards resource-dependent IOs.

Externally, donor states also have a range of other IOs or theme-specific funds to disperse their development assistance towards. As noted in the introduction, they also placed their aid resources in specific trust funds within IOs. These funds target specific development issues and are more intrusively controlled by bilateral donors. Trust funds are again not considered within the scope of PA theory; there is only one single route of delegation to an agent. Multilateral aid flows in practice was thus more diverse that what can be depicted via PA theory. The decision to provide any both multilateral and bilateral aid thus rests with a range various actors and not a single entity. This outlook links to the hypothesis that aid volumes change due to the interaction of state actors and their perspectives over development and aid.

In order to make sense of the dynamics of aid flows, this chapter examines the existing literature on the World Bank's IDA and multilateral aid. This will be examined in conjunction with literature on bilateral aid. When drawing out the various literatures, there appears some distinctive features. Bilateral aid tends to be classified as a tool for foreign policy purposes or national interests. As such, it tends to be covered mostly within IR literature. The topic does appear in other social science academia such the development economics school. There it focuses on topics such as aid effectiveness, donor priorities and effects on economic growth. IPE literature on the hand has rarely touched on the topic of bilateral development assistance. It rather has a wealth of literature on WBG policies and multilateral aid, with several academics covering IDA replenishments and IDA's work in client states. This literature review thus will draw out the relevant literature from the various schools to show the background to aid disbursements.

A key feature arising from the above is that bilateral disbursements have rarely been examined in conjunction with multilateral disbursements. Most of the literature from either school discusses about bilateral and multilateral aid flows separately rather than examine both forms together. Development assistance after all, originates from the resources of states and is channelled to both bilateral aid agencies and resource-dependent IOs. Either form of aid is still classified as a development assistance which still has an effect on global development. It is therefore a key objective of this chapter to show that both forms of aid can be studied in conjunction. This would help to set the base for analysing the changing nature of aid flows.

The remainder of this chapter is divided into the following sections: first, it will introduce the data on aid volumes over the last decade. This section will highlight the proportions of bilateral and multilateral aid from each of the three main donors. It will also show the various channels that aid can be distributed to. The second section centres specifically on the formation of the IDA, especially the political power relations in the creation of this agency. This allows examination of how states as IDA shareholders have utilised the IDA as part of their overall international development or foreign policies.

The third section follows from the previous, highlighting the debates regarding shareholders' replenishing the IDA or what is termed as 'replenishment politics' (Kapur et al. 1997a: 1144). It details how IDA's resources are replenished and how different donors approach replenishment rounds. This helps to identify the possible underlying political considerations that shareholders have towards the IDA. This is followed by a section exploring what is known as the 'burden share'. This is the proportion that each IDA shareholder provides for each individual replenishment round. A high proportion indicates an appraisal of the IDA and the usage of the multilateral system. This is followed by a section on IDA's net financial resources in recent years. Exploring IDA's resources will further indicate if the organisation is facing a resource crisis.

The other main part of this literature review introduces the history of bilateral aid. It first indicates various reasons why aid is provided bilaterally, especially concentrating on

strategic interests. It then follows with literature indicating the similarities and differences between bilateral aid agencies and the IDA's aid programmes. It will show that there is a thin line of difference between the two types of aid. This leads on to the literature on organisation effectiveness. It will be shown that states may weigh up the benefits that each type of agency provides. The proportions of aid may also be linked to the institutional management of in donor states. The rest of the section will describe how development aid is management in the three main donors and its implications

A further section will detail the existing literature on 'trust funds', or bilateral aid channelled through IOs for specific projects. There has not been much secondary literature on non-core aid, with much on the work arising from primary sources or specific think tanks. By examining trust funds, it reveals a third method by which states can allocate their development assistance. It also reveals a unique juncture between both bilateral and multilateral aid—it is bilateral aid channelled through an IO but controlled by states. This shows a divergence between theory and what occurs in practice, further complicating the nature of aid flows.

2.2 Aid disbursements across the last decade

As noted, global bilateral aid has increased relative to multilateral aid across the last decade. Excluding aid through EU aid organisations, global gross multilateral aid has remained at a volume of around US\$ 28 billion. In contrast, gross bilateral aid has general has risen from US\$ 85 billion in 2001 to nearly US\$ 140 billion by 2010. There was a specific peak in bilateral aid between 2004-2005 and 2007-2008 (OECD, 2013: 11).⁵ Donor core contributions to the World Bank Group (WBG) have not been constant, with a drop between 1997 and 2001. Within the WBG, IDA's overall aid disbursements have only accounted for around 20% of global ODA between 2001 and 2005 (Le Houérou et al. 2008: 4-5). The WBG, despite being the largest aid IO, is no longer the IO

⁵ These figures are based on US\$ 2010 constant prices. A challenge in this thesis is to use figures that are equal value, given the range of data available. The aid volumes here exclude global debt relief.

which most core aid is contributed to. This position has been taken over by the European Commission and key United Nations (UN) agencies (IDA, 2007a: 4; OECD, 2013: 13).⁶

The three donor nations chosen have disburse different proportions of both forms of aid across the last decade. The US for example, one of the few donors to provide a low proportion—12 percent—of its aid via the multilateral system across 2004 to 2006 and 11 percent between 2006 and 2008 (OECD, 2009a: 22; 2011a: 32). The proportion of US aid via multilaterals grew back up to 12 percent across 2007 to 2009. (OECD, 2011b: 6).⁷ In contrast, US bilateral aid rose at an almost constant rate from US\$9646.80 million in 2000 to US\$28031.84 million in 2010 (OECD Stat Extracts, 2010). For the UK, it channelled a higher amount of aid--15 percent--through multilaterals between 2004 and 2006. This level increased across 2006 to 2008 to around 24% but decreased to round 18 percent across 2007 to 2009. British bilateral aid in contrast, increased from US\$3792.45 million in 2000 to US\$8571.69 million in 2010 (OECD Stat Extracts, 2010).

Japan also provided varying proportions of their aid through multilateral system. It contributed a high of 24 percent across 2004 to 2006, 22 percent across 2006 to 2008 and around 18 percent across 2007 to 2009 (OECD 2009: 22, 2011a: 32, 2011b: 6). Japan's net bilateral aid disbursements decreased from US\$914235 million in 2000 to US\$6380 million in 2010. It may appear that both forms of Japanese aid decreased across the decade, Japan has constantly kept its bilateral aid levels higher than contributions than its disbursements through multilaterals (see for example OECD, 2004).

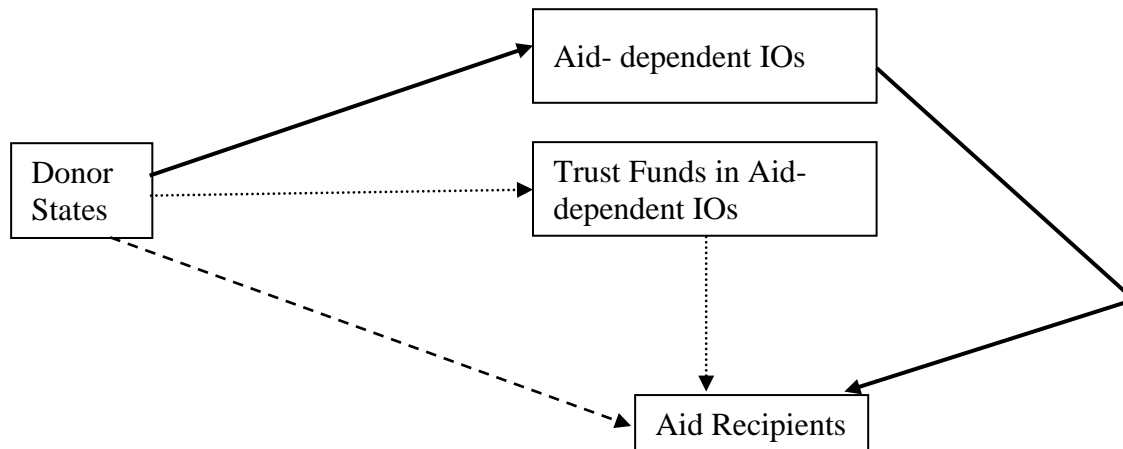
On the subject of trust funds, overall non-core aid has rising since 2001. The UK was the largest contributor to all trust funds in 2010, providing nearly half of its multilateral contributions as non-core aid. Non-core aid is largely channelled to UN specialised agencies, with the World Bank Group being the second largest recipient (Adugna, 2009: ii; OECD, 2013: 13, 15). With specific reference to Bank trust funds, the UK again has been the largest contributor to IBRD and IDA trust funds. This amounted to around US\$

⁶ This data is correct as of 2010, using US\$ 2010 constant prices.

⁷ This figure captures on the total aid by OECD donors.

4.5 billion across FY 20002 to 2010 (Independent Evaluation Group (IEG) 2011: 16; see also OECD, 2011b: 54. Annex D).

Figure 1: Modes of providing foreign aid



(Adapted from IDA, 2007a: 15)

The above indicates that there's certainly more than just two traditional routes to channel foreign aid. First, they can provide aid directly to recipients through their bilateral aid agencies. Second, they can contribute aid to IOs which then delegate the aid to recipient countries. Third, states can pass aid through earmark funds or trust funds in IOs (see Figure 1 above).⁸ Aid via bilateral means is evidently the most direct route to aid recipients without any external control. Aid through IOs in contrast, is steered by the IO with the donor less able to control how it is used. The channelling of aid via trust funds has allow donors to direct the usage of aid and yet allow an IO to have administrative control over.

The above data shows an evident swing towards the bilateral route. If one includes non-core aid as part bilateral disbursements, contributions to multilaterals have explicitly stalled or decreased across that decade. As stated, it might be easily said donors were

⁸ Figure 1 is a simplified diagram from IDA, 2007a: 15. Aid can also flow to private funds, public-private funds and other organizations such as NGOs. These, however, are beyond the scope of this research.

address their own national security concerns and view IOs as ineffective. The next section provides turns to cover the detail working of the IDA, the IO chosen in this thesis.

2.3 The creation of the IDA

The World Bank's IDA did not immediately appear as an organisation after World War Two; rather it was formed in 1960. It was founded to concentrate on poor countries, nevertheless, it was created amidst much political controversy in the World Bank's IBRD and the entire UN community.⁹ Economic development was a prominent international topic in the 1950s, with the UN as the main IO addressing this issue. Earlier on, expanding capital via external grant was identified as one method of improving a country's economic growth. (Stokke, 2009: 84, 88-89, 94). Following from this, many developing countries were supportive of the creation of a Special United Nations Fund for Economic Development (SUNFED) under UN auspices to focus funding especially on grants to LDCs, with concessionary loans at 'lenient terms of repayment'. This was as opposed to the higher interest rates provided by the IBRD. Furthermore, then Bank President Eugene Black was opposed to the Bank providing concessional lending (IBRD, 1960 in Baldwin, 1961: 87; Jolly et al 2004: 75; Woods, 2006: 24; Stokke, 2009: 94-95).

Such a proposal for yet another financial organisation was, however, opposed by the US, and to a less extent, the UK. They both desired control of international development resources within the World Bank (Emmerij et al, 2001: 43; Jolly et al, 2004: 76). The US viewed development back then as a part of Cold War politics, and it was against placing development finance in a wider multilateral setting where it had little control over aid and decision making. It particularly feared the Soviet Union and its allies having a say in global development policy. (Toye and Toye, 2005: 137-138).

⁹ The World Bank Group (where both the IBRD and the IDA are members) is considered as specialised agency of the UN. While it reports to the UN Economic and Social Council (ECONSOC), specialised agencies are considered autonomous from the UN itself (Riddell, 2008: 82). See http://www.un.org/en/aboutun/structure/pdfs/un_system_chart_colour_sm.pdf

While the US had formed an ad-hoc alliance to vote against SUNFED, other UN members had accepted the idea of a development fund. With developing nations aggressively supporting SUNFED, the then US Senate approved a resolution for a creation of soft loan facility, albeit controlled by the World Bank. (Kapur et al 1997a: 153-155, 1127-128; Stokke, 2009: 101-102). IDA was eventually formed in 1960 and its formation especially ‘offset the [continual] urge for SUNFED’¹⁰ (Kapur et al 1997a: 155; Jolly et al 2004: 80; Murphy, 2006: 64-65).

This historical overview of the IDA’s formation helps to identify several characteristics. First, it shows how the IDA was created through political tensions between developed and developing countries, both which are today’s IDA shareholders and recipients. It indicates a difference between the needs of aid recipients and the interest of aid donors. This relates to the concept of ‘replenishment politics’ as further discussed below. Second, the debate regarding control of development funding indicates how powerful states exert their control over the political economy of international development. In particular, the US was reluctant to form a concessional lending facility, and only did so when its economic hegemony was threatened. This idea of maintenance of the economic hegemony may help to further comprehend donor decision making during each IDA replenishment rounds. Such action by the US is in contrast to contemporary US decisions of aid allocation, as will be further discussed in the case study chapter.

Third, this history reveals how interests groups within the US influence decision making with regards to development aid. It provides an insight into the perspectives of legislators over foreign assistance allocation. Such a history of IDA’s formation and development finance does not fully reveal the decision-making behind aid decisions by states. While it reveals how interest groups may shape aid allocation, it does not exactly explain what affects their decisions. One underlying question is whether these actors and groups value IDA’s role or do they contribute based on their support towards a multilateral system. Such perspectives may change across various periods of time. Another area not

¹⁰ Libby 1975 however also describes the IDA’s formation as a means for the IBRD to bypass its method of borrowing from private capital markets and as tool to support LDCs which industrialised countries then had no interest in assisting.

fully covered is the overall organisational control of aid within each state. Difference political structures and monitoring may affect the actual proportion and quantity of aid provide. The next section further delves into the IDA, examining IDA's replenishments and its relevant topics.

2.4 IDA replenishments and burden sharing

The formation of IDA created a development finance source for LDCs. This organisation, however, differs from other several other IOs as it has unique system, requiring constant replenishment of its funds from its shareholders every three years. After each replenishment round, shareholders contribute their committed amounts each fiscal year across the three years (see for example, IDA, 2005: 40). It is proposed that shareholders distribute one third of their commitments each year. In addition, shareholders may occasionally provide supplementary contributions (Mason and Asher, 1973: 406).¹¹ At the start, then World Bank President Eugene Black requested an initial sum of US\$ 500 million but received less than half amount (Kapur et al. 1997a: 15, 1131; Marshall, 2008: 36; IDA, 2011a). The very first replenishment round, IDA 1, which covered the Bank Fiscal Year (FY) 1965 to 1968, was plagued with political red tape from the US, with the then Treasury Secretary proposing that IDA should raise its own financial resources (Kapur et al 1997a: 1138-1141).¹²

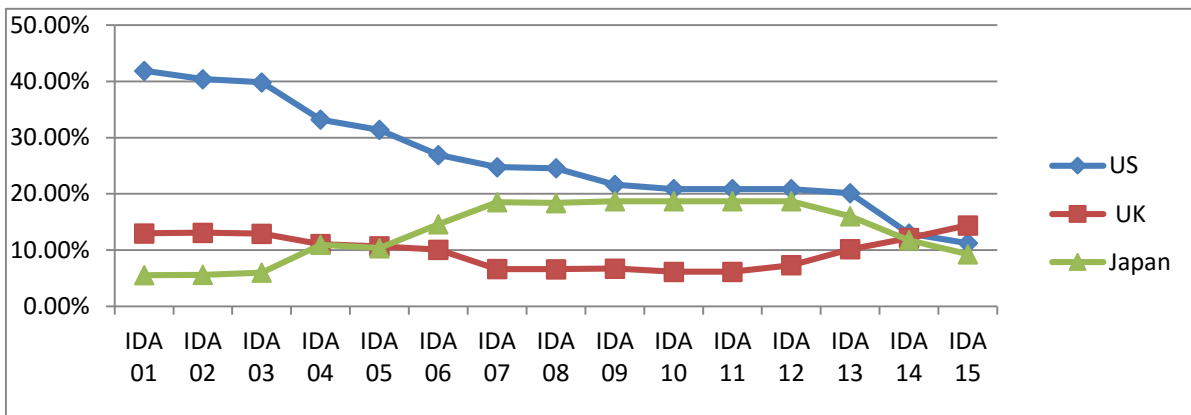
As with the debate over SUNFED, the US was unwilling to channel aid via a multilateral organisation. In the second replenishment round, the next World Bank President, George Woods, presented a US\$ 400 million across three years offer to the major IDA contributors. This was not acceptable by both European shareholders and the US. The latter in fact requested the US argued that is contributions should be pushed to the '*back of the...queue [of other IDA contributors so that it did not have to contribute much]*'

¹¹ Supplemental amounts are provided at various stages across the three year period or as an ad hoc addition. See the World Bank and OECD Aid Flows Glossary <http://siteresources.worldbank.org/CFPEXT/Resources/299947-1266002444164/glossary.pdf> page 8.

¹² The initial funding of IDA by donor countries is commonly known as IDA 0 covering FY 1961 to 1964. The very first replenishment round was IDA 1, covering FYs 1965 to 1968. See Kapur et al.1997:1137 and World Bank and OECD, 2011.

(Kapur et al 1997a: 1141, emphasis added; see also Kapur et al 1997b: 208).¹³ A final compromise allowed US payments to be deferred and compensated by other major shareholders, while new members such as the Nordic countries added supplementary contributions. In IDA 3, other states such as Ireland, Yugoslavia and Switzerland contributed their portions, in the face of the uncertain funding from the US (Mason and Asher, 1973: 410-413).

Figure 2 IDA replenishment shares IDA 1 to IDA 15¹⁴



The above remarks formed the start of ‘replenishment politics’, which governed subsequent replenishment rounds (Kapur et al 1997a: 1138, 1141). This was furthered in IDA 5 with the ‘pro-rotta provision’. Such a clause allowed all shareholders the option to adjust their final share should there be any drop in the US contributions. This amendment to the payment of resources continued until at least the fourteenth replenishment round (IDA, 2005: 38, paragraph 120).

The US reluctance to contribute a substantial share is indicated by Figure 2 above, with a constant drop since IDA 1. There was especially a sharp drop in its share between IDA 3 and IDA 4 and IDA 13 and 14 (Degnbol-Martinussen and Engberg-Pedersen, 2003:

¹³ Kapur et al 1997a: and Kapur 199b only covers IDA replenishments only from IDA 1 to IDA 10.

¹⁴ This data is taken from Aid Flows, using the share based on historical US\$ millions (World Bank and OECD, 2011). There is also a range of data on IDA shares from an IDA 16 report. That data, however, covers contributions beyond the amount pledged in each IDA resolution.

140).¹⁵ Other major donors such as the UK and Japan have also decreased their contributions and the overall, the US has been the top contributor. As shown in Figure 2, From IDA 11 the UK's share has rapidly increased, even surpassing the US in IDA 14 and IDA 15. Japan on the other hand was another significant contributor to IDA, raising its share from IDA 1 onwards and only reducing it from IDA 12 onwards.

The above discussion links to the theme 'burden share', or the proportion each shareholder commits and contributes at each replenishment round. Addison et al 2004: identify a list of determinants for a country's burden share, including income per capita, size of the government, and the extent of domestic and international pro-poor policies. This correlation is stated as a clause in each replenishment round (see IDA, 1998: 30, paragraph 93; IDA, 2002: 35, paragraph 115; IDA, 2005: 38: 118). It may be argued that an IDA shareholder's burden share may be considered secondary. After all, shareholders hold power in the IDA through their prescribed WBG voting shares. The US, being a founding member of the IBRD and a proponent of the IDA, holds the highest voting share.¹⁶

In contrast the share of an IDA donor relates to how much of the proportion of IDA's resources for the three year period. The share of the replenishment process provides an indication of how much each IDA shareholder values the IDA at that period in time. A shareholder may have increased its IDA replenishment contributions quantitatively. Yet, changes in its IDA share indicate how much it wishes to utilise this multilateral organisation. This raises the question the extent to which states view the IDA as an effective development organisation. It also bring out the question if states are more willing to channel their aid more via bilateral means or even through other multilateral organisations. These questions will be further explored below and in the theoretical framework.

¹⁵ IDA 12 was the replenishment round directly after the initiation of the PRSPs and covered FY 2000 to 2002 (see Marshall, 2008: 38, Table 2.1). This fits with the timeframe of this research.

¹⁶ See <http://siteresources.worldbank.org/BODINT/Resources/278027-1215524804501/IBRDCountryVotingTable.pdf> for the voting power of IDA shareholders, correct as of 2013.

The reasons behind changes in the replenishment share have been discussed in the other academic literature. Wade in Woods, 2006: 29 argues that US contributions to IDA 12 were reduced due to IDA loans to China. Sanford, 2009 in Clegg 2013: 44 similarly identifies the US withholding funds due to loans to Vietnam during the Vietnam War. In this case, a shareholder may decrease or increase its IDA contributions base on how much IDA is assisting its foreign policy agenda. This however, again assumes it is a unitary shareholder altering its share based on the effectiveness of the single agent. (Kapur et al. 1998a: 1149; Marshall, 2008: 38). This matches the principal-agent theory as will be discussed in the next chapter.

The PA theory does provide a basis how states decide to utilise IOs for their development agenda. However, it provides only part of the reason for the stagnation in disbursements via multilaterals. In practice, each state is made out of various internal actors and interest groups that shape the entire decision-making process. In the specific case of the US, for example, there is a separation of government between the executive and legislative branches. This will be further expanded upon in the case study chapter.

The replenishment process and burden share details much about regarding the supply of aid to IOs. Nevertheless, this still paints an incomplete picture of how judgments are made by individual actors and groups regarding aid. The burden share may provide an indication of the state's actions in the multilateral system. That still does not say how these actors react to the internal environment or the external global arena when providing aid to IOs. For example, the economic condition of the country itself would determine the budget it allocates annually for both bilateral and multilateral aid (Lundsggarde, 2007: 40).

At the same time, those governing aid allocations may have ignored such conditions due to their beliefs over the utility of aid or their passion to improve global development. Individuals may also be influenced by external events such as international agreements or the nature of the global development landscape. Internal and external environments can also result in actual contributions differing from commitments made. This can affect the

level of contributions to IOs for any given fiscal year. For example, shareholders are suppose to provide their IDA contributions in three year instalments. Yet, data from OECD Stat Extracts (2010) indicate that OECD donors provide vary amounts across the three years. Shareholders may also provide additional funding onto top of their fiscal year contributions. This shows that contributions to the IDA are not just governed by organisational effectiveness.

Other academic literature have covered multilateral aid in conjunction with bilateral aid. Masher and Asher (1973) did cover the WBG's relations with bilateral donors, such as the US Eximbank and Development Loan Fund, which would later become the United States Agency for International Development. There was much competition between the Eximbank and the Bank when financing development projects in the 1950s. Other bilateral donors such as the UK and Japan also were also increasing their bilateral programmes and not working with the WBG to address development issues (Masher and Asher, 1973: 496-497, 504-505).

These examples do not, however, go into detail on the decisions making behind different forms of aid. Aid in the first place is derived from a national budget and as mentioned above, it donor nations have at least three different channels. The literature fails to delve into how decision makers allocate aid simultaneously and what affects their ability to provide their desired amount at a certain time. The next section reviews the literature on IDA's financial ability. It helps to indicate how much the IDA is dependent on shareholders.

2.5 IDA's financial power

This section turns to cover IDA's financial power or capacity across the time period. The WBG is often hailed in academic literature as the IO that disburses the largest amount of foreign aid globally (Harrison, 2004: 91; Degnbol-Martinussen and Engberg-Pedersen, 2003: 118; Weaver, 2008: 63). In the case on the IDA, its ability to provide nevertheless depends on the amount of financial resources it receives.

It must be first noted that IDA's overall funding stems not just from its shareholders contributions but also from repayments from earlier loans and small credit charges. Primary literature from the IDA's Resource Mobilisation Department state that IDA itself also invests liquid assets in the global market to finance some grants and administrative expenses. Further internal financial sources arise from transfers from the IBRD and the International Finance Corporation (IFC) resources. Despite these various additional sources, they still constitute a small proportion—around 30%--of IDA's overall resources. Donor resources themselves increased over the years since IDA's inception, with twenty seven new donors adding to the organisation's resources. (IDA 2010: 4-6; IDA, 2011a).¹⁷

At the same time, donor's contributions to replenishment rounds have altered since IDA's inception. While there was a general quantitative increase in shareholders' contributions, there has been a growing 'structural financial gap' as noted by previous literature such as de Silva, 1985. The recent growth in the gap is caused donors having unpaid contributions and thus creating a financial gap. This gap has been widening since IDA 12, reaching a high of amounting to US\$ 567 million by IDA 15. IDA's credit reflows may attempt to compensate for this shortfall, yet such reflows take time and do not match recent commitments. Furthermore, the increased levels of debt relief to the Highly Indebted Poor Countries have cancelled out planned amounts of reflows (IDA, 2007b: 2-3; IDA, 2010: 4, 25, Annex 1).

IDA's resources thus depend heavily on shareholder funding which according to the various replenishment round reports projected to remain static from IDA 15 onwards. Therefore, despite being the IO with the largest number of in-country programmes, IDA's finances face a challenge in maintaining it level. This background over its financial base would help when unravelling donor decisions over funds to both multilateral and bilateral aid. This situation of IDA's uncertain financial outlook will be further explored in the seventh chapter.

¹⁷ IBRD contributed its profits to IDA beginning IDA 11 while the IFC made its first contribution to IDA in 2007 (IDA, 2010: 6; World Bank, 2011b: 68).

This section has highlighted the concept of aid via the IDA. It has traced how the IDA was created through power plays between developing countries and western industrialised countries. It has also traced the political nature of its replenishment rounds and the changing burden share of the three shareholders. It has furthered brought up how IDA's overall financial structure has changed over the years. With the dependency on IDA shareholders, the commitments and actual contributions are the key areas of concern for this arm of the WBG. The above literature also is reflective of the PA theory where by the state is the principal passing the task of aid disbursement to the IDA or the agent. All of the above literature provides strong insight over states and their contributions to this unique IO.

There nevertheless are still gaps into the decision making processes over aid contributions. This especially is so over different periods of time where a range of external and internal phenomena affecting state actors. This thesis, through the case studies will unravel the closer decisions over aid via the IDA, unravelling why the share has fallen or risen for different states. The above literature only covers multilateral aid. What is missing is the other main mode of providing aid. This leads on to the next section, which examines the literature of bilateral aid.

2.6 Literature regarding Bilateral Aid

As noted in the introduction, states themselves also directly provide aid to developing countries and LDCs directly through their own aid agencies. Such bilateral agencies may conduct their aid projects alongside IOs, or conduct their activities jointly together with IOs or other organisations and agencies. The variety of aid-providing donors in each country has risen dramatically over the past decade. For example, Uganda had around 40 donors and 684 different aid programmes between 2003 and 2007 (Burall et al 2006: 3; see also Adguna et al. 2011: 26-27).¹⁸ As argued above, this route of channelling aid is a more direct link between the donor state and aid recipients. At the same time, such aid is

¹⁸ The Adguna et al (2011) paper discusses other aid agencies beside multilaterals and bilateral agencies, These, however, these are outside the scope of this research.

often claimed to be disbursed firstly for political purposes and not exactly to improve development. Nevertheless, bilateral and multilateral aid are both classified as ODA and commonly derived from the same source, the donor nation.

The first section here explores the literature of bilateral foreign aid, covering IPE, IR and development economics academia. This section aims to show that while bilateral aid is as a means to achieve foreign policy, states do provide it to improve global development. The second section continues by exploring how similar the objectives and ideas within bilateral aid is to that of the IDA's. The agenda of bilateral agencies may slightly differ from the WBG, as certain states deviate away from its agenda. States also may target their development assistance to more to specific states or specific sectors. However, other states may adhere to the WBG's approach toward development. This would help ascertain that bilateral aid is still development-centred assistance. It further shows that bilateral aid, as with aid through the IDA, is derived from that state's resources.

This understanding thus helps us to locate the source of all development aid from the state itself. It therefore indicates that any changes in aid levels are due mostly to the actions and decisions within states. The following section will explore the advantages and disadvantages of bilateral and multilateral agencies. Bilateral donors for example, may be dependent on the WBG or the IDA for assistance in recipient countries.. States may weigh up the various benefits. More often that not, it is the institutional environment within states that determine bilateral and multilateral aid contributions.

In answering the question is bilateral aid used solely for foreign policy purposes, it is essential to examine its beginnings. The history of direct foreign assistance by states naturally is older than that of the IDA. It could be traced back as far as the early twentieth century, where colonial administrations assisting their colonies in the 1930s. Such colonial provisions started the concept of a donor detailing assistance to an aid recipient (Hjertholm and White, 2002: 60; Riddell, 2008: 24). The initiation of modern aid provision is said to have started with the Marshall Plan to reconstruct post-war Europe. Despite being hailed as development-oriented initiatives, it may been seen as part of the

US' Cold War foreign policy agenda, curbing the rise of communism (Cumming 2001: 39; Sogge, 2002: 1; Riddell, 2008: 24-25).

It is thus under this context that the objectives of bilateral aid have been said to be sharply different from that of development-related IOs such as the IDA. Providing bilateral aid allows the state more freedom to utilise the aid for several reasons. These include (1) gaining economic benefits; (2) strategic and national interests; (3) moral and ethical reasons, and (4) to improve a recipient's overall economic development. First, it has been asserted that providing aid would increase the exports and economic positions of the donor state (Huntington, 1970-1; Ddley and Montmarquette, 1976). For example, Canada initiated its bilateral programme to improve regional economic cooperation in the Asian Pacific Region (Frank and Baird, 1974: 140). Sogge (2002) and O'Brien and Williams (2007) similarly assert that aid giving may be a means of improving the donor's economic performance.

This linkage of aid to economic benefits is known as 'tied aid', and has featured prominently in many bilateral trade agreements. Global tied aid within OECD donors has decreased by 27 percent between 2001 and 2003, with around 90 percent of aid to LDCs untied. Nevertheless, the proportion of tied aid varies between donors, with the US and Japan maintaining large portions of tied aid. This is often due to governments close relationship with major businesses (Riddell, 2008: 98-101; Berthélemy 2006a: 191). Providing bilateral aid due to commercial benefits will feature much in the US and Japan case study chapters.

A second and the most prominent reason for providing aid bilaterally is to support a state's geopolitical interests. Past history has shown that bilateral aid agencies began as another means besides to secure political alliances (Frank and Baird, 1975: 141; Sogge, 2002: 41-42; Degnbol-Martinussen and Engberg-Pedersen, 2003: 8, 12-13; Baldwin, 1985 in Lundsgaarde, 2013: 4). As noted above, the US initiated the Marshall Plan to counter Soviet influence as well as to aid European countries. As Mckinlay and Little, 1977: 63 argues, aid to key recipients forms a 'commitment' and 'dependency' linkage

between donor and recipient. Hattori (2001) also argues that aid provision creates a power-play of dominance between donor and recipient. The recipient, especially those with small or weak economies, would thus be mostly reliant on the donor for support. This allows the donor to set a range of pre-conditions or ex post conditions alongside aid.

Such conditions or ‘conditionality’ encompass both economic and political themes (Frank and Baird, 1975: 147). These conditions include themes such as governance and human rights, and often packaged as a form of sanction before aid is delivered (Browne, 2006: 51-52). The conditions or preconditions that bilateral donors place on their assistance is a key feature in the case study chapters, particularly in the case of US foreign assistance. Bilateral aid as a tool for strategic motive is also discussed within IPE. For example, it has been argued that the US MCC was created to maintain the US hegemonic economic order (Carbone, 2004; Soederberg, 2004; Mawdsley, 2007; Mohan and Mawdsley, 2007).

More recent literature has shown states focusing a substantial portion of their aid on national security objectives. This is especially so in the post-September 11 period and particularly for donors such as the US and the UK (Lundborg, 1998; Robinson and Tarp, 2000: 2, 13; Sogge, 2002: 30, 32, 41-42). Both countries increased their aid flows in the post September 11 period to countries like Egypt, Israel, Afghanistan and Iraq, countries central to their national security interests (Woods et al 2005: 8-9, Woods, 2007: 3, 6, 11). Bilateral aid is also increasingly focused on conflict and post-conflict states, a theme in aid which also has historical roots. Both forms of states have which have been on the rise since 2004 (Browne, 2006: 63). States provide conflict-related aid for democratisation purposes, to improve local justice and security systems and to improve local economic institutions.

A good portion of such aid is further provided as military aid, not only to conflict-affected countries, but strategic allies of the donor state. (Morgenthau, 1962: 303; Addison, 2000: 307-308). Military aid is a key sector in several main bilateral donors, most notably the US. Despite the prevalence of aid to foreign militaries or for military purposes, this thesis will ignore the allocation of military aid. First, this thesis limits the

definition of foreign aid to the OECD's definition of ODA, which excludes military aid (OECD, 2008a: 2). Second and following suit, this thesis is examining aid provisions through multilateral means and bilateral means. By limiting aid to a globally accepted definition of aid, this eases the analysis of the changes in aid flows.

Donors may also provide aid for strategic reasons as a form of reward to the aid recipient. Such an initiative is often used to secure strategic allies. US foreign aid, for example, was provided to countries such as Turkey and even France in the 1950s. Aid to the latter, an industrialised country, was more in an attempt to gain strategic alliance rather than to improve its economic development (Huntington, 1970-71: 178). McKinlay and Little, 1978: 322 also noted that the UK provided its aid in the 1970s to maintain its trading ties, as well as prevent the rise of communism. Another key issue they highlight is the high proportion of British aid channelled to former colonies. More recent literature corroborates this claim, also stating that the probability of UK aid to former colonies is higher than with other donors (Alesina and Dollar, 2000: 45, 55; Neumayer, 2003: 58, 61, 80; Martens, 2008: 295).¹⁹

Donors may also award more aid base on principles such as (1) democratic or non dictatorial governments; (2) civil liberties; (3) open trade and (4) common voting patterns in the UN (Alesina and Dollar, 2000: 39; Cumming, 2001: 29-30). The amount of aid given based on various principles naturally differs between each donor. Berthelemy, 2006a for instance discovers that Japan's aid-for-trade linkage is much higher than British or American aid. With each donor having different interpretations of such issues, this thus results in difference choices of aid recipients. It also provides a disproportionate level of bilateral assistance to certain recipients as opposed to other recipients. Bilateral aid as a reward in fact can be distributed to any type of developing country. In sharp contrast, IDA's aid is restricted only to countries classified as LDCs (IDA, 2011b). States therefore may steer their bilateral aid to a larger range of countries to forge alliances.

¹⁹ Berthélemy and Tichit (2004: 272) nevertheless argue that the relationship between former colonies and aid levels has been decreased over time.

The two reasons above for providing bilateral aid result in benefits accruing for the donor state rather than aid recipients.²⁰ A third rationale for providing bilateral aid is for moral and ethical reason. This is a sharp alternative to the above self-interest motives (O'Brien and Williams, 2007: 322). In this case, the donor state acts views its development assistance as a means for altruism. Providing part of one's resources is seen as an obligation to the wider global community. Several donor states, particularly the Scandinavian donors, cite terms such 'moral imperative', 'international solidarity', 'distribution of wealth' and 'fight for justice' as their rationales for providing aid (Riddell, 2008: 140; Berthélemy, 2006a).

This rationale for aid provisioning goes against realist notions of a world of anarchy, where each state is in a power struggle against all others. A globalised world can include states that perform beneficial rather than confrontational actions. States may act in an ethical manner as (1) they may choose to go against the restrictions of international system; 2) the international system may shift to encourage ethical actions and (3) they may accrue benefits by doing so (Lumsdaine, 1993: 14-21). By providing bilateral aid, donor states thus aim to enhance their overall reputation in the global community. It is one method of becoming the 'Good State', or the state that hold on to moral standards internally and globally. The state here explicitly pursues an explicit foreign policy fully centred on inspiring global philosophy, rather than basing on internal goals (Lawler, 2005: 441).

Riddell 2008: 143-147 provides more detailed reasons for why states say they are obliged to act justly. The 'Mixed Perspective' indicates that governments may have limited obligations to provide aid. This is so as they have full moral responsibilities to their own citizens first. A second perspective, the 'Narrow Absolutist Perspective', posits that states provide aid because they wish to do so rather than they are compelled to. This position notes that governments have commitments to their citizens, but is not as insular as the 'Mixed Perspective'. A third perspective, the 'Evolving International Perspective' is

²⁰ See Berthélemy, 2004 for bilateral donors placing more emphasis on own interests versus recipient needs.

close to the idea of the 'Good State'. Here, the state not only ascribes to ethical beliefs and performs moral actions, but also join together with other similar states, conforming to international practices.

Another key component of moral-based aid is that of humanitarian aid. Such aid is helps to combat natural disasters or assist refugees (Morgenthau, 1962: 301-302; Frank and Baird, 1975: 141). Humanitarian aid is a substantial component in every donor state, with bilateral donors placing different emphasis and according different volumes. IOs like the WBG also are suppliers of humanitarian assistance (Degnbol-Martinussen and Engberg-Pedersen, 2003: 199-204; Riddell, 2008: 315-324). Humanitarian aid is classified as ODA under the OECD's definition (OECD, 2008a: 2). Nevertheless, this thesis will exclude the examination humanitarian aid. As before, the research here is concerned with the various allocations of foreign aid through bilateral agencies and the IDA. An exclusion of humanitarian aid would centre the focus here on the routes foreign aid is provided.

A further reason why states might provide bilateral aid would be to improve the overall economic development of the recipient. This reason relates closely to the ethical reason above and also accords more of the benefit to the recipient. Aid is given as a means to supplement weak or small economies, in particular to increase domestic resources and to boost savings (Morgenthau, 1962: 301-302, Todaro and Smith, 2008: 724-726). Literature such Dudley and Montmarquette, 1976 and McKinlay and Little, 1978 argue that donors do consider the economic condition of recipients before providing bilateral aid. There has been a wealth of economic development literature regarding the effectiveness of bilateral aid for economic development.

Thorbecke, 2000 for example, state the Harrow-Domar model, which postulates a positive relationship between resources mobilisation and economic growth. With an addition to the recipient's resources via external assistance, the country's economic growth would increase. Such a macroeconomic impact on growth has been disputed by authors such as Hansen and Tarp, 2000. Other authors including Hjertholm et al. 2000

dispute that there is a plausible gap in resources while Svensson, 2008 argues that bilateral donors do not always consider the amount of financial assistance countries can absorb. The effectiveness of bilateral aid may affect the actual level of net aid a donor provides. Nevertheless, the focus here is not on the economic outcome from aid, rather, it is about the variations between bilateral disbursements and aid via IOs.

2.7 Differences and similarities between the two channels

The five reasons above for states providing direct aid indicate states tend to gain more than if they channel aid through IOs. A donor state may therefore have more direct control over how its aid changes the development of recipient countries. In these two cases, the donor state is able to present different views from the WBG's set of development policies and practices. First, several bilateral donors have voiced disagreements when partnering with the IDA regarding its Poverty Reduction Strategy Papers (PRSPs).²¹ For example, it was the UK's DFID that fostered local consultations regarding 'country ownership' in Rwanda as opposed to the IDA or even the IMF. The Bank and the Fund also failed to liaise with relevant Rwandan Ministries, a role which DFID filled in (Mutebi et al, 2003: 225). Other bilateral donors involved such as the US ran their own independent studies of countries PRSPs and discovered discrepancies in IDA or WBG and IMF reports (Booth, 2003: 27; Jenkins and Tsoka, 2003: 131).

A second possible area of difference between bilateral donors and the IDA lies over the issue of 'knowledge for development' or ideas that shape the concept of development (King and McGrath, 2004). It has been often argued that the WBG dwarfs other development agencies, whether bilateral or IO, in terms of its knowledge resources. As a result, donors and organisations often follow the data and policies of the Bank (Weaver, 2008: 63). Furthermore, with the initiation of the 'Knowledge Bank' paradigm by then President Wolfensohn in 1996, the WBG certified its position as a knowledge hub. It created a vast array of 'distance learning centres', 'distant learning conferences' and set

²¹ See World Bank, 2011c for an explanation of the PRSPs.

up thousands of video conferences to disseminate its development ideas (Morduch, 2008: 379).²²

In contrast, several bilateral donors approached knowledge and research in development differently from the Bank's restrictive discourse. For example, DFID's knowledge production mechanism placed 'far more *emphasis on Southern involvement*' than the World Bank's Knowledge Bank (King and McGrath, 2004: 105, 110, emphasis added).²³ Japan's Japanese International Cooperation Agency (JICA) drew its research pool from a range of different individuals. These included officials from other ministries, outside experts, sending officials overseas and also incorporating its own development experiences (King and McGrath, 2004: 156-159, 163-164). This shows that bilateral donors have produced development ideas beyond the economic-centred policies of the World Bank.²⁴

A third issue where donor states and the IDA differed is the concept of 'Good Governance'. This approach centres upon restructuring state institutions, often shaping them to assist the formation of an economy. The IDA and the WBG has had a history in implementing 'Good Governance' policies as part of their development assistance policies (Grindle, 2004: 530; Harrison, 2004; Harrison, 2005: 246). The UK, in contrast, adopted what is termed as the 'Drivers of Change' (DOC) approach, which acknowledged that 'overly ambitious agendas do not work'.

Unlike the 'Good Governance' agenda, the DOC approach asserts that there is no single path to improving development, and there should be interaction with the local culture, economy and agents have to form development approaches (Chhotray and Hulme, 2009: 40). Other bilateral donors may also have emphasised on 'Good Governance' in their aid

²² For more explanation regarding the 'Knowledge Bank' concept, see <http://web.worldbank.org/WBSITE/EXTERNAL/WBI/0,,contentMDK:20212624~menuPK:575902~pagePK:209023~piPK:207535~theSitePK:213799,00.html>

²³ 'Southern' meaning developing countries.

²⁴ This is not to say that there were not shortcomings in the individual donor's knowledge production (see King and McGrath, 2004: 124-126, 190 for criticisms regarding DFID's and JICA's development knowledge production). As before, the impact of development policies or aid is not a central issue in this research.

policies, nevertheless, defining it into more nuanced sub-topics such as: democracy, minimum military expenditure, minimum corruption, and minimum regulations on businesses (Neumayer 2003: 1). Japan, for example, placed a high importance on low regulations in business as a condition for good governance (Neumayer, 2003: 85).²⁵ These differences may appear to be minor, yet it indicates that bilateral donors do not always see eye to eye with the IDA on development issues.

The dispersing of aid through bilateral means may therefore allow states to independently pursue their own vision of development, away from the rigid dogma of the WBG. Even with the stated purpose of improving other countries, bilateral aid still influences the foreign policy relationship between donor and recipient. Direct aid thus may appear to be almost provided within the scope of the donor's own objectives, with recipient's needs placed secondary. In contrast, development assistance through a multilateral may be said to be more development-centred (Berthélemy, 2006b).²⁶ The divide between the two channels is not as distinct given that there are similarities between several donors and the IDA.

First, with regards to the PRSPs, the UK did support the formation of the poverty reduction plan in Malawi and added technical assistance to the Mozambique PRSP (Falck et al. 2003: 213-314; Jenkins and Tsoka, 2003: 131). It also financed the consultation for the draft plan in Rwanda and provided substantial budget support for the final PRSP process (Mutebi et al, 2003: 223, 230, 237). The new US aid agency, the Millennium Challenge Corporation (MCC), also adopted several World Bank ideologies to form their pre-conditional selection indicators. These include the limiting of corruption, accountability and opinion rule of law and several others (Mawdsley, 2007: 495). The UK, despite its divergence from the WBG's concept of 'Good Governance', adopted the neoliberal concept that open globalisation is good for the poor (DFID, 2000a: 15,

²⁵ All these statistical tests are made at what Neumayer (2003) calls the 'level stage', or the stage when donors decide the amount of bilateral aid to allocate.

²⁶ Berthélemy 2006b's statistical analysis reveal that only Swiss and Nordic donor's aid is highly focused on recipient needs.

paragraph 20, 17: paragraphs 27-28). DFID's 2006 White Paper would later endorse the Bank's idea of 'Good Governance' (DFID, 2006a).

A second common issue between bilateral agencies and the IDA is that over poverty reduction. As stated above, donor states do disburse bilateral aid with the genuine purpose of reducing the poverty level within developing countries. Statistical data has shown that some donors do deeply consider the economic development conditions of recipients when providing aid (Neumayer, 2003: 78). Bilateral agencies do present reports that centre on development and not political-minded aid. This can be seen in the UK's 1997 White Paper *Eliminating World Poverty: A Challenge for the 21st Century*, where the overall premise was to combat global poverty.²⁷ The White Paper also pledged to commit more available bilateral aid to developing countries in the long run (DFID, 1997: 10, 28). Such a message could be further represented by the large percentage of UK aid is distributed towards LDCs (DFID, 2010a). Japan, to a lesser extent, does take into account recipient Physical Quality of Life when disbursing its bilateral aid (Neumayer 2003: 78). In this light, some donor states do focus a good portion of their aid for the purpose of development, similar to the activities of the IDA.

Third, as mentioned above, both bilateral aid and multilateral aid is measured in terms of ODA, which is a global measurement factoring the topic of economic development.²⁸ Such a measurement has long been adopted by all aid organisations, whether national or international. Aid through either channel therefore rests under a common category. It may be argued that the parameters of ODA fail to capture the development impact of all financial flows, including those for political motives.²⁹ In the same framework, it can also be argued that multilateral aid may not be always development-oriented; rather it serves the political interests of certain major shareholders (Burnell, 1997 in Cumming, 2001: 22). Powerful members like the US have been argued to use the WBG for its own strategic

²⁷ DFID's main objective as stated in its mission statement is to 'get rid of extreme poverty' (DFID, 2011a). This has been so since its inception in 1997 (see for example DFID, 1998, 2005a).

²⁸ See also OECD, 2008a; OECD Stat Extracts, 2010a and OECD Stat Extracts, 2010b for details on aid measurement.

²⁹ For possible alternative measurements of development-related assistance, see <http://www.iadb.org/res/publications/pubfiles/pubWP-387.pdf?frbrVersion=2>

agenda (for example, Woods, 2003). Weaver (2008:50-55) nevertheless argues that even powerful members may not get their way in the Bank due to conflict interests of other shareholders.³⁰ With these contrasting objectives of financial contributions, ODA as a measurement centres both channels of aid on a common plane. In this light, there is similarity between bilateral development assistance and aid disbursements from the IDA.

Fourth, and following suit, bilateral donors have instituted development programmes similar to IDA initiatives in LDCs. For example, DFID funded and managed a health sector reform project since 2008 in Liberia (DFID, 2011b). This was akin to an IDA project on health systems reconstruction in the same country that started in 2007 (World Bank Liberia, 2010). USAID implemented a project on getting street children in Congo back to school which was roughly the same as the IDA's project of improving primary education (USAID, 2003; World Bank Congo, 2007). While not all operations are of the same nature, this clearly indicates that individual states also affect international development with their bilateral aid programmes.³¹

2.8 Choosing between the two aid channels

The above information confirms the existence of recurrent differences between bilateral agencies' development ideas and that of the IDA. By revealing the literature on both bilateral aid and the IDA it shows the state holding two different personas. The state is a donor state and simultaneously, the state is an IDA shareholder. As noted, this is not exactly depicted in PA theory, which does not show the principal performing the same task as the agent.

On the issue of the effectiveness of aid agencies, both types have strengths and weaknesses. It has been argued that IOs are more effective in allocating aid to necessary recipients. They can also allow a greater participation of recipients in the decision-making process of projects, as opposed to bilateral aid agencies (Levin and Dollar, 2005

³⁰ This links to the concept of the 'multiple principal' which will be explored further in the theoretical framework and other chapters ((Lyne et al.2006: 44-45).

³¹ Bilateral aid programmes also tend to be grant-based projects while IO aid is a mixture of both grants and loans (Rogerson et al, 2005: 6-7). The issue of grants in IDA is a feature in the US chapter.

in Burall et al, 2006: 5). Hattori (2003) argues that only contributions via IOs would constitute aid for ethical reasons. Therefore, aid for development purposes should be provided via IOs. On the other hand, IOs may nevertheless have a weak track record in allowing recipient ownership of development projects (Burall, 2007).

Bilateral aid agencies themselves do present advantages, especially states which have colonial links with recipients. This relationship provides them with ‘greater insight and knowledge of the [local] development process’, Bilateral agencies may also be able to connect their development assistance with other policies such as trade and foreign investment. With a smaller governing structure compared to most IOs, bilateral agencies are able to disburse aid with a faster speed (Maxwell, 2005; Burall et al. 2006: 5).³² Bilateral agencies, however, do lack the financial and administrative resources that IOs have. Although the norms arising from the WBG may not be beneficial, they do set standards for bilateral aid organisations to follow (Berthélemy 2006b; Nielson and O’Keefe, 2010). The IR literature has also partially addressed the bilateral versus multilateral aid debate, with early articles suggesting a preference to multilateral disbursements. It still does note the advantages that bilateral agencies can offer (Asher, 1962; Balogh (1967). This may suggest the need for coordination amongst donors or create more effective multilaterals (Nelson, 1971).

States may in fact decide between the two channels due to existing institutional structures. This refers to the decision makers as well as the organisation management in donor statements. The former is concerned about the various interests groups like non-governmental organisations (NGOs). Such groups, depending on the degree of access to policy decision makers, may influence the direction and volume of development assistance. The policy makers, including parliamentarians, government officials or ministers, also have their perspectives of aid and the global environment (Lundsgaarde, 2013: 24-39).

³² Maxwell asserts that IOs like the IDA may rely on bilateral agencies’ knowledge of recipient needs when implement projects. He also discusses the issue of joint bilateral-IO aid projects, a topic beyond the scope of this research.

A donor state's organisational structure may determine which direction aid is channelled to. As the OECD notes, the various OECD Development Assistance Committee (DAC) donors have at least four different models of aid management. The US for example, has a main semi-autonomous aid agency that provides bilateral aid, linked to its State Department. Its contributions to most MDBs are instead controlled by the Treasury Department. Japan has a similar structure, with its key bilateral aid agency more closely linked to its foreign ministry. Such a format draws its bilateral disbursements close to foreign policy decisions makers while its IDA contributions are often decided by financial-minded economists. (OECD, 2009b: 30-33). In contrast, the UK has one central aid agency that controls both bilateral and flows to the IDA. It is thus claimed that there's strong element of development within all British aid, especially through its bilateral channel (OECD, 2010a: 40, 59).

The above presents a strong insight into the determinants of bilateral flows. While it indicates the possible options that states have, it fails to paint a complete picture of changing aid flows. The rapid rise in bilateral aid cannot simply be attributed to most states preferring the bilateral route. Even if national and strategic interests triumph development issues, the literature does not explicitly indicate that there is an evident widespread distrust of aid through IOs. Lundsgaarde's analysis of domestic interest groups and decision makers may provide a stronger background to aid flows, especially the range of actors involved

It nevertheless does not precisely show why actors may change aid allocations at certain periods of time. His examination covers various that various actors, but does not closely detail the interaction between the various actors and the final decisions made. This thesis instead aims to examine the interaction of policy makers and the influence internal and external events. Such a combination will cast a clearer light on the rapid rise of bilateral aid vis-à-vis multilateral flows.

The above section details the insights into why states give aid directly to recipients. It has shown a set of reasons why states would provide aid bilaterally, most notably that of

national and strategic goals. Bilateral aid may be targeted at improving a country's development, thus making it almost similar to aid given by the IDA. Faced with two different routes to channel aid, donors may weigh up the effectiveness of both routes when deciding how much to provide. More often than not, donor's decisions on the various aid levels are determined by the institutional framework within countries. For the decision makers within states, there may be a direct trade-off and a preference for either or both kinds of aid. The next section presents a further method by which aid can be provided, further increasing the complexity of aid flows.

2.9 Aid through trust funds

A further means of channelling aid that is via trust funds further complicates the picture of bilateral aid and multilateral flows. According to the OECD, this is termed as non-core aid, although it is still calculated as bilateral aid contributions.³³ As with the case of bilateral aid, there is small amount of scholarly work that is focused on trust funds within the IPE. Ahmed, 2006 in Woods (2008a: 14) cites a former UK official on how the UK attempts undercuts existing deadlocks in the Bank by using trust funds. Weaver (2008: 53-54, 63), Woods (2008b: 129), Woods (2007: 10), Woods et al (2005: 15) and Sindzingre (2004: 172) all mention Bank shareholders actively using Bank Trust Funds, especially the UK.³⁴

Other articles mention a new shift by donor states. They have started relying or creating trust funds in post-conflict situations rather than the normal multilateral or bilateral programmes (Rogerson et al 2004: 16). Other authors such as Kapur (2002: 13), Center for Global Development (CGD) (2005), Grimm et al. (2005: 10) and (Dervis, 2009: 16) similarly detail the rise of trust funds and how they form alternative means to direct the activities of the Bank and the IDA.

³³ 'Core aid' is classified as direct aid provided through and IO and to recipients. Core and non-core aid, however, is totaled as the full usage of the global multilateral system (OECD, 2011a:12-13, 18)

³⁴ Weaver (2008:53-54, 63) was earlier mentioned in Weaver (2007: 500-501). This was also further stated by other IPE scholars such as Clegg (2010: 62).

A further set of development economics literature describes the situations and scenarios where trust funds may be used. Harmer and Macrae (2004), Weiss (2004), Stewart (2007) and Tembo et al. 2007 detail the usage of Multi-Donor Trust Funds (MDTFs) in fragile states and post-conflict situations. Bebbington et al. (2004: 45, 47, 59) detail shareholders using trust funds to implement social capital in a range of countries, rather than depending on the Bank's core funding. Severino and Ray (2009: 9, 11) also detail how specific trust funds have rising in the Bank such as those for environmental causes. Goldman (2001: 507) and Francis and Jacobs (1999: 347) further detail the history and funding of environmental trust funds that worked with Non-Governmental Organisations (NGOs). Brynen (1996: 50, 51, 53) details the usage of trust funds for technical cooperation and peace-building in the Palestinian Territories.

The above thus detail that states are actively pursuing aid through this third route. The examples do indicate that non-core aid is aimed at improving global development. Powell and Bobba and Powell's (2006: 21) statistical analysis, however, concludes that there is a strong strategic interest when states utilise trust funds. The usage of non-core aid also marks a disjuncture between theory and what occurs in practice. In this case, states harass the advantages IOs have, yet control the amount and direction of aid. The IO at most performs a administrative role in the background (World Bank CFP, 2010: 47).³⁵ PA theory would suggest that IOs would control the aid delegated to them. Trust funds thus provide a unique juncture in the aid. They are neither full bilateral programmes nor are fully IDA-controlled multilateral programmes.³⁶

With non-core classified as part of bilateral aid, there is an evident shift towards donor-controlled aid, especially for Japan and the UK. The literature on trust funds provides some basis in examining changing aid patterns. Again, it fails to indicate why states may wish to channel their aid through a trust fund instead of orthodox multilateral contributions. Trust funds also negate the argument that states view IOs like the IDA and

³⁵ This is true if the trust funds are IBRD/IDA trust funds and not Financial Intermediary Funds (see also OECD, 2011a: 69-62).

³⁶ Some trust funds are managed by a a group of liked-minded contributors. These are termed as 'Multi-Donor Trust Funds' (OECD, 2011a: 66)

viewed as less effective. They may account the rise in bilateral aid. Even so, non-core aid is not a high percentage of global gross bilateral aid.³⁷ It further does not explain why states might support the IDA during replenishment rounds, and yet invest in a high number IDA trust funds. The next chapter aims to construct a framework indicating how perspectives on development and an agent's performance determine the proportion of aid through trust funds.

2.10 Conclusion

In summary, the above literature review offers an insight into the Bank's IDA as well as bilateral development assistance. The literature regarding IDA's formation indicates how several states wish to maintain a hegemonic control over development. The exact nature of the IDA reveals a strong dependency on shareholder's resources. The literature on replenishment rounds reveal the degree to which states value or utilise the IDA. On the other side, the bilateral aid literature also reveals several crucial issues. It shows why states provide bilateral aid, most notably to secure foreign policy goals. States may give direct aid to benefit recipient countries, however, that is often placed as a secondary goal.

The examination of the literature has reveal the small differences and similarities between bilateral and multilateral disbursements. It has also shown that states may also weigh up the cost and benefits of both forms of aid. Aid proportions may also more be decided by the institutional framework in each donor state. The sparse literature on trust funds also reveal another method of channelling aid. Here states still utilise advantages that the IOs have, yet they control how the development assistance is channelled.

The literature provides a strong understanding on states the different channels they provide aid through. Yet it does not provide a detailed answer to the rise in bilateral aid and the flat lining of multilateral aid. Both the IDA and bilateral literature do not explicitly account for why certain states increase or decrease their aid via either channel. Neither does it provide a plausible rationale for why the UK supports the IDA, yet

³⁷ In the 2012 Multilateral Aid Report, non-core aid constituted around one fifth of global gross bilateral aid.

channels a good portion of its aid via trust funds. The next chapter will construct a theoretical framework to explain the puzzle of aid flows. The PA theory can provide a basis for the theory. As noted, it rationalises why states would allow an external agent to conduct the task on their behalf.

As discussed above, the IDA has advantages over bilateral agencies such as physical reach and knowledge production. The next chapter delves further into the model, detailing the reasons on why principals or states might delegate to an agent. PA theory as noted, only covers aid delegated to an IO and is one dimensional. In attempting to unravel the research puzzle, the next chapter completes the PA theory with ‘foreign policy analysis’ (FPA).

Capter 3: Theoretical Framework: Complementing PA Theory with FPA and Institutions

3.1 Introduction

The literature review laid the base for examining both bilateral and multilateral aid flows together. It also has shown that the reason for the rise in bilateral aid is not so straightforward. In order to unpack the underlying causes for this change, this chapter builds a theoretical framework centring on various actors and agents within donor states. It utilises key components of the PA theory and complements it with the Foreign Policy Analysis (FPA) approach as well as indicating how local institutions shape policies . This shifts the single principal into one of various agents that interact together to produce decisions regarding all forms of aid flows. It thus depicts a framework where various human-centred agents hold different objectives over both routes of aid. Such groups may have different degrees of access to the policy or final decision making. This therefore results different aid volumes and policies at different periods in time.

This chapter aims to complement PA theory with FPA and institutions in order to build a framework to understand the shifts in foreign aid flows. The first section in this chapter opens by addressing the key issue from PA theory, the delegation of a task, or in this particular case, delegating the task of providing foreign aid to the IDA. The reasons include overcoming negative externalities, solving collective decision-making problems, forging distributive benefits and harnessing the specialised abilities of agents. This last rationale is a particular key reason for delegation, providing the highest benefit when principals allocate a task. This section also clarifies various terminologies such as ‘multiple principles’ and ‘multiple agents’ and how they relate to states and IOs. It also covers the ‘collective principal’ concept. This is where actors collectively delegate a task to an agent.

The second section indicates why and how agents might deviate from their delegated tasks, or what is termed as ‘agency slack’. This helps to explain IDA’s degree of independence away from its various shareholders. This section will proceed to reveal the various options that states have to control IOs or ‘mechanisms of control’ (Hawkins et al.

2006). This section will also explain that principals may implement ‘mechanisms of control’ as agents or IOs may still diverge away from their delegated tasks. There will also be a qualification that such controls do not entirely stop agents from exhibiting agency slack.

A further section will argue how PA theory covers at best a one-dimensional picture of how tasks are delegated. The theory fails to cover the ability of the principal or donor state to conduct the task and depicts it as a single entity. This section therefore introduces key characteristics of Foreign Policy Analysis. It especially centres on FPA topics such as group decision making and individual leaders characteristics, the latter applying to individuals that govern national aid budgets. (Hudson, 2005) With FPA and PA joined together, it reveals a dynamic principal or state with a variety of actors. This forms a picture of the range of actors interacting and forming decisions on both multilateral and bilateral development assistance. Unlike the PA model, this framework identifies the inner mechanisms behind decision making. Another section defines institutions and how they further shape the decisions of are presented by key decision makers. This framework of PA, FPA and the effect of institutions will help explain the findings in the case study chapters.

3.2 The benefits of delegation

State-provided development assistance is shaped by both internal and external forces. Giving out part of national resources to other countries rests of the idea redistribution. This form of redistribution differs from national welfare as the benefits accrue on foreign recipients who do not vote in the donor state (Lundsgaarde, 2013: 22). It would thus be expected that such expenditure should result in maximum returns to ease the minds of voters and parliamentarians. State-run agencies may be able to executive the task of providing aid. Yet, passing the responsibility to a third party may yield even more effective results. This is the premise of delegation.

First, delegation assists with overcoming negative externalities that would otherwise occur when principals attempt to cooperate or coordinate. States may find themselves

with sub-optimal outcomes or high costs when forging international agreements. This may occur even after several outcomes are reached and is further complicated if there are large number of states involved. In such a case, states may defer from agreed arrangements and benefit from other's contributions. Due to internal politics, states may not commit to agreed resolutions (Koremenos, 2008: 154).

As a result, some states may benefit from others while other may under provide essential goods. This is termed as 'free riding' (Hawkins et al. 2006: 16). By delegating to an agent, all states would gain mutually beneficial outcomes where the IO further provides other 'policy alternatives'. It also resolves 'collaboration dilemmas' whereby states would gain less than optimal results, for example regarding public goods (Koremenos et al. 2001: 765). Foreign aid is an example of a public good. In the case of the IDA, its position as an agent allows it to continually provide foreign aid to LDCs at sufficient levels. This is so as some states would under provide it (Pollack, 2003: 123; Aggarwal and Dupont, 2005: 41; Hawkins et al, 2006: 15-16; Milner and Tingley, 2011: 8).³⁸ In this light, passing aid through the IDA would be more effective than each donor state passing aid individually.

Second and linking from the point above, delegation assists with solving 'collective decision making' problems. Agreements may also incur high transactions costs especially in terms of negotiating (Pollack, 1997: 126). Transaction costs may be defined as the 'realized opportunity cost of a transaction' (Coase, 1937; North, 1990 in Martens, 2008: 290). In the case of aid, such costs include identifying donor's requirements, recipient's needs and how recipients spend aid (Martens, 2008: 291-292). IOs can help in reducing transaction costs especially if a diverse range of donor states wish to aid a single recipient. With differing approaches by different donors states, transaction costs can be lowered if an agent coordinates all their aid policies. Certain aid programmes also may not be easily implemented by a single state or would be politically unpopular. Once again, an agent can mediate to form an acceptable aid plan for all.

³⁸ This relates to the concept of 'burden sharing' as shown later in this chapter.

By delegating a task to an agent, the agent sets the agenda for all principals and reduces the degree of transaction costs (Abbott and Snidal, 1998: 13; Doleys, 2000 in Kassim and Menon, 2003: 123; Martens, 2008: 301). For example, the IDA may be able to plan the amount of aid from all donors and implement projects such as environmental protection, projects that individual donors would not efficiently conduct by themselves. In the case of the WBG, it acts as a global 'financial administrator' coordinating global development policies. IOs are able to place global issues within a common set of structures for all states (Abbott and Snidal, 1998: 10-11, 13; Hawkins et al, 2006: 15-16).

The third and most crucial reason for why states delegate authority is due to the specialised ability that agents possess (Hawkins et al, 2006: 13-15). Individual donor states may not have the full range of expertise to implement successful or effective aid programmes. Agents are also created to concentrate on specific issues that states are not able to conduct individually, especially if the transaction costs in collecting information is high (Pollack, 2006: 168). States may not have the full resources to collect information regarding international development or foreign assistance (Egan, 1998: 487). Linking to this is the issue of collective action problems, information regarding aid and development may further be classified as a 'public good'.

There thus may not be a strong incentive for individual states to share the collected information with other states. Conversely, as noted in the previous chapter, IOs are generally more politically neutral. In this case the IO would be able to share information for all donors to use (Rodrik, 1995: 7-8). Most IOs are also focused on specific topics such as improving development. Delegation would increase the efficiency of the aid donors provide. Furthermore, PA theory asserts that if the task required is repetitive, the gains from delegation would be higher (Hawkins et al. 2006: 13-14).

In the case of the IDA, it was created as an arm of the WBG to improve development specifically in all LDCs. Being the largest development related IO in terms of finances, it reaches to all LDCs (Harrison, 2004: 91-92; IDA, 2011a, 2011c). Individual donors such as the UK in contrast, only works in eighteen out of the thirty four African LDCs. Such

donors may also close some of their country offices at certain time periods depending on government policies (DFID, 2013a; DFID, 2013b).³⁹

As noted in the literature review, the World Bank Group has shifted into the function of a ‘Knowledge Bank’, moulding the Bank into an IO with an extensive array of development indicators, research centres, and development measurements, collecting and disseminating data on development. (Morduch, 2008: 379). As such it has turned into the de facto IO holding all development-related information. Key donor states such as the UK have in fact relied on Bank data such as the World Development Indicators.⁴⁰ Therefore, given the vast reach and expertise of the Bank, donors would gain by channelling their foreign aid through this IO instead of a bilateral route.

3.3 More than one principal and agent

The above arguments thus paint the picture of why aid should be disbursed to the IDA.⁴¹ These arguments indicate that delegation of aid occurs between a single principal and one agent. PA theory has expanded the concept, indicating that many or ‘multiple principals’ delegate to an agent. Each principal then has separate and differing contracts when delegating their task through the IDA (Nielson and Tierney 2003: 247; Pollack, 2006: 192-193). With such a diverse range of shareholders, it is proposed by scholars such as Berheim and Winston (1986 in Lyne et al 2006: 58) that the principal with the largest resources will have the greatest influence over the IO.

The US has been often noted to be the dominant shareholder shaping the IDA and the World Bank (Gwin, 1994; Woods, 2006: 199-200). In practice, the US has not always managed to get its demands through the IDA. This happens as the multitude of demands complicates the nature of delegation and increases the independence of the agent. The

³⁹ DFID aims to close five of its African LDC field offices as stated in the 2011 Bilateral Aid Review (see DFID, 2011c).

⁴⁰ See for example DFID, 2009a. See World Bank, 2011d for more details regarding the World Development Indicators.

⁴¹ Yet a further reason why principals delegate include that of regulating disputes. However, this is not a function of the IDA (Pollack, 1998: 103; Hawkins et al 2006:170; Bradley and Kelly, 2008:11-14). A further reason that is not included here is enforcement, where IOs play the role of monitoring treaties such as those of the World Trade Organisation (Aggarwal and Dupont, 2005: 51; Hawkins et al. 2006, 17-18).

agent here is able to diverge further away from its intended task. Principals may thus not get the full range of objectives they desire. Such a case is furthered in the section on ‘agency slack’ below (Bendor et al. 2001: 244-245).

Delegation in practice also occurs with multiple principals channelling the task to a range of agents, or ‘multiple agents’ (Bendor et al. 2001: 245-246). As previously noted, donor states have a range of development related IOs to choose from. These include IOs, regional organisations and specific funds (OECD 2011a: 36). O’Keefe (2008) examines such delegation, arguing that the design of each IO is an important factor when shareholders choose to delegate. IDA performance vis-à-vis other IOs may be a key point in how states determine their volume of contributions in replenishment rounds.⁴²

As noted in the previous chapter, there are other agents or IOs for states to delegate aid to. Schneider and Tobin (2011) detail an analysis of aid flows, asserting two main factors for states to choose how much to delegate to each IO. These are the IO’s ‘allocation policies’ and its ‘relative efficiency’. The former has less to deal with the PA model and more with shareholders’ preferences. Certain states would provide more to IOs where they have greater influence or when other states are not present (Schneider and Tobin, 2011: 4).

In the case of IDA, Japan for example, provides more funds through the Asian Development Bank (AsDB) than the IDA. This is due to Japan’s stronger political influence in the former. Relative efficiency naturally indicates the IO’s overall performance. Robert Brown (2010) provides ‘numeric indicators’ indicating method for principals to compare delegation to different agents. These include factors ‘agency services’, ‘agent resource autonomy’ and ‘agent resources’ (Brown, 2010: 152-153). Other literature has proposed other means to measure the performance of different IOs. Tamar and Thompson 2010: 234-236 proposes a metric including ‘process-based’ and ‘outcome-based’ performance.

⁴² Recent global agreements such as the Paris Declaration have attempted to resolve the complication of multiple agents and multiple principles (see OECD, 2005). This deals more aid coordination which is beyond the scope of this research.

Both cases deal with the IO's performance, with 'outcome-base' dealing with what results from an IO's actions. The former deal with the specific roles meant for the IO. In deciding on IDA replenishment amounts vis-à-vis contributions to other IOs, states may consider IDA's main objective and its achievements before contributing. The IDA 12 agreement for example, focused on the Bank's position in the pre Millennium Development Goals (MDGs) and its previous accomplishments. It directed the IDA's focus to specific regions such as Africa (IDA, 1998: vi, vii). Shareholders therefore take into account IDA's previous performance and the global environment into account when allocating aid.

Multiple principals is just another method of depicting how delegation may occur in practice. Principals may also group together to jointly delegate the task to an agent. This is termed as a 'collective principal', a concept that is less widely covered. In this case, the principal comprises various smaller actors who form a compromise and delegate to an agent. All actors in this case cannot independently re-contract with the agent. (Nielson and Tierney, 2003: 248; Lyne et al. 2006: 44-45; Tierney, 2008: 295-296). If the actors are unable to form an agreement, the status quo remains or they may not be able to direct the agent (Tierney, 2008: 300). This may happen if the political environment within such as group is also liable to change, affecting the agent's activities or even increasing the agent's autonomy (Tierney, 2008: 302). This means that the different actors from the collective principal can singularly re-contract with the agent. A further point is that joint action of several actors requires strong contractual rules so that the agent knows which actor out of the many it is responsible to (Tierney, 2008: 296).

The collective principal concept is reflective when shareholders delegate to the IDA. During replenishment rounds, it is more often the case that shareholders collude to delegate aid policies to the IDA.⁴³ Collective principals are also present within each

⁴³ Tierney (2008) listed another example of states in the UN Security Council delegating authority to specific bodies like the UN Monitoring, Verification and Inspection Commission (UNMOVIC) and the International Atomic Energy Agency (IAEA). He further notes that a collective principal can 'fire' an agent, as the UN Security Council did to the UN Special Commission (UNSCOM) and create a new one,

donor state. Various actors such as parliamentarians, the government and other interest groups coordinate to delegate to an agent. Such collective delegation naturally differs across states and is liable to fracture apart. This is especially the case in the United States, where funding to IOs each fiscal year is decided on a tiered system by the Administration and Congress (Lavelle, 2011).

Shareholder delegation in practice also involves an interaction between ‘collective principals’ and multiple principals’ when replenishing the IDA. IDA final agreements are negotiated between states, examining each other’s projected contributions in order to ascertain their own amount. At the same time, donors also attempt to push forward their own different agendas. The Interim Trust Fund for example, was an additional fund set up after shareholders learnt that the US was not able to contribute for the first year of IDA 11 (IDA, 2001). With negotiations regarding contributions, shareholders were still able to provide adequate funding. While there was an agreement in IDA 13, shareholders had differing views regarding development grants (Lavelle, 2011:151-152).

3.4 Agency slack

The above paints a relatively strong picture why delegating aid through an IO would yield stronger results. It thus appears to have benefits for donor states to differ to IOs. Delegation nevertheless is not a simple means of improving the efficiency of a task. Agents themselves may undertake actions contrary to their principals’ interests. This action is known as ‘agency slack’ (Hawkins et al, 2006: 8). Agency slack arises first due to the authority that is granted to agents to perform the task.

As noted above, agents possess specialised knowledge of the task. They thus be opportunistic and restrict information that their principals do not possess. This is termed as ‘informational asymmetries’ (Waterman and Meier, 1998: 176; Bauer, 2002: 382; Worsham and Gaatrell, 2005: 364). By delegating, the principal grants the agent a degree of autonomy to perform or ‘work’. If it attempts to fully control the agent’s actions, the

the UNMOVIC (Tierney, 2008: 302). The IDA has nevertheless not been exactly fired by principals or a collective principal.

agent may put in less effort or ‘shirk’ from the task. Similarly, principals would incur high costs when closely monitoring agents, allowing the agent to diverge or ‘slippage’ (Egan, 1998: 489; Bendor et al. 2001: 237; Bauer, 2002: 382).

A second and related reason for ‘agency slack’ is the already present autonomy in large IOs. Given the detailed task involved, there are only a ‘small pool’ of available agents for principals to choose from. (Hawkins and Jacoby, 2006: 203-204). Therefore, these agents can easily enact independent strategies and as such they are more difficult to control. Agents exhibit ‘agency slack’ by reinterpreting the rules of the contract. This may occur gradually while providing principals with no impetus to control them. The agent could also take advantage on ‘collective principals’ by changing the delegation agreement, splitting up the ‘collective principal’ (Hawkins and Jacoby, 2006: 206-207). The presence of distinct ‘multiple principals’ creates conflicting signals over what the agent should proceed with. This further strengthens the already present autonomy and fosters ‘agency slack’.

In the case of the IDA and the whole WBG, it has a strong internal autonomy due to its enormous bureaucratic size. This may be seen in the changing interpretation of poverty and development ideas. The autonomy is also due to the fixed organisational culture or the assumptions that affect how actors in IOs perceive the environment in which the organisation operates (Weaver, 2008: 37).⁴⁴ Within the Bank, this is due to its original mandate, creating a fixed ‘apolitical’ and economic-centred rationality. Such a culture creates a unified mode of operations by the IO, such that that any change pushed by principals would be shaped based according to the existing norms and practices. This thus prevents principals from gaining their wishes through delegation (Weaver, 2008: 75).⁴⁵ A further example of IDA’s autonomy stems from its conducts complex operations daily

⁴⁴ See Weaver, 2008: Chapter Four on how the Bank failed to response to the calls to move towards donor’s views on Good Governance.

⁴⁵ The Bank’s principals such as the UK were however able to shift the Bank’s focus towards poverty in the 1990s. This indicates principals being able to control their agent’s actions (Clegg, 2010: 72).

which the Executive Directors have little supervision and oversight over.⁴⁶ Furthermore the WBG's embedded organisational culture prevents any dissenting views (Weaver, 2008: 72-73, 75, 78-79). Shareholders or principals thus may be unable to easily shift the Bank towards their wishes. Furthermore, with 'multiple principals', the agent or the IO has distinctive contracts with each principal and thus the outcome is less certain. This further enlarges the autonomy of the agent.

Third, agency the agent may exhibit slack when it intentionally provides inaccurate feedback to its principals due to its strong expertise. In this manner, the agent appeases its principals and yet hides some of its information. This is termed as 'ceremonialism'. IOs may appear to perform tasks marginally different from what is desirable in shareholders' eyes. This is known as 'dualism'. Together both these options create a buffer that allows for 'agency slack'. Even if principals attempt to monitor agents' actions, the high transaction costs would dissuade them from doing so (Hawkins and Jacoby, 2006: 210-211). With such complex operations, the Bank is able to shield part of its operations from its Executive Directors (Weaver, 2008: 70-71).⁴⁷

The PA model simply presents agency slack as a linear relationship between a state and the agent. There are nevertheless further connections that ultimately build up the delegation chain between states and recipients. The chain starts with the general populous delegating to their (1) parliaments and (2) governments who then delegate to IOs. Various interest groups within states also delegate to parliaments and governments and also delegate directly to IOs. Citizens suffer the most asymmetric information as they are physically far away from the decision making centre of IOs (Vaubel, 2006: 126-128).⁴⁸ Collective principals also feature in this chain with organisations in the state reaching an

⁴⁶ The Executive Directors are tasked to oversee the operations of the World Bank. See <http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/ORGANIZATION/BODEXT/0,,contentMDK:22421219~pagePK:64020054~piPK:64020408~theSitePK:278036,00.html> .

⁴⁷ The World Bank Group in recent years has nevertheless opened up much of its data and information to the public. See for example, <http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTANDOPERATIONS/EXTINFODISCLOSURE/0,,menuPK:64864911~pagePK:4749265~piPK:4749256~theSitePK:5033734,00.html> .

⁴⁸ Vaubel 2006: 128 also asserts that IOs are secretive. This however is an accurate description of the Bank as noted above in footnote 10.

agreement when delegating to the government. The government then delegates the task to the IOs. This is especially so for the various legislative committee in the US who set the budget for government agencies who then delegate to the IDA. In this light, agents do have some free will and can act against what principals desire them to work on.⁴⁹

3.5 Mechanisms of control

States thus face challenges when they part a portion of their aid through a development IO. Nevertheless, principals are not entirely powerless in letting their agents run out of control. They have several ways to curb ‘agency slack’ by the IO. Such options are termed as ‘mechanisms of control’. These options can be broadly categorised as, first, setting the rules or administrative procedures for the agent (Pollack, 1997: 108; Bendor et al. 2001: 246; Hawkins et al, 2006: 27). Such rules limit the scope of activities of the agent and are placed before hand or *ex ante* (Kassim and Menon, 2003: 124). Second, principals may institute ‘oversight procedures’ which are designed to correct informational asymmetries. (Nosal, 2006: 1093; Lane 2007: 616, 619). This method usually occurs after the agent has conducted its task, or *ex post* (Pollack, 1997: 108-19; Egan, 1998: 489).

Such oversight can be split into formal oversight such as ‘appropriation hearings’ and informal oversight such as constant meetings with officials in IOs. Two more detailed forms of oversight are termed as either ‘police patrols’ or ‘fire alarms’. The former relates to formal and constant updates from the agent which does incur high transaction costs. In the case of IDA replenishments, the Bank’s shareholders gain a ‘mid-term review’ from the organisation that assesses its performance across the various fiscal years. This helps shareholders to assess how much they should contribute in future contributions.⁵⁰

⁴⁹ Agents may also conceal their required actions especially when it also attends to the demands from non-principals or ‘third parties’. These ‘third parties’ influence the agents’ actions and ultimately contribute to ‘agency slack’ (Hawkins and Jacoby, 2006: 208-209). In the case of the Bank, third parties like NGOs have shaped the Bank’s actions (Weaver, 2007a: 502; Broome, 2009). This does result into agency slack, however, NGOs in relation to shareholders and IOs will not be a key issue in this thesis.

⁵⁰ See for example <http://www.worldbank.org/ida/ida-13-mid-term-review.html> and <http://www.worldbank.org/ida/ida-14-mid-term-review.html>.

A third *ex post* mechanism is by imposing sanctions or changing the monetary contributions to the agent, depending on its performance (Pollack, 1997: 111; Egan, 1989: 489; Hawkins et al, 2006: 30). This option is most effective especially when the agent is highly dependent on principals for financial contributions. It also is if the task delegated involves monetary contributions. Sanctions are heavily featured in the history of the Bank, particularly that of the IDA, which depends largely contributions from donors (IDA, 2011a).⁵¹ During IDA replenishment rounds, major shareholders are able to dictate the amount of funding or set conditions (Weaver, 2008: 51).

In the 1980s, the US Congress threatened to reduce US funding to the IDA due to its poor environmental record (Nielson and Tierney 2003: 257-259). IDA replenishments are a key tool for shareholders to set the rules for the IDA beforehand. For example, the US pushed for the IDA to disburse grants instead of the traditional loans (Soederberg, 2004: 292-293; Sanford, 2005: 3). These examples of shareholder demands will be further analysed in the case studies within the context of aid flows.

3.6 Controlling the agent

The above section indicates that principals may still stand to gain when they channel their aid through agents. Yet, strong ‘agency slack’ indicates that they may not fully achieve their desired objectives. They may attempt to control agents. Even so, such actions may be overly intrusive and principals may end up affecting the operations of the agent. Pollack 1997: 112 argues that imposing sanctions may in fact adversely affect a principal’s credibility and incurs a high cost with many principals. Moreover, with numerous principals contracting to a single agent, the cost of monitoring the agent increases for each individual principal. Principals may therefore avoid implementing stringent mechanisms of control.

⁵¹ As noted in the previous chapter, only a proportion of IDA’s funding comes from its counterpart, the International Bank for Reconstruction and Development (IBRD). See <http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/IDA/0,,contentMDK:21021125~menuPK:2842661~pagePK:51236175~piPK:437394~theSitePK:73154,00.html> .

Even with a certain degree of control, principals, may still not be always able to shift an agent towards their demands. In fact, due to ‘multiple principals’ or multiple shareholders, agency autonomy will be continue to be present in practice. For example, other major Bank shareholders such as Japan and the European nations were arguing over US conditions set on the IDA and the Bank (Weaver, 2008: 54-55). Furthermore, these different principals have formed various objectives for agents such as the IDA and the whole Bank. For example, the Bank had to juggle its position and a financial institution as well as addressing environmental concerns (Gutner, 2005a: 780; Gutner, 2005b: 20-21, 23).⁵² With many principals debating over what an agent should achieve, this creates a large ‘principal preference heterogeneity’, where a variety of demands cancel each other out and the agent—the IDA—is able to hide its intentions and actions (Spruyt, 2013: 123-124).

Second, long-lasting organisational culture will continue to be present in any large bureaucratic IO like the Bank or its branches. Scholars such as Weaver did assert that this culture is not resistant to change. It nevertheless is not easily altered and as noted above, any changes will be based on in-built practices or ‘path-dependent’ (Weaver, 2008: 142). Shareholders have tried to alter the Bank or the IDA but with limited success. The US, for example, has been concerned about corruption activities in development activities, for example in Lesotho (Weaver 2008: 128). Despite much pressure from Congress and NGOs, it had not shifted the Bank’s modus operandi (Weaver, 2008: 129).⁵³ IDA shareholders thus may not be able to get their way even by imposing various mechanisms of control.

In summary, delegation to an IO therefore appears to achieve benefits with a degree of cost involved. Shareholders appear to still delegate to many IOs despite agency slack. They would constantly accept that there is a ‘trade off’ between delegating to an agent

⁵² Gutner also argues that there is another level of delegation between the World Bank and the client state. In this case, the developing country is the agent, tasked with fulfilling the conditions that come along with the Bank’s disbursement. ‘Agency slack’ occurs in this case when the clients do not fulfil the requirements and the Bank is unable to accurately monitor client actions (Gutner, 2005a:780; Gutner, 2005b: 29-31). This has been countered by Nielson and Tierney who note that placing clients as agents “stretches” the PA concept However, I will consider the principal agent as that between the shareholder (principal) and agent (IDA).

⁵³ This was back in 2005.

holding different preferences versus not delegating at all (Stone, 2006: 23). The next section further covers the limits of PA theory and how the FPA approach can better assist the understanding of aid flows.

3.7 Delegation and its limitations

The above theory provides a strong basis to understand how and why aid volumes are allocated globally. Yet, the whole premise in PA theory is that a task is passed to an external organisation to gain effective results. PA scholars may be argued to cover bilateral action. Scholars such as Hawkins et al. 2006: 10-11 argue that states may also act unilaterally or cooperate amongst themselves. Even so, this does not cover principals performing the task by themselves. That is, the principal or the state itself providing aid to recipient countries. Therefore, the choice for the principal to conduct the task itself is not considered within the theory.

The PA theory does not consider both principals and agents performing the task simultaneously. It presents a single linear relationship between the two parties, with the principal delegating and controlling. In practice, aid is channelled both through multilateral and bilateral channels concurrently. The PA theory also presents a principal delegating almost only because of the factor of the agent's ability. It does not show the principal considering other issues when deciding how to channel foreign aid. The PA model thus is incomplete in depicting why bilateral aid rose across the last decade. The next section introduces Foreign Policy Analysis as a complementary concept to unravel the puzzle.

3.8 Introducing foreign policy analysis

The FPA subfield in IR is thus brought in to cover the changing nature of all aid flows. It helps to unpack the decisions of various multiple actors within donor states. While the PA theory states that there are multiple principals, it simply considers them as singular entity. Such theory leaves the examination of 'a world of no change, no creativity, no persuasion [and] no accountability'. FPA works on this, as it is 'agency-oriented' and 'actor-specific' analysis. FPA also is 'multi-factorial' and 'multi-level', covering a

phenomenon from various sociological perspectives. These include 'organisational behaviour' and 'economics'. FPA is thus oriented towards human-centric decision making. FPA's explicitly draws out the agent in IR or IPE theory. This helps to clearly identify various combinations of 'material and structural conditions' that shape foreign policy actions (Hudson, 2005: 2-4).

The various groups within donor states are naturally made out individuals with their personal perspectives regarding global development. They also have varying views over the amount of aid channelled bilaterally and through multilaterals. It is after all, individuals who determine the volume of development aid for various bilateral projects and multilateral contributions. FPA thus allows us to cover the channelling of aid through all methods: multilateral organisations, bilateral agencies and trust funds. In examining them as human agents, it allows a deeper analysis into foreign assistance decision making. Nevertheless, for such analysis to be successful, it may imply that a large number of individuals and groups would have to be large. It also implies that a researcher has to make an intensive coverage of each portion of the time period. Nevertheless, by covering those who are close to the decision making process, this would still unravel the research puzzle.

FPA further aids by covering 'actor-specific' theories such as 'the 'individual characteristics' of key decision makers. A leader's personality, 'core political beliefs' of the world and his predication of his own ability forms the background to foreign policy. This connects 'social psychological theory' with foreign policy, attempting to identify individuals' viewpoints of foreign policy. An individual's characteristics may be codified by (1) his beliefs of global conflict; (2) measurement of his power to alter events and (4) the means to pursue goals (Hudson, 2005: 10-11, 14-15; Dyson, 2006). In examining the changing proportion of aid flows, the perspectives of leaders is a crucial components. This encompasses leaders within aid-related or government ministries, or even key cabinet ministers.

When examining leaders' characteristics, the question return back to: what is the state's objective in providing foreign aid? National leaders who view international development as a key issue would likely increase their overall aid. Leaders who wish to shift their country's moral standing might also alter their aid levels, especially their bilateral aid. Other world leaders might utilise aid through the orthodox view, that is, aid as means to achieve foreign policy goals. In such a case, leaders may again favour bilateral aid as opposed to contributions to multilaterals. Focusing on leaders' characteristics also helps to show how such actors are influenced by their internal and external environment. Leaders may wish to provide aid in order to enhance the nation's global standing. At the same time, it may attempt to appease citizens by directing aid through transparent programmes such as trust funds.

In summary, the various principals that delegate aid and aid policies are not static units. They are human agents and thus do have various perspectives over the volume of foreign aid. While PA theory offers insights into the efficiency of the task at hand, it is mostly an econometric-based approach. FPA on the other hand, reveals the viewpoints on those making final decisions. It assists in identifying how human actors principals view both multilateral as well as bilateral aid. In this manner, it clearly depicts the underlying decisions behind any changes in foreign assistance levels.

Although not all state actors directly or indirectly govern all forms of aid, their perspectives and following actions do create an impact.⁵⁴ This again expands the focus aid beyond that the IO performing the task for states. FPA clearly indicates how the individual's perceptions and reactions help shape the final outcome for foreign aid. This helps to unravel the changing nature of aid not just at one certain phenomenon but at various intervals across a time period.

⁵⁴ Not all those in the decision making process govern decisions on both channels of aid. Some focus solely on either bilateral or multilateral aid, without weighing it against the other of form of aid. They may also not consider their aid project in relation to the overall volume of aid. As the OECD has examined, less than half of the OECD donor states have joint plans between their bilateral and multilateral foreign aid (OECD, 2011b: 7)

Furthermore, linking FPA and PA theory would alter the focus from that of a full rationalist framework. PA theory is evidently grounded in rational choice theory and the rationalist school. Its main focus places states and IOs as the primary units of analysis, examining how they interact with IOs (Pollack, 2006: 166-17, 170; Clegg, 2013: 10, 15). Placing FPA with PA theory still maintains the focus on states attempting to gain benefits and control. Simultaneously, FPA steers the focus from states to the range of agents that shape decisions made internally. In summary, FPA and PA theory provides a framework covering delegation and decision making of all foreign policy and foreign aid decisions.

3.9 Institutions

FPA is just one part of the framework to account the rise in aid more through bilateral channels than IOs. Institutions within donor nations also play a part in shaping decision-making process. Institutions can be defined as ‘the formal rules...procedures...that structure the relationship between individuals in various units of the polity and economy’ (Hall 1986 in Lundsgaarde, 2013). Each donor nation is made out of institutions shaped differently due to historical and cultural trends. Institutions such as political structures, administrative norms or even fixed historical perspectives can influence the decisions of key political actors.

By introducing institutions, it further adds to the final stage of decisions-making within each donor nation. It helps to unravel why certain final decisions do not match the worldviews of key decisions makers. Institutions may often last long-term and may be difficult to alter. These may in fact affect the decision making process by key decision makers across decades and thus alter their view of the external environment. Institutions thus are one of the final blocs that shape decisions regarding aid flows.

3.10 Conclusion

In summary, PA theory and FPA along with institutional influence, will be utilised to unravel the research puzzle. The PA theory provides reasons why states would channel their aid to external agents like the IDA. The reasons include resolving collective action problems, tackling negative externalities and distributing benefits. Most importantly,

states delegate the task because the IDA possess specialised knowledge and has a global reach. Delegation however suggests that agents are granted a certain degree of autonomy; therefore agents can exploit this against their principals. Agency slack also occurs due to exiting autonomy and the presence of multiple principals. While principals have various means to control the agent, agency slack will be a prominent feature in state-IO delegation.

PA theory informs much about aid flows via IOs. It however is one dimensional and at best covers only contributions to multilaterals. FPA on the other hand opens up the various actors within the state. Its agency-specific nature indicates that these actors are human. They therefore hold differing perspectives on both forms of aid. Furthermore, as human actors, they respond to they local and external environment which thus shapes their decisions of aid. FPA also hones in on the characteristics of key decision making leaders. It helps to identify their perception of the international arena, thus providing clues as to why aid levels have shifted. Institutions are further added to show how norms and rules of donor nations can shape the final decisions regarding aid allocation. Institutions are often long standing and may have shaped the worldview of key decision makers.

The next few chapters draw upon FPA, PA and, examining aid changes in great detail. Each case study begins with a summary of how the country's bilateral and multilateral aid flows have shifted between 2000 and 2010. It then sets out the general assumptions for these changes. Utilising FPA, PA theory and the concept of institutions, it will explain the increase in bilateral aid disbursements by the three main donors.

Chapter 4: United States: The giant donor

There's always some scepticism in the US about multilateral institutions and the value that they have or really have.⁵⁵

The US wishes to have control [its] foreign assistance/ODA [Official Development Assistance].⁵⁶

4.1 Introduction

The US has across the time period provided more via bilateral means than through global multilateral organisations. This initially would not seem out of place since the US has historically provided more aid by itself than through third party organisations. This chapter will show that increase in US bilateral is not simply shaped by foreign policy considerations, an orthodox reason. Rather the worldviews of key US decision makers during this specific period, and historical US political institutions, have shaped US aid to rise higher bilaterally.

With specific reference to the questions in Chapter 1, US aid changed due to new political actors such as George W. Bush administration officials and individuals close to the administration. This may initially appear to be the same as any incoming US administration. Yet this is significant as Bush administration officials altered US aid in an unexpected manner. US aid during this period increased due to first, key political actors views of their external environment and second, the changing nature external arena. The former includes the neoconservative ideology by key incoming administration officials. As shown below, such officials envisioned US aid to support market-centric economies. Their visions for US-led economic hegemony were further influenced by ongoing foreign events such as the September 11 attacks, the subsequent War on Terror and global development-related agreements. US foreign aid was to increase through both multilateral and bilateral means. It was long standing US political and cultural institutions that greatly influenced the bigger rise of US bilateral aid.

⁵⁵ [REDACTED], former USAID Director, 1999-2001. Interview, February 2012.

⁵⁶ Senior Official, Center for Global Development. Interview, March 2012.

In order to prove this assertion, the rest of chapter proceeds as follows: The next section below gives an overview of US aid statistics. The second section presents an overview of how US foreign assistance is governed. It centres on the US Treasury, the US State Department, the USAID and the relevant legislative committees. This overview helps to explain a) the executive-legislative divide over aid funding and b) the fragmented nature of the US aid management. The third section examines US aid across the ten year period. The first time period, from 2000 to 2003, is characterised by the start of an aid revival. US aid volumes increase as both branches of government viewed aid as a means to address global terrorism. This section further reveals Congressional influence over the USAID. It also covers the funding of IDA 12, indicating how US policies to the Bank are largely separate from US bilateral aid activities.

The second time period covers 2004 to 2008. It is centred on the creation of the MCC and the Administration's attempt to alter the IDA. The MCC's creation is again a result of the government and the legislature's response towards the global political environment. Even so, appropriations committees have constantly not met the administration's funding request for the MCC. The focus for IDA 13 and to a lesser extent, IDA 14, was on switch from loans to providing grants. Such a change was moulded by both the events in the local and foreign arena. The administration's financial incentives to IDA were, however, thwarted by Congressional action. Such disagreements between both branches of government again would prove the second hypothesis correct. The Bush Administration's approach towards IDA replenishment would further indicate that IDA was not classified as ineffective.

The third time period examines the evolution of US aid in the context of the political transition across 2008 to 2010. There was a change in the Executive Branch from a Republican to Democrat party. Yet, there was little change as the Obama administration retained the Republican-created MCC. Appropriations and budget committees continued to alter government requests for MCC's funding. Simultaneously, legislators also still manipulated the USAID's disbursements through earmarks. US commitments to the IDA did rise in IDA 15. Yet again, the funds provided across the three year period were

altered by Congressional appropriations and budget debates. A final section surmises the nature of US aid flows.

4.2 US aid figures

Amongst the range of OECD donors, the US has continued to be the largest aid donor in terms of overall net volume. Its annual aid contributions amounted to US\$30.1 billion as of FY 2010.⁵⁷ In terms of aid-to-GNI ratio, it has remained around 0.1 percent, reaching only a high of 0.23 percent in 2005. These aid-to-GNI ratios fall far below the DAC average of 0.46 percent (OECD Stat Extracts, 2010; Lundsgaarde, 2013: 144).⁵⁸ A large percentage of US aid in the early 2000s—around 71.6 percent—constituted aid tied to American exports and companies. As noted in the literature review, this meant that a large portion of US bilateral aid is provided on the condition that only American goods would be purchased in return (Lancaster, 2000: 81; Callaway and Matthews, 2008: 1; Riddell, 2008: 57, 98-99). The first Bush Administration therefore maintained the bilateral aid structure and prevented any decrease in aid. It thus proves the first hypothesis that aid levels do not specifically correlate with political beliefs.

Its multilateral and bilateral aid figures nevertheless present a different picture. US overall multilateral disbursements have stayed relatively constant from 2001 to 2009 (OECD, 2009b: 2005; OECD, 2011c: 97). Multilateral aid as a percentage of all US disbursements fell by 13 percent between 2001 and 2006 (Radelet et al. 2008: 4). The US multilateral contributions consisted 5.5 percent of overall US aid disbursements in 2008, rising slightly to 7 percent in 2010 (Tarnoff and Lawson, 2009: 8 Tarnoff and Lawson, 2011: 11). Compared to other OECD donors, the US was the fourth largest OECD provider of gross development assistance across the 2007-2009 period. This constituted 12 percent of gross US aid during the period, excluding debt relief (OECD, 2012: 65).

It may be stated that the US is the dominant shareholder of the WBG. After all, its contributions to the IDA in terms of monetary volume rose between the twelfth IDA

⁵⁷ This figure considers 2010 figures taken from OECD statistics.

⁵⁸ This DAC average is derived from Lundsgaarde, 2013. If net disbursements are used, the average would be 0.30 percent across 2000 to 2010. This is still higher than the various US aid ratios.

replenishment (IDA 12) and the fifteenth replenishment (IDA 15), with only a drop between IDA 13 and IDA 14.⁵⁹ Despite, this apparent rise, the US has shown a drop in terms of the proportion of IDA replenishments. As noted previously in the literature review, the US share of IDA replenishments began to drop between IDA 12 to IDA 15 (IDA, 1998; 2002, 77; 2005, 7; 2008, 62; 2010: 25).⁶⁰ This indicates that the US is contribution smaller portions to the IDA relative to other contributors. This drop is in stark contrast to US contributions from IDA 1 to IDA 11, where its share was higher than Japan's and the UK's.

US bilateral contributions in contrast have risen substantially across the same period, increasing by around 11.5 percent points from 2000 to 2010 (OECD Stat Extracts, 2010). One of the sharpest increases occurred between 2004 and 2005, with bilateral gross aid amounting to 90% of gross disbursements (OECD, 2009a: 205). US bilateral assistance around Fiscal Year (FY) 2000 was mostly allocated towards 'lower middle income' countries as opposed LDCs. In US FY 2000, none of the top fifteen US aid recipients were LDCs or from Africa (OECD, 2002: 6). Across FYs 2008-2009, this has changed, with three LDCs, Afghanistan, Ethiopia and Sudan as several of the top recipients of US aid. In FY 2010, Haiti and Uganda were also added to this list (Tarnoff and Lawson, 2009: 11, 14; Tarnoff and Lawson, 2011: 14). This may indicate a focus of aid towards the neediest countries. Nevertheless, Afghanistan and Iraq still continue to receive the highest volume of bilateral aid. This amounted to US\$ 2549 million and US\$ 2544 million at 2008 prices (OECD, 2011c: 4).

4.3 The governance of the US aid system

Before launching into an analysis of US aid, it is first necessary to depict how aid volumes are determined the US. A depiction of the structure provides a substantial background regarding US bilateral and multilateral flows. The management of US

⁵⁹ This includes basic, supplemental contributions, debt relief and credit acceleration. Data from the OECD Stat Extracts is net of debt relief. It therefore shows slightly different figures. It further is missing US contributions to fiscal year 2003, cover is part of IDA 13 (OECD Stat Extracts 2010b). As noted in earlier chapters, IDA replenishment agreements are termed as IDA 12, IDA 13.

⁶⁰ IDA, 2010 reveals different percentage contributions by the US vis-à-vis IDA replenishment agreements. This again is due to the summation of both basic and supplemental contributions. Nevertheless, the US share has declined across the three IDA replenishments.

development flows is akin to a spider web, with many different agencies and organisations managing foreign aid and other official flows. As Lael Brainard indicates, several agencies also manage different aid programmes simultaneously while others jointly manage one or more programmes (Brainard, 2007: 34). This chapter centres on the two of the largest: the USAID and US Treasury.

The latter's jurisdiction is that of the MDBs and the Regional Development Banks. The US Treasury Secretary is one of the many Governors of the WBG. In other words, he is the main US representative to the WBG. This Cabinet official nevertheless defers authority to the US Executive Director (ED) of the WBG. This director is a key official, as he or she sits as a member of the Bank's Board of Governors. In this role, the ED votes on various WBG matters and influences the entire WBG.

Within the US ED's office, there is at least one official who monitors the IDA's daily activities. During replenishment rounds, this official coordinates with others from US Treasury, particularly from the Office of Development Policy and Debt. As a US Treasury official and US ED official stated, this particular office also has economists and other staff that monitor the activities of IDA (US Treasury, 2013; World Bank, 2013a, 2013b). This particular office is led by an Assistant Under Secretary. This particular official is the key person in charge of US relations with MDBs and Regional Development Banks. The office is part of the office of International Markets and Development. This office in turn is controlled by the larger International Affairs, itself headed by an Under Secretary (OECD, 2002: 63).⁶¹

With regards to US bilateral aid control, the picture is much more complex. Many different Cabinet-level and sub-cabinet agencies disburse almost forms of US bilateral assistance. Amongst them, the USAID is the largest despite controlling varying proportions of US bilateral and overall aid over the years. Despite these changing figures,

⁶¹ The governance of US funds to the IDA was briefly described by two interviewees. An official within the US ED's office, interview, February 2012. A senior economist within the Office of Multilateral Development Banks, US Treasury, March 2012. The second interviewee particularly stated the structure of the Office of Development and Debt. As further revealed below, the Under Secretary of State for International Affairs may in fact interest himself with the activities of the World Bank.

the USAID still is the main development knowledge and policy making (OECD, 2002: 62; 2006a: 21, 45). This agency was founded as semi-autonomous agency with a relationship with the State Department. In the late 1990s, political disagreements brought the agency under direct control of the State Department. The USAID thus had to report and receive guidance from the Secretary of State. As a recent flow chart in US State Department indicates, the USAID reports to the State Department, and is not a cabinet-level agency (Brainard et al. 2003:187;v Tarnoff and Lawson, 2009: 23; US State Department, 2012, 2013).

The recently created MCC is classified as autonomous agency, with a Chief Executive Officer (CEO) as its leader. The US Treasury, the USAID and the State Department nevertheless have a strong say in its operations—their respective heads sit on the MCC Board of Directors (Lancaster and Van Dusen, 2005: 21, 31; MCC, 2013).⁶² The State Department itself does provide another portion of US bilateral assistance. It manages programmes such as the Human Rights and Democracy Fund and the Migration and Refugee Assistance Account. A major State Department project is the President's Emergency Plan for AIDS Relief (PEPFAR), also created during the Bush Administration (PEPFAR, 2011). The USAID also jointly works with State on the Economic Support Fund (ESF), a longstanding initiative to secure alliances (Tarnoff and Lawson, 2011: 23-24).

US Food Aid disbursements, under Public Law (P.L) 480, is another US development programme jointly managed both by the USAID and the Department for Agriculture (Lancaster and Van Dusen, 2005, 21). Other US government departments such as the Department for Defense, the Department for Agriculture, and many other cabinet-level or government-linked agencies also deal out bilateral projects (Brainard, 2007: 33-34; Tarnoff and Lawson, 2009: 24-25; Tarnoff and Lawson, 2011: 21-23). Despite these prominent organisations, this chapter will only discuss the USAID, the MCC and the US

⁶² The MCC is the organisation that manages the Millennium Challenge Account (MCA), which disburses the relevant funding (See Tarnoff, 2008: 3). Certain literature list the MCA as the key organisation. Decisions on which countries MCC will fund, however, rest with the entire MCC board. . See <http://www.mcc.gov/pages/about/execprofiles>.

Treasury. As mentioned, the USAID is the largest agency in terms of volume and knowledge. Examining it also helps to measure it against similar agencies such as DFID and JICA. The MCC is covered, given its prominence during the Bush Administration and its almost similar programmes to IDA activities (MCC, 2011).

The above separation of responsibilities has long shaped US aid into many different objectives. With the Treasury controlling funds to the IDA, an organisation without a main global development focus governs multilateral flows. As a Senior DFID official commented, US Treasury officials are more focused on financial economics and outcomes rather development-centred outcomes. There may be some development professionals (see also OECD, 2002: 63).⁶³ The USAID is similarly caught between development and national interests with it reporting to the State Department. Its officials wish to direct aid for development while State officials shift programmes to foster foreign policy (Brainard et al. 2003: 155). As noted further below, this pushing and pulling of US aid towards different objectives affect the views key officials.

The funding of US bilateral and multilateral programmes is just as complex as the management structure. This has much to do with the separated political system within the US. While the various agencies manage aid, it is both houses of Congress that have a strong grip over US funding for aid. This is because ‘only Congress can authorize and appropriate federal monies, including those for foreign aid’ (US Constitution in Brainard et al. 2003: 171).

Every FY, the President, through the Office of Management and Budget (OMB), submits the budget for Congressional approval. A crucial stage consists of two parts: first authorisation and second, appropriation. Authorisations are necessary as only then the whole Congress can appropriate the budget for any federal programme (Heniff, 2012: 1). As foreign assistance provisions occur across many years, constant authorisation is necessary for programmes to proceed.

⁶³ Interview with a Senior Official in the International Financial Institutions Department, Department for International Development, UK, July 2011.

Appropriations, which are more crucial, then provided the actual ‘budgetary authority’ for various federal programmes and departments. These are central for the foreign aid budget since it falls under the law of ‘discretionary spending’ (Tollestrup, 2012: 14). Appropriations sub-committees first hold hearings with relevant officials, with House sub-committees conduct more intensive hearings. The main appropriation committees then debate changes to the bill; this is known as marking up. After this, all appropriations bills are sent to the whole House for debating, where amendments may be included by individual legislators. Once the House concludes, the Senate similarly debates appropriations. Unlike in the House, Senators may propose amendments at any time but not usually on the Senate floor. Differences between the House and Senate bills are resolved through what is termed as conference action.

Finally, the Conference Reports are passed for Presidential signing and enacted as a Public Law (Saturno, 2004: 3; Heniff et. al. 2010; Lavelle, 2011: 26; US Senate Appropriations Committee, 2013a).⁶⁴ If an Appropriations Act is not finalised by the start of a FY, Continuing Resolutions are enacted to temporarily fund agencies. Occasionally, the whole Congress may combine several Appropriation Acts together to form Omnibus Appropriations Acts.⁶⁵ Such appropriation acts are usually classified as ‘unfinished acts’. These acts may also be designated as consolidated or omnibus consolidated appropriations acts.⁶⁶ Continuing Resolutions may also be as omnibus appropriations (Tollestrup, 2010: 1-2).⁶⁷ Only with authorisations can federal agencies proceed with their various programmes. The general appropriations cycle is detailed in Figure 3 below.

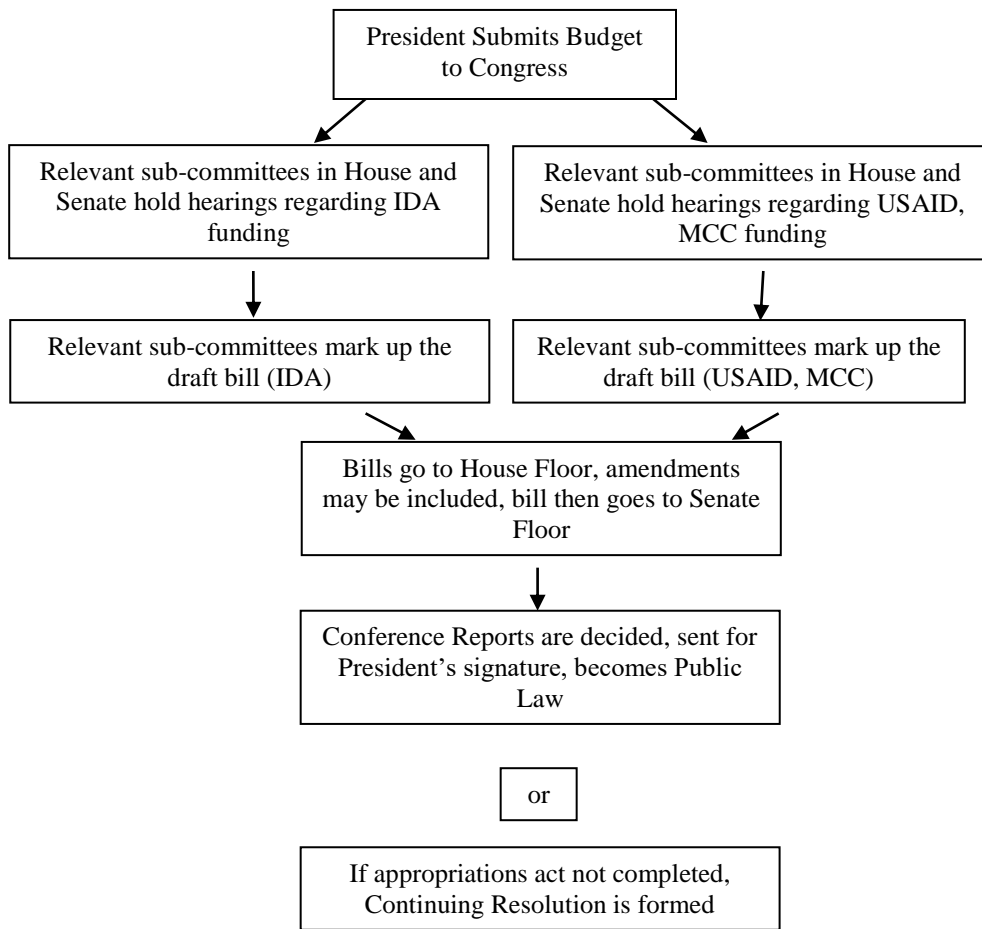
⁶⁴ A ‘Conference Report’ is a compromise over a Bill before it becomes a final Act. See http://www.senate.gov/reference/glossary_term/conference_report.htm.

⁶⁵ See http://www.senate.gov/reference/glossary_term/continuing_resolution.htm for the definition of a Continuing Resolution. Also see http://www.senate.gov/reference/glossary_term/public_law.htm for the definition of Public Law.

⁶⁶ As a Library of Congress (LOC) Librarian, Librarian A noted, a consolidated appropriations bill or act is ‘one which combines appropriations from a number of separate appropriations bills into one piece of legislation.’ Email Interview, January 2014.

⁶⁷ As Tollestrup states, there is no distinct definition for omnibus appropriations acts. Nevertheless, only full appropriation bills or continuing resolutions joined together as one package may be considered by the full Congress as omnibus appropriations (see Tollestrup, 2010: 1; Tollestrup, 2012: 11).

Figure 3: The appropriations cycle to fund foreign assistance each FY



(Adapted from Henruff et al. 2010: 19-21; Lavelle, 2011a: 25; Tollestrup, 2012: 2-12)

The relevant appropriation act for all US foreign assistance is commonly titled as the ‘Foreign Operations, Export Financing, and Related Programs Appropriations Act’. Two different committees and sub-committees in each branch of Congress are responsible for authorisations and appropriations. With regards to IDA, the relevant authorisation committee in the House of Representatives is the House Committee on Financial Services. In the Senate, this role is taken up by the Senate Foreign Relations Committee (US House Committee on Financial Services, 2013; US Senate Foreign Relations Committee, 2013). In the House, the relevant sub-committee is that of State, Foreign Operations and Other Programs s under the House Committee on Appropriations. In the

Senate, appropriations for IDA fall under the subcommittee on State, Foreign Operations and Related Programs in the Senate Committee on Appropriations (US House Committee on Appropriations, 2013; US Senate Committee on Appropriations, 2013b).

For the USAID and the MCC, the House Committee on Foreign Affairs is the authorising committee; in the Senate it is again the Senate Foreign Relations Committee (US House Committee on Foreign Affairs, 2013; US Senate Foreign Relations Committee, 2013).⁶⁸ Appropriations are governed by again the subcommittee on State, Foreign Operations and Other Programs under the House Committee on Appropriations. Within the Senate, the relevant subcommittee is the State, Foreign Operations and Related programs under the Senate Committee on Appropriations (US House Committee on Appropriations, 2013; US Senate Committee on Appropriations, 2013b).⁶⁹

The above cycle of how US aid is financed draws out several key characteristics. First, government agencies and departments have to abide by the language in each appropriation bill. Therefore, any financial decisions made by the executive branch are often altered by Congressional appropriations (Heniff et al 2010: 21). Second, not only do committees wield influence over aid funding, individual legislators are able to put forward their opinions on aid volumes. Legislators are able to insert their own legal clauses or earmarks in appropriation bills and acts. Such earmarks may reduce, increase or direct spending towards a particular country or programme.

Individual members of Congress can further influence the direction of specific USAID programmes. For example, Representative Millender-McDonald amended part of FY 2002 HIV funding to focus directly on ‘mother-to-child transmission’ (US Congressional Record, 2001: H4345-4346).

⁶⁸ While these committees authorise legislation for US bilateral aid agencies, there are other ‘standalone’ aid bills arising from other sub-committees. This however, has not been the case since 1985. Interview with USAID Congressional Liaison Officer, January, 2011

⁶⁹ With reference to footnote 7, US Food Aid through USAID is appropriated by the Agricultural Appropriations sub-committee. Interview with USAID Congressional Liaison Officer, January, 2011. This chapter however will only centre upon these committees monitoring USAID’s and MCC’s work.

They are further able to influence bilateral disbursements through formal and informal requirements. Formal methods would include caps on spending levels and constant reports to Congress. One example was requesting the USAID to alter its ‘Women in Development’ programme into the ‘Policy and Program Coordination’ department (US House of Representatives Appropriations Committee, 2002, H.Rept 107-633: 24-25). Informal requirements include notifications to the whole Congress before a programme is initiated. Nonbinding earmarks may also be further added to appropriation acts to further change aid volumes. Legislators may also delay administration requests such as political nominees and submit many letters to the USAID or the Treasury regarding foreign aid (Brainard et al. 2003: 172-175; Burall, 2009: 29-30, 32).

Linking from the above, a third impact is that legislative control creates uncertainty over the actual amount of aid the US will provide. With the format of appropriations, continuing resolutions and omnibus appropriations, there is no assurance on the level of aid that will be provided. There is also uncertainty over whether the President will accept the Congressional appropriations and budget. As such, this forms a divide between US aid commitments externally and actual aid disbursements. This thus helps to verify the second hypothesis where aid levels are determined through the interaction between the executive branch and the legislature. With the structure of US foreign assistance financing in mind, the next section launches into the changing levels of US foreign aid.

4.4 US aid levels between 2000 to 2003

4.4.1 Modest increases in US bilateral aid

This section will show how US aid was altered and increased during the first few years of the George W. Bush Administration. The US has historically been a leading aid donor, only losing that position in the late 1990s to Japan. In the post Cold War period, there appeared to be less of a rationale for major aid donors to provide foreign assistance (Riddell, 2008: 55). US foreign assistance during the 1990s, specifically bilateral aid, was targeted at former communist states and supporting key US foreign interests (Callaway and Matthews, 2008: 51-57-58). Despite all this, there was an aid fatigue amongst US officials, Senators and Congressmen. Aid was not seen as a crucial tool for the US.

Following the arrival of the George W. Bush Administration, US aid levels and policies were in for a change. The new administration was caught between the domestic context and the international environment. The George W. Bush administration inherited the low aid levels provided by the previous Clinton administration. Domestically, the call to intensively decrease the federal deficit was a key factor in cutting US aid. This was especially so since aid programmes were not 'mandated by law' (Lancaster, 2007:86).

The then Republican-dominated Congress also targeted the US aid budget, given its determination to reduce the size of the government. The aid management structure was further threatened by former Chairman of the Senate Foreign Relations Committee Jesse Helms. He was highly critical of the USAID and in 2001 he proposed to eliminate the USAID (Carter, 2001). Internally, US NGOs and intellectuals were also doubtful about the effectiveness of aid. This stalled any impetus to increase even bilateral foreign assistance. Externally, the previous Clinton administration viewed the global arena as relatively benign, especially as it was in the post Cold War era. US foreign policy was concerned with supporting former communist nations. Any plans to shift aid were nevertheless stalled by Congress, specifically via the Leahy Amendment. Such a clause prevented US aid to authoritarian governments (Lancaster, 2000: 78; Lancaster, 2007: 85-87; Callaway and Matthews, 2008: 60).

The George W. Bush Administration thus inherited both the strong domestic opposition to aid and pressures from the global arena. The senior Bush Administration officials nevertheless initially retained the USAID as the central US bilateral aid agency. Unlike the Republicans in the Clinton era, these officials in fact sought to prevent further massive decrease in bilateral aid levels, due to their view of the external environment. They perceived aid could shape their conservative foreign policy agenda. For example, the USAID was restructured to cover three major pillars: economic growth and trade, global health, and democracy promotion with conflict prevention. (Woods, 2002: 248; Korb, 2008: 31-32).

Even so, there was no distinct shift in its aid or aid policies in the first year of the George W. Bush Administration. In fact, President Bush himself entered office with weak experience and without a clear foreign policy objective (Callaway and Matthews, 2008: 61). It was the September 11 attacks that altered Bush Administration's view of foreign assistance. US aid after the attacks was now directed specifically to prevent the growth of terrorism. US bilateral aid was framed within the context of development. Unlike with previous administrations, there was an immediate strong causal linkage was drawn between the lack of development and the growth of terrorism and conflict following the attacks (Callaway and Matthews, 2008: 62).

The plan for US development assistance and foreign policy in response to the attacks was explicitly laid out in the 2002 National Security Strategy Paper (NSS). The main assertion in this policy paper was that freedom of all forms—economic, political and individual—was the route out of terrorism and to prosperity. The NSS stated that US development aid in the past had failed. Aid would now be targeted only at states purely interested in economic growth and those that have just governing systems (The White House, 2002: foreword). While this approach may appear ordinary, the NSS was indicating that aid would be a key tool to draw countries into intensive market-centric system. The US has previously promoted neoliberal style globalisation as part of its global economic agenda.⁷⁰ This NSS pushed this further stating that, 'market economies...are the best way to promote prosperity and reduce poverty'. The 2002 NSS stressed that only such an open-door, capitalist-centric economy was the means to secure state and global arena (The White House, 2002: 17).

The 2002 NSS was thus a document to reassert capitalist-centred economic dominance over the developing world, with aid a one of the main tools (see Soederberg, 2004: 289; Mawdsley, 2007: 492; Essex, 2008a: 1629). This framing of development assistance is reflective of leadership characteristics, as seen in FPA. More specifically, it may be attributed to the a) bureaucratic management of Bush administration senior officials and

b) their own perspectives of the US internally and the global environment. President Bush himself was claimed to first have a ‘formal management style’ with a ‘low degree of centralisation’. This meant that he would delegate a high degree of policy making to his key policy officials. The President would choose the final decision while leaving his advisers to sort out differences. Bush was also characterised to pick choices haphazardly and with any logic. He thus would not alter his decision once it was made (Mitchell and Massoud, 2009: 268-269).

This leads on to a second characteristic, that of ‘inter or intra-bureaucratic conflict’ amongst senior political advisers. Certain factions or groups may utilise ‘manipulative tactics’ in order to get their policies across. Internally, they may also attempt to keep members with differs views out of the final policy presentation. Various political advisers may also indirectly pressure outsiders in the group to accept a certain policy. In this manner, an idea presented to the President is ‘internalised’ amongst all political advisers (Hoyt and Garrison, 1997 in Mitchell and Massoud, 2009: 270, Badie, 2010: 286). In the case of formulating aid policies and the economic agenda, President Bush delegated the work to core advisers.

These included then National Security Adviser Condoleezza Rice—who tutored him during his first Presidential campaign, then Vice President Dick Cheney, then first Treasury Secretary John Snow and OMB director Josh Bolten. Cheney, Snow and Bolten in particular were part of an inner White House group that formulated economic policy. Such a group presented policy to the President, bypassing the ideas from the US Treasury (Novak, 2005; Babb, 2009: 210-211 Mitchell and Massoud, 2009: 272; Badie, 2010: 282). Despite not all members have an economic background, certain members have previous experience in previous administrations and foreign policy.

Cheney had past experience in previous Republican administrations and fixed view of the global system. He could be characterised as perceiving the US to be a ‘powerful and persuasive’ state globally. He also could be characterised a one with low ‘conceptual complexity’, classifying the world in fixed categories such as ‘us’ versus ‘them’. Rice, to

a lesser degree, could be said to hold the same views (Dyson, 2009: 328-329).⁷¹ With other like-minded members, they were able to formulate the role for aid, prevent any dissenting views, and present it to President Bush. This inner circle thus focused US aid as a key tool to address terrorism and called for an increased volume. The NSS specifically promised that US bilateral assistance would increase by 50 percent (The White House, 2002: 22).

There was evidence of this in the USAID's FY 2003 Congressional Budget Justification (CBJ). It requested higher funding in programmes such as Democracy and Governance and Economic Growth and Agricultural Development. There was a higher request of \$US 26.2 million for direct assistance to the Philippines. Similarly, the amount of development assistance requested for Pakistan in FY 2003 was five times the FY 2002 appropriations. These two states in particular were key allies for the US in War on Terror (USAID, 2002: 103, 31).⁷²

Middle Eastern allies, especially Afghanistan and Israel, to a lesser extent, also received a boost in US bilateral funds (Radelet, 2003: 109; Moss et al. 2005).⁷³ More specifically, out of the US\$2.3 billion requested for the ESF, US\$1.6 billion would be targeted at Israel and its surrounding neighbours. The USAID's FY 2003 requests also clearly addressed the terrorist threat after September 11. The previous FY 2002 CBJ did call for addressing 'deadly conflict' in a 'post Cold War [environment]' (USAID, 2001: foreword, 24-25). The 2003 requests in contrast, called for US development aid to support US foreign policy in the War on Terror. This could be seen in the following statement:

⁷¹ Dyson, 2009 was describing the views of ex-Defence Donald Rumsfeld's world views. I adopted the same characteristics for Cheney and Rice. Rice in particular, was part of a group of Republicans named the 'Vulcans'. The 'Vulcans' not only advised Bush during his 2000 Presidential campaign but were the driving force that pushed for regime change in Iraq (Badie, 2010: 282).

⁷² These figures are most probably at 2002 prices.

⁷³ Moss et al. 2005: 6 found that the top five recipients of USAID aid between 1998 and 2005 were from the Middle East. Israel, a key ally, saw a net decrease in US disbursements. USAID's FY 2003 request did not specifically state the amounts requested for certain countries, including Afghanistan. The amounts provided are partially revealed in P.L.108-11, as discussed below.

...A world [without] development...remains a world susceptible to terrorism... [the USAID plans] to enhance our efforts in central and south Asia to enhance the peace and stability of this region critical to the war against terrorism (USAID, 2002:2-3)

The USAID was therefore to shift its focus from just promoting development to addressing terrorism and conflict. This was what exactly senior administration officials proposed via the 2002 NSS. The USAID's swing towards addressing terrorism may further be seen through the creation of the Office Conflict Management and Mitigation. This new office would coordinate USAID activities in conflict-affected and post-conflict states. It would further dispatch teams to countries where there without any formal USAID programmes. While the office requested a small portion of funds, it would have control over the direction of ESF funds. Similarly, the Office of Transition Initiatives continued to focus its FY 2003 efforts in Afghanistan while closing programmes in other countries (USAID, 2002: 107-108, 125).⁷⁴ The USAID's 2003 CBJ was thus calling for ideas in the 2002 NSS to be put into practice.

The USAID's funding nevertheless required Congressional approval which proved to be a major barrier. As noted above, Congress had a history of fixing earmarks on when approving the USAID's budget. In the 106th Congress, across 1999 to 2001, Congress enacted strict earmarks that for example, instructed the USAID to target its funds towards child mortality programmes and microfinance enterprises (US Congress, 2000, PL 106-429, H.R. 4811: 1900A-5-7). The next Congressional session, from 2001 to 2003, similarly enacted a wide range of earmarks, dictating global child healthcare to be focused mostly on HIV research. There were further specifications on how funding to key US allies must be used (US Congress, 2001, PL 107-115, H.R. 2506: 6-8).

The FY 2003 appropriations act, an omnibus appropriations act, similarly contained a wide range of earmarks and clauses. A key example would be the Child Survival and Health Programs Fund, where US\$1,836,500,000 was finally approved by the entire

⁷⁴ The Office of Transitional Initiatives is also a department focused on conflict-affected states. It had closed its work in countries such as Sierra Leone, Kosovo and Nigeria in 2002, while continuing operations in Afghanistan (see USAID, 2002: 125).

Congress. This was higher than the US\$1374,000,000 figure requested by the administration. Congress further added conditions such only US\$ \$150,000 to be used for monitoring child survival. Another condition set was that ‘not less than US\$155,500,000’ should be spent on preventing infectious diseases. Congress also reduced the funds for the Office for Transitional Initiatives by a small amount of US\$5 million. It nevertheless stated that USAID had to inform all appropriations committees five days before any programme commences (USAID, 2002: 17; US Congress, 2003a, P.L. 108-7, H.J. Res. 2: 151-154).

Congress also slightly reduced the funds for the State-USAID run ESF. It imposed country-specific provisions, for example, USAID and State could only spend US\$25 million in East Timor-Leste, and only allocated US\$1 million for administrative expenses. In contrast, Congress allowed an unspecified amount of aid to bolster a political party in Sudan, but only if the funds were used to protect civilians (US Congress, 2003a, P.L. 108-7, H.J. Res. 2: 157). The 2003 Wartime Supplemental Appropriations Act similarly contained restrictions while adding an addition US\$2,422 million to the ESF. USAID and State were to spend ‘not less than \$30,000,000’ in Mindanao, The Philippines and US\$167 million in Afghanistan, on top on the amount added in H.J. Res. 2 (US Congress, 2003b, P.L. 108-11, H.R. 1559,: 17).⁷⁵ As Picard and Groelsema, 2008: 6 argues, Congress gave weak support to aid increases in the early aftermath of September 11. [REDACTED], a former USAID Administrator, also noted that also noted that local ambassadors would further influence USAID funding by requesting for increasing or decrease aid to specific nations.⁷⁶

Therefore, any decision to increase US bilateral aid was ultimately shaped by long standing US political institutions, or Congressional action. There was certainly some conflict between executive branch decisions and Congressional views on bilateral aid. Such a divide was even more prominent in the funding of the IDA during its twelfth replenishment. As noted previously, IDA spanned FY 2000 to FY 2002, thus it spanned

⁷⁵ The appropriations Acts include terms such as ‘provided that’ and ‘notify the Committee on Appropriations’, stressing the stringent controls.

⁷⁶ [REDACTED] [REDACTED], former USAID Administrator, Interview, February 2012.

between the Clinton and George W. Bush administrations. It also crossed between different Congressional sessions—the 106th to the 108th session.⁷⁷

4.4.2 Deadlock with funds for IDA 12

This section now turns to US relations with the World Bank's IDA during this same period. The IDA 12 replenishment round was set within the context of the MDGs and the Highly Indebted Poor Countries Initiative (HIPC). US concerns were centred on the HIPC issue, with former Deputy Treasury Secretary Lawrence Summers insisting that the programme should US-led. A further topic for the US was reforming International Financial Institution (IFI) reform, pressing for increasing transparency in all Bank activities. As noted by a former US Executive Director, this was a high priority issue for the Clinton administration.⁷⁸

Even as the US pressured the Bank, officials stressed the achievements of IDA and the Bank. Secretary Summers and former Secretary Geithner stressed IDA promoted US interests. Their testimonies highlight American exports promoted through IDA funding. US officials also argued how a small proportion of US funds affects large changes in development globally and maintains US leverage over the Bank. These statements indicate first a principal's demand on its agent and second, the principal recognising the benefits of delegation.

At the turn of the Millennium, the funding of all IFIs was a heated debated amongst many members of both Houses of Congress. Domestically, Congress had conducted a review of both Bretton Woods Institutions during the last few years of the Clinton administration. According to another former US Executive Director, this was largely due to members' displeasure with these organisations.⁷⁹ This report was Republican-led by a certain Allan Meltzer and included Edwin Feulner from the Heritage Foundation. The Democrat Party

⁷⁷ IDA's and the WBG's FYs are set based on the WBG's FY, which spans between 1 July and June 30 each year. See <http://www.aidflows.org/glossary.pdf> p.7. US FYs begin on 1 October and end September 30 (see Heniff et al. 2010: 12).

⁷⁸ Telephone interview with [REDACTED], former US Executive Director to the World Bank Group

⁷⁹ [REDACTED], a former US Executive Director, described Congress in the early 2000s as being weary of the IFIs. Telephone interview, May 2012. Brainard et al. 2003:10 describe a loss of confidence in the IFIs across the US political system.

nominated economists such as Jeffrey Sachs and Fred Bergsten, a former US Treasury official (Babb, 2009: 172; Lavelle, 2011a: 143-144). Within this diverse range of economists, there were definitely disputes regarding IFI reform and US interests. This was especially between Bergsten and the Republican-nominated economists. Nevertheless, the Meltzer Commission finally proposed that IDA should focus mainly on technical assistance and not loans. It also argued that IDA should completely write off debt for HIPC countries through the (US Senate, 2000a, S. Hrg. 106-657: 51; Babb, 2009: 172-173; Lavelle, 2011a: 145).

Various legislators in the 106th Congress also further initiated hearings over IDA's effectiveness and financing.⁸⁰ In the Senate Foreign Relations Committee (SFRC), for example, there were intensive hearings with US Treasury officials over the HIPC process and IFI reforms. The various questions focused on improving IDA's results and tackling internal Bank corruption (US Senate, 1999, S. Hrg. 106-340: 176; US Senate, 2000b, S.Hrg. 106-821: 143). Senators also specifically asked about IDA funding to rebuild the Balkan states as well as these countries' financial debt with the US. They also focused on the impact of new global financial sources on multilateral funding. A further concern for Senators in the SFRC was arrears payments, or payments still not made from earlier IDA rounds (US Senate, 1999, S. Hrg. 106-340: 150, 154, 155, 173, 176). These hearings indicate that members of Congress were far more critical of the WBG than the administrations were.

These criticisms of the IDA were ultimately reflected in the House and Senate Reports, and the final appropriations acts. Overall, the executive branch requested a base amount of around US\$800 million each year for the length of IDA 12 (Summers, 1999: Federal News Service, 2000a, b). In the 2001 House of Representatives appropriations committee bill, the committee recommend US contributions to the IDA be reduced by US \$258,970,000, far less than the US\$835,570,000 requested. Its reduction was due to its objection towards IDA loans and lending to Iran. The Senate Appropriations Committee

⁸⁰ The 106th Congress was the second last Congress during the second Clinton Administration. The 107th Congress was the last, and after January 20 2001, it served at the same time as the first Bush administration. See <http://thomas.loc.gov/home/faqlist.html#10> .

recommended a slightly higher amount of US\$750 million (US House of Representatives Appropriations Committee, 2000, H.Rept. 106-720: 82-83; US Senate Appropriations Committee, 2000, S.Rept. 106-291: 48).

The final recommendation enacted into law appropriated US\$775 million in total to IDA.⁸¹ This was on condition that the US Treasury would extensively influence the IDA to switch to providing grants when funding HIPC countries. The Speaker of the House of Representatives also had to be kept in the loop regarding US contributions (US Congress, 2000, P.L. 106-429: 1990A-20). Within that act, individual legislators such as then Rep. Brad Sharman also imposed restrictions. His approved amendment reduced the FY2001 contributions by US\$10 million. This amount was rather to be spent through bilateral means to address HIV/AIDs (US Congressional Record, 2001: H.AMDT.985).

For FY 2002, The Senate Appropriations Conference Report suggested a slightly lower figure of US\$775 million as it was concerned with the WBG's Administrative Tribunal reform (US Senate Appropriations Committee, 2001, S. Rept. 107-58: 59-60). The final appropriated amount was US\$792400 million. This again was on condition the US Treasury push for grants in IDA projects. The entire Congress also requested the US Executive Director to vote against IDA projects in India that violate labour rights (US Congress, 2001, P.L.107-115, H.R. 2506: US STAT.2137).⁸²

The financial figures above indicate that delegation of aid to an agent is not simply a linear process from principal to agent. Legislative perspectives over aid and hence amendments are the main factors that challenge or steer US contributions off track. This proves the hypothesis that US aid contributions is govern by the interaction between the legislature and the executive branch. The Meltzer Commission and Congressional hearings also indicate how the historical context is crucial in shaping multilateral contributions. To a lesser extent, the Meltzer Commission's membership indicates that

⁸¹ US FY 2001 final appropriations for Foreign Operations was titled as P.L.106-429. It incorporated both H.R.4811 and H.R 5526. See <http://thomas.loc.gov/cgi-bin/bdquery/z?d106:H.R.4811>: .

⁸² The amount requested by the US Treasury for the last IDA 12 payment in FY 2002 w as US\$803, 4000, 000. See (US Senate, 2001, S.Rept. 107-58:60)

contributions to IOs are not necessarily dependent on political positions. The above also gives no indication that bilateral disbursements and contributions to the IDA are substitutes for each other.

Contrary to expectations, the first Bush administration turned its attention towards US foreign aid. Despite domestic opposition towards USAID, the administration maintained that agency. The September 11 attacks further increase the focus on aid. US bilateral aid was explicitly linked aid as a means to combat terrorism and securing an American hegemony. This relationship arose through the bureaucratic management structure of the administration and the views of senior administration officials. Despite this impetus to increase bilateral aid, US legislators still enacted earmarks, altering USAID funds based on their own perspectives. US bilateral aid thus shifted, albeit through legislative-executive interaction.

With regards to IDA replenishments, the Bush Administration continued to fund IDA 12, honouring the commitments made by the previous administration. Nevertheless, its requests were altered by Congress during appropriation rounds. Congressional views on IDA's role were shaped by historical context such as the Meltzer Commission's findings. The final appropriated figures were thus much less than the administration's requests. Furthermore, the reductions were far more than the reductions and earmarks in USAID's funding. The drop in multilateral contributions is therefore not so much due to the principal viewing the agent as ineffective. Rather it is shaped through the divide between legislative perspectives and administration requests, or political institutions.

4.5 The creation of the MCC

This section will focus on a new bilateral aid initiative, the Millennium Challenge Corporation. In March 2002, the Bush administration further increased its focus on US bilateral aid. This was the announcement of new US bilateral aid initiative, the Millennium Challenge Account. Towards the end of his first term, the MCC became

operational.⁸³ The idea for this agency came in response to the domestic and external environments. Domestically, a first internal factor that shaped the MCC's creation was the historical relationship of US aid programmes with the US political spectrum and society. As noted above, legislators such as Jesse Helms distrusted USAID and almost succeeded in disbanding the agency. Besides placing restrictive earmarks in appropriation bills, legislators held the view that US aid was a wasteful expenditure. As a former senior USAID Foreign Service officer noted, legislators still dislike aid despite hearing its role and impact.⁸⁴ Such a perception also existed with voters—for example, a 1995 poll stated that a majority of respondents believed too much aid was being provided (OECD, 2002: 24; OECD, 2006a: 22). This resentment against aid and USAID meant that any effort to raise aid would meet strong resistance.

At the same time, a second factor was the adoption of a new economic ideology, especially by the American right. With the constant mantra in the 1990s that aid does not necessarily work, the US political spectrum adopted a new development ideology. World Bank scholarship had proposed that a) aid meant for economic growth would benefit the poor and b) aid would be most effective under stable environments and good governing systems. (Hook, 2008: 157-158; Chhotrany and Hulme, 2009: 37; Burnside and Dollar, 2000 in Lundsgaarde, 2013: 166). Such a rationale for providing aid was favoured by right-leaning politicians and figures in the US. Providing aid only for growth and in sound conditions matched with US conservative and libertarian beliefs. In their opinion, the state should not be a provider of global welfare. (OECD, 2002: 24; Lancaster, 2007: 94-97; O'Connor in Chhotrany and Hulme, 2009: 42).

A third factor was the efforts that of religious groups influencing Republicans beliefs over development assistance. While US conservatives did not favour providing aid, they were closely associated with faith-based NGOs and civil society organisations. Such groups slowly reversed the thought that providing aid was ineffective, especially through

⁸³ The MCC as an organisation was approved by Congress in July 2003 under Division A of H.R. 1950 under the House of Representatives. In the Senate, the final authorization was under S. 925 (Epstein, 2003: 45). In January 2004, the MCC became operational, see <http://www.mcc.gov/pages/about>.

⁸⁴ The former USAID foreign service officer stated that he had personally shown several legislators USAID's performance figures. They nevertheless were not impressed by the data. Interview March 2012.

the Jubilee Debt Campaign and an anti-AIDs movement (Lancaster, 2007:92, 102-103; Hook, 2008: 155).⁸⁵ This change was further strengthened by the Meltzer Commission's assertion. In particular, it stated that performance-based grants would produce the greatest impact US Senate, 2000a, S. Hrg. 106-657: 21). With such persuasion, Republicans and later core advisers to President Bush were willing to increase US aid. These included former deputy national security adviser Gary Edson and OMB administrator Robin Cleveland. These two officials would later form a task force creating the MCA (Hook, 2008:160).

There were also external pull factors that shaped the creation of the MCC. While the US was a signatory to the MDGs, the Bush Administration was strong against its details. It was also not in favour of honouring the UN aid target of 0.7% of GNI (Nakagawa, 2005: 14). European donors as well as the OECD strongly objected and called for the US to increase its aid, particularly aid meant for development (OECD, 2002:11-12; Thornhill et al. 2002; Weiner, 2002; Brainard et al. 2003: 153-155). Pressure also arose from the activist Bono, who linked up with US Christian NGOs to convince US politicians of the need to increase its aid quantity (Lancaster, 2007: 274n49; Lancaster, 2008: 16-17). This external pressure slowly changed the administration official's view of foreign aid levels.

Yet another external factor besides religious ideals and development ideas was the foreign policy setting during the first Bush administration. In the post-Cold War period, it is said that the US no longer required the use of the global community or organisations (Skidmore, 2005). US foreign policy, including foreign aid, could now be forged through a unilateralist agenda. As stated above, core Bush advisers such as Vice President Cheney believed that the US was in a position to control global actions. They also classified their external environment in terms of fixed categories. With such an outlook, these advisers aimed to reassert US dominance, by increasing foreign aid. The changing levels of aid would be 1) targeted at specific countries and promoting b) and be a fixed

⁸⁵ A former Congressional Research Service (CRS) Specialist in IPE stated that while US conservatives disliked aid, they were all for assisting those affected by HIV/AIDS. This was also one of the reasons for PEPFAR's creation, Interview, April 2012.

set of criteria. This would thus help draw developing countries through a US-led economic development.

The combination of these internal and external factors led to the creation of the MCC. It was shaped as an autonomous agency. As a senior specialist at the CRS noted, the first Bush administration was determined not to let its newest agency be stalled by Congressional opposition or by another Congressional-Executive debate (Branaid et al. 2003: 127-132, 187; Nakagawa, 2005: 15).⁸⁶ The MCC would still nevertheless fall within the US foreign policy structure—as noted above, the MCC’s Board of Directors included the Secretary of State and the USAID Administrator.

With the MCC’s management created, it was to disburse the largest increase—US\$5 billion—of US bilateral assistance in the twenty first century. Furthermore, as President Bush stated, it was to:

[Devote] to projects in nations that govern justly, invest in their people and encourage economic freedom. [The US] will promote development from the bottom up, helping citizens find the tools and training and technologies to seize the opportunities of the global economy. (Bush, 2002)

The above statement spells out the core themes of the MCC: ‘economic freedom’, ‘investing in citizens’ and ‘good governance’. The MCC uses a four stage criteria: it identifies possible countries, second it publishes its criteria for its selection, third it issue countries scorecards, and fourth, select countries.⁸⁷

In the second and fourth stages, the MCC Board of Directors base country eligibility through a set of ‘performance indicators’. These indicators reflect the organisation’s three core themes and are essential hallmark of the MCC (Radelet and Herring, 2003; Tarnoff, 2007: 2; Tarnoff, 2008: 5). Possible client states have to score ‘above the median [in] half of the indicators’ (Tarnoff, 2007: 2). Initially, sixteen indicators were listed, all which are

⁸⁶ The CRS Specialist was again referring to Jesse Helms’ attempt to terminate USAID or absorb it under the State Department. According to him, the Bush administration strong recalled this historical Interview, March 2012

⁸⁷ For the four step selection process, see <http://www.mcc.gov/pages/selection/> .

drawn from the ideas of third party organisations. These organisations include international institutions and American-based think tanks.⁸⁸ Across the various US FYs, new indicators were added. For example, the ‘Cost of Starting a Business’ indicator, drawn from World Bank data, was added in FY 2006 (MCC, 2006). In FY 2007, other indicators were added, drawn from institutes such as Columbia University and the International Fund for Agricultural Development (MCC, 2006, Tarnoff, 2008: 6).

Three specific indicators, ‘civil liberties’, ‘economic freedom’ and ‘trade policy’ are drawn from two American institutes: Freedom House and the Heritage Foundation. Freedom House aim to promote ‘human rights and democratic change’, while the Heritage Foundation supports US conservatism and calls limited government.⁸⁹ These latter two organisations are much aligned with US conservative values and Republican beliefs. Combined with the other indicators, they indicate that the MCC aims to aid countries that only focus on market friendly policies.

From one angle, the MCC appears to be another US agency promoting US economic and security interests. The indicators are much similar to market-centric ideas of neoliberalism. President Bush’s announcement on its creation was also more aligned with combating terrorism through MCC’s initial funding (Carbone, 2004: 538; Chhotray and Hulme, 2009: 42-43). From another angle, the MCC’s performance indicators reflect the worldviews of the key advisers within the Bush administration. As noted, possible MCC recipients have to meet part of the indicators. The MCC draws countries into the realm of open, liberal globalisation before they gain aid. It thus forms an *ex ante* style of US-led conditionality and controlling countries through US-led development (Soederberg, 2004: 294; Mawdsley, 2007; Mohan and Mawdsley, 2007: 440). Such a stringent mechanism reflects the core advisers’ belief in controlling world events.

⁸⁸ For the list of the indicators and institutes as of US FY 2014, see <http://www.mcc.gov/pages/selection/indicators>.

⁸⁹ See <http://www.freedomhouse.org/about-us#.Uuj5IPIFDDc> and <http://www.heritage.org/about> for a description of both organisations’ objectives.

This style of bilateral aid may also be seen through the remainder of the four step process. Even after countries are chosen via the indicators, it is up to the MCC board to select countries annually. The board has the ability to choose countries which do not fall within the indicators. This is especially since the MCC board consists of cabinet members from State and Treasury, who can influence choices.⁹⁰ For example, the Board selected Georgia in US FY 2004 instead of Vietnam. This is despite the Vietnam scoring higher across the ‘ruling justly’ indicators (Tarnoff, 2007: 8). The selection of Georgia could be attributed to it presenting projects that related to privatisation and market-based growth (Mawdsley, 2007: 498-500). The Board also partially terminated part of the Nicaraguan Compact due to the country’s failing political freedoms (Tarnoff). This again indicated that only states favour market friendly growth would receive funding. States that do not adhere to the MCC’s norms are immediately

The strategic objectives encompassing MCC Board selection could be seen in other FYs. In FY 2005, China and Vietnam were excluded, despite both countries passing the indicators (Tarnoff, 2008: 8).⁹¹ With no formal explanation given, it may be surmised that the US did not wish to fund economically advance competitors. In stark contrast, Jordan was selected as a candidate in FY 2007. This is despite it scoring very low in the ‘political rights and civil liberties’ category. Similarly in FY 2008, another key US ally, the Philippines was finally granted a Compact (Tarnoff, 2009: 8-9). US allies were also granted ‘Threshold programmes’—MCC financing for countries that just failed the range of indicators.⁹² This has allowed the Philippines, Jordan and Indonesia to receive funds (Hout, 2007: 82). There may not be an explicit link between MCC Threshold programmes and US foreign policy. Even so, the funding of these countries raises queries regarding the organisation’s real objectives.

⁹⁰ As a MCC staff officer noted, the Board of Directors has exercised discretion when choosing client states and monitoring their performance. Interview, February, 2012.

⁹¹ As Hout states, formal legislation does not require the MCC CEO or the full board to explain why certain countries were not selected (Hout, 2007: 83)

⁹² See <http://www.mcc.gov/pages/program/type/threshold-program> for the specific details regarding MCC Threshold Programmes.

It may be argued that the proposed rise in bilateral aid through the MCC was to improve global development. As noted above, however, it was created in response from pressure by other donors and due to the inefficiencies of US aid programmes (Brainard, 2003; Brainard et al. 2003; Radelet and Herrling, 2003). Even so, MCC's strict criteria and process indicates that many poor countries or regions would not receive MCC disbursements (Jackson, 2005 in Hout, 2007: 84). The expansion to include middle income countries as possible MCC clients also question the organisation's objectives. While middle income countries may require aid, it still indirectly allows more US allies to fall under MCC's umbrella.⁹³ With the possible Compacts being terminated, client states are focusing on the strict conditions in the indicators. The availability of the Threshold programme also means that more countries would be enveloped under the MCC's policies.

Bush administration officials pushed for an increase in aid and created the MCC due to pressures from the domestic and global environment. Their own world views classified the world in straightforward categories and perceived the US as a state that could influence global events. This was translated into the MCC indicators, which coerced states into implementing strict market-friendly and libertarian policies. This would be a pre-condition before any possible financial disbursements were provided. Ultimately, the rationale behind the MCC's creation aimed to increased US foreign aid bilaterally. This planned quantity increase nevertheless required Congressional approval, which the next section shows would be a political intuitional challenge.

4.6 The MCC and congressional appropriations

The first and second Bush administrations may have proposed a sharp increase in its bilateral aid volume through the MCC. This was a result of the perspectives of key decision makers and the nature of the external environment. As in the case for any federal expenditure, this required authorisations and appropriations by both houses of Congress. As in the case of USAID, there was not much common ground between

⁹³ Another criticism is that it would reduce the overall MCC aid for LDCs and reduce the number of recipients as middle-income countries are more likely to meet the MCC's indicators (Radelet, 2003: 26-27 in Hout, 2007: 91).

executive branch requests and Congressional perspectives. This section will ultimately show how the political institution of Congressional approval shifted US aid high through the bilateral realm.

A first area of contention was over the management of the MCC. This was evident through the House and Senate authorisation bills. The former initially proposed H.R. 2441 while the later, S.1160. S. 1160 was significant as it did not officially authorise the creation of the MCC. Instead, then Senators Biden and Hagel proposed that the MCA funding be controlled by the Secretary of State, through an appointed State Department official. The Senators were influenced by the past historical management of US aid programmes. Therefore, their proposal was different from the structure proposed by the Bush administrations, and was threatened by to be vetoed (Epstein, 2003: 45; US Senate, 2003, S. 1160).

It was only due to the perspectives of another Senator, former Senator Lugar, that the clauses in S. 1160 were amended to form a new bill, S. 1140. Lugar proposed a small degree of change, allowing the formation of a MCC but placing the Secretary of State controlling its policies. Finally, the full Senate accepted modified versions of S. 1140 into a final bill, S. 925, which was authorised legally in H.R. 2800 (US House of Representatives, 2003a).⁹⁴ S. 925 and H.R. 2800 only became official through amendments by Senators. For example, Senator Leahy requested that MCA funds be only used in environment-friendly projects (US Congressional Record, 2003a, S.AMDT.1171).

For the House, H.R. 2441 eventually translated into an appropriations act, H.R. 1950.⁹⁵ Unlike the Senate, the House Authorisation Committee was more aligned with the administration's plan. H.R. 1950 authorised the creation of the MCC. It would, however, wish than leaders from other US bilateral aid agencies sit on the Board of Directors (US

⁹⁴ As the LOC noted, the authorization for the MCA and MCC in S. 925 was incorporated in H.R. 2800. This is despite it being a House of Representatives bill. See <http://thomas.loc.gov/cgi-bin/bdquery/z?d108:H.R.1950>: .

⁹⁵ See <http://www.gpo.gov/fdsys/pkg/BILLS-108hr2441ih/pdf/BILLS-108hr2441ih.pdf>

House of Representatives, 2003b, H.R. 1950). Eventually, both Houses approved the current MCC structure under Division D of P.L. 108-199 (Tarnoff, 2007: 2). The differences between these bills, especially the Senate bill, indicate how legislators shape the volume of US bilateral aid.

The final appropriations during this time period also reveal sharp differences between both houses of Congress and the administration's request. As noted above, both Bush Administrations planned to increase US bilateral aid through the MCC by US\$5 billion. Across the various FYs from 2004 to 2008, appropriations to the MCC were in fact far less than requests. The administration requested US\$1.3 billion in FY 2004---the first year of operation. In contrast, Congress only finally appropriated US\$0.994 billion (Tarnoff, 2007: 29). Various legislators such as former Representative Carolyn Kilpatrick and former Senator Jeff Bingaman proposed reductions in MCC funds. Their failed amendments aimed reduce MCC funds and shift the money towards anti-HIV/AIDs projects (US Congressional Record, 2003c). Although their efforts failed, it indicated that legislators' views again differed from executive branch policies.

This executive-legislative divide was evident in other FY appropriations. In FY 2005, the Senate subcommittee on Foreign Operations and Export Programs questioned MCC officials. Senator Tom Harkin raised the need to focus MCC funding on disabilities in the global South. This was contrary to the MCC's strict mission of improving development through economic growth. Senator Mitch McConnell also desired that MCC funds to improve oil and mining revenues (US Senate Subcommittee on Foreign Operations, Export Financing and related programmes, 2004: 31-32, 89-90). Legislators' views and demands were translated into the committee reports---the Senate Appropriations Committee report recommend a lower sum of US\$1120 million (US Senate Appropriations Committee, 2004, *S.Rept 108-346*: 50). It also reiterated Senator Harkin's call to address disability in MCC programmes. Ultimately, the final appropriations act conferred a figure '40 [percent] below the President's [US\$] 2.5 billion request.' (Nowels, 2005: 20).

Beyond the substantial drop in MCC funding, there were still additional amendments to the FY 2005 appropriations bill. The most significant was Representative Ron Paul's, who proposed that funding for the entire MCC be removed (US Congressional Record, 2004). While that amendment also failed, the above indicated strong resistance towards funding and maintaining this new bilateral aid initiative. Rep. Paul and Senator McConnell's views also indicate that not all Republicans align themselves with the administration. This verifies the hypothesis that political positions do not always dictate foreign aid levels. The FY 2005 allocations were significant as externally, the US affirmed mid-MDG pledge for all donors to increase their aid levels (Jones and Nickinson, 2006: 350). This external context apparently did not influence US legislators. Instead, their views were shaped by first the need to maintain fiscal prudence. Second, as shown above, they believed US bilateral aid should be targeted at other areas, especially addressing HIV/AIDs.

Appropriations for the MCC during the remaining Bush years continued to be far less than the administration's requests. In FY 2007, the second Bush administration requested US\$3 billion for MCC funds. Senator such as former Senator Dewine were concerned that MCC funds were weakly connected to US foreign policy interests (US Senate Subcommittee on Foreign Operations, Export Financing and related programmes, 2007: 87). The Appropriations Committee Report reflected his view, emphasising the need to coordinate MCC programmes with other US bilateral agencies. It recommended only around US\$1.88 billion to the MCC, while the Appropriations Committee was more generous, recommending US\$2 billion (US House of Representatives Appropriations Committee, 2006, H. Rept. 109-486: 3; US Senate Appropriations Committee, 2006, S. Rept. 109-277: 78). The final appropriated mount was not just shaped by legislators, but also through institutional setting. Foreign Operations appropriations were stalled and only later enacted in a continuing resolution, P.L. 109-289. This P.L. was further amended into another resolution, H.J.Res. 20 (Tarnoff, 2007:30). Due to a unique legislative law in 2006, FY 2007 appropriations for most government agencies were the same as FY 2006

appropriations.⁹⁶ All of this showed how political institutions in the US shaped even new bilateral aid initiatives.

In the last fiscal for George W. Bush's Presidency, his administration again requested another US\$3 billion for the MCC. Again, appropriations committees' reports were critical of MCC's operations. The House Appropriations Committee's recommendation was '40 [percent] below the [administration's] request'. Its main concern was again saving money due to the domestic fiscal environment. The Appropriations Committee report was more critical, as it criticised the MCC for not targeting key US allies in its Compacts (US Senate Appropriations Committee, 2007, S. Rept. 110-128: 53). The final appropriated amount was initially US\$1.544 billion, under a late consolidated appropriations act. FY 2008 was unique as a further US\$58 million was reduced from the above figures (Tarnoff, 2008: 24).⁹⁷

The MCC was the Bush administration's key project to increase US bilateral aid, make it more effective, and group more nations under a US-led economic system. With US decision makers shaping its formation, US aid increased through the bilateral route. Despite this, the final step of political institutions or approval would finally shape the nature of US bilateral aid. Legislators in both Houses of Congress were not keen to approve the administration's financial requests. As shown above, legislators were more shaped by the domestic fiscal environment and reduce MCC finances as a result. Others called for MCC's aid to be rather spent through anti-HIV/AIDs programmes or, other issues besides economic growth. US aid bilateral aid levels, even that of new projects, are often steered off track by US legislators' decisions and their views.⁹⁸ The MCC has been challenged by this financial barrier by the whole Congress. It still begs the question how

⁹⁶ This unusual case of FY 2006 and 2007 appropriations being similar was confirmed by another LOC Librarian, Librarian B. Email Interview, April 2013.

⁹⁷ The reduction of US\$58 million from the MCC's FY 2008 appropriations came about through a Supplemental Appropriations Act, P.L. 110-252. See p.21 in <http://www.gpo.gov/fdsys/pkg/BILLS-110hr2642enr/pdf/BILLS-110hr2642enr.pdf>.

⁹⁸ The term 'thrown off track' was used by a senior Center for Global Development researcher on US development aid. She did qualify that decreases to MCC's funding were also partly due to the results it presented to both Houses of Congress. Even so, their lower appropriations did not match the efforts of that organisation. Interview, March 2012.

US bilateral aid rose rapidly. The next section, covering USAID's financial capacity and comparing it with MCC, will reveal how.

4.7 USAID in the second term of the Bush administration

This section now turns to cover US bilateral aid flows from USAID in the closing years on the George W. Bush Presidency. In the last year of the first Bush administration and the second administration, USAID disbursements were once again mostly used to address US foreign policy objectives. A 2004 White Paper detailed that USAID would be the key agency too implement the ideas from 2002 NSS. Aid from USAID would be utilised to 'improve governance, promote economic freedom and make sound public investments'. The report argued for a sharper focus on 'failed states' in the context of US security. This could be seen through the spending of USAID aid training police forces in Kenya (Hills, 2006). This again showed how US aid was changed by the perspectives on key decision makers.

The 2004 White Paper also further proposed that USAID work more closely with the State Department, especially coordinating on foreign policy-related programmes (USAID, 2004: foreword, 8, 13, 19-20). This intensification of USAID aid was further solidified in a USAID document called the *2006 Primer*. It cited that bilateral aid is a 'potent leveraging instrument for keeping countries allied with US policy while they win...against terrorism' (USAID, 2006: 3). In the same year, a second NSS, the 2006 NSS, was launched, with four chapters devoted towards the cause of advancing international development. US bilateral aid and aid agencies were to foster market friendly globalisation to 'end tyranny' (The White House, 2006: 6, 34, see also Essex, 2008b). This 2006 NSS also saw another attempt to place USAID under tighter State Department control. The USAID Administrator would now be physically located in the State Department building and the agency would be deeper oriented towards foreign policy (The White House, 2006: 33, 44; Picard and Groelsma, 2008: 3-4).

This strong focus of US aid towards national security could again be linked to the worldviews of key Bush administration officials. President Bush himself stated that

promoting democracy was the way to end tyranny and the key to America's national security strategy. US foreign policy tools would help shift countries from non-democratic to democratic governments. Similarly, former Secretary of State Condoleezza Rice stated that US foreign assistance would be used to a) promote democracy b) and prevent failed states (Lancaster, 2008: 29). The terms 'failed states', 'freedom' and 'tyranny' once again indicates that these individuals classify the world in distinct terms. Stating that it is a core duty to improve democracies globally also indicates their belief that the US should be influential externally.

Despite this renewed focus on aid for national security, USAID's budget was again subjected hurdles in Congressional appropriations. While Congress approved funds far less than requested for the MCC, the organisation still had more latitude than USAID and other US aid agencies. As noted above, the MCC creators did not wish it to be trapped by Congressional debates or threats. Therefore, unlike with USAID, MCC's financial disbursements cannot be affected after the appropriations. A Senior Manager in the MCC dealing with legislative affairs noted that MCC multi-year Compact finances are secure. US legislators, while requesting oversight, cannot issue earmarks, limits on spending or mandates to the MCC.⁹⁹

USAID naturally required funding approval from both Houses of Congress altering its expected budget. In FY 2005, amendments were once again tabled to increase funding for USAID's child health programmes. Although this amendment was defeated, it again indicates the strong preference of where bilateral aid increases should be targeted (US House of Representatives, 2004). For the FY 2006, USAID requested only US\$1251, 500,000 for the Child Survival and Health Programs fund. In contrast, the whole Congress appropriated a larger sum of US\$1585 million. As with previous acts, they specifically detailed how USAID must spend the allocated sum (US Congress, 2005, P.L.109-102: 3).

⁹⁹ This independence from Congress was detailed by a senior MCC official dealing with legislative affairs. He specifically argued that MCC has far more latitude than USAID when dealing with Congress. Interview, February 2012.

In stark contrast, Congress did not agree with USAID's request of US\$325 million for the Transitional Initiatives programme, which incidentally dealt with shifting countries into democracies, a key geostrategic effort. The House report was critical of USAID's plan to fund a large range of programmes. P.L. 109-102 finally only appropriated only US\$40 million, with clauses strongly stating that the money be spent only on geostrategic allies (USAID, 2005: 14; US Congress, 2005, P.L.109-102: 3-5, 6-7 US House of Representatives Appropriations Committee, 2005, H. Rept. 109-152: 8-15, 29; US Senate Appropriations Committee, 2005, S. Rept. 109-96: 4). Even in FY 2007, where appropriations were stagnant for other departments, the entire Congress appropriated US\$1,718,150,000 towards USAID Child Survival and Health Programs. This trend continued in the FY 2008 (USAID, 2007: 32; US Congress, 2007a, H.J. Res. 20: 16; US Congress, 2007b: PL 110-161: 449).¹⁰⁰ This again indicates that US legislators had a strong preference in addressing health issues in development, as opposed to channelling bilateral aid to other programmes.

Bilateral aid levels did increase across the second Bush administration, , but not to the administration's desired level (The New York Times, 2005; OECD, 2011c: 41). It is quite evident that the whole Congress is more concerned with providing aid towards children and health programmes. Even if US aid is directed towards US national interests, Congress does not automatically agree with all of the administration's requests and policies. As a former USAID Foreign Service Officer noted, US legislators will not automatically appropriate funds even if programmes demonstrate improved results.¹⁰¹ It should also be noted that the FY 2006 appropriations also occurred when both Houses of Congress were dominated by Republicans, the same political party as the Bush administration. For the FY 2008 appropriations, the Republicans controlled the House of Representatives, yet they differed with USAID's ESF requests (Amer, 2005, 2008; US House of Representatives, 2007, H.Rept. 110-197: 69-70).¹⁰² This again indicates that the differences between both branches of government ultimately produce the level of foreign

¹⁰⁰ For FY 2008, the amount appropriated was US\$ 278, 871,000 higher than USAID's requests.

¹⁰¹ This comment was explicitly stressed by the Former Senior USAID Foreign Service Officer. Interview, March, 2012

¹⁰² These sessions of Congress are the 109th session, spanning years 2005-2006 and the 110th Congress, spanning years 2007-2008.

aid it provides.¹⁰³ It showed how US aid changed due to the perspectives of new key political leaders regarding their external environment. Bilateral aid only ultimately increased due to the long standing institution of US legislative approval.

4.8 Bush administrations' USAID and MCC aid levels compared

This section compares the volume of aid dispersed through the USAID versus that through the MCC. As shown above, Congressional appropriations have constantly thrown US bilateral aid levels off track. The creation of the MCC was an attempt to circumvent such barriers arising from both sides of Congress. With the MCC receiving more independence, it may infer that it is the agency that provided more across the last decade. The table below shows the net disbursements by both USAID and MCC from 2005. In stark contrast, it is USAID's aid volume that is many times higher than its counterpart. Nevertheless, the table shows a steady increase in MCC's net disbursements as opposed to a vary trend in USAID.

Table 2: USAID and MCC net bilateral disbursements, 2005 to 2010 (in US\$ millions)¹⁰⁴

Year	2005	2006	2007	2008	2009	2010
MCC	52	155	308	590	932	1429
USAID	10524	10173	10078	13098	14364	15192

(Source: US ODA Database, 2013)

The table shows that Bush Presidency achieved its objective of creating a new aid apparatus, albeit partially. It may not have fully reached its ambitious target of increasing its bilateral aid. Yet, the MCC has added another piece to the US bilateral aid pie. It indicates a swing towards aid through a unilateral route. As a former Deputy

¹⁰³ As a former Deputy Administrator of USAID noted, USAID's finances are often caught in the middle of tussles between the State Department, the White House's view of the world, and Congressional perspectives. Email interview, March 2012.

¹⁰⁴ The above figures may differ from Congressional appropriations. This is first due to them being net disbursements. Second, Congressional appropriations may also include administrative expenses. Another point is that for USAID, it also disburses part of its aid to various multilateral organizations. For the above table, I have only included USAID net bilateral disbursements in comparison with the MCC (US ODA Database, 2013).

Administrator of USAID stated, the Bush Presidency desired control over the direction of its aid and claim credit for any aid success.¹⁰⁵ This brings out the question whether there's a strong preference for bilateral agencies as opposed multilateral agencies. The next section, examining the US during the IDA 13 and 14 negotiations, reveal evidence to the contrary.

4.9 IDA replenishments across the first and second Bush administrations

The above discussion on US bilateral aid gives the indication that Bush Presidency was much focused on providing aid via bilateral means. This nevertheless does not infer that it shied away from making contributions towards IOs. This section now turns to cover US contributions through the IDA, particularly IDA 13 and IDA 14. The Bush Presidency was in fact very influential in thirteenth IDA replenishment and to a certain extent, the fourteenth replenishment. In IDA 13, the US was the influential shareholder first advocating that IDA switch to providing grants instead of repayable loans. Second, they advocated that IDA should improve its efforts in producing measurable results (US Treasury, 2002a).

Such a proposal by key Bush advisers was again shaped by their own perspectives of the domestic and global environment. First, President George W. Bush was known to delegate policy making to major advisers and seek advice from them (Mitchell and Massoud, 2009: 272-273). With regards to MDB policy, core Bush Advisers were then economic adviser Lawrence Lindsey and Undersecretary of the Treasury, John Taylor.¹⁰⁶ Taylor was a development economist that adhered to monetarist economics. He thus adopted the economic ideology linking aid, sound policies and economic growth (Hook, 2008: 157-158). More importantly, Taylor and Lindsey both endorsed the Meltzer report which proposed MDBs provide grants instead of loans. This was especially since Taylor and Meltzer had a history of working together (Babb, 2009: 219; Lavelle, 2011a: 151;

¹⁰⁵ See footnote 49. Email Interview, March 2012.

¹⁰⁶ [REDACTED], who was the US Executive Director during IDA 13 noted that then Undersecretary Taylor was in fact the key official leading the administration's policies for IDA 13. Telephone Interview, April 2012.

Taylor, 2007 in Lavelle, 2011b: 215). With no other internal dissent, they could present their economic ideas to President Bush.

A second external factor was the influence of Christian NGOs on the Republican political community. As previously stated, these groups were able to alter the anti-aid sentiment amongst US politicians. In particular, they were able to shift US politician's attention towards the HIPC debt relief initiative (Lancaster, 2007:92; Babb, 2009; Lavelle, 2011a: 150-151). A core issue arising from debt relief was a stakeholder's ability to repay loans. Key Presidential advisers were attracted by an alternative proposal that forgave part of overall debt in exchange for countries meeting sound pro-growth policies (Sanford, 2004: 1587-1588). This would again match the new economic thinking, linking sound policies, aid and growth.

This would be further linked to third factor, the global economic context the US was in during the negotiations. This time period was just a few years after the Asian Financial Crisis and the US was wary of aiding other countries. At the same time, there was external pressure for the US to re-assert itself on the international arena. The first Bush administration was perceived to be pursuing unilateralist stance by withdrawing from international agreements, especially development-centred agreements (Woods, 2002: 247). Other IDA shareholders were also suspicious of the US, especially since the whole Congress failed to appropriate funds for IDA 11 (IDA, 2001). The US was further pressured to increase its overall foreign aid after affirming the UN meeting in Monterrey (Castle, 2002).

With these internal and external contexts, Taylor and other officials presented a grants proposal during the IDA 13 negotiations. Grants would be connected to ex-post 'output measures' in IDA recipient countries. The US asserted this would improve the IDA's accountability by improving monitoring. Furthermore, grants would help foster long term development and recipients would not need to pay them back. This would reduce their debt draw them out of the HIPC category. A further argument stated was that bilateral aid agencies were already providing aid in the form of grants. Overall, the US Treasury team

proposed that 50 percent of the IDA's disbursements be switched to grants. (Sanford, 2002a: 741, 745, 750; Sanford, 2004: 1588; Lavelle, 2001a: 151). The US also pushed for the IDA to improve its operations in three core areas: (1) Primary school completion; (2) Measles immunisation and (3) private sector development. With regards to monetary contributions, the US Treasury committed a basic amount of US\$ 850 million each year for all three years. It further requested an additional US\$ 24 million to clear past arrears (US Treasury, 2002b, 2004a).

The above proposal is reflective of the PA concept. The principal, in this case the US, was attempting to alter the agent, the IDA in performing its bidding. This is also evident in the wider IDA 13 negotiations, where other key IDA shareholders vehemently opposed the US plan. The British argued that this would require more massive contributions from shareholders to sustain grant disbursements. Then British International Development Minister Clare Short attempted to isolate and block the US move, threatening to shift their IDA contributions to their bilateral agencies. Similarly, a German official stated that the proposal did not include any definitive promise to increase the US share or con (Curl, 2001; Sanford, 2002a: 751; Beattie, 2002a).

On top of its proposed basic contributions, the US Treasury team promised a supplemental contribution of US\$ 300 million across the IDA 13 years. This additional contribution was dependent upon IDA producing measurable results in global health, education and private sector development (US Treasury, 2003, 2004b). The proposed sum was US\$ 300 million and it was divided in US\$ 100 million for IDA FY 2004 and US\$ 200 million in 2005 (see US Treasury, 2004a, 2004b). This incentive reflects the mechanisms of control within the PA model. The US is presenting a 'carrot' approach in this manner—the IDA as the agent is given an incentive to perform in order to receive more funding.

The US as a shareholder displayed a dominant role as principal during the IDA 13 negotiations. Its actions also show that the Bush Presidency was not explicitly withdrawing from the IDA, even with its new bilateral aid agency. Yet, the PA theory

alone cannot solely depict US aid delegation and aid flows in practice. For instance, the push towards grants through the IDA was not explicitly because the principal could not perform the task efficiently by itself. Neither was it solely the case on leveraging on IDA's specialised ability. It was more the case of officials presenting their views on how IDA should operate.

Another area where US delegation diverges from the PA theory was with the political institutions or the Congressional authorisations and appropriations. Unlike in previous Congressional sessions, most legislators appeared to less hostile towards this new initiative.¹⁰⁷ The then Chairman of the Subcommittee on International Monetary Policy and Trade, Doug Bereuter, opened the debate with support for grants. The main House Committee on Financial Services Chairman, Michael Oxley also voiced his strong support for the administration's proposal. Rep. Ken Bensten was more cautious, yet he still gave his consent. Oxley in particular stated that the grants and results proposal would ensure efficiency in US tax dollar spending.

In the Senate, the Chairman and the Ranking Member both indicated support for the debate as did then Senator George Allen. Legislators may not hold the same worldviews as executive branch advisers. Nevertheless, they appeared to agree that grants would be more beneficial to LDCs. These legislators were also persuaded by the positive arguments from civil society groups such as Bread for the World and Oxfam America. Officials from these groups even argued against the European arguments against grants (US House Committee on Financial Services, 2002, H. Hrg. 107-78: 1-6, 24-25, 44, 84; US Senate Foreign Relations Committee, 2002, S. Hrg. 107-796: 1-3, 12-13).¹⁰⁸ In this respect, US legislators from both parties aligned themselves with the Bush Presidency's proposal.

¹⁰⁷ For instances where legislators disagreed with the executive branch, see Babb, 2009: 146,163-164 and Lavelle 2011a: 135-136.

¹⁰⁸ There were the authorization hearings for the first year of IDA 13, that is, FY 2003. An official from Bread of the World called European shareholders opposition to grants as 'nutty' (US House Committee on Financial Services, 2002, H. Rept. 107-78: 25).

It was, however, a different story in deciding upon the final appropriations for the FY 2003. As noted, on top of the basic contributions, the administration requested around US\$ 27 million more to cover for arrears (US Treasury, 2004a). The final requested amount was US\$ 874,338,333 which the House Committee also recommended. The Senate Committee was in contrast, more critical, criticising the Bank over its dams projects in countries. It recommended a lower sum of US\$ 837,333,000 (Sanford, 2002b: 9-10; US House of Representatives, 2002, H.Rept 107-219: 74; US Senate, 2002, S.Rept 107-663: 51-52). With these differences, the final appropriations act just allocated the basic amount, US\$ 850 million (US Congress, 2002, PL 108-7, H.J.Res.2.: 168).

The discussions for the second instalment in FY2004 produced more variations between the House and the Senate. The Senate Foreign Relations Committee laid down authorisation for US participation in IDA 13. In contrast, The House Committee on Financial Services, there was no successful authorisation for IDA 12 participation. Even with any approved appropriations, the US would not be able to participate in the full IDA 13 replenishments. It was only through an amendment by then Rep. Judy Biggert that US funding was finally authorised (Sanford and Weiss, 2003: 7; US Congressional Record, 2003b: 7428).

For FY 2004, the administration's requests for IDA totalled US\$ 876,825,167 including the conditional supplemental contributions and arrears owed. The appropriations committees in both Houses were, as with IDA 12, in disagreement with this request. The House report was against the supplemental contributions, despite the US Treasury asserting the indicators were met. It desired even more rigorous assessments of IDA aid (US House of Representatives Appropriations Committee, 2003, H. Rept 108-222: 74; US Treasury, 2004a). The Senate's report was also critical of IDA projects in forestry and the Treasury's oversight of IDA. It nevertheless recommended a higher amount, albeit not the same (US Senate Appropriations Committee, 2003, S.Rept. 108-106: 60-61).

In the final Consolidated Appropriations Act, the entire Congress requested the US Treasury to hire an independent entity to monitor the IDA's effectiveness. It also

requested that the US disburse its supplemental contribution only after the audit showed favourable progress. In total, the entire Congress finally appropriated US\$ 913,200,000, much lower than the administration's request. (US Congress, 2003c, P.L. 108-199, H.R. 2673: 162-163, 200-201). This amount would only provide the basic committed sum. It would not allow the Bush Presidency to meet its full incentive as promised in the IDA 13 negotiations. Nor would it cover the debts the US owed to the IDA across the previous years.

The final instalment in FY2005 was equally plagued by legislative disagreement with the administration's commitments. Then Undersecretary Taylor specifically stated that the IDA has met the initial set of development targets. Even so, he received extensive questioning from the House Appropriations Foreign Operations Subcommittee. Then Chairman Kolbe pressed Taylor on the strength of US monitoring over the IDA's activities. Then ranking member Rita Lowey was far more critical, arguing that:

We (the entire Congress) have been asked to provide [US]\$ 200 million above the [US]\$ 850 million base payment as a reward for good performance. So far, the committee has been given little information, frankly, from the Department of the Treasury about what those incentives are or who will decide if they have been met.

This was again despite Taylor and the US Treasury presenting details on IDA's effectiveness (US Treasury, 2003). The House Report for that FY only recommended the basic amount for the replenishment be appropriated. It cited the fiscal constraints and the increase funding for other US development priorities for the drop. The final appropriation act also only approved the basic amount figure of US\$ 850 million. This later was reduced US\$ 843.2 million. This figure was again far less than the requested figure of US\$1,061,309,801 (US House of Representatives Appropriations Committee, 2004c, H. Rept. 108-599: 79; US Congress, 2004, P.L. 108-447: 181; Weiss, 2005: 5).¹⁰⁹ With this amount, the US Treasury was thus unable to provide either its basic commitment or its proposed incentives to reward the IDA.

¹⁰⁹ As before, this total request consisted of the basic commitment figure, the supplemental commitments of US\$200 million and payments to clear arrears.

The differences between executive branch requests and Congressional appropriations were again evident in IDA 14. In this replenishment round, the second Bush Administration committed a basic amount of US\$ 950 million for each of the fiscal years 2006, 2007 and 2008 (Weiss, 2008: 9). Once again, US Treasury officials focused on the detailed results and output from IDA operations. Then Undersecretaries Quarles and Pittman detailed IDA's role in US foreign economic policy, as well as the organisation's improvements since IDA 13 (US Treasury, 2005a, 2005b).

The House Appropriations Committee approved that requested figure although it nevertheless was still critical of IDA's programmes, its weak transparency and slow efforts in (US House of Representatives Appropriations Committee, 2005, H. Rept. 109-152: 75-77). On the other hand, the Appropriations Committee was more critical over the organisation slow efforts in revealing its data. Former Senator Lugar further tabled an amendment to push for reforms in all MDBs (US Congressional Record, 2005; US Senate Appropriations Committee, 2005, S. Rept 109-96: 69). For this first instalment, the entire Congress did appropriate the requested figure of US\$ 950 million (US Congress, 2005: 22).

What was significant for this FY was that later Congressional acts and decisions further reduced the total amount that could be provided. First, 1 percent of the total sum was reduced in P.L. 109-148, a Department of Defense appropriations act (US Treasury, 2006: 1).¹¹⁰ A second reduction was in P.L. 110-5, in FY 2007, where US\$31.35 million was rescinded. This was due to the US Treasury not meeting the whole Congress condition of pushing for reform within IDA. In total, only US\$940.5 million was approved in FY 2006 (US Congress, 2007a, P.L.110-5, H.J.Res.20: 17; Weiss, 2008). This again meant that the US Treasury was unable to meet the sum it committed during the negotiations.

¹¹⁰ See Chapter 8, Sec.3801(a) (1) in <http://www.gpo.gov/fdsys/pkg/BILLS-109hr2863enr/pdf/BILLS-109hr2863enr.pdf>.

For FY 2008, the requested amount was higher by another US\$ 110 million to clear even more arrears. Once again, the US Treasury specified the importance of fully funding the IDA and the US influence over the organisation. The House Appropriations Committee nevertheless disagreed with the US Treasury, citing that there was not enough pressure by the US Treasury to alter the IDA's anti-corruption practices. The Senate Appropriations Committee Report was also critical, arguing against the organisation's environmental programmes. The Appropriations Act that year finally only granted the basic amount, with it further reduced to US\$942,305,000 later (US Treasury, 2007: 65; US Treasury, 2008: 83; US House of Representatives, 2008, H. Rept. 110-197: 130-131; US Senate, 2008, S.Rept. 110-128: 69-70; US Congress, 2008, PL 110-161: 468). This yet again added to the US Treasury's sum of debts to the IDA and prevented it from meeting its obligations.

4.10 US aid flows in practice

The section above indicates the strong US politics behind replenishments to the World Bank's IDA. First, it indicates that there was indeed an effort to direct aid multilaterally via the IDA. The proposals, especially those during IDA 13, were policies reflecting the worldviews of the Bush Presidency key political officials. With reference to why US aid levels changed, it is the outward views of administration officials trying to implement their views through the tool of multilateral foreign aid. Second, the above indicates that the final level of US contributions to the IDA in practice is not a linear, straightforward process as depicted in the PA model. Scholars such as Babb (2009: 221), Lavelle (2011a: 152) and Clegg (2013: 49-50) have emphasised that the supplemental contributions during IDA 13 as a means to a) shape the IDA's actions b) represent a principal's control over its agent. They focus much on the incentives being a mechanism of control, reflective of PA theory.

The discussion above in contrast indicates that the second Bush administration was unable to meet its own pledge in supplemental contributions. Multilateral contributions were often shifted away from their targets due to US political institutions. US legislators would in the final appropriations, often provide different financial contributions vis-à-vis

US Treasury targets. As an official in the US Executive Director's office noted, the Treasury and the Executive Director's office are in a constant battle with the whole Congress over appropriations.¹¹¹ In terms of the PA model, the US was thus unable to exert its position as a principal on its agent, the IDA, due to such Congressional decisions.

Third, In the context of flows to IDA, this has created a growing sum of unpaid commitments to the organisation. As Table 3 below indicates, US arrears, or contributions own to the IDA have grown steadily across the years of the Bush Presidency.

Table 3: US arrears to the IDA from FY 2002 to FY 2007 (in US\$ millions)¹¹²

Year	2002	2003	2004	2005	2006	2007
Arrears owned to IDA	73.0	78.5	120.7	327.5	368.4	377.9

(adapted from US Treasury, 2007: 2)

The US Treasury has constantly requests for funding to cover arrears, while the entire Congress in return has not met these appeals. This backlog has prevented any US administration from acting as well as influencing the IDA (US Treasury, 2007: 5). It also provides a crucial reason for why the US share of the replenishment rounds has decreased since (Faiola, 2007). This explains why US multilateral flows have decreased across the last decade. With Congress often approving funds less than US Treasury requests, this pushes US multilateral contributions below than of US bilateral disbursements. With the further formation of the MCC this further increased US bilateral aid over than of

¹¹¹ Interview, February 2012.

¹¹² It is assumed that all figures here are of equal value. The US Treasury Congressional Budget Justification did not

contributions to the IDA or even multilateral flows. This is even as MCC's disbursements across the Bush years were less than what was requested (Radelet et al. 2008: 1, 3-4).¹¹³

A fourth but smaller point arising from the discussion is whether US bilateral aid, especially the creation of the new MCC, was a substitute for US contributions to multilateral organisations. There is a lack of evidence proving this. The various House and Senate Appropriation Committees reports mentioned above give no indication that US legislators wish to transfer US funds towards US bilateral agents. Neither is there any evidence in final Congressional Appropriation acts stipulating that US commitments would be better off channelled bilaterally.

It may be argued that MCC's overall approach was to fund IDA-eligible countries with additional conditions (Brainard et al. 2003: 31). Faiola (2007) similarly argues that the Bush Presidency was more concerned with the MCC than extensively funding the IDA. Brainard 2007: 23 also argues that, '[the Bush Administration] has shown a decided aversion to multilateral approaches... [and] major bilateral programmes have [instead been] initiated' While there was an emphasis on the MCC and its stringent indicators, there is no suggestion that multilateral disbursements should be channelled via the MCC instead.

A further point to consider is the funding of trust funds within the IDA and the entire WBG. As noted in previous chapters, trust funds are small funds within IOs that shareholders or donors have stronger control over as opposed to delegated finances. Even though the US Treasury did fund WBG trust funds, it did not indicate that the Bush Presidency utilise due to distrust over the IDA. The Bush Presidency funded trust funds such as the HIPC Trust Fund, the Afghan Trust Fund, the Iraq Trust Fund and the Low-Income Countries Under Stress Trust Fund (US Treasury, 2005c: 71; US Treasury 2006: 24, 26; US Treasury, 2007: 19). These funds at best indicate the US was concerned in

¹¹³ Radelet et al. 2008 argue that the MCC disbursements were small relative to other increases in other US bilateral programmes. They state that the increase in US bilateral aid stem from disbursements for specific programmes in Iraq and Afghanistan, as well as for the PEPFAR programme (Radelet et al.2008:1). These are significant initiatives, but are beyond the scope of this thesis.

quickly funding programmes related to foreign policy or key global development. Again, there was no indication that they were financed because core funding to the IDA was less effective.

The above shows that the Bush Presidency was active in funding the IDA. These news decision makers appeared to be keen to increase its contributions to the World Bank's IDA during the IDA 13 negotiations. They pushed to increase grants and improve IDA's results stemmed from the worldviews of its officials. As much as the administration aimed to contribute additional funds, US legislators did not agree to appropriate the funds. They held a more critical view of US actions regarding IDA and the organisation's operations. Such Congressional operations threw US efforts off track and created a rising amount of arrears which the whole Congress similarly fails to appropriate. In this manner, US multilateral contributions have dipped lower than its bilateral disbursements. The next section explores a new juncture with the end of the Bush Presidency and the start of the first Obama administration.

4.11 From George Bush to Barack Obama

The year 2008, where appropriations were decided for FY 2009, marked the last year of the Bush Presidency. The following year marked the shift from a Republican-led to a Democratic-led Administration. It was expected that the new Obama administration would produce a radically new foreign policy and hence foreign aid agenda from that of its predecessor.¹¹⁴ This section will to the contrary assert that there is more continuity rather than change with during the Obama administration regarding US aid.

Then Candidate Obama pledged that his future administration would continue America's presence in the world. This would be pursued not by relying on fixed mindsets in Washington DC but by engaging with a range of countries globally (Obama Campaign, 2007). Obama specifically targeted US foreign assistance in his campaign, pledging an increase of US\$50 billion of overall US foreign assistance. Unlike with the Bush

¹¹⁴ The 'Obama administration' here refers to the first Obama administration, spanning years 2009 to 2012. This section will cover only 2009 to 2010 which is the time frame in this thesis.

Presidency, Obama did not explicitly frame US aid around combat global terrorism. Instead, it was to help reach the MDGs, combat corruption, address HIPC countries, polices that were part of global development. The Obama team pledged to address development by talking with both allies and unfriendly countries.

Obama and his team could there be said to have worldviews widely different from President George W. Bush and his advisers. It can be argued that they classify the world in ‘a more nuanced cognitive architecture’ or consider countries in differing categories (Dyson, 2009: 329). Inasmuch as the new administration wanted to depart from its predecessor’s agenda, it still approached the global arena in an almost similar manner as the Bush Presidency. For example, Obama’s 2010 NSS argues that the US must advance liberty and enhance prosperity, although through networking with other states (The White House, 2010: 2, 3-4, 15). This was similar to the ideas from the Bush Presidency’s 2002 NSS (Hemmer, 2011: 269; The White House, 2002:1, 10, 17).

The Obama Administration’s 2010 NSS indeed may not have emphasised the use of aid to address terrorism. It still stated how US aid would be used to improve failed states, prevent terrorist havens and sustaining allies (The White House, 2010: 21, 26-27, 46, 48). Furthermore, while Bush officials may have had a high belief for the US to dictate events, the Obama NSS did not fully diverge from this ideology. It stated that America needed to regain a lapse in leadership and argued that the US must ‘reserve the right to act unilaterally if necessary to defend...our interests’ (Hemmer, 2011: 272; The White House, 2010: 22).

In this light, the Obama administration was in fact directing its foreign policy on almost the same path as its predecessor. Its global development agenda and hence foreign assistance would be a tool to renew and sustain the US position. As former Secretary of State Hilary Clinton noted, US foreign assistance would be key tool to achieve the administration’s objectives. In the 2010 Quadrennial Diplomacy and Development Review, USAID was to focus extensively on rebuilding post-conflict and fragile states, similar to its previous role (US State Department, 2010: 12-124-127). More significantly,

the MCC, a Republican and Bush Presidency-created agency, was still retained by the Obama administration. The QDDR specified that the MCC is a key agency in reducing poverty via economic growth (US State Department, 2010: 77, 89).¹¹⁵ Hilary Clinton also noted its essential role in forging political alliances with client states (Clinton, 2010: 14).

This retention of the MCC indicates that the Obama administration and its officials agree with the ideology arising from the MCC and its role in forging an economic hegemony. Such retention of Bush era bilateral aid apparatus also indicates that the same programmes required Congressional appropriations, albeit with different requests.

As before, US Congressional final appropriations were vastly different from administration requests. In appropriating USAID funds, US legislators again enacted numerous clauses on specific USAID programmes. For example, in FY 2010, the whole Congress appropriated US\$71 million less for Transition Initiatives while dictating exactly how the programme should be organised (US House of Representatives Appropriations Committee, 2009, H.Rept 111-187: 58; US Congress, 2009a, P.L. 111-117: 3326). The whole Congress similarly initially appropriated US\$320 billion less for MCC funding in that same year. Legislators requested that the MCC regularly inform appropriation committees on any withdrawn compacts. They were also concerned that the MCC was engaging in businesses that had little impact on client states development (US House of Representatives Appropriations Committee, 2009, H.Rept 111-187: 89-90; US Congress, 2009a, P.L. 111-117: 3332-3333). Legislators later further rescinded a further US\$50 million in a following Public Law, P.L.111-26 (Tarnoff, 2010: 21).¹¹⁶ This shows that there was much continuity rather than change with legislators funding of US bilateral programmes.

With regards to IDA replenishments, there was also much continuity over the amount that the US would actually provide. The fifteenth replenishment round of IDA spanned from 2009 to 2011. This meant that as with IDA 12, funding for each of the instalments would

¹¹⁵ It should also be noted that the Obama administration also retained the PEPFAR programme from the Bush era.

¹¹⁶ See p.22408 in <http://www.gpo.gov/fdsys/pkg/PLAW-111publ226/pdf/PLAW-111publ226.pdf>.

be provided through different Presidential administrations. In the final year of the Bush Presidency, the US Treasury team pledged US\$ 3.7 billion for all three years of IDA 15, a quantitative increase over its pledge for IDA 14 (US House Committee on Financial Services, 2008: 8). This again proves that the Bush administration, a Republican administration, was not shying away from its multilateral commitments.

For the first year, the government requested US\$1235 million for the basic amount and US\$42 million more for arrears (US Treasury, 2008: 84). As in previous years, the US Treasury representative stated a) how IDA as an IO has a specialised ability in addressing development; b) the benefits of delegating aid through an agent and c) how IDA as a whole has improved since the last replenishment. US legislators' perspectives over IDA once again differed largely from the administration's view points.

Legislators such as former Rep. Barney Frank and Rep. Emanuel Cleaver for example were concerned with IDA's and the WBG's continued usage of strict conditionality (US House Committee on Financial Services, 2008: 2, 3,6, 21). Others such as Rep. David Scott and Al Green were more concerned with how IDA could assist strategically important states, such as Haiti (US House Committee on Financial Services, 2008: 17-19). Most significantly, Representatives were far more concern with US funding being channelled via to US adversaries such as Iran. Former Assistant Secretary Lowery received intensive questions over possible IDA funds to Iran (US House Committee on Financial Services, 2008: 17-19). This is despite the fact that Iran has not been an IDA-eligible country.

With legislators far more concerned over multilateral aid for strategic motives, this was translated into their various appropriation bills and acts. The US Senate Appropriations Committee cited concern that the WBG was moving quickly to a pneumococcal vaccine programme (US Senate Appropriations Committee, 2008, S. Rept. 110-425: 66-67). The final appropriated amount was US\$1,115 million, far less than the basic amount requested and thus further increasing US arrears (US Congress, 2009a, PL 111-8, H.R.

1105: 334). It should further be noted that P.L. 111-8 was an Omnibus appropriations act, only approved in November 2009.¹¹⁷

Such Congressional delays and barriers would further continue in the appropriations in 2009, or those for FY 2010. This Congressional session, the 111th, initially was dominated by the Democrats in both Houses, the same party as the executive branch (Amer and Manning, 2008). Unlike during the Bush years, this did not result in Congressional approval over executive branch requests. Certain legislators such as Rep. John Culberson were concerned with the fiscal situation of the US in the wake of the 2008 financial crisis. He tabled a failed amendment to reduce US contributions to all IO by US\$505,896,000 (US Congressional Record, 2009: H7905).

Other legislators like those in the House Appropriations Committee held more critical views over IDA's activities than the US Treasury. While the Treasury stated its efforts in securing greater transparency in IDA, the House Appropriations Committee criticised its budget support efforts (US House of Representatives, 2009, H. Rept. 11-187: 103; US Treasury, 2009: 98). Once again, the appropriated amount was much less—US\$57.5 million less than the requested amount (US Congress, 2009b, P.L.111-117: 3339). As with the previous appropriations, this meant that the US could not meet its basic committed amount, nor pay up its increasing arrears to the IDA. As with P.L.111-8, P.L/111-117 was an overdue Consolidated act signed together within the Transportation/Housing and Urban Development appropriations. This again delayed actual contributions to the World Bank's arm.

The above once again shows how US political institutions, in the forms of appropriations, shaped US aid flows. Despite executive branch officials producing policies that target US bilateral aid further towards strategic objectives, legislators may still not be as forthcoming when appropriating funds. Even with new initiatives like the MCC, which sought to remedy US aid approaches, legislators were not immediately approving. With regards to IDA replenishments, legislators also appear to hold far more critical views than

¹¹⁷ See <http://thomas.loc.gov/home/approp/app09.html> .

either Bush or Obama administration officials. Despite US Treasury officials constantly citing IDA's importance to the US and its improvements, US legislators appear not be swayed. They continue to present critical views of the IDA's or the WBG's operations.

As displayed above, legislators may also be swayed by foreign and domestic concerns. They may be concerned of US funds reaching unfriendly states. They may also be shaped by the need to reign public spending due to the fiscal environment. Such views are translated into their appropriations. They ultimately prevent the US from contributing its desired commitments to the Bank's arm and, increasing adds to debts or arrears owed to the organisation. Furthermore, intra-Congressional differences and differences with the executive branch resulted in delayed appropriation acts. This leads to overdue contributions to the IDA, adding further adverse effects to delegation to IOs.

These differences, whether over bilateral aid funding or to IDA replenishments, again bring up the question: Was there still a preference for US aid to be channelled bilaterally as opposed to multilaterally during this time period? Rep. Brad Sherman, a Democrat, focused on this issue during House Financial Services Committee hearing on IDA 15. He stated that:

...Nothing is more embarrassing to me than the...stubborn effort of this administration [the Bush administration] and others to funnel our scarce...foreign aid resources through the World Bank. We [US legislators] have a choice when we tax the American people...We can funnel that money through the World Bank...or directly through USAID and other organisations part of the United States government (US House Committee on Financial Services, 2008: 5, emphasis added)

Sherman was clearly indicating his preference for channelling bilaterally. This would allow a stronger control over the direction and usage of US aid. On an almost similar note, his colleague Rep. Spencer Bachus question whether IDA is more or less effective vis-à-vis US bilateral aid programmes (US House Committee on Financial Services, 2008: 12). This may indicate an inclination towards aid via US-only agencies. Even so, there is again no evidence to suggest that US bilateral aid is a direct substitute for US contributions to multilaterals.

Another issue that arises from the above is again the role of US contributions to WBG trust funds under the new administration. In the FY 2010 US Treasury CBJ, it stated contributions to a Tropical Forest Conservation Act. There were also contributions again to the global HIPC Trust Fund (US Treasury, 2009: 98, 100). US contributions to such funds were significant as the WBG reported it being the third largest contributor to IBRD/IDA trust funds in 2010 (World Bank CFP, 2010: 14). The World Bank's Independent Evaluation Group (IEG) has noted that the US funds trust funds due impatience with aid through the multilateral arena (IEG, 2011: 6). Nevertheless, the language in US Treasury documents does not classify the IDA as ineffective. At best, trust funds are used to gain faster results, not as an explicit, alternative route to delegation to IOs. The executive branches in various administrations wish to utilise the advantage of IOs like the IDA. It is the differing views from legislators and their resulting

4.12 Conclusion

Net US foreign aid increased across the last decade, albeit more through direct bilateral disbursements than through contributions to IOs. It was not so much a case to just tackle foreign policy objectives. Rather, it was a combination of Bush administration officials trying to implement their worldviews through increasing aid and a tussle with the appropriations set via US legislators.

In the case of USAID, its various programmes are often steered by legislator's view on what development should be. As show in the chapter, US Senators and Congressmen are keen to channel more aid towards health and child survival. This is even as executive branch shifts the focus of USAID towards more geostrategic objectives. The creation of the MCC during the second Bush administration was a result of Bush officials perspectives of the world and the influence of the domestic and foreign environment. As much as this was a new start for US aid and foreign policy, Congress continued to appropriate less than the administration's requests.

Across the various IDA replenishment rounds, US executive branch officials would constant stress the importance of IDA and its achievements. In IDA 13, the US as a shareholder radically pushed its agent to disburse more in terms of grants. US legislators may have agreed to the policy, yet they also have appropriated less what was requested. For IDA 13, this meant that the executive branch could not meet its promise to reward IDA, despite the organisation's improvements. The continued under-funding of IDA replenishment also resulted in the build up of debts or arrears to the organisation. Appropriations to the MCC may be less than requests. Yet, with the need to fund a new bilateral agency and the lower of funds to the IDA, this thus led to US bilateral aid rising faster than aid to the IDA or multilaterals.

Such a difference between executive branch requests and Congressional appropriations would continue through all US FYs. The next chapter reveals the trends in the UK's foreign aid. As with the US, UK bilateral aid rose rapidly faster than is contributions to IOs. Yet, the reasons for this phenomenon are not the same as with the US. The chapter look the ideas of government actors and how they shape UK aid flows.

Chapter 5: United Kingdom: The Generous Donor

[The] DFID is an agency centred on providing [foreign aid] for development purposes.¹¹⁸

...We are no longer in the 1980s and the IDA has undergone much transformation.¹¹⁹

5.1 Introduction

This chapter now turns to cover the aid flows of the United Kingdom across the last decade. This chapter will reveal that UK bilateral aid did increase higher than its contributions to IOs, even the World Bank's IDA. Unlike the case of the US, this occurred because the UK wished to be a leading aid donor in the international realm. In the context of Chapter 1's question 1, UK aid rose because new political actors, the senior leaders in the Tony Blair and Gordon Brown premierships, found a strong new window of opportunity. In answering question 2, British aid disbursements increased because the Labour governments saw aid as a tool to improve global development, a key priority for New Labour. With regards to question 3, while the UK favoured the IDA as a key IO, in the race to be an aid and development state, UK bilateral aid disbursements rose higher and faster than UK multilateral disbursements, most definitely aid through the IDA. This was especially given UK aid via trust funds in order to address merging development issues.

The rest of this chapters proceeds as follows: The first section details statistical details of UK bilateral and multilateral flows during the Labour governments. As above, it will show that the unlike the US, the UK was a more generous donor and increased its share of and quantity to IDA replenishment rounds. The second section details the various political institutions in the UK, as well as the organisational management of UK aid. This section reveals the streamlined nature of UK aid organisation, show how both bilateral and multilateral aid flows are governed under a single department and policy. The institutional environment reveals that key UK political actors have more freedom in deciding on budget levels for both channels of aid. This section will provide an overview

¹¹⁸ Former Senior Governance Adviser, DFID. Interview, August 2011.

¹¹⁹ Anonymous Senior Official, International Financial Institutions Department (IFID), DFID. Interview, July 2011.

of the spending plans and Public Service Agreements (PSA) that dominated the New Labour years. Such agreements are unique to the Labour Party reign and reveal the expenditure on British foreign assistance.

The third section covers UK aid at the turn of the millennium to 2005. It aims to show how with the first New Labour government in power, development became a core priority and aid was targeted towards improving development. It charts how the DFID was shaped to be even more poverty reduction-oriented via the 1997 and 2000 White Papers (WPs), as well as the 2002 International Development Act. This section will qualify that UK aid was targeted at traditional foreign policy purposes especially with the Global War on Terror and the 2003 invasion of Iraq. Nevertheless, the core vision for US aid is still that of reducing global poverty.

Another part will cover the UK relationship with the IDA, centring on the twelfth and thirteenth IDA replenishment rounds. This part will show the UK's interest in targeting its multilateral contributions towards the global poor, despite monitoring the effectiveness of the organisation. This section will also show the intense interest in assisting countries in African region. This interest would help explain the rapid increase of UK bilateral aid over contributions to IOs.

The fourth section shifts to analyse UK aid policies in the last years of the Tony Blair Premiership and the Gordon Brown Premiership. It will show that despite the change in leadership, key political actors still placed improving global development as a key foreign policy priority. This section will examine the different leadership style of Brown and cabinet. Yet it will show the continuity of the policy to improve international development via aid disbursements. It will continue to examine the spending plans and PSAs. It will show how spending targets were increasingly linking towards MDG themes and other development-related indicators.

With regards to the IDA, this section covers IDA 14, a crucial replenishment round in UK aid history. It will show how the UK acted as a concerned shareholder and withheld

funds from a underperforming IDA. This case may be simply indicative of a principal attempting to discipline its agent. Yet, the UK was, more than anything, still primarily concerned with its aid, bilateral or multilateral, having a positive impact on development. This section will also examine the UK's contributions to the IDA and WBG trust funds. Contrary to the belief, the UK does not view IDA as an ineffective entity with its increasing trust fund contributions. It nevertheless has an impatience over results in development projects. It thus uses trust funds to gather faster outcomes, as well as to aid countries beyond its scope.

These two sections would reveal the close alignment of UK bilateral aid and multilateral contributions through focused policies. They indicate how all UK aid under the last Labour government was under the single banner of advancing development. Overall aid levels increased with the aim to assist developing nations. The fourth section turns to examine the new Coalition government's aid policy. Even with a Conservative Party majority, there was much continuity rather than change. Aid levels continued to rise especially with the affirmation of the UN target of 0.7 percent of GNI on aid. In this government, the key theme was that of aid effectiveness, especially in IOs. With the launch of the Multilateral Aid Review, it may be said that there was a greater emphasis on the outputs of IOs. Nevertheless, UK aid under the Cameron premiership was still focused on global development.

5.2 UK aid flows between 2000 to 2010

British bilateral aid increased rapidly across the 2000 to 2010 period, rising faster than its contributions to aid-dependent IOs. With regards to bilateral disbursements, UK bilateral aid rose from 2001 to 2006, with a steep climb between 2002 and 2005 (OECD, 2009a: 201). In 2005/2006, the DFID bilateral expenditure was £2094 million, up by 18 percent from the previous year. By 2009/2010, this shifted to £2223 million, or 91 percent of 'DFID country specific bilateral aid'. Across 2001 to 2005, the African region received the highest quantity and proportion of UK aid. India as a recipient nevertheless was the top recipient of UK bilateral aid across the ten year period (DFID, 2006b: 1; 2007a: viii; 2008a: viii; 2009b: viii; 2010a).

On the topic of IDA replenishments, British contributions to the IDA have increased quantitatively since IDA 12, covering IDA fiscal years (FYs) 2000-2002. Likewise, its share of overall replenishment process has increased steadily since that same replenishment round. Furthermore, as noted previously, by the fifteenth replenishment round, the UK's share had surpassed that of the US (IDA, 2010: 25, 26, Annex 1; OECD, 2013: 84). In the bigger picture, UK core contributions to multilaterals were relatively higher compared to the US. Most specifically from 2009-2011, the UK contributed an average of US\$1 billion more than its Atlantic counterpart (Devint, 2013: 19).¹²⁰ In fact, besides a slight dip between 2001 and 2002, UK multilateral contributions have significantly increased from 2001 to 2006 (OECD: 2009a: 2010). This may thus suggest that the UK is a generous shareholder with regards IOs.

A closer look across at contributions to large IOs reveals a far more complex picture. For instance, the European Commission's Development programme has been in fact the largest recipient of UK multilateral disbursements (DFID, 2006b: 1; 2007a: viii; 2008a: viii; DFID, 2009b: viii; 2010a). This is despite that organisation not being a core development organisation unlike UN agencies and the IFIs. UK contributions to the IDA may have increased across the years.

It has also contributed a substantial amount through trust funds, or programmes whereby a group of donor states have greater control over the aid. UK disbursements to WBG trust funds in 2008 accounted for more than 40 percent of its total contributions to IOs. By 2009, the UK's disbursements to Bank trust funds was only a mere US\$41 million less than its core funding to the Bank (OECD, 2011a: 47; 2011b: 78). This trend has been explicitly noted by the WBG itself, listing the UK as the highest contributor to IBRD/IDA funds from FY 2006 to 2011 (World Bank CFP, 2010: 9; CFP, 2011: 6). With these bilateral disbursements through this aid-dependent IO, the UK clearly disbursed more through its overall bilateral programme than directly through the IDA.

¹²⁰ This was measured in US\$ 2010 constant prices (Devint, 2013: 19).

This therefore presents a unique phenomenon: UK bilateral aid increasing rapidly while aid through all IOs also increasing. In this case, the high increase in British bilateral aid is again due to decision makers interpreting their development assistance in its role as a) a donor state and b) a IDA shareholder. Unlike the US, key British actors envisioned that their aid should be focused directly on improving development globally. Britain's foreign assistance would be utilised to reduce global poverty and improving development. Such aid would inevitably achieve foreign policy objectives, yet aid would always be targeted with the sole idea of development in mind. Also, unlike the views across the US political community, British actors across the country perceive aid as an effective tool to combat global poverty. Key British actors during the last Labour government were extremely passionate about tackling development, and were keen to place the UK as the main donor state that improved global development.

In this manner, UK actors viewed the UK as a donor state with the intention of improving global development. This aim to advance development also translated into the increased contribution to IOs. As with the US, the UK exercised its role as a shareholder by examining the effectiveness of IOs when providing aid to them. The increasing contributions and share may indicate the UK classifies the IDA as a strong development-centred organisation. UK actors do value the role IDA plays for their development agenda. Nevertheless, the continued zeal to be a major donor resulted in UK bilateral aid surpassing its contributions via multilateral organisations.

Such desire to improve development worldwide also fostered an occasional impatience with the results from multilaterals. The UK was not dissatisfied with the IDA's or WBG's performance. Rather, funding to trust funds was a means to quickly achieve outcomes, for example, rebuilding post-conflict states and providing aid to non-IDA and non-UK recipients.

5.3 Governing British aid

This section seeks to explain how British foreign aid is managed by political organisations. This will help depict how British actors have shaped the agencies that control British aid. In stark contrast to its American counterpart, the British aid structure is more streamlined. There is one single agency, the DFID, that manages aid disbursements. This covers both bilateral aid and disbursements to many different IOs. The DFID is head by a Permanent Secretary who controls several Director Generals. One of them is in charge of bilateral aid programmes, covering regions from Africa to Eastern Europe. Specific programmes in each country are governed and monitored by the various field offices (DFID, 2013c; OECD, 2001: 50-51)

Initially, this Director General was also responsible for aid to multilaterals. Across the years, this responsibility has been re-delegated to a separate Director General covering International Programmes. The monitoring of Multilateral Development Banks (MDBs) is governed by the International Financial Division. Under this unit, the International Financial Institutions Department (IFID) is responsible for policy towards all MDBs—an individual team within the IFID manages IBRD and IDA issues (DFID, 2013c). In the WBG itself, the UK’s Secretary of State for International Development is the UK’s Governor to the World Bank Group (World Bank, 2013c; ICAI, 2012: 29).

The Secretary of State may be the key representative for this IFI, especially during the annual meetings. Nevertheless, he or she delegates daily monitoring of the Bank to the UK Executive Director and the team. Within the UK Executive Director’s office, a specific official or officials monitors the IDA’s operations. This office works in conjunction with the World Bank team in the IFID in monitoring the IDA’s performance and activities. During replenishment rounds, the IFID team will set the most of agenda, following the reports from the officials monitoring the IDA (Bretton Woods Project, 2013; DFID, 2013c; World Bank, 2013b; World Bank 2013c). Such monitoring is also complemented by reports from DFID field offices in various developing countries.¹²¹

¹²¹ This additional role of DFID’s field offices, besides controlling bilateral programmes, was stated by an Anonymous Senior Official, International Financial Institutions Department, DFID (see footnote 2).

Within the UK political structure, the DFID is lead by the Secretary of State for International Development, who reports to the UK parliament.¹²² Initially, he or she was as supported by only a Parliamentary Under Secretary of State. Across the various Labour governments, this team has expanded to include a Minister of State. Each of them have are responsibilities for different areas of the DFID's operations.¹²³ There is also a spokesperson in the House of Lords. (OECD, 2001: 50; 2010a: 57-58) While Members of Parliament (MPs) can question these ministers, they also monitor the department through various parliamentary select committees.

The main parliamentary committee monitoring the DFID is the House of Commons International Development Committee (IDC). This committee particularly 'takes an interest in the policies and procedures of...multilateral agencies' (UK IDC, 2013). Another relevant committee is the House of Commons Public Accounts Committee (PAC) which measures how far Ministerial Departments meet monetary efficiency or 'value for money' (UK PAC, 2013). There is no House of Lords select committee focusing on DFID's work. The closest relevant committee is the Lords Select Committee on European Union External Affairs (Burall et al. 20009: 24; UK EU EA, 2013). There is also the the House of Lords Economic Affairs Committee (EAC) which broadly covers all government-related economic issues and policies (UK EAC, 2013).

Outside of the Houses of Parliament, the National Audit Office (NAO) analyses and reports on the economic efficiency of government agencies, similar to the PAC's role (National Audit Office, 2013). The NAO and PAC work closely with each other; the PAC's reports are closely are largely similar to the NAO's reports. (Burrall et al. 2009:19). In 2007, another external agency, the Independent Advisory Committee for Development Impact (ICADI) was created. This team was to further provide another

¹²² The Secretary of State usually reports to the UK House of Commons. Nevertheless, this minister may also be appointed from the members of the House of Lords. Baroness Amos, for example, was a form DFID Secretary of State from the House of Lords. See <http://www.parliament.uk/biographies/lords/baroness-amos/3477> .

¹²³ The Minister of State, for example, is responsible for DFID's work on conflict and security, see <https://www.gov.uk/government/ministers/minister-of-state--17> . Such responsibilities has change over the years, with the Secretary of State always as member of the Bank's Board of Directors.

autonomous perspective on the impact of the DFID's aid (Hudson and Jonsson, 2009: 7-8).¹²⁴ In summary, the British political system has a robust system that aligns bilateral aid and multilateral contributions together. It further contains a relatively robust system of monitoring overall UK aid.

This structure presents a vast contrast to the management of US aid. First, with overall UK aid under a single department, this forms a more coherent approach. All UK aid is packaged under a single agenda, in this case, improving global development and reducing global poverty. By having a department with the title, 'International Development', this further signifies the issue is a key government policy. This in contrast to the US with a plethora of agencies providing aid and improving development is just one of the many objectives for giving aid.

Second, by placing a cabinet-level minister in charge, it indicates that development will be discussed as a top level, along with other key national issues. Again, this differs from the US, where the USAID director and MCC CEO are not and may only occasionally attend US Cabinet meetings. By having such a core minister, British aid volumes and policies can be largely formed without influence from the Foreign Office or foreign affairs offices. Third, having an international development department would mean the personnel would focus their expertise specifically on global development. This indicates a more central political institution, which would allow smoother aid flows and changes in aid volumes. Such a key institution would be central to bilateral and multilateral flows as indicated in later sections.

The DFID also acquires development economists but also environmentalists, engineers and statisticians and others over the years (OECD, 1998: 33). The DFID staff would hone in their energy on the core task of improving development, thus ensure personnel efficiency (Morrissey, 2005: 163; OECD, 2006b: 58-59). The USAID's staff may also have similar staff nevertheless; they would be focus on various objectives besides

¹²⁴ The ICADI was reformed into the Independent Commission on Aid Impact (ICAI), under the new Coalition government. Its objective was the same as its predecessor. See <http://www.publications.parliament.uk/pa/cm201011/cmselect/cmintdev/605/605.pdf> points 44 and 45.

development. They may also have to adhere to the demands from State Department and other agencies. The DFID staff on the other hand can focus their efforts solely on development (Vereker, 2002: 134, 137).¹²⁵

Third, having a single ministerial department means that British parliamentarians would examine aid within the core context of development. With a Secretary of State, this also ensures that MPs question him or her about development, not about aid as a subset of foreign policy. In contrast, US aid is monitored by Congressional foreign policy committees. This causes legislators to consider US aid under a foreign policy context. In summary, the DFID's structure and accountability mechanism focuses all UK aid directly on the core objective of development.

It may be argued that the DFID and its management are the sole UK aid providers. Other UK government departments are also providers of bilateral aid. Two other key ministries, the Foreign and Commonwealth Office (FCO) and the Ministry of Defence (MOD), are heavily involved in providing UK bilateral aid. In fact, these ministries contribute finances towards 'conflict pools'. These conflict pools finance the Stabilisation Unit, a team working specifically on conflict prevention and stabilisation programmes in various countries (DFID, 2006b: 150).¹²⁶

The FCO itself disburses bilateral aid under the 'Strategic Programme Fund' and educational projects initiated by the British Council. UK bilateral aid is also coordinated by DFID and the Department of Energy and Climate Change (DECC) specifically for climate change programmes. Other departments such as the Department for Environment, Food and Rural Affairs (DEFRA) and the Department for Business, Innovation and Skills (BIS) Other smaller agencies within these departments also disburse UK aid. These include the Commonwealth Development Cooperation (CDC) under DFID and the

¹²⁵ The focus on global development within DFID's staff was emphasised by a Senior Official from the IFI Department, DFID. He also contrasted DFID's sharp organizational culture to that of USAID's. July 2011.

¹²⁶ The Stabilisation Unit draws funds from DFID, FCO and MOD and is jointly managed by all three departments. See <http://www.stabilisationunit.gov.uk/about-us.html> Part of its funds are classified as ODA. By 2008, its funds came from a separate HM Treasury fund. See https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/200169/Conflict_Pool_Strategic_Guidance_FINAL.pdf p.3.

Export Credits Guarantee Department (ECGD) under BIS.¹²⁷ Such agencies only provide a minute portion of overall British aid (DFID, 2010b: 134-136).

UK aid will be inevitably part of the foreign policy agenda of the United Kingdom. While other departments do disburse aid, DFID continues to be the dominant player. It controls around 86 percent of all UK aid, and is the dominant contributor to a range of IOs, excluding the IMF (Barder, 2005: 13-14; OECD, 2010a: 48). This is in sharp contrast to the US, where no single agency controls US aid. DFID, especially since 2008, is the lead agency regarding all aid classified as ODA. It strongly emphasises aid as a means to reduce global poverty and improve development. DFID officials also constantly stress the need to focus on development. In this light, the previous Labour government has placed a strong emphasis on the issue of global development and aid was a means to this objective.

The emphasis on development and usage of aid was not just fostered via a new agency. The structure of the wider UK structure has also aided the drive to target aid for development. The formation of the UK budget, is a example. In the previous chapter, the financial resources for US aid require many levels of political debate and approval. In contrast, the process in the UK is more streamlined and less complex. Departmental funds originate from the annual Pre-Budget Report and the annual Budget (HM Treasury, 2007a; UK Parliament, 2013). Departments first pass their financial requests to Her Majesty's Treasury, which is released through a document titled, 'Main Supply Estimates' (see for example, UK House of Commons, 2001). For ministerial departments, the total annual expenditure is classified under a 'Public Expenditure Survey'. This must be approved by the Treasury and parliament (OECD, 1998: 32).

Each annual budget consists of the Economic and Fiscal Strategy Report (EFSR) and the Financial Statement and Budget Report (FSBR). The latter specifies the Departmental Expenditure Limits (DEL) and other possible finances for each ministry (HM Treasury, 2003: 264). DELs provide the legal spending limit for UK government agencies. Under

¹²⁷ The CDC was formerly known as the Colonial Development Corporation (Ireton, 2013: 159).

the previous Labour governments, DELs were further enhanced through what was termed as Comprehensive Spending Reviews (CSRs) and Public Service Agreement (PSAs). These were conducted every few years between 1998 and 2007. Each CSR sets out several PSAs, which detailed even further how individual departments would spend their allocated resources (HM Treasury, 2007b). This would set out clear directions for how the government will operate.

Such spending decisions could be created by the government in power. This was possible due to the political institutions of the UK. In the UK's Westminster political system, the political party that commands the House of Commons becomes the government of the day. Government ministers sit along with MPs or Lords in their various Houses. It is easy to gain intra-party support from parliamentarians (Burall et al. 2009: 12).¹²⁸ As such the government can implement policy with substantial legislative support and minimal interventions (Collinson, 2002: 3; Burall et al. 2009: 7, 11-13). Individual parliamentarians can debate over the Finance Bill, especially over statutory measures to effect tax provisions. This may result in possible amendments to that Bill (Seely, 2012: 1-2). MPs and Peers get to debate the Budget, however, they rarely cover all government departments. Parliamentarians also vote to ratify the final budget although this happens with little substantive opposition to the formal motion (Hudson and Jonsson, 2009: 7).

The nevertheless do not have the ability to alter the FSB, individual DELs or set PSAs. There is a House of Commons Statutory Committee that states IDA replenishment payments, even so, it merely reports and has no power to change the finances (Statutory Instrument Committee, 2000).¹²⁹ Unlike the US budget, the UK legislature does not have financial appropriations committees that can amend or even stall budgets. Individual UK Legislators also cannot earmark or legally set aside funds for specific issues. This is in stark contrast to their US counterparts as described in the previous chapter. They may, however, question the DFID Ministerial team during parliamentary questions or submit

¹²⁸ See <http://www.parliament.uk/about/how/role/parliament-government/> on the relationship between the British parliament and the British government.

¹²⁹ See <http://www.parliament.uk/business/committees/committees-a-z/commons-select/statutory-instruments-committee/role/> for the role of the Statutory Select Committee.

written answers (see for example Cunningham, 2001, c578W; Mitchell, 2007, c1407). These questions mostly focus various DFID policies and the effectiveness or impact of all British aid. The questions nevertheless do not explicitly examine the volume of DFID's aid.

The two House of Commons select committees examine the DFID's aid and policies more intensively. The IDC in particular reports on the DFID's annual reports and conducts detailed studies of the DFID's bilateral and multilateral policies. As with other select committees, the IDC also calls the DFID Ministers or staff for evidence hearings, much like their US counterparts. Unlike US Senate committees, the IDC does not authorise any aid-related legislation. Such laws are instead forged the whole of the government (Burall et al. 2009:18-19). The government responds to IDC reports, although they are not legally required to answer (Hudson and Jonsoon, 2009: 6). More importantly, the IDC cannot force the government to alter aid levels or policies, despite delivering critical reports.¹³⁰ The PAC is more specific, focusing on the value of money impact on each unit of British aid. It is highly concerned with whether aid expenditure was spent in the correct manner. As with the IDC, the PAC cannot sway the government to alter its bilateral or multilateral aid volumes (Burall et. 2009: 20). Furthermore, the PAC concerns itself with all government agencies, and thus only occasionally produce reports relating to the DFID (Hudson and Jonsoon, 2009: 6).

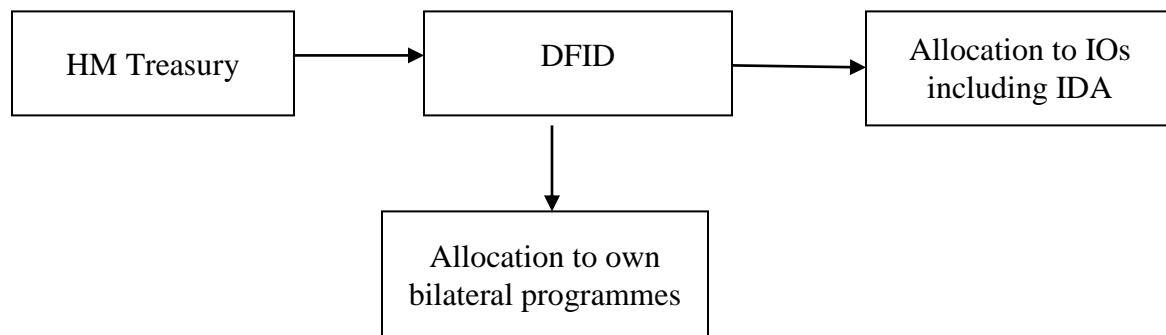
The institutions of the UK parliament are thus not as intrusive over the aid process as their American counterparts. They cannot steer the level of either UK bilateral aid or multilateral disbursements. It may thus not a significant factor in determining aid flows. Nevertheless, this limited structure of accountability has in fact eased the formation of sudden new policy initiatives. In this case, it is the formation of an independent aid agency and a refocusing of aid towards development purposes. This significant change was easily implemented across the UK unlike the MCC, which faced strong Congressional opposition. The UK's overall aid budget could also be increased without

¹³⁰ This distinction between the IDC and US legislative committees was particularly stressed by [REDACTED], the Chair of the IDC. Interview, July 2011. (See footnote 1).

any stalling of aid levels. As detailed further below, the UK could increase its contributions to the IDA without any interference from parliamentarians or interest groups. In this manner, UK political institutions have eased the increase in aid volumes and the focus on improving development.

The above has shown that UK legislators are, at best, only reviewers of the DFID's work. They are not adjudicators of its finances or policies, as is the case in the US. Therefore, the UK government is the main actor in deciding the level and direction of UK foreign assistance. A simplified diagram of how UK aid originates is show below:

Figure 4: Diagram of financial flows from HM Treasury



UK aid flows directly from HM Treasury, decided by the through the CSR and PSA, and then finally to DFID. As further discussed below, DFID has a high degree of autonomy in deciding how its aid is used, and this mostly based on a results-based approaches (OECD, 1998: 32). In the scope of PA theory, the UK government is the dominant principal, delegating funds to the IDA. The principal is influenced but not swayed by parliamentarians. A similar structure appears UK bilateral disbursements.

This section has thus identified how UK aid was managed under last Labour government. It shows how refocus towards development objectives was achieved by forming a Cabinet-level department. It identifies that almost all UK aid is managed by a single department, forming a coherent vision. It also showed that UK's parliamentary structure has eased the formation of such a radical policy change. With parliamentarians playing a

latent role over aid flows, the next sections further identify the changing proportions of UK aid.

5.4 New Labour's rise and the rise in aid

5.4.1 UK bilateral development policy

This section now turns to examine the rise of UK foreign aid volumes from 2000 to 2005. It aims to show that UK aid levels increased both through bilateral means and through multilaterals due to UK actors placing an importance on global development. At the turn of the Millennium, UK development aid was under control by a three year old department. The Labour Party was the key driving force behind this change. While in opposition, the Labour Party, under then Shadow Foreign Secretary Robin reassessed the Party's international affairs agenda. The party was swayed by events externally, in particular, the OECD's *Shaping the 21st Century* report regarding global development. It finally adopted a rights-based foreign policy, with development at the heart of it. This was in contrast the Conservative Party's realist view and nation-centric policy (Barder, 2005: 11-12; Williams, 2005: 141; Clarke, 2007: 593). The Conservatives, who governed until 1997, accorded development a low priority and lowered the aid level to 0.33 percent of GNI in 1991 (Litvinoff, 1993: 224).

Labour's new foreign policy approach translated into the Party's 1997 general election manifesto. That manifesto mentioned how the party would place global development as a core issue. It also stated that aid would be specifically provided to extremely poor countries. This was one key indication that UK aid was not aimed towards traditional foreign policy concerns. Besides stating a focus on global development, Labour also pledged to meet the UN 0.7 percent target (UK Labour Party, 1997; Ireton, 2013: 50). Although this was a proportional target, it indicated that Labour then would also increase the overall volume of aid. (UK Labour Party, 1997).

Such a restructuring of foreign aid policy was possible due to several key Labour Party officials. Then Prime Minister Tony Blair was one of the key drivers for this change. Blair's reforms of the Labour Party—termed 'New Labour'—included a strong emphasis

on justice and moral values. He stressed that spreading morals and just causes would make the international arena safer (Blair 1999 in Williams, 2005: 143; Manning 2007: 562). Blair's worldviews also gave definitive indication for the approach to development. Stephen Dyson classifies a leader's characteristics via terms such as a) 'Conceptual Complexity'; b) 'Belief in Ability to Control Events'; and c) 'Nature of the Political Universe'. The first refers to one's perception of the external environment. Belief in ability to controlling events refers to the extent which leaders see their state dictating global phenomena. The nature of the political universe refers whether the leader views the external environment as an arena of conflict (Dyson, 2011: 67-90).

For Blair, scholars like Dyson classifies him as one with a low conceptual complexity score and a high score in ability to control events. This meant that he perceived the world in straightforward categories and believed the UK was in a position to control global events (Dyson, 2006: 294-296; Dyson, 2011: 72-74). By classifying categories in 'black and white...binary' classifications, Blair in this manner saw countries and regions explicitly as developed and developing. This would explain his shift to elevate development as a key government issue. The strong belief in controlling events would explain the impulse to raise the volume of overall UK aid—Blair wished the UK to be the leading nation in improving development.

A second key Labour Party political actor was the initial Secretary of State, Clare Short. Short was described as one with strong left-wing views and yet could associate with New Labour. Short herself was argued to have little experience in development but a highly influential voice with the first Blair Cabinet (Hulme, 2009: 22). Her worldview was much influenced by the *Shaping the 21st Century* report and she latched on to notion of reducing global poverty and the International Development Goals (IDGs), which later became the MDGs. Through this idea, Short vigorously campaigned for the IDGs and the MDGs to be the hallmark of DFID's work. Second, she campaigned for the goals to be central to the first Blair Cabinet's core agenda. This elevated development through foreign aid as a new national initiative (Hulme, 2009: 23-24). Short's constant emphasis on reducing global poverty culminated in increased public awareness regarding aid and

development (Short, 2000a). In summary, the push to increase aid was a result of the mindsets and efforts of key Labour Party figures.

This drive to reduce poverty and achieving it through increased aid was formalised through the first DFID White Paper in 1997. Its title *Eliminating World Poverty: A Challenge for the 21st Century*, clearly represented the drive to reduce global poverty. This White Paper did provide specific information regarding British bilateral and multilateral aid flows. It stated that the UK would actively utilise IOs in countries without the DFID programmes. It specifically stated that the IFIs had good performance. Nevertheless, it stated DFID would push for ‘all the multilateral development institutions to strengthen their commitment to poverty elimination’ (DFID, 1997: 34). The 1997 White Paper specified that bilateral programmes would have a new partnership with client states, moving away from ‘conditionality’. It again stressed that the emphasis would be on pro-poor programmes (DFID, 1997: 37-39). This White Paper did not specify any fix any volume of either channel of aid. It nevertheless pledge to meet the 0.7 target and ensuring all aid would be focused on poverty reduction (DFID, 1997: 789-80).

The key objective set for UK aid before 2000 was therefore to assist in global poverty reduction. This was again emphasised in the 1998 CSR. Key political actors shaped this CSR by stating poverty reduction issues as a priority, furthermore, this CSR confirmed a rise in DFID’s DEL from £2442 million in 1999-2000 to £3217 million in 2001-02.¹³¹ Such an increase brought the UK’s aid proportions to 0.30 percent (Young, 2000: 261).

It further stated that 75 percent of the DFID’s bilateral aid would be targeted at low income countries. In contrast, there was only one mention regarding IOs, that the UK would influence multilateral development organisations (HM Treasury, 1998: 81-82). DFID disbursements in this CSR to EC development organisations did surpass its contributions to the WBG in 2000 (OECD, 2001: 73). Even so, the figures and pledges do not explicitly indicate any disdain for IOs. There was no distinct evidence that the IDA, was considered as less effective than bilateral programmes or other IOs. The dominating

¹³¹ It is assumed that this is at 1998 prices; the exact price index is not stated.

message for UK aid post 1997 was that it was for reducing poverty. The aim was provide increasing volumes of aid, while ensuring it was aiding poverty reduction.

British aid policies post 1997 thus set a direction towards poverty reduction which continued past 2000. As noted, the MDGs were signed that year. Labour Party officials used this final formal benchmark for both its bilateral and multilateral flows. This translated to 77 percent of the DFID bilateral aid being directed towards LDCs, especially in Sub-Saharan Africa (SSA). The DFID bilateral programmes were focused on basic health, education and population. These were again all projects relating to MDG targets (OECD, 2001: 25-26). This approach was supported by the 2000 Spending Review PSA. That specifically stated extra resources would fund ‘primarily the UK’s bilateral programme’. Similarly, the 2002 Spending Review stressed on increasing more aid for LDCs (HM Treasury, 2002a: 24). It pledged that the DFID bilateral programmes would improve basic primary education and HIV/AIDS prevention, both which again are core MDG targets (HM Treasury, 2002b: 103). Overall, its gross bilateral disbursements increased by US\$ 4904 million from 2000 to 2004.¹³² DFID bilateral aid thus increased due to new political actors viewing aid as a tool to improve international development. With such a view, bilateral aid volumes were increased in terms of volume. The next section turns to deal with changes in UK disbursements through particularly the IDA.

5.4.2 UK policy towards IOs particularly the IDA

This section now turns to examine UK aid through IOs during the same time period, specifically through the World Bank’s IDA. With regards to IOs, the DFID in its early years was focused on the overall output and effectiveness of multilaterals. In its early days, the DFID launched an internal assessment of the various IOs the DFID dealt with. The report praised the IDA first for being focused fully on the IDTs and second, it being honest about its project results (Donecker and Green, 1998: 7, 46). It nevertheless noted that the IDA back then did not always place poverty reduction as the main priority.

¹³² This data is measured 2003 US\$ at constant prices.

During the twelfth IDA replenishment round, the DFID's financial contributions were conditional on IDA meeting several poverty-centred measures. These included the organisation investing in social services. Such a condition was further agreed to by other major shareholders (DFID, 2000b: 4). At the same time, the DFID also concluded that IDA's work was aligned with the DFID's, signalling that an agent's actions in line with its principal (DFID, 1999: 71). The DFID's final contribution amounted to £511 million or 7.3 percent of the total share (Short, 2002a, Column 1225w). This share in fact was an increase over the previous replenishment. Within PA theory, this could be indicative of a principal assessing its agent's performance, following up with its financial awarding.

It could thus be argued that the UK through the DFID, exhibited its role over its agent, the IDA, during the thirteenth replenishment round. Before the negotiations, DFID's 2000 White Paper again stressed upon the need for IDA to be poverty-focused and coordinate its operations with others (DFID, 2000a: 96). Another report, titled *Strategic Review of Resource Allocation* examined the effectiveness of the DFID's resources (Dyer et al. 2003). It noted that the IDA has utilised a basic performance and need criteria for its own resource allocation. The IDA was also praised for relatively strong results-based management (RBM). The authors criticised the IDA again for not fully aligning all its projects towards poverty reduction strategies (Dyer et al. 2003: 6, 28). A further annex report provided a more positive appraisal of the IDA. It rated the IDA as the 'most effective' multilateral partner. This was in comparison to Regional Development Banks and the UN agencies (Butler et al. 2003: 3). This annex further used extensive measurement to decide on future financial contributions. IDA was compared against other multilaterals and even DFID's bilateral programme. The results indicated that the IDA was weak in terms of partnering with clients and other donors. It also scored low in terms of harmonisation efforts. Compared to the DFID and other IOs, it scored high in terms of analysing projects and issues (Butler et al. 2003: 11-15). Although this was not an official evaluation, it still shows a principal assessing its agent's performance.

The wider IDA 13 negotiations also may be said to reflect PA themes, depicting delegation by multiple principals. As noted in the previous chapter, the US wished to

convert a substantial portion of loans to grants during this replenishment round. There was a clear prolonged opposition between the US and UK camp. Then Secretary of State Clare Short strongly opposed the move stating that loans would not be misused by countries (Borger, 2002). Short argued that IDA is a 'very valuable [organisation]' and This resulted in Short threatening to channel British commitments back to UK bilateral programmes (Beattie, 2002b; Blustein, 2002). DFID itself argued that IDA's financial resources were at risk and client states learn 'credit culture' via loans (Beattie, 2001; DFID, 2002). Such disagreements again reflect different principals having distinct contracts with the Bank, creating no successful delegation.

The final compromise amongst IDA shareholders around 2002 also signified joint delegation to a single agent. The UK pledged an additional £100 million, besides its basic contribution, to offset the grants increase. This amount was later reduced to £64.8 million, with Short arguing that other shareholders should take up the 'burden share' (Short, 2002b, 2002, Column 889w; Benn, 2004, Column c52ws). This evidently also reflects a principal wishing to divide the delegated task amongst others. Yet another example occurred during the three year payment period of IDA 13. The DFID was unable to push for the increasing the poverty focus during the IDA 13 mid term review (DFID, 2004a: 2). The DFID also argued that the IDA had much to improve in the PRSPs in client states (DFID, 2004b: 3-4).

The above so far indicate that the UK was willing to provide bilateral aid according to the worldviews of senior leaders. In contrast, it appeared to be a cautious principal, actively monitoring and assessing the IOs it financed. From 2001 to 2004, the DFID's gross contributions to its multilaterals increased by a small figure of US\$154 million at 2003 constant prices. The UK may have been strictly monitoring the performance of its IOs. Yet, there is no strong indication of any aversion towards providing aid multilaterally. The IDA itself may not have performed up to DFID's expectations across IDA 12 and IDA 13.

Yet, there still was an increase in its financial contributions and its overall share between rounds (IDA, 2010: 26). This is contrary to what PA theory postulates regarding an ineffective agent. As a former senior IFID official noted, DFID allows a degree of latitude regarding multilaterals that match the UK's objectives. The UK understands that the IDA is an IO and cannot always influence it to meet the UK's objectives.¹³³ Furthermore, an increase for the IDA funding was already set to be increased as noted by a 2001 management board meeting (DFID, 2001: paragraph 2). This was also affirmed in the 2002 Spending Review which affirmed an increase of overall aid to 0.4 percent of GNI (HM Treasury, 2002a: 24; HM Treasury, 20002b: 101).

What determined all UK aid in the early 2000s was a focus on a key outcome. Both forms of aid continued to be united under the target of the MDGs and poverty reduction. As the OECD noted in its Peer Reviews, the UK has a single, 'unambiguous' approach towards development. DFID framed all its aid towards MDG targets and development-related issues (OECD, 2001: 17-18; OECD, 2006b: 21-22). Since its creation, the DFID has used MDG targets as a means to measure IOs' effectiveness (OECD, 2001: 26-28).

The objective for UK aid was further ratified in the 2002 International Development Act. This act, passed by the UK parliament, stated that British aid was only 'to contribute to a reduction in poverty. All UK aid from after this act had to promote the welfare and sustainable development of developing countries. This clause therefore made the tying of British aid to commercial gains—what was known as the 'Aid and Trade Provision'—definitely illegal (International Development Act 2002: 1 (2); Barder, 2005: 17). It could be said that the act exempts aid through IOs. The 2000 and 2004 Spending Reviews and PSAs however indicated that the UK aimed to shift IOs' focus on poverty reduction issues (HM Treasury, 2000: Chapter 14; HM Treasury 2002a: 24; Ireton, 2013: 134-148). The UK thus did not display any preference towards either channel of aid. Rather, the political passion to improve global development through increased aid continued to determine aid levels.

¹³³ Former senior official, IFID team, DFID. Interview, July 2011.

The larger rise in bilateral aid is attributed New Labour's intense focus on improving development. More specifically, it could be linked to first, the new government's focus on global debt and second, African development. Labour officials were highly engaged in the debt relief agenda due to their own perspectives and external influences. Key figures such as Short and then Chancellor of the Exchequer Gordon Brown were key drivers pushing for global debt relief. Despite controlling the broad brief of finances, Brown was intensely engaged with issues relating to development. Brown considered debt relief a core priority for not the UK but for the global community (Brown, 1999; Christiansen and Hovland, 2003: 17). He also had a strong amicable relationship with Short and DFID officials, having increased the DFID's budget (Short, 2005: 83, 90-91; Dyson, 2011: 80). Short herself, having learnt development issues from DFID staff, considered debt relief a core issue (Short 2005: 81). Both of them and the Labour government were also strongly persuaded by civil society groups and NGOs campaigning to end Third World debt.

With his own perspective of global debt, Brown took the lead and set out global debt reduction agendas in the 1997 Commonwealth Finance Ministers Meeting and later the G8 leaders summit in 1998. In Short's case, she formed a close partnership with the development ministers of the Netherlands, Norway and Germany during this period to response to the anti-debt crowd.¹³⁴ Brown himself and Treasury officials were more easily swayed by NGO demands. Eventually, both of them worked to gather British and global support for NGOs to increase funds to LDCs, as well states to play their part (Williams, 2005: 151). This drive to tackle debt was addressed through multilateral organisations. Most notable from the IDA 12 negotiations onwards, debt relief would be a central issue in the final deputies' report (see for example IDA, 1998: 21-23).

The UK itself place a highly strong emphasis on the HIPC initiative, highlighting them as key targets in the 2000 and 2002 Spending Reviews. Through the DFID, the UK became a leading donor to the World Bank's HIPC Trust Fund. The initial pledge was US\$221 million, amounting to £11.1 million in FY 2005/2006 (OECD, 2001: 26; DFID, 2006b:

¹³⁴ This group of development ministers in the early 2000s was credited as the like-minded group or Ustein group. See <http://www.mcser.org/journal/index.php/ajis/article/download/2091/2078>

135). While there was contribution to a IO fund, the UK also contributed to debt relief bilaterally. Bilateral disbursement relating to debt increased quantitatively from US\$182 million in 2000 to US\$693 million in 2004. As the head of the Commonwealth, the UK launched a Commonwealth Debt Initiative (CDI). This specifically ended the debt owned by Caribbean Commonwealth nations. Unilateral debt relief and debt cancellation was also provided to non-HIPC countries (OECD, 2006b: 79).

The UK further provided debt cancellation through its privative financial arm, the Commonwealth Development Cooperation (CDC) and through the Export Credit Guarantee Department (ECGD). The CDC worked to written of its public sector loans provided, totalling £18.2 million by 2005/2006. The latter was a scheme allowing debt relief by providing export credits or contracts to debt owning states (DFID, 2006B: 134; Ireton, 2013: 92-94). It should be noted that the Bank's HIPC fund is a trust fund and thus is counted as bilateral contributions. The DFID's overall bilateral contributions therefore increased due to its HIPC contributions and its bilateral debt relief efforts. Key actors wishing to alleviate debt in developing countries indirectly increased bilateral aid over multilateral contributions, especially through the IDA.

A second issue that indirectly led to the increase of bilateral aid was the focus of UK development policy towards African nations. With the formation of the DFID, African states became key bilateral aid recipients. DFID's bilateral contributions to the entire African region in 2001 amounted to 55.0 percent of bilateral disbursements. This was a 100 percent increase over its contributions in FY 1997/1998. Such an increase was in contrast to the Asia Pacific region and Overseas Territories (Morrissey, 2005: 167-188). This comparison is significant as aid to Overseas Territories is considered a part of the UK's strategic interests. Once again, this pattern of allocation could be attributed to the intense focus on the MDGs (DFID, 2003b: 71-82).

This may simply appear as an offset of DFID's overall objective. Yet, the African region was a strong focus during the Blair premiership due to the then Prime Minister vision. Initially, Blair's global agenda was to defend the UK's commercial interests. This could

be seen through his support of arms sales to Tanzania, an idea opposed by Labour MPs and contravening the 1997 White Paper. It was the results of DFID's field programmes that shifted Blair to view Africa from a moral and religious standpoint (Porteous, 2005: 287-288; Short, 2005:119-122).

In his 2001 Labour Party Conference speech, Blair explicitly stated that the African continent is 'a scar on the conscience of the world' (Blair, 2001). He thus strongly viewed that as a critical moral justification for developed countries to improve African economies and societies. This call for action was similarly echoed in his 2002 and 2003 speeches. His 2003 speech in particular highlighted the need to 'give hope to Africa' (Blair, 2002, 2003). This call for assistance translated to Africa receiving the largest proportion of DFID aid disbursements in FYs 2002/2003 and 2003/2004 (DFID, 2004c: Table 5). This shows how a key political actor's vision—in this case Blair's focus on Africa, is influenced by external events, which is DFID's own work.

Blair's vision for developing Africa was most explicitly displayed through the *Commission for Africa* report (Commission for Africa, 2005). This report chaired by the former Prime Minister, was an even more concrete blueprint for African development. It was not just the former Prime Minister's vision that prompted this report, but Bob Geldof's campaigning. Geldof along with activist Bono were campaigning for more global action towards global poverty. Within Blair's own vision of development, the Commission was formed (Ware, 2006: 149; Blair, 2011: 570-571). Its opening summary stated that 'African poverty and stagnation is the greatest tragedy of our time' (Commission for Africa, 2005: 11). This again indicates an aspiration for countries to directly improve developing countries. The Commission further called for a rise in development assistance by US\$25 billion (Commission for Africa, 2005: 292, 332). During the press conference, Blair himself again stressed the urge to assist Africa, especially through MDG indicators (Number 10, 2005).

This report ultimately became the main backdrop for the 2005 G8 summit. It was a means to pressure other member states to focus their attention towards development and aid. The

final communiqué and Blair's press conference stressed the need to increase direct aid from donors (G8, 2005a, chapter 24-32, Annex II, G8, 2005b). What was significant was the UK itself quickly responded to the Commission. Its report cited UK efforts towards MDG targets. The DFID itself had committed £14.5 million towards an education programme in Burundi. It also had committed £55 million towards an emergency health fund in Malawi (HM Government, 2006: 27, 30). The UK also further committed funding to trust funds such as the African Peer Review Mechanism, the Investment Climate Facility and the Africa Enterprise Fund. It most notably created an International Financial Facility (IFF) for Immunisation which in turn help fund the Global Alliance for Vaccines and Immunisation (GAVI) (HM Government, 2006: 8-9). British bilateral aid to Benin, Burkina Faso and Cameroon increased multiple times as a result (DFID, 2007a: 27)

The above disbursements and commitments are evidently taken through a direct approach. There was, however, mention engagement with multilaterals in the report. There were proposed funding to IOs over health and infrastructure projects. There was also proposed collaboration with the WBG regarding land irrigation. Nevertheless, the report stated the 'bulk of the UK's development assistance is likely to be provided through DFID's [own] country programmes' (HM Government, 2006: 5, 31, 39). Even so, this does not represent a preferential bias towards bilateral actions. Nor does it suggest there were any indications that IOs programmes were less effective than those of bilateral agencies. The response in fact noted DFID wished close partnership with the Bank over statistical collection. It further was partnering with the WBG to combat serious infectious diseases ((HM Government, 2006: 19, 30). The intensification of aid to Africa was more an answer to the G8 communiqué. With Blair's focus on the region and activists' campaigning, British development policy and aid focused on the region.

It may still be argued that foreign policy concerns was a dominant the levels of British bilateral aid, thus shifting it upwards. New Labour first initially adopted an ethical-based foreign policy. It meant foreign policy would focus on the rights of people and democratic freedoms. The values of rights and freedom would be at the heart of Labour's foreign agenda. This ethical dimension also help increase the projection of soft power, as

opposed to hard power (Manning, 2005: 17-18; Clarke, 2007: 593-597). Bilateral aid targeted at health or education programmes would achieve this foreign policy approach. New Labour's adoption of a 'Third Way' policy could also relate to the rise of UK bilateral aid. This ideology was a middle ground stood for economic freedom and social justice domestically. Internationally, this was also an adherence to open market economics and neoliberal norms (Williams, 2005: 107; Ware, 2006: 143; see also Slater and Bell, 2002).

The DFID's 2000 WP clearly showed the UK promoting economic liberalisation as the main means to reduce global poverty (DFID, 2000a: 10-11). As Adrian Hewitt argues, this WP proposes a development and aid policy mirroring that of the IFI's PRSPs. It was a means to continue to justify the promotion of market-centric norms (Hewitt, 2001: 294-295). The attention given to debt relief may also be an issue set within Third Way foreign policy. UK debt relief efforts rested within the sphere of neoliberalism. The UK again endorsed the PRSP plan which was centred about market-friendly conditions (Dixon and Williams, 2001). In this manner, the UK's intensification of bilateral aid may be linked to UK foreign policy.

A prominent foreign policy interest that invoked the rise UK bilateral aid was the War on Terrorism. The UK was heavily involved in both the Afghanistan and Iraq conflicts, providing military personnel and bilateral aid to the region (Short, 2005: 110-119). DFID's aid disbursements to Afghanistan more than two times between 2002/2003 and 2004/2005. Aid to Iraq increased by 14.75 percentage points between 2002 and 2005. In the wider region, UK bilateral aid to Pakistan increased fivefold despite a military coup in 2001 (Woods et al 2005: 22-24; Woods, 2007: 10-11). The DFID itself focused its aid more towards combating terrorism and ensuring security. As a DFID policy paper argued, the DFID must actively ensure the security of the global poor (DFID, 2005c: 3; see also Wadell, 2006). The 2003 Gulf War did divert bilateral aid programmes to fund Iraq reconstruction (Bowcott and Livingstone, 2003; Gaughran, 2004: 298).

The UK's aid and development policy may inevitably be steered by strategic interests and external events. Yet, the above cannot fully explain the rise of UK bilateral aid over multilateral contributions. First, there may have a claim of an ethical foreign policy. This statement was at best vague and was not a radical break from former Prime Minister John Major's premiership—UK foreign policy was hardly centred on moral issues (Williams, 2005: 18). Even as there was a focus on human rights, this was achieved through other means besides aid. For example, the interventions in Kosovo and Sierra Leone were via military force and diplomatic action (Williams, 2005: Chapter 8; Clarke, 2007: 504). The DFID did provide aid to these countries, but such aid was for reconstruction and development-related. Furthermore, the majority of bilateral aid was provided by DFID. This was significant as the 1997 WP and the 2002 International Development Act ensured all British aid was spending on development projects only. DFID as an independent department pursued its own policies in countries (Porteous, 2005: 285-286; Short, 2005: 77-80).

Second, the New Labour government did pursue debt relief policies. Debt relief was apparent before New Labour reign. It was as noted above, due to Labour figures such as Blair and the extensive campaign by civil society and NGOs. Third, UK bilateral aid did get channelled away due to the War on Terror. Afghanistan was, however, only the fourth highest recipient of net bilateral aid in 2004/2005. Despite heavy involvement in Iraq, that country was only the fourth highest recipient in 2004/2005, dropping to the eight highest in 2006 (DFID, 2007a: 28). DFID multilateral contributions, such as to the IDA, was not affected by security concerns (DFID, 2005b: Table 16).

In the UK's view, especially key political actors, security and development are increasingly interrelated. Despite this, DFID's aim was always to provide aid to improve development and reduce global poverty. Even with a stronger focus on security, the DFID stressed that it would:

not mean subordinating [aid] to short-term political interests or to work on anti-terrorism. *Nor does it mean big shifts in the existing allocation of UK development assistance* – this will continue to

remain focused on the world's poorest countries and people (DFID, 2005c: 6, paragraph 7, own emphasis added)

In essence, the DFID's central aim was to provide aid for development, inasmuch as aid provision is a foreign policy. The rapid rise in bilateral aid was therefore due to the visions of key leaders as noted above. This could be further seen through the constant mention of a duty to the global poor in several political speeches (Number 10, 2002, 2003, Blair, 2005). The UK was positioned as the lead state in improving development due to these leader's perspectives. With this vision, it indirectly resulted in UK bilateral aid levels rising fast in order to show the UK was a development giant.

The arguments above so far reveal it was key actors within New Labour that shaped the nature of UK aid flows. What was also significant was the other major political actors were also focused on development and increasing the aid budget. In its 2001 and 2005 election manifestos, the main opposition at that time, the Conservative party also pledge to assist the developing world and reach the 0.7 aid target (UK Conservative Party, 2001: 30, 2005: 27). The Liberal Democrat Party made the same pledges, also stating that the UK should help the developing world (UK Liberal Democrats Party, 2001, 2005: 14-15). Such unity over this global issue translated into the parliamentary debates within the Houses of Parliament. House of Commons debates regarding development were less partisan compared to other topics. For example, former Shadow Secretary of State Gary Streeter endorsed DFID's second WP and reaffirmed his party's support for development. Former Liberal Democrat spokesperson Jenny Tonge also supported the 2002 International Development Act and praised Clare Short for her performance in DFID (Streeter, 2001, Column 169-170; Tonge, 2001, Column 201-202).

Despite this common ground over development and aid, British parliamentarians have voiced criticisms regarding aid and development. For example, the PAC's investigated the effectiveness of IOs report *Performance Management-Helping to reduce world poverty*. The report argued that aid through IOs could not be easily monitored. It urged DFID to influence IOs to be more poverty-focused (UK PAC, 2002: 5-6). In response,

DFID shifted to stringent implementing the MDG targets in all its aid activities (DFID, 2003b: 15 102, 107). Similarly, the IDC report *Financing for Development: Finding the Money to Eliminate World Poverty* covered the Bank and multilateral flows. It noted that the whole World Bank needed to align its projects with other donor organisations. It also argued that DFID alone should not shoulder the multilateral aid burden. The IDC argued that the UK should press for more US aid contributions. (UK IDC, 2002a: 12, 46-48). In response, DFID agreed to influence the Bank and push for more US involvement in development (UK IDC, 2002b: 5, 15). The 2003 Departmental report responded in return, detailing DFID engagement with the US over poverty reduction projects (DFID, 2003b: 14, paragraph 2.42).

The IDC also published queries regarding the annual World Bank and IMF meetings, intensively questioning DFID Ministers in the process. The committee's 2002 report revealed its concern the issue of grants and governance of the IDA (UK IDC, 2002c, Ev20). Its 2004 report similarly saw MP John Battle questioning the usefulness of the 2004 ISP in reforming the IDA (UK IDC 2004, EV9-10). Despite their support to improve development via aid, UK parliamentarians did have differing views on the subject. In a debate over the 2002 International Development act, MP Caroline Spelman argued that bilateral aid provides stronger 'value for money'. Like wise, MP Hugh Bayley stated that the whole World Bank may not be always poverty focused (Spelman, 2002: Column 943, 944; Bayley, 2002: Column 948).

Despite these reports and views, the committees or individual parliamentarians did not extensively monitor the UK's role in the IDA 12 or IDA 13 negotiations. This was unlike the authorisation and appropriations committees which scrutinised the US Treasury. The above PAC report was critical on the impact of UK aid, especially through multilateral organisations. Even so, it did not explicitly recommend a reduction in contributions to IOs. The report in fact was far more critical towards other IOs such as European Union development programmes than the IDA field work (UK PAC, 2002: 6, 9). The above IDC report was similarly critical towards the impact of EU aid programmes (UK IDC,

2002a: 76). This report nevertheless supported the government's position regarding the HIPC process. (UK IDC, 2002a: 23).

More importantly, these Committees and MPs as noted above, do not have the ability to dictate DFID's funding or disbursements. Any decisions on aid and aid channels, rest with the key actors within the government or the DFID. The UK parliament may not have the strength to steer aid policy and levels. As a US Treasury official commented, the UK's parliamentary system allows the government to increase aid to the IDA with minimal interference.¹³⁵ In the UK's case, the format of UK political institutions aided the government's change in aid policy and aid volumes, rather than causing a hinderance.

This section has covered the changes in UK aid from 2000 to 2005. It showed that the New Labour government was strongly passionate about global development. Aid was seen as a key means in improving development. With the creation of a development-centred ministerial department, UK aid was targeted primarily international development issues, and less for political gains. Contributions to IOs were similarly governed by the objective of improving development. During IDA 12, the DFID's appraisal of IDA's performance led to the principal awarding its agent with more contributions. PA issues may also have been evident in the thirteenth replenishment, with principals arguing over the issue of grants. The UK nevertheless further increased its volume and share of IDA replenishments. This was more due to the belief in the utility of aid, rather than measuring IDA's effectiveness.

While Treasury spending targets affirmed a general rise in UK aid, there was a stronger focus on bilateral activities, particularly towards Africa. This was much due to the key perspectives of key leaders. Then Prime Minister Blair vision, along with pressure from the internal and external environment, turned the spot light towards Africa. After the 2005 G8 summit, the UK took the lead in forming development programmes and aid levels in the region.

¹³⁵ Interview with Anonymous US Treasury Official, Office of Multilateral Development Banks, US Treasury, March 2012.

In this light, UK aid levels through bilateral and multilateral channels increased, particularly through the WBG. The larger and rapid increase of bilateral aid was not due to IOs performing below the UK's expectations. Nor was it to achieve a range of foreign policy-related objectives. Rather, the intense focus on aid and development meant that UK bilateral aid policies and volumes would be key priority. This would elevate the country to be a lead aid donor. Parliamentarians have voiced their differing views on aid, development and IO effectiveness. It is the structure of the UK's political institutions, along with the support of development by parliamentarians, that aided the change in aid policy by New Labour. The next section covers the remainder of the New Labour years, albeit under a different premiership.

5.5 UK aid during the later years of New Labour

5.5.1 UK and IDA 14

This section now turns to cover UK aid from 2006 to 2010 first examining its contributions to the IDA. It covers the premiership of Gordon Brown. Although there was a change political actors, UK aid policy was largely unchanged. In 2006, another WP was published, entitled *Making Governance work for the Poor*. One of the major themes was to enhance the security of developing countries, especially conflict states. With regards to IOs, the paper argued for an even sharper reform of IOs dealing development. In the case of the WBG, one proposal was to have a conference to sharpen the impact of WBG disbursements (DFID, 2006a: 37-38; 70, 74). This on appearance indicates the UK was targeting aid for foreign policy objectives. The WP's statements on IO reform seem to indicate a principal's disagreement with its various agents over their performance. Inasmuch as this was true, the UK's aim was again to provide all forms of aid for the purpose of development. The 2006 WP, like its predecessors, contained the central message that global poverty must be reduced. The paper described the effects of poverty on people and reiterated the promise made during the 2005 G8 meeting. The UK's position on IOs was also more to improve the impact of multilateral aid (DFID, 2006a: Chapter 1). The DFID's mission thus remained unchanged since its creation.

It could be argued that there was a change in UK development policy, given the change in premiership. The leadership shifted from Tony Blair to Gordon Brown in 2007, with the latter bringing a new perspective of the global environment. As noted, Brown previously as Chancellor of the Exchequer was also very interested in international development. Unlike the conflict between the FCO, Brown was supportive of the DFID's mission. He actively supported increases in the DFID's budget, especially after listening to her arguments (Short, 2005: 76, 90-91). Brown also was a proponent of debt relief, urging other foreign finance ministers to tackle that issue (Williams, 2005: 151).

Gordon Brown may be said to have a different global outlook from his predecessor. Unlike Blair, Brown may be depicted as one focused on a multilateral approach for foreign policy issues. Dyson classifies Brown with higher 'conceptual complexity'; indicate that he did not have extreme views of global events. Brown classified the world with diverse categories instead of strict, definite terms like his predecessor. Dyson nevertheless gives Brown a high score in the 'ability to control events'. This meant that Brown wished to be a strong, active player in the international arena (Dyson, 2011: 77, 79). Brown's vision domestically was to improve the opportunities of the people in light of the changing global economy (Beech and Hickson, 2007: 272-276).

As one of the New Labour architects, Brown adopted the ideals of 'American idealism' in his domestic and international agenda, where the overall goal was making globalisation work for all. Brown aimed to achieve this via closer interactions between states and IOs, fostering open market and neoliberal global governance. In terms of aid, Brown was also keen on assisting the global poor—he was in fact one of the authors of the Commission for Africa. According to Lee (2008), he aimed to provide aid that promoted neoliberal themes, thus achieving his global governance vision (Lee, 2008: 165-168, 172).

Brown and his team therefore still had a strong focus on providing and increasing aid. This was evident through the 2004 Spending Review, which again planned an increase in aid by £5.3 billion annually by FY 2007/2008. That review again pledged that 90 percent

of bilateral would go to LDCs, with Africa to receive up to £1.25 billion annually by 2007/2008. This aid again was provided to reach MDG targets, with a strong focus on education and health targets in Africa and Asia. There also was emphasis on attain full debt relief for all HIPC countries (HM Treasury, 2004a: 135-138, 2004b: 2-90). In short, the Brown premiership continued pursuing the issue of improving development via increased aid. Brown may have had a wider international outlook yet he still was committed to the same policy. Therefore, despite a change leadership, UK development and aid policy remained the same.

It could be argued that the UK was heavily scrutinising its aid provided through IOs due to the proposed increase. The 2004 Spending Review and PSA specifically stated the UK aimed to ‘increase the impact of the international system in reducing poverty’ (HM Treasury, 2004b: 30). As noted, this time period covered the fourteenth and fifteenth replenishment rounds of the IDA. The UK’s objectives for IDA 14 clearly reflected a principal wishing to shape its agent towards its own demands. Amongst the clauses, the DFID was pushing for a further reform of Poverty Reduction Credits, forging another agreement on debt reduction and improving IDA’s overall performance (DFID, 2003c). The final IDA 14 deputies’ agreement did include the UK objectives. As a result, the UK contributed a base amount of £13300 million. Another £100 million was provided, contingent on IDA and World Bank reform. A further £250 million was promised to scale up IDA’s efforts in meeting MDG targets.¹³⁶ The UK’s overall contribution was 59 percent higher than that provided during IDA 13 (Amos, 2005, Column WA54; DFID, 2005d).

The above increased disbursement may be argued to be reflective of a principal slowly awarding its high performing agent. This may be linked to the Multilateral Effective Framework (MEFF) survey conducted across FY 2003-2004. It gave the WBG high positive score in terms of Results Based Management and ‘scope for improvement’. The WBG scored just behind that of UN Development agencies, ranking as a highly effective

¹³⁶ These figures are in British pounds and are unspecified whether they are at nominal or real prices. The overall pledged amount based on these figures is a base of £1.33 billion, pledged to be delivered in equal installments of £443 million each (Benn, 2007a, Column 1120w).

IO. (Scott, 2005: 26-28). Another evaluation report was the Efficiency Technical Note, which was a supporting document to the 2004 PSA. The paper, along with its annex report, concluded that aid would have a stronger impact if channelled through the IDA (DFID 2005e, section 5; DFID 2005f). This appraisal could be reflected through the additional incentives of a £100 million and a further £250 million for the IDA 14 payments. The latter sum was specifically to fund World Bank projects related to the MDGs in Africa (Benn 2007a). In this light, DFID's IDA 14 contributions reflected a principal rewarding its efficient agent and still attempting to improve the agent.

What could further distinguish the UK as a principal was the matter over the extra £100 million, which was provided through two instalments. The first instalment was successfully delivered, conditional on the Bank reforming part of its conditionality approach (UK Select Committee on Statutory Instruments, 2006, memo: 7.6-7.7).¹³⁷ The second of such payments was, however, withheld in September 2006. Then Secretary of State Hilary Benn stated:

The UK has been at the forefront in pushing for improvements to the way that the World Bank...apply conditionality...my decision on the release of the [further] £50 million additional payment to the World Bank will depend on [its] satisfactory progress [in reforming conditionality] (DFID, 2006d)

This issue over reforming conditionality was due to the DFID position as a development agency and its approach. As noted, the DFID's aim was to reduce global poverty by providing development aid. The DFID as an agency had previously argued that the old, neoliberal or Washington Consensus style policies were detrimental for development. In the 1997 WP, the DFID asserted that development programmes should be linked to local institutions. The second WP further stressed that 'over prescriptive conditionality' cannot create any change (DFID, 1997: 48; 2000: 91-92; Riddell, 2008: 238-241).

¹³⁷ This issue about the World Bank reform was spelt out in the IDA 14 final Deputies Report (see for example, IDA 2005: vii, 34, Annex 2, Table 3). The UK as a shareholder was singled out as a key shareholder pushing for Bank reform. Interview with Anonymous Senior Official and Senior Economist, Operations Policy and Country Services (OPCS) Division, World Bank Group, February, 2012.

This culminated in a joint report by a joint DFID, FCO and HM Treasury titled *Partnerships for Poverty Reduction: Rethinking Conditionality*. That report again stressed the shortcomings of strict conditionality. The report stressed that the DFID would no longer set strict economic conditions along with its bilateral disbursements. It proposed a development partnership focused poverty reduction, human rights, and especially country ownership in all aid projects (DFID et al. 2005). The DFID itself implemented this new plan by forging country-led programmes and ensure all projects were centred towards poverty reduction (DFID 2006e).

The DFID therefore had a strong interest to ensure its aid was no longer fixed to stringent conditions. Benn therefore withheld £50 million as the WBG failed to meet the UK's expectations with regards to conditionality. Benn also was dissatisfied with then President Wolfowitz anti-corruption initiative (Elliott, 2006). The DFID itself further noted that it failed to achieve several of its objectives for IDA 14 and even during the Mid-Term Review (DFID, 2006c: 12; DFID, 2008b: 13-14). The WBG subsequently produced report outlining how it would reform conditionality. Only then did Benn agree to release the additional £50 million (The Associated Press, 2006). This saga could reflect the mechanisms of control in the PA theory. The principal attempts to discipline the agent by imposing sanctions, or withholding funds to the agent. Only when the agent has performed up to the expectations, the principal would provide the delegated funds.

It thus appears like UK aid to the IDA follows the PA principles. Inasmuch as this was true, the issue was not a simple disciplining of an IO. First, the Bank was not explicitly moving away from the delegated task set by the UK. All shareholders then tasked the WBG to produce a report on conditionality reform at IDA 14, not just the UK (IDA, 2005: 78). The UK was willing to disburse the funds as long as the Bank produced a report. As Hilary Benn noted in an IDC oral evidence session, it was withheld as the report was not out at that time (UK IDC, 2006: Ev8).

Second and more importantly, the UK's main objective in IDA 14 was not to discipline the Bank. In contrast, the UK's aim was to ensure its aid disbursements were targeted

towards poverty reduction. As Hilary Benn noted in an IDC evidence hearing, he was not holding back money to control or explicitly influence the Bank (UK IDC, 2006: Ev8). Benn stated that he:

Did not believe that withholding UK funding to the [IDA] would be appropriate... *withholding such funding would be damaging to the poor. It would mean that valuable development projects would have to be stopped* (Benn, 2006a, Column 704w, emphasis added).

This written reply once again signified the Labour government's core approach towards foreign aid: it was again to improve global development and reduce global poverty. This objective covered both bilateral aid and contributions to IOs. Even though IOs were not moving at the pace the UK wanted, the UK was willing to channel aid. As a former senior IFID official commented, the DFID has generally valued the work of the IDA and the Bank as whole. She further noted that, 'we are not trying to make the [IDA] like [the] DFID, [the] DFID is [the] DFID...we just want the Bank to be the best possible development organisation'.¹³⁸

UK MPs still further toed the PA line by questioning this issue of conditionality and additional funding. The DFID Ministers again gave replies again stating that the UK was simply ensuring that the IDA 14 tenets were achieved. They also stressed that the government then was firmly satisfied with the Bank's report on conditionality (Benn, 2006b, Column 501w; 2007b, Column 84w; Thomas, 2007, Column 575w). Then chair of the IDC, [REDACTED], further questioned if the additional £50 million could be provided through other means besides the IDA. Once again, Hilary Benn stated that it would be incorrect to withhold funding and highlighted the WBG's achievements (UK IDC, 2006: Ev8-9). This all shows that providing aid was the overall objective under New Labour, regardless of how it was channelled. MPs may have voiced concerns that the agent was sidetracking. Yet, the structure of British political institutions—the fact that parliamentarians cannot explicitly affect government policy—prevented them from altering the government's policies.

¹³⁸ Anonymous former Senior Official, IFID team, DFID. Interview, July 2011.

The Brown Premiership continued the aid policies of New Labour, ensuring aid was used to alleviate global poverty. Simultaneously, the DFID asserted that donors should move away from the concept of strict conditionality. While the UK appeared to be disciplining the World Bank during IDA 14, that was not the core reason. The UK was less concerned with conditionality and more with meeting its overall objective in ensuring its aid reached LDCs. UK multilateral aid was therefore shaped and shifted by the views of key UK decisions makers, with local institutions not hindering this change. The next section examines the UK's contributions to the fifteenth replenishment round, again show continuity in policy.

5.5.2 UK and IDA 15

The UK's contribution to the fifteenth IDA replenishment round bore a close resemblance to IDA 14. For IDA 15, the UK pledged £2.134 billion across the IDA 15 time frame of 2009-2011 (IDA, 2010: 25). In terms of World Bank Special Drawing Rights, it was USD\$ 2,564.17 million, giving the UK a share of 14.39 percent.¹³⁹ This was a 49 percent increase over the UK's IDA 13 contribution. More importantly, the UK became the largest IDA donor, quantitatively and proportionately (Alexander, 2007a, Column 96 WS; IDA, 2008: 62). This extremely strong contribution could again be simply attributed to the UK viewing the IDA as a highly effective IO. In its 2007 Multilateral Agencies note, it cited the IDA as 'the most effective international development [actor]' and 'IDA is a key vehicle for helping countries to achieve the [MDGs]' (DFID, 2008c).

The IDA nevertheless again came under criticism over the issue of conditionality. NGOs such as Christian Aid and the CAFOD stressed the need to again halt contributions unless the Bank fully halted all its strict conditions (UK IDC 2006: Ev49, Ev54). Parliamentarians also stressed the need for DFID to influence the Bank on this subject (Crawley, 2008, Column 82w; Thomas, 2008 Column 690w). Even so, there was no evident 'carrot and stick' approach taken across the IDA 15 time frame. As with the case

¹³⁹ It was not specified which value this contribution was made in, so it is assumed it is at 2007 prices. The share stated above covers the UK's core contributions. If HIPC costs, arrears clearance and other (non-trust fund) contributions are added, the UK's share is 14.0 percent (IDA, 2010: 25).

of previous IDA replenishment rounds, the principal here was not implementing strict mechanisms of control, despite agency slack. Rather, the UK was once more concerned with dispersing its aid in order to reach the global poor. As a senior IFID official commented, it is not the common case to discipline the IDA if it does not perform up to the UK's expectations.¹⁴⁰ A former DFID Minister also stated that the Bank has largely been a trustworthy and effective partner of the UK.¹⁴¹ The government again was focused on its goal to improve global development.

The focus on aid for development was again exemplified in the 2007 CSR, the last CSR just before the 2010 UK General Election. This CSR further elevated the DFID's budget from £5.4 billion in 2007-2008 to £7.9 billion in 2010-2011 (HM Treasury 2007c: 238). The CSR also again included many PSAs, with PSA 29 being directly related to the DFID. This PSA again stressed that the UK would improve the impact its multilateral contribution make on global poverty reduction. A second objective in this PSA was to ensure such contributions would improve the effectiveness of IOs. With specific regards to the WBG, the PSA first stated the UK would improve the Bank's efforts in realising the MDGs. Second, it aimed to improve the work of the WBG's field offices in Africa. Third, it also pledged to reform the WBG's approach towards conditionality (HM Treasury, 2007d: 4, 12).

As before, this CSR and PSA highlighted UK multilateral aid was to help reduce global poverty and not strictly a foreign policy. As Jamie Gaskarth argues, the aligning of aid with the MDGs indicated it was for a global need, not just British interests (Gaskarth, 2011: 97-98). This all again indicates that the UK under Labour was focused on increasing aid to address global development. In the government's perspective, the IDA was a suitable agent to assist in global development and poverty reduction. It therefore continued the policy of increasing development-centric aid through the IDA. The next section covers bilateral aid increases across the last years of the Brown premiership, and how it related to disbursements through the IDA.

¹⁴⁰ Anonymous Senior Official, International Financial Institutions Department (IFID), DFID. Interview, July 2011. See footnote 2.

¹⁴¹ Anonymous former Minister for International Development. Email Interview, July 2011.

5.5.3 Bilateral aid in last years of the Brown premiership

As noted above, the 2007 CSR allocated an increase in volume in overall UK aid. IN FY 2007/2008, the DFID's bilateral assistance accounted for 58 percent of the overall aid budget. This was an increase of 3 percentage points from FY 2006/2007. In contrast, overall contributions to multilaterals dropped by one percentage points from the previous FY. In monetary terms, bilateral aid rose from £2531 million in 2007/08 to £2839 in 2009/09, and by 2009/10, UK bilateral assistance was 60 percent of total UK disbursements (DFID, 2008a: viii; DFID, 2009b: viii; DFID, 2010a: vi). The 2007 CSR pledged that bilateral aid to the Africa region was to double to a high of £2.6 billion by 2010. A substantial part of this rise in bilateral aid can be attributed to the DFID's funding of IBRD/IDA trust funds. Across the FY 2006-2010 period, the DFID was the highest contributor to WBG trust funds, particularly to recipient-executed trust funds (World Bank CFP, 2010: 9; ICAI, 2012: 4).

The Brown premiership clearly placed a high emphasis on its bilateral disbursements than its multilateral channel. Such a focus again could be argued that the DFID's was providing aid to achieve UK foreign policy objectives or self interest. The 2007 CSR and PSA targeted more aid to LDCs classified as fragile states and conflict zones (DFID, 2009c: 5, 127; HM Treasury, 2007c: 238-239; HM Treasury, 2007d: 4, 9-10). The OECD's 2010 Peer Review explicitly highlighted that 54 percent of the DIFD's bilateral aid in FY 2008/2009. This trend was argued to be risky and lower the quality the UK's bilateral aid (OECD, 2010a: 51-52). Despite this apparent focus on security-related concerns, there was no explicit evidence that this displaced funding to the IDA. UK net disbursements across 2009 and 2010 rose in quantitative terms (OECD Stat Extracts, 2010b). Furthermore, key fragile states were no longer the top recipients of UK bilateral aid by fiscal years 2009 and 2010 (DFID, 2009c: 29; DFID, 2011d: 30).

More importantly, the DFID's core mission for its bilateral was still to improve international development. There may be a focus towards conflict zones, yet the overall allocation model was based on the MDGs. The DFID's bilateral aid allocation modelled is centred on an econometric model, utilising the Bank's Country Policy and Institutional

Assessment (CPIA) tool.¹⁴² The DFID may have increasingly focused on failed states. Yet that is just one of the many factors considered when allocating UK bilateral aid (DFID, 2007c: 238, 2007d: 5-6; OECD, 2010a: 50-51). Moreover, the DFID was again pledging to spend 90 percent of UK bilateral aid on LDCs. The DFID was further a leading donor in meeting the Paris Declaration, an agreement to foster aid effectiveness. In essence, this continued rise in UK bilateral aid cannot be explicitly linked to a distrust of IOs like the IDA. Neither was it purely due to the orthodox reason to achieve national security goals.

Rather key actors' perception of the global environment shaped the volume of British aid bilaterally and through IOs. In this case, it was the strong desire to improve global development by delivering aid. This was the ultimate deciding factor regarding both channels of aid. For multilaterals like the IDA, as long as they were focused on this theme, the DFID was more than willing to channel aid via such organisations. It was a similar case with UK bilateral aid. Nevertheless, the constant harping in government reports such as the White Papers and by key leaders indicated that the government was extremely passionate about international development. Key actors were extremely dedicated in making the UK a leading development donor. This intense movement thus indirectly led to increasing levels of bilateral aid, especially to meet the MDGs and the 0.7 percent aid target. This therefore caused the rise in UK bilateral aid.

Another aspect of this rise in bilateral aid was the increasing channelling of British aid via trust funds. In the case of the IDA, aid is delegated to the IDA but located within specific programmes in World Bank field offices. As noted in the introduction, the DFID was a substantial contributor to the IDA and the IBRD trust funds, rising to be the top contributor across the FY2006-FY2011 period (World Bank CFP, 2010: 9). In its early years, the DFID channelled substantial amount to Bank trust funds addressing post-conflict work in East Timor (Short, 2002c, Column 172W). The DFID was also a

¹⁴² See <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/ENVIRONMENT/EXTDATA/0,,contentMDK:21115900~menuPK:2935553~pagePK:64168445~piPK:64168309~theSitePK:2875751,00.html> for more information on the CPIA.

substantial contributor to the Afghanistan Reconstruction Trust Fund (ARTF), targeting the education issues (DFID, 2008d: 4).

It further contributed to funds such as the Africa Water Resources Management Initiative (AWRMI) and the Energy Sector Management and Assistance Programme (ESMAP) (World Bank Finances, 2013a, 2013b). The DFID also contributed to trust funds relating to humanitarian crises such as the Central America Emergency Trust Fund and Multi-Donor Trust Funds (MDTF) in Iraq (DFID, 2007g; Benn, 2005, Column 22w). They specifically targeted the education and health sectors, particularly those dealing with young children (Alexander, 2008a, Column 986W, 2008b: 1720W, 2008c: Column 512W). The DFID also contributed to other WBG trust funds such as Financial Intermediary Funds (FIFs) and IFC trust funds. It, however, has been the largest contributor to IBRD/IDA trust funds (World Bank CFP, 2010: 9, 2011: 6).

The DFID's substantial contribution to WBG trust funds creates a new aspect in the aid architecture and principal-agent relations. As noted in previous chapters, funding to trust funds or non-core aid is different from contributions to IOs, or core aid. In this case, states still channel aid to an IO, but it is for specific projects and such aid is closely directed and monitor by a donor or donors. It should also be noted that contributions to IOs and IO disbursements occur simultaneously. Trust funds thus provide another channel for aid not covered in PA theory—they allow donor states a third avenue to disburse their foreign assistance.

In the context of PA theory, trust funds now allow the principal to achieve his objective or task without resorting to constant coercive mechanisms of control. They also allow the state to achieve results at a faster pace, given the exact nature of the topic. These funds further are not often subjected to bureaucratic guidelines found within most major IOs. Donors in this manner use trust funds to quickly achieve their development goals which would not be always possible via contributions to IOs. As the WBG's IEO noted, the UK's funding of IBRD/IDA trust funds reflects the country occasion 'impatience with the [activities of] the multilateral system'. States as principals also finance trust funds to

influence the activities of the WBG. It was noted by certain shareholders that financing trust funds was an effective method to change the Bank's operations. They in fact cite it as an easier means to shape the WBG than using orthodox mechanisms of control (IEG, 2011: 5-7).

One such example of this was the Governance Partnership Facility (GPF), initiated by DFID, the Dutch and the Norwegian bilateral agencies in 2008 (DFID Projects 2013a; GPF, 2012). This trust fund was created to improve the Bank's approach towards governance and anti-corruption, with the three shareholders reviewing new proposals for governance-related grants. GPF resources eventually were implemented with Bank Country Assistance Programmes, with the three bilateral donors slowly altering the Bank's operations in countries (GPF, 2011: 51-56). These donors also allocated funding to change operations at IDA and Bank headquarters level, providing guidance notes for operations (GPF, 2010, 17-19). In this example, the UK used trust funds as means to reform the IDA and the Bank within, instead of using the traditional 'carrot-and-stick' approach.¹⁴³

The above indicates that the PA theory is a key issue why the UK funds IBRD/IDA trust funds. This argument, however, would be stronger if the principal found lots of gaps in the delegation contract with the agent. This was certainly not the case as the above indicates that the UK share and volume increased across the various replenishment rounds. In other words, it is questionable whether the financing of trust funds is done to circumvent the direct multilateral delegation process. A more credible reason is they were to meet the Labour government's core vision of improving global development. The above funds such as the AWRM, ESMAP, the GPF and others were all centred towards development projects.

¹⁴³ A former senior researcher at the OECD noted that shareholders like the UK were impatient to see development results from their aid contributions. Telephone Interview, December 2012. Another senior researcher from the Overseas Development Institute (ODI) also argued that the UK wished to use trust funds to provide confidence to British taxpayers. Telephone Interview, November 2012.

Furthermore, as a World Bank Operations Officer and DFID Programme Adviser noted, the development landscape continues to change rapidly. The UK thus wished to quickly address emerging development themes. Second, with an ever increasing aid budget, the Labour government needed to show UK taxpayers that such money was well spent. The financing of trust funds would present a faster and more visible development programme for taxpayers to view.¹⁴⁴ It may still be argued that the increasing usage of trust funds was to secure UK strategic objectives. After all, the DFID financed many trust funds for post-conflict work or in fragile states such as Afghanistan and Cambodia (World Bank Finance 2013a, 2013b). Yet, the central focus on trust funds, even those directed at fragile states, was that of global development. As a DFID Programme adviser argued, the issue of conflict needs to be addressed if development is to occur.¹⁴⁵

In summary, the increasing funding of IBRD/IDA trust funds is due to the agent's performance as well as mostly due to government actors' perceptions regarding development. The UK then certainly valued the WBG's efforts and has increased its direct funding across various IDA replenishment rounds. Even so, it has occasionally disagreed with WBG's activities, therefore it has funded trust funds to swiftly achieve its goals. Such an urgency to meet development goals links back to key actors placing a development as a major policy goal. With this race address, the DFID thus increased its disbursements to IBRD/IDA trust funds.

As with the Tony Blair premiership, bilateral aid rose faster than contributions to IOs, particularly to the IDA during the Brown Premiership. The UK continued to increase its funding to the IDA across replenishment rounds. As a principal, the UK praised its agent's performance and awarded it with increased financing. Simultaneously, the UK's spending review also increased its bilateral aid disbursements, with a focus towards fragile states. A substantial portion of this bilateral aid was channelled to trust funds within

¹⁴⁴A Senior Operations Officer in the Global Partnerships and Trust Funds Operations Team, World Bank Group noted this was an increasing reason why donors fund WBG trust funds. Interview, March 2012. Such a perspective was also shared by a former Senior Researcher from the OECD, Telephone Interview, December 2012.

¹⁴⁵ DFID Programme Adviser working with the South Sudan Multi-Donor Trust Fund. Telephone Interview, October 2011.

IOs such as the IDA. While there was strong praise for the IDA/WBG's work, the UK occasionally required faster outputs and desired to address emerging development issues. This is reflected in the UK's funding of trust funds relating to conflict states.

In the larger picture, it continued to be government actors' constant vision of utilising aid to improve global development drove the entire volume of UK aid upwards. The Labour government was set on meeting the 0.7 percent target and the MDGs. All this indicates that the UK was concerned with its principal's performance yet the aim to improve global development meant that bilateral aid would take preference over flows through multilaterals. Looking back at the questions, aid changed and increased because key Labour government figures were keen on international development and saw that aid was a means to achieve it. The next section turns to examine the marginal effect of UK political institutions and parliamentarians.

5.6 Political institutions and parliamentarians

As discussed above, the institutional structure of the UK parliament prevents MPs and Peers from directly altering the actual volume of UK development assistance. Neither can they explicitly affect government policies as opposed to their US counterparts. This meant that they could not explicitly alter or stall aid volumes or. Nevertheless, these parliamentarians did have a small degree of influence.

All parties once again were in agreement in reaching the 0.7 percent aid target (UK Conservative Party, 2005: 27; UK Labour Party, 2005: 90-91; UK Liberal Democrats, 2005: 14-15). This unity over aid spending was further seen in parliamentary debates. Both houses often discussed aid and development themes, and these largely supported the government's position and objectives. In the House of Lords, they discussed the broad issue of development and women's rights. In these debates, there was again less division and more agreement between opposition spokespersons and government Peers (Avebury, 2007, Column 441w; Rawlings, 2009, Column 465; Northover, 2009, Column 466). In the House of Commons, MPs from even the minority parties voiced their support for

development and aid (Wishart, 2007, Column 875). This widespread agreement indirectly assured that the Labour government's aid agenda would be largely unaffected

Such parliamentary debates did not often focus on multilateral and bilateral aid flows. The various relevant parliamentary committees in contrast produced reports across 2007-2010 relating to this topic. The PAC in conjunction with the NAO, produced a report on the DFID's work on fragile states, which DFID duly noted in its own annual report (UK PAC, 2009; DFID, 2009d: 54). A more significant publication was the IDC's *DFID and the World Bank* report, published in 2008. That publication sounded out several cautions with regards to the DFID's contributions to the WBG (Alexander, 2007, Column 898). The IDC report cautioned the government for using its rising budget as a simple excuse to automatically increase its IDA contributions. Second, the report criticise the DFID for not pressuring the IDA for more stringent results across IDA replenishments. Third, the committee was not strongly satisfied with the DFID's efforts in reforming IDA conditionality. Fourth, it cautioned the DFID over its increasing its financing of trust funds, citing this might reduce overall core funding. (UK IDC, 2008a, 11-12, 18-19, 24).

The then Labour governments responded all IDC reports. It acknowledged that they were working with other shareholders to gain results from the IDA's activities. The government also acknowledged its efforts to end strict conditionality programmes by WBG. Inasmuch the government accepted the IDC's arguments, it still painted a positive picture of the WBG in its response. It highlighted that the WBG has reformed as a development IO, thus explaining the rationale for the increasing contributions across IDA replenishments.

Despite acknowledging the lack of thorough reform of conditionality, the government did not state any planned further action against the proportion or volume of UK aid through the IDA (UK IDC, 2008b: 2-5). The Labour government appeared to view the IDA as development partner. This once again reflects the nature of the British political institutions: the party that commands the majority dominates the decision making process without much hindrance from the British parliament. Key government decision makers

continued to utilise and increase aid in order to assist with international development with little hindrance.

The IDC was not always critical of the various Labour governments' aid policies. A report titled, *Aid Under Pressure* was published during the 2008 financial crisis. The report championed the need to be focused on development and not reduce the aid budget, even amidst the UK's economic downturn. This report also agreed with the Labour government that the 0.7% target should be reached (UK IDC, 2009a: 21-22, 56). In response, the Labour government agreed with the IDC in meeting the 0.7 aid target (UK IDC, 2009b: 10-11). Yet another publication that supported the rise in British aid was the *Draft International Development (Official Development Assistance Target) Bill* report, published just before the 2010 General election. This IDC report was in response to a draft parliamentary bill, ensuring that the government would reach the 0.7 percent target.¹⁴⁶

As with the previous report, it again supported the government's increasing aid budget and the race to meet the 0.7 target. This report argued that any British aid must be for the sole purpose of poverty reduction (UK IDC, 2010: 7, 22). The committee's agreement with the government's aid budget, especially during an economic crisis, was in stark contrast to the views by US congressional committees and legislators as seen in Chapter 4. Such unity provided an indirect endorsement to government policies over aid levels. The Brown government thus had the support to increase aid and channel it by any means.

It still could be argued that not all British parliamentarians agreed with the Labour government over aid levels. Then Shadow Secretary of State for International Development, Andrew Mitchell proposed a different vision of British aid. Mitchell's key arguments during his time was British aid was not making as large an impact on development as advertised. Mitchell stressed the need to form a fully independent monitoring watchdog to evaluate the exact impact of UK aid. His constant pressure

¹⁴⁶ The draft copy of the bill:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/228558/7792.pdf

resulted in the Labour government creating the IACDI, which became the ICAI after the 2010 General Election. Even with this new agency, Mitchell continued his effort to make the impact of UK aid more transparent (Elliott, 2007).

Despite this move by the Shadow Secretary of State, it did not indicate that the Conservatives had a different approach to aid. First, Mitchell in fact was simply ensuring that the high volume of aid was always direct towards poverty reduction. Second, Mitchell did not explicitly centre upon either bilateral or multilateral aid. He in fact indicate his support for the IDA, as evident in the statement:

While it was certainly not always the case, the World Bank's programmes are hugely respected around the world today, and Britain's role is greatly respected in the bank, too. We should give the [World Bank] our firm support (Mitchell, 2006, Column 1748)

This indicates that the Conservative opposition was still supportive of the Labour government's aid policy. There was little indication that they which channel they preferred to provide aid through. Rather, the Conservatives were just as determined to meet global development targets and provide increasing amounts aid. As such, UK legislators influenced the level UK aid by indicating their support for international development and aid volumes. Certain parliamentarians have provided different perspectives from Labour government actors regarding development and aid levels. Yet, by and large, all political parties agreed on improving global development through foreign aid. Such unity across the UK parliament meant that the government gain not only support but was able channel aid according to their preference.

The above sections have shown that British bilateral aid again rose faster than multilateral contributions during the Brown premiership. This was not because of any distrust of IOs like the IDA, which the UK rated as an effective organisation. Neither was it due to the UK using bilateral aid solely for foreign policy interests. Rather, with new political actors passionate about global development, bilateral aid increased faster to

make the UK a leading donor nation. The next section now examines UK aid flows under a new government.

5.7 From Labour to a Coalition government: Continuity rather than change

This section turns to examine British aid flows just after the 2010 British General Election. It aims to show that despite a change to a right-centred government, UK aid policies remained the same and aid proportions remained relatively roughly the same. Following the 2010 General Election, a new government, consisting of a Conservative Party-Liberal Democrat coalition took office. All three major UK political parties once again had similar development policies in their party election manifestos. They pledged to provide aid to assist countries in meeting the MDGs and pledged to meet the 0.7% aid target (UK Conservative Party, 2010: 117; UK Labour Party, 2010: 8:3; UK Liberal Democrats, 2010: 62-63). The new coalition government thus agreed to achieve the 0.7 target by 2013 and achieve the MDGs (HM Government, 2010: 22).

The new Prime Minister, David Cameron, stressed that British aid disbursements would not decrease despite the recent global financial crisis. The new International Development Secretary, Andrew Mitchell, echoed this statement, stating that the UK ‘will not seek to balance the books on the backs of the poorest in the world’ (Number 10, 2010; Mitchell, 2010, Column 1019). The coalition government went even further, stating the aid budget would not be subjected to financial cuts, as was the case for other cabinet departments (Mitchell, 2010, Column 1019, 1023). This continuation of aid and development policy could be seen in the aid statistics during the early years of the coalition government. Net UK bilateral aid rose by four percent between FY 2011 and FY 2012. In contrast, overall net UK multilateral aid fell by two percent between the same period (DFID, 2013d: 19).

This drop in net multilateral contributions naturally covered contributions to a range of IOs. British disbursements to the IDA nevertheless still showed an increase in terms of

volume by US\$ 1602 million between IDA 14 and IDA 15.¹⁴⁷ IDA 15 covered WBG FY 2008 to FY 2011, with the UK contributing £2134 million in total. The previous Labour government negotiated IDA 15 on behalf of the UK, praising the IDA's efforts in fostering sustainable growth and its country-led programmes (Alexander, 2007a, Column 96WS).

This praise for the IDA was continued by the new Conservative-led DFID team. During an IDC hearing, new Minister of State Alan Duncan stressed the benefits of channelling aid through the IDA. He qualified that the Bank may still implementing conditionality-style programme, yet was certain the DFID had influenced the Bank. Duncan's views were echoed by a DFID official who stated that it would be impractical for the DFID as a shareholder to withhold contributions if the IDA was not performing properly. It would mean that funding to poor countries would be hindered (UK IDC, 2011: Ev1-3). These comments indicate once again that the IDA is still an effective agent in the DFID's view. While the agent may not always been performing as expected, UK actors were willing to provide increasing amounts of aid due to their passion to improve global development.

It may still be argued that PA issues were a more dominant factor during the Coalition government. The 2011 Multilateral Aid Review (MAR) could be said to be an example where an agent's performance was intense examined.¹⁴⁸ This publication examined 42 different IOs and funds, measuring both their strengths and how far they matched UK national objectives. The analytical framework of the MAR was far more detailed than that of the MEFF conducted during the previous Labour government. Overall, the IDA was rated high in the MAR, but was still surpassed by other organisations in both categories (DFID, 2011e: iv).

Despite this detailed examination, the MAR evaluation was not an indication that the principal distrusted its agents. In fact, a Bilateral Aid Review (BAR) was simultaneously

¹⁴⁷ As with previous figures, the currency value for the IDA 15 contributions was not stated in the World Bank CFP report. It is assumed to be at 2008 prices.

¹⁴⁸ The publication of the MAR is outside the timeframe of this thesis. It was, however, initiated when the Coalition came into power in 2010.

conducted to ascertain which DFID field programmes should be kept (DFID, 2011c). In the larger picture, the publication of the MAR, and the BAR, was to ensure that every bit of UK aid was focused on global development (DFID, 2011e: i-ii). This was especially so given that aid was provided during an economic recession. This all indicates that there was much continuity regarding UK aid levels and policy under the Coalition government. The UK as a principal again examined if their agent was performing up to expectations. While the IDA was rated effective, key government actors still were strongly focused on improving development through development aid. The result was once more a rising amount of bilateral aid much larger than contributions to multilaterals.

5.8 Conclusion

The UK presents unique case as its share and volume of IDA replenishment rounds increase from IDA 12 to IDA 15. As with the case in the US, UK bilateral aid disbursements were higher and rose faster than multilateral contributions. PA theory may explain this rise in IDA contributions, but is unable to depict the entire pattern of UK aid flows especially the increasing channelling of aid via trust funds.

New political actors in fact shaped the volume and channelling of UK aid flows. After 1997, Labour Party figures were focused on improving global poverty and foreign aid was the means in doing so. The IDA was constantly rated as an effective agent for the UK, resulting in increased funding over various replenishment rounds. Yet, with the constant passion to achieve the MDGs and global aid targets, British bilateral aid indirectly rose faster and higher than overall multilateral disbursements. A portion of this bilateral aid rise was channelled through trust funds within IOs like the IDA. As a principal, the UK occasionally disagreed with the speed of results. As a donor state, the UK intended to quickly address emerging development issues. This thus explains the large amount of disbursements to trust funds.

Unlike US government actors, UK key political actors had more leeway in pursuing their policies over aid and development. UK political institutions assisted any change in aid policies, rather than hindered them as was the case with US political actors. Therefore,

there was much continuity even when the government changed after the 2010 General Election. These two case studies have shown how PA theory, along with actor-specific FPA, can explain the aid flows of the US and the UK. The next chapter turns to examine a non-Western OECD donor, Japan. It will use a similar framework to explain Japan's decreasing share of IDA replenishments and moderate rise in bilateral aid.

Chapter 6: Japan: The Reluctant donor

Japan's aid [poliy] is culturally different from Western foreign aid.¹⁴⁹

It is hard to justify any increase in aid [to multilaterals] given public opinion on the subject.¹⁵⁰

6.1: Introduction

The previous chapters present the foreign aid patterns of two major western aid donors between 2000 and 2010. This chapter turns to examine the aid flows of a non-western OECD donor, Japan, across the same time period. Japan's share of the IDA replenishment process decreased between IDA 12 and IDA 15 much like the case of US contributions. The total contributions in terms of financial volume nevertheless increased across the same period, although not at a constant rate. Japan bilateral flows were substantial higher than its overall contributions to IOs. Unlike both the UK and the US, net Japanese aid disbursement decreased across this time period. In terms of the PA model, the above trend may suggest that Japan as a principal viewed the IDA as an ineffective agent. Japan's increasing bilateral aid might also indicate that Japanese aid was meant for foreign policy purposes.

A deeper analysis would reveal that the assertions above are an inaccurate depiction of Japan's aid across the last decade. Despite having a different view of development from the WBG, there was no specific evidence that Japan classified the IDA or the WBG as ineffective. Neither can it be explicitly stated that Japanese increased in bilateral flows to address only foreign policy purposes. To the contrary, Japan did exhibit the role of a principal when dealing with its agent, the IDA. Japanese bilateral aid, despite being part of the foreign ministry, was still provided for the aim of improving global development.

The larger increase in Japanese bilateral aid can be more attributed to the historical institutions of Japan's development which shaped the worldviews of key government actors. With regards to the latter, new key government actors aimed to make Japan a

¹⁴⁹ Former DFID Official, UK-Japan Cooperation Team, International Relations Division, DFID. Interview, October 2012.

¹⁵⁰ Remarks from the Japanese Alternative Executive Director to the World Bank Group, Interview, February 2012.

more influential and assertive nation in the global arena. The perspectives of Former Prime Ministers and key Ministry of Foreign Affairs (MOFA) officials were also influenced by foreign policy events and internal pressures as well. These would include Japan's response to the post September 11 environment and the Japanese public's negative perception of foreign aid. Due to Japan's historical past, it has long preferred to approach aid and development through its own means and not immediately conform to OECD-DAC aid norms. This thus would result in Japan favouring its own development practices.

Japan's preference for its own development programmes would thus be a factor in its decreasing share of IDA replenishments from IDA 12. The IDA is an external agent and Japan delegation would mean losing control of its aid resources. In contrast, Japan did dominate the replenishment rounds of the Asian Development Bank, another agent. As will be further below, PA theory can explain such a difference with a principal choosing to delegate to a preferred agent. PA theory, however, cannot accurately account for Japan's strong usage of WBG trust funds. Contributions to trust funds are more because of Japan's preference in controlling aid finances and programmes.

This chapter thus again will use a combination of both PA theory and FPA to account for the rise in Japanese bilateral aid relative to its multilateral contributions. It will use a range of primary sources, interviews, news articles and other literature in order to prove the above assertion. With reference to the three questions in Chapter One, Japanese aid changed due to new political actors—the different Japanese premierships---entering during this time period. More specifically, overall Japanese aid decreased at the start of the decade due to actors viewing their internal environment—Japan's economy—with higher importance. Japan's aid would only increase when its economic standing improved, with pressure from other donors, and the need to address foreign and development issues. Japanese bilateral aid eventually rose higher due to the longstanding norm that Japanese preferred its aid to be known as Japanese aid.

The rest of the chapter proceeds as follows: the second section details various statistics in Japanese aid flows across the last decade. It will cover the different aid recipients of Japanese bilateral aid cross the time period. It will also cover the different contributions to the IDA and other multilateral organisations such as the Asian Development Bank (AsDB).

The third section will depict the organisational structure for Japanese foreign aid. This section indicates how the governing of Japanese bilateral aid has changed, especially with the structural change of the Japan International Cooperation Agency (JICA). Unlike the UK, Japan does not have a strong linkage between its bilateral and multilateral aid. This section will show that the JICA, despite its independent nature, is largely connected to Japan's Ministry of Foreign Affairs (MOFA). While this may present a similar pattern to the US aid structure, there is a closer relationship between the JICA and the MOFA. This section also will detail how contributions to the IDA are governed by Japan's Ministry of Finance. It will show the lack of a relationship between the MOFA and MOF. This gap would ultimately shape the direction of the country's bilateral and multilateral flows. This section will also show that the decision making process of Japanese aid is mainly centred around government ministries, with parliamentarians having a minimal role. The next section provides a brief historical background to Japan's aid provisioning. This helps to shows how Japan's historical past has set the basis for Japanese aid flows in the new millennium. The fifth part covers Japan's flows at the beginning of the twenty first century. It will explain using PA theory and FPA the decrease in both forms of aid and the drop in Japan's IDA 12 replenishment.

A sixth section examines Japan's aid disbursements under one of Japan's longest serving Prime Ministers, Junichiro Koizumi. It will show that Japan's bilateral flows increased due to Koizumi's perception of the external environment and his vision for Japan. Contributions to the IDA meanwhile decreased due to factors such as the economic environment and preference for other principals. A further section will examine Japan's contributions to its main WBG trust funds, namely the Policy and Human Resources Development Fund (PHRD) and the Japan Social Development Fund (JSDF). There will

also be an examination of aid under the new Democratic Party of Japan. It will show that Japan's aid patterns hardly changed from the Liberal Democrat Party (LDP) to the Democrat Party. A final section concludes and leads on to the concluding chapter of this thesis.

6.2 Japanese aid statistics over the last decade

Japan's aid flows over the last decade were in mark contrast to the US' and UK's flows. There wasn't a general increase in aid unlike the previous two case studies. At the beginning the twenty first century, Japan was the largest Group of Seven (G7) nation foreign aid donor in terms of per capita contributions. This was partly due to a 0.2 percent increase in Japan's aid budget. This increase was nevertheless more due to Japan wishing to improve Asian countries affected by the 1997 Asian Financial Crisis. Japan's aid volume dramatically decreased from USD\$ 13,508 million in 2000 to USD\$ 11,429 million by the end of 2001 (Takayanagi, 2000: 54; Japanese MOFA, 2002a, Chart 3; OECD, 2004: 21).¹⁵¹

By FY 2003/2004, Japan's overall aid budget was slashed by around 4.8 percent. That resulted in the country accounting for 16 percent of all OECD Development Assistance Committee (DAC) members' foreign assistance (Watanabe, 2004: 255). Across the middle of the decade, the overall of volume of Japan aid continued to decline. In 2008, this decline was slightly reversed rise of net aid volume by 10.7 percent between 2007 and 2008. Across 2000 to 2011, Japan was one of the major DAC donors to show a decline in aid growth (OECD, 2010b: 43 Devint, 2013: 11).

Japan nevertheless, was ranked as the second largest contributor to multilateral organisations from 1999 to 2002. The WBG has traditionally received the bulk of Japan's multilateral contributions (OECD, 1999: 59-60). Specifically, there was a 28.7 percent increase in its multilateral contributions between 2007 and 2008. Even so, Japan's share of IDA replenishment rounds has decreased: from 18.68 percent in IDA 12 to 10.00 percent in IDA 15 (IDA, 2010: 25, OECD, 2010b: 50). Japan also delivered a small

¹⁵¹ It is assumed these figures are in 2002 prices. It is unknown if it is in nominal or real terms.

portion of trust funds through the WBG. This totalled to US\$ 0.3 million in 2008 and the same amount in 2009.¹⁵² The most significant Japan-World Bank trust funds are the Policy and Human Resources Development Fund (PHRD) and the Japan Social Development Fund (JSDF) (Japan JSDF, 2013; Japan PHRD, 2013). A larger portion of Japan's non-core aid is further channelled through UN funds and programmes such as the United Nations Children's Fund (UNICEF) and the UNDP. Amongst the DAC donors, Japan's gross non-core contributions in 2008 amounts to less than 30 percent of global non-core aid flows (OECD, 2011a: 29).

In 2002, Japan's gross bilateral aid was 79 percent compared to 21 percent for its multilateral contributions. By 2008, Japan's bilateral disbursements increased to 84 percent of its total gross disbursements (OECD, 2004: 76; OECD, 2010b: 88). A long-term distinctive feature for Japanese aid is its high disbursement of loans. This is opposed the aid policies US, the UK and even IOs like the Bank, which disburse grants (OECD, 2004: 22). The proportion of Japan's loans hit a high of 44 percent of its overall disbursements in 2001. This level has, however, fluctuated, reaching a low of 40 percent in 2008. In terms of regional allocation, the Asian region has traditionally received the bulk of Japan bilateral aid. This amounted to 68 percent of overall bilateral aid in 1997, 74 percent in 2002, dropping to a low 58 percent in 2008.

Despite the decrease, Japan continues to be the top DAC donor to the Asian region. China and South East Asian countries continue be the top ten recipients of Japanese aid. Only one African country, Tanzania, was amongst the tope ten recipients of Japanese gross aid disbursements in 2008. In terms of grant aid, Sudan, Congo, Kenya and Uganda are several of the top ten recipients. Japan has focused on Africa with the creation of the Tokyo International Conference on African Development (TICAD) initiative, which started in the early 1990s. Nevertheless, Japan's overall contributions to the Africa region are still only a small portion of Japanese gross disbursements—reaching only a maximum 28 percent in 2006 (TICAD, 2013). Japan provides most of its bilateral aid to middle

¹⁵² The value for 2008 was at US\$ 2008 prices and similarly for 2009, US\$ 2009 prices. Therefore, there may be a slight variation in the real value for Japan's non-core contributions to the Bank.

income countries, with 68 percent on its bilateral aid in 2001 provided to middle-income countries. The portion of Japan LDCs was only 19 percent of their disbursements in 2008 (OECD, 2010b: 89).¹⁵³

These statistics indicate that like the previous case studies, Japan provided a larger volume of aid via its bilateral programme. As with the US, Japan also reduced its share of IDA replenishment rounds. Unlike the US and the UK, Japanese government actors strongly linked their aid levels to the economic performance of the country. The above also shows that Japan provides bilateral aid mostly in the form of loans as opposed grants. It also shows that Japan's reduction in the IDA replenishment share—8.68 percentage points—was a larger decrease than that of the US (IDA, 2010: 25). To further explain this trend Japanese aid, the next section delves into how Japanese aid is governed.

6.3 Governing Japanese aid

This section turns to describe how Japan's foreign aid is managed. Japan has generally had a diverse structure over its development assistance and development policy. This is despite the many changes since the creation of Japanese foreign assistance. At the turn of the century, a large range of government ministries were involved in development policy. The MOFA has been the leading department in managing the bulk of Japanese foreign aid. Previously, the Economic Co-operation Bureau (ECB) within the MOFA, managed Japan's key aid agency, the JICA and most other forms of Japanese aid. These ranged from loan and grant provisions to technical co-operation, the latter being managed by the JICA. The ECB in the early 2000s, was headed by a Director-General, often seconded from the MOFA.

Nevertheless, in the early twenty-first century, the director-general of the ECB had to constantly compete with other MOFA director generals to gain the attention of Japan's Foreign Minister. In 2006, the ECB was abolished and replaced by the International Co-operation Bureau (ICB). This 'new' bureau was restructured in 2009 with sub-units

¹⁵³ The OECD peer review classifies middle-income countries as 'other low-income' countries and 'lower middle-income' countries.

focusing of different geographical regions instead of focusing on types of foreign aid. This new bureau also had departments focusing on global cooperation and research on certain development topics (BBC Monitoring Asia Pacific, 2006; OECD, 2010b: 55-56). This all indicated that the MOFA controlled the bulk of Japanese bilateral aid

The JICA itself nevertheless underwent internal organisational reform in 2003. It was revamped into a more streamlined operating system. This meant that field offices would have a larger say in decision making and formulate its own plans (JICA, 2003: 1-2; Tsopanakis, 2011: 16-17). While this elevated the JICA's status within Japan, it still fell under the MOFA. The MOFA would still be the lead entity deciding on aid policies and also provided bilateral aid itself. As noted above, the new ICB had departments focused on different geographical regions, an aid evaluation department and a global cooperation department. Even though JICA could decide on field projects, final decision making still rested with the MOFA (OECD, 2004: 46-48, 2010: 59). The JICA was merely implementing projects through field offices.

Furthermore, there was another development-related agency back then, the Japan Bank for International Cooperation (JBIC). It was formed from the merger of Overseas Economic Co-operation Fund (OECF) and the Export-Import Bank of Japan (JEXIM).¹⁵⁴ The OECF previously also provided loans and was controlled by two entities: the Economic Planning Agency (EPA) and the Ministry of Economy, Trade and Industry (METI).¹⁵⁵ The JBIC also received funding and guidance from the MOF (OECD, 1999, 29- 33, 2004: 48; JICA, 2011). The EPA previously also had a small degree of control over JICA's technical co-operation loans (OECD, 1996: 27). The EPA was dissolved in 2001 allowing the JICA and the JBIC controlled around 61 percent of all Japanese bilateral aid.

¹⁵⁴ The JEXIM was one of the earliest development-centred agency created by Japan in the post World War Two period (Rix, 1980: 22). The merger between the OECF and the JEXIM occurred in 1999 (OECD, 2004:48).

¹⁵⁵ The METI is also known as the Ministry of International Trade and Industry (OECD, 1999). This thesis

The presence of the OECF and JEXIM presented yet another agencies working on development. Even with the formation of JBIC, this agency further duplicated the JICA's work in the field. It in fact also provided additional development-related finances that however, could not be classified as foreign aid. It meant that there were at least two ministries dealing with Japanese bilateral aid and that the JICA would have to compete with other agencies for financing of their development projects (Tsopanakis, 2011: 14). This fragmentation of development agencies led to calls in 2005 by internal and external actors for reform (The Daily Yomiuri, 2005). The result was the creation of the 'new JICA' in 2008, which restructured the JICA to control a larger portion of bilateral aid. The MOFA would still coordinate bilateral development policies and disburse a portion aid. The non aid-related finances of JBIC would be handled by a new Japan Finance Cooperation (JFC). This 'expansion' also meant that the JICA would turn into one of the largest contributions in development assistance (OECD, 2010b: 54).¹⁵⁶

Japanese assistance to most IOs is controlled by the Ministry of Finance (MOF), specifically, the International Affairs Bureau. Within this Bureau, the International Organisations Division controls contributions to the IDA. This division works in cooperation with the Development Policy Division, the Office of Development Finance and the Development Institute Division. These various departments further report to the Vice Minister of Finance for International Affairs. As with the case of the US, Japan's Minister of Finance is the representative to the WBG's Board of Governors (Japanese MOF, 2013a; 2013b; World Bank 2013b).

Daily engagement with the IDA and WBG is delegated to Japan's ED to the World Bank Group. As Japan holds a substantial number of votes in both the IBRD and the IDA, it sits as one of the twenty five core Executive Directors.¹⁵⁷ The Japanese ED has a specific adviser focusing specifically on the IDA. This adviser not only works on IDA replenishments but monitors the day to day operations of the IDA. He or she works in

¹⁵⁶ See <https://www.jfc.go.jp/n/english/profile.html> for more about the JFC.

¹⁵⁷ See the voting powers in the IBRD <http://siteresources.worldbank.org/BODINT/Resources/278027-1215524804501/IBRDEdsVotingTable.pdf> and IDA <http://siteresources.worldbank.org/BODINT/Resources/278027-1215524804501/IDAEDsVotingTable.pdf>.

conjunction with the MOFA's International Organisations Division in monitoring the IDA (World Bank, 2013d).¹⁵⁸

The remainder of Japanese foreign aid is controlled by Ministries including METI, Agriculture and Health (Lancaster, 2007: 114, OECD, 2004: 46). On a higher hierarchical level, an Overseas Economic Cooperation Council was formed around 2006. This inter-ministerial committee would further formulate decision making over aid and international development policy. This would link all development-related agencies with the Prime Minister and the Chief Cabinet Secretary. This council may further include outside academics, depending on the meeting (Japanese Overseas Economic Cooperation Council, 2006; OECD, 2010b: 39).

The formation of Japan's aid budget is equally complex. It is formed by the central government budget, the Fiscal Investment and Loan Programme (FILP) and repayments from previous aid loans. The overall 'operational aid budget' comprises of the "general account" ODA budget and financial sources from elsewhere. A particular source for the FILP is a government-supervised 'borrowing and lending' programme to finance aid loans. The FILP was formerly under the trust fund Bureau within the MOF, which also financed non-ODA disbursements. After 2001, FILP was dedicating for non-ODA funds while ODA loans had to be raised via capital market trading (Kawai and Takagi, 2004: 262-263; Takahashi, 2010: 45).

This aid budget is reviewed by Japan's Parliament or the National Diet. Japan's entire budget has also to be reviewed by Budget Committee in the Japanese House of Representatives. Next, it passes through the House of Councillors. Even when there is disagreement between the two Houses, the annual budget may still be passed, albeit with thirty days of the Lower House's decision. Within each house, the budget committees themselves monitor the national revenue and expenditures. There are also specific foreign affairs committees in each monitor the work of MOFA and the various Japanese aid

¹⁵⁸ The responsibilities of the Japanese Executive Director's Office are not specifically stated on their website. This was a roughly list provided by the Japanese Alternative Executive Director to the World Bank Group. See Footnote 2.

agencies (The Constitution of Japan, 1947, Article 60; Japanese House of Councillors, 2013a, 2013b; Japanese House of Representatives, 2013). Inasmuch as these parliamentarians play a role in Japan's aid, this thesis will concentrate on the perspectives of Japanese government actors. As further detailed below, the final decision making over aid is centred towards top government officials. Second, the primary and secondary literature available relating to Japanese parliamentarians is not as transparent as British and American sources.

Figure 5: Changing organisational structure of Japanese aid

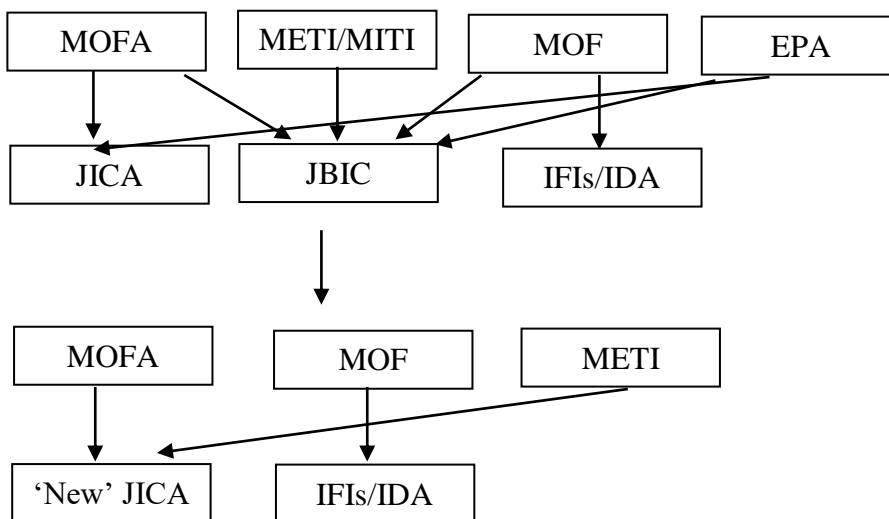


Figure 5 above summarises the changing governing structure of Japanese aid across recent years. Despite the various reforms over the years, is thus a bifurcated system, especially with its bilateral aid channel. It may appear similar to the US structure with a) a bilateral agency and the foreign affairs ministry controlling bilateral aid and b) a finance ministry governing aid to the IDA (OECD, 2009b: 33, 69). Yet, the MOFA has a slightly stronger grip over bilateral aid compared to the US State Department. First, despite the administrative changes, the MOFA has been the central government ministry governing the JCIA. Second, as noted above, MOFA is the dominant policy decision maker, not the JICA. Such policy includes the overall long term approach for Japan's bilateral aid (Arase, 2005a: 126-127; Lancaster, 2010: 36-37).

Such dominance has long entrenched Japan's bilateral aid as a key foreign policy tool. This is not to say that all Japanese bilateral aid has always been for foreign policy motives—the sections below will show that Japan has financed development projects. Nevertheless, with the MOFA in charge, this meant a number of ECB or ICB officials had little knowledge about international development. (Lancaster, 2010: 45). This lack of experience would contrast with the JICA officials who had the technical knowledge. Such a disparity would occasionally result development not as main priority for any bilateral aid project.¹⁵⁹ It would also mean that the MOFA is often the main driver of any changes in Japanese bilateral aid.

The above also shows that the entire aid budgetary process is fragmented. There is no direct linkage between the bilateral aid budget and the budget for IDA replenishments (Kawiai and Takagi, 2004: 263-264). This divide again could be claimed to be similar to the US structure. The JICA may have a linkage with the MOF as it requires the latter's approval when disbursing loans. Beyond this, there is still no explicit connection between the MOFA and the MOF. With most of the JBIC's operations absorbed into the new JICA, the MOF only concern is that with MDBs. This division in budget meant that the ministry with the larger focus will often shift the proportion and volume Japanese aid.

The above section has depicted how the Japan's governing structure over aid has altered through the years. There may have been reforms to streamline such governance. Yet, the MOFA retains strong control over Japan's bilateral aid agency and remains a key actor in shaping Japanese bilateral aid. It has shown despite reforms, there is a divide between the MOFA and the MOF. With this understanding of Japan's aid governance, the next few sections will attempt to answer these questions to explain the larger picture of rising Japanese bilateral aid across the last decade.

¹⁵⁹ This claim of a disparity, and sometimes friction, between the MOFA and the JICA was noted by a former DFID in the UK-Japan Cooperation Team, International Relations Division, DFID. See footnote 1.

6.4 Japanese aid in historical perspective

This section turns to further examine the history of Japan aid and how it has influenced later decision makers. The root of Japan's own aid programme is based on its post-World War Two history. After the war, Japan had to provide substantial repatriations to its former Asian colonies. Simultaneously, Japan was improving its own economy and establishing external relations. The JEXIM was created to facilitate financial flows between Japan, Japanese businesses and other countries (Rix, 1980: 22, 24; Kato, 2002: 31-26; MOFA, 1997 in Tsopanakis, 2011: 3). Unlike other post-war countries, Japan's external economic engagement was constrained by its aggressive actions during World War Two. This resulted in a post-war pacifist constitution, forbidding successive governments from using military force as a means for foreign policy (The Constitution of Japan, 1947, Article 9). These historical actions continue to linger in the minds in Japanese government and society even many decades after the war (Miyashita, 2008; Takahashi, 2010: 40-42). With this limitation, Japan turned to economic engagement as a means of reasserting itself internationally (see Ohno, 2010: 80).

These post-war economic activities ultimately formed the foundations for Japanese aid. First, the direct payment of reparations and the receiving of WBG loans resulted in Japan providing foreign aid loans. Later Japanese governments would continue issuing loans as they generate interest as opposed to foreign aid in the form of grants (Kawai and Takagi, 2004: 264). Second, these recipients of repatriations eventually became long-term recipients of Japanese aid. Since they were almost all in the Asia Pacific region, countries in the region often were the top recipients. Certain recipients like China and South Korea would continue to receive aid despite their improved economies. This shift also placed the MOFA as one of the agencies dealing with bilateral development loans to Asian neighbours (Rix, 1980: 138-140).

Third, through the JEXIM and other agencies, bilateral aid in the early years was much tied to Japanese businesses and the purchasing of goods (Kato, 2002: 107-112; Arase, 2005a: 118). While this policy was gradually reversed by the 1990s, it further reaffirmed the role the MOFA and the METI in directing bilateral aid flows (Takahashi, 2010: 45-

46). This also indicated that, like US aid, Japanese bilateral aid was for the country's national interests, with development as a secondary objective (Ridell, 2008: 59). A further issue arising is that Japanese bilateral aid is based on a non-interventionist approach, or what is termed as 'self help'. This is non-intrusive approach stemmed from Japanese culture and Japan's experience in economic development (Rix, 1993: 16, 42, 170-171; Arase, 2005a: 118; Tsopanakis, 2011: 3). Successive Japanese cabinets held on to this approach, as opposed to the conditions set by the WBG and even the US and the UK. Such a divergence in donor aid policy would continue to shape the volume Japanese aid as detailed below.

Furthermore, Japan's post-war progress also shaped the base of its contributions to IOs. As noted above, foreign aid was the key tool for Japan to present itself internationally. Japan therefore joined the WBG to further present itself as a non-military power and also join international economic system (Yasutomo, 1995: 62-63). With its fast economic growth, Japan quickly became a prominent shareholder in other MDBs. With this dominance, Japan attempted to challenge key IFI development initiatives such as the Structural Adjustment Loans. The most prominent example was Japan pushing for the WBG to examine the East Asian Development experience and adopt a new approach towards development. It however finally failed to alter the WBG's ideology (Rix, 1990: 126, 1993: 118-119; Yasutomo, 1995: 74-81; Kato, 2002: 116).

This signalled a divide between the WBG's and Japan's approach towards development. This difference became more pronounced with Japan's membership in the Asian Development Bank (AsDB). As further detailed below, Japan dominated the AsDB through its Presidency and financial contributions. The AsDB in fact has provided Japan, as a principal, another third party agent to disburse its aid. With the AsDB as an organisation geared towards Asia, Japan's aid policy would continue to diverge away from the WBG's or western donors. This would further add to Japan's difficulties to conform OECD-DAC norms (Takahashi, 2010: 59-62).

Another related issue from the above is the control of the different channels of Japanese aid. As noted, the MOFA has been the dominant actor controlling the bulk of Japanese aid. As with the US, Japan's MOF is given control of aid to IOs. While this is not unusual amongst donor nations, there has often been little coordination between the MOF and the MOFA, with the latter dominating the decision-making process (Rix, 1980: 129; Yasutomo, 1995: Chapter 3). This lack of coordination may have dissolved with the establishment of the Overseas Economic Cooperation Council in 2006. This council as noted brought together the Prime Minister, development experts and various developed-related ministries (Japanese Overseas Economic Cooperation Council, 2007). Despite this attempt to improve in coordination, there was still little communication between the MOFA and the MOF. This was specifically noted by researcher on Japanese and South Korean development policy.¹⁶⁰ Furthermore, while JICA officials had the development experience, JICA staff were not on this council. The MOFA thus dominated decisions over bilateral aid without close consultation with the MOF, which handled aid to the IDA.¹⁶¹

The above has identified how Japan's aid programme has been shaped through its post-World War Two development. It shows how Japan's experience with repatriations caused its later aid recipients to predominantly come from the Asia Pacific region. Its history with the WBG would also result it later provide aid as loans instead of grants. With its rise as an aid donor, Japan adopted its development history as its aid agenda towards recipients. This section has shown how Japan's economic history has shaped its aid programme to be a 'hands off' approach as opposed to the dominant conditionality set by most IOs and most donors. It further showed how the MOFA stood out as the leading department control aid flows and aid policies. This historical impact has shaped Japanese internal ideas or '*naiatsu*' regarding aid. Japan's unique approach towards aid and development has faced '*gaiatsu*', or external pressures such different ideologies or global development norms (Lancaster, 2010). The next section moves to show how this history shaped Japan's aid flows at the beginning of the millennium.

¹⁶⁰ Interview with a researcher on Japanese and Korean development assistance. Telephone Interview, September 2013.

¹⁶¹ Interview October 2012. See Footnote 1.

6.5 The early 2000s: Japanese aid in decline

6.5.1 Changes to Japan's bilateral aid

This section now turns to examine Japanese aid flows in the early 2000s. It will show that both bilateral and multilateral aid decreased, mainly due to government actors focusing on Japan's poor economic performance rather than international development concerns. There were contrast internal and external forces that shaped this fall in Japan's aid. During this period, the dominating internal issue was Japan's continuing recession. Japanese key decision makers were heavily influenced by the need to address the failing Japanese economy, placing the development concerns of others second. The external 'gaiatsu' or external pressure on decision makers was the need to assist failing Asian economies and to meet the tenets of Japan's ODA charter.

As noted above, Japan was a top aid donor by the 1990s, with aid levels much higher than that of major OECD donors including the US and the UK (Kato, 2002: 105-106; Furuoka et. al. 2010; Kawai and Takagi, 2004). The Asian Financial Crisis severely affected Japan overall economy and its ability to provide aid. At the end of the 1990s, it was facing a flat-lining economy with rising debt level. In early 2000, Japan's fiscal deficit was 9.4 percent of the country's GDP, the highest amongst the G7 nations. Its national debt at 120 percent of GDP was also an astronomical figure, with the credit rating agency Moody projecting further dismal economic performance. The national stock exchange, the Nikkei Average, dropped by 3.5 percent by the end of 2000 (Japan Economic Newswire, 2000b; Rowley, 2000; Smith, 2000). With such dismal financial performance, the main priority for the government then was to improve its own economy first above other issues. This was further affirmed by Japan's lower house which passed a budget focusing on reducing debt and improving growth (Agency France Presse, 2000).

This therefore had an adverse on aid disbursement levels. In FY 2000, Japan's expenditure on economic assistance or development aid was only at ¥984.2 billion (Japanese MOF, 2000: 4). Between 2000 and 2002, net Japanese bilateral aid fell by US\$2065 million, or from 0.2 percent of GNI to 0.15 percent of GNI between 2000 and

2002 (OECD, 2004: 75-76).¹⁶² In FY 2001, the overall aid budget was reduced by 3 percent while in FY 2002, it was reduced by another 10 percent (Japan Economic Newswire, 2000a, 2001a). Japan's gross bilateral aid fell by US\$864 million between 2000 and 2002.

Another issue was that Japan had already decreased its bilateral contributions to its Asian recipients during the Asian Financial Crisis but was pressured by other donors and organisations to reverse this trend. This was especially due to Japan having set out guidelines in its previous 1992 ODA charter. Amongst the various themes set, it pledged to focus on human needs. It also explicitly noted that Japanese aid would be targeted primarily at Southeast Asian countries, especially LDCs due to their importance to Japan's interest. The charter, however, emphasised an adherence with mainstream development themes such as market-centred economics and good governance (OECD, 1996: 51-53). Japan did attempt to meet its own charter through an ad hoc, separate from foreign aid funding, financial plan for Asian economies (Castellano, 2000).

While Japan appeared to be meeting development aspirations, further internal pressures influenced new key government actors to reduce Japanese aid. One such pressure was the increasing negative view of providing aid to China. China was undoubtedly a growing economy before and after 2000, raising the question if it should receive Japanese aid (Drifte, 2006: 99). Beyond this traditional reasoning, foreign policy changes in Japanese politics also pushed the government to reduce aid to China. As noted in previous sections, the MOFA continues the dominant player in Japanese bilateral aid, steering aid towards Japan's national concerns. The then Liberal Democrat Party (LDP) became increasingly involved in the MOFA's affairs. LDP leaders and officials in the 1990s were already wary of China's economic growth and political rise.

By the late 1990s, Japan was also unable to influence China's economic progress as it could in the past. Japan also previously withheld aid due to China's military incursions and did so likewise in 2000. Furthermore, the then Japanese LDP saw a shift of members

¹⁶² This figure is set at 2001 constant prices.

from older, pro-China members, to younger politicians who held an animosity to that growing country (Kwan, 2000; Drifte, 2006: 101-102; Katada, 2010: 64). All this thus made it increasingly to justify aid to China and aid to China was reduced by around 25 percent between 2001 and 2002 ((Rowley, 2001; South China Morning Post, 2001; OECD, 2004: 25).

A second internal pressure that shaped the decrease in bilateral aid was Japanese public opinion regarding aid. As noted above, decision making regarding aid in Japan is heavily centralised within the government. Historically, the concept of philanthropy or welfare hardly existed within Japanese culture (Lancaster, 2010: 41, 45).¹⁶³ This would result in a lesser number of Japan-based NGOs and those existing would not be successful in spreading the message of poverty reduction as their western counterparts. This point was emphasised by a former DFID Official in DFID's UK-Japan Cooperation Team.¹⁶⁴

This lack of understanding over aid and development is further reflected in various national surveys. In 1997, the Association of the Promotion of International Co-operation (APIC) conducted a national-wide survey. 23 percent of respondent did not understand the need to provide aid. Another survey by the then Prime Minister's office found that there is an increasing support to reduce or even abandon the aid programme (OECD, 1999: 41). Another survey conducted during the aid cuts of 2002 found that 81 percent disapproved of any increase in aid. Around 29 percent favoured a reduction or the abolishment of aid. Out of these, 75 percent gave the poor Japanese economy as a reason, while 44 percent cited the need to reign in the fiscal deficit (OECD, 2004: 19). With such negative or indifferent views towards aid, government actors were indirectly pushed to reduce aid.

Japan's bilateral aid therefore dropped severely after 2000, with new government actors more concerned about Japan's internal economic crisis than international development

¹⁶³ A former DFID official also stated that there was a general lack of a charitable notion in Japan's development policy, with JICA being dominated by MOFA staff. This was in addition to the weak public understanding of Japan's aid policies. See also (Ashitate, 2007).

¹⁶⁴ Former DFID Official, UK-Japan Cooperation Team, International Relations Division, DFID. See Footnote 1.

issues. A further factor that shaped new actors' decision was China's rapid economic growth and new anti-China Japanese LDP members. As a result, bilateral aid to China was reduced. The Japanese public were further increasingly not in favour of providing aid during an economic downturn. This was also above the fact that they had little comprehension of over Japan's aid activities. Japanese bilateral aid in its early years decreased due to new decision makers being shaped by the above concerns. The next part turns to examine Japan's contributions to IOs during this period, particularly the IDA.

6.5.2 Japan's contributions to IDA 12

This section turns to investigate changes in Japan's contributions to the IDA in the first few years of the twenty first century. Japan's contributions to all IOs also decreased by US\$550 million, a smaller decrease than its bilateral disbursements. Japan's share of the IDA replenishment process dropped by 1.32 percentage points from IDA 11 and IDA 12.

¹⁶⁵ This is a significant decrease as Japan's share during the tenth to twelfth replenishment rounds was twenty percent (IDA, 2010: 25).

Such a drop in the share could first again was due to government actors wishing to trim the national budget. This was proposed by then Japanese Finance Minister, Kiichi Miyazawa. Miyazawa was a strong proponent on reducing foreign aid disbursements, and he was supported by a senior LDP policymaker, Shizuka Kamei (Kakuchi, 2000; Tett, 2000a). Kamei, a senior LDP official, suggested a substantial amount of 30 percent (Tett, 2000b; Japan Economic Newswire, 2000b). Miyazawa was, however, opposed by then Foreign Minister Yohei Kono and academic Toshio Watanabe (Japan Economic Newswire, 2001a). They argued that despite the economic environment, Japanese aid should be protected as it is the main tool for the country's diplomacy (Japan Economic Newswire, 2000c). While overall aid levels did decrease, this difference once again highlighted that most of Japanese aid would remain under the MOFA's control and directed more towards strategic interests.

¹⁶⁵ In terms of the volume of contributions, Japan's contributions did increase by US\$ 77 million between IDA 11 and IDA 12. This is valued at the 1960 US\$ prices (Bush, 1998; IDA, 2010: 26).

Japan's IDA share did however decline due to difference with the WBG over development ideologies. As noted previously, Japan's approach towards aid has been a hands-off, 'self-help' approach where recipient countries would be able to form their development strategies. Japan also encouraged state intervention in aid projects, a key characteristic of the East Asian development model (Lehman, 2010: 27-29). This was in contrast to the Washington Consensus policies promoted by the IFIs and other donors. This ideology promoted donors controlling aid activities and promoting market-centric ideology which Japan opposed (Takamasa et al. 2003: 117-118; Lehman, 2010: 31). Japan was thus in a conflict over international development perspectives.

This conflict over ideas continued at the beginning of the new millennium. Japan was already a member of the OECD-DAC, the club of major aid donors. This membership meant that it was pressured to conform to global development norms. Across this period, the international development discourse shifted from the Washington Consensus to the post-Washington Consensus. There was, as noted in previous chapters, the formulation of the MDGs which Japan adhered to (Japanese MOFA, 2001: 7; Lehman, 2010: 33; Ohno, 2010: 79). Another prominent initiative was the PRSPs, strategy plans for IDA-eligible recipients. While the PRSPs brought a renewed focus on poverty reduction, it again contained components of the Washington Consensus policies (Takamasa et al. 2003: 80-81, 95). With other donors aligning their bilateral and multilateral contributions towards the PRSPs, Japan was pressured to shape its aid and policies accordingly. Japan slowly participated in this new strategy, but still shaped its aid agenda according to its own ideas. Japan was not just centred on the issue of growth that in the MDGs and PRSP concept (Lehman, 2010: 33).

Japan thus added alternative initiatives such a Comprehensive Poverty Reduction Strategy Paper in Vietnam. This initiative differed from the PRSPs as it allowed the recipient country to plan poverty reduction at its own time and within its own conditions. This process also focused on sustainable growth rather than just economic growth. When engaging with other recipients like Ghana, Japan shaped its aid project differently, taking into account the different institutional environment (Ohno, 2010: 97). There may not be

explicit evidence that Japan decreased its IDA because of its disagreements over development ideas. Yet, there was divergence in approaches, with Japan pursuing its own development vision through MOFA or JBIC projects.¹⁶⁶ In summary, Japan as a principal disagreed with its policies, thus altered its contributions.

Another reason for a lower IDA share may be attributed to Japan's preference for funding the AsDB versus that the IDA. Here, PA theory again comes into practice as Japan as a principal chooses which agent to delegate towards. Historically, Japan has been a leading donor of the AsDB, having gained its Presidency since its formation (Rix, 1980: 129; Yasutomo, 1995: 82). The AsDB's primary mission—to reduce poverty in Asian countries—has also been closer to Japan's historical foreign policy objectives.¹⁶⁷ Furthermore, Japan's preference towards the AsDB could be due to the organisation's approach towards development. The US and the WBG were attempting to get all development banks to adhere to the Washington Consensus paradigm (Rowley, 1999).

The AsDB, on the other hand, wished to pursue a more constructive engagement with client states (Boyd, 1999). With Japan constantly approaching development from the 'Asian way' of development, it preferred the AsDB over the IDA. This was seen with Japan contributing 35.13 percent of the share or U\$1003.6641 million during the eighth Asian Development Fund replenishment round. This round covered FY 2001 to 2004, almost around the same time period as IDA 12 (AsDB, 2000: 34). This support clearly showed the case of a principal choosing its preferred agent out of a range of multiple agents to choose from.

The above suggest that Japan preferred alternative means to the IDA when delegating its aid multilaterally. It did, as a principal, still attempt to steer the WBG towards its own preferences. For example, then Finance Minister Kiichi Miyazawa urged the WBG to place emphasis on basic social spending projects and improve the transparency of its

¹⁶⁶ As Takahashi notes, the MOF and the JBIC were willing to adhere to the new international development norms. This, however, was not communicated to the MOFA, which financed projects according to Japan's aid philosophy (Takahashi, 2010: 60)

¹⁶⁷ See the AsDB's mission <http://www.adb.org/about/faqs>.

results (Miyazawa, 1998). Former secretary of state for finance Yoshitaka Murata also strongly urged the IDA to reform its lending mechanism and its poverty reduction activities at the sixty second World Bank-IMF Committee meeting (Murata, 2000).

This may again be the case of a principal attempting to alter its agent. Yet, there is no specific indication how successful Japan as a single principal was in reforming the IDA or the WBG. Neither is there any direct indication that Japan reduced its IDA share because it could not alter the WBG towards its wishes. Quite the contrary, Japan's declining economic condition, its different approach towards development, and its preference for Asian-centred MDBs resulted in a drop its IDA 12 share.

The beginning of the twenty first century saw a negative change in Japanese aid volumes instead of a upward trend as in the US and the UK. Both bilateral aid and contributions to multilaterals fell, with the former seeing a larger decrease than the latter. Neither PA theory alone nor FPA can solely present a full picture for this decrease in aid. Rather, of key government actors were heavily pressured to tackle the country's economic crisis. There were also new members of the ruling LDP party who several who held an animosity towards China. Furthermore, the Japanese public held a increasing negative view in aid provision during a weakening economy. All these factors resulted in the decrease in Japan's bilateral aid.

With regards to disbursements to IOs, Japan was more inclined to support the AsDB as opposed to the IDA since they was disagreement with the latter ideologies. Even though this represented a principal in dispute with its agent, Japan's poor economic was the dominant factor that resulted in a lower IDA replenishment share. The next section covers the trend in Japanese aid in the middle of the decade. It again identifies that the perspectives of actors and to some degree, PA issues, shaped the level of Japanese foreign aid.

6.6 Japanese aid in the mid-2000s

6.6.1 The Koizumi years and Japanese bilateral aid

This section now turns to examine Japanese aid flows in the middle of the decade. In contrast to the previous period, overall aid rose by US\$1084 million between 2004 and 2008. Gross bilateral aid levels increased by US\$1315 million or 11.2 percent across the same period.¹⁶⁸ Net bilateral aid disbursements initial decreased from around 0.27.5 percent of GNI in 2002 to around 0.21 percent of GNI in 2004. Such disbursements increased sharply to around 0.38 percent of GNI between 2004 and 2005 before falling down to 0.25 percent of GNI in 2008 (OECD, 2010b: 87).¹⁶⁹

This time period also saw a change in government to the Junichiro Koizumi cabinet, which would be one of the longest serving Japanese cabinets. The new Prime Minister Junichiro Koizumi envisioned Japan to have a stronger role in international affairs. Koizumi's world views, and that of other key actors, would shape the level of Japanese aid. They were externally pressured by the post September 11 environment and the 2003 Iraq war. Internally, these actors formed another ODA charter that highlighted their objectives.

In 2003, Japan's foreign aid policy turned another turn with the formation of another ODA charter. Named as the *2003 ODA charter*, it was more detailed than its predecessor regarding aid. Japanese aid would first no longer focus primarily on strategic goals but on improve global development. Second, it reaffirmed the characteristic of self-help but also added the objectives of human security and peace building. This was especially so given the increasing international security climate after the September 11 attacks. Third, there was a mention of poverty reduction albeit, no affirmation to meet the MDGs, unlike western donors (Japanese MOFA, 2003a: 1-4). This was again due to Japan's 'Asian approach' towards development, in other words, an unwillingness to meet international norms (Sunaga, 2004: 13-14). The 2003 Charter furthermore reaffirmed Japan's key recipients would still in Asia, with an added focus on the Middle East (Japanese MOFA,

¹⁶⁸ This is given at 2007 constant prices, a different figure from the statistics covering 2000 to 2002.

¹⁶⁹ As per footnote 20, these percentages are measured at 2007 constant prices.

2003a: 4). In addition to this charter, the Japanese Cabinet Office also released a paper titled *Japan: Creating an Influential Nation without walls*. This document spelt out again that Japanese bilateral aid should be for the international community and specifically target LDCs (Japanese Cabinet Office, 2005: 32-33). Japanese aid thus appeared to be more focused on international development.

The 2003 Charter was drawn up by key government actors who were influenced by external factors instead of historical norms. Externally, Japan's bilateral aid flows were affected by the September 11 attacks and the wars in Afghanistan and Iraq. As a senior JICA official stated, Japan did not actively provide its aid for post-conflict reconstruction before 2003. After the 2003 Iraq war, Japanese development assistance rose to engage in security and reconstruction work in the Middle East and Africa.¹⁷⁰ This could be seen with the JICA restarting its aid programmes in Iraq after many years. Japan also was the leading nation in the first international donor conference for aid to Afghanistan (Japan Economic Newswire, 2004a; The Nikkei Weekly, 2004). This shift towards security-related aid was further solidified with the publishing of the 2005 Medium-Term Policy on Official Development Assistance. This report again gave a heavy emphasis on the theme of human security (Japanese MOFA, 2005a: 2-3).

The above could simply indicate that Japanese bilateral aid was simply being used to address foreign policy concerns. Going deeper, Japan's shift in aid volume and regional allocation was due to the worldviews of former Prime Minister Koizumi. Koizumi has been depicted as a flamboyant politician popular with the people. He has been depicted as an aggressive proponent of reform, not just for the LDP but for the government and Japan's foreign affairs (The Economist, 2002). Within the scope of FPA, this could classify Koizumi as a leader with 'high need for power', similar to that former British Prime Minister Tony Blair.

¹⁷⁰ This point about JICA's work regarding human security and conflict prevention after 2003 was explicitly noted by a senior JICA official. Interview, October 2012.

Japan's increased aid to the Middle East may be attributed to the Koizumi's strong relationship with then President George W. Bush (Kakuchi, 2004; Parry and Thompson, 2004). Koizumi was aiming for Japan to have a permanent seat on the UN Security Council (McAvoy, 2004; Cohen, 2005). All of this may also depict him as one to have full 'control over events' (Dyson, 2006: 295-296; Dyson, 2011: 70). With such a drive to make Japan a prominent global player, bilateral aid to the Middle East increase by 351 percent between 2004 and 2005 (OECD, 2010b: 89).

Koizumi's quest to make Japan more prominent on the global stage could also be exemplified by the TICAD meetings. TICAD was a bilateral initiative in the early 1990s to improve African development via dialogue with Japan. Japan, and other like-minded agencies, would aid African development through an Asian perspective.¹⁷¹ TICAD round III was initiated during Koizumi's premiership. This round was significant, coming after the affirmation of the MDGs. It agreed to work on the internationally agreed New Partnership for Africa's Development. Beyond this, Japan pledged to focus on enhancing human development and security bilaterally (Japanese MOFA, 2003b). Koizumi himself emphasised Japan's role in aiding African development, stressing that Japan's recipients would continue to have a voice in development (Japanese MOFA, 2003c). This is reflected through an increase of US\$1203 million in gross disbursements to the African region between 2004 and 2006. (OECD, 2010b: 89).

Further evidence of Japan's new development engagement following the 2005 summit could be viewed in other small TICAD conferences. For example, it hosted TICAD Ministerial Conference on Energy and Environment for Sustainable Development where Japan a key leader over environmental issues (Japanese MOFA, 2007b). This focus on Africa countries continued with Koizumi's successors. Former Prime Minister Yasuo Fukuda and Foreign Minister Masahiko Koumura were instrumental leaders during the TICAD IV round. They forged the Yokohama Declaration which pledged Japanese development cooperation and resources in the form of loans for infrastructure. In contrast to the 2003 ODA charter, this declaration committed Japan to the MDGs and global

¹⁷¹ See <http://www.ticad.net/ticad/index.html> for a general overview of TICAD's objectives.

norms such as good governance (Japanese MOFA, 2008: 17). In summary, the worldviews of new decision makers a dominant factor shaping Japan's bilateral aid increase.

The expansion of Japanese bilateral aid may be attributed not just to the worldviews of actors but also the influence of other aid donors. This may be seen with the conclusion of the 2005 G8 summit. As noted in previous chapters, G8 members pledged substantial increases in aid to LDCs, particularly in Africa. Japan was pressured by its G8 counterparts to increase its aid. The UK in particular wished Japan to shoulder a larger burden of the global aid burden (O'Dwyer, 2005).

As a result, Japan pledged to reverse its decline in aid and pledged an overall aid increase by US\$10 billion from 2005 to 2010 (Agency France Presse, 2005; Jiji Press Ticker, 2005). It further pledged to disburse grants and technical cooperation to Africa clients, in addition to its increase usual loans. This, as noted by a senior JICA official, was a significant shift for Japan's aid agenda in that (AllAfrica.com, 2005).¹⁷² Excluding debt relief, Japan's aid to the continent rose from around US\$600 million in 2005 to around US\$1600 million in 2009. Much of this increase was focus o basic services, development themes that matched the 2003 charter's concern regarding human security (Wild et al. 2011a: 15, 21).

TICAD and African development were in fact the central topics of the 2008 Overseas Economic Cooperation Council meetings (Japanese Overseas Economic Cooperation Council, 2008a, 2008b). The above efforts may again indicate '*gaiatsu*' or external pressures shaping the volume of Japanese aid. Yet, Japan already historically had an aid footprint in the African region beforehand. Japan as noted, was the largest OECD donor. Its move to expand aid to Africa could again be due to government actors' worldviews. In this case, actors again envisioned Japan to be a strong global player as a well as gain a seat on the UN Security council (Kakuchi, 2005). Therefore, Japan's aid expansion to

¹⁷² This issue of adding grants in Japanese bilateral aid projects in Africa countries was stated by a senior JICA official. See footnote 12.

Africa is a combination of the perspectives of dominant government actors as well as external pressure, not exactly historical norms.

With its new African focus, there was a negative impact of Japanese bilateral aid to Asia. Overall Japanese bilateral aid disbursements to the Asia-Pacific region amounted to 42.7 percent in 2004, around 36.6 percent in 2005 and 26.8 percent in 2006 (Japanese MOFA, 2005b; Japanese MOFA, 2006; Japanese MOFA 2007a). This decrease was specifically East Asian recipients, who received 42.7 percent of Japanese aid in 2004 but only 26.8 percent in 2006 (Japanese MOFA, 2005b; Japanese MOFA, 2006; Japanese MOFA, 2007a). In fact, by 2008, Afghanistan and Sudan were the top two recipients of Japanese grant aid. Other African recipients such as Tanzania and Morocco also became top ten recipients of Japanese technical cooperation and Yen loans (OECD, 2010b: 45). Japan's increase in its bilateral aid is therefore due actors like Koizumi desiring Japan to be a larger player in international affairs beyond Asia.

A second reason for this shift in bilateral was again due to the views of decision makers towards China. As with previous LDP politicians, Koizumi voice his support for reducing and eventually ending bilateral assistance to China. In 2004, he cited China's rapid economic growth as a key reason to end aid to that country. This was echoed by former Foreign Minister Nobutaka Machimura, as well as the opposing Democratic Party. These key actors also voiced concern that China was increasing its military strength and providing aid would contravene the pacifist Japanese constitution (Goto, 2004; Japan Economic Newswire, 2004b; The Business Times (Singapore), 2004; Drifte, 2006: 103-106). Japan's aid to China still remained relative high with more than ¥5.9 billion in 2004, ¥5.2 billion in 2005 and around ¥ 4.3 billion in 2006 (JICA, 2005: 40; JICA, 2006: 40, JICA, 2007: 40). Japanese loan aid to China eventually ended by 2008 (Drifte, 2006).

Japanese bilateral aid also did not increase at a steady rate, unlike the case of the UK. This was due to a series of scandals with the MOFA. First, Koizumi had to fire former Foreign Minister Tanaka due to her interactions with foreign officials (Hall, 2002; Takayanagi: 2002: 212). Just after Koizumi entered government, then JICA President and

a senior MOFA official resigned due to the latter embezzling government funds (Japan Economic Newswire, 2001b, Sakurai, 2002). This scandal adversely affected the reputation of JICA and the MOFA internally, even though JICA's recipients were not affected (Japan Economic Newswire, 2002b).

This scandal had a large impact on the MOFA, especially since it was the dominant actor controlling Japanese aid. It also further added as a catalyst to increase public disapproval regarding Japanese aid (Katada, 2004b: 9). This negative approval also occurred between legislators such as Seiji Maehara who advocated an annual ¥300 billion annual reduction in aid to recipients that were less critical to Japan's interests. In contrast, legislator Ichita Yamamoto argued that aid levels, even to China, should not decrease given the key importance aid for Japan's foreign policy (The Daily Yomiuri, 2003). The overall aid budget did decrease by 4.8 percent in 2004 and 3.8 percent in 2005 (Japanese MOF, 2004: 3; Japanese MOF, 2005: 7). Gross bilateral disbursements did decrease between 2005 and 2007, before rising in 2008.

The above indicated that Japanese bilateral aid after 2000 was highly shaped by new political actors. Former Prime Minister Koizumi aimed to give Japan a larger role in international affairs. With Koizumi aligning himself with countries like the US, Japanese bilateral aid to the Middle East and Africa increased. This expansion of aid beyond traditional recipients also came with a further drive to reduce aid to traditional recipient China. Koizumi and his colleagues continued to toe the line that China no longer needed aid due to its economic and military growth. Simultaneously, any bilateral aid expansion was challenged due to embezzlement by senior MOFA officials. Japanese bilateral aid was thus decreased across several years before rising again. The above has shown Japanese bilateral aid changes after the creation of the 2003 ODA charter. The next section moves to examine Japan's contributions to the thirteenth and fourteenth IDA replenishment rounds. It will show that despite the 2003 charter, there was a lower focus on aid through IOs as opposed to bilateral aid.

6.6.2 Japan's contributions to IDA 13 and 14

This section now turns to examine Japan's contributions to IDA 13 and IDA 14. Japan's bilateral aid volumes and policies in the latter half of the decade had an indirect effect on Japanese contributions to the IDA. Overall, net multilateral disbursements remained steady at around 0.1 percent of the country's GNI between 2002 and 2005. Such contributions rapidly increased by 0.05 percentage points of GNI between 2005 and 2006. That nevertheless decreases back to less than 0.1 percent of GNI. Furthermore, net multilateral contributions were much lower than net bilateral disbursements as described above (OECD, 2010b: 87). Japan's contribution to the thirteenth replenishment round fell to 16.00 percent, lower from 18.68 percent in IDA 12. Quantitatively, the overall amount also decreased by US\$177 million (IDA, 201: 25, 26).¹⁷³

The prevailing theme in IDA 13 as noted in previous chapters was the US effort to convert a substantial portion of IDA disbursements from traditional loans to grants. Japan as a principal was not exactly a vehemently opponent to grants like the UK Japan nevertheless disagreed that a large portion of loans should be converted to grants (Beattie, 2001). This was due to the fact that Japan would still have to allocate a large amount of finances to the IDA (Beattie, 2002a; Curl, 2001; Masaki, 2002). A Japanese official did also state the WBG as spreading itself too far and encroaching on the role of other IOs (The Broker, 2002). Both Japan and European shareholders eventually compromised with the US (Japan Economic Newswire, 2002b; 2002c).

Yet, Japan did not actively push to block the US proposal unlike the UK. Inasmuch as Japan had longstanding difference with the WBG, there was no explicit evidence that Japan was reducing its contributions over differing views. In fact, Japan only suggested improvements such as listening to recipients when formulating PRSPs and Country Assistance Strategies (CAS) (Kuroda, 2002a). Japan also emphasised the need to coordinate HIPC funding and PRSP plans (Kuroda, 2002b). These examples do not indicate a principal distrusting its agent or wishing to discipline its agent.

¹⁷³ This difference in the amount is taken from the IDA 16 document (IDA, 2010). It is assumed the amount stated uses the same annual exchange rate and real value between Special Drawing Rights (SDR) and US\$.

Instead, Japan's decreasing share again was more attributed to the country's poor economic condition once again. Around the IDA 13 replenishment negotiations, Japan laid out its economic recovery plan to other G-7 nations (Jiji Press Ticker Service, 2002). This plan involved a 2 percent reduction in foreign aid expenditure (Ibison, 2002). It further involved the rapidly lowering of the value of the national currency in 2003 and thus this reduced the overall amount Japan could provide to the IDA (Spiegel, 2003). As an IDA Senior Manager and Senior Economist noted, shareholders' contributions may be determined by the overall value of their currencies against WBG Special Drawing Rights (SDR) and the US\$.¹⁷⁴ Japan further indicated to WBG shareholders its plan to reduce its IDA 13 share (Beattie, 2002b; Japan Economic Newswire 2002b; Masaki, 2002). Therefore, Japan's decreasing share was not explicitly due to it disagreeing with its agent or its agent not performing as expected. Rather, it is due to the internal conditions of the principal such as its own economic performance.

In the fourteenth replenishment round, Japan's overall contributions to the IDA increased in quantitatively terms by US\$587 million. Its share of the overall replenishment round nevertheless continued to drop, reaching 12.24 percent, a figure much lower than the share of the US or UK (IDA, 2010: 25, 26). Japan may again be said to exhibit a strict PA style relationship with the IDA during the course of the IDA 14 negotiations. For example, former Finance Minister Sadakazu Tanigaki argued for a closer interaction between MDG targets and local PRSP plans in developing countries (Tanigaki, 2004). Japan's JICA, along with DFID also produced a paper calling for stronger coordination between IDA and other organisations (DFID and JICA, 2004). The latter case indicate principals jointly working together to influence the actions of their agent.

Yet, there is no explicit indication that Japan felt that its agent was not performing up to expectations or wished discipline the IDA. As with IDA 13, Japan's IDA 14 decrease can

¹⁷⁴ As an IDA Senior Manager and Senior Economist, International Development Association (IDA) Resource Mobilisation team, World Bank Group, Interview, March 2012. This relationship between Japan's currency value and Japan's IDA contributions was also noted by a Japanese Alternative Executive Director to the WBG, Interview, February 2012, see footnote 2.

be more attributed to Japan's slow economic recovery and reduction in government expenditure. As the Nikkei Weekly reported, overall Japanese aid expenditure was reduced by 3.4 percent in 2006, the first year of the IDA 14 replenishment payments (The Nikkei Weekly, 2005). Japan's MOFA also stated that the country's contributions to IOs in 2007—the second year for IDA 14—dropped by 50.3 percent (Japanese MOFA 2008: 45). Therefore, Japan's decreasing share of each IDA round was not due the country perceiving its agent as effective but more due government decisions over the aid budget.

A further reason for Japan's lower IDA 13 and IDA 14 share could be due to its focus on replenishing the AsDB. After the Asian Financial Crisis, Japan was focus on formulating an 'Asian Monetary Fund', an organisation distinct from the Washington Consensus-centric organisations (Goto, 2002). When it could not materialise, Japan turned to alternative means such as AsDB to exert financial influence. As former Minister of Finance Shiokawa said, Japan gave high priority to AsDB efforts on infrastructure building and regional financial cooperation (Shiokawa, 2002). The ninth replenishment of the AsDB resulted in a deep focus on poverty reduction activities with a focus country ownership and themes like social development. Japan once again was the largest contributor, providing US\$1120 million or 35 percentage of the final share (AsDB, 2004: 2, 24).¹⁷⁵ This larger share compared its IDA 14 contributions reflect a principal choosing an agent that is closer interests and easier to manipulate. There may not explicit evidence that Japan prefers the AsDB to other IOs, yet its constant high share of AsDB replenishments might suggest a preference.

A principal's preference of its agents may help explain Japan's declining IDA share and volume from IDA 12 to IDA 14. Yet, it still begs the question why Japan's bilateral disbursements were much explicitly higher than its multilateral disbursements. A reason could again be how key decision makers viewed the role of Japanese aid for Japan's external policy. As noted above, politicians like Koizumi wished to see Japan play a stronger role in the global affairs. Japan's bilateral aid became the key tool to use in order

¹⁷⁵ The AsDB IX Replenishment covered the period from 2005 to 2008, almost similar to IDA 14's time period of 2006 to 2008. See <http://www.adb.org/documents/adf-ix-donors-report-development-effectiveness-poverty-reduction?ref=site/adf/publications> .

achieve this aim. This was especially so given the institutional constraints of Japan's pacifist constitution. With the MOFA controlling most of Japan's aid, bilateral aid could be easily directed to meet actors' aspirations. The push for greater external involvement could be seen with the MOF persuaded to allocate US\$1.5 billion of its own aid resources for Iraqi reconstruction in 2004 (Japan Economic Newswire 2003; Kakuchi, 2003). It should be noted that such an expansion of bilateral aid occurred while Japan was reducing the overall of its development assistance.

Another issue to in relation to Japan's decreasing share would be the reforms made to Japanese management of its aid. As noted above, the Overseas Economic Cooperation Council was formed in an attempt to coordinate development aid efforts by different ministries. Various meetings did involve the MOF and its aid quantity (Japanese Overseas Economic Cooperation Council, 2008a, 2008b). These, however, were simply general discussion and the bulk of the council's meetings were centred on activities specific to bilateral aid. Furthermore, other organisational reforms such as the merger of JBIC into JICA were bilateral aid-specific reforms. In contrast, there was little focus on altering the MOF's structure to be more development-specific or match global norms. Japan thus had a stronger preference for using its bilateral aid apparatus than its multilateral contributions through the IDA. This would therefore explain the increase in the country's bilateral aid compared to its multilateral disbursements. The next section examines another part of Japan's bilateral aid rise—its contributions to Japan-led trust funds.

6.7 Japan and its Japan-controlled trust funds

This section now turns to examine the increasing amount of Japanese aid channelled to Japan-led trust funds within the WBG. The reason again stems from Japan's historical past. As noted above, it has aimed to approach development different from donors perusing the Washington Consensus. Japan also traditionally favoured to have recipients deciding its own policies, free from any external influence (Lancaster, 2010: 41). Furthermore, Japan has preferred to provide assistance to projects at the 'micro level', unlike western donors who had projects for a global audience. As a former DFID official

noted, Japanese aid reports appear to describe Japan's development efforts while Western aid reports, such as DFID's, tend to show how recipients have improved due to aid.¹⁷⁶ Japanese decision makers therefore wish to 'fly the flag' in the country's aid projects (Court, 2005: 22; Wild et al. 2011b: 9).

Such a desire for national aid projects can be linked to Japan's contributions to trust funds within IOs. Japan gross non-core disbursements as a percentage of the 'total [usage] of the multilateral system' (OECD, 20011a: 47). Across WBG FY 2006 to 2010, Japan was the sixth largest donor—excluding the European Commission—to WBG-administered trust funds (World Bank CFP, 2010: 5). Japan's two main trust funds within the WBG are the PHRD and the JSDF. The PHRD is one of the largest WBG trust funds, allowing Japan to provide technical assistance to almost all WBG client states. Japan's contributions to the PHRD have fluctuated across the years, with the highest in 2002 at US\$132.3 million (Japan PHRD, 2009: 1). The technical assistance programme drew the bulk on the annual contributions, cover roughly three quarter of each funding (Okubo, 2005: 23-34; Japan PHRD, 2007: 2; Japan PHRD, 2008: iii).

Overall, the PHRD has allowed Japan to expand its technical assistance disbursement to client states it could not previously reach. The various sub projects, such as the 'Japan-World Bank Partnership Program', the 'Japan Staff and Extended Term Consultants Program' have the name 'Japan' imprinted on them (World Bank, 2013e). Former Finance Minister Kuroda in fact specifically mentioned the PHRD as Japan's means of building institutional capacity in many client states (Kuroda, 2002b). This Japan-controlled trust fund thus fulfils the aim of Japan's aid programmes being Japanese controlled.

The JSDF is a newer trust fund, focusing on providing grants 'to the poorest and most vulnerable groups in eligible member countries of the [WBG]' (World Bank, 2013e). Unlike the PHRD, it is classified as a Recipient-Executed Trust Fund (RETF) whereby recipients have a greater control of the resources (World Bank CFP, 2010: 18).

¹⁷⁶ Former DFID Official, UK-Japan Cooperation Team, International Relations Division. See Footnote 1.

Nevertheless, this trust fund has allowed Japan again to reach a larger range of LDCs than it could bilaterally. The JSDF deals mainly with grants and civil society, allowing Japan to project its non-traditional aid modality (Japan JSDF, 2011). JSDF grants totalled US\$405.6 million from 2000 to 2009, with an average of processed grants at around US\$60.4 million (Japan JSDF, 2009: 3). The JSDF was in fact created in response to the East Asian Financial Crisis to assist stricken countries (Japan JSDF, 2009: 1). As with the PHRD, the JSDF consistently paints the picture that there is a Japan-controlled effort in addressing the most financially vulnerable around the world. Simultaneously, it provides an impression that Japan is contributing funds to the IDA, albeit under single shareholder control. Both the PHRD and the JSDF represent projects that are easily accountable and understood by the Japanese Diet and general public.

Japan thus appears to have bypassed the World Bank's core contributions and instead direct resources via specific controlled funds. Drawing upon PA theory, this could be a principal not accepting its agent's actions. As explained in the theoretical framework, principals do attempt to solve the challenge of agency slack. Yet, there is no distinct indication that Japan has viewed the IDA or the WBG as ineffective. Neither has Japan stated that the IDA was not matched Japan's interests. Japan's usage of trust funds is again due to its actors' desire to imprint the country's name on aid efforts. It is also provided money through trust funds to tackle emerging issues such as Iraqi reconstruction efforts (Okubo, 2005: 24; OECD, 2011b: 68).

It may also be argued that Japan's trust fund contributions to the WBG are minimal. Such contributions did amount to only amounted to US\$0.3 million around 2009 at 2009 prices. This was significantly less than its core contribution to the WBG that year. Japan's WBG contributions to trust funds have in fact been much lower than the UK or the US (OECD, 2011b: 68; World Bank CFP, 2010: 9). Even though Japan's trust fund contributions may be small, this does not counter the fact Japan's bilateral disbursements grew higher than its multilateral flows during expenditure cuts.

A further argument may be that Japan valued trust funds in other IOs than the WBG. Japan's overall non-core contributions totalled US\$3290 million, with a larger proportion of the funds dedicated to UN Funds and specialised agencies (OECD, 2011b: 68). Inasmuch as this indicated the indirect usage of other IOs, such contributions to these funds was not due to pure disagreement with IOs or a means to address agency slack. These contributions to trust funds—and therefore increases in overall Japanese bilateral disbursements—were meant to achieve Japan's objectives which include emerging global development themes such as human security, education and other MDG related topics (Japanese MOFA, 2008: 81; Japanese MOFA, 2009: 34; Japanese MOFA, 2011: 31). The above sections have shown that Japan's bilateral aid did drop temporarily as new political actors focused on improving the Japanese economy rather than global affairs. It has shown that former Prime Minister Koizumi's worldviews shaped the increase in bilateral aid in the mid-2000s. It has also shown that while Japan was not disciplining the IDA, it nevertheless reduced its share of various replenishment rounds and focused more of its aid through Japan-controlled trust funds. With this aid trend in mind, the next section moves to examine Japanese aid under a new government.

6.8 Japanese aid under the Democratic Party

This section now turns to examine Japan's aid flows under a new political party. The Japanese government itself changed in 2009, with the Democratic Party of Japan defeating the longstanding LDP. The new Prime Minister, Yukio Hatoyama, pledged to re-examine government projects, including foreign aid, in order to justify taxpayer's money (BBC Monitoring Asia Pacific, 2009). In Japan's 2010 budget, total aid expenditures still decreased by around 7.9 percent (Japanese MOF, 2010: 2). In terms of aid components, grant aid dropped by 9.9 percent between 2009 and 2010, while loan aid increased by 8.7 percent across the same period (Japanese MOFA, 2011: 156).

Despite the decrease in the whole aid budget, net bilateral aid again rose under the Hatoyama Premiership. Bilateral disbursements temporarily rose from 0.14 percent of GNI in 2009 to around 0.17 percent of GNI in 2010 (OECD, 2014: 93). This increase could be due to a response to the rise of China. The Hatoyama Administration refocused

its aid towards Southeast Asian states and further decreased any financial assistance to China. This was because China by this time was a major donor for Asia therefore Japanese MOFA officials did not want Japan to lose its influence in the region (Makino, 2009; TendersInfo, 2009). This competition could be seen with a net total of US\$929.22 million in disbursements in 2010 to Southeast Asian recipients. In contrast, net disbursements to China amounted to a negative US\$192.66 million of aid to China. (Japanese MOFA, 2011: 170).

The new government also focused on African development by continuing the bilateral TICAD initiative. Loans to African between 2008 and 2010 totalled ¥239.7 billion with further pledge of ¥420 billion in the future for infrastructure and agricultural development (Japanese MOFA, 2011: 116). The new government also continued to adhere to the 2003 ODA charter and the 2005 Medium-Term ODA Policy (Japanese MOFA, 2011: 55). The Hatoyama government's aid decisions, just like the previous premierships, were also influenced by external events. There was still a strong focus on aid to Afghanistan, aid dedicated towards climate change and towards NGOs (Akihito, 2010: 232). The 2011 ODA White Paper had a strong emphasis on climate change programmes while Afghanistan continued to be a top recipient of Japanese grant and loan aid (Japanese MOFA, 2011: 176). The above therefore indicates that despite a change in political leadership, actors still directed bilateral aid according to their views of the external environment. There thus was little change in the direction of Japanese bilateral aid as decision makers' perspectives remained unchanged.

While there was a slight increase in Japanese bilateral aid, Japan's contributions to IOs increased marginally since 2009. By 2010, such contributions amounted to 0.075 percent of Japan's GNI. Japan's gross ODA contributions to the entire WBG in fact were higher than the average OECD-DAC contributions in 2012 (OECD, 2014: 93-94). Furthermore, Japan's monetary contributions increased by US\$380 million between IDA 14 and IDA 15. Despite this rise, Japan's overall share in IDA 15 was only 10 percent (IDA, 2010: 25-26). This proportion was again far less than the UK's or the US' and showed a continually decline since IDA 12. There were two competing factors that may have

shaped Japan's IDA 15 share. Externally, then World Bank President Zoellick stated that the WBG's efforts on environmental protection matched Japan's foreign policy objectives. He thus urged Japan to increase its IDA contributions (Japanese Economic Newswire, 2007a, 2007b; Pilling, 2007). Internally however, the Japanese public still continued to retain a negative view regarding development aid. According to an Association for Promotion of International Cooperation 2009 survey, 32.3 percent surveyed favoured a reduction in foreign aid, with 22.6 percent unclear about Japan's provision of aid (Jaura, 2008; Akihito, 2010: 231). This continual dislike of and lack of awareness of Japan's aid took precedence over Zoellick's call for more contributions to the IDA.

Despite the lack of public support, Japan increased its aid via its two WBG trust funds. This further added to the amount of bilateral aid provided during the Hatoyama years. The PHRD finances for example increased by US\$15.99 million between 2008 and 2009, with another US\$20 million allocated for African agricultural research and the creation of additional technical assistance initiatives (Japan PHRD, 2009: 3). The JSDF also saw an increase of more than US\$30 million in its finances between FY 2008 and 2009. The number of grants in 2009 was double the number in 2008 and 2009 and higher the average since the JSDF's inception in 2000 (Japan JSDF, 2009: 4; Japan JSDF, 20011). These increases stem from the institutional background of Japanese aid. In this case, aid decision making first continues to be dominated by the government. Second, it again reflects the characteristic of Japan wishing to have its name imprinted on aid programmes. Therefore, even with new decision makers with different ideologies in power, Japan's bilateral aid levels continued to be higher than its contributions to IOs.

6.9 Conclusion

The above has shown the reasons for Japan's growth in its bilateral disbursements relative to its multilateral contributions. This trend of higher levels of bilateral disbursements is unlikely to change. Japan's 2011 budget, saw yet another reduction in its overall aid levels, down by 1.7 percent from the previous year (Japanese MOF, 2011: 2). Aid disbursements to multilateral organisations accounted for 39.1 percent, a slight

increase by 4.5 percent from the previous year. Japan's share to the sixteenth replenishment of IDA increased marginally to 10.87 percent (IDA, 2013: 29; Japanese MOFA, 2012: 48-49). The proportion of Japanese bilateral aid to multilateral contributions is unlikely to change.¹⁷⁷

Japanese aid will continue to be shaped by the various issues explained above. The economic condition of country is a major prevailing factor, although this may depend on how government actors view the role of the country in the international arena. Aid levels in Japan in contrast are also heavily dependent on public opinion surveys. As shown above, the Japanese public has little knowledge regarding development assistance and is generally not favourable to any sharp monetary increases. Simultaneously, the historical norms or institutions of Japan's aid and its institutions have shaped Japan to disburse more directly than through IOs. Due to these historical norms, Japanese aid is largely controlled by the foreign ministry and it has preferred aid programmes that are strongly Japanese controlled. Japan has also exemplified its role as a principal when delegating to the IDA. Despite this, Japan's non-western approach to development has made it cautious in following other OECD donors. The preference for Japanese-led aid would also explain its usage of its own trust funds.

The three case studies present differing reasons why bilateral aid has risen above that of multilateral contributions, especially that of IDA replenishment rounds. It has shown cases from donors that 1) wishes to increase development aid through both channels but are constrained by institutions; 2) increase both forms of aid to meet personal aspirations regarding development to 3) aid changes in light of historical trends and competing pressures. The next chapter draws together the results of the case studies, concludes and offers further avenues for research.

¹⁷⁷ This issue of Japan's aid levels a senior JICA official during an interview. See Footnote 13.

Chapter 7: Conclusion

7.1 Summary

The three case studies demonstrate how the global foreign aid is allocated between bilateral and multilateral contributions. Heading back to the core research question: Why did major donor states increase bilateral aid disbursements during the 2000s, this chapter aims summarise the finding in the three case studies. First, I will again highlight the central argument to the research question. Second, I will reiterate the three sub-questions and the related arguments. It finally will suggest avenues for further research regarding aid flows and principal-agent theory.

This thesis has deduced the rise in bilateral aid over contributions through IOs is due the internal bureaucracy and constraints that new political actors faced when altering the volume of bilateral and multilateral foreign aid base on their word views. This relates to the three sub-questions:

- 4) Why was there a change in aid spending by major donors?
- 5) Why was there an increase in aid disbursements by major donors?
- 6) Why did aid disbursements increase more through bilateral channels?

As noted, the argument for sub-question 1) is the rise of new political actors within the three major donor nations. These actors all increased their aid levels due to various foreign and domestic policy priorities, with some viewing IOs as appropriate channels for their aid. This is the argument for sub-question 2). These political actors all faced constraints when scaling up both bilateral aid and contributions via multilaterals. These constraints include the historical norms, political and social institutions within each donor nation. The combination of political actor's vision regarding aid and these constraints ultimately increased bilateral disbursements higher and faster than contributions through IOs like the IDA. This thesis has centred on the World Bank's IDA, an organisation providing aid to LDCs and requiring resources from shareholders. The next section summarises the findings of all three case studies, especially the major points.

7.2 Summary of case studies

These three donor nations have provided a substantial amount of development aid bilaterally and through the IDA. Each case study showed that bilateral aid rose faster quantitatively than contributions through multilaterals like the IDA due to differing factors. In the case of the US, the new political actors were the senior members of George W. Bush Administration. Administration officials in particular were not directly aiming increase aid volumes initially, but to reform the US' approach toward aid. The effect of external events such as 1) the 2003 Iraq War, 2) the War on Terrorism and 3) pressure from activists pushed administration officials to increase aid volumes. These officials did raise aid levels through both channels, shaping them through their own worldviews. They also aimed to increase most of US aid through the IDA and also via a new agency, the MCC.

For the IDA, US actors aimed to increase its contributions, provided that the organisation met certain criteria during the thirteenth replenishment round. The constraints administration actors faced were due to the political institutions within the US, that is, Congressional committees appropriating finances. A range of Senators and Congressmen were critical of both the MCC and World Bank. With the longstanding practice of appropriating different amounts than requested, US multilateral disbursements, especially to the IDA, was much lower than aid via the MCC and the USAID.

In the case of the UK, new political actors, those in the UK Labour Party, similarly aimed to alter the level of UK bilateral and multilateral aid. Unlike their US counterparts, these actors entered government with strong pre-conceived notions regarding development aid and global development. UK key political actors viewed aid as an essential means to improve overall international development. They further placed international development as an extremely high priority. Furthermore, UK actors were shaped by external foreign policy events such as the GWOT and the 2003 Iraq War. All these factors thus resulted in the rise of overall UK aid. Unlike the US, the format of UK political institutions meant that aid levels were not subjected to restrictive legislative oversight. Unlike within the US, the new government department, UK parliamentarians

and the wider community were all supportive of aid for international development applications. This, along with the parliamentary system, allowed government actors to pursue aid policies with little hinderance.

The UK's DFID may have attempted to influence the IDA in the fourteenth replenishment, yet it more a case due to providing aid to development and not controlling this IO. The drive to improve global development also led to the UK channelling larges volumes of aid through various trust funds. This was not explicitly because of a dislike of the IDA, but due to the UK's strong focus on talking emerging development issues. This constant focus on development and aid as a means to improve development shifted UK bilateral aid higher than its multilateral contributions.

Japan's aid flows provide a stronger contrast to that of the two main Western donors. Here, key political actors from Japan's LDP Party did not initially explicitly aim to focus on aid volumes or increase the level of foreign aid. The overall Japanese aid budget was decreased for several years as actors focused on the weakened Japanese economy rather than international affairs. Other factors that shaped the decline include public disapproval of providing aid and anti-China LDP members. Other new political actors such as former PM Koizumi did increase Japan's bilateral disbursements due to their worldview and being influenced by the wars in the Middle East.

With regards to IOs, the prospect of first addressing Japan's economy was one factor that caused lower IDA shares across the various replenishment rounds. A stronger reason was that Japan, as a principal, favour other agents like the AsDB which were closer to Japan's interests. While Japan heavily channelled aid via the AsDB, it also utilised its own trust funds within the WBG. Japan highly utilised trust funds due to its notion of informing recipients that such aid came from Japan. With Japan shaped by historical norms regarding development and aid, its bilateral aid eventually rose fast than contributions to IOs like the IDA.

Table 4 below summarises the findings from the case studies with reference to the three sub-questions.

<u>Table 4 Summary of case studies</u>			
Case Studies	(1) United States	(2) United Kingdom	(3) Japan
Factors shaping the change in volume and increase in aid	<ul style="list-style-type: none"> - New Political Actors (Bush Administration officials) shaping the overall volume of US foreign aid. - Influenced by internal and external environments (eg US resistance to aid changes, foreign policy events (War on terrorism) and international development agreements. 	<ul style="list-style-type: none"> - New Political Actors (New Labour Party leaders) increasing overall aid due to their beliefs regarding global development. - Responding to external events (War on terrorism) 	<ul style="list-style-type: none"> - New Political Actors (Japan's LDP members) decreased overall aid, focusing on the country's economy. Other factors: Rise of anti-China members, public disapproval of aid - New actors like Koizumi increased bilateral aid due to his worldview and influence of external events (Middle Wars)
Reason for rise in bilateral aid over aid via multilaterals	<ul style="list-style-type: none"> - The high proportion of bilateral aid was a result of political institutions shaping the 	<ul style="list-style-type: none"> - UK was a supporter of both channels of aid but in the race to be a leading donor, and tackling 	<ul style="list-style-type: none"> - Japan placed a high importance on bilateral aid due to historical norms and the desire to show

	final amount of aid through both channels.	emerging development issues, more UK aid was increased more through bilateral channels. This was further supported by the UK parliamentary system.	aid came from Japan. It thus heavily channelled aid to Japan-controlled trust funds and supported IOs closer to its interests like the AsDB.
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7.3 Review of contributions

This thesis has first drawn focus on the principal-agent approach, particularly examining the principal, the donor state channelling aid to agents or IOs. Most of the literature has focused on 1) unitary principal, 2) groups of principals or even 3) collective principals delegating to an agent or agents. Principals have often been classified as inactive actors, delegating the task to a third party because it improves efficiency and beneficial outcomes. This thesis has attempted to show that the principal is not a single actor but made up of various decision makers who have various perceptions of the task at different periods of time. These actors also are influenced based on their environment: the local institutions or external foreign policy events. Local institutions have challenged and altered foreign aid-related decisions, as seen in the US case studies. They may also allow political actors to easily implement their policies as seen in the UK's case. For Japan, long standing historical norms shaped the final actions of its decision makers. Therefore, aid provision or delegation depends on decision maker's views and the institutions they encounter.

This thesis has also introduced foreign policy analysis to further understand the dynamics of key decision makers within these donor nations. As noted through the thesis, FPA is an actor-specific sub-field in international relations. The consideration of decision makers' individual characteristics and beliefs has been a central means to examine how actors allocate aid. This was especially the case with US and UK decision makers who had

various views of the foreign policy arena and the role of aid. This compliments the PA issue of effectiveness, thus helping to depict delegation in practice rather than theory.

This thesis has also examined bilateral aid and aid through IOs together in the same plane. As noted in the introduction and the literature review, most of the IPE literature has approached either form separately. By examining both together, this thesis has depicted a more accurate picture of how foreign aid flows in practice. Through the three case studies, it has shown that contributions to the IDA are not based rigidly on the organisation's effectiveness. This thesis has also shown that increase in bilateral aid cannot be solely attributed to just foreign policy concerns. The comparison of both aid channels has showed that aid levels across the time period were shaped by new political actors' perspectives and decisions and the different internal institutions they faced across 2000 and 2010.

This thesis has also examined a less considered channel of aid, aid to specific, ad-hoc trust funds. The case studies have shown that trust funds may be utilised due to the bureaucratic nature of IDA activities. Yet, unlike what PA theory would infer, donor nations do not use trust funds solely to circumvent the normal multilateral disbursements. As the UK case study indicates, the UK's increasing usage of trust funds is due to its goal of shaping its aid to be more development-oriented. The UK wished to focus any form of its aid towards the MDGs or emerging development themes. Trust funds were ideal programmes for UK political actors to achieve their goal of improving global development. In the case of Japan, trust funds were a means to ensure Japanese aid within IOs could still be controlled and be named as Japanese-led projects instead of IDA-led projects. This examination of trust funds has again indicated how states do not just consider PA theory when utilising IOs or channelling aid multilaterally. The examination of trust funds also opens a further area in the IPE topic of global economic governance. This is further discussed below.

7.4 Options for further research

The investigation of foreign aid flows has provided a number of contributions to the study of global economic governance and global development. In this section of the thesis, I offer up possible areas for future research.

First, this thesis focuses on the rise of bilateral disbursements over than multilateral contributions. It has, however, only covered three major OECD donor nations as bilateral aid donors and shareholders or members of IOs, particularly the IDA. The IO focused upon was specifically the WBG's IDA, one specific agency. Naturally, foreign aid flows arise from other OECD and non-OECD donors. Further investigations could cover other larger OECD donors such as France, Germany or even medium-sized donors such as Australia. The focus could also be on emerging donors such as Brazil, Russia, India, China and South Africa—the BRICS countries. As Adugna et al (2011: i) note in their study, the BRIC nations are new but rising aid donors in the global economic landscape.

China in particular has been a rising donor nation, with its aid amounting to nearly half of all the BRIC total in 2009. It has provided around 0.13 percent of its GDP across 2003 to 2009. Chinese aid has different characteristics from Western or OECD aid with a smaller proportion of aid devoted to grants. More significantly, half of Chinese aid was channelled to Africa in 2009 (Adugna et al. 2011: 18-19, 47). This has created a competing donor to OECD donors in that region, particularly the UK. Conversely, China has not been a large contributor to IOs, with a small share of 0.1 percent in the fifteenth replenishment round (IDA, 2008: 62; Kitano and Harada, 2014). The decision making of China's key actors would be another possible research project. This would also be an interesting puzzle given the discussion around the transparency of Chinese aid (see for example Grimm et al. 2011; Villarino, 2014).

A second new avenue of further research could be to expand the number of IOs examined. The IDA may be a substantial IO, yet considering other IOs would help to create an even more accurate picture of the different proportions of aid, across the time period or any period. An inclusion of IOs such as major UN agencies could be a possible case study. After all, these IOs also receive core and non-core contributions from donor

states and donors form many trust funds within these IOs. The OECD's 2011 Multilateral Aid report indicated that the US, the UK and Japan channelled a high volume of non-core aid to UN agencies. Their non-core contributions to UN agencies are higher in volume compared to both WBG trust funds and core contributions to those IOs (OECD, 2011: 68, 78-79). A focus on major UN Funds and programmes would reveal the decision-making by key actors across the last decade or other time periods.

A third further area of research centres on the PA theory. This thesis has focused on the principal, indicating how it is not just a single principal delegating to an agent in a linear route. A further contribution could be an examination of an agent or agent's characteristics. This examination would focus not on the agent's performance but its role as a foreign aid provider in the context of the current or future global economic arena. For example, according to Moss and Leo (2011), a number of the IDA's clients would be 'graduating' from LDC status to middle-income status. This means that for future replenishment rounds, there would be a decreasing number of clients for the IDA to finance. States as shareholders may therefore have to decrease their amount of contributions. An agent may also be affected by the institutions it finds itself facing, such as its governing structure. An investigation centring on agents and institutions would also help unravel the nature of aid flows.

Focusing on the agent would show that contributions are due to factors beyond the rigid reason of an agent's effectiveness. It should be noted that this thesis did not aim to dismiss the utility of the PA theory. It has helped to explain contributions to IOs to some degree. Further research could focus on expanding the PA model to better reflect how both bilateral and multilateral aid flow in practice. Another research topic could formulate a PA model including the factor of the principal performing the same task as the agent. It could also include the option where the principals still delegate to the IDA, but have stronger control over the process—the creation of trust funds within IOs. Although there cannot be a fixed theory to accurately describe aid flows, theories can be augmented to present stronger depictions of phenomena.

7.5 Conclusion

This thesis has examined the phenomena of bilateral aid increasing higher and faster than aid through IOs. This thesis has investigated this phenomenon through three sub-questions regarding the change in aid, the direction of the change, and why there was a higher increase of bilateral aid relative to aid via IOs. It has utilised principal-agent theory, along with foreign policy analysis, to under the phenomenon. The thesis has added to the literature by examining bilateral and multilateral disbursements on the same level. It has revealed how decision makers within states arrive at their especially when influenced or challenged by local institutions. Through this investigation over foreign aid decision making, it has show how limited PA theory is when aid is channelled through IOs. Finally, this thesis has also focused on a lesser known channel of foreign aid, that of trust funds. Trust funds within IOs present a unique juncture between bilateral and multilateral channels.

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Annex 1: List of interviewees by date



