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Rethinking Aid in a Contested World

An analysis of the challenges facing foreign aid and reforms that could make aid relevant again.

Prepared by The Kiel Institute

Summary

This briefing summarises a new paper, "Rethinking Aid in a Contested World," by Prof. Stefan Dercon. He argues that international aid must be rethought; in today's contested, multipolar global order, its survival and effectiveness depend on creating true alignment between donor and recipient interests.

The paper is part of a project led by the Kiel Institute and Global Nation to examine and build the evidence base for mutual interest ODA – aid that genuinely serves recipients' developmental goals and, in doing so, also benefits donor countries.

Stefan Dercon is Professor of Economic Policy at Oxford's Blavatnik School of Government and the Economics Department. He served as Chief Economist at DFID, and as Development Policy Advisor at the FCDO, and is the author of Gambling on Development: Why Some Countries Win and Others Lose.

The context

Foreign aid has always been used as a political tool. But in recent decades, a relatively stable global order has allowed aid to flourish, framed in a more technocratic and altruistic manner. That order is changing, and irrespective of whether aid was useful or not for donors and recipients, the political consensus in donor countries underpinning that model has fractured.

With the rise of multipolarity, protectionism and strategic competition, at a time when domestic needs are squeezing budgets, aid is politically vulnerable – at risk of being further cut or directed toward narrow donor interests that are less likely to serve recipients' developmental goals.

Recipient countries and their citizens are also questioning the aid models of the past, which were successful in some specific domains but, in many cases, did not transform economies.

The way forward: Self-reckoning, real engagement, realigned interests

Can donor and recipient interests be realigned, and support for aid be rebuilt? If so, aid actors must rethink their approach: They must confront aid's political nature, engage with genuine development incentives of recipient countries, and reform global structures to support development.

Without domestic elite coalitions committed to development in receiving countries, aid risks becoming a sticking plaster and at worst a hindrance to reform for growth and development. There is a key role for aid actors in supporting coalitions of progress and making the process less risky for those committed to domestic reform. To this end, the paper lays out three key areas for change:

1. Move beyond nostalgia
    - The unipolar liberalism of recent decades was a moment, not the norm. The aid structures and narratives of this era no longer work; donors must move on from old habits.
    - Within the new multipolar reality, globalization must be restructured to make it relevant to today and, crucially, able to support domestic growth in the poorest economies; new ideas with pragmatic realism are required.
    - Actors such as the G7, IMF and World Bank will have to rethink their role in building global structures that support development in poorer countries – including redefining relationships with emerging powers like China.

2. Rebuild elite coalitions supportive of global development engagement
   Coalitions for development must be built around shared interests. This means:
    - Explicit alignment of recipient development interests and donor interests.
    - "Mutual interest" must be genuine, and not just assumed or used as window dressing by the most powerful partner. If done right, reducing fragility, post-conflict stabilization, global health, and trade promotion are among the possible areas of mutual interest.

- Coherent design and rebuilding political ownership across security, business, and foreign policy actors.

3. Be honest and not naïve about aid's role
   - Aid is political – confronting aid's political nature, in donor and recipient countries, is key to reform.
   - Given high opportunity costs, aid needs to be used where it can support countries in prioritizing growth, support national systems, and put local actors and reformers in the driving seat.
   - Aid actors must recognize and avoid cases where short-term benefits can negatively affect long-term progress and ownership.

Necessary adjustments for the future

Four ways aid must adapt to remain relevant to development:

1. Be more selective, prioritizing governments that demonstrate strong political commitment to development.
2. Be clear-eyed about where dependency may be created that delays reform.
3. Balance drive for measurable short-term results against risks of undermining development in the long term.
4. Empower domestic reformers.

To make these changes possible, the G7 and other major donor countries must:

- Move beyond strategic competition and find new entry points to engage in real global cooperation – including on trade, debt, investment and mobility.
- Address donors' domestic challenges to aid's legitimacy by building coalitions and reconnecting aid to longer-term interests of foreign policy, security and business, but not just to short-term gimmicks.
- Be self-critical and learn from ways in which aid has fallen short.

About the research

This briefing paper has been produced by the Kiel Institute for the World Economy as part of a project to build the evidence on where the greatest mutual benefits lie for foreign aid. Learn more about the project.